

A viable society. A need. An idea. 35,000 professionals. Energy. Cooperation. Aluminium. Determination. Pushing boundaries. Respect. Nature. Courage. 100 years. Thinking ahead.



HYDRO

Annual Report 2004



Contents

2004

Annual Report

Highlights

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- > Historic good results
- > Good operations day to day
- > Oil and gas production of 572,000 barrels of oil equivalents per day
- > 3.4 million tonnes of aluminium to the market
- > Record-high oil prices
- > Improved aluminium prices
- > Injury rate down 20 percent
- > Renewed listing on the Dow Jones' Sustainability Index and FTSE4Good

Hydro's Annual Report 2004

Through The Hydro Way, we put into words what we think we're really good at, which qualities have contributed most to Hydro's value creation in the last 100 years, and what will influence us in the future. This year, we're using these same qualities – what we call our “institutional talents” – to give our annual report a structure that we think makes it easier to understand and evaluate our business and our potential.



Key figures

Results

| Results NOK million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|----------------|---------|---------|---------|---------|
| Operating revenues | 155,425 | 133,761 | 134,093 | 116,147 | 120,698 |
| Operating income | 31,847 | 21,625 | 17,667 | 18,971 | 26,885 |
| Income from continuing operations before cumulative effect of change in accounting principle | 11,477 | 8,375 | 7,100 | 5,894 | 12,434 |
| Net income | 12,560 | 10,968 | 8,765 | 7,892 | 13,981 |

| Financial data NOK million | | | | | |
|---|---------------|--------|--------|--------|--------|
| Investments ¹⁾ | 19,464 | 17,712 | 44,166 | 15,346 | 13,656 |
| Adjusted net interest bearing debt/equity ²⁾ | 0.11 | 0.38 | 0.60 | 0.34 | 0.44 |
| Cash flow from operations | 27,724 | 22,773 | 19,080 | | |

Rate of return

| | | | | | |
|----------------------------------|-------------|-----|-----|--|--|
| RoaCE ³⁾ | 13.0 | 8.4 | 7.2 | | |
| RoaCE – normalized ³⁾ | 7.9 | 6.2 | 6.6 | | |

NOK per share

| | | | | | |
|-------------------------------------|---------------|--------|--------|--------|--------|
| Earnings from continuing operations | 45.10 | 32.50 | 27.50 | 22.80 | 47.50 |
| Earnings per share ⁴⁾ | 49.40 | 41.50 | 34.00 | 30.60 | 54.30 |
| Dividends ⁵⁾ | 20.00 | 11.00 | 10.50 | 10.00 | 9.50 |
| Share price, Oslo, 31 December | 477.00 | 361.94 | 273.77 | 331.52 | 328.87 |

Society

 NOK million

| | | | | | |
|-------------------|---------------|--------|--------|--------|--------|
| Total current tax | 24,142 | 14,508 | 13,068 | 13,300 | 13,438 |
| Salaries | 13,847 | 13,574 | 13,308 | 10,777 | 8,981 |

People *

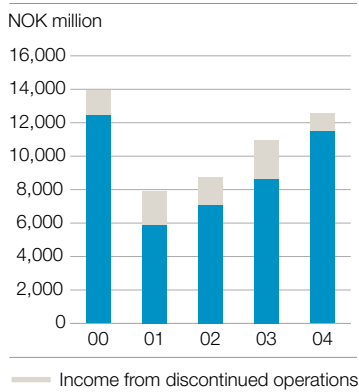
| | | | | | |
|--|---------------|--------|--------|--------|--------|
| Number of employees (average over the year) | 36,938 | 44,602 | 42,615 | 36,867 | 37,575 |
| Sick leave (percent) | 3.1 | 3.0 | 2.6 | 3.2 | 3.9 |
| Total recordable injuries (per million hours worked) | 5.6 | 7.0 | 10.3 | 9.5 | 13.7 |

* Inclusive Agri

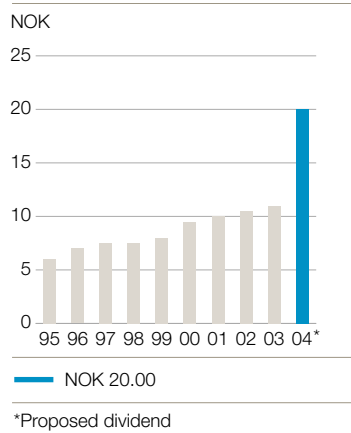
Environment

| | | | | | |
|---|--------------|-------|-------|-------|-------|
| Total energy consumption (PJ) | 181.4 | 165.9 | 182.0 | 144.7 | 173.0 |
| Greenhouse gas emissions (million tonnes CO ₂ e) | 8.84 | 8.16 | 9.17 | 7.87 | 7.89 |

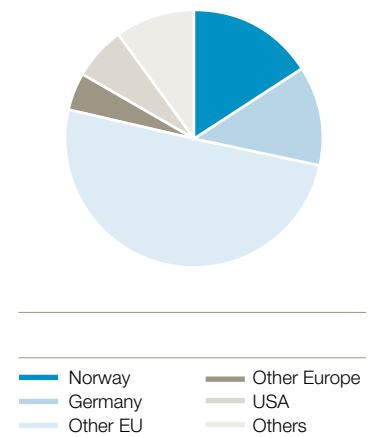
Net income



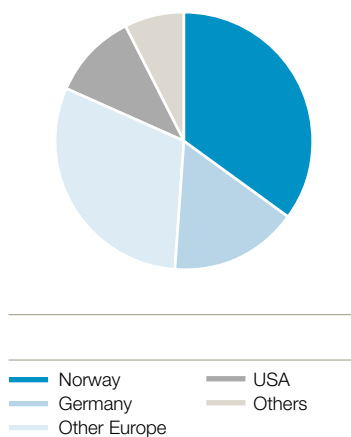
Dividend per share



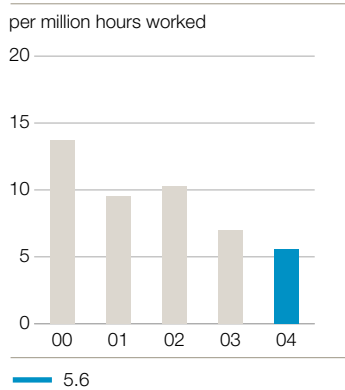
Geographical distribution of operating revenues



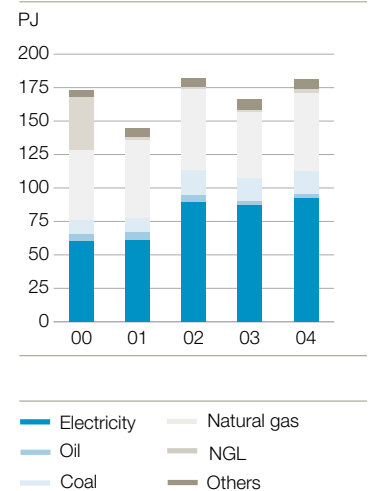
Geographical distribution of employees



Total recordable injuries



Total energy consumption



- Investment in property, plant and equipment, long-term securities, intangibles, long-term advances and investments in non-consolidated investees.
- Interest-bearing debt + net pension liability (tax adjusted) + operating lease commitments (discounted) – cash and cash equivalents – other liquid assets divided by Shareholders' Equity + Minority interest. See page 148 for more details.
- RoACE: Return on average Capital Employed. See page 148 for more details.
- Excluding the cumulative effect of accounting changes.
- Proposed dividend. The final dividend is to be decided at the annual Shareholders' meeting. Hydro shares are traded ex-dividend from May 7th 2005 in New York and from May 12th in Oslo.

Viability since 1905

Hydro is 100 years old




Hydro turns 100 years old in 2005 and we are celebrating our Centennial with the best year in the company's history behind us. Our production continues to increase, our businesses run smoothly and our financial position is stronger than ever. All major development projects are moving ahead according to plan.

A high oil price and rising aluminium prices boosted our 2004 results. In addition, the results of recent years' measures to increase efficiency assisted our progress. Nevertheless, there is still room for improvement, the main challenges being to improve profitability in Aluminium and increase replacement in Oil & Energy.

The demerger of our almost 100-year-old fertilizer business, culminating in the listing of Yara in 2004, was a very successful operation.

Prospects remain bright. Our two main products – energy and aluminium – are prerequisites for a viable society. Energy is a driving force, and aluminium a vital metal for which new applications are constantly being found.

From hydroelectric development to viability

| 1905 – 1918 | 1920 – 1940 | 1943 | 1963 |
|--|--|---|--|
|  |  |  |  |
| Hydro is born | To the coast | Bombs and sabotage | Modern Hydro develops |

Hydro's history begins in Telemark, Norway, in the early years of the 20th century. The company is founded in 1905, the year Norway becomes an independent nation. The most impressive hydroelectric development the world has ever seen forms the basis for the world's first industrial production of nitrogen fertilizer. The natural resources, business concept and the technology are Norwegian; the investors Swedish, French and German. The market is global.

A dramatic, but necessary conversion to new production technology means that the German chemicals group IG Farben becomes the dominant owner of Hydro. From this time, and up to the end of the Second World War, Hydro is to a great extent under the influence of the German owners. With the introduction of the new technology, fertilizer production is gradually moved from inland to the coast of Telemark. The biggest industrial conglomerate in Norway emerges in the late 1920s on the Herøya peninsula near the town of Porsgrunn. This major construction project is most welcome at a time of high unemployment and general hardship.

Due to its production of light metals and heavy water, Hydro's German-dominated operations on Herøya and in Rjukan are targeted by Allied bombers during the war. On Herøya, 55 people are killed when the light-metals plant under construction is attacked from the air. The race to develop the atomic bomb and the struggle to gain control of Norwegian heavy water turns Hydro's Vemork plant into the target of one of the most dramatic sabotage actions of the war. Twenty-one lives are lost in this struggle. As part of the post-war settlement, the Norwegian authorities take over the German shares in Hydro.

In 1963, Hydro's Board of Directors makes three strategic decisions that stake out a new direction for the company. With Alnor, Hydro enters into aluminium production in cooperation with an American company. At the same time, Hydro is the first Norwegian company to take part in offshore oil exploration in collaboration with a group of French companies. And in addition, the production of ammonia is converted from an electrochemical to a petrochemical basis.

| 1967 | 1969 | 1986 – 1988 | 1999 – 2005 |
|--|--|---|--|
|  |  |  |  |
| The fruits of cooperation | Oil is discovered | Gaining confidence | An aluminium heavyweight |

Working methods are not moving with the times. Hydro's management and employees on Herøya launch revolutionary trials that leave a lasting imprint on Norwegian society and the company culture. Greater individual responsibility, wider participation in decision-making processes and a more streamlined organization produce results, also in bottom-line terms. The Norwegian cooperation experiment is used as a model for the development of modern Japanese management principles.

The discovery of oil on the Norwegian Continental Shelf turns Norway into an oil nation and Hydro into an oil company. A pioneering spirit once more characterizes the company. A new organization gradually takes shape and becomes a leading deep-water operator in the course of a few years. A couple of decades later the newcomer gains a reputation for its bold and creative technologies. In the early 1970s, the Rafnes petrochemical plant is established.

Environmental protection receives greater attention and Hydro's chemical operations are subject to considerable scrutiny. A major clean-up program enables the company to establish a new standard, which defines environment and safety as important management parameters for operation and development. Hydro leads the field in terms of environmental reporting. In 1986, Hydro acquires ÅSV, the state-owned Norwegian aluminium company. Two years later, the North Sea Oseberg field comes on stream, with Hydro as operator.

The acquisition of Saga Petroleum in 1999 boosts Hydro's position as an oil company in Norway and internationally. The acquisition of the German aluminium company VAW in 2002 establishes Hydro in the international premier division as a major innovative supplier to the automotive, construction and packaging industries. The company doubles production of oil, gas and aluminium in the course of six years. In 2004, Hydro demerges its almost 100-year-old fertilizer operation, which becomes a separately listed company. Hydro concentrates its resources on energy and aluminium.

Eivind Reiten, President and CEO



Viability for the next 100 years

We entered Hydro's 100th year with historic high results and a better financial position than at any other time since the company was founded in 1905. This positive development underlying our results began in 2002 and 2003, and continued in 2004. A number of factors contributed to these impressive results: a competent organization, strong growth in production, high oil prices and better markets for aluminium.

Our profitable growth demonstrates that we have made the right strategic moves and that the continuous improvement efforts throughout the company are paying off. I am pleased to confirm that the future looks bright. Hydro is well positioned in strategic industries and plays an important role in making products that are vital to the progress of people, businesses and societies. Demand for energy and aluminium will continue to increase – the former being the very driver of future growth, and the latter an important metal consistently used in new applications.

Hydro produced more oil, gas and aluminium in 2004 than ever before. On average, we produced 572,000 barrels of oil equivalents per day and delivered 3.4 million tonnes of aluminium to a market experiencing solid growth.

For the Aluminium business area, improvement programs in recent years have produced good results. The business achieved a higher level of profitability in 2004, though writedowns in the value of our German aluminium plants resulted in a significant financial charge. As we move forward, we will continue to concentrate on further strengthening the profitability of Aluminium.

Market conditions for our PVC activities also experienced a positive trend, and the outlook is better than it has been for some time.

High safety standards and care for the environment dominate Hydro's business operations. We achieved our target of a 20-percent reduction in the number of reported injuries in 2004, and a focus on reporting near-misses helps us prevent accidents from occurring. Still, three persons died while working for Hydro in 2004, a serious reminder that we must continue to look for new ways to improve in the area of safety. Systematic training is also an important part of our safety work.

Viability for the next 100 years

Though we operate in a fast-changing marketplace and need further restructuring in parts of our activities, the majority of jobs in Hydro are more secure than a year ago. Re-organization is, however, necessary to ensure the viability of Hydro as a company. I regret the consequences that these changes have for employees and their families, as well as local communities, when jobs are lost. As a responsible company, we work hard to compensate for job losses by contributing to new activities and programs for education.

Our support of the principles in the UN Global Compact on human rights, international work standards, anti-corruption efforts and the environment are fundamental to our approach to social responsibility.

In 2004 we began the deployment of what we call The Hydro Way – our vision, values and a set of talents that have contributed to our value creation throughout our 100-year history. Thousands of employees have been actively involved in defining what The Hydro Way means to them and their workplace. The Hydro Way provides a common platform and creates energy in Hydro's daily operations.

In the last five years, the overall growth in global energy demand has been 10 percent, and we expect the trend to continue. In the same period, our own oil and gas production almost doubled. On average, Hydro's production growth of oil and gas – 8 percent per year since 2001 – looks set to continue through 2008. We are already a large supplier of natural gas to Europe. In the coming four years, we expect that gas production will increase by more than 50 percent. Development of the Ormen Lange gas field is proceeding according to plan and will be finished near the end of 2007. This huge field will contribute to a further increase in gas production, supplying 20 percent of the UK's total gas consumption. We are laying the groundwork for further growth in oil production after 2008 by increasing the recovery rate from existing fields, and carrying out extensive domestic and international business development, including research, exploration and acquisition of technical resources.

It is difficult to predict price trends for products that historically have experienced such wide variations as oil and gas, but there is reason to believe that price levels in the future will remain higher than previous estimates. Therefore, we have increased the oil price on which we base investment decisions to USD 25 per barrel.

In the course of 2004, we further strengthened our position as one of the three leading integrated aluminium suppliers in the world. Since 1999, our production of primary aluminium has more than doubled, from 736,000 tonnes to 1.7 million tonnes. We expect this figure to pass 2 million tonnes by 2009. In addition, we delivered 1.7 million tonnes

35,000

Professionals

40 countries

Around the world

100 years

Looking ahead

of remelted and traded aluminium to the market in 2004. At the same time, our improvement programs over the last three years have reduced our annual costs by more than NOK 2.5 billion per year.

In 2004 we opened Europe's largest and most modern aluminium plant, at Sunndal, Norway. Our goal is that a greater share of Hydro's metal production will take place in our most cost-effective and energy- and environment-efficient plants in the world. The project we are evaluating together with Qatar Petroleum fits this category. Together, we plan to complete by 2008 the largest aluminium plant built in one phase. For us, the project also has a historic dimension, as we are building on a 35-year-long, fruitful relationship with Qatar Petroleum. Competitive gas prices and large gas reserves will allow us to effectively utilize energy, and the plant is strategically located in relation to the market.

Shareholder returns are highly prioritized, and 2004 was a good year. Our share price rose from NOK 410.50 to NOK 477, and we paid a dividend of NOK 11 per share. The solution we selected for the demerger of Agri was an unqualified success and beneficial for our shareholders. With the stock market listing, one share of Yara was distributed for each Hydro share held. Shareholders who held onto their Yara shares enjoyed a total return of 38 percent, measured in Norwegian kroner, in 2004. This return exceeds that delivered by most other companies in the energy or aluminium industries. Our strong financial position also enabled us to buy back shares, nearly 4 million in all, and Hydro's owners have approved more buybacks.

For both of our core business areas there are some fundamental prerequisites for success: we must have the foresight to spot good projects early on and the determination to see them through. In addition, we must always have the courage to make the decisions that are right in the long term, even though they may be controversial today. All while building on our true strength – managing our business well from day to day.

We have good reason to look ahead with great optimism.



Eivind Reiten
President and CEO

Hydro's Board of Directors

Borger A. Lenth

Ingvild Myhre

Jan Reinås

Geir Nilsen



Borger A. Lenth (67) has been a member of the Board of Directors for two periods, from 1990 to 1992 and since 1998, and has been deputy chairperson since 2001. Lenth is a lawyer who was CEO of Christiania Bank from 1991 to 1997. Previously he was Secretary General of the Norwegian Ministry for Overseas Aid and Managing Director of NORAD and Eksportfinans. Lenth is Chairman of the Board of Directors of Treschow Fritzøe AS and of Bolig og Næringsbanken ASA, and Deputy Chairman of the Boards of Kommunal Landspensjonskasse (KLP) and Norfund. He chairs the Board's Audit Committee.

Ingvild Myhre (47) has been a member of the Board since 2001. She is a director of the Norwegian Red Cross, deputy chairperson of the Board of the Norwegian Defence Research Establishment, and sits on the Boards of Flytoget AS, the Narvik Science Park, Norges Handels- og Sjøfartstidende/Dagens Næringsliv, Telecomputing and Folketrygdfondet. She was previously Managing Director of Telenor Mobil AS. She is a member of the Board's Compensation Committee.

Jan Reinås (60) took over as Chairperson of the Board of Norsk Hydro ASA on 25 March 2004. He was CEO of Norske Skog from 1994 to the end of 2003 and was previously CEO of SAS. He sits on the Boards of Schibsted ASA and Swiss International Air Lines and previously chaired the Boards of Sparebanken Midt-Norge, Postverket and NSB. Reinås heads the Compensation Committee.

Geir Nilsen (49) has been a member of the Board since 2003. He is employed in Hydro as maintenance supervisor and represents members of the Norwegian Federation of Trades Union (LO).

Håkan Mogren

Elisabeth Grieg

Kurt Anker Nielsen

Odd Semstrøm

Terje Friestad



Håkan Mogren (60) has been a member of the Board since 2001, having previously been Managing Director and CEO of AB Marabou and Astra AB. He chairs the Board of Affibody AB. Mogren is also Deputy Chairman of Gambro AB and AstraZeneca PLC, and sits on the Boards of Investor AB, Remy Cointreau SA, Danone-gruppen, The Swedish-American Foundation and the Marianne and Marcus Wallenberg Foundation. Mogren is a member of the Compensation Committee.

Elisabeth Grieg (45) has been a member of the Board since 2001. She is co-owner of the Grieg Group and the CEO of Grieg International AS. She is also a member of the Board of the Norwegian Shipowners' Association and Star Shipping AS, Grieg International AS and Grieg Maturitas AS, Council Member of Det norske Veritas and member of the Corporate Assembly of Orkla ASA. She is a member of the Board's Audit Committee.

Kurt Anker Nielsen (59) has been a member of the Board since 2004. He previously held senior positions in Novo A/S and Novo Nordisk A/S, including that of financial manager and Managing Director. He currently sits on the Boards of Novo Nordisk A/S, Novozymes A/S, Novo A/S, DakoCytomation A/S, ZymoGenetics Inc., Coloplast A/S and TDC A/S. Nielsen is a member of the Board's Audit Committee.

Odd Semstrøm (60) has been a member of the Board since 1997. He represents members of the Norwegian Federation of Trades Union (LO). Semstrøm is employed as an electrician at Hydro's aluminium plant in Årdal.

Terje Friestad (52) has been a member of the Board since 2004. He has been employed in Hydro since 1972 and works as senior engineer at Hydro's aluminium plant at Karmøy. Friestad represents the employees through the Central Cooperative Council (Sentralt samarbeidsråd). Friestad is a member of the Board's Audit Committee.

Annual report

2004

The demerger in 2004 that transferred Hydro's agri business to a separate listed company, Yara, provided a solid platform for creating greater value for shareholders, employees and society at large. Hydro is now concentrating its resources on developing the core areas of Oil & Energy and Aluminium.

The major strategic shift that Hydro concluded in 2004, with the listing of Yara and an increased concentration on the core business areas of Oil & Energy and Aluminium, was well received by all stakeholders.

Over the past six years, Hydro has pursued vital strategic initiatives that have doubled the Company's production of oil, gas and primary aluminium. The Board of Directors is very satisfied with these results. The Board is also pleased to report that the growth derives from a financially sound and robust business portfolio. Moreover, the company has benefited from favorable market conditions in the form of rising oil and gas prices, and improvements in the aluminium market. The financial markets have shown their appreciation of these positive trends. Overall returns to Hydro's shareholders that have increased 194 percent in US dollar terms during the period from 1999 to 2004.

The Company delivered record-high results for 2004, with solid production growth assisted by favorable prices for its main products, even though a weaker US dollar countered the positive developments. Return on average Capital Employed (RoaCE) was 13 percent in 2004 compared with 8.4 percent in the previous year. Assuming normalized prices and exchange rates, RoaCE was in line with the established goals for the year: 7.9 percent in 2004, up from 6.2 percent in 2003.

The Company's financial position was further strengthened in 2004. Hydro ended the year with a debt/equity ratio of 0.11 – well within the Board's target of 0.5. This provides a solid basis for continued profitable growth.

It also enables the Board's proposal to the General Meeting of a dividend of NOK 20 per share for 2004, compared with NOK 11 per share in 2003. The Board is particularly satisfied to be able to propose this unusually high dividend in Hydro's Centennial year.

As a result of strong cash generation, the Annual General Meeting of shareholders approved programs for the repurchase of shares in 2003 and 2004 as a supplement to dividend payments. Roughly 7.6 million shares were purchased and cancelled in 2003 and 2004 related to these programs, the equivalent of 3 percent of the Company's share capital. In December 2004 an Extraordinary General Meeting of shareholders authorized the buyback and cancellation of a further 10 million shares.

Following the demerger discussed earlier in this report, Hydro's strategic focus is on the best possible development of its remaining two core business areas on the basis of its financial and organizational capacity. The main future challenges facing these core areas are the need to discover more oil and gas and to improve the profitability of the aluminium business.

The Board concluded its 2004 strategic review with the intention that Oil & Energy will concentrate further on exploring new areas as well as on developing existing fields. At the same time, Hydro will endeavor to consolidate its international oil and gas positions. Interesting projects in the Gulf of Mexico and Angola provide examples of how Hydro is exploiting its technological and commercial expertise to create value abroad. The company is favorably positioned to initiate bold

measures aimed at increasing its potential for long-term value creation. Hydro also intends to strengthen its position in the European energy market on the basis of its energy portfolio. The Board also sees interesting prospects for further developments in the renewable energy field.

The company's strategy of concentrating on its technical and commercial strength also underlies the development of products and processes aimed at further increasing the efficiency and profitability of its aluminium operations. In evaluating a new, modern aluminium plant in Qatar, Hydro is aiming at consolidating its position as one of the world's leading aluminium companies. The potential project brings together important prerequisites for success, including a favorable location near major gas reservoirs and the opportunity to utilize Hydro's core competencies. In the Company's aluminium operations, extensive rationalization processes have been carried out to adjust operations to changing competitive conditions. In addition, rising power prices in Germany and the weakness of the US dollar against the Euro resulted in a write-down of NOK 1.5 billion (after tax) relating to Hydro's German metal plants.

Hydro will continue to concentrate on global growth for selected products and solutions for building, automotive and packaging applications. Upgrades of existing plants and the construction of new plants were decided in 2004. This will strengthen the Company's leading market position in Europe – and enable for growth in other regions.

Hydro's non-core operations have also delivered substantial improvements.

Favorable PVC market developments contributed to a good result for Hydro Polymers in 2004.

The Company enjoyed record-high production in 2004, producing 572,000 barrels oil equivalents per day on average and 1.7 million tonnes of primary aluminium during the year. The Board notes with approval that this was achieved under good cost discipline and with improved results in the areas of safety and the environment.

The company also completed major projects in 2004 on, or ahead of, schedule and budget. The Board is pleased to report that this applies to all major Hydro-operated projects. In 2004, Hydro began work on what is the biggest industrial project in Norway today – the development of the Ormen Lange gas field in the Norwegian Sea. The upgrade and expansion of the aluminium plant in Sunndal, Norway, the largest primary aluminium plant in Europe with a capacity of 360,000 tonnes per year, came fully on stream in 2004. The new Tyin power plant was completed and began production during the year. The Board approved Hydro's continued cooperation with Statkraft to plan construction of a 400 MW gas power plant at Kårstø, Norway. A final investment decision will be made in 2005.

In 2004 the Company completed the sale of several assets in its ongoing optimization of its business portfolio. Hydro divested its 50 percent interest in the AOS chemical grade alumina refinery in Stade, Germany. Hydro decided in 2003 to sell its 10 percent stake in the Snøhvit gas field; this divestment was completed in 2004. With the sale of Snøhvit, Hydro

acquired a 2 percent interest in the Kristin field from Statoil.

Along with developing Hydro's new business portfolio strategy, much effort has been put into defining the Company's identity and values through The Hydro Way. Also, a new human resources strategy was developed in 2004 to exploit the advantages of a more concentrated Hydro. The goal is to improve performance by developing the potential of employees in every location where the company operates.

Board developments in 2004

Jan Reinås was appointed chairperson in March 2004 following an announcement by Egil Myklebust in November 2003 that he did not wish to continue in the role. The Board thanks Myklebust for his expertise and commitment to the Board over a 12-year period, the last three as Chairperson. The Board also thanks Anne Cathrine Høeg Rasmussen for her many years of service, and Steinar Skarstein who stepped down after the Yara demerger. In 2004 Kurt Anker Nielsen was elected to the Board by the shareholders, while Terje Friestad was elected by the company's employees.

The Board held 12 meetings in the course of the year, the Compensation Committee seven, and the Audit Committee eight meetings. In October, the Board visited Hydro's operations in Canada. The Board undertook in 2004 an evaluation of working methods, priorities and the way the Board and management work together. Efforts to develop and enhance the Company's system of corporate governance continued in 2004, described more fully on pages 172 to 175.

2004

Financial results for 2004

Comments in the discussion below on the results for the year are made on the basis of the Company's US GAAP financial statements. Differences between US GAAP and Norwegian accounting standards are not significant.

Hydro's income from continuing operations in 2004 was NOK 11,477 million (NOK 45.10 per share), compared with NOK 8,375 million (NOK 32.50 per share) for 2003, excluding the effect of a change in accounting principles. The result related to Hydro's business transferred to Yara in the demerger completed 24 March 2004 is reported under "Income from discontinued operations." Including this, net income was NOK 12,560 million, compared with NOK 10,968 million in 2003. The following discussion refers to income from continuing operations.

Strong operating results reflected exceptionally high oil prices on top of an 8 percent increase in oil and gas production for 2004. Volume increases made possible by expanded aluminium production capacity together with stronger metal prices also contributed to the results. However, the substantial decline in the US dollar weakened the competitiveness of the Company's European aluminium operations. Higher energy prices, combined with the decline of the US dollar, led to a considerable writedown of Hydro's primary metal plants in Germany.

Operating income of NOK 31,847 million increased 47 percent compared with 2003. The improvement resulted from favorable market conditions for oil and gas, stronger aluminium prices combined with higher production and strict

cost discipline. The write-down of the German metal plants had a negative impact on results of NOK 2,042 million.

Earnings from non-consolidated investees were NOK 628 million, about the same as in 2003. The results for 2004 mainly reflected good performance of associated companies, particularly in Metal Products and in Polymers. However, the results were affected by the write-down of the Company's German metals operations amounting to NOK 268 million. Also, the Brazilian alumina plant Alunorte generated unrealized foreign exchange gains of NOK 63 million in 2004, compared with NOK 218 million in 2003.

Other income (loss), net, of NOK 169 million comprises gains related to the sale of subsidiaries. For 2003, other income (loss), net, was a net loss of NOK 1,253 million, comprising gains on sale in subsidiaries of NOK 954 million and a negative effect of the change of Norwegian legislation for removal and abandonment of installations on the Norwegian Continental Shelf (NCS) of NOK 2,207 million. This effect was offset by a related positive tax effect of NOK 2,380 million.

Net financial income in 2004 amounted to NOK 136 million, compared with NOK 154 million in 2003. Foreign exchange gains had a substantial influence on the result. In 2004, net foreign exchange gains amounted to NOK 1,350 million, compared with NOK 1,035 million in 2003, mainly due to the effect of the weak US dollar on the Company's US dollar-denominated loans.

Early repayment of debt resulted in charges to net financial income of NOK 938 million.

The provision for current and deferred taxes amounted to NOK 21,197 million for 2004, approximately 65 percent of income from continuing operations before tax. The tax provision has been affected by Norwegian tax legislation related to gains on sale of shares. The change has resulted in reversing of deferred tax liabilities of approximately NOK 900 million resulting from new tax rules relating to share sales. This reduced the tax rate by around 2.5 percentage points. Tax provisions in 2003 amounted to 61 percent of pre-tax income. The percentage for 2003 was influenced by changes in Norwegian tax regulations relating to the removal of oil and gas installations from the Norwegian Continental Shelf, which reduced the tax level by roughly five percentage points. The high effective tax rate reflects the marginal tax rate of 78 percent on results from Norwegian oil and gas operations.

Cash flow from operations in 2004 was NOK 27.7 billion, an increase of 22 percent compared with 2003. Total investments in 2004 amounted to NOK 19.5 billion, including a non-recurring amount of NOK 1.3 billion relating to the consolidation of the partly-owned company Slovalco.

According to Section 3-3 of the Norwegian Accounting Act, the Board confirms that the accounts are prepared on the assumption of a going concern.

For a more detailed description of the Company's operations, please refer to the descriptions of the business areas in this report.

Comments on the Business Areas

Oil & Energy

| Operating income in NOK million | 2004 | 2003 | 2002 |
|---------------------------------|---------------|--------|--------|
| Exploration and Production | 28,363 | 18,500 | 13,137 |
| Energy and Oil Marketing | 2,650 | 2,668 | 2,784 |
| Eliminations | 131 | (25) | 26 |
| Oil & Energy | 31,144 | 21,143 | 15,947 |

Operating income for Oil & Energy in 2004 was NOK 31,144 million, an increase of 47 percent compared with 2003. Adjusted EBITDA was NOK 41,778 millions, an increase of 31 percent. Hydro's average production of oil and gas increased by 42,000 barrels of oil equivalents per day in 2004. The roughly 8 percent increase is attributable to new fields coming on stream on the Norwegian Continental Shelf and elsewhere, good production regularity and increased sales of gas to continental European customers. Unscheduled shutdowns of three partner-operated fields near the end of the year, along with intermittent production problems on the Grane, during the year, reduced annual production growth somewhat. The average realized oil price was a record-high USD 37.30 per barrel, an increase of 30 percent compared with 2003. Measured in Norwegian kroner, oil prices were roughly 24 percent higher for the year. Average realized gas prices for 2004 increased about 6 percent compared to 2003. Production cost per barrel was NOK 20.70, the same level as in 2003, and well within the annual target.

Production of electrical power was 8.1 TWh, 8 percent higher than the low level of 2003. Prices were relatively even throughout the year, though somewhat lower than in 2003.

Gas trading activity experienced considerable volatility in price movements and operating results throughout the year, although overall results were relatively unchanged from 2003.

Exploration activity was slightly lower than in 2003 and related costs amounted to NOK 1,264 million. In 2004, 17 exploration wells were completed, resulting in 11 discoveries. The development of the Ormen Lange gas field was roughly 20 percent complete at the end of the year and is on time and budget. Shares in the Snøhvit and Gjøa fields on the NCS were sold in accordance with agreements signed in 2003. Hydro acquired a 57.5 percent share in a Gulf of Mexico field, Telemark (formerly Champlain), and was approved as operator in January 2005.

Hydro's remaining proved oil and gas reserves were 2,076 million barrels of

oil equivalents (mboe) at the end of 2004. The increase in Hydro's reserves for fields in production and under development were offset by the sale of field shares. Hydro's production in 2004 therefore was not replaced by new reserves.

2004

Aluminium

| Operating income in NOK million | 2004 | 2003 | 2002 |
|---------------------------------|--------------|-------|-------|
| Metals | 830 | 2,293 | 1,690 |
| Rolled Products | 626 | 132 | (295) |
| Extrusion and Automotive | 277 | 98 | 14 |
| Other and eliminations | 72 | (67) | 289 |
| Aluminium | 1,805 | 2,456 | 1,698 |

Operating income for Aluminium was NOK 1,805 million in 2004, a reduction of NOK 651 million due to the NOK 2,042 million write-down of German metal plants. Adjusted EBITDA was NOK 8,656 million, an increase of NOK 2,158 million. Increased production of primary aluminium and increased prices had a positive impact on the result. Realized aluminium prices, measured in NOK, were 9 percent higher than in 2003. New production capacity coming on stream, including the major expansion of the Sunndal plant and improved capacity utilization of downstream operations contributed positively. However, because many of the production plants are located in Europe, with Euro- and Norwegian kroner-based costs, while product prices are mainly fixed in US dollars, the continued weakening of the dollar against the European currencies had a negative effect on the result.

Aluminium continued to focus on cost improvements throughout 2004. The Aluimprover program, initiated in May 2004, was an important element in this process. The program aims to reduce annual costs of the Norwegian metal plants by NOK 350 million – 400 million and is expected to result in a reduction of some 800 employees. The total cost of the program is expected to be about NOK 600 million, NOK 200 million less than originally estimated. All cost reduction initiatives related to the project are expected to be concluded by the end of the first quarter of 2005. In addition, continuous improvement programs have been implemented in all downstream sectors. The closure of the Motorcast plant in Leeds, UK, resulted in a charge of NOK 147 million to operating income. Estimated remaining charges relating to the closure of NOK 135 million are expected to be recorded in 2005.

Other Businesses – Polymers

Operating income for Polymers was NOK 254 million, compared with an operating loss of NOK 8 million in 2003. Adjusted EBITDA was NOK 774 million, an improvement of NOK 373 million compared with 2003. The positive developments were largely due to substantially improved market conditions in the second half of the year, which more than offset the effect of higher raw material costs. The development project at the chlorine plant at Rafnes, Norway, begun in 2003, proceeded according to plan. Start-up is expected to take place during the summer 2005, slightly earlier than planned. An NOK 700 million upgrade of the existing chlorine plant at Rafnes has also been approved.

Risk Management

Hydro's operating results are primarily affected by price developments relating to Hydro's main products, oil and aluminium, in addition to fluctuations in the US dollar – in particular to the Norwegian krone – but also to other currencies, including the Euro. An indication of the possible effects on results before and after tax relating to changes in oil and aluminium prices and changes in the US dollar exchange rate, is included on page 86 of the annual report.

In addition, a number of strategic and operational factors can have an impact in the short or long term. For example, changes in competitive and market conditions may affect margin and volume development, while exploration results affect the development of petroleum reserves. Decisions taken by the authorities may in turn result in unforeseen taxes and duties, or hinder foreign currency transfers.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is therefore placed with the business areas. Policies and procedures have been established to manage risk. Overall and aggregated risk positions are also assessed at the Company level, including risks relating to business strategy and management, financial condition and development, as well as health, safety and environment matters.

Hydro's main risk management strategy for its upstream operations is to accept exposure to oil and aluminium price movements, while hedging its downstream and other margin-based

operations to protect processing and manufacturing margins against raw material price fluctuations. This is particularly the case for downstream aluminium operations, but it also applies to a certain extent the Company's gas business. Hedging of upstream oil and aluminium prices may be utilized in special circumstances. However, Hydro's main strategy for mitigating risk is to maintain a solid financial position and strong creditworthiness, as expressed by the Company's adjusted net debt/equity target ratio of 0.5.

Most of Hydro's operating revenues are denominated in or heavily influenced by the US dollar. In order to mitigate the Company's exposure to US dollar currency fluctuations, most of the Company's debt is also dollar-denominated. Also, to reduce refinancing risk, Hydro maintains guidelines for liquidity reserves and its installment payment profile. The Company's financial position at the end of 2004 was well within the established guidelines.

In addition, internal rules establish requirements for monitoring risk exposure, and are intended to limit credit risk by stipulating credit limits for contract parties. Also, the Company's customer base is distributed across several industries and geographical areas, further reducing the risk of potential default.

Market conditions and prospects for 2005

The strong growth in the global economy in 2004 is expected to slow down somewhat in 2005. The growth brought about high oil and gas prices in 2004, and the buoyant demand

coupled with little spare production capacity is expected to last into 2005. Aluminium prices increased throughout 2004 as a result of an improved market balance, which is expected to remain favorable in 2005. Continued moderate volume growth is expected in European downstream aluminium markets.

Health, safety and environment (HSE)

Hydro's safety results continued to improve in 2004. Nevertheless, three fatal accidents occurred, all of them in the first quarter and all in Agri, prior to the demerger of Yara. One of the incidents was related to a Hydro employee in Sri Lanka, while the other two were related to contractors in Qatar and Brazil.

Documentation governing Hydro's HSE policies and practices was substantially revised and improved in 2004. An extensive training program was also initiated for key managers, to help further their understanding and knowledge of the Company's HSE requirements and to support the improvement initiatives.

Total recordable injuries per million hours worked (TRI) is the Company's main indicator for monitoring safety. The TRI rate improved by 20 percent in 2004, which was within the target for the year. The target for 2005 is an additional 20 percent improvement.

For the first time in several years, the number of lost-time injuries occurring at Hydro's contractors increased. Even though results were still relatively good, the Company is intensifying its efforts to reduce the number of injuries.

2004

Reporting procedures for near misses continued to be effective in 2004 and Hydro uses such systematic reporting as an important tool in its preventive work.

Emergency preparedness plans were revised in 2004. Emergency drills were carried out on a routine basis involving the Company's corporate crisis team and the business areas.

There continued to be considerable variations in sick leave frequency among different units and geographical regions, the latter partly due to different national regulations. Hydro is continuously engaged in reducing the causes of sickness, in particular work-related illness. A wide range of activities are being pursued at the operating unit level to promote attendance and reduce absence, including the systematic identification of opportunities for improving the working environment.

Hydro is continuing its efforts to eliminate the use of harmful chemicals in production. Efforts to reduce emissions, and accidental discharges in particular, continue and are producing positive results.

Hydro's environmental policy aims to restrict climate gas emissions in a cost-efficient way, and the company intends to play an active role in national and international forums addressing this issue. The Company has also drawn up a policy on biological diversity in order to help meet this global environmental challenge. More information concerning Hydro's HSE activities can be found on pages 45 to 47 and 162 to 163.

Employees

Hydro had 34,648 employees at the end of 2004, compared with 42,911 in 2003. The reduction was mainly due to the Yara demerger, in addition to measures aimed at improving efficiency that will continue in 2005.

Hydro's human resources strategy was revised in 2004. It places even greater emphasis on employee development. A plan has been developed to ensure that all employees have annual target and development dialogues with their line manager and will participate in annual employee surveys. Development of the company's top 200 managers is a strategic corporate responsibility. In addition, Hydro stipulates a common minimum level for working conditions for the company as a whole.

It is of crucial importance for Hydro to promote and benefit from diversity in the organization. The Company believes that diversity leads to better decision-making and boosts innovative ability. The aim is that teams at all levels should represent diversity in terms of experience, age, gender and background.

In 2004 the proportion of women among the Company's top 50 or so leaders increased to 25 percent, compared with 23 percent in 2003. Non-Norwegian managers comprise 14 percent of this group, where a total of seven nationalities are represented. Of the top 200 managers, 19 percent are women and 20 percent non-Norwegians. A majority of women managers are in staff functions. One goal of the Company's management development process is to develop more women for line management positions.

Hydro is concerned about equal opportunities at all levels in the organization. As a result, the Company has investigated wage differentials between women and men in the Norwegian part of the organization. For employees covered by collective wage agreements, no significant gender-related differences have been identified. A thorough review of the salaries of employees holding university degrees did not reveal noticeable differentials between men and women's salaries.

In Norway, Hydro participates in the Confederation of Norwegian Business and Industry's program Female Future, which aims to increase the proportion of women in management and board membership. More information about Hydro's efforts to promote diversity and equality can be found on pages 43 to 45 and 161 of this report.

Restructuring, workforce reductions, extensive projects and cost saving drives made great demands on the employees' cooperation and flexibility in 2004. The Board of Directors would like to thank all the employees who are contributing to Hydro's progress with their considerable efforts and cooperative spirit.

Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 9,556 million in 2004, compared with NOK 1,692 million in 2003. Net income was NOK 10,285 million, compared with NOK 1,686 million in 2003. The increase is due mainly to higher dividends and group contributions from subsidiary companies.

Dividend

The Board of Directors proposes a dividend of NOK 20.00 per share, making a total payment of NOK 5,017 million. Transfer to retained earnings will be NOK 5,268 million.



Jan Reinås
Chair



Borger A. Lenth
Deputy Chair



Terje Friestad
Board member



Elisabeth Grieg
Board member



Håkan Mogren
Board member



Ingvild Myhre
Board member



Kurt Anker Nielsen
Board member



Geir Nilsen
Board member



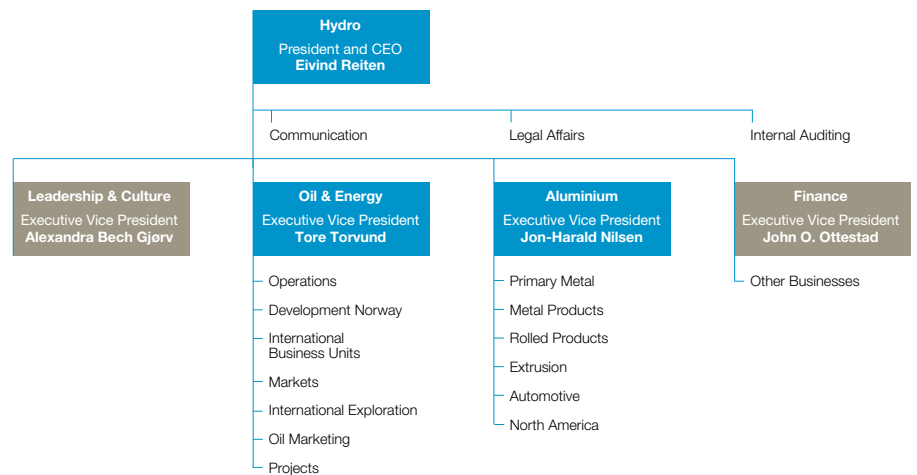
Odd Semstrøm
Board member



Eivind Reiten
President and CEO

About Hydro

Wide range of expertise, culture and ways of thinking



Hydro is a Fortune 500 energy and aluminium supplier founded in 1905, with 35,000 employees in nearly 40 countries. We are a leading offshore producer of oil and gas, the world's third-largest integrated aluminium supplier and a pioneer in renewable energy and energy-efficient solutions. As we look forward to our next 100 years, we celebrate a century of creating value by strengthening the viability of the customers and communities we serve.

Learn more:
www.hydro.com/hydroway

Our businesses

Hydro is an integrated, European energy company and large player in the Nordic and European energy market. We develop, produce and deliver oil, gas and hydro power, take an active role in developing new energy and new energy carriers in the form of wind power and hydrogen, and manage an extensive operation in the transport and trading of energy.

Hydro has a leading global position in the aluminium industry and is a significant supplier to the building industry, in Europe, and of rolled products to the packaging and graphics industries. We are a global leader as a supplier of bumper beams, engine components and precision tubing in aluminium. Innovation, commercialization, global approach with local presence, and continuous improvement are central to the development of our business.

Through Hydro Polymers, we are a major player in the Northern European market for the plastics raw material polyvinyl chloride (PVC).

Strategic direction

We aim to further develop the main business areas of energy and aluminium globally based on the company's financial and management capacity. The main challenges for the core activities in the future are to increase oil and gas reserves and to improve profitability in the aluminium business.

Oil & Energy is working to explore new areas and further develop existing fields. Developing international oil activities is a priority. At the same time, we are strengthening our position in the European energy market based on a strong portfolio.

We will participate in developing the next-generation production capacity for primary aluminium, including the planned construction of a state-of-the-art metal plant in Qatar. Our aluminium business is aiming for global growth in semi-fabrication in selected applications.

John Ove Ottestad

Jon-Harald Nilsen

Tore Torvund

Alexandra Bech Gjørv

Eivind Reiten



The Hydro Way

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

The way we work is characterized by what we call our "talents":

- > An ability to develop source businesses
- > A drive to optimize
- > An instinct to commercialize
- > A passion for social commerce

Our mission, our institutional talents and our values – Courage, Respect, Cooperation, Determination and Foresight – together create a platform, The Hydro Way, that has contributed to value creation for the last 100 years and will influence us in the future. We are continuously developing our culture, work practices and our vision of management with a view toward long-term value creation.

35,000 employees

Hydro's 35,000 employees represent a wide range of expertise, personalities, cultures, practices and ways of thinking.

To ensure that we utilize this diversity toward a common goal and create lasting value, we work continuously with human resource development. Each employee is responsible for his or her own development – with a foundation in annual, systematic feedback regarding our performance, and with the help of tools and support made available by the company. Our philosophy is that development occurs in our daily work, both through the efforts of the company and the individual seeking new challenges.

Hydro's corporate management

Eivind Reiten

President and CEO in Hydro since 2001. Executive Vice President with responsibility for Aluminium 1997–2001. Broad management experience in Hydro since 1986. Norwegian Minister for Petroleum and Energy 1990–1992. Norwegian Minister for Fisheries and Coastal Affairs 1985–1986. Educated at the University of Oslo.

Alexandra Bech Gjørv

Executive Vice President, Leadership & Culture since 2002. Broad experience in human resources, strategy and as a lawyer in Norway and the United States. Educated at the University of Oslo, with further studies at Oxford and Boston.

Tore Torvund

Executive Vice President with responsibility for Oil & Energy since 2000. Broad experience in leadership in Hydro's oil and gas activities and other international experience. Educated at the Norwegian Institute of Technology.

Jon-Harald Nilsen

Executive Vice President with responsibility for Aluminium since 2001. Broad leadership experience and commercial background in Aluminium. Educated at the Norwegian School of Economics and Business Administration.

John Ove Ottestad

Executive Vice President with responsibility for finance since 2002. Broad experience in leadership positions in operations and staff functions in Hydro. Educated at the Norwegian Institute of Technology.

Oil & Energy

Strong production growth and efficient operation



Our advanced methodology for the virtual study of reservoirs is considered world leading.



Hydro's research and development focuses, among other things, on enhanced recovery of oil and gas.



We operate 15 oil and gas installations on the Norwegian Continental Shelf.

Results

Oil & Energy's results in 2004 were the best in Hydro's history. We had a turnover of NOK 72.7 billion, compared with NOK 60 billion in 2003. Our operating income increased from NOK 21,143 million in 2003 to NOK 31,144 million in 2004. This solid development was not only due to a record-high oil price, but also reflected continued strong production growth and more efficient operations.

During the last five years, we have more than doubled our production of oil and gas to 572,000 barrels per day. Realized RoaCE was 23.4 percent, an increase from 16.2 percent in 2003. Hydro increased the profitability of existing fields by reducing operating costs and boosting recovery. Average production costs in 2004 were NOK 20.70 per barrel, well under the target of NOK 24. We are one of the most cost-efficient operators in the North Sea.

Learn more:
www.hydro.com/oilandenergy

Highlights in 2004

Solid growth in consumption, exceptionally high prices and a significant boost in production made 2004 a very good year for Hydro's Oil & Energy business area.

Oil & gas in Norway

Hydro participated in five discoveries on the Norwegian Continental Shelf in 2004. The Barents Sea was opened to drilling after many years of exploration restrictions and Hydro is the operator of a well being drilled in the region in 2005.

During the 17th and 18th concession rounds for new licenses on the Norwegian Continental Shelf, Hydro was awarded operatorships and ownership shares in highly prioritized blocks, including an operatorship in the Farsund Basin and in the Barents Sea. We also were granted shares in eight licenses during the Awards in Pre-defined Areas round. Five of those are operatorships.

Hydro's oil and gas portfolio management activities in 2004 included selling

a 10 percent stake in the Snøhvit field to Statoil. At the same time, Hydro acquired a 2 percent stake from Statoil in the Kristin field.

In 2004, we delivered a plan for development and operation (PDO) for Vilje, a small oil field in the Heimdal area. We also purchased a 20 percent share in PL 248 in the Sogn area and expect to deliver a PDO to the Norwegian authorities in 2005. The field holds quantities of gas and condensate.

The Norwegian Parliament approved plans in April 2004 to develop the Ormen Lange gas field. Project work under Hydro's leadership is well underway and includes gas treatment facilities at Aukra in northwestern Norway, and the world's longest subsea pipeline, Langeled, to the UK. The Ormen Lange development is proceeding according to plan. By the end of 2004, roughly 20 percent of the work had been completed. Ormen Lange is expected to start production in 2007. In 2004, Hydro actively managed its field operatorships, presenting a plan to export gas from the Njord



Experience in deep water is one of Hydro's strengths in the global arena.



Hydro has delivered hydrogen filling stations to such cities as Berlin.



More and more Europeans receive heating and energy through natural gas from Hydro.

field in the Norwegian Sea. With the help of new technology, this field will also deliver 2.2 billion cubic meters gas a year starting in 2007. In December, the world's longest offshore well – at 10,007 meters – started production on Oseberg Alfa Sør.

International oil and gas activities

In 2004, we confirmed new oil resources on Block 4 in Angola, in cooperation with the state-owned oil company Sonangol.

We are preparing to explore in the Safi Basin, off the coast of Morocco and have bought into an exploration license in the Majunga basin offshore Madagascar. Though still in an early phase, both of these areas have considerable potential.

We have producing onshore fields in Murzuq and Mabruk in Libya, and started a new drilling operation in 2004 on the Anaran field in Iran.

The acquisition of technical resources in areas where Hydro's unique expertise provides advantages has become more

important in the strategy to increase our resource base. In 2004, we increased our share in the Lorien field and bought into the Telemark field in the Gulf of Mexico, where Hydro was awarded operator responsibility in January 2005 to explore and develop the field at a depth of 1,300 meters.

Close cooperation with Gazprom has been important to our efforts in Russia during the past 15 years. In 2004, we reached an agreement to continue our cooperation in finding development solutions for the world's largest gas field, Shtokman, on the Russian side of the Barents Sea. For example, we intend to evaluate together how new solutions developed for Ormen Lange can be applied to the Shtokman field.

In Denmark, we are participating in evaluating the Hejre find, made in 2002.

Power production in Norway

Hydro decided in cooperation with Statkraft to proceed with plans for a gas fired power plant capable of producing 400 MW at Kårstø in south-western Norway. The final investment



Position

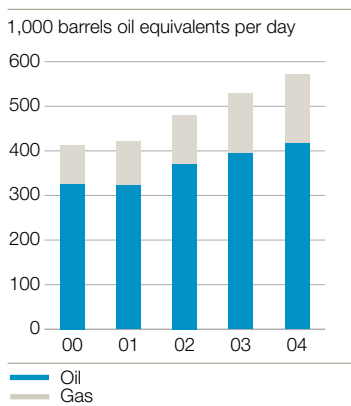
Hydro is the second-largest operator on the Norwegian Continental Shelf and one of the world leaders in deep water exploration and production. The company operates 15 oil and gas installations, which produced 980,000 barrels of oil equivalents per day in 2004. Our own production, including partner-operated and international activities, averaged 572,000 barrels of oil equivalents per day. Hydro's production of renewable energy from Norwegian hydroelectric and wind power facilities was 8.1 TWh in 2004.

Hydro's primary base of operations is Norway, but we also produce oil and gas in Angola, Canada, Russia and Libya, and have exploration activities in the Gulf of Mexico, Iran and Denmark.

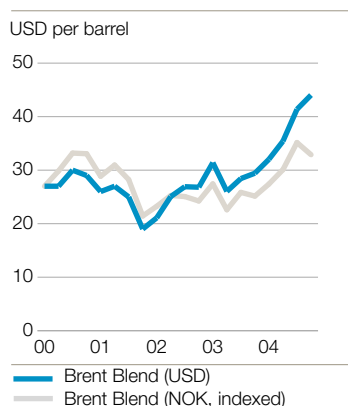
Oil & Energy

Challenges in long-term growth

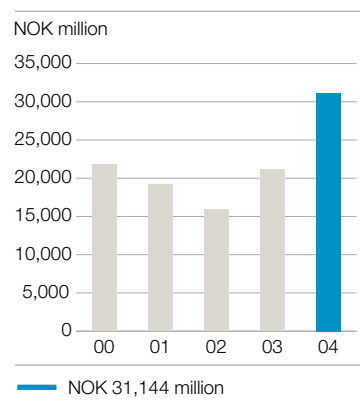
Oil and gas production



Oil price



Operating income Oil & Energy



Our business model

Hydro is an integrated energy company with international operations. In addition to our Norwegian and international production of oil and gas, we are a significant player in the Nordic and European energy markets, with sizeable equity production of hydro power. The company also has substantial activities within the transport and trading of oil, gas and electricity in Europe. We market gasoline and energy products through Norsk Hydro Olje AB in Sweden, and the 50 percent-owned Hydro Texaco in Norway, Denmark and the Baltic countries.

decision is expected to be taken by the summer of 2005 with construction is expected to start in the fall. The power plant is expected to be completed in the fall of 2007.

In 2004, we also finished the New Tyn hydro-power project. An investment of NOK 1.3 billion has increased production capacity at the site by 15 percent and enhanced operational efficiency by 95 percent. This makes it possible for large-scale seasonal variations in electricity production.

Strategic direction

Hydro plans to continue growing its production volume through further development of existing oil and gas fields, exploration in new areas, and the purchase or trading of technical resources.

By exploiting the company's strengths within exploration, development and operations in deep water, we expect to increase oil and gas production by an average annual rate of 8 percent from 2001 until 2008. By 2008, we plan to be producing more than

700,000 barrels of oil equivalents daily. Hydro will continue developing its leading position within advanced well technology by participating in deep water development projects worldwide.

In 2005, we have a solid foundation for gradually increasing our exploration activities in Norway and abroad. Our exploration budget will increase from NOK 1.4 billion in 2004 to NOK 2 billion in 2005. We plan to drill about 30 wells, 20 of them in Norway.

Internationally, we will continue to develop the Hebron field in Canada, Blocks 4 and 34 in Angola, the Anaran field in Iran, and the Mabruk field and Murzuq area in Libya.

We continue to boost the recovery rate in existing fields and will intensify our efforts in this area during the coming years. Good results are achieved through research and development, not least in the form of gas injection and horizontal multi-branch drilling.

2004

Highlights

**Key figures – Oil & Energy**

| NOK million | 2004 | 2003 | 2002 |
|--|---------------|--------|--------|
| Operating revenues | 72,718 | 59,959 | 55,845 |
| Operating income | 31,144 | 21,143 | 15,947 |
| Adjusted EBITDA | 41,778 | 31,826 | 25,340 |
| RoaCE, percent | 23.4 | 16.2 | 11.6 |
| Investments | 12,067 | 11,259 | 14,696 |
| Exploration expense | 1,264 | 1,577 | 3,558 |
| Production cost per boe, NOK | 20.70 | 20.70 | 22.60 |
| Realized oil price per bbl, USD | 37.30 | 28.70 | 24.70 |
| Realized oil price per bbl, NOK | 251.30 | 202.90 | 194.20 |
| Realized gas price per Sm ³ , NOK | 1.09 | 1.03 | 0.95 |
| Oil production ¹⁾ | 417 | 393 | 370 |
| Gas production ¹⁾ | 155 | 137 | 110 |
| Total oil and gas production ¹⁾ | 572 | 530 | 480 |
| Power production, TWh | 8.1 | 7.3 | 10.1 |
| Number of employees | 3,527 | 3,464 | 4,039 |

1) 1,000 barrels oil equivalents per day

Hydro has proven gas reserves in Norway equivalent to 21 years of production at today's rate. We produce close to 9 billion cubic meters of gas per year, but sell nearly 13 billion cubic meters of gas per year. This gives us good commercial positions in the market. The company targets further development of its position as a centrally placed supplier of gas and part-owner of an extensive and flexible transport system, Gassled, which can deliver gas to all key landfalls in Europe. Close proximity to the UK and the European continent gives us good access to markets with growing gas demand. Ormen Lange will be able to cover 20 percent of the UK's expected gas needs.

In the British energy market, we have a joint marketing agreement with the German gas company, Wingas, through our joint venture, HydroWingas. This is an example of how we are building stronger European positions and alliances. HydroWingas will, among other things, market gas from Ormen Lange. We are presently evaluating similar cooperation models in other countries.

Our renewable energy focus is on new energy sources such as wind- and hydrogen-generated power, in addition to our substantial existing hydro-power production.

- > Development of the large, demanding Ormen Lange gas field got under way. (Pictured)
- > Record production and record results.
- > New finds and new operatorships in Norway and overseas.
- > Higher recovery rates in existing fields.
- > New and more efficient Tyin hydro-power plant was opened.
- > The world's first pilot facility for producing hydrogen from wind power opened on the Norwegian island of Utsira – and won Platt's "Renewables Project of the Year" award.

Aluminium

Increased market share and greater operational efficiency



In 2004 we produced 1.7 million tonnes of primary metal, some of which comes from our new plant at Sunndal, Norway.



Metal is upgraded and tailored to the customer's needs in our many cast-houses.



More and more production of aluminium foil is targeted towards markets with higher margins.

Results

Hydro's aluminium business has recently completed an extensive drive to increase efficiency – a major reason for the continued improvement in operational results during 2004. Turnover was NOK 79.7 billion, compared with NOK 69.2 billion in 2003. Operating income was NOK 1,805 million, following a NOK 2,042 million write-down of the value of the company's German metal plants. Operating income in 2003 was NOK 2,456 million. Realized RoaCE was 3.5 percent after the write-down.

Learn more:

www.hydro.com/aluminium

Highlights of 2004

Global consumption of aluminium increased by 9 percent in 2004, while in recent years growth in consumption has been 3 to 5 percent per year. Growth has been particularly strong in China. Including scrap, semi-fabricated and other products, China became a net importer of aluminium in 2004. Over the past five years, Hydro has gained market share in its main markets through efficiency-driven production increases, expanded capacity, acquisitions, and new product development in close cooperation with customers.

Metal production

We have increased our alumina self-sufficiency from 25 percent in 1998 to 45 percent in 2004. Our remaining needs are covered by means of medium and long-term contracts. We expect to cover 50 percent of our requirements when the ongoing expansion of the partly-owned Brazilian alumina plant Alunorte is completed in 2006. The plant is one of the most cost-efficient in the world. Since 2000 we have reduced production costs at our partly owned alumina plants considerably. When the

Alunorte expansion is completed, our average costs will be reduced from USD 165 to 120 per tonne.

In 2004 we completed a major expansion at our Sunndal primary metal plant in Norway. Sunndal is Europe's biggest and most efficient aluminium plant, with a production capacity of 360,000 tonnes. The plant uses Hydro's own advanced and environmentally friendly HAL 275 technology. The expansion of Alouette, a partly-owned plant in Canada, will be completed in 2005, increasing Hydro's share of production to 110,000 tonnes. The plant will be one of the most cost-efficient in the world. The potroom capacity expansion at Kurri Kurri in Australia is proceeding as planned. We also decided in 2004 to upgrade the plant's casthouse. Our remelt activities in North America will be strengthened by extensive upgrades and capacity increases at our St. Augustine and Ellenville plants.

The Aluimprover efficiency improvement program in Norway will be concluded in the first quarter of 2005. The program is expected to result in annual



Building systems constitute a large and growing market for our international extrusion business.



A growing number of modern car engines consist of aluminium from our production plants.



Aluminium is a material we come across in different settings every day.

cost savings of NOK 350 million to 400 million, including workforce reductions at the metal plants of nearly 800 man-years. Related costs amounted to roughly NOK 600 million, NOK 200 million less than originally foreseen.

Hydro continues to be a leading player in the magnesium industry. We have a strong and growing position in the market for automotive industry alloys, supplying magnesium from a unique global production system with plants in Canada, China, Norway and Germany. We expanded our plant in Bottrop, Germany and decided to increase production capacity at Becancour, our magnesium plant in Canada.

Semi-fabrication

Semi-fabrication primarily involves products destined for the growing transport and building markets. Our expertise, and strong position in Europe, serves as a launch-pad for targeted product growth in markets elsewhere in the world.

Production volumes at our European rolling mills increased in 2004. We are

gradually evolving these volumes toward product segments providing the highest margins. The modernization of the cast house at Slim in Italy has been completed and a decision has been made to upgrade the rolling mill there. There is still room for increased profitability in our rolling mill operations through an improved product mix, increased efficiency, modernization and greater capacity utilization. Our drive to increase our sales of lithographic strip is showing good results. Demand is greater than we can currently meet and we plan to expand capacity in 2005.

Our extrusion plants continue to deliver good results. Developments in our building systems business are favorable, with satisfactory margins and bright long-term prospects. One important factor driving demand is the need for more energy-efficient buildings, for which Hydro has developed new solutions that can reduce energy requirements by up to 50 percent.

We supply components to the global automotive industry from our extrusion plants, foundaries and rolling mills.



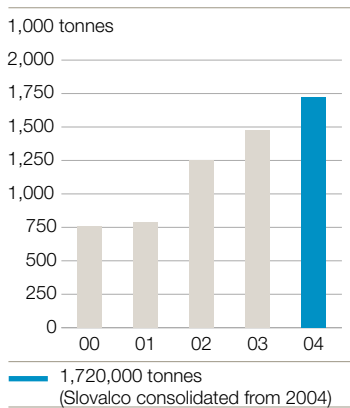
Position

Hydro is one of the world's top three integrated aluminium companies, with activities in 28 countries. The company plays a leading role in a number of market segments, such as the automotive, packaging, construction and printing industries. We are continually expanding our position in these markets. Hydro produced about 1.7 million tonnes of primary metal in 2004, but supplied the market with a total of 3.4 million tonnes of aluminium of which approximately 50 percent was remelted.

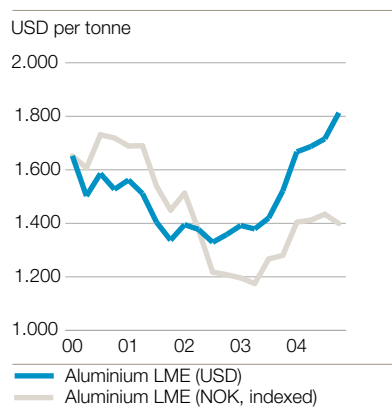
Aluminium

More cost-efficient metal production

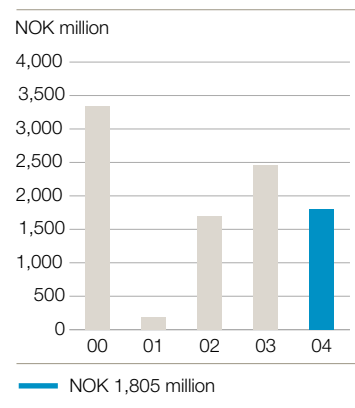
Production of primary aluminium



Aluminium price



Operating income Aluminium



Business concept

Hydro's aluminium activity is fully integrated, from alumina to finished product. We produce alumina at partly owned plants in Brazil and Jamaica, and primary metal at wholly and partly owned plants in Australia, Canada, Germany, Norway and Slovakia. The company's metal supplier concept ensures that customers throughout the world obtain the products they require. Our aluminium is tailored to match customer needs in our casthouses and in specialized remelt plants, which are located close to customers and sources for primary metal and scrap in Europe and the US. As a result, we are able to upgrade scrap and purchased metal and enjoy flexibility of production and logistics.

We produce automotive industry components in several European countries, as well as in the US, Mexico, Brazil and China. Thanks to a global network of extrusion plants, with its focus point in Europe, we supply customized profiles and building systems to local customers. At its rolling mills in Europe and Malaysia, the company produces sheet and high quality foil. We derive synergies through integration and the sharing of best practice throughout the organization.

Although the profitability of car component production is not satisfactory at present, developments are positive and we continue to foresee increasing aluminium consumption in the automotive industry, where low weight, high strength and recyclability are of growing importance. We are assessing our product mix with the aim of further focusing our efforts where the opportunities for satisfactory returns on capital are the greatest.

To meet demand in growing markets, we are expanding production capacity. In 2004, we decided to build a new automotive precision tubing plant in Reynosa, Mexico. A similar plant was completed in Suzhou, China, early in 2005. Hydro can also meet increased profile demand in the growing Brazilian market through the production at our Acro extrusion plant. In addition, in 2004 we decided to expand the extrusion plant in Poland by adding a new press.

Restructuring in the UK aluminium industry led to the closure of the

Sanquhar extrusion plant in Scotland. Motorcast in Leeds, which produced cylinder heads, was also closed down and its remaining production transferred to Hydro's plant in Győr, Hungary.

Power supplies

We have secure, long-term and stable access to power for all our metal plants at competitive prices. In Germany, however, power contracts expire in 2005, and rising energy costs have made it demanding to maintain profitable operations. In addition, the weakening US dollar affected the competitiveness of our German plants throughout 2004. As a result, we wrote down the value of our German metal plants by NOK 1.5 billion after tax.

Strategic direction

Hydro is strengthening its competitive position by improving its global cost position in alumina and primary production. From 2005 to 2009 we are aiming to increase production of primary aluminium at larger plants by 25 percent.

2004

Highlights



Key figures – Aluminium

| NOK million | 2004 | 2003 | 2002 |
|--|---------------------------|--------|--------|
| Operating revenues | 79,674 | 69,152 | 65,051 |
| Operating income | 1,805¹⁾ | 2,456 | 1,698 |
| Adjusted EBITDA | 8,656 | 6,498 | 4,334 |
| RoaCE, percent | 3.5²⁾ | 4.7 | 2.7 |
| Investments | 6,194 | 5,581 | 25,318 |
| Primary aluminium production, 1,000 tonnes | 1,720 | 1,473 | 1,253 |
| Extruded products, 1,000 tonnes | 626 | 569 | 556 |
| Rolled products, 1,000 tonnes | 941 | 893 | 693 |
| Realized aluminium price, USD/tonne | 1,638 | 1,440 | 1,372 |
| Realized aluminium price, NOK/tonne | 11,433 | 10,440 | 11,264 |
| Number of employees | 25,967 | 26,728 | 27,110 |

1) Includes write-down of German metal plants of NOK 2,042 million.

2) 7.0 percent adjusted for writedown of German metal plants.

To achieve this goal, we are evaluating the construction of a major new metal plant in Qatar in cooperation with Qatar Petroleum. The potential plant, with an initial capacity of 570,000 tonnes, will be the largest in the world built in one phase. The plant is foreseen to come on stream in 2008 and there are plans for doubling its capacity to 1.2 million tonnes.

Opportunity also exists in upgrading existing plants to increase efficiency, as well as constant monitoring and review of units with high production costs. In addition, we have decided to terminate production at the remaining Söderberg lines at Norwegian plants for environmental reasons. These production lines will be closed over the course of the next few years.

Hydro continues to focus on innovation and the further development of its leading position in Europe through its finely tuned network of aluminium casthouses. We intend to maintain profitable global growth in extruded and cast components for buildings and cars, as well as in sheet metal for lithographic strip and foil.

We expect our solid European base to provide a platform for selective growth in other parts of the world. The transfer of expertise and sharing of best practice are integral parts of this strategy.

A greater share of our production is now taking place in low-cost growth markets such as China, Mexico and Hungary, and an increasing share of primary production is located in countries with access to energy at competitive prices.

We are making systematic efforts to ensure that all production units contribute to the company's profitability targets. Through dedicated improvement measures applied to underperforming units, we expect to realize our maximum growth potential and further develop our competitive advantage.

Aluminium market prospects are bright and Hydro's position strong. The current expansions and improvements will have a further positive impact in 2005 and the years to come.

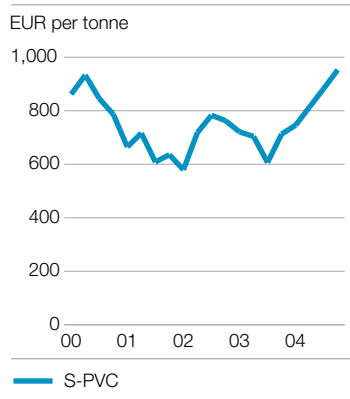
- > Hydro signed a Heads of Agreement with Qatar Petroleum aimed at building of one of the world's largest aluminium plants to be located in Qatar (photo)
- > Europe's largest and most environmentally advanced aluminium plant was completed and came on stream at Sunndal, Norway
- > Potroom capacity in Kurri Kurri, Australia, was extended and it was decided to upgrade the casthouse
- > Modernization of the casthouse at Slim in Italy was completed and it was decided to upgrade the rolling mill
- > Considerable upgrading of remelt activities in North America
- > Cylinder head production in Leeds, UK, closed and the remaining production was moved to Hungary
- > New automotive precision tubing plants under construction in Mexico and China
- > New press came into operation in Brazil and it was decided to invest in new press in Poland

Other Businesses

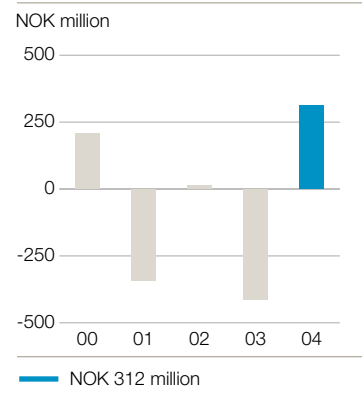
Versatile plastics for buildings and infrastructure



PVC price



Operating income
Other Businesses



Other Businesses includes operations outside of Hydro's business areas Oil & Energy and Aluminium. The organization has nearly 5,000 employees and includes production and service functions.

Hydro Polymers

Hydro Polymers produces the plastics raw material polyvinyl chloride in Norway, Sweden and the UK, and makes ethylene and chloride from natural gas liquid and salt. This process also gives us supplies of caustic soda. Hydro Polymers has ownership stakes in companies in Portugal, Qatar and China.

PVC is a versatile plastic raw material that is very popular in the construction industry and for infrastructure such as pipes and other applications that require durability.

The operating result improved from 2003 to 2004, despite unexpected production problems. Prices for the input raw materials natural gas liquid and ethylene rose strongly during the year. Still, PVC margins improved con-

siderably. Caustic soda prices were low, but showed a strong improvement in the second half. The plant in Qatar, which supplies the Asian market, also experienced a good year. The outlook for Hydro Polymers at the beginning of 2005 was good.

Construction of a new chlorine plant at Rafnes in Norway, which began in 2003, is ahead of schedule. The expected start of production has been moved up to the summer of 2005. In January 2005, Hydro decided to convert the existing chlorine plant at Rafnes from diaphragm technology to membrane technology. These projects, which together represent investments totalling approximately NOK 1.7 billion, will significantly contribute to the competitiveness of the entire business.

