

Annual Report – 2008



## KEY FIGURES

Amounts in NOK million unless other unit indicated	2008	2007
Revenue	88,643	94,316
<i>Underlying EBIT:</i> <sup>a</sup>		
Aluminium Metal	3,575	8,265
Aluminium Products	988	1,352
Energy	1,736	1,184
Corporate and Eliminations	(290)	(647)
Total	6,009	10,153
Net income <sup>1)</sup>	(3,267)	9,158
Underlying return on capital (RoaCE), percent	6.8%	16.2%
Investments <sup>b</sup>	9,012	5,206
Total assets	95,157	92,046
Share price year-end, NOK	27.80	77.60
Dividend per share, NOK	-	5.00
Number of employees, year-end <sup>c</sup>	22,634	24,692
Recordable injuries, per million hours worked	3.8	4.1
Greenhouse gas emissions, million tonnes CO <sub>2</sub> e <sup>d</sup>	4.1	4.2

1) Excluding discontinued operations

<sup>a</sup>

### Underlying EBIT

Hydro's results for 2008 were significantly impacted as the global financial crisis led to a dramatic fall in world demand for primary aluminium and aluminium products towards the end of 2008.

<sup>b</sup>

### Investments

The major growth investments in 2008 were the development of the Qatalum primary aluminium plant in Qatar, the third expansion of the alumina plant Alunorte in Brazil which was completed in the third quarter and the Aluminium Products acquisitions of Expral and Alumafel in Spain.

## HIGHLIGHTS



### QATALUM ON TARGET

The new 585,000-tonne Qatalum smelter was about 60-percent complete by year-end, on schedule and within budget frame for start-up around year-end 2009. Once on stream, Qatalum will be one of the most cost-efficient smelters in the world.

### CORRECTIVE MEASURES

Hydro has made wide-ranging adjustments in response to the severe drop in aluminium markets, and has announced reductions in its primary aluminium production of 23 percent, representing about 400,000 tonnes per year of our higher cost production capacity.

<sup>c</sup>

### Number of employees

The reduction in number of employees is primarily a result of the divestment of Hydro Polymers and Hydro Production Partner. Almost 500 employees were added through acquisitions in Extrusion and Building Systems.

<sup>d</sup>

### Greenhouse gas emissions

We have reduced our greenhouse gas emissions with 49 percent since 1990. The reduction comes as a result of systematic operational improvements, the introduction of new technology at our metal plants, and in recent years also closure of plants and process lines.

## 01: YEAR IN REVIEW p.07

Section gives an overview of Hydro's business activities, strategy, key developments in 2008.

# Annual Report – 2008

## 02: BUSINESS DESCRIPTION p.15

Detailed operating information is provided for each of Hydro's businesses including industry overview. Key regulatory and taxation issues are also outlined.

## 03: FINANCIAL AND OPERATING PERFORMANCE p.35

Financial and operating results are discussed per business segment and sub-segment as well as financial income/expense and income tax for Hydro. In addition disclosures about liquidity and capital resources and return on capital are provided.

## 04: VIABILITY PERFORMANCE p.61

The Hydro Way forms the basis for our viability reporting which includes energy and climate change, resource management, integrity and human rights, community impact, organization and work environment and innovation.

## 05: RISK REVIEW p.87

Hydro's risks are described in relation to financial and commercial risk, operational risk, strategic risk, compliance risk and market risk.

## 06: SHAREHOLDER INFORMATION p.93

Read about our share price development, dividend policy, funding and credit rating policy, the Annual General Meeting and the financial calendar for 2009.

## 07: CORPORATE GOVERNANCE p.97

Hydro's corporate governance practice is described in relation to regulatory compliance, corporate directives and code of conduct and our governance bodies.

## 08: FINANCIAL STATEMENTS p.F1

Hydro prepares its financial statements according to International Financial Reporting Standards (IFRS). Both Hydros's consolidated financial statements and the financial statements for the parent company Norsk Hydro ASA are provided.

## 09: APPENDIX p.T1

Terms and definitions.

## HYDRO'S REPORTING 2008

### Three reports and web

This report referred to as "Annual Report – 2008" is our main report for 2008 and includes detailed information about Hydro's businesses, operational performance, financial performance, viability performance, corporate governance and financial statements. The report is available in English.

For distribution to the shareholders, we have prepared two reports: "Financial Statements and Board of Directors' Report – 2008", and "2008 – in brief". The first report fulfils the Norwegian statutory requirements to annual reporting, while the latter is a short summary of Hydro's results and performance in 2008. These reports are available in both English and Norwegian.

At [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008) the full content of the three reports are presented together with some supplementary information. Hard copies of all reports can be ordered from this website, and all parts of the reports can be downloaded and printed in PDF-format on demand.

Hydro's main reporting on viability performance is included in the "Annual Report – 2008", with additional details on [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008).

## RESULTS AFFECTED BY HIGH INPUT COSTS

### Solid operational performance

Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million. Higher raw material costs affecting the entire industry had a substantial impact on the results in addition to the substantial downturn in the fourth quarter. Underlying results were also impacted by inventory write-downs of about NOK 700 million due to the sharp drop in aluminium prices.

Primary aluminium production amounted to 1.75 million mt and we delivered 2.9 million mt of casthouse products to internal and external customers. In Energy we produced nearly 11.4 TWh of renewable hydroelectric power – the highest recorded production in our history.

## *Up to the challenge*

Record sales and historic high prices for aluminium gave way to a free fall in demand and an aluminium price at the lowest point in decades. We experienced how quickly and how deeply everything can change – and how vital it is to act upon what is happening, not what you hope will happen.

No one can come through unscathed without a steady hand. Companies that haven't been completely knocked out by the extent of the current crisis must keep two things in mind. We must do everything we can to accommodate ourselves to a reality that has been turned upside down – while keeping an eye on the goal of where we want to be when the crisis is past. We have three priorities in mind:

Navigate the storm. To secure cash flow, we had to quickly adjust production to weakening demand. Massive global inventories are pressuring prices in the short term, and will – if they continue to grow – contribute to lengthening the crisis.

Stay the course. We must maintain what is at the core of our business: outstanding performance and top safety. There is much that we cannot control when the situation around us changes so rapidly, but that which we can control, we will control fully.

Shape the future. We must continue to build a forward-looking, goal-oriented Hydro that is positioned to be best among equals when the storm has calmed. Along with handling the crisis, we must complete construction of Qatalum in Qatar, one of the world's biggest and most cost-efficient aluminium plants, continue research and development, and remain an attractive employer for the best talent around.

### **A part of the solution**

The future is waiting for us. It is easy to put off buying a new car until next year – but the world has not stopped driving. It is natural to wait with a large investment like buying a house until the economy is more stable, but people still need a place to live. And even when the financial crisis is over, there is one crisis that will remain: the climate change challenge.

To beat this challenge will demand smart, energy-efficient solutions. Hydro is recognized as being at the forefront at helping to develop solutions for lighter, fuel-efficient transport, energy-efficient buildings, and technology for the production of primary aluminium with less impact on the environment.

In times of crisis, we cut costs where they can be cut. We are taking out of production the highest-cost, oldest and most marginal capacity. With the start of production of the Qatalum plant in late 2009-early 2010, we will have taken a considerable step in the right direction when it comes to the cost curve for primary aluminium. This makes Hydro more robust

in bad times and more profitable in good times. In other words, it strengthens our competitive edge regardless of the times.

But there is one area where we will not cut, and that is developing the next-generation smelter technology and future products in aluminium. We are now laying the groundwork for an advance in producing aluminium with greater efficiency, lower electricity per tonne of produced aluminium, reduced emissions of greenhouse gases – and with the possibility of capturing and storing CO<sub>2</sub> when that technology becomes commercially viable.

### **Partner with our customers**

We will continue to develop new products in partnership with our customers, such as taking our advanced precision tubing for automotive heat-transfer application and applying them to buildings. Such as integrating solar energy modules in our building systems facades, so that buildings can evolve from energy consumers to energy producers. In remelting, we will continue to develop our capacity to take advantage of aluminium's best characteristics – that it can be recycled again and again with minimal energy use and without loss of quality, and head back to the market as new products.

To strive for quality in everything we do is key to being even better at the most important things we do. We believe that operational excellence, taking care of our customers, acting with respect toward our employees, our communities and society as a whole are qualities that are intertwined – and ultimately necessary for commercial success.

We have skilled and motivated employees, and a culture worthy of pride that we call The Hydro Way. Our attitudes about social responsibility and integrity are reflected in everything we do, wherever we operate – and are anchored in the United Nations Global Compact. We are making progress in our safety work; still, we experienced three fatal work-related accidents in 2008. We must do everything in our power to prevent accidents from happening.

### **Demanding times**

The year 2009 will be a very demanding one. We are prepared to make further adjustments to our production. At the same time, we are mindful of not taking actions that will cause long-term damage just to alleviate short-term damage.

Securing cash flow has top priority. While it is no goal in itself to be debt-free, but at the outset of this financial crisis it is an advantage to have little debt. The importance of having freedom to maneuver is reflected in the recommendation of Hydro's Board of Directors, for the first time in 40 years, to forego a dividend. It is important to note that this comes after a long period of generous dividends. In addition, the investment program that will be complete with the construction of the Qatalum plant at the end of this year is one among several important contributions to that we can again continue to create considerable shareholder value.

It is now that we shape the future. As one of the world's few aluminium companies engaged throughout the value chain, we want to be a leader in the industry. Our advantages in the form of our own developed technology, expertise and drive to


innovate, good access to energy and raw materials, strong market positions and improved cost positions that enable us to shape our own future.



Eivind Reiten  
President and CEO



Svein Richard Brandtzæg  
Executive Vice President



“It is a sign of solidity and continuity that my successor, Svein Richard Brandtzæg, with his 23 years of experience in Hydro, has the same amount of time in the company as I do.”

Eivind Reiten, President and CEO,  
May 3, 2001-March 30, 2009

# Board and Management

## Board of Directors

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From left to right: Billy Fredagsvik, Sten Roar Martinsen, Bente Rathe, Grete Faremo, Inge K. Hansen, Terje Vareberg, Heidi M. Petersen, Finn Jebesen and Jørn B. Lilleby.

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## Corporate Management Board

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From left to right: Anne Harris, Jørgen C. Arentz Rostrup, Svein Richard Brandtzæg, Arvid Moss, Eivind Reiten, Hilde M. Aasheim, Tom Røtjer, John O. Ottestad and Odd Ivar Biller.

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01:

## *Year in review*



# 60% COMPLETE

*Qatalum is on schedule and budget for start-up at the end of 2009.*

KEY DEVELOPMENTS	P.8
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### QUICK OVERVIEW

Hydro's results for 2008 were significantly impacted as the global financial crisis led to a dramatic fall in world demand for primary aluminium and aluminium products towards the end of 2008. Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million.

Hydro acted decisively in response to the unprecedented drop in aluminium markets towards the end of 2008 and will continue to take further proactive measures to meet the demanding market conditions and secure its financial position. Improving Hydro's competitive position will be a key activity in 2009.

## KEY DEVELOPMENTS

Hydro's results for 2008 were significantly impacted as the global financial crisis led to a dramatic fall in world demand for primary aluminium and aluminium products towards the end of 2008. Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million. Higher raw material costs affecting the entire industry had a substantial impact on Hydro's underlying results in addition to the significant market downturn in the fourth quarter. Underlying results were also impacted by inventory write-downs of about NOK 700 million due to the sharp drop in aluminium prices towards the end of the year.

Due to the deteriorating market conditions and high input costs, reported EBIT and Income from continuing operations were charged with roughly NOK 2.5 billion of impairment losses.

The severe downturn in the global economy has led to a sharp decline in demand for aluminium and rapidly increasing stocks. By year-end and into 2009 prices reached a level that is lower than the cash-costs for a majority of the aluminium industry's smelter capacity. The decline from the high price levels experienced in the middle of 2008 was of a magnitude which is unprecedented in the history of the industry. In response, announced smelter curtailments excluding China reached a global level of around 1.5 million mt per year as of the end of 2008, and have increased further to around 3 million mt. Markets for metal products in Europe and North America weakened dramatically during the fourth quarter of 2008. The automotive markets collapsed leading to a sharp decrease in demand for automotive components and aluminium foundry alloys. In addition, the building and construction markets in the US and Europe deteriorated significantly leading to reduced demand.

Hydro has made wide-ranging adjustments in response to the severe drop in aluminium markets, and has announced reductions in its primary aluminium production of 23 percent, representing about 400,000 mt per year of our higher

cost production capacity. Approximately 140,000 mt of the total will be shut down by the end of the first quarter of 2009 with the remainder shut down by the end of the second quarter of 2009. These measures will improve the average cost of our smelter system. Production of remelted metal at Hydro's casthouses has been cut by 45 percent, or around 500,000 mt per year. A decision was taken for the temporary closure of alumina production at the part-owned Alpart refinery in Jamaica. Hydro has also taken out significant capacity in its downstream operations through shift-reductions and has implemented cost-cutting measures throughout the company.

Due to demanding markets and low forward visibility in both the aluminium and financial markets, Hydro's Board of Directors proposes to forgo a dividend payment for 2008. The Board regards it as prudent to conserve the company's financial resources for organic investments into the Qatalum project and to minimize other funding requirements.

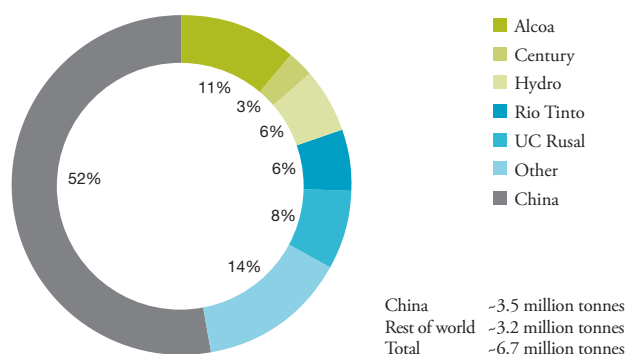
Underlying EBIT for Aluminium Metal declined significantly for the year, impacted by lower realized prices and substantial increases in the cost of power, fossil fuels, freight, caustic, alloying materials and carbon in addition to the effect of the inventory write-downs discussed above. Prices measured in Norwegian kroner declined, having a negative impact on underlying results. Underlying EBIT declined for Aluminium Products business for 2008 due to the sharp drop in market demand particularly towards the end of the year. Energy delivered record underlying results for the year, mainly due to record power production and continued strong spot prices.

The new 585,000-tonne Qatalum smelter was about 60 percent complete by year-end, on schedule for start-up around year-end 2009 and within budget. Once on stream, Qatalum will be one of the most cost-efficient smelters in the world positioned within the first decile on the industry cost curve. The total cost of the Qatalum is estimated at USD 5.6 billion of which Hydro's share is USD 2.8 billion. Fifty five percent of the total cost is funded by equity investments from the partners with the remainder provided by project financing on favorable terms.

The third expansion of the Alunorte alumina refinery in Brazil was successfully started up in third quarter 2008 and achieved stable production at designed capacity in the fourth quarter. The project was completed on time and within budget.

Due to our present high investment level and expected lower level of cash generated from operations, Hydro is in the process of raising additional financing to meet future capital requirements. An existing USD 1.7 billion multi-currency stand-by credit facility maturing in 2014 is fully un-drawn and available as back-up for unforeseen funding requirements. In addition, on 6 March, Hydro signed a new EUR 750 million revolving credit facility with a syndicate of international banks. In March 2009 EUR 100 million of this facility was drawn upon. In order to secure our financial position, capital expenditures (excluding Qatalum) have been reduced by NOK 2.5 billion, roughly 40 percent from the 2008 level.

### Announced capacity curtailments





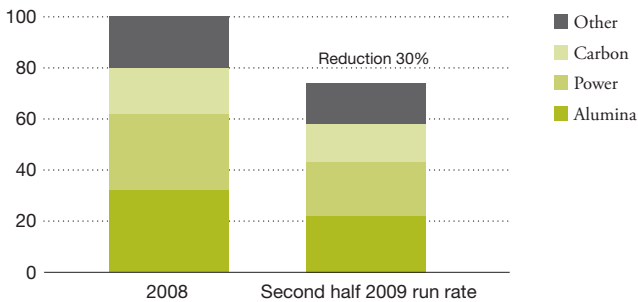
## STRATEGIC DIRECTION

Hydro acted decisively in response to the unprecedented drop in aluminium markets towards the end of 2008 and will continue to take further proactive measures to meet the demanding market conditions and secure its financial position. Improving Hydro's competitive position will be a key activity in 2009. Completing the Qatalum smelter according to plan will be a top priority. This, together with the closure of higher cost production capacity will improve the average cost of Hydro's smelter system ensuring that we will emerge as an even stronger company.

In order to secure our on-going operations, we are reviewing our network of primary aluminium plants and are closing, idling or curtailing production in high cost units. We have

### Hydro's cash cost to decline

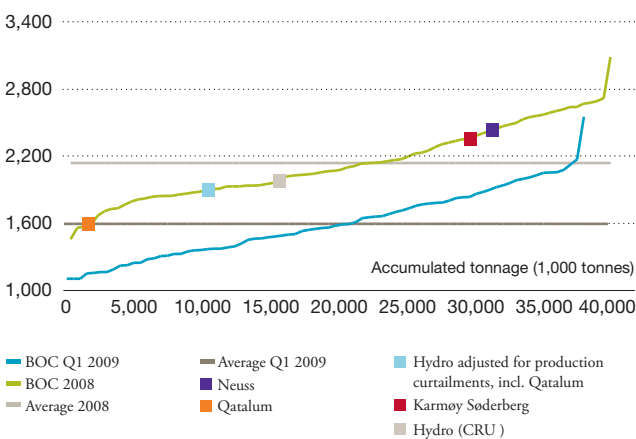
Cost\* in USD per tonne indexed, 2008=100



\* Includes only 100% owned smelters, 2009E excludes Karmøy Söderberg and Neuss  
LME basis for alumina cost: 2008 -USD 2 750, 2009 run rate -USD 1 600

### Hydro improves cost position through closures and Qatalum

Business operating cash cost USD/tonne



Source: CRU, Business Operating Cost, LME assumption 2008: 2 833 USD/tonne, Q1 2009: 1600 USD/tonne, Qatalum estimated by Hydro

identified additional areas both upstream and downstream for potential measures to reduce costs and preserve cash and we are in process of reviewing the size and structure of our administrative staff functions. Company-wide initiatives to capitalize on falling commodity prices have been implemented. Together these initiatives are expected to result in significant cost reductions in 2009.

We will continue to focus on developing our highly competitive portfolio of aluminium assets prioritizing operational excellence to increase efficiency and reduce costs. Addressing the cost challenges facing our business is a key strategic focus in meeting the challenges ahead.

Going forward, we will evaluate growth opportunities within alumina and primary metal focusing on business opportunities that will further enhance our competitive position in an industry with sound long-term fundamentals. We will continue to develop our downstream operations targeting selective growth within our high-performing sectors. Our energy operations will play a leading role in ensuring competitive power for our aluminium operations.

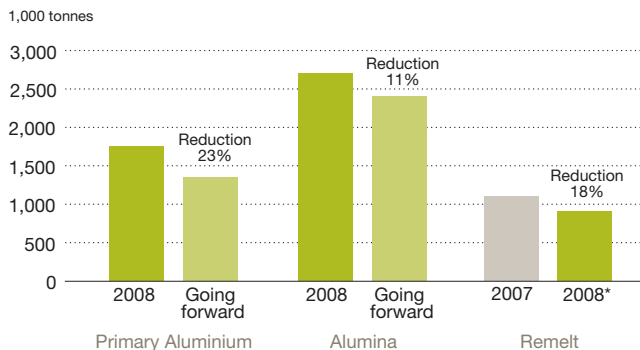
## ALUMINIUM METAL

### Overview

Hydro's Aluminium Metal business delivered an underlying EBIT of NOK 3,575 million, significantly lower than the strong underlying result of NOK 8,265 million for 2007. Substantial increases in the cost of power, alumina, freight and carbon, as well as high oil and gas prices heavily impacted underlying results for the year. Results were also affected by inventory write-downs of NOK 700 million due to the sharp fall in aluminium prices at the end of the year. Underlying results for our Bauxite and Alumina operations fell compared to the previous year, impacted by losses from our Alpart alumina refinery in Jamaica and lower underlying results for Alunorte in Brazil. Results from Hydro's commercial operations dropped significantly reflecting the dramatic decline in market demand experienced mainly in the final quarter of the year together with negative results from trading and hedging activities.

Hydro has taken decisive, proactive measures in response to the extreme market developments beginning with the reduction of metal products based on remelted metal at our cast-houses and cutting production at our stand-alone remelters. This was quickly followed by closure and idling of primary capacity, focusing on the operations in our portfolio with the highest costs. A decision was taken for the early closure of the Söderberg line at our Karmøy plant, which was due to be shut-down at the end of 2009. This facility, which has an annual capacity of about 120,000 mt, will be closed by the end of the first quarter of 2009. We also decided, together with our partner Rio Tinto Alcan, to reduce primary production at the Søral aluminium smelter in Norway by around 50 percent (Hydro's share about 44,000 mt per year). Electrolysis production at

## Capacity reductions



\*Production capacity at end-2008

our Neuss smelter in Germany, which has a total annual capacity of about 230,000 mt will be temporarily shut down. Production cost at Neuss is significantly higher than our average smelter costs due to high power prices in Germany. Casthouse operations at Neuss will continue in order to serve our Alunorf rolling mill with high quality sheet ingot. In total, curtailment measures taken will lead to reductions of approximately 400,000 mt per year of higher cost capacity further improving the average cost of our smelter system. Approximately 140,000 mt of the total will be shut down by the end of the first quarter of 2009 with the remainder shut down by the end of the second quarter of 2009.

In January, 2009 a decision was taken by the partners of Alpart, an alumina refinery in Jamaica, to reduce production by 50 percent corresponding to approx 290,000 mt per year of alumina for Hydro's share (35 percent). In March 2009 a decision was taken to close down the remaining production at Alpart. In total the reduction in supply corresponds to about 300,000 mt of primary aluminium. Further measures are under evaluation.

Hydro is taking initiatives towards its suppliers to capitalize on falling commodity prices which will lead to input cost reductions at Hydro's smelters during the first half of 2009. Alumina prices which are linked to LME prices<sup>1)</sup> will be reduced as will other important raw material prices such as petroleum coke where a significant decline in price has already occurred.

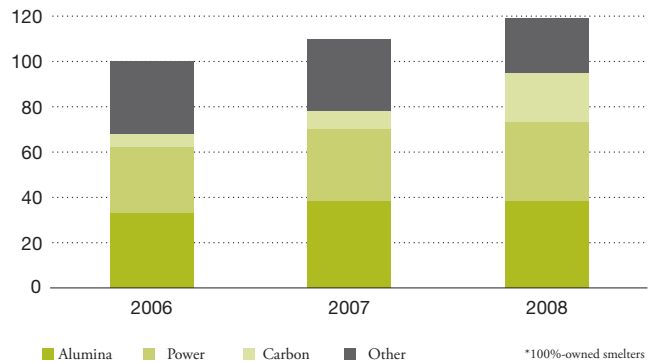
Qatalum, Hydro's 50/50 joint venture project with Qatar Petroleum, was about 60-percent complete by the end of the year, on schedule for start-up around year-end 2009 and ramp-up to full production during 2010 and within budget.

The third expansion of the Alunorte alumina refinery in Brazil was successfully started up in third quarter 2008 and achieved stable production at designed capacity in the fourth quarter. Alunorte also completed a restructuring of the plant's energy supply facilities with the implementation of additional co-generation of electricity following the start-up of new coal-

## Addressing the cost challenge

### Smelting production cost

Costs in USD per tonne indexed, 2006=100\*



\*100%-owned smelters

fired boiler toward the end of 2007. The improved energy mix, together with lower oil prices will have a positive impact on the plants energy costs going forward.

## Strategy

Following the extreme market decline experienced during the final quarter of 2008 we took significant measures to adjust production capacity and initiate other actions to further align our upstream business with the severe decline in volumes and prices experienced in the market. We will take further steps necessary to secure our ongoing operations in the challenging economic conditions expected in 2009. A key ongoing strategic focus is to continually improve our competitive position by increasing the efficiency of our smelter system. Operational excellence is the foundation for realizing performance improvements within our existing portfolio of production assets while continually addressing the cost challenges facing our business. In order to ensure the development of our operations over time, we focus on business opportunities that will further enhance our cost position. In addition, strengthening our technological leadership contributes to reducing emissions and lowering our operating costs while improving our attractiveness as a partner for world-class projects within an industry with sound long-term fundamentals.

### *Adjust our capacity to market demand*

We are reviewing our entire operating network to identify additional measures to adjust our primary metal production to weaker market demand focusing in particular on operations which deliver an unsatisfactory performance.

### *Improve our average smelter cost position*

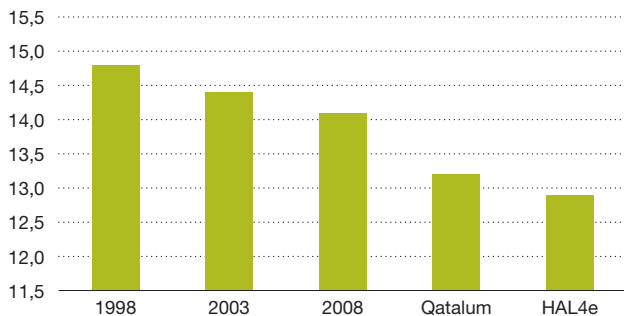
During 2007, we completed a major program aimed at repositioning our primary aluminium capacity by closing less competitive production in our European system and replacing it

1) Fluctuation in LME prices impact our alumina costs with a lag of about two to three months due to the timing of price indexing as well as transport and storage.

## Strong performance culture

Reduced specific energy consumption

kwh/Kg aluminium\*



\* Average specific energy consumption from 100%-owned Norwegian smelters

with new capacity in larger and more efficient smelters. These efforts, together with the planned shut-down of substantial additional higher cost capacity, means that we are better prepared for the weaker markets to last for some time. We have established substantial low-cost equity alumina coverage to capture the value of this important part of the value chain and have an industry leading captive power position. We are increasing our focus on the procurement and supplier portfolio for our carbon requirements and seeking increasing efficiencies in the activities driving other operating costs.

### *Advance our operational excellence and technological leadership*

Our AMPS program (Aluminium Metal Production System) is designed to ensure best practices and operating efficiencies across our assets and we focus on extracting measurable benefits from this program. We are committed to improve our safety performance, which also improves our operating performance, and believe that AMPS makes a valuable contribution to this effort. New proprietary smelting technology is under development with the aim to raise our cost competitiveness, further strengthen our environmental standards and support our growth ambitions.

### *Leverage the value of our commercial operations*

Our commercial operations provide us with flexibility to adjust the level of metal we deliver to the market based on fluctuating demand. A key priority for Hydro is to extract the full commercial potential from our extensive system of remelters, long-term commercial arrangements and sourcing and trading operations.

### *Focus on upstream growth projects*

Hydro has an ambition to expand its upstream aluminium activities worldwide. Our growth efforts are directed towards projects that improve Hydro's cost position in the industry, while maintaining a strong focus on sustainable development.

#### 2008 targets

- Continued emphasis on safety/TRI – down by 20 percent
- Successful advancement of Qatalum
- Alunorte phase 3 expansion complete
- Finalize agreement with Vale on new alumina refinery in northern Brazil
- AMPS implemented in all Norwegian smelters

#### 2008 results

- Achieved 20 percent reduction in TRI
- Qatalum on schedule for start-up and within budget frame
- Alunorte started successfully on time and within budget
- Agreement with Vale signed
- Completed implementation of AMPS in all Norwegian smelters

#### 2009 targets

- Effectively adjust capacity to decreasing demand
- Further improve smelter average cost position
- Reduce cost in continuing operations by improved effectiveness and fixed cost reductions
- Enhance market position
- Further develop next-generation smelter technology

#### Ambitions going forward

Our ambition is to strengthen our relative market position as we adjust to contracting demand. We aim to significantly improve our relative cost position by phasing out older and higher cost capacity replacing it with new capacity having a world class cost position. Utilization of our next generation cell technology, HAL4e, will be the technological basis for continued organic growth. We will pursue further growth in equity alumina coverage, with increased focus on an integrated bauxite supply. We intend to continually focus on improving our relative cost position building upon Hydro's culture of continuous improvement, operational excellence and safety.

## ALUMINIUM PRODUCTS

### Overview

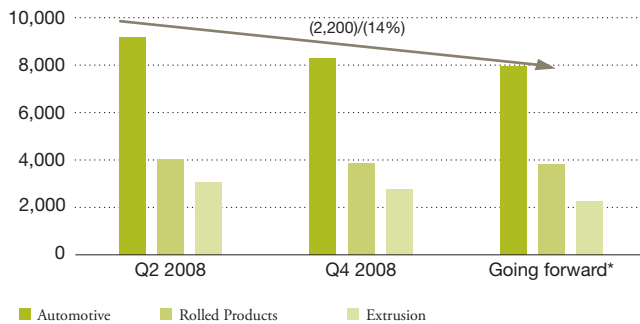
Aluminium Products underlying EBIT declined to NOK 988 million in 2008 compared with NOK 1,352 million in the previous year. The underlying performance of our rolled products business improved for the year and our European extrusion and building systems operations delivered another strong performance but the results for these businesses were impacted by the weak fourth quarter, ending the year lower compared to the previous year. Our US extrusion operations continued to struggle with weak markets operating at a loss for the year. Our Automotive business incurred substantial losses for the year, in particular for the automotive structures sector.

Measures to significantly reduce costs and manning in our US extrusion operations were carried out in 2007 and continued in 2008. Improvement initiatives were also implemented resulting in substantial cost savings and manning reductions in our North American precision tubing business and our world wide automotive structures operations. Our focused efforts to improve the profitability of these businesses have helped prepare us for the sudden and dramatic market developments which occurred towards the end of the year but have only partly compensated for the unprecedented fall in market demand.

As the impact of the global recession influences European markets, further actions across all of our business sectors have

## Aluminium Products Employees

Average full time employee equivalents



\*Market dependent

been identified including additional shift and manning reductions, procurement initiatives to capitalize on falling raw material prices as well as reductions in capital expenditures and working capital. These measures will enable us to meet market pressures as the on-going recession in Europe and the US impacts demand during 2009.

During the year, Hydro added to its high-performance extrusion and building systems operations with acquisitions of Expral and Alumafel placing Hydro among the market leaders in Spain and providing opportunities to further develop the

### 2008 targets

- Continued improvement in profitability for under-performing US extrusion units and automotive structures
- Selected growth projects delivered in Extrusion Eurasia and Building Systems
- Total recordable injuries per million hours down by 20 percent

### 2008 results

- Plant rationalizations and improvement programs executed
- Acquisition concluded for Extrusion and Building Systems in Southern Europe
- Upgrading portfolio in Rolled by start-up of continuous annealing line
- Two fatal accidents, of which one contractor. Total recordable injuries per million hours reduced by 8 percent to 3.4

### 2009 targets

- 20 percent TRI improvement on 2008
- Decisive cost management and focus on cash flow
- Maintain high performance and margin focus in declining market environment
- Additional turnaround measures in Automotive and Extrusion US
- Active portfolio management in Europe and Middle-East

### Ambitions going forward

Our goal is to be the clear performance leader within the European extrusion and building system industries, reinforcing our leadership position through selective growth and further development of new high performing solutions. We aim to increase the returns of our rolled products business. We will focus on innovation and technology to sharpen our competitive edge. We are committed to safety and to eliminating serious accidents in our operations.

Iberian market. The operations have been successfully integrated and contributed positively to the results of 2008.

## Strategy

Hydro's Aluminium Products business entered the year with a portfolio of solid downstream businesses following the extensive restructuring activities in 2007 and further improvements and manning reductions in 2008. Following the dramatic market decline towards the end of 2008 significant additional initiatives were implemented to reduce costs, adjust production volumes and turnaround underperforming units. Going forward we intend to build upon our distinct businesses focusing on technological leadership and operational excellence together with superior product quality and customer service to further improve the performance of our businesses. We will continue to target selective growth within our high-performing sectors.

### *Adjust our cost base to the severe market downturn*

We will continue to drive cost reductions and other improvement measures in all of our activities to compensate for market challenges likely to occur during 2009 to secure performance for sustainable growth.

### *Build on the high performance of our European extrusion and building system operations*

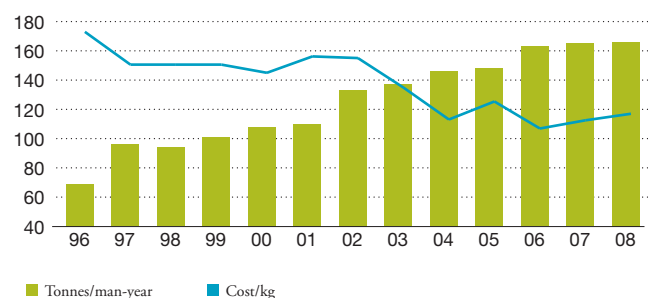
We intend to maintain our strong performance, and target further business development, based on our existing platform of technological strength and strong market positions within these businesses. We will continue to work closely with our customers to ensure top product innovation and design as well as excellent service levels. We will capitalize on our three strong building systems brands – Wicono, Domal and Technal, which represent distinct value propositions to our customers.

### *Improve our position in rolled products*

We intend to focus on technological leadership and operational excellence as well as optimizing our margins through the

## Excellent productivity development

Extrusion Eurasia



mix of products that we deliver to the market in order to drive the performance of this business. We will continually emphasize the quality of our products and service to our customers.

### Selective growth of our strong performers

We will continue to grow our high performance businesses focusing on opportunities within our general extrusion and building systems operations. We will also prioritize investments designed to ensure stable operations and good safety standards and to maintain the value of our assets. Maintaining a lean level of operating capital will also be a strategic focus together with the careful follow-up of our counterparty risk.

## ENERGY

### Overview

Underlying EBIT for Energy was NOK 1,736 million up 47 percent compared with 2007. The improvement was mainly due to significantly higher spot prices, higher power production and somewhat lower operating costs. Hydro's power production in Norway amounted to nearly 11.4 TWh in 2008, which is the highest ever recorded volume.

Hydro strengthened its platform for industrial development and growth in the solar photovoltaic industry in 2008 investing about NOK 600 million for the year. During 2008, we participated in a capital expansion of NorSun AS in Norway and made a further investment in Ascent Solar Technologies Inc. Hydro's Solar businesses operated at a loss for the year, reflecting ongoing development activities and only limited production.

### Strategy

Hydro's captive power covers a substantial part of the energy needs for our smelter operations, about one third in 2008. With Qatalum in full production from 2011, the share of captive power will increase further. Our strong energy resource base, with significant amounts of renewable, self-generated power ensures stable supplies of power at competitive prices to our smelter operations.

#### 2008 targets

- Energy sourcing arrangements for aluminium growth
- Operational efficiency and improvement in safety of operations
- Technology development and start up of commercial operations in solar business

#### 2008 results

- Strong operational performance, with best ever financial results
- Record high power production
- No serious operating accidents
- Further investments in solar partnership companies
- NorSun's wafering plant in Norway completed and commenced production

#### 2009 targets

- Competitive energy sourcing arrangements for aluminium operations
- Operational excellence and safety of operations
- Technology development and ramp-up of commercial operations in solar business

#### Ambitions going forward

Our goal is to capitalize on our energy competence supporting the sourcing of power to our smelters on a global basis. We aim to develop our investments in solar power building on our initial, promising investments within this emerging high-growth industry.

### Sourcing competitive energy for our aluminium business

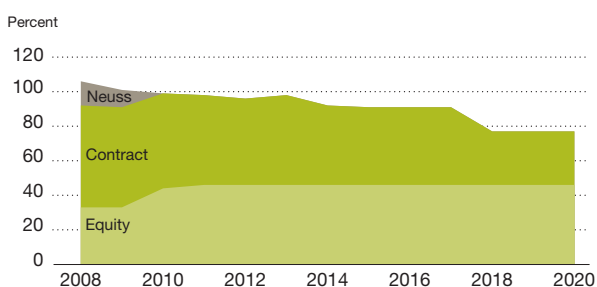
To safeguard our industry-leading position and support further growth, we are engaged in a number of initiatives to identify and secure competitive energy supplies for Hydro's aluminium operations both in Norway and internationally, covering both on-going operations and future growth ambitions.

### Develop our captive power capacity

Our ambition is to increase Hydro's share of captive power from renewable sources including exploring opportunities within our existing concession areas in Norway. Hydro's distinct hydroelectric, renewable power position ensures access to energy at predictable costs, reducing exposure to fluctuating generation fuel and carbon emission costs.

### Solid power portfolio going forward

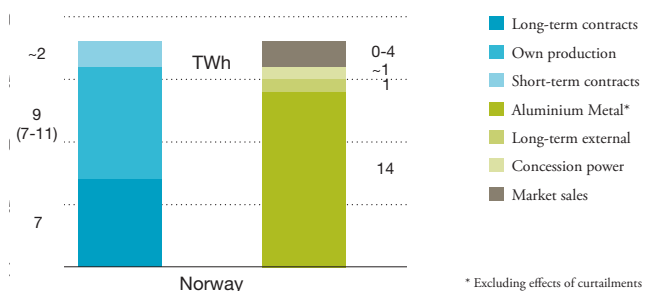
Power coverage through 2020\*



\* Excluding effects of curtailments. Actual equity coverage will be somewhat higher during curtailment period

### Generation and power sourcing

Managed on net portfolio basis



\* Excluding effects of curtailments

### *Value enhancing power portfolio management and operational excellence*

We continuously develop our expertise in power portfolio management and market operations with the objective to minimize the cost of industrial sourcing and maximize the value of our production assets. We have made significant cost and safety improvements in our hydro-power plant operations during the last decade and will continue to focus on operational excellence as basis for further performance improvements.

### *Industrial development within the solar business*

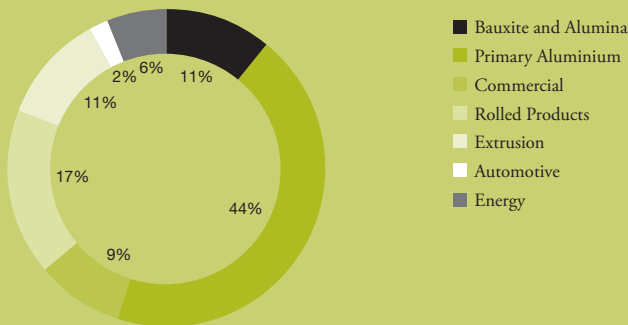
We intend to continue to develop our positions in the solar industry utilizing our core competencies in materials technology, project execution and experience in industrializing new processes and technologies. Our ambition is to build upon the progress we have made through our partnership companies in developing new technologies and manufacturing processes by focusing on industrial development and ramp-up of production capacity within high quality silicon wafers and thin film technologies. Hydro's position as a leading supplier of advanced building systems also provides important opportunities for innovative designs and solutions for energy efficient buildings.

02:

## *Business description*

### Capital employed – upstream focus

December 31 2008: NOK 50.6 billion



Graph excludes NOK 5.8 billion in negative capital employed in Corporate, other and eliminations and NOK 1.4 billion in negative capital employed in Aluminium Products

**22,634**  
**EMPLOYEES**  
*per December 31, 2008*

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### QUICK OVERVIEW

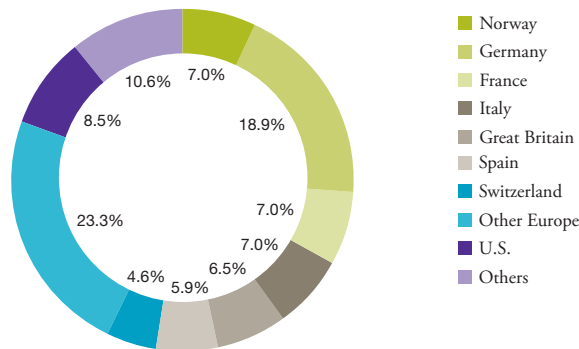
Hydro is a leading worldwide supplier of value-added casthouse products, such as extrusion ingots, sheet ingots, wire rod and foundry alloys. We have substantial equity interests in alumina production and we operate modern, cost-efficient primary metal production facilities in Europe, Canada and Australia.

We are an industry leader for a range of downstream products and markets, in particular the building, packaging, lithographic and automotive market sectors. We supply high quality, value-added aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns.

With more than 100 years of experience in hydropower, Hydro is the second largest power producer in Norway, and the largest privately owned producer.

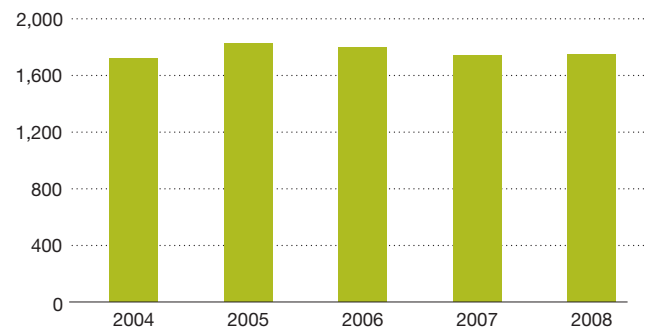
## Geographical distribution of operating revenues

NOK million 88,643



## Primary aluminium production

1,000 tonnes

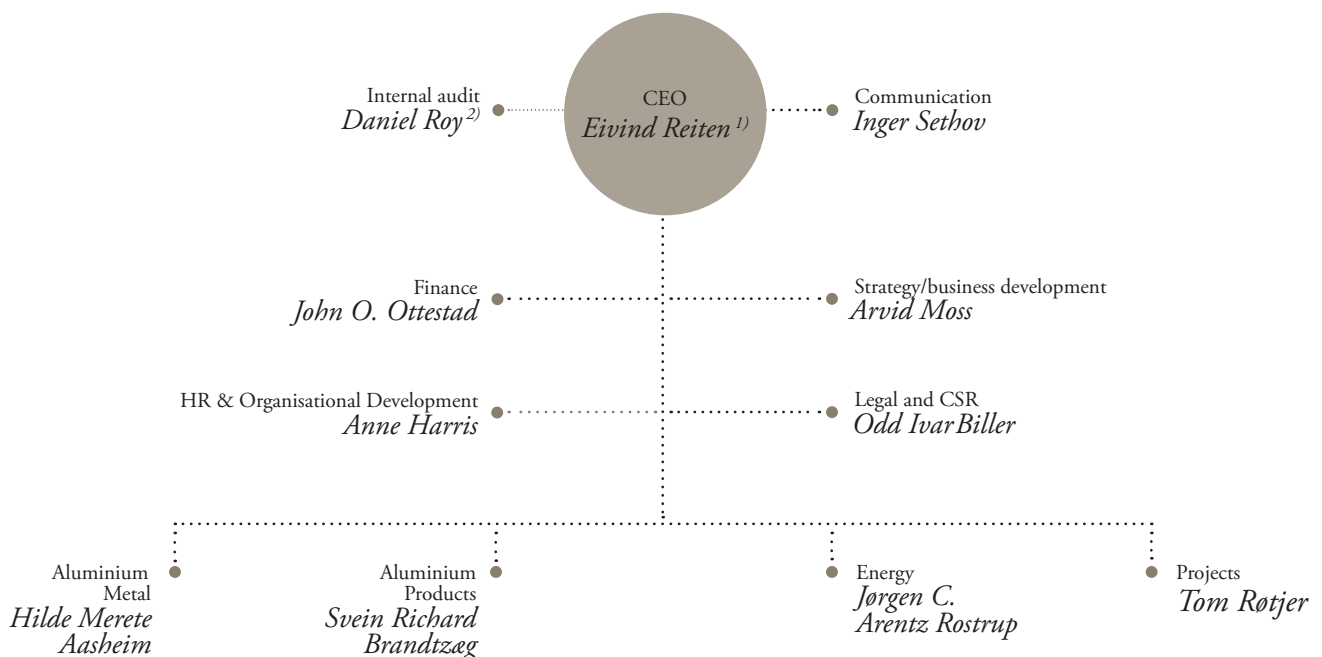


## OUR BUSINESS

Hydro is a leading worldwide supplier of value-added casthouse products, such as extrusion ingots, sheet ingots, wire rod and foundry alloys. We have substantial equity interests in alumina production and we operate modern, cost-efficient primary metal production facilities in Europe, Canada and Australia. In 2008, we delivered 2.9 million mt of products to internal and external customers mainly from casthouses integrated with our primary smelters and an extensive network of specialized remelt facilities close to our customers in Europe and the U.S.