Hydro decided in 2004 to increase the capacity of the ethylene cracker at Rafnes (Noretly), in which Hydro Polymers has an ownership stake of 50 percent, representing 100,000 tonnes of ethylene. Start-up is planned for the autumn of 2005.

BioMar

The Danish listed company BioMar, in which Hydro owns 68.8 percent, is the third-largest supplier of fish feed in the world. The company has production facilities in Denmark, Norway, the UK, Chile, France and Greece, with production totaling 450,000 tonnes per year.

IS Partner offers complete information technology services internally and externally, and works with its customers to increase their competitiveness through cost-effective applications and systems.

Production Partner has broad experience from process industries onshore and offshore, and delivers maintenance services, large-scale construction, maintenance consulting, project management and modernization services.

Business Partner operates industrial and business parks as well as services and support functions for Hydro's activities in procurement and finance, communications and human resources.

Learn more:
www.hydropolymers.com

Viability in context

Integrated reporting [The Hydro Way](#)

The Hydro Way defines the qualities that have contributed most to Hydro's creation of value during the past century and it helps us determine how we can continue cultivating real value into the future. We use it to structure this report, providing information about our strategies and achievements in a way we believe will be helpful to understanding and exploring our activities and our perspectives.

Meeting our greatest contemporary challenges

(pages 30 to 37) reflects our ability to develop new products from natural resources as well as supply raw materials, create access to resources and generate renewable energy.

It all began with a successful project (pages 38 to 47) reflects our drive to optimize and contains such activities as allocating capital and returns, optimizing operations, effectively utilizing natural resources, carrying out projects, and developing organizational structure, together with health, safety and environment.

A bridge to new business opportunities (pages 48 to 53) describes our instinct to commercialize. It covers such themes as product development, cooperation with customers and our substantial trading activities.

Not just minding our own business (pages 54 to 59) is related to what we call our passion for social commerce – a fundamental part of Hydro's approach to business. Here we address such issues as cooperation and dialogue, organizational challenges, social commitment, human rights and integrity.



Meeting our greatest contemporary challenges

We've thought about the future – for 100 years

1905 From fertilizer to food

What kind of future can we expect for today's toddlers? We know that some of our present and future challenges are tied to energy and transport, resources and the environment. That's why we use new technology to recover more oil and gas, develop new energy forms, and why we are at the forefront of finding future solutions for safe transport and energy-efficient building construction.



Making useful products from natural resources demands vision far beyond the next quarterly results. Hydro has been solving fundamental problems for 100 years. We are delivering the future's "green buildings" with energy-saving window profiles and facades, and are helping the auto industry develop safer, more energy efficient vehicles. Through new, advanced technology, we are steadily recovering more oil and gas, helping to keep the world rolling. And not least, we take an active part in developing future renewable energy.

One of our most future-oriented projects is on the island of Utsira, where part of the small community became energy self-sufficient in 2004. The winds of western Norway do most of the work – along with Hydro's wind turbines and a hydrogen production station that provides power during calm periods.

Ever since its foundation 100 years ago, Hydro has extracted and refined natural resources into products that are crucial to societal progress. First came electricity and fertilizer. In 1905, we developed the first successful industrial-scale production of nitrogen-based fertilizer to ensure a growing global population ample food – our main activity for many years. Later, we concentrated on magnesium, plastic, aluminium, oil and gas.

Meeting our greatest contemporary challenges

A long-term perspective



Scrap becomes new metal

Aluminium can be recycled over and over again without losing its inherent properties. Used aluminium is available in large quantities in areas with high metal demand. Recycling is an energy-efficient, waste-reductive and cost-effective way to obtain aluminium.

Challenges to recycling scrap sourced from end users is tied to infrastructure for collection, transport and sorting, and to cleaning technology. The high value placed on aluminium and its good recycling qualities is the driving force behind the development of efficient and profitable recycling systems. In Europe, there is a well-developed industry for recycling aluminium. Hydro has currently not made larger investments in this area.

Global energy consumption grows in conjunction with economic growth. From 2004 to 2030, the International Energy Agency anticipates energy consumption to grow by 59 percent. Coal, oil and gas are expected to account for 85 percent of the growth. The trend puts both energy resources and the environment under pressure.

In 2004, Hydro produced 209 million barrels of oil equivalents and 8.1 TWh of electricity. That makes us a significant energy producer. With oil and gas reserves of 2,076 million barrels of oil equivalents and hydro-power contracts guaranteeing production for a long period, we are also a long-term energy supplier.

We delivered 3.4 million tonnes of aluminium in 2004 and are the world's third-largest integrated aluminium company. Aluminium production demands large amounts of energy. At the same time, this light metal has qualities that reduce environmental impact when applied – low weight and good recycling properties.

Natural resources in aluminium production

The most important raw materials used in producing aluminium are alumina and energy, coke and pitch.

Aluminium is the third-most available element on earth and is manufactured through the process of electrolysis, after bauxite and alumina have been refined.

Energy accounts for nearly one-third of the production costs for primary aluminium. The two largest markets, Western Europe and North America, have power deficits and steadily higher energy prices. They still manufacture large quantities of aluminium, but must supplement output with imports to cover demand.

Due to energy market developments, global aluminium production will move to areas with energy surpluses. More metal will subsequently be transported over greater distances.

Production of aluminium close to energy sources is cost- and energy-effective compared to energy transport to Europe and North America. The consequences for the aluminium industry and the people and communities affected, meanwhile, are significant, something we have already seen within our own operations.

Energy

209 million barrels of oil equivalents

Access to alumina

Hydro's access to alumina, is secured partly through our part-ownership in production, and partly in the form of medium and long-term contracts. In 2004, 45 percent of our alumina demand was covered by production in part-owned companies, and the rest through long-term contracts. Taking into account present expansion of our part-owned alumina operation, Alunorte, in Brazil, we expect up to 50 percent of our alumina needs to be covered by our own supplies by the end of 2006.

Production of alumina demands large investments. Therefore, we will continue to pursue a strategy of covering demand through a combination of equity production and long-term purchase contracts.

Access to energy for aluminium production

Hydro produces aluminium in Norway, Germany, Australia, Canada and Slovakia. Power demand in these countries is well covered until the period 2017 to 2020, with the exception of Germany, where existing contracts run out in 2005. Some 90 percent of our energy requirements are secured through long-term power contracts or our own production, with the rest covered by three- to five-year contracts.

Aluminium

3.4 million tonnes

Remelting

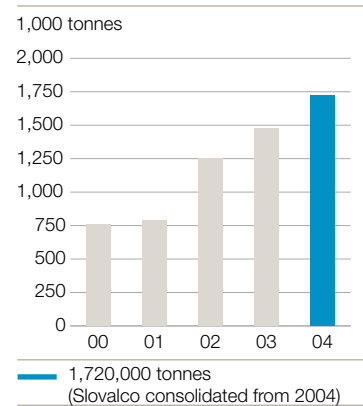
Hydro remelts aluminium scrap sourced from its own and others' refining processes, end consumption and standard aluminium bars. A total of 1.7 million tonnes was remelted in 2004.

Remelting requires only 5 percent of the energy used to make primary metal and is therefore an important metal source. From 1997 to 2004, we expanded our remelting capacity in Europe and North America in tandem with our own and others' processing activities. Remelting, refining and transport of finished metal products can be cost-effective even in markets with long-term deficits of both energy and aluminium.

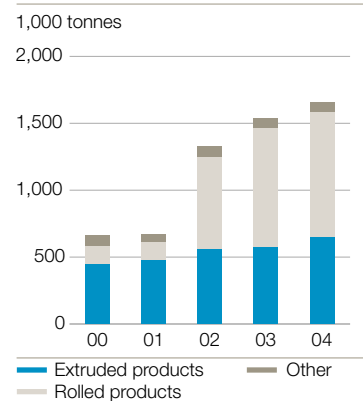
2004

Key indicators

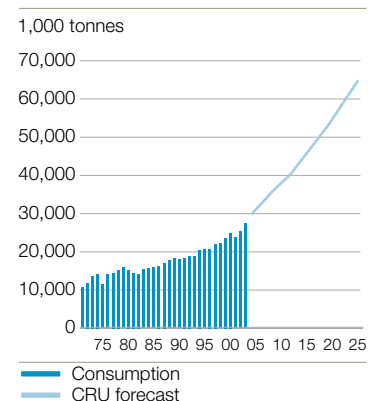
Production of primary aluminium



Aluminium semi-fabrication



Global aluminium consumption



Source: CRU

Meeting our greatest contemporary challenges

Access to new oil and gas resources



Exploiting energy pockets

Some geographical areas have significantly larger energy resources than what is now being commercially exploited or that can be cost-effectively transported from these regions. In such areas, it can be more economically attractive, as well as energy and environmentally efficient, to exploit the resources locally.

This was the perspective taken when Hydro was founded in 1905. Norway's large hydro-power resources were exploited for industrial production of nitrogen fertilizer that supplied a global market. Since 1967, Hydro has similarly leveraged hydro power for the production of aluminium.

Our expertise within energy and light metals, together with productive, long-term relationships with the communities in which we operate, generate new business opportunities. In 2004, we entered into an agreement with Qatar Petroleum to make preparations for development of one of the world's largest aluminium plants. Qatar has large gas resources, which provides a secure and competitive basis for power production.

During the past several years, the world's total proven oil and gas reserves have declined dramatically. Between 1982 and 1992, proven global reserves grew from 700 billion barrels to 1,000 billion barrels. During the following decade, proven global reserves increased to 1,050 billion barrels. The oil and gas industry faces big challenges in finding new reserves to replace today's production.

Big production increases until 2008

At the end of 2004, Hydro's oil and gas reserves were 2,076 million barrels of oil equivalents. During 2004, we produced 209 million barrels of oil and gas.

From 1998 to 2003, we more than doubled our average daily production of oil and gas from 270,000 to 572,000 barrels per day. From 2001 to 2008, Hydro will boost its output by 8 percent per year, and planned production in 2008 will reach some 700,000 barrels of oil equivalents per day.

Access to new reserves

The Norwegian continental shelf is becoming a mature oil and gas province, but opportunities for new finds still exist. The Norwegian Petroleum Directorate estimates some 3,400 million cubic meters of oil equivalents have not yet been found in the Norwegian offshore sector. This is comparable to more than one-fourth of the sector's entire estimated potential.

Hydro's areas of expertise, especially in deep water, can also be applied outside of Norway. This is one of the reasons we have increased our international engagements through the

development of existing activities, new exploration and purchase of technical resources.

In addition to our drive to boosting recovery from existing resources, (see pages 40 to 41), we now seek to increase our access to oil and gas reserves through exploration of new areas, together with the purchase and trade of technical resources.

Development of existing resources

In established areas where Hydro has existing production of oil and gas, we are working to identify nearby prospects that can be recovered within our profitability criteria with low exploration risk.

Increased recovery from existing fields demands new technology and a sharp focus on costs. In areas around the Oseberg field, where Hydro is operator, we still see numerous small prospects that can contribute to higher production in existing fields and be tied into future developments.

In the last concession round of pre-defined areas on the Norwegian continental shelf in December 2004, we received access to all the areas we applied for. The awards give us good opportunities for exploration of areas near existing infrastructure.

Exploration

In Norway and internationally

New areas

In 2005, we are increasing our exploration activities both in Norway and internationally.

In the North Sea, we have participated over the past 15 years in the exploration of more than 85 percent of recoverable reserves and have been operator for the development of more than 70 percent of these resources. Our size, expertise, presence and knowledge of local geology contribute to opportunities for continued growth and the ability to bear risk in new projects. The Norwegian continental shelf will continue to be our most important exploration and development area in the future.

License awards in the 17th and 18th concession rounds and the re-opening of the Barents Sea have given access to areas with high potential and high risk. The awards have given us a well-balanced exploration portfolio that stretches from the Farsund Basin in the south to the Barents Sea in the north. We plan to drill five to 10 wells in the arctic areas during the next few years.

Within international exploration, we are concentrating our resources on areas where we have knowledge about local geological conditions and can take advantage of our advanced expertise in deep-water drilling and technically complex development solutions.

In Canada, we have a 10 percent stake in the Hebron field. We will continue to develop this find in cooperation with the operator, ChevronTexaco.

Development in Angola is positive on Block 17 and Block 4. On Block 17,

Risk-taking

High potential

the Dalia field shows good progress. We have received permission to further develop the Rosa field. In 2004, the Angolan State oil company, Sonangol P&P, found oil on Block 4 in cooperation with Hydro. Sonangol and Hydro have signed an agreement to develop the field.

Oil production from the Kharyaga field in Russia was somewhat lower than expected in 2004 due to limited access to pipeline transport capacity. In addition, there is disagreement with the authorities on taxation. We are cautiously optimistic towards resolving these dilemmas in 2005, so that we can increase production and launch the third development phase.

Since 1989, we have assisted the Russian company, Gazprom, with evaluating the Shtokman field. Our long-term work, our good relationship with Gazprom and our unique experience from Ormen Lange, position Hydro to be a partner in developing Shtokman. In 2004, we entered into a new agreement with Gazprom for a number of joint studies. The Shtokman project and Barents Sea represent unique opportunities to capitalize on our core competencies.

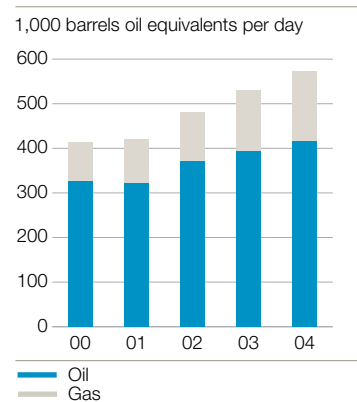
In Libya, we produce oil from the Mabruk field and Murzuq area.

In Iran, we are conducting exploration activities. The Iranian authorities face challenges to find new resources and boost production to fill their OPEC quota. Exploration on the Anaran block has been difficult. Pressure conditions in the well are more challenging than what we have encountered anywhere else in the world. Since discontinuing work on the first well, progress

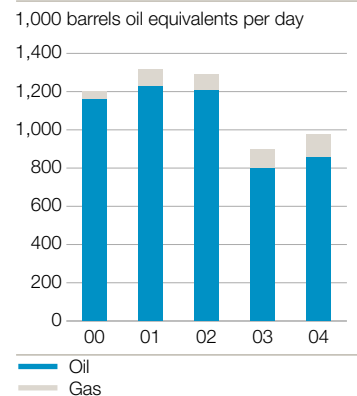
2004

Key indicators

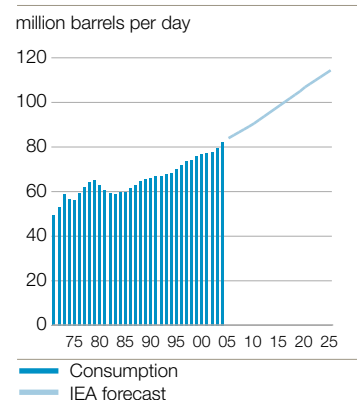
Oil and gas production



Total oil and gas production from Hydro operated fields



Global oil consumption



Source: IEA

Meeting our greatest contemporary challenges

100 years of renewable energy



Future energy on exhibit

There's a window on the energy of tomorrow on the western Norwegian island of Utsira – the world's first hydrogen community.

Wind is an unreliable ally, yet stable energy is one of the premises for a viable society. So what happens to power production when the wind is still?

We solved this problem on Utsira, albeit on a small scale. Two wind turbines ensure stable power to 10 households, even when the wind doesn't blow. The solution: hydrogen.

Surplus power from the wind turbines produces hydrogen, which is stored and used as fuel for a generator. We deliver a steady supply of power, even when the wind is still. Ingenious, say Utsira's inhabitants. Almost impossible to believe, say others. Thanks to new technology and foresight, it's a reality.

Pictured are Norway's oil and energy minister, Thorhild Widvey, and Utsira's mayor, Geir Helge Rasmussen, at the opening.

Learn more:
www.hydro.com/newenergy

on well number two is satisfactory, and there is hope to complete the drilling operation in summer 2005. We also see other opportunities in Iran.

In Morocco, we are preparing exploration in a license in the Safi basin. Offshore Madagascar, we were awarded a 30 percent share in an ExxonMobil operated license in the Majunga basin.

The licenses in Morocco and Madagascar are in an early phase. Both have great potential. We are in the final phase of geological mapping and hope to start test drilling in 2005-2006. Our financial exposure there is limited.

Purchase and exchange of technical resources

In 1997, Hydro participated in its first international resource swap, when we traded for an exploration area offshore Canada with PetroCanada. The transaction has been beneficial to Hydro and has proven to be a good foundation for expanding our activities in Canada. Hydro's share of production from Terra Nova and Hibernia today is 30,000 barrels per day.

Exploration activity in the deep waters of the Gulf of Mexico has established a good foothold in one of the most important future exploration areas and has provided us with valuable knowledge about local geology. In 2004, we increased our ownership stake in Lorien from 10 to 30 percent. A find was recently made in a similar geological structure in the area. In January 2005, we were also awarded an operatorship for an exploration block in waters 1,300 meters deep in the Telemark field, in the central part of the Gulf of Mexico.

Hydrogen

Prize-winning Utsira

Renewable energy

To secure access to energy and meet future demands for renewable energy supply, Hydro works with the development and commercialization of renewable energy sources.

We emphasize using Hydro's existing technology, expertise and market positions in this work. At the same time, we strive to leverage a broader spectrum of both technologies and products.

Hydro power

Hydro produced 8.1 TWh of power in 2004 from its hydroelectric stations in Norway. The company's normal production is 8.5 TWh. Some 68 percent of this power comes from plants operating under the authority of concessions valid until the period 2022 to 2051.

An upgrade of the hydro-power station at Tyin in 2004 increased its production capacity by 15 percent.

Hydro's Norwegian hydro-power plants have the potential to produce an additional 0.5 TWh of energy through investments in small power stations. The profitability of these projects is dependent, meanwhile, on access to "Green Certificates."

Wind power

Wind power is today commercially viable with Green Certificates. At the same time, technology has matured and authorities' in recent years have allowed for the building of large wind parks in demanding terrain. This development creates opportunities to take advantage of our industrial experience, power expertise and ability to handle large and complex development projects.

8.1 TWh

Renewable energy in Norway

At the end of 2004, Hydro had completed and operated two wind projects, at Havøygavlen (44 percent ownership share) and Utsira. The two facilities have a combined production capacity of 41 MW with a potential annual output of 110 GWh. We expect to expand our development of wind power over the next 10 years to combined normal annual production of 1.5 TWh.

Hydrogen

Hydrogen is attractive as an energy carrier because it can be produced from a number of sources and can be burned on both a large and small scale, as well as mobile or stationary. Its combustion in fuel cells results in harmless emissions.

Through Norsk Hydro Electrolysers AS, we are working to develop an infrastructure for hydrogen as a fuel for the transport sector. We have delivered hydrogen filling stations to Reykjavik, Iceland, and Hamburg, Germany. The largest hydrogen filling station in the world was opened in Berlin in November 2004.

Hydrogen plays a particularly important function in the utilization of renewable energy sources because it can be used to even out the production variables of wind power, solar energy and wave energy. Surplus production is stored as hydrogen and fulfills energy demand during periods of low production. Hydro has shown this is possible through its pilot project on Utsira. The project received the 2004 Renewables Project of the Year prize, awarded by Platts, the world's leading information provider to the energy industry.



Green Certificates

In 2001, the European Union ratified a directive for increased use of renewable energy to encourage more consumption of renewable electricity, from 13 to 22 percent by 2010. Compulsory green certificates are one of the mechanisms that EU member countries can employ to stimulate increased use of renewable energy. In a compulsory green certificate market, producers of renewable energy are awarded certificates and consumers must purchase a certain number of certificates annually.

Usually the energy supplier is given the responsibility for buying certificates on behalf of consumers in such a scheme, providing producers with additional income over and above the sale of electricity, and motivating them to increase production of renewable electricity. Norwegian and Swedish authorities are conducting talks and a common Norwegian-Swedish compulsory certificate market is in preparation. The Norwegian Department of Oil and Energy has submitted a parliamentary bill for consultation proposing compulsory green certificates, and the Norwegian parliament is expected to vote on the matter during the spring of 2005.



It all began with a successful project

With goal-oriented project management as our trademark

1907: World's largest hydro-power station

It's no coincidence we're building the most demanding project ever on the Norwegian continental shelf – Ormen Lange. In 2004, we opened Europe's biggest and most modern aluminium plant in Sunndal, and a new, energy-efficient power station at Tyn. And nearly 100 years ago we built Europe's largest, followed by the world's largest, hydro-power station.



Hydro sets high standards for efficient utilization of natural resources, optimal productivity and competitive returns on invested capital. That's why we've decided to make efficient production and goal-oriented project management our trademark.

In 2004 we completed new, major projects – on time, and within budgets. In Sunndal, Norway, we expanded and modernized our primary aluminium plant to make it the most modern and energy-efficient in Europe, and we started planning one of the world's largest aluminium plants in Qatar. And 3,000 feet below the surface of the Norwegian Sea, development of the huge Ormen Lange gas field is progressing at full speed. This ambitious NOK 66 billion project requires no surface installations. The gas will be piped to shore for processing in Norway and then transported through the world's longest undersea gas pipeline – the 1,200-kilometer-long Langeled – to the UK. When production reaches its peak, Ormen Lange will be able to cover 20 percent of Britain's gas demand.

When Ormen Lange begins supplying Europe with gas in 2007, it will have been 100 years since Hydro's development project at Notodden so impressed the visionary German industrialist Carl Duisberg. The first Hydro-owned power station was soon to open, and the accomplished engineer was amazed, unprepared for the spectacle. Not only was this the largest power station in Europe, it was virtually unmatched anywhere in the world. It started production as planned – and at the cost that was projected. It was the first major project in Hydro's history. Later the same year, we started building the world's largest hydro-power station in Rjukan.

It all began with a successful project

Capital returns, targets and results



Effective operation

Through innovation and the use of new technology we have extended the life span of the Brage field by at least four years. Increasing the recovery rate is the most significant contribution to increasing the life span of the platforms and maintaining their profitability. Additionally, we are aiming to reduce costs by working more effectively and by using modern communication systems between land and sea. In this process a central topic is maintaining or improving the standard of safety. This work is being carried out in close cooperation with our trade unions and safety network.

McKinsey's annual analysis of the operators' cost efficiency on the Norwegian continental shelf and in Great Britain has placed us in the upper quartile the last three years, as the most cost effective in 2002 and in second place for 2003, which is the most recent year that figures are available for.

Learn more:

www.ormenlange.com

In 2004, we achieved a return on capital employed (RoaCE) of 13 percent. Profitability was 23.4 percent in Oil & Energy and 3.5 percent in Aluminium. Adjusted for the NOK 1.5 billion (after tax) write-down of German metal plants, RoaCE would have been 7 percent. But profitability in Aluminium is still not satisfactory.

RoaCE calculated from normalized prices and currency rates was 7.9 percent for Hydro in 2004. See page 148.

Correct capital allocation

Hydro has a general profitability requirement of 10 percent for all investments. Strategic and risk guidelines will also influence which projects are considered, and thereby also the allocation of capital among the two business areas. In 2004, we undertook investments totalling nearly NOK 20 billion, with 32 percent being allotted to Aluminium, 62 percent to Oil & Energy, and 6 percent to others.

From 2005 and onwards, we have altered our investment criteria by adjusting the long-term price for crude oil from USD 16 to 25 per barrel, and the price of aluminium from USD 1,400 to 1,500 dollars per tonne. Furthermore, we have reduced the long-term assumptions for the dollar exchange rate from NOK 8 to NOK 7. Our projects are additionally qualified through price scenarios of USD 20 per barrel for crude oil, and USD 1,400 per tonne of primary aluminium.

In 2005, we intend to increase our investments to NOK 22 billion, with Oil & Energy receiving 70 percent, Aluminium 25 percent, and Other Businesses 5 percent.

Implementation of major projects

The continuing development of Hydro's businesses requires that we carry out major, capital-intensive and technically-complex investments, often with a high degree of new and partly unproven technology.

Our ability to implement such projects within predetermined budgets and timescales has major implications for our long-term competitiveness. Good returns on investments are only part of the equation. Just as important is enjoying the continued confidence of our business partners and those communities where we transform natural resources into useful products, and that projects are carried out in accordance with our stringent requirements for environmental and safety standards.

We have a central project organization that takes charge of major developments across business areas, thus ensuring the correct placement of responsibility and authority, and simplifying the transfer of experience and expertise.

All of our major projects follow predictable and consistent decision-making processes. These are developed continuously through international benchmarking – and project management standards are tied to our corporate investment directive.

Research and development for improved efficiency

To ensure sustainable and competitive products and services, we carry out research and development through the business areas' own research centers, the Corporate Research Center, and in cooperation with external institutions. Key tasks are improvement of products, reduction of energy use, efficient

More products

More energy and aluminium

resource management, increased oil and gas recovery rates, and diminished environmental impact from production and consumption, as well as recycling and waste reduction. Hydro spent approximately NOK 760 million on research and development in 2004, compared with NOK 722 million in 2003.

Research and development in Oil & Energy is organized into five main programs, governed by business goals: improved exploration, increased recovery, recovery from small fields, responsible recovery in arctic regions, and new energy.

The research and development activities in Aluminium are business-driven. We are constantly working to improve products and processes to develop new technology and new products. New competence and technology is rapidly and efficiently implemented in cooperation with end users.

Efficient recovery and production of petroleum reserves

We are working to maximize profitability from the oil and gas fields that we operate, contributing to high capital returns and strengthening our competitive hand when new fields and operator licenses are being allocated.

Gas injection and horizontal drilling are the result of determined research and development. Today, Hydro has a long-term research and development program for increasing recovery rates and extending the life span of mature fields. Within this program, work is underway to improve seismic imaging aided by modern technology, better statistics and dynamic reservoir mapping, increased reliability in reservoir description and modeling, new methods and techniques

Lower costs

Efficient project execution

for tertiary recovery, improved well and intervention technology, and control of unstable well streams.

An example of this is Hydro's innovative technology development program to increase recovery of oil and gas in the North Sea. A bold approach to the use of technology and complex solutions contribute to increased utilization of resources. Techno2005 is a strategic program for long and short-term technology development with particular emphasis on multi-branch and far-reaching wells.

Portfolio optimization

The optimization of the fields and licenses we have shares in, and how much we own, provides us with the opportunity to utilize resources in the best possible way.

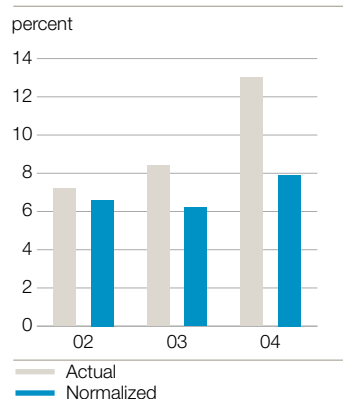
As operator of the Oseberg field, Hydro has contributed to equalizing ownership shares for fields in the area, laying the foundation for efficient operation and utilization of infrastructure, as well as developing the petroleum resources in the area. The result is increased value creation for the benefit of owners and society at large.

Portfolio optimization also gives us the opportunity to balance our own risks. For example, Hydro has entered into several agreements where we trade shares in exploration licenses in return for the partner partly or wholly covering our well drilling costs.

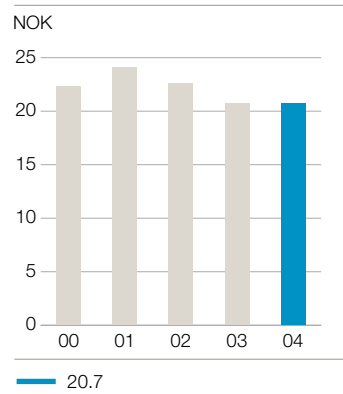
2004

Key indicators

RoaCE



Production cost per barrel



It all began with a successful project

Optimization and effective organization



Unique in-house technology

In 2004, Hydro completed its new metal plant in Sunndal, Norway. The plant employs our technology, HAL 275, which makes it one of Europe's most energy-efficient metal plants.

The expansion of the partly owned metal plant, Alouette in Canada, will be completed in 2005. The expanded plant will have an annual production capacity of 550,000 tonnes, of which Hydro's share is 110,000 tonnes. Both metal plants have secured long-term access to power at competitive prices.

Our planned aluminium plant in Qatar is also to utilize HAL 275 to ensure optimal energy and environmental efficiency. The plant in Qatar is expected to be one of the most cost-efficient in the world. The associated gas power station will build on the same technology that Hydro has developed for use in the planned gas power station at Kårstø in Norway.

Learn more:

www.hydro.com/workforce

Long-term optimization of the aluminium business

Aluminium continued its favorable development in 2004 with continuous result improvements in all main areas. After the acquisition of VAW in 2002, Hydro has realized total annual cost reductions of more than NOK 2.5 billion compared with 2001 levels.

Alumina

Since 2000 we have reduced the average cost of applied alumina from partly owned plants from USD 165 per tonne to a planned level of USD 120 in 2006. Weighted average cost of production of alumina globally was USD 145 per tonne in 2004. The improvement was largely attained through increased volume in the Brazilian company Alunorte, which is one of the most cost-effective plants in the world.

Primary aluminium

Improvements in efficiency in the production of primary aluminium are achieved primarily through improvements in operations and restructuring the portfolio of metal plants.

It has been decided to close the least cost-effective production lines, based on aging Söderberg technology, at our plants in Høyanger and Årdal during 2006, and by 2009 in Karmøy. These production lines currently supply somewhat less than 200,000 tonnes of aluminium per year.

In the first quarter of 2005, Hydro will conclude the Norwegian efficiency improvement program Aluimprover, which will yield cost reductions of NOK 350 million to 400 million per year. Our German metal plants are vulnerable to competition, and various improvement initiatives are being considered.

Improvements to casthouse operations

Hydro's casthouse operations are being continuously improved through cost-reducing initiatives and increased utilization of capacity. Through portfolio adjustments and establishing casthouses and remelting capacity near main markets in Western Europe and the US, we have streamlined the value chain, secured supplies of aluminium for our own manufacturing and improved opportunities to provide good customer service.

Rolling mills

In 2004, the rolling mills' costs were reduced by approximately NOK 100 million, and the cost reduction programs for Rolled Products are still ongoing. Improvements have been achieved through reduced overheads, coordination of sales and market organizations, adjusting production to products with higher margins, and more efficient operation.

Through product development and investments in new production lines, we are increasing production of printing plates for the graphic industry. Margins are high in this market and growth is 5 percent per year.

Utilization of capacity in Hydro's rolling mills which increased from 86 percent in 2002 to 90 percent in 2003 and continued upwards in 2004. Sales increased by 5.4 percent in 2004, giving Hydro a significant increase in market share.

Extrusion plants

Hydro's extrusion plants around the world for the most part serve local markets. Many of the customers are smaller enterprises, and orders are often relatively small. Over a period of several decades, we have built up a flexible and competitive extrusion business with a decentralized structure and a culture

A strong culture Diversity

Essential to competitiveness

A source of innovation

that welcomes internal benchmarking. Hydro has a particularly strong position within building systems and has a leading position in Europe. Through internal competence transfer we are working actively to strengthen profitability at our North American plants that currently have insufficient margins.

In the time ahead, we are planning selective growth in Latin America, Central Europe and Russia, as well as establishing a bridgehead to the Chinese growth market.

Automotive

We supply automotive components in aluminium and magnesium to many car manufacturers and for a large number of car models. Production of precision tubing for fluid transport is yielding excellent results, and the business is being expanded with new production plants in China and Mexico in 2005.

Nevertheless, profitability for our automotive business as a whole is unsatisfactory, and parts of this sector will therefore be restructured to optimize operation. In 2005, production will cease at Motorcast in Leeds in the UK. Production of engine blocks and components in Dillingen in Germany and Győr in Hungary was expanded in 2004, among other things with a production line for a new generation of six-cylinder aluminium diesel engines for Mercedes-Benz.

Our position as a supplier of aluminium bumper beams and crash boxes is particularly strong in Europe.

Effective organization

An effective organization with a strong culture is crucial to ensuring our competitive strength. An effective organization taking into account individual needs

and the employee's integrity therefore has high priority. A new human resource strategy was developed in 2004 to realize the benefits of a more focused Hydro and support the implementation of The Hydro Way. The goal is to achieve better performance and to systematically develop Hydro's employees.

Individual development and training

Fundamental to the development of the individual employee is the annual target and development dialogue. Based on this, individual development plans are prepared. The process is tied to Hydro's business planning. In parts of the organization, these dialogues already apply to all employees; elsewhere the focus is chiefly on management and salaried employees. Hydro established a plan in 2004 that will enable all employees to be included.

The development of top management is a corporate strategic responsibility which is ensured in part through annual, mandatory seminars. Key elements are the company's strategic direction, internal and external requirements and dilemma analysis and dialog. To strengthen managers' expertise in health, environment and safety, a com-

prehensive training program was started in 2004.

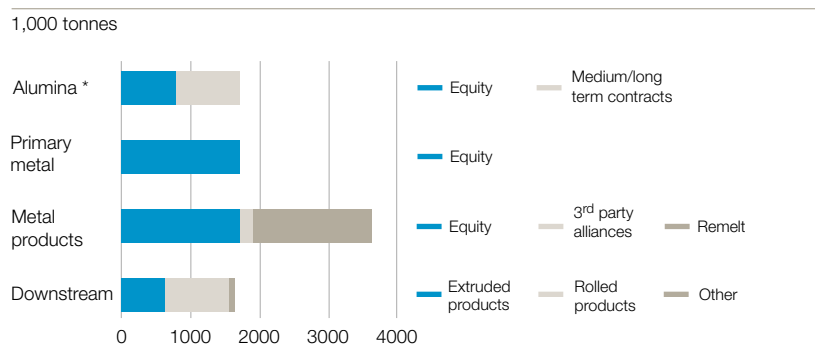
Moreover, training is provided in a wide range of areas, including management, health, environment, safety, languages and values. Additionally, we have a broad provision of information and training materials on our intranet, to which about 60 percent of employees have access. In 2004, nearly 2,700 employees completed at least one e-learning course. In 2003, 1,800 participated.

Early in 2005, we published the brochure You and Hydro in 14 languages. It includes important elements of Hydro's steering documents, describes what we expect of our employees, and in return, what they are entitled to. In this way, Hydro's "whistle-blower" procedure has been made known to 99 percent of our staff in their local language.

Diversity

In order to attract and retain the best employees, we are seeking to develop and exploit our organization's inherent diversity. We see diversity as a source of innovation and a contributory factor to good decision-making, and we therefore

Aluminium portfolio composition



* Aluminium equivalents (2 tonnes alumina per tonne aluminium)

It all began with a successful project

Health, safety and environment



Diversity in North America

The advantages of increased diversity are clear to Hydro's Aluminium operations in North America. Nine nationalities are represented among the 25 managers who make up the sector's upper management. Six women – two with responsibility for plants – are members of the management group. Not surprisingly, Americans figure predominantly in the group, but there are also two Canadians, two Norwegians and one each from France, Ireland, Wales, Scotland, Austria and South Africa.

"I think the diversity of our management group has helped accelerate our progress," notes Jay Marmer, head of human resources. "With a large portion of our management team from outside the US, we have had to pull together around our business needs. And the variety of perspectives we can bring to bear on an issue inevitably leads to better solutions. We're not satisfied, though. We still want to increase the diversity lower in the ranks. In particular, we are eager to find strong female and minority candidates."

Learn more:
www.hydro.com/principles

strive toward diversity in teams and management with regard to age, experience, gender and cultural background.

Hydro is committed to treating all employees fairly. We will not accept any form of harassment or discrimination, and will only weigh qualifications such as results, experience, personal suitability and education when considering employment, promotion, training and remuneration.

The proportion of women managers in Hydro continued to increase in 2004, and women now make up 25 percent of our 50 or so most senior managers. In the same group there are 14 percent non-Norwegians and seven different nationalities represented. Among our top 200 managers, 19 percent are women, 20 percent are non-Norwegians and 13 nationalities are represented. It remains a challenge to achieve a good balance between men and women in operational management positions. An important part of the company's management development process is therefore to identify female candidates for such positions. Furthermore, effective recruitment of women to traditionally male-dominated professions is vital. The Operations environment in Oil & Energy is a good example of this. In 2004, 44 percent of new employees in petroleum technology were women, and in drilling, the figure was 35 percent. Special programs were initiated in 2003 and 2004 to qualify new platform managers; half of the participants were women.

In the Norwegian part of Hydro the proportion of women managers is 18 percent, while the proportion of women in total is 21 percent. In 2003 the equivalent figures were 17 percent among managers and 22 percent overall. Our

figures for other countries are not yet complete, but here too there is a proven need for promoting diversity. In 2005 we will continue our efforts to strengthen diversity through particular focus on recruitment and attention when filling managerial positions.

Hydro participates in the Norwegian Confederation of Industry's program "Female Future," the goal of which is to increase the proportion of women in management and boards of directors. We are also a member of the Norwegian Management Equality Diversity, whose objective is to promote understanding of the rewards of diversity in management.

In 2004, Hydro was awarded Management Equality Diversity's prize for advancing women in management. The prize was presented by then minister of industry and trade, Ansgar Gabrielsen.

Trainee program

We want to recruit employees who are bold, determined and have foresight, and who can help us create the solutions of tomorrow. In 2005 Hydro is therefore starting an international trainee program for around 30 recent university graduates. The 18-month introduction and development program includes job rotation in various sectors, gatherings with other trainees, seminars on competence and strategy, close follow-up and evaluation.

Hydro Monitor

In 2004 we introduced a new common organizational survey, the Hydro Monitor. It will provide us with a broader perspective of our organization and enable us to identify where we are making progress and where further initiatives are needed. We will be able to share knowledge and best practice across all busi-

Fewer injuries

5.6 per million working hours

ness units; furthermore, we will be able to compare ourselves with leading companies worldwide. In 2004, Hydro Monitor was implemented in most of Oil & Energy, the Corporate Staffs and common functions in addition to some units in Aluminium. The intention is that all units will have introduced annual surveys by 2007.

Compensation and remuneration

We are committed to providing our employees with a total compensation that is fair and competitive and in line with good industry standards locally. But there is more to compensation than salary. Career, personal development and a flexible work environment are also important elements in our compensation system. A performance-related pay system that covers the majority of employees in the Norwegian part of the organization was introduced in 2001. Outside Norway, performance-related pay has been implemented at the managerial level. Bonuses are tied in part to implementation of the business plan, and the main intention is to promote a performance-oriented culture, improve results and reward good effort.

Health, working environment and safety

Health, safety and environment (HSE) is a line responsibility in Hydro. Additionally, all employees are responsible for their own safety and for contributing to a good working environment. Initiatives to secure employees' health and safety and a good working environment are necessary to achieve our business ambitions.

The President's Safety Award is a recognition of efforts to prevent accidents and injuries, and both preventative work and visible results are emphasized. In 2003, the prize was awarded

Three fatalities

Injury rate must be further reduced

to Hydro Technology and Projects for the expansion and modernization of the aluminium plant in Sunndal, Norway. This project also won the prestigious Norwegian Working Environment prize for 2004. The Safety prize for 2004 was awarded to the Oseberg Sør platform in the North Sea.

Health and working environment

Hydro has developed a handbook for work environment risk assessment as a tool for line management to help map, evaluate and continually improve the working environment.

Sick leave is also an indicator of a work environment. In Hydro, sick leave was 3.1 percent in 2004. A particular challenge is that reporting policies vary by country, and we have therefore initiated a project to ensure consistent reporting of sick leave in all parts of the company. This will make it easier to implement initiatives targeted at reducing sick leave.

Increasing use of drugs and intoxicants in society requires that businesses sharpen their focus. Hydro requires a working environment free from drugs and alcohol.

Personnel safety

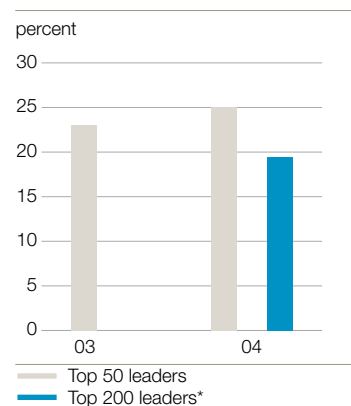
Reporting of incidents is essential for injury prevention. All accidents are analyzed to find their cause and measures that can prevent recurrence. We are particularly concerned with maintaining a high level of reporting of near-misses. This is important to improve dangerous conditions and influence norms and behavior so that accidents do not occur.

The total number of recordable injuries per million working hours has been reduced from 7.0 in 2003 to 5.6 in 2004. The figure includes lost-time injuries, restricted work cases, and

2004

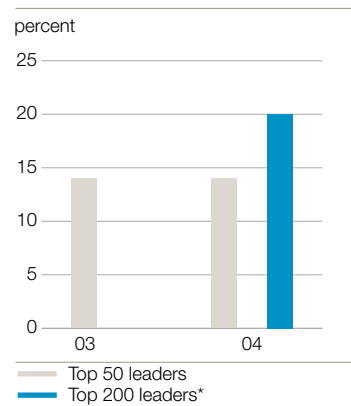
Key indicators

Share of women leaders



*comparable figures not available for 2003

Share of non-Norwegian leaders



*comparable figures not available for 2003

It all began with a successful project

Optimum operation – for the sake of the environment



Biodiversity

Our aluminium business has ownership shares in bauxite mining and alumina production in areas with considerable biological diversity. Through these shares, we are participating in projects to preserve this biodiversity. After bauxite mining, the forest is replanted and the original fauna reintroduced.

In the Barents Sea where we are exploring for oil and gas, we are conducting a range of studies and analyses before starting work. To document the state of the environment and improve the foundation of data for environmental and preparedness analyses, we are charting locations of coral reefs and surveying of bird life. Furthermore, Hydro contributes to developing models that increase our knowledge and understanding of the Barents Sea's vulnerability and the interplay between species. In cooperation with other companies we are also working to avoid damage to sea life caused by the gathering of seismic data.

Learn more:

www.hydro.com/climate

www.hydro.com/biodiversity

medical treatment cases, and meets our 2004 goal of a 20 percent reduction. Despite progress in safety work, three fatalities occurred in 2004, involving one Hydro employee and two contractors.

Organizations that have already achieved good safety results and have low frequency of injury need to focus on human factors in order to further reduce their injury statistics. We are working actively to acquire knowledge and implement initiatives to reduce incidents that in some way or other are related to human factors. Many of our units are working actively with behavior-related safety programs.

Technical safety

Hydro handles substances and processes that, if out of control, may cause significant damage or detrimental effects. Work to safeguard the technical safety of our plants is extensive in all phases: planning, projecting, start-up, operations, decommissioning, and demolition. Regular risk analyses are carried out, together with inspection and control of critical equipment and systematic maintenance of the plants. Work on developing a performance indicator for measuring the state of technical safety continued in 2004.

Optimal operations – better for the environment

Optimization of our business has positive effects on the environment. More effective operations result in reduced consumption of raw materials and energy, reduced emissions, lower quantities of waste and lower costs. We are working to reduce waste from our own production and to increase recovery of light metals.

Hydro's business is global. Irrespective of where in the world we operate, we employ the same basic principles. When we take over plants that do not

meet our environmental standards, we aim for rapid improvement. When we build new plants, we meet our own and local authorities' environmental regulations. We are also working on requirements that our key suppliers must satisfy or commit themselves to working for.

Climate change

As a major industrial player we acknowledge that the risk of long-term climate change necessitates the reduction of greenhouse gas emissions. We are taking part in international efforts to develop global frameworks, based on flexible mechanisms that include trading of emission quotas.

These systems support cost-effective reductions in emissions, pave the way for the introduction of best practices and best available technology in the short term, and the development of sustainable systems and infrastructure in the longer term. We have committed ourselves to being in the forefront of developing frameworks, in the reduction of our emissions, and in the development of sustainable energy and material systems.

Hydro's emissions of greenhouse gases in 2004 based on operatorship were 8.84 million tonnes of CO₂ equivalents. On the basis of Hydro's ownership interests, emissions amounted to 10.28 million tonnes of CO₂ equivalents. This is a reduction of about 24 percent compared with 1990, based on the same ownership structure. The reduction is a result of systematic improvements in operations and the introduction of new technology. However, in recent years, emissions have increased. This is due to increased production and discharges related to tertiary recovery in oil fields. Reduced emissions of greenhouse gases are planned from 2006 by substituting SF₆ as blanket gas in magnesium casting. We have also

Climate change Technology

2004

Better operation gives lower emissions

Zero hazardous discharges

Key indicators

implemented significant initiatives to reduce emissions of fluoride carbons from primary aluminium production.

Our investments are long-term. To contribute to future-oriented solutions with low emissions of greenhouse gases, we are installing solutions with the best available technology even in those parts of the world where greenhouse gases are currently not subject to regulation.

Sustainable use of water resources

The majority of our operations are dependent on water resources in the form of process and cooling water; at the same time, our discharges influence water quality and biodiversity in the recipient water.

In Norway, pure water is abundant, but this is not the case in all countries. Sustainable use of water resources necessary. In 2005 we have implemented a project to identify challenges related to our operations in these regions.

Biodiversity

Hydro's multifaceted business brings us into contact with areas that are vulnerable to industrial activity. Preservation of biodiversity is crucial to sustainable development. Our goal is to protect and preserve biodiversity through increased knowledge and awareness of the risks that our operations entail. A corporate policy on biodiversity was completed in 2004.

Other environmental effects

For many years we have been introducing technology and other initiatives that have resulted in considerable reductions in emissions. Our ambition is to further reduce the environmental effects of our operations.

Water treatment has reduced the concentration of oil in produced water from operations on the Norwegian continental

shelf, and discharges of hazardous chemicals have been drastically reduced. Completed and planned initiatives will reduce the risk of damage to the marine environment in 2005 by 80 percent in relation to 2002. Examples of this are the commencement of water injection at Oseberg Field Center and use of new technology in the Troll field. Together, these initiatives will meet our goal of zero environmentally harmful discharges in 2005. The authorities have expressed general satisfaction with the plan. All development projects on the Norwegian continental shelf as well as international projects where we are involved are evaluated on the basis of strict environmental requirements.

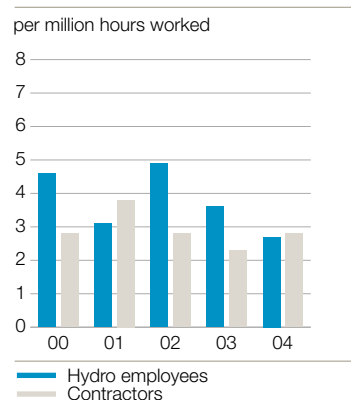
The construction of a new chlorine plant at Rafnes, Norway, is important to strengthen our competitiveness in the PVC market. This facility employs the best available technology, which leads to significant environmental gains in the form of reduced energy usage and emissions.

Financial provisions

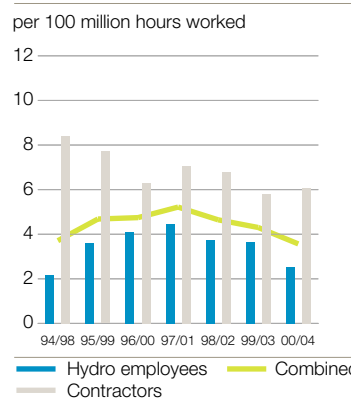
Provisions for future environmental clean-up operations amounted to NOK 351 million at the end of 2004, compared with NOK 341 million in 2003. Comparable costs of environmental clean-up were NOK 44 million in 2004 and NOK 31 million in 2003. (see Note 21 in financial statements).

With the exception of certain projects, environmental improvements are an integrated part of our investments and operations. We therefore do not quantify a separate environmental share of our total investments and costs.

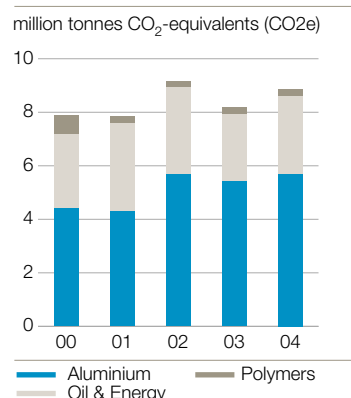
Lost-time injuries

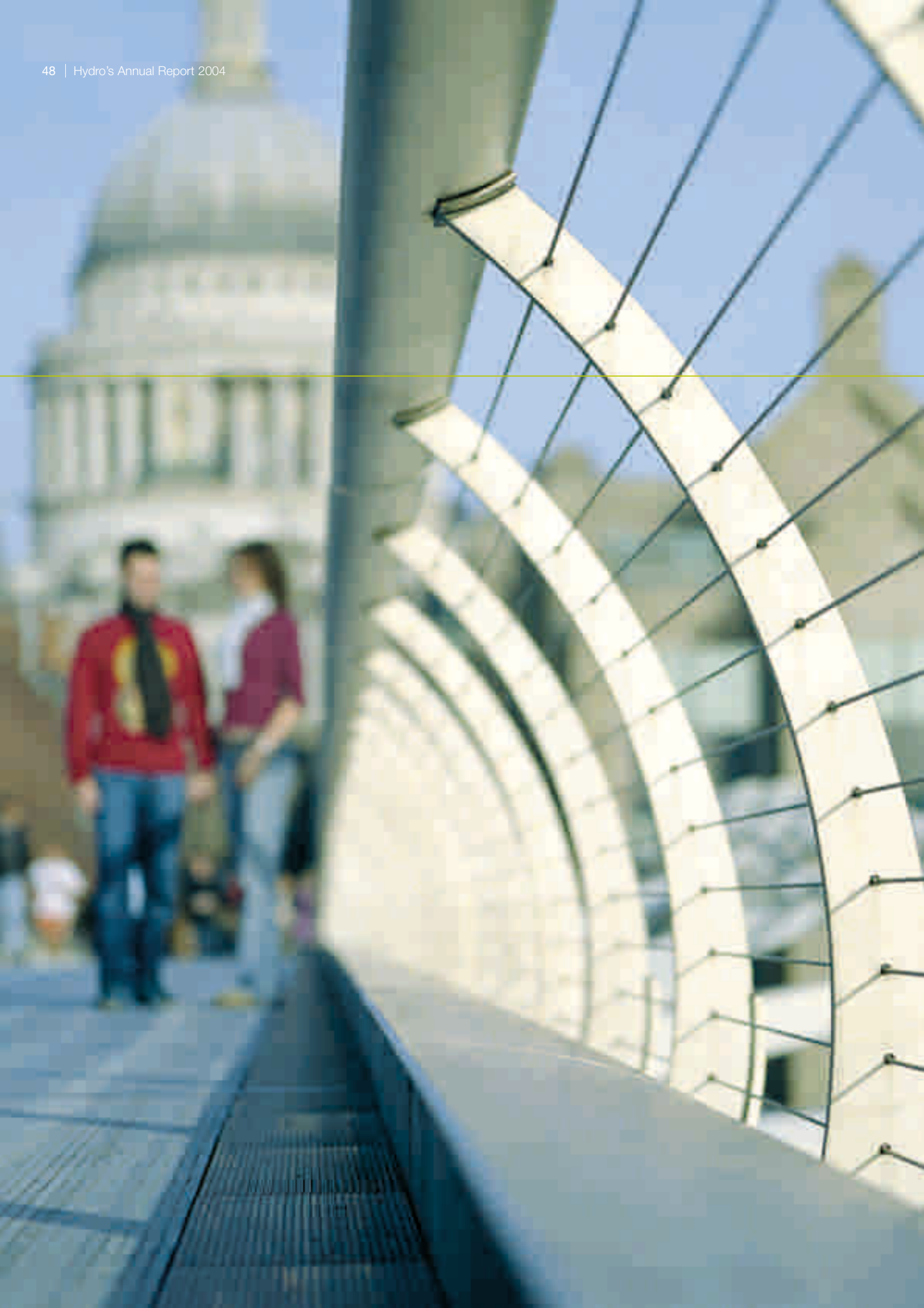


Fatal accident



Total greenhouse gas emissions





A bridge to new business opportunities

From London's Millennium Bridge to green buildings in Germany

1953: Light metals to Volkswagen

A keen eye for the opportunities and challenges of the future, 100 years of bold and visionary achievements, coupled with the will and ability to cooperate and meet customer needs have given us a lead that we can benefit from commercially. The Millennium Bridge in London was built using aluminium components from Hydro. This also goes for more and more residential and commercial buildings in Europe and the safest series-produced cars the world has seen.



Our contributions range from research into the world's long-term energy and transport requirements to day-to-day cooperation with aluminium and energy customers the world over.

Working closely with German authorities, architects, environmentalists, contractors and investors, we have over the last three years analyzed how aluminium and glass facades can be used to reduce energy consumption. The opportunities are tremendous. Facades and glare-control systems of high-rise buildings can give savings of up to 50 percent on the energy consumed by heating, cooling and lighting. The project has boosted our ability to develop new energy-efficient and environmentally acceptable solutions, while also building valuable relationships.

It was clear right from the start that Hydro's aluminium operation would not be limited to metal production. Product development and enhancement became natural extensions of the company's activities. We have worked together with the automotive industry since the early 1950s, supplying magnesium in large volumes for the engine of what was the world's most produced car until 2004: the legendary Volkswagen Beetle. Today, the automotive industry is one of our most important customers and partners.

A bridge to new business opportunities

Energy and metal for the future



Less noise in the office

In the UK we chose in 2004 to proceed with more than 100 minor projects arising out of our partnerships with young, small design-based engineering firms. Husband and wife team Liz and Mark Partridge have become one such exciting example. Their unique and innovative Macro-pod makes an elegant contribution to solving the noise, safety, flexibility and concentration challenges posed by the increased use of open landscapes.

We produce large amounts of energy and also use it to make aluminium. The uses of this light metal include making vehicles and buildings less energy intensive.

Sustainable Mobility

Hydro is a significant supplier of energy and also a major supplier to the transport industry. Together we face long-term challenges in developing sustainable transport. Knowledge about the challenges and joint efforts to find solutions are key to success and decisive to our long-term competitiveness.

In 2000, the World Business Council for Sustainable Development launched its Sustainable Mobility project. Eight of the world's biggest automotive manufacturers took part, along with Michelin, Shell, BP and Hydro. The final report of the project – Mobility 2030 – was delivered in the summer of 2004.

The project gave us the opportunity to participate in vital strategy discussions with current and potential customers, and other players who will influence future energy consumption. It gave us an insight into environmental problems, how traffic accidents, noise and congestion can be reduced, as well as how developing countries can solve their transport challenges as they grow economically. Moreover, the project scope included analyses and evaluations of accessibility, reliability and the applications of new technology and the need for changes to the overall governing framework.

New sources of energy, and new energy carriers such as hydrogen, are necessary if we are to meet the demand for fuel and reduce emissions. But it is also possible to reduce energy consumption

by making the means of transport lighter.

Hydro occupies a somewhat special position here. We supply both energy for transport purposes and the light metals aluminium and magnesium for the production of vehicles. The Sustainable Mobility project has further strengthened our ties to the automotive industry. We are continuing to work on developing good concepts for increased safety, and on finding new energy solutions while reducing vehicle weight. Our intention is to reduce the energy needs of future modes of transportation and increase traffic safety.

Understanding customer needs

Profitable innovation requires in-depth knowledge of customer needs, external conditions and business requirements. A close dialogue with existing and potential customers contributes to the continuous development of new Hydro products.

Safer and lighter cars

Aluminium has unique properties. Its light weight, corrosion resistance, recyclability, strength, ductility and durability make the metal suitable for cars and other vehicles.

Hydro is a global market leader in the development of solutions for greater collision safety. We also deliver engine blocks, aluminium for the structural framework of cars and precision tubing for heat exchangers.

Safety has emerged as one of the automotive industry's most important challenges. Auto design is crucial for collision safety. The use of aluminium makes it possible to improve safety without increasing weight. Not only

Safer cars

Aluminium crash boxes

that, but aluminium under certain circumstances has better deformation properties than other metals. A positive additional effect is that aluminium structures are relatively rigid, which provides better steering qualities while improving safety. Furthermore, low weight improves weight distribution and thereby enhances stability.

Following our talks with customers and monitoring of the regulatory framework governing the industry, we are extending our product spectrum. The development of aluminium crash boxes is one result of our cooperative efforts. Car bumpers have traditionally been attached to the chassis using steel constructions. The crash box, designed so that it absorbs more energy during a collision, is in the process of taking on this role. At the same time it helps reduce weight at the front end of the vehicle, which improves steering properties.

Green buildings

Residential and commercial buildings consume large volumes of energy. US Department of Energy calculations indicate that buildings alone stand for 37 percent of energy and 68 percent of electricity consumption. Due to higher energy costs, systems and standards for residential and commercial buildings in Europe have been different than in the US and energy consumption lower. Buildings nevertheless stand for a considerable share of energy consumption.

Contractors and industry therefore have strong incentives for developing green buildings that reduce the environmental impact from use and operation.

Green buildings 2004

Can halve energy consumption

Hydro is working closely with the construction industry to develop green buildings. Aluminium from Hydro is used primarily in facades, door and window frames and ventilation systems. In 2004, 31 percent of our extrusion sector revenues came from the construction industry. This market is showing the most rapid growth and value creation is good.

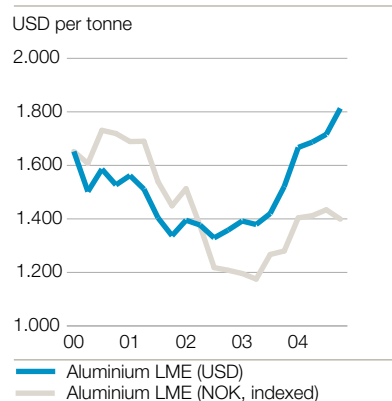
Other markets

Most of Hydro's aluminium turnover takes place in clearly defined and often concentrated markets such as the automotive, construction, food and graphical industries, where customers are large industrial, professional and easily identifiable buyers of aluminium.

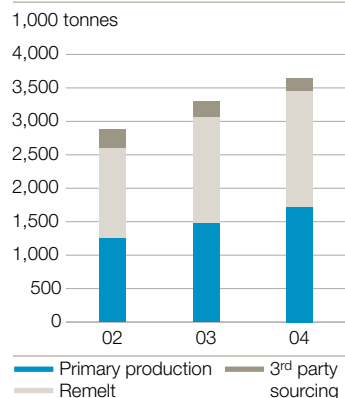
Aluminium's properties make the metal interesting way beyond these large and often homogeneous markets. Large areas of the market for our extrusion business comprise standard products for which low costs are the most important competitive factor. In certain parts of the market there is room for growth and higher margins as a result of innovative partnerships: Hydro helps develop new products and solutions together with the customer. In recent years we have concentrated our marketing efforts toward design and engineering environments in Europe, by means of our participation in trade fairs and dialogues with educational institutions. In this way, we meet potential partners and buyers of aluminium within a framework that enables our engineers to contribute to product development.

Key indicators

Aluminium price



Aluminium casthouse production and third-party sourcing



A bridge to new business opportunities

Selling more than we produce



Market driven

A dialog with customers, partners and governing authorities plays a vital role in our drive to utilize resources and competencies in new areas. In addition, we actively participate in markets where we often sell or trade volumes supplementary to our own production, a strategy that creates growth and increases profitability.

We sell more than we produce

As a market-driven organization we sell more aluminium and energy products than our own production would indicate. This strategy is necessary in order to capture the commercial potential of markets and opens up opportunities from which we otherwise would have been excluded. In addition, such activity helps us learn more about the market, strengthens our work culture and boosts our business development.

Metal supplier concept

In the mid-1990s, Hydro adjusted its primary aluminium sales strategy. Instead of being first and foremost engaged in selling of our own production, we concentrated our efforts on meeting customer needs for metal and associated services. This change brought about Hydro's metal supplier concept, which we are still developing.

The concept embraces both our supply and sales strategy. In 2004 we produced 1.7 million tonnes of primary aluminium, yet went to market with 3.4 million tonnes. Our primary production is supplemented with the production of partly owned plants and strategic partners, by remelting different types of purchased aluminium and by remelting scrap.

In this way we improved our own resource situation and optimized the resource utilization of our own casthouses, achieving volumes that increase the efficiency of our logistics. We secured capacity that puts us in a better position to fully meet customer demand.

At the same time, we are able to offer even more value than the customer

already obtains through our quality deliveries at competitive prices. As an integrated part of our product range, we offer commercial, technical and risk management services.

In line with this concept, we have agreed to sell 100 percent of the volumes produced at the aluminium metal plant planned to be built in Qatar, while our shares will be 49 percent of the metal plant and 51 percent of the casthouse.

LPG trading

For several years Hydro has been one of the 10 biggest producers and consumers of liquified petroleum gases (LPG) in Northern Europe. We use LPG, which we produce when processing natural gas, in our petrochemicals business in Norway. In connection with these operations, we have developed logistics for LPG in Northern Europe.

This business gives us an insight into the European market where we are actively engaged in trading. We normally trade volumes up to three times as great as those we produce ourselves, or require for our own use, and this trading activity has yielded some good returns over the past ten years. Risk is managed through volume-based limitations on the positions we take in the market.

Gas for 21 years

Increasingly important energy source

Metals for all

Supplier concept major success

2004

Key indicators

Maximum value from our gas positions

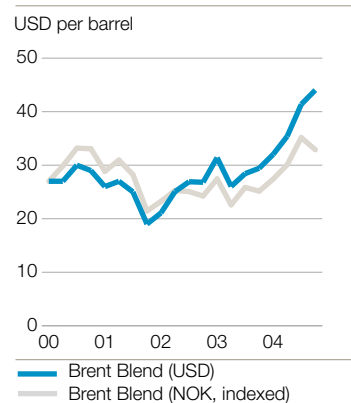
Hydro has large reserves of gas on the Norwegian continental shelf, closely situated to the biggest markets in the world. At currently planned rates of recovery, we can produce gas from existing reserves for 21 years, longer than any of our competitors. Our cost position in Europe is competitive.

From 2004, an increasingly larger share of our growing gas production is not tied up in long-term delivery contracts and we sell almost 50 percent more gas than we produce. Our market position gives us the flexibility to profit from demand in different markets over time.

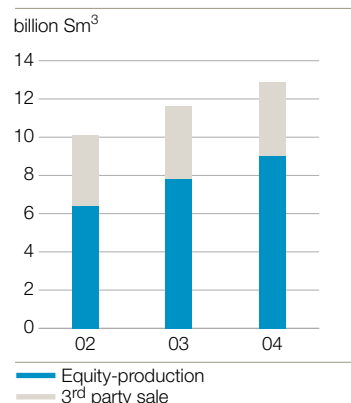
Going forward, we expect energy consumption in Europe to be based more on gas piped in from the Norwegian continental shelf, Russia and North Africa. Large amounts of gas will be needed in Europe to meet the growing demand there. Our intention in Russia is to team up with Gazprom to help develop Shtokman, one of the biggest gas fields in the world.

The Ormen Lange field, in which Hydro's stake is 18 percent, is expected to account for 20 percent of gas supplies to the UK when production peaks. In this market we have entered into an alliance with Wingas, owned by Gazprom and Wintershall, and set up HydroWingas, which will market our gas in the UK.

Oil price



Gas production and sales





Not just minding our own business

We've been handling change for a hundred years

2001: Difficult closures

When it became clear in 2004 that the Motorcast plant in Leeds would have to close, 580 of our employees were directly affected. At the resulting crossroads between personal and social considerations, we were able to draw on nearly 100 years of experience of managing change: information as early as possible, advice, financial support and practical help. Our commercial activities must move society onward, even when the issue is change.



Most of our former employees in Leeds have now found work outside Hydro. We couldn't guarantee them new jobs, but we believed in taking each and every one of them seriously. In cooperation with employees and the local community we explored new avenues. Our employees given the opportunity to express their thoughts, feelings and frustrations. Together, we published the material in a book. It didn't give anyone their job back, but it was one of several ways of helping them cope with the difficult situation they were in.

Hydro and modern Norway were born in the same era. Our company brought about the industrial revolution in this country. We built the hydro-electric power stations, developed the industry and founded new communities. For 100 years Hydro has grown and developed in step with a nation undergoing rapid development. And along the way, challenging periods of change have also been a part of everyday life. Where we once built up, we have also had to close down. It has changed us. Today, we are living in dynamic interplay with a world undergoing dramatic change. That demands perspectives beyond our own, short-term interests.

When we had to make the difficult decision in 2001 to close the magnesium plant in Porsgrunn, Norway, there were strong reactions from our employees and the local community. But contributions to creating new jobs outside Hydro and support for retraining have made it a textbook example of successful restructuring. Today, the perspective is global. How great and fundamental the structural changes are becomes clear when we have to downsize and close a facility in Leeds on one day, and expand and open new facilities in Hungary, Mexico and China, the next.

Not just minding our own business

Integrated in local society



Dialogue in Easington

The little community of Easington on the Eastern coast of England will be significantly affected by the construction of Ormen Lange. Even though Easington has existed for many years as a terminal area for gas operations, the project has its critics. During the public hearing processes it has therefore been extremely important to be attentive to the inhabitants' concerns. Several information meetings have been arranged. During the construction period, monthly newsletters are being distributed to all households with information about the project. Over time, close ties have developed between Hydro and the local community. Openness and cooperation on initiatives for minimizing disadvantages for residents have been a key task for Hydro as developer.

Traffic safety measures in the construction phase will be followed up closely, and other measures of long-term value that contribute to maintaining the village's distinctive character will be implemented.

Learn more:

www.hydro.com/society

www.hydro.com/restructuring

Social commerce

Hydro's ability to manage and develop both human and natural resources is crucial to long-term success.

Our efforts to reduce environmental impacts, respect human rights, live up to our responsibility as an employer, oppose corruption and enter into active dialog with the society around us is not only a moral duty, but a necessary part of value creation.

From principles to action

We have corporate requirements to meet our social responsibilities. These include ethical guidelines that all our employees must follow. They build on national laws, international conventions and other guidelines that Hydro has chosen to adopt. Examples are the UN's Global Compact principles and Transparency International's Business Principles for Countering Bribery.

In our brochure Invitation to Action we explain in more detail how Hydro's managers should go about integrating socially responsible business into strategies, plans, and daily operations. Among other things, a series of dilemmas are raised which our colleagues are encouraged to reflect on. All business units examine their activities to identify challenges and dilemmas, and routines are established to ensure that internal and external requirements are met. This contributes to increased awareness on the value of demonstrating social responsibility.

Influencing business contacts and suppliers is important in the continuing work with incorporating standards and guidelines for ethics and human rights into our business.

Dialogue and cooperation

To ensure that we work in ways that are adapted to local conditions and contribute positively to Hydro and local communities, we seek open dialogue with various interest groups.

When starting a new project, we identify affected institutions or groups, representatives for local communities, authorities, suppliers, customers, advisors and voluntary organizations. We draw upon our experience from similar projects in order to develop a dedicated project plan for social responsibility.

In 2004, Hydro entered into an agreement on intent for the building of an aluminium plant in Qatar. The impacts on society will be studied through a social impacts analysis that will include demography, political system, human rights and business ethics. Furthermore, a dialogue will be initiated with various stakeholders, such as authorities, business partners, local communities, contractors and non-governmental organizations. Then, the socio-economic and socio-cultural effects will be evaluated, and plans will be developed for how to meet potential challenges.

Exploration for oil and gas in the arctic northern seas has triggered significant debate in Norway. We therefore put considerable emphasis on informing about our activities. Before exploratory drilling in the Barents Sea was resumed early in 2005, we spent much of 2004 providing information about the activities, to spread facts and dispel myths. Information was disseminated in northern Norwegian newspapers, and both skeptics and advocates of exploratory drilling were given the opportunity to air their views. Hydro is actively participating in meetings, debates and seminars with politicians at all levels; local busi-

Dialogue

Listening to those affected

nesses, non-governmental organizations and other stakeholders. This gives stakeholders the opportunity to ask questions and participate in direct dialogue with the company.

Necessary, but demanding changes

Flexibility is necessary to meet changes in the market. In certain places, this has negative consequences for our employees and the local community. Hydro has a tradition of finding acceptable solutions in close cooperation with employees and their organizations, as well as local authorities. Such situations are demanding for all involved.

A good long-term dialogue is essential for carrying out processes of change in the best possible way. We therefore try to keep all parties informed and updated on developments in our markets and activities. Problems are raised at the earliest possible opportunity, giving everyone time to explore and discuss alternative solutions. Key instruments at hand are assistance with starting new businesses, support for employees who wish to retrain, severance packages and early retirement.

New business opportunities

In Årdal and Høyanger in Norway, Hydro has established new business development companies in cooperation with the local municipalities and employee representatives. The cooperation is part of the Aluimprover project, and was established due to the impending closure of the old Søderberg technology at the two aluminium plants by the end of 2006. Over 300 jobs will be lost in the two local communities where Hydro is a cornerstone industry. The business development companies are working to foster competitive industrial projects that can make use of surplus Hydro expertise. The assistance

Change

Development and adaptation

takes the form of loans and start capital, as well as project support and other help for developing business plans including funding proposals.

The work has so far resulted in the establishment of one company in Høyanger and will provide about 25 jobs in the first phase.

Plans are also underway for several new business startups in the range of 20 to 100 industrial jobs in Høyanger and Årdal.

Social investments

We are involved in several regions and countries that are facing major development of their natural resources, not dissimilar to the situation in Norway when Hydro was founded to utilize hydro power for the production of fertilizer in 1905 – or for that matter, when the oil resources in the North Sea were discovered in 1969.

Our history has given us an understanding of how cooperation with international players can contribute to long-term value creation for all parties. In the 1960s and '70s, we had to learn everything about the oil business from the ground up, in close cooperation with larger international partners. We're bringing that experience with us when we now offer our expertise with others.

In Angola we are working closely with the authorities and the state-owned oil company, Sonangol. Our ambition is to participate in developing the company to become an independent and fully competent offshore operator in its own right. To secure the long-term supply of qualified employees, we established a program already in 1998 to transfer expertise in the fields of management and technology. Its aim is to educate young Angolans to manage their coun-

2004

Key indicators

Number of employees (year end)

| | 2004 | 2003 |
|---------------------------|---------------|--------|
| Norway | 12,130 | 12,587 |
| Germany | 5,630 | 5,629 |
| Other EU | 10,154 | 10,915 |
| Other Europe | 23 | 22 |
| Total Europe | 28,297 | 29,153 |
| US | 3,780 | 3,719 |
| Canada | 372 | 374 |
| Other America | 786 | 782 |
| Africa | 31 | 30 |
| Asia | 811 | 949 |
| Australia and New Zealand | 571 | 566 |
| Total outside Europe | 6,351 | 6,420 |
| Total | 34,684 | 35,573 |

Current income tax

| million NOK | 2004 |
|---------------------------|---------------|
| Norway | 22,537 |
| Germany | 783 |
| Other EU | 69 |
| Other Europe | 2 |
| Total Europe | 23,391 |
| US | 2 |
| Canada | 127 |
| Other America | 36 |
| Africa | 490 |
| Asia | 2 |
| Australia and New Zealand | 94 |
| Outside Europe | 751 |
| Total | 24,142 |

Not just minding our own business

Openness and respect for human rights



Supplier development in Russia

In Russia we have been cooperating with the State-controlled gas company Gazprom since 1989 with a view to developing the Shtokman field. This cooperation and our other long-term involvement in Northwest Russia gives us local knowledge, good relations and strengthens our chances of becoming a partner in the field. Of central importance is a project begun in 2002 to strengthen the local supplier industry.

The goal is to develop competence and business development in the region. Good suppliers are necessary for future oil and gas development. Our Russian partners are Gazprom's subsidiary Sevmorneftegaz and the county administrations in Archangelsk and Murmansk.

In 2003 we carried out a comprehensive survey of supplier companies in Northwest Russia; 51 wished to participate, and 13 were selected to receive special guidance. Four of them qualified in 2004 as suppliers to the Norwegian continental shelf.

Learn more:

www.hydro.com/humanrights
www.hydro.com/principles

try's oil and gas industry. In 2004, 10 Angolans completed their education through the program; 10 more will graduate in 2005.

Another example of sharing knowledge and expertise to help further develop society is a project that promotes development of suppliers to the petroleum industry in Northwest Russia.

The resources we spend on these kinds of projects are considered social investments. They contribute to local development, but are also advantageous for Hydro. Other social investments are pure donations – gifts that are given without the expectation of receiving anything in return. Examples of this are donations to emergency aid projects. The Asian Tsunami disaster shook the world. Hydro contributed NOK 5 million in immediate aid to the Save the Children Fund.

The earthquake catastrophe in Bam in Iran in 2003 destroyed 85 per cent of the city, and many lost their lives. Hydro is contributing locally to rebuilding a children's home and is providing education and assistance to children who survived the tragedy. In conjunction with exploration activities on the Anaran block in Iran, we have established a field hospital that has also been made available for the local population in this desert area.

Integrity and openness

Integrity and openness have high priority. We are committed to being honest and sincere, and permit neither bribes nor other forms of corruption. In 2004 we began developing an integrity program that includes analysis of critical areas, development of routines and the introduction of follow-up measures.

Hydro's ethical guidelines are intended to ensure that everyone operating on behalf

of the company adheres to relevant laws and behaves in an ethically responsible way – in line with our standards. Employees are encouraged to discuss concerns, and, if necessary, raise breaches of ethical guidelines with their supervisors. A dedicated communications channel is available for all employees if they do not feel it is appropriate to raise matters with their own manager. The company's ethical guidelines are approved by the Board and apply to all Board members, employees and Board members of subsidiaries.

The non-governmental organization Transparency International is an important partner in the development of Hydro's integrity program. Over the last decade, the organization has helped put the fight against corruption on the international agenda. Hydro has been involved in forming Transparency International's Business Principles for Countering Bribery, which forms the basis of our own integrity program. The organization is a key partner both in our internal work and in the international work for influencing authorities and business to fight corruption. Hydro contributed NOK 750,000 to Transparency International in 2004.

In 2004 we joined the organization TRACE, which works specifically to fight corruption in transactions that involve agents and intermediaries. The cooperation gives us access to expertise which is vital to the integrity program.

Hydro does not give financial contributions to political parties.

In the fall of 2004, an anonymous tip-off raised questions relating to a tendering round for a major contract for supply ships in the North Sea. Investigations carried out by Hydro's internal auditor concluded that an irregular exchange of information had taken place prior to, and

Integrity

No corruption

during, the tender. One supplier had been placed in an advantageous position, and it could not be excluded that this had influenced the outcome of the evaluation. We decided therefore to hold a new tendering process. Nothing of a criminal nature was uncovered, but the company's routines are being reviewed with the intention of preventing a recurrence.

Human Rights

Respect for human rights is fundamental to Hydro, and the UN's Declaration of Human Rights is a key ethical foundation. We realize that it is not sufficient to adopt principles; we must understand human rights and the importance of complying with them. Thus, we entered into a cooperation with Amnesty International Norway since 2002. Amnesty shares information and experience with Hydro staff and discusses human rights issues with corporate and middle management. At the same time, the cooperation provides Amnesty with knowledge about the challenges and dilemmas an international company can face. Hydro donated NOK 1 million to Amnesty International in 2004.

The UN is working to develop a mandatory set of rules for how companies should conduct themselves in relation to human rights. Hydro is positive to this work, but has pointed out the importance that ambitions should be realistic and the follow-up of the rules practical.

We consider employees' rights to be fundamental and engage ourselves in constructive and open dialogue with our employees. Hydro supports the principle of freedom to organize. All our employees therefore have the full right to be members of a trade union and be represented in collective negotiations.

People

Basic rights

We do not permit child labor and normally will not employ children under the age of 16 years. If the child is given the right to education, play, rest and family life, limited exceptions can be made if this is clearly in the child's best interest. This is in line with Save the Children's guidelines. Hydro does not permit forced labor.

We are committed to contributing to cultural diversity. This means that we make every effort to proceed with caution and respect when we enter areas with indigenous people or minorities.

Use of armed guards is necessary in certain countries. This can lead to challenges relating to human rights. Hydro is therefore affiliated to the Voluntary Principles of Security and Human Rights, even though we have not experienced critical incidents in relation to our modest use of armed guards. In Iran we are carrying out oil exploration in areas bordering with Iraq. Here, the Iranian state-owned oil company NIOC has engaged the Iranian army to provide guard duties. In Angola we have armed guards to protect our employees' residential area.

Recording of history

In 1994, Hydro initiated a cooperation with the University of Oslo and the Department of Business Economics to write the company's 100-year history. Independent researchers have had unfettered access to Hydro's historical archives and other sources in order to chart our history and thus also an important part of Norway's history. The project is shortly due for completion, and in 2005 a three-volume version will be published together with abridged versions in Norwegian, German and English.



Working hours

Maximum working hours for the company's employees shall normally not exceed 48 hours and 12 hours overtime per week. In certain areas this can lead to challenges for us. An example is Hydro's aluminium precision tubing plant in China. Despite the fact that Chinese laws and regulations are in line with Hydro's regulations for overtime, certain employees have expectations of being allowed to work more than the regulations allow. This is also established practice with some of our competitors. In order to retain key staff we have therefore developed a system which rewards them with a bonus if they decide to remain with Hydro.

Financial information

2004

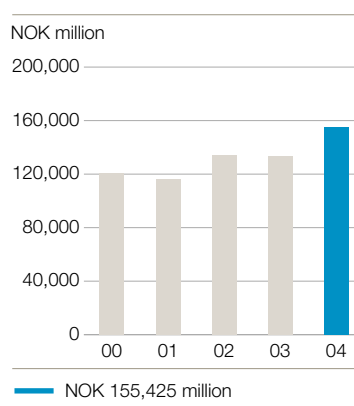
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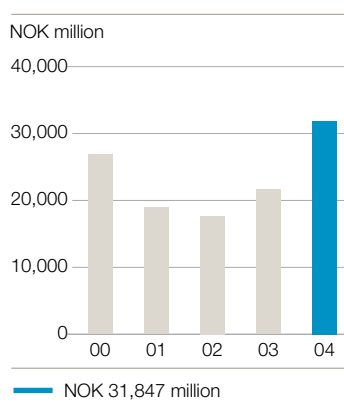
Financial review

2004

Operating Revenues



Operating Income



Financial review

| NOK million | 2004 | 2003 | 2002 |
|---|-----------------|----------|----------|
| Operating revenues | 155,425 | 133,761 | 134,093 |
| Operating costs and expenses | 123,578 | 112,136 | 116,426 |
| Operating income | 31,847 | 21,625 | 17,667 |
| Non-consolidated investees | 628 | 620 | (24) |
| Financial income (expense), net | 136 | 154 | 1,806 |
| Other income (expense), net | 169 | (1,253) | 77 |
| Income from continuing operations | | | |
| before tax and minority interest | 32,780 | 21,146 | 19,526 |
| Income tax expense | (21,197) | (12,922) | (12,452) |
| Minority interest | (106) | 151 | 26 |
| Income from continuing operations | 11,477 | 8,375 | 7,100 |
| Income from discontinued operations | 1,083 | 2,312 | 1,665 |
| Income before cumulative effect of change in accounting principle | 12,560 | 10,687 | 8,765 |
| Cumulative effect of change in accounting principle | - | 281 | - |
| Net income | 12,560 | 10,968 | 8,765 |
| Basic and diluted earnings per share | | | |
| from continuing operations (in NOK) | 45.10 | 32.50 | 27.50 |
| Basic and diluted earnings per share (in NOK) | 49.40 | 42.60 | 34.00 |

This discussion should be read in conjunction with the information contained in the Company's consolidated financial statements and the related notes included in this annual report. In order to fully understand the discussion below pertaining to the Company's business model and related strategies, the reader is encouraged to review Hydro's annual report on Form 20-F for the year ended

31 December 2004 filed with the the US Securities and Exchange Commission (the SEC). The Form 20-F is available directly on the SEC's electronic system (EDGAR) which can be accessed through the SEC's website at www.sec.gov and also on Hydro's internet site.

Overview

Hydro completed the demerger of its Agri business operation in 2004 following a comprehensive strategic review concluding that the Company should move forward as one, strong business enterprise with Oil and Energy and Aluminium as core focus areas.

Results for 2004 were strongly influenced by worldwide economic developments driving demand for energy in particular. Growth in China and the United States and the depreciation of the US dollar were key elements underlying market developments. Exceptionally high oil prices, combined with improved market conditions for aluminium together with increased production for both of the Company's core business areas delivered one of the best results in Hydro's 100 year history. However, expiring energy contracts resulting in higher future energy costs for the Company's primary aluminium plants in Germany, together with a weakening in competitiveness as a result of the weak US dollar, resulted in a write down impacting after tax results by NOK 1.5 billion. Market volatility generally had a notable impact on results during the year.

Strong production performance and capacity increases positioned the Company to take advantage of the robust market fundamentals. Average oil and gas production for 2004 reached a record level of 572,000 barrel of oil equivalents (boe) per day for the year while aluminium volumes increased 17 percent for the year. The expansion of the Sunndal aluminium plant in Norway was completed during the year. The plant is now the largest and most modern in Europe.

Increased competition in a rapidly changing market environment also continued to drive cost reduction initiatives. The Aluimprover

Financial review

cost reduction program announced early in 2004 is well underway and expected to be completed at the end of the first quarter of 2005. Total annual cost savings resulting from the program are expected to range between NOK 350 - 400 million. This follows the completion of improvement programs in 2003 generating estimated annual cost reductions of more than NOK 2.5 billion.

A solid financial position enabled Hydro to buy back shares and pay an extraordinarily high dividend for 2004. A total of 5 million shares, or approximately 2 percent of the Company's outstanding shares, were repurchased and cancelled during the year while a second buy back program covering up to 10 million shares was authorized by an extraordinary General Meeting of shareholders on 1 December 2004. The Board of Directors proposed to the 2004 annual General Meeting of shareholders a dividend of NOK 20 per share compared to dividends of NOK 11 per share in 2003.

Summary of operating results

Hydro's income from continuing operations in 2004 was NOK 11,477 million (NOK 45.10 per share), compared with NOK 8,375 million (NOK 32.50 per share) for 2003 and NOK 7,100 million (NOK 27.50 per share) in 2002. On 24 March 2004, Hydro's agri business was transferred to Yara International ASA in a demerger transaction. Results of the transferred operations relating to periods prior to the demerger are reported under "Income from discontinued operations". The following discussion excludes those activities.

| Operating income (in NOK million) | 2004 | 2003 | 2002 |
|-----------------------------------|----------------|---------|--------|
| Hydro Oil & Energy | 31,144 | 21,143 | 15,947 |
| Hydro Aluminium | 1,805 | 2,456 | 1,698 |
| Other activities | 312 | (404) | 48 |
| Corporate and eliminations | (1,414) | (1,570) | (26) |
| Total operating income | 31,847 | 21,625 | 17,667 |

The change in 2004 operating income compared to the prior year and the most important items affecting the change are included in the table below.

| Amounts in NOK million | |
|---|---------|
| Operating income 2004 | 31,847 |
| Operating income 2003 | 21,625 |
| Change in Operating Income | 10,222 |
| Prices and currency, E & P ²⁾ | 8,205 |
| Margin including currency effects ¹⁾ | 1,085 |
| Volume | 5,915 |
| Fixed costs | (1,035) |
| Depreciation | (1,045) |
| Production and exploration costs, E & P ²⁾ | (1,120) |
| Write downs, demanning, other | (2,080) |
| Trading and unrealized LME effects, Aluminium | (330) |
| New / disposed business | 170 |
| Restructuring costs | 20 |
| Other | 437 |
| Total change in operating income | 10,222 |

Operating Income

Increased operating results for Oil & Energy reflected continued high oil prices and strong production growth during 2004. Measured in Norwegian kroner, realized average prices increased about 24 percent for oil and approximately 6 percent for gas in 2004. Realized average prices measured in Norwegian kroner increased during 2003 approximately 4 percent and 7 percent for oil and gas respectively. During 2004, oil and gas production reached record levels averaging 572,000 boe per day, compared with 530,000 boe per day in 2003 and 480,000 boe per day in 2002. However, unscheduled shutdowns of the partner operated fields Snorre and Vigdis on the Norwegian Continental Shelf (NCS) and the Terra Nova field in Canada resulted in a total average production loss of approximately 20,000 boe per day for the fourth quarter of 2004. Exploration costs declined to NOK 1,264 million as a result of lower exploration activity in 2004. The decline also reflected higher cost capitalization due to successful wells and wells in progress. Exploration costs amounted to NOK 1,577 million in 2003, a substantial decline from NOK 3,558 million in 2002. The decline over the last two years resulted from lower exploration activity level and a substantially higher level of previously capitalized exploration and acquisition costs expensed in 2002. Total operating income for Energy and Oil Marketing for 2004 was relatively unchanged from the previous year. However, a decline in operating income, as a result of the divestment of Hydro's refining operations, Scanraff, in 2003, was offset by inventory gains resulting from the increase in oil prices in 2004. In addition, forward price developments resulted in unrealized gains on contracts for future deliveries of gas in particular, and long term purchase contract for power, which are valued at market prices at the end of the year. Operating income for Energy and Oil Marketing declined about 4 percent in 2003 compared to 2002 primarily as a result of lower power production.

Development activities relating to the Ormen Lange gas field proceeded according to plan and the project was 20 percent complete at the end of 2004.

Operating income for Aluminium declined in 2004 as a result of a write down relating to the Company's primary aluminium plants in Germany in the amount of NOK 2,042 million. In addition, NOK 268 million relating to the write down was included in results for non-consolidated investees. Operating income was also impacted by NOK 519 million of costs relating to manning reductions in Norway. Aluminium operating results were positively influenced by volume increases combined with strengthened London Metal Exchange (LME) prices. For 2004, Hydro realized average aluminium prices of US dollar 1,638 per tonne compared to US dollar 1,440 per tonne in the previous year and US dollar 1,372 in 2002. Average realized aluminium prices measured in Norwegian kroner increased 9.5 percent for 2004 and declined 7.3 percent in 2003 reflecting fluctuations in the US dollar\NOK exchange rate.

1) Including negative variances for elimination of unrealized gain/loss on electricity contracts of NOK 94 million and a positive variance for elimination of the gain/loss on gas contracts of NOK 144 million for 2004.

2) Exploration and Production.

Upstream volumes increased in 2004 mainly as a result of new capacity and improved capacity utilization. Volumes also increased in 2003 as a result of the inclusion of VAW for the entire year as well as new capacity. The implementation of the Aluimprover cost-reduction program progressed during 2004. The total estimated cost of the program was reduced by NOK 200 million to NOK 600 million of which NOK 432 million was charged to the results for 2004. Improvement programs initiated in 2001 and 2002 were completed in 2003 at an accumulated cost of NOK 1,116 million of which NOK 176 million impacted the results in 2003. These programs are generating estimated annual cost reductions of more than NOK 2.5 billion.

In December, Hydro signed a "Heads of Agreement" with Qatar Petroleum to evaluate the development of one of the world's largest aluminium plants in Qatar.

Results for Other activities reflected improved operating results in 2004 for Hydro's polymer business and positive developments within BioMar Holding AS (formerly Treka AS). Results for BioMar in 2003 included write downs relating to goodwill and intangible assets as well as significant losses on bad debts, in total amounting to around NOK 570 million. Results for Other activities was also impacted by an insurance loss provision of NOK 230 million relating to the Company's captive insurance company, Industriforsikring.

Corporate activities and eliminations operating losses increased in 2004 impacted by the elimination of unrealized gains on power purchase contracts. Net costs related to pensions and related social security charged to Corporate and eliminations amounted to NOK 1,001 million in 2004, relatively unchanged compared to NOK 1,111 million in 2003. Net costs relating to pensions and related social security costs amounted to NOK 312 million in 2002. The increase for 2003 primarily related to increased pension obligations and a reduction in plan assets during 2002.

Hydro Energy is responsible for ensuring the supply of electricity for the Company's own consumption, and has entered into sales contracts with other units in the Group. Certain of these sales contracts are recognized at market value by Hydro Energy while the related internal purchase contracts are regarded as normal purchase agreements and are not recognized at market value. The elimination of the market value adjustment recorded by Hydro Energy resulted in a negative effect of NOK 235 million for 2004, compared to a negative effect of NOK 141 million for 2003 and a positive effect of NOK 588 million in 2002. The power purchase contracts have a duration of up to 10 years and can result in significant unrealized gains and losses, impacting the reported results in future periods. The magnitude of the reported effects depends on trends in forward prices for electricity and changes in the contract portfolio.

Restructuring costs included in operating income for 2004 amounted to a credit of NOK 22 million, representing the difference between an accrual of NOK 650 million charged in 2001, relating to the restructuring of the Company's magnesium operations in Norway and the final cost of the program, which ended in the fourth quarter of 2004. No amounts relating to restructuring costs were charged or credited to operating income in 2003.

Earnings from non-consolidated investees

Earnings from non-consolidated investees for 2004 amounted to NOK 628 million, compared to earnings of NOK 620 million in 2003 and losses of NOK 24 million in 2002. Results for 2004 included NOK 268 million relating to the write down of the German plants described above. In addition, results for 2004 included unrealized currency gains relating to Alunorte of NOK 63 million, compared with a gain of NOK 218 million in 2003 and a currency loss of NOK 461 million in 2002. Improved operating results relating to non-consolidated investees mainly within Aluminium Metals, Extrusion and Automotive, and Polymers offset the effects of the lower unrealized currency gains in 2004.

Financial income (expense) net

Net financial expenses for 2004 amounted to NOK 136 million, including foreign currency gains of NOK 1,350 million reflecting the significant weakening of the US dollar during the year and in the fourth quarter in particular. The amount for 2004 also included a charge of approximately NOK 860 million relating to the prepayment of bonds denominated in US dollars, Euro and British pounds totalling about NOK 5 billion in nominal value. Net interest expense declined approximately NOK 300 million for the year, mainly as a result of the repayment of debt and as a result of higher tax related interest earnings amounting to about NOK 235 million. Net financial income was NOK 154 million in 2003 including foreign currency gains of NOK 1,035 million. For 2002, net financial income amounted to NOK 1,806 including foreign currency gains of NOK 3,262 million.

Other income (loss)

Other income (loss) for 2004 amounted to NOK 169 million reflecting a gain of NOK 110 million on the divestment of 80.1 percent of Pronova Biocare and NOK 59 million relating to the divestment of Skandinaviska Raffinaderi AB (Scanraff). For 2003, Other income (loss) resulted in a loss of NOK 1,253 million. The amount included a charge of NOK 2,207 million resulting from amended Norwegian tax regulations relating to the removal costs for oil and gas installations on the NCS. The change in regulations also resulted in a reduction to the tax provision for the second quarter of 2003 by NOK 2,380 million, for a net non-recurring effect of NOK 173 million. Other income for 2003 also included a gain of NOK 326 million from the sale of the Company's interest in the Sundsfjord power plant in exchange for shares in the acquiring power company. In addition, Other income in 2003 included a gain of NOK 490 million on the sale of Hydro's interest in Scanraff. The sale agreement included the possibility of a price adjustment depending on the development in refinery margins during 2004 and 2005. High refinery margins during 2004 have resulted in an additional gain of NOK 59 million being recognized in the fourth quarter of 2004. Other income amounted to NOK 77 million in 2002.

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Income tax expense

The provision for current and deferred taxes for 2004 amounted to NOK 21,197 million, approximately 65 percent of income from continuing operations before tax. Current taxes amounted to NOK 24,142 million in 2004. The total provision for current and deferred taxes for 2003 was NOK 12,922 million, approximately 61 percent of income from continuing operations before tax. For 2002, the total provision for current and deferred taxes amounted to NOK 12,452 million, approximately 64 percent of income from continuing operations before tax.

In the fourth quarter of 2004, Norwegian tax legislation was changed to eliminate tax on the sale of shares in companies registered within countries in the European Economic Area. As a result, Hydro has reversed deferred tax liabilities relating to such share holdings amounting to approximately NOK 900 million, reducing the tax rate by around 2.5 percentage points for 2004.

The tax rate for 2003 included the effect of the amended regulations relating to the tax treatment of expenses incurred in removing oil and gas installations from the NCS. As a result, "Income from continuing operations before tax for the period" included a negative non-recurring amount of NOK 2,207 million, offset by a positive non-recurring amount of NOK 2,380 million included in tax expense. Excluding the effect of the change in regulations, the tax rate was 66 percent of the pre-tax result for the period.

The high effective tax rate for Hydro results from oil and gas activities in Norway, which account for a relatively large part of earnings and are charged a marginal tax rate of 78 percent.

Discontinued operations

Income from discontinued operations amounted to NOK 1,083 million for 2004, all relating to the first quarter of the year, prior to the completion of the demerger of the agri activities. Income from discontinued operations amounted to NOK 2,312 million in 2003 and NOK 1,665 million for 2002. The amounts relate to activities transferred to Yara International ASA in the demerger transaction completed 24 March 2004. All results directly connected to the demerged operations as well as the demerger transaction costs and gains are included in Income from discontinued operations. The amounts include Yara's results for the period up to its listing on the Oslo Stock Exchange and the direct costs of the demerger. The amounts also include Hydro's gain from the sale of its remaining 20 percent shareholding in Yara, amounting to NOK 385 million after tax. The effects of internal transactions, including interest and currency gains and losses, are excluded from Income from discontinued operations. Previous periods have been adjusted in order to present the results on a comparable basis.

Return on average Capital Employed (RoCE¹) from continuing operations was 13 percent for 2004. RoCE for the Segments and Hydro as a whole for the three years ending 31 December 2004 is presented in the table below:

| | 2004 | 2003 | 2002 |
|-------------------------------|--------------|-------|-------|
| Hydro Oil & Energy | 23.4% | 16.2% | 11.6% |
| Hydro Aluminium ²⁾ | 3.5% | 4.7% | 2.7% |
| Total Hydro ²⁾ | 13.0% | 8.4% | 7.2% |

1) RoCE is defined as Earnings after tax divided by average Capital Employed. See discussion pertaining to Use of Non GAAP financial measures included this report.

2) RoCE and normalized RoCE for 2004 was negatively affected by the write down of the primary metal plants in Germany and change in tax regulations by 3.5 percent for Aluminium and 0.6 percent for Total Hydro.

Hydro also measures RoCE based on long-term price assumptions, referred to as normalized prices. Normalized prices are used in order to avoid placing undue emphasis on such variables as historically high or low prices of its commodity products, and the effect of changes in currency exchange rates. RoCE based on long term price assumptions of USD 25 per barrel of oil, USD 1,500 per tonne of Aluminium, NOK 7 per USD and NOK 8 per EUR and excluding other income and restructuring costs was 7.9 percent for 2004 representing a substantial improvement from 6.2 percent achieved in 2003. Normalized RoCE for the Segments and Hydro as a whole for the three years ending 31 December 2004 is presented in the table below:

| | 2004 | 2003 | 2002 |
|-------------------------------|--------------|-------|------|
| Hydro Oil & Energy | 13.0% | 11.4% | 9.2% |
| Hydro Aluminium ²⁾ | 1.5% | 4.1% | 2.9% |
| Total Hydro ²⁾ | 7.9% | 6.2% | 6.6% |

Adjusted EBITDA³⁾

In the segment discussion below, Hydro refers to adjusted EBITDA which is an integral part of Hydro's steering model, Value Based Management, reflecting the Company's focus on cash flow based indicators.

A reconciliation of Operating income to adjusted EBITDA for 2004 for each of Hydro's operating segments is presented in the table below:

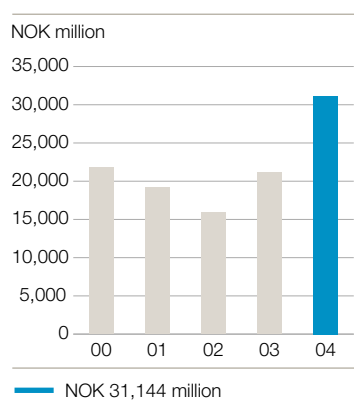
Operating income – adjusted EBIT – adjusted EBITDA 2004

| Amounts in NOK million | Operating income (loss) | Non-cons. Investees | Interest Income | Selected financial income | Other income | Adjusted EBIT | Depr. and amort. | Adjusted EBITDA |
|----------------------------|----------------------------|------------------------|--------------------|---------------------------------|-----------------|------------------|---------------------|--------------------|
| Exploration and Production | 28,363 | 4 | 46 | 3 | - | 28,416 | 9,752 | 38,168 |
| Energy and Oil Marketing | 2,650 | 73 | 35 | (3) | 59 | 2,814 | 664 | 3,478 |
| Eliminations | 131 | (2) | - | 1 | - | 130 | 2 | 132 |
| Hydro Oil & Energy | 31,144 | 75 | 81 | 1 | 59 | 31,360 | 10,418 | 41,778 |
| Metals | 830 | 281 | 5 | 107 | - | 1,223 | 4,173 | 5,396 |
| Rolled Products | 626 | (13) | 3 | (1) | - | 615 | 746 | 1,361 |
| Extrusion and Automotive | 277 | 113 | 15 | (5) | - | 400 | 1,427 | 1,827 |
| Other and eliminations | 72 | - | - | - | - | 72 | - | 72 |
| Hydro Aluminium | 1,805 | 381 | 23 | 101 | - | 2,310 | 6,346 | 8,656 |
| Other activities | 312 | 170 | 130 | 108 | 110 | 830 | 533 | 1,363 |
| Corporate and eliminations | (1,414) | 2 | 739 | (20) | - | (693) | 13 | (680) |
| Total | 31,847 | 628 | 973 | 190 | 169 | 33,807 | 17,310 | 51,117 |

3) See discussion pertaining to Segment Measures included in footnote 5 “Operating and geographic segment information” to the Consolidated Financial Statements

Hydro Oil & Energy

Operating income Oil & Energy



| NOK million | 2004 | 2003 | 2002 |
|---------------------|--------|--------|--------|
| Operating Revenues | 72,718 | 59,959 | 55,845 |
| Operating Costs | 41,574 | 38,816 | 39,898 |
| Operating Income | 31,144 | 21,143 | 15,947 |
| Adjusted EBITDA | 41,778 | 31,826 | 25,340 |
| RoaCE | 23.4% | 16.2% | 11.6% |
| Number of employees | 3,527 | 3,465 | 4,039 |

Hydro Oil & Energy consists of the sub segments “Exploration and Production” and “Energy and Oil Marketing”.

Overview

As operator of 11 producing fields on the Norwegian Continental Shelf (NCS) with a total production of approximately 979,000 boe per day (boed) in 2004, Hydro is the second largest operator company in Norway. Hydro is among the world leaders offshore, and has strong competence over the entire exploration and production value chain. In terms of equity production, Hydro is the third-largest producer of oil and natural gas on the NCS. In 2004, the company's equity oil and gas production increased approximately 8 percent compared to the previous year, to an average of 572,000 boed. Fields on the NCS accounted for approximately 90 percent of the production. The remaining production came from fields in Canada, Angola, Libya and Russia. In addition, Hydro is involved in ongoing exploration activities in most of these areas and also in the United States (Gulf of Mexico), Iran, Denmark, Morocco and Madagascar.

Natural gas is becoming increasingly important to Hydro. The Company expects a strong increase in equity gas production, and is becoming a key gas supplier for a growing European market. In 2004, Hydro Oil & Energy's equity natural gas production from the NCS amounted to 8.8 billion cubic meters (bcm), an increase of 13 percent compared to the previous year. Hydro holds capacity rights in Gassled, the natural gas transportation infrastructure on the NCS, enabling access to five landing points for natural gas in Europe. Oil & Energy's natural gas export capacity together with its solid reserves, makes Hydro one of the most reliable suppliers to Northern Europe. Hydro is an active trader of oil and energy in Europe, and markets gasoline and energy products in Scandinavia and the Baltic countries. Oil & Energy is one of the largest producers of electric power in Norway, with a normal annual production from hydroelectric facilities of approximately 8.5 terrawatt hours (TWh). Oil & Energy has

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about 3,500 employees, and reached total operating revenues of close to NOK 73 billion in 2004.

Hydro Oil & Energy's results in 2004 were an all-time high, due to solid growth in production combined with favourable market conditions. Strong demand growth, in particular in China and the United States, combined with worldwide capacity constraints, were the key drivers underlying the high oil prices. However, it is uncertain if the economic growth underlying demand is sustainable and whether oil prices will remain at the present high levels or revert towards the lower longer-term trend indicated by forward prices.

The oil industry as a whole continues to experience reduced exploration results worldwide. The main challenge facing Oil & Energy is the replacement of existing reserves and the need to discover major new oil and gas resources. Hydro is continuously working towards improved oil recovery from its existing fields in addition to finding viable development solutions for exploiting smaller fields, including satellite fields which can be economically developed by optimal use of present infrastructure. However, in order to secure future production, exploration and acquisitions are important elements in Hydro's strategy. While the current high oil price level creates opportunities relating to optimal development and exploitation of existing assets, the high oil price level is also a challenge in that the acquisition of technical resources is becoming increasingly expensive. Based on expectations of continued high oil price levels Oil & Energy has increased its price assumptions for oil and gas investment decisions from US dollar 16 per boe to US dollar 25 per boe. This decision is expected to result in new business opportunities that were previously deemed uneconomic. Hydro also intends to acquire technical resources where its competencies and expertise can add value to assets traded in the marketplace.

Hydro plans to continue its focus on new sources of energy, such as wind-power and hydrogen. The main factors driving the development of new energy include environmental concerns, rising energy demands, and the security of existing energy supply. The share of renewable energy is expected to grow in the years to come as OECD (Organization for Economic Cooperation and Development) countries increasingly depend on oil from OPEC countries and developing countries.

Summary of Oil & Energy's operating results

Hydro Oil & Energy's operating income in 2004 was NOK 31,144 million, an increase of 47 percent compared to 2003. Operating income amounted to NOK 21,143 in 2003, increasing 33 percent compared to 2002. The change in 2004 operating income compared to the prior year and the most important items affecting the change are included in the table below.

Amounts in NOK million

| | |
|----------------------------------|---------|
| Operating income 2004 | 31,144 |
| Operating income 2003 | 21,143 |
| Change in Operating Income | 10,001 |
| Prices and currency for E&P | |
| - Oil | 8,900 |
| - Gas | 700 |
| - Currency | (1,395) |
| | 8,205 |
| Margin | (15) |
| Volume | 3,490 |
| Fixed costs | 25 |
| Depreciation | (750) |
| Production costs | (1,435) |
| Exploration costs | 315 |
| New / disposed business | (205) |
| Other | 371 |
| Total change in Operating income | 10,001 |

1) Defined as the cost of operating fields, including CO₂ emission tax, insurance, gas purchased for injection and lease costs for production installations (but excluding transportation and processing tariffs, operating cost transportation systems and depreciations).

The most significant developments that influenced Hydro Oil & Energy's operating income in 2004 were as follows:

Oil and gas prices were high throughout the year, reflecting continued high demand for crude oil with world oil production running close to full capacity. Oil prices increased in 2004 reaching an average realized oil price of US dollar 37.3, up 30 percent from US dollar 28.7 in 2003. However, part of the effect of the price increase was offset by the depreciation of the US dollar against NOK. Measured in Norwegian kroner, the oil prices in 2004 were about 24 percent higher than in 2003, and realized gas prices increased by approximately 6 percent. In 2003, oil prices and gas prices increased roughly 4 and 7 percent respectively, measured in Norwegian kroner.

Oil and gas production increased in 2004 by approximately 8 percent to an average of 572,000 boe per day (boed). The increase came from Norwegian fields, while international fields remained at the same production level as in 2003. In 2003, oil and gas production increased by about 10 percent to an average of 530,000 boed.

Prices in the Nordic electric power market were NOK 0.24 per kWh in 2004, compared to NOK 0.29 kWh in 2003 and NOK 0.20 kWh in 2002. Power production in 2004 was 8.1 TWh, 8 percent higher than in 2003. Power production declined by 27 percent in 2003 to 7.5 TWh compared to 2002 as a result of low reservoir levels. During 2004, Hydro has been engaged in a development project to expand the Tyn hydropower plant in Sogn, Norway. The expansion was completed in the autumn resulting in a 15 percent increase in production capacity for the plant with no change in the existing water reservoir capacity.

Hydro's average oil and gas production cost ¹⁾ was NOK 20.7 per boe in 2004, the same level as the previous year. Average production cost amounted to NOK 22.6 in 2002.

Total expensed exploration costs including appraisal costs of discoveries amounted to NOK 1,264 million in 2004, a reduction of about 20 percent compared to the previous year. The decline is the result of a larger proportion of capitalized exploration well costs as a result of successful wells and wells in progress, in addition to a 12 percent reduction in the level of exploration activity for 2004 compared to 2003. There were 17 exploration wells drilled and completed in 2004 resulting in 11 discoveries. In 2004, NOK 248 million relating to costs capitalized in previous years was expensed, compared to NOK 88 million in 2003. Exploration costs expensed in 2003 amounted to NOK 1,577 million, a substantial decline from NOK 3,558 million in 2002. The decline resulted from lower exploration activity level and a substantially higher level of previously capitalized exploration and acquisition costs expensed in 2002.

The sale of Hydro's interest in the Gjøa field, which is in the pre-development phase, was approved by the Norwegian authorities in January 2004 and resulted in a tax-free gain of NOK 285 million for the year. Hydro continued activities to optimize its oil and gas portfolio during 2004. In January 2004, Hydro signed an agreement to sell its 10 percent share in the Snøhvit field to Statoil. The sale was completed in December 2004, and resulted in a gain of approximately NOK 100 million after tax. Hydro completed a purchase of a two percent share in the Kristin field from Statoil at the same time. As a result, Hydro now owns 14 percent of the Kristin field and has improved its position in the Norwegian Sea area on the NCS.

Adjusted EBITDA for Oil & Energy for 2004 was NOK 41,778 million, an increase of 31 percent compared with 2003. Adjusted EBITDA increased 26 percent in 2003 compared to the previous year. The improvement in adjusted EBITDA resulted from the same factors underlying the improvement in operating income described above.

Eliminations Oil & Energy

As part of its downstream activities, Hydro Energy enters into purchase contracts for natural gas with Exploration and Production for resale to external customers. Hydro Energy recognizes both the internal purchase and the external sales contracts at market value. As a result, Hydro Energy recognizes unrealized gains and losses on the internal contracts as a result of fluctuations in the forward price of gas. Exploration and Production regard the supply contracts to Hydro Energy as normal sales agreements and does not recognize unrealized gains and losses on the contracts. Eliminations of the internal sales and purchase contracts between Hydro Energy and Exploration and Production resulted in a positive effect on the operating income for Oil and Energy of NOK 144 million for 2004 as a result of declining forward prices.

Key development activities and other projects

Hydro has extended its average compound annual growth rate for production of 8 percent for the 2001-2007 period to 2008. The growth target is based on Hydro's current portfolio of fields in

production, fields under development or fields considered for development. The production target for 2005 is an average of 575,000 boed of which approximately 85 percent is expected to come from currently booked proved reserves. The partner operated Snorre and Vigdis fields have gradually regained production after being shut down from November to late January 2005 due to an underground gas leakage. In early February the fields were producing close to normal.

Hydro's proved oil and gas reserves were 2,076 million barrels of oil equivalents (mboe) at the end of 2004, compared to 2,288 mboe at the end of 2003 and 2,225 mboe at the end of 2002:

| Reserves in mboe | 2004 | 2003 | 2002 |
|--------------------------------------|-------|-------|-------|
| Proved reserves at beginning of year | 2,288 | 2,225 | 2,073 |
| New reserves | 23 | 265 | 118 |
| Revisions of reserves | 39 | (6) | 23 |
| Net purchase and sales | (65) | (2) | 186 |
| Production | (209) | (194) | (175) |
| Proved reserves at end of year | 2,076 | 2,288 | 2,225 |

New reserves amounted to 23 mboe in 2004 including; Njord gas export, the Rosa field, and Gulltopp. Proved reserves are estimates and are expected to be revised as oil and gas are produced and additional data become available, and in 2004 revisions of reserves in producing fields increased reserves by 39 mboe. Revisions included a reduction of 9 mboe relating to production sharing agreements. Net purchases and sales decreased reserves by 65 mboe including the sale of Snøhvit. Production amounted to 209 mboe in 2004. Reserve life (defined as the number of years of production from proved reserves at the present production level) was 10 years at the end of 2004; comprised of 6 years for oil and 21 years for gas.

The Ormen Lange development will continue to be a main development project for Hydro in 2005. Hydro is the operator during the development phase of the field. Ormen Lange is the largest discovered undeveloped gas field on the NCS, at water depths of 850 to 1,100 meters. Production is scheduled to begin in the final quarter of 2007. The Ormen Lange project is proceeding according to plan, and was about 20 percent complete at year-end. The related Langeled gas pipeline which is under development will transport gas from Ormen Lange approximately 1,200 kilometers from Nyhamna on the west coast of Norway via Sleipner in the North Sea to Easington in the UK. The Langeled Gas Export system will have a transport capacity of around 25.5 billion Sm³ gas per year and is expected to be completed in 2007. Langeled will be merged with the Gassled pipeline joint venture after start up of operations. The United Kingdom is an attractive market for Norwegian gas due to the declining UK gas reserves. Hydro has established a UK gas marketing channel through a joint venture with Wingas GmbH called HydroWingas.

As a result of international business development during 2004, Hydro was awarded its first international operatorship, responsible for the development of the Telemark field (formerly called the Champlain field) in the Gulf of Mexico (GoM). A final

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development solution for the Telemark field is expected to be decided in 2005.

In 2005, Hydro plans to increase its exploration level to around NOK 2 billion including drilling approximately 30 exploration wells. Around 20 of the wells are planned for the NCS (including 3 wells in the Barents sea) with the remaining wells relating to the Company's international interests, mainly in Libya and Angola.

Hydro intends to maintain its position as an efficient operator on the NCS, and to contain cost levels on operated facilities despite the underlying maturing nature of the portfolio. Hydro has targeted a production cost of NOK 24 per boe for 2005, an increase from actual production cost of NOK 20.7 in 2004, reflecting among other things, costs for purchase and transportation of increased volumes of gas to be injected into the Grane field in order to increase oil recovery from Grane.

Naturkraft AS, a 50 percent Hydro owned company, is in process of developing a gas-fired power plant at Kårstø, located on the west coast of Norway. A final investment decision is scheduled for 2005. The power plant is planned to be in operation during fall 2007. Hydro's share of the expected annual production of the plant is roughly 1.5 TWh. The total investment cost of the project is estimated to be somewhat more than NOK 2 billion.

Hydro has a strong gas infrastructure position in Northern Europe, and a marketing system in place for the sale of uncommitted volumes. The European continental gas market continues to be dominated by long-term contracts indexed to oil products. However, the ongoing liberalization process of the European gas market is expected to lead to a more liquid market with contract prices influenced also by short-term gas market developments. Hydro intends to combine its role as a natural gas producer with that of a wholesaler and trader to increase its share in this emerging market. Liquidity within the UK market has increased, and is now considered a well functioning short term market. While there is less liquidity on the European continent, it is increasing at several emerging hubs, in particular at Zeebrugge in Belgium.

Outlook

The tight market fundamentals driving the oil price increases discussed above are reflected in the forward markets. In early February, the Brent forward price was several dollars above the average Brent spot price in 2004. Many analysts are predicting that growth in global oil demand will lead to higher demand for OPEC's oil in 2005, because of insufficient capacity in the non-OPEC countries to satisfy the growth in demand. Several analysts believe that Iraq will not be able to increase its average crude output from 2004 levels due to the mismanagement of wells and continuing sabotage of the oil infrastructure. The risk for supply interruptions in large oil producing countries is expected to persist in 2005. The main factor which could dampen prices is a decline in the high levels of demand experienced in 2004. If economic growth fades in China and the US, oil demand is expected to suffer as a consequence. Although high energy costs have not affected economic growth substantially in 2004, several analysts see the possibility of weaker economic growth in 2005.

The development of the US dollar against the NOK will impact Hydro's realized price in Norwegian kroner.

The negative price differential of the Grane oil, compared to the lighter and sweeter benchmark Brent crude, is expected to have a larger effect on Hydro's average realized oil price in 2005 than in 2004, mainly because the Grane field is expected to account for a larger part of Hydro's production in 2005.

Water reservoir levels were approximately on average at the end of 2004 for Hydro-owned power stations and for the Nordic market area in general. Further improvement in reservoir levels have occurred since the beginning of 2005. As a result, the Company's hydro electric power generation in 2005 is expected to be above normal. While the present reservoir levels in the Nordic market are close to normal, snow reservoirs are above normal, in particular in Norway which has surplus levels. This is expected to put downward pressure on prices during the summer of 2005. Beyond this temporary surplus situation, a tighter capacity balance is expected during the next several years as a result of demand growth.

The highly volatile markets with potential substantial impact on market valuation of Hydro's gas and power contracts are expected to continue in 2005.

Exploration and Production

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 48,962 | 37,904 | 32,970 |
| Operating Costs | 20,599 | 19,404 | 19,833 |
| Operating Income | 28,363 | 18,500 | 13,137 |
| Adjusted EBITDA | 38,168 | 27,624 | 21,593 |
| Number of employees | 2,821 | 2,800 | 3,372 |

Exploration and Production (E&P) includes Hydro's oil and gas exploration activities, field development activities and oil and gas production activities. Hydro currently has production of oil and gas in Norway, Canada, Angola, Libya and Russia. In addition, Hydro is conducting exploration activities in most of these areas and also in the USA (Gulf of Mexico), Iran, Denmark, Morocco and Madagascar.

Market Conditions

Oil prices increased to exceptionally high levels in 2004. In addition to the increased demand described above, a shortage of global refining capacity has been driving price increases for light, sweet oil such as Brent and West Texas Intermediate (WTI). There has also been increasing political unrest in key oil producing countries, in particular Iraq and Saudi Arabia.

Hydro realized average oil prices of US dollar 37.3 in 2004, up 30 percent from US dollar 28.7 in 2003. This is approximately 0.9 US dollar below the average Brent price of US dollar 38.2. The lower realized prices resulted primarily from negative price differentials on oil from the Grane field, which is heavier than Brent blend and therefore sold at lower average prices.

Expressed in Norwegian kroner average oil prices went up from

NOK 203 in 2003 to NOK 251 in 2004, an increase of 24 percent. Average realized gas prices in 2004 were NOK 1.09 per standard cubic meter, up 6 percent from NOK 1.03 per standard cubic meter in 2003. The increase primarily reflected higher prices of oil products (gas prices in long term contracts are, to a large extent, linked to the price of oil products with a lag of approximately six months). Realized average NOK prices increased during 2003 approximately 4 percent and 7 percent for oil and gas respectively.

Revenues

Operating revenues for E&P in 2004 were NOK 48,962 million, an increase of 29 percent from the previous year. Operating revenues increased 15 percent in 2003 compared to 2002. In addition to the higher price levels experienced for oil and gas, in particular for 2004, the increase reflected substantial growth in total production volumes for both years. During 2004, average production increased from 530,000 boed in 2003 to 572,000 boed. Average production increased in 2003 from a level of 480,000 boed in 2002. The 2004 increase of approximately 8 percent was in line with the targeted 8 percent compound annual growth rate for the 2001-2007 period. Oil production in 2004 increased by 6 percent and accounted for 73 percent of the total production compared to 74 percent in 2003. Gas production increased to a total of 8.8 billion standard cubic meters, an increase of 13 percent compared to 7.8 billion standard cubic meters in 2003.

Hydro achieved production growth from Norwegian fields in 2004, while international fields remained at the same production level as in 2003. New fields coming on stream in 2004 were the Kvitebjørn field in Norway, and new fields in the Murzuq basin in Libya. In addition Hydro experienced production growth from fields coming on stream in the end of 2003, including the Grane, Fram and Mikkel fields in Norway, as well as the Jasmim field in Angola. The relative proportion of production outside the Norwegian Continental Shelf (NCS) was stable for the three-year period accounting for 10-11 percent of the total production. Maintenance stops and other shutdowns resulted in production losses (or delayed production) of 20,000 boed compared to 12,000 boed in 2003 and 9,000 boed in 2002. Approximately 5,000 boed of the production loss in 2004 related to the shutdown of partner operated Snorre and Vigdis fields in Norway due to gas leakage and the Terra Nova field in Canada due to an oil leak in the end of 2004. Terra Nova resumed production in mid-December.

Operating Costs

Operating costs for E&P were NOK 20,599 million in 2004, an increase of 6 percent compared to the previous year. Operating costs declined slightly in 2003 compared to 2002.

Hydro's average production cost was NOK 20.7 per boe in 2004, the same level as in 2003. Average production costs amounted to NOK 22.6 per boe in 2002. Production costs per barrel in 2004 excluding gas injection cost relating to the Grane field fell by about 10 percent from the 2003 level. However, costs related to increased volumes of injection gas to the Grane field offset this reduction.

Depreciation, including write-downs and depreciation of capitalized costs relating to abandonment and well closure (but excluding depreciation on transportation systems), averaged NOK 46 per boe, the same level as in 2003 and 2002. Included in the amount for 2004 was an additional charge for depreciation relating to an increase in the estimate for abandonment and well closure on the Ekofisk and Frigg fields of approximately NOK 260 million (NOK 1 per boe). The Frigg field, operated by Total, ceased production in October 2004, and preparation for removal is under way. The estimate for abandonment on Frigg was increased after receiving tender offers from contractors. In general, there is little experience with removing large installations on the NCS, and cost estimates are uncertain. Total depreciation costs increased from NOK 9,052 million in 2003 to NOK 9,752 million in 2004 as a result of higher production levels.

Total exploration costs including appraisal costs of discoveries amounted to NOK 1,264 million in 2004 compared to NOK 1,577 million in 2003 and NOK 3,558 million in 2002 for the reasons described above. Capitalized exploration well costs amounted to NOK 397 million in 2004 compared to NOK 121 million in 2003 and NOK 429 million in 2002. Expenditures relating to exploration activity in 2004 were NOK 1,412 million, compared to NOK 1,609 million in 2003 and NOK 2,376 million in 2002. Roughly 66 percent of the exploration activity related to areas outside the NCS compared to about 73 percent in 2003. International exploration activities in 2004 occurred mainly in Angola, Canada, Iran and the Gulf of Mexico. Out of a total of 17 exploration wells drilled and completed during 2004, 11 discoveries were made. One discovery was made in Gulf of Mexico, one in Angola, 7 in Libya and 2 discoveries were made in Norway. Hydro also participated in drilling activity in connection with producing wells that resulted in three additional commercial discoveries on the NCS. In addition, three wells were in the process of being drilled at the end of 2004. Of total exploration costs, NOK 1,016 million was expensed relating to exploration activities in 2004, including about NOK 183 million related to unsuccessful efforts in Angola, Canada and Norway and NOK 248 million was expensed relating to costs capitalized in previous years.

For information pertaining to accounting for exploration costs please see "Oil and Gas Exploration Costs" in Hydro's Critical Accounting Policies below. See also Note 1, of the Consolidated Financial Statements for additional disclosure information proposed by the Financial Accounting Standards Board relating to suspended well costs. Hydro does not expect any changes in amounts capitalized as a result of the proposed amendment to Statement of Financial Accounting Standard No. 19.

Operating Income

Operating income in 2004 was NOK 28,363 million, a 53 percent increase from the previous year. As discussed above the main reasons underlying the increase were higher oil and gas prices, higher production volumes and lower exploration costs. Operating income increased 41 percent in 2003 compared to 2002 primarily driven by higher volumes and a substantially lower level of exploration costs.

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Adjusted EBITDA

Adjusted EBITDA in 2004 amounted to NOK 38,168 million, an increase of NOK 10,544 million compared to 2003. Adjusted EBITDA increased 28 percent in 2003 compared to 2002.

Energy and Oil Marketing

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 60,788 | 49,370 | 45,915 |
| Operating Costs | 58,138 | 46,702 | 43,131 |
| Operating Income | 2,650 | 2,668 | 2,784 |
| Adjusted EBITDA | 3,478 | 4,226 | 3,721 |
| Number of employees | 706 | 665 | 667 |

Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power sectors, the gas transportation operations and the operation of Hydro's power stations in Norway. Energy and Oil Marketing markets and sells refined petroleum products (gasoline, diesel and heating oil) to customers in Scandinavia and the Baltic countries. Hydro owns 100 percent of the operating unit in Sweden and 50 percent of Hydro Texaco, an oil marketing company with retail outlets in Norway, Denmark and the Baltic countries. Energy and Oil Marketing is also responsible for developing Hydro's hydrogen and renewable energy business activities such as wind power.

Except for the operation of Hydro's own power stations, gas infrastructure activities and development activities, Energy and Oil Marketing's business mainly consists of margin-based sales and trading activities. As a result, operating revenues and costs in any given year are largely a function of volume traded and the level of prevailing market prices for crude oil, natural gas and electricity. As part of the commercial operations in the oil, natural gas and power sectors, Energy and Oil Marketing enters into both short term and long term buying and selling contracts. Many of the contracts are valued at market price at reporting period ended. Some of the power and gas contracts may have several years of duration. The market value is calculated based on forward prices, and changes in forward prices may therefore affect the operating income in Energy and Oil Marketing.

Market Conditions

As described under the section "Market Conditions" for the Exploration and Production sub-segment, the price level for oil, oil products and gas has been high during 2004 and higher than in 2003.

Nordic electricity prices have been lower in 2004 than last year. Average spot prices for 2004 were NOK 0.24 per kWh, compared to NOK 0.29 per kWh in the prior year and NOK 0.20 kWh in 2002. The decline in prices reflected reservoir levels approaching almost normal levels at the end of 2004. Water reservoir levels in Norway and Sweden were close to normal by the end of 2004, and considerably higher than in 2003.

The forward prices for gas for 2005 and onwards have increased since the end of 2003, but the forward prices have been very volatile during 2004.

Operating Revenues

Energy and Oil Marketing's operating revenues for 2004 were NOK 60,788 million, up NOK 11,418 million or 23 percent from the prior year. Operating revenues were relatively unchanged in 2003 compared to 2002. Power production in 2004 was 8.1 TWh compared with 7.5 TWh in 2003 and 10.3 TWh in 2002. The fluctuations in power production resulted from changes in reservoir levels due to variation in weather conditions.

In 2004, internal sales to other business areas within Hydro amounted to NOK 6,159 million. Internal sales in 2003 were NOK 5,062 million and NOK 3,986 in 2002. All internal sales are at market prices.

Operating costs

Energy and Oil Marketing's operating costs of NOK 58,138 million in 2004 were 24 percent higher than the prior year. Operating costs increased about 8 percent in 2003 compared to 2002. As described above, Energy and Oil Marketing's operating costs are mainly comprised of purchases of crude oil, natural gas and electricity. Operating cost also includes process costs relating to the operations of power stations, the gas infrastructure and other fixed costs. There were no substantial changes in these fixed costs in 2004 compared to the previous year.

Operating income

Energy and Oil Marketing's operating income in 2004 was NOK 2,650 million, almost the same level as the operating income of NOK 2,668 million in 2003. Operating income was somewhat higher in 2002. Increased power production and unrealized gains relating to market value adjustments on gas and power contracts had a positive effect on operating income in 2004, while the loss of refinery income following the sale of the Scanraff refinery in December 2003 had a negative impact on income from operations.

| Operating income (in NOK million) | 2004 | 2003 | 2002 |
|-----------------------------------|--------------|-------|-------|
| Power activities | 732 | 664 | 1,184 |
| Gas activities | 1,833 | 1,795 | 1,255 |
| Oil trading activities | 188 | 406 | 388 |
| Oil marketing | 104 | (16) | 68 |
| Other ¹⁾ | (207) | (181) | (111) |
| Operating income | 2,650 | 2,668 | 2,784 |

1) Other mainly consists of new energy activities

Operating income from power activities was NOK 732 million in 2004, up NOK 68 million or 10 percent from the prior year. The increase in operating income resulted primarily from higher power production. Energy and Oil Marketing secures electricity in the market for Hydro's own consumption, and to exploit commercial opportunities in the external market. The new Tyin hydropower plant in Sogn in Norway commenced commercial production in the beginning of October 2004. The project was completed according to plan and below original cost estimates and resulted in an increase of 15 percent compared to the earlier production capacity

at the site. The decline in operating income from power activities in 2003, compared to 2002, resulted from lower production offset somewhat by higher prices.

Operating income from gas activities was NOK 1,833 million in 2004, slightly higher than the previous year. Gas activities consist of gas transportation and gas trading activities. Operating income for gas transportation has been relatively stable during the year amounting to NOK 1,496 million in 2004 compared to NOK 1,525 million in 2003. Operating income for gas trading activities has been very volatile during 2004. During the fourth quarter of 2004, forward price developments resulted in substantial unrealized gains on contracts for future deliveries, which are valued at market prices at the end of the quarter. The magnitude of the unrealized gains and losses for the year has been influenced by exceptionally large geographic price differentials and spreads on various gas contract indices. Operating income from gas activities increased 43 percent in 2003 compared to 2002. Approximately NOK 350 million of the increase related to gas transportation and was mainly due to lower depreciation charges resulting from the extension of license periods for a number of gas pipelines following the establishment of Gassled in January of 2003.

Operating income from oil trading activities was NOK 188 million in 2004, a decrease of 54 percent from the prior year. The decline resulted primarily from the divestment of Skandinaviska Raffinaderi AB, the Scanraff oil refinery, in the fourth quarter of 2003. The activities include crude oil trading, gas liquids trading and shipping. Operating income from oil trading activities increased slightly 2003 compared to 2002.

Operating income for Oil Marketing amounted to NOK 104 million, compared to an operating loss of NOK 16 million in 2003 and operating income of NOK 68 million in 2002. The improved result for 2004 primarily resulted from inventory gains, compared to inventory losses in the previous year.

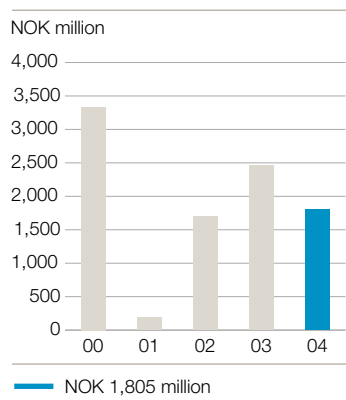
Adjusted EBITDA

Adjusted EBITDA for 2004 was NOK 3,478 million, a decrease of 18 percent compared to the prior year. In 2003, adjusted EBITDA was 14 percent higher than 2002. In the fourth quarter of 2003, Hydro sold its interest in Skandinaviska Raffinaderi AB, Scanraff, recognizing a gain of NOK 490 million. The sale agreement included the possibility of a price adjustment depending on the development in refinery margins during 2004 and 2005. High refinery margins during 2004 have resulted in an additional gain of NOK 59 million being recognized in the fourth quarter of 2004. In addition, Hydro transferred its interest in Sundsfjord Kraft ANS in return for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million reflected in the EBITDA in 2003.

Adjusted EBITDA also included Hydro's share of net income from Hydro Texaco of NOK 39 million in 2004, a decrease of 78 million compared to last year. The result from Hydro Texaco was negatively impacted by intense gasoline price competition in Denmark.

Hydro Aluminium

Operating income Aluminium



| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 79,674 | 69,152 | 65,051 |
| Operating Costs | 77,869 | 66,696 | 63,353 |
| Operating Income | 1,805 | 2,456 | 1,698 |
| Adjusted EBITDA | 8,656 | 6,498 | 4,334 |
| RoaCE ¹⁾ | 3.5% | 4.7% | 2.7% |
| Number of employees | 25,967 | 26,728 | 27,110 |

1) RoaCE for 2004 was negatively affected by the write down of the primary metal plants in Germany by 3.5 percent.

Overview

Hydro Aluminium is one of the world's largest integrated global aluminium suppliers in terms of sales volume with activities in 28 countries, 2004 revenues of approximately NOK 80 billion and around 26,000 employees. The company is an industry leader for a range of products and markets, in particular deliveries to the transportation, building, packaging and lithographic market sectors. In 2004 Hydro Aluminium produced approximately 1.7 million tonnes of primary metal. A total of 3.4 million tonnes was delivered to the market.

Hydro's Aluminium business is integrated from the alumina to finished products. The Company has ownership interests in alumina refineries providing approximately 45 percent of its alumina requirements. The remaining needs are covered through medium to long-term contracts. Virgin primary aluminium is produced in Australia, Canada, Norway, Germany and Slovakia. In addition, Hydro has developed a multi-sourcing strategy with a focus on building strong market positions in the metal products market (extrusion billet, sheet ingot and product foundry alloys), the mid-stream part of the value chain. Aluminium is further processed to meet customers' needs in casthouses integrated with the Company's primary aluminium plants and in specialized remelters located close to customers in Europe and the US. Components for the automotive industry are produced in several countries in Europe as

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well as in the US, Mexico, Brazil and China. Through a global extrusion system Hydro serves customers with tailor made profiles and building systems. Hydro Aluminium also produces aluminium strip, sheet and foil in rolling mills located in Europe and Malaysia.

During 2004 there has been a continued increase in the world's consumption of aluminium, most notably in China. Western world shipments grew an estimated 7.5 percent while consumption in China increased an estimated 17 percent. China increased its net primary exports to the Western World by an estimated 300,000 tonnes in 2004 to a total of about 650,000 tonnes. This development was apparently enhanced by an announcement of the abolition of the eight percent export subsidy from year-end, which was replaced by a five percent export tax. However, with scrap, semi-fabricated and other aluminium products taken into account, China imported an estimated 350,000 tonnes of aluminium on a net basis in 2004.

Market prices increased during the year by 20 percent (LME three months average). Volume increases made possible by expanded capacity combined with the higher prices made a solid contribution to Hydro's results for the year. However, the depreciation of the US dollar offset more than half of the aluminium price increase measured in Norwegian kroner. In addition, the soft dollar weakened the competitiveness of Aluminium's European operations. Increasing energy costs combined with the decline in the dollar led to a write-down of Hydro's German primary aluminium plants by approximately NOK 2.3 billion in December of 2004. The write down impacted operating income by roughly NOK 2.0 billion and results from Non-consolidated investees by about NOK 0.3 billion.

Results for Hydro Aluminium's downstream operations improved significantly in 2004. Market developments resulted in increased volumes, however, margins are under continuous pressure particularly for the more standardized products.

To boost the Company's competitive position, Hydro Aluminium's strategy is to continuously improve the relative cost position of its primary metal production. To execute this strategy, Hydro is focused on increasing the share of its production being produced in larger primary metal plants located in regions with competitive energy costs. Expansions of primary production are completed or underway in plants where existing infrastructure supports a larger capacity. Hydro is in the initial phase of planning a major new greenfield project in Qatar which has abundant energy resources in the form of natural gas. Hydro has also taken steps to improve its relative cost position of alumina, the primary raw material for aluminium.

Hydro has a history of improvement programs generating substantial cost reductions. Improvement programs completed in 2003 are generating estimated annual cost reductions of NOK 2.5 billion. Further programs were initiated in 2004, and cost reduction activities are expected to continue into 2005 and beyond.

Summary of Aluminium's operating results

Aluminium's operating income for 2004 was NOK 1,805 million compared to NOK 2,456 million in the prior year and NOK 1,698 in 2002. The lower result in 2004 was due to the write down of German primary metal plants of NOK 2,042 million and costs relating to manning reductions amounting to NOK 519 million. Positive contribution from increased volumes and higher prices offset a large part of the negative effects.

The change in 2004 operating income compared to the prior year and the most important items affecting the change are included in the table below:

| Amounts in NOK million | |
|----------------------------------|---------|
| Operating income 2004 | 1,805 |
| Operating income 2003 | 2,456 |
| Change in Operating Income | (651) |
| Margin | 980 |
| Volume | 2,295 |
| Fixed costs | (835) |
| Depreciation | (325) |
| Write downs, demanning, other | (2,650) |
| Trading | (560) |
| Unrealized LME-effects | 230 |
| New/disposed business | 305 |
| Restructuring costs | 20 |
| Other | (111) |
| Total change in Operating income | (651) |

Margins, excluding the effect of hedge programs, were higher and positively impacted operating results by approximately NOK 980 million compared with 2003. Margins improved for the Metals, Rolled Products and Extrusion but were slightly weaker for Automotive. During 2004, aluminium prices measured in Norwegian kroner increased by slightly more than nine percent compared with 2003 as a result of the increased LME price but with a lower average US dollar to NOK exchange rate. In 2003, aluminium prices measured in Norwegian kroner declined somewhat more than 7 percent due to the fluctuating US dollar exchange rate. Realized gains on hedge programs in Metals declined by NOK 203 million from NOK 476 million in 2003. In 2002, realized gains related to hedge programs amounted to NOK 153 million.

Higher volumes contributed an additional NOK 2,295 million to operating income compared to 2003. Volumes increased for all sub-segments. The ramp up of new capacity in all sectors and increased capacity utilization were the main factors underlying the improvement. Volumes increases in 2003 relating to all sectors except North America, contributed NOK 860 million to operating income compared to 2002.

New production capacity was a significant reason for the increase in fixed costs and depreciation. In addition, fixed costs measured in NOK for European subsidiaries were negatively impacted by a stronger Euro/NOK exchange rate. However, for operating income as a whole this currency translation effect was

positive by about NOK 75 million. Total fixed costs and depreciation increased in 2003 compared to 2002 primarily as a result of new production capacity as well as translation effects resulting from a stronger Euro/NOK exchange rate.

Write downs, demanning and other consisted primarily of the impairment loss on the German primary metal plants of NOK 2,042 million and manning reduction costs related to the Aluimprover project, together with charges for the transfer of employees relating to magnesium operations, in total amounting NOK 519 million.

Metals' results of trading activities were lower mainly due to reduced currency gains impacting operating income by NOK 350 million. Results for Metals' trading activities improved by approximately NOK 460 million in 2003 compared to 2002 mainly due to currency gains. The currency effects impacting results for trading activities are largely offset by currency gains and losses on forward currency contracts reported in financial items.

The variance relating to new/disposed business relates primarily to the effect on operating income resulting from the consolidation of Sivalco. See "Hydro's Critical Accounting Policies" – "Change in Accounting Principles – Consolidation of Variable Interest Entities" in this Financial Review for further information pertaining to the consolidation of Sivalco.

Adjusted EBITDA for 2004 was NOK 2,158 million higher than in the previous year largely due to positive factors underlying the developments in operating results for the year, but excluding the non-cash effects of the write downs and charges described above. Results for non-consolidated investees decreased by NOK 52 million primarily due to the write down of NOK 268 million of the share in Hamburger Aluminium-Werke GmbH where Hydro holds a 33.33 percent interest. Results from non-consolidated investees included unrealized currency gains on US dollar denominated loans held by Alunorte, of NOK 63 million for 2004 compared to NOK 218 million for 2003. The remaining variance in results from non-consolidated investees resulted from improved operating results relating to Søral, Alunorte and other investees. Adjusted EBITDA increased in 2003 compared to 2002 as a result of the inclusion of VAW and Technal in the first quarter of 2003, and unrealized currency gains of NOK 218 million relating to Alunorte compared to unrealized losses of NOK 461 million in 2002. During the first quarter of 2002, Hydro acquired VAW Aluminium AG (VAW) and the French building systems company, Technal. Hydro's consolidated results include the operating results of VAW as of 15 March 2002 and Technal, as of 26 January 2002. The effect or variance resulting from the inclusion of VAW and Technal for a full year in 2003 compared to less than a full year in 2002 is described in the discussion on Operating revenues, Operating costs and Operating income below.

Key development projects and other activities

In December of 2004, Hydro signed "Heads of Agreement" with Qatar Petroleum to evaluate the development of a 570,000 tonnes capacity aluminium plant in Qatar with approximately 49 percent Hydro participation. If realized, the project will consist of power generation, primary aluminium production and anode production, as well as a cashhouse producing value added aluminium metal products.

The plant site is suitable for more than doubling of the initial primary aluminium production capacity, up to 1.2 million tonnes per year.

The expansion of the aluminium plant at Sunndal, Norway, has been completed with full production achieved during 2004. The expansion has more than doubled capacity to 360,000 tonnes. Amperage exceeding design by ten percent was achieved, resulting in 20,000 additional tonnes of primary capacity per year at only incremental operating cost and no additional investment cost. In addition, an accelerated startup resulted in 18,000 additional tonnes for 2004. The total investment amount is expected to be NOK 150 - 200 million lower than originally budgeted. The expansion project in Alouette, Canada, in which Hydro has a 20 percent ownership, is progressing well. The first phase commenced production in December, two months ahead of plan.

Hydro Aluminium's major alumina investment is its 34 percent participation in Alunorte a Brazilian alumina refinery. In 2003, Hydro decided to participate in a further expansion of Alunorte. This planned expansion will increase capacity to approximately 4.2 million tonnes in 2006, providing Hydro Aluminium with a total of approximately 1.4 million tonnes of alumina annually. Hydro Aluminium believes that Alunorte's cash operating costs are significantly below the alumina industry's world average.

Hydro Aluminium also has a 35 percent equity interest in the Alpart alumina refinery in Jamaica, which has an annual production capacity of approximately 1.5 million tonnes. The remaining 65 percent was owned by Kaiser Aluminium. As part of bankruptcy proceedings, Kaiser initiated a process to dispose of its interest in Alpart. In May of 2004, Hydro decided to exercise its right of first refusal to acquire the 65 percent interest and then transferred the interest to Swiss-based Glencore AG. No gain or loss resulted from the transaction. Hydro expects the new ownership arrangement will result in improved operations and potential cost synergies.

In 2004, Hydro sold its German based alumina business for approximately NOK 700 million. The operations sold consisted of a 50 percent share in Aluminium Oxid Stade GmbH (AOS), the related chemical grade alumina business and the dedicated bauxite source represented by Hydro's 10 percent share in Halco (Mining) Inc. AOS was sold primarily because the chemical grade alumina is not used in Hydro Aluminium's production process. The sale did not result in any significant gain or loss.

Outlook

Economic indicators are signaling lower global growth in 2005 compared to 2004, but growth is expected to continue at a healthy level. Economic development in the US is expected to slow, but from a high level in 2004. Conditions in Europe are expected to remain fairly stable, while the major Asian economies are forecast to show a somewhat reduced growth in activity level.

Hydro expects Western World shipments of primary aluminium to increase about three percent, equivalent to 600,000 – 700,000 tonnes in 2005 compared to 2004. Western World production, including closures and restarts, is expected to increase by 800,000 – 900,000 tonnes in 2005. Through 2004 and into 2005, LME prices have increased significantly, and some idle capacity in the US

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North West has been restarted. If LME prices remain at levels experienced early in 2005, or increase, some additional restart of idle capacity in this region may take place. Chinese export subsidies for primary aluminium have been replaced by an export tax effective 1 January 2005. As a result, incentives for developing new aluminium capacity for export have been reduced. The global market for primary aluminium is expected to remain favorable in 2005, with inventory reductions possibly of the same magnitude as in 2004.

In 2004, there has been a tight supply relative to demand for alumina which has resulted in a substantial increase in alumina prices in the spot market. For 2005 the prices are expected to stay at a fairly high level. In addition, electricity prices in the North Western US are expected to remain relatively high.

According to CRU International Ltd. (CRU), consumption of flat rolled products, extruded and automotive products is expected to continue to grow compared to 2004. Growth projections for 2005 vary by product and market, but are in the range of 3-3.5 percent in the US and Western Europe.

Hydro's Board of Directors approved the Aluimprover manning and cost reduction program relating to the Company's Norwegian primary metal plants in May 2004. The program has targeted annual cost savings of NOK 350-400 million, equivalent to approximately 800 man-years. All cost reduction initiatives related to the project are expected to be concluded by the end of the first quarter of 2005. Total implementation costs of the program are expected to be NOK 600 million, which is NOK 200 million lower than initial cost estimates. Of this amount, NOK 432 million was charged to results in 2004. Approximately NOK 170 million is expected to be charged in 2005.

Due to environmental legislation, Hydro will close the Söderberg production lines at the Company's Høyanger and Årdal primary metal plants in Norway. Total related costs are estimated at NOK 300 - 350 million and are expected to be incurred at the latest by the end of 2006. Hydro is working actively with business development projects in Årdal and Høyanger in order to facilitate job creation in these areas, and ultimately to assist affected employees in their search for new employment. New, lower cost capacity coming on stream resulting from the expansions described above will replace the production at these primary metal plants.

As a result of low volume and declining profitability, a decision was made in June 2004 to close Hydro Aluminium Motorcast Ltd. located in Leeds, UK, in early 2005. Costs relating to the closure impacted operating income by NOK 147 million in 2004. Estimated remaining charges relating to the closure of around NOK 135 million are expected to be recorded in 2005.

Metals

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 49,159 | 39,923 | 39,646 |
| Operating Costs | 48,329 | 37,630 | 37,956 |
| Operating Income | 830 | 2,293 | 1,690 |
| Adjusted EBITDA | 5,396 | 4,298 | 2,703 |
| Number of employees | 6,161 | 6,276 | 6,284 |

Market conditions

Western World shipments of primary metal grew an estimated 7.5 percent for 2004 compared to the prior year. China's internal consumption continued to grow rapidly in 2004 with an estimated increase of about 17 percent. China increased its net primary exports to the Western World by an estimated 300,000 tonnes in 2004 to a total of about 650,000 tonnes. This development was apparently triggered by an announcement of the abolition of the eight percent export subsidy from the end of 2004, which was replaced by a five percent export tax. However, with scrap, semi-fabricated and other aluminium products taken into account, China imported an estimated 350,000 tonnes of aluminium on a net basis in 2004.

Western World production increased approximately 3.5 percent, or 480,000 tonnes, as a result of new capacity net of closures.

Reported inventories, including producers' inventories (reported from the International Aluminium Institute) and LME inventories, declined by about 20 percent, or approximately 700,000 tonnes, during 2004. Roughly 200,000 tonnes are believed to be offset by an increase in unreported inventories within the new European Union member states, countries acceding 1 May 2004.

The average market price for aluminium (LME three months average) was USD 1,721 per tonne for 2004, an increase of 20 percent.

Revenues

Operating revenues increased approximately 23 percent or NOK 9 billion. The increase reflected the higher realized prices measured in Norwegian kroner combined with higher volumes. Operating revenues declined approximately 10 percent in 2003 compared to 2002, (which was offset by the variance relating to VAW in the first quarter of the year), primarily as a result of lower realized aluminium prices measured in Norwegian kroner. Volumes for Hydro Aluminium's primary metal increased 17 percent to a total of 1,720,000 tonnes in 2004 from 1,473,000 tonnes in 2003. The increase in primary metal volumes included new capacity relating to the Sunndal expansion of approximately 94,000 tonnes as well as about 130,000 tonnes relating to the consolidation of Slovalco. The remaining increase resulted from smaller expansions and better capacity utilization. New commercial contracts also influenced total sales volumes for 2004. Primary metal volumes increased 18 percent in 2003 compared to 2002 as a result of the inclusion of VAW for the first quarter of 2003 as well as new capacity from Sunndal.

Hydro realized average aluminium prices of US dollar 1,638 per tonne for 2004 compared to USD 1,440 per tonne for the same period of 2003. Measured in Norwegian kroner the realized aluminium price increased by slightly over nine percent. The realized NOK to US dollar exchange rate was NOK 6.98 for 2004 compared to NOK 7.25 in 2003. The realized price includes the effect of hedges.