We are an industry leader for a range of downstream products and markets, in particular the building, packaging, lithographic and automotive market sectors. We supply high quality, value-added aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns.

With more than 100 years of experience in hydropower, Hydro is the second largest power producer in Norway, and the largest privately owned producer. We have substantial, self-generated power capacity to support our production of primary metal and are engaged in a number of initiatives to secure



1) Eivind Reiten resigns from Hydro March 30, 2009. Svein Richard Brandtzæg will take up the position as President and Chief Executive Officer from the same date.  
2) Daniel Roy reports functionally to the Board of Directors through the Audit Committee.



competitive power supplies for our aluminium operations and to grow our aluminium business.

Project management competence has been and continues to be crucial to our business. We have a single organization responsible for the execution of all projects including dedicated project teams, defined work processes and supporting systems and procedures.

## 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 our institutional talents:

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

Our mission, institutional talents and values – courage, respect, cooperation, determination and foresight – together create a platform, The Hydro Way, which has contributed to value creation for more than 100 years and will influence us in the future. We are continuously developing our corporate culture, work practices and commercial outlook with a view to long-term value creation.

## EMPLOYEES

Hydro's organization is made up of about 23,000 employees in almost 40 countries. These employees represent great diversity, both in terms of education, experience, gender, age and cultural background. We see this diversity as a significant resource, not least to encourage innovation. To be able to pull together as a team we depend on an efficient organization with common values and goals. Good leadership, proper organizational structure and the right tools are all essential if we are to achieve this. This includes attracting – and retaining – the right employees.

## ALUMINIUM METAL

### Introduction

Hydro's Aluminium metal business operations consist of the following three sub-segments: Bauxite and Alumina; Primary Aluminium; and Commercial.

- Bauxite and Alumina is comprised of Hydro's long-term alumina sourcing arrangements as well as our 34 percent investment in the Brazilian alumina refinery, Alunorte, and our 35 percent interest in the Alpart refinery in Jamaica.

Bauxite and Alumina also includes our interest in the Brazilian bauxite company Mineracao Rio de Norte (MRN).

- Primary Aluminium consists of our primary aluminium production, remelting and casting activities at our wholly-owned smelters located in Norway, Germany and Australia and Hydro's share of the primary production in partly-owned companies located in Norway, Slovakia, Australia, and Canada. Primary Aluminium also includes the new Qatalum primary aluminium plant presently under construction in Qatar.
- Commercial includes our commercial products operating unit and our sourcing and trading operating unit. Commercial products includes all sales and distribution activities relating to products from our primary metal plants and all activities relating to our stand-alone remelters located in most major European markets and the US. Sourcing and trading includes activities to secure a competitive supply of aluminium standard ingots to Hydro's global production system and manage risks through hedging activities as well as optimize our physical alumina portfolio on a short and medium-term basis.

Hydro is one of the world's largest primary aluminium producers. Most of our aluminium is sold in the form of value-added casthouse products and we are the leading worldwide supplier of extrusion ingots, sheet ingots, wire rod and foundry alloys. In recent years we have completed a major program aimed at repositioning our primary aluminium capacity by closing less competitive production in our European system and replacing it with new capacity in larger and more efficient smelters. As a result we have increased our share of production at smelters having a capacity of 300,000 mt per year or higher from none in 2000 to approximately 32 percent of our total production capacity in 2008 and plan to reach 41 percent in 2011 following the start-up of the world-scale Qatalum smelter in Qatar. Alumina is one of the most important cost elements in the production of aluminium metal. We have ownership interests in alumina refineries that provided approximately 69 percent of our alumina needs in 2008. The most important of these interests, Alunorte, is the world's largest alumina refinery with one of the lowest conversion costs in the industry. Our remaining alumina supply requirements are covered through medium to long-term contracts. We source bauxite for Alunorte from MRN, in which Hydro has an equity participation of 5 percent and partly by long-term contracts. Alpart has its own captive bauxite supplies. We have access to substantial self-generated power capacity based on hydropower production in Norway and a planned captive gas-fired power plant for Qatalum. We have negotiated long-term power contracts for the vast majority of our world-wide production with the exception of our plant in Neuss, Germany which is covered by short-term contracts for 2009.

## Metal production facilities



Hydro's primary aluminium plants are comprised of a reduction plant containing pot lines and a casthouse where liquid and remelt aluminium is cast to form value-added products such as extrusion ingots, primary foundry alloys, sheet ingot and wire rod, in addition to standard ingots. Approximately two metric tons of alumina are required to produce one metric ton of aluminium. Energy represents on average about 25 to 30 percent of the operating costs associated with primary aluminium production. Carbon anodes used and consumed in

the smelting process account for approximately 10 percent of the total production cost of primary aluminium.

### Industry overview

Aluminium smelting is a capital intensive, technology driven industry concentrated in relatively few companies. In recent years, China has emerged as a main consumer and producer impacting market fundamentals. Russia and the Middle East are also growing in importance as aluminium producers.

There are two raw material sources for new aluminium products: primary aluminium made from electrolysis of alumina, as well as remelting and recycling of aluminium scrap. Scrap is generated throughout the value chain when producing finished aluminium products and collected in the marketplace after the use of the products is over. The recycling process requires approximately 5 percent of the energy required for electrolysis metal. About 25 percent of new aluminium products are made from consumer scrap.

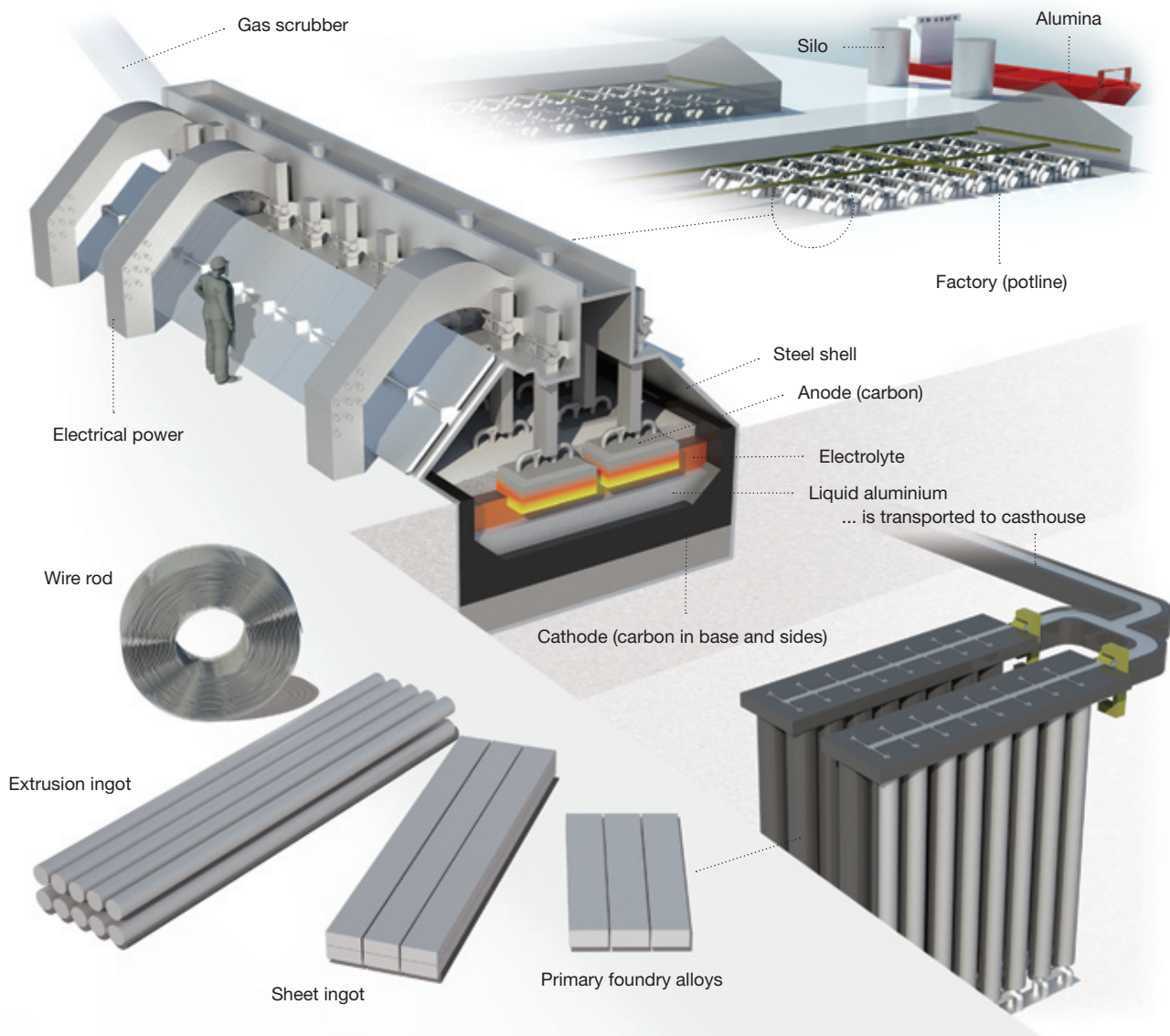
### Aluminium price in USD/tonnes



### Structural developments

During the past two decades, three major global integrated companies emerged as a result of the substantial concentration of upstream aluminium activities: Alcoa, Alcan and Hydro. In addition to these three integrated companies, several large companies have focused mainly on upstream operations -- bauxite, alumina and/or primary metal -- such as BHP Billiton, RioT-

## Aluminium smelting process



Primary aluminium is produced in reduction plants where pure aluminium is formed from alumina by an electrolytic process. This process is carried out in electrolytic cells, in which the carbon cathode placed in the bottom of the cells forms the negative electrode. Anodes, which are made of carbon, are consumed during the electrolytic process when the anode reacts with the oxygen in the alumina to form  $\text{CO}_2$ . The process requires electric energy, about 13 kWh per kilo aluminium produced in modern production lines.

into and Vale (formerly CVRD). During 2007 Rio Tinto acquired Alcan, creating RioTintoAlcan as one of the major alumina and aluminium producers. In 2007 the Russian aluminium industry was consolidated into one major company, United Company Rusal. Since the 1990s, China has emerged as a major consumer as well as producer of primary metal.

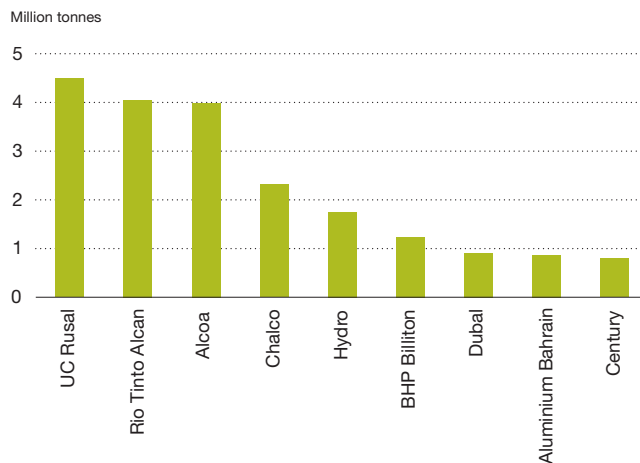
### *Aluminium price developments*

Primary aluminium in standard ingot form is traded on various metal exchanges, primarily the London Metal Exchange (LME). In the long run, prices generally reflect market funda-

mentals of the physical market as well as underlying cost developments. However, trading by financial investors in the derivative markets can have a significant influence on price developments in the short and medium term, occasionally in contradiction with developments in the physical market. Price volatility, therefore, has been and may continue to be high. Aluminium prices exhibited an historic decline in the second half of 2008 as the turmoil in the financial markets spread into the general economy.

During recent years there has been a strong upward shift in the cost curve for primary aluminium production, triggered

## Primary production selected companies 2008



Source: CRU/Hydro

mainly by a significant increase in prices of energy and natural resources. However, the cost of producing aluminium is declining due to the recent fall in commodity prices as a result of the deepening economic downturn. Production costs are expected to decline further depending on global economic developments.

In the future, primary aluminium production is expected to be developed in energy rich areas where power prices are more competitive than market prices in developed energy markets such as Europe and the US. Such countries and regions are expected to include the Middle East, Russia, Iceland and some countries in Africa, Asia and South America. China will also continue to be an important producer and consumer of primary metal.

## Bauxite and alumina

Over the last decade, we have mainly met our alumina supply through a combination of equity investments in alumina production and a portfolio of medium to long-term contracts.

Hydro's major alumina investment is its 34 percent interest in Alunorte, the Brazilian alumina refinery. Following the completion of a third expansion in 2008, the Alunorte refinery reached an annual production capacity of approximately 6,2 million mt.

We purchase alumina for our smelting operations from Alunorte based on prices linked to the LME with a lag of one month. The financial effects of our equity ownership in Alunorte are reflected in Share of profit (loss) in equity accounted investments and comprise a substantial portion of the underlying results of our bauxite and alumina operations. The reported results for Alunorte include significant currency effects from the re-valuation of USD liabilities that are excluded from our underlying results – see section Financial and operating performance of this report, Items excluded from underlying EBIT for more information. Bauxite for

Alunorte is sourced under long term contracts from MRN, in which Hydro has an equity interest, and from the Paragominas mine owned by Vale. Purchases are made under long-term contracts based on prices linked to the LME and alumina market prices. Earnings from our investment in MRN are included in Financial income.

Hydro also has a 35 percent equity interest in the Alpart alumina refinery in Jamaica, which has a normal annual production capacity of approximately 1.65 million mt and its own captive bauxite mine. On 14 January, Hydro announced that Alpart would temporarily reduce production by 50 percent.

In June 2003, Hydro and Comalco, now RioTintoAlcan (RTA), signed one of the largest alumina supply contracts in the history of the aluminium industry for the supply of 500,000 mt of alumina annually from 2006 through 2030. The contract included an option to increase the volume to 900,000 mt following the potential expansion of RTA's Yarwun refinery in Australia. In addition, we have a number of short-, medium- and long-term purchase contracts to secure alumina for our own smelters. These contracts typically have pricing formulas based upon a percentage of the LME price.

## Primary aluminium

We produced primary aluminium at 10 wholly or partly owned primary aluminium plants in 2008. Several plants operated at record production during 2008 for electrolysis production which was overall little affected by the market-induced capacity curtailments discussed earlier in this report. Actual cast-house production in 2008 was significantly lower than the capacity indicated in the table below. See section in this report on Financial and operating performance for actual electrolysis and casthouse production for the years 2008 and 2007.

## Key value drivers

Internal supply contracts between our hydro-power production operations and our aluminium metal business covered about 48 percent of the energy consumption of our wholly-owned Norwegian smelters in 2008. The remainder is mainly covered by external supply contracts with the Norwegian electricity company, Statkraft. Certain contracts with Statkraft that expired in the summer of 2006 have been replaced with new contracts through the year 2020. Compared with the expired contracts, the pricing structure of the new contracts has increased energy costs for our smelters beginning in the second half of 2006 and will gradually increase our energy costs through 2010 due to phasing of price adjustments. The pricing structure of internal contracts was changed from 1 January 2006, also increasing energy costs for our aluminium operations. In 2008, Hydro signed a contract with the Swedish energy company, Vattenfall, for the supply of close to 18 terawatt hours (TWh) of electricity to its Søral smelter over an eight-year period starting 2013. It is one of the largest cross-border contracts since the integration of the Nordic power market in the early nineties. Long-term availability of electric-

Plant	Country	Employees	Electrolysis capacity (000 mt) <sup>1)</sup>	Casthouse capacity (000 mt)	Main products	Key characteristics <sup>2)</sup>
Karmøy	Norway	757	290 <sup>3)</sup>	375	extrusion ingot, wire rod	<ul style="list-style-type: none"> <li>Two prebake lines, one Søderberg line (Søderberg line shut-down first quarter 2009)</li> <li>R&amp;D center, rolling mill, extrusion plant and other downstream activities</li> </ul>
Årdal	Norway	700	180	330	sheet ingot, foundry alloys	<ul style="list-style-type: none"> <li>Two prebake lines</li> <li>Substantial anode production</li> <li>Technology and competence center</li> </ul>
Sunnal	Norway	830	375	490	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> <li>Two prebake lines</li> <li>Major expansion completed 2004</li> <li>Largest and most modern plants in Europe</li> <li>Casthouse expansion and other enhancements completed in 2007</li> </ul>
Høyanger	Norway	169	60	90	sheet ingot	<ul style="list-style-type: none"> <li>One prebake line</li> </ul>
Søral (49.9%)	Norway	383 (100% basis)	85 <sup>4)</sup>	95	extrusion ingot	<ul style="list-style-type: none"> <li>Joint venture between Hydro and Rio Tinto Alcan (RTA).</li> <li>Plant expansions in 1997 and 2003</li> <li>Long-term power contracts through 2013</li> </ul>
Slovalco (55.3%)	Slovakia	606 (100% basis)	165	179	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> <li>Joint venture with Ziar nad Hronom, Slovakia</li> <li>One prebake line</li> <li>Long-term power contract through 2012</li> </ul>
Neuss	Germany	598	235 <sup>5)</sup>	370	sheet ingot	<ul style="list-style-type: none"> <li>Three prebake lines</li> <li>Largest producer in Germany</li> <li>Key supplier to Alunorf rolling mill</li> <li>Power supplied under short-term contracts</li> </ul>
Kurri Kurri	Australia	548	175	185	extrusion ingot, foundry alloys	<ul style="list-style-type: none"> <li>Three prebake lines</li> <li>Completed substantial plant upgrade in 2006</li> <li>Long-term power contract through 2017</li> </ul>
Tomago (12.4%)	Australia	1 074 (100% basis)	65	65	standard ingot, extrusion ingot, sheet ingot	<ul style="list-style-type: none"> <li>Joint venture with RTA and GAF</li> <li>Three prebake lines</li> <li>Largest producer in Australia</li> <li>Among world's lowest cost smelters</li> <li>Expansions in 1992, 1998, 2002 and 2006</li> </ul>
Alouette (20%)	Canada	1 090 (100% basis)	115	115	standard ingot	<ul style="list-style-type: none"> <li>Joint venture with RTA, AMAG and SGF/Marubeni</li> <li>Two prebake lines</li> <li>Largest producer in North America</li> <li>Among the world's lowest cost smelters</li> <li>Expansion completed May 2005</li> </ul>

1) Production and casthouse capacity for part-owned companies represents our proportional share. For financial reporting, Søral is accounted for as an equity investment while Tomago, Alouette and Qatalum are consolidated on a proportional basis. Slovalco is fully consolidated in terms of volumes and financial results.

2) See discussion below under key value drivers regarding power supply for our four 100 percent owned Norwegian smelters.

3) Will be impacted in 2009 by shut down of Søderberg line with capacity of about 120,000 mt.

4) Will be impacted in 2009 by temporary shut down of about 42,000 mt of capacity (Hydro share).

5) Will be impacted in 2009 by temporary shutdown of the entire electrolysis capacity.

ity at predictable prices is considered a prerequisite for the further development of our Norwegian operations, particularly since Nordic spot market prices can be highly volatile.

Energy for the remainder of our smelter system is covered under medium to long-term contracts with the exception of

our German metal plant, Neuss, which is covered in the short-term market.

Most of our smelters produce anodes on-site. During the last years we have expanded our capacity of anode production both at our Årdal plant in Norway and in our part-owned

company Aluchemie in the Netherlands. In addition, we have upgraded the anode facility at our Kurri Kurri plant in Australia. Our new plant under construction in Qatar will have an anode plant with capacity aligned to the production of primary metal.

Our proprietary technology plays an important role in securing our competitive position. We believe our technology serves as an industry benchmark for environmental performance, and sets high standards for safety and productivity.

We have a strong commitment to safety and systematically review and follow several key performance indicators. One of these, the TRI rate (total recordable injuries per million hours worked) for 2008, declined by about 20 percent to 4.5 in 2008 compared with 5.6 in 2007 and 15 in 2002. We are targeting a further 20 percent reduction in 2009.

## Commercial

Commercial products includes the operating results of our stand-alone remelters, our high purity aluminium business and operating results from contracts with external metal sources. We have a network of remelt and refining plants for conversion of scrap metal and standard ingot into extrusion ingot in all major European markets, as well as in the United States. In Europe, facilities are located in Luxembourg, United Kingdom, Germany, Spain and France. See section in this report on Financial and operating performance for remelt production for the years 2008 and 2007.

Remelt activity, including remelted metal for casthouses integrated with our primary metal plants, and third-party sourcing normally represents about half of our external sales of metal each year. In addition to remelting scrap returned from customers and purchased from third parties, aluminium standard ingot is procured globally under a combination of short and long-term contracts, with the major sources in Russia, South America and Southern Africa. Following the dramatic

decline in demand towards the end of the year we have reduced to a minimum operations at our remelters.

Sourcing and trading includes the results from our aluminium trading and hedging activities and the results from our commercial operations to optimize our physical alumina portfolio on a short and medium-term basis. By its nature the results of the sourcing and trading activities are highly volatile.

Our sourcing portfolio consists of Hydro's own equity production of primary metal and medium and long-term third-party purchase contracts of standard ingot. Aluminium standard ingot is a global aluminium product traded on the London Metal Exchange (LME). We also enter into third-party contracts to optimize our total portfolio position and to reduce logistics costs.

Our main hedging objectives are to secure our margins in our mid- and down- stream businesses and obtain the prevailing average LME price for our smelting system. Our sourcing and trading operations act as an internal broker for all LME hedging transactions by our business units in order to consolidate our exposure positions, reduce transaction costs and utilize our trading knowledge and expertise.

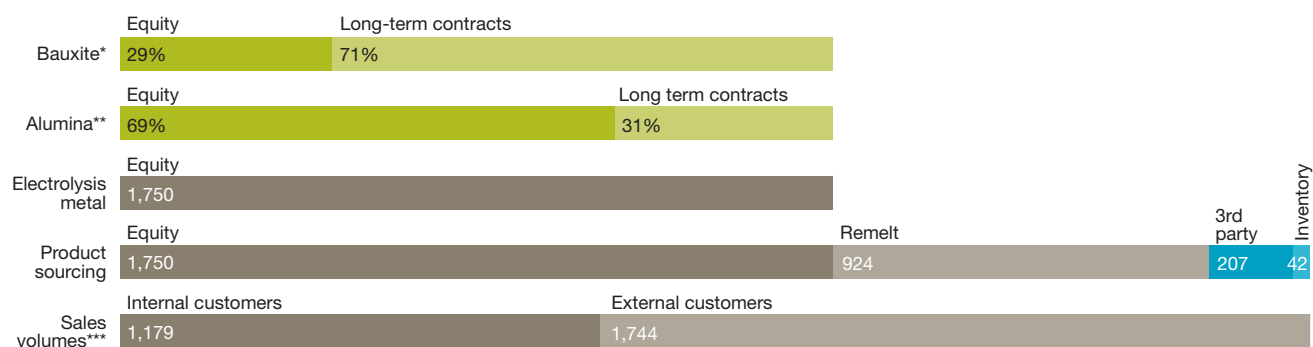
The alumina supply to Hydro's smelters is mainly sourced from our own equity production (Alunorte, Brazil and Alpart, Jamaica), and the balance is covered by medium- and long-term third-party contracts. In addition, we enter into sales contracts with third-party customers that include both aluminium producers and traders. Alumina is sometimes used in combination with metal trading and sourcing activities, for example, by supplying a third-party smelter with alumina and receiving metal as compensation.

## Markets, products and customers

Most of our aluminium is sold in the form of value-added casthouse products such as extrusion ingot, sheet ingot, wire

## Aluminium Metal value chain

Percent and 1,000 mt

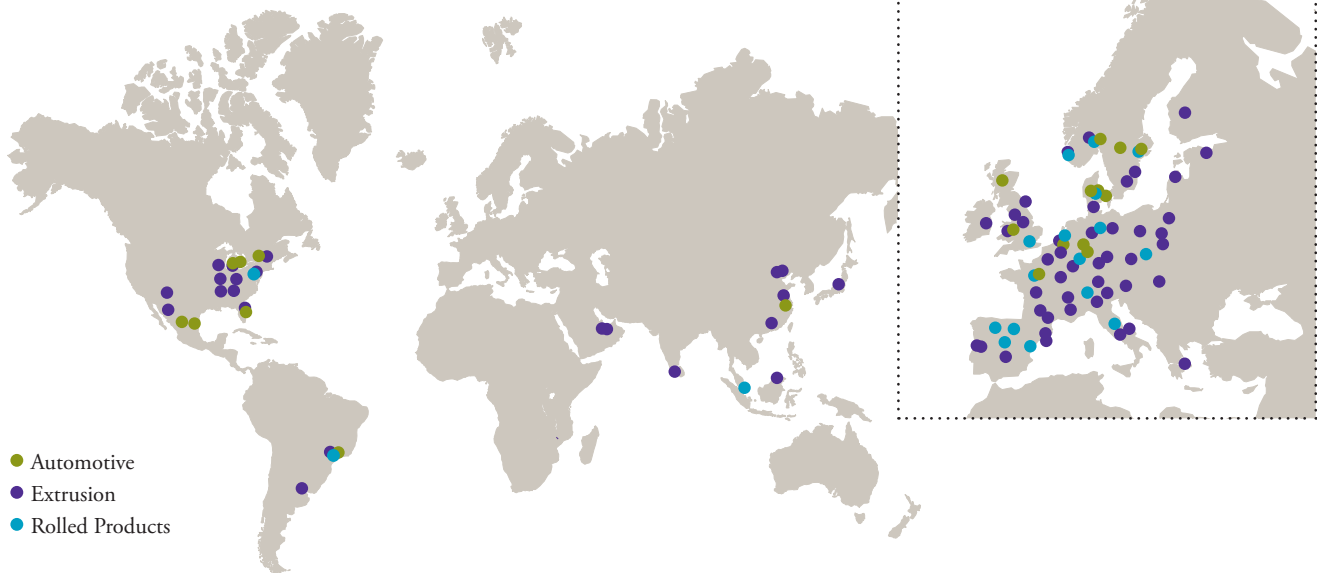


\* Bauxite expressed as alumina equivalents (approx. 2 tonnes bauxite per tonne alumina)

\*\* Alumina expressed as aluminium equivalents (approx. 2 tonnes alumina per tonne aluminium)

\*\*\* Excluding ingot trading volumes

## Aluminium Products worldwide network



rod and foundry alloys. Our most important product is extrusion ingot which is sold to extruders producing aluminium profiles used mainly in the building and construction industry. Other important end use segments include the transport and general engineering market sectors. Our key market region for extrusion ingot is Europe, followed by the US and Asia.

Our second most important product, sheet ingot, is sold to European rolling mills, with packaging and transportation as the most important end use segments. Foundry alloys are sold to foundries producing casted parts primarily for the automotive industry. Our largest market for foundry alloys is Europe, but Asia is becoming increasingly important. Wire rod is sold to wire and cable mills in Europe for power transmission and other electrical applications.

We also produce and sell high purity aluminium products, which are mainly used in the electronics industry in products like electrolytic capacitors, semiconductors and flat panel displays.

In addition to marketing our own products, we have several long-term commercial agreements including a remarketing agreement with UC Rusal, currently providing up to 130,000 mt per year of extrusion ingot from the Sayanogorsk smelter located in Siberia and an agreement with Talum in Slovenia for up to 105,000 mt of foundry alloy and extrusion ingot. Our off-take on these arrangements has been reduced following the significant market decline in the fourth quarter of 2008.

A key component to our market approach is our regional market teams serving customers with commercial, technical, logistic and scrap conversion services. Optimized solutions such as our customer service programs and our on-line customer portal add further value and help build and reinforce customer relationships.

## ALUMINIUM PRODUCTS

### Introduction

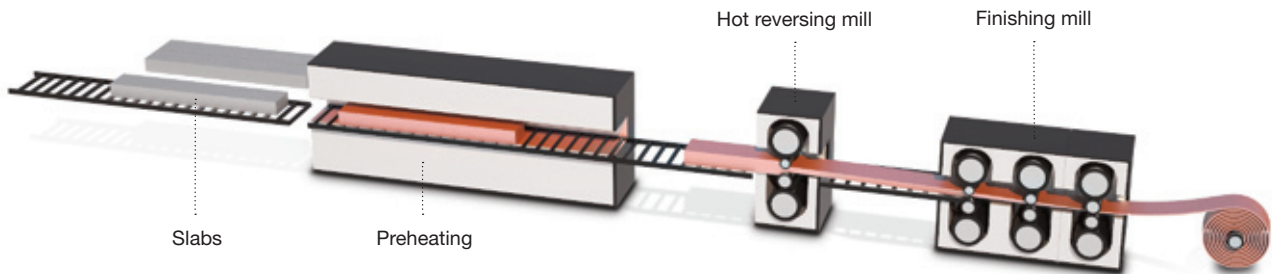
Hydro's Aluminium Products business consists of the three sub-segments: Rolled Products; Extrusion; and Automotive.

- Rolled Products consists of our rolling mills located primarily in Europe. Rolled Products also includes our 50 percent interest in the AluNorf hot rolling mill located in Germany.
- Extrusion consists of our extruded products business, located mainly in Europe and the US, focused on the building and construction, transportation, and engineered products industry sectors. Our building systems activities are included in this sub-segment.
- Automotive consists of our precision tubing and structures operations primarily serving the global automotive industry.

Hydro is an industry leader for a range of downstream aluminium products and markets, in particular the building, packaging, lithographic and automotive market sectors. We are a high quality, value-added supplier of aluminium products and solutions, with strong positions in markets that provide opportunities for value-added products giving good financial returns. Our ambition is to be recognized as the world's best aluminium solutions supplier, an agile and innovative technology leader working in partnership with our customers driving our business and the aluminium industry forward.

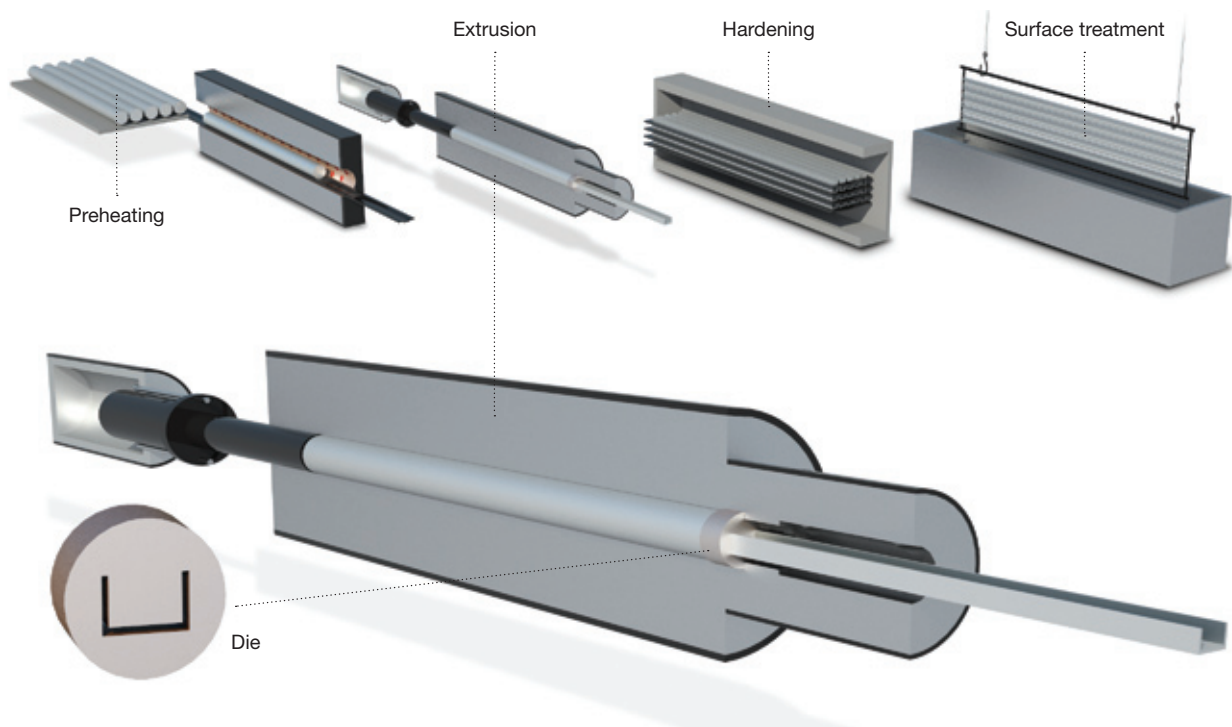
Our operations are primarily located in Europe, where we generated approximately 80 percent of our total operating rev-

## Hot rolling process



The slabs are preheated before entering the hot reversing mill. The sheets are rolled to the desired thickness in the finishing mill.

## The extrusion process



The ingots are preheated, extruded through a die and hardened before surface treatment.

venues in 2008. We are the second largest supplier in the European rolling industry with an estimated market share of 17 percent in Europe. We hold leading global positions within high value-added products segments such as lithographic (printing) plates and aseptic foil. Our extrusion operations consist mainly of general soft alloy extruded products and building systems for facades, wall partitions, doors and windows. Our network of extrusion plants serves local customers with customized profiles and building systems. We are a worldwide leader in precision tubing with production in all major regions and one of the leading suppliers of extruded structural

automotive components to original equipment manufacturers (OEMs) in Europe and North America.

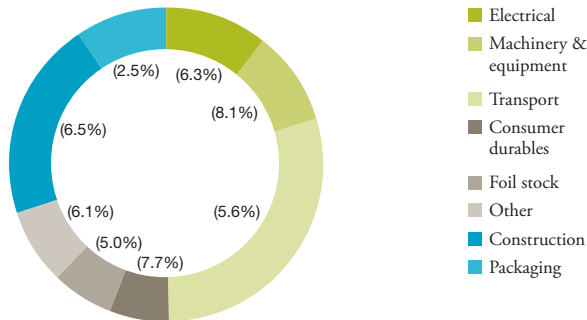
The rolling process consists of heating sheet ingot of 600 millimeters (mm) up to around 500 degrees Celsius and gradually rolling it into thickness of 3 to 13 mm for further processing. An alternative process, continuous casting, converts molten metal directly into coiled strip, typically 4-8 mm thick. Once cool, the thinner metal is further processed in cold rolling mills producing various types of rolled products including foil, lithographic sheet, sheet and strip.

The extrusion process involves pressing preheated metal



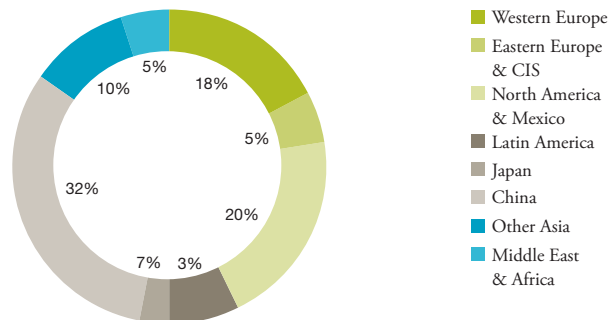
## Global aluminium consumption\* by end use

Total market 54,409 mt (Forecasted annual growth 2007-2015 in brackets)



\* Consist of semi-fabricated products (including recycled aluminium)  
 Source: CRU page 24, 2008/2009. Long-term forecast. Issued October 2008

## Global aluminium consumption\* per region



\* Consist of semi-fabricated products (including recycled aluminium)  
 Source: CRU page 19, 2008/2009 Long-term forecast, Issued October 2008

(450-500 degrees centigrade) under high pressure (1,600 - 6,500 tons) through a die which forms the metal into the desired shape. Dies come in thousands of shapes, sizes and levels of complexity. Surface treatments such as anodizing, powder coating, lacquering and various mechanical treatments, such as grinding and polishing, are employed to reduce corrosion and mechanical wear or provide decorative appearance. Extrusions often go through some form of fabrication, including machining (cutting, drilling, tapping, etc.), joining (welding, gluing, bolting, riveting) and other types of value-added activities.

### Industry overview

Aluminium is used in a variety of applications in several industries. The major consumer segments are transportation, building/construction and packaging. The major consuming areas are North America, Western Europe, China and Japan. Following the significant market declines toward the end of 2008 and early 2009, we expect demand to stabilize in all major regions during second half of 2009, with modest growth levels in 2010. Demand for aluminium products in mature markets like North America and Europe is normally in line with economic developments, but is pro-cyclical i.e. falling to a greater extent than other products but also growing faster during a recovery. This was evident in the final quarter of 2008 and beginning of 2009 and we expect demand for aluminium products to grow faster than other products when markets recover.

We expect healthy long term growth in global demand for aluminium, primarily driven by infrastructure investments and economic development in China and other large developing economies.

### Industry structure changing

Over the last decade the downstream aluminium industry has evolved significantly, with consolidations as well as spin-offs from large integrated aluminium companies. All three major

global integrated aluminium companies, Alcoa, Rio Tinto Alcan and Hydro, have made significant restructurings of their downstream portfolios in the last several years.

Industry analysts expect that the restructuring activity will continue as major metals and mining companies seek to reduce their exposure to downstream operations. A shift in capacity build-up towards the emerging fast growing markets is also expected.

### Developments within the flat rolled products industry

The aluminium rolled products industry is characterized by economies of scale with significant capital investment required to achieve and maintain technological capabilities and meet demanding customer qualification standards. Service and efficiency demands by large customers have encouraged consolidation among suppliers, but in general, there continues to be over-capacity both in the Western European and North American markets. Combined with rising energy costs and high labor costs, this has led to unsatisfactory margins for certain product segments.

### Developments within the extruded products industries

In Europe, the five largest producers of extruded products represent about half of the market. The remainder is very fragmented with about 220 producers. Only about 5 percent comes from imports. Competition has increased significantly over time, and markets have evolved from being regional within a country to areas covering several countries. Overall there is over-capacity in many of the European markets although new capacity is being built mainly in Eastern Europe, reflecting higher demand in this part of Europe. Mainly due to large differentiated product segments, extrusion companies with superior products and services and competitive costs are able to defend margins that lead to sustainable high returns.

Hydro's extrusion system falls within this category. After a period with firmer margins in a strong market, the combination of falling demand and cost pressure is expected to lead to further consolidation within the European industry.

The North American extrusion industry is more consolidated than the European industry, with the five largest producers representing about 60 percent of the market and another five medium sized producers covering about 15 percent of the market. About 10 percent of the market is based on imports, mainly from Asia and South America. Margins are under pressure from overcapacity, cyclically weak demand and – until China reduced tax incentives to export extrusions – increasing levels of imports. As a result, a further restructuring is also expected within the North American extrusion industry.

China has the largest and fastest growing extrusion demand and industry in Asia where consumption is more than three times higher than in Japan, which ranks second in Asia.

Demand for aluminium extrusions in Europe is cyclical in nature, and demand in Europe declined during the second half of 2008 as the financial crisis spread throughout the general economy.

## Rolled Products

We produce rolled products at seven rolling mills in Europe and one plant in Malaysia. More than half of our European production was produced in Grevenbroich, Germany, which is

the worlds largest and one of the most efficient rolling mills globally. Grevenbroich is also the center of our rolled products' foil and lithographic sheet operations.

Our rolled products production system is mainly comprised of so called "wall-to-wall" processing including an integrated cast house combined with both hot and cold rolling mills. Around 11 percent of our production is based on a continuous casting process (Inasa, Malaysia, Karmøy).

Most of the metal we process is sourced internally based on an arm's-length prices with reference to the LME price and sheet ingot premium. External supplies of rolling ingot amounted to approximately 10 percent of our total requirements in 2008. In addition, we recycle process scrap from customers and scrap collected from the market, together with our own process scrap.

### *Markets, products and customers*

Our rolled products business is organized into four product based business units serving different market segments in which we operate.

Our customer base covers manufacturers within the packaging, automotive, transport, building, engineering, electrical and printing industries, including key companies like Tetra Pak (aseptic foil), Kodak, FujiFilm and AGFA (Litho), Ball, Rexam and Crown (can), Behr, Valeo, Denso, Modine and Linde (heat exchanger) and BMW and Daimler (Automotive).