Realized effects of the Sunndal hedge programs ³⁾, which are comprised of LME future contracts and US dollar forward contracts, positively impacted the results by about NOK 273 million in 2004 compared to NOK 476 million in 2003.

Product premiums increased both in USD and in Norwegian kroner in 2004. For 2003, product premiums increased in US dollars but to a lesser extent measured in Norwegian kroner.

3) Both the LME and currency hedges related to the Sunndal program are designated as cash flow hedges against production. Changes in the fair value of the contracts are included in Other Comprehensive Income while the realized amounts are included in revenues. In addition, Metals economically hedges certain revenues and raw materials in terms of LME prices with the purpose of "locking in margins" on such transactions. These positions referred to as price hedges are not designated for hedge accounting. Realized aluminium price hedges are included in revenues or raw material costs while unrealized effects are included at the Hydro Aluminium level under "Other and eliminations." Related currency effects are classified as financial items and excluded from operating income. Price hedges are excluded from the numbers for the hedge programs disclosed above.

Operating costs

Operating costs increased by NOK 10,699 million in 2004, mainly due to higher volumes from new capacity. However, the increase also included NOK 519 million relating to the manning reduction described above, and the write down of the German smelters of NOK 2,042 million. The strengthening of the Euro to the US dollar has placed European aluminium producers at a cost disadvantage in the global aluminium market. In addition, the existing power contracts for Hydro's German primary aluminium plants will expire at the end of 2005. Current power prices in Germany are significantly higher than in 2002, when these plants were acquired. At the time of acquisition Hydro anticipated a significant increase in future power costs. However, based on ongoing negotiations for renewal of the contracts, expected costs are now higher than earlier estimates. As a result, the Company recognized an impairment loss relating to its German primary aluminium plants in December of 2004. The write down impacted operating income by roughly NOK 2.0 billion and results from Non-consolidated investees by about NOK 0.3 billion. Operating costs in 2003 were relatively unchanged compared to 2002, however, a decline in operating costs was offset by the effect of VAW in the first quarter of 2003.

Operating income

Operating income for 2004 amounted to NOK 830 million compared to NOK 2,293 million in the prior year and NOK 1,690 million in 2002. Higher margins resulting from the price and currency developments in 2004 contributed about NOK 635 million compared with 2003. Higher volumes contributed NOK 1.9 billion. However, the positive developments were offset by the increased fixed costs, depreciation and write-downs as described above. In addition, results for Sourcing and Trading activities declined NOK 350 million mainly as a result of reduced currency gains. Realized effects of hedge programs declined NOK 200 million compared to 2003. Operating income in 2003 was negatively impacted by lower margins in the amount of NOK 760 million, offset by positive effects from hedge programs amounting to NOK 323 million and higher trading results of NOK 460 million.

Adjusted EBITDA

Adjusted EBITDA for 2004 was NOK 5,396 million, an increase of NOK 1,098 million compared to 2003. The increase in 2004 was largely due to the positive factors underlying the developments in operating results for the year, but excluding the non-cash effects of the write-downs and charges described above. In addition, better results from non-consolidated investees also contributed to the improvement. Adjusted EBITDA amounted to NOK 4,298 million in 2003, and increase of NOK 1,595 million compared to 2002.

Rolled Products

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 20,373 | 18,377 | 14,790 |
| Operating Costs | 19,747 | 18,245 | 15,085 |
| Operating Income | 626 | 132 | (295) |
| Adjusted EBITDA | 1,361 | 835 | 258 |
| Number of employees | 4,013 | 4,259 | 4,306 |

Market conditions

Consumption of flat rolled products in Europe increased by an estimated (CRU International) two percent compared to 2003. Average capacity utilization for the European industry improved marginally but remained relatively low at an estimated 84 percent.

The North American market had an increase in consumption of about seven percent for the year as a whole compared to 2003. Capacity utilization for the US industry improved about seven percent to an estimated 79 percent. The stronger Euro compared to the US dollar placed a disadvantage on producers outside the US for export sales. The Euro/US dollar exchange rate impacted export pricing of flat rolled products to Asia, South and North America, which are typically based on a US dollar price formula and put pressure on margins.

Foil and lithographic sheet are higher margin products. Automotive flat rolled products are important to the industry as these products are expected to have attractive growth rates. Many flat rolled products are relatively mature in European and North American markets.

Revenues

Operating revenues increased approximately 10 percent or about NOK 2,000 million in 2004 compared to the previous year. The increase was mainly due to the higher volumes and higher metal prices partly offset by the effect of lower Euro revenues relating to US dollar denominated export sales. Rolled Products exports about 21 percent of its sales to Asia, South and North America. The Euro strengthened 10 percent to the US dollar in 2004. Operating revenues increased approximately 24 percent in 2003 compared to 2002. Operating revenues increased by about 3 percent in addition to increases relating to the VAW effect.

Shipments increased around five percent to 941,000 tonnes in 2004 and about seven percent to 893,000 tonnes in 2003 including comparable VAW figures on an annual basis. The total growth

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in shipments for 2004 over 2003 was distributed between Hydro's product groups as follows: lithographic sheet (15 percent), foil (7 percent) and strip (2 percent).

Rolled Products' activities are primarily denominated in Euro. All sales revenues are hedged in terms of aluminium prices and foreign currency exchange rates utilizing commodity and financial instruments. Realized gains related to aluminium price hedges are included in revenues while currency effects are included in financial items. Unrealized effects of aluminium price hedges are included as part of Other and Eliminations at the Hydro Aluminium consolidation level.

Operating costs

Rolled Products operating cost increased in 2004 and 2003 (in addition to the effect of VAW) primarily as a result of increased volumes. Higher metal prices also impacted operating costs in 2004. Operating costs were positively influenced by inventory gains of approximately NOK 155 million in 2004 compared with inventory losses of approximately NOK 117 million in 2003. Rolled Products' sales prices are based on a margin over the metal price. The production process requires a lead-time of between two to three months. Therefore, cost of goods sold (and margins) is impacted by variances in inventory values resulting from changing aluminium prices. Falling prices in Euro increase cost (reduce margins) while increasing prices have the opposite effect.

Operating costs also increased as a result of currency translation effects resulting from the stronger Euro/NOK exchange rate amounting to about NOK 230 million. Savings from improvement programs offset this increase by about NOK 100 million.

Operating income

Operating income for 2004 was NOK 626 million compared to NOK 132 million in the previous year and an operating loss of NOK 295 million in 2002. Higher contribution from margins impacted the results for 2004 by approximately NOK 285 million compared with 2003. The change in the margin primarily resulted from the inventory gains described above. In addition, a positive translation effect from the stronger Euro contributed around NOK 250 million but was offset by lower margins as a result of the declining US dollar by about the same amount. Increased shipments contributed around NOK 260 million to results.

Rolled Products' operating income in 2004 was distributed between the product groups as follows: Litho 32 percent, Foil 22 percent and Strip 46 percent.

Adjusted EBITDA

Adjusted EBITDA for Rolled Products for 2004 was NOK 1,361 million compared to NOK 835 million for 2003 and NOK 258 million for 2002. The improvement was primarily influenced by the factors described above.

Extrusion and Automotive

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|---------------|--------|--------|
| Operating Revenues | 27,600 | 24,529 | 24,245 |
| Operating Costs | 27,323 | 24,431 | 24,231 |
| Operating Income | 277 | 98 | 14 |
| Adjusted EBITDA | 1,827 | 1,432 | 1,084 |
| Number of employees | 15,793 | 16,193 | 16,520 |

Market conditions

The overall market for general extrusion in Europe improved during the first three quarters of 2004, but slowed markedly in the fourth quarter. According to CRU, general extrusion shipments increased by about four percent in 2004 compared to 2003. Hydro's shipments of general extrusions grew at a rate higher than market average in 2004, about seven percent. For extruded products in North America, CRU reported a growth rate in 2004 of about eleven percent. The market showed signs of slowing towards year end. Global light vehicle sales were reported to be approximately 3.6 percent higher than in 2003. Western European and North American automotive markets, which are the most relevant to Hydro, lagged behind the global growth averages with an increase in light vehicle sales of 2.2 and 1.5 percent, respectively.

Revenues

Revenues increased about 13 percent or NOK 3,071 million in 2004 compared to the previous year. A decline in revenues of about NOK 700 million or 3 percent in 2003 was more than offset by the effects of the VAW and Technal building systems acquisitions in 2002. Automotive revenues and sales volumes increased in 2004 compared to 2003, principally due to the ramp up of shipments on new contracts. Higher volumes offset lower revenues resulting from price pressure on motor block castings and crash management systems although margins were negatively affected. Extrusion's revenues increased by around eleven percent. Both European extrusion and Building systems shipments were higher. Revenues increased for both Extrusion and Automotive as a result of translation effects relating to the stronger Euro/NOK exchange rate. In North America, revenues increased significantly as a result of increased shipment volumes relating to extrusion and remelt activities following production capacity increases.

Operating costs

Operating costs increased by NOK 2,892 million in 2004, primarily due to higher activity levels in all sectors resulting in increased volumes. The increases were partly offset by cost reductions from improvement programs. Depreciation expense increased due to start up of new automotive production lines and North American remelt operations. The increase in operating costs also reflected write downs of NOK 125 million relating to Automotive plants in addition to the costs relating to the closure of Hydro Aluminium Motorcast Ltd in Leeds amounting to NOK 147 million in 2004. A small decline in operating costs in 2003 compared to 2002,

primarily resulting from currency translation effects, was offset by the effects of VAW and Technal.

Operating income

Operating income for 2004 was NOK 277 million compared to NOK 98 million in the prior year and NOK 14 million in 2002.

Operating income (loss) for the three sectors included in Extrusion and Automotive for the three years ending 31 December 2004 is included in the following table:

| Amounts in NOK million | 2004 | 2003 | 2002 |
|------------------------|--------------|-------|-------|
| Extrusion | 634 | 500 | 399 |
| Automotive | (314) | (192) | (94) |
| North America | (35) | (211) | (291) |
| Eliminations | (8) | - | - |
| Total | 277 | 98 | 14 |

Slightly higher margins contributed about NOK 152 million to the result in 2004 and improved volumes contributed about NOK 1,000 million. The positive effects were partly offset by the higher fixed costs and depreciation expense discussed above. Operating income was also negatively impacted by translation effects in the amount of around NOK 65 million. Operating income was stable in 2003 compared to 2002 but improved from the effects of VAW and Technal acquisitions.

In 2004, operating income for Extrusion, increased as a result of the currency translation effect on margins, partially offset by declining margins in local currencies. Results for North American operations were positively influenced by substantial improvements in press productivity (nine percent compared to the previous year), on time delivery and cost control measures. Automotive's operating income declined in 2004 as a result of costs relating to the Leeds closure and write-downs relating to plants in China, the US, and the UK described above.

Adjusted EBITDA

Adjusted EBITDA for Extrusion and Automotive for 2004 was NOK 1,827 million compared to NOK 1,432 million for 2003 and NOK 1,084 million in 2002. The increase in 2004 was largely due to the factors underlying the improvements in operating income excluding the non-cash effects of the write-downs and charges described above.

Other Activities

Other activities consists of Polymers (formerly Petrochemicals), BioMar Holding A/S (formerly Treka AS), Hydro Business, IS and Production Partners, the Company's internal service operations, and Industriforsikring, the Company's captive insurance company.

Polymers

Operating income for Polymers amounted to NOK 254 million in 2004 while adjusted EBITDA was NOK 774 million, an increase of NOK 262 million and NOK 373 million respectively compared with last year. The improvement was mainly due to higher PVC prices, partly offset by higher raw material costs. Operating income also included insurance proceeds amounting to NOK 58 million relating to the explosion at Stenungsund site in Sweden in 2003. The improvement in adjusted EBITDA also reflected an increase in results from non-consolidated investees amounting to NOK 88 million, mainly due to better product prices in Asia, which is the main market for Qatar Vinyl Company.

The construction of the new chlorine plant at Rafnes, which was started in 2003, is progressing well and within the total estimated investment cost of NOK 1,000 million. The plant is expected to start production ahead of schedule in the summer of 2005. In January 2005, Hydro also decided to convert the existing chlorine plant at Rafnes from diaphragm to membrane technology. The total cost of the upgrade is expected to be about NOK 700 million, with start-up of production scheduled for 2006. In June 2004 Noretyl AS, owned 50 percent by Hydro, announced an expansion of its production of ethylene by 100,000 tonnes. The expansion is expected to be completed in the second half of 2005 at a total investment cost to Noretyl of approximately NOK 700 million. These projects are expected to make a strong contribution to Hydro Polymers' competitive position.

BioMar

Operating income for BioMar amounted to NOK 91 million for 2004, compared to an operating loss of NOK 529 million in 2003. BioMar's results improved significantly compared to 2003, which was impacted by the write down of goodwill and intangible assets as well as significant losses on bad debts, in total around NOK 570 million.

Industriforsikring

During the year, Industriforsikring, Hydro's captive insurance company, made provisions of around NOK 230 million for losses incurred within a mutual insurance pool of which it is a member. The pool incurred significant damage claims during the autumn of 2004, which will be covered by the members of the pool over the coming five years, or upon withdrawal from the pool.

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Hydro's Critical Accounting Policies

Hydro's Consolidated Financial Statements and supplementary information were prepared in accordance with generally accepted accounting principles in the US (US GAAP) and in Norway (N GAAP). Note 1 in the Notes to the Consolidated Financial Statements describes Hydro's significant accounting policies. Inherent in many of the accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets, and liabilities. The following accounting policies represent the more critical areas that involve a higher degree of judgment and complexity which, in turn, could materially impact Hydro's financial statements if various assumptions were changed significantly. Hydro's senior management has discussed estimates underlying certain of its critical accounting policies with its independent auditors.

Oil and Gas Exploration Costs

Hydro uses the "successful efforts" method of accounting for oil and gas exploration and development costs. All expenditures related to exploration, with the exception of the costs of drilling exploratory wells, are charged to expense as incurred. The costs of drilling exploratory wells are capitalized on the balance sheet pending determination of whether commercially producible oil and gas reserves have been discovered. If the determination is made that a well did not encounter potentially economic oil and gas quantities, the well costs are charged to expense.

Almost all of our wells capitalized on the balance sheet at 31 December 2004, 2003 and 2002 are in offshore areas where a major capital expenditure (e.g., offshore installation) would be required before production could begin. In such areas, the economic viability might depend on the completion of additional exploratory drilling and the discovery of sufficient commercially producible reserves. Once the additional exploration drilling demonstrates that sufficient quantities of reserves have been discovered, continued capitalization is dependent on project reviews, which take place periodically and no less frequently than every quarter, to ensure that satisfactory progress toward ultimate development of the reserves is being achieved.

For complicated offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended on the balance sheet for more than one year while additional appraisal work on the potential oil and gas field is performed and regulatory approvals for development are sought. In all the areas in which we operate, plans for development are subject to governmental approval. The wells are transferred to development when the Plan for Development and Operation (PDO) has been submitted to the Ministry of Petroleum and Energy (Norway) or matured to a level corresponding to a PDO submittal (International).

Costs related to acquisition of exploration rights are allocated to the relevant geographic areas and are charged to operating expense if no proved reserves are determined to exist. If proved reserves are determined to exist, the acquisition costs are transferred to development cost, and subsequently amortized to become part of the cost of the oil and gas produced.

A determination that proved reserves do not exist can result in a reduction of long-term assets and an increase in operating costs. Each block or area is assessed separately. The amount of the impact depends on the level of current drilling activity and the amount of exploration costs currently capitalized. During 2004, exploration activity (expenditures) totaled NOK 1,412 million, of which NOK 397 million was capitalized during the year. Including capitalized exploration costs and acquisition costs from prior periods, NOK 1,263 million was expensed during the year. At the end of 2004, NOK 1,180 million of such costs were capitalized pending the evaluation of drilling results and planned development, of which NOK 213 million related to acquisition costs.

In February 2005 the FASB issued a Proposed FASB Staff Position No FAS 19-a, to provide guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (FAS 19), requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. Questions have arisen in practice about the application of this guidance due to changes in oil- and gas-exploration processes and lifecycles. The issue is whether there are circumstances that would permit the continued capitalization of exploratory well costs if reserves cannot be classified as proved within one year following the completion of drilling other than when additional exploration wells are necessary to justify major capital expenditures and those wells are underway or firmly planned for the near future. The FSP would amend FAS 19 and allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met, and certain disclosures are provided. Should the FSP be issued as proposed, Hydro does not expect any changes to the capitalized amounts.

Proved Oil and Gas Reserves

Proved reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved reserves are related to developed fields (proved developed reserves), and to undeveloped fields (proved undeveloped reserves). The estimation of proved reserves is based on technical evaluations using all available reservoir, well and production data. Proved reserves do not include volumes after license expiry or volumes that are not commercially producible with known technology and prices at year-end.

Reserves are revised upwards or downwards as oil and gas are produced and additional data become available. Revisions can result from evaluation of already available geologic, reservoir or production data, or from new geologic or reservoir data obtained from wells. Revisions can also include changes resulting from performance of improved recovery projects, production facility capacity, significant changes in development strategy, oil and gas prices or changing regulatory environment.

Proved developed reserves are the basis for calculating unit-of production depreciation. Future changes in proved oil and gas

reserves can materially impact unit-of-production rates for depreciation, depletion and amortization. Downward revisions in reserve estimates can result in higher per unit depreciation and depletion expense in future periods. Conversely, upward revisions in reserve estimates can result in lower future per unit depreciation, depletion and amortization. Depreciation, depletion and amortization related to oil and gas producing activities in 2004, 2003 and 2002 were NOK 9,825 million, NOK 9,114 million and NOK 8,553 million respectively.

Commodity Instruments and Risk Management Activities

Hydro's revenues, operating results, financial condition and ability to borrow funds or obtain additional capital depend substantially on prevailing commodity prices for oil, aluminium and the US dollar exchange rate. Volatility in these commodity prices and currency rates materially affect Hydro's financial condition, liquidity, ability to obtain financing, and operating results. Depressed prices can have a negative impact on Hydro's financial results. The majority of Hydro's oil and aluminium production is sold at market prices. To mitigate unwanted price exposure and to protect against undesirable price developments, Hydro utilizes physical and financial commodity instruments on a limited basis. Entering into such positions requires management to make judgments about market conditions and future price expectations.

Certain commodity contracts are deemed to be derivatives under US GAAP and are required to be recognized at fair value, with changes in the fair value impacting earnings. Determining whether contracts qualify as derivative instruments involves evaluation of market liquidity, traded volumes and transportation cost for physical products from contract delivery points to a liquid market for the product. When market prices are not directly observable through market quotes, the estimated fair value must be calculated using valuation models, relying on internal assumptions as well as observable market information. Such assumptions includes forward curves, yield curves and interest rates. The use of models and assumptions are in accordance with prevailing guidance from the FASB and valuations are based on the Company's best estimates. However, changes in valuations will likely occur and such changes may have a material impact on the estimated fair value of derivative contracts, in particular long-term contracts, resulting in corresponding gains and losses affecting future periods' income statements. It is important to note that use of such instruments and other commodity contracts may preclude or limit Hydro's ability to realize the full benefit of a market improvement. To further understand Hydro's sensitivity to these factors please refer above to the "Indicative income statement sensitivities" table included in the Risk Management section of this Financial Review.

Asset Retirement Obligations

Effective 1 January 2003, Hydro adopted SFAS 143, "Accounting for Asset Retirement Obligations" which prescribes the accounting for obligations associated with the retirement of long-lived assets such as abandonment of oil and gas production platforms, facilities and pipelines. The fair value of liabilities for asset retirement is rec-

ognized as liabilities when they are incurred and added to the carrying amount of the long-lived asset. The effect of the passage of time on the liability is recognized as an accretion expense, included in Depreciation, depletion and amortization, and the costs added to the carrying value of the asset are subsequently expensed over the assets' useful life.

Hydro's asset retirement obligations consist mainly of accruals for the dismantlement and removal of oil and gas installations on the Norwegian Continental Shelf. Norwegian regulations and the OSPAR convention (convention for the protection of the marine environment of the north-east Atlantic) regulate which installations must be disposed of and which can be abandoned. The OSPAR convention has imposed a general ban on sea disposal of offshore installations and requires removal and recycling unless exceptions are made which allow abandonment of specific installations. The OSPAR convention does not cover pipelines and cables. Report No. 47 (1999-2000) to Stortinget (the Norwegian Parliament) on the disposal of pipelines and cables that have ceased to be used includes general guidelines permitting such facilities to be left in place if they do not result in any inconvenience or safety hazards. A termination and removal plan for each field must be approved by the Norwegian authorities.

The asset retirement obligation is estimated as the present value of the future expected dismantlement and removal costs based on an expected retirement concept and timing and current prices for goods and services. The timing of retirement activities is normally assumed to be at the end of production. Retirement activities relating to most fields where Hydro has an ownership interest are expected to begin relatively far into the future. There is substantial uncertainty in the scope and timing of future termination and removal activities both from the fact that the activities will take place relatively far into the future, and because very limited removal activities have occurred on the NCS in the past. Changes to technology, Norwegian regulations, prices for necessary goods and services and other factors may affect the timing and scope of retirement activities. In 2004, estimates of future asset retirement obligations related to producing fields were increased by around NOK 560 million. The major part of the increase was attributable to higher rates relating to floating rigs used in retirement activities. Future changes in rig rate levels or other relevant prices may substantially alter the book value of property, plant and equipment, asset retirement obligations and future operating costs.

Hydro accounts for asset retirement obligations that are conditional on a future event in the period that the conditional event has been satisfied. In June 2004, the FASB issued an exposure draft entitled "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143", which would require conditional asset retirement obligations to be recognized when incurred. Should the exposure draft be issued as proposed, Hydro would accrue for the removal and disposal of certain additional assets including lining material of the cells used in the smelting of aluminium at the time the lining material is put into use. Currently, these costs are accrued at the time the lining material is removed.

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Impairment of Long-Lived Assets

Hydro adopted as of January 1, 2002 SFAS 144, "Accounting for Impairment or Disposal of Long-Lived Assets." Under SFAS 144, management is required to assess the conditions that could cause an asset to become impaired and to perform a recoverability test for potentially impaired long-lived assets held by the Company. These conditions include whether a significant decrease in the fair value of the asset(s) has occurred, changes in the Company's business plan for the asset(s) have been made, or whether a significant adverse change in the local business and legal climate has arisen. The amount of such an impairment charge is based on the estimated fair value of the asset compared to its carrying value. Fair value measurements include assumptions made regarding future cash flows associated with the asset under evaluation. The company uses internal business plans, quoted forward prices and its best estimate of commodity prices, currency rates, discount rates and other input. Such estimates may vary with business cycles and other changes.

Impairment charges result in a decrease to Property, Plant and Equipment on the balance sheet and an increase in operating costs. Increasing energy costs combined with the decline in the dollar led to a write-down of Hydro's German primary aluminium plants by approximately NOK 2.3 billion in December of 2004.

Contingencies and Environmental Liabilities

Contingencies and environmental liabilities are recorded when such items are asserted, or are probable of assertion, and a loss is probable and can be reasonably estimated. Evaluation of contingencies requires management to make assumptions about the probability that contingencies will be realized and the amount or range of amounts that may ultimately be incurred. The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each site, and considers factors such as present laws and regulations, prior experience in remediation of contaminated material and existing technology. Environmental liabilities require interpretation of scientific and legal data, in addition to assumptions about probability and future costs. The liabilities are reviewed periodically and adjusted to reflect updated information as it becomes available. Actual costs to be incurred may vary from the estimates following the inherent uncertainties in the evaluation of such exposures. Accruals for contingencies and environmental liabilities are included in Other current liabilities and Other long-term liabilities in the balance sheet.

Business Combinations

In accounting for the acquisition of businesses, Hydro is required to determine the fair value of assets, liabilities, and intangible assets at the time of acquisition. In the businesses Hydro operates, fair values of individual assets and liabilities are normally not readily observable in active markets, which requires the Company to estimate the fair value of acquired assets and liabilities through valuation techniques. Such valuations are subject to a number of assumptions including useful lives of assets, replacement costs and timing and amounts of certain future cash flows, which may be dependent of future commodity prices, currency rates, discount rates and other input.

Hydro's most recent significant acquisition was the purchase of VAW for a purchase price of EUR 1,911 million (NOK 14.9 billion) in 2002. A specification of the allocation of this purchase price to assets and liabilities acquired can be found in Note 2 in Notes to the Consolidated Financial Statements.

Goodwill

Under SFAS 142, "Goodwill and Other Intangible Assets," goodwill and certain intangible assets are reviewed at least annually for impairment.

The largest portion of goodwill was recorded in the North America sector of the Extrusion and Automotive sub-segment. Management annually assesses the fair value of the sector's goodwill in relation to the carrying value of the sector's net assets. Assumptions related to certain cash flow forecasts and the discount rate are made reflecting the sector's industry. Total goodwill evaluated for impairment during 2004 was approximately NOK 1,000 million. Goodwill is included in prepaid pension, investments, and other non-current assets.

Income Taxes

Hydro calculates deferred income tax expense based on the difference between the tax assets' carrying value for financial reporting purposes and their respective tax basis that are considered temporary in nature. This computation requires management's interpretation of complex tax laws and regulations in many tax jurisdictions where Hydro operates. Valuation of deferred tax assets is dependent on management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the near future, planned transactions or planned tax optimizing measures. Economic conditions may change and lead to a different conclusion regarding recoverability, and such change may affect the results for each reporting period.

Employee Retirement Plans

Hydro's employee retirement plans consist primarily of defined benefit pension plans. Measurement of pension cost and obligations under the plans requires a number of assumptions and estimates to be made by management. These include future salary levels, discount rates, turnover rate, and rate of return on plan assets. The discount rate used for determining pension obligations and pension cost is based on the yield from a portfolio of long-term corporate bonds having one of the two highest ratings given by a recognized rating agency. Hydro provides defined benefit plans in several countries and in various economic environments that will affect the actual discount rate applied. Almost three-quarters of Hydro's projected benefit obligation relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2004 is 5.25 percent. The expected rate of return on plan assets is, based on the current portfolio of plan assets, determined to be approximately one percentage point above the yield on a portfolio of long-term corporate bonds that receive one of the two highest ratings given by a recognized rating agency.

Changes in these assumptions can influence the funded status of the plan as well as the net periodic pension expense. The PBO

is sensitive to changes in assumed discount rates and assumed compensation rates. Based on indicative sensitivities, a one percentage point reduction or increase in the discount rate will increase or decrease the PBO in the range of 15 to 20 percent. A one percentage point reduction or increase in compensation rates for all plan member categories will decrease or increase the PBO in the range of 15 to 20 percent. It should be noted that changes in the aforementioned parameters and changes in the PBO will affect net periodic pension cost in subsequent periods, both the service cost and interest cost components, in addition to amortization of unrecognized net gains or losses, if any.

Change in Accounting Principles – Consolidation of Variable Interest Entities

Effective 1 January 2004, Hydro adopted FASB Interpretation 46 “Consolidation of Variable Interest Entities” (FIN 46R), which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support (variable interest entities or VIEs). The Interpretation provides guidance for determining which party retains the controlling financial interest in VIEs when such interest is achieved through arrangements other than voting rights. Implementation of the new requirements depended on when a company became involved with such entities. Because Hydro did not become involved with any new Variable Interest Entities (VIEs) during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004.

Hydro has identified one pre-existing arrangement that meets the requirements of FIN 46R to be classified as a VIE. Hydro has equity interest in Slovalco, an aluminium smelter in Slovakia. Hydro also has an agreement to supply Slovalco with alumina and a right and obligation to purchase approximately 60 percent of Slovalco's total aluminium production at market based prices. Hydro owns 20 percent of the shares of Slovalco representing 40 percent of the voting rights. In 2001, Hydro entered into a put and call option arrangement with another shareholder that could increase Hydro's interest up to 65 percent. This arrangement, which expires in the period 2005 to 2006, is the primary reason requiring Hydro to consolidate Slovalco in accordance with the new VIE regulations.

Hydro has consolidated Slovalco in accordance with the new requirements effective from 1 January 2004. Related assets, liabilities and the 80 percent non-controlling interests have been measured based on their fair values at the time the option arrangement was entered into in 2001 and recorded based on such values carried forward to 1 January 2004. As of 1 January 2004, total assets, liabilities and non-controlling interests were NOK 2,182 million, NOK 725 million and NOK 1,165 million respectively. At the end of 2003, the difference between Hydro's interest in Slovalco consolidated based on the new requirements compared to the equity method was immaterial.

Liquidity and Capital resources

| Amounts in NOK million | 2004 | 2003 | 2002 |
|--|----------|---------|----------|
| Cash flow provided by (used for): | | | |
| Operations | 27,724 | 22,773 | 19,080 |
| Investments | (23,962) | (7,054) | (35,492) |
| Financing | (13,579) | (8,092) | (5,926) |
| Increase (decrease) in cash and cash equivalents | (507) | 9,326 | (20,741) |
| Return on Shareholders' equity | 14.4% | 13.4% | 11.6% |
| RoaCE | 13.0% | 8.4% | 7.2% |
| Adjusted net debt/equity ratio ¹⁾ | 0.11 | 0.38 | 0.60 |

1) Adjusted net interest-bearing debt divided by shareholders' equity plus minority interest, adjusted for unfunded pension obligation (after tax) and present value of future obligations on operating leases.

Cash flow

Hydro has historically financed its operations primarily through cash generated by operating activities. In 2004, net cash generated by the Company's operations of approximately NOK 27.7 billion was sufficient to fund the net cash used in investing activities of approximately NOK 24 billion including investments in bank term deposits of NOK 9.2 billion (see Investments Activities below). Cash provided by discontinued operations, consisting of proceeds from the sale of shares in Yara, following the demerger of the agri operations, and Yara's repayment of debt to Hydro, added another NOK 9.6 billion. Approximately NOK 9.3 billion was used to repay interest bearing debt and approximately NOK 4.5 billion was used for dividends and share repurchases, reducing the Company's cash balance by approximately NOK 0.5 billion.

Cash from Operations

In 2004, net cash provided by operating activities amounted to NOK 27.7 billion in 2004, and increase of NOK 5 billion, or 22 percent compared to 2003.

Cash from operations improved as a result of increased production and strong market fundamentals as described above in this Financial Review. The improvement was reflected in an increase of NOK 1.6 billion in net income for the year.

Significant charges impacting income but not affecting operating cash for the year included the write-down of the German primary metal plant amounting to approximately NOK 2.3 billion. Deferred tax expense declined approximately NOK 900 million as a result of amended tax regulations improving net income. The decline in net working capital compared to 2003, provided approximately NOK 1.4 billion of the increase in cash provided by operations. The effects of changes in other non-cash incomes and charges such as gains and losses on asset disposals, unrealized gains and losses on foreign currencies, and other items were largely offsetting.

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Investing Activities

Cash payments for investing activities in 2004 were NOK 24 billion, an increase of NOK 16.9 billion compared to 2003. This increase was primarily due to a significant increase of spending on purchases of short-term investments reflecting a change in investment policy during 2004. Hydro's previous policy required that all cash should be deposited with a maximum maturity of 3 months. However, to take advantage of somewhat higher interest rates, as well as having the opportunity of matching maturities with specified and known large cash outflows (e.g. oil tax payments, dividend payments, etc.), the maximum maturity for the cash deposits has been increased to 12 months. At the end of 2004, NOK 9.2 billion of the Group's liquidity was deposited on bank term deposits with original maturities beyond 3 months. As a result, such amounts are classified as net cash used in investing activities and included with other liquid assets on the balance sheet. At the end of 2003, no bank deposits had an original maturity over 3 months. In addition, there was a significant reduction of proceeds from sales of other long-term investments, NOK 1.4 billion in 2004 compared to 6.4 billion in 2003.

See "Capital Expenditures" section below for an analysis of expenditure for property, plant and equipment and long-term investments.

Financing Activities

In 2004, NOK 13.6 billion was used in financing activities, compared to NOK 8.1 billion in 2003. Principal repayments of NOK 9.3 billion in 2004, were NOK 4.1 billion higher than in 2003. Principal repayments included prepayments of long-term debt of NOK 6.7 billion following the agri demerger. In addition, repurchase of ordinary shares of NOK 1.7 billion and dividends of NOK 2.8 billion, together amounting to NOK 4.5 billion, were NOK 1.2 billion higher than share repurchases and dividends in 2003. In December 2004, an extraordinary General Meeting of shareholders approved a capital reduction by cancellation of 2,808,810 treasury shares acquired in 2004 as part of a share buyback program approved by the 2004 Annual General Meeting. The extraordinary General Meeting also authorized the redemption of 2,191,190 shares owned by the Norwegian State for an amount of NOK 981 million that was paid in February 2005.

Discontinued Operations

As indicated above, the cash flow effect from the agri demerger amounted to NOK 9.6 billion. As part of the demerger, Yara had assumed a liability to pay to Hydro a net interest bearing debt which on completion of the demerger amounted to approximately NOK 7.1 billion. Yara's repayment of this debt resulted from the proceeds of debt financing arranged through financial institutions prior to the consummation of the demerger. In addition, Hydro sold its 20 percent share holding in Yara for NOK 2.6 billion as part of the demerger process.

Liquidity

Cash and cash equivalents were NOK 14.4 billion at the end of 2004 compared to NOK 14.9 billion for 2003. However, following the change in investment policy mentioned above, NOK 9.2 billion of the group's liquidity generated in 2004 was deposited on bank term deposits with maturities beyond 3 months at the end of 2004, and included with other liquid assets on the balance sheet. Including these deposits, Hydro's total cash, cash equivalents and other liquid assets amounted to NOK 25.3 billion at year end 2004 compared with NOK 16.4 billion at year end 2003.

Hydro believes that cash from continuing operations, together with the liquid holdings and available credit facilities will be more than sufficient to meet its planned capital expenditures, operational requirements, dividends and debt repayments in 2005. Hydro's capital expenditures are estimated to be approximately NOK 24 billion (including exploration activities) for 2005.

Short and long-term borrowings

At year-end 2004, short-term bank loans and the current portion of long-term debt in Hydro amounted to NOK 4.4 billion, down from 6.5 billion year-end 2003.

Hydro's long-term interest bearing debt at the end of 2004 was NOK 19.5 billion, a reduction of NOK 8.9 billion from NOK 28.4 billion at the end of 2003. During 2004, a total of NOK 6.7 billion of long-term debt was prepaid and NOK 0.6 billion became current and was reclassified to short-term liabilities. The remaining NOK 1.6 billion of the decline in long-term debt was primarily attributable to a lower USD/NOK exchange rate at year-end 2004 compared to year-end 2003. Hydro repaid maturing loans of NOK 1.2 billion in 2004, and no new loans were issued during the year. As of 31 December 2004 the fair value of Hydro's long-term debt, including the current portion, was NOK 23.6 billion, and the carrying value was NOK 20.1 billion.

As a means of adjusting the debt portfolio following the agri demerger, Hydro prepaid during the year bank debt of SEK 944 million and EUR 51 million and repurchased outstanding bonds of USD 253 million, NOK 473 million, GBP 209 million and EUR 100 million, aggregating to a total extraordinary nominal value debt reduction of NOK 6.7 billion in 2004. Following this debt reduction, more than 80 percent of Hydro's long-term debt was denominated in US dollars at the end of 2004. The weighted average interest rate on all long-term debt was approximately 7.1 percent, and substantially all long-term debt carried fixed interest rates. The average maturity of the Company's outstanding long-term debt was approximately 14.7 years, with approximately 16 percent of the long-term debt falling due within the next five years and the remainder thereafter. (See Note 19 in Notes to the Consolidated Financial Statements for more comprehensive information on the composition of long-term debt).

Substantially all of Hydro's indebtedness is situated in the parent company, Norsk Hydro ASA. In general, the terms of each of the debt agreements and indentures governing the indebtedness contain cross-default provisions under which a default under any other loan, indebtedness or other obligation for borrowed money

on the part of Hydro would trigger a default under that debt agreement or indenture. The cross-default provisions are generally limited to borrowing obligations of Norsk Hydro ASA or any of its "Principal Subsidiaries" (defined to mean a company or other entity (i) which is fully consolidated in the consolidated balance sheet of the Company or in which the Company owns more than 50 percent of the issued share capital, (ii) the gross assets of which represent more than 10 percent of the consolidated gross assets of the Company and its subsidiaries (taken as a whole) and (iii) which is incorporated in the Kingdom of Norway, and require that the indebtedness in default under another agreement or indenture be greater than USD 25 million).

Substantially all of Hydro's debt is unsecured. However, the agreements and indentures contain provisions restricting the pledging of assets in Norsk Hydro ASA to secure future borrowings without granting equivalent status to existing lenders. The debt agreements and indentures contain no financial ratio covenants and no provisions connected to Hydro's credit rating or value of underlying assets. None of the agreements give the lenders a right to put the loan and demand repayment prior to its scheduled maturity. However, certain agreements allow for Hydro's early redemption or repayment of the indebtedness at certain specified premiums, plus accrued and unpaid interest.

At 31 December 2004, Hydro's senior unsecured debt was rated "A2" by Moody's and "A" with negative outlook from Standard & Poors. In determining the rating, the rating agencies have not factored in the Norwegian State's 43.8 percent equity interest in the Company. The factors given significant weight in determining Hydro's current credit rating include: the diversification of the Company's portfolio; the cash flow generated from the oil and gas activities; the strong position in aluminium products; and a sound financial profile. The ratings also, however, reflect the commodity characteristics of most of the Company's products, and consequently, the exposure to market price fluctuations and economic cyclicality. None of the rating agencies changed Hydro's rating as a consequence of the agri demerger.

Net interest bearing debt (short- and long-term interest bearing debt, including the current portion of long-term debt, less cash and cash equivalents and other liquid assets) at the end of 2004 was NOK 1.5 billion negative (i.e. a net cash position), compared to NOK 18.5 billion in net interest bearing debt at the end of 2003. Including net unfunded pension obligations, after tax, and the present value of operating lease obligations, the adjusted net interest-bearing debt divided by adjusted equity was 0.11 by the end of 2004, which was well within the stated target of 0.5. See "Use of Non-GAAP Financial Measures" later in this report for further discussion on adjusted net interest bearing debt and adjusted equity.

As of 31 December 2004, Hydro had unused short-term credit facilities totaling approximately NOK 2.6 billion. The Company also had agreements with banks for committed long-term stand-by credit facilities totaling approximately USD 2 billion (NOK 12.2 billion). Hydro has also entered into a long-term loan facility of EUR 300 million (NOK 2.5 billion) with the European Investment Bank (EIB) in connection with the Ormen Lange & Langeled develop-

ments. There were no borrowings under any of these agreements as of 31 December 2004. Hydro also has in place a shelf registration in the US under which it may raise up to an aggregate of USD 1.5 billion in debt securities. There are no substantial restrictions on the use of borrowed funds under Hydro's material credit and debt facilities except for the EIB facility mentioned above where any drawings are subject to ownership and investments in the Ormen Lange and Langeled projects.

Employee Retirement Plans

Hydro's employee retirement plans consist primarily of defined benefit pension plans. As of 31 December 2004, the projected benefit obligation (PBO) associated with Hydro's defined benefit plans was NOK 25.4 billion. The fair value of pension plan assets was NOK 16.5 billion, resulting in a net unfunded obligation relating to the plans of NOK 8.9 billion. In addition, termination benefit obligations and other pension obligations amounted to NOK 1.2 billion, resulting in a total net unfunded pension obligation of NOK 10.1 billion. Hydro's net pension cost for 2004 amounted to NOK 2.1 billion. Cash outflows from operating activities in 2004 regarding pensions amounted to NOK 1.6 billion. The discount rate used for determining pension obligations and pension cost is based on the yield from a portfolio of long-term corporate bonds having one of the two highest ratings given by a recognized rating agency. Hydro provides defined benefit plans in several countries and in various economic environments that will affect the actual discount rate applied. Almost three-quarters of Hydro's projected benefit obligation relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2004 was 5.25 percent. Measurement of pension cost and obligations under the plans requires a number of assumptions and estimates to be made by management. These include future salary levels, discount rates, turnover rate, years of future service, and rate of return on plan assets.

Contractual Obligations, Commitments and Off Balance Sheet Arrangements

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below. For further details see Notes 7, 19, 22 and 23 in the Notes to the Consolidated Financial Statements.

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Contractual Obligations

| Amounts in NOK million | Payments due by Period | | | | |
|---|------------------------|---------------------|---------------|---------------|-----------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | There- after |
| Long-term debt | 19,952 | 546 | 793 | 1,870 | 16,743 |
| Interest related to long-term debt | 19,896 | 1,382 | 2,652 | 2,548 | 13,314 |
| Finance lease obligations | 103 | 22 | 34 | 6 | 41 |
| Operating lease obligations | 4,736 | 1,171 | 1,561 | 1,011 | 993 |
| Unconditional purchase obligations | 47,523 | 5,271 | 7,962 | 6,159 | 28,131 |
| Contractual commitments for: | | | | | |
| PP&E | 20,499 | 8,254 | 7,483 | 1,080 | 3,682 |
| Other future investments | 342 | 325 | 17 | - | - |
| Benefit payments unfunded defined benefit plans | 1,582 | 275 | 613 | 694 | See 1) |
| Termination benefits | 720 | 220 | 296 | 172 | 32 |
| Other long-term liabilities | 1,489 | 344 | 726 | 304 | 115 |
| Total contractual cash obligations | | 17,810 | 22,137 | 13,844 | 63,051 |

1) Annual payments are expected to continue into the foreseeable future in the range of NOK 400 to 500 million.

The Company also has other obligations connected with pension plans that are not contractually fixed to timing and amount.

In addition, Hydro is contingently liable for guarantees made directly by the parent company or made on behalf of subsidiaries in the normal course of business (see note 22 to the Consolidated Financial Statements). Hydro grants guarantees at market based fees to enable subsidiary companies to obtain credit or engage in contracts of a greater magnitude than would otherwise be possible without such guarantees. Hydro makes such guarantees to facilitate transactions, which are considered necessary to reach its business objectives.

The following describes guarantees outstanding as of 31 December 2004:

Hydro has guaranteed NOK 86 million of debt issued on behalf of non-consolidated investees and is contingently liable for NOK 92 million of discounted bills.

Hydro is also contingently liable to various tax authorities for NOK 1,354 million relating to the non-taxable treatment of gains on internal sales of non-current assets and subsidiaries. Gains on such sales could become taxable if certain assets were sold outside the Group. Hydro controls whether such assets are offered for sale outside of the Group.

Guarantees in connection with the sale or divestment of companies amounted to NOK 8,200 million. The amount reflects the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. Hydro has, in addition to this amount, certain guarantees relating to sales or divestment of companies that are unspecified in amount. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote. Historically, we have not made any significant indemnification payments under such guarantees and no amount has been accrued in the accompanying Consolidated Financial Statements.

In addition to guarantees relating to the sale or divestment of companies, Hydro has guaranteed certain recoverable reserves of crude oil in the Veslefrikk field as part of an asset exchange between Hydro and Petro Canada. In 1996, Hydro entered into a strategic alliance with Petro-Canada that entailed a swap of certain Hydro interests in licenses on the NCS in exchange for the right to participate in oil production from proven fields and explore for further oil discoveries on the Grand Bank.

Under the guarantee, Hydro is obligated to deliver indemnity reserves to Petro Canada in the event that recoverable reserves are evaluated to be lower than a specified amount. An evaluation of the recoverable reserves was completed in 2002 in accordance with the agreement which resulted in compensation by Hydro to Petro Canada. The agreement with Petro Canada was renegotiated in 2002 with the possibility of making a new evaluation of the reserves in 2008, 2014 and the end of the field's productive lifetime. The agreement includes the possibility of recovery by Hydro of earlier compensation if new evaluations indicate improvements in the estimated recoverability. The guarantee is not applicable in cases of force majeure, the failure of the field operator to comply with appropriate field practices and other instances. As of 31 December 2004, the remaining volume covered under the guarantee was 1.02 million Sm³ of crude oil, equivalent to approximately NOK 1,569 million calculated at current market prices.

Outstanding commercial guarantees made on behalf of subsidiaries amounted to NOK 9,390 million. Such guarantees include advance payment guarantees, bid bonds, performance bonds, stand-by letters of credit and payment guarantees. Certain of these guarantees are obtained from external banks and covered by Hydro by a counter indemnity to such banks. Hydro's contingent liability relating to commercial guarantees is linked to the performance of its subsidiaries under various contracts. However, a certain portion of the guarantees are payable on demand. Therefore, there is a certain amount of litigation risk in the event of unfair calls relating to such guarantees.

Because the payment of commercial guarantees is related to events directly or indirectly controlled by Hydro, the Company considers its risk related to such instruments to be limited. As a result, these guarantees do not pose material risk to the Company's future liquidity, capital resources and results of operations. Since Hydro is, in effect, guaranteeing its own performance relating to commercial guarantees, they are not considered off balance sheet arrangements as defined by SEC regulations.

None of the contingent amounts described above are recorded on the balance sheet as of 31 December 2004.

Minority interest and Shareholders' equity

Minority interest was NOK 1,571 million as of 31 December 2004 compared to NOK 660 million for the prior year. The increase resulted from the consolidation of Solvalco amounting to approximately NOK 1,026 million offset by approximately NOK 96 million relating to the demerged Agri operations. Shareholders' equity was NOK 85,890 million at the end of 2004, a decrease of NOK 2,190 million. In addition to net income, the main items impacting shareholders equity included dividends, purchases of treasury stock, redemption of shares from the Norwegian state, foreign currency translation losses and a reduction related to the demerged Agri operations. See note 3 to the Consolidated Financial Statements for a detailed reconciliation of shareholders' equity.

Investments

Investments in 2004 amounted to NOK 19.5 billion. The amount contains certain items that have no cash effect in the near term. The most significant of these include NOK 1,275 million relating to the consolidation of the aluminium producer Slovalco and NOK 922 million relating to future assets retirement obligations for oil and gas installations. Excluding these items, investments were approximately NOK 17 billion for 2004. Just over half of the investment amount related to oil and gas operations.

The largest investments for Exploration and Production related to new and existing fields; of which Snøhvit (Hydro's share in Snøhvit was sold to Statoil and the sale was settled in December 2004), Kristin, Ormen Lange and Dalia were the most important. For Energy and Oil Marketing, the most important investment in 2004 was related to the Langeled project. The major investments in Aluminium Metals in 2004 included the expansion activities in

Sunnadal, Norway, where the third and final phase was completed, and in Alouette in Canada. Investments in Rolled Products related primarily to the construction of a Lithographic line in Germany. Investments in Extrusion and Automotive continued for the construction of a new casting line in Dillingen in Germany. Investments for Other activities relates primarily to the construction of a new chlorine plant at Rafnes in Norway which was started in 2003.

Investments in Exploration and Production in 2003 were NOK 10,270 million. The largest investments for Exploration and Production related to new and existing fields, of which Grane, Kristin and Snøhvit were the most important. The major investments in Aluminium Metals in 2003 included the expansion activities pertaining to the smelters in Sunndal, Norway, where phase II was completed and phase III is under construction, and in Alouette in Canada. An expansion of the alumina refinery, Alunorte, in Brazil was also completed during the year. The investments in Extrusion and Automotive related to the construction of a new casting line in Dillingen in Germany.

Investments in Exploration and Production in 2002 were NOK 14,073 million. The purchase of assets from SDFI and investments related to new and existing fields, mainly the development of the Grane field, were the most important investment projects for Exploration and Production in 2002. The largest investments for Hydro Aluminium included the VAW acquisition, the acquisition of Technal and the expansion activities relating to the aluminium smelter in Sunndal, Norway and the alumina refinery Alunorte, in Brazil.

Material commitments for capital expenditures

Contractual commitments for investments in property, plant and equipment relating to land-based activities and oil and gas field activities and transport systems at the end of 2004 were NOK 986 million and NOK 19,513 million, respectively. The total amount of NOK 20,499 million is included in the contractual obligations table

Investments ¹⁾

| Amounts in NOK million | 2004 ²⁾ | % | 2003 ³⁾ | % | 2002 | % |
|----------------------------|--------------------|-----|--------------------|-----|--------|-----|
| Exploration and Production | 10,607 | 54 | 10,270 | 58 | 14,073 | 32 |
| Energy and Oil Marketing | 1,460 | 8 | 989 | 6 | 622 | 1 |
| Eliminations | - | - | - | - | - | - |
| Hydro Oil & Energy | 12,067 | 62 | 11,259 | 64 | 14,696 | 33 |
| Metals | 4,199 | 22 | 3,572 | 20 | 12,728 | 29 |
| Rolled Products | 553 | 3 | 466 | 3 | 7,437 | 17 |
| Extrusion and Automotive | 1,442 | 7 | 1,543 | 9 | 5,153 | 12 |
| Other and eliminations | - | - | - | - | - | - |
| Hydro Aluminium | 6,194 | 32 | 5,581 | 32 | 25,318 | 57 |
| Other Activities | 1,058 | 5 | 791 | 4 | 3,008 | 7 |
| Corporate and eliminations | 145 | 1 | 81 | 0 | 1,144 | 3 |
| Total | 19,464 | 100 | 17,712 | 100 | 44,166 | 100 |

1) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in non-consolidated investees.

2) Includes effect of change in accounting principle (FIN 46R). Non-cash increase in investment of NOK 1,275 million.

3) Includes non-cash increase in investment from effect of change in accounting principle (FAS143), of NOK 1,918 million.

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above in Contractual commitments for PP&E. Additional authorized future investments representing projects formally approved by the Board of Directors or management were NOK 1,306 million relating to land-based activities and NOK 326 million relating to oil and gas field activities and transport systems.

Hydro's long-term committed stand-by facilities of approximately USD 2 billion, the EUR 300 million loan facility with EIB in connection with the Ormen Lange/Langede developments, as well as cash holdings and expected cash flow from operations, are expected to provide sufficient reserves to fund these expenditures. In addition, the company's A/A2 rating (investment grade) ensures adequate access to the global capital markets for raising additional liquidity, if needed.

Research and development

Hydro engages in research and development (R&D) in order to maintain its competitive position and to develop new products and processes. Hydro spent approximately NOK 760 million, NOK 722 million and NOK 639 million during 2004, 2003, and 2002 respectively, on such activities. As part of its R&D activities, Hydro continues to focus on ecological issues including life cycle analyses and energy efficiency studies relating to products produced by the Company.

Hydro maintains major research centers in Porsgrunn and Bergen in Norway, with a combined staff of 320 as well as smaller research groups in several other locations. The Bergen facility, with a staff of 158 people, is dedicated to the Group's oil and gas activities. Research centers for Hydro Aluminium are located in Karmøy, Årdal, Raufoss Sunndal and Porsgrunn in Norway; in Bonn and Ulm in Germany; in Tønder, Denmark and in Michigan, US.

The following highlights major contributors to total R&D costs incurred in 2004.

Hydro Oil and Energy incurred R&D costs in 2004 totaling approximately NOK 223 million compared to NOK 194 million in the previous year. R&D expenditures in 2004 were primarily dedicated to

- increased discovery rate through improved exploration technology,
- increased oil recovery in order to prolong the production from mature fields,
- economic viable development of smaller fields and,
- further improvement of health, safety and environmental technology to insure personnel and technical safety as well as protecting the external environment.

Power generation with CO₂ capture and storage, hydrogen as future energy carrier and, renewable energy, were also part of Hydro Oil and Energy's R&D programs in 2004, aimed at achieving a cleaner and more efficient production.

Hydro Aluminium's R&D is oriented toward the core activities of its business. Hydro Aluminium incurred a total of NOK 494 million in 2004 in R&D cost compared with NOK 459 million in R&D costs in 2003. Metals, Extrusion and Automotive, and Rolled Products

incurred NOK 213 million (NOK 168 million in 2003), NOK 220 million (NOK 240 million) and NOK 61 million (NOK 51 million), respectively R&D activities serve to continuously improve products and manufacturing processes, as well as to develop innovative technologies and new applications. The work focuses also on securing the continued progress of aluminium as a competitive and environmentally sound material.

R&D expenditures were mainly dedicated to developing technologies for production of primary metal, extrusion, rolling and casting. In addition, the work covers development of new aluminium and magnesium alloys, and development of semi-fabricated and finished products. Hydro Aluminium's R&D organization consists of an international network covering Europe, North America and Asia.

Risk management

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is consequently placed within the Company's business areas and its corporate finance function, all having policies and procedures in place for monitoring risks, assessing appropriate risk levels, and mitigating risk. Overall and aggregated risk positions are also assessed at the Company level, most notably in the following categories:

- Business Strategy and Management – including events that may impact the Company's reputation and brand
- Financial Risks – including events that may have an impact on the adjusted net debt/equity ratio, liquidity and credit rating
- Commercial Risks – mainly comprising fluctuations in commodity prices, currencies and interest rates
- Operational and Human Resource Risks – comprising technical risk, continuity risk and risks related to non-performance of employees
- Health, Security, Safety, Environmental issues and potential impact on communities
- Information Systems – comprising elements such as poor data quality and consistency, loss of systems and data, inadequate administration of access to systems and malicious attacks.
- Legal and Regulatory – comprising elements such as business exposure to new regulation including tax, illegal acts, regulatory non-compliance and unauthorized actions.

The following discussion provides additional detail regarding Hydro's exposure to financial and commercial risks with a focus on commodity prices, foreign exchange rates and interest rates.

Hydro's operating results are primarily affected by price developments of Hydro's main products oil and aluminium, in addition to foreign currency fluctuation of the most significant currency, the US dollar, against the Norwegian krone. An indication of the sensitivity regarding prices and foreign currency fluctuation for 2005 is provided below. The table illustrates the sensitivity of earnings, before and after tax, to changes in these factors and is provided to sup-

plement the sensitivity analysis required by the SEC, included later in this section.

Indicative price and currency sensitivities 2005 ¹⁾

| Amounts in NOK million | Pre tax | After tax | Change |
|---|---------|-----------|---------|
| Oil price per barrel | 1,150 | 310 | 1 USD |
| Aluminium price per tonne | 800 | 560 | 100 USD |
| US dollar Hydro Oil & Energy | 7,250 | 1,960 | 1 NOK |
| US dollar Hydro Aluminium | 2,500 | 1,750 | 1 NOK |
| US dollar before financial items | 9,750 | 3,710 | 1 NOK |
| US dollar financial items ²⁾ | (3,100) | (1,705) | 1 NOK |
| US dollar Net income | 6,650 | 2,005 | 1 NOK |

1) Based on average 2004 prices and expected business volumes for 2005: Oil 38 US dollar/bbl, Aluminium 1,700 US dollar/tonne and Norwegian krone/US dollar 6.5.

2) US dollar sensitivity calculated based on long-term debt denominated in US dollar and net US dollar amounts sold forward on long-term forward currency contracts. Cash positions denominated in US dollar, short-term debt denominated in US dollar and net US dollar amounts sold forward on short-term forward currency contracts are excluded.

In addition to the above sensitivities, the revaluation of derivative instruments and contracts classified as derivatives may influence reported earnings, as described in more detail in the following paragraphs.

Financial and Commercial Risk Management

The overall objective of financial and commercial risk management is to safeguard Hydro's ability to continuously meet its cash commitments and maintain a strong financial position. This includes identifying and monitoring the Company's main risk exposures, quantifying the potential impact on key financial ratios and proposing corrective actions when deemed appropriate. Shortfalls in operational cash flow due to unfavorable developments in prices of main products, raw materials and/or exchange rates could substantially impact Hydro's financial position. Cash commitments are risk evaluated against cash flow from operations. Probabilities of not meeting set financial targets, such as maintaining the adjusted net debt/equity ratio target of 0.5, are monitored. Simulations of cash flow scenarios, using a 5-year rolling horizon, are carried out for this purpose. The outcome of this analysis is reported to management on a quarterly basis.

Mitigating financial and commercial risk exposures through the use of derivative instruments is done only to some extent. For this purpose, Hydro utilizes financial derivatives as well as commodity derivatives. The most common use of financial and exchange traded commodity derivatives relates to hedging of currency, and aluminium as part of the Company's day-to-day aluminium operations.

For accounting purposes, unless otherwise indicated below, derivative financial and commodity instruments are recognized at fair value with changes in the fair value impacting earnings. Hedge accounting, as allowed by Statement of Financial Accounting Stan-

dards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities", is used to a limited extent, and only when specific hedge criteria are met. This can result in volatility in earnings since the associated gain or loss on the related physical transactions may be reported in earnings in different periods.

Commodity price risk

A substantial portion of Hydro's revenues is derived from the sale of commodities such as crude oil and aluminium. Hydro also produces, purchases and sells natural gas, electricity and petrochemical products. The prices of these commodities can be volatile, creating fluctuations in Hydro's earnings. Natural hedging positions are established to the extent possible and economically viable. However derivatives are used in special situations to mitigate price movements and to participate in limited speculative trading within strict guidelines defined by management.

Oil

Hydro produces and sells crude oil and gas liquids. Hydro utilizes futures and swaps to mitigate unwanted price exposure for a limited portion of its crude oil production. From time to time financial options are used for the same purpose. In the first half of 2003 Hydro had in place a hedging program using average rate put options (Asian options) with the right to sell 10 million barrels of oil for an average strike price of US dollar 17 per barrel. At the end of 2004 Hydro had no significant hedging in place for the purpose of protecting against the risk of low oil prices.

Natural gas

Hydro is a producer, buyer, seller, and to a limited extent consumer of natural gas. The majority of Hydro's equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil product prices. Hydro utilizes on a limited basis instruments such as forwards and swaps to mitigate unwanted price exposures on the portion of the natural gas portfolio not sold on long-term contracts. Hydro is also participating in trading activities based on partly own gas production and partly externally sourced gas volumes. In addition, Hydro engages in limited speculative trading.

An increasing number of the Company's sales and purchase contracts related to natural gas are being classified as derivatives or deemed to contain embedded derivatives according to SFAS 133. These contracts are marked to their market value with changes to market value recognized in operating income. Gas contracts can be indexed to oil products or quoted gas prices at recognized gas delivering points such as National Balancing Point (NBP) in Great Britain, Zeebrugge Hub (ZB) in Belgium or the Dutch Title Transfer Facility (TTF). The discussion on Hydro's Critical Accounting Policies included above provides more detail on the accounting treatment of these contracts and how they are valued. These derivative contracts are not fully hedged with other natural gas derivatives. As such Hydro expects to have certain open derivative positions at any time, which can result in fluctuations in earnings. The magnitude of the unrealized gains and losses on these

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contracts will be influenced by geographic price differentials and spreads on the above mentioned gas contract indices.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term purchase contracts with other producers and suppliers to secure electricity in the market for Hydro's own consumption and delivery commitments. In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volume, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange ("Nord Pool"). Hydro is also offering power portfolio management services to third party clients and participates in limited speculative trading.

Aluminium

Hydro produces primary aluminium and fabricated aluminium products. The Company's sourcing and trading activities procures raw materials and primary aluminium for use in Hydro's smelters or in downstream operations. These materials are also sold directly to third parties. In addition, the trading activities contribute to optimize capacity utilization and to reduce logistical costs, as well as strengthening market positions by providing customers with flexibility in pricing and sourcing. Hydro has considerable activities relating to remelting and long-term commercial agreements to secure sourcing of casthouse products. All these activities are considered when evaluating the risk profile of Hydro's aluminium activities.

Hydro enters into future contracts with the LME with the following purposes. The first is to achieve an average aluminium price on smelter production. Secondly, because the Company's midstream and downstream business, and the sale of third party products, are margin businesses, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding future contracts at fixed prices (back-to-back hedging). The third is to hedge raw material contracts. The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking LME positions based upon net exposures. These contracts are intended as an economic hedge of sales and purchases of aluminium or purchases of raw materials. Because the related sales or purchases transactions with customers or vendors have not been completed, i.e. normally delivery has not taken place, Hydro is not able to recognize an unrealized offsetting earnings effects which these transactions are likely to have against the unrealized earnings effects on the LME positions. Aluminium price volatility can consequently result in significant fluctuations in earnings since only the LME positions are marked to their market value with changes to market value recognized in operating income.

The expansion project at the Sunndal metal plant increased Hydro's exposure to commodity prices and foreign currency exchange rates. Hydro has entered into short positions using LME

future contracts and US dollar forward contracts to secure an average aluminium price of approximately NOK 14,000 per tonne of a portion of the forecasted sales of primary metal production per year until the end of 2007. This hedging strategy meets certain hedging criteria in accordance with SFAS 133, and has therefore been designated as a cash flow hedge.

Foreign currency exchange rate risk

Prices of many of Hydro's most important products, mainly crude oil, aluminium and natural gas are either denominated in US dollar or are influenced by movements in the value of other currencies against the US dollar.

The cost of raw materials, including natural gas, Natural gas liquids (NGLs) and alumina, are affected by the US dollar price of crude oil or the US dollar price of aluminium, and variations in the US dollar exchange rates against local currencies. Hydro's primary foreign currency risk is therefore linked to fluctuations in the value of the US dollar. Hydro also incurs costs related to production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian krone, US dollar, Canadian dollar, Australian dollar, British Pounds and Swedish krone. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian krone for subsidiaries outside of Norway can influence comparative results of operations.

Normally, Hydro's operating income will increase when the US dollar appreciates against European currencies and decline when the value of the US dollar falls. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars (as of 31 December 2004, approximately 80 percent of Hydro's long-term debt was denominated in US dollars). When the US dollar weakens, the decline in operating income is offset by unrealized currency gains and lower interest expense relating to the US dollar denominated debt. Conversely, a stronger US dollar improves operating income but also results in unrealized currency losses and higher interest expense.

Hydro also employs foreign currency swaps and forward currency contracts to modify the currency exposures for Hydro's long-term debt portfolio. Forward currency contracts are entered into to safeguard cash flows for forecasted future transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

As of 1 January 2005 Hydro no longer designates portions of its long-term debt and certain forward currency contracts as hedges of net investments in foreign subsidiary companies. Changes to the Company's long-term debt portfolio and to the Company's structure during the recent years has rendered these accounting hedges less material to earnings and Shareholders' equity.

Interest rate risk

Hydro is exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund its business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its

total interest-bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure.

Credit risk

Setting counterparty risk limits, requiring insurance, and establishing procedures for monitoring exposures and settlement of accounts limits Hydro's credit risk. The Company's overall credit risk level is also reduced through a diversified customer base representing various industries and geographic areas. Follow-up of timely payments of accounts receivables is given high priority in the Company.

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is substantially limited since most instruments are settled through commodity exchanges. Therefore, counter party risk related to use of derivative instruments and financial operations is regarded as limited.

Sensitivity analysis

In accordance with applicable requirements of the US Securities and Exchange Commission (SEC), Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments and derivative commodity instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the tables below reflects the hypothetical loss in fair values assuming a 10 percent change in rates or prices and no changes in the portfolio of instruments as of 31 December 2004 and 31 December 2003, respectively.

The overall use of derivatives has remained stable from 2003 to 2004. Certain natural gas contracts that were not classified as derivatives at end of 2003 have over the course of the year been classified as derivatives or deemed to contain embedded derivatives. This accounts for the increased sensitivity to changes in commodity prices and foreign currency exchange rates for derivative commodity instruments. The fair value of other financial instruments has increased compared to 2003, as a consequence of repayment of debt during 2004 and higher cash positions at the end of 2004. Consequently the sensitivity related to changes in interest rates and foreign currency exchange rates has been reduced for other financial instruments.

Hydro's management emphasizes that the sensitivity analysis contains material limitations. This is due to the arbitrary nature of assumptions involved as well as the inability of such a simple analysis to model reality and continuous changes to Hydro's portfolio. The most significant limitations on the figures provided are as follows:

- The tables only include the effects of the derivative instruments discussed above and of certain financial instruments (see Footnote 3). The analysis does not include any related physical positions, contracts, and anticipated transactions that many of the derivative instruments are meant to secure. A rate or price change of 10 percent will often result in a corresponding effect to the fair value of the physical or underlying position such that the resulting gains and losses would offset.
- As allowed by the SEC regulations, Hydro has excluded accounts payable and accounts receivable from the presentation, which may have had a significant effect on the foreign exchange risk figures provided.
- The computations, which provide the most negative effect to Hydro of either a 10 percent increase or decrease in each rate or price, do not take into account correlations, which would be expected to occur between the risk exposure categories. For example, the effect that a change in a foreign exchange rate may have on a commodity price is not reflected in the tables.
- It is not likely that all rates or prices would simultaneously move in directions that would have negative effects on Hydro's portfolio of instruments.

The above discussion about Hydro's risk management policies and the estimated amounts generated from the sensitivity analyses are "forward-looking statements" that involve risks and uncertainties. Actual results could differ materially from those projected due to actual developments in the global markets. The methods used by Hydro to analyze risks discussed above should not be considered projections of future events, gains or losses.

Financial review

As of 31 December 2004 Hypothetical loss from +/- 10% change in:

| Amounts in NOK million (unaudited) | Fair value as of 31 December 2004 ¹⁾ | Interest rates | Foreign currency exchange rates | Commodity prices | Volatility | Other |
|--|--|-------------------|------------------------------------|---------------------|------------|-------|
| Derivative financial instruments ²⁾ | 2,115 | 8 | 827 | - | - | - |
| Other financial instruments ³⁾ | 1,825 | 1,136 | 1,442 | - | - | 182 |
| Derivative commodity instruments | (130) | - | 325 | 695 | (29) | - |

As of 31 December 2003 Hypothetical loss from +/- 10% change in:

| Amounts in NOK million (unaudited) | Fair value as of 31 December 2003 ¹⁾ | Interest rates | Foreign currency exchange rates | Commodity prices | Volatility | Other |
|--|--|-------------------|------------------------------------|---------------------|------------|-------|
| Derivative financial instruments ²⁾ | 2,410 | 30 | 823 | - | - | - |
| Other financial instruments ³⁾ | (19,880) | 1,870 | 2,261 | - | - | 57 |
| Derivative commodity instruments | 719 | 3 | 79 | 264 | - | - |

- 1) The change in fair value due to price changes is calculated based on upon pricing formulas for certain derivatives, the Black-Scholes model for options and the net present value of cash flows for certain financial instruments or derivatives. Discount rates vary as appropriate for the individual instruments.
- 2) Include mainly forward currency contracts and currency swaps.
- 3) Include cash and cash equivalents, investments in marketable securities, bank loans and other interest-bearing short-term debt and long-term debt. A substantial portion of the hypothetical loss in fair value for changes in interest rates relates to Hydro's long-term fixed rate debt. As Hydro expects to hold this debt until maturity, changes in the fair value of debt would only impact earnings over time as interest payments fall due.

Norsk Hydro ASA and subsidiaries

Consolidated income statements US GAAP

| Year ended 31 December | | 2004 | 2004 | 2003 | 2002 |
|--|-----------|----------|-------------------|----------|----------|
| Amounts in million (except per share amounts) | Notes | NOK | EUR ¹⁾ | NOK | NOK |
| Operating revenues | 5 | 155,425 | 18,883 | 133,761 | 134,093 |
| Raw materials and energy costs | | 83,011 | 10,086 | 74,442 | 80,868 |
| Payroll and related costs | 7, 20 | 18,830 | 2,288 | 18,569 | 17,412 |
| Depreciation, depletion and amortization | 5, 15, 16 | 16,898 | 2,053 | 13,947 | 12,729 |
| Other | 7, 25 | 4,861 | 591 | 5,178 | 5,427 |
| Restructuring costs | 6 | (22) | (3) | - | (10) |
| Operating costs and expenses | | 123,578 | 15,015 | 112,136 | 116,426 |
| Operating income | 5 | 31,847 | 3,868 | 21,625 | 17,667 |
| Equity in net income of non-consolidated investees | 5, 13 | 628 | 76 | 620 | (24) |
| Financial income (expense), net | 8, 11, 24 | 136 | 17 | 154 | 1,806 |
| Other income, net | 5, 9 | 169 | 21 | (1,253) | 77 |
| Income from continuing operations before taxes and minority interest | | 32,780 | 3,982 | 21,146 | 19,526 |
| Income tax expense | 10 | (21,197) | (2,575) | (12,922) | (12,452) |
| Minority interest | | (106) | (13) | 151 | 26 |
| Income from continuing operations before cumulative effect of change in accounting principle | | 11,477 | 1,394 | 8,375 | 7,100 |
| Income from discontinued operations | 2 | 1,083 | 132 | 2,312 | 1,665 |
| Income before cumulative effect of change in accounting principle | | 12,560 | 1,526 | 10,687 | 8,765 |
| Cumulative effect of change in accounting principle | | - | - | 281 | - |
| Net income | 28 | 12,560 | 1,526 | 10,968 | 8,765 |
| Basic and diluted earnings per share from continuing operations before cumulative effect of change in accounting principle | 3 | 45.10 | 5.48 | 32.50 | 27.50 |
| Basic and diluted earnings per share from discontinued operations | 3 | 4.20 | 0.51 | 9.00 | 6.50 |
| Basic and diluted earnings per share before cumulative effect of change in accounting principle | 3 | 49.40 | 6.00 | 41.50 | 34.00 |
| Basic and diluted earnings per share | 3 | 49.40 | 6.00 | 42.60 | 34.00 |

Consolidated statements of comprehensive income ²⁾

| | | | | | |
|---|---|---------|-------|--------|---------|
| Net income | | 12,560 | 1,526 | 10,968 | 8,765 |
| Net unrealized gain (loss) | | | | | |
| on securities available-for-sale | 3 | (2) | - | - | (31) |
| Minimum pension liability adjustment | 3 | (132) | (16) | (113) | (323) |
| Net investment hedge | 3 | 320 | 39 | (333) | 1,333 |
| Cash flow hedges | 3 | (339) | (41) | 35 | 979 |
| Net foreign currency translation adjustments | 3 | (1,628) | (198) | 4,856 | (7,207) |
| Total other comprehensive income (loss), net of tax | 3 | (1,781) | (216) | 4,445 | (5,249) |
| Comprehensive income, net of tax | | 10,779 | 1,310 | 15,413 | 3,516 |

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2004, which was 8.2307 (unaudited)

2) Comprehensive income includes net income together with other changes not related to investments by and distribution to shareholders. (See Note 3)
The accompanying notes are an integral part of these consolidated financial statements.

Norsk Hydro ASA and subsidiaries

Consolidated balance sheets US GAAP

| 31 December | 2004 | 2004 | 2003 | | | | |
|--|------------|------|------|-------|-------------|-------------------|-------------|
| Amounts in million | | | | Notes | NOK | EUR ¹⁾ | NOK |
| Assets | | | | | | | |
| Cash and cash equivalents | | | | | 14,366 | 1,745 | 14,873 |
| Other liquid assets | 11 | | | | 10,970 | 1,333 | 1,553 |
| Accounts receivable, less allowances of 891 and 922 | | | | | 20,671 | 2,512 | 20,550 |
| Inventories | 12 | | | | 12,851 | 1,561 | 12,024 |
| Prepaid expenses and other current assets | 12 | | | | 10,478 | 1,273 | 11,797 |
| Current deferred tax assets | 10 | | | | 1,070 | 130 | 1,097 |
| Current assets discontinued operations | 2 | | | | - | - | 13,789 |
| Current assets | 5 | | | | 70,406 | 8,554 | 75,683 |
| Non-consolidated investees | 13 | | | | 10,017 | 1,217 | 10,162 |
| Property, plant and equipment, less accumulated depreciation, depletion and amortization | 15 | | | | 106,117 | 12,893 | 107,779 |
| Prepaid pension, investments and other non-current assets | 14, 16, 20 | | | | 13,039 | 1,584 | 13,114 |
| Deferred tax assets | 10 | | | | 664 | 81 | 114 |
| Non-current assets discontinued operations | 2 | | | | - | - | 11,777 |
| Non-current assets | 5 | | | | 129,837 | 15,775 | 142,946 |
| Total assets | 5 | | | | 200,243 | 24,329 | 218,629 |
| Liabilities and shareholders' equity | | | | | | | |
| Bank loans and other interest-bearing short-term debt | 17 | | | | 3,785 | 460 | 5,273 |
| Current portion of long-term debt | 19 | | | | 568 | 69 | 1,212 |
| Other current liabilities | 18 | | | | 41,340 | 5,022 | 37,198 |
| Current deferred tax liabilities | 10 | | | | 384 | 47 | 527 |
| Current liabilities discontinued operations | 2 | | | | - | - | 6,129 |
| Current liabilities | | | | | 46,077 | 5,598 | 50,339 |
| Long-term debt | 19 | | | | 19,487 | 2,368 | 28,403 |
| Accrued pension liabilities | 20 | | | | 8,569 | 1,041 | 7,774 |
| Other long-term liabilities | 21 | | | | 9,134 | 1,110 | 7,513 |
| Deferred tax liabilities | 10 | | | | 29,515 | 3,586 | 32,796 |
| Long-term liabilities discontinued operations | 2 | | | | - | - | 3,064 |
| Long-term liabilities | | | | | 66,705 | 8,105 | 79,550 |
| Minority interest | | | | | 1,571 | 191 | 564 |
| Minority interest discontinued operations | 2 | | | | - | - | 96 |
| Minority shareholders' interest in consolidated subsidiaries | | | | | 1,571 | 191 | 660 |
| Share capital | 3 | | | | 4,739 | 576 | 5,332 |
| Additional paid-in capital | 3 | | | | 10,467 | 1,272 | 15,071 |
| Retained earnings | 3 | | | | 75,310 | 9,149 | 71,516 |
| -Treasury stock | 3 | | | | (3,069) | (373) | (3,523) |
| Accumulated other comprehensive income (loss) | 3 | | | | (1,557) | (189) | (316) |
| Shareholders' equity | 3, 28 | | | | 85,890 | 10,435 | 88,080 |
| Total liabilities and shareholders' equity | | | | | 200,243 | 24,329 | 218,629 |
| Total number of outstanding shares. | | | | | 250,839,230 | 250,839,230 | 256,712,000 |
| Nominal value per share. | | | | | 18.30 | 2.22 | 20.00 |

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2004, which was 8.2307 (unaudited)

The accompanying notes are an integral part of the consolidated financial statements.

Norsk Hydro ASA and subsidiaries

US GAAP and N GAAP ¹⁾

Consolidated statements of cash flows

| Year ended 31 December | | 2004 | 2004 | 2003 | 2002 |
|---|-------|---------------------|---------|---------------------|----------|
| Amounts in NOK million | Notes | NOK | EUR *) | NOK | NOK |
| Operating activities: | | | | | |
| Net income | | 12,560 | 1,526 | 10,968 | 8,765 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | |
| Income from discontinued operations | 2 | (1,083) | (132) | (2,312) | (1,665) |
| Depreciation, depletion and amortization | 5 | 16,898 | 2,053 | 13,947 | 12,729 |
| Restructuring costs | 6 | (22) | (3) | - | (10) |
| Equity in net income of non-consolidated investees | 5, 13 | (628) | (76) | (620) | 24 |
| Dividends received from non-consolidated investees | | 326 | 40 | 258 | 208 |
| Deferred taxes | 10 | (2,945) | (358) | (1,585) | (616) |
| Loss (gain) on sale of non-current assets | | 39 | 5 | (726) | 1,117 |
| Gain on foreign currency transactions | 8 | (1,350) | (164) | (1,035) | (3,262) |
| Net sales (purchases) of trading securities | | (177) | (22) | 245 | 616 |
| Other | | 779 | 95 | 2,150 ⁴⁾ | 394 |
| Working capital changes that provided (used) cash: | | | | | |
| Receivables | | (1,117) | (136) | (576) | (1,088) |
| Inventories | | (1,040) | (126) | 453 | 1,448 |
| Prepaid expenses and other current assets | | 1,798 | 218 | 2,251 | (1,530) |
| Other current liabilities | | 3,686 | 448 | (645) | 1,950 |
| Net cash provided by operating activities | | 27,724 | 3,368 | 22,773 | 19,080 |
| Investing activities: | | | | | |
| Purchases of property, plant and equipment | | (16,187) | (1,967) | (14,537) | (18,439) |
| Purchases of other long-term investments | | (858) | (104) | (684) | (17,575) |
| Purchases of short-term investments | | (9,166) | (1,113) | (702) | (1,691) |
| Proceeds from sales of property, plant and equipment | | 837 ²⁾ | 102 | 647 | 684 |
| Proceeds from sales of other long-term investments | | 1,400 | 170 | 6,384 | 971 |
| Proceeds from sales of short-term investments | | 12 | 1 | 1,838 | 558 |
| Net cash used in investing activities | | (23,962) | (2,911) | (7,054) | (35,492) |
| Financing activities: | | | | | |
| Loan proceeds | | 143 | 18 | 264 | 592 |
| Principal repayments | | (9,271) | (1,126) | (5,167) | (4,012) |
| Ordinary shares purchased | 3 | (1,684) | (205) | (555) | - |
| Ordinary shares issued | | 44 | 5 | 77 | 70 |
| Dividends paid | 3 | (2,811) | (342) | (2,711) | (2,576) |
| Net cash used in financing activities | | (13,579) | (1,650) | (8,092) | (5,926) |
| Foreign currency effects on cash | | (264) | (32) | 702 | (421) |
| Net cash provided by discontinued operations | 2 | 9,574 | 1,163 | 997 | 2,018 |
| Net increase (decrease) in cash and cash equivalents | | (507) | (62) | 9,326 | (20,741) |
| Cash and cash equivalents at beginning of year | | 14,873 | 1,807 | 5,547 | 26,288 |
| Cash and cash equivalents at end of year | | 14,366 | 1,745 | 14,873 | 5,547 |
| Cash disbursements were made for: | | | | | |
| Interest (net of amount capitalized) | | 1,701 ³⁾ | 207 | 1,190 | 1,464 |
| Income taxes | | 19,758 | 2,401 | 16,011 | 13,758 |

*) Presentation in euro is a convenience translation based on the exchange rate at 31 December 2004, which was 8.2307 (unaudited).

1) There are no material difference between consolidated statements of cash flows according to US GAAP and Norwegian accounting principles (N GAAP)

2) In January 2005, Hydro received approximately NOK 1.1 billion relating to the sale of its 10% ownership interest in Snøhvit in 2004, and that was reported as a shortterm receivable within Other current assets as of 31 December 2004.

3) Includes cash disbursements relating to early repayment of long term debt ("breaking costs") of NOK 938 million.

4) Includes non-cash charge relating to an expected state grant pertaining to an asset retirement obligation of NOK 2,207 million.

The accompanying notes are an integral part of the consolidated financial statements.

Norsk Hydro ASA and subsidiaries

Consolidated income statement N GAAP

Year ended 31 December

Amounts in NOK million

| | Notes | 2004 | 2003 | 2002 |
|--|-----------|-----------------|----------|----------|
| Operating revenues | 5 | 154,646 | 133,761 | 134,102 |
| Raw materials and energy costs | | 83,211 | 74,191 | 82,519 |
| Change in inventories of own production | | (200) | 251 | (1,651) |
| Payroll and related costs | 7, 20 | 18,830 | 18,569 | 17,412 |
| Depreciation, depletion and amortization | 5, 15, 16 | 17,035 | 14,071 | 13,080 |
| Other | | 4,719 | 5,363 | 5,115 |
| Restructuring costs | 6 | (22) | - | (10) |
| Operating costs and expenses | 7 | 123,573 | 112,445 | 116,465 |
| Operating income | 5 | 31,073 | 21,316 | 17,637 |
| Equity in net income of non-consolidated investees | 5, 13 | 588 | 582 | (34) |
| Financial income (expense), net | 8, 11, 24 | 136 | 154 | 1,806 |
| Other income, net | 5, 9 | 169 | (1,253) | 77 |
| Income from continuing operations before taxes and minority interest | | 31,966 | 20,799 | 19,486 |
| Income tax expense | 10 | (20,996) | (12,864) | (12,551) |
| Net income continuing operations | | 10,970 | 7,935 | 6,935 |
| Net income discontinued operations | 2 | 1,057 | 2,314 | 1,676 |
| Net income | | 12,027 | 10,249 | 8,611 |
| Minority interest | | (80) | 148 | 15 |
| Net income after minority interest | 28 | 11,947 | 10,397 | 8,626 |

Oslo 2 March 2005



Jan Reinås, Chair



Borger A. Lenth, Deputy Chair



Elisabeth Grieg



Kurt Anker Nielsen



Håkan Mogren



Ingvild Myhre



Geir Nilsen



Odd Semstrøm



Terje Friestad

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.



Eivind Reiten, President and CEO

Norsk Hydro ASA and subsidiaries

Consolidated balance sheets N GAAP

| 31 December | | | |
|--|------------|---------|---------|
| Amounts in NOK million | Notes | 2004 | 2003 |
| Assets | | | |
| Deferred tax assets | 10 | 662 | 326 |
| Other intangible assets | 14, 16 | 1,944 | 2,420 |
| Intangible assets | | 2,606 | 2,746 |
| Property, plant and equipment | 15 | 106,117 | 107,779 |
| Non-consolidated investees | 13 | 9,930 | 10,112 |
| Prepaid pension, investments and other non-current assets | 14, 16, 20 | 8,528 | 9,268 |
| Financial non-current assets | | 18,458 | 19,380 |
| Net assets discontinued operations | 2 | - | 16,372 |
| Inventories | 12 | 12,851 | 12,024 |
| Accounts receivable, less allowances of 891 and 922 | | 20,671 | 20,550 |
| Prepaid expenses and other current assets | | 9,141 | 11,141 |
| Other liquid assets | 11 | 10,970 | 1,553 |
| Cash and cash equivalents | | 14,366 | 14,873 |
| Current assets | | 67,999 | 60,141 |
| Total assets | 5 | 195,180 | 206,418 |
| Liabilities and shareholders' equity | | | |
| Share capital | 3 | 4,739 | 5,332 |
| - Treasury stock | | (148) | (198) |
| Premium paid-in capital | | 10,432 | 15,055 |
| Other paid-in capital | | 35 | 16 |
| Total paid-in capital | | 15,058 | 20,205 |
| Retained earnings incl. treasury stock | 3 | 66,910 | 66,796 |
| - Treasury stock | | (2,921) | (3,325) |
| Total retained earnings | | 63,989 | 63,471 |
| Minority shareholders' interest in consolidated subsidiaries | | 1,571 | 660 |
| Shareholders' equity | 3, 28 | 80,618 | 84,336 |
| Accrued pension liabilities | 20 | 8,569 | 7,774 |
| Deferred tax liabilities | 10 | 28,273 | 31,948 |
| Other long-term liabilities | 21 | 8,483 | 7,505 |
| Long-term liabilities | | 45,325 | 47,227 |
| Long-term debt | 19 | 19,487 | 28,403 |
| Bank loans and other interest-bearing short-term debt | 17 | 3,785 | 5,273 |
| Current portion of long-term debt | 19 | 568 | 1,212 |
| Dividends payable | | 5,017 | 2,811 |
| Other current liabilities | 18 | 40,380 | 37,156 |
| Current liabilities | | 49,750 | 46,452 |
| Total liabilities and shareholders' equity | | 195,180 | 206,418 |

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 or a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Norsk Hydro ASA and subsidiaries

Notes to the consolidated financial statements

1. Summary of Significant Accounting Policies

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages 91 to 93. The consolidated financial statements prepared in accordance with accounting principles generally accepted in Norway (N GAAP) are located on pages 93 to 95.

Financial statement preparation requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

The accompanying notes include disclosures required by US GAAP as well as disclosures in accordance with N GAAP and are an integral part of both sets of financial statements. The following description of accounting principles applies to both US GAAP and N GAAP unless otherwise specified.

Note 28 provides a reconciliation and explanation of the differences between net income and shareholders' equity for US GAAP and N GAAP.

Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies. The majority of Hydro's consolidated subsidiaries are companies where Hydro controls directly or indirectly more than 50 percent of the voting interests. In certain circumstances, Hydro may control an entity through contractual arrangements or other means. Variable Interest Entities are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Entities for which Hydro is determined to retain the controlling financial interest when such interest is achieved through arrangements other than voting rights, are consolidated. Hydro currently consolidates one company based on the Variable Interest Model. All significant intercompany transactions and balances have been eliminated.

Investments in companies (non-consolidated investees) in which Hydro exercises significant influence are accounted for using the equity method. The equity method involves showing the investment at Hydro's share of the equity in the investee, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Equity in net income from non-consolidated investees. Material unrealized profits resulting from transactions with an investee is eliminated.

Significant influence normally exists when Hydro has a substantial ownership interest of 20 to 50 percent of voting shares. Hydro uses the equity method for a limited number of investees where Hydro owns less than 20 percent of the voting rights, based on an evaluation of the governance structure in each investee. In corporate joint ventures, special voting rights in some companies give each of the partners decision rights that exceeds what normally fol-

lows from the ownership share. This may be in form of a specific number of board representatives, in the form of right of refusal for important decisions, or by requiring a qualified majority for all or most of the important decisions. Participation in joint ventures are accounted for using the equity method, except for jointly controlled assets where the partners have an undivided interest. These and other participation in joint ventures in the upstream oil and gas business are accounted for using the pro rata method.

Hydro reviews non-consolidated investees for impairment if indications of loss in value is identified. As Hydro's non-consolidated investees generally are not listed on a stock exchange or regularly traded, our impairment review for such investees can only in rare cases be based on market prices. Impairment indications may be operating losses, or adverse market conditions. Fair value of the investment is estimated based on valuation model techniques. If the estimated fair value of the investee is below Hydro's carrying value, the investment is written down as impaired.

Business Combinations

Terms and conditions underlying most previous acquisitions have resulted in purchase accounting treatment (vs. pooling). See note 2 for a description of significant acquisitions and disposals during the past three years. All business combinations initiated after 30 June 2001 are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value at the time of acquisition. Any excess of purchase price over fair value is recorded as goodwill. When the ownership interest in a subsidiary is less than 100 percent, the recorded amount of assets and liabilities acquired reflect only Hydro's relative share of excess values. However, for VIEs, the total fair value of assets and liabilities are recognized, and any excess value attributable to non-controlling interests affects minority interests.

For N GAAP, consolidated assets and liabilities reflect 100 percent of the fair market value at the purchase date, except for goodwill (There are currently no acquisitions giving rise to such differences). The relative portion of any excess value recorded relating to minority shareholders is reflected in the total Minority shareholders interest which is a component of the Group's equity.

Foreign Currency Translation

The financial statements, including any excess values, of foreign operations are translated using exchange rate at year end for the balance sheet, and average exchange rates for the income statement. Translation gains and losses, including effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in Other comprehensive income.

Foreign Currency Transactions

Realized and unrealized gains or losses on transactions, assets and liabilities denominated in a currency other than the functional currency which do not qualify for hedge accounting treatment are included in net income.

Revenue Recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered. Certain contracts specify price determination in a later period. In these cases, the revenue is recognized in the period prices are determinable. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, only the net commission fee is recognized as revenue.

Revenues from the production of oil and gas are recognized on the basis of the company's net working interest, regardless of whether the production is sold (entitlement method). The difference between Hydro's share of produced volumes and sold volumes is not material.

Trading of physical commodities which are not net settled is presented on a gross basis in the income statement. Activities related to the trading of derivative commodity instruments and physical commodities where net settlement occurs, are reported on a net basis, with the margin included in operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Other Liquid Assets

Other liquid assets include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recorded when earned.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), and net realizable value. Cost includes direct materials, direct labor and the appropriate portion of production overhead or the price to purchase inventory.

Investments

Investments include Hydro's portfolio of long-term marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is considered available-for-sale securities and is valued at fair value. The resulting unrealized holding gains and losses, net of applicable taxes, are credited or charged to Other Comprehensive Income and accordingly do not affect net income. Other investment income is recorded when earned.

Investments where a market value is not readily observable are earned at cost. Investments are reviewed for impairment if indications of loss in value as identified. Fair value of the investment is

estimated based on valuation model techniques for non-marketable securities if the estimated fair value of the investee is below Hydro's carrying value, the investment is written down as impaired.

For N GAAP, investments are valued at the lower of historical cost and market value. [Note 28].

Property, Plant and Equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as described in Statement of Financial Accounting Standards (SFAS) 144. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and disposition of the asset or group of assets working together to create identifiable, relatively independent cash flows. If the carrying amount is not recoverable, a write-down (impairment) to fair value is recorded.

For N GAAP, NRS(F) Impairment of Assets, revised in 2002, requires impairment of long-lived assets to be measured as the difference between carrying value and the higher of an asset's value in use and its net selling price.

Periodic maintenance and repairs applicable to production facilities are accounted for on an accrual basis. Normal maintenance and repairs for all other properties are expensed as incurred. Major replacements and renewals that materially extend the life of properties are capitalized and any assets replaced are retired.

Capitalized Interest Interest is capitalized as part of the historical cost of major assets constructed.

Leased Assets Leases which provide Hydro with substantially all the rights and obligations of ownership are accounted for as capital leases. Such leases are valued at the present value of minimum lease payments or fair value if lower, and recorded as assets under property, plant and equipment. The liability is included in long-term debt. The assets are subsequently depreciated and the related liabilities are reduced by the amount of the lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognized as an expense over the lease term.

Environmental Expenditures Environmental expenditures which increase the life, capacity, or result in improved safety or efficiency of a facility are capitalized. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when environmental assessments or clean-ups are probable and the cost can be reasonably estimated.

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Notes to the consolidated financial statements

Exploration and Development Costs of Oil and Gas Reserves Hydro uses the "successful efforts" method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Cost relating to acquired exploration rights are allocated to the relevant areas and capitalized pending the determination of the existence of proved reserves. If reserves are not found, the acquisition costs are charged to operating expense upon determination that proved reserves will not be found in the area. Each block or area is assessed separately. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred. For further information see note 27.

Depreciation, Depletion and Amortization Depreciation is determined using the straight line method with the following rates:

| | |
|-------------------------|-----------------|
| Machinery and equipment | 5 - 25 percent |
| Buildings | 2 - 5 percent |
| Other | 10 - 20 percent |

Producing oil and gas properties are depreciated as proved developed reserves are produced using the unit-of-production method calculated by individual field. Unit-of-production depreciation rates are revised whenever there is an indication of the need for revision, and at least once a year. Any revisions in the rates are accounted for prospectively.

Depreciation and depletion expense includes accretion of discounted asset retirement obligations.

Intangible Assets

Intangible assets acquired individually or as a group are recorded at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred.

Intangible assets with finite useful lives are amortized on a straight line basis over their benefit period. Intangible assets determined to have indefinite useful lives are not amortized until a finite life can be determined. These intangible assets are subject to impairment testing on an annual basis.

Goodwill

When a business is acquired, purchase price in excess of the identified fair value of assets and liabilities is accounted for as goodwill. Goodwill is reviewed at least annually for impairment. Goodwill is recorded at the reporting unit level (for Hydro this is the sector level. See note 5 for a description of sectors). The impairment test requires fair value of the sector to be compared to the carrying

value of the sector. For this purpose fair value of the sector is estimated by management using valuation techniques.

For N GAAP, goodwill is amortized over a period not exceeding 10 years. [Note 28]

Oil and Gas Royalty

Oil and gas revenue is recorded net of royalties payable in kind.

Shipping costs

Shipping and handling costs are included in Other operating expenses. Shipping and handling costs invoiced to customers are included in Operating revenues.

Research and Development

Research and development costs are expensed as incurred.

For N GAAP intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. All expenditure on research to be recognized as an expense when incurred. [Note 28]

Other Income (Expense), net

Transactions resulting in income or expense which are material in nature and from sources other than normal production and sales operations are classified as other income and expense.

Income Taxes

Deferred income tax expense is calculated using the liability method in accordance with SFAS 109. Under this method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred tax assets are reviewed for recoverability, and a valuation allowance is recorded against deferred tax assets to the extent that it is more likely than not that the asset will not be realized. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for deferred tax related to items charged directly to equity. Changes resulting from enacted amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date. Deferred taxes are not provided on undistributed earnings of most subsidiaries, as such earnings are deemed to be indefinitely reinvested.

For N GAAP, Hydro follows the NRS' (The Norwegian Accounting Standards Board) standard which, like SFAS 109, is based on the liability method. [Note 28].

Derivative Instruments

Derivative financial instruments are marked to their market value with the resulting gain or loss reflected in net financial expense, except when the instruments meet the criteria for hedge accounting. See Note 24 for the balance sheet classification of these instruments.

Forward currency contracts and currency options are marked to their market value at each balance sheet date with the resulting unrealized gain or loss recorded in financial income (expense), net.

Interest rate and foreign currency swaps Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial income (expense), net.

Swaption contracts are marked to their market value at each balance sheet date with the resulting unrealized gain or loss reflected in Financial income (expense), net.

Derivative Commodity Instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenues and/or operating costs, unless the instrument is designated as a hedge instrument, and qualifies for hedge accounting.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other Comprehensive Income (OCI) until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is not probable to occur, all the corresponding gains and losses deferred in OCI are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in current period's earnings. For fair value hedges, both changes in the fair value of designated derivative instrument and changes in the fair value of hedged item are recognized currently in earnings.

Energy contracts are accounted for according to EITF 02-3 "Issues involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities". This standard requires energy contracts that meet the definition of a derivative according to SFAS133 "Accounting for Derivative Instruments and Hedging Activities" be recorded in the balance sheet at fair value, unless those contracts qualify for normal purchase or normal sale exemption as described in the standard. Changes in fair value are recorded to earnings for each period unless specific hedge criteria are met. Fair values are based on quoted market prices. Energy contracts that do not meet the criteria of EITF 02-3 are recorded at the lower of historical cost and fair market value. Prior to 2003, energy contracts were measured at fair value in accordance with EITF 98-10 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

For N GAAP, commodity derivative instruments that are traded in a regulated, liquid market are marked-to-market with their fair market value recorded in the balance sheet as either assets or liabilities. Unrealized gains and losses for commodity derivative

instruments that are not traded in a regulated, liquid market are netted for each portfolio and net unrealized gains are not recognized. Cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement under N GAAP, until the underlying hedged transactions actually occur. [Note 28].

Certain derivative commodity instruments require daily cash settlements, principally London Metal Exchange (LME) futures and options, and oil futures. LME options also involve an initial receipt or payment of a premium and give rise to delivery of an agreed amount of cash if the option is exercised. Most other financial and commodity instruments have cash effects at settlement date, which are included in the Statements of Cash Flows under operating activities when incurred.

Stock-based Compensation

Hydro accounts for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28, and provides disclosures required under SFAS 123. For variable awards and awards settled in cash, compensation cost is measured at the end of each period as the amounts by which the market price of the Company's shares exceeds the price of the options. For variable and cash settled awards where vesting depends on achieving a specified improvement in Hydro's share price, compensation cost is measured when it is probable the performance criteria will be met. Compensation is charged to expense over the periods the employee performs the related services.

Hydro also offers treasury shares to employees at discounted prices to encourage share ownership. Issuance of treasury shares at a discount to employees results in a charge to compensation expense based on the difference between the market value of the share at the date of issuance and the price paid by employees.

Pro Forma Information

No stock-based employee compensation cost is reflected in net income, as all options granted under the United Kingdom stock option plan had an exercise price equal to the market value of the underlying stock on the date of the grant as described in note 4. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

| | | | |
|--|---------------|--------|-------|
| In NOK millions, except for earnings per share | 2004 | 2003 | 2002 |
| Net income, as reported | 12,560 | 10,968 | 8,765 |
| Total stock-based compensation expense determined under fair value method net of tax | 2 | 4 | 4 |
| Pro forma net income | 12,558 | 10,964 | 8,761 |
| Earnings per share: | | | |
| Basic and diluted as reported | 49.40 | 42.60 | 34.00 |
| Basic and diluted pro forma | 49.40 | 42.60 | 34.00 |

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Hydro uses a valuation model based on the Black-Scholes option-pricing model. The assumptions used in the model for the plans are: expected life of 10 years from grant date, expected volatility of 30 percent, a risk-free interest between 3.7 - 4.8 percent and a dividend yield of about 2.5 percent.

Employee Retirement Plans

Pension costs are calculated in accordance with SFAS 87 and SFAS 88. Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

For N GAAP, the same principle has been applied which is in accordance with the NRS 6 Pension Cost.

Discontinued Operations

When a component of the entity is sold or decided to be sold, it is reported as a Discontinued operation in accordance with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, provided that certain criteria are met, including that it is probable that the sale will be completed within one year. A component of the entity can be a reportable segment or a smaller unit which can be clearly distinguished and for which separate financial information is available. Assets, liabilities, cash flows, results of operations and any gain or loss from disposal are excluded from Continuing operations and reported separately. Components to be disposed of other than by sale are reclassified to Discontinued operations as of the date of disposal. Prior periods asset, liabilities, cash flows and results of operations are reclassified to be comparable. Immaterial disposal groups are not classified as discontinued operations.

Changes in Accounting Principles**Consolidation of Variable Interest Entities**

Effective 1 January 2004, Hydro adopted FASB Interpretation 46 "Consolidation of Variable Interest Entities" (FIN 46R) which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support (variable interest entities or VIEs). The Interpretation provides guidance for determining which party retains the controlling financial interest in VIEs when such interest is achieved through arrangements other than voting rights. Implementation of the new requirements depended on when a company became involved with such entities. Because Hydro did not become involved with any new VIEs during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004.

Hydro has identified one pre-existing arrangement that meets the requirements of FIN 46R to be classified as a VIE. Hydro has an equity interest in Slovalco, an aluminium smelter in Slovakia. Hydro also has an agreement to supply Slovalco with alumina and a right and obligation to purchase approximately 60 percent of Slovalco's total aluminium production at market based prices. Hydro owns 20 percent of the shares of Slovalco representing 40 percent of the voting rights. In 2001, Hydro entered into a put and call option arrangement with another shareholder that could increase Hydro's interest up to 65 percent. This arrangement, which expires in the period 2005 to 2006, is the primary reason requiring Hydro to consolidate Slovalco in accordance with the new VIE regulations.

Hydro has consolidated Slovalco in accordance with the new requirements effective from 1 January 2004. Related assets, liabilities and the 80 percent non-controlling interests have been measured based on their fair values at the time the option arrangement was entered into in 2001 and recorded based on such values carried forward to 1 January 2004. As of 1 January 2004, total assets, liabilities and non-controlling interests were NOK 2,182 million, NOK 725 million and NOK 1,165 million respectively. At the end of 2003, the difference between Hydro's interest in Slovalco consolidated based on the new requirements compared to the equity method was immaterial.

This Interpretation (FIN 46R) may result in differences between US GAAP and N GAAP, dependent on the relevant facts and circumstances for units required to be consolidated, or not to be consolidated, under FIN 46R. However, there are currently no differences between US GAAP and N GAAP for Hydro's activities attributable to FIN 46R.

FSP FAS 142-2, Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities

FASB issued FSP FAS 142-2 on 2 September 2004 addressing whether the scope exception within the SFAS 142 for the accounting as prescribed in SFAS 19 extends to the balance sheet classification and disclosures for drilling and mineral rights of oil- and gas-producing entities. The FSP concluded that the scope exception in SFAS 142 extends to the balance sheet classification and disclosure provisions for such assets. The FSP confirms Hydro's current practice, and does not imply any changes to Hydro's classification or disclosures.

Intangible assets

Effective from 1 January 2004, NRS(F) Intangible assets was revised to require that intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. The standard requires all expenditure on research to be recognized as an expense when incurred. This does not represent a difference between US GAAP and N GAAP at transition, however, for future periods the standard may result in differences for development activities compared to US GAAP.

Asset Retirement Obligations

Effective 1 January 2003, Hydro adopted "Financial Accounting Standards No 143 Accounting for Asset Retirement Obligations" (SFAS 143). This Statement requires that the estimated fair value of an asset retirement obligation be recorded in the Company's balance sheet in the period in which it is incurred; accordingly, obligations for oil and gas installations are recognized when the assets are constructed and ready for production. Related asset retirement costs are capitalized as part of the carrying value of the long-lived asset, while the liability is accreted for the change in its present value each reporting period, and the associated asset retirement costs are depreciated over the useful life of the related long-lived asset. As a result of the new accounting standard, a positive after-tax effect of NOK 310 million was recorded as "cumulative effect of change in accounting principles" in the Company's results of 2003. For further information see note 21.

For N GAAP, the change in accounting principle was implemented on a retrospective basis, with the effect recorded to equity. Comparable figures are restated for N GAAP purposes.

Energy contracts

Effective 1 January 2003, Hydro adopted EITF 02-3 "Recognition and Reporting of Gains and Losses on Energy Contracts". This standard requires only energy contracts that meet the definition of a derivative according to SFAS133 "Accounting for Derivative Instruments and Hedging Activities" and are held for trading, be recorded in the balance sheet at fair value. Other energy contracts are recorded at the lower of historical cost and fair market value. This change applies to contracts entered into before 25 October 2002. For contracts entered into after 25 October 2002, the regulation applied from initial recognition. As a result of the new regulation, a negative after-tax effect of NOK 29 million was recorded as "cumulative effect of change in accounting principles" in the Company's results of 2003.

Implementation of EITF 02-3 does not result in a change in accounting principle for N GAAP.

Exit costs

Effective 1 January 2003, Hydro adopted Financial Accounting Standards No 146 "Accounting for Costs Associated with Exit or Disposal Activities". The standard supersedes EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", and changed accounting for costs related to closing and restructuring an activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed at communication to the employees.

For N GAAP, certain costs are required to be recognized at commitment to an exit plan, and may be recognized in an earlier period than for US GAAP.

Impairment of assets

For N GAAP, Hydro adopted the revised NRS(F) Impairment of Assets, effective 1 January 2003. Impairment tests for property, plant and equipment, goodwill and intangible assets are required to measure impairment as the difference between carrying value and recoverable amount of the asset, either as net selling price or value in use, estimated as discounted future cash flows. An impairment loss should be reversed if the impairment situation no longer exists. This represents a difference between US GAAP and N GAAP.

Guarantees

In November 2002, FASB issued Interpretation (FIN) 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation clarifies certain elements related to measurement and disclosure of guarantees, including product warranties. The interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The recognition and measurement provisions are applicable to guarantees issued or modified after 31 December 2002. The adoption of FIN 45 has not materially impacted Hydro's results of operations and financial position.

Reclassifications

Certain amounts in previously issued consolidated financial statements were reclassified to conform with the 2004 presentation. Specifically, for prior periods, assets and liabilities related to assets held for sale, sold or demerged business reported as discontinued operations are included in "Assets of discontinued operations" and "Liabilities of discontinued operations", respectively. Similarly, results and cash flows related to these activities are included in "Income (loss) from discontinued operations" and "Cash flows from discontinued operations". Notes to the financial statements are amended to refer to items included in continuing operations, where relevant.

New Pronouncements

Share-Based payment

In December 2004, FASB issued its revised Statement of Financial Accounting Standards (SFAS) No. 123 on Share-Based payment. The amended standard requires all share-based payment plans to be accounted for on a fair value basis. The intrinsic value method currently applied by Hydro will not be allowed for interim periods after the second quarter of 2005. For Hydro's current share-based payment plans, the impact of the revised standard is not expected to be material.

The change is not expected to represent differences in measurement of compensation compared to N GAAP.

Norsk Hydro ASA and subsidiaries

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Exchanges of Nonmonetary Assets

In December 2004, FASB issued SFAS No. 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. The statement amends APB 29 Accounting for Nonmonetary Transactions, SFAS 19 Financial Accounting and Reporting by Oil and Gas Producing Companies, and certain other standards. The change eliminates exceptions from fair value measurement of certain nonmonetary exchanges, and replaces it with an exception for exchanges that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement also requires certain nonmonetary exchanges of oil and gas related assets previously accounted for without recognizing gain or loss to be accounted for at fair value. However, certain other nonmonetary exchanges of oil and gas producing assets will continue to be accounted for without recognizing gain or loss. The Standard is effective for exchanges occurring in periods starting after 15 June 2005, with earlier application permitted. Hydro has decided to implement the provisions of SFAS 153 for exchanges occurring from 1 January 2005.

The change is not expected to represent differences in measurement of transactions compared to N GAAP.

Inventory cost

In November 2004, the FASB issued SFAS No 151 Inventory Cost, an amendment of ARB 43, Chapter 4. The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current-period charges. The Standard is effective for periods starting after 15 June 2005. The impact of the revised standard is not expected to be material for Hydro.

The change is not expected to represent differences in measurement of inventory compared to N GAAP.

Suspended well cost

In February 2005, the FASB issued a Proposed FASB Staff Position No FAS 19-a, to provide guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (SFAS 19), requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. Questions have arisen in practice about the application of this guidance due to changes in oil- and gas-exploration processes and lifecycles. The issue is whether there are circumstances that would permit the continued capitalization of exploratory well costs if reserves cannot be classified as proved within one year following the completion of drilling other than when additional exploration wells are necessary to justify major capital expenditures and those wells are underway or firmly planned for the near future. The FSP would amend SFAS 19 and allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met, and certain disclosures are provided. Should the FSP be

issued as proposed, Hydro does not expect any changes to the capitalized amounts.

Recognition of buy/sell arrangements

In February 2005, the SEC issued guidance requiring companies to provide disclosures about their buy/sell arrangements. A buy/sell arrangement is one in which a company buys and sells a commodity with the same counterparty under a single contract or separate contracts concurrently entered into. The first issue, recently discussed by the Emerging Issues Task Force (EITF), concerns whether such buy/sell arrangements should be considered non-monetary exchanges accounted for at historical cost in accordance with APB Opinion No. 29, and, if so, when, if at all, could such arrangements be accounted for at fair value. A second issue is whether buy/sell arrangements should be presented gross as revenues and costs in the income statements, or whether such arrangements should be presented net.

Hydro currently presents the trading of derivative commodity instruments and physical commodities where net settlement occurs on a net basis, with the margin included in operating revenues. Trading of physical commodities, which are not net settled, are generally presented on a gross basis in the income statement. Hydro has two such arrangements involving the sale and repurchase of natural gas at different locations with the same counterparty, which were entered into in 2003. Both of these arrangements have been presented gross in the income statement, based on an assessment that the company takes title to the product and that net settlement is not possible for the contracts. Total revenues under these two contracts were NOK 1,449 million and NOK 1,154 million for the years 2004 and 2003 respectively. All quantities delivered under these arrangements have been delivered to customers. Hydro also has some buy and sell arrangements presented gross in the income statements involving the same counterparty in the metal business. Such arrangements involve transactions in standard aluminium qualities. Total revenues under such contracts were NOK 85 million, NOK 829 million and NOK 1,616 million for the years 2004, 2003 and 2002, respectively.

2. Demerger, business combinations and dispositions

Discontinued Operations

In November 2003, Hydro's Board of Directors concluded a plan to demerge the Company's Agri activities and transfer the operations to a newly formed company, Yara International ASA. The plan was approved by an Extraordinary General Meeting on 15 January 2004. The demerger was completed on 24 March 2004 and Yara was listed on the Oslo Stock Exchange with effect from 25 March 2004. Under the demerger plan, the demerger had financial effect from 1 October 2003. From this date, Yara International ASA assumed the risk of the agri activities. The demerger was reflected in the accounts as of the completion date, 24 March 2004. In the demerger process, substantial assets and liabilities, including sub-

subsidiaries and non-consolidated investees, were transferred to Yara. As a result of the demerger, Hydro's share capital was reduced by 8.5 percent, representing the estimated relative value of the transferred Agri activities compared to the business activity retained by Hydro. The total equity reduction amounted to NOK 7,614 million. In accordance with the demerger plan, adjustments to the equity reduction may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable. Revisions are possible through the end of 2009. Possible related adjustments are not expected to be material.

At the completion date, Hydro's shareholders received shares in Yara International ASA equal to 80 percent of the total value of Yara, based on a valuation completed at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA were owned by Norsk Hydro ASA. The Company has subsequently sold its share holdings in Yara in connection with the demerger transaction. The demerger was reflected in the Company's accounts based on historical values of the transferred assets and liabilities. Hydro did not recognize any gain or loss, or receive any proceeds, as a result of the demerger transaction. Hydro received proceeds of NOK 2,619 million, and recognized a pre-tax gain of NOK 533 million, from sale of its 20 percent ownership in Yara in March 2004. The gain is included in "Income from discontinued operations".

Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger.

Income from discontinued operations

Income from discontinued operations includes operating results from activities which, according to the demerger plan, have been transferred to Yara International ASA. Effects directly related to Yara activities, the demerger process and Hydro's sale of Yara shares are included. Results from Yara activities includes net income from subsidiaries transferred in the demerger. In addition income and expenses in Norsk Hydro ASA and certain holding companies abroad directly related to the Yara activities are included to the extent these activities are transferred to Yara or are terminated as a direct consequence of the demerger of Yara. Income from discontinued operations also includes financial expense related to loans in companies transferred to Yara. No financial expenses related to loans retained in Hydro are allocated to discontinued operations. External fees and similar expenses related to the waiving of Yara's joint liabilities for certain of Hydro's loans, and expenses directly related to the demerger process and Hydro's sale of Yara shares are included. Hydro's gain on sale of its shares in Yara International ASA, after direct sales expenses and tax, amounted to NOK 385 million. Tax is allocated to the sales gain based on tax rules enacted at the time of sale.

For prior periods, assets and liabilities transferred to Yara in the demerger process are included in "Assets of discontinued opera-

tions" and "Liabilities of discontinued operations", respectively. This includes assets and liabilities in subsidiaries transferred to Yara, assets and liabilities in business units separated from Hydro's other activities for which separate accounts exists in addition to other identified assets transferred to Yara.

Cash flows from discontinued operations includes cash flows from activities transferred to Yara and expenses directly related to the demerger. In addition, cash flows include Hydro's sale of its shares in Yara immediately after the demerger in the amount of NOK 2,619 million, and Yara's repayment of debt to Hydro in the amount of NOK 7.1 billion.

The major part of discontinued activities relates to the Agri business area within Hydro's segment reporting. Minor amounts also relate to Pronova which is included within Other businesses. In addition, Corporate and eliminations reflect the transfer to Yara of certain activities previously reported as part of Corporate, and demerger costs included in Corporate for 2003.

Prior periods are restated to be presented on a comparable basis. The following table summarizes financial information for the discontinued operations for the periods they are included in Hydro's financial statements.

Summary of financial data for Discontinued Operations

| NOK million | 2004 | 2003 | 2002 |
|---|---------------|---------|--------|
| Operating revenues | 10,036 | 38,334 | 33,477 |
| Operating income | 936 | 2,633 | 2,173 |
| Non-consolidated investees | 131 | 610 | 57 |
| Financial income (expense), net | (88) | 47 | 130 |
| Other income, net | - | 40 | 142 |
| Income before taxes and minority interest | 979 | 3,330 | 2,502 |
| Income tax expense | (307) | (1,015) | (826) |
| Minority interest | 26 | (3) | (11) |
| Income before sale of shares | 698 | 2,312 | 1,665 |
| Gain from sale of shares | 533 | - | - |
| Tax on gain from sale of shares | (148) | - | - |
| Net income US GAAP | 1,083 | 2,312 | 1,665 |
| <i>Adjustment N GAAP:</i> | | | |
| <i>Amortization goodwill</i> | 0 | (1) | 0 |
| <i>Minority interest</i> | (26) | 3 | 11 |
| <i>Net income N GAAP</i> | 1,057 | 2,314 | 1,676 |

Norsk Hydro ASA and subsidiaries

Notes to the consolidated financial statements

| NOK million | 31 December | |
|--------------------------------------|-------------|---------|
| | 2004 | 2003 |
| Current assets | - | 13,789 |
| Non-current assets | - | 11,777 |
| Total assets | - | 25,566 |
| Current liabilities | - | (6,129) |
| Long-term liabilities | - | (3,064) |
| Minority interest | - | (96) |
| Discontinued operations, net US GAAP | - | 16,277 |

Adjustment N GAAP:

| | | |
|--|---|--------|
| Accumulated additional amortization goodwill | - | (1) |
| Minority interest | | 96 |
| Discontinued operations, net N GAAP | - | 16,372 |

| NOK million | 2004 | 2003 |
|--|-------|-------|
| Net cash provided by operating activities | 838 | 1,805 |
| Net cash provided by (used in) investing activities ¹⁾ | 8,840 | (744) |
| Net cash used in financing activities | (109) | (141) |
| Foreign currency effects on cash flows | 5 | 77 |
| Net cash provided by discontinued operations | 9,574 | 997 |

1) Includes proceeds from sale of Yara shares and loan repayments from Yara.

Subsequent to and during the three years ended 31 December 2004, Hydro entered into the following significant business combinations and dispositions.

2004 Acquisitions

No major acquisitions were agreed or completed during 2004.

2004 Dispositions

In June 2004, Hydro sold its German based alumina activities consisting of the 50 percent stake in the non-consolidated investee Aluminium Oxid Stade GmbH, the related chemical grade alumina business and the dedicated bauxite supply source represented by Hydro's 10 percent share in Halco (Mining) Inc. The total consideration was NOK 677 million. The dispositions resulted in a total pretax gain of NOK 35 million. In December 2003, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of approximately NOK 110 million.

2003 Acquisitions

No major acquisition were agreed or completed during 2003.

2003 Dispositions

During 2003, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 7.0 billion. The dispositions resulted in a total pretax gain of NOK 995 million. In

September 2002, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Swedish feed and grain activities for approximately NOK 450 million. The sale was completed in January 2003 after approval from competition authorities. In December 2002, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3.0 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003, and did not result in any significant gain or loss. In June, Hydro transferred its interest in Sundsfjord Kraft ANS in exchange for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million. In July, Hydro entered into an agreement for the sale of Carmeda AB, for approximately NOK 180 million, resulting in a gain of NOK 139 million. In September, Hydro entered into an agreement to sell its stake in Skandinaviska Raffinaderi AB (Scanraff) for approximately NOK 1.3 billion. The sale was completed in December, resulting in a gain of NOK 490 million. The agreement included the possibility of a price adjustment depending on the development in refinery margins during 2004 and 2005. High refinery margins during 2004 have resulted in additional gain of NOK 59 million recognized in 2004. In December, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare which is discussed above.

2002 Acquisitions

On 19 March 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of 10 May 2002. The agreement was effective from 1 January 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

In January 2002, Hydro entered into an agreement to purchase all the outstanding shares of the German group VAW aluminium AG, a leading aluminium company in Europe. The acquisition was completed on 15 March 2002. VAW had operations in more than 20 countries. The major part of these activities were located in the EU in addition to important operations located in North America and the Pacific region.

The consideration for all outstanding shares, including direct acquisition costs amounted to EUR 1,911 million (NOK 14.9 billion). In addition, interest-bearing debt of EUR 703 million (NOK 5.5 billion) and pension commitments of approximately EUR 410 million (NOK 3.2 billion) were assumed. The acquisition was financed by Hydro's cash holdings.

Assets acquired and liabilities assumed in the VAW acquisition have been recorded at estimated fair value. Excess values are for the most part allocated to tangible fixed assets. The allocation did not indicate material goodwill in the transaction. Because VAW's

inventories have been recorded at estimated fair values as of the time of the acquisition, cost of goods sold was unusually high in the period after acquisition. The effect was approximately NOK 200 million.

Amounts in NOK million

| | |
|---|----------|
| Allocation of purchase price | |
| Cash and cash equivalents | 410 |
| Other current assets | 11,597 |
| Property, plant and equipment | 16,592 |
| Other non-current assets | 6,140 |
| Short-term liabilities | (9,517) |
| Long-term liabilities | (10,022) |
| Minority interests | (356) |
| Estimated fair value of net assets of VAW | 14,844 |

In November 2001, an agreement was signed to purchase the French building systems group Technal for a price of EUR 73 million (NOK 580 million) and the assumption of approximately NOK 307 million in debt. The acquisition was completed 25 January 2002.

2002 Dispositions

During 2002, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 2.9 billion. The dispositions resulted in a total pretax gain of NOK 219 million. In September, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Danish feed and grain activities for a total consideration of approximately NOK 2 billion, and its Swedish feed and grain activities for approximately NOK 450 million. The agreements resulted in impairment charges of approximately NOK 150 million. The sale of the Danish activities was completed in December, while the sale of the Swedish was completed in January 2003 after approval from competition authorities. In December, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and was part of Other activities. The transaction was completed in April 2003.

The effect of acquisitions and dispositions for 2004 and 2003 is not significant.

3. Consolidated shareholders' equity

Norsk Hydro ASA had authorized and issued 258,954,428 ordinary shares having a par value of NOK 18.30 per share as of 31 December 2004. For the years ended 31 December 2003, and 2002, Norsk Hydro ASA had authorized and issued 266,596,650 ordinary shares having a par value of NOK 20 per share. As of 31 December 2004, 8,115,198 shares were treasury stock resulting in 250,839,230 outstanding ordinary shares (for 2003 256,712,000 outstanding ordinary shares). For N GAAP, the amount for the

treasury stock of NOK 3,069 million comprised NOK 148 million for share capital and NOK 2,921 million for retained earnings. Remaining treasury stock may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors. The weighted average number of outstanding shares for the year ended 31 December 2004 was 254,411,433.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 2,808,810 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 2,191,190 shares owned by the Norwegian State. As compensation, the State received NOK 981 million. The cancellation and redemption were completed in February 2005. In addition, the General Meeting authorized a new buyback program limited to 5,617,621 shares. As part of this program, a total of 10 million shares may be cancelled, including shares owned by the Norwegian State. A decision to cancel any of the shares repurchased requires approval by a minimum of two-thirds of the shares represented at a future General Meeting. No shares have been repurchased under this program.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 1,484,300 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 1,157,922 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004. In addition the General Meeting approved the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30. Each shareholder received one share in the newly established Yara International ASA, with a par value of 1.70 for each Hydro share. The demerger was completed on 24 March 2004.

In 2004, Hydro sold 285,152 shares of its treasury stock to employees for a fair value of NOK 121 million.

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Consolidated shareholders' equity

| Amounts in NOK million except number of shares in thousands | Ordinary Shares issued | | Additional paid-in capital | Total paid-in capital | Retained earnings | Treasury Stock | | Accumulated other compre- hensive income | Total shareholders' equity ¹⁾ |
|---|------------------------|--------|----------------------------------|-----------------------------|----------------------|-----------------|---------|--|--|
| | Norsk Hydro ASA | | | | | Norsk Hydro ASA | | | |
| | Number | Amount | | | | Number | Amount | | |
| Balance 31 December 2001 | 266,597 | 5,332 | 15,070 | 20,402 | 57,070 | (8,962) | (3,167) | 488 | 74,793 |
| Net income 2002 | | | | | 8,765 | | | | 8,765 |
| Dividend declared and paid (NOK10.00 per share) | | | | | (2,576) | | | | (2,576) |
| Net unrealized gain on securities | | | | | | | | (31) | (31) |
| Minimum pension liability | | | | | | | | (323) | (323) |
| Hedge of net investment | | | | | | | | 1,333 | 1,333 |
| Cash flow hedges | | | | | | | | 979 | 979 |
| Treasury stock reissued to employees | | | 18 | 18 | | 326 | 116 | | 134 |
| Foreign currency translation | | | | | 1 | | (1) | (7,207) | (7,207) |
| Balance 31 December 2002 | 266,597 | 5,332 | 15,088 | 20,420 | 63,260 | (8,636) | (3,052) | (4,761) | 75,867 |
| Net income 2003 | | | | | 10,968 | | | | 10,968 |
| Dividend declared and paid (NOK 10.50 per share) | | | | | (2,711) | | | | (2,711) |
| Net unrealized gain on securities | | | | | | | | - | - |
| Minimum pension liability | | | | | | | | (113) | (113) |
| Hedge of net investment | | | | | | | | (333) | (333) |
| Cash flow hedges | | | | | | | | 35 | 35 |
| Purchase of treasury stock | | | | | | (1,484) | (555) | | (555) |
| Treasury stock reissued to employees | | | (17) | (17) | | 235 | 83 | | 66 |
| Foreign currency translation | | | | | (1) | | 1 | 4,856 | 4,856 |
| Balance 31 December 2003 | 266,597 | 5,332 | 15,071 | 20,403 | 71,516 | (9,885) | (3,523) | (316) | 88,080 |
| Net income 2004 | | | | | 12,560 | | | | 12,560 |
| Dividend declared and paid (NOK 11.00 per share) | | | | | (2,811) | | | | (2,811) |
| Net unrealized gain on securities | | | | | | | | (2) | (2) |
| Minimum pension liability | | | | | | | | (132) | (132) |
| Hedge of net investment | | | | | | | | 320 | 320 |
| Cash flow hedges | | | | | | | | (339) | (339) |
| Purchase of treasury stock | | | | | | (2,809) | (1,239) | | (1,239) |
| Treasury stock reissued to employees | | | 19 | 19 | | 285 | 102 | | 121 |
| Cancellation treasury stock | (4,294) | (82) | (1,511) | (1,593) | 2 | 4,294 | 1,591 | | (0) |
| Redeemed shares, Norwegian State | (3,349) | (63) | (1,363) | (1,426) | | | | | (1,426) |
| Demerger Yara International ASA | | (448) | (1,749) | (2,197) | (5,957) | | | 540 | (7,614) |
| Foreign currency translation | | | | | | | | (1,628) | (1,628) |
| Balance 31 December 2004 | 258,954 | 4,739 | 10,467 | 15,206 | 75,310 | (8,115) | (3,069) | (1,557) | 85,890 |

1) See note 28 for a reconciliation to N GAAP equity.

Components of Total Accumulated Other Comprehensive Income

| | Net unrealized gain (loss) on securities | Net unrealized gain (loss) investment hedge | Net gain (loss) cash flow hedge | Minimum pension liability adjustment | Net foreign currency translation gain (loss) | Total accumulated other comprehen- sive income (loss) |
|---------------------------------|--|---|---------------------------------------|--|--|---|
| Balance 31 December 2001 | 42 | (1,252) | 135 | (560) | 2,123 | 488 |
| Balance 31 December 2002 | 11 | 81 | 1,114 | (883) | (5,084) | (4,761) |
| Balance 31 December 2003 | 11 | (252) | 1,149 | (996) | (228) | (316) |
| Balance 31 December 2004 | 9 | 102 | 810 | (814) | (1,664) | (1,557) |

Changes in Other Comprehensive Income and Related Tax Effects

| Amounts in NOK million | 31 December 2004 ¹⁾ | | | 31 December 2003 | | | 31 December 2002 | | |
|---|--------------------------------|-------|---------|------------------|-------|-------|------------------|-------|---------|
| | Pretax | Tax | Net | Pretax | Tax | Net | Pretax | Tax | Net |
| Net unrealized gain (loss) on securities | (3) | 1 | (2) | - | - | - | (43) | 12 | (31) |
| Net investment hedge | 445 | (125) | 320 | (462) | 129 | (333) | 1,851 | (518) | 1,333 |
| Cash flow hedge gain (loss) | (214) | 60 | (154) | 385 | (112) | 272 | 1,441 | (405) | 1,036 |
| Less: Reclassification of hedging gain | (256) | 71 | (185) | (331) | 94 | (237) | (79) | 22 | (57) |
| Net cash flow hedge | (470) | 131 | (339) | 54 | (18) | 35 | 1,362 | (383) | 979 |
| Minimum pension liability adjustment | (189) | 57 | (132) | (182) | 69 | (113) | (472) | 149 | (323) |
| Foreign currency translation | (1,625) | - | (1,625) | 4,650 | - | 4,650 | (7,215) | - | (7,215) |
| Loss (gain) on companies sold | (3) | - | (3) | 206 | - | 206 | 8 | - | 8 |
| Net foreign currency translation | (1,628) | - | (1,628) | 4,856 | - | 4,856 | (7,207) | - | (7,207) |
| Total change in other comprehensive income | (1,845) | 64 | (1,781) | 4,266 | 180 | 4,445 | (4,509) | (740) | (5,249) |

1) Effects of the Yara demerger, NOK 540 million, are not included in the changes specified.

4. Stock-based Compensation

Hydro has five main stock-based compensation plans, the Executive Share Option Plan established in 2002, the Executive Share Option Plan established in 2003, the Executive Share Option Plan established in 2004, all of which requires cash settlement, a stock option purchase program for employees in the United Kingdom and a subsidized share purchase plan for permanent employees in the parent company and Norwegian subsidiaries owned more than 90 percent by Hydro. In addition minor share purchase plans for employees in Germany and Switzerland exist.

The Executive Share Option Plans are granted to approximately 30 persons in Hydro's top management including the president and CEO, persons in the corporate management board and others. During 2004, 125,000 options were granted. Options issued under the 2004 plan may be exercised within a six-year period, but not before 1 July 2007, which represents the end of the vesting period. If the Hydro share price is above NOK 476 between 1 July 2007 and 30 June 2010, all the options are exercisable. The option holder will receive in cash the difference between the market price

at the time of exercise and the exercise price. The exercise of the options is conditional on a commitment to a long-term investment in shareholding in the company for the received amount. The maximum commitment to invest in shareholding is two times yearly salary for the president and CEO, one time yearly salary for members of the corporate board and 50 percent of yearly salary for the others.

During 2003, 99,500 options were granted. The options are vesting over a three-year performance period beginning July 2003. During 2002, 111,000 options were granted. The options are vesting over a three-year performance period beginning July 2002. The options vesting schedules for the 2003 and 2002 plans are based on shareholder return, as defined in the Plan. If shareholder return is less than 12 percent, none of the options vest. If the shareholder return achieved is between 12 percent and 20 percent the corresponding percentage of options that vest increases linearly between 20 percent and 100 percent. The options are exercisable for two years following the three-year performance period. If exercised, the option holder will receive a cash amount equal to the difference between the market price of the shares, and the exercise

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price. All the options authorized for the three plans have been granted. During 1999, 165,000 options were granted under the 1999 Plan at an exercise price of NOK 367.50. This plan expired at the end of 2002. During 2002, a total of 3,300 options were exercised, and 158,200 options expired. During 2003, no options were exercised, and no options expired.

Activity for 2004 is as follows:

| Options outstanding | Number of shares | Average Strike price (in NOK) |
|--------------------------------|------------------|-------------------------------|
| 31 December 2003 ¹⁾ | 272,500 | 345.98 |
| Granted | 125,000 | 476.00 |
| Expired | 82,500 | - |
| 31 December 2004 | 315,000 | 385.68 |

1) Six individuals who were transferred to Yara in the 2004 demerger, had a total of 30,000 options. Of these, 16,028 options with an average gain of NOK 365.25 was exercised in connection with the demerger, while 13,972 options expired.

As of 31 December 2004, 125,000 options related to the Executive Share Option plan 2004, with an exercise price of NOK 476 were outstanding with a remaining contractual life of 5.5 years, none of which were exercisable. In addition, 97,500 options related to the Executive Share Option Plan 2003, with an exercise price of NOK 321.62 were outstanding with a remaining contractual life of 3.5 years, none of which were exercisable. 92,500 options, related to the Executive Share Option Plan 2002, with an exercise price of NOK 331.14 were outstanding with a remaining contractual life of 2.5 years, none of which were exercisable.

In 1988, Hydro established a stock option purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time options were granted. The last options were granted in July 2002 and the program will be operational until July 2012 when the last remaining options expire. The program consists of three different schemes following amendments to the original scheme rules. Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from grant date. The exercise price of the shares equals the share price at the time the options were granted. During 2002, 46,009 options were granted, 29,310 options were exercised and a total of 3,846 options expired. At year-end 2002, a total of 238,417 options were outstanding, while the trust had a balance of 210,649 shares. During 2003, 34,867 options were exercised and a total of 3,653 options expired. At year-end 2003, 199,897 options were outstanding and the trust kept a balance of 210,649 shares. The trust's balance of shares at 31 December 2004 was 122,916.

Activity for 2004 is as follows:

| Options outstanding | Number of shares | Average Strike price (in NOK) ¹⁾ |
|---------------------|------------------|---|
| 31 December 2003 | 199,897 | 328.55 |
| Exercised | 104,120 | 316.07 |
| Expired | 8,274 | - |
| 31 December 2004 | 87,503 | 345.98 |

1) Presentation in NOK is based using translation from GBP on the exchange rate at 31 December 2004, which was 11,6322 (unaudited).

Hydro has established subsidized share-purchase plans for employees in Norway, Germany and Switzerland. Under the Norwegian plan Hydro's employees receive a NOK 1,500 share-purchase rebate to purchase shares of Norsk Hydro, which corresponds to a 20 percent discount from the market price. If shareholder return, as defined by the plan, meets or exceeds 12 percent in the period from 1 January to 31 December (the measurement period), employees receive an additional rebate of NOK 4,500 for a total of NOK 6,000, which corresponds to a 50 percent discount from the market price.

At 31 December 2004, the 12 percent performance target was met for the 1 January 2004 to 31 December 2004 measurement period, consequently the rebate for this award will be NOK 6,000 or 50 percent. Shares were offered to the employees under this plan in February 2005.

The performance target was met for the 1 January 2003 to 31 December 2003 measurement period, consequently the rebate for this award was NOK 6,000 or 50 percent. In May 2004, 285,152 shares were awarded to employees at a share price of NOK 212.25. Compensation expense recognized related to this award amounted to NOK 61 million.

The performance target was not met for the 1 January 2002 to 31 December 2002 measurement period, consequently the rebate for this award was NOK 1,500 or 20 percent. In April 2003, 235,768 shares were awarded to employees at a share price of NOK 223.92. Compensation expense recognized related to this award amounted to NOK 13 million.

In 2002, Hydro modified the measurement period for the share-purchase plan for Norwegian employees so that the period would run from 1 January 2002 to 31 December 2002. 2002 was a transitional year, with the old scheme running from 1 June 2001 to 31 May 2002 and the new scheme running from 1 January 2002 to 31 December 2002.

The performance criteria was met for the 1 June 2001 to 31 May 2002 measurement period. In July 2002, 323,060 shares were awarded to employees at a share price of NOK 205.15. Compensation expense recognized in 2002 related to this award amounted to NOK 73 million.

Under two different share-purchase plans Hydro employees in Germany and Switzerland have been offered to purchase shares of Norsk Hydro at a rebated price. Compensation expenses recognized related to these plans amounted to less than NOK 1 million for the years 2004, 2003 and 2002.

5. Operating and geographic segment information

Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a strategic business area that offers different products and serves different markets. Hydro's operating segments are the two business areas Oil & Energy and Aluminium. The operating units reporting directly to the business areas are called sectors. Sectors represent various businesses within each of the business areas, and their results are reviewed by the business area management. For reporting purposes, the business areas are divided into sub-segments, each of which comprises one or more sectors. Sub-segments are not operating units, but their results are presented in order to illustrate the results of upstream and downstream activities within a value chain of Hydro's vertically integrated activities.

Oil & Energy consists of Exploration and Production, and Energy and Oil Marketing. Exploration and Production is responsible for Hydro's oil and gas exploration, field development, and operation of production and transportation facilities. Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power sectors, the operation of Hydro's power stations and Hydro's share of natural gas transportation systems as well as marketing and sale of refined petroleum products (gasoline, diesel and heating oil) to retail customers. Energy and Oil Marketing buys and/or markets almost all oil production from Exploration and Production, and sells the equity gas production on a commission basis. Aluminium consists of Metals, Rolled Products and Extrusion and Automotive. Metals' activities include the production of primary aluminium and primary magnesium, aluminium oxide, remelting of metal, and the international trading of aluminium, aluminium products and aluminium oxide. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion and Automotive is involved in the manufacture and sale of extruded aluminium products and components for the automotive industry. Hydro's aluminium activities in North America, including trading activities, is included in Extrusion and Automotive.

Other activities consists of Polymers, BioMar AS (previously Treka AS), VAW Flexible Packaging (sold April 2003) and certain other activities. Polymers is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. BioMar's main activity is production and sale of fish feed, after disposing of activities related to agricultural products in November 2002 and January 2003.

Operating Segment Information

Hydro's segment reporting, presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and related Information, includes two measures of segment results, "Operating Income" and "Adjusted EBITDA" which both are regularly reviewed by senior management. "Operating Income" is presented in accordance with the Norwegian Accounting Act, and is consistent with the same measure for the Group. The segment measure "Adjusted EBITDA", is an integral part of Hydro's steering model, Value Based Management. Hydro's management makes regular use of this measure to evaluate performance in its operating segments, both in absolute terms and comparatively from period to period, and to allocate resources among its operating segments. Management views this measure in combination with other reported measures as providing a better understanding – for management and for investors – of the operating results of its business segments for the period under evaluation.

Hydro defines "Adjusted EBITDA" as "Income/(loss) before tax, interest expense, depreciation, amortization and write-downs". Adjusted EBITDA is a measure that includes in addition to "Operating income", "Interest income and other financial income", results from non-consolidated investees and gains and losses on sales of activities classified as "Other income, net" in the income statement. It excludes depreciation, write-downs and amortization, as well as amortization of excess values in non-consolidated investees. Hydro's definition of Adjusted EBITDA may differ from that of other companies. Specifically, Hydro has chosen to include interest income in Adjusted EBITDA.

Hydro manages long-term debt and taxes on a Group basis. Therefore, net income is presented only for the Group as a whole.

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Intersegment sales and transfers reflect arms length prices as if sold or transferred to third parties. Reorganization of Hydro's segment structure is not considered intersegment sales, and is reported without recognizing gains or losses. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption "Corporate and eliminations". These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In addition, elimination of gains and losses related to transactions between the Segments is included. The accounting policies of the operating segments reflect those described in the summary of significant accounting policies in Note

1, with the following exceptions: Certain internal commodity contracts may meet the definition of a derivative under SFAS 133. However, Hydro considers these contracts as sourcing of raw materials or sale of own production even though contracts for various reasons include clauses that meet the definition of a derivative. Such internal contracts are accounted for as executory contracts. Also certain internal contracts may qualify as containing lease arrangements that qualify as capital leases. However, Hydro management has allocated the responsibility for assets to a segment, and this allocation is reflected in the segment reporting even though contract clauses may indicate that another segment leases the assets under a capital lease arrangement.

| NOK million | External revenues | | | Internal revenues | | | Total operating revenues | | |
|--|-------------------|---------|---------|-------------------|----------|----------|--------------------------|----------|----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Exploration and Production ¹⁾ | 13,519 | 12,099 | 10,136 | 35,443 | 25,805 | 22,834 | 48,962 | 37,904 | 32,970 |
| Energy and Oil Marketing ¹⁾ | 54,629 | 44,308 | 41,929 | 6,159 | 5,062 | 3,986 | 60,788 | 49,370 | 45,915 |
| Eliminations ^{2) 6)} | (1,643) | (1,576) | (965) | (35,389) | (25,739) | (22,075) | (37,032) | (27,315) | (23,040) |
| Hydro Oil & Energy | 66,505 | 54,831 | 51,100 | 6,213 | 5,128 | 4,745 | 72,718 | 59,959 | 55,845 |
| Metals | 33,048 | 26,509 | 26,025 | 16,111 | 13,414 | 13,621 | 49,159 | 39,923 | 39,646 |
| Rolled Products | 18,814 | 17,825 | 14,135 | 1,559 | 552 | 655 | 20,373 | 18,377 | 14,790 |
| Extrusion and Automotive | 27,563 | 24,472 | 24,186 | 37 | 57 | 59 | 27,600 | 24,529 | 24,245 |
| Other and eliminations ³⁾ | 51 | 190 | 162 | (17,509) | (13,867) | (13,792) | (17,458) | (13,677) | (13,630) |
| Hydro Aluminium | 79,476 | 68,996 | 64,508 | 198 | 156 | 543 | 79,674 | 69,152 | 65,051 |
| Other activities ⁴⁾ | 9,665 | 10,013 | 17,859 | 3,204 | 3,746 | 3,698 | 12,869 | 13,759 | 21,557 |
| Corporate and eliminations ²⁾ | (221) | (79) | 626 | (9,615) | (9,030) | (8,986) | (9,836) | (9,109) | (8,360) |
| Total | 155,425 | 133,761 | 134,093 | - | - | - | 155,425 | 133,761 | 134,093 |

1) From 2003, Hydro's gas transportation activities are reported as part of Energy and Oil Marketing. Prior periods have been reclassified for comparative purposes.

2) Corporate and eliminations includes elimination of unrealized gain/loss on power contracts between Energy and other units in Hydro with a loss of NOK 235 million in 2004, a loss of NOK 141 million in 2003 and a loss of NOK 588 million in 2002. In addition, NOK 13 million, NOK 21 million and NOK 26 million is eliminated within the Oil and Energy Area in 2004, 2003 and 2002, respectively.

3) Other and eliminations includes unrealized gains and losses related to LME contracts with a gain of NOK 175 million in 2004, a loss of NOK 49 million in 2003, and a gain of NOK 266 million in 2002.

| NOK million | Depreciation, depletion and amortization | | | Other operating expenses | | | Operating income (loss) before fin. and other income | | |
|---|---|--------|--------|-----------------------------|----------|----------|---|---------|--------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Exploration and Production ¹⁾ | 9,751 | 9,052 | 8,242 | 10,848 | 10,352 | 11,591 | 28,363 | 18,500 | 13,137 |
| Energy and Oil Marketing ¹⁾ | 640 | 591 | 764 | 57,498 | 46,111 | 42,367 | 2,650 | 2,668 | 2,784 |
| Eliminations ^{2) 6)} | - | - | - | (37,163) | (27,290) | (23,066) | 131 | (25) | 26 |
| Hydro Oil & Energy | 10,391 | 9,643 | 9,006 | 31,183 | 29,173 | 30,892 | 31,144 | 21,143 | 15,947 |
| Metals | 3,852 | 1,517 | 1,117 | 44,477 | 36,113 | 36,839 | 830 | 2,293 | 1,690 |
| Rolled Products | 687 | 650 | 496 | 19,060 | 17,595 | 14,589 | 626 | 132 | (295) |
| Extrusion and Automotive | 1,423 | 1,247 | 1,010 | 25,900 | 23,184 | 23,221 | 277 | 98 | 14 |
| Other and eliminations ³⁾ | - | - | - | (17,530) | (13,610) | (13,919) | 72 | (67) | 289 |
| Hydro Aluminium | 5,962 | 3,414 | 2,623 | 71,907 | 63,282 | 60,730 | 1,805 | 2,456 | 1,698 |
| Other activities ⁴⁾ | 532 | 879 | 1,081 | 12,025 | 13,284 | 20,428 | 312 | (404) | 48 |
| Corporate and eliminations ^{2) 5)} | 13 | 11 | 19 | (8,435) | (7,550) | (8,353) | (1,414) | (1,570) | (26) |
| Total | 16,898 | 13,947 | 12,729 | 106,680 | 98,189 | 103,697 | 31,847 | 21,625 | 17,667 |

| NOK million | Equity in net income non-consolidated investees | | | Other income (expense), net | | | Adjusted EBITDA | | |
|---|--|------|-------|-----------------------------|---------|------|-----------------|--------|--------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Exploration and Production ¹⁾ | 4 | 29 | 31 | - | - | 77 | 38,168 | 27,624 | 21,593 |
| Energy and Oil Marketing ¹⁾ | 73 | 81 | 148 | 59 | 816 | - | 3,478 | 4,226 | 3,721 |
| Eliminations ^{2) 6)} | (2) | (3) | - | - | - | - | 132 | (24) | 26 |
| Hydro Oil & Energy | 75 | 107 | 179 | 59 | 816 | 77 | 41,778 | 31,826 | 25,340 |
| Metals | 281 | 379 | (275) | - | - | - | 5,396 | 4,298 | 2,703 |
| Rolled Products | (13) | (14) | 7 | - | - | - | 1,361 | 835 | 258 |
| Extrusion and Automotive | 113 | 68 | 49 | - | - | - | 1,827 | 1,432 | 1,084 |
| Other and eliminations ³⁾ | - | - | - | - | - | - | 72 | (67) | 289 |
| Hydro Aluminium | 381 | 433 | (219) | - | - | - | 8,656 | 6,498 | 4,334 |
| Other activities ⁴⁾ | 170 | 83 | 12 | 110 | 139 | - | 1,363 | 1,113 | 1,061 |
| Corporate and eliminations ^{2) 5)} | 2 | (3) | 4 | - | (2,208) | - | (680) | (809) | 1,014 |
| Total | 628 | 620 | (24) | 169 | (1,253) | 77 | 51,117 | 38,628 | 31,749 |

4) Other activities consist of the following: Polymers, BioMar AS (previously Treka AS), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro Business Partner.

5) Corporate and elimination's operating income (loss) and Adjusted EBITDA includes a net periodic pension cost of NOK 1,001 million for 2004, NOK 1,111 million for 2003, and NOK 314 million for 2002.

6) Eliminations Oil & Energy includes elimination of unrealized gain on gas contracts with NOK 144 million.

Norsk Hydro ASA and subsidiaries

Notes to the consolidated financial statements

| NOK million | Current Assets ¹⁾ | | Non-current Assets | | Assets ¹⁾ | |
|--------------------------------|------------------------------|---------|--------------------|---------|----------------------|---------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Exploration and Production | 9,072 | 9,036 | 61,262 | 65,191 | 70,334 | 74,227 |
| Energy and Oil Marketing | 9,577 | 10,398 | 18,896 | 15,558 | 28,473 | 25,956 |
| Eliminations | (2,871) | (2,964) | 18 | 21 | (2,853) | (2,943) |
| Hydro Oil & Energy | 15,778 | 16,470 | 80,176 | 80,770 | 95,954 | 97,240 |
| Metals | 12,335 | 10,698 | 21,574 | 22,333 | 33,909 | 33,031 |
| Rolled Products | 6,405 | 6,524 | 6,782 | 12,115 | 13,187 | 18,639 |
| Extrusion and Automotive | 8,381 | 7,858 | 10,400 | 10,715 | 18,781 | 18,573 |
| Other and eliminations | (2,288) | (1,796) | (297) | 3 | (2,585) | (1,793) |
| Hydro Aluminium | 24,833 | 23,284 | 38,459 | 45,166 | 63,292 | 68,450 |
| Other activities ⁴⁾ | 6,035 | 6,015 | 5,393 | 4,955 | 11,428 | 10,970 |
| Corporate and eliminations | 23,760 | 16,125 | 5,809 | 278 | 29,569 | 16,403 |
| Total continued operations | 70,406 | 61,894 | 129,837 | 131,169 | 200,243 | 193,063 |
| Discontinued operations | - | 13,789 | - | 11,777 | - | 25,566 |
| Total | 70,406 | 75,683 | 129,837 | 142,946 | 200,243 | 218,629 |

| NOK million | Non-consolidated investees, investments and advances | | Segment debt ²⁾ | | Investments ³⁾ | |
|--------------------------------|---|--------|----------------------------|---------|---------------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 ⁵⁾ | 2003 ⁶⁾ |
| Exploration and Production | 18 | 414 | 5,410 | 6,032 | 10,607 | 10,270 |
| Energy and Oil Marketing | 2,310 | 1,971 | 8,137 | 8,217 | 1,460 | 989 |
| Eliminations | 19 | 21 | (3,026) | (2,965) | - | - |
| Hydro Oil & Energy | 2,347 | 2,406 | 10,521 | 11,284 | 12,067 | 11,259 |
| Metals | 3,066 | 3,384 | 7,484 | 5,596 | 4,199 | 3,572 |
| Rolled Products | 1,532 | 1,576 | 3,338 | 2,769 | 553 | 466 |
| Extrusion and Automotive | 859 | 827 | 5,419 | 4,975 | 1,442 | 1,543 |
| Other and eliminations | - | - | (2,444) | (1,914) | - | - |
| Hydro Aluminium | 5,457 | 5,787 | 13,797 | 11,426 | 6,194 | 5,581 |
| Other activities ⁴⁾ | 1,095 | 957 | 3,067 | 2,710 | 1,058 | 791 |
| Corporate and eliminations | 1,118 | 1,012 | 1,534 | 3,782 | 145 | 81 |
| Total | 10,017 | 10,162 | 28,919 | 29,202 | 19,464 | 17,712 |

1) Current assets and assets excludes internal cash accounts and accounts receivables related to group relief.

2) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.

3) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in non-consolidated investees.

4) Other activities consist of the following: Polymers, BioMar AS (previously Treka AS), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro Business Partner.

5) Includes non-cash increase in investment from effect of change in accounting principle (FIN 46R), of NOK 1,275 million.

6) Includes non-cash increase in investment from effect of change in accounting principle (SFAS 143), of NOK 1,918 million.

| Amounts in NOK million | Assets | | | Long-lived assets | | | Investments | | |
|----------------------------|----------------|---------|---------|-------------------|---------|---------|---------------|--------|--------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Norway | 135,005 | 124,923 | 113,597 | 88,095 | 88,687 | 86,180 | 11,988 | 12,514 | 17,198 |
| Germany | 15,974 | 19,099 | 22,724 | 8,733 | 11,895 | 12,568 | 1,107 | 780 | 14,673 |
| France | 2,483 | 2,712 | 2,602 | 689 | 729 | 604 | 99 | 155 | 806 |
| The Netherlands | 2,321 | 3,708 | 1,640 | 1,308 | 485 | 293 | 98 | 372 | 183 |
| Sweden | 4,454 | 4,633 | 6,174 | 1,163 | 1,416 | 1,761 | 187 | 267 | 438 |
| Denmark | 3,664 | 4,189 | 6,272 | 1,781 | 1,940 | 2,030 | 152 | 337 | 422 |
| Great Britain | 2,723 | 2,628 | 2,812 | 1,057 | 1,088 | 1,078 | 136 | 128 | 159 |
| Italy | 2,036 | 1,967 | 1,805 | 703 | 646 | 550 | 160 | 88 | 414 |
| Spain | 1,191 | 1,302 | 1,141 | 530 | 608 | 562 | 38 | 27 | 379 |
| Other | 4,684 | 2,808 | 2,551 | 2,720 | 1,520 | 1,392 | 1,720 | 191 | 949 |
| Total EU | 39,530 | 43,046 | 47,721 | 18,684 | 20,327 | 20,838 | 3,697 | 2,345 | 18,423 |
| Other Europe | 1,597 | 1,728 | 1,478 | 1,329 | 1,559 | 1,298 | 169 | 259 | 555 |
| Total Europe | 176,132 | 169,697 | 162,796 | 108,108 | 110,573 | 108,316 | 15,854 | 15,118 | 36,176 |
| USA | 4,429 | 4,340 | 4,671 | 1,919 | 1,983 | 2,138 | 484 | 378 | 1,301 |
| Asia | 1,880 | 1,624 | 1,787 | 1,133 | 942 | 1,267 | 239 | 85 | 800 |
| Other Americas | 3,854 | 3,598 | 3,075 | 3,432 | 3,156 | 2,732 | 186 | 215 | 907 |
| Africa | 4,614 | 4,248 | 3,894 | 4,113 | 3,464 | 3,258 | 1,218 | 782 | 603 |
| Canada | 6,745 | 6,979 | 6,650 | 6,061 | 6,120 | 5,873 | 1,203 | 850 | 1,794 |
| Australia and New Zealand | 2,589 | 2,577 | 2,444 | 2,081 | 2,127 | 2,114 | 280 | 284 | 2,585 |
| Total outside Europe | 24,111 | 23,366 | 22,521 | 18,739 | 17,792 | 17,382 | 3,610 | 2,594 | 7,990 |
| Total continued operations | 200,243 | 193,063 | 185,317 | 126,847 | 128,365 | 125,698 | 19,464 | 17,712 | 44,166 |
| Discontinued operations | - | 25,566 | 21,894 | - | 10,801 | 10,041 | - | 1,188 | 1,550 |
| Total | 200,243 | 218,629 | 207,211 | 126,847 | 139,166 | 135,739 | 19,464 | 18,900 | 45,716 |

| NOK million | Operating revenues | | |
|-----------------|--------------------|---------|---------|
| | 2004 | 2003 | 2002 |
| Norway | 25,012 | 15,505 | 17,251 |
| Great Britain | 28,579 | 20,178 | 16,233 |
| Germany | 19,350 | 17,909 | 17,050 |
| Sweden | 8,400 | 9,828 | 9,610 |
| Italy | 7,360 | 6,517 | 5,797 |
| France | 6,859 | 11,661 | 11,126 |
| The Netherlands | 6,649 | 4,530 | 4,389 |
| Spain | 6,168 | 4,697 | 3,562 |
| Denmark | 1,201 | 2,031 | 5,743 |
| Other | 12,995 | 12,936 | 13,621 |
| Total EU | 97,561 | 90,287 | 87,131 |
| Switzerland | 5,603 | 4,659 | 6,451 |
| Other Europe | 1,658 | 1,726 | 1,943 |
| Total Europe | 129,834 | 112,177 | 112,776 |

| | | | |
|---------------------------|----------------|---------|---------|
| USA | 10,357 | 10,467 | 11,552 |
| Asia | 6,000 | 5,567 | 4,813 |
| Other Americas | 2,526 | 1,879 | 1,481 |
| Africa | 548 | 266 | 283 |
| Canada | 5,188 | 2,690 | 2,742 |
| Australia and New Zealand | 972 | 715 | 446 |
| Total outside Europe | 25,591 | 21,584 | 21,317 |
| Total | 155,425 | 133,761 | 134,093 |

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

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6. Restructuring Costs

In October of 2001 Hydro discontinued production of primary magnesium in Norway. As a result, Hydro closed the Porsgrunn magnesium production facilities in March of 2002, and started the clean up and dismantling work. Dismantling and clean-up work was finalized in December 2004. As part of the closure of the magnesium plant facilities, restructuring costs totaling NOK 921 million were recognized at the end of 2001; of this amount, NOK 261 million was charged as an impairment loss on the plant facilities, the remaining NOK 660 million of restructuring costs included termination costs for customer and supplier agreements, work-force reduction costs, and dismantling and clean-up costs. At the same time NOK 40 million related to write down of inventories due to obsolescences was expensed. Hydro recorded additional restructuring costs of NOK 59 million related to work-force reduction in 2002. The initial restructuring accrual was reduced by NOK 69 million during 2002, due to the reversal of certain accruals relating to contract termination costs that were lower than originally anticipated. Restructuring costs resulted in a credit of NOK 22 million in the income statement for 2004, representing the difference between the accrual relating to the restructuring and the final cost of the program, which ended in 2004.

The following table summarizes the types and amounts recognized as accrued expenses for the restructuring together with changes in the accrual for the years 2002, 2003 and 2004.

| Amounts in NOK million | Demolition cost | Workforce severance | Shutdown cost of operation | Contracts termination | Total |
|---------------------------------------|-----------------|---------------------|----------------------------|-----------------------|-------|
| 31 December 2001 | 316 | 130 | 98 | 116 | 660 |
| Additions/ (deductions) ¹⁾ | - | 59 | - | (69) | (10) |
| Payment | (41) | (171) | (98) | (47) | (357) |
| 31 December 2002 | 275 | 18 | - | - | 293 |
| Payment | (131) | (18) | - | - | (149) |
| 31 December 2003 | 144 | - | - | - | 144 |
| Payment | (122) | - | - | - | (122) |
| Additions/ (deductions) ¹⁾ | (22) | - | - | - | (22) |
| 31 December 2004 | - | - | - | - | - |

¹⁾ Charged to the income statement.

7. Operating costs and expenses

Operating costs include research and development, operating lease expense, bad debt, shipping and handling cost, and payroll and related costs as follows:

| Amounts in NOK million | 2004 | 2003 | 2002 |
|--|--------|--------|--------|
| Research and development expense | 760 | 722 | 639 |
| Bad debt | 269 | 638 | 217 |
| Shipping and handling costs | 3,151 | 2,966 | 3,104 |
| Operating lease expense: ¹⁾ | | | |
| Drilling rigs, ships, office space | 689 | 685 | 1,029 |
| Office space leased from Hydro's independent pension trust | 225 | 199 | 196 |
| Total | 914 | 884 | 1,225 |
| Payroll and related costs: | | | |
| Salaries | 13,847 | 13,574 | 13,308 |
| Social security costs | 2,319 | 2,280 | 2,072 |
| Social benefits | 543 | 642 | 710 |
| Net periodic pension cost (Note 20) | 2,121 | 2,073 | 1,322 |
| Total | 18,830 | 18,569 | 17,412 |

¹⁾ Total minimum future rentals of NOK 4,736 million are due under non-cancelable operating leases as follows (in NOK million): 2005 - 1,171; 2006 - 879; 2007 - 682; 2008 - 548; 2009 - 463; and thereafter - 993.

Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December 2004, 2003 and 2002.

8. Financial income and expense

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|---------|---------|---------|
| Interest income | 927 | 972 | 1,308 |
| Net gain (loss) on securities | 72 | 182 | (270) |
| Dividends received | 164 | 137 | 135 |
| Interest income and other financial income | 1,163 | 1,291 | 1,173 |
| Interest expense | (2,077) | (2,783) | (3,073) |
| Capitalized interest | 664 | 715 | 607 |
| Net foreign exchange gain (loss) | 1,350 | 1,035 | 3,262 |
| Other, net ¹⁾ | (964) | (104) | (163) |
| Interest expense and foreign exchange gain (loss) | (1,027) | (1,137) | 633 |
| Net financial expense | 136 | 154 | 1,806 |

¹⁾ Other, net includes "breaking costs" for early repayment of long term debt of NOK 938 million for 2004.

9. Other income and expense

For the year 2004, Other income was NOK 169 million. Other income consisted of a gain on the divestment of 80.1 percent of Pronova Biocare of NOK 110 million and a gain of NOK 59 million related to an adjustment of the price for the 2003 sale of Hydro's share in Skandinaviska Raffinaderi AS, the Scanraff oil refinery.

For the year 2003, other income and expense resulted in a loss of NOK 1,253 million. The loss included a charge of NOK 2,207 million resulting from new Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian Continental Shelf. In accordance with earlier regulations, removal costs could not be deducted when calculating taxable income. Instead, the Norwegian state assumed a portion of the removal costs by means of a special removal grant. The new rules permit removal costs to be deducted from taxable income. The amendment resulted in a charge in the second quarter representing the estimated value of expected grants. At the same time, a deferred tax asset representing the value of the new tax deductions, was included as a reduction to the tax provision for the second quarter in the amount of NOK 2,380 million. Further other income consisted of a gain on the sale of Hydro's share in Skandinaviska Raffinaderi AB, the Scanraff oil refinery of NOK 490 million. The remaining NOK 464 million consisted of a gain from the transfer of the Company's interest in the Sundsfjord power plant (NOK 326 million) and a gain on the disposal of Carmeda AB (NOK 138 million).

Other income in 2002 consisted of a gain on the sale of Hydro's interest in the oil company Pelican AS of NOK 77 million.

10. Income taxes

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|---------|---------|--------|
| Income from continuing operations before taxes and minority interest: | | | |
| Norway | 29,377 | 19,657 | 17,827 |
| Other countries | 3,403 | 1,489 | 1,699 |
| Total | 32,780 | 21,146 | 19,526 |
| Current taxes: | | | |
| Norway | 22,537 | 13,696 | 12,556 |
| Other countries | 1,605 | 812 | 512 |
| Current income tax expense | 24,142 | 14,508 | 13,068 |
| Deferred taxes: | | | |
| Norway | (2,339) | (1,487) | (415) |
| Other countries | (606) | (99) | (201) |
| Deferred tax expense (benefit) | (2,945) | (1,586) | (616) |
| Total income tax expense | 21,197 | 12,922 | 12,452 |

1) Norwegian nominal statutory tax rate is 28 percent.

2) Income from oil and gas activities on the Norwegian Continental Shelf is taxed according to the Petroleum Tax Law. This stipulates a surtax of 50 percent after deducting uplift, a special deduction for surtax, in addition to normal corporate taxation of 28 percent.

Components of deferred income tax expense

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|---------|---------|-------|
| Deferred tax expense (benefit), excluding items below | (2,295) | 733 | 766 |
| Benefits of tax loss carryforwards | 157 | (79) | (499) |
| Tax expense (benefit) allocated to other comprehensive income | 64 | 188 | (848) |
| Effect of tax law changes | (846) | (70) | 128 |
| Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations | - | (2,380) | - |
| Net change in valuation allowance | (25) | 22 | (163) |
| Deferred tax expense (benefit) – US GAAP | (2,945) | (1,586) | (616) |
| <i>Adjustments to N GAAP:</i> | | | |
| <i>Tax effects of differences between US GAAP and N GAAP (Note 28)</i> | (201) | (58) | 99 |
| Deferred tax expense (benefit) – N GAAP | (3,146) | (1,644) | (517) |

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|--------|---------|---------|
| Expected income taxes at statutory tax rate ¹⁾ | 9,179 | 5,921 | 5,467 |
| Petroleum surtax ²⁾ | 13,977 | 9,980 | 8,665 |
| Uplift benefit ²⁾ | (967) | (990) | (1,034) |
| Hydro-electric power surtax ³⁾ | 163 | 152 | 217 |
| Tax law changes | (846) | (70) | 128 |
| Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations | - | (2,380) | - |
| Losses and other deductions with no tax benefit | 139 | 216 | 129 |
| Non-deductible expenses | 119 | 43 | 48 |
| Foreign tax rate differences | 145 | 170 | 275 |
| Tax free income | (473) | (619) | (310) |
| Dividend exclusion | (37) | (12) | (33) |
| Losses and other benefits not previously recognized | (146) | (100) | (407) |
| Other, net | (56) | 611 | (693) |
| Income tax expense – US GAAP | 21,197 | 12,922 | 12,452 |
| Effective tax rate – US GAAP | 64.7% | 61.1% | 63.8% |
| <i>Tax effect of differences between US GAAP and N GAAP (Note 28)</i> | (201) | (58) | 99 |
| Income tax expense – N GAAP | 20,996 | 12,864 | 12,551 |
| Income before taxes – N GAAP | 31,966 | 20,799 | 19,486 |
| Effective tax rate – N GAAP | 65.7% | 61.8% | 64.4% |

3) A surtax of 27 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

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The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December, 2004 and 2003.

| Amounts in NOK million | US GAAP Deferred Tax | | | |
|--|----------------------|---------------------|----------------|---------------------|
| | Assets 2004 | Liabilities 2004 | Assets 2003 | Liabilities 2003 |
| Short-term: | | | | |
| Marketable securities | - | (4) | 14 | - |
| Inventory valuation | 178 | (295) | 95 | (238) |
| Accrued expenses | 899 | (558) | 1,425 | (1,154) |
| Unrealized exchange (gains) losses | 354 | (923) | 119 | (282) |
| Uplift benefit | 766 | - | 795 | - |
| Other | 162 | - | 2 | (198) |
| Long-term: | | | | |
| Unrealized exchange (gains) losses | 695 | (25) | 344 | (1,023) |
| Property, plant and equipment | 5,617 | (34,862) | 5,332 | (35,077) |
| Capitalized interest | - | (3,379) | - | (3,545) |
| Exploration drilling costs | - | (2,323) | - | (2,440) |
| Other non-current assets | 338 | (629) | 319 | (693) |
| Accrued expenses | 1,005 | (473) | 1,216 | (749) |
| Pensions | 1,574 | (1,390) | 1,363 | (1,435) |
| Deferred (gains) losses on sales | 204 | (974) | 178 | (1,521) |
| Uplift benefit | 1,613 | - | 1,573 | - |
| Abandonments and decommissioning accruals | 4,395 | - | 3,598 | - |
| Cash Flow Hedges | - | (320) | - | (452) |
| Other | 842 | (1,156) | 530 | (925) |
| Total tax loss carryforwards | 1,471 | - | 1,764 | - |
| Subtotal | 20,113 | (47,311) | 18,667 | (49,732) |
| Total valuation allowance | (967) | - | (1,047) | - |
| Gross deferred tax assets and liabilities | 19,146 | (47,311) | 17,620 | (49,732) |
| <i>Adjustments for N GAAP:</i> | | | | |
| <i>(Note 28)</i> | | | | |
| <i>Short and long-term:</i> | | | | |
| Unrealized gains | - | 553 | - | 491 |
| Gross deferred tax assets and liabilities, N GAAP | 19,146 | (46,758) | 17,620 | (49,241) |
| Net - N GAAP | 662 | (28,274) | 326 | (31,947) |

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 14,709 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiary which can be remitted tax-free as dividends.

At the end of 2004, Hydro had tax loss carryforwards of NOK 4,606 million, primarily in Canada, Jamaica, Norway, United Kingdom, Malaysia, Spain and Denmark. Carry forward amounts expire as follows:

| Amounts in NOK million | |
|------------------------------|-------|
| 2005 | 3 |
| 2006 | 136 |
| 2007 | 24 |
| 2008 | 57 |
| 2009 | 78 |
| After 2009 | 2,230 |
| Without expiration | 2,078 |
| Total tax loss carryforwards | 4,606 |

11. Other liquid assets

| Amounts in NOK million | 2004 | 2003 |
|------------------------------|--------|-------|
| Bank time deposits | 9,150 | 4 |
| Marketable equity securities | 416 | 550 |
| Debt securities and other | 1,404 | 999 |
| Total other liquid assets | 10,970 | 1,553 |

The net change in unrealized gains on securities for the years ended 31 December 2004, 2003 and 2002 was a net gain of NOK 91 million, a net gain of NOK 283 million and a net loss of NOK 259 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,781 million and NOK 1,601 million as of 31 December 2004 and 2003, respectively.

12. Inventories and other current assets

| Amounts in NOK million | 2004 | 2003 |
|--|--------|--------|
| Finished goods | 6,097 | 5,756 |
| Work in progress | 2,211 | 2,332 |
| Raw materials | 4,543 | 3,936 |
| Total inventories | 12,851 | 12,024 |
| Prepaid expenses | 3,653 | 3,852 |
| Other current assets | 6,825 | 7,945 |
| Total prepaid expenses and other current assets | 10,478 | 11,797 |

13. Non-Consolidated investees

| Amounts in NOK million | Hydro Texaco | Scanraff | Alunorf | Alunorte | Søral | Alu- chemie | Meridian | QVC | Noretyl | Other | Total |
|--|-----------------|----------|--------------|--------------|------------|----------------|------------|------------|------------|--------------|---------------|
| Balance 01.01.2003 | 919 | 488 | 1,428 | 536 | 575 | 135 | 495 | 352 | 584 | 3,898 | 9,410 |
| Investments (sale), net | 66 | (343) | | 58 | | | | | | 315 | 96 |
| Change in long-term advances, net | | (330) | | | | 323 | | | 500 | (74) | 419 |
| Transfers (to) from other investments | | | | | | | | | | (4) | (4) |
| Hydro's share of net income (loss) | 116 | | 41 | 305 | 92 | | 51 | 21 | 62 | 123 | 811 |
| Amortization and write-down | (66) | | (55) | (20) | | | | | | (50) | (191) |
| Dividends and other payments received by Hydro | (54) | | (6) | | (99) | (3) | (9) | | (709) | (84) | (964) |
| Foreign currency translation and other | 76 | 185 | 168 | 23 | | 5 | 49 | (63) | | 142 | 585 |
| Balance 31.12.2003 | 1,057 | - | 1,576 | 902 | 568 | 460 | 586 | 310 | 437 | 4,266 | 10,162 |
| Changes in 2004: | | | | | | | | | | | |
| Investments (sale), net | 8 | | | 284 | | 524 | | | | (284) | 532 |
| Change in long-term advances, net | | | | | | (430) | | (54) | (85) | (96) | (665) |
| Transfers (to) from other investments | | | | | | | | | | (64) | (64) |
| Hydro's share of net income (loss) | 39 | | 45 | 375 | 175 | 7 | 68 | 111 | 53 | 166 | 1,039 |
| Amortization and write-down | (8) | | (59) | (18) | (100) | (10) | - | | - | (216) | (411) |
| Dividends and other payments received by Hydro | (126) | | | | | | (26) | | | (174) | (326) |
| Foreign currency translation and other | (7) | | (30) | 1 | | 13 | (35) | (6) | - | (186) | (250) |
| Balance 31.12.2004 | 963 | - | 1,532 | 1,544 | 643 | 564 | 593 | 361 | 405 | 3,412 | 10,017 |
| <i>Accumulated additional amortization N GAAP 1)</i> | | | | | | | | | | | |
| | | | | | | | (83) | | | (4) | (87) |
| Balance 31.12.2004 N GAAP | 963 | - | 1,532 | 1,544 | 643 | 564 | 510 | 361 | 405 | 3,408 | 9,930 |

1) Amortization N GAAP 2004 amounts to NOK 40 million.

Specification of Non-consolidated Investees

| Amounts NOK million, except ownership | Percentage owned by Hydro | Investments in and advances to investees | | Hydro's current receivable (payable), net with investees | |
|---|---------------------------------|--|---------------|---|--------------|
| | | 2004 | 2003 | 2004 | 2003 |
| Hydro Texaco | 50.0% | 963 | 1,057 | 25 | (61) |
| Alunorf | 50.0% | 1,532 | 1,576 | (274) | 27 |
| Alunorte | 34.0% | 1,544 | 902 | (81) | (116) |
| Søral | 49.9% | 643 | 568 | (110) | (137) |
| Alu-chemie | 36.2% | 564 | 460 | (6) | - |
| Meridian | 49.0% | 593 | 586 | (26) | 8 |
| QVC | 29.7% | 361 | 310 | 2 | 2 |
| Noretyl | 50.0% | 405 | 437 | 39 | 47 |
| Others | | 3,412 | 4,266 | 184 | (331) |
| Total | | 10,017 | 10,162 | (247) | (561) |

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follows:

Hydro Texaco a.s operates 862 gasoline stations and 158 diesel stations in Norway, Denmark and the Baltics. Hydro and ChevronTexaco Corp. each own 50 percent in the joint venture. Hydro sells and purchases oil related products to and from the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 347 million, 428 million and NOK 510 million in 2004, 2003 and 2002, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 248 million, NOK 1,003 million and NOK 674 million in 2004, 2003 and 2002, respectively. Hydro Texaco is part of Energy and Oil Marketing.

Aluminium Norf GmbH (Alunorf) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Novelis – part of Alcan, Inc – (50 percent each). Each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro based on this tolling arrangement amounted

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to NOK 1,373 million in 2004, NOK 1,301 million in 2003 and NOK 1,941 million in 2002. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's ownership share is 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 1,109 million, NOK 907 million and NOK 433 million in 2004, 2003 and 2002, respectively. Alunorte is part of Metals.

Sør-Norge Aluminium AS (Søral), part of Metals, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each major owner at current market prices. The other 50 percent owner of Søral is an unaffiliated company. Sale of aluminium from Søral to Hydro amounted to NOK 1,115 million, NOK 949 million and NOK 847 million in 2004, 2003 and 2002, respectively. Sale of alumina, cold metal and carbon from Hydro to Søral amounted to NOK 671 million, NOK 356 million and NOK 363 million in 2004, 2003 and 2002, respectively.

Aluminium & Chemie Rotterdam B.V. (Aluchemie) is an anode producer located in the Netherlands. Hydro increased its shareholding in 2004 from 21.21 percent to 36.2 percent. Hydro purchased anodes from Aluchemie amounting to NOK 591 million in 2004, 285 million in 2003 and NOK 263 million in 2002. Sales from Hydro to Aluchemie amounted to NOK 12 million in 2004, NOK 50 million in 2003 and NOK 47 million in 2002. Aluchemie is part of Metals.

Meridian Technologies Inc. (Meridian), part of Extrusion and Automotive, is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidiary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro. Sales from Hydro to Meridian amounted to NOK 238 million, NOK 198 million and NOK 249 million in 2004, 2003 and 2002, respectively.

Hydro owns 29.7 percent of Qatar Vinyl Company Ltd (QVC). The other owners are three unaffiliated companies. QVC produces Caustic Soda, EDC and VCM. Hydro and the other partners deliver technical, marketing and support services to QVC.

Hydro and Borealis own Noretyl AS a joint venture (50-50 percent). Noretyl is part of Hydro Polymers. Hydro paid processing fees to Noretyl for refining of NGL of NOK 242 million, NOK 245 million and NOK 242 million in 2004, 2003 and 2002, respectively.

Non-consolidated investees split by segment can be found in Note 5.

Non-consolidated investees – 100 percent basis

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, is accounted for using the equity method.

Income Statement Data

Amounts in NOK million

| (unaudited) | 2004 | 2003 | 2002 |
|--|--------|--------|--------|
| Operating revenues | 31,454 | 24,254 | 24,902 |
| Operating income | 4,212 | 3,154 | 2,792 |
| Income before taxes and minority interest | 3,816 | 3,248 | 932 |
| Net income | 3,465 | 2,670 | 515 |
| Hydro's share of net income | 1,039 | 811 | 104 |

Balance Sheet Data

Amounts in NOK million

| (unaudited) | 2004 | 2003 | 2002 |
|--------------------------------------|--------|--------|--------|
| Current assets | 15,052 | 13,504 | 10,434 |
| Non-current assets | 29,759 | 30,503 | 31,472 |
| Assets | 44,811 | 44,007 | 41,906 |
| Current liabilities | 8,572 | 8,083 | 7,300 |
| Non-current liabilities | 13,275 | 14,049 | 14,265 |
| Minority interest | 19 | - | - |
| Shareholders' equity | 22,945 | 21,875 | 20,341 |
| Liabilities and shareholders' equity | 44,811 | 44,007 | 41,906 |
| Hydro's investments and advances | 10,017 | 10,162 | 9,410 |

14. Prepaid pension, investments and non-current assets

| Amounts in NOK million | 2004 | 2003 |
|---|---------|---------|
| Goodwill for consolidated subsidiaries, less accumulated amortization | 1,028 | 1,093 |
| Intangible assets, less accumulated amortization (Note 16, note 20) | 1,297 | 1,597 |
| Total intangible assets - US GAAP | 2,325 | 2,690 |
| Prepaid pension (Note 20) | 4,636 | 4,541 |
| Available-for-sale securities at fair value ¹⁾ | 16 | 19 |
| Other investments at cost | 2,065 | 2,435 |
| Non-current assets | 3,997 | 3,429 |
| Subtotal | 10,714 | 10,424 |
| Total prepaid pension, investments and non-current assets - US GAAP | 13,039 | 13,114 |
| Total prepaid pension, investments and non-current assets | 10,714 | 10,424 |
| Adjustments ²⁾ | (2,186) | (1,156) |
| Total prepaid pension, investments and non-current assets - N GAAP | 8,528 | 9,268 |

1) As of 31 December, 2004 and 2003, available-for-sale securities at cost amounted to NOK 4 million. Unrealized holding gain as of 31 December, 2004 and 2003, was NOK 12 million and NOK 15 million respectively.

2) The difference consists of fair value adjustment for cash flow hedge instruments, unrealized gain on available for sale securities, and unrealized gain on freestanding derivatives.

15. Property, plant and equipment

| Amounts in NOK million | Land-based Activities | | | | | Total |
|--|-----------------------|-------------------------|----------------|--------------------------|--------------------------------------|------------------------------|
| | Land | Machinery and Equipment | Buildings | Plant under construction | Oil and Gas activities ¹⁾ | |
| Cost: | | | | | | |
| Cost 31.12.2003 ²⁾ | 1,063 | 46,993 | 15,828 | 5,675 | 135,201 | 204,760 |
| Additions at cost | 3 | 1,305 | 188 | 4,093 | 11,587 | 17,176 |
| Retirements | (7) | (1,270) | (140) | (84) | (5,414) | (6,915) |
| Transfers | 2 | 3,589 | 1,773 | (5,364) | - | - |
| Foreign currency translation | (29) | (1,280) | (369) | (174) | (232) | (2,084) |
| Balance 31.12.2004 | 1,032 | 49,337 | 17,280 | 4,146 | 141,142 | 212,937 |
| Depreciation: | | | | | | |
| Accumulated depreciation 31.12.2003 ²⁾ | - | (24,594) | (6,749) | - | (63,966) | (95,309) |
| Depreciation, depletion and amortization ³⁾ | (1) | (5,198) | (1,121) | - | (9,825) | (16,145) |
| Retirements | - | 1,043 | 101 | - | 2,634 | 3,778 |
| Foreign currency translation and transfers | - | 685 | 50 | - | 121 | 856 |
| Balance 31.12.2004 | (1) | (28,064) | (7,719) | - | (71,036) | (106,820) |
| Net Book Value: | | | | | | |
| Balance 31.12.2003 | 1,063 | 22,399 | 9,079 | 5,675 | 71,235 | 109,451 ²⁾⁴⁾ |
| Balance 31.12.2004 | 1,031 | 21,273 | 9,561 | 4,146 | 70,106 | 106,117 ⁴⁾ |

1) Includes land-based Oil and Gas activities and transportation systems for Oil & Energy.

2) Includes the effect of consolidating the Variable Interest Entity (VIE) Slovalco according to FIN 46R. See note 1. Total cost amounts to NOK 2,193 million and total accumulated depreciation amounts to NOK 521 million.

3) Impairment losses for 2004, 2003 and 2002 were NOK 2,176 million, NOK 88 million and NOK 351 million, respectively. The fair value of the impaired asset was generally estimated by discounting the expected future cash flows of the individual assets. Impairment was indicated by adverse change in market prices, current period cash flow losses combined with a history of losses, or a significant change in the manner in which the asset is to be used. Impairment losses in 2004 included a write-down of NOK 2,042 million related to German primary aluminium plants in Hydro Aluminium's sub-segment Metals. The write-down was caused by increasing energy costs and the strengthened Euro versus US dollar.

4) Includes NOK 153 million and NOK 192 million related to capital leases for 2004 and 2003, respectively.

Notes to the consolidated financial statements

16. Goodwill and intangibles

Intangible Assets

| Amounts in NOK million | Finite | Indefinite | Total |
|---|----------------|----------------|--------------|
| | Useful Life | Useful Life | |
| Cost 31.12.2003 | 3,193 | 5 | 3,198 |
| Additions at cost | 143 | - | 143 |
| Disposals | (113) | - | (113) |
| Foreign currency translation and other | (19) | - | (19) |
| Accumulated amortization 31.12.2004 | (2,131) | - | (2,131) |
| Net book value 31.12.2004 | 1,073 | 5 | 1,078 |

Amortization of intangibles of NOK 393 million and NOK 409 million were recorded for 2004 and 2003, respectively. In addition, figures include impairment losses of NOK 8 million in 2004 and NOK 43 million in 2003.

Estimated amortization expense, in million NOK for the next five years is 2005 - 379, 2006 - 314, 2007 - 94, 2008 - 54 and 2009 - 44.

Goodwill

| Amounts in NOK million | Extrusion and | | Total |
|------------------------------------|---------------|-----------|--------------|
| | Automotive | Other | |
| Balance at 31 December 2003 | 1,056 | 37 | 1,093 |
| Goodwill acquired | 3 | - | 3 |
| Currency translation effect | (64) | (1) | (65) |
| Other | (2) | (1) | (3) |
| Balance at 31 December 2004 | 993 | 35 | 1,028 |

| | | | |
|---|------------|-----------|------------|
| <i>Accumulated additional amortization N GAAP ¹⁾</i> | (387) | (18) | (405) |
| <i>Foreign currency translation N GAAP</i> | 24 | - | 24 |
| Balance at 31 December 2004 N GAAP | 630 | 17 | 647 |

1) Amortization N GAAP 2004 amounts to NOK 137 million.

Original cost of goodwill for 2004 was NOK 1,531 million. Accumulated amortization of goodwill for N GAAP amounted to NOK 884 million.

Hydro incurred in 2003 a NOK 166 million goodwill impairment charge in "Other Activities" related to Treka (now named BioMar).

17. Bank loans and other interest bearing short-term debt

| Amounts in NOK million | Weighted Average Interest Rates | | 2004 | 2003 |
|---|------------------------------------|------|--------------|-------|
| | 2004 | 2003 | | |
| Bank loans and overdraft facilities | 2.9% | 2.7% | 482 | 1,571 |
| Commercial paper | 8.5% | 8.5% | 3 | 2 |
| Other | 1.6% | 2.0% | 3,300 | 3,700 |
| Total bank loans and other interest-bearing short-term debt | | | 3,785 | 5,273 |

As of 31 December 2004, Norsk Hydro ASA had unused short-term credit facilities with various banks totalling approximately NOK 2,611 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

18. Other current liabilities

| Amounts in NOK million | 2004 | 2003 |
|--|---------------|-------------|
| Accounts payable | 13,352 | 13,794 |
| Income taxes payable | 12,421 | 7,996 |
| Payroll and value added taxes | 3,142 | 3,163 |
| Accrued liabilities | 9,534 | 10,139 |
| Other liabilities | 2,891 | 2,106 |
| Total other current liabilities - US GAAP | 41,340 | 37,198 |
| <i>Reversal of Cash Flow hedge and derivatives</i> | <i>(960)</i> | <i>(42)</i> |
| Balance 31.12.2004 N GAAP | 40,380 | 37,156 |

19. Long-term debt

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

Long-term debt payable in various currencies

| Amounts in million | Weighted Average Interest Rates | Denominated Amount | Balance in NOK | |
|---------------------------------|---------------------------------|--------------------|----------------|---------|
| | | 2004 | 2004 | 2003 |
| USD | 7.3% | 2,618 | 15,802 | 19,558 |
| NOK | 5.8% | 527 | 527 | 1,580 |
| GBP | 6.5% | 16 | 182 | 2,672 |
| EUR | 6.3% | 300 | 2,473 | 3,362 |
| Total unsecured debenture bonds | | | 18,984 | 27,172 |
| USD | 4.2% | 27 | 164 | 10 |
| EUR | 5.4% | 15 | 123 | 585 |
| Other | | | 114 | 1,057 |
| Total unsecured bank loans | | | 401 | 1,652 |
| Capital lease obligations | | | 103 | 146 |
| Mortgage loans | | | 33 | 42 |
| Other long-term debt | | | 534 | 603 |
| Outstanding debt | | | 20,055 | 29,615 |
| Less: Current portion | | | (568) | (1,212) |
| Total long-term debt | | | 19,487 | 28,403 |

During 2004, a total of NOK 6,714 million of long-term debt was prepaid.

As of 31 December 2004 the fair value of long-term debt, including the current portion, was NOK 23,570 million and the carrying value was NOK 20,055 million.

Foreign currency swaps are not reflected in the table above. (See Note 24).

Payments on long-term debt fall due as follows

| Amounts in NOK million | Deben- tures | Bank loans | Capital lease and other | Total |
|------------------------|----------------------|------------|-------------------------|--------|
| 2005 | 353 | 17 | 198 | 568 |
| 2006 | 174 | 222 | 176 | 572 |
| 2007 | - | 62 | 193 | 255 |
| 2008 | - | 25 | 24 | 49 |
| 2009 | 1,811 | 9 | 7 | 1,827 |
| Thereafter | 16,646 | 66 | 72 | 16,784 |
| Total | 18,984 ¹⁾ | 401 | 670 | 20,055 |

1) Of which Norsk Hydro ASA is responsible for NOK 18,887 million.

Norsk Hydro ASA has entered into long-term committed stand-by credit facility agreements with several international banks for a total amount of USD 2,025 million. Of this amount, USD 350 million expires in 2007, USD 1,450 million in 2009 and the remainder in 2010. Average commitment fee on these facilities is 0.15 percent. Hydro has also entered into a long-term loan facility of EUR 300 million with European Investment Bank (EIB).

There are no borrowings under these facilities as of 31 December 2004.

20. Employee retirement plans

Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans. Hydro uses a 31 December measurement date for the majority of its defined pension benefit retirement plans.

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Net periodic pension cost

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|---------|-------|---------|
| Defined benefit plans: | | | |
| Benefits earned during the year, net of participants' contributions | 813 | 637 | 526 |
| Interest cost on prior period benefit obligation | 1,355 | 1,259 | 1,065 |
| Expected return on plan assets | (1,000) | (892) | (1,049) |
| Recognized loss | 345 | 290 | 47 |
| Amortization of prior service cost | 111 | 115 | 112 |
| Amortization of net transition (asset) obligation | 3 | (6) | (41) |
| Curtailment loss | 59 | 20 | 118 |
| Settlement (gain) loss | 30 | 199 | (4) |
| Net periodic pension cost | 1,716 | 1,622 | 774 |
| Defined contribution plans | 32 | 28 | 47 |
| Multiemployer plans | 35 | 13 | (3) |
| Termination benefits and other | 338 | 410 | 504 |
| Total net periodic pension cost | 2,121 | 2,073 | 1,322 |
| Change in the additional minimum pension liability included within other comprehensive income | 189 | 216 | 131 |

Change in projected benefit obligation (PBO)

| Amounts in NOK million | 2004 | 2003 |
|---|----------|----------|
| Projected benefit obligation at beginning of year | (23,456) | (19,422) |
| Benefits earned during the year | (840) | (646) |
| Interest cost on prior period benefit obligation | (1,355) | (1,259) |
| Actuarial loss | (864) | (1,460) |
| Plan amendments | (23) | (15) |
| Benefits paid | 870 | 784 |
| Curtailment loss | (8) | (16) |
| Settlements | 85 | 441 |
| Special termination benefits | (52) | (73) |
| Divestments | 54 | 303 |
| Inclusion of plans reported in line item "Termination benefits and other" in prior year | - | (1,519) |
| Foreign currency translation | 190 | (574) |
| Projected benefit obligation at end of year | (25,399) | (23,456) |

Change in pension plan assets

| Amounts in NOK million | 2004 | 2003 |
|---|--------|--------|
| Fair value of plan assets at beginning of year | 14,669 | 12,116 |
| Actual return on plan assets | 1,699 | 1,545 |
| Company contributions | 924 | 946 |
| Plan participants' contributions | 26 | 9 |
| Benefits paid | (605) | (524) |
| Settlements | (88) | (445) |
| Divestments | (33) | - |
| Inclusion of plans reported in line item "Termination benefits and other" in prior year | - | 977 |
| Foreign currency translation | (88) | 45 |
| Fair value of plan assets at end of year | 16,504 | 14,669 |

Status of pension plans reconciled to balance sheet

| Amounts in NOK million | 2004 | 2003 |
|---|---------|---------|
| Defined benefit plans: | | |
| Funded status of the plans at end of year | (8,895) | (8,787) |
| Unrecognized net loss | 6,557 | 6,825 |
| Unrecognized prior service cost | 967 | 1,111 |
| Unrecognized net transition asset | - | (1) |
| Net accrued pension recognized | (1,371) | (852) |
| Termination benefits and other | (1,161) | (1,184) |
| Total net accrued pension recognized | (2,532) | (2,036) |

Amounts recognized in the balance sheet consist of:

| | | |
|--|---------|---------|
| Prepaid pension | 4,636 | 4,541 |
| Accrued pension liabilities | (8,569) | (7,774) |
| Intangible asset | 219 | 202 |
| Accumulated other comprehensive income | 1,182 | 995 |
| Net amount recognized | (2,532) | (2,036) |

The accumulated benefit obligation for all defined pension benefit retirement plans was NOK 21,460 million and NOK 19,290 million at 31 December 2004 and 2003, respectively.

Plans in which the accumulated benefit obligation exceeds plan assets

| Amounts in NOK million | 2004 | 2003 |
|--------------------------------------|----------|----------|
| Projected benefit obligation | (12,581) | (10,966) |
| Accumulated benefit obligation (ABO) | (10,582) | (9,300) |
| Plan assets | 3,477 | 2,804 |

Weighted-average assumptions used to determine net periodic pension cost

| | 2004 | 2003 | 2002 |
|--------------------------------|------|------|------|
| Discount rate | 5.8% | 6.7% | 7.1% |
| Expected return on plan assets | 7.0% | 7.9% | 8.4% |
| Rate of compensation increase | 3.5% | 3.5% | 2.5% |

Weighted-average assumptions used to determine pension obligation at end of year

| | 2004 | 2003 |
|-------------------------------|------|------|
| Discount rate | 5.2% | 5.9% |
| Rate of compensation increase | 3.1% | 3.5% |

Weighted-average investment profile plan assets at end of year

| Asset category | 2004 | 2003 | Target Allocation |
|-------------------|------|------|-------------------|
| Equity securities | 36% | 32% | 26-44% |
| Debt securities | 36% | 36% | 32-55% |
| Real estate | 17% | 18% | 18% |
| Other | 11% | 14% | 2-7% |
| Total | 100% | 100% | |

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be approximately one percentage point above the yield on a portfolio of long-term corporate bonds that receive one of the two highest ratings given by a recognized rating agency.

In 2003, Hydro performed SFAS 87 valuations for certain defined benefit plans that were reported in line item "Termination benefits and other" in prior year. The immediate impact of applying SFAS 87 provisions on these plans resulted in an increased projected benefit obligation (PBO) of NOK 1,519 million, and increased pension plan assets of NOK 977 million. The difference between the plans' funded status according to SFAS 87 and what was recognized in the balance sheet, has been offset as unrecognized net loss and unrecognized prior service cost with NOK 552 million and NOK 65 million, respectively. Prior year financial statements have not been restated.

In 2003, Hydro incurred a settlement loss of NOK 199 million, and in 2002, Hydro incurred a curtailment loss of NOK 118 million. These charges include settlement and curtailment losses resulting from an agreement between Hydro and an external party, to trans-

fer Hydro's operatorship of certain licenses on the Norwegian continental shelf to the external party, including the transfer of employment for 535 employees, as of 1 January 2003.

Hydro expects to contribute approximately NOK 900 million to its pension plans in 2005. Total pension benefit payments expected to be paid to participants, which include payments funded from Hydro's assets as well as payments paid from the plans are as follows:

Expected pension benefit payments

| Amounts in NOK million | |
|------------------------|-------|
| 2005 | 873 |
| 2006 | 924 |
| 2007 | 973 |
| 2008 | 1,036 |
| 2009 | 1,107 |
| 2010-2014 | 6,620 |

Other Retirement Benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 19 million, NOK 2 million and NOK 14 million for 2004, 2003 and 2002, respectively. The post retirement liability was NOK 136 million and NOK 144 million as of 31 December 2004 and 2003, respectively.

21. Contingencies and other long-term liabilities

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December 2004 and 2003, Hydro had accrued NOK million 351 and NOK 341 million, respectively, for corrective environmental measures. The corresponding expense was NOK 44 million in 2004 compared to NOK 31 million and NOK 90 million in 2003 and 2002, respectively.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various other legal, tax and environmental matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not

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have a material adverse effect on its consolidated results of operations, liquidity or financial position.

Total, the operator for the Kharyaga field, has received from the Ministry of Taxes and Revenues of the Russian Federation, a claim for tax and the state's share of the revenues from oil extracted under the Petroleum Sharing Agreement for the field for 2001 and 2002. Hydros share of the claim is approximately 30 million US dollars. Both Hydro and Total are considering the claim unjustified, and have taken legal actions to get this confirmed as well as to avoid collection of the claim. No additional claims were received during 2004 and no accruals have been recorded relating to earlier claims.

Hydro has outstanding indebtedness against commercial counterparties in many countries with varying legal systems. Occasionally problems occur in connection with Hydro's ability to pursue its legal rights against such parties. At the end of 2004, a dispute arose in connection with a sizable claim against a supplier of aluminum and as a result, arbitration proceedings have been commenced by Hydro to protect its interests. Hydro's best estimate of the probable loss related to this dispute have been accrued in the 2004 accounts.

The EFTA (European Free Trade Association) Surveillance Authority (ESA) completed a formal investigation procedure against the Norwegian State to determine if the former zero-rate electricity tax applicable to Norwegian industry was in accordance with State aid rules included in the European Economic Area Agreement (the EEA Agreement). ESA issued a decision on 30 June 2004, reflecting its determination that the exemption of certain Norwegian businesses from the electricity tax constituted illegal State aid under the EEA Agreement. The decision to order recovery of electricity tax from the industry has been appealed to the EFTA Court by the Norwegian government, the Federation of the Norwegian Processing Industry (Prosessindustriens landsforening, PIL) and several individual member companies of PIL, including Hydro. The exact amount the Norwegian government is to recover from Hydro according to ESA's illegal State aid ruling depends on an interpretation of the decision. This interpretation issue is part of the dispute submitted to the EFTA Court, but is also part of a discussion between the Norwegian Government and ESA as regards how the recovery shall be implemented. Hydro estimates that the amount will not be material for Hydro.

Contingencies and other long-term liabilities

| Amounts in NOK million | 2004 | 2003 |
|--|--------------|--------------|
| Insurance premiums and loss reserves | 121 | 109 |
| Asset retirement obligations | 6,244 | 5,148 |
| Postretirement benefits other than pensions | 135 | 144 |
| Derivatives | 759 | 335 |
| Other | 1,875 | 1,777 |
| Total US GAAP | 9,134 | 7,513 |
| <i>Adjustment to N GAAP</i> | | |
| <i>Cash Flow hedge and derivatives (Note 28)</i> | (651) | (8) |
| <i>Total N GAAP</i> | 8,483 | 7,505 |

Effective 1 January 2003, Hydro adopted SFAS 143 "Accounting for Asset Retirement Obligations". Hydro's asset retirement obligations covered by FAS 143 are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligations is recognized in the balance sheet in the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement.

Asset Retirement Obligations

| Amounts in NOK million | 2004 | 2003 |
|--|--------------|-------|
| Total asset retirement obligations 1.1 | 5,235 | 4,538 |
| Incurred this year | 106 | 463 |
| Revisions in estimates | 818 | 22 |
| Disposals | - | (30) |
| Settlements | (219) | (83) |
| Accretions | 352 | 306 |
| Currency translation | (11) | 19 |
| Total asset retirement obligations 31.12 | 6,281 | 5,235 |
| Of which: | | |
| Short term asset retirement obligations | 37 | 87 |
| Long term asset retirement obligations | 6,244 | 5,148 |

According to the standard, previous years should not be restated. The following table reconciles the reported net income, reported earnings per share and asset retirement obligations to that which would have resulted for the earlier years assuming SFAS 143 were adopted 1 January 2002.

Pro Forma information (Unaudited)

| Amounts in NOK million, except per share data | 2004 | 2003 | 2002 |
|---|---------------|--------|--------|
| Net income | 12,560 | 10,968 | 8,765 |
| Depreciation change (after tax) | - | - | (56) |
| Pro forma net income | 12,560 | 10,968 | 8,709 |
| Reported basic and diluted earnings per share | 49.40 | 42.60 | 34.00 |
| Depreciation change earnings per share | - | - | (0.20) |
| Pro forma basic and diluted earnings per share | 49.40 | 42.60 | 33.80 |
| Pro forma Asset Retirement Obligation, 1 January | - | 4,549 | 4,268 |

22. Secured debt and guarantees

| Amounts in NOK million | 2004 | 2003 |
|----------------------------------|--------|--------|
| Amount of secured debt | 33 | 41 |
| Assets used as security: | | |
| Machinery and equipment | 41 | 41 |
| Buildings | 62 | 54 |
| Other | 2 | 2 |
| Total | 105 | 97 |
| Guarantees (off-balance sheet): | | |
| Non-consolidated investee debt | 86 | 45 |
| Contingency for discounted bills | 92 | 67 |
| Tax guarantees | 1,354 | 1,352 |
| Sales guarantees | 8,200 | 7,900 |
| Commercial guarantees | 9,390 | 8,375 |
| Total | 19,122 | 17,739 |

The amounts in the table above represents the maximum potential amount of future payments related to the guarantees. Guarantees of non-consolidated investee debt relates to guarantees covering credit facilities with external banks. Tax guarantees includes guarantees to tax authorities regarding the non-taxable treatment on gains on internal sales of assets. Gains on such sales could become taxable if certain assets were sold outside the group. Hydro controls whether such assets are offered for sale outside the group.

Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. Sales guarantees also include liabilities relating to the demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. Hydro has, in addition to what is included in the table above, certain guarantees relating to sales of companies that are unlimited in amount and in time. Hydros estimate of the fair value of the guarantees related to sale of companies is not material.

In addition to the sales guarantees discussed above, Hydro has, following the asset exchange between Hydro and Petro-Canada in 1996, guaranteed that the total recoverable reserves attributable to Petro-Canada's working interest in the Veslefrikk field shall not be less than a certain quantified amount of crude oil. If less, Hydro has an obligation to deliver indemnity volumes to Petro-Canada. During 2002 there was a new evaluation of reserves in accordance with the agreement which resulted in compensation to Petro-Canada. The agreement was renegotiated in 2002 and is open for the possibility of re-evaluating the reserves in 2008, 2014 and at the end of the field's lifetime. The guarantee does not apply in cases of force majeure, the failure of the operator to comply with good oil field practices, etc. As of 31 December 2004, the remaining guaranteed volume was 1.02 million Sm³ of crude oil, equivalent to approximately NOK 1,569 million. As of 31 December 2003, the remaining guaran-

teed volume was 1.2 million Sm³ of crude oil, equivalent to approximately NOK 1,465 million.

Commercial guarantees consist of advance payment guarantees, bid bonds, stand-by letters of credit, performance guarantees and payment guarantees. Guarantees are issued in the normal course of business. Commercial guarantees are issued mainly by Norsk Hydro ASA on behalf of its subsidiaries. Certain commercial guarantees are obtained from external banks and covered by Norsk Hydro ASA by a counter indemnity guarantee to the external banks. A certain portion of these guarantees are payable on demand while the remainder is dependant upon performance by the guaranteed entity (i.e delivery of goods or services by a vendor). In addition, Hydro would also have recourse in the case of payment made on demand in connection with non performance by a guaranteed entity.

23. Contractual and other commitments for future investments and operations

| As of 31 December 2004: | Investments | | |
|--|-------------|------------|--------|
| Amounts in NOK million | 2005 | Thereafter | Total |
| Contract commitments for investments in property, plant and equipment: | | | |
| Land based | 944 | 42 | 986 |
| Oil and gas fields and transport systems | 7,310 | 12,203 | 19,513 |
| Total | 8,254 | 12,245 | 20,499 |
| Additional authorized future investments in property, plant and equipment: | | | |
| Land based | 976 | 330 | 1,306 |
| Oil and gas fields and transport systems | 267 | 59 | 326 |
| Total | 1,243 | 389 | 1,632 |
| Contract commitments for other future investments: | 325 | 17 | 342 |

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

Hydro has entered into take-and-pay and long-term contracts providing for future payments to secure pipeline and transportation capacity, processing services, raw materials and electricity and steam. In addition, Hydro has entered into long-term sales commitments to deliver goods. This principally relates to obligations to deliver gas from fields on the Norwegian Continental Shelf for a total amount of NOK 155 billion.

Notes to the consolidated financial statements

The non-cancelable future fixed and determinable obligations as of 31 December 2004 are as follows:

Take-and-pay and Long-term contracts

| Amounts in NOK million | Transport and Other | Raw materials | Energy related | Sales commitments |
|------------------------|---------------------|---------------|----------------|-------------------|
| 2005 | 603 | 2,341 | 2,327 | (13,652) |
| 2006 | 549 | 1,406 | 2,041 | (11,738) |
| 2007 | 764 | 1,163 | 2,039 | (11,641) |
| 2008 | 550 | 754 | 1,826 | (11,163) |
| 2009 | 496 | 640 | 1,893 | (11,065) |
| Thereafter | 5,043 | 6,376 | 16,712 | (113,186) |
| Total | 8,005 | 12,680 | 26,838 | (172,445) |

Terms of certain of these agreements include additional charges covering variable operating expenses in addition to the fixed and determinable component shown above, including contracts to purchase 24 million tonnes of alumina over the next 26 years where the variable part of the prices are normally linked to the London Metal Exchange quoted prices.

Hydro has also entered take-and-pay and other long terms contracts as part of shareholders agreement in non-consolidated investees, including contracts to purchase 22 million tonnes of alumina over the next 11 years. These commitments are not included in the figures above.

The total purchases under the take-and-pay agreements and long-term contracts were as follows (in NOK million): 2004 - 4,736; 2003 - 2,670; 2002 - 3,065 and 2001 - 1,924

24. Derivative instruments and risk management

Hydro is exposed to market risks from commodity pricing, currency exchange rates and interest rates. Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis.

Mitigating financial and commercial risk exposures through the use of derivative instruments is done only to a limited extent. Certain of Hydro's commodity contracts are deemed to be derivatives under US GAAP. Derivative instruments, whether physically or financially settled, are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended. All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair values of derivative instruments recognized in earnings unless specific hedge criteria are met.

Commodity Price Risk Exposure

A substantial portion of Hydro's revenue is derived from the sale of commodities such as crude oil and aluminium. Hydro also produces, purchases and sells natural gas, electricity and petrochemical products. The prices of these commodities can be volatile, creating fluctuations in Hydro's earnings. The Company's main strategy to manage this exposure relates to maintaining a strong financial position to be able to meet fluctuations in prices and earnings. Natural hedging positions are established to the extent possible and economically viable. Derivatives are used in special situations to mitigate price movements and to participate in limited speculative trading within strict guidelines defined by management. The following highlights Hydro's main commodity price risks.

Oil

Hydro produces and sells crude oil and gas liquids. Hydro's production of crude oil and gas liquids is for the most part sold in the spot market. Hydro utilizes futures and swaps to mitigate unwanted price exposure for a portion of its crude oil portfolio production. From time to time financial options are used for the same purpose. At the end of 2003 Hydro has no hedging program in place for the purpose of protecting against the risk of low oil prices.

Natural gas

Hydro is a producer, consumer, buyer and seller of natural gas. The majority of Hydro's equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil prices. Hydro utilizes on a limited basis instruments such as forwards and swaps to mitigate unwanted price exposures on the portion of the natural gas portfolio not sold on long-term contracts. Hydro is also participating in trading activities based on partly own gas production and partly externally sourced gas volumes. In addition, Hydro engages in limited energy trading activity in derivatives as defined under EITF 02-3. Hydro maintains a system of controls over the authorization and monitoring of this speculative trading activity. The fair value of these traded financial instruments is determined by reference to various market prices or by use of other appropriate valuation methodologies. Commodity price, foreign exchange rate and credit exposures arising from energy trading have not been significant.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term purchase contracts with other producers and suppliers to secure electricity in the market for Hydro's own consumption and delivery commitments.

In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volume, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange,

"Nord Pool". Hydro is also offering power portfolio management services to third party clients and participates in limited speculative trading.

Aluminium

Hydro is a producer of primary aluminium and fabricated aluminium products. Hydro enters into future contracts with the London Metal Exchange (LME) mainly for two purposes. The first is to achieve an average LME price on smelter production. Secondly, because the Company's downstream business and the sale of third party products are margin businesses, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking LME positions based upon net exposures. Aluminium price volatility can result in significant fluctuations in earnings as these LME positions are marked to their market value with changes to market value recognized in operating income.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2004 and 2003. Contracts that are designated as hedging instruments in cash flow and fair value hedges are not included.

| Amounts in NOK million | 2004 | 2003 |
|--------------------------------------|---------|-------|
| Assets: | | |
| Swaps and futures, crude oil | 21 | 2 |
| Electricity contracts | 391 | 1,171 |
| Natural gas contracts | 1,525 | 218 |
| Agri futures, swaps and options | - | 10 |
| Aluminium futures, swaps and options | 177 | 286 |
| Total | 2,114 | 1,687 |
| Liabilities: | | |
| Electricity contracts | (197) | (620) |
| Natural gas contracts | (988) | (201) |
| Swaps and futures, crude oil | (62) | (2) |
| Aluminium futures, swaps and options | 0 | (172) |
| Total | (1,247) | (995) |

The presentation of fair values for electricity and natural gas contracts shown in the table above includes that fair value of derivative instruments such as futures, forwards and swaps in conjunction with fair values of physical contracts.

Foreign Currency Risk Exposure

Prices of many of Hydro's most important products, mainly crude oil, aluminium and natural gas, are either denominated in US dollars or are influenced by movements in the value of other currencies against the US dollar. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars (as of 31 December 2004, 82 percent of Hydro's long-term debt is denominated in US dollars). The majority of the remaining long-term debt is denominated in Norwegian kroner, Euro, and British pounds.

Hydro employs foreign currency swaps and forward currency contracts to modify the currency exposures for Hydro's long-term debt portfolio. Forward currency contracts are entered into to safeguard cash flows for forecasted future transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

Hydro also incurs costs related to production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian krone, US dollar, Canadian dollar, Australian dollar, British Pounds and Swedish krone. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian krone for subsidiaries outside of Norway can influence comparative results of operations.

Hydro has designated a portion of its foreign-denominated long-term debt, including certain related balances in currencies arising from foreign currency swaps and forwards, as hedges of net foreign investments in subsidiary companies. The foreign currency effects of these hedges reflected in the cumulative translation section of shareholders' equity produced a NOK 320 million after-tax gain during the year ended 31 December 2004 and NOK 333 million after-tax loss during the year ended 31 December 2003; offsetting a foreign currency translation loss of NOK 1,628 million and a foreign currency translation gain of NOK 4,856 million in shareholders' equity for 2004 and 2003 respectively. As of 1 January 2005 Hydro no longer designates portions of its long-term debt and forward currency contracts as hedges of net investments in foreign subsidiary companies. Changes to the Company's long-term debt portfolio and to the Company's structure during the recent years has rendered these accounting hedges less material to Shareholder's equity.

Notes to the consolidated financial statements

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2004 and 2003. Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

| Amounts in NOK million | 2004 | 2003 |
|-----------------------------|------|-------|
| Assets: | | |
| Currency forwards and swaps | 757 | 980 |
| Liabilities: | | |
| Currency forwards and swaps | (23) | (123) |

The currency contracts listed below were outstanding as of 31 December 2004.

| Currency | Nominal value in currency | Fair value in NOK | Maturity by nominal amount in currency | |
|-------------------|---------------------------|-------------------|--|---------|
| | | | Within one year | Later |
| Amount in million | | | | |
| Buying currency | | | | |
| AUD | 85 | 395 | 10 | 75 |
| CAD | 119 | 565 | - | 119 |
| DKK | 16 | 18 | 16 | - |
| EUR | 426 | 3,499 | 370 | 56 |
| GBP | 20 | 232 | 20 | - |
| NOK | 6,540 | 6,528 | 5,754 | 786 |
| USD | 76 | 361 | 12 | 63 |
| Selling currency | | | | |
| CAD | (30) | (150) | (30) | - |
| DKK | (930) | (1,028) | (930) | - |
| GBP | (15) | (174) | (15) | - |
| JPY | (5,642) | (313) | (700) | (4,942) |
| SEK | (2,737) | (2,490) | (2,737) | - |
| USD | (1,106) | (6,632) | (858) | (248) |
| Other | - | (77) | - | - |

Interest Rate Exposure

Hydro is exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund its business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its total interest bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure. Fair values of interest rate derivatives at 31 December 2004 and 2003 were immaterial.

Cash Flow Hedges

The expansion project at the Sunndal metal plant increased Hydro's exposure to commodity prices and foreign currency exchange rates. Accordingly, Hydro has entered into short positions using LME future contracts and US dollar forward contracts to secure an average aluminium price of approximately NOK 14,000 per tonne of a portion of the forecasted sales of primary metal production per year for the period 2003 to 2007. As of 31 December 2004, Hydro had sold forward about 315,000 tonnes (426,000 tonnes in 2003) of primary aluminium at an average price of approximately US dollar 1,500 per tonne. In addition Hydro has secured the exchange rate against the US dollar at about NOK 9.3 per US dollar for the same tonnage. Gains and losses on these derivatives are recorded to OCI and are to be reclassified into operating revenues when the corresponding forecasted sale of aluminium is recognized. No amount of ineffectiveness was recognized in 2004 and 2003 since the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar. A gain after tax of NOK 274 million is expected to be classified from OCI into earnings during the period ending 31 December 2005. A gain after tax of NOK 257 million was reclassified from OCI into earnings during 2004. A gain after tax of NOK 172 million was reclassified from OCI into earnings during 2003. As of 31 December, 2004 the maximum length of time over which the Company is hedging its exposure to the variability in cash flows is three years.

In 2003, a major expansion project at the Alouette plant in Canada increased Hydro's exposure to foreign currency exchange rates. Hydro's investment in the plant is in US dollar however approximately 78 percent of the expected payments for the expansion project in Canada is nominated in Canadian dollar (CAD). Hydro has entered into currency forward contracts to sell US dollar and buy Canadian dollar as part of a cash flow hedge of forecasted CAD payments for the period 2003-2006. The notional amount of the contracts is approximately CAD 39.6 million at year end (CAD 206 million at inception of project in 2003) at an average rate of 1.56 CAD per USD. Gains and losses on these derivatives are recorded in OCI and are to be reclassified into earnings in the same periods during which the hedged forecasted transactions affects earning (that is, when the plant is to be depreciated). No amount of ineffectiveness was recognized in 2004 and 2003 since the critical terms of the derivatives and the forecasted payments are substantially similar. A gain after tax of NOK 2 million is expected to be reclassified from OCI into earnings during the period ending 31 December 2005. As of 31 December 2004, Hydro is hedging its exposure to the variability in cash flows until March 2006.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2004 and 2003.

| Amounts in NOK million | 2004 | 2003 |
|--|-------|-------|
| Assets: | | |
| Cash flow hedging instruments, currency | 1,396 | 1,518 |
| Liabilities: | | |
| Cash flow hedging instruments, aluminium | (497) | (48) |

Fair Value of Derivative Instruments

Fair market values of derivative financial instruments such as currency forwards and swaps are based on quoted market prices. Fair market value of aluminium futures and option contracts are based on quoted market prices obtained from the London Metals Exchange. The fair values of other commodity over-the-counter contracts and swaps are based on quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recorded at fair value under the requirements of FAS133, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available.

See Note 19 for fair value information of long-term debt.

Credit Risk Management

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is substantially limited since most instruments are settled through commodity exchanges. Therefore, counter party risk related to use of derivative instruments and financial operations is regarded as limited.

Setting counterparty risk limits, requiring insurance, and establishing procedures for monitoring exposures and settlement of accounts limits Hydro's credit risk. The Company's overall credit risk level is also reduced through a diversified customer base representing various industries and geographic areas. Follow-up of timely payments of accounts receivables is given high priority in the Company.

25. External audit remuneration

Deloitte statsautoriserede revisorer AS (Deloitte) is the principal auditor of Norsk Hydro ASA. Certain portions of audits are performed by Ernst & Young and other firms. The following table shows total audit and non-audit fees for the fiscal years 2004 and 2003. The figures include fees related to discontinued operations.

| 2004 | | Audit related fees | Other non-audit fees | Tax fees | Total |
|--------------------------|------------|--------------------|----------------------|----------|--------|
| Amounts in NOK thousands | Audit fees | | | | |
| Deloitte Norway | 24,691 | 2,018 | 1,337 | 17 | 28,063 |
| Deloitte Abroad | 23,399 | 4,899 | 427 | 7,445 | 36,170 |
| Total Deloitte | 48,090 | 6,917 | 1,764 | 7,462 | 64,233 |
| Ernst & Young | 11,095 | 929 | - | 2,200 | 14,224 |
| Others | 3,660 | 1,314 | 1,215 | 1,774 | 7,963 |
| Total fees | 62,845 | 9,160 | 2,979 | 11,436 | 86,420 |

| 2003 | | Audit related fees | Other non-audit fees | Tax fees | Total |
|-----------------------------|------------|--------------------|----------------------|----------|---------|
| Amounts in NOK thousands | Audit fees | | | | |
| Deloitte Norway | 26,257 | 1,839 | 8,069 | 400 | 36,565 |
| Deloitte Abroad | 32,728 | 2,911 | 1,863 | 3,828 | 41,330 |
| Total Deloitte | 58,985 | 4,750 | 9,932 | 4,228 | 77,895 |
| Ernst & Young ¹⁾ | 16,998 | 1,486 | 1,076 | 4,768 | 24,328 |
| Others | 11,096 | 2,941 | 1,296 | 2,677 | 18,010 |
| Total fees | 87,079 | 9,177 | 12,304 | 11,673 | 120,233 |

1) Amounts for Ernst & Young relate to Hydro subsidiaries under Ernst & Young's audit.

Ernst & Young provides non-audit services to subsidiaries that it does not audit; such fees are not included in this table.

Notes to the consolidated financial statements

26. Related parties

The Norwegian State owned as of 31 December 2004, 113,483,658 ordinary shares representing 43.8 percent of the total number of ordinary shares issued, representing 45.2 percent of the shares outstanding as of the same date. There are no different voting rights associated with the ordinary shares held by the State.

Transactions with related parties

The extraordinary General Meetings in January 2004 and December 2004 authorized the cancellation of 1,484,300 and 2,808,810 repurchased shares respectively. Based on an agreement with the Norwegian State, Hydro's largest shareholder, a proportional share of the State's shares of 1,157,922 and 2,191,190 respectively, was redeemed. As compensation, the State received an amount equal to the market price paid by Hydro, plus interest of NIBOR plus one percent, for the period between the share purchases and the payment to the State. For the transactions, the State received compensation of NOK 445 million in 2004 and 981 million in February 2005.

A new buy back program covering up to 5,617,621 shares was authorized at the same extraordinary General Meeting in December 2004. An agreement with the Norwegian State allows redemption of a proportional share of the State's shares. A total of 10 million shares may be cancelled under the new program, including shares owned by the Norwegian State, or the equivalent of approximately four percent of the Company's outstanding shares. A final decision on canceling any of the shares repurchased must be approved by a minimum of two-thirds of the shares represented at a General Meeting of shareholders.

On 19 March 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of 10 May 2002. The agreement was effective from 1 January 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

Transactions with non-consolidated investees are described in Note 13 Non-Consolidated Investees.

Members of the board of directors are elected for two year terms. Their rights and obligations as board members are solely and specifically provided for in the company's articles of association and Norwegian law. The company has no significant contracts in which a board member has a material interest.

Loans given to members of the Board and their number of shares owned as of 31 December, 2004 are:

| | Loans outstanding ^{1) 2)} | Number of shares |
|------------------------------|---------------------------------------|---------------------|
| Jan Reinås | - | - |
| Borger A. Lenth | - | 144 |
| Elisabeth Grieg | - | 6,080 |
| Håkan Mogren | - | - |
| Ingvild Myhre | - | - |
| Geir Nilsen | 76 | 55 |
| Kurt Anker Nielsen | - | - |
| Odd Semstrøm | 37 | 129 |
| Terje Friestad | 71 | 236 |
| Egil Myklebust ⁴⁾ | 4,514 ³⁾ | 4,272 |

1) Amounts in NOK thousands.

2) All loans to directors appointed by shareholders were entered into prior to 30 July 2002. The Company has not materially modified or renewed any of the loans extended to or for its directors or executive officers since that date. Mr. Terje Friestad, who in May 2004 joined the Board elected by the employees in accordance with Norwegian company law, was extended a loan in the amount of NOK 75,000 in July under an employee benefit scheme applicable to all employees in Norway.

3) In October 2000, an interest-only loan of NOK 2,200,000 was given. The interest rate as of 31 December 2004 was 2.9 percent. In addition, there is a loan with 25.5 years remaining and with an outstanding amount of NOK 2,063,779 as of 31 December 2004. Other loans of NOK 250,000 carry interest of 3.25 percent. All loans are secured.

4) Egil Myklebust resigned as Chairperson of the Board 31 March 2004.

Members, observers and deputy members of the corporate assembly owning ordinary shares as of 31 December 2004 are:

| | Number of shares |
|------------------------|------------------|
| Erna Flattum Berg | 135 |
| Sven Edin | 201 |
| Anne-Margrethe Firing | 1,162 |
| Odd Arne Fodnes | 22 |
| Billy Fredagsvik | 15 |
| Solveig Alne Frøyenes | 89 |
| Sónia F. T. Gjesdal | 194 |
| Oddny Grebstad | 125 |
| Westye Høegh | 16,300 |
| Kjell Kvinge | 199 |
| Astri Sylvi Lem | 150 |
| Stig Lima | 87 |
| Jon-Arne Mo | 230 |
| Bjørn Nedreaas | 116 |
| John-Arne Nilsen | 28 |
| Wolfgang Ruch | 175 |
| Anne Merete Steensland | 29,772 |
| Rune Strande | 1 |
| Svein Steen Thomassen | 100 |
| Ingar Aas-Haug | 2 |
| Svein Aaser | 1872 |

Loans to senior management as of 31 December 2004 and their ownership of shares and options (see Note 4) are:

| | Loans | Number | Options |
|-----------------------|------------------------------|-----------|---------|
| | Outstanding ^{1) 2)} | of shares | |
| Eivind Reiten | - | 11,641 | 35,000 |
| Alexandra Bech Gjørsv | - | 900 | 21,000 |
| John O. Ottestad | - | 8,238 | 24,000 |
| Jon-Harald Nilsen | 174 | 270 | 24,000 |
| Tore Torvund | 368 | 3,640 | 24,000 |

| Outstanding loan particulars: ²⁾ | Interest | Loans Repayment | Loans Amount ¹⁾ |
|--|-------------------|--------------------|-------------------------------|
| | Jon-Harald Nilsen | 3.25% | 8 years |
| Tore Torvund | 3.25-4.00% | 3-12 years | 368 |

1) Amounts in NOK thousands

2) All loans to executive officers (members of the corporate management board) were entered into prior to 30 July 2002. The Company has not materially modified or renewed any of the loans extended to or for its directors or executive officers since that date.

27. Supplementary oil and gas information (Unaudited)

Hydro uses the "successful efforts" method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Once the exploration drilling demonstrates that sufficient quantities of resources have been discovered, continued capitalization is dependent on project reviews, which take place periodically and no less frequently than every quarter, to ensure that satisfactory progress for the well or group of wells toward ultimate development of the reserves is being achieved. Evaluation of whether commer-

cial quantities of hydrocarbons have been discovered is based on existing technology and price conditions, unless Hydro expects long-term price conditions to be less favorable.

Most of Hydro's exploration activities are performed in areas requiring major capital expenditures. Such expenditures may include different types of production platforms, sub-sea stations, risers and flow lines, pipelines and, if existing infrastructure is utilized, modifications of existing production facilities to allow tie-in or tie-back solutions. For complicated offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended on the balance sheet for more than one year while we perform appraisal work, evaluate the optimal development plans and timing, and secure final regulatory approvals for development. Appraisal work for each project normally includes an assessment process covering choice of the optimal technical and economical solution taking into consideration existing pipelines, platforms and processing facilities in the area, regulatory issues including environmental requirements and legal issues, and relationship to other joint ventures involved in the area and/or utilizing the same infrastructure. When the appraisal work is completed, the Plan for Development and Operation (PDO), which shall contain an account of economic aspects, resource aspects, technical, safety related, commercial and environmental aspects as well as information as to how a facility may be decommissioned and disposed of when petroleum activities cease, can be prepared.

Discovered reserves are classified as "proved reserved" (as defined by the SEC's rules) when the PDO is submitted to the authorities for approval (Norway) or the project has matured to a similar level (outside Norway). At the same time, related costs are transferred to development cost. It normally takes more than one year to complete all of the activities that permit recognition of proved reserves under the current SEC guidelines.

Costs relating to acquired exploration rights are allocated to the relevant areas, and charged to operating expense upon determination that proved reserves will not be found in the area. Each block or area is assessed separately, based on exploration experience. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred.