We focus on value-creation for our customers in order to

### Rolled Products

Plant	Country	Capacity <sup>1)</sup> (000 mt)	Main products	Key characteristics
Grevenbroich/ Alunorf 50%	Germany	650	Foil, lithographic sheet, strip	<ul style="list-style-type: none"> <li>• Grevenbroich is the centre of our foil and lithographic business</li> <li>• Supplied by near-by Alunorf hot-rolling mill</li> <li>• Alunorf is currently the worlds largest hot rolling-mill</li> <li>• 50/50 joint venture with Novelis</li> <li>• Partly supplied with sheet ingot from Neuss</li> <li>• Newly invested Continuous Annealing line for Car Body</li> </ul>
Hamburg	Germany	180	General engineering, automotive, heat exchanger	<ul style="list-style-type: none"> <li>• Integrated casthouse</li> <li>• Major upgrade in 2000-2001</li> <li>• Newly invested Recycling Furnace</li> </ul>
Slim	Italy	95	General engineering, heat exchanger, packaging	<ul style="list-style-type: none"> <li>• Integrated casthouse</li> <li>• New cold-rolling mill and major upgrade of hot-rolling mill in 2005-2006</li> </ul>
Inasa	Spain	30	Foil, heat exchanger, packaging	<ul style="list-style-type: none"> <li>• Continuous casing and re-roll (supplied by Alunorf)</li> </ul>
AISB	Malaysia	30	Foil, general engineering, packaging	<ul style="list-style-type: none"> <li>• Continuous casting</li> </ul>
Karmøy	Norway	83	General engineering	<ul style="list-style-type: none"> <li>• Continuous casting</li> </ul>
Holmestrand	Norway	95	Building, heat exchanger, general engineering	<ul style="list-style-type: none"> <li>• Integrated casthouse</li> </ul>

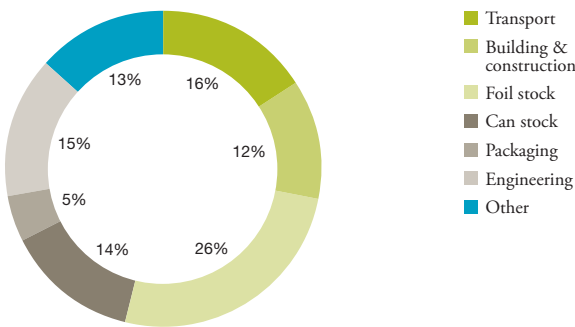
1) Based on seven-day-week

**Key value drivers**

Business unit	% Total shipments	Key characteristics
Foil	15	<ul style="list-style-type: none"> <li>Global player with strong lead leadership position in the high value-added liquid packaging market sector</li> <li>Serving other important markets including converter and converted foil applications for packaging</li> </ul>
Lithography	18	<ul style="list-style-type: none"> <li>Largest producer in the lithographic products market</li> </ul>
Packaging and Building	27	<ul style="list-style-type: none"> <li>Main markets include beverage can and lacquered building products</li> </ul>
Automotive, Heat-Exchanger and General Engineering	41	<ul style="list-style-type: none"> <li>Serving OEMs and their suppliers with strip and sheet for body, component and chassis applications</li> <li>Automotive and non-automotive heat-transfer applications</li> <li>General Engineering products used in building and transportation applications such as trucks</li> </ul>

**Flat rolled products consumption Western Europe\* 2008**

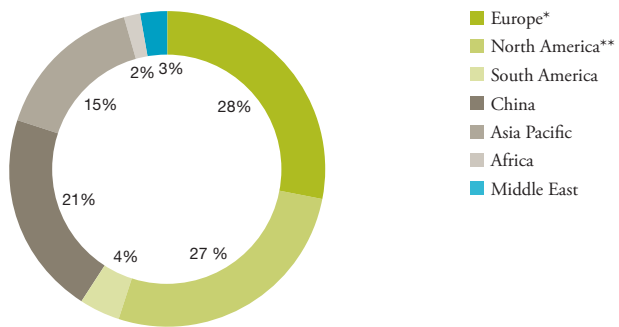
Total market 3,874 mt



\* Western Europe data excluding Portugal and Ireland  
 Source: CRU Table 3,7, 2008 November, The Aluminium flat rolled products quarterly

**Global flat rolled products consumption 2008**

Total market 17,484 mt



\* Europe = Western Europe, Eastern Europe and CIS  
 \*\* North America = USA, Canada and Mexico  
 Source: CRU Table 1 2008 November, The Aluminium flat rolled products quarterly and table 4.7 for China

maintain our preferred supplier position. We achieve this by a continued emphasis on product quality and cost effectiveness through research, product development and innovative solutions as well as prioritizing our service approach toward our customers. To foster a strong market orientation our sales function is organized centrally along our business lines and is supported by regional sales offices to enable the optimization of market contact and sales potential while, at the same time facilitate the production planning and distribution for our entire system.

**Extrusion**

Our major extrusion, extrusion-related fabrication and building systems operations are located through-out Europe and in North America where we have market shares of around 14 and 6.5 percent, respectively, in 2008. We have a solid foothold in South America with plants in Brazil and Argentina that provide a basis for future development in the region and minor operations in Asia.

Our general extrusion activities are organized into two geographic business sectors – Extrusion Eurasia and Extrusion

Americas – and our building systems activities is organized as a separate business sector.

**EXTRUSION EURASIA**

Our Extrusion Eurasia business sector is headquartered in Lausanne, Switzerland and operates out of 33 locations in Europe including sales offices throughout the continent. We have extrusion plants in 11 countries including in Austria, Belgium, Denmark, France (3), Germany (3), Italy, Norway (3), Portugal, Poland, Spain (2) and the UK (2). In addition to the extrusion plants we have 8 smaller die production and fabrication sites in Europe. At the end of 2008 we employed around 3,800 people in our extrusion Eurasia operations.

**EXTRUSION AMERICAS**

Our Extrusion Americas business sector operates 11 extrusion/fabrication/remelt plants in the Americas and is headquartered in Baltimore, US. Our production facilities in Americas are located mainly in the mid-west with five plants, in the south east with two plants, one plant in the western part of the US and a fabrication facility in Mexico. We employed approxi-

mately 1,650 people in our Extrusion Americas business at the end of 2008 following ongoing reductions in manning as part of our efforts to reduce costs and improve the performance of this business. We also operate plants in Argentina and Brazil employing about 350 people at the end of 2008.

## BUILDING SYSTEMS

Our Building Systems operations design, supply and deliver solutions for products such as aluminium windows, doors, facades, and other building applications. Each of our three brands, Technal™, Wiconal™ and Domal™, represent distinct systems enabling our customers to tailor make their offerings to their market needs meeting a wide range of demand ranging from single window replacements to the erection of facades on major structures such as new airports or high rise buildings. Our 3,200 employees operate out of 146 locations in Europe, 3 locations in Asia and 2 in the Americas including sales, technical support, service and distribution operations.

### *Markets, products and customers*

#### GENERAL EXTRUSIONS

We sell quality extrusion profiles, delivered according to specifications, on time, to customers in most industries. About half of our products go to the building and construction markets, while about a quarter are used for various transportation applications. The remainder are used for consumer goods and other applications. We do not focus on standard profiles because of the strong competition and low margins within that market segment. Our local extruders work closely together with their customers, and tailor make aluminium profiles and services to each customer's need. We do not offer finished goods to the market, but create value by enabling our customers to develop excellent products, and to manufacture and ship their products efficiently to their customers.

A key to the success of our European extrusion business is our network of smaller, relatively independently operated extrusion plants where decentralized organizations are intended to ensure good market alignment and close contact with customers and where plants actively use internal benchmarking and apply best practices to ensure continuous improvements in the flexibility and efficiency of operations. Many of the plants in our system are characterized by modern equipment and advanced technology, enabling high efficiency, reliable deliveries and consistent quality. We possess considerable experience and skill in fabrication and surface treatment offering an important resource to our customers and contributing to the production of finished components and the supply of system solutions.

In the US we serve highly diverse markets, and provide a wide range of end use products. We focus on serving those customers and segments where close integration and special service create value for the customers, and have particular competence in complex fabrication and assembly services.

In Brazil and Argentina, we have a strong position in the construction market and a growing industrial market presence.

## BUILDING SYSTEMS

Hydro's network of Building Systems brands, numerous geographic locations and differentiated product offerings are competitive strengths in a fragmented European market that favors solutions linked to regional building habits and local culture. Our technologies enable architects and builders to develop attractive design solutions, providing a variety of functional characteristics in terms of thermal requirements, sound and wind insulation, safety, earthquake, fire and theft resistance. Our distribution system and logistics operations enable rapid and accurate deliveries. Meeting the work-load planning requirements including the overall erection of buildings is a key service we provide to our customers.

Energy cost, and the continuously increasing focus on CO<sub>2</sub> emissions are expected to drive demand for new, more sustainable and energy efficient building solutions. We are at the forefront of these developments through our research centers in France, Italy, Spain, Germany and India.

We are increasingly expanding our building systems activities. In 2008 we increased our market share in Europe's second largest building systems market to 12 percent through acquisitions in Spain. In addition, our sales of building systems outside Europe increased during the year, reaching close to 10 percent of total sales. The strongest growth was achieved in India and the Middle East, together with some increase in China and a new start-up in South America.

## Automotive

Our automotive structures business includes nine manufacturing operations located in Norway, Sweden, Denmark, Germany, France, Czech, Korea, China and the US. Each of our plants specializes in specific products and processes. We control the entire manufacturing process from alloying and casting billets to extrusion, forming, machining, welding and assembly.

Our precision tubing business makes products used primarily within radiators, evaporators, fuel coolers and liquid lines. Our 10 manufacturing operations are located in Denmark, Belgium, the UK and Germany, three plants in the US and plants in northern Mexico, Brazil and China.

### *Markets, products and customers*

Our automotive structures business is among the global market leaders with a market share of about 6 percent. We supply crash management systems, structural components and roll-over protection systems to the leading global OEMs, such as BMW, VW, Ford, Daimler, Renault, PSA and GM, and the Japanese car manufacturers Toyota and Honda. OEMs are increasingly outsourcing engineering and assembly to outside suppliers. Contracts are typically awarded three years in advance of the start of production with a duration that usually lasts for the entire life cycle of the relevant car model (5 to 6 years or longer). Costs to the manufacturers associated with changing suppliers are normally prohibitive.

Aluminium offers high potential for weight savings com-

bined with superior safety characteristics due to very high energy absorption levels. Aluminium is easily recycled and helps reduce carbon dioxide emissions due to weight reductions. Increased pressure on fuel economy and emissions reductions is expected to increase the use of aluminium in automotive structural systems and solutions.

Our precision tubing business manufactures products used in heat transfer applications, both for automotive and non-automotive market segments, and tube lines for carrying liquids or gases. The automotive market represents about 90 percent of the total precision tubing market sector. We have a significant market presence in Europe, North and South America as well as Asia and we offer a complete package of products on a global basis.

Heat transfer applications depending on our products include air-conditioning and cooling systems, radiators, heat pumps, charge air coolers, transmission oil coolers and evaporators. We have a strong presence in this market supplying global automotive customers such as VW, Denso, BMW, Delphi, TI, Valeo, Hutchinson, Visteon, Parker and Behr. We also serve customers worldwide in promising non-automotive market segments.

## ENERGY

### Introduction

Energy is responsible for managing Hydro's captive hydro-power production in Norway and external power sourcing arrangements to the aluminium business. Energy is also engaged in developing Hydro's position within the solar energy industry.

With more than 100 years of experience in hydropower, Hydro is the second largest power producer in Norway, and the largest privately owned producer. Hydro operates 17 hydroelectric power plants in Norway, including 4 partly owned plants, and has a normal annual production of approximately 9.4 TWh. In addition, we purchase around 7 TWh annually under long-term contracts, mainly with the Norwegian state-owned company, Statkraft. Our portfolio provides long-term power at predictable prices for our industrial operations in Norway.

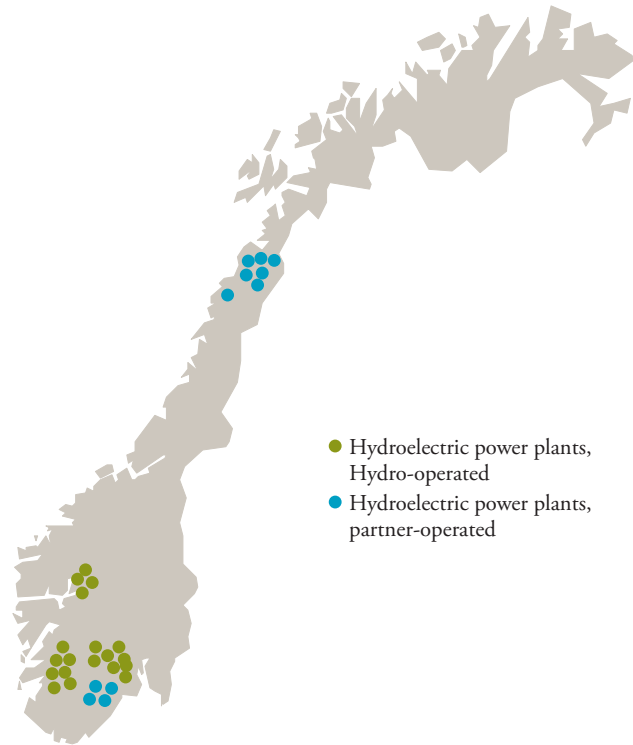
Building on its long standing experience in metallurgy, electrolysis and industrialization of new technologies, Energy is working together with external partners to develop new technologies and manufacturing processes in the solar energy industry.

### Industry overview

#### NORDIC ELECTRICITY MARKET DEVELOPMENTS

The Norwegian electricity market was deregulated in 1991. With the establishment of the Nord Pool power exchange and the subsequent deregulation and integration of the electricity markets in Sweden, Finland and Denmark, a common Nordic electricity market emerged in 1999.

### Power plants in Norway



Hydro is the second largest power producer in Norway and operates 17 hydroelectric power plants.

In 2008, the Nordic generation mix was comprised of hydro-power (57 percent), nuclear power (21 percent), wind power (3 percent) and other sources (19 percent), mainly thermal power. In Norway, nearly all power generation is based on hydroelectric power. The market price for power is set by a multitude of supply and demand factors, including hydrological conditions, generation fuel costs, CO<sub>2</sub> emission costs, export/import prices and temperature/weather conditions influencing consumption patterns.

Partly due to the strong influence of hydrological conditions, there have been large variations in the Nordic power price during the last several years, both on a quarterly and annual basis. Driven by increased interconnector transmission capacity and through common pricing of CO<sub>2</sub> emission rights, the Nordic power price is increasingly influenced by power prices on the European continent, particularly in Germany.

In the middle of December 2008, the EU reached agreement over an energy and climate change package to deliver its ambitious objectives of cutting greenhouse-gas emissions and boosting renewable energies by 20 percent by 2020. The implementation of this directive is expected to have a significant influence on power prices and environmental regulations in Europe.

## Overview power plants

Ownership percent	Rated capacity (MW) (100%)	Normal annual production (TWh) (Hydro's share)	Key characteristics/concession period
<b>Sogn (100%)</b>			
Tyin	374		• New power station opened 2004
Skagen	252		• Total catchment area 761 km <sup>2</sup>
Fivlemyr	2		• Remaining concession period 43-49 years
Herva	40		• Year of concession expiration 2054
Total Sogn		3.1	
<b>Røldal-Suldal Kraft (95.2%)</b>			
Middyr	1		• Total catchment area 793 km <sup>2</sup>
Svandalsflona	18		• Reservoir capacity of 833 million m <sup>3</sup>
Novle	48		• Remaining concession period 14 years
Røldal	160		• Year of concession expiration 2022
Suldal I	170		
Suldal II	148		
Kvanndal	45		
Total Røldal-Suldal Kraft		2.8	
<b>Telemark (100% <sup>1)</sup>)</b>			
Frøystul	47		• Commenced operation in 1907
Vemork <sup>2)</sup>	204		• Foundation for industrial operations in Notodden and Rjukan
Såheim <sup>2)</sup>	187		• Modernized 1990 - 1996
Moflåt	29		• Catchment area 4,108 km <sup>2</sup>
Mæl	38		• Reversion: Frøystul 50% 2044, Moflåt and Mæl 2051
Svelgfoss	92		
Total Telemark		3.4	
<b>Skafså (33%)</b>			
Åmdal <sup>2)</sup>	21		
Osen <sup>2)</sup>	15		
Skree <sup>2)</sup>	7		
Gausbu <sup>2)</sup>	7		
Total Skafså		0.1	
Total		9.4	

1) All plants owned 100 percent except for Svelgfoss which is owned 70.8 percent.

2) No reversion.

## GROWTH PROSPECTS IN THE SOLAR INDUSTRY

The solar photovoltaic industry is currently developing around two leading technologies: solar cells made from crystalline silicon wafers and thin film technologies based on ultra thin layers of semiconductor compounds. Crystalline silicon is by far the leading technology today, representing more than 80 percent of the world market for solar cells. Thin film technologies are expected to increase in importance due to lower cost per watt and flexible applications.

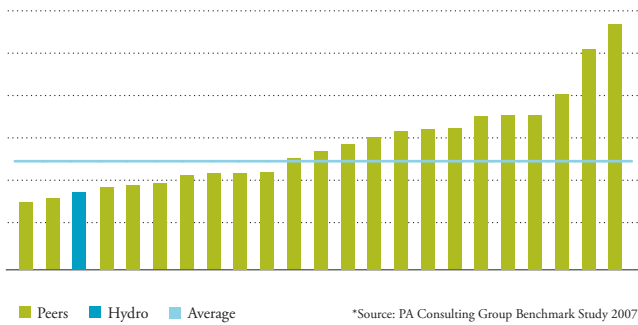
Significant technological developments, efficiency increases and improved regulatory incentive programs in key countries

such as Germany, Spain and the US, have supported annual growth rates of more than 30 percent in the solar photovoltaic industry over the last 5 years. There are indications of continued support for high growth rates up to 2020, however, with increased uncertainty in the near term with respect to financing, technology and government support programs. Silicon based technologies are expected to continue to dominate the market. However, thin film based technologies have advanced significantly and more products are becoming commercially available with increasing volumes.

## Solid operational performance

Production cost 2005-2007\*

NOK/MWh



## Power activities

Hydro operates 17 hydroelectric power plants in Norway, with a total installed capacity of 1,762 MW and with annual normal production of 9.4 TWh (annual hydropower production can vary by +/- 20 percent depending on variations in hydrological conditions). Our power plants are located in three main areas, Telemark, Sogn and Rørdal-Suldal, and are managed from a common operations center at Rjukan, in Telemark.

We also hold a 20.9 percent interest in SKS Production AS, a regional hydropower producer in Northern Norway with 1.7 TWh of normal production capacity, and a 33 percent interest in Skafså Kraftverk ANS located in Telemark.

In addition to sourcing power for our aluminium operations, Hydro's Energy business also sells an average of about 2 TWh of power externally. External power sales primarily relate to concession power obligations to the local communi-

ties where the power stations are located and to contracts with our former petrochemicals business which is now owned by Ineos Group Ltd. We balance our portfolio in the spot market at the NordPool power exchange.

## Solar activities

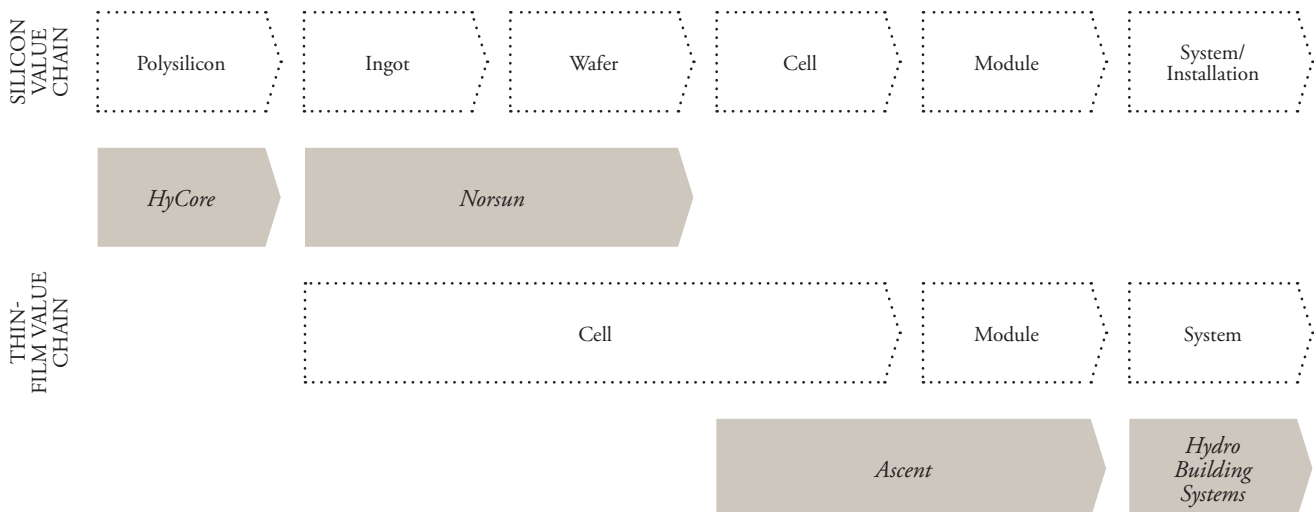
Through our investments in associated partnership companies, we are developing positions in the solar industry across different technologies and parts of the value chain. Ascent Solar Technologies Inc. has developed a cost-efficient production process for solar modules which are only a fraction of the thickness of conventional silicon wafer-based solar cells that can easily be applied to curved surfaces, in addition to more conventional uses. Ascent solar cells are particularly suitable for integrated building solutions and Hydro is currently developing systems such as building facades with integrated solar solutions. Norsun AS is producing monocrystalline silicon wafers for solar cells in its plant in Årdal, Norway. Norsun is also engaged in developing complementary solar energy technologies. HyCore ANS is developing a cost efficient production process for solar grade polysilicon and is building a pilot plant at Hydro's industrial park at Herøya in Porsgrunn with the intention of building an industrial scale facility by 2010.

## REGULATION AND TAXATION

Hydro is subject to a broad range of laws and regulations in the countries and legal jurisdictions in which we operate.

These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, oil spills or discharges, air and water pollutant emis-

## Solar positioned in both silicon and thin/film value chains



sions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. We believe we are in material compliance with currently applicable laws and regulations.

## *Aluminium – regulation*

### **ENVIRONMENTAL MATTERS**

Hydro's aluminium business is subject to a broad range of environmental laws and regulations in each of the jurisdictions in which it operates. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, the storage, treatment and discharge of wastewater, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant.

Aluminium production is an energy-intensive process that has the potential to produce significant environmental emissions, especially air emissions. Carbon dioxide and perfluorocarbons (PFCs), both greenhouse gases, are emitted during primary aluminium production.

In the European Union and other jurisdictions, various protocols address transboundary pollution controls, including the reduction in emissions from industrial sources of various toxic substances such as polyaromatic hydrocarbons, and the control of pollutants that lead to acidification.

The European Union has a framework of environmental directives integrated into the Water Framework Directive (2000/60/EC) regarding discharges of dangerous substances to water. The implementation of the Directive has started in Europe and must be finalized by 2009. The manner in which this Directive will be interpreted and enforced cannot be predicted. However, based upon the information currently available, Hydro's management does not believe it will have a material negative impact on its business. The European Union has also adopted Directive 2008/105/EC on environmental quality standards in the field of water policy, which sets environmental quality standards (EQS) for surface waters for a number of priority substances and priority hazardous substances (PHS). These standards must be observed from 2015 onwards. Among the substances found on the PHS list are polycyclic aromatic hydrocarbons, which are sometimes emitted by the aluminium industry. Any emissions, discharges and losses of such substances (i.e. PHS) must cease in the EU by 2025. Pending implementation of this Directive in the national legislation of the EU member States, Hydro will develop its own implementation plan to ensure compliance with the new rules.

The United States has a regulatory permit system limiting the discharge from facilities to water bodies and publicly-owned treatment works, as well as regulations to prohibit discharges of hazardous substances into groundwater.

Hydro has a number of facilities that have been operated

for a number of years or have been acquired after operation by other entities. Subsurface contamination of soil and groundwater has been identified at a number of such sites and may require remediation under the laws of the various jurisdictions in which the plants are located. Hydro has made provisions in its accounts for expected remediation costs relating to sites where contamination has been identified that, based on presently known facts, it believes will be sufficient to cover the cost of remediation under existing laws. Because of uncertainties inherent in making such estimates, it is possible that such estimates could be revised and increased in the future. In addition, contamination may be determined to exist at additional sites that could require future expenditure. Therefore, actual costs could be greater than the amounts reserved.

Hydro believes that it is currently in material compliance with the various environmental regulatory and permitting systems that affect its facilities. However, the effect of new or changed laws or regulations or permit requirements, or changes in the ways that such laws, regulations or permit requirements are administered, interpreted or enforced, cannot be predicted.

### **OSLO AND PARIS CONVENTION (OSPAR)**

The Oslo and Paris Convention for the Protection of the Marine Environment of the North-East Atlantic has resulted in new discharged levels for the aluminium industry related to the prevention of marine pollution, which were scheduled for implementation by all signatories to the Convention by 2007. In accordance with the Oslo and Paris Convention regulations, the Norwegian Pollution Authority has issued stricter emission permits for primary aluminium plants. As a result, the Söderberg primary aluminium production line in Høyanger was shut down in February 2006, the Söderberg line in Årdal was closed in June 2007 and the Söderberg line in Karmøy will be shut down during the first quarter of 2009.

### **INTEGRATED POLLUTION PREVENTION AND CONTROL**

Under the EU Directive on Integrated Pollution Prevention and Control 1996/61/EC (the "IPPC Directive"), from October 2007 existing industrial installations will require national operating permits based on best available techniques (BAT) for pollution prevention and control. The IPPC Directive already applies to all new installations. The European Commission has issued a guidance document relevant for the aluminium industry: Best Practice Reference (BREF) for the Non-Ferrous Metals Industries (2001). In 2000, the Norwegian authorities established stricter emission limits for the aluminium industry in Norway from 1 January 2007 in line with the IPPC Directive. Hydro's aluminium production facilities comply with the new requirements except for the Söderberg facilities at Karmøy, which have been granted an exception until the end of 2009 respecting dust and PAH. As mentioned above, these facilities will be closed down early 2009. The current IPPC rules and the related BREF note are in the process of being revised at European level. We expect Hydro to be in a



position to comply with the new rules once they are agreed. These new legal requirements are likely to apply from 2012.

#### CLIMATE GASES

The EU Emissions Trading Directive 2003/87/EC (the ETS Directive) establishes a scheme for trading greenhouse gas emission allowances. The directive limits carbon dioxide emissions from a broad range of industries and establishes an internal emission trading system (ETS) for the period 2005-2012. So far, the aluminium industry has not been included in the emission-trading directive, but has been exposed to the EU emission-trading system through the effects of the law on the power generation industry and the resulting increase in power prices ("indirect effects"). The implementation of the ETS Directive in Germany, which resulted in a major pass-through of CO<sub>2</sub> allowance prices by producers to customers, together with little progress in energy market liberalization throughout Europe, has led to significant increases in the price of power, which again have necessitated restructuring throughout Germany's aluminium industry. This EU Directive is also relevant for the EEA and Norway joined the EU ETS in 2008.

Although emissions from aluminium production are currently excluded, the ETS Directive presently impacts production costs at Hydro's facilities in the EU indirectly through increased electricity costs. In December 2008, the European Union adopted a new law amending these rules to include primary and secondary aluminium production where combustion units have a total rated thermal input exceeding 20 MW in the ETS for the period 2013 -2020 for the direct emissions of CO<sub>2</sub> and PFC gases from aluminium plants. However, aluminium production is likely to qualify as an industrial sector exposed to a high risk of "carbon leakage" (i.e. risk of moving European production to other parts of the world which do not face similar carbon constraints). This means it is likely to receive a high percentage of the emission allowances it needs free-of-charge (100% free allocation for the average emissions of the top 10 European producers) although this compensation will likely be phased out over time. Also extremely important for aluminium industry are provisions allowing Member States to grant financial compensation for the increase in electricity prices due to ETS implementation, while observing EU state aid rules.

#### EU ALUMINIUM TARIFFS

In 2007, the EU reduced the import duty on non-EU imports of primary un-alloyed aluminium from six percent to three percent. The EEA, of which Norway is a member, is exempt from such duty for aluminium metal produced in the EEA. The current level of the import duty will be revised in 2010, but we cannot foresee whether the duty will be further reduced or maintained at the same level at this point in time.

The World Trade Organization (WTO) round of negotiations on tariff and non-tariff barriers on industrial products may ultimately lead to further reduction, and perhaps an elimination, of aluminium tariffs. Nevertheless, the WTO negotia-

tions are not expected to have a substantial impact on Hydro in the near future.

#### ENERGY TAXATION

An EU directive on the taxation of energy products became effective on 1 January 2004. The directive expanded the minimum tax system of energy products from mineral oils to all energy products, including coal, coke, natural gas and electricity, and sets forth a minimum level of taxation of energy products in the EU. The directive has so far not made an impact on our operations, since the taxation level in Germany is higher than the level provided by the directive, and our electrolysis production in Norway benefits from an exemption from the Norwegian energy tax. The EU directive is likely to be revised in the coming years, but we expect a general exemption from energy taxation for energy-intensive industries (e.g. the electrolysis process) to be maintained.

#### CHEMICALS LEGISLATION – REACH

The European Union Regulation (EC) No 1907/2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (known as "REACH") was adopted in late 2006 and entered into force in the EU on 1 June 2007. Aluminium is covered by this regulation and the regulation is also applicable in Norway through the EEA-agreement since June 2008.

The main aim of REACH is to protect European citizens and the environment from exposure to hazardous chemicals. This will be achieved by requiring producers and importers of chemicals to register them formally and to evaluate their health and safety impacts. In some cases, REACH may require producers and importers to replace hazardous chemicals with those of less concern. Registration of chemicals will be a lengthy process (over a number of years) and will be prioritized by volumes produced.

Hydro is on track to implement REACH, having successfully completed the first stage in the legal process – the pre-registration of all the key substances we produce and import from outside the EU.

#### *Energy – regulation and taxation*

##### THE NORWEGIAN REGULATORY SYSTEM FOR HYDROPOWER PRODUCTION

The ownership and utilisation of Norwegian waterfalls for i.a. hydropower production, other than small-scale power production, requires a concession from the Ministry of Oil and Energy. According to new legislation passed in 2008, new concessions may no longer be granted to private entities including Hydro. Moreover, private entities including Hydro may not acquire or own more than 1/3 of the shares in companies that own hydropower plants.

Our waterfall rights and hydropower plants in Norway were acquired and developed under previous legislation that allowed for private ownership. Approximately one-third, or 3 TWh per year, of our normal annual production in Norway

was acquired before concession laws were enacted and does not contain any compulsory reversion to the Norwegian government. About two-thirds, or 6 TWh per year, of our normal annual production is the subject of concessions granted at that time the waterfall rights were acquired. These power plants operate under concession terms of Norwegian state reversion, with individual concessions expiring in two main parts around 2022 and 2050. Hydro's power plants at Røldal-Suldal, with a normal annual production of 2.8 TWh, will be the first significant production facilities to revert to the Norwegian state in 2022. Reversion to the Norwegian state will be avoided if the power plant, or two-thirds or more of the shares of the entity that owns the power plant, is sold to a public entity prior to reversion.

The new legislation from 2008 also prohibits that private entities including Hydro acquire rights to lease or to otherwise dispose over waterfalls. However, the Ministry of Oil and Energy has presented for public consultation a proposal for legislation where private entities including Hydro may be granted a concession to lease a waterfall for up to 15 years.

#### TAXATION OF HYDROPOWER PRODUCTION IN NORWAY

Profits from Hydro's hydropower production in Norway are subject to ordinary corporate income tax, currently at 28 percent. Revenue for ordinary income tax purposes is based on realized prices. Dams, tunnels and power stations are for tax purposes depreciated linearly over 67 years, and machinery and generators over 40 years. However, such fixed assets are depreciated over the concession period if that is shorter. Transmission and other electrical equipment are depreciated at a 5 percent declining balance.

A natural resource tax of NOK 13 per MWh is currently levied on hydro-generated electricity. The tax is fully deductible from the ordinary income tax.

In addition, a special resource rent tax of currently 30 per-

cent is imposed on hydropower production in Norway. Unlike the ordinary income tax, financial costs are not deductible against the basis for the resource rent tax. Uplift is a special deduction in the net income computed as a percentage of the average tax basis of fixed assets (including intangible assets and goodwill) for the income year. The percentage, which is determined annually by the Ministry of Finance, essentially provides for a certain return on fixed assets above which income becomes subject to the resource rent tax. The percentage used to calculate the uplift for 2008 was 5.2 percent.

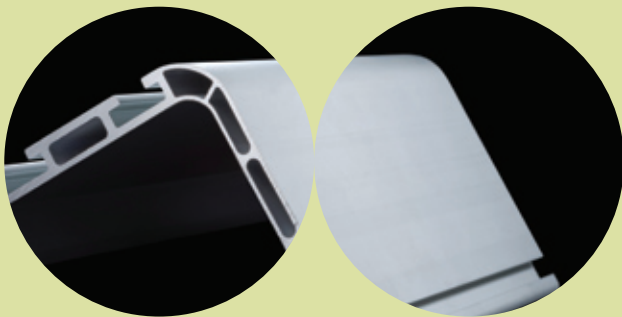
Revenue for resource rent tax is, with certain exceptions, not calculated based on realized prices but on the plant's hourly production, multiplied by the area spot price in the corresponding hour. Revenues from power supplies used for a company's own industrial production facilities and from sales under certain long-term contracts are not subject to spot price assessment. As most of Hydro's hydroelectric production is used for our own industrial production or sold under qualifying contracts, only a minor portion of the production is subject to spot price taxation. Revenue from power production supplied to Hydro's own industrial use in Norway was, for the purpose of calculating the resource rent tax, assessed at 208.93 NOK/MWh in 2008.

#### OTHER INFORMATION

As a public limited company organized under Norwegian law, Hydro is subject to the provisions of the Norwegian act relating to public limited liability companies (i.e. the Norwegian Public Limited Companies Act).

Our principal executive offices are located at Drammensveien 260, Vækerø, N-0240 Oslo, Norway; telephone number: 47-22-53-81-00. Hydro's internet site is [www.hydro.com](http://www.hydro.com)

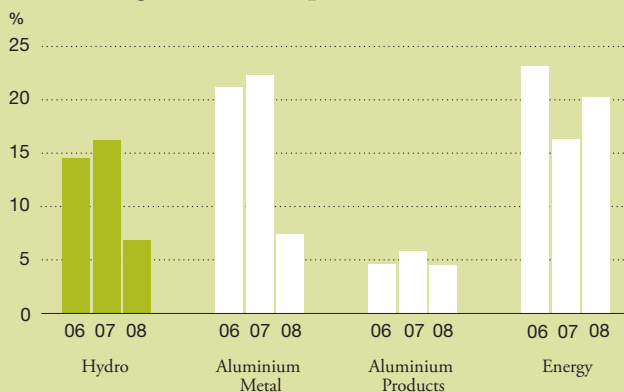
03:  
*Financial and  
 operating performance*



Underlying EBIT

NOK million	2008	2007
Aluminium Metal	3,575	8,265
Aluminium Products	988	1,353
Energy	1,736	1,184
Corporate and Eliminations	(290)	(647)
<b>Total</b>	<b>6,009</b>	<b>10,153</b>

Underlying return on capital



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QUICK OVERVIEW

Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million. Higher raw material costs affecting the entire industry had a substantial impact on Hydro's underlying results in addition to the substantial downturn in the fourth quarter. Underlying results were also impacted by inventory write-downs of about NOK 700 million due to the sharp drop in aluminium prices.

We delivered a total of 2.9 million mt of casthouse products to internal and external customers from casthouses which are integrated with our primary aluminium plants and specialized remelt facilities close to our customers in Europe and the US.

In 2008, we shipped approximately one million mt of rolled products from our seven European plants and our Malaysian plant. Our network of extrusion plants delivered 488,000 mt of extruded products while our automotive business sold around 105,000 mt during 2008.

Our Energy business produced nearly 11.4 TWh of renewable hydroelectric power – the highest recorded production in our history.

## FINANCIAL AND OPERATING REVIEW

### Summary of financial and operating results

To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and income from continuing operations, such

as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis. See section later in this report "Items excluded from underlying EBIT and income from operations" for more information on these items.

#### Key financial information

NOK million, except per share data	2008	2007	% change prior year
Revenue	<b>88,643</b>	94,316	(6)%
Earnings before financial items and tax (EBIT)	<b>1,194</b>	9,025	(87)%
Items excluded from underlying EBIT <sup>1)</sup>	<b>4,815</b>	1,128	
Underlying earnings before financial items and tax (EBIT)	<b>6,009</b>	10,153	(41)%
<b>Underlying earnings before financial items and tax (EBIT) :</b>			
Aluminium Metal	<b>3,575</b>	8,265	(57)%
Aluminium Products	<b>988</b>	1,352	(27)%
Energy	<b>1,736</b>	1,184	47%
Corporate, other and eliminations	<b>(290)</b>	(647)	55%
Underlying earnings before financial items and tax (EBIT)	<b>6,009</b>	10,153	(41)%
Income (loss) from continuing operations	<b>(3,267)</b>	9,158	>(100)%
Underlying income (loss) from continuing operations	<b>3,579</b>	8,057	(56)%
Earnings per share from continuing operations <sup>2)</sup>	<b>(3.04)</b>	7.17	>(100)%
Underlying earnings per share from continuing operations <sup>2)</sup>	<b>2.62</b>	6.26	(58)%
<b>Financial data:</b>			
Investments	<b>9,012</b>	5,206	73%
Adjusted net interest-bearing debt <sup>3)</sup>	<b>(15,440)</b>	(842)	>(100)%

1) See section later in this report "Items excluded from underlying EBIT and income from continuing operations" for more information on these items.

2) Earnings per share from continuing operations" and "Underlying earnings per share from continuing operations" are calculated using Income from continuing operations and Underlying income from continuing operations less Net income attributable to minority interests, and using the weighted average number of ordinary shares outstanding. There were no diluting elements.

3) Calculation is based on amounts as of the end of the periods presented. See note 35 Capital Management in Hydro's Financial statements.

Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million. Higher raw material costs affecting the entire industry had a substantial impact on Hydro's underlying results in addition to the substantial downturn in the fourth quarter. Underlying results were also impacted by inventory write-downs of about NOK 700 million due to the sharp drop in aluminium prices.

#### *Reported EBIT and Income from continuing operations*

Reported EBIT for Hydro amounted to NOK 1,194 million for the year, compared with NOK 9,025 million in 2007. Reported EBIT included charges of roughly NOK 2.5 billion, comprised of impairment losses of NOK 2,150 million due to the deteriorating market conditions and write-downs of roughly NOK 300

million relating to our minority interests in solar businesses reflecting lower market values for solar companies. Reported EBIT also included about NOK 2,200 million and NOK 920 million for 2008 and 2007 respectively, from unrealized derivative effects relating to LME, power contracts and currency contracts. The magnitude of these recurring effects depends on changes in market values which can be significant. The remainder of items excluded from underlying EBIT is comprised mainly of gains/losses on divestments and other cost and charges that are typically non-recurring for individual plants or opera-

tions. These items amounted to a net charge NOK 148 million and NOK 62 million for 2008 and 2007 respectively.

Reported Income from continuing operations amounted to a loss of NOK 3,267 million for the year including net foreign exchange losses of NOK 5.5 billion. Approximately 60 percent of the losses related to US dollars and mainly to Hydro's US dollar hedging program. The remainder related primarily to losses on intercompany balances denominated in Euro. The Euro losses have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation.

### Financial and operating statistics <sup>1)</sup>

	2008	2007	% change prior year
Realized aluminium price LME (USD/mt) <sup>2)</sup>	2,638	2,561	3%
Realized aluminium price LME (NOK/mt) <sup>2)</sup>	14,724	15,521	(5)%
Primary aluminium production (kmt)	1,750	1,742	-
Total metal products sales excluding ingot trading (kmt) <sup>3)</sup>	2,923	3,203	(9)%
Rolled Products sales volumes to external market (kmt)	965	1,030	(6)%
Extrusion sales volumes to external market (kmt)	488	508	(4)%
Automotive sales volumes to external market (kmt) <sup>4)</sup>	105	117	(10)%
Power production (GWh)	11,361	11,018	3%

1) Operating statistics includes proportionate share of production and prices in equity accounted investments.

2) Including the effect of strategic hedges (hedge accounting applied). In the fourth quarter of 2008, Hydro changed its definition of realized prices to be determined when products are shipped and invoiced to customers. Previously, realized prices were determined as liquid metal is transferred from electrolysis to casthouses for further processing. This price mainly reflected the prevailing three month forward LME aluminium price three months prior to production. The casting process results in about an additional three week time lag before metal is finally shipped and invoiced to customers. Prior periods in this report have been restated to reflect the change in definition.

3) Excluding Svalco sales to local market in 2007.

4) Excluding divested businesses Castings, Magnesium and Worchester.

### Aluminium Metal

In 2008, Aluminium Metal generated NOK 55 billion in operating revenues by around 5,300 employees located in 19 countries. Production of primary metal amounted to 1.75 million mt during the year at plants located in Australia, Canada, Germany, Norway and Slovakia. We delivered a total of 2.9 million mt of casthouse products to internal and external customers from casthouses which are integrated with our primary aluminium plants and specialized remelt facilities close to our customers in Europe and the US. Deliveries included about 1.7 million mt of extrusion ingot, 0.6 million mt of sheet ingot and 0.4 million mt of wire rod and foundry alloys. We also sold about 0.2 million mt of standard ingots. Our total deliveries of casthouse products included 0.9 million mt of remelted and recycled metal and 0.2 million mt of third party metal. Our sourcing and trading operations generated a transaction volume of about 1.0 million mt of standard ingots for the year and roughly 4 million mt of alumina.

### Aluminium Products

Our Aluminium Products business generated operating revenues of approximately NOK 48 billion from the sale of alu-

minium products during 2008, employing around 16,000 employees in 33 countries. In 2008, we shipped approximately one million mt of rolled products from our seven European plants and our Malaysian plant. Our network of extrusion plants (including Building Systems) delivered 488,000 mt of extruded products while our automotive business sold around 105,000 mt during 2008. About 70 percent of our total extrusion revenues in 2008 came from our general extrusion businesses and 30 percent came from our building systems operations.

### Energy

In 2008, our Energy business generated about NOK 7.9 billion in revenues, employing around 230 people, mainly in Norway. In 2008, we produced nearly 11.4 TWh of renewable hydro-electric power – the highest recorded production in our history.

During the first half of 2008 prices increased significantly in a volatile market from USD 2,410 per mt at the beginning of the year reaching the peak at USD 3,341 per mt in July. Prices were partly driven by a tight supply/demand balance due to a fragile energy situation in important producing regions and also from trading activities by financial investors.

## Aluminium Metal

### Earnings before financial items and tax (EBIT)

	2008	2007	% change prior year
Operating revenues	54,697	61,592	(11)%
Aluminium Metal EBIT	2,151	8,365	(74)%
Items excluded from underlying EBIT	1,424	(100)	
Aluminium Metal underlying EBIT	3,575	8,265	(57)%
Bauxite and Alumina	334	681	(51)%
Primary Aluminium	2,666	6,552	(59)%
Commercial	435	946	(54)%
Other and eliminations	140	84	66%
Aluminium Metal underlying EBIT	3,575	8,265	(57)%
Underlying RoaCE	7.4%	22.3%	na
Number of employees	5,311	4,961	na

### Operating and financial statistics

	2008	2007	% change prior year
Realized premium above LME (USD/mt) <sup>1) 2)</sup>	339	343	(1)%
Realized premium above LME (NOK/mt) <sup>1) 2)</sup>	1,912	2,037	(6)%

1) Includes proportionate share of premiums in equity accounted investments.

2) Average realized margin above LME for total metal products sold from Primary Aluminium and Commercial, excluding ingot trading volumes.

## Market conditions

### Market statistics<sup>3)</sup>

	2008	2007	% change prior year
LME three month average (USD/mt)	2,620	2,662	(2)%
LME three month average (NOK/mt)	14,446	15,638	(8)%
Global production of primary aluminium (kmt)	39,823	38,112	5%
Global consumption of primary aluminium (kmt)	37,665	37,838	-
Reported primary aluminium inventories (kmt)	4,564	2,804	63%

3) Industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated. Amounts presented in prior reports may have been restated based on updated information.

The severe downturn in the global economy that started in the second half of 2008 led to a sharp decline in demand and prices for aluminium. The decline from the high LME price levels experienced in the beginning of the third quarter of 2008 was of a magnitude which is unprecedented in the history of the aluminium industry with the LME three month price reaching a low of USD 1,464 per mt in December before closing the year at USD 1,497 per mt.

By year-end prices reached a level that was lower than the cash-cost for a majority of the aluminium industry's smelter capacity. In response, announced smelter curtailments excluding China reached a global level of around 1.5 million mt per year as of the end of 2008. As conditions deteriorated in early 2009, announced capacity curtailments increased to 3.2 million mt annually on a global basis excluding China. Estimates of Chinese curtailments are in the magnitude of 3.5 million mt per year.

Chinese aluminium production has experienced a relatively sharper slowdown than the rest of the world partly due to the higher operating cost levels for Chinese producers. Production in China amounted to about 950,000 mt in December or roughly 11.1 million mt on an annualized basis. This was substantially lower than annualized production of 14.3 million mt reached earlier in 2008. As a result of the relatively high supply curtailment in China and the purchases of aluminium by the Chinese authorities, prices declined less severely on the Shanghai futures exchange (SHFE) and aluminium on the SHFE traded at a premium to the LME price toward the end of 2008. For 2008, demand for primary aluminium in China increased 4 percent compared with 2007. Consumption in the fourth quarter declined 17 percent compared with the fourth quarter of 2007. The Chinese authorities have discouraged the export of energy in the form of primary aluminium through the imposition of export duties. Fiscal measures make China a self-contained market for primary metal. As a result, the market balance for primary aluminium in China is not expected to have a significant impact on primary metal markets outside of China.

The market for metal products (extrusion ingot, sheet ingot, foundry alloys and wire rod) in Europe and North America weakened dramatically toward the end of 2008. The automotive markets collapsed leading to a sharp decrease in demand for automotive components and aluminium foundry alloys. In addition, building and construction markets in the US and Europe deteriorated significantly, leading to reduced demand.

### *Outlook*

Since the end of the year, prices have reached the lowest level in more than seven years of USD 1,289 per mt. Aluminium prices are expected to remain low in the medium-term, but there is limited forward visibility and significant uncertainty regarding developments.

The economic downturn has resulted in declining demand for raw materials and smelter input costs are falling. The cost of alumina is normally linked to aluminium prices and therefore price adjustments are relatively quick. Prices for other important raw materials are also declining. Contractual arrangements and time lags in production and logistic processes for some raw materials will result in continued high costs in the early part of 2009 having a negative effect on Hydro's operating results. There are indications that energy prices in Europe and the US, although trending downwards, will remain elevated.

Demand within main aluminium market segments is expected to remain depressed, a situation that could continue throughout the entire year. There is substantial uncertainty regarding the timing of a recovery.

Global primary aluminium consumption excluding China could potentially decline by up to 10 to 15 percent in 2009 from a consumption level of 25 million mt in 2008. Chinese consumption of primary aluminium may fall slightly from the 2008 level of 12.5 million mt.

### *Major projects and business development*

The construction of the Qatalum primary aluminium plant in Qatar was about 60 percent complete by the end of the year. All site preparation work, building foundations, etc. was complete and the main ongoing activity consists of the construction of buildings, storage silos and harbor facilities. Equipment and machinery is in process of being installed in several facilities. By the end of December, there were about 16,300 people working at the site, up from 12,800 at the end of the previous quarter, and expected to increase further in the first quarter of 2009. Activities relating to establishing the operating organization accelerated during the quarter. Total investment costs for the 50/50 joint venture between Qatar Petroleum and Hydro are estimated at USD 5.6 billion of which Hydro's fifty percent share amounts to USD 2.8 billion.

The third expansion of Alunorte was successfully started up in third quarter 2008 and achieved stable production at designed capacity in the fourth quarter. The expansion has increased total annual production capacity to 6.3 million mt (100 percent). The project has been completed slightly ahead of schedule and within budget.

Following a Memorandum of Understanding (MoU) with the Brazilian mining group Vale (formerly CVRD) signed in 2007, Hydro entered into a joint venture agreement to build a new alumina refinery close to the existing Alunorte refinery in Brazil in 2008. The new refinery is planned to be developed in four phases, each with an annual production capacity of 1.85 million mt of alumina. Hydro has a 20 percent interest in the joint venture company.

## Revenue and underlying EBIT – sub-segments

### BAUXITE AND ALUMINA

#### Operating and financial statistics – Bauxite and Alumina

NOK million	2008	2007	% change prior year
Operating revenues	4,411	4,176	6%
Underlying earnings before financial items and tax (EBIT)	334	681	(51)%
Underlying results – Alunorte <sup>1)</sup>	446	524	(15)%
Underlying results – Alpart <sup>1)</sup>	(102)	150	>(100)%
Number of employees	10	21	na
Alumina production (kmt) <sup>2)</sup>	2,289	2,007	14%

1) Underlying results for Alunorte and Alpart represent Hydro's share of the underlying profit (loss) for these equity accounted investments.

2) Includes proportionate share of production in equity accounted investments.

#### OPERATING REVENUES

Operating revenues increased in 2008 for our Bauxite and Alumina business mainly due to higher production volumes from Alunorte following the successful start-up of the third expansion of the plant in third quarter of 2008.

#### UNDERLYING EBIT

Underlying results for Alunorte declined for the year. Positive effects from the higher volumes and higher LME linked alumina prices <sup>3)</sup> were more than offset by significantly higher energy prices, local currency effects and higher LME linked

bauxite prices. <sup>4)</sup> During 2008 Alunorte completed a restructuring of the plants' power facilities with the implementation of additional co-generation of electricity following the start-up of new coal-fired boiler toward the end of 2007. The improved energy mix, together with a sharp drop in oil prices, reduced the plant's energy cost in the final quarter of the year.

Alpart delivered an underlying loss for the year impacted by very high oil prices for much of the year. Energy costs for Alpart declined sharply towards the end of the year but the positive effects were more than offset by lower realized alumina prices due to the falling LME.

3) Alumina prices for Alunorte are adjusted monthly based on the monthly average LME three-month prices, applied with one month delay.

4) Bauxite prices for Alunorte are linked to average LME prices for the past three quarters with an additional one-quarter delay.



## PRIMARY ALUMINIUM

Operating and financial statistics – Primary Aluminium <sup>1)</sup>

NOK million	2008	2007	% change prior year
Operating revenues	<b>34,147</b>	37,164	(8)%
Underlying earnings before financial items and tax (EBIT)	<b>2,666</b>	6,552	(59)%
Number of employees	<b>4,574</b>	4,013	na
Primary aluminium production (kmt)	<b>1,750</b>	1,742	-
Total casthouse production (kmt)	<b>2,166</b>	2,164	-
Realized aluminium price LME (USD/mt) <sup>2) 4)</sup>	<b>2,638</b>	2,561	3%
Realized aluminium price LME (NOK/mt) <sup>2) 4)</sup>	<b>14,724</b>	15,521	(5)%
Realized NOK/USD exchange rate <sup>3)</sup>	<b>5.58</b>	6.06	(8)%

1) Operating and financial statistics includes proportionate share of production, prices and exchange rates in equity accounted investments.

2) Including effect of strategic LME hedges (hedge accounting applied).

3) Including effects of strategic currency hedges (hedge accounting applied).

4) In the fourth quarter of 2008, Hydro changed its definition of realized prices to be determined when products are shipped and invoiced to customers.

Previously, realized prices were determined as liquid metal is transferred from electrolysis to casthouses for further processing. This price mainly reflected the prevailing three month forward LME aluminium price three months prior to production. The casting process results in about an additional three week time lag before metal is finally shipped and invoiced to customers. Prior periods in this report have been restated to reflect the change in definition.

Primary aluminium production (mt) <sup>5)</sup>

Production (kmt)	Location	Primary aluminium		Casthouse	
		2008	2007	2008	2007
Karmøy	Norway	<b>291</b>	289	<b>335</b>	356
Årdal <sup>6)</sup>	Norway	<b>190</b>	205	<b>292</b>	315
Sunndal	Norway	<b>376</b>	367	<b>469</b>	456
Høyanger	Norway	<b>59</b>	58	<b>85</b>	85
Søral (Hydro's 49.9% share)	Norway	<b>85</b>	80	<b>92</b>	80
Slovalco	Slovakia	<b>163</b>	160	<b>187</b>	186
Neuss	Germany	<b>234</b>	231	<b>353</b>	332
Kurri Kurri	Australia	<b>173</b>	173	<b>174</b>	177
Tomago (12.4% share)	Australia	<b>65</b>	64	<b>64</b>	63
Alouette (20% share)	Canada	<b>114</b>	115	<b>115</b>	115
Total production Primary Aluminium		<b>1,750</b>	1,742	<b>2,166</b>	2,164

5) Production volumes for the part owned companies indicated in the table represent our proportion of total production based on our equity interests. For financial reporting purposes, Søral and Qatalum are accounted for as an equity investment while Tomago and Alouette are consolidated on a proportional basis. Slovalco is fully consolidated in terms of financial results and volumes.

6) Shut down of Søderberg production line completed end of June 2007.

Underlying results for the year 2008 declined significantly, impacted by lower realized prices measured in Norwegian kroner and substantial increases in the cost of power, freight, alloying materials and carbon, in addition to the effect of the inventory write-downs of about NOK 540 million. Lower realized prices measured in Norwegian kroner resulted in a negative impact on underlying results of about NOK 1,330 million. In the first half of 2008, a heated commodity market

resulted in increased variable costs of about NOK 1,240 million compared with 2007. Carbon costs rose sharply mainly due to a strong increase in the price of petroleum coke. Power costs rose due to indexation to various commodity prices in different power contracts. Other cost increases also had a negative impact on underlying results for the year.

Production of primary metal was strong and stable during the year and several of our smelters achieved record levels. Vol-

ume from our casthouses declined in the second half of the year due to the substantial fall in market demand.

Underlying results for our partly owned Sørø metal plant amounted to NOK 138 million for the year compared with

NOK 229 million in 2007. In addition, underlying results from our share of profit (loss) in equity accounted investments included about NOK 127 million of costs relating to the Qatalum project compared with NOK 45 million in 2007.

## COMMERCIAL

### Operating and financial statistics – Commercial

NOK million	2008	2007	% change prior year
Operating revenues	<b>58,334</b>	64,898	(10)%
Underlying earnings before financial items and tax (EBIT)	<b>435</b>	946	(54)%
Underlying EBIT – Commercial products	<b>229</b>	414	(45)%
Underlying EBIT – Sourcing and Trading	<b>199</b>	633	(69)%
Number of employees	<b>652</b>	892	na
Remelt production (kmt)	<b>505</b>	685	(26)%
Sale of metal products from own production (kmt) <sup>1) 2)</sup>	<b>2,716</b>	2,888	(6)%
Sale of third-party metal products (kmt)	<b>207</b>	315	(34)%
Total metal products sales excluding ingot trading (kmt) <sup>1)</sup>	<b>2,923</b>	3,203	(9)%
External sales (kmt) <sup>1)</sup>	<b>1,744</b>	1,858	(6)%
External revenue	<b>35,244</b>	37,952	(7)%
Product sales <sup>3)</sup>	<b>25,505</b>	29,090	(12)%

1) Excluding Slovalco sales to local market in 2007.

2) Including sales of liquid metal directly to Karmøy Rolling Mill.

3) External sales revenue for our Commercial operations including revenues from our casthouse production, remelters, high purity aluminium business and contracts with external metal sources. Excludes results from our aluminium trading and hedging activities and commercial operations to optimize our physical alumina portfolio on a short and medium term basis.

### Remelt production (kmt)

	Location	2008	2007
<b>Europe</b>			
Clervaux	Luxembourg	<b>100</b>	111
Deeside	United Kingdom	<b>49</b>	55
Rackwitz	Germany	<b>62</b>	65
Hannover	Germany	<b>14</b>	21
Luce	France	<b>48</b>	50
Azuqueca	Spain	<b>63</b>	66
<b>US</b>			
Ellenville <sup>4)</sup>	New York	-	33
St. Augustine <sup>5)</sup>	Florida	-	36
Henderson	Kentucky	<b>72</b>	81
Monett <sup>5)</sup>	Missouri	-	53
Commerce	Texas	<b>95</b>	81
Phoenix <sup>5)</sup>	Arizona	-	33
Total remelt production Commercial		<b>505</b>	685

4) Shut down of plant completed end of October 2007.

5) Transferred to Aluminium Products 2007.

### OPERATING REVENUES

Operating revenues declined during the year following the market decline which began in the third quarter and accelerated in the final quarter of the year.

### UNDERLYING EBIT

Our European remelt operations delivered an improved performance for the first nine months of 2008, but reduced production substantially in the fourth quarter in response to deteriorating market conditions. Underlying results for our North American remelters continued to be weak, with underlying losses of NOK 97 million compared to losses of NOK 193 million in the previous year. The operating performance of our North American operations also improved during the year

but results were heavily impacted by the sharp market decline in the final quarter.

Remelt production volumes declined by 26 percent compared with 2007 including the effect of the closure of the Ellenville remelter in the US at end of 2007 and the transfer of three US remelters to our Aluminium Products business area. Excluding these effects, volumes declined by about 5 percent due to the sharp market decline in Europe in fourth quarter and overall low production levels in our remaining North American remelters.

Underlying results for our sourcing and trading activities declined for the year due the market development in second half of the year.

In market situations where forward prices are, or could become, lower than spot prices (backwardation) our operational hedge program and our aluminium trading activities expose us to potential losses as short positions mature and are replaced with new forward contracts. As a result, we have risk mitigation strategies in place that result in unrealized and realized gains and losses due to changes in market prices. Underlying results our Commercial operations included net positive effects from these strategies of NOK 28 million for 2008, compared with net negative effects of NOK 144 million for 2007.

## Aluminium Products

### Earnings before financial items and tax (EBIT)

NOK million	2008	2007	% change prior year
Operating revenues	48,180	51,399	(6)%
Aluminium Products EBIT	(1,450)	1,098	>(100)%
Items excluded from underlying EBIT	2,438	254	
Aluminium Products underlying EBIT	988	1,352	(27)%
Rolled Products	652	562	16%
Extrusion	668	852	(22)%
Automotive	(326)	(67)	>(100)%
Other and eliminations	(6)	5	>(100)%
Aluminium Products underlying EBIT	988	1,352	(27)%
Underlying RoaCE	4.5%	5.8%	na
Number of employees	15,941	15,872	na

## Market conditions

### Market statistics <sup>1)</sup>

Total market consumption (kmt)	2008	2007	% change prior year
Rolled products – Europe	3,957	3,943	-
Rolled products – USA & Canada	4,360	4,741	(8)%
Extruded products – Europe	2,635	2,884	(9)%
Extruded products – USA & Canada	1,489	1,699	(12)%

1) Industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated. Amounts presented in prior reports may have been restated based on updated information.

The severe downturn in the global economy had a significant impact on demand in downstream aluminium markets during the last quarter of 2008. Demand for flat rolled products weakened across most market segments in Europe and declined further from already low levels in the US. In particular, the construction and transportation market segments weakened further.

Total consumption of extruded aluminium products in Europe declined for the year due to the significant fall in demand in the final quarter. The market deterioration impacted nearly all market segments, and in particular southern Europe. Demand in northern Europe held up somewhat better with the exception of a very weak transportation market.

The market for extruded aluminium products in North America reflected the continued weak economy impacting most market segments, with the largest declines in the building and construction industry. Demand in the US market has been declining for ten consecutive quarters, and is now back to levels experienced in the early nineties. In South America, demand held up fairly well in Brazil driven by robust building and construction activities and continued strength in the transportation and industrial sectors. However, Argentina experienced lower growth, as the economy weakened.

In the second half of 2008 the automotive industry experienced the most significant contraction in demand since it was formed. The automotive market in Europe declined significantly during the fourth quarter of 2008 where most OEMs prolonged holiday shut-downs to reduce capacity and car production. The North American market was heavily influenced by the weak economy. Demand in Asia and South America continued growing but at a slower pace.

### Outlook

Market demand for flat rolled products in Europe is expected to continue declining during the coming months, driven by lower demand from most markets and in particular the automotive and engineering market segments. The stronger US

dollar is expected to reduce pressure on margins from potential US exports to Europe. However, we expect increasing margin pressure as producers are forced to reduce capacity utilization as a result of weakening demand. Cost pressure, mainly driven by energy and raw material prices, is expected to ease due to the negative economic developments and lower oil prices. However, developments are uncertain and volatility in the commodity markets will impact cost levels going forward.

The overall outlook for the European extrusion market is weak with lower demand across most market segments, in particular the automotive and transportation segments. Demand in the Northern regions is stronger than southern Europe. The negative market outlook is expected to result in increased pressure on margins. In the US, extrusion markets are expected to remain severely depressed, with no signs of recovery. South American markets are expected to experience continued growth, but at a lower pace.

Demand in the North American automotive market shows no signs of recovering from the very low levels of previous quarters. Automotive demand in Asia and South America show signs of weakening from the robust levels experienced previously.

The deepening global economic crisis is resulting in significant market uncertainty, in particular the capital intensive transport and building markets. We also expect the ongoing turmoil in the credit markets to continue to heavily impact developments in these markets.

### Major projects and business development

In April Hydro acquired Expral s.a, a privately owned extrusion operation located near Madrid. Expral mainly supplies the industrial applications market and the building industry. In July Hydro acquired Alumafel, a privately owned building systems company in Spain with the majority of its assets located in the northern regions. Alumafel provides Hydro with a stronger market presence and opportunities to further develop the Iberian market.

## Revenue and underlying EBIT – sub-segments

### ROLLED PRODUCTS

#### Operating and financial statistics – Rolled Products

NOK million	2008	2007	% change prior year
Operating revenues	23,865	25,327	(6)%
Underlying earnings before financial items and tax (EBIT)	652	562	16%
Number of employees	4,132	4,159	na
Sales volumes to external market (kmt)	965	1,030	(6)%

#### Rolled Products sales volume

Tonnes to external market (kmt)	2008	2007
Foil	142	150
Lithography	170	167
Packaging and building	262	269
Automotive, heat-exchanger and general Engineering	391	444
Total	965	1,030

#### Rolled Products production sites

Sales volume (kmt)	Location	2008	2007
AluNorf/Grevenbroich (50/100% share)	Germany	576	594
Hamburg	Germany	144	152
Slim	Italy	64	86
Inasa	Spain	21	24
AISB (81% share)	Malaysia	17	17
Karmøy	Norway	62	70
Holmestrand	Norway	82	89
Total, excluding internal sales		966	1,030

#### OPERATING REVENUES

Operating revenues for our Rolled products business decreased in 2008, compared to 2007 due to lower volumes and LME prices. Overall shipments decreased by about 6 percent compared to 2007 mainly driven by the weaker markets toward the end of the year, in particular with the automotive, heat-exchanger and general engineering market segment.

#### UNDERLYING EBIT

Underlying result for our Rolled products business improved for the year due to increased margins more than offsetting the decline in volumes. Currency effects due to a stronger Euro versus the US dollar had a negative impact on margins achieved for our US dollar sales of around NOK 100 million. Approximately 20 percent of our total sales volume is sold in dollar denominated markets.

## EXTRUSION

### Operating and financial statistics – Extrusion

NOK million	2008	2007	% change prior year
Operating revenues	20,379	20,421	-
Underlying earnings before financial items and tax (EBIT)	668	852	(22)%
Number of employees	8,915	8,705	na
Sales volumes to external market (kmt)	488	508	(4)%

### Extrusion sales volume per market segment 2008

Tonnes to external market (kmt)	Extrusion Eurasia	Extrusion Americas	Building Systems
Domestic & office equipment	29	15	-
Building & construction	136	36	85
General Engineering	38	9	-
Electrical	28	11	-
Transport	40	20	-
Other	30	11	-
Total	301	102	85

### Extrusion sales volume 2008

Tonnes to external market (kmt)	2008	2007
Extrusion Eurasia	301	308
Extrusion Americas	102	118
Building Systems	85	82
Total	488	508

### OPERATING REVENUES

Operating revenues for our Extrusion business were stable in 2008 compared to 2007. Operating revenues relating to our acquisitions in Spain offset declines due to lower LME prices and lower volumes. Volumes declined by 4 percent for the year mainly due to a substantial decline for our US operations of 14 percent.

### UNDERLYING EBIT

Underlying results declined for our Extrusion business for 2008 compared to the previous year. Our European extruders outperformed a general market decline with continued high margins

and stable volumes compared to the first nine months of 2008, but the volume decline from the weaker market in the final quarter more than offset the positive developments. Volumes for our Building systems business were down, but higher margins partly offset the negative effects. Underlying results for our US operations also improved from 2007 during the first nine months, driven by significant cost reductions from efforts to align our overall cost structure with the sharp decline experienced during the last two years in the US market. But the market turbulence in the final quarter of 2008 more than offset the positive developments. Underlying results for our South American operations improved for the year when compared to 2007.

## AUTOMOTIVE

### Operating and financial statistics – Automotive

NOK million	2008	2007	% change prior year
Operating revenues	<b>4,728</b>	6,506	(27)%
Underlying earnings before financial items and tax (EBIT)	<b>(326)</b>	(67)	>(100)%
Number of employees	<b>2,640</b>	2,860	na
Sales volumes to external market (kmt): <sup>1)</sup>			
Precision Tubing	<b>68</b>	73	(7)%
Structures	<b>37</b>	44	(16)%
Automotive	<b>105</b>	117	(10)%

1) Excluding divested businesses Castings, Magnesium and Worcester.

### OPERATING REVENUES

Operating revenues for our Automotive business declined in 2008 due to significantly lower volumes and declining margins. 2007 operating revenues included about NOK 1,300 million relating to divested businesses.

related to start-up activities for new product lines in our automotive structures business as well as costs for reducing capacity to align our operations to current market conditions. Underlying results for 2007 included profits from divested activities of around NOK 40 million.

### UNDERLYING EBIT

Significantly lower volumes also impacted underlying results for 2008 compared to the previous year in addition to costs

## Energy

### Earnings before financial items and tax (EBIT)

NOK million	2008	2007	% change prior year
Operating revenues	<b>7,915</b>	6,468	22%
Energy EBIT	<b>1,471</b>	1,303	13%
Items excluded from underlying EBIT	<b>265</b>	(119)	
Energy underlying EBIT	<b>1,736</b>	1,184	47%
Underlying RoaCE	<b>20.2%</b>	16.3%	na
Number of employees	<b>217</b>	221	na

## Operating and financial statistics

	2008	2007	% change prior year
Direct production costs (NOK million) <sup>1)</sup>	462	490	(6)%
Power production (GWh)	11,361	11,018	3%
External sourcing (GWh) <sup>2)</sup>	8,831	8,760	1%
Internal contract sales (GWh) <sup>3)</sup>	13,765	14,109	(2)%
External contract sales (GWh) <sup>4)</sup>	1,764	1,042	69%
Net spot sales (GWh) <sup>5)</sup>	4,663	4,629	1%

1) Includes maintenance and operational costs, transmission costs, property taxes and concession fees.

2) Includes long-term sourcing contracts and industrial sourcing in Germany.

3) Internal contract sales in Norway and Germany, including sales from own production and resale of externally sourced volumes.

4) External contract sales, mainly concession power deliveries and volumes to former Hydro businesses.

5) Spot sales volumes net of spot purchases.

## Market conditions

### Market statistics

NOK	2008	2007	% change prior year
Southern Norway spot price (NO1)	324	206	57%
Nordic system spot price	369	224	65%

Nordic electricity prices increased significantly in 2008 compared with 2007. The Nordic system price was 65 percent higher than in 2007, primarily due to higher power prices on the European Continent, higher thermal generation fuel costs and higher CO<sub>2</sub> emission costs, following the implementation of the second phase of the EU greenhouse gas emission allowance trading scheme (ETS) from January 1, 2008. Total power consumption in the Nordic region was 391 TWh in 2008, declining by around 1 percent from 2007.

In Norway, 2008 was characterized by periods with wet hydrological conditions and high reservoir inflows. Total power production amounted to 142 TWh in 2008, up 3 percent from 2007 which was also a year with unusually high hydropower production. Total power consumption in Norway was 129 TWh in 2008, resulting in a net export of nearly 14 TWh. High inflows from snow melting, combined with outages in the major import/export transmission lines, put significant pressure on local spot prices in Southern-Norway during the second and third quarter of 2008. The NO1 spot price in Southern-Norway, where Hydro's main power plants are located, was substantially lower than adjacent price areas, and averaged 23 percent lower than the Mid-Norway price (NO2) and 12 percent lower than the Nordic system price.

### Outlook

Nordic power prices have declined during the first weeks of 2009, both in the spot market and for forward contracts traded at the Nord Pool power exchange. High winter consumption of power and lower than normal water reservoir levels in Norway and Sweden are, however, expected to support prices at a fairly high level during the first 3-4 months of 2009. While power prices in the Nordic region will continue to be impacted by local market conditions, including hydrological conditions, price levels going forward are expected to be negatively impacted by the general economic downturn and lower power prices on the European Continent.

Water reservoir levels in Norway were about 65 percent of full capacity in early January 2009, which is 5 percent points lower than normal and 9 percent points lower than the same period in 2008.

The planned recovery of the reduced import/export transmission capacity from Southern Norway has been significantly delayed. The Norwegian system operator, Statnett, does not expect all transmission lines to be fully operational before May 2009. The restrictions in import/export capacities may cause variations between local area prices.

Hydro's power production is expected to remain at a sea-



sonally high level in the first quarter of 2009, but production for the full year 2009 is expected to be significantly lower than in 2008 and 2007. With the current reservoir balance and assuming normal inflows, we expect somewhat lower production volumes in 2009 than the normal production of 9.4 TWh.

### *Key development activities*

Through the investments in partnership companies, Hydro strengthened its platform for industrial development and growth in the solar photovoltaic industry in 2008. In 2008, we invested NOK 612 million in our solar business around NOK 900 million on an accumulated basis.

In February, we participated in a capital expansion of NorSun AS in Norway, increasing our ownership interest to 18.4 percent for NOK 250 million. NorSun AS is engaged in different technologies and parts of the solar value chain, with primary focus on monocrystalline silicon wafers for solar cells. During 2008, construction of the 155 MW ingot and wafering plant in Årdal, Norway was completed and commenced production.

During the year Hydro made a further investment of NOK 237 million in Ascent Solar Technologies Inc. increasing its ownership interest. Hydro now holds 35 percent of the company's outstanding common shares and outstanding class B warrants. Ascent Solar, which is listed on NASDAQ Stock Exchange, is developing flexible thin film photovoltaic modules with plans for larger scale production within the next 1-2 years.

### *Underlying results of operations*

#### **OPERATING REVENUES**

Operating revenues for Energy increased compared with 2007 due to higher realized spot prices in Norway and somewhat higher power production.<sup>1)</sup>

#### **UNDERLYING EBIT**

Underlying EBIT for Energy improved by 47 percent compared with 2007. The improvement was mainly caused by significantly higher spot prices, higher power production and somewhat lower operating costs.

Hydro's power production in Norway amounted to nearly 11.4 TWh in 2008, which is the highest recorded volume historically. Due to high reservoir precipitation in 2007 and 2008, power production has been significantly higher than

normal in both years. Net spot sales, which represent net volumes sold and purchased, have been significantly higher than normal due to high reservoir inflows and power production.<sup>2)</sup>

Direct power production costs, which include operations and maintenance, transmission costs, property taxes and concession fees, decreased slightly from 2007. The decrease primarily reflects lower transmission grid tariffs.

Underlying results from our Solar business, including our share of profit/loss in equity accounted investments, amounted to a loss of NOK 130 million compared to a loss of NOK 82 million in 2007. The loss reflects that our partnership companies are in a developing and build-up phase, with only limited production from NorSun AS which commenced production around mid-year.

### **Corporate, other and eliminations**

Underlying EBIT for Corporate, other and eliminations amounted to a negative NOK 290 million in 2008 compared with a negative NOK 647 million in 2007. Underlying EBIT included an elimination of unrealized profits on inventories purchased from group companies amounting to a credit of NOK 375 million in 2008 compared to a charge of NOK 48 million in 2007. 2008 also included charges of NOK 150 million relating to a change in the allocation of corporate overhead costs which was offset by positive adjustments included in underlying EBIT for the business areas, mainly Aluminium Metal (NOK 89 million) and Aluminium Products (NOK 76 million). Net pension and social security costs included in Corporate and eliminations amounted to NOK 222 million for 2008 compared with NOK 326 million in 2007.

### **Items excluded from underlying EBIT and income from continuing operations**

To provide a better understanding of Hydro's underlying performance, the items in the table below have been excluded from EBIT (earnings before financial items and tax) and income from continuing operations.

Items excluded from underlying EBIT are comprised mainly of unrealized gains and losses on certain derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis.

1) Operating revenues for Energy is largely a function of hydropower production volumes, electricity market prices for volumes sold in the spot market as well as volumes and prices for internal and external contract sales. In addition, revenues are influenced by unrealised gains/losses for derivative and embedded derivative contracts accounted for mark-to-market. As a result, operating revenues for Energy can vary significantly from quarter to quarter and year to year.

2) Mainly due to variations in hydrology, Hydro manages surplus and shortages in its Norwegian power portfolio in the traded electricity market. The balance of our power portfolio varies both within different periods of the year and from year to year, driven by hydrological conditions and industrial consumption as well as contractual commitments and market developments.

### Items excluded from underlying income from continuing operations <sup>1)</sup>

NOK million	2008	2007
Unrealized derivative effects on LME related contracts <sup>2)</sup>	1,120	131
Unrealized derivative effects on power contracts <sup>3)</sup>	768	928
Unrealized derivative effects on currency contracts <sup>4)</sup>	314	(137)
Metal effect, Rolled Products <sup>5)</sup>	235	235
Significant rationalization charges and closure costs <sup>6)</sup>	109	224
Impairment charges (PP&E and equity accounted investments) <sup>7)</sup>	2,464	144
Loss provisions (power contracts) <sup>8)</sup>	257	-
(Gains)/losses on divestments <sup>9)</sup>	(453)	(641)
Correction of elimination of profit in inventory <sup>10)</sup>	-	291
Germany, change in tax rate	-	(47)
Items excluded from underlying EBIT	4,815	1,128
Net foreign exchange (gain)/loss <sup>11)</sup>	5,491	(2,254)
Calculated income tax effect <sup>12)</sup>	(3,460)	325
Germany, change in tax rate	-	(300)
Items excluded from underlying income from continuing operations	6,846	(1,101)

1) Negative figures indicate a gain and positive figures indicate a loss.

2) Unrealized derivative effects on LME contracts include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed price customer and supplier contracts, but where hedge accounting is not applied. The amounts include net unrealized gains and losses on derivative contracts relating to our Aluminium Metal operations, including Alunorte and our downstream Aluminium Products operations. Unrealized gains and losses on derivative contracts relating to trading activities are not excluded from underlying EBIT, as these are considered to be a normal part of the trading business performance.

3) Unrealized derivative effects on power contracts include unrealized gains and losses on embedded derivatives in power contracts for own use and related financial power contracts. Hydro's Energy operations supplies electricity for Hydro's own consumption, and has entered into long-term purchase contracts with external power suppliers. Energy accounts for embedded derivatives in certain sourcing contracts and corresponding internal supply contracts at fair value. For those contracts, the related internal purchase contracts are regarded as normal purchase agreements by the consuming unit and the embedded derivative is not recognized at market value. Embedded derivatives include exposures to various periods' aluminium prices, coal prices and inflation adjustments. Valuation effects are eliminated as part of Corporate, other and eliminations, and excluded from underlying results. The magnitude of the reported effects depends on changes in forward prices for those elements as well as changes in the contract portfolio. In addition, certain financial power pricing contracts used for hedging power prices are accounted for at market value, while the related price exposure is not, covering unrealized effects relating to our Aluminium Metal operations, including Søral. The power purchase contracts have a long duration and can result in significant unrealized gains and losses, impacting the reported results in future periods.

4) Unrealized derivative effects on currency contracts relate to currency effects in equity accounted investments. The amounts include unrealized effects on long-term US dollar denominated loans for Alunorte and effects related to currency contracts for Qatalum.

5) Metal effect – Rolled Products' sales prices are based on a margin over the metal price. The pricing, production and logistic process of Rolled Products lasts four to five months. As a result, margins are impacted by timing differences resulting from the FIFO (first in, first out) inventory valuation method, due to changing aluminium prices during the process. The effect of inventory write-downs is included. Decreasing aluminium prices in Euro results in a negative metal effect, while increasing prices have a positive effect on margins.

6) Rationalization charges and closure costs includes costs that are typically non-recurring for individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc.

7) Impairment charges – Impairment losses occur in the period when an asset or a group of assets is identified to have lost its value, causing a write-down to the recoverable amount. In most of our impairment situations, there is no single event directly causing the write-down. The loss is therefore not necessarily closely linked to performance in a single period.

8) Provision on onerous power contracts reflects the expected losses on power contracts as a result of cash losses on the related operation, in addition to decreasing forward prices for power.

9) (Gains)/losses on divestments includes net gain or loss on divested businesses and individual major assets.

10) Correction of elimination of profit in inventory – Inventory includes a certain element of unrealized internal profit from sales within Hydro. During the fourth quarter of 2007 we identified errors in the elimination. These errors were corrected, effecting eliminations relating to Aluminium Metal and Corporate, other and eliminations. No corrections were made to prior periods since the amounts were deemed insignificant.

11) Realized and unrealized gains and losses on foreign currency denominated accounts receivable and payables, funding and deposits, and forward currency contracts selling currencies that hedge net future cash flows from operations, sales contracts and working capital. These amounts mainly relate to Hydro's US dollar hedging program and losses on intercompany balances denominated in Euro.

12) In order to present underlying income from continuing operations on a basis comparable with our underlying operating performance, we have calculated the income tax effect of currency gains/losses with 28%, while the income tax effect of items excluded from underlying EBIT is calculated using Hydro's effective tax rate adjusted for the tax effect of financial items. In the 2007 Annual Report, this calculation was based on Hydro's overall effective tax rate, but comparable figures are restated in the 2008 Annual Report.

### Items excluded from underlying EBIT – Sub segments

The following includes a summary table of items excluded from underlying EBIT for each of the sub-segments in the business areas, and for Corporate, other and eliminations, with a brief discussion of the major factors affecting the development of these items in 2008.

#### Items excluded from underlying EBIT <sup>1)</sup>

NOK million		2008	2007
Unrealized derivative effects on currency contracts (Alunorte)	Bauxite and Alumina	352	(167)
Unrealized derivative effects on LME related contracts (Alunorte)	Bauxite and Alumina	(96)	(163)
Impairment charges (Alpart)	Bauxite and Alumina	512	-
Rationalization charges and closure costs (Søderberg, Karmøy)	Primary Aluminium	79	114
Unrealized derivative effects on power contracts	Primary Aluminium	(426)	108
Unrealized derivative effects on power contracts (Søral)	Primary Aluminium	129	19
Unrealized derivative effects on currency contracts (Qatalum)	Primary Aluminium	(37)	30
Impairment charges	Primary Aluminium	845	-
Loss provision (power contracts)	Primary Aluminium	257	-
Impairment charges	Commercial	35	144
Unrealized derivative effects on LME related contracts	Other and eliminations	(225)	(303)
Correction of elimination of profit in inventory	Other and eliminations	-	118
Total	Aluminium Metal	1,424	(100)
Metal effect	Rolled Products	235	235
Rationalization charges and closure costs (Inasa)	Rolled Products	-	29
Impairment charges	Rolled Products	129	-
Germany, change in tax rate (Alunorf)	Rolled Products	-	(47)
Rationalization charges and closure costs	Extrusion	-	63
Impairment charges	Extrusion	253	-
(Gains)/losses on divestments	Extrusion	-	(17)
Impairment charges	Automotive	370	-
(Gains)/losses on divestments	Automotive	-	(624)
Rationalization charges and closure costs	Automotive	30	18
Unrealized derivative effects on LME related contracts	Other and eliminations	1,421	597
Total	Aluminium Products	2,438	254
Unrealized derivative effects on power contracts	Energy	(22)	(119)
Impairment charges	Energy	321	-
(Gains)/losses on divestments	Energy	(34)	-
Total	Energy	265	(119)
Unrealized derivative effects on power contracts	Corporate, other and eliminations	1,088	920
Unrealized derivative effects on LME related contracts	Corporate, other and eliminations	19	-
Correction of elimination of profit in inventory	Corporate, other and eliminations	-	173
(Gains)/losses on divestments	Corporate, other and eliminations	(419)	-
Total	Corporate, other and eliminations	688	1,093
Items excluded from underlying EBIT	Hydro	4,815	1,128

1) Negative figures indicate a gain and positive figures indicate a loss.

#### ALUMINIUM METAL

A strengthened US dollar against the Brazilian real in the second half of 2008 compensated the US dollar weakening in the first half of 2008, resulting in a net effect of unrealized losses on long-term US dollar denominated loans for Alunorte. Impairment charges primarily relate to the write-down of our

investment in the Alpart alumina operations and fixed assets in the Neuss smelter due to the weak aluminium prices in combination with high energy and other raw material costs. Rationalization charges and closure costs relate to a provision for closure costs in the Søderberg line at Karmøy which is planned to be finalized by the end of the first quarter of 2009. Unreal-

ized derivative effects on power contracts were mainly influenced by the downward shift in LME forward prices, resulting in unrealized gains on embedded derivatives. Decreased forward prices on power resulted in unrealized losses on financial contracts in Søral. Unrealized gains on currency contracts for Qatalum were an effect of the strengthened US dollar. Provision for expected losses on power contracts relates to our Neuss smelter as a result of the operational cash losses in addition to decreasing forward prices for power. Unrealized derivative effects on LME related contracts that are part of our operational hedge program were mainly influenced by the significant downward shift in the LME forward price curve, especially in the fourth quarter 2008, resulting in an unrealized loss on the respective hedge positions for the full year.

#### ALUMINIUM PRODUCTS

The negative metal effect for the year 2008 reflected the decline in aluminium prices measured in Euro for the period from July 2008 towards the end of the year. Impairment charges relate to certain fixed assets and goodwill including one rolling mill, several plants within the US extrusion operations, our European automotive structures and US precision tubing activities. Rationalization charges and closure costs relate to a provision for early retirement and termination benefit. Unrealized derivative effects on LME related contracts that are part of our operational hedge program were mainly influenced by the significant downward shift in the LME forward price curve particularly towards the end of the year.

#### ENERGY

Unrealized derivative effects on financial power contracts result from the decreasing forward prices for power. Impairment charges relate to the write-down in value of our three minority investments in solar businesses due to declines in the share values. Gains on divestments relate to a reduction of the ownership share in Ascent Solar Technologies Inc. from 34.7 percent to 26.5 percent, caused by a public offering in May in which Hydro did not participate. As the new shares were issued at a higher price than the value per share in Hydro's books, the transaction resulted in a dilution gain of NOK 34 million.

#### CORPORATE, OTHER AND ELIMINATIONS

Unrealized derivative effects on power contracts result from changes in the fair value of certain internal power contracts, or embedded derivatives within the contracts, related to the delivery of power from Hydro's Energy segment to consuming units. Valuation effects are eliminated as part of Corporate, other and eliminations, and excluded from underlying results. In addition to the drop in power forward prices during 2008 affecting internal power contracts, the embedded price links were affected by the significant strengthened US dollar, partly off-set by the downward shift in forward LME prices. Gains on divestments relate to the sale of Production Partner and Production Services.

## Financial income (expense) net

### Financial income (expense), net

NOK million	2008	2007	% change prior year
Interest income	769	1,228	(37)%
Dividends received and net gain (loss) on securities	27	174	(85)%
Financial income	795	1,403	(43)%
Interest expense	(221)	(415)	47%
Capitalized interest	-	5	(100)%
Net foreign exchange gain (loss)	(5,491)	2,254	>(100)%
Other	(109)	(39)	>(100)%
Financial expense	(5,821)	1,805	>(100)%
Financial income (expense), net	(5,026)	3,208	>(100)%
<b>Exchange rates</b>			
NOK/USD Average exchange rate	5.64	5.86	(4)%
NOK/USD Balance sheet date exchange rate	7.00	5.41	29%
NOK/EUR Average exchange rate	8.22	8.02	2%
NOK/EUR Balance sheet date exchange rate	9.87	7.96	24%

Source: Norges Bank

Net financial expense for the year amounted to NOK 5,026 million, including a net foreign currency loss of NOK 5,491 million. Approximately 60 percent of the losses related to US dollars and mainly to Hydro's US dollar hedging program. The remainder related primarily to losses on intercompany balances denominated in Euro. The Euro losses have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation.<sup>1)</sup>

Interest income declined to NOK 769 million compared to NOK 1,228 million in 2007. Earnings in 2007 reflected high amounts of cash and short term investments during the first nine months of the year prior to the payment of demerger debt to StatoilHydro 1 October 2007.

### Income tax expense

Income taxes amounted to a positive amount of NOK 565 million in 2008 compared with a charge of NOK 3,075 million for 2007, which was approximately 15 percent and 25 percent of income (loss) from continuing operations before tax, respectively. Positive Income taxes for 2008 result from the operating losses incurred in this period. Income taxes for 2008 were also influenced by tax charges related to power surtaxes amounting to roughly NOK 500 million. Income taxes for 2007 included positive effects from a reduction of statutory tax rates in Germany amounting to about NOK 300 million.

### Discontinued operations

Income (loss) from discontinued operations amounted to a loss of NOK 247 million compared with income of NOK 9,447 million in 2007. The total amount of the loss for 2008 and NOK 593 million of the income amount for 2007 relates to the sale of Hydro's Polymers business. The remainder of the income amount for 2007 relates to the merger of Hydro's petroleum activities with Statoil. See Footnote 7 included in the Financial statement section later in this report for more information on these transactions.

### Net income and dividend

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 10,644 million in 2008 compared to profits of NOK 9,410 million in 2007.

Due to demanding markets and low forward visibility in both the aluminium and financial markets, Hydro's Board of Directors proposes to forgo a dividend payment for 2008. The Board regards it as prudent to conserve the company's financial resources for organic investments into the Qatalum project and to minimize funding requirements.

According to Section 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on the assumption of a going concern.

1) The Euro losses arise from group positions that create accounting losses recognized in the income statement of the parent company when the Euro appreciates against the Norwegian kroner. No corresponding gains are recognized in the income statement of the subsidiaries that use Euro as functional currency. This has no cash effect for the group. When the subsidiaries Euro financial statements are translated into NOK for consolidation, currency effects on the Euro intercompany deposits are included directly in consolidated equity in the balance sheet, offsetting the currency loss recognized through the income statement.

## LIQUIDITY AND CAPITAL RESOURCES

The table below includes information on Hydro's liquidity, debt, investments and financial position and performance for the years indicated. See note 35 to the Consolidated Financial statements for more information on Hydro's Capital manage-

ment practices including borrowing facilities, share buybacks and definitions and amounts relating to adjusted interest bearing debt, adjusted equity and funds from operations. See Shareholder information section of this report for more information on Hydro's dividend policy, share buybacks and funding and credit rating.

### Liquidity and financial position

NOK million, except ratios and RoaCE	2008	2007
Net cash provided by operating activities	2,921	14,273
Cash and cash equivalents	3,333	9,330
Short-term investments <sup>1)</sup>	1,648	2,742
Liquid assets	4,981	12,072
Bank Loans and other interest-bearing short-term debt	(1,169)	(1,045)
Long-term debt	(279)	(263)
Net interest bearing (debt) assets	3,534	10,764
Adjusted net interest-bearing (debt) assets <sup>2)</sup>	(15,440)	(842)
Adjusted net interest-bearing debt to adjusted equity ratio <sup>2)</sup>	0.30	0.01
Investments <sup>3)</sup>	9,012	5,206
Capital Employed	50,607	44,244
Underlying return on average capital employed (RoaCE)	6.8%	16.2%
Adjusted funds from operations/Adjusted net interest-bearing debt	0.43	na

- 1) Hydro's policy is that the maximum maturity for cash deposits is twelve months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet. See note 18 to the Consolidated Financial statements for more information on short-term investments.
- 2) Mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and interest-bearing debt held by equity accounted investees. See note 35 to the Consolidated Financial statements for more information on adjusted net interest bearing debt and adjusted equity.
- 3) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments.

### Cash flow and liquidity

Hydro manages its liquidity at the corporate level, ensuring sufficient liquidity to cover group operational requirements.

Net cash provided from operations declined significantly compared to the previous year and net cash outflows amounted to NOK 6.1 billion for the year. As a result, Hydro's liquid assets declined by NOK 7.1 billion to NOK 5 billion. The most significant uses of cash in 2008 included substantial investments in property plant and equipment and other long-term investments together totaling NOK 9.0 billion, and dividend payments of NOK 6.4 billion. Included in these amounts were NOK 3.1 billion of investments relating to Qatalum and NOK 4.5 billion of extraordinary dividends. The main sources of cash included NOK 2.9 billion from continuing operating activities and NOK 5.2 billion relating to the sale of Hydro's Polymers activities.

Net cash provided by operations in 2009 will be negatively impacted by very challenging market conditions and continued low expected aluminium prices. At the same time, Hydro will continue to invest substantial amounts in Qatalum, Hydro's 50 percent-owned green-field smelter in Qatar. In

order to reduce cash outflow and funding requirement in the currently challenging markets, Hydro has initiated a wide range of corrective actions across all business areas and staff functions. These include reductions of capital expenditures, production cuts at Hydro's primary aluminium, re-melting and alumina operations, and the introduction of or extension of already existing manning and cost reduction programs. See section Year in review, Key developments earlier in this report for more information on these matters.

Volatility in market prices of aluminium, raw materials and exchange rates as well as working capital developments represent factors which add uncertainty to the development of our cash position. Furthermore, due to the uncertain economic conditions, future production and sales volumes as well as the extent and effects of the ongoing rationalization projects are difficult to predict and thereby add additional uncertainty. See section on Risk review including Risk factors and Market and commercial risk in this report for additional information on risk including sensitivities to aluminium price and currency rate fluctuations.

## Long term borrowing and funding requirements

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in July 2014. There was no borrowing under this facility as of 31 December 2008. See note 30 Long-term debt for additional information. In addition, on 6 March Hydro signed a new EUR 750 million revolving credit facility with a syndicate of international banks.

Planned capital expenditures and other potential financing requirements will in 2009 to a large degree be covered by external funding. Hydro has the ambition to access the national and international bond markets as its primary source for external funding of long-term capital requirements. The existing revolving facilities will continue to serve as a back-up for unforeseen funding requirements and primarily be maintained as a reserve.

## Contractual and other 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 information see notes 15 (Operating leases), 30 (Long-term debt), 39 (Contractual commitments and other commitments for future investments) and 31 (Provisions) to Hydro's consolidated financial statements.

In addition, Hydro is contingently liable for certain guarantees amounting to NOK 10.8 billion mainly in respect of jointly controlled entities and in connection with the sale of companies. This amount is excluded from the table below and none of these amounts are recorded in the consolidated balance sheet as of the end of 2008. See note 37 – Guarantees to Hydro's consolidated financial statements for a description of such guarantees.

### Contractual and non-contractual obligations

NOK million	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt including interest	398	105	278	12	3
Operating lease obligations	3,338	400	640	528	1,770
Unconditional purchase obligations	45,590	4,766	6,227	5,857	28,740
<b>Contractual commitments for:</b>					
- PP&E	1,066	741	302	24	-
- Other future investments	6,948	4,648	2,299	-	-
Short-term and long-term provisions <sup>1)</sup>	4,175	2,060	485	378	1,252
Total contractual and non-contractual obligations	61,515	12,720	10,231	6,799	31,765

1) Short-term and long-term provisions includes certain accruals and provisions which are non-contractual but relate to liabilities or obligations that are measurable and expected to occur in future periods.

## Employee retirement plans

Hydro's employee retirement plans consist primarily of defined benefit pension plans. As of 31 December 2008, the projected benefit obligation (PBO) associated with Hydro's defined benefit plans was NOK 23.4 billion. The fair value of pension plan assets was NOK 12.4 billion, resulting in a net unfunded obligation relating to the plans of NOK 11.1 billion. In addition, termination benefit obligations and other pension obligations amounted to NOK 0.8 billion, resulting in a total net unfunded pension obligation of NOK 11.8 billion. Hydro's net pension cost for 2008 amounted to NOK 0.8 billion. Cash outflows from operating activities in 2008 regarding pensions amounted to approximately NOK 0.7 billion. See note 32 Employee retirement plans in the Notes to the consolidated financial statements for more information on Hydro's employee retirement plans.

## Minority interest and shareholders equity

Minority interest was NOK 1,333 million as of 31 December 2008, compared with NOK 959 million at the end of 2007. Total Shareholders' equity was NOK 54,141 million at the end of 2008, compared with NOK 55,008 million at the end of 2007. The main items impacting shareholders' equity in 2008 included net income, dividends and currency translation adjustments.

See the Consolidated statements of changes in equity and note 34 Shareholders' equity to Hydro's consolidated financial statements for a detailed reconciliation of shareholders' equity.

## Investments

Investments in 2008 amounted to NOK 9,012 million, compared with NOK 5,206 million in 2007.

The major investments for Hydro's Aluminium Metal busi-

## Investments

### Investments <sup>1)</sup>

NOK million	2008	2007
Aluminium Metal	6,086	3,541
Aluminium Products	1,980	866
Energy	719	233
Corporate, other and eliminations <sup>2)</sup>	227	566
Total	9,012	5,206

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) Including investments in Polymers activities in 2007, reported as discontinued operations.

ness in 2008 included the development of the Qatalum primary aluminium plant in Qatar and the third expansion of the alumina plant Alunorte in Brazil which was completed in the third quarter. Investments for Aluminium Products in 2008 were mainly related to the acquisitions of Expral and Alumafel in Spain in addition to maintenance activities.

The major investments for Hydro's Aluminium Metal business in 2007 included the development of Qatalum and the ongoing third expansion of the alumina plant Alunorte in Brazil. Investments for Aluminium Products in 2007 were mainly related to developing and maintaining the efficiency of our operations.

The major investments for Hydro's energy business in 2008 and 2007 included, through our ownership interests, the development of a pilot plant for production of flexible thin film materials at Ascent Solar Technologies Inc. and an ingot pulling and wafering plant at Norsun AS.

Capital expenditures excluding Qatalum have been reduced by about 40 percent from the 2008 level and are estimated to be approximately NOK 3.5 billion for 2008.

### Return on average capital employed (RoCE)

Underlying RoCE was 6.8 percent for 2008 compared to 16.2 percent for 2007.

Hydro uses RoCE to measure the performance for the group as a whole and within its operating segments, both in

absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time, in each of its capital intensive businesses, and the operating results of its business segments.

RoCE is defined as "Earnings after tax" divided by average "Capital Employed." "Earnings after tax" is defined as "Earnings before financial items and tax" less "Adjusted income tax expense." Because RoCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense excludes the effects of items reported as "Financial income (expense), net". "Capital Employed" is defined as "Shareholders' Equity" including minority interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments." Capital Employed can be derived by deducting "Cash and cash equivalents," "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets." The two different approaches yield the same value.

Underlying RoCE is defined as "Underlying earnings after tax" divided by "Capital Employed." "Capital Employed" is not adjusted for balance sheet effects of items excluded from underlying EBIT.

Following are tables including the elements used to calculate underlying and reported RoCE for Hydro and its three main operating segments for the periods presented:

### Return on Average Capital employed – Hydro

NOK million	Underlying		Reported	
	2008	2007	2008	2007
EBIT	6,009	10,153	1,194	9,025
Adjusted Income tax expense <sup>1)</sup>	(2,765)	(2,483)	(842)	(2,177)
EBIT after tax	3,244	7,670	352	6,848



NOK million	31 December 2008	31 December 2007	31 December 2006
Current assets <sup>2)</sup>	<b>35,126</b>	35,499	38,062
Property, plant and equipment	<b>29,338</b>	26,750	32,151
Other assets <sup>3)</sup>	<b>25,711</b>	17,724	18,639
Other current liabilities	<b>(22,175)</b>	(19,331)	(21,383)
Other long-term liabilities <sup>4)</sup>	<b>(17,394)</b>	(16,398)	(17,066)
Capital employed	<b>50,607</b>	44,244	50,403

Return on average Capital Employed (RoaCE)	Underlying		Reported	
	2008	2007	2008	2007
Hydro	<b>6.8%</b>	16.2%	<b>0.7%</b>	14.5%
Aluminium Metal	<b>7.4%</b>	22.3%	<b>4.2%</b>	22.5%
Aluminium Products	<b>4.5%</b>	5.8%	<b>(6.7)%</b>	4.7%
Energy	<b>20.2%</b>	16.3%	<b>16.4%</b>	18.0%

1) Tax from financial items of NOK (1,407) million and NOK 898 million excluded for 2008 and 2007, respectively.

2) Excluding Cash and cash equivalent and Short-term investments.

3) Including Deferred tax assets.

4) Including provisions for pension and Deferred tax liabilities.

## ADDITIONAL INFORMATION

The following tables present additional financial information for Hydro's sub-segments with-in the Aluminium metal and Aluminium products business areas and additional financial information for the Energy business area.

### Aluminium Metal

#### Revenue

NOK million	2008	2007
Bauxite and Alumina	<b>4,411</b>	4,176
Primary Aluminium	<b>34,147</b>	37,164
Commercial	<b>58,334</b>	64,898
Other and eliminations	<b>(42,195)</b>	(44,646)
Total	<b>54,697</b>	61,592

## External revenue

NOK million	2008	2007
Bauxite and Alumina	-	3
Primary Aluminium	2,090	2,551
Commercial	35,244	37,952
Other and eliminations	-	-
<b>Total</b>	<b>37,334</b>	<b>40,506</b>

## Share of profit in equity accounted investments

Bauxite and Alumina	(320)	854
Primary Aluminium	(170)	121
Commercial	(1)	-
Other and eliminations	-	-
<b>Total</b>	<b>(491)</b>	<b>975</b>

## Depreciation, amortization and impairment

Bauxite and Alumina	-	-
Primary Aluminium	(2,711)	(1,899)
Commercial	(140)	(287)
Other and eliminations	-	-
<b>Total</b>	<b>(2,852)</b>	<b>(2,186)</b>

## EBIT

Bauxite and Alumina	(433)	1,011
Primary Aluminium	1,820	6,281
Commercial	399	802
Other and eliminations	365	269
<b>Total</b>	<b>2,151</b>	<b>8,365</b>

## EBITDA

Bauxite and Alumina	96	1,029
Primary Aluminium	4,635	8,208
Commercial	540	1,090
Other and eliminations	365	269
<b>Total</b>	<b>5,636</b>	<b>10,597</b>

## Underlying EBIT

Bauxite and Alumina	334	681
Primary Aluminium	2,666	6,552
Commercial	435	946
Other and eliminations	140	84
<b>Total</b>	<b>3,575</b>	<b>8,265</b>

## Underlying EBITDA

NOK million	2008	2007
Bauxite and Alumina	352	699
Primary Aluminium	4,637	8,479
Commercial	540	1,090
Other and eliminations	140	84
<b>Total</b>	<b>5,668</b>	<b>10,353</b>

## Aluminium Products

### Revenue

NOK million	2008	2007
Rolled Products	23,865	25,327
Extrusion	20,379	20,421
Automotive	4,728	6,506
Other and eliminations	(793)	(855)
<b>Total</b>	<b>48,180</b>	<b>51,399</b>

### External revenue

Rolled Products	23,527	24,853
Extrusion	19,873	19,994
Automotive	4,618	6,375
Other and eliminations	-	(56)
<b>Total</b>	<b>48,018</b>	<b>51,166</b>

### Share of profit in equity accounted investments

Rolled Products	(52)	36
Extrusion	19	7
Automotive	(2)	2
Other and eliminations	-	-
<b>Total</b>	<b>(35)</b>	<b>46</b>

### Depreciation, amortization and impairment

Rolled Products	(604)	(481)
Extrusion	(705)	(448)
Automotive	(599)	(279)
Other and eliminations	-	-
<b>Total</b>	<b>(1,908)</b>	<b>(1,207)</b>

## EBIT

NOK million	2008	2007
Rolled Products	<b>288</b>	345
Extrusion	<b>416</b>	806
Automotive	<b>(726)</b>	539
Other and eliminations	<b>(1,427)</b>	(592)
<b>Total</b>	<b>(1,450)</b>	1,098

## EBITDA

Rolled Products	<b>949</b>	882
Extrusion	<b>1,121</b>	1,254
Automotive	<b>(127)</b>	818
Other and eliminations	<b>(1,427)</b>	(592)
<b>Total</b>	<b>516</b>	2,361

## Underlying EBIT

Rolled Products	<b>652</b>	562
Extrusion	<b>668</b>	852
Automotive	<b>(326)</b>	(67)
Other and eliminations	<b>(6)</b>	5
<b>Total</b>	<b>988</b>	1,352

## Underlying EBITDA

Rolled Products	<b>1,184</b>	1,099
Extrusion	<b>1,121</b>	1,300
Automotive	<b>(97)</b>	209
Other and eliminations	<b>(6)</b>	5
<b>Total</b>	<b>2,203</b>	2,613

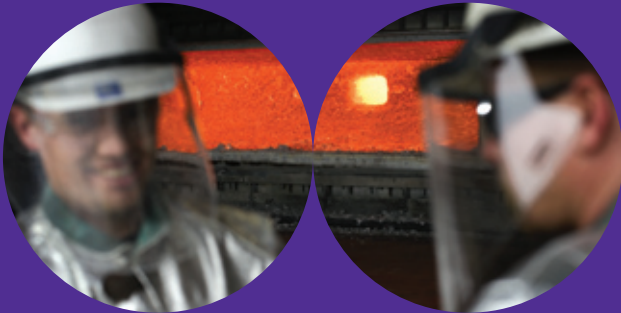
## Energy

### Total revenue

NOK million	2008	2007
Revenue	<b>7,915</b>	6,468
External revenue	<b>2,353</b>	1,268
Share of profit in equity accounted investments	<b>(391)</b>	(24)
Depreciation, amortization and impairment	<b>(103)</b>	(97)
<b>EBIT</b>	<b>1,471</b>	1,303
<b>EBITDA</b>	<b>1,872</b>	1,432
<b>Underlying EBIT</b>	<b>1,736</b>	1,184
<b>Underlying EBITDA</b>	<b>1,849</b>	1,313

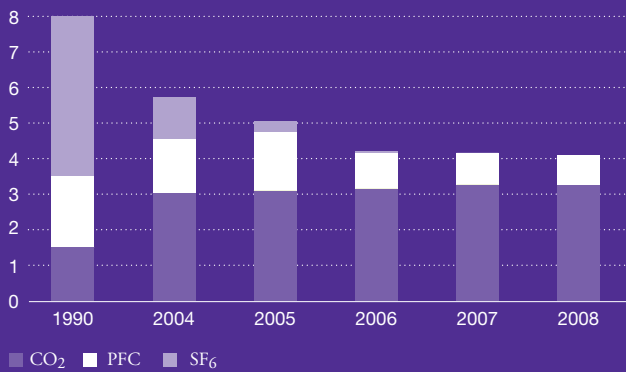
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# Viability performance



## Direct greenhouse gas emissions

Million tonnes CO<sub>2</sub>-equivalents (CO<sub>2</sub>e)



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## QUICK OVERVIEW

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

In our terms, pursuing viability comprises a specific way of bridging viability and business, and a set of performance areas where we measure our progress.

This is what our viability performance reporting is about.

First, we describe The Hydro Way, a set of guiding principles that govern our activities and underpin our approach to viability. Next, we report on our viability performance in 2008 according to a set of areas that capture our most important viability issues while corresponding to generally acknowledged domains of reporting.

## VIABILITY – THE HYDRO WAY

The Hydro Way has powered our company’s success from the day we began in 1905. Today, it lives on in the way we work and the decisions we make. It is our ‘reason for being’ beyond just making money. It is our way of running a successful business. In the end, it is what brings us closer – closer to the world we operate in and closer to each other.

The Hydro Way is based on a set of principles: our mission, talents and values, which help us set our priorities and serve as a reference point when questions arise. Our mission describes our higher purpose and is supported by our talents and values.

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

Inspired by our five core values – courage, respect, cooperation, determination, foresights – our talents reflect what we do and how we go about it:

- Building businesses that matter
- A passion for social commerce
- Always looking for commercial solutions
- Making the most out of what’s available

In order to ensure a uniform high standard, Hydro’s corporate directives lay down requirements. They are compulsory for all parts of the organization and build on The Hydro Way. The directives address various issues including strategy and business planning, economy and finance, risk management, organizational and employee development, health, safety, security and environment (HSE), as well as ethics and social responsibility.

The Hydro Way forms our basis for defining what is material to include in our viability reporting.

Since 2006 Hydro has headed the aluminium sector of the

Dow Jones Sustainability Index (DJSI). We have been listed on DJSI every year since the start of the index in 1999. We are also listed on the corresponding UK index, FTSE4Good.

## ENERGY AND CLIMATE CHANGE

Climate change is challenging governments, businesses, communities and individuals. We have for several decades monitored our impact on the environment as part of a holistic approach to value creation. The increasing urgency of the situation has led us in 2008 to establish a thorough climate strategy with a revised set of priorities to guide our business to address this challenge. These priorities are an integral part of our overall business strategy including reducing the environmental impact of our own production activities as well as taking advantage of business opportunities by enabling our customers do the same. Some of the measures we pursue include:

- Using viable energy sources
- Reducing energy consumption and emissions in production
- Reducing CO<sub>2</sub> emissions through the use of our products
- Increasing recycling of aluminium
- Developing our solar energy business

Renewable energy is our preferred choice. About two-thirds of the electricity used in our primary aluminium production is currently from renewable sources, and we are today the second largest hydropower producer in Norway with a regular production of 9.4 TWh and a production of 11.4 TWh in 2008. With the building of our Qatalum smelter, the share of renewable energy will decrease. Still, we intend to increase the amount of renewable energy in our portfolio. We will build on our long experience as a hydropower producer to find more



*Our mission*



*Our talents*



*Our values*

renewable sources around the world. Where we must rely on coal-fired power plants in new projects, we will plan for carbon capture and storage solutions.

From 1990, total greenhouse gas emissions from our ownership equity have decreased from 12.5 million tonnes CO<sub>2</sub> equivalents (CO<sub>2</sub>e) to 6.4 million tonnes CO<sub>2</sub>e in 2008. This is a 49 percent decrease.

During the same period we have reduced specific greenhouse gas emissions from primary production by 58 percent. We will reduce this further in coming years, and our goal is a specific direct emission of 1.71 t CO<sub>2</sub>e/t aluminium in 2012. This is a further improvement of 20 percent from the current level of 2.12 t CO<sub>2</sub>e/t aluminium. Our vision is to move towards zero emissions. Although we realize that such an ultimate target is not achievable, we retain the vision of zero emissions as an incentive for us to constantly pursue step-change technology development.

In 2008 we consumed an average of 14.5 kWh electric power for the production of one kilogram aluminium. The current technology being tested, HAL4e, is aiming at an energy consumption of 12.9 kWh per kilogram aluminium, see page 73. Our next-generation technologies are advancing us further, increasing output while reducing energy consumption and recycling energy from the production process. These technologies also address the challenge of capturing greenhouse gases from the production process.

We work closely with our customers to develop products that save energy and reduce emissions. Lighter cars result in fuel savings and lower emissions on the road. Aluminium facades enable lower operating costs and the possibility of zero-energy buildings. Lighter aluminium products and packaging reduce transport costs and emissions.

## Remelting and recycling

Aluminium can be recycled infinitely without any degradation of quality. Recycling aluminium requires only roughly five percent of the initial energy used to produce primary aluminium. This makes aluminium a viable material for the future.

Hydro is one of the world's largest remelters of aluminium, with a network of nearly 30 facilities worldwide. We remelt process scrap both from other companies and from our own production, and in 2008 we remelted 1.5 million tonnes of aluminium, including the recovery of coated and contaminated metal. We see our expertise in remelting as a good basis for expansion in the coming years.

In Europe, 85 percent of the aluminium in automotive applications and 95 percent of the aluminium in buildings is presently recycled at end-of-life. The recycling of beverage cans is within a range of 30 to more than 95 percent depending on the country, with an European average of 58 percent. This clearly demonstrates the continuing need for efficient recycling schemes. Hydro participates in several projects together with our customers in order to improve recycling rates.

We facilitate product design and alloy development to enable easier recycling after use. All our automotive products are

### 2008 target

- Complete our new climate strategy, including setting specific targets

### 2008 result

- Developed a thorough climate strategy with a revised set of priorities
- The electrolysis process of aluminium production required 14.5 kWh/kg aluminium
- The electrolysis process of aluminium production emitted 2.12 t CO<sub>2</sub>e/t aluminium

### 2009

- Continue working towards our climate ambitions

### Ambition

- Energy consumption of new HAL4e technology at 12.9 kWh/kg aluminium
- Aluminium production emits 1.71 t CO<sub>2</sub>e/t aluminium in 2012
- Reduce specific climate gas emissions from rolling processes by 20 percent from 2007 to 2013
- Substantial long-term reduction in energy consumption per kg aluminium produced

## Hydro provides solutions

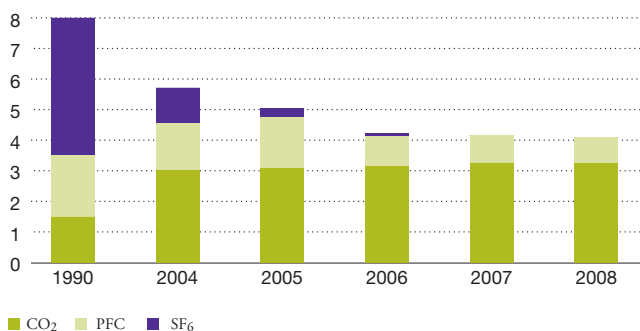
A company I would like to single out here is Hydro. The fact that the company is leading the field in terms of modern, climate friendly technology and production is especially important because Hydro is a global company. Their efforts therefore have a very wide-reaching and positive impact.

Stein Lier-Hansen,  
 Managing director, Federation of Norwegian Industries

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

## Direct greenhouse gas emissions

Million tonnes CO<sub>2</sub>-equivalents (CO<sub>2</sub>e)

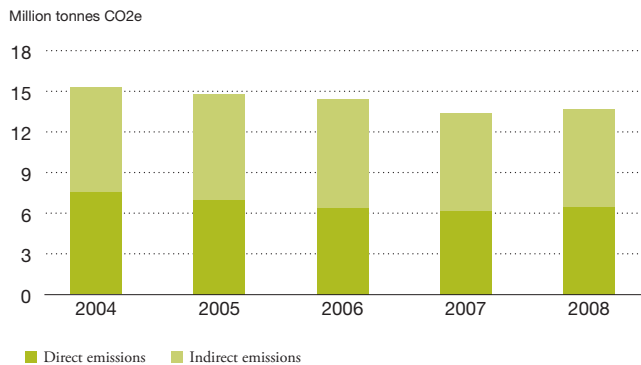


Direct greenhouse gas emissions from Hydro's consolidated activities.

systematically labelled in order to simplify the future recycling of materials.

In 2008, Hydro invested more than 25 million euro in new aluminium recycling furnaces in Hamburg and Neuss, Germany. Together, these furnaces will have a recycling capacity of 100,000 tonnes aluminium per year.

## Direct and indirect greenhouse gas emissions



Greenhouse gas emissions based on Hydro's ownership equity as per December 31, 2008. Indirect emissions are based on electricity consumption and IEA "CO<sub>2</sub> Emissions from Fuel Consumption" 2005 factors.

## Development in solar energy

Solar energy is one of several alternatives to reduce the world's reliance on fossil fuels. Our experience in metals, industrial development and large-scale project management provides a strong platform for our solar business, which today spans much of the solar value chain. Our solar ventures extend from raw materials and solar cell technologies to components and complete systems for solar installations.

Hydro has currently ownership interests in three solar companies – NorSun, Hycore and Ascent Solar. NorSun aims to be a world leader in high-efficiency solar cells, with production plants in Finland and Norway. Hycore is working on a new process for producing solar-grade silicon for use in solar cells. A pilot plant is under construction in Porsgrunn, Norway.

Ascent solar is developing state-of-the-art, thin-film photovoltaic materials that can be applied to irregular and mobile surfaces. An exciting development in solar energy components is emerging from the cooperation between Ascent Solar and our building systems business, where the development of aluminium building components with integrated solar energy capacity is already well underway.

Hydro is also an investor in the Norwegian venture fund Convexa, concentrating on active investments in new solar energy technologies.

## RESOURCE MANAGEMENT

In addition to climate change and energy consumption, our main environmental challenges are related to waste, emissions and biodiversity. Our ambition is to minimize our environmental footprint through the life-cycle of our products.

In order to meet our environmental challenges in an efficient way, our environmental performance indicators were revised in 2008. The indicators differ between the various parts

of the production system due to the inherent differences between, for example, large smelters and small extrusion plants. Common for all indicators are resource efficiency and the reduction of waste and emissions. The indicators help the organization to measure status and improvements, as well as to focus on the most important issues. In our primary production, environmental aspects covered by the KPIs are typically connected to energy and water consumption, waste and waste treatment, anode consumption and emissions. Our primary metal business has set a target for an eight-percent reduction in environmental footprint from 2008 to 2009, using the environmental performance indicators as a basis.

## Minimizing waste

Hydro's goal is to minimize the amount of waste produced and then reuse or recycle it. Waste minimization is beneficial to us both from an environmental and economic perspective. Our plants continue their efforts to reduce waste and find sustainable solutions in line with national regulations. In areas of common interest where synergies can be attained, best practices are established across organization lines. We will develop our waste strategy further in 2009.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste and is of major concern. In 2008, Hydro produced 40 445 tonnes of SPL, a 22-percent increase from 2007. The increased amount of spent potlining in 2007 and 2008 is a result of the Slovalco smelter in Slovakia was included in our figures and increased relinings at Sunndal and Karmøy in Norway. The SPL amount is the equivalent of 14 percent of our total waste production and 27 percent of our hazardous waste production. We are working on extending the life of potlining in order to reduce the total amount of SPL. We have established good long-term solutions to deal with SPL. In 2008, the Norwegian smelters and NOAH, the company which takes care of our SPL waste in Norway, have performed several tests regard-

## Spent potlining



The increased amount of spent potlining in 2007 and 2008 is a result of the Slovalco smelter in Slovakia was included in our figures and increased relinings at Sunndal, Norway as the first cells in the new line were due for relining and increased relining at Karmøy, Norway.



ing the recycling of SPL. This co-operation continues in 2009. Our joint venture Qatalum is aiming at “no-SPL-to-landfill” through a joint effort between some of the Gulf smelters with a view to using the SPL in the cement industry.

Hydro has formalized a cooperation for 2009 with an external partner to find applications for production waste from the Norwegian smelters. This cooperation aims at upgrading the streams to products that can be applied as raw materials in other industries.

In Uphusen, Germany, our extrusion plant produced aluminium hydroxide sludge as waste. As a result of process changes, the aluminium hydroxide is now separated and sold as a by-product. This has reduced the amount of waste considerably and even resulted in a solution that is profitable.

## Biodiversity and water

Hydro holds minority shares in bauxite mining and alumina production. These activities take place in areas with a high level of biodiversity. Through our ownership, we participate in projects that aim to preserve biodiversity. At MRN in Brazil, forests are replanted using local seeds after the bauxite has been extracted. The same is done at Alunorte on the red mud deposits. At Alpart at Jamaica, the red mud deposits represent a challenge. Together with the operating company and the other owner, we are working on finding solutions that are technically and economically feasible.

Biodiversity might also be a challenge in new development projects and is therefore an important part of the environmental prescreening carried out in the early phase of such projects. We have also in 2008 rejected projects due to the inherent biodiversity challenges.

We are constantly evaluating the impact of our activities on the biodiversity of surroundings areas. This has resulted in our monitoring the impact on aquatic life in rivers near to our hydropower plants. At Rjukan, Norway, a rehabilitation project comprises re-establishment of the river Måna in 2008 and improvement of fish habitats in 2010-2011.

The freshwater situation might also be a challenge in our operations and projects. However, local initiatives have shown that with simple measures and an increased focus, substantial water savings are achievable. For example at our extrusion plant in Ornago, Italy, an information campaign resulted in water savings of 30 percent from 2007 to 2008. We have increased our focus on water and will during 2009 perform a systematic mapping of our water situation in order to identify areas for improvement.

## Emissions

Hydro has achieved significant emission reductions over the years. The major achievements are related to greenhouse gases as well as dust and particle emissions. The closure of our former Söderberg lines has positively affected plant emissions of PAH, greenhouse gases, dust, particles and fluoride. In the last five years, our emissions of fluoride, and PAH per tonne primary aluminium produced, have been reduced by 26 and 51 percent, respectively.

### 2009

- Reduce the environmental footprint in our Metal business with eight percent from 2008
- Systematic mapping of our water situation in order to identify areas for improvement

### Ambition

Minimize our environmental footprint through the life-cycle of our products.

## REACH

Since the EU regulation on chemicals, REACH, entered into force on June 1, 2007, we have been working actively to ensure we are in line with this legislation. A project group has been established at corporate level, and implementation is under way in each business sector. We have pre-registered the substances we manufacture and import, so that we benefit from the transitional periods offered by REACH. Together with our suppliers and customers we are working to ensure the continuity of supply of our products into the future.

## INTEGRITY AND HUMAN RIGHTS

We have zero tolerance of corruption and human rights violations. If non-conformities are registered, our policy is to demonstrate openness and learn from negative experiences.

The annual business planning process and inclusion of key performance indicator actions are used to implement the integrity program as well as other corporate responsibility topics, see Note 11. Requirements have been drawn up regarding how corporate responsibility should be taken into account in business development, investments and during the execution of projects.

Employees may report any breaches – or perceived breaches – of Hydro’s requirements through the whistleblower channel. A number of cases were reported in 2008, and all cases were investigated and some resulted in disciplinary actions and dismissals. Twice every year Hydro’s internal auditor informs the corporate management board about the utilization of the channel. As required, the anonymity of each case is preserved. There is still a need to further improve the accessibility to the whistleblower channel. In 2009 we will evaluate how we can improve this. As from 2009, Hydro’s internal audit unit reports directly to the company’s Board to secure the adequate level of independency that may be needed to fulfil this role.

## Countering corruption

Hydro has had global ethical requirements since 1995. In 2003 our current Code of Conduct was approved by the Board of Directors. Based on this, the Hydro Integrity Program was launched in 2005 to prevent corruption and human rights violations connected to our activities. The program includes risk mapping, tools and training. To date, 2 600 employees have

### *Critic and team player at the same time*

Amnesty International has had a partnership agreement with Hydro concerning human rights for many years. In our opinion this has been a positive experience, characterized by openness and an inclusive approach. Based on our experience we would like to see this partnership continue at the same level of activity as previously, and we would like to be involved in new projects as they progress. We intend to be a critic and team player at the same time.

Beate Ekeløve-Slydal,  
Political adviser, Amnesty International Norway

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

#### **2008 targets**

- No instances of corruption or human rights violations
- Implementation of Integrity Due Diligence Guidelines
- Hydro Integrity Program effectiveness evaluated through self-assessment and external review
- Roll-out of interactive e-learning on anticorruption and human rights

#### **2008 results**

- No known instances of corruption or human rights violations
- Integrity Due Diligence Guidelines implemented
- Implementation of Hydro Integrity Program evaluated through self-assessment. External review not performed due to establishment of guideline for non-financial compliance
- Interactive e-learning including anticorruption and human rights rolled out for all employees
- Libya investigation report submitted to Økokrim

#### **2009**

- No instances of corruption
- No instances of human rights violations
- Hydro Integrity Program review
- Review of CSR in supply chain management

#### **Ambition**

All important suppliers should comply with our supplier standards. All our units should comply with our anti-corruption, human and labor rights standards, and report their performance. We intend to be a preferred partner worldwide because of our responsible business operations.

participated in the training program, while 120 employees from certain joint-venture partners have also taken part in the program. Training includes dilemma discussions anti-corruption and human rights. The program will be revised during 2009.

In 2008 we established new guidelines for non-financial compliance. In Hydro, compliance is defined as adherence to applicable laws and regulations worldwide as well as Hydro's steering documents. The guidelines have been established to assist line management to adhere to Hydro's compliance requirements. Special emphasis is made on reducing the risk of non-compliance within anti-corruption, competition, and health, security, safety and environment.

An interactive e-learning program on corporate requirements was introduced in 2008. The program is mandatory for

all employees and includes anti-corruption training and information about our whistleblowing channel. See page 70 for more information.

In the process leading up to the closing of the merger of Hydro's oil and gas activities with Statoil, October 1, 2007, questions arose concerning the Libyan petroleum assets Hydro acquired from Saga Petroleum in 1999. The questions related to Hydro's handling of certain contracts in Libya. The Board of Directors initiated an internal investigation headed by attorney-at-law Jan Fougner supported by the US law firm Shearman & Sterling LLP. Fougner reported to a subcommittee of the Board of Directors, consisting of chairperson of the board Terje Vareberg and Finn Jebsen. The internal investigation team was coordinated with a parallel investigation in StatoilHydro. The Hydro investigation team's report gave reason to conclude that certain aspects of the handling of the Libyan contracts had been in breach of Hydro's ethical requirements. According to the report, and as acknowledged by the Board, Hydro should have realized that certain payments were problematic. The investigation reports were submitted to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) on October 7, 2008.

### **Promoting human rights**

It is essential for us to avoid the use of child labor and forced labor, not just in Hydro's activities, but also in those of our suppliers and collaborating partners. We are concerned about fundamental labor rights, such as freedom of association, minimum wage requirements, and the regulation of working hours. Hydro does not tolerate discrimination on the basis of gender, race, national or ethnic origin, cultural background, social group, disability, family status, age, or political views.

In 2008 we measured, by a company-wide self-assessment, the implementation of the Hydro Integrity Program including respect for human rights. The self-assessment confirms that employees are made aware of basic human rights and working conditions.

It is necessary to employ security staff in some areas, including armed guards for the protection of personnel, property and business activities. Hydro is a signatory to the Voluntary Principles on Security and Human Rights. No negative incidents in connection with our use of security staff were registered in 2008.

The rights of the indigenous population or other minority groups is one of several human rights issues that are addressed at an early stage in our projects. Hydro has taken a 75-percent stake in a joint venture with Australian exploration company UMC. The purpose of the cooperation is to further explore opportunities for recovering bauxite and producing alumina in the Kimberley region of Western Australia. Successful exploration and subsequent mining is dependent on cooperation and agreements with the traditional (aboriginal) landowners of the area. The project is in dialogue with the different stakeholder groups.

**Total payments (taxes, fees etc.) to host governments <sup>1)</sup>**

NOK million	2008	2007	2006
Australia	0.4	6	-
Brazil	139	89	127
Jamaica	90	81	79

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, signature bonus, license fees, rental fees, entry fees etc. The reporting is based on the principles in Extractive Industries Transparency Initiative (EITI). The table is included in the limited level of assurance review of Hydro's viability performance reporting 2008, but not in the financial audit.

**Corporate responsibility in the supply chain**

We are continuously working on the implementation of corporate responsibility requirements with respect to our suppliers. The requirements are implemented as part of the supplier prequalification process, bid evaluation and contract execution phases. In 2008 the implementation, effectiveness and suitability of the existing Supplier Declaration was evaluated. The evaluation concluded with certain improvements to Hydro's policy and contractual requirements towards suppliers. Implementation of such changes will begin in 2009.

**Voluntary commitments**

Our most important voluntary commitments are our support of the principles set out in the Universal Declaration of Human Rights and the UN Global Compact. We also support the OECD's Guidelines for Multinational Enterprises, the Voluntary Principles on Security and Human Rights, Transparency International's Business Principles for Countering Bribery (BPCB), the World Economic Forum's Partnering Against Corruption Initiative (PACI), and the Extractive Industries Transparency Initiative (EITI). We voluntarily report payments to authorities related to exploration and extraction activities for bauxite, as well as operations for the production of aluminium oxide, in accordance with EITI's principles. We are also cooperating with several organizations, including TRACE (Transparent Agent and Contracting Entities), Transparency International (TI), and Amnesty International (AI). Learn more about how we work with external organizations at [www.hydro.com](http://www.hydro.com)

According to our internal directives, Hydro is not permitted to make financial contributions to political parties.

**COMMUNITY IMPACT**

Ensuring responsible conduct in relation to society at large is an important element in restructuring processes, even more so during difficult times.

Building the new aluminium plant Qatalum in Qatar has been a core activity throughout 2008. Towards the end of the year, the emerging financial crisis has forced us to prepare for a new global situation.

**Demanding restructuring**

In recent years we have accomplished several demanding restructuring processes worldwide, in line with The Hydro Way. These experiences are important to build on as we are now in the middle of even more challenging restructuring.

The demanding market situation, see page 8, has resulted in capacity reductions and closures at Karmøy, Norway and Neuss, Germany as well as in our downstream operations. About 3,500 employees are directly affected by the reductions.

In our downstream operations, cost cuts and manning reductions have been implemented in response to the decreasing market. This includes reduced shifts, lay-offs and other cost-cutting initiatives. Our automotive component activities

**2008 targets**

- Effective restructuring carried out with respect to employees and their communities

**2008 results**

- Substantial restructuring processes initiated in cooperation with employees and local communities

**2009**

- Responsible restructuring carried out with respect to employees and their communities

**Ambition**

We intend to be a preferred partner worldwide due to our responsible business operations.

*Porsgrunn emerges stronger than before*

Many were saddened and angry when the decision was made to close down the magnesium production plant – Hydro was for most people synonymous with safe jobs. Even though a fragmentation has taken place in subsequent years, we've also gained greater diversity, and industry in the Grenland region has emerged stronger than it was before.

Øystein Beyer,  
Mayor of Porsgrunn, Norway

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

and operations in the USA have been severely hit. The difficult market situation affected our operations in the USA much earlier than in the rest of the organization. Since 2006 we have almost halved the number of full-time equivalents there, while sales volumes have been reduced by nearly 40 percent. All reductions involving union employees have been communicated in advance to the unions and have followed the lay-off requirements specified in each collective bargaining agreement. Non-union lay-offs have been handled fairly, objectively and in a manner that reduces the risk of discrimination as it pertains to age, gender, race and veteran status, while preserving the competence needed at each plant.

Early 2009 a project was established to review central staff functions. The ambition is to develop a leaner corporate center with strong competence in prioritized areas and at the same time attain cost-reductions.

## New projects

When planning new projects, we map environmental and social impact. Our analyzes follow the Equator Principles, and thus reflect the World Bank's and the International Finance Corporation's (IFC's) requirements regarding information, consultation and investigation of the project's environmental and social impact including human rights, as well as an action plan and proposed initiatives. Dialogue with affected groups are used as input to plans detailing our environmental and social responsibilities. We strive to act in an open and credible manner, and gather views from interested parties with the aim of achieving a common understanding of the decisions that are made.

### *Keep up the pressure on good projects*

Hydro's challenge is to show it is Söderberg that is being closed down – and not all of Hydro at Karmøy. The company will continue to play a major role there and keep up the pressure on all the good, forward-looking projects it is currently running. As employees we need to feel that Hydro has its focus on those who are staying on – as well as giving sufficient attentiveness to those who have to leave the company.

Sten Roar Martinsen,  
Employee-elected member of Hydro's Board representing the Norwegian Confederation of Trade Unions (LO)

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

### *Employee dialogue in Qatar*

The Qatari labor act does not allow migrant workers to participate in local employee organizations.

The Qatalum project facilitates the employee dialogue through a variety of measures, such as informal on-site dialogue and a message-/suggestion-box system. On a few occasions contractor employees have demonstrated their dissatisfaction on issues such as the interpretation of work contracts. These issues have been solved through dialogue between the involved parties.

Hydro holds a 20 percent share in a planned alumina refinery Companhia de Alumino do Pará (CAP) in Brazil. The remaining share is owned by the Brazilian mining company Vale. Before entering into the project, we initiated an independent review of the resettlement process. The review concluded that the resettlement process had been conducted in compliance with e.g. the Equator Principles and the International Finance Corporation Performance Standards. The resettlement involved some 600 persons or 120 families. Most families have through a survey stated that their quality of life is unchanged or improved after the relocation. The affected families will be followed-up so that potential needs for improvements are assessed and implemented.

In 2006, Qatar Petroleum and Hydro agreed to set up a 50/50 joint-venture project, Qatalum, for the development, construction and operation of a major aluminium plant in Qatar. Production is scheduled to start up at the turn of the year 2009/2010. Qatalum aims to be a future catalyst for growth in the manufacturing sector in Qatar. This includes the purchase of goods and services. Hydro is responsible for the construction of the plant.

As indicated by the social impact assessment (SIA) prior to construction, major challenges have been linked to the housing of migrant workers. A new Construction Village was built to house up to 10,000 workers on behalf of Qatalum contractors, catering also for various religious and leisure needs as well as including a medical clinic. All are free-of-charge for the workers. The remaining workers are housed at other camps leased by the project or in the contractors' own facilities. All camps are inspected by the Qatari authorities as well as by the Qatalum project, with the emphasis on conditions of safety and hygiene. In some cases it has been deemed necessary to move contractor employees to other camps.

## Dialogue with affected parties

Hydro has a long tradition of conducting a dialogue with the relevant parties affected by our activities. Regular meetings take place with unions in Norway and the works councils in, for example, Germany and France. Dialogue with customers, suppliers, other business partners, local authorities and non-governmental organizations are also important.

Hydro's guidelines for stakeholder dialogue are based on Hydro's own experience and principles developed by an international working group headed by the Institute of Social and Ethical Accountability.

As a minimum requirement, stakeholder dialogues are carried out in meetings and information campaigns etc., in accordance with the official regulations. We identify and initiate dialogue with relevant stakeholders affected by our activities to ensure that all views are aired and our decisions communicated. In major projects, stakeholder dialogue is a requirement of Hydro directives, local law, World Bank guidelines, the Equator principles etc.

Netcafé is a dialogue tool which we have used internally for many years. At regular intervals, employees are given the

opportunity to put questions over the intranet to top management. It is possible to ask questions anonymously and the answers are posted on the intranet. President and CEO to be, Svein Richard Brandtzæg, has his own blog on our intranet where employees can add their comments, also anonymously.

### *'Beyond Nashville'*

In North America slow markets, decreased production and uncertainty regarding Hydro's commitment in the US have left many employees feeling insecure, vulnerable and doubtful about Hydro's future. There was a need to engage employees at several levels and locations to share best practice and generate new ideas. A two-day kick-off meeting in Nashville, Tennessee in December 2007 included a cross-section of employees. The aim of the meeting was to engage, energize and rebuild confidence in key employees who could then act as ambassadors, returning to their plants to deliver the message of Hydro's commitment, vision, and plans for moving the organization forward. 'Beyond Nashville' continues through different initiatives at various plants around the country to make Extrusion Americas the success it can and should be by addressing areas for improvement as identified by both management and hourly work teams.

### Sponsorships and community investments

In total, Hydro spent about NOK 38 million on charitable donations, sponsorships and community investments in 2008. Important elements are our support of the Nobel Peace Center in Oslo and the Oslo Philharmonic Orchestra.

Other important contributions are the transfer of competence that takes place through our cooperation with universities and research institutions. This includes scholarships to selected PhD students within Hydro's business areas. In 2008 Hydro agreed with the Norwegian University of Science and Technology (NTNU) to sponsor two professorships for three years within the electrolysis field and within alloy development and material technology. NTNU is committed to continue the positions after the conclusion of the sponsorship period. Together with Qatalum, Hydro is sponsoring an Aluminium Faculty Chair within Chemical Engineering at Qatar University. The professor will lecture on basic aluminium production processes.

## ORGANIZATION AND WORK ENVIRONMENT

Our ambition is to be highly competitive when it comes to recruiting and keeping the best qualified personnel. We focus on developing a healthy and safe work environment, providing each employee with conditions for the continuous development of her or his expertise. Even though our systematic safety work has continued through 2008, we failed to reach our targets.

Hydro's organization is made up of some 23,000 employees in 40 countries. These employees represent great diversity, both in terms of education, experience, gender, age and cultural

background. We see this diversity as a significant resource, not least to encourage innovation. To be able to pull together as a team, we depend on an effective organization with common values and goals. Good leadership, proper organizational structure and the right tools are all essential if we are to achieve this. This includes attracting – and retaining – the right employees.

It is very important that our employees enjoy good health, and feel safe and appreciated. Healthy and motivated employees perform better and are more creative, and in that way contribute to increased profitability and better results. Total recordable injuries per million hours (TRI) decreased by 7 percent in 2008, and we had three fatal accidents. In addition we had one fatal accident in February 2009. Our ambition to improve TRI by 20 percent per year remains unchanged, and we are working on appropriate measures to make this possible.

### Effective organization

Hydro had 22,634 employees at the end of 2008, a decrease from 24,692 in 2007. The reduction is primarily a result of the divestment of Hydro Polymers to the British company Ineos and Hydro Production Partner to the German company Bil-

#### 2008 targets

- No fatal accidents. Total recordable injuries per million hours down by 20 percent
- Implement indicator for technical safety at all relevant plants and installations by end 2008

#### 2008 results

- Three fatal accidents. Total recordable injuries per million hours down 7 percent from 4.1 to 3.8
- Indicator for technical safety implemented at all relevant sites

#### 2009

- No fatal accidents
- Total recordable injuries per million hours down by 20 percent to 3.0
- Implementation of a Work Environment Risk Assessment KPI in all units

#### Ambition

Our ambition is to have no fatalities or other serious injuries and no new work-related illnesses. We will utilize HSE opportunities as a competitive edge.

### *A new look at aluminium*

The aluminum was just 'a bunch of sticks' until then. Then this customer came in and showed us how it all went together. He was so passionate about his products. It really changed the way we looked at what we were making. We treated our aluminum as a product in its own right from then on.

Dan Garrison,  
Die repairman, Hydro's plant in Monett,  
Missouri and participant in "Beyond Nashville"

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

### *'You and Hydro'*

In 2008 we introduced an interactive e-learning program dealing with Hydro's policies and the rights and obligations of Hydro's employees. It is mandatory for all employees worldwide and discusses some of the dilemmas they may meet in our daily work. The program also presents a spectrum of work situations relevant to employees all over the world and raises issues like safety, security, work environment, human rights, anti-corruption and reporting. To make the information readily available to all employees, the cases exist in 12 different languages, and can be used both individually and in team discussions. Our ambition is that all employees shall have completed the program by March 2009.

Learn more at [www.hydro.com/youandhydro](http://www.hydro.com/youandhydro)

finger Berger. Almost 500 employees were added through acquisitions in Extrusion and Building Systems.

To make Hydro an attractive employer and develop an organization capable of delivering on our high performance ambitions, we depend on having an efficient workforce with common values and goals. Good leadership, systematic recruitment, employee development and a proper organizational structure are all essential if we are to achieve this.

### *Attract, develop and retain innovative and competent employees*

Also during the recession, we see the importance of maintaining our position as an attractive employer. We continued our graduate trainee program in 2008 and have already selected most candidates for the 2009 program.

New employees are offered essential training, both in order to get to know the organization and their work tasks, and to gain the required competence within health, security, safety and environment. A special program is set up to welcome new employees giving new entrants an insight into Hydro's history, values, competitive landscape and businesses.

In order to develop and retain the right employees several tools and processes are used. Our aim is that every employee should have an annual appraisal dialogue and participate in organizational survey at least once every two years. Two key processes form the basis for organizational development in Hydro. Hydro Monitor is an employee survey where we gauge the climate in the organization at regular intervals. In 2007, when more than 10,000 employees had the opportunity to take part, the response rate was 85 percent. The next survey will be in 2009, and all employees will be asked to participate. The Hydro Leadership Development Process (HLDP) is our common tool for employee appraisal dialogue, individual development and follow-up. HLDP is widely used in the organization and is mandatory for leaders. The long-term target is to include all employees in documented appraisal dialogues.

The 50/50 joint venture Qatalum will start production at the turn of the year 2009. The roughly 1,200 new employees will go

### Share of non-Norwegian managers



through a training program, including a common part on values etc., as well as tailor-made training for the different groups. Operators will go through a total of eight weeks of training.

### *Leadership for business needs*

Developing managers able to deliver on Hydro's strategy and ambitions is key to both our leadership planning process and leadership training programs. The leadership planning process is done through our annual HLDP process. Leadership training is provided through company-wide programs as well as local courses. The Hydro Executive Program is offered to our top leaders exposed to a complexity of global businesses while the Leadership Development Program targets middle management. Training of new managers is carried out locally. In 2008 special emphasis was put on integrating and securing a global mindset in our programs. For 2009 our leadership development activities will be arranged to support our managers in their restructuring efforts.

### Share of women managers



Based in Norway, Hydro has traditionally had a relatively high share of women managers. The ratio of women at all levels in the organization is higher in Norway than in most other countries where we are present.

## Diversity

We emphasize diversity with regard to nationality, culture, gender and educational background when recruiting, and forming management teams and other working groups. Half of the shareholder-elected board members are women. Women are also represented in all business areas and most sector management teams, and we are aiming at further diversity at all levels. Most women top managers hired in the recent years have been recruited internally.

The deliberate recruitment of women is important in order to increase the proportion of women in the organization. In 2008, around 450 new employees were recruited to the Norwegian part of the organization. Of these, 30 percent were women, as compared to 19 percent in the Norwegian organization as a whole. 43 percent of the university graduates recruited in 2008 were women. Our annual graduate trainee program has had an even distribution between men and women since its introduction in 2005. The participants have also represented diversity with regard to nationality and cultural background. In the 2008 program, there are 18 participants, seven women and 11 men, representing six nationalities.

## Compensation

All employees shall be secured a total salary that is fair, competitive, and in accordance with the local industry standard. Only relevant qualifications such as performance, education, experience and other professional criteria shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion. There are no significant gender pay differentials for employees earning collectively negotiated wages in Norway. Salary conditions for graduates in the Norwegian business are reviewed on a regular basis. No general gender-related differences have been found. See also Note 11 for further information on our compensation system.

## Health and work environment

Hydro shall be a leading company in the area of health and work environment. Our business planning process is used to ensure continuous improvement throughout the organization, and follow-up is reported on a monthly basis. Sectors and sites perform a bi-annual HSE self-assessment for compliance with laws, regulations and corporate requirements. Identified issues are recorded and mitigating activities planned and implemented according to the identified risk.

We work continuously to avoid work-related illnesses. Guidelines for assessing the work environment risk are actively used by the sectors to help map and evaluate Hydro's work environment. To ensure focus on the physical/chemical work environment and encourage further improvements, we have a key performance indicator summing up the results of the assessment. It is proactive, describing the potential for possible future damage to health. The indicator has been introduced and implemented at more than 80 percent of the sites. Targets have been set for each sector for 2009 based on identified risk-

## President's HSE Award

The Power Production unit in Energy won the President's HSE Award 2008. The jury emphasized Power Production's zero-injury philosophy including health and environment, management commitment, risk management and awareness and HSE training programs for leaders and all employees.

The following other units were nominated for the award:

- Primary Production – Neuss, Germany (runner-up)
- Commercial Products – Deeside, UK
- Extrusion Americas – Argentina
- Rolled Products – Grevenbroich, Germany
- Extrusion Europe – Tønder, Denmark
- Building Systems – France

## System for handling contractors' staff

In my opinion it is important to apply this tool in connection with contractual staff as well. We need to be just as concerned to avoid accidents and maintain as high a HSE standard for contractors as for our own employees. Statistics usually reveal that there are relatively more injuries and incidents affecting contractors' staff. This should not be the case. But we do take this seriously, and I think we are on the right track with a view to ensuring that HSE is part of all our work in power stations.

Leif Ek,  
Chief Safety Representative, Power Production

Read full interview at [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

reducing measures. The indicator is reported through a corporate reporting tool and followed up quarterly. Hydro Monitor (see page 70) is also used as a tool to track the psychosocial work environment, and results are implemented in local work environment action plans.

The prevention and follow-up of work-related illnesses are important to us. A new reporting tool for work-related illnesses is under implementation. Registered sick leave was 3.4 percent in 2008, up from 2.8 percent in 2007. The rules for sick-leave registration differ from country to country. Our sick leave in Norway is significantly higher than in Hydro on average, but relatively low compared to the average rate in Norwegian industry.

In Norway, sick leave was 5.6 percent compared to 5.2 percent in the previous year. Men's sick leave was 5.1 percent, up from 4.9 percent in 2006, while women's sick leave increased from 6.4 percent in 2007 to 7.5 percent in 2008.

For information about REACH, please see page 65.

## Safety

Our ambition is to avoid all serious accidents. We work continuously to avoid damage to property, and loss of production. This applies to all our activities, irrespective of geographical location. We had three fatal accidents related to our business in 2008. An operator was killed in each of two work accidents at Svalco in Slovakia and Holmestrand in Norway. In addition,

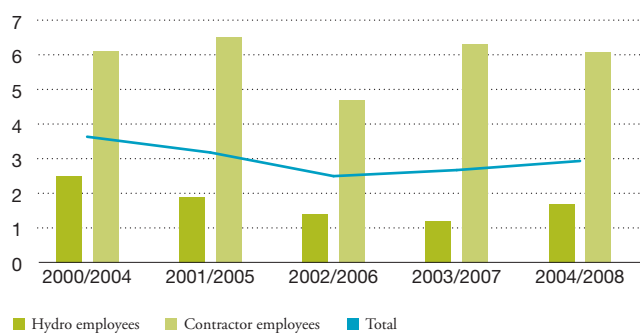
### Lost-time injuries

Per million hours worked



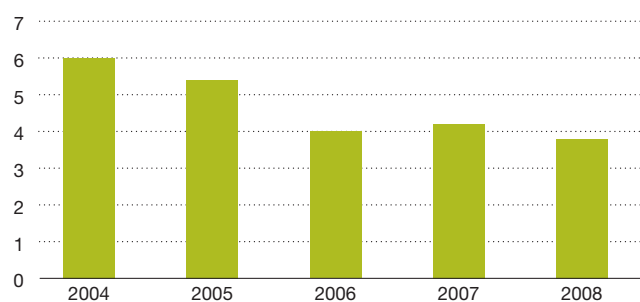
### Fatal accidents

Per 100 million hours worked, five years rolling average



### Total recordable injuries

Per million hours worked



a contractor employee was killed in Souzhou in China. In February 2009 a contractor employee was killed on the Qatalum project in Qatar.

The total number of personal injuries per million hours worked (TRI, including injuries leading to absence, injuries

### Safety for improved business results

Safety has been high on the agenda in our Extrusion Eurasia business for many years. The efforts were further enhanced through an organizational project launched early in 2007. The project has identified a clear correlation between good safety results and operational excellence. Since 2001 Extrusion Eurasia has improved its total recordable injury rate from 12.9 to 2.7 compared to an improvement from 9.5 to 3.8 for Hydro as a whole.

resulting in alternative work, and injuries demanding medical attention) was reduced from 4.1 in 2007 to 3.8 in 2008, or a 7 percent improvement (this figure includes acquisitions completed during 2008). Excluding these acquisitions, TRI was improved by 15 percent. Our target of a 20 percent reduction was thus not achieved. In a ten-year perspective, we have reduced the number of personal injuries per million hours worked from 14.9 in 1998 to 3.8 in 2008.

Risk awareness and management commitment are important to improve our safety performance. Internal investigations are routinely initiated after fatal accidents and other serious incidents. Special emphasis is made with regard to work permits, energy control, traffic on site and on public roads, contractor safety, cranes and lifting equipment and work at heights. An important initiative in 2008 was the work-at-height training conducted on the Qatalum project. Totally 6000 contractor employees have already been through, or are signed-up for the program. In 2009 we will inter alia perform traffic risk mapping and define risk mitigation initiatives in our downstream operations. Management awareness training was performed in our Metal organization in 2008 and will continue throughout our operations in 2009.

Our indicator for technical safety measures the availability of the technical safety barriers that are installed in order to prevent or mitigate major accidents. The indicator is now implemented at all relevant plants and installations. In January 2009 we introduced a new performance indicator focusing on incidents with major potential.

### Security

It is important for Hydro to safeguard its employees, the environment, the assets of the company and its reputation. An increased presence in areas of risk, and increased threats generally, have led us to intensify our preventive efforts.

Employees are trained to maintain a high level of information security. Crucial computer systems are subject to constant surveillance and strict regulations. Every person with access to sensitive information is bound to secrecy and required to handle the information with due care.

A threat and vulnerability assessment is fundamental to all our activities and forms the basis for our preventive measures, including residual risks to be handled. An appropriate crisis management organization with proper training is decisive for good crisis handling. A central Hydro Emergency Team is in



place to support line management and ensure crisis handling in accordance with Hydro's requirements and expectations.

To mitigate travel security risks, a tool for risk management on travel, and a travel safety and security learning tool have been developed. Employees are safeguarded by means of our systems for journey planning, risk assessment, and emergency preparedness. Our capability to respond quickly to incidents worldwide has been increased through risk monitoring, incident-monitoring tools and competence.

## INNOVATION

Our commitment to innovation is long-term. We fully realize that we have to start developing today the technology we will be using in 10 and 20 years' time. That's why we are ensuring our progress here is maintained, largely unaffected by the fluctuations of the business cycle.

Electrolytic technology, solar energy and solar energy integrated in new building systems are some of the important and exciting areas we are developing.

We are keen to grasp the opportunities inherent in thermal solar energy, which provides approximately ten times more energy than photovoltaic. In developing new building systems, we also work closely with architects to ensure that the solutions are also aesthetically rewarding. At Hydro's development center in Toulouse, France, we are working on buildings that will be energy neutral throughout the year. And in order to develop long-term solutions that will make our building systems even more efficient, our research centers are collaborating with several universities and external research institutions.

It is Hydro's ambition to be a leader in the development of electrolytic technology, and HAL4e demonstrates that the company is taking the lead in this field. Intensive efforts are being made to achieve further improvements in this technology.

During 2008, Hydro allocated NOK 606 million to R&D compared to NOK 507 million in 2007. The greater part of this goes to our in-house research organization, while the remaining supports work carried out at external institutions. See also Note 8. We have a number of R&D centers in Europe and established in February 2009 a new Technology and Competence Center in Doha, Qatar. The center aims to attract and develop young students, including Qatari nationals, from the local universities for later employment in the aluminium industry.

Our main R&D tasks are connected to our smelter technology and product development.

The Hydro Technology Board aims at further enhancing innovation and ensuring that we live up to our ambition to be a leader in technology. The board is chaired by President and CEO to be Dr. Svein Richard Brandtzæg and consists of the heads of all business areas in addition to the heads of organization and strategy.

Hydro's Innovation Award was established to stimulate innovation within all aspects of the organization. In 2009 three categories of the prize were awarded. Our new smelter technology 'HAL4e', new ways of marketing building systems

'Maison de Lumière' and creative initiatives to involve employees in a change operation 'Beyond Nashville' (see page 69) won each of the three categories Products; Processes; and – new in 2009 – People and Environment.

## Metal production moving forward

We intend to make production more efficient and secure the necessary access to alumina and electrical power. Improvement efforts revolve around electrolysis technology and the positioning of new capacity in locations where there is a surplus of power. See pages 9-10.

Hydro's proprietary electrolytic process is among the world's most efficient. It is used in the new plants in Sunndal and has been further improved for use on the Qatalum project. It is now further enhanced through our HAL4e technology.

Our casthouses focus on developing process efficiency in terms of improved capacity utilization and improved process capability. Continuous improvement of our product quality is a strong part of our business concept, and is strongly linked to technical customer service. We develop our products together with customers, listening to customers' needs in combination with improving own casthouse processes.

In March 2009 Hydro opened a new technology and competence center in Doha, Qatar. The main tasks of the center will be to improve safety and productiveness of the Qatalum smelter, through both technology development and training. Its first projects will focus on hot-climate working conditions, environmental issues and cross-cultural technology management.

## Product development

Implementing and commercializing innovative product ideas and concepts are core activities in our aluminium business. Innovation often takes place in joint projects with the customer, once his needs have been identified. Numerous new products are launched every year.

Meeting customers' expectations through close customer contact and follow-up are high on our agenda. As a company with a wide range of customers we need to manage relations in

### *HAL4e*

A more competitive cell technology is required to be better positioned for our smelter growth strategy. We have combined novel design solutions to a highly competitive high-amperage cell, and since May 2008, six cells have been in operation, meeting our expectations such as low energy consumption, high current efficiency, and low anode effect frequency to reduce emissions further. Through this concept, we achieve reduced specific capital expenditure (compact design and increased amperage) and operating cost (energy consumption, anode consumption, relining cost), improved environmental performance (energy, greenhouse gas emissions). More than 30 colleagues in Technology & Competence at Årdal, Norway, Neuss, Germany, and Porsgrunn, Norway, were strongly involved during the design, construction and early-operation phases. HAL4e won the Hydro Innovation Award 2009 in the product class.

### *“Maison de Lumière”, the house of light*

Attractive retail venues in high-traffic shopping areas have been created to allow the customers of Technal – one of Hydro’s brands within building systems – to get closer to their customers. This concept means that they can open an attractive end-user window shop selling Technal products in central shopping streets. The shop is designed by Technal, and is a new way to create demand for our products and to take our products to the market. “Maison de Lumière” is a close to a franchising concept whereby metal builders in France selling Technal windows and residential products in cities are given a tool to reach a larger customer group in a different manner. The five first “Maisons de Lumière” are under development in five major cities, and other customers have signed agreements to open shops. Still more are considering the concept.

the optimal way. In Automotive for example, direct contacts between Hydro personnel and customers provide us with valuable and regular feedback. With some customers we have introduced a system of “resident engineers”, where our people interact closely with our customers on a regular basis to deal with engineering and design, development and problem-solving activities.

Hydro made significant progress developing technology and solutions for energy neutral buildings, by combining high thermal performing facades, windows and doors with solar photovoltaic and thermal collector solutions. Hydro Building Systems completed an energy neutral building for its own use – the new test centre and office building in Ulm, Germany.

In the Extrusion area, different forms of cooperation have been established to ensure that customers’ opinions of our products are taken into consideration in our continuing improvement measures. In addition to the technical specifications of the products, delivery time is also an important competitive factor. A separate KPI has therefore been introduced to reduce the time elapsing from project to product to customer delivery.

We have a long tradition of driving performance within the different sectors. New initiatives were launched in 2008 to harvest from each sector, establishing common principles and performance elements. Operative performance indicators were influenced by the weak market, but even taking this into account, there are strong signs of underlying good performance in our operations. Cross-sectoral assessments were performed successfully during the second half of 2008, with focus on best practice sharing and learning across the sectors. These efforts will continue in 2009.

### *Avoiding foil strip-breaks*

Strip-breaks during acceleration in Grevenbroich’s foil rolling mills were analyzed, and a significant control modification of the rolling process was made. As a result of this achievement about 1200 strip breaks are avoided by influencing the start-up rolling phase. Downtime at the Grevenbroich foil mills has been significantly reduced and safety improved, since each strip-break can cause a fire. The development concerns a problem which has been known in the aluminium foil rolling industry for years and has not yet been solved by any other company, not even by the suppliers of foil mills and process control systems.

### *“Green” Lacquering System*

At Grevenbroich a team developed a novel, water-based lacquer coating for a food packaging product – membrane strip. This lacquer is the first real ecologically “green” lacquer, as it is fully water-based and not only water-dilutable as other lacquers. This new lacquer is now qualified with customers and implemented in production. It brings a wide range of health, safety and environment improvements such as eliminating the risk of inhaling or touching solvents, removing the risk of residual solvents in food packaging, as well as saving energy due to the shorter stirring times when mixing the lacquer. Stirring devices and containers are cleaned using water only. In addition, there is a cost-saving potential. This lacquer heralds the start of the development of further “green” lacquers free of solvents.

### *Solar Thermal Collector*

Thermal heating has a strong growth potential in the solar-collector market. The innovative development of the inorganic solar-absorbing coating is an absolute pre-requisite for the success of solar heat absorbers from aluminium sheet.

A team within Rolled Products developed the concept and the rolled material for a low-cost, all-aluminium solar absorber with highest thermal efficiency. The parallel substitution of sputtered aluminium by readily lacquered aluminium is based on novel inorganic chromium-free pre-treatment and subsequent coil coating. The novel inorganic coating proves highest thermal absorbing efficiency, outperforming existing solutions. Lacquering aluminium works at high-speed in contrast to sputtering aluminium. This solution is far cheaper than the sputtered solution presently offered by absorber manufacturers.

## ABOUT THE REPORTING

Hydro's main reporting for 2008 on Viability Performance is included in the Annual Report. In the web version of the Annual Report we have included supplementary information on reporting principles (scope, definitions, explanation), and on auditors commentary to the viability reporting. Also on the Internet can be found an index referring to the Global Reporting Initiative's Sustainability Reporting Guidelines and a progress report in accordance with the United Nations (UN) Global Compact, both with links to the relevant information. Printed versions are also included in this report. Visit [www.hydro.com/gri](http://www.hydro.com/gri) and [www.hydro.com/globalcompact](http://www.hydro.com/globalcompact)

### Principles for reporting on Viability performance

The purpose of Hydro's reporting is to provide stakeholders with an overall fair and balanced picture of relevant aspects, engagements, practices and results for 2008 at corporate level. We believe that the reporting in total satisfies this purpose. Our reporting on Viability Performance is in accordance with the main reporting principles of the Sustainability Reporting Guidelines from the Global Reporting Initiative (GRI). The selection of elements reported was based on an extensive dialogue with stakeholders and proposals from them. In addition, the reporting builds on processes that are part of the Company's daily operations. Important stakeholders include investors and financial analysts, employees and their representatives, potential employees customers non-governmental organizations and local communities affected by major development projects or restructuring processes.

We believe that this approach is consistent with the principles of inclusiveness, materiality and responsiveness required of reporting organizations by the voluntary AA1000 Accountability Principles Standard drawn up by the Institute of Social and Ethical Accountability.

We have endeavored to provide information that is in accordance with the principles of sound reporting practice. The absence of generally accepted reporting standards and practices in certain areas may nevertheless make it difficult to compare results with reports compiled by other companies, without the availability of further data, analyses and interpretations.

### Reporting scope and limitations

The scope of the report is Hydro's global organization for the period January 1 to December 31 2008. Operations sold or demerged during the year have in general not been included.

All consolidated operations that have been part of Hydro during parts of 2008 are still included in our health and safety data for the period the unit was owned by Hydro.

Data relating to health, environment and safety has been prepared by individual reporting units in accordance with corporate procedures. This applies to all Hydro's operations, including consolidated subsidiaries and units for which we have operator responsibility. This applies if not otherwise stated.

Non-operated minority-owned operations are not included in the reported data except for direct and indirect greenhouse gas emissions as reported at page 63-64. In addition we include some examples to demonstrate how we promote our policies also towards these operations.

It is not the intention to include detailed information that is primarily of significance for individual sites, processes, activities and products.

Information in the reporting is based on input from many units and sources of data. Emphasis has been placed on ensuring that the information is neither incomplete nor misleading. However the scope of the report, and varying certainty of data in connection with for instance diversity and HSE matters, may mean that there are uncertainties regarding some of the figures reported.

### Assurance principles and scope

We have requested our company auditor to review the information relating to Viability Performance in accordance with the AA1000 Assurance Standard. This is an assurance standard for this type of reporting, and the review considers both the accountability principles and performance information. The review was conducted in accordance with the international audit standard ISAE 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information. This year we have adopted a limited level of assurance. For the underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance.

The independent auditor's report is presented on page 76. Based on the AA1000 Assurance Standard, the auditor gives recommendations for further improving our viability reporting. A summary is presented in our Annual Report 2008 on web, see [www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

#### *Learn more:*

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[www.hydro.com/globalcompact](http://www.hydro.com/globalcompact)

[www.hydro.com/principles](http://www.hydro.com/principles)

[www.hydro.com/reporting2008](http://www.hydro.com/reporting2008)

## AUDITORS REPORT

### To the Management of Hydro

We have reviewed Hydro's management systems related to sustainable development within environment, health & safety and social responsibility and information about this presented in Hydro Annual Report 2008, pages 61-86, in total referred to as "the Reporting". The Reporting 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 AA1000 Assurance Standard (2008) issued by Accountability. The objective and scope of the engagement were agreed with the management of the Company and included those subject matters on which we have concluded below.

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, health & safety and social responsibility at corporate and business areas, as well as at the reporting units: Aluminium Metal – Primary Production Sunndal; Aluminium Products – Rolled Products Karmøy and Building Systems Toulouse; and Projects – Qatalum.

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. Separate from, and not impacting, our conclusion stated below we have provided "Auditor's commentary March 18 2009" including complementary information as requested by the AA1000 Assurance Standard.

### Conclusions

In conclusion, in all material respects, nothing has come to our attention that causes us not to believe that:

1. Hydro has established systems at corporate and business areas to identify and manage, and to involve stakeholders on material aspects related to sustainable development within environment, health & safety and social responsibility, in accordance with the principles of AA1000 Accountability Principles Standard (2008).
2. Hydro has applied detailed procedures to identify, collect, compile, and validate data and information about environment, health & safety and social responsibility to be included in the Reporting, as described on page 75. Data for 2008 presented in the Reporting is consistent with data accumulated as a result of these procedures and appropriately reflected in the Reporting.
3. Hydro has implemented and locally adopted as necessary, the management systems referred to in item 1 above at the reporting units that we have tested. Data for 2008 from these units has been reported according to the procedures noted in item 2 and is consistent with source documentation presented to us.
4. Hydro applies a reporting practice in accordance with its objectives and principles for reporting, as described on page 75 and aligned with the Global Reporting Initiative (GRI) reporting principles. The GRI Index presented in the Hydro Annual Report, pages 82-85, together with the GRI Index presented on [www.hydro.com/gri](http://www.hydro.com/gri) appropriately reflects the extent to which the Reporting aligns with the indicators in the GRI Sustainability Reporting Guidelines. References made in the "Global Compact Reporting" table on page 86 are consistent with the Reporting.

Oslo, 18 March 2009  
Deloitte AS

Preben J. Sørensen  
State Authorised Public Accountant  
Corporate Responsibility Services

## FACTS AND FIGURES

### Society

For geographical distribution of total assets, investments and revenues, see note 8 in the consolidated financial statements.

#### Geographical distribution of employees and payroll

	Number of employees <sup>1)</sup>					Payroll (NOK million)				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Norway	<b>6,019</b>	7,139				<b>3,757</b>	3,348			
Germany	<b>4,553</b>	4,618				<b>1,986</b>	1,983			
France	<b>1,785</b>	1,658				<b>581</b>	559			
Italy	<b>1,287</b>	1,334				<b>392</b>	388			
Great Britain	<b>506</b>	887				<b>168</b>	207			
Spain	<b>1,051</b>	640				<b>269</b>	231			
Poland	<b>188</b>	184				<b>24</b>	16			
Austria	<b>415</b>	408				<b>197</b>	213			
Other	<b>2,850</b>	3,436				<b>878</b>	916			
Total EU	<b>12,635</b>	13,165				<b>4,495</b>	4,513			
Switzerland	<b>71</b>	74				<b>77</b>	83			
Other Europe	<b>10</b>	55				<b>1</b>	6			
Total Europe	<b>12,719</b>	13,291				<b>8,330</b>	7,950			
North America	<b>1,983</b>	2,537				<b>610</b>	781			
Other Americas	<b>818</b>	788				<b>84</b>	75			
Asia	<b>531</b>	487				<b>51</b>	51			
Australia	<b>563</b>	490				<b>259</b>	243			
Africa	<b>1</b>	-				<b>-</b>	-			
Total outside Europe	<b>3,896</b>	4,302				<b>1,003</b>	1,151			
Total <sup>2)</sup>	<b>22,634</b>	24,732	33,605	32,765	34,604	<b>9,333</b>	9,101	14,321	12,909	13,316

1) Per 31 December.

2) Numbers for the period 2003-2006 include discontinued operations.

The reduction from 2007 is primarily a result of the divestment of Hydro Polymers to the British company Ineos and Hydro Production Partner to the German company Bilfinger Berger. Almost 500 employees were added through acquisitions in Extrusion and Building Systems. The reduction from 2006 is primarily due to the merger of our former oil and gas activities with Statoil, the sale of Automotive Castings, the restructuring of our Extrusion business in the USA in addition to our exit from the magnesium business. The increase in 2006 is partly due to Slovalco becoming a consolidated company after the increase in Hydro's ownership stake.

## Current income tax

NOK million	2008	2007
Norway	1,002	1,602
Germany	230	485
France	68	113
Italy	63	70
Great Britain	-	(10)
Spain	(13)	39
Poland	3	1
Austria	45	38
Other	80	252
Total EU	476	988
Switzerland	5	18
Other Europe	-	-
Total Europe	1,483	2,608
North America	129	158
Other Americas	25	12
Asia	3	-
Australia and New Zealand	177	389
Africa	1	-
Total outside Europe	335	559
Total	1,818	3,167

## People

### Diversity in management

	Women					Non-Norwegians				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
Board of Directors (nine members) <sup>1)</sup>	33%	33%	33%	22%	22%	-	-	22%	22%	22%
Corporate Management Board	22%	13%	29%	20%	20%	-	-	-	-	-
Top 50 managers	19%	17%	19%	20%	25%	13%	13%	11%	9%	14%
Top 200 managers	17%	16%	20%	23%	19%	35%	32%	19%	24%	20%

1) Three of the board members are employee representatives. All are men. The 2004-2007 numbers include discontinued operations.

The Norwegian organization has been substantially reduced following the demerger of the oil and gas activities – giving a more international organization. The flipside is that the ratio of women at all levels is higher in Norway than in most other countries we are represented.

**Diversity in Norway <sup>1)</sup>**

	Women					Men				
	2008	2007	2006	2005	2004	2008	2007	2006	2005	2004
<b>Women and men at different levels</b>										
Managers	21%	19%	20%	18%	18%	79%	81%	80%	82%	82%
Salaried employees	44%	43%	43%	44%	43%	56%	57%	57%	56%	57%
Hourly paid	13%	11%	14%	14%	14%	87%	89%	86%	86%	86%
Total	19%	18%	22%	22%	21%	81%	82%	78%	78%	79%
<b>Recruitment</b>										
Managers	33%	19%	22%	32%	21%	67%	81%	78%	68%	79%
Salaried employees <sup>2)</sup>	51%	46%	34%	35%	38%	49%	54%	66%	65%	62%
Hourly paid	21%	17%	15%	16%	13%	79%	83%	85%	84%	87%
Total	30%	22%	26%	27%	30%	70%	78%	74%	73%	70%

See comment to the previous table.

- 1) The 2004-2007 numbers include discontinued operations.
- 2) The group salaried employees largely consist of younger persons with higher educational qualifications. They constitute an important group with respect to managerial recruitment.

**Part-time employees in Norway <sup>1)</sup>**

	2008	2007	2006	2005	2004
Women	12%	14%	16%	17%	18%
Men	2.0%	1.4%	1.3%	1.2%	1.3%

- 1) Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made.

**Health and safety**

	2008	2007	2006	2005	2004
Total recordable injuries (TRI) <sup>1)</sup>	3.8	4.1	4.0	5.4	6.0
Lost-time injuries (LTI) <sup>1)</sup>					
Employees	2.0	2.0	2.1	2.7	2.7
Contractors	0.9	1.9	2.5	2.4	2.4
Fatalities <sup>2)</sup>					
Employees	1.7	1.2	1.4	1.9	2.5
Contractors	6.1	6.3	4.8	6.5	6.1
Sick leave	3.4%	2.8%	2.6%	3.2%	3.1%

- 1) Per million working hours.
- 2) Per 100 million working hours, five-year rolling average.

## Environment

### Environment

	2008	2007	2006	2005	2004
<b>Greenhouse gas emissions<sup>1)</sup></b> (Million tonnes CO2e)					
SF <sub>6</sub>	0.0000	0.0000	0.0808	0.3153	1.1560
PFC	0.8438	0.8978	0.9873	1.6413	1.5362
CH <sub>4</sub>	0.0001	0.0001	0.0000	0.0000	0.0000
CO <sub>2</sub>	3.2497	3.2629	3.1507	3.0949	3.0064
Total	4.0936	4.1608	4.2188	5.0511	5.6987
<b>Energy consumption<sup>2)</sup></b> (PJ)					
Electricity	90.7	90.8	89.7	91.8	88.6
Oil	0.5	0.4	0.4	0.4	1.0
Coke	20.7	21.4	19.3	18.6	17.5
Natural gas	11.0	10.6	12.9	11.6	11.3
Natural gas liquid	1.7	2.3	2.2	2.6	2.8
Other	6.0	5.6	5.3	4.7	4.6
Total	130.6	131.1	129.8	129.7	125.7
<b>Energy consumption per sector</b> (PJ)					
Electrolysis/Carbon	109	110	104	103	98
Casting	4	3	3	3	3
Remelt	2	2	2	2	2
Rolled Products	6	6	5	5	5
Extrusion, Building System, Automotive, Precision Tubing	5	5	8	7	8
Others	5	4	8	10	10
Total	131	131	130	130	126
<b>Resource use</b> (1,000 tonnes)					
Alumina	2,854	2,553	2,539	2,656	2,549
Aluminium fluoride	28	29	26	26	23
<b>Waste</b> (Tonnes)					
Hazardous waste <sup>3)</sup>	150,751	134,347	136,036	147,367	117,785
Other waste <sup>4)</sup>	134,852	135,857	165,179	157,320	174,337
Total	285,603	270,204	301,214	304,687	292,121
<b>Waste treatment<sup>4)</sup></b>					
Landfill	35%	33%	32%	26%	30%
Energy recovery	3%	2%	3%	3%	3%
Reuse/recycling	56%	50%	51%	49%	42%
Other treatment	6%	15%	14%	22%	25%

1) SF<sub>6</sub> was reduced in 2006 and 2007 due to the closure and sales of our magnesium activities. The reduction in PFC emissions mainly results from the closure of Söderberg production at Høyanger, Norway, in 2006 and in Årdal, Norway, in 2007 as well as improvements to existing technology at Kurri Kurri, Australia, in 2006. Greenhouse gas emissions include plants owned more than 50 percent by Hydro.

2) Energy consumption includes energy losses in hydroelectric plants.

3) The increase in hazardous waste is due to increased amount of spent potlining, acquisitions in Spain and improved reporting in several units. The increased amount of spent potlining in 2007 and 2008 is a result of the Slovalco smelter in Slovakia was included in our figures, increased relinings at Sunndal, Norway as the first cells in the new line were due for relining and increased relining at Karmøy, Norway.

4) The reduction in "Other waste" from 2006 to 2007 is to a large extent due to the closure of our magnesium plant in Becancour, Canada. Incineration without energy recovery is included in "Other treatment".



## Environment

	2008	2007	2006	2005	2004
<b>Water consumption<sup>1)</sup></b> (Million m <sup>3</sup> )					
Argentina	0.0015	0.0010	0.0015	0.0015	0.0010
Australia	0.2306	0.2393	0.2118	0.1840	0.2050
Austria	0.0063	0.0060	1.0354	0.8343	0.9610
Belgium	0.0599	0.0649	0.0631	0.0534	0.0716
Brazil	0.0576	0.0584	0.0477	0.0490	0.0490
Canada	0.0254	0.0214	13.0705	13.0039	12.5849
China	0.0171	0.0164	0.0486	0.0471	0.0881
Denmark	0.0681	0.0681	0.0482	0.0497	0.0709
France	0.4305	0.6503	0.4856	0.5279	0.6309
Germany	2.2548	2.3713	4.4792	4.2150	4.8526
Hungary	0.0000	0.0000	0.0580	0.0188	0.0122
Italy	1.4146	1.4647	1.5126	1.5940	1.6712
Luxembourg	0.0596	0.0625	0.0687	0.0687	0.0520
Malaysia	0.1121	0.0907	0.0930	0.1129	0.1235
Mexico	0.0223	0.0305	0.0027	0.0123	0.0123
Norway	54.6966	55.5523	38.8505	44.4913	41.2398
Poland	0.0087	0.0103	0.0077	0.0037	0.0051
Portugal	0.0640	0.0744	0.0696	0.0976	0.0862
Slovakia	0.1751	0.1670			
Spain	0.1473	0.1072	0.1052	0.0725	0.0954
Sweden	0.0179	0.0210	0.1081	0.0682	0.0672
United Kingdom	0.0696	0.0967	0.0908	0.0776	0.0797
USA	0.5231	0.2820	0.3954	0.3365	0.5030
Total	60.4626	61.4565	60.8539	65.9200	63.4626
<b>Emissions<sup>2)</sup></b>					
Fluorides to air, tonnes	539.4	592.3	614.3	788.0	663.3
Dust and particles, tonnes	2,020.7	2,796.0	3,238.5	4,190.8	3,418.2
Sulphur dioxide to air, tonnes	8,234.4	8,247.6	7,503.3	7,249.5	7,081.8
PAH to air, tonnes <sup>3)</sup>	31.3	38.0	49.3	72.1	56.9
PAH, to water, kg <sup>4)</sup>	709.0	570.6	1,459.4	829.5	1,188.6
NMVOC, tonnes	443.1	372.7	408.7	255.3	709.7

1) Water supply varies from country to country and may even vary within a country. The greater part of our water consumption takes place in Norway where access to freshwater is abundant. The increase in Norway in 2007 and in USA in 2008 is mainly due to improved reporting. Our water consumption in Spain increased in 2008 following acquisitions.

2) The increase in SO<sub>2</sub> emissions in 2007 was a result of the use of anodes with increased sulfur content. The high emissions of PAH and fluorides in 2005 was the result of problems with one of our aluminium smelters. The normal level was regained in 2006.

3) According to NS 16 PAH.

4) According to Borneff 6 PAH.

## Financial provisions

Provisions for future environmental clean-up measures amounted to NOK 267 million as of December 31, 2008. See note 31 in the consolidated financial statements.

## GRI INDEX



This overview shows how Hydro reports related to Global Reporting Initiative (GRI) guidelines for voluntary reporting of sustainable development. The tables show where information about each issue can be found, this is either fully or partly described compared to GRI's definition. The guidelines comprise economic, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme (UNEP) and UN Global Compact.

We believe in all material respects that our reporting practice is consistent with GRI's reporting principles.

We have used the terms "Full" and "Partial" to indicate our reporting level for each core indicator. Where we believe that we fulfill GRI's intentions for the indicator, it is reported as "Full", otherwise we use "Partial" or "Not reported". We have not indicated this for additional indicators. These are marked with an asterisk. The electronic version of the GRI Index includes the full definition of each indicator and refers to specific sections in this report, and to additional information on [www.hydro.com](http://www.hydro.com). See [www.hydro.com/gri](http://www.hydro.com/gri)

### G3 GRI Content Index

G3 Disclosure	Description	Page no./Reference	Extent of reporting (full – partial)	Comments/Reason for omission
1.1	Statement of the CEO	4-5	Full	
1.2	Description of key impacts, risks, and opportunities.	4-5, 9, 61-74, 87-91	Full	
<b>Organizational Profile</b>				
2.1	Name of the organization.	Norsk Hydro ASA	Full	
2.2	Primary brands, products, and/or services.	7-14, 15-34, website	Full	
2.3	Operational structure of the organization	7-14, 15-34, website	Full	
2.4	Location of organization's headquarters.	34	Full	
2.5	Countries where the organization operates	7-14, 15-34, website	Full	
2.6	Nature of ownership and legal form.	97-106	Full	
2.7	Markets served	7-14, 15-34, website	Full	
2.8	Scale of the reporting organization	7-14, 15-34	Full	
2.9	Significant changes during the reporting period	8-14, 67-68, F18-F19	Full	
2.10	Awards received in the reporting period.	62	Full	
<b>Report Parameters</b>				
3.1	Reporting period	1 Jan - 31 Dec 2008	Full	
3.2	Date of most recent previous report (if any).	Annual report 2007	Full	
3.3	Reporting cycle (annual, biennial, etc.)	Annual	Full	
3.4	Contact point for questions regarding the report	corporate@hydro.com	Full	
3.5	Process for defining report content	61-62, 75	Full	
3.6	Boundary of the report	3, 75	Full	
3.7	Limitations on the scope or boundary of the report	75	Full	
3.8	Basis for reporting on joint ventures, subsidiaries etc.	75, F8-F14	Full	
3.9	Data measurement techniques	75, F8-F14	Full	
3.10	Explanation of the effect of any re-statements	75, F14	Full	
3.11	Significant changes from previous reporting periods	75, F14	Full	
3.12	Overview of reported indicators	82-85	Full	
3.13	Practice for seeking external assurance for the report	75, 102-103, 106	Full	

G3 Disclosure	Description	Page no./Reference	Extent of reporting (full – partial)	Comments/ Reason for omission
<b>Governance, Commitments, and Engagement</b>				
4.1	Governance structure of the organization	97-106	Full	
4.2	Is the Chair of the board also an executive officer?	102-106	Full	No
4.3	Applies only to organizations with unitary board structures	Not applicable		
4.4	Mechanisms to provide recommendations or direction to the highest governance body.	98, 102, 104-105	Full	
4.5	Linkage between compensation and performance	99,103,106, F26-F31	Full	
4.6	The Board's role to ensure conflicts of interest are avoided	102-106	Full	
4.7	Evaluation of the qualifications of the Board members	102	Full	
4.8	Mission or values, codes of conduct, and principles	62, 65-66	Full	
4.9	Board procedures for overseeing the organization	102-103, 105-106	Full	
4.10	Processes for evaluating the Board's own performance	102-103, 105-106	Full	
4.11	Precautionary approach or principle	62-65, 68, 73-74	Full	
4.12	Externally developed charters, principles, or other initiatives	67-68, 98, website	Full	
4.13	Memberships in associations	67, website	Full	
4.14	Stakeholder groups engaged by the organization	67-69, 75, 95	Full	
4.15	Identification and selection of stakeholders	67-69, 75, 95	Full	
4.16	Approaches to stakeholder engagement	67-69, 75, 95	Full	
4.17	Key topics and concerns raised in stakeholder engagement	67-69, website	Full	
<b>Management Approach and Performance Indicators Economic</b>				
	Disclosure on Management Approach	4-5, 62, 93-96, 98-99	Full	
EC1	Direct economic value generated and distributed	2, 35-37, 67, 69, 77-78, F2-F7	Full	
EC2	Financial implications due to climate change	28-29, 33, 62-64, 89	Full	
EC3	Organization's defined benefit plan obligations	F46-F47	Full	
EC4	Financial assistance received from government	Not reported		
EC5*	Standard entry level wage compared to local minimum wage	71		
EC6	Spending on locally-based suppliers	Website	Partial	
EC7	Procedures for local hiring	Website	Partial	
EC8	Development and impact of infrastructure investments	Website	Partial	
EC9*	Indirect economic impacts	Not reported		
<b>Environmental</b>				
	Disclosure on Management Approach	4-5, 61-65, 98-99	Full	
EN1	Materials used by weight or volume	80	Full	
EN2	Percentage of recycled materials	18, 22, 42, 63-65	Partial	
EN3	Direct energy consumption by primary energy source	62-63, 80	Full	
EN4	Indirect energy consumption by primary source	Not reported		
EN5*	Energy conservation and efficiency improvements	13-14, 62-64, 73		
EN6*	Energy-efficient or renewable energy based products	13-14, 62-64, 74		
EN7*	Reduced indirect energy consumption	Not reported		
EN8	Total water withdrawal by source	65, 81	Partial	
EN9*	Water sources significantly affected by withdrawal of water	65, 81		
EN10*	Percentage and total volume of water recycled and reused	Not reported		
EN11	Locations in, or adjacent to, areas of high biodiversity value	65	Partial	
EN12	Significant biodiversity impacts	65	Partial	
EN13*	Habitats protected or restored	65		
EN14*	Managing impacts on biodiversity	65		
EN15*	IUCN Red List and national conservation list species	Not reported		
EN16	Direct and indirect greenhouse gas emissions	2, 61-64, 80	Full	

\* Additional indicator.

G3 Disclosure	Description	Page no./Reference	Extent of reporting (full – partial)	Comments/ Reason for omission
<b>Environmental cont.</b>				
EN17	Other relevant indirect greenhouse gas emissions	Not reported		
EN18*	Initiatives to reduce greenhouse gas emissions	2, 62-64, 73-74		
EN19	Emissions of ozone-depleting substances	81	Full	
EN20	NOx, SOx, and other significant air emissions	81	Full	
EN21	Total water discharge by quality and destination	65, 81	Partial	
EN22	Total weight of waste by type and disposal method	64-65, 80	Full	
EN23	Total number and volume of significant spills	Not reported		
EN24*	Transported, imported, exported or treated hazardous waste	64-65, 80		
EN25*	Habitats significantly affected by discharges and run-off	Not reported		
EN26	Mitigation of environmental impacts of products	63, 73-74, website	Full	
EN27	Packaging materials that are reclaimed	Not reported		
EN28	Fines and sanctions related to environmental issues	Not reported		
EN29*	Significant environmental impacts of transporting products	Not reported		
EN30*	Total environmental protection expenditures and investments	Not reported		
<b>Social: Labor Practices and Decent Work</b>				
	Disclosure on Management Approach	4-5, 17, 62, 66-73, 98-99	Full	
LA1	Workforce by employment type, contract, and region	2, 69-71, 77-79	Partial	
LA2	Total number and rate of employee turnover	Website	Partial	
LA3*	Difference in benefits between full-time and other employees	Not reported		
LA4	Employees covered by collective bargaining agreements	68-69, website	Partial	
LA5	Notice period(s) regarding significant operational changes	68, website	Full	
LA6*	Joint management-worker health and safety committees	Website		
LA7	Health and safety indicators	2, 72, 79	Partial	
LA8	Assistance programs regarding serious diseases	Not reported		
LA9*	Health and safety in union agreements	Website		
LA10	Average training hours per employee by employee category	Not relevant		See p. 70-71 and website
LA11*	Skills management and lifelong learning	70-71		
LA12*	Performance and career development reviews	70-71		
LA13	Governance bodies and employees diversity	70-71, 78-79	Partial	
LA14	Ratio of basic salary of men to women	71	Partial	
<b>Social: Human Rights</b>				
	Disclosure on Management Approach	4-5, 62, 65-67, 98-99	Full	
HR1	Significant investments that include human rights issues	65-68	Full	
HR2	Suppliers undergone screening on human rights	65-67	Partial	
HR3*	Training on human rights policies and procedures	65-67, 70		
HR4	Incidents of discrimination and actions taken		Partial	No serious incidents unveiled in 2008
HR5	Freedom of association and collective bargaining	66-67, website	Full	
HR6	Child labor	66-67, website	Full	
HR7	Forced or compulsory labor	66-67, website	Full	
HR8*	Human rights training of security personnel	66-67, website		
HR9*	Violations of indigenous peoples' rights	66-67, website		

\* Additional indicator.

G3 Disclosure	Description	Page no./Reference	Extent of reporting (full – partial)	Comments/ Reason for omission
<b>Social: Society</b>				
	Disclosure on Management Approach Disclosure	4-5, 62, 67-69, 98-99	Full	
SO1	Programs and practices for assessing community impact	67-69	Full	
SO2	Business units analyzed for risks related to corruption	65-67	Partial	
SO3	Employees trained in anti-corruption policies and procedures	66, 70	Full	
SO4	Actions taken in response to incidents of corruption	65-66, 91	Full	
SO5	Participation in public policy development and lobbying	67, website	Partial	
SO6*	Financial and in-kind contributions to political parties	67		
SO7*	Anti-competitive behavior, anti-trust, and monopoly practices	91		No significant incidents in 2008
SO8	Significant fines and non-monetary sanctions	91	Full	No significant incidents in 2008
<b>Social: Product Responsibility</b>				
	Disclosure on Management Approach	4-5, 73-74	Full	
PR1	Health and safety impacts in the life-cycle of products	Website	Full	
PR2*	Non-compliance concerning health and safety impacts	Not reported		
PR3	Product and service information required by procedures	Website	Partial	
PR4*	Non-compliance regarding product information and labeling	Not material		
PR5*	Practices related to customer satisfaction	4, 74, website		
PR6	Adherence to laws, standards etc.related to marketing	Not reported		Website
PR7*	Non-compliance concerning marketing communications			No significant incidents in 2008
PR8*	Breaches of customer privacy and losses of customer data			No significant incidents in 2008
PR9	Fines concerning the provision and use of products		Full	No significant incidents in 2008

\* Additional indicator.

## PROGRESS REPORT UN GLOBAL COMPACT

We support the principles of the UN Global Compact. Human rights, international labor standards, working against corruption, and environmental considerations are fundamental to our approach to corporate responsibility.

The Global Compact was formed at the initiative of the former UN Secretary General, Kofi Annan, in 1999, because the UN wants business and industry to be more closely associated with the UN's work. Companies that sign the Global Compact undertake to support 10 principles regarding human rights, labor standards, the environment, and countering corruption, and to communicate annually on progress.

Hydro has played an active role in the Global Compact since its formation. Our commitment has been expressed by the President and CEO in his letter to shareholders on page 4 in this report. The table below provides a summary of our progress in relation to the Compact's 10 principles. A more complete report can be found at [www.hydro.com/globalcompact](http://www.hydro.com/globalcompact)

		Page
<b>Human rights</b>		
Principle 1	Support and respect the protection of internationally proclaimed human rights	65-70
Principle 2	Make sure not to be complicit in human rights abuses	65-70
<b>Labor standards</b>		
Principle 3	Uphold the freedom of association and the effective recognition of the right to collective bargaining	66-69
Principle 4	Elimination of all forms of forced and compulsory labor	66
Principle 5	Effective abolition of child labor	66
Principle 6	Eliminate discrimination in respect of employment and occupation	65-72
<b>Environment</b>		
Principle 7	Support a precautionary approach to environmental challenges	62-65, 68
Principle 8	Undertake initiatives to promote greater environmental responsibility	62-65, 68, 73-74
Principle 9	Encourage the development and diffusion of environmentally friendly technologies	62-65, 73-74
<b>Anti-corruption</b>		
Principle 10	Work against all forms of corruption, including extortion and bribery	65-66, 70

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## Risk review

RISK FACTORS P.88

MARKET AND COMMERCIAL RISK P.90

LEGAL PROCEEDINGS P.91

### QUICK OVERVIEW

Hydro faces many risks and uncertainties within the global marketplace. Changes in competitive and market conditions affect margin, price and volume developments. Following a period of extreme financial turmoil and unprecedented market decline towards the end 2008, we face a seriously oversupplied aluminium market and low aluminium prices.

Our primary smelting operations are highly dependent on securing substantial amounts of energy at competitive prices. We are exposed to increasingly onerous legislation on CO<sub>2</sub> emissions directly impacting Hydro relating to aluminium production and indirectly through higher power prices. Repositioning and restructuring activities are important in determining the viability of our future aluminium operations.

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong credit-worthiness. Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities.



### Indicative price and currency sensitivities 2009 <sup>1)</sup>

NOK million	Income before tax	Net income	Change
Aluminium price per tonne <sup>2)</sup>	850	650	100 USD
USD before financial items <sup>3)</sup>	1,400	1,000	1 NOK
USD financial items <sup>4)</sup>	(1,800)	(1,300)	1 NOK
USD Net income	(400)	(300)	1 NOK

1) Based on expected business volumes for 2009 and the following prices; aluminium 1,500 USD/tonne and a NOK/USD of 7.00.

2) LME sensitivity excludes unrealized effects related to operational hedging.

3) USD sensitivity aluminium price includes both USD revenues and USD costs.

4) USD sensitivity on financial items is based on financial positions 31 December 2008.

## RISK FACTORS

Below is a description of certain risks that may affect our business, financial condition and results of operations from time to time and hence our share price. All of the information in this report should be carefully considered, in particular, the risks described below.

### **HYDRO IS FACING CHALLENGING MARKET CONDITIONS, WITH A SEVERELY OVERSUPPLIED ALUMINIUM MARKET RESULTING IN SUBSTANTIAL DOWNWARD PRESSURE ON ALUMINIUM PRICES.**

Virtually all aluminium end-use markets, including the building, transportation and packaging industries, are cyclical. There is considerable uncertainty concerning developments in supply and demand, in particular relating to overall economic developments. Market balance, among other factors has a significant impact on aluminium prices. Market demand and prices declined dramatically in the final quarter of 2008 and there is significant uncertainty regarding the timing of the eventual recovery notwithstanding significant announced and anticipated production curtailments in the industry. At the end of December 2008, prices reached a level that is lower than the cash-costs of a substantial portion of global smelter production. Prices declined further in the first part of 2009 and are expected to remain low in the medium-term. Prices of such magnitude will result in substantially lower earnings for Hydro.

### **HIGH INPUT COSTS COULD HAVE A NEGATIVE EFFECT ON OPERATING RESULTS**

While cost input-factors for aluminium smelters will be affected by the ongoing economic down-turn, contractual arrangements and time lags in production and logistic processes will result in relatively higher costs in the next quarters having a negative effect on our operating results.

### **DUE TO OUR PLANNED INVESTMENT LEVEL AND LOWER EXPECTED CASH GENERATION WE EXPECT TO REQUIRE FUNDING IN A PERIOD WHERE FINANCIAL MARKETS ARE NOT WELL-FUNCTIONING.**

Pricing and availability of bond loans and bank credit facilities are strongly influenced by the volatile market conditions implying a demanding funding process and substantially higher funding costs compared to earlier years. Failure to obtain adequate funding could result in a postponement of critical investments, sustaining maintenance activities or other planned capital investments.

### **HYDRO FACES A HIGHER RISK OF COUNTERPARTY DEFAULT IN AN ENVIRONMENT OF LIMITED AVAILABILITY OF RISK MITIGATING INSTRUMENTS.**

A significant down-turn in the business or financial condition of a key customer or group of customers exposes us to the risk of default on contractual agreements and trade receivables which would have a negative impact on our operation results.

At the same time, access to and the value of trade credit insurance and other risk mitigation instruments has declined. Our automotive business and the automotive structures operations in particular, are dependent on the financial condition and market prospects facing the industry's original equipment manufacturers (OEMs). At the end of 2008, this industry suffered the largest decline in market demand since its formation.

Hydro enters into fixed priced contracts for the majority of its primary production. In addition, Hydro engages in significant trading in physical markets in order to optimize its total portfolio position and in derivative markets for hedging purposes. All of Hydro's alumina operations and significant portions of its primary metal operations are owned and operated through joint ventures with other major players in the aluminium industry. Hydro also has several long-term commercial agreements for substantial volumes of raw materials to be used in its production processes and for metal products for re-marketing to its customers. These business activities expose Hydro to the risk that one or more counterparties will default on their obligations, resulting in direct financial loss, unexpected increase in market exposure or higher operating costs. Weak and deteriorating economic conditions on a global, regional or industry sector level, combined with challenging financial markets, increase the risk of defaulting counterparties.

### **PRICE VOLATILITY CAN IMPACT OUR OPERATING COSTS AND CAN ALSO HAVE A SUBSTANTIAL EFFECT ON OUR REPORTED OPERATING RESULTS**

Commodity price volatility in general has increased significantly in recent years and can have significant impact on our operating results. Price volatility can impact our operating costs directly and can also have a substantial effect on our reported operating results due to realized and unrealized gains and losses on derivative instruments. Underlying results for our trading and hedging operations are subject to substantial variations in periods of significant fluctuation of spot and forward prices for aluminium.

### **HYDRO'S REPORTED RESULTS AND COMPETITIVE POSITION IS EXPOSED TO CHANGES IN THE VALUE OF THE NORWEGIAN KRONER**

Hydro has substantial portion of its primary capacity based in Norway and its accounting and reporting currency is the Norwegian kroner. Primary aluminium prices and a major part of the raw materials for producing aluminium are denominated in US dollars. Much of Hydro's downstream business is based in Europe and a large portion of the production is sold in Euro. As a result, the relative value of the US dollar and Euro is of high importance to Hydro's operating results and changes in the value of these currencies can be significant and highly volatile. See Market and commercial risk in this Risk review section for more information on Hydro's exposure and sensitivities to currency movements.



Periodic revaluation of foreign denominated balances can have a significant impact on earnings. Revaluation upon realization of such balances can have a significant affect on both earnings and cash. The value of investments committed in foreign currencies is sensitive to currency movements

**OUR DOWNSTREAM BUSINESS IS INCREASINGLY EXPOSED TO COMPETITION FROM CHINA**

China has in recent years imposed duties to reduce the export of aluminium metal, but has encouraged production of more labor intensive semi-fabricated and finished aluminium products. This development has increased the exposure of our downstream business to lower priced exports from China.

**FAILURE OR DELAYS IN THE EXECUTION OF MAJOR PROJECTS COULD HAVE A NEGATIVE IMPACT ON OUR COMPETITIVE POSITION**

The execution of major investment projects is subject to the risk of delays, cost increases, availability of adequate funding and other complications. Failure or delays in the execution of major projects could result in additional costs and lost operating revenues in addition to weakening our competitive position, which will in turn have a negative impact on our future operating results.

**EMERGING OR TRANSITIONING MARKET COUNTRIES PRESENT A COMPETITIVE THREAT TO OUR BUSINESS**

Emerging or transitioning market countries with abundant natural resources, low cost labor and energy and lower environmental and other standards have posed and will continue to pose a competitive threat to our business. In 2007 the EU reduced its duty on unalloyed aluminium. Any further reductions or cancellation of these duties could result in increased imports of primary aluminium to the EU market from sources such as Russia and the Middle East.

**HYDRO IS EXPOSED TO INCREASINGLY ONEROUS LEGISLATION ON REDUCING CO<sub>2</sub> EMISSIONS.**

Hydro's smelter operations are to a large degree located in Europe. Legislation on CO<sub>2</sub> emissions has already resulted in higher power prices for our European operations but to a lesser extent, however, for our Norwegian smelters in the short to medium term, since most of the electricity consumption in Norway is covered under long-term supply contracts. The European Union has enacted new emissions regulations which would apply directly to CO<sub>2</sub> emissions from our smelter operations in Norway and in the EU from 2013 onwards. Although it is anticipated that there will be some compensation available to aluminium producers, these regulations are more onerous than those currently contemplated in other regions of the world and could negatively impact on our competitive position. See also the section in this report on Regulation and taxation for more information pertaining to climate gasses.

**OUR ALUMINIUM OPERATIONS, AND IN PARTICULAR OUR SMELTERS, ARE DEPENDENT UPON LARGE VOLUMES OF ENERGY**

Our position could be materially adversely affected by the inability to replace on competitive terms our long term energy supply contracts when they expire or our own equity production to the extent that concessions revert to the Norwegian state. See also the section in this report on Regulation and taxation for more information pertaining to the Norwegian regulatory system for hydropower production.

**FUTURE ACQUISITIONS, MERGERS, OR STRATEGIC ALLIANCES MAY ADVERSELY AFFECT OUR FINANCIAL CONDITION**

We may not be able to effectively integrate businesses acquired or generate the cost savings and synergies anticipated.

**BUSINESS DEVELOPMENT IS MORE LIKELY TO OCCUR IN EMERGING AND TRANSITION MARKET COUNTRIES**

New primary smelter, alumina and bauxite capacity is expected to be mainly located in countries characterized by emerging and transitioning markets. Legal, fiscal and regulatory systems may be less stable and have a lower degree of transparency, making investment evaluation and any eventual implementation more difficult.

**INCREASING INVESTMENTS IN JOINTLY CONTROLLED ENTITIES REDUCES HYDRO'S ABILITY TO MANAGE ITS BUSINESS PORTFOLIO**

Investment as a minority partner in jointly controlled entities and associates reduces Hydro's ability to manage and control this part of its portfolio. Such investments entail a risk of diverging interests between business partners, which could impede Hydro's ability to realize its objectives, repatriate funds from such entities and to achieve full compliance with its standards.

**WE MAY NOT SUCCEED IN DEVELOPING TECHNOLOGICAL SOLUTIONS TO SUPPORT OUR GROWTH STRATEGIES**

Being at the forefront of technological development is important to remain competitive. Hydro is engaged in the development of new "next generation" cell and smelter technology together with key suppliers. We may fail to develop these technologies on a timely basis or they may not be commercially feasible resulting in a negative impact on our competitive position.

**MAJOR ACCIDENTS COULD RESULT IN SIGNIFICANT DAMAGE TO HYDRO'S REPUTATION**

Certain of our operations are located in close proximity to sizable communities. Major accidents due to human error, systems failures, extreme weather or deliberate sabotage, while considered remote, could result in loss of life or extensive damage to the environment or communities. Such events could result in major claims, fine and penalties and significant damage to Hydro's reputation.

#### **HYDRO COULD BE NEGATIVELY AFFECTED BY LEGAL PROCEEDINGS OR INVESTIGATIONS**

Hydro could be negatively affected by criminal or civil proceedings related to, but not limited to product liability, environment, health and safety, alleged breaches of anti-competitive, anti-corruption or other integrity legislation or commercial disputes. See also the section of this report on Viability for more information on issues relating to integrity and transparency, and Legal proceedings in this Risk review section for more information on these matters. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective works and, in rare instances, the suspension or shutdown of our operations.

#### **HYDRO MAY BE SUBJECT TO UNFORESEEN LIABILITIES FOR ENVIRONMENTAL DAMAGE**

Environmental laws may impose cleanup liability on owners and occupiers of contaminated property, including past or divested properties, regardless of whether the owners and occupiers caused the contamination or whether the activity that caused the contamination was lawful at the time it was conducted. Many of our present and former operations are and were located on properties with a long history of industrial use. See also the section in this report on Regulation and taxation for more information pertaining to Environmental matters.

#### **HYDRO MAY BE SUBJECT TO LIABILITIES TRANSFERRED TO SUCCESSOR COMPANIES**

Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Hydro and StatoilHydro are jointly liable for liabilities accrued before the demerger date of 1 October 2007. 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. Similarly, Hydro and Yara International ASA are jointly liable for liabilities accrued before the demerger date of 24 March 2004 on the same conditions.

#### **RIGHTS AND LEGAL REMEDIES MAY BE LIMITED FOR CERTAIN CLASSES OF SHAREHOLDERS**

Exercise of shareholder rights such as voting and preferential subscription rights may not be available to beneficial shareholders whose shares are registered in a nominee account, and not in the shareholders' own names with the Norwegian Central Securities Depository, *Verdipapirsentralen* (VPS). Hydro cannot guarantee that beneficial shareholders will receive the notice for a general meeting in time to instruct their nominees to affect a re-registration of their shares. Hydro is organized under the laws of the Kingdom of Norway. It may be difficult for investors to effect service of process outside Norway upon Hydro or its directors and executive officers or to enforce against Hydro or its directors and executive officers judgments obtained in other jurisdictions. Norwegian courts are unlikely

to apply other than Norwegian law when deciding on civil liability claims under securities laws.

## **MARKET AND COMMERCIAL RISK**

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 and coordinated by staff units at corporate level. Policies and procedures have been established to manage risk.

### **Financial position**

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong credit-worthiness. To achieve this, Hydro targets, over the cycle, to keep its adjusted net interest bearing debt/equity ratio below 0.55 and to maintain a ratio of funds from operations to adjusted net interest bearing debt above a level of 0.40. In addition, Hydro has established guidelines for liquidity reserves and for the profile of installment payments on debt in order to secure its financial position. At the end of 2008, our financial position was within these ratios and guidelines

### **Liquidity risk**

The challenging market conditions toward the end of 2008 have led to an increased focus and attention on credit and liquidity risk throughout our entire organization. Planned capital expenditures have been reduced and we have, and will continue, to implement initiatives to cut costs. Hydro has an established credit facility that provides back-up in the case of future cash deficits, should alternative financing sources not become available.

Hydro is taking proactive approach towards customers to reduce credit risk. Requirements for supporting collateral for credit have been extended during 2008 and measures are currently underway to reduce credit periods. Hydro is also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

### **Prices and currency**

Hydro's operating results are primarily affected by price developments of its main products, aluminium and power, in addition to foreign currency fluctuation of the most significant currencies, the US dollar and the Euro, against the Norwegian kroner. Hydro's main risk management strategy for its upstream operations is to accept exposure to aluminium and energy prices movements, while at the same time focusing on reducing the average cost position of its smelters.

Downstream and other margin-based operations are to a certain extent hedged to protect processing and manufacturing margins against raw material price fluctuations. Hydro has an operational hedging system in place to protect commercial contracts from aluminium price fluctuations. In order to mitigate part of its exposure to US dollar currency fluctuations,

Indicative price and currency sensitivities 2009<sup>1)</sup>

NOK million	Income before tax	Net income	Change
Aluminium price per tonne <sup>2)</sup>	850	650	100 USD
USD before financial items <sup>3)</sup>	1,400	1,000	1 NOK
USD financial items <sup>4)</sup>	(1,800)	(1,300)	1 NOK
USD Net income	(400)	(300)	1 NOK

1) Based on expected business volumes for 2009 and the following prices; aluminium 1,500 USD/tonne and a NOK/USD of 7.00.

2) LME sensitivity excludes unrealized effects related to operational hedging.

3) USD sensitivity aluminium price includes both USD revenues and USD costs.

4) USD sensitivity on financial items is based on financial positions 31 December 2008.

Hydro has been utilizing currency forward contracts selling US dollar mainly against Norwegian kroner. This program is currently being reduced to reflect lower exposures due to falling LME-prices and an increasing amount of US dollar denominated debt. During 2008, Hydro has to a limited extent entered into forward contracts in other currencies to hedge revenue and cost positions.

An indication of the sensitivities regarding aluminium prices and foreign currency fluctuations for 2009 is provided in the table above. The table illustrates the sensitivity of earnings, before and after tax, to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 41 to the Consolidated Financial Statements.

In addition to the above sensitivities, the revaluation of derivative instruments and contracts classified as derivatives may influence reported earnings. For accounting purposes, derivative financial and commodity instruments are recognized at fair value with changes in the fair value impacting earnings unless 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. Please see note 41 - 42 to the Consolidated Financial Statements for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

In accordance with IFRS requirements, Hydro has chosen to provide information about market risk and potential expo-

sure to hypothetical loss from its use of derivative financial instruments and other financial instruments and derivative commodity instruments through sensitivity analysis disclosures. Please see note 41 to the Consolidated Financial Statements for more information and additional information on these disclosures.

## LEGAL PROCEEDINGS

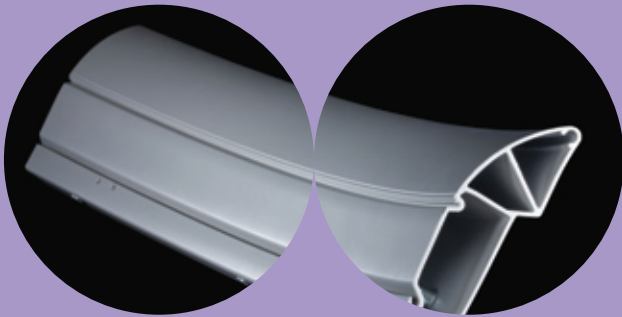
Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

Hydro and StatoilHydro have, in close cooperation with Norwegian and US authorities, concluded their parallel investigations in order to clarify the facts surrounding payments in connection with Hydro's (now StatoilHydro's) operations in Libya and consultancy agreements relating to Hydro's previous international oil and gas operations in relation to the applicable anti-corruption regulations. The fact findings of the investigations were submitted and presented to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) on October 7, 2008, and to the US authorities in November 2008.

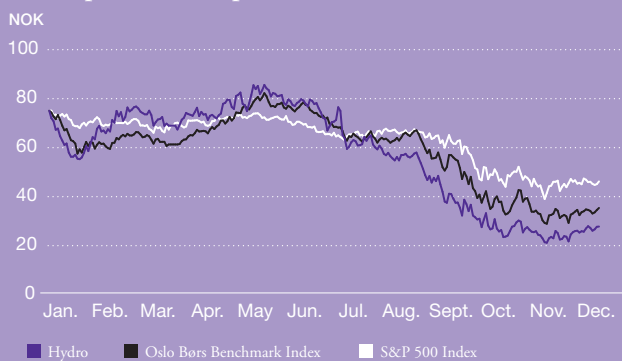


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## Shareholder information



Share price development in 2008



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### QUICK OVERVIEW

Hydro's share price closed at NOK 27.80 at the end of 2008. Taking into consideration the dividend of NOK 5.00 per share paid in 2008 the total return for 2008 was negative with NOK 44.80 or 58 percent.

By the end of 2008 there were 1,206,325,863 outstanding shares. Hydro had 49,148 registered shareholders as per the Norwegian Central Securities Depository. The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 43.8 percent of the total number of ordinary shares authorized and issued.

Hydro's shares are also listed in London, Paris, Frankfurt, Düsseldorf and Hamburg. Our American Depositary Shares (ADSs) trade on PinkSheets in the U.S. The share will be delisted from the stock exchanges in Germany on April 30, 2009 and in France on March 25, 2009.

## Introduction

Hydro's share price closed at NOK 27.80 at the end of 2008. Taking into consideration the dividend of NOK 5.00 per share paid in 2008 the total return for 2008 was negative with NOK 44.80 or 58 percent. Due to demanding markets and low forward visibility in both the aluminium and financial markets, Hydro's Board of Directors proposes to forgo a dividend payment for 2008. The Board regards it as prudent to conserve the company's financial resources for organic investments into the Qatalum project and to minimize other funding requirements. During 2008 we repurchased 4,408,000 shares for NOK 149 million.

By the end of 2008 there were 1,206,325,863 outstanding shares. A total of 2.3 billion Hydro shares were traded on the Oslo Stock Exchange during 2008, representing 5.4 percent of the total turnover on the exchange in terms of share value. Hydro's shares are also listed in London, Paris, Frankfurt, Düsseldorf and Hamburg. Our American Depositary Shares (ADSs) trade on PinkSheets in the U.S. The share will be delisted from the stock exchanges in Germany on April 30, 2009 and in France on March 25, 2009.

## Dividend policy

Long-term returns to shareholders should reflect the value created by Hydro. Shareholders' returns consist of dividends and share price development. Over time, value creation should be reflected to a greater extent by share price development than through dividends. Our policy is to pay out on average 30 percent of net income as ordinary dividend over time to our shareholders. In setting the dividend for a specific year we will take into consideration future earnings, future investment opportunities, the outlook for world commodity markets and our financial position. Share buybacks or extraordinary dividends will supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total payout should reflect Hydro's aim to give its shareholders competitive returns benchmarked against alternative investments in comparable companies.

Hydro's Board of Directors normally propose a dividend per share in connection with the publication of our fourth quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. We pay dividends once each year. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

## Buyback of shares

In periods when earnings are high, Hydro may consider to buy back shares in addition to ordinary or extraordinary dividend payments. This consideration will be made in the light of alternative investment opportunities and our financial situation. In circumstances when buying back shares are relevant, our Board of Directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Authorizations

are granted for a specific time period and for a specific share price interval for which share buybacks can be made.

During 2008 we spent NOK 149 million on repurchasing 4,408,000 shares in the market at an average price of NOK 33.90 per share as part of a buyback authorization approved by the Annual General Meeting on May 6, 2008 allowing for buy-back of shares for up to NOK 4 billion. The Norwegian state will participate with a proportional number of shares in order to keep its ownership interest unchanged. We therefore expect to redeem 3,438,738 shares from the state during 2009. The price to be paid to the state will be equal to the volume-weighted average of the prices we paid for shares bought in the market during 2008 less any dividend paid in 2009, plus an interest rate of NIBOR plus one percent to compensate for the later settlement.

## Funding and credit rating

Maintaining a strong financial position and an investment grade credit rating are viewed as important risk mitigating factors, supporting Hydro's possibilities for strategic development of its businesses. Access to external financial resources is required in order to maximize value creation over time, balanced with an acceptable risk exposure. To secure access to debt capital on attractive terms we aim at maintaining an investment grade credit rating from the leading rating agencies, Standard & Poor's and Moody's.

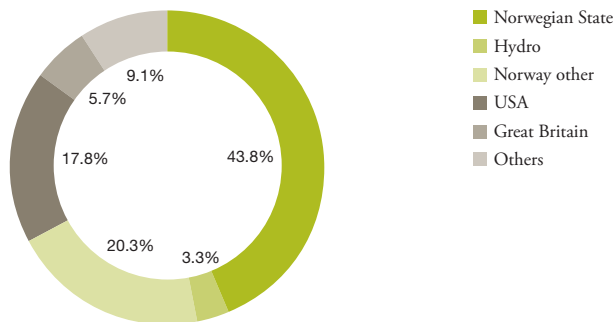
Contributing to retaining this credit rating, we intend to keep our funds from operations of at least 40 percent of net adjusted interest-bearing debt in addition to net adjusted interest-bearing debt at a ratio of 0.55 to equity capital over time. In calculating this ratio, we include off balance sheet pension obligations, operating lease commitments, share of net interest-bearing debt in joint ventures and certain other debt like items. For a discussion of these adjustments see Note 35 – Capital Management in the Financial Statements section of this report.

## Major shareholders and voting rights

As of December 31, 2008, Hydro had 49,148 registered shareholders as per the Norwegian Central Securities Depository. The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 43.8 percent of the total number of ordinary shares authorized and issued and 45.3 percent of the total shares outstanding. As of the same date The Government Pension Fund – Norway, (Folketrygdfondet), owned 5.2 percent of the total number of ordinary shares issued and 5.4 percent of the total shares outstanding. In total the Norwegian state owns 49.1 percent of the total number of ordinary shares issued and 50.8 percent of the total shares outstanding. There are no different voting rights associated with the ordinary shares held by the state.

The state acquired most of its interest in Hydro in 1945, and increased it to 51 percent in 1971. Ordinary shares issued in connection with the acquisition of Saga Petroleum ASA in July 1999 increased the total number of shares issued and outstanding with a corresponding decrease in the state's ownership interest to 43.8 percent. Since 1945, the state has not

## Geographical ownership distribution of shares



disposed of any of the ordinary shares owned by it, except when participating in the share buyback programs. The state, represented by the Ministry of Trade and Industry, has in a white paper stated its intention to maintain its shareholding in Hydro. The Norwegian Ministry of Trade and Industry represents the Norwegian government in exercising the state's voting rights. The state has never taken an active role in the day-to-day management of Hydro.

As of December 31, 2008, JPMorgan Chase & Co, as depository of the ADSs, through its nominee company, Morgan

Guaranty Trust Company, held interests in 56,586,918 ordinary shares, or 4.7 percent of the issued and outstanding ordinary shares as of such date, on behalf of approximately 500 registered and an estimated 11,000 beneficial holders of ADSs.

All shares basically carry one vote. It is, however, a requirement of Norwegian legislation that a shareholder can only vote for shares registered in their name. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depository before the Annual General Meeting in order to obtain voting rights. This requirement also applies to our U.S. traded ADSs.

## Information from Hydro

Hydro gives a high priority to communicating with the stock market, and aims to maintain an open dialogue with market participants. Our objective is to provide sufficient information on a timely basis to all market participants to ensure a fair valuation of our shares. Information that is considered price sensitive is communicated by news releases and stock exchange announcements. We host regular meetings for investors in Europe and the U.S. The major brokers in Oslo and London publish equity research reports on Hydro. All information about Hydro is published on our website: [www.hydro.com](http://www.hydro.com)

Our annual and quarterly reports are available on [www.hydro.com](http://www.hydro.com), and our latest annual reports can also be ordered in printed versions from the website.

Two weeks before the announcement of quarterly results

## Hydro's 20 largest shareholders, December 31, 2008

Shareholder	Number of shares	Ownership interest
Ministry of Trade and Industry	546,902,099	43.82%
Folketrygdfondet	65,370,435	5.24%
State Street Bank and Trust (nominee)	57,986,576	4.65%
Morgan Guaranty Trust (ADR)	56,586,918	4.53%
State Street Bank & Trust (nominee)	46,522,565	3.73%
Hydro	41,631,086	3.34%
Clearstream Banking (nominee)	15,589,153	1.25%
JPMorgan Chase Bank (nominee)	14,414,323	1.16%
Bank of New York Mellon (nominee)	12,262,535	0.98%
Euroclear Bank (nominee)	11,854,378	0.95%
Caceis Bank	8,234,730	0.66%
Skandinaviska Enskilda Banken (nominee)	7,421,713	0.59%
DnB NOR Bank	7,180,966	0.58%
Nordea Bank Norge	7,125,482	0.57%
Rasmussengruppen	6,305,000	0.51%
Investors Bank & Trust Company (nominee)	6,022,114	0.48%
State Street Bank and Trust (nominee)	5,939,247	0.48%
The Northern Trust Co. (nominee)	5,837,493	0.47%
DnB NOR Norge (IV)	5,577,017	0.45%
JPMorgan Chase Bank (nominee)	5,422,086	0.43%

Source: Norwegian Central Securities Depository (VPS)

## Key figures for the Hydro share

	2008	2007	2006	2005	2004
Share price high, Oslo (NOK) <sup>1)</sup>	<b>85.60</b>	80.13	64.68	48.56	33.83
Share price low, Oslo (NOK)	<b>21.20</b>	68.00	43.79	30.01	23.45
Share price average, Oslo (NOK)	<b>57.32</b>	70.32	53.22	38.65	28.80
Share price year-end, Oslo (NOK)	<b>27.80</b>	77.60	62.77	44.96	30.95
Earnings per share (EPS) (NOK)	<b>(3.25)</b>	14.90	14.00	12.50	9.90
EPS from continuing operations (NOK) <sup>2)</sup>	<b>(3.04)</b>	7.20	13.90	12.40	9.00
Dividend per share (NOK)	<b>0.00</b>	5.00	5.00	4.40	4.00
Pay-out ratio <sup>3)</sup>	-	69%	36%	35%	44%
Dividend growth	<b>(100)%</b>	0%	14%	10%	82%
Pay-out ratio five year average <sup>4)</sup>	<b>38%</b>	34%	35%	34%	29%
Adjusted debt/equity ratio <sup>5)</sup>	<b>0.30</b>	0.01	0.22	0.31	0.11
Credit rating, Standard & Poor's	<b>BBB</b>	BBB	A-	A	A
Credit rating, Moody's	<b>Baa2</b>	Baa1	A2	A1	A2
Non-Norwegian ownership, year-end	<b>33%</b>	42%	38%	40%	37%
Outstanding shares, average	<b>1,209,143,809</b>	1,221,195,650	1,240,804,344	1,254,036,520	1,272,057,165
Outstanding shares, year-end	<b>1,206,325,863</b>	1,209,304,379	1,226,175,885	1,250,692,320	1,254,196,150

- 1) An adjustment factor of 0.324396 has been used for share prices prior to the demerger of the oil and gas activities on October 1, 2007. In addition an adjustment factor of 0.881699 has been used for share prices prior to the demerger of Yara International on March 25, 2004. The adjustments are according to Oslo Stock Exchange's calculation methods.
- 2) Oil and gas activities only included as discontinued for 2007.
- 3) Dividend per share divided by earnings per share. EPS from continuing operations from 2004.
- 4) Total dividend divided by net income for last five years.
- 5) See Note 35 to the Consolidated Financial Statements. Years 2004-2006 not adjusted for revised definition introduced in 2008.

Hydro practices a "closed period" meaning that contact with external analysts, investors and journalists is minimized. This is done to minimize the risk of information leaks and potentially unequal information in the marketplace.

### Annual General Meeting

The Annual General Meeting will be held at the Company's headquarters at Drammensveien 260, Oslo, Norway, on Tuesday May 5, 2009, at 17:00 CET. Shareholders who wish to attend are asked to inform the registrar by 12:00 CET on Monday, May 4:

DnB NOR Bank ASA,  
Verdipapirservice  
0021 Oslo, Norway  
Fax: + 47 22 48 11 71

You may also register electronically on our website [www.hydro.com/register](http://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. Voting rights are discussed under "Major shareholders and voting rights".

### Change of address

Shareholders registered in the Norwegian Central Securities Depository should send information on changes of address to their registrar and not directly to Hydro.

### Financial calendar 2009

April 29	First quarter results
May 5	Annual General Meeting
July 22	Second quarter results
September 24	Capital Markets Day
October 27	Third quarter results



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# Corporate governance



## All continents

Based in Norway, Hydro employs some 23,000 people in more than 40 countries and has activities on all continents.



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## QUICK OVERVIEW

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our corporate governance has been designed to provide a foundation for value creation and to ensure good control mechanisms. We maintain common requirements in the form of corporate directives that are mandatory for all parts of our organization.

The corporate directives help ensure that all our employees carry out their activities in an ethical manner and in accordance with current legislation and Hydro standards. The board of directors has approved our code of conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code addresses compliance with laws and other matters such as handling of conflicts of interest and a commitment to equal opportunities for all employees. Our Integrity Program contributes to compliance with anti-corruption legislation and basic human rights.

## Introduction

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our main share listing is on Oslo Børs, which subjects us to Norwegian securities legislation and stock exchange regulations. See also page 93.

We have developed our governance structure through cooperation between our corporate management board and our superior governance bodies to secure compliance with relevant laws and regulations and to reflect business needs. Further development is a continuous process.

We follow the Norwegian Code of Practice for Corporate Governance of December 2007. A detailed description of our compliance is presented on page 104. Information regarding our shareholder policy can be found on page 93.

Since 2006 Hydro has headed the aluminium sector of the Dow Jones Sustainability Index (DJSI). We have been listed on the DJSI every year since the start of the index in 1999. We are also listed in the corresponding UK index, FTSE4Good.

Hydro's strategic direction is described on page 9. More comprehensive information about our governance practices, policies and requirements can be found at [www.hydro.com/governance](http://www.hydro.com/governance)

## Corporate directives and code of conduct

The Hydro Way represents our framework for leadership, organization and culture and is the foundation of our governance system. See page 62 for further information. Our system is based on the delegation of responsibility to our business areas and to corporate functions whose duties include finance, tax and accounting. In order to maintain uniformly high standards, we set common requirements in the form of corporate directives that are mandatory for all parts of our organization. The directives address, among other things, strategy and business planning, finance, risk management, organizational

and employee development, health, security, safety and environment (HSE), ethics and social responsibility. This information is made available to all employees.

The board of directors has approved our code of conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. See page 65 for more information about Hydro's code of conduct, whistleblowing procedure and integrity program, and [www.hydro.com/principles](http://www.hydro.com/principles) where you also can find more information regarding our corporate directives.

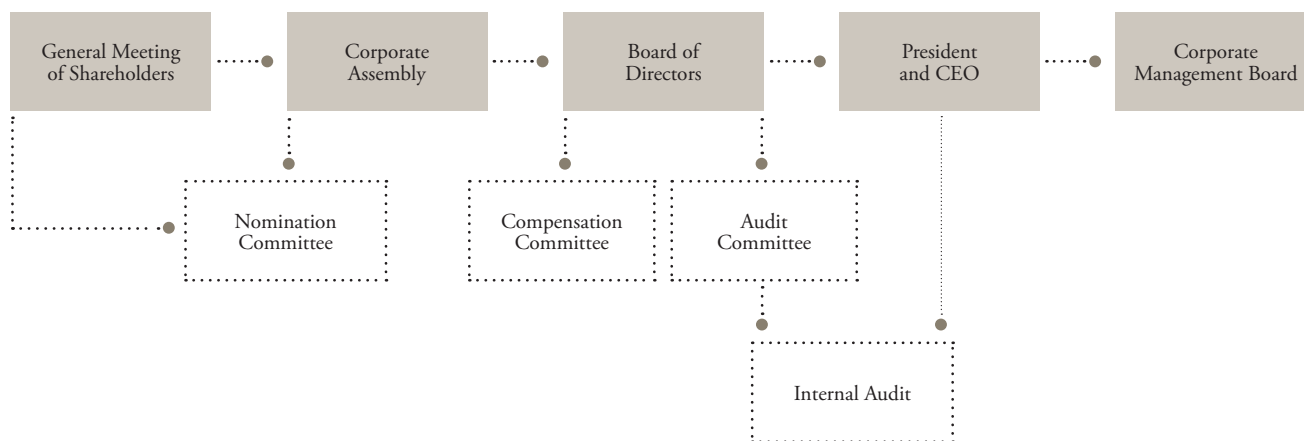
## Business planning and risk management

Hydro's overall goal is to create shareholder value through satisfied customers and motivated and competent employees. We have defined two main processes to ensure that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and results monitoring. The planning, which reflects our ambitions and values, is the basis for the strategies and measures that form the business plans at all levels of our organization. We have defined key performance indicators for each unit, including financial, human resource, ethical and HSE objectives, in addition to unit-specific operating targets.

The people process is designed to assess and develop our human resources, and is an integral part of our annual business planning. Its aim is to promote the potential of individual employees and of our organization as a whole.

Risk management is also an integrated part of our planning and reporting process. Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's Board of Directors regularly reviews and evaluates the overall risk management systems





and environment within Hydro. We carry out risk assessments for defined exposure areas. Exposure to certain risks, particularly those threatening life and health, has been consistently reduced to very low levels. See also page 90 for a more detailed discussion of Hydro's financial risk management.

## Controls and procedures

Our disclosure committee, comprised of senior managers, is responsible for reviewing financial and related information included in our reports.

Hydro's Internal Control over Financial Reporting (ICFR) framework is primarily designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of our Financial Statements. Hydro established its comprehensive ICFR framework in 2006 and continues to maintain it based on the principles established by "The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control – integrated framework". The five interrelated COSO principles are: 1) Control Environment, 2) Risk Assessment, 3) Control Activities, 4) Information and Communication, and 5) Monitoring.

Hydro's overall control environment relevant for financial reporting is covered by "Hydro-Wide Controls (HWC)". HWC reflects the tone set by the top management, management's and employees' common attitudes, ethics, and values, and competence.

Our ICFR model is implemented through a "Top-Down Risk-Based" approach. Four high-risk areas are identified; 1) Hydro financial reporting risk, 2) fraud risk, 3) general computer risk, and 4) financial closing risk.

To mitigate risks in the above-mentioned four areas, we have developed comprehensive controls. For lower risk areas, standardized controls have been designed and these are documented in an "Internal Control Handbook".

The Audit Committee takes an active role in ensuring the effective and harmonized functioning of the ICFR framework. See also page 103 and [www.hydro/governance](http://www.hydro/governance) for additional details.

### *Pre-approval of audit services*

The audit committee has a pre-approval policy governing the engagement of primary and other external auditors to provide

audit and non-audit services to Hydro or any entity within the group. Under this pre-approval policy, the audit committee has defined and pre-approved subcategories of audit and non-audit services. The audit committee's pre-approval policy includes annual monetary frames for each of the following categories of services:

- audit-related
- tax
- non-audit related

Within the scope of the pre-approval policy, all services have been pre-approved and all amounts for audit-related, tax and other non-audit related services are within the monetary frames established by the audit committee.

### *Employment of external auditor personnel*

Principles have been established to ensure that the independence of Hydro's external auditor is not impaired by means of the recruitment of former or current external auditor personnel and their close family members. Our policy requires a "cooling-off period" before recruiting former employees from the current external auditor to defined positions within Hydro.

## Transparency and communication

Hydro's corporate culture embodies the principles of honesty and respect for others. Our ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. We adhere, therefore, to the principles of transparency, honesty and sensitivity when interacting with our stakeholders.

## Management compensation

Information concerning remuneration and remuneration policies, share ownership, loans outstanding and loan policy relating to Hydro's Board of Directors and Corporate Management Board is disclosed in note 11 Employee and management remuneration and note 45 Board of Directors' and Corporate Assembly remuneration in the notes to the Consolidated financial statements.

## Board of Directors

### Terje Vareberg, chairperson

- Position: Managing director of Sparebank 1 SR-Bank
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chair of the Norwegian Savings Bank Association; Sparebank 1 Gruppen
- No. of Hydro shares: 10,000

### Grete Faremo, deputy chairperson

- Position: Independent businesswoman
- Education: Master's degree in law, University of Oslo
- Current directorships: Chair of the board of Abelia; deputy chairperson of the Norwegian Defence Research Establishment; Oslo Philharmonic Orchestra; Cowi AS
- No. of Hydro shares: 0

### Billy Fredagsvik, employee representative

- Position: Process operator / full-time union official. Represents the Norwegian Confederation of Trade Unions
- Education: Trade school (mechanics)
- Current directorships: None
- No. of Hydro shares: 592

### Inge K Hansen

- Position: Adviser
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chair of the board of Avinor; chair of the board of the Norwegian School of Management (BI); chair of the board of Norsun AS; chair of the board of Gjensidige Forsikring BA; chair of the board of Norwind AS; Jiffy International AS
- No. of Hydro shares: 0

### Finn Jebesen

- Position: Independent businessman
- Education: Master of Science in business from the Norwegian School of Economics and Business Administration (NHH). MBA from the University of California, Los Angeles
- Current directorships: Chair of the board of Kongsberg Gruppen ASA; chair of the board of Kavli Holding AS; deputy chair of KLP Forsikring; A Wilhelmsen Management AS; Berner Gruppen AS; Fateburet AS
- No. of Hydro shares: 32,545

### Jørn B. Lilleby, employee representative

- Position: Maintenance supervisor / full-time union official representing the Central Cooperative Council (Sentralt Samarbeidsråd)
- Education: Master of Science in mechanical engineering, Norwegian Institute of Technology
- Current directorships: Chair of the board of the community of interest ENGN Grimsmoen airfield; Ottem Transport; Ottem Resirk
- No. of Hydro shares: 527

### Sten Roar Martinsen, employee representative

- Position: Process operator / full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None
- No. of Hydro shares: 1,402

### Heidi M. Petersen

- Position: Independent businesswoman
- Education: Master of Science, University of Trondheim
- Current directorships: Chair of the board of Sandefjord Airport; Aker Solutions ASA; Glamox ASA; Nordea AB; Noreco ASA
- No. of Hydro shares: 10,000

### Bente Rathe

- Position: Independent businesswoman
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH). MBA from the University of Denver
- Current directorships: Chair of Powel ASA; Kongsberg Automotive ASA; Svenska Handelsbanken AB
- No. of Hydro shares: 0

For more extensive biographical information, please see [www.hydro.com/governance](http://www.hydro.com/governance)

## Board of Directors

Name	Place of Residence	Year of birth	Position	Board committee	Meetings attended <sup>1)</sup>	Director since	Term Expires
Chairperson Compensation							
Terje Vareberg	Stavanger, Norway	1948	Chairperson	Committee	16	2007	2010
Grete Faremo	Oslo, Norway	1955	Deputy chairperson	Audit Committee	17	2006	2010
Inge K. Hansen	Oslo, Norway	1946	Director	Chairperson Audit Committee	14 <sup>2)</sup>	2008	2010
Finn Jebesen	Oslo, Norway	1950	Director	Compensation Committee	16	2007	2010
Heidi M. Petersen	Sandefjord, Norway	1958	Director	Compensation Committee	16	2007	2010
Bente Rathe	Trondheim, Norway	1954	Director	Audit Committee	16	2007	2010
Billy Fredagsvik	Høyanger, Norway	1956	Director		17	2007	2009
Jørn B. Lilleby	Sunnalsøra, Norway	1952	Director	Audit Committee	16	2007	2009
Sten Roar Martinsen	Kopervik, Norway	1962	Director		17	2005	2009

1) Total number of board meetings were 17.

2) Inge K. Hansen succeeded Svein Rennemo who stepped down from the board March 12, 2008. Mr. Rennemo participated at two board meetings in 2008.

## Corporate Management Board

### Eivind Reiten

- Key experience: Head of Metal Products. Head of Refining and Marketing. Minister of Petroleum and Energy in the Norwegian government. Minister of Fisheries in the Norwegian government
- Education: Economist (cand. oecon.), University of Oslo
- No. of Hydro shares: 86,972

### Odd Ivar Biller

- Key experience: General counsel in Hydro since 1992
- Education: Master's degree in law (cand. jur.), University of Oslo. Master's degree in International and Comparative Law, Free University of Brussels
- No. of Hydro shares: 18,872

### Svein Richard Brandtzæg

- Key experience: Head of Rolled Products. Head of Metal Products. Head of Magnesium
- Education: PhD, Norwegian Institute of Technology. Degree from the Norwegian School of Management
- No. of Hydro shares: 26,117

### Anne Harris

- Key experience: Head of Corporate Financial Reporting and Performance. Several positions within finance in Hydro. Administration & Personnel Manager in Total Norge
- Education: Master of business and economics, Norwegian School of Management (BI)
- No. of Hydro shares: 13,902

### Arvid Moss

- Key experience: Project leader for the oil and gas merger agreement with Statoil. Head of Metal Products. Head of Automotive Structures
- Education: Master of science in business, Norwegian School of Economics and Business Administration (NHH)
- No. of Hydro shares: 60,857

### John Ove Ottestad

- Key experience: Head of Mergers and Acquisitions. Head of Refining and Marketing. Head of Magnesium
- Education: Master of science in physics, Norwegian Institute of Technology
- No. of Hydro shares: 78,707

### Jørgen C. Arentz Rostrup

- Key experience: Head of Markets in Oil & Energy. Head of Trading & Marketing in Markets. Head of Finance, Exploration & Production Norway
- Education: Master of science in business, Norwegian School of Economics and Business Administration (NHH)
- No. of Hydro shares: 6,662

### Tom Røtjer

- Key experience: Project director for the Ormen Lange and Langede development project. Head of Technology and Projects
- Education: Master of science in mechanical engineering, Norwegian Institute of Technology
- No. of Hydro shares: 16,532

### Hilde Aasheim

- Key experience: Head of Staff Functions and Corporate Services in StatoilHydro. Head of the integration between Statoil and Hydro's oil and gas activities. Head of Leadership and Culture in Hydro. Head of the Silicon Division in Elkem
- Education: Master of science in business, Norwegian School of Economics and Business Administration (NHH). Certified public accountant
- No. of Hydro shares: 136

As of March 30, Eivind Reiten will resign from Hydro and Svein Richard Brandtzæg will take up the responsibility as President and Chief Executive Officer. From the same date, we will establish a new and flatter organization including Oliver Bell as executive vice president for Rolled Products, Johnny Undeli as executive vice president for Extrusion and Kjetil Ebbesberg as executive vice president for Metal Markets. Aasheim will assume responsibility for Primary Metal in the new organization. As of May 1, Jørgen C Arentz Rostrup will take over as Chief Financial Officer after John Ove Ottestad who will step down from the Corporate Management Board and become adviser to the President and CEO. From the same date Ola Sæter will become executive vice president for Energy.

For more extensive biographical information, please see [www.hydro.com/governance](http://www.hydro.com/governance)

## Corporate Management Board

Name	Place of Residence	Year of birth	Employed in Hydro since	Current position since	Position
Eivind Reiten <sup>1)</sup>	Oslo, Norway	1953	1986	2001	President and Chief Executive Officer
Odd Ivar Biller	Oslo, Norway	1949	1980	2007	EVP Legal and Corporate Social Responsibility
Svein Richard Brandtzæg <sup>2)</sup>	Karmøy, Norway	1957	1985	2006	EVP Products
Anne Harris	Drammen, Norway	1960	2001	2007	EVP HR and Organization Development
Arvid Moss	Oslo, Norway	1958	1991	2008	EVP Corporate Strategy and Business Development
John Ove Ottestad	Lier, Norway	1949	1975	2001	EVP and Chief Financial Officer
Jørgen C. Arentz Rostrup	Oslo, Norway	1966	1991	2007	EVP Energy
Tom Røtjer	Oslo, Norway	1953	1980	2007	EVP Projects
Hilde Merete Aasheim	Oslo, Norway	1958	2008	2008	EVP Metal

1) Resigns from Hydro March 30, 2009.

2) Takes up the position as President and Chief Executive Officer March 30, 2009.

## Governance bodies

Description	Developments and events in 2008	References
<p><b>General Meeting of Shareholders</b> Company shareholders exercise ultimate authority through the General Meeting. Shareholders registered in VPS, the Norwegian Central Securities Depository, 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"> <li>• Elects the shareholders' representatives to the Corporate Assembly</li> <li>• Elects the external auditor and determines the auditor's remuneration</li> <li>• Approves the report according to Norwegian requirements and financial statements, including the dividend proposed by the Board of Directors and recommended by the Corporate Assembly</li> <li>• Deals with any other matters listed in the notice convening the meeting</li> </ul> <p>Shareholders may, at least 14 days before an ordinary general meeting, request that proposals for resolutions are submitted to the General Meeting, or that items are added to the agenda.</p>	<p>General Meeting in May</p>	<p>The protocols can be found at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>
<p><b>Corporate assembly</b> Eighteen members. Twelve are elected by the General Meeting of Shareholders, six are elected by and among the group's employees in Norway.</p> <p>In accordance with Norwegian law, the Corporate Assembly:</p> <ul style="list-style-type: none"> <li>• Elects the Board of Directors and determines their remuneration</li> <li>• Nominates the external auditor to be elected by the General Meeting of Shareholders</li> <li>• Based on recommendations from the Board of Directors, makes decisions in matters relating to investments that are substantial in relation to Hydro's resources, and when closures and reorganizations will lead to significant changes for the workforce</li> <li>• Provides recommendations to the General Meeting of Shareholders with respect to approval of the Board of Director's proposal regarding the financial statements and dividend</li> </ul>	<p>Four meetings</p> <p>Members: Siri Teigum (chairperson), Leif Teksum (deputy chairperson), Nils Roar Brevik, Anne-Margrethe Firing, Michael Hall, Westye Høegh, Hans Olav Karde, Idar Kreutzer, Toril Nag, Bjørn Nedreaas, Anne Merete Steensland, Unni Steinsmo, Svein K. Sund, Sten-Arthur Sælør, Lars Tronsgaard, Terje Venold, Bente Linnerud Østlyngen, Bjørn Øvstetun</p> <p>Deputy members: Anne Kverneland Bogsnes, Ove Ellefsen, Trygve Eriksen, Odd Arne Fodnes, Terje Friestad, Merete Jonas, Jon Lund, Line Melkild, Arne Rønningen, Tor Egil Skulstad, Brit Sæverud, Gunvor Ulstein, Georg Vikshåland, Tove Wangensten</p>	<p>Note 45 to the Consolidated Financial Statements for remuneration and share ownership</p> <p>Articles of Association §§ 7-8 at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>
<p><b>Nomination committee</b> Four members. Two appointed by the General Meeting of Shareholders, two appointed by the Corporate Assembly. The chair of the Corporate Assembly has a permanent seat on the committee.</p> <p>Nominates candidates to the Board of Directors and the Corporate Assembly and proposes remuneration to the Board, its sub-committees and to the Corporate Assembly.</p>	<p>Four meetings</p> <p>Members: Siri Teigum (chairperson), Westye Høegh, Leif Teksum, Mette Wikborg.</p>	<p>Articles of Association § 5A and biographical information can be found at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>
<p><b>Board of directors</b> Nine members. Six elected by the Corporate Assembly, three elected by and among the company's employees in Norway, normally for a period of two years.</p> <p>In accordance with Norwegian law, the Board of Directors assumes the overall governance of the company, ensures that appropriate management and control systems are in place and supervises the day-to-day management as carried out by the President and CEO.</p> <p>All shareholder-elected members are external. No members elected by employees are part of the company's executive management. Employee directors have no other service contractual agreements with the company outside of their employee contracts, though they are subject to their duties as Board members.</p>	<p>Seventeen meetings. Ninety-six percent meeting attendance by board members.</p> <p>Svein Rennemo stepped down from the Board on March 12, and Inge K. Hansen was elected a new member of the Board.</p> <p>The Board has an annual plan for its work. This includes a review of its working procedures, competency, priorities and cooperation between the Board and the Company's management. Major tasks for the Board in 2008 were to define the future strategy for the company and to handle the so-called Libya-investigation and compliance issues. Further, at the end of 2008 the Board engaged in the process of evaluating potential successor candidates for the position as President and CEO of Hydro and production capacity adjustments in response to the challenging market. Following substantial changes to the composition of the Board in 2007, a program was carried out in 2008 to give the</p>	<p>The board's mandate can be found at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p> <p>Biographical information on the board members on page 100</p> <p>The Libya investigation on page 66</p> <p>Note 45 to the Consolidated Financial Statements for remuneration, share ownership and loans</p>

Description	Developments and events in 2008	References
<b>Board of directors (cont.)</b>	<p>new Board sufficient information about Hydro's organization, corporate governance and strategy.</p> <p>All shareholder-elected members were deemed to be independent according to the Norwegian standards. None of the company's non-employee Board members had any other service contractual agreements with the company. In the period from entering Hydro's board till the end of 2007, Grete Faremo served as chairperson of the board of Norwegian People's Aid. During this period Hydro paid a total of NOK 0.1 million to the organization for material, services and as donations. These payments were primarily initiated by line management at lower levels in Hydro. Grete Faremo has since April 2008 served as a director of the board of Oslo Philharmonic Orchestra, to which Hydro paid NOK 8.2 million as sponsorships in the period April-December 2008. Hydro has been sole sponsor to the orchestra since 1990.</p>	
<p><b>Compensation committee</b> Consists of three of the Board of Directors' nine members.</p> <p>The committee reviews the performance of, and puts forward proposals regarding the compensation of the President &amp; CEO to the Board of Directors. The committee assists in evaluating the compensation of the Corporate Management Board and in determining performance-promoting schemes for management.</p>	<p>Four meetings</p> <p>Members*: Terje Vareberg (chairperson) Finn Jebsen Heidi M. Petersen</p>	<p>The mandate can be found on <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>
<p><b>Audit committee</b> Consists of four of the Board of Directors' nine members. The Audit Committee meets Norwegian requirements regarding independence and competence.</p> <p>The Audit Committee assists the Board of Directors relating to the integrity of the Company's financial statements and financial reporting processes and internal controls; the Company's risk assessment and risk management policies related to financial reporting; the qualifications, independence and performance of the external auditor; and the performance of the internal audit function related to internal controls over financial reporting.</p> <p>To ensure the independence of the internal audit function, the head of Internal Audit may report any matters directly to the Board Audit Committee, at his own discretion. As from 2009, the head of Internal Audit reports functionally to the Board through the Audit committee.</p> <p>The Audit Committee maintains a pre-approval policy governing the engagement of the company's primary and other external auditors to ensure auditor independence.</p>	<p>Nine meetings</p> <p>Members: Inge K Hansen (chairperson) Grete Faremo Jørn Lilleby* Bente Rathe</p> <p>* Lilleby is employed in Hydro and represents the employees through the Central Cooperative Council. We believe that such reliance does not adversely affect, in any material way, the ability of the Audit Committee to act independently or to satisfy the other requirements.</p>	<p>The mandate can be found on <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p> <p>Pre-Approval of Audit Services on page 99.</p>
<p><b>President &amp; CEO and Corporate Management Board</b> According to Norwegian corporate law, the President &amp; CEO constitutes a formal governing body that is responsible for the daily management of the company. The division of functions and responsibilities between the President &amp; CEO and the Board of Directors is defined in greater detail in the rules of procedures established by the Board.</p> <p>The Corporate Management Board (CMB), including the President &amp; CEO, 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 (EVPs) with responsibility for the respective business areas, Projects, Finance, Legal and Corporate Social Responsibility, and HR and Organizational Development, and Strategy and Business Development.</p>	<p>Met on a weekly basis.</p> <p>In August Torstein Dale Sjøtveit resigned from CMB to take up the position of CEO in Aker Yards ASA. Jan Arve Haugan acted in the position until Hilde Merete Aasheim was appointed EVP with a special responsibility for Metal in November.</p> <p>No member of Hydro's Board of Directors or the Corporate Management Board has any family relationship with any other director or member of the Corporate Management Board.</p>	<p>Biographical information on page 101</p> <p>Note 11 to the Consolidated Financial Statements for remuneration, share ownership and loans</p>

## Norwegian code of practice for corporate governance

Page numbers and notes to the consolidated financial statements refer to this report. All other references can be found at [www.hydro.com/governance](http://www.hydro.com/governance)

Corporate governance topic	Comments	References
1 Implementation and reporting on Corporate Governance	Hydro follows the Norwegian Code of Practice for Corporate Governance of 2007 including all its recommendations. The Hydro Way represents our framework for leadership, organization and culture and is the foundation for our governance system, including our code of conduct.	<a href="http://www.hydro.com/principles">www.hydro.com/principles</a>
2 Hydro business	The objectives of the company are to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with these objectives. Activities may also proceed through participation in or in co-operation with other enterprises.	Hydro's articles of association at <a href="http://www.hydro.com">www.hydro.com</a>  Hydro's strategy is described at page 9
3 Equity and dividends	Hydro's equity capital is appropriate to the company's objectives, strategy and risk profile.  Hydro's dividend policy is to pay out on average 30 percent of net earnings.  Mandate for buyback of Hydro shares may be granted to the Board by the General Meeting. The mandate should be limited in time to no later than the date of the next annual general meeting.	Page 93
4 Equal treatment of shareholders	Hydro has one share class.  Transactions are generally carried out through stock exchanges. Buy-backs of own shares are carried out at market prices.  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.  Employee share allocations are granted at a discount to market value.  The board usually deals with investors through the administration. Under special circumstances the board represented by the chairperson may have direct dialogue as appropriate.	Page 93      Note 11
Transactions with close associates	Hydro's Code of Conduct includes guidelines for handling possible conflicts of interest. The Code is valid to all Board members and Hydro employees. It is the assessment of the Board that during 2008 there have been no material transactions between the Group and shareholder, directors, officers or close associates of any such parties.  Regulation of share issues and pre-emptive rights are described in the Articles of Associations. The Company has not issued shares since 1999 in connection with the acquisition of Saga Petroleum, and the Board holds no current mandates for such at present.	<a href="http://www.hydro.com/principles">www.hydro.com/principles</a>
The Norwegian State as an owner	The Norwegian state represented by the Ministry of Trade and Industry owns 43.82 percent of Hydro's shares. Hydro has regular meetings with the Ministry. Topics discussed include Hydro's economic development, strategic development, CSR, and the State's expectations regarding investment performance and yield. These meetings are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of shareholders. As a shareholder, the State does not usually have access to more information than what is available to other shareholders. If the State's participation is imperative and the Government must obtain an authorisation from Stortinget, it may be necessary to give the Ministry insider information. In such cases, the State is subject to the general rules that apply to dealing with such information.	<a href="http://www.hydro.com/eierstyring">www.hydro.com/eierstyring</a>
5 Freely negotiable shares	The Hydro shares are freely negotiable. The stock is among the most traded stocks at Oslo Børs and subject to efficient pricing. The Norwegian state through Ministry of Trade and Industry and Folketrygdfondet owns 49.1 percent of the shares.	Page 93



Corporate governance topic	Comments	References
6	<p>General meetings</p> <p>The notice of a general meeting is normally available at hydro.com minimum four weeks prior to the meeting and sent to the shareholders minimum two weeks before the meeting.</p> <p>Our aim is that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting.</p> <p>Deadline for shareholders to give notice of attendance in the meeting, is normally maximum two working days before the meeting.</p> <p>Shareholders who cannot attend the meeting in person, can vote by proxy</p> <p>The board of directors, the nomination committee and the auditor are present at the general meeting.</p> <p>The Annual General Meeting is presided over by the Chairperson of the Corporate Assembly or, in his or her absence, by the Deputy Chairperson.</p> <p>The notice calling the general meeting provides information on the procedures shareholders must observe in order to participate in and vote at the general meeting. This include</p> <ul style="list-style-type: none"> <li>• the procedure for representation at the meeting through a proxy, including a form to appoint a proxy</li> <li>• the right for shareholders to propose resolutions in respect of matters to be dealt with by the general meeting</li> <li>• the web pages where the notice calling the meeting and other supporting documents will be made available</li> </ul> <p>The following information is available at hydro.com:</p> <ul style="list-style-type: none"> <li>• information on the right of shareholders to propose matters to be considered by the general meeting</li> <li>• how to make proposals for resolutions to be considered by the general meeting, alternatively comments on matters where no resolution is proposed</li> <li>• a form for appointing a proxy</li> </ul> <p>The general meeting votes separately for each candidate nominated for election to the company's corporate bodies.</p>	<p>Page 102</p> <p>The Hydro share at <a href="http://www.hydro.com">www.hydro.com</a></p>
7	<p>Nomination committee</p> <p>The Nomination Committee consists of four members who shall be shareholders or shareholders' representatives. They are appointed by the General Meeting of Shareholders. Minimum two including the chairperson are appointed among the shareholder elected members of the Corporate Assembly. The committee's compensation is determined by the Corporate Assembly.</p> <p>Shareholders may nominate candidates for the board of directors and the corporate assembly.</p>	<p>Page 102. Hydro's Articles of association and mandate for the Nomination committee can be found at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p> <p><a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>
8	<p>Corporate assembly and board of directors: Composition and independence</p> <p>All board directors and members of the corporate assembly are independent of the executive management of Hydro and its main business connections. Lars Tronsgaard, who is a member of the corporate assembly, is representing Folketrygd fondet, owned by the Norwegian State.</p> <p>The Chair of the Board is elected by the Corporate Assembly.</p> <p>Board members are elected for a period of two years.</p> <p>Six board members own a total of 55,066 shares as of December 31, 2008. Hydro has no program for board members to acquire shares except from the employee representatives who are entitled to acquire shares through the employee share purchase plan. All share transactions are conducted according to the Norwegian Securities Trading Act.</p>	<p>Page 100 and 102</p> <p>Page 102</p> <p>Note 11 and 45</p>
9	<p>Board work and responsibilities</p> <p>The Board has an annual plan for its work with particular emphasis on objectives, strategy and implementation.</p> <p>The board has developed rules of procedures for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.</p>	<p>Page 102</p> <p>The Board's mandate can be found at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p>

Corporate governance topic	Comments	References
	<p>The Corporate Assembly elects both the chairperson and the deputy chairperson of the board.</p> <p>The Board's Audit Committee and Compensation Committee were both established in 2001.</p> <p>The Board conducts annually a self-evaluation of its work, competence and cooperation with management.</p> <p>In addition the Nomination Committee evaluates the Board's competence.</p>	
10 Risk management and internal control	The Board ensures sound internal control and systems for risk management through e.g. an annual Board review of most important risk factors and internal control. From 2009 the Internal Audit Corporate reports directly to the board, but remains administratively subject to the president and CEO.	Page 87 and 98-99
11 Remuneration of the Board of Directors	<p>The shareholder elected members of the Board have no assignments for the company other than the board work.</p> <p>The compensation is determined by the Corporate Assembly.</p>	Note 45
12 Remuneration of the executive management	The board of directors has establish guidelines for the remuneration of the members of the executive management. These guidelines are communicated to the annual general meeting.	<p>See Articles of association at <a href="http://www.hydro.com/governance">www.hydro.com/governance</a></p> <p>Note 11</p>
13 Information and communication	<p>Hydro has establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market. This includes contact with shareholders other than through the shareholder meetings.</p> <p>A financial calendar is available in this report and at <a href="http://hydro.com">hydro.com</a></p> <p>Shareholder information is published at <a href="http://hydro.com">hydro.com</a>. "Financial Statements and Board of Directors' Report" and notices of shareholder meeting are sent directly to shareholders unless they have consented to receive these documents electronically.</p>	<p>Page 93</p> <p>Page 96</p>
14 Take-overs	The Board will handle any possible take-over in accordance with Norwegian corporate law. There are no defence mechanisms against take-over bids in our Articles of Association or in any underlying steering document. Neither have we implemented any measures to limit the opportunity to acquire shares in the company. The Norwegian state through Ministry of Trade and Industry and Folketrygdfondet owns 49.1 percent of the shares as per December 31, 2008.	
15 Auditor	<p>The external auditor annually submits the main features of the plan for the audit of the company to the Board Audit Committee.</p> <p>The external auditor participates in relevant agenda items at all meetings in the Audit Committee. Minutes of these meetings are distributed to all Board members. This practice is in line with the EU Audit Directive.</p> <p>The auditor presents their view on internal control procedures through the annual management letter.</p> <p>Hydro emphasizes independence and has clear guidelines for use of services performed by auditor.</p> <p>The Audit Committee meets with the external auditor and the head of Internal Audit at least once a year without the presence of Corporate Management.</p> <p>Remuneration to auditor is disclosed in the annual report and approved by the general meeting.</p>	<p>Page 99 and 103</p> <p>Note 44</p>

08:

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## Consolidated income statements

Amounts in NOK million (except per share amounts), Year ended 31 December	Notes	2008	2007
Revenue	8	<b>88,643</b>	94,316
Share of the profit (loss) in equity accounted investments	8, 25, 26	<b>(915)</b>	1,000
Other income, net	8, 9	<b>865</b>	1,093
<b>Total revenue and income</b>		<b>88,593</b>	96,409
Raw material and energy expense	10	<b>58,215</b>	58,905
Employee benefits expense	11	<b>12,018</b>	12,440
Depreciation and amortization expense	12	<b>3,370</b>	3,407
Impairment of non-current assets	13	<b>1,545</b>	145
Other	14, 15	<b>12,251</b>	12,488
<b>Total expenses</b>	8	<b>87,399</b>	87,385
Earnings before financial items and tax	8	<b>1,194</b>	9,025
Financial income	16	<b>795</b>	1,403
Financial expense	16	<b>(5,821)</b>	1,805
Financial income (expense), net		<b>(5,026)</b>	3,208
Income (loss) from continuing operations before tax		<b>(3,832)</b>	12,233
Income taxes	17, 33	<b>565</b>	(3,075)
Income (loss) from continuing operations		<b>(3,267)</b>	9,158
Income (loss) from discontinued operations	7	<b>(247)</b>	9,447
<b>Net income (loss)</b>		<b>(3,514)</b>	18,604
Net income attributable to minority interests		<b>411</b>	408
Net income (loss) attributable to equity holders of the parent		<b>(3,925)</b>	18,196
Basic and diluted earnings per share from continuing operation		<b>(3.04)</b>	7.17
Basic and diluted earnings per share from discontinuing operation		<b>(0.20)</b>	7.74
Basic and diluted earnings per share attributable to equity holders of the parent		<b>(3.25)</b>	14.90

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	2008	2007
<b>Assets</b>			
Cash and cash equivalents		<b>3,333</b>	9,330
Short-term investments	18	<b>1,648</b>	2,742
Accounts receivable	19	<b>16,254</b>	15,564
Inventories	20	<b>16,293</b>	12,227
Other current financial assets	21, 40	<b>2,579</b>	967
Total current assets continuing operations	8	<b>40,108</b>	40,830
Assets held for sale	7	-	6,741
Property, plant and equipment	22	<b>29,338</b>	26,750
Intangible assets	23, 24	<b>2,178</b>	1,514
Investments accounted for using the equity method	25, 26	<b>14,457</b>	9,659
Other non-current financial assets	21, 40	<b>5,592</b>	4,341
Prepaid pension	32	<b>1,458</b>	1,246
Deferred tax assets	33	<b>2,026</b>	963
Total non-current assets continuing operations	8	<b>55,049</b>	44,474
Total assets	8	<b>95,157</b>	92,046

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	<b>2008</b>	2007
<b>Liabilities and equity</b>			
Bank loans and other interest-bearing short-term debt	28	<b>1,169</b>	1,045
Trade and other payables	29	<b>12,944</b>	12,193
Provisions	31	<b>2,060</b>	1,599
Taxes payable	33	<b>1,984</b>	2,361
Other current financial liabilities	21, 40	<b>5,187</b>	1,157
<b>Total current liabilities continuing operations</b>		<b>23,344</b>	18,355
Liabilities included in disposal groups	7	-	2,021
Long-term debt	30	<b>279</b>	263
Provisions	31	<b>2,115</b>	1,849
Pension obligation	32	<b>9,953</b>	8,920
Other non-current financial liabilities	21, 40	<b>2,996</b>	2,795
Other liabilities		<b>1,071</b>	588
Deferred tax liabilities	33	<b>1,258</b>	2,246
<b>Total non-current liabilities continuing operations</b>		<b>17,673</b>	16,662
<b>Total liabilities</b>		<b>41,016</b>	37,038
Share capital	34	<b>1,370</b>	1,370
Additional paid-in capital	34	<b>309</b>	360
Other reserves	34	<b>7,435</b>	(1,348)
Retained earnings	34	<b>47,968</b>	57,950
Treasury shares	34	<b>(4,274)</b>	(4,283)
<b>Equity attributable to equity holders of the parent</b>	34	<b>52,808</b>	54,049
Minority interest		<b>1,333</b>	959
<b>Total equity</b>		<b>54,141</b>	55,008
<b>Total liabilities and equity</b>		<b>95,157</b>	92,046

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated statements of cash flows

Amounts in NOK million	Notes	2008	2007
<b>Operating activities:</b>			
Net income (loss)		<b>(3,514)</b>	18,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (income) loss from discontinued operations	7	<b>247</b>	(9,447)
Depreciation, amortization and impairment	8, 12, 13	<b>4,915</b>	3,552
Share of (profit) loss in equity accounted investments	8, 25, 26	<b>915</b>	(1,000)
Dividends received from equity accounted investments	25, 26	<b>247</b>	456
Deferred taxes		<b>(2,383)</b>	44
Gain on sale of non-current assets		<b>(412)</b>	(598)
Loss (gain) on foreign currency transactions	16	<b>5,491</b>	(2,254)
Net sales of trading securities		<b>230</b>	114
Capitalized interest	16	<b>-</b>	(5)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		<b>2,770</b>	146
Inventories		<b>(1,761)</b>	545
Trade and other payables		<b>(1,801)</b>	89
Financial and commodity derivatives		<b>(1,801)</b>	3,577
Other items		<b>(222)</b>	450
Net cash provided by continuing operating activities	43	<b>2,921</b>	14,273
<b>Investing activities:</b>			
Purchases of property, plant and equipment		<b>(3,485)</b>	(3,485)
Purchases of other long-term investments		<b>(5,374)</b>	(1,403)
Purchases of short-term investments		<b>(2,850)</b>	(5,000)
Proceeds from sales of property, plant and equipment		<b>95</b>	122
Proceeds from sales of other long-term investments		<b>679</b>	4,330
Proceeds from sales of short-term investments		<b>3,600</b>	17,200
Net cash provided by (used in) continuing investing activities		<b>(7,335)</b>	11,764
<b>Financing activities:</b>			
Loan proceeds		<b>93</b>	25
Principal repayments		<b>(346)</b>	(1,108)
Ordinary shares purchased		<b>(149)</b>	(2,887)
Ordinary shares issued		<b>44</b>	66
Dividends paid		<b>(6,359)</b>	(6,236)
Net cash used in continuing financing activities		<b>(6,717)</b>	(10,140)
Foreign currency effects on cash and bank overdraft		<b>(11)</b>	(285)
Net cash provided by (used in) discontinued operations	7	<b>5,075</b>	(12,799)
Net increase (decrease) in cash, cash equivalents and bank overdraft		<b>(6,067)</b>	2,813
Cash, cash equivalents and bank overdraft reclassified to assets held for sale		<b>-</b>	(105)
Cash, cash equivalents and bank overdraft at beginning of year		<b>9,256</b>	6,548
Cash, cash equivalents and bank overdraft at end of year	43	<b>3,189</b>	9,256

The accompanying notes are an integral part of the consolidated financial statements.

## Consolidated statements of changes in equity

Amounts in NOK million	Notes	2008	2007
<b>Ordinary shares issued - amount</b>			
Balance at 1 January		<b>1,370</b>	4,708
Cancellation treasury shares	34	-	(79)
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(62)
Demerger	34	-	(3,197)
Balance at 31 December		<b>1,370</b>	1,370
<b>Additional paid-in capital</b>			
Balance at 1 January		<b>360</b>	9,736
Treasury shares reissued to employees	34	<b>(51)</b>	53
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(2,701)
Demerger	34	-	(6,727)
Balance at 31 December		<b>309</b>	360
<b>Other reserves</b>			
Balance at 1 January		<b>(1,348)</b>	(1,533)
Currency translation differences	34	<b>8,391</b>	(4,279)
Net unrealized gain (loss) on securities, net of tax	34	<b>167</b>	(295)
Cash flow hedges, net of tax	34, 42	<b>225</b>	585
Demerger	34	-	4,174
Balance at 31 December		<b>7,435</b>	(1,348)
<b>Retained earnings</b>			
Balance at 1 January		<b>57,950</b>	89,544
Net income attributable to equity holders of the parent		<b>(3,925)</b>	18,196
Dividend declared and paid		<b>(6,053)</b>	(6,134)
Cancellation treasury shares	34	-	(2,317)
Transactions with minority equity holders		<b>(4)</b>	-
Demerger	34	-	(41,339)
Balance at 31 December		<b>47,968</b>	57,950
<b>Treasury shares issued - amount</b>			
Balance at 1 January		<b>(4,283)</b>	(6,624)
Purchase of treasury shares	34	<b>(149)</b>	(123)
Treasury shares reissued to employees	34	<b>158</b>	68
Cancellation treasury shares	34	-	2,396
Balance at 31 December		<b>(4,274)</b>	(4,283)
<b>Equity interests attributable to equity holders of the parent</b>			
Balance at 1 January		<b>54,049</b>	95,831
Transactions with equity holders		<b>(42)</b>	(2,765)
Distributions to equity holders		<b>(6,053)</b>	(6,134)
Transactions with minority equity holders		<b>(4)</b>	-
Demerger	7	-	(47,089)
Other changes in shareholders equity		<b>4,858</b>	14,207
Balance at 31 December		<b>52,808</b>	54,049

The accompanying notes are an integral part of the consolidated financial statements.



## Consolidated statements of changes in equity

Amounts in NOK million	Notes	2008	2007
<b>Minority interest</b>			
Balance at 1 January		959	771
Minority's share of net income current period		411	408
Minority's share of dividend declared and paid		(306)	(102)
Minority's share of cash flow hedges, net of tax		34	-
Equity interest purchased (sold)		(10)	-
Transactions with the group		(1)	-
Currency translation differences		246	(117)
Balance at 31 December		1,333	959
<b>Total equity</b>		<b>54,141</b>	<b>55,008</b>

## Share information

## Ordinary shares issued - numbers in thousands


Balance at 1 January		1,247,957	1,286,455
Cancellation treasury shares	34	-	(21,627)
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(16,872)
Balance at 31 December		1,247,957	1,247,957

## Treasury shares issued - numbers in thousands

Balance at 1 January		(38,653)	(60,280)
Purchase of treasury shares	34	(4,408)	(622)
Treasury shares reissued to employees	34	1,429	622
Cancellation treasury shares	34	-	21,627
Balance at 31 December		(41,631)	(38,653)

The accompanying notes are an integral part of the consolidated financial statements.

Oslo, 18 March 2009

  
TERJE VAREBERG  
Chair

  
GRETE FAREMO  
Deputy chair

  
BILLY FREDAGSVIK  
Board member

  
FINN JEPSEN  
Board member

  
BENTE RATHE  
Board member

  
JØRN B. LILLEBY  
Board member

  
HEIDI M. PETERSEN  
Board member

  
INGE K. HANSEN  
Board member

  
STEN ROAR MARTINSEN  
Board member

  
EIVIND REITEN  
President and CEO

## NOTE 1

### Significant accounting policies and reporting entity

The parent company Norsk Hydro ASA and consolidated subsidiaries (Hydro) is a supplier of aluminium and aluminium products. Hydro's headquarters are in Oslo, Norway, and the group employs around 23,000 people in more than 40 countries. Hydro is the world's fifth largest primary aluminium producer and the second largest producer