Notes to the consolidated financial statements

Costs Incurred on Oil and Gas Properties

Exploration costs and costs related to property acquisition

| Amounts in NOK million | Norway | | | International | | | Total | | |
|---|--------------|-------|-------|---------------|---------|---------|----------------|---------|---------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Capitalized at beginning of year | 633 | 837 | 977 | 390 | 442 | 1,749 | 1,023 | 1,279 | 2,726 |
| Costs incurred during the year | 478 | 437 | 662 | 934 | 1,172 | 1,714 | 1,412 | 1,609 | 2,376 |
| Acquisition cost ¹⁾ | 65 | - | - | 148 | - | 35 | 213 | - | 35 |
| Capitalized exploration costs charged to expense | (468) | (437) | (649) | (796) | (1,140) | (2,909) | (1,264) | (1,577) | (3,558) |
| Transfer to development | (125) | (185) | (78) | 5 | (26) | (25) | (120) | (211) | (103) |
| Disposals | - | (19) | (75) | - | (78) | (9) | - | (97) | (84) |
| Foreign currency translation | - | - | - | (19) | 20 | (113) | (19) | 20 | (113) |
| Capitalized at end of year | 583 | 633 | 837 | 662 | 390 | 442 | 1,245 | 1,023 | 1,279 |
| Wells in process of drilling at end of year | 85 | 6 | 1 | 201 | 4 | 37 | 286 | 10 | 38 |
| Wells in areas requiring major capital expenditures where further wells are under way or firmly planned or where drilling program was completed during the year | 231 | 341 | 592 | 301 | 346 | 277 | 532 | 687 | 869 |
| Wells in areas requiring major capital expenditures where drilling program was completed more than one year ago | 182 | 266 | 184 | - | - | - | 182 | 266 | 184 |
| Other cost including acquisition of unproved property | 85 | 20 | 60 | 160 | 40 | 128 | 245 | 60 | 188 |
| Net book value | 583 | 633 | 837 | 662 | 390 | 442 | 1,245 | 1,023 | 1,279 |

1) In 2004, NOK 213 million was related to the purchase of license PL 248 in Norway and licenses in Gulf of Mexico and Madagascar.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling program for the project was completed, and the number of wells and projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling. A project is, in this context, defined as an area which is expected to be developed as one single development solution. A project may use existing infrastructure, including pipelines, processing facilities on existing platforms etc. There may be more than one development solution used for one reservoir or for one license if physical and/or legal and/or economic conditions make that viable.

Specification of age of category

| Amounts (NOK million) | 1 year | 2 years | 3 years | 4 years | 5 years | More than 5 years | Total |
|-----------------------|--------|---------|---------|---------|---------|-------------------|-------|
| | | 12 | 23 | 68 | - | - | 79 |
| Number of wells | 1 | 1 | 2 | - | - | 5 | 9 |
| Number of projects | 1 | 1 | 1 | - | - | 3 | 6 |

The following projects have been capitalized for a period greater than one year following the completion of drilling, including a description of activities undertaken in the project and remaining activities to classify the associated resources as proved reserves.

One year from end of drilling program:

The Ringhorne East project:

The project consists of one discovery well drilled in the third quarter of 2003. The well was assessed for commerciality, and it was concluded early in 2004 that the well had encountered sufficient quantities of hydrocarbons. Appraisal work is ongoing to evaluate the most viable development concept. The license is working on a plan for a sub sea solution with tie-in to the Ringhorne Field (100 percent owned and operated by Exxon Mobil). An unitisation agreement between the two licenses as well as commercial agreements are needed for this solution. The PDO is planned for submittal to the Norwegian Government in 2005/2006.

Two years from end of drilling program:

The Tyrihans project:

The project consists of one discovery well drilled in 2002. Concept selection and negotiations with other licenses have been undertaken in the period since the find was made. The license has agreed on a sub-sea development with a tie-in to the Kristin field and gas injection from the Åsgard field. An unitisation process between the two licenses is ongoing. PDO is dependent on the finalized unitization, and is planned for submittal to the Norwegian Government in 2005/2006.

Three years from end of drilling program:

The Oseberg Delta project:

The project consists of one discovery well drilled in 1998. Drilling program continued with the discovery of Oseberg Vestflanken in 2001. The initial concept selection phase concluded that the Oseberg Vestflanken should be developed separately, and the project was split. Oseberg Vestflanken was transferred to development in 2003. Appraisal work on Delta has been ongoing to evaluate different types of development concepts. The expected development solution involves using existing processing facilities on the Oseberg platform. The time plan for the project has been adjusted to match production and processing plans for the Oseberg Field, which has not had available processing capacity until recently. PDO for Oseberg Delta is planned for submittal to the Norwegian Government in the second quarter of 2005.

More than 5 years from end of drilling program:

The Volve project

The project consists of one discovery well drilled in 1997. The well has a total suspended cost of NOK 14 million. Volve has been reviewed for development in connection with the other licenses in the Sleipner area. Concept studies have been ongoing to determine the optimal development solution. The license has agreed to develop Volve as a stand-alone development with a jack up production platform and an oil storage tanker. PDO was submitted to the Norwegian Government in February 2005.

The Fram East project

The project consists of three discovery wells drilled from 1990-1997. The wells have a total suspended cost of NOK 53 million. The evaluation period for the area has been lengthy as the field is situated in an area with several other operating fields, where tie-in could be possible. The initial development plan was a combined development of the Fram discoveries, later divided into Fram East and Fram West. In 2000, the license partners decided on a separate sub-sea development with tie-in to the Troll C platform, one of three platforms currently producing from the Troll field. Having determined to use Troll C as a processing facility, the Fram fields were divided into two phases, West and East, to ensure that Troll C will have sufficient processing capacity available. Fram West commenced production in 2003. Studies of other possible development concepts for Fram East, including stand-alone development, were undertaken during 2003 and 2004. During the summer of 2004, the license decided the development concept. PDO was submitted to the Norwegian Government in February 2005.

The Grane Outside project

The project consists of one discovery well drilled in 1992 as part of the Grane drilling program which ended in 1998. The well has a total suspended cost of NOK 12 million. In connection with the Grane development, the licenses were unitized. The Grane Outside well was located outside the then established Grane unit, and therefore has a different ownership structure. Grane Outside is planned as a sub-sea development with tie-in to the producing Grane Field installations. Grane Outside is expected to be developed and start production when Grane goes off plateau production, expected in 2008-2010. The development of Grane Outside will require a separate PDO, and can thus not be classified as proved reserves.

Notes to the consolidated financial statements

Costs related to Development, Transportation Systems and Other

| Amounts in NOK million | Norway | | | International | | | Total | | |
|-------------------------------------|----------------|---------|---------|----------------|---------|---------|----------------|---------|---------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Net book value at beginning of year | 62,672 | 61,822 | 56,711 | 7,540 | 7,162 | 8,117 | 70,212 | 68,984 | 64,828 |
| Implementation SFAS 143 | | | | | | | | | |
| Asset Retirement Obligation | - | 1,021 | - | - | 68 | - | - | 1,089 | - |
| Cost incurred during the year | 9,093 | 7,288 | 6,923 | 1,585 | 1,199 | 1,299 | 10,678 | 8,487 | 8,222 |
| Acquisition cost | 297 | - | 5,460 | - | - | - | 297 | - | 5,460 |
| Transferred from exploration cost | 125 | 185 | 78 | (5) | 26 | 25 | 120 | 211 | 103 |
| Amortization | (8,259) | (7,525) | (7,278) | (1,566) | (1,589) | (1,275) | (9,825) | (9,114) | (8,553) |
| Disposals | (2,527) | (119) | (72) | (3) | (4) | (2) | (2,530) | (123) | (74) |
| Foreign currency translation | - | - | - | (90) | 678 | (1,002) | (90) | 678 | (1,002) |
| Net book value at end of year | 61,401 | 62,672 | 61,822 | 7,461 | 7,540 | 7,162 | 68,862 | 70,212 | 68,984 |

Cost incurred during 2004 included NOK 972 million, NOK 290 million and NOK 168 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 851 million and NOK 71 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Cost incurred during 2003 included NOK 686 million, NOK 281 million and NOK 239 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 236 million and NOK 61 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Cost incurred during 2002 included NOK 508 million, NOK 254 million and NOK 501 million of development cost related to activities in Angola, Canada and Russia respectively.

Acquisitions in 2004 included NOK 297 million it is related to the purchase of 2 percent of Kristin. In 2002, NOK 5,460 million relates to the acquisition of shares in SDFI on the NCS.

Results of Operations for Oil and Gas Producing Activities

As required by SFAS 69, the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Hydro.

The "results of operations" should not be equated to net income since no deduction nor allocation is made for interest costs, general corporate overhead costs, and other costs. Income tax expense is a theoretical computation based on the statutory tax rates after giving effect to the effects of uplift and permanent differences only.

| Amounts in NOK million | Norway | | | International | | | Total | | |
|--|-----------------|----------|----------|---------------|-------|---------|-----------------|----------|----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Sales to unaffiliated customers | 6,817 | 6,672 | 6,693 | 5,039 | 4,061 | 3,520 | 11,856 | 10,733 | 10,213 |
| Intercompany transfers ¹⁾ | 35,164 | 25,531 | 21,532 | - | - | - | 35,164 | 25,531 | 21,532 |
| Total revenues | 41,981 | 32,203 | 28,225 | 5,039 | 4,061 | 3,520 | 47,020 | 36,264 | 31,745 |
| Operating costs and expenses: | | | | | | | | | |
| Production costs | 3,922 | 3,591 | 3,554 | 412 | 425 | 406 | 4,334 | 4,016 | 3,960 |
| Exploration expenses | 468 | 437 | 649 | 796 | 1,140 | 2,909 | 1,264 | 1,577 | 3,558 |
| Depreciation, depletion and amortization | 8,101 | 7,378 | 6,826 | 1,578 | 1,597 | 1,315 | 9,679 | 8,975 | 8,141 |
| Transportation systems | 1,647 | 1,257 | 1,629 | 118 | 125 | 139 | 1,765 | 1,382 | 1,768 |
| Total expenses | 14,138 | 12,663 | 12,658 | 2,904 | 3,287 | 4,769 | 17,042 | 15,950 | 17,427 |
| Results of operations before taxes | 27,843 | 19,540 | 15,567 | 2,135 | 774 | (1,249) | 29,978 | 20,314 | 14,318 |
| Current and deferred income tax expense | (21,279) | (14,802) | (11,733) | (965) | (414) | 374 | (22,244) | (15,216) | (11,359) |
| Results of operations | 6,564 | 4,738 | 3,834 | 1,170 | 360 | (875) | 7,734 | 5,098 | 2,959 |

1) The majority of intercompany transfers are resold from the Energy and Oil Marketing sub segment without further processing.

Proved Reserves of Oil and Gas

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from undrilled production wells on exploration licenses. Reserves are expected to be revised as oil and gas are produced and additional data become available. International reserves under PSA contracts (production sharing agreement) are shown net of Royalties in kind and Government's share of profit oil, based on prices at the balance sheet date.

Proved Developed and Undeveloped Reserves of Oil and Gas

| | Norway | | | International | | | Total | | | | |
|---|----------------------------|---|-----------------------------|------------------------------------|----------------------------|---|-----------------------------|----------------------------|---|-----------------------------|------------------------------------|
| | Oil mmboe ¹⁾ | Natural gas billion ²⁾ Sm ³ | billion cf ²⁾ | Oil and gas mmboe ³⁾ | Oil mmboe ¹⁾ | Natural gas billion ²⁾ Sm ³ | billion cf ²⁾ | Oil mmboe ¹⁾ | Natural gas billion ²⁾ Sm ³ | billion cf ²⁾ | Oil and gas mmboe ³⁾ |
| As of 31 December 2001 ⁵⁾ | 825 | 169.2 | 5,986 | 1,880 | 193 | - | - | 1,018 | 169.2 | 5,986 | 2,073 |
| Revisions of previous estimates ⁴⁾ | 46 | (0.2) | (7) | 42 | (19) | - | - | 27 | (0.2) | (7) | 23 |
| Purchase (sale)/exchange of reserves in place | 109 | 12.1 | 428 | 186 | - | - | - | 109 | 12.1 | 428 | 186 |
| Extensions and new discoveries | 20 | 12.7 | 449 | 102 | 16 | - | - | 36 | 12.7 | 449 | 118 |
| Production for the year | (117) | (6.4) | (227) | (157) | (18) | - | - | (135) | (6.4) | (227) | (175) |
| As of 31 December 2002 ⁵⁾ | 883 | 187.4 | 6,629 | 2,053 | 172 | - | - | 1,055 | 187.4 | 6,629 | 2,225 |
| Revisions of previous estimates ⁴⁾ | 59 | (8.9) | (315) | 8 | (14) | - | - | 45 | (8.9) | (315) | (6) |
| Purchase (sale)/exchange of reserves in place | (2) | - | - | (2) | - | - | - | (2) | - | - | (2) |
| Extensions and new discoveries | 22 | 36.1 | 1,278 | 248 | 17 | - | - | 39 | 36.1 | 1,278 | 265 |
| Production for the year | (123) | (7.8) | (275) | (173) | (21) | - | - | (144) | (7.8) | (275) | (194) |
| As of 31 December 2003 ⁵⁾ | 839 | 206.8 | 7,317 | 2,134 | 154 | - | - | 993 | 206.8 | 7,317 | 2,288 |
| Revisions of previous estimates ⁴⁾ | 43 | (3.0) | (106) | 25 | 14 | - | - | 57 | (3.0) | (106) | 39 |
| Purchase (sale)/exchange of reserves in place | (6) | (9.1) | (324) | (65) | - | - | - | (6) | (9.1) | (324) | (65) |
| Extensions and new discoveries | 5 | 1.4 | 51 | 14 | 9 | - | - | 14 | 1.4 | 51 | 23 |
| Production for the year | (132) | (8.8) | (312) | (188) | (21) | - | - | (153) | (8.8) | (312) | (209) |
| As of 31 December 2004 ⁵⁾ | 749 | 187.3 | 6,626 | 1,920 | 156 | - | - | 905 | 187.3 | 6,626 | 2,076 |
| Proved developed reserves: | | | | | | | | | | | |
| As of 31 December 2001 | 564 | 103.7 | 3,669 | 1,214 | 62 | - | - | 626 | 103.7 | 3,669 | 1,276 |
| As of 31 December 2002 | 559 | 124.8 | 4,416 | 1,339 | 93 | - | - | 652 | 124.8 | 4,416 | 1,432 |
| As of 31 December 2003 | 690 | 124.8 | 4,415 | 1,470 | 88 | - | - | 778 | 124.8 | 4,415 | 1,558 |
| As of 31 December 2004 | 607 | 118.6 | 4,197 | 1,350 | 97 | - | - | 704 | 118.6 | 4,197 | 1,447 |

1) Includes crude oil, NGL and Condensate. 1 Sm³ Oil/Condensate = 6.2898 boe. 1 tonne NGL = 11.9506 boe.

2) Sm³ = Standard cubic meter at 15 degrees Celcius. cf = cubic feet at 60 degrees Fahrenheit. 1 Sm³ gas at 15 degrees Celcius = 35.3826 cubic feet gas at 60 degrees Fahrenheit.

3) Includes crude oil, NGL, Condensate and natural gas. When converting natural gas into barrels of oil equivalents adjustment for calorific value to an equivalent 40 MJ/Sm³ volumes calculated, then 1000 Sm³ @ 40 MJ/Sm³ = 6.2898 boe.

4) The revision of previous estimates relates to new information from current year's drilling operations and additional data which is now available.

5) Reserve estimates in Norway are made before royalties of approximately 0.3, 0.8 and 1.6 million barrels of oil equivalents (boe) for 2004, 2003 and 2002, respectively.

Purchase and sale of reserves during 2004 included sale of the 10 percent share in the Snøhvit field in Norway to Statoil ASA and purchase of an additional 2 percent share in the Kristin field in Norway from Statoil ASA. In 2003 the decrease in reserves was due to sale of shares in the Brage and Njord fields in Norway to Offshore Engineering Resources AS. In 2002 the change in reserves was due to acquisition of SDFI assets and sale of the small field Varg in Norway.

Extensions and new discoveries for oil in 2004 were related to the Gulltopp field in Norway, the Rosa field in Angola and the Hibernia

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field in Canada. Extensions and new discoveries for gas were related to the Njord field in Norway. In 2003, extensions and new discoveries for oil were related to the Oseberg Vestflanken and Oseberg Sør fields in Norway, the Dalia field in Angola and the Mabruk and Murzuq fields in Libya. Extensions and new discoveries for gas were related to the Ormen Lange, Oseberg Vestflanken and Oseberg Sør fields in Norway. In 2002, extensions and new discoveries for oil were related to the Snøhvit and Vigdis fields in Norway, the Hibernia and Terra Nova fields in Canada, the Murzuq field in Libya and the Jasmim field in Angola. Extensions and new discoveries for gas were related to the Snøhvit, Vigdis, Byggve and Skirne fields in Norway.

Reserve estimates at the end of the year 2004, 2003 and 2002 includes 156 million boe, 154 million boe and 172 million boe, respectively outside the Norwegian Continental Shelf. For all three years, the reserves were mainly situated in Canada, Angola, Russia and Libya.

Reserve estimates on fields in Angola, Russia and Libya are made after deduction of royalty in kind and Government's share of profit oil of approximately 40, 31 and 35 million boe for 2004, 2003 and 2002, respectively.

US GAAP Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows of Hydro's proved reserves of oil (including natural gas liquids and condensate) and gas is prepared in compliance with SFAS 69.

Future net cash flows are based on numerous assumptions which may or may not be realized. The management of Hydro cautions against relying on the information presented because of the highly arbitrary nature of assumptions involved and susceptibility of estimates to change as new and more accurate data become available. The individual components of future net cash flows shown below were computed using prices, production costs, development costs, royalty levels, foreign exchange rates, statutory tax rates and estimated proved reserve quantities at the respective year ends.

Standardized Measure of Discounted Future Net Cash Flows

| Amounts in NOK million | Norway | | | International | | | Total | | |
|--|------------------|-----------|-----------|-----------------|---------|---------|------------------|-----------|-----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| Future cash inflows | 382,800 | 372,800 | 351,200 | 35,800 | 28,900 | 34,800 | 418,600 | 401,700 | 386,000 |
| Future production costs | (91,500) | (92,600) | (86,500) | (10,600) | (7,000) | (6,400) | (102,100) | (99,600) | (92,900) |
| Future development costs | (38,500) | (46,000) | (27,300) | (5,600) | (5,300) | (6,300) | (44,100) | (51,300) | (33,600) |
| Future income tax expense | (189,800) | (169,100) | (171,300) | (5,200) | (3,200) | (6,800) | (195,000) | (172,300) | (178,100) |
| Future net cash flows | 63,000 | 65,100 | 66,100 | 14,400 | 13,400 | 15,300 | 77,400 | 78,500 | 81,400 |
| Less: 10% annual discount for estimated timing of cash flows | (26,400) | (28,000) | (26,000) | (4,700) | (4,200) | (4,900) | (31,100) | (32,200) | (30,900) |
| Standardized measure of discounted future net cash flows | 36,600 | 37,100 | 40,100 | 9,700 | 9,200 | 10,400 | 46,300 | 46,300 | 50,500 |

Major Sources of Changes in the Standardized Measure of Discounted Future Net Cash Flows

| Amounts in NOK million | 2004 | 2003 | 2002 |
|---|-----------------|----------|----------|
| Net changes in prices and production costs | 33,200 | - | 20,400 |
| Sales and transfers of oil and gas produced, net of production costs | (40,900) | (30,900) | (26,200) |
| Extensions, unitizations, discoveries and improved recovery, net of related costs | 2,600 | 17,700 | 5,500 |
| Purchase/Exchange of interests in fields | 800 | - | 15,900 |
| Sale/Exchange of interests in fields | (3,600) | (100) | (300) |
| Changes in estimated development costs | (900) | (14,300) | (8,300) |
| Development costs incurred during the year | 8,400 | 7,400 | 7,600 |
| Net change in income taxes | (8,500) | 7,900 | (8,600) |
| Accretion of discount | 3,100 | 4,500 | 3,700 |
| Revisions of previous reserve quantity estimates | 5,500 | 3,300 | 1,900 |
| Other | 300 | 300 | (100) |
| Total change in the standardized measure during the year | - | (4,200) | 11,500 |

Development costs for the years 2005, 2006 and 2007 are estimated to NOK 9,800 million, NOK 7,200 million and NOK 4,400 million respectively.

Average Sales Price and Production Cost per Unit

The following table presents the average sales price (including transfers) net of reductions in respect of royalty payments, and production costs per unit of crude oil and natural gas.

| Amounts in NOK | 2004 | Norway 2003 | 2002 | 2004 | International 2003 | 2002 | 2004 | Total 2003 | 2002 |
|--------------------------------------|---------------|----------------|--------|---------------|-----------------------|--------|---------------|---------------|--------|
| Average Sales Price ¹⁾ | | | | | | | | | |
| crude oil (per barrel) | 251.43 | 204.01 | 194.33 | 250.40 | 197.08 | 193.74 | 251.27 | 202.90 | 194.24 |
| natural gas (per Sm ³) | 1.09 | 1.03 | 0.95 | - | - | - | 1.09 | 1.03 | 0.95 |
| Average production cost (per boe) | 20.80 | 20.80 | 22.50 | 19.50 | 20.20 | 23.10 | 20.70 | 20.70 | 22.60 |

1) In the years 2004, 2003 and 2002, Hydro has not had any hedging gain or loss that has affected the realized oil and gas prices.

28. Summary of differences in accounting policies and reconciliation of US GAAP to N GAAP

The financial statements prepared in accordance with accounting principles generally accepted in Norway presented on pages 93-95, differ in certain respects from US GAAP. A reconciliation of net income and shareholders' equity from US GAAP to Norwegian accounting principles (N GAAP) and a description of these differences follow. The lines with a note reference reflect the variance between the US GAAP balance in that note and the N GAAP balance.

Reconciliation of US GAAP to N GAAP

Net income:

| Amounts in NOK million | Notes | 2004 | 2003 | 2002 |
|--|-------|-----------------|----------|----------|
| Operating revenues US GAAP | | 155,425 | 133,761 | 134,093 |
| Change in unrealized losses (gains) commodity derivative instruments | | (779) | - | 9 |
| Operating revenues N GAAP | | 154,646 | 133,761 | 134,102 |
| Operating costs and expenses US GAAP | | 123,578 | 112,136 | 116,426 |
| Change in unrealized gains (losses) commodity derivative instruments | | (141) | 187 | (129) |
| Amortization goodwill | 16 | 137 | 124 | 161 |
| Restatement of change in accounting principle | 21 | - | - | 7 |
| Other adjustments | | (1) | (2) | - |
| Operating income before financial and other income N GAAP | | 31,073 | 21,316 | 17,637 |
| Equity in net income of non-consolidated investees US GAAP | | 628 | 620 | (24) |
| Amortization goodwill non-consolidated investees | 13 | (40) | (38) | (10) |
| Equity in net income of non-consolidated investees N GAAP | | 588 | 582 | (34) |
| Financial income, net | | 136 | 154 | 1,806 |
| Other income, net | | 169 | (1,253) | 77 |
| Income before taxes and minority interest N GAAP | | 31,966 | 20,799 | 19,486 |
| Income tax expense US GAAP | | (21,197) | (12,922) | (12,452) |
| Adjustments for N GAAP | 10 | 201 | 58 | (99) |
| Net income from continuing operations N GAAP | | 10,970 | 7,935 | 6,935 |
| Net income from discontinued operations US GAAP | | 1,083 | 2,312 | 1,665 |
| Adjustments for N GAAP | 2 | (26) | 2 | 11 |
| Net income from discontinued operations N GAAP | | 1,057 | 2,314 | 1,676 |
| Net income N GAAP | | 12,027 | 10,249 | 8,611 |
| Minority interest US GAAP | | (106) | 151 | 26 |
| Adjustments for N GAAP | | 26 | (3) | (11) |
| Net income after minority interest N GAAP | | 11,947 | 10,397 | 8,626 |

Notes to the consolidated financial statements

Shareholders' equity:

| Amounts in NOK million | Notes | 2004 | 2003 | 2002 |
|---|--------|----------------|---------|---------|
| Shareholders' equity US GAAP | | 85,890 | 88,080 | 75,867 |
| Unrealized gains commodity derivative instruments - current and long-term (a) | | (771) | (147) | 36 |
| Cash Flow hedge - current and long-term (a) | 21 | (1,128) | (1,600) | (1,548) |
| Unrealized gain on securities (b) | 14 | (12) | (15) | (15) |
| Accumulated amortization goodwill (c) | 13, 16 | (468) | (322) | (154) |
| Deferred tax assets and liabilities - current and long-term (d) | 10 | 553 | 491 | (51) |
| Dividends payable (e) | | (5,017) | (2,811) | (2,709) |
| Minority Interest (f) | | 1,571 | 660 | 1,143 |
| Restatement of change in accounting principle (g) | 21 | - | - | 775 |
| Shareholders' equity N GAAP | | 80,618 | 84,336 | 73,344 |

Explanation of major differences between N GAAP and US GAAP

(a) Derivative commodity contracts: Under N GAAP, unrealized gains and losses for commodity derivative instruments that are not hedge designated, and that are not held for trading and traded on a liquid, regulated market, are netted for each portfolio and net unrealized gains are not recognized. For US GAAP, unrealized gains and losses are recorded to operating revenue or operating cost. The instruments are accounted for as assets or liabilities at fair value.

For N GAAP, cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement, until the underlying hedged transactions actually occur. Under US GAAP, such instruments are accounted for as assets or liabilities as appropriate, at their fair value. Gains and losses on the hedging instruments are deferred in Other Comprehensive Income until the underlying transaction is recognized in earnings.

(b) Unrealized holding gain (loss) on securities: Under N GAAP, Hydro's long-term marketable equity and debt securities are carried at the lower of historical cost or market value. Under US GAAP, securities are carried at fair value (market) and unrealized holding gains or losses are included in other comprehensive income, net of tax effects, for available-for-sale securities.

(c) Amortization of goodwill: Goodwill is amortized under N GAAP. US GAAP does not allow amortization of goodwill, but requires that goodwill must be reviewed at least annually for impairment.

(d) Deferred taxes: Under N GAAP, deferred taxes are recorded based upon the liability method similar to US GAAP. Differences occur primarily because items accounted for differently under US GAAP also have deferred tax effects. Under N GAAP, deferred tax assets and liabilities for each tax entity are netted and classified as a long-term liability or asset. A reconciliation of the current and long-term temporary differences giving rise to the N GAAP deferred tax asset and liability is provided in Note 10.

Classification between current and long-term for US GAAP is determined by the classification of the related asset or liability giving rise to the temporary difference. For each tax entity, deferred tax assets and liabilities are offset within the respective current or long-term groups and presented as a single amount.

(e) Dividends payable: For N GAAP, dividends proposed at the end of the year which will be declared and paid in the following year are recorded as a reduction to equity and as debt. For US GAAP, equity is reduced when dividends are declared.

(f) Minority Interest: For N GAAP, shareholders' equity is presented including minority interest. In US GAAP shareholders' equity is presented excluding minority interest.

For N GAAP, minority interest includes minority interest in both continuing and discontinued operations. For US GAAP, minority interest refers to continuing operations only.

(g) Change in accounting principle: Hydro implemented SFAS 143, Asset Retirement Obligations, 1 January 2003. For N GAAP, previous periods are restated as if SFAS 143 was implemented 1 January 2001. For US GAAP, the total effect of the implementation is included in the 2003 financial statements.

Financial statements Norsk Hydro ASA

| Amounts in NOK million | Notes | 2004 | 2003 |
|--|-------|-----------------|---------|
| Income statements | | | |
| Operating revenues | | 1,125 | 1,695 |
| Raw materials and energy costs | | 144 | 143 |
| Change in inventories of own production | | - | 8 |
| Payroll and related costs | 2, 3 | 1,719 | 2,264 |
| Depreciation, depletion and amortization | 4 | 25 | 41 |
| Other | | 580 | 1,842 |
| Total operating costs and expenses | | 2,468 | 4,298 |
| Operating income | | (1,343) | (2,603) |
| Financial income, net | 5 | 10,103 | 4,295 |
| Other income | 5 | 796 | - |
| Income before taxes | | 9,556 | 1,692 |
| Income tax expense | 6 | 729 | (6) |
| Net income | | 10,285 | 1,686 |
| Appropriation of net income and equity transfers: | | | |
| Dividend proposed | | (5,017) | (2,811) |
| Retained earnings | | (5,268) | 1,125 |
| Total appropriation | | (10,285) | (1,686) |
| Statements of cash flows | | | |
| Net income | | 10,285 | 1,686 |
| Depreciation, depletion and amortization | | 25 | 41 |
| Loss (gain) on sale of non-current assets | | (812) | 719 |
| Other adjustments | | (2,611) | (4,850) |
| Net cash provided by (used in) operating activities | | 6,887 | (2,404) |
| Investments in subsidiaries | | (707) | (2,737) |
| Sale of subsidiaries ¹⁾ | | 9,629 | 1,139 |
| Net sale (purchases) of other investments | | (9,035) | 1,406 |
| Net cash used in investing activities | | (113) | (192) |
| Dividends paid | | (2,811) | (2,711) |
| Other financing activities, net | | (3,681) | 14,789 |
| Net cash provided by (used in) financing activities | | (6,492) | 12,078 |
| Foreign currency effects on cash flow | | 110 | 471 |
| Net increase in cash and cash equivalents | | 392 | 9,953 |
| Cash and cash equivalents 01.01 | | 12,750 | 2,797 |
| Cash and cash equivalents 31.12 | | 13,142 | 12,750 |

1) Sale of subsidiaries in 2004 includes demerger
The accompanying notes are an integral part of the financial statements.

| Amounts in NOK million | Notes | 31 December 2004 | 2003 |
|--|-------|---------------------|---------|
| Balance sheets | | | |
| Assets | | | |
| Intangible assets | | 2 | 2 |
| Property, plant and equipment | 4 | 187 | 245 |
| Shares in subsidiaries | 7 | 30,750 | 35,475 |
| Intercompany receivables | | 34,278 | 42,417 |
| Non-consolidated investees | 8 | 734 | 623 |
| Prepaid pension, investments and other non-current assets | 2, 9 | 5,275 | 5,620 |
| Total financial non-current assets | | 71,037 | 84,135 |
| Inventories | 9 | - | 19 |
| Accounts receivable | | 55 | 62 |
| Intercompany receivables | | 21,390 | 33,536 |
| Prepaid expenses and other current assets | | 826 | 1,911 |
| Other liquid assets | | 9,150 | - |
| Cash and cash equivalents | | 13,142 | 12,750 |
| Current assets | | 44,563 | 48,278 |
| Total assets | | 115,789 | 132,660 |
| Liabilities and shareholders' equity | | | |
| Paid-in capital: | | | |
| Share capital 258,954,428 at NOK 18.30 | | 4,739 | 5,332 |
| Treasury stock 8,115,198 at NOK 18.30 | | (148) | (198) |
| Paid-in premium | | 10,432 | 15,055 |
| Other paid-in capital | | 35 | 16 |
| Retained earnings: | | | |
| Retained earnings | | 24,256 | 23,986 |
| Treasury stock | | (2,921) | (3,325) |
| Shareholders' equity | 11 | 36,393 | 40,866 |
| Deferred tax liabilities | 6 | 332 | 868 |
| Other long-term liabilities | | 2,744 | 2,702 |
| Long-term liabilities | | 3,076 | 3,570 |
| Intercompany payables | | 555 | 771 |
| Other long-term interest-bearing debt | | 18,534 | 27,414 |
| Long-term debt | | 19,089 | 28,185 |
| Bank loans and other interest- bearing short-term debt | 9 | 2,019 | 3,354 |
| Dividends payable | | 5,017 | 2,811 |
| Intercompany payables | | 47,316 | 49,158 |
| Current portion of long-term debt | | 353 | 1,004 |
| Other current liabilities | | 2,526 | 3,712 |
| Current liabilities | | 57,231 | 60,039 |
| Total liabilities and shareholders' equity | | 115,789 | 132,660 |

Financial statements Norsk Hydro ASA

1. Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with accounting principles generally accepted in Norway (N GAAP).

Hydro's general accounting policies are presented in Note 1 to the consolidated financial statements on pages 96-102. See Note 28 to the consolidated financial statements for an additional clarification of the major differences in accordance with N GAAP compared with US GAAP.

Shares in subsidiaries and non-consolidated investees are in Norsk Hydro ASA's financial statements presented according to the cost method. Group relief received is included in dividends from subsidiaries.

For information about risk management in Norsk Hydro ASA see Note 24 in Notes to the consolidated financial statements and the Risk Management discussion in the Operating and Financial Review and Prospects section of this report. The information given in Note 19 in Notes to the consolidated financial statements on payments on long-term debt also applies to Norsk Hydro ASA.

Norsk Hydro ASA does not present sold or demerged business as discontinued operations. The 2004 transfer of the agri operations to Yara International ASA in a demerger, described in Note 2 to the consolidated financial statements, was reflected in the Company's accounts based on historical values of assets and liabilities.

Norsk Hydro ASA provides financing to most of the subsidiary companies in Norway as well as abroad. All employees working for Norsk Hydro Produksjon AS are employed by Norsk Hydro ASA.

2. Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 12,564 participants as of 31 December 2004 and 12,953 participants as of 31 December, 2003.

Net periodic pension cost

| Amounts in NOK million | 2004 | 2003 |
|---|-------|-------|
| Defined benefit plans: | | |
| Benefits earned during the year | 461 | 421 |
| Interest cost on prior period benefit obligation | 658 | 697 |
| Expected return on plan assets | (544) | (532) |
| Recognized net loss | 236 | 256 |
| Amortization of prior service cost | 61 | 68 |
| Amortization of net transition (asset) obligation | 2 | (6) |
| Curtailement loss | - | 69 |
| Settlement loss | 218 | 341 |
| Net periodic pension cost | 1,092 | 1,314 |
| Termination benefits and other | 121 | 209 |
| Total net periodic pension cost | 1,213 | 1,523 |

Change in projected benefit obligation (PBO)

| Amounts in NOK million | 2004 | 2003 |
|---|----------|----------|
| Projected benefit obligation at beginning of year | (11,961) | (11,046) |
| Benefits earned during the year | (461) | (421) |
| Interest cost on prior period benefit obligation | (658) | (697) |
| Actuarial loss | (291) | (797) |
| Plan amendments | (10) | (12) |
| Benefits paid | 343 | 342 |
| Curtailement loss | - | (19) |
| Settlements | 564 | 732 |
| Special termination benefits | (26) | (43) |
| Demerger | 687 | - |
| Projected benefit obligation at end of year | (11,813) | (11,961) |

Change in pension plan assets

| Amounts in NOK million | 2004 | 2003 |
|--|-------|-------|
| Fair value of plan assets at beginning of year | 8,384 | 7,651 |
| Actual return on plan assets | 1,148 | 954 |
| Company contributions | 495 | 700 |
| Benefits paid | (301) | (300) |
| Settlements | (331) | (621) |
| Demerger | (266) | - |
| Fair value of plan assets at end of year | 9,129 | 8,384 |

Status of pension plans reconciled to balance sheet

| Amounts in NOK million | 2004 | 2003 |
|---|---------|---------|
| Defined benefit plans: | | |
| Funded status of the plans at end of year | (2,684) | (3,577) |
| Unrecognized net loss | 3,835 | 4,879 |
| Unrecognized prior service cost | 546 | 630 |
| Unrecognized net transition obligation | - | 2 |
| Net prepaid pension recognized | 1,697 | 1,934 |
| Termination benefits and other | (458) | (631) |
| Total net prepaid pension recognized | 1,239 | 1,303 |

Amounts recognized in the balance sheet consist of:

| | | |
|-----------------------------|---------|---------|
| Prepaid pension | 3,606 | 3,707 |
| Accrued pension liabilities | (2,367) | (2,404) |
| Net amount recognized | 1,239 | 1,303 |

Assumptions used to determine net periodic pension cost

| | 2004 | 2003 |
|--------------------------------|-------|-------|
| Discount rate | 6.00% | 7.00% |
| Expected return on plan assets | 7.00% | 8.00% |
| Expected salary increase | 4.00% | 4.00% |
| Expected pension increase | 3.50% | 3.50% |

Assumptions used to determine pension obligation at end of year

| | 2004 | 2003 |
|---------------------------|-------|-------|
| Discount rate | 5.25% | 6.00% |
| Expected salary increase | 3.50% | 4.00% |
| Expected pension increase | 3.00% | 3.50% |

Investment profile plan assets at end of year

| | 2004 | 2003 |
|-------------------|------|------|
| Asset category | | |
| Equity securities | 31% | 27% |
| Debt securities | 36% | 36% |
| Real estate | 20% | 21% |
| Other | 13% | 16% |
| Total | 100% | 100% |

See Note 20 in Notes to the consolidated financial statements for further information.

3. Remunerations and other

Remuneration of the members of the corporate assembly and the board of directors was NOK 393,500 and NOK 2,362,000, respectively. The salary and other benefits, excluding bonuses, for the President and CEO Eivind Reiten, totaled NOK 8,695,000 in 2004 and NOK 4,493,000 in 2003. The amount for 2004 incorporates the one-time payment of NOK 4,000,000 as described below. The total salary and benefits, excluding bonuses, for the rest of the Corporate Management Board was NOK 10,445,000 in 2004.

On 17 June 2004, the Board approved a new employment contract for Mr. Reiten. Mr. Reiten's right to work in the company in a different capacity after retirement as president has been discontinued. To compensate for this, the Board has decided to change the retirement age from 62 to 60 for Mr. Reiten and to make a one-time payment of NOK 4 million to Mr. Reiten toward the purchase of Hydro shares for the net amount 1 October 2004. Mr. Reiten is bound to long-term ownership of these shares. The pension benefit remains at around 65 percent of his pensionable salary. In the event that employment of Mr. Reiten terminates for other reasons than serious misconduct, he has the right to salary and the accrual of pension rights for a three year period, however not beyond 60 years of age. The company's obligation can be reduced by salary received or pension rights accrued from other sources.

Out of the other members of the Corporate Management Board, three members have a retirement age of 62 years of age, and one member has a retirement age of 65 years of age.

Egil Myklebust retired as president in May 2001. He continued to be employed by the company in accordance with his employment contract from 1991. Total salary and other benefits, exclusive of remuneration as Board Chair until 24 March 2004, amounted to NOK 3,483,000 for 2004 and NOK 3,362,000 for 2003. In addition he has pension rights in accordance with Hydro's normal pension

scheme with a 65 year retirement age and a pension based on 65 percent of basis salary.

In September 2004, the Board approved a new stock option plan for corporate officers and certain key employees. Refer to note 4 in Notes to the consolidated financial statements for a description of stock based compensation.

In addition, the compensation system includes an element of performance rewards in Hydro's compensation system: a bonus linked to achieving performance goals in the business plans for various units in Hydro. The bonus is limited to a maximum of one month's salary per year for employees. For approximately 100 managers with substantial responsibility for performance, the bonus is limited to a maximum of two months salary. For top management - around 30 persons - the bonus is limited to a maximum of three months salary. For the president the upper limit of the bonus is six months salary. It is the actual improvements of Hydro's activities that will be measured and rewarded.

Bonus to the Corporate Management Board for 2003 paid in 2004

| Amount in NOK | |
|------------------------------|-----------|
| Eivind Reiten | 1,190,000 |
| Tore Torvund | 490,000 |
| Jon-Harald Nilsen | 351,000 |
| Thorleif Enger ¹⁾ | 269,000 |
| John O. Ottestad | 556,000 |
| Alexandra Bech Gjør | 166,000 |

1) Thorleif Enger was a member of the Corporate Management Board until August 2003. Related to the demerger of Yara International ASA in 2004, Thorleif Enger received an extraordinary appreciation equivalent to approximately two years salary to recognize exceptional value creation. At the same time, Thorleif Enger exercised 6,734 options with an average exercise price of NOK 367.85, while the market price of the shares was 490.70.

Partners and employees of Hydro's appointed independent auditors, Deloitte Statsautoriseret Revisorer AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2004 to Deloitte for ordinary audit were NOK 11,324,000 for Norsk Hydro ASA and NOK 13,367,000 for the Norwegian subsidiaries. Fees for audit-related services were NOK 1,328,000 for Norsk Hydro ASA and NOK 690,000 for the Norwegian subsidiaries. Fees for other services were NOK 986,000 for Norsk Hydro ASA and NOK 368,000 for the Norwegian subsidiaries. Deloitte Consulting AS, an affiliate company of Deloitte in Norway, has not provided services to Hydro in 2004.

For 2004, the estimated adjustment to the tax basis (RISK) of shares for shareholders in Norsk Hydro ASA is a negative amount of NOK 18.90 per share.

In 2004, the average number of employees in the Group was 38,780, compared to 46,312 for 2003. The reduction in manning is to a large part attributable to the demerger in 2004 where approximately 7,500 employees were transferred to Yara. In addition the

Financial statements Norsk Hydro ASA

number of employees in Hydro Aluminum was reduced by approximately 800 employees due to restructuring activities. The average number of employees in Norsk Hydro ASA was 6,469 in 2004 versus 6,984 in 2003.

A substantial part of the employees in Norsk Hydro ASA are engaged in activities for other Group companies. The costs for these employees are accounted for on a net basis reducing Payroll and related costs.

| Amounts in NOK million | 2004 | 2003 |
|---|----------------|---------|
| Payroll and related costs: | | |
| Salaries | 3,917 | 4,393 |
| Social security costs | 639 | 716 |
| Social benefits | 101 | 87 |
| Net periodic pension cost (Note 2) | 1,214 | 1,523 |
| Internal invoicing of payroll related costs | (4,152) | (4,455) |
| Total | 1,719 | 2,264 |

Total loans to the company's employees as of 31 December 2004 were NOK 756 million. All loans were given in accordance with general market terms.

4. Property, plant and equipment

| Amounts in NOK million | Machinery, etc | Buildings | Plant under construction | Other | Total |
|-------------------------------------|----------------|-----------|--------------------------|-------|-------|
| Cost 31.12.2003 | 213 | 121 | 65 | 18 | 417 |
| Additions at cost | 18 | - | 7 | - | 25 |
| Demerger | (39) | (1) | - | (14) | (54) |
| Retirements | (20) | (7) | (26) | - | (53) |
| Transfers | 15 | 4 | (19) | - | - |
| Accumulated depreciation 31.12.2004 | (101) | (47) | - | - | (148) |
| Net book value 31.12.2004 | 86 | 70 | 27 | 4 | 187 |
| Depreciation in 2004 | (20) | (5) | - | - | (25) |

5. Financial income and expense and other income

| Amounts in NOK million | 2004 | 2003 |
|----------------------------------|----------------|---------|
| Dividends from subsidiaries | 9,758 | 3,625 |
| Non-consolidated investees | 14 | (83) |
| Interest from group companies | 2,393 | 3,614 |
| Other interest income | 496 | 384 |
| Interest paid to group companies | (823) | (1,131) |
| Other interest expense | (1,857) | (2,184) |
| Other financial income, net | 122 | 70 |
| Financial income, net | 10,103 | 4,295 |

For the year 2004, other income was NOK 796 million. Other income consisted of a gain of NOK 263 million on the sale of 10 percent of the shares in Qatar Fertilizer Company (S.A.Q.) to Fertilizer Holding AS before the demerger of Yara and a gain of NOK 533 million related to the sale of 20 percent of the shares in Yara International ASA in the demerger. For the year 2003, there was no "Other income".

6. Income taxes

The tax effect of temporary differences resulting in the deferred tax assets (liabilities) and the change in temporary differences are:

| Amounts in NOK million | Temporary differences | | | |
|--------------------------|-----------------------|---------|---------|-------|
| | Tax effected | | Change | |
| | 2004 | 2003 | 2004 | 2003 |
| Short-term items | (495) | (183) | (1,003) | (695) |
| Write-down on shares | - | (624) | (821) | 31 |
| Prepaid pension | (1,010) | (1,038) | 176 | 185 |
| Pension liabilities | 663 | 673 | 336 | 418 |
| Other long-term | 510 | 304 | 697 | 377 |
| Deferred tax liabilities | (332) | (868) | | |
| Change for year | | | (615) | 316 |

Reconciliation of nominal statutory tax rate to effective tax rate

| Amounts in NOK million | 2004 | 2003 |
|---|---------|-------|
| Income (loss) before taxes | 9,556 | 1,692 |
| Expected income taxes at statutory tax rate | 2,676 | 474 |
| Tax free income | (151) | (10) |
| Dividend exclusion | (2,473) | (724) |
| Tax law changes | (656) | - |
| Non-deductible expenses and other, net | (125) | 266 |
| Income tax expense | (729) | 6 |
| Effective tax rate | (7.62%) | 0.35% |

See Note 10 in Notes to the consolidated financial statements for further information

7. Shares in subsidiaries

| Company name: | Percentage of shares owned by Norsk Hydro | Total share capital of the company (1,000's) | Book value 31.12.2004 (in NOK 1,000's) |
|---|---|--|--|
| Norsk Hydro Kraft OY | 100 | EUR 34 | 269 |
| Norsk Hydro Technology Ventures AS | 100 | NOK 6,000 | 70,150 |
| Norsk Hydro Electrolysers AS | 100 | NOK 4,000 | 4,300 |
| Hydro Aluminium AS | 100 | NOK 2,167,001 | 4,866,019 |
| Norsk Hydro Magnesiumgesellschaft mbH ¹⁾ | 2 | EUR 512 | 179 |
| Hydro Aluminium Acro ²⁾ | 24.3 | BRL 64,179 | 50,391 |
| Securus Industrier AS | 100 | NOK 59,644 | 846,634 |
| Industriforsikring AS | 100 | NOK 20,000 | 20,000 |
| Retroplast AS | 100 | NOK 100 | 18,876 |
| Grenland Industriutvikling AS | 100 | NOK 26,750 | 110,950 |
| Hydro Porsgrunn Eiendomsforvaltning AS | 100 | NOK 2,500 | 5,500 |
| Hydro IS Partner AS | 100 | NOK 712,000 | 712,000 |
| Norsk Hydro Plastic Pipe AS | 100 | NOK 10,000 | 91,472 |
| Norsk Hydro Brasil Ltda. | 100 | BRL 46,976 | 135,544 |
| Norsk Hydro Danmark AS | 100 | DKK 1,002,000 | 4,515,523 |
| Hydro Aluminium Deutschland GmbH ³⁾ | 23.2 | EUR 56,242 | 10,143 |
| Norsk Hydros Handelsselskap AS | 100 | NOK 1,000 | 1,000 |
| Norsk Hydro Produksjon AS | 100 | NOK 200,000 | 19,004,274 |
| Norsk Hydro Russland AS | 100 | NOK 19,000 | 19,000 |
| Norsk Hydro North America, Inc. | 100 | USD 29,000 | 81,960 |
| Hydro Aluminium Holding Pte. Ltd. | 100 | SGD 46,920 | 185,532 |
| Total | | | 30,749,716 |

1) The company is owned 98 percent by Hydro Aluminium Deutschland GmbH and 2 percent by Norsk Hydro ASA.

2) The company is owned 68.3 percent by Norsk Hydro Brasil Ltda., 7.4 percent of a subsidiary of Norsk Hydro Produksjon AS and 24.3 percent by Norsk Hydro ASA.

3) The company is owned 76.8 percent by Norsk Hydro Deutschland GmbH & CoKG., which is a subsidiary of Norsk Hydro Produksjon AS and 23.2 percent by Norsk Hydro ASA.

The foreign currency designation indicates country of domicile. Percentage of shares owned equals percentage of voting shares owned. A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

Financial statements Norsk Hydro ASA

8. Shares in non-consolidated investees

The most significant investments in non-consolidated investees for Norsk Hydro ASA are (amounts in NOK million):

| Name | Percentage owned (equals voting rights) | Country | Book value as of 31 December, 2004 | Long-term advances ¹⁾ | Total |
|--|--|----------|---------------------------------------|-------------------------------------|------------|
| Companhia Industrial de Resinas Sinteticas – CIREs SA | 26.2% | Portugal | 100 | - | 100 |
| Suzhou Huasu Plastics Co. Ltd. | 31.8% | China | 67 | 38 | 105 |
| Pronova Biocare AS | 19.9% | Norge | - | 227 | 227 |
| Other | | | 53 | 249 | 302 |
| Total | | | 220 | 514 | 734 |

1) Including advances to associated companies indirectly owned by Norsk Hydro ASA.

9. Specification of balance sheet items

| Amounts in NOK million | 2004 | 2003 |
|---|--------------|--------------|
| Prepaid pension, investments and other non-current assets: | | |
| Securities | 815 | 967 |
| Prepaid pension | 3,606 | 3,707 |
| Other non-current assets | 854 | 946 |
| Total | 5,275 | 5,620 |
| Inventories: | | |
| Raw materials | - | 3 |
| Finished goods | - | 16 |
| Total | - | 19 |
| Bank loans and other short-term interest-bearing debt: | | |
| Bank overdraft | 552 | 1,075 |
| Other interest-bearing debt | 1,467 | 2,279 |
| Total | 2,019 | 3,354 |

10. Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, letters of credit, performance bonds and various payment or financial guarantees. Sales guarantees include liabilities relating to the demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. See Note 22 in Notes to the consolidated financial statements for further information about guarantees.

| Amounts in NOK million | 2004 | 2003 |
|---------------------------------|---------------|---------------|
| Guarantees (off-balance sheet): | | |
| Non-consolidated investee debt | 86 | 54 |
| Tax guarantees | 1,354 | 1,352 |
| Sales guarantees | 1,463 | 1,176 |
| Commercial guarantees | 8,805 | 11,627 |
| Total | 11,708 | 14,209 |

11. Number of shares outstanding, shareholders, equity reconciliation etc

Due to decision in an extraordinary General Meeting 1 December 2004 regarding cancellation of shares, the share capital of the company is NOK 4,738,866,032.40. It consists of 258,954,428 ordinary shares at NOK 18.30 per share. The cancellation of the shares was registered at the Register of Business Enterprises on 8 February 2005. As of 31 December 2004 the company had purchased 8,115,198 treasury stocks at a cost of NOK 3.1 billion. For further information on these issues see Note 3 in Notes to the consolidated financial statements.

Shareholders holding one percent or more of the total 250,839,230 shares outstanding as of 31 December 2004 are according to information in the Norwegian securities' registry system (Verdipapirsentralen):

| Name | Number of shares |
|---|------------------|
| Ministry of Trade and Industry ³⁾ | 113,483,658 |
| State Street Bank & Trust ²⁾ | 10,498,151 |
| Folketrygdfondet | 9,694,615 |
| Morgan Guaranty Trust Co. of NY ¹⁾ | 8,485,177 |
| JP Morgan Chase Bank ²⁾ | 5,298,367 |
| EuroPacific Growth Fund | 5,055,000 |
| New Perspective Fund, Inc | 4,164,000 |
| Euroclear Bank ²⁾ | 3,055,497 |
| Mellon Bank ²⁾ | 2,769,710 |

1) Representing American Depositary Shares.

2) Client accounts and similar.

3) Excluding redeemed shares according to decision in extraordinary General Meeting 1 December 2004

Change in Shareholders' equity

| Amounts in NOK million | Paid-in capital | Retained earnings | Total Shareholders' equity |
|--------------------------------------|-----------------|-------------------|----------------------------|
| Balance 31 December 2003 | 20,205 | 20,661 | 40,866 |
| Net income | - | 10,285 | 10,285 |
| Dividend proposed | - | (5,017) | (5,017) |
| Treasury stock | (1,524) | 406 | (1,118) |
| Redeemed shares, the Norwegian State | (1,426) | | (1,426) |
| Demerger Yara International ASA | (2,197) | (5,000) | (7,197) |
| Balance 31 December 2004 | 15,058 | 21,335 | 36,393 |

Auditors' report

To the annual general meeting of Norsk Hydro ASA

Independent auditors' report for N GAAP financial statements for 2004

We have audited the annual financial statements of Norsk Hydro ASA and subsidiaries as of 31 December 2004, showing a profit of NOK 10,285 million for the parent company and a profit of NOK 12,027 million for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income. Financial statements comprise the balance sheet, the statement of income and cash flows, the accompanying notes and the group accounts. These financial statements, which are presented in accordance with generally accepted accounting principles in Norway, are the responsibility of the Company's Board of Directors and the Company's President. Our responsibility is to express an opinion on these financial statements and on certain other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing standards in Norway. Generally accepted auditing standards in Norway require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing standards in Norway, an audit also comprises a review of the management of the Company's financial affairs and the accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements, as shown on page 93-95 and page 139, are prepared in accordance with the law and regulations and present fairly, in material respects, the financial position of the Company as of 31 December 2004 and the results of its operations and its cash flows for the period ended 31 December 2004, in accordance with generally accepted accounting principles in Norway;
- the Company's management has fulfilled its duty to maintain the Company's accounting process in such a proper and well-arranged manner that the accounting process is in accordance with the law and generally accepted accounting practices in Norway; and
- the information in the Board of Directors' report, as shown on page 10-17, concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income is consistent with the financial statements and complies with the law and regulations.

Oslo, Norway, 2 March 2005
Deloitte Statsautoriserede Revisorer AS

Aase Aa. Lundgaard – State Authorized Public Accountant, (Norway)

To the annual general meeting of Norsk Hydro ASA

Report of independent registered public accounting firm for US GAAP financial statement

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of 31 December, 2004 and 2003, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended 31 December, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements on pages 91-93 present fairly, in all material respects, the financial position of Norsk Hydro ASA and subsidiaries as of 31 December, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended 31 December, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for variable interest entities in 2004 and asset retirement obligations in 2003 to conform to newly adopted accounting principles.

Oslo, Norway, 2 March 2005
Deloitte Statsautoriserede Revisorer AS

Aase Aa. Lundgaard – State Authorized Public Accountant, (Norway)

Corporate assembly

Corporate assembly

The Corporate Assembly currently consists the following members:

Svein Steen Thomassen (Chairperson)
 Siri Teigum (Deputy Chairperson)
 Solveig Alne Frøynes
 Aase Gudding Gresvig
 Westye Høegh
 Idar Kreutzer
 Kjell Kvinge
 Astrid Sylvi Lem
 Karen Helene Midelfart
 Jon-Arne Mo
 John-Arne Nilsen
 Anne Merete Steensland
 Rune Strande
 Sigurd Støren
 Sten-Arthur Sælør
 Lars Tronsgaard
 Ingar Aas-Haug
 Svein Aaser

Observers:
 Sven Edin
 Billy Fredagsvik
 Sónia F. T. Gjesdal

Deputy members:
 Erna Flattum Berg
 Anne-Margrethe Firing
 Odd Arne Fodnes
 Erik Garaas
 Oddny Grebstad
 Stig Lima
 Line Melkild
 Bjørn Nedreaas
 Wolfgang Ruch
 Terje Venold

Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2004 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2004 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2004 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 2 March 2005
 Svein Steen Thomassen

Non-GAAP financial measures

Use Of Non-GAAP Financial Measures

Non-GAAP financial measures are defined in the SEC regulations as financial measures that either exclude or include amounts that are not excluded from or included in the most directly comparable measure calculated and presented in accordance with GAAP.

Adjusted net interest-bearing debt, Adjusted equity and Adjusted net debt/equity ratio

Hydro refers to "Adjusted net interest-bearing debt" and "Adjusted net debt/equity ratio" in its discussion of its financial condition.

The "Adjusted net debt/equity ratio" is comprised of "Adjusted net interest-bearing debt" divided by "Adjusted equity."

"Adjusted net interest-bearing debt" is defined as net interest-bearing debt, plus net unfunded pension obligations, after tax, and the present value of operating lease obligations.

"Net interest-bearing debt" is comprised of interest bearing debt less cash and cash equivalents and Other liquid assets. Hydro's interest bearing debt consists primarily of long-term debenture bonds which are not readily repayable. Cash and cash equivalents and Other liquid assets are therefore accumulated in periods with significant cash in-flow. Investments, including substantial acquisitions, have, to a large extent been financed through drawing on accumulated cash positions. Hydro uses net debt to calculate the Adjusted net debt/equity ratio in order to reflect the considerable variances in ability to assume additional debt from variance cash holdings over time.

"Net interest bearing debt" is adjusted for the estimated effects of changes to the fair value of net pension liabilities disclosed but not recognized. Hydro also adjusts "Net interest bearing debt" for liabilities relating to operating lease agreements. Both of the above described obligations, although not recognized as liabilities under generally accepted accounting principles, are considered debt-like in nature and therefore affect Hydro's ability to acquire additional debt.

"Adjusted equity" consists of equity plus minority interests, less unrecorded pension liabilities which are not reflected in retained earnings and therefore excluded from equity under GAAP. The adjustment is net of expected income tax benefit. No adjustment to "Equity" is made for operating lease agreements because the value of the right to use leased assets is considered to be similar to the payment obligation.

The adjustments are considered important to measure Hydro's financial position, since market conditions may result in significant differences between pension liabilities recognized under generally accepted accounting principles and the fair value of these liabilities, and because the unrecognized pension liabilities and leases represent commitments effecting Hydro's financial capacity going forward. The "Adjusted debt/equity ratio" is calculated by Hydro using similar methodology as the major credit rating agencies, and the company believes it helps the company and investors to evaluate potential changes in credit rating.

Management believes that "Adjusted net interest-bearing debt" is a useful tool for investors and other users of the Company's financial

statements in assessing Hydro's financial performance, including its liquidity and ability to meet obligations with available cash balances.

Management makes regular use of among others, the "Adjusted net debt/equity ratio" in its assessment of Hydro's financial stability and ability to incur new debt. Management believes that this ratio provides useful information to readers of Hydro's financial statements and helps them to assess the effect of pension liabilities and operating lease commitments that are otherwise not apparent when analyzing the Company's financial statements prepared in accordance with GAAP. However, this measure does not recognize the fact that cash may not be available for debt repayments, but may be required for operational needs including tax payments of periodic results, contractual obligations or necessary investments.

"Adjusted net interest-bearing debt," "Adjusted equity" and "Adjusted net debt/equity ratio" are presented in the table below.

Management believes that the most directly comparable GAAP ratio is the "Debt/equity ratio". However, this ratio measures gross interest bearing debt relative to equity, i.e. it does not measure changes in cash position, and is therefore not directly comparable with the non-GAAP measure "Adjusted net debt/equity ratio".

Hydro management's use of the described non-GAAP measures should not be construed as an alternative to "Debt/equity ratio", gross debt and statements of cash flows in accordance with generally accepted accounting principles when evaluating Hydro's financial condition. Management carefully reviews the appropriateness of adjustments to the GAAP figures, and also makes regular use of measures calculated according to generally accepted accounting principles in addition to "Adjusted net interest-bearing debt" and "Adjusted net debt/equity ratio" when measuring financial condition.

Return on average Capital Employed (RoACE)

In this Report, Hydro refers to certain non-GAAP financial measures, which are an integral part of Hydro's steering model. These non-GAAP financial measures are:

- Return on average Capital Employed (RoACE)
- Earnings after tax
- Capital Employed

Hydro's management makes regular use of these indicators to measure performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views these measures as providing additional understanding, - for management and for investors - of:

- The rate of return on investments over time, in each of its capital intensive businesses
- The operating results of its business segments
- Cash flow generation of its business segments

Because Hydro is subject to significantly different tax regimes in its operating segments, e.g. Norwegian surtax on petroleum and power production, management believes financial performance

must also be measured on an after tax basis, in order to achieve comparability between Hydro's operating segments.

RoaCE is defined as "Earnings after tax" divided by average "Capital Employed". "Earnings after tax" is defined as "Operating income" plus "Equity in net income of non-consolidated investees" plus "Other income, net" less "Adjusted income tax expense". Because RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense included in "Earnings after tax" does not include the tax effect of items reported as "Financial income and expense." "Capital Employed" is defined as "Shareholders' Equity" plus "Minority interest" plus "long-term and short-term interest-bearing debt" less "Cash and cash equivalents" and "Other liquid assets." Capital Employed can be derived by deducting "Cash and cash equivalents", "Other liquid assets" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets". The two different approaches yield the same value.

In order to calculate "Earnings after tax" for the Company's operating segments, an imputed tax is calculated for each segment. An adjusted income tax expense is calculated as "Operating income" and "Other income, net" multiplied by an applicable tax rate. For most operating segments the applicable tax rate is estimated at 35 percent. Oil and Energy businesses are subject to various tax regimes including Norwegian surtax on petroleum and power production. To calculate tax effects for these business units applicable statutory tax rates based on the source of income are applied. For the Group as a whole, "Adjusted Income tax expense" is calculated as US GAAP Income tax expense less tax effects relating to items reported as "Financial income and expense".

Hydro believes that RoaCE facilitates benchmarking of the Company with its peers. It is important to note however, that RoaCE is, similar to all other financial metrics, influenced by a company's selection of acceptable accounting principles which can result in significant differences when comparing RoaCE for different companies applying different GAAPs. This is particularly important when comparing companies with an active acquisition history.

RoaCE should not be construed as an alternative to operating income, income before taxes and net income as an indicator of Hydro's results of operations in accordance with generally accepted accounting principles. Hydro's management make regular use of measures calculated according to generally accepted accounting principles in addition to non-GAAP financial measures described above when measuring financial performance.

Hydro also measures RoaCE based on long-term price assumptions, referred to as normalized prices. Normalized prices are used in order to avoid placing undue emphasis on such variables as historically high or low prices of its commodity products, and the effects of changes in currency exchange rates. As described more fully in the Risk Management section of this Financial Review, the development of the Company's results are primarily affected by the price developments of Hydro's main products, oil and aluminium, in addition to the US dollar and Euro exchange rates against the Norwegian kroner. For the purpose of calculating RoaCE on a normalized basis the following assumptions are used :

- Oil price 25 US dollar per barrel
- Aluminium price (London Metal Exchange) 1,500 US dollar per tonne
- US dollar – Norwegian kroner exchange rate 7.00
- Euro – Norwegian kroner exchange rate 8.00
- In addition, items reported as "Other income, net" and "Restructuring costs" according to generally accepted accounting principles are excluded when calculating normalized RoaCE.

Hydro's management views normalization as a tool to measure underlying financial performance consistently over time and against the Group's business plans that are prepared according to the price assumptions described above for each financial year. By keeping certain main commodity prices and exchange rates constant, Hydro increases the focus on operating costs and efficiency improvements. Such a focus would be more challenging to maintain in periods with high commodity prices and favorable exchange rates.

"Other income, net" has two main components, consisting of gains and losses related to sale of operations or major assets and certain infrequent items. Gains and losses on sale of operations or major assets are excluded because they do not relate to ongoing operations. By excluding these items, Hydro increases the focus on the results of ongoing operations such as changes in efficiency and other operational factors. For the three year period, one infrequent item was included in "Other income, net"; the effect of a change in the Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian continental shelf. This item had a substantial effect on "Other income, net" as described more fully in footnote 9 to the Consolidated Financial Statements. The change in regulation was a major amendment to the system regulating removal of oil and gas installations in Norway. The previous regulations had been in place from 1986. "Restructuring costs" are only incurred relating to major changes in the business. The most recent restructuring charge was incurred in 2001, with adjustments to the estimates in the following periods. These items are excluded because they are infrequent in nature and could result in an incorrect picture of the underlying development in financial performance.

During the 2000 to 2004 period Hydro has employed normalization as a tool in measuring financial performance. Normalization has resulted, on average, in lower normalized earnings compared to earnings based on realized prices. Normalization for certain commodity and exchange rates is most relevant for Hydro's upstream oil and gas business and the Company's upstream aluminium production. For other parts of Hydro's business, which are more margin based, normalization for commodity prices is less important. and the difference between actual and normalized RoaCE will be smaller. Normalized results should not be construed as an alternative to measuring financial performance based upon realized commodity prices and exchange rates. Hydro's management reviews both realized results and normalized results. Management makes regular use of both normalized results and ratios to compare with business plans; for period-over-period comparisons; and in comparison with actual results and ratios. Typically, normal-

Non-GAAP financial measures

ized results receive more attention when realized prices and exchange rates are above the normalized price assumptions. For an overview of how Hydro manages commodity price risk and foreign currency exchange rate risk please refer to the Risk Management section of the Financial Review included in Hydro's Annual Report.

In order to illustrate the effects of certain major events on RoaCE, both the actual RoaCE and normalized RoaCE have also

been calculated excluding such events. For 2004, the write-down of German metal plants (affecting the Group and Aluminium), and the change in tax law in Norway (affecting the Group) have been excluded for this purpose. Excluding such items from RoaCE should not be considered as an adjustment of the metric for these effects but rather as supplemental information to demonstrate how these events affects RoaCE.

Adjusted Net interest-bearing debt to equity

| NOK million | December 31 2004 | December 31 2003 |
|--|---------------------|---------------------|
| Cash and cash equivalents | 14,366 | 14,873 |
| Other liquid assets | 10,970 | 1,553 |
| Bank loans and other interest-bearing short-term debt | (3,785) | (5,273) |
| Current portion of long-term debt | (568) | (1,212) |
| Long-term debt | (19,487) | (28,403) |
| Net interest-bearing debt discontinued operations | - | (86) |
| Net interest-bearing debt | 1,496 | (18,548) |
| Net pension liabilities at fair value | (10,056) | (11,974) |
| Expected income tax benefit on pension liability 30% | 3,017 | 3,592 |
| Operating leases commitments discounted at 10% | (3,500) | (4,916) |
| Adjusted Net Interest-bearing debt | (9,043) | (31,846) |
| Shareholders' equity | (85,890) | (88,080) |
| Minority interest | (1,571) | (660) |
| Shareholders' equity and minority interests | (87,461) | (88,740) |
| Net pension liabilities not recognized without equity effect | 6,341 | 7,863 |
| Expected income tax benefit 30% | (1,902) | (2,359) |
| Equity adjustment off-balance sheet pension liabilities | 4,439 | 5,504 |
| Adjusted Shareholders' equity and minority interests | (83,022) | (83,236) |
| Adjusted net debt/equity ratio | 0.11 | 0.38 |

The most directly comparable GAAP figure is considered to be "Debt/equity ratio". However, this ratio measures gross debt relative to equity, and does not measure changes in cash position, and the non-GAAP measure "Adjusted debt/equity ratio" is therefore not directly comparable.

| | | |
|-------------------|------|------|
| Debt/equity ratio | 0.28 | 0.40 |
|-------------------|------|------|

Return on average Capital Employed - Hydro

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|--|--------------------|--------------------|--------------------|
| Operating Income | 31,847 | 21,625 | 17,667 |
| Equity in net income of non-consolidated investees | 628 | 620 | (24) |
| Other income/expense, net | 169 | (1,253) | 77 |
| Earnings before tax | 32,644 | 20,992 | 17,720 |
| Adjusted Income tax expense | (21,165) | (13,224) | (11,589) |
| Earnings after tax | 11,479 | 7,768 | 6,131 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|--|---------------------|---------------------|---------------------|---------------------|
| Current assets ¹⁾ | 45,070 | 45,468 | 46,914 | 37,480 |
| Non-consolidated investees | 10,017 | 10,162 | 9,410 | 7,168 |
| Property, plant and equipment | 106,117 | 107,779 | 105,251 | 87,205 |
| Prepaid pension, investments and other non-current assets ²⁾ | 13,703 | 13,228 | 15,585 | 11,612 |
| Other current liabilities ³⁾ | (41,724) | (37,725) | (34,359) | (28,328) |
| Other long-term liabilities ⁴⁾ | (47,218) | (48,083) | (49,033) | (38,594) |
| Capital Employed | 85,965 | 90,829 | 93,768 | 76,543 |

| | 2004 | 2003 | 2002 |
|--|-------|------|------|
| Return on average Capital Employed (RoaCE) | 13.0% | 8.4% | 7.2% |

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|-----------------------------------|--------------------|--------------------|--------------------|
| Reported Earnings before tax | 32,644 | 20,992 | 17,720 |
| Normalization Other income | (169) | 1,253 | (77) |
| Normalization Restructuring costs | (22) | - | (10) |
| Normalization Price and currency | (13,328) | (6,146) | (1,761) |
| Normalized Earnings before tax | 19,125 | 16,099 | 15,872 |
| Normalized Income tax expense | (11,905) | (10,165) | (9,988) |
| Normalized Earnings after tax | 7,220 | 5,934 | 5,884 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|--|---------------------|---------------------|---------------------|---------------------|
| Reported Capital Employed | 85,965 | 90,829 | 93,768 | 76,543 |
| Normalization currency rates (translation effects) | 1,279 | (1,105) | 5,085 | (1,705) |
| Normalization current tax payable | 5,101 | 1,654 | 989 | 3,162 |
| Normalized Capital Employed | 92,345 | 91,378 | 99,842 | 78,000 |

| | 2004 | 2003 | 2002 |
|---|------|------|------|
| Normalized Return on average Capital Employed (RoaCE) | 7.9% | 6.2% | 6.6% |

1) Excluding Cash and cash equivalents and Other liquid assets, but including Deferred tax assets

2) Including Deferred tax assets

3) Including Deferred tax liabilities

4) Including Accrued pension liabilities and Deferred tax liabilities

Non-GAAP financial measures

Return on average Capital Employed – Oil and Energy

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|--|--------------------|--------------------|--------------------|
| Operating Income | 31,144 | 21,143 | 15,947 |
| Equity in net income of non-consolidated investees | 75 | 107 | 179 |
| Other income/expense, net | 59 | 816 | 77 |
| Earnings before tax | 31,278 | 22,066 | 16,203 |
| Adjusted Income tax expense | (22,051) | (15,089) | (11,316) |
| Earnings after tax | 9,227 | 6,977 | 4,887 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|---|---------------------|---------------------|---------------------|---------------------|
| Current assets ¹⁾ | 15,545 | 16,017 | 21,213 | 12,979 |
| Non-consolidated investees | 2,347 | 2,406 | 1,991 | 2,095 |
| Property, plant and equipment | 73,437 | 74,460 | 73,223 | 70,146 |
| Prepaid pension, investments and other non-current assets ²⁾ | 4,392 | 3,903 | 4,199 | 3,909 |
| Other current liabilities ³⁾ | (23,208) | (18,829) | (22,520) | (15,718) |
| Other long-term liabilities ⁴⁾ | (35,985) | (35,628) | (34,554) | (32,988) |
| Capital Employed | 36,528 | 42,329 | 43,552 | 40,423 |

| | 2004 | 2003 | 2002 |
|--|-------|-------|-------|
| Return on average Capital Employed (RoaCE) | 23.4% | 16.2% | 11.6% |

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|----------------------------------|--------------------|--------------------|--------------------|
| Reported Earnings before tax | 31,278 | 22,066 | 16,203 |
| Normalization Other income | (59) | (816) | (77) |
| Normalization Price and currency | (12,531) | (4,103) | (2,352) |
| Normalized Earnings before tax | 18,688 | 17,147 | 13,774 |
| Normalized Income tax expense | (13,121) | (12,013) | (9,674) |
| Normalized Earnings after tax | 5,567 | 5,134 | 4,100 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|--|---------------------|---------------------|---------------------|---------------------|
| Reported Capital Employed | 36,528 | 42,329 | 43,552 | 40,423 |
| Normalization currency rates (translation effects) | 199 | 30 | 1,420 | (212) |
| Normalization current tax payable | 4,771 | 1,711 | 1,039 | 2,894 |
| Normalized Capital Employed | 41,498 | 44,070 | 46,011 | 43,105 |

| | 2004 | 2003 | 2002 |
|---|-------|-------|------|
| Normalized Return on average Capital Employed (RoaCE) | 13.0% | 11.4% | 9.2% |

1) Excluding Cash and cash equivalents and Other liquid assets, but including Deferred tax assets

2) Including Deferred tax assets

3) Including Deferred tax liabilities

4) Including Accrued pension liabilities and Deferred tax liabilities

Return on average Capital Employed – Aluminium

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|--|---------------------------|--------------------|--------------------|
| Operating Income | 1,805 | 2,456 | 1,698 |
| Equity in net income of non-consolidated investees | 381 | 433 | (219) |
| Other income/expense, net | - | - | - |
| Earnings before tax | 2,186 | 2,889 | 1,479 |
| Adjusted Income tax expense | (632) | (860) | (594) |
| Earnings after tax | 1,554 | 2,029 | 885 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|---|----------------------------|---------------------|---------------------|---------------------|
| Current assets ¹⁾ | 24,371 | 22,860 | 21,715 | 15,993 |
| Non-consolidated investees | 5,457 | 5,787 | 4,902 | 3,288 |
| Property, plant and equipment | 28,696 | 29,504 | 26,496 | 11,770 |
| Prepaid pension, investments and other non-current assets ²⁾ | 4,306 | 4,849 | 5,212 | 3,723 |
| Other current liabilities ³⁾ | (14,699) | (12,831) | (10,566) | (8,587) |
| Other long-term liabilities ⁴⁾ | (4,693) | (5,316) | (5,782) | (1,632) |
| Capital Employed | 43,438 | 44,853 | 41,977 | 24,555 |
| | 2004 | 2003 | 2002 | |
| Return on average Capital Employed (RoaCE) | 3.5% | 4.7% | 2.7% | |

| Amounts in NOK million | Year ended 2004 | Year ended 2003 | Year ended 2002 |
|-----------------------------------|---------------------------|--------------------|--------------------|
| Reported Earnings before tax | 2,186 | 2,889 | 1,479 |
| Normalization Other income | - | - | - |
| Normalization Restructuring costs | (22) | - | (10) |
| Normalization Price and currency | (1,215) | (300) | (99) |
| Normalized Earnings before tax | 949 | 2,589 | 1,370 |
| Normalized Income tax expense | (256) | (760) | (395) |
| Normalized Earnings after tax | 693 | 1,829 | 975 |

| Amounts in NOK million | 31 December 2004 | 31 December 2003 | 31 December 2002 | 31 December 2001 |
|---|----------------------------|---------------------|---------------------|---------------------|
| Reported Capital Employed | 43,438 | 44,853 | 41,977 | 24,555 |
| Normalization currency rates (translation effects) | 1,297 | (571) | 2,736 | (1,573) |
| Normalization current tax payable | 409 | 99 | 199 | 244 |
| Normalized Capital Employed | 45,144 | 44,381 | 44,912 | 23,226 |
| | 2004 | 2003 | 2002 | |
| Normalized Return on average Capital Employed (RoaCE) | 1.5% | 4.1% | 2.9% | |

1) Excluding Cash and cash equivalents and Other liquid assets, but including Deferred tax assets

2) Including Deferred tax assets

3) Including Deferred tax liabilities

4) Including Accrued pension liabilities and Deferred tax liabilities

Non-GAAP financial measures

Effect on RoaCE of major events

Actual RoaCE adjusted for major write downs and change in tax regulations in Norway

| Amounts in NOK million | Hydro | | Aluminium | |
|--|-------------|-------------|-------------|-------------|
| | Year Ended | | Year Ended | |
| | 2004 | | 2004 | |
| Earnings after tax | 11,479 | | 1,554 | |
| Adjustment for Write down after tax and change in tax regulation | 606 | | 1,595 | |
| Adjusted Earnings after tax | 12,085 | | 3,149 | |
| | 31 December | 31 December | 31 December | 31 December |
| | 2004 | 2003 | 2004 | 2003 |
| Capital Employed | 85,965 | 90,829 | 43,438 | 44,853 |
| Adjustment for write down after tax and change in tax regulation | 680 | - | 1,595 | - |
| Adjusted Capital Employed | 86,645 | 90,829 | 45,033 | 44,853 |
| | 2004 | | 2004 | |
| RoaCE adjusted for write down and change in tax regulation | 13.6% | | 7.0% | |

Normalized RoaCE adjusted for major write downs and change in tax regulations in Norway

| Amounts in NOK million | Hydro | | Aluminium | |
|--|-------------|-------------|-------------|-------------|
| | Year Ended | | Year Ended | |
| | 2004 | | 2004 | |
| Normalized Earnings after tax | 7,220 | | 693 | |
| Adjustment for Write down after tax and change in tax regulation | 606 | | 1,595 | |
| Adjusted Normalized Earnings after tax | 7,826 | | 2,288 | |
| | 31 December | 31 December | 31 December | 31 December |
| | 2004 | 2003 | 2004 | 2003 |
| Normalized Capital Employed | 92,345 | 91,378 | 45,144 | 44,381 |
| Adjustment for write down after tax and change in tax regulation | 680 | - | 1,595 | - |
| Adjusted Normalized Capital Employed | 93,025 | 91,378 | 46,739 | 44,381 |
| | 2004 | | 2004 | |
| Normalized RoaCE adjusted for write down | 8.5% | | 5.0% | |

IFRS in Hydro's Financial Statements

The European Union's (EU) Regulation (the "regulation") requires the use of International Financial Reporting Standards (IFRS) for all listed companies in the EU and European Economic Area (EEA) and will apply to Hydro. The regulation incorporated into Norwegian law in December 2004. The regulation requires that most companies adopt IFRS by 2005. However, companies using internationally accepted accounting standards for the purpose of a non-EU stock exchange listing for their primary financial statements may, if the member state permits, delay the implementation of IFRS until 2007. Hydro uses United States Generally Accepted Accounting Principles (US GAAP) as the accounting principles underlying its primary financial statements. Therefore, because Norway has implemented the member state option to delay implementation for certain companies, Hydro qualifies for the 2007 implementation.

Hydro plans to implement IFRS in 2007. This will require the preparation of an opening balance in accordance with IFRS as of the beginning of 2006, based on standards applicable at that time. Amendments to IFRS during 2006 and 2007 will be implemented retrospectively. Hydro has established a project for the implementation of IFRS including broad participation from accounting and business functions. The project will, during 2005 and 2006, prepare for the implementation of IFRS.

Hydro has made an initial high level evaluation of the current IAS/IFRS standards, for the purpose of identify differences which could lead to major changes in transaction systems, valuation models or administrative procedures as well as implementation effects that may have a material impact on Hydro's earnings or equity. The Company's preliminary assessment has identified a number of differences. Important areas for Hydro where there are material unsolved issues include accounting for oil and gas activities and financial instruments. In addition, there are important differences between Hydro's current accounting principles and IFRS, for instance requirements relating to property, plant and equipment, pensions and taxes. These differences may result in effects on reported earnings and the valuation of assets and liabilities in future periods. Hydro is not in a position to describe such effects based on its preliminary evaluation. Further differences are expected to be identified during the assessment work in the project. In addition, further amendments to both IFRS and US GAAP are expected prior to implementation in 2007. One source for such changes is the "Convergence Project", a combined project between the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB), with the objective of reducing differences between the two sets of standards.

Oil and gas activities

There are currently limited industry specific regulations pertaining to oil and gas activities included in IFRS. Direct application of the general standards for certain specific oil and gas related issues may lead to differences compared to US GAAP standards currently applied by Hydro including SFAS 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" and SFAS 69 "Disclosures about Oil and Gas Producing Activities". In addition, regulations and guidance from the US Securities and Exchange Commission (SEC) also heavily influence Hydro's Oil and Gas accounting and disclosure. Important issues include depreciation of production assets following the unit-of-production method and impairment of assets. Further analysis is expected to reveal additional differences. The IASB has issued, as a temporary measure, IFRS 6 "Exploration for and Evaluation of Mineral Resources". The new standard allows the continued application of accounting policies relating to exploration costs in use immediately prior to adopting IFRS. This temporary standard is expected to be replaced by a permanent standard within a period of three to five years.

Financial Instruments

IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" contain important differences from comparable US standards, mainly SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" (including later revisions). In particular, these differences relate to commodity instruments and contracts in connection with commodities traded in liquid markets. Examples of such commodities are crude oil, natural gas and metals. Hydro has not evaluated the consequences of applying IFRS relating to accounting and information systems and valuation models, or the potential effects on the Company's financial statements of changes in valuation of contracts, including physical delivery contracts, for commodities.

Hydro expects to implement IFRS effective in 2007. Hydro has not decided whether the Company will continue to apply US GAAP as the primary accounting principals underlying the Company's financial statements. This will be evaluated based on experience gained from the implementation project and developments in the regulations relating to the two sets of accounting standards. Future changes in regulations in Norway and/or the US may lead to the possibility for Hydro to apply a single set of accounting standard and be in compliance with requirements both in Norway and in the US. Such developments would lead to a re-evaluation of this issue.

Operational data

Exploration & Production

Proved reserves
As of 31 December, 2004

| Field | Block | Operator | Hydro's %-interest | Hydro's share | | | | Prod. start up |
|----------------------------|-----------------------------|----------------|-----------------------|-------------------|---------------------|-----------------|-----------------------------|-------------------|
| | | | | Total mill.boe | Oil/NGL mill.boe | Gas bill.scf | Gas bill.Sm ³ | |
| Troll | 31/2, 31/3, 31/5, 31/6 | Hydro/Statoil | 9.78 | 509 | 53 | 2,649 | 74.9 | 1995 |
| Oseberg fields | 30/6, 30/9 | Hydro | 34.00 | 337 | 121 | 1,192 | 33.7 | 1988 |
| Ormen Lange | 6304/9 6305/1,2,4,5,7,8 | Hydro/Shell** | 18.07 | 234 | 14 | 1,239 | 35.0 | 2007 |
| Grane | 25/11 | Hydro | 38.00 | 184 | 184 | 0 | 0.0 | 2003 |
| Åsgard | 6407/2, 6506/11,12, 6507/11 | Statoil | 9.60 | 141 | 58 | 465 | 13.1 | 1999 |
| Snorre fields | 34/4, 34/7, 33/9 | Statoil | 5.98-17.65 | 107 | 104 | 13 | 0.4 | 1992 |
| Ekofisk fields | 2/4, 2/5, 2/7 | ConocoPhillips | 5.81-6.65 | 86 | 74 | 66 | 1.9 | 1971 |
| Visund | 34/8, 34/7 | Statoil | 20.30 | 76 | 25 | 288 | 8.1 | 1999 |
| Sleipner fields | 15/6, 15/9, 16/7 | Statoil | 8.85-10.00 | 46 | 13 | 180 | 5.1 | 1993 |
| Kristin | 6406/2, 6506/11 | Statoil | 14.00 | 43 | 26 | 99 | 2.8 | 2005 |
| Gullfaks fields | 34/10, 33/12 | Statoil | 9.00 | 43 | 29 | 76 | 2.1 | 1986 |
| Kvitebjørn | 34/11 | Statoil | 15.00 | 36 | 10 | 140 | 3.9 | 2004 |
| Mikkjel | 6407/5,6 | Statoil | 10.00 | 19 | 8 | 61 | 1.7 | 2003 |
| Njord | 6407/7,10 | Hydro | 20.00 | 17 | 9 | 50 | 1.4 | 1997 |
| Norne | 6608/10, 6508/1 | Statoil | 8.10 | 13 | 9 | 20 | 0.6 | 1997 |
| Fram Vest | 35/11 | Hydro | 25.00 | 11 | 6 | 25 | 0.7 | 2003 |
| Heimdal fields | 25/4, 25/5 | Hydro/Total | 10.00-28.85 | 8 | 2 | 30 | 0.9 | 2002 |
| Tune | 30/8, 30/5, 30/6 | Hydro | 40.00 | 6 | 0 | 31 | 0.9 | 2002 |
| Brage | 31/4, 30/6, 31/7 | Hydro | 20.00 | 2 | 2 | 2 | 0.1 | 1993 |
| Gulltopp | 34/10 | Statoil | 9.00 | 2 | 2 | 0 | 0.0 | 2005 |
| Total Norway | | | | 1,920 | 749 | 6,626 | 187.3 | |
| Terra Nova | Grand Banks, Canada | Petro-Canada | 15.00 | 38 | 38 | 0 | 0.0 | 2002 |
| Dalia | Block 17, Angola | Total | 10.00 | 31 | 31 | 0 | 0.0 | 2006 |
| Kharyaga | Timan Pechora, Russia | Total | 40.00 | 24 | 24 | 0 | 0.0 | 1999 |
| Girassol | Block 17, Angola | Total | 10.00 | 18 | 18 | 0 | 0.0 | 2001 |
| Hibernia | Grand Banks, Canada | HMDC* | 5.00 | 13 | 13 | 0 | 0.0 | 1997 |
| Mabruk | Sirte Basin, Libya | Total | 25.00 | 12 | 12 | 0 | 0.0 | 1995 |
| Murzuq | Sirte Basin, Libya | Repsol | 8.00 | 8 | 8 | 0 | 0.0 | 2003 |
| Jasmim | Block 17, Angola | Total | 10.00 | 3 | 3 | 0 | 0.0 | 2003 |
| Rosa | Block 17, Angola | Total | 10.00 | 9 | 9 | 0 | 0.0 | 2007 |
| Total International | | | | 156 | 156 | 0 | 0.0 | |
| Total | | | | 2,076 | 905 | 6,626 | 187.3 | |

* HMDC: Hibernia Management Development Company

** Hydro is operator for the field development. Shell is operator for the field operation.

2004 Production of oil and gas

| Field | Operator | Hydro's %-interest | Total mill.boe | Hydro's share | | | Remaining prod.period | License period |
|-------------------------------------|----------------|-----------------------|-------------------|---------------------|-----------------|-----------------------------|--------------------------|-------------------|
| | | | | Oil/NGL mill.boe | Gas bill.scf | Gas bill.Sm ³ | | |
| Oseberg fields | Hydro | 34.00 | 42 | 35 | 38 | 1.1 | 2012 - 2025 | 2031 |
| Troll | Hydro/Statoil | 9.78 | 28 | 12 | 90 | 2.6 | 2030 | 2030 |
| Snorre fields | Statoil | 5.98-17.65 | 21 | 21 | 4 | 0.1 | 2012 - 2016 | 2009 - 2024 |
| Grane | Hydro | 38.00 | 17 | 17 | 0 | 0.0 | 2023 | 2030 |
| Åsgard | Statoil | 9.60 | 14 | 8 | 34 | 0.9 | 2025 | 2027 |
| Tune | Hydro | 40.00 | 12 | 2 | 53 | 1.5 | 2007 | 2032 |
| Sleipner fields | Statoil | 8.85-10.00 | 12 | 4 | 45 | 1.3 | 2005 - 2014 | 2014 - 2018 |
| Gullfaks fields | Statoil | 9.00 | 11 | 8 | 12 | 0.3 | 2014 | 2016 |
| Ekofisk fields | ConocoPhillips | 5.81-6.65 | 10 | 9 | 8 | 0.2 | 2018 - 2028 | 2028 |
| Fram Vest | Hydro | 25.00 | 5 | 5 | 0 | 0.0 | 2014 | 2024 |
| Norne | Statoil | 8.10 | 4 | 4 | 3 | 0.1 | 2016 | 2026 |
| Visund | Statoil | 20.30 | 2 | 2 | 0 | 0.0 | 2023 | 2023 |
| Brage | Hydro | 20.00 | 2 | 2 | 1 | 0.0 | 2007 | 2015 - 2017 |
| Njord | Hydro | 20.00 | 2 | 2 | 0 | 0.0 | 2012 | 2021 - 2023 |
| Mikkjel | Statoil | 10.00 | 2 | 1 | 6 | 0.2 | 2021 | 2020 - 2022 |
| Frigg | Total | 19.99 | 2 | 0 | 10 | 0.3 | | 2015 |
| Heimdal fields | Hydro/Total | 10.00-***28.85 | 1 | 0 | 5 | 0.1 | 2006 - 2009 | 2021 - 2025 |
| Kvitebjørn | Statoil | 15.00 | 1 | 0 | 3 | 0.1 | 2014 | 2031 |
| Total Norway | | | 188 | 132 | 312 | 8.8 | | |
| Girassol | Total | 10.00 | 7 | 7 | 0 | 0.0 | 2020 | 2022 |
| Terra Nova | Petro-Canada | 15.00 | 6 | 6 | 0 | 0.0 | 2016 | 2093 |
| Hibernia | HMDC* | 5.00 | 4 | 4 | 0 | 0.0 | 2015 | 2085 |
| Kharyaga | Total | 40.00 | 2 | 2 | 0 | 0.0 | 2030 | 2031 |
| Jasmim | Total | 10.00 | 1 | 1 | 0 | 0.0 | 2018 | 2026 |
| Other fields (Mabruk and Murzuq) | Total/Repsol | | 1 | 1 | 0 | 0.0 | 2028 | 2028 |
| Total International | | | 21 | 21 | 0 | 0.0 | | |
| Total | | | ***209 | 153 | 312 | 8.8 | | |

* HMDC: Hibernia Management Development Company

** Hydro bought shares in the Heimdal and Vale fields from AS Uglands Rederi 8 December 2004. Hydro's share increased from 19.274% to 19.443% in Heimdal, and from 28.531% to 28.853% in Vale.

*** Average daily production in 2004 was 572,000 boe.

Operational data

Energy

| | 2004 | 2003 | 2002 |
|--|---------------|--------|--------|
| Total power available, TWh | 19.0 | 21.3 | 19.4 |
| From own power stations, TWh | 7.9 | 7.3 | 10.1 |
| Lease production, TWh | 0.2 | 0.2 | 0.2 |
| Average spot price NOK/MWh | 242 | 291 | 201 |
| Oil trading and refining (1,000 tonnes): | | | |
| Crude oil/NGL | 20,096 | 18,560 | 19,068 |
| Oil products | - | 2,808 | 2,326 |
| Oil trading | 20,096 | 21,368 | 21,394 |

Oil marketing

| | 2004 | 2003 | 2002 |
|--------------------------------|--------------|---------|--------|
| Marketing 1,000 m ³ | | | |
| Gasoline | 1,487 | 1,435 | 1,476 |
| Gasoil | 2,266 | 2,109 | 2,074 |
| Market share 2004 | | | |
| | Sweden | Denmark | Norway |
| Gasoline | 9.6% | 17.3% | 20.8% |
| Gasoil | 14.4% | 18.4% | 17.1% |

Includes 100 percent of HydroTexaco

Aluminium

| Tonnes | 2004 | 2003 | 2002 |
|--|------------------|-----------|-----------|
| Production of alumina | 1,572,000 | 1,502,000 | 1,272,000 |
| Production of primary aluminium: | | | |
| Karmøy | 278,000 | 271,000 | 273,000 |
| Årdal | 222,000 | 215,000 | 206,000 |
| Neuss | 223,000 | 221,000 | 173,000 |
| Sunnal | 306,000 | 210,000 | 153,000 |
| Kurri-Kurri | 155,000 | 156,000 | 122,000 |
| Høyanger | 76,000 | 74,000 | 73,000 |
| Søral (Hydro's ownership interest 49.9 percent) | 82,000 | 79,000 | 67,000 |
| Stade | 69,000 | 69,000 | 48,000 |
| Slovalco* | 157,000 | | |
| Other | 152,000 | 178,000 | 138,000 |
| Total | 1,720,000 | 1,473,000 | 1,253,000 |
| Remelting | 1,733,000 | 1,597,000 | 1,342,000 |
| Semi-fabrication: | | | |
| Extruded products | 626,000 | 569,000 | 556,000 |
| Rolled products | 941,000 | 893,000 | 693,000 |
| Wire rod and other | 73,000 | 80,000 | 75,000 |
| Primary aluminium London Metal Exchange 3-month price US dollar/tonne (avg.) | 1,721 | 1,428 | 1,365 |
| Production, remelting and recycling of primary magnesium | 98,000 | 92,000 | 87,000 |

* Slovalco is included 100% from 2004. In 2003 and 2002 they were included in Other with Hydro's share

Polymers

| Production in tonnes | 2004 | 2003 | 2002 |
|---------------------------------------|----------------|---------|---------|
| Base products: | | | |
| VCM | 541,000 | 575,000 | 540,000 |
| Caustic Soda | 260,000 | 281,000 | 262,000 |
| PVC | 578,000 | 588,000 | 528,000 |
| S-PVC | 496,000 | 507,000 | 458,000 |
| P-PVC | 82,000 | 81,000 | 70,000 |
| PVC-Compounds | 132,000 | 129,000 | 128,000 |
| Average prices Western Europe: | | | |
| Ethylene - EUR/tonne delivered | 629 | 522 | 518 |
| VCM - Spot Export FOB US dollar/tonne | 722 | 452 | 451 |
| S-PVC - EUR/tonne delivered | 853 | 683 | 714 |

Source: ICIS-LOR

Facts and figures, society, people, environment

Society

This section provides additional information on reporting relating to health, safety and environmental issues as well as personnel and organizational matters (A drive to optimize p 38 – 47) and corporate social responsibility (Social, p 54 – 59).

The pages also include a Global Reporting Initiative index (GRI), a description of reporting principles and scope, as well as the auditor's report on Hydro's reporting on society, people, environment.

Geographical distribution of sales

| NOK million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---------------------------|---------|---------|---------|---------|---------|
| Norway | 25,012 | 15,505 | 17,251 | 11,052 | 12,009 |
| Germany | 19,350 | 17,909 | 17,050 | 16,418 | 15,806 |
| Other EU | 78,211 | 72,378 | 70,081 | 65,319 | 67,882 |
| Other Europe | 7,261 | 6,385 | 8,394 | 6,976 | 6,704 |
| Total Europe | 129,834 | 112,177 | 112,776 | 99,765 | 102,401 |
| USA | 10,357 | 10,467 | 11,552 | 12,220 | 12,986 |
| Canada | 5,188 | 2,690 | 2,742 | 552 | 402 |
| Other America | 2,526 | 1,879 | 1,481 | 863 | 674 |
| Africa | 548 | 266 | 283 | 451 | 363 |
| Asia | 6,000 | 5,567 | 4,813 | 2,147 | 3,564 |
| Australia and New Zealand | 972 | 715 | 446 | 149 | 308 |
| Total outside Europe | 25,591 | 21,584 | 21,317 | 16,382 | 18,297 |
| Total | 155,425 | 133,761 | 134,093 | 116,147 | 120,698 |

Geographical distribution of employees and salary costs

| NOK million | Number of employees* | | Salaries | |
|----------------------|----------------------|--------|----------|--------|
| | 2004 | 2003 | 2004 | 2003 |
| Norway | 12,130 | 12,587 | 6,761 | 6,490 |
| Germany | 5,630 | 5,629 | 2,287 | 2,353 |
| Other Europe | 10,537 | 10,937 | 3,539 | 3,422 |
| Total Europe | 28,297 | 29,153 | 12,587 | 12,265 |
| USA | 3,780 | 3,719 | 757 | 798 |
| Canada | 372 | 374 | 142 | 173 |
| Other America | 786 | 782 | 42 | 29 |
| Asia | 811 | 949 | 54 | 72 |
| Other | 602 | 596 | 265 | 237 |
| Total outside Europe | 6,351 | 6,420 | 1,260 | 1,309 |
| Total | 34,648 | 35,573 | 13,847 | 13,574 |

* As of December 31.

Research and development

See Note 7 in Consolidated financial statements, page 114.

Actual number of employees

| Number of employees per Decemter 31 | 2004 | 2003 | 2002 | 2001 | 2000 |
|-------------------------------------|--------|--------|--------|--------|--------|
| Number og employees | 34,648 | 42,911 | 49,712 | 35,567 | 38,166 |

Fluctuations in the number of employees is primarily due to the acquisition, divestment and spin-off of businesses. The most important of these were the establishment of Yara ASA as a listed company in 2004 (7,500 employees), the sale of

Flexible Packaging in 2003 (4,400 employees) the acquisition of VAW in 2002 (17,000 employees). During the period there were also considerable efficiency-increasing processes that reduced the number of employees.

Diversity in management

| | Women | | Men | | Non-Norwegians | | No. of nationalities | |
|------------------------------------|-------|------|------|------|----------------|------|----------------------|------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Board of directors (nine members*) | 22% | 33% | 78% | 67% | 22% | 11% | 3 | 2 |
| Corporate management board | 20% | 20% | 80% | 80% | 0% | 0% | 1 | 1 |
| Top 50 managers | 25% | 23% | 75% | 77% | 14% | 14% | 7 | 6 |
| Top 200 managers | 19% | - | 81% | - | 20% | - | 13 | - |

* Three of the board members are employee representatives. All are Norwegian men.

Diversity in Norway

Women and men at different levels

| | Women | | Men | |
|--------------------|-------|------|------|------|
| | 2004 | 2003 | 2004 | 2003 |
| Managers | 18% | 17% | 82% | 83% |
| Salaried employees | 43% | 43% | 57% | 57% |
| Hourly paid | 14% | 16% | 86% | 84% |
| Total | 21% | 22% | 79% | 78% |

| Per business area | Oil & Energy | | Aluminium | | Other | |
|--------------------|--------------|-----|-----------|-----|-------|-----|
| | Women | Men | Women | Men | Women | Men |
| Managers | 16% | 84% | 14% | 86% | 22% | 78% |
| Salaried employees | 43% | 57% | 37% | 63% | 45% | 55% |
| Hourly paid | 11% | 89% | 14% | 86% | 17% | 83% |
| Total | 22% | 78% | 17% | 83% | 25% | 75% |

Recruiting

| | Women | Men |
|--------------------|-------|-----|
| Managers | 21% | 79% |
| Salaried employees | 38% | 62% |
| Hourly paid | 13% | 87% |
| Total | 30% | 70% |

The group "salaried employees" largely comprises younger persons with higher educational qualifications. They constitute an important group with respect to managerial recruitment.

Equal salaries

Hydro's employees are ensured a salary that is fair, competitive and in line with good local business standard. When making decisions regarding appointments, training, compensation and promotion, the company takes only into account criteria such as education, experience, results and other relevant qualifications.

Among employees who are part of collective wage agreements, there are no significant wage differentials between men and women. A thorough review of the salaries of employees holding university degrees did not reveal noticeable differentials between men and women's salaries.

Part-time employees

Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made. Among others, part-time work agreement may be granted in connection with a responsibility for small children. In the Norwegian part of the organization, 18 percent of women and 1.3 percent of men worked part-time in 2004.

Facts and figures, society, people, environment

People, environment

Health and safety

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|----------------------------------|------|------|------|------|------|
| Total recordable injuries (TRI)* | 5.6 | 7.0 | 10.3 | 9.5 | 13.7 |
| Lost time injuries (LTI)* | | | | | |
| – Employees | 2.7 | 3.6 | 4.9 | 3.1 | 4.6 |
| – Contractors | 2.8 | 2.3 | 2.8 | 3.8 | 2.8 |
| Fatalities** | | | | | |
| – Employees | 2.5 | 3.7 | 3.7 | 4.4 | 4.1 |
| – Contractors | 6.1 | 5.8 | 6.8 | 7.0 | 6.3 |
| Sick leave | 3.1% | 3.0% | 2.6% | 3.2% | 3.9% |

* Per million working hours

** Per 100 million working hours, five years rolling average

In Norway, total sick leave was 5.0 percent. Womens sick leave was 6.6 percent, while men's sick leave was 4.5 percent.

Resource use

| 1000 tonnes | 2004 | 2003 | 2002 | 2001 |
|------------------------|-------|-------|-------|-------|
| Alumina | 2,621 | 2,347 | 2,202 | 1,357 |
| Sodium chloride (salt) | 404 | 432 | 404 | 448 |
| Magnesite | 171 | 173 | 157 | 162 |
| Aluminiumfluoride | 23 | 19 | 19 | 12 |

Water consumption

| Million m ³ | 2004 | 2003 | 2002 | 2001 |
|------------------------|-------|-------|-------|-------|
| Water | 145.2 | 147.8 | 138.8 | 119.4 |

Energy consumption

| PJ | 2004 | 2003 | 2002 | 2001 | 2000 |
|--------------------|-------|-------|-------|-------|-------|
| Electricity | 92.3 | 86.8 | 89.6 | 61.1 | 60.3 |
| Oil | 3.0 | 3.4 | 5.1 | 6.1 | 5.1 |
| Coke/coal | 17.5 | 17.2 | 18.8 | 10.4 | 10.5 |
| Natural gas | 58.3 | 49.1 | 59.8 | 58.3 | 52.2 |
| Natural gas liquid | 2.8 | 1.8 | 1.5 | 1.6 | 40.2 |
| Other | 7.6 | 7.6 | 7.2 | 7.3 | 4.8 |
| Total | 181.4 | 165.9 | 182.0 | 144.7 | 173.0 |

Energy consumption includes energy losses in hydroelectric plants, energy consumption in connection with oil and gas recovery, as well as direct energy consumption in land-based plants and installations.

See also www.hydro.com/resourcegmt

Environment

Emissions

| Greenhouse gases million tonnes CO ₂ e | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|-------------|------|------|------|------|
| N ₂ O | 0.03 | 0.03 | 0.01 | 0.01 | 0.01 |
| SF ₆ | 1.16 | 1.19 | 1.08 | 1.57 | 1.81 |
| PFC | 1.54 | 1.41 | 1.76 | 0.79 | 0.63 |
| CH ₄ | 0.04 | 0.03 | 0.03 | 0.02 | 0.02 |
| CO ₂ | 6.07 | 5.50 | 6.30 | 5.48 | 5.42 |
| Total | 8.84 | 8.16 | 9.18 | 7.87 | 7,89 |

Greenhouse gas emissions are based on operatorship.
See also www.hydro.com/climate

Emissions at business area level are reported at
www.hydro.com/environment

Waste

Distribution of waste

| Tonnes | 2004 | 2003 | 2002 | 2001 | 2000 |
|---------------------|----------------|---------|---------|---------|---------|
| Hazardous waste | 129,764 | 126,046 | 144,857 | 104,879 | 115,666 |
| Non-hazardous waste | 184,356 | 182,168 | 137,175 | 76,816 | 65,665 |

Waste treatment

| Percent | 2004 | 2003 |
|-----------------|-----------|------|
| Landfill | 28 | 35 |
| Energy recovery | 4 | 4 |
| Reuse/recycling | 40 | 37 |
| Other treatment | 28 | 24 |

Combustion without energy recovery is included under
"Other treatment".
See also www.hydro.com/resourcegmt

Financial provisions

Provisions for future environmental clean-up measures
amounted to NOK 351 million as of 31 December 2004.
(Cf. Note 21 in the accounts)

GRI index

Reporting according to Global Reporting Initiative, Sustainability Reporting Guidelines

This overview shows how Hydro reports according to Global Reporting Initiative's (GRI's) guidelines for voluntary reporting of sustainable development.

The tables shows where information about each issue may be found, either this is fully or partly described compared to GRI's definition.

| Topic | Sub-topic | GRI references | Pages/comments |
|---|---|--------------------------|---|
| Vision and strategy | Sustainable development vision and strategy | 1.1 | Statement of Hydros sustainability vision and strategy p. 18–19 |
| | Chief executive statement | 1.2 | Statement from the CEO p. 5–7 |
| Profile | Organizational profile | 2.1 | Name of reporting organisation Cover |
| | | 2.2 | Major products and/or services, including brands if appropriate p. 18–19, 156–159 |
| | | 2.3 | Operational structure of the organisation p. 18–19 |
| | | 2.4 | Description of major divisions and operating companies p. 20–28 |
| | | 2.5 | Countries in which the organisation's operations are located p. 21, 25 |
| | | 2.6 | Nature of ownership; legal form p. 174–177 |
| | | 2.7 | Nature of markets served p. 18 |
| | | 2.8 | Scale of the reporting organisation Foldout |
| | | 2.9 | List of stakeholders and key attributes of each, including size p. 56–57 hydro.com/stakeholders |
| | Report scope | 2.10 | Contact persons for the report Back cover |
| | | 2.11 | Reporting period Front cover |
| | | 2.12 | Date of most recent previous report Annual report 2003 |
| | | 2.13 | Boundaries of report Foldout, p. 168 |
| | | 2.14 | Significant changes in size, structure and limitation of scope p. 10–11, 168 |
| | | 2.15 | Basis for reporting p. 96–102, 168 |
| | | 2.16 | Restatements and reasons for restatements p. 96–102, 168 |
| | | 2.17 | Position on applying GRI principles p. 168 |
| | Report profile | 2.18 | Accounting criteria/definitions used p. 96–102, 168 |
| | | 2.19 | Changes from previous years in the measurement methods p. 96–102 |
| | | 2.20 | Internal practices to provide assurance about the report p. 168, 170–173 |
| | | 2.21 | Current practice to provide independent assurance about the report p. 146, 168–169, 173 |
| | | 2.22 | Means by which report users can obtain additional information Back cover, web-references in the report |
| Governance structure and management systems | | Structure and governance | 3.1 |
| | 3.2 | | Independence of non-executive board members p. 8–9, 173 |

The guidelines comprise financial, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme (UNEP) and UN Secretary-General Kofi Annan's Global Compact.

We believe in all material respects, that our reporting practice is consistent with GRI's reporting principles.

| Topic | Sub-topic | GRI references | Pages/comments |
|-------------------|---------------------------------|--|-------------------------------------|
| | | 3.3 Process for determining the expertise of board members | Not reported |
| | | 3.4 Board-level process for managing sustainability risks and opportunities | p. 15–16, 170–173 |
| | | 3.5 Executive compensation for achievement of non-financial goals | p. 45, 171, 173 |
| | | 3.6 Organisational structure for audit of non-financial policies | p. 18, 173 |
| | | 3.7 Codes of conduct and policies relevant to sustainable performance | p. 42–47, 56–59, 170–171 |
| | | 3.8 Shareholder communication with the board of directors | p. 172–173 |
| | Stakeholder engagement | 3.9 Basis for identification and selection of major stakeholders | p. 56–57 |
| | | 3.10 Approaches to stakeholder consultation | p. 56–57 |
| | | 3.11 Type of information generated by stakeholder consultations | p. 56–57 |
| | | 3.12 Use of information resulting from stakeholder engagements | p. 56–57 |
| | Policies and management systems | 3.13 Explanation on how the precautionary principle is addressed | p. 47, 56 |
| | | 3.14 Endorsed voluntary economic, environmental and social charters and principles | p. 6, 56-59, hydro.com/partnerships |
| | | 3.15 Memberships in industry associations and advocacy organisations | hydro.com/partnerships |
| | | 3.16 Policies and/or systems for impact management | p. 49–51, 58 |
| | | 3.17 Approach to managing indirect economic, environmental and social impacts | p. 29–59 |
| | | 3.18 Major decisions regarding the location of, or changes in, operations | p. 10, 24–27, 35–36 |
| | | 3.19 Programmes and procedures pertaining to sustainability performance | p. 29–59 |
| | | 3.20 Certification of economic, environmental and social management systems | Not reported |
| GRI content index | | 4.1 GRI content index | p. 164–167 |
| Economic aspects | Customers | EC1 Net sales | Foldout, p. 160 |
| | | EC2 Geographic breakdown of markets | p. 160 |

GRI index

| Topic | Sub-topic | GRI references | Pages/comments |
|--|---|--|---------------------------------------|
| Environmental aspects | Suppliers | EC3 Cost of all goods, materials, and services purchased | Not reported |
| | | EC4 Percentage of contracts paid in accordance with agreed terms | Not reported |
| | Employees | EC5 Total payroll and benefits broken down by country or region | p. 160 |
| | Providers of capital | EC6 Distributions to providers of capital | p. 105–107, 114 |
| | | EC7 Increase/decrease in retained earnings at end of period | p. 105–107 |
| | Public sector | EC8 Total sum of taxes broken down by country | p. 57, 115 |
| | | EC9 Subsidies | Not relevant |
| | | EC10 Donation to community, civil society and other groups | p. 57–58, hydro.com/socialinvestments |
| | Materials | EN1 Total materials use other than water, by type | p. 162 |
| | | EN2 Percentage of materials used that are wastes from external sources | Not reported |
| | Energy | EN3 Direct energy use | Foldout, p. 162 |
| | | EN4 Indirect energy use | Not reported |
| | Water | EN5 Total water use | p. 162 |
| | Biodiversity | EN6 Location and size of land in biodiversity-rich habitats | p. 46–47 |
| | | EN7 Description of the major impacts on biodiversity | p. 46–47 |
| | Emissions, effluents and waste | EN8 Greenhouse gas emission | Foldout, p. 46–47, 163 |
| EN9 Use and emission of ozone-depleting substances | | Not relevant | |
| EN10 NOx, Sox, and other significant air emissions by type | | hydro.com/environment | |
| EN11 Total amount of waste by type and destination | | p. 163 | |
| Products and services | EN12 Significant discharges to water by type | hydro.com/environment | |
| | EN13 Significant spills | p. 16, 47 | |
| Compliance | EN14 Significant environmental impacts of principal products and services | p. 50–51 | |
| | EN15 Percentage of reclaimable product | p. 32–33 | |
| | EN16 Incidents and fines | Not reported | |

| Topic | Sub-topic | GRI references | Pages/comments |
|----------------------------------|--|--|----------------------------------|
| Labour practices and decent work | Employment | LA1 Breakdown of workforce | Foldout, p. 160–161 p. 16, 57 |
| | | LA2 Employment creation/turnover | |
| | Labour/management relations | LA3 Trade unions | p. 57, 59 |
| | | LA4 Information, consultations & negotiations | p. 55–57 |
| | Health and safety | LA5 Health and safety practices | p. 45–46 |
| | | LA6 Health and safety committees | Not reported |
| | | LA7 Health and safety key figures | Foldout, p. 47, 162 |
| | | LA8 Health and safety HIV/AIDS | Not reported |
| | Training and education | LA9 Training and education | p. 43–44 |
| | Diversity and opportunity | LA10 Equal opportunity policies or program | p. 43–44, 161 |
| | | LA11 Senior management and corporate governance bodies | p. 17, 43–44, 161 |
| Human rights | Strategy and management | HR1 Human rights relevant to operations | p. 55–59 |
| | | HR2 Investment/procurement decisions | p. 56–59 |
| | | HR3 Supply chain and contractors | p. 56–59 |
| | Non-discrimination | HR4 Non-discrimination | p. 43–44 |
| | Freedom of association and collective bargaining | HR5 Freedom of association and collective bargaining | p. 59 |
| | Child labour | HR6 Child labour | p. 59 |
| | Forced and compulsory labour | HR7 Forced and compulsory labour | p. 59 |
| Society | Community | SO1 Community | p. 55–59 |
| | Bribery and corruption | SO2 Bribery and corruption | p. 58–59 |
| | Political contributions | SO3 Political contributions | p. 59 |
| Product responsibility | Customer health and safety | PR1 Customer health and safety | Not reported |
| | Products and services | PR2 Products and services | Not reported |
| | Respect and privacy | PR3 Respect for privacy | hydro.com/privacy |

About the report

Objective

The purpose of Financial Statements has been to inform stakeholders economic decisions. By including additional non-financial information in this year's Annual Report we strive to support our stakeholders in decisions about their involvement with Hydro. The purpose is to support trust among key stakeholders and demonstrate transparency on our commitments, practices and performance in significant areas affecting our business and stakeholders.

Reporting principles and guidelines

In designing the report we have employed the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 2002, which is emerging as an important guideline for reporting non-financial information. Additionally, we have applied our experience of managing and reporting on environmental, social and ethical aspects. We believe our reporting practice in all material respects is aligned with the GRI reporting principles and we have inserted a summary GRI index on page 164 to 167. Learn more on www.hydro.com/gri

We selected material issues to be reported on based on extensive dialogue with, and input from, stakeholders and ongoing internal processes that are part of the company's daily operation. We believe that the report covers a reasonably complete and balanced set of topics, derived from operating the business, and aggregated and filtered into a global perspective of Hydro, and presents them in such a way as to provide a picture of Hydro's commitments, practices and results as a global company. The report does not aim to provide detailed information for stakeholders with a particular interest in specific locations, processes, activities or products. Such information may be provided in local and/or functional reports and other publications. We believe this approach to be consistent with the principle of materiality, completeness and involvement of interest groups required by reporting organizations in the AA1000 Assurance Standard issued by the Institute of Social and Ethical Accountability.

We strive to present the issues reported in accordance with the principles of good reporting practice (such as understandability, relevance, reliability, comparability), but the reader should be aware of inherent limitations due to a lack of generally recognized reporting standards and practices in certain areas. Readers can therefore not expect to be able to compare results with other companies without further analyses, interpretation and data.

Reporting scope and limitations

The scope of the report is Hydro's global organization for the period January 1-December 31 2004. Data relating to health, safety and environment has been prepared by the individual reporting units in accordance with corporate reporting procedures and applies to units where Hydro has more than a 50 per cent share, or has operator responsibility. One exception is environmental data for BioMar, which for the time being is not included in the reporting. With the exception of figures for health and safety, historical figures have been corrected for the divestment of Agri. Financial information presented under "Key information – society, people, environment" are based on the annual financial statements. Other data have been sourced from various internal systems and sources. Quantitative indicators and terms applied are explained and defined as appropriate in relevant chapters.

Information in this report is based on input and information from many units and data sources. Much emphasis has been placed on ensuring that this information is neither incomplete nor misleading. However, the scope of the report and varying certainty of data in connection with for instance the company's diversity and HSE reporting means that there may be uncertainties relating to some figures stated in the report.

Assurance principles and scope

We requested our company auditor to review the information about sustainable development in the Annual Report, and apply the principles of the voluntary AA1000 Assurance Standard, which is an assurance standard for this type of reporting, where the auditor is requested to focus on sustainability reporting and underlying systems according to the principle of materiality, completeness and involvement of interest groups. For underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance on page 170 to 173 (learn more on www.hydro.com/governance). Furthermore, in accordance with the international audit standard ISAE 3000 ("Assurance Engagements other than Audits or Reviews of Historical Financial Information") we have defined specific issues to be included in the auditor's review. This year, we have adopted a limited level of assurance.

Independent auditor's report

On Hydro's reporting on people, society, environment

We have reviewed Hydro's management systems related to sustainable development and information hereof presented on pages 29 to 59 in Hydro's Annual Report for 2004 and information presented in "Facts and Figures, Society, People, Environment" on pages 160 to 168 of the Annual Report (in total referred to as the "Report"). The Report is the responsibility of and has been approved by the management of the Company. Our responsibility is to draw a conclusion based on our review.

We have based our approach on emerging best practice and standards for independent assurance on sustainability reporting, including ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board as well as on the principles of AA1000 Assurance Standard (AA1000AS) issued by AccountAbility. The objective and scope of the engagement were agreed with the management of the Company.

Based on an assessment of materiality and risks, our work included analytical procedures and interviews as well as a review on a sample basis of evidence supporting the subject matters. We have performed interviews with management responsible for environment and social responsibility at corporate and the business areas Hydro Aluminium and Hydro Oil & Energy, as well as at three reporting units within these business areas; Hydro Aluminium Karmøy, Hydro Aluminium Acro and Oil & Energy Operations, Sandsli.

We believe that our work provides an appropriate basis for us to conclude with a limited level of assurance on the subject matters. In such an engagement, less assurance is obtained than would be the case had an audit-level engagement been performed.

The scope of our engagement included information in the Report about:

- > Systems at corporate and business areas to identify, manage and to involve stakeholders on material aspects related to sustainable development within environment, health & safety and social responsibility.
- > Procedures to identify, collect, compile, and validate data and information for 2004 about environment, health & safety and social responsibility to be included in the Report, as described on page 168, and whether data for 2004 presented

in the Report are consistent with data accumulated as a result of these procedures and appropriately reflected in the Report.

- > Data reported from the three reporting units that we have tested, and whether these data have been reported according to the procedures noted above and are consistent with the source documentation presented to us.
- > Hydro's reporting practice, as described on page 168, and its alignment to the reporting principles of the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, and whether the GRI index presented on page 164 to 167 in the Report appropriately reflects the extent to which Hydro's reporting aligns with the indicators in the GRI Guidelines.

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

- > Hydro has established systems at corporate and business areas to identify, manage and to involve stakeholders on material aspects related to sustainable development, as specified, in accordance with the principles of AA1000AS.
- > Hydro has applied detailed procedures to identify, collect, compile, and validate data and information for 2004 about environment, health & safety and social responsibility to be included in the Report. Data for 2004 presented in the Report are consistent with data accumulated as a result of these procedures and appropriately reflected in the Report.
- > Hydro has implemented and locally adopted as necessary, management systems referred to above at the three reporting units. Data for 2004 from these units have been reported according to the procedures noted above and are consistent with source documentation presented to us.
- > Hydro applies a reporting practice in accordance with its objectives and principles for reporting and aligned with the GRI reporting principles. The GRI index presented on pages 164 to 167 in the Report appropriately reflects the extent to which Hydro's reporting aligns with the indicators in the GRI Sustainability Reporting Guidelines.

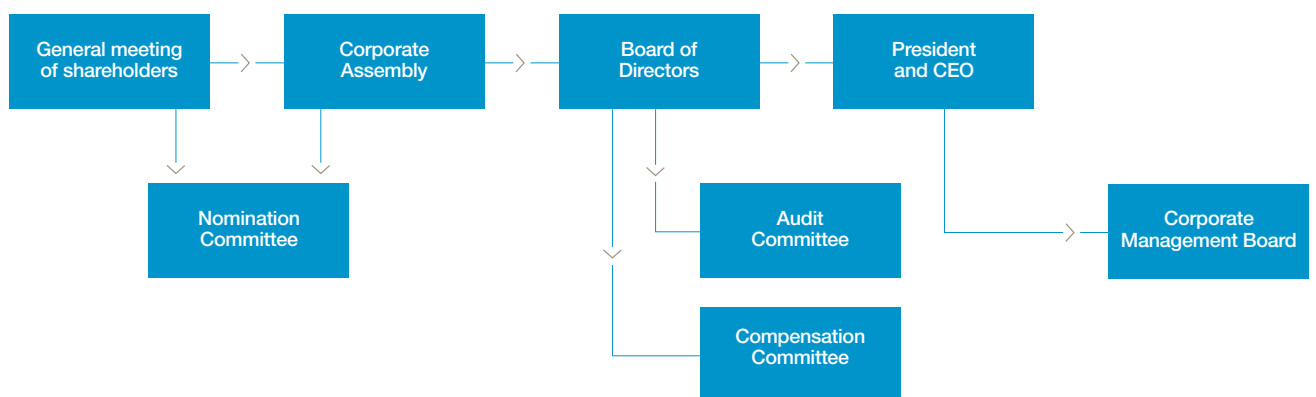
Oslo, Norway, 2 March 2005

Deloitte Statsautoriserede Revisorer AS

Preben J. Sørensen
State Authorized Public Accountant
Environment & Sustainability Services

Corporate governance

Governance bodies



Sound and transparent governance contributes to both value creation and improved results; it builds trust and establishes a basis for socially responsible conduct. Corporate governance is therefore crucial to Hydro's development. Strategies and targets are drawn up on the basis of an integrated governance and management system. Corporate governance has been defined so as to ensure value creation and good control mechanisms.

In this chapter, we describe the foundations of Hydro's governance structure and provide an overview of the company's governing bodies. A detailed account of how Hydro complies with guidelines and requirements relating to corporate governance is presented at www.hydro.com/governance

Compliance with legislation and other requirements

Hydro's main listing is on the Oslo Stock Exchange, where the company is subject to Norwegian securities legislation and stock exchange regulations. The share is also listed on five other stock exchanges, of which the New York Stock Exchange (NYSE) is the most important. Information regarding Hydro's shareholder policy can be found on pages 174 to 178. Hydro complies with the requirements of the US Sarbanes-Oxley Act of 2002, which applies to foreign companies listed on the NYSE. Since 2002, however, substantial amendments have been made to the US regulations relating to listed companies and their duty to inform. In 2006, Sarbanes-Oxley 404 comes into effect, setting additional requirements regarding documentation that a company's accounting systems and financial reporting procedures are satisfactory. This in turn provides the basis for management to issue binding affirmations

that the procedures are working as they should. Hydro initiated a major project in 2004 to implement the new regulations and is well positioned to satisfy the requirements.

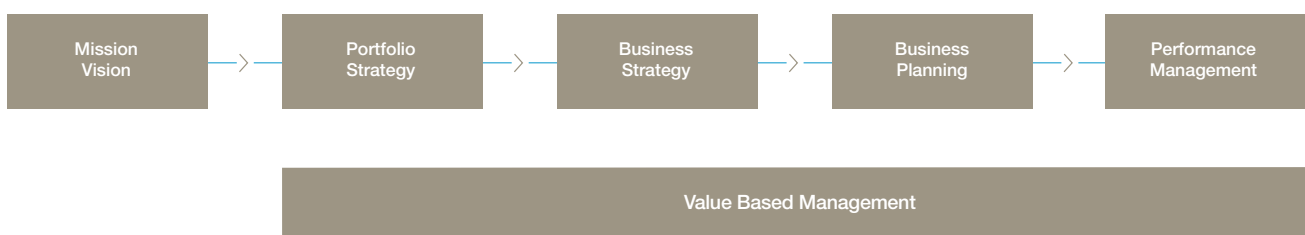
Hydro also adheres to the Norwegian Code of Practice for Corporate Governance of December 2004.

For the sixth time in a row, Hydro was included in 2004 in the Dow Jones Sustainability Index, and in the corresponding UK index, FTSE4Good, for the fourth time.

Corporate directives and Code of Conduct

Hydro's governance system is based on the delegation of responsibility to the business areas and to central, operative corporate functions within finance, tax and accounting. In order to maintain a uniformly high standard, Hydro has laid down general requirements in the form of corporate directives. These are mandatory for all parts of the organization and are based on The Hydro Way. The directives address, among other things, strategy and business planning, finance, risk management, organizational and employee development, health, safety and environment (HSE), ethics and social responsibility. This information is available for employees on Hydro's intranet and in the brochure "You and Hydro." See page 43 of this annual report.

These corporate directives shall ensure that everyone in the company discharges his or her activities in an ethical manner and in accordance with current legislation and Hydro's standards. Employees are encouraged to discuss their complaints, and concerns regarding possible breaches of Hydro's require-



ments, with their immediate supervisor. When this is not considered to be appropriate, then employees have recourse through a “whistleblower” channel through the company’s internal audit function with reporting line to the Board’s audit committee. Reports may be given anonymously.

Business controls

Hydro’s overall goal is to create shareholder value through satisfied customers and motivated and competent employees. The company has defined two main processes ensuring that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and result monitoring. Planning, which reflects the company’s ambitions and values, is the basis for the strategies and measures that shape the business plans at all levels. Hydro has defined key performance indicators for each unit, including for finance, human resources and HSE objectives, in addition to unit-specific targets.

As an integrated part of Hydro’s annual business planning, the people process describes how Hydro assesses and develops its human resources. Its aim is to develop the potential of both individual employees and that of the organization as a whole.

Risk management is an integrated part of the company’s planning and reporting functions. Exposure to certain risks, such as those threatening life and health, has been reduced to a minimum. Hydro carries out risk assessments in areas when the company’s assets are exposed. Risk management deals with all aspects of value creation, including strategy, finance,

commercial matters, organization, HSE, reputation, corporate social responsibility, regulatory and legal matters. Please refer to page 15 for a detailed discussion of financial risk management.

Hydro’s internal control shall provide sound controls, the hallmarks of which are integrity, ethical values and organizational attitudes. Internal audit is an integrated element in Hydro’s management principles and helps Hydro achieve its business goals by ensuring that:

- > Risk is identified and dealt with
- > Financial reporting and internal management information are correct
- > The company runs its business in accordance with the regulations in force and with internal requirements
- > Resources are procured and applied in a cost-optimal way

Transparency and communication

Hydro’s corporate culture embodies the principles of honesty and respect for others. The company’s ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. Hydro adheres, therefore, to the principles of transparency, honesty and sensitivity when interacting with its stakeholders.

Learn more:

www.hydro.com/governance

www.hydro.com/codeofconduct

www.hydro.com/youandhydro

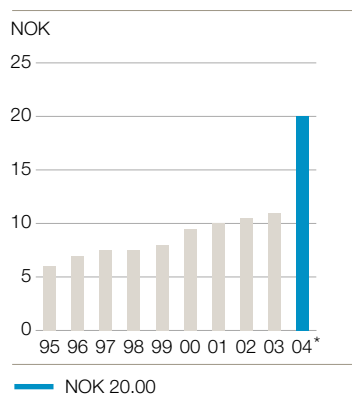
Governance bodies

| Governance body | Description | Events in 2004 | References |
|---------------------------------|--|---|--|
| General Meeting of Shareholders | <p>Shareholders registered in VPS (the Norwegian Registry of Securities) can vote in person or by proxy. Invitations are sent to shareholders or to the shareholder's security deposit bank.</p> <p>The General Meeting of Shareholders</p> <ul style="list-style-type: none"> • Elects the shareholders' representatives in the Corporate Assembly • Nominates the external auditor and determines the auditor's remuneration • Approves the annual result and dividend proposed by the Board of Directors and recommended by the Corporate Assembly <p>Shareholders may, at least 14 days before the ordinary general meeting, request that proposals for resolutions are submitted to the General Meeting, or that points are added to the agenda.</p> | <p>Ordinary General Meeting in May.</p> <p>2 extraordinary General Meetings in connection with</p> <ol style="list-style-type: none"> 1) Demerger of Yara 2) Buy-back of shares | The protocols can be found on www.hydro.com/governance |
| Corporate Assembly | <p>18 members. 12 are elected by the General Meeting of Shareholders, 6 are elected by and among the group's employees in Norway.</p> <p>The Corporate Assembly:</p> <ul style="list-style-type: none"> • Elects the Board of Directors and determines their remuneration • Nominates the external auditor to be elected by the General Meeting of Shareholders • Based on recommendations from the Board of Directors, makes decisions in matters relating to major investments, and when closures and reorganizations will lead to significant changes for the workforce • Provides statements to the General Meeting of Shareholders on the approval of the Board of Director's proposal on annual accounts and dividend. | <p>The Corporate Assembly held three meetings.</p> <p>The number of members was reduced from 21 to 18 after the demerger of Yara.</p> | Page 147 |
| Nomination Committee | <p>4 members. 2 are appointed by the General Meeting of Shareholders, and 2, including the Head of the Corporate Assembly, are appointed by the Corporate Assembly.</p> <p>The Nomination Committee nominates candidates to the Board of Directors and the Corporate Assembly.</p> | The Nomination Committee held 8 meetings. | The mandate can be found on www.hydro.com/governance |
| Board of Directors | <p>Consists of 9 members. 6 are elected by the Corporate Assembly. 3 are elected by, and among the group's employees in Norway. The election period is 2 years.</p> | <p>The Board of Directors held 12 meetings.</p> <p>In March, Jan Reinås took over from Egil Myklebust as new member and chairperson of the Board of Directors.</p> | Page 8 to 9 and 130 to 131 |

| Governance body | Description | Events in 2004 | References |
|----------------------------|---|---|--|
| Board of Directors (cont.) | <p>All shareholder-elected members are external. No members elected by employees belong to the company's executive management. All members of the Board of Directors are deemed to be independent in accordance with Norwegian and American stock exchange guidelines.</p> <p>The Board of Directors is responsible for the overall governance of the company.</p> | In May, Kurt Anker Nielsen became a new member of the board elected by the shareholders, while Terje Friestad became the new employees' representative. | Page 141 |
| Compensation committee | Consists of 3 of the Board of Directors' 9 members. The committee prepares cases on compensation for the CEO to the Board of Directors. The committee assists in the evaluation of compensation to corporate management and in determination of performance-promoting schemes for management. | The committee held 7 meetings. | The mandate can be found on www.hydro.com/governance |
| Audit Committee | <p>Consists of 4 of the Board of Directors' 9 members. The Audit Committee satisfies the requirements of American authorities with regard to independence and competence. Since March 2004 it has also followed the requirement that at least one member shall qualify as a financial expert.</p> <p>The committee's objective is to prepare cases for the Board of Directors relating to financial reporting and external auditor. The Audit Committee has decision-making powers within certain specified areas such as following-up of the external auditor.</p> <p>To provide for the independence of Internal Audit, the Internal Auditor Officer may report any matters directly to the Board Audit Committee, at his own discretion.</p> | <p>The committee held 8 meetings.</p> <ul style="list-style-type: none"> • Revised mandate to meet new requirements under SEC's rules to implement relevant provisions of Sarbanes Oxley Act and NYSE listing standards • Revised pre-approval policy to ensure that external auditors only provide services that are in compliance with prevailing independence rules. • Established guidelines to ensure that the independence of external auditors is not impaired in connection with recruitment of former or current external auditor personnel and their close family members. ("cooling-off policy") • Board of Directors member Kurt Anker Nielsen, who qualifies as financial expert, joined the committee in May 2004 | The mandate can be found on www.hydro.com/governance |
| President & CEO | According to Norwegian corporate law, the President & CEO constitutes a formal governing body and is responsible for the daily management of the company. The division of functions and responsibilities between the President & CEO and the Board of Directors is defined in greater detail in the rules of procedures established by the Board. | | Page 19, 130 to 131 and 141 |
| Corporate Management Board | Corporate Management Board has a shared responsibility for promoting Hydro's objectives and securing the company's property, organization and reputation. Members of the Corporate Management Board are also Executive Vice Presidents with responsibility for the respective business areas, Finance and Leadership and Culture. | Corporate Management Board has weekly meetings | Page 19, 130 to 131 and 141 |

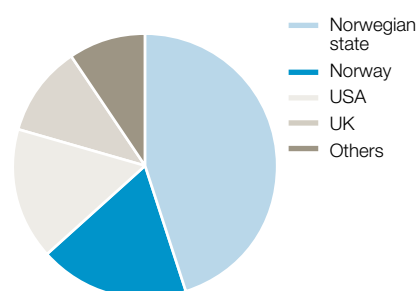
Shareholder policy

Dividend per share



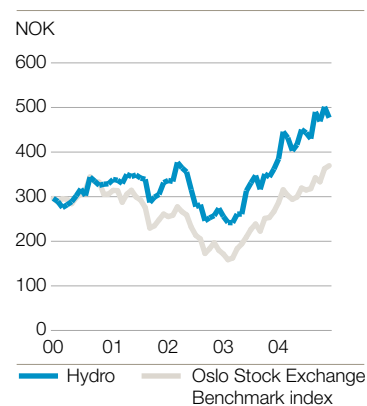
*Proposed dividend

Geographical ownership distribution of shares



Total: 250,839,230 shares

Share price in NOK



Hydro's 20 biggest shareholders, 31 December 2004

| Shareholder | Number of shares | Ownership interest |
|---|------------------|--------------------|
| Norwegian state | 113,483,658 | 43.82% |
| State Street Bank (nominee) | 10,498,151 | 4.05% |
| Folketrygdfondet | 9,694,615 | 3.74% |
| Morgan Guaranty Trust (ADR) | 8,485,177 | 3.28% |
| Hydro | 8,115,198 | 3.13% |
| JPMorgan Chase Bank (nominee) | 5,298,367 | 2.05% |
| EuroPacific Growth Fund | 5,055,000 | 1.95% |
| New Perspective Fund, Inc | 4,164,000 | 1.61% |
| Euroclear Bank (nominee) | 3,055,497 | 1.18% |
| Mellon Bank (nominee) | 2,769,710 | 1.07% |
| Vital Forsikring | 2,416,081 | 0.93% |
| The Northern Trust Company (nominee) | 2,095,330 | 0.81% |
| Skandinaviska Enskilda Banken | 2,030,552 | 0.78% |
| Capital World Growth and Income Fund, Inc | 1,665,900 | 0.64% |
| JPMorgan Chase Bank (nominee) | 1,634,397 | 0.63% |
| State Street Bank (nominee) | 1,510,800 | 0.58% |
| Investors Bank + Trust Company (nominee) | 1,501,663 | 0.58% |
| Oslo Pensjonsforsikring | 1,412,400 | 0.55% |
| SIS Segaintersettle (nominee) | 1,403,092 | 0.54% |
| Mellon Bank (nominee) | 1,382,155 | 0.53% |

Source: Norwegian Securities Registry (VPS)

2004 was another good year in the stock market. Hydro's share increased considerably in value, with a NOK 66.50 price rise. In addition, shareholders obtained one Yara share per Hydro share, as well as a NOK 11 dividend. Shareholders who sold their Yara shares immediately thus achieved a total return for 2004 of 31 percent in NOK. Those who chose to retain their Yara shares for the remainder of the year, achieved a total return of 38 percent.

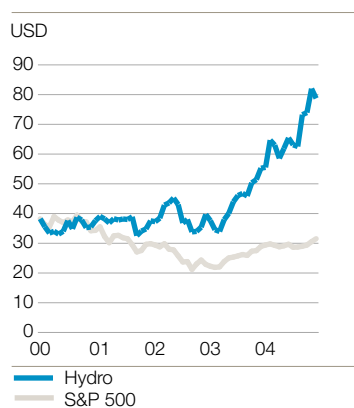
Hydro has one class of share, and by the end of 2004 there were 250,839,230 outstanding shares. Hydro shares totaling NOK 371 billion were traded on the Oslo Stock Exchange, which represented some 18 percent of the total turnover on the exchange. In addition, Hydro is listed in New York, London, Paris and Frankfurt. The Hydro share was de-listed from the Stockholm Stock Exchange on 25 March 2004.

Dividend policy

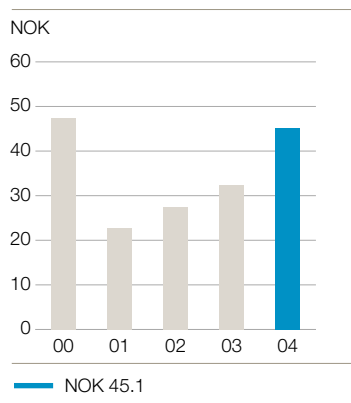
Hydro's dividend policy is based on the principle that long-term returns to shareholders should reflect the value created in the company. Shareholders' returns consist of dividends and the share price development. The intention is that dividends should show a steady development in line with the growth in the company's results, while taking into consideration opportunities for creating value through profitable new investments.

Over time, value creation will be reflected to a greater extent by share price development than through dividends, and Hydro's dividend policy states that the dividends over a period of several years should average roughly 30 percent of the company's net income.

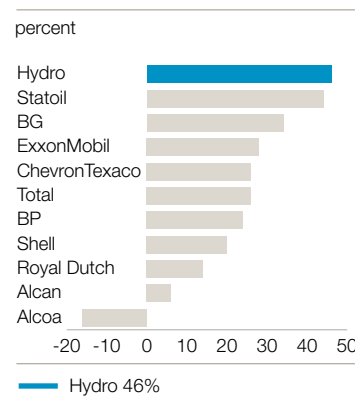
Share price in USD



Earnings per share from continuing operations



Total shareholder return 2004 in USD



The Board of Directors has proposed a dividend of NOK 20 per share for 2004. This is regarded as an extraordinarily high dividend, and should be seen in the context of the solid financial position that Hydro has achieved through strong financial results.

Buyback of shares

In periods when earnings are high, Hydro may consider buying back shares in addition to ordinary dividend payments. Such considerations will be made in the light of alternative investment opportunities available to the company and its financial situation.

In February 2004 we redeemed 1,157,922 shares held by the Norwegian State, as part of a buyback program launched in 2003. The company also bought back 2,808,810 shares in the market in 2004, under a new program approved by the General Meeting. These shares were cancelled on 8 February 2005, following a resolution passed at the Extraordinary General Meeting of 1 December 2004. The resolution also includes cancellation of the 2,191,190 shares held by the Norwegian State.

The Extraordinary General Meeting also authorized the Board to buy back up to 5,617,621 shares in the market with the intention of cancelling the shares through a capital reduction. The State once again agreed to participate by redemption and cancellation of a proportional number of shares. Consequently, this buyback program may involve up to 10 million shares. When redeeming the State's shares, Hydro will pay a price equal to the volume-weighted average of the prices Hydro paid for the shares bought in the mar-

ket, plus an interest rate of NIBOR plus one percent to compensate for the later settlement.

Funding and credit rating

In order to maximize value creation over time, and to strike a balance with Hydro's operational risk exposure, it is necessary to have adequate access to financial resources. A condition for this is that the company's financial position secures access to loan capital on attractive terms. Our objective is therefore to maintain a credit rating at the leading agencies, Standard & Poor's and Moody's, of respectively A and A2. Over time we intend to keep the net interest-bearing debt at a ratio of 0.5 to equity capital including minority interests. This will contribute to maintaining the credit rating. When calculating this ratio, we also include off-balance sheet pension obligations and operational leasing commitments.

Shareholders and voting rights

At the end of 2004, Hydro had 39,649 registered shareholders. The Norwegian State was the largest of these with a shareholding of 43.8 percent. Other Norwegian shareholders owned 19.4 percent (including Hydro's own shares), while 36.8 percent was held by foreign owners. All shares basically carry one vote. It is, however, a requirement of Norwegian legislation that one can only vote for shares registered in one's name. Shares registered with a fund manager have to be re-registered before the Annual General Meeting in order to obtain voting rights. This also applies to Hydro's US-listed American Depository Receipts (ADR).

Shareholder policy

Demerger of Yara

Hydro's Extraordinary General Meeting resolved on 15 January 2004 to demerge the Agri business area. The new company was named Yara International ASA and listed on the Oslo Stock Exchange on 25 March 2004. On the same day, Hydro's shareholders received one Yara share for every Hydro share they held. The share allocation comprised 80 percent of the total number of Yara shares. The distribution of Yara shares was not taxable for Norwegian shareholders, and tax will only be affected when the shares are sold with a profit or loss. The distribution of the initial value for Norwegian tax purposes is 91.5 percent Hydro and 8.5 percent Yara.

Information to capital markets

We give a high priority to communicating with the stock market, and wish to maintain an open dialog with market participants. Our objective is to provide sufficient information at the same time to all market participants, in order to ensure a fair valuation of the share. Information of a share-price sensitive nature is conveyed by press release. All important information about Hydro is published on a continuous basis on our website: www.hydro.com where it is also possible to register as a subscriber to our press release service. Hydro publishes results each quarter and hosts regular meetings for investors in Europe and the USA. Most brokers in Oslo and London publish equity research reports on Hydro.

| NOK | 2004 | 2003 | 2002 | 2001 | 2000 |
|--------------------------------------|----------------------------|-------------|-------------|-------------|-------------|
| Share price high, Oslo ¹⁾ | 521.50 | 365.91 | 388.83 | 356.21 | 365.91 |
| Share price low, Oslo | 361.50 | 231.01 | 240.70 | 273.33 | 261.42 |
| Share price average, Oslo | 443.87 | 299.78 | 308.24 | 326.93 | 312.03 |
| Share price year-end, Oslo | 477.00 | 361.94 | 273.77 | 331.52 | 328.87 |
| Share price high, NYSE | \$83.62 | \$54.74 | \$46.11 | \$39.59 | \$40.06 |
| Share price low, NYSE | \$53.44 | \$31.65 | \$32.67 | \$30.86 | \$31.30 |
| Share price average, NYSE | \$66.09 | \$42.47 | \$38.67 | \$36.31 | \$35.37 |
| Share price year-end, NYSE | \$78.72 | \$54.49 | \$39.16 | \$37.03 | \$37.08 |
| Earnings per share (EPS) | 49.40 | 42.60 | 34.00 | 30.50 | 53.40 |
| EPS from continuing operations | 45.10 | 32.50 | 27.50 | 22.80 | 47.50 |
| P/E ²⁾ | 10.58 | 11.14 | 9.96 | 14.54 | 6.92 |
| Dividend per share | 20.00 ³⁾ | 11.00 | 10.50 | 10.00 | 9.50 |
| Pay-out ratio ⁴⁾ | 44% | 26% | 31% | 33% | 18% |
| Dividend growth | 82% | 5% | 5% | 5% | 27% |
| Debt/equity ratio ⁵⁾ | 0.11 | 0.38 | 0.60 | 0.34 | 0.44 |
| Credit rating, S&P | A | A | A | A | A |
| Credit rating, Moody's | A2 | A2 | A2 | A2 | A2 |
| Beta ⁶⁾ | 1.56 | 0.84 | 0.94 | 1.18 | 1.01 |
| Non-Norwegian ownership, year-end | 37% | 35% | 36% | 34% | 36% |
| Outstanding shares, average | 254,411,433 | 257,528,511 | 257,799,411 | 258,434,202 | 261,620,982 |
| Outstanding shares, year-end | 250,839,230 | 256,712,000 | 257,960,532 | 257,634,172 | 259,986,070 |

1) Adjustment factor 0.881699 used for share prices prior to the demerger of 25 March 2004, according to Oslo Stock Exchange's calculation methods.

2) Share price at year-end divided by EPS from continuing operations

3) Proposed dividend

4) Dividend per share divided by earnings per share (2004: EPS from continuing operations)

5) Interest-bearing debt + Net pension liability (tax adjusted) + Operating lease commitments (discounted) - cash and cash equivalents - Other liquid assets divided by Shareholders' Equity + Minority interest

6) Change in share price compared with Oslo Benchmark Index (measured for rolling 48 months)

Financial calendar

| | |
|-----------------|----------------------------|
| 26 April 2005 | First Quarter Result 2005 |
| 26 July 2005 | Second Quarter Result 2005 |
| 25 October 2005 | Third Quarter Result 2005 |

Dividend

The dividend proposal of the Board of Directors will be considered by the Annual General Meeting. If approved, dividends will be paid on Tuesday, 24 May 2005 to those persons listed as shareholders as per 3 May 2005 in the Norwegian Registry of Securities (VPS), or who are authorized by the shareholder to receive the dividend. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

The shares will be quoted exclusive of dividend on the Oslo Stock Exchange from Wednesday, 4 May 2005 inclusive, and on the New York Stock Exchange from Friday, 29 April 2005 inclusive.

Annual General Meeting

The Annual General Meeting of Norsk Hydro ASA will be held at the Radisson SAS Scandinavia Hotel, Holbergsgate 30, Oslo, on Tuesday 3 May, 2005, at 16.30 CET.

Shareholders who wish to attend the Annual General Meeting are asked to inform the following registrar by 16.00 CET on Thursday, 28 April:

DnB NOR Bank
Verdipapirservice
Stranden 21, 0021 Oslo
Telephone: + 47 22 48 35 84
Fax: + 47 22 48 11 71

You may also register electronically on the company's home page www.hydro.com/register or via VPS Investor Services.

Any shareholder may appoint a proxy with written authority to attend the meeting and vote on his or her behalf. In accordance with the company's Articles of Association, notice of the Annual General Meeting will be published in Aftenposten, Dagens Næringsliv and Dagsavisen.

Information from the company

Hydro's annual and quarterly reports are available in Norwegian and English. The company also prepares in English an annual report, Form 20-F, and quarterly reports, Form 6-K, for the Securities and Exchange Commission in the USA. These reports, together with further information on Hydro's activities, may be obtained on request from Hydro's Corporate Communications department. The information is also available on the Internet: www.hydro.com

Hydro prepares its financial statements in accordance with generally accepted accounting principles in Norway (N GAAP) and the United States (US GAAP). Unless otherwise stated, the comments in the annual report are independent of accounting principle, while the figures referred to appear in the accounts drawn up according to US GAAP. The differences in net income, according to N GAAP and US GAAP, are immaterial and are presented in note 28 to the consolidated financial statements.

Change of address

Shareholders registered in the Norwegian Registry of Securities should send information on changes of address to their registrars and not directly to the company.

Hydro is a Fortune 500 energy and aluminium supplier founded in 1905, with 35,000 employees in nearly 40 countries. We are a leading offshore producer of oil and gas, the world's third-largest integrated aluminium supplier and a pioneer in renewable energy and energy-efficient solutions. As we look forward to our next 100 years, we celebrate a century of creating value by strengthening the viability of the customers and communities we serve.

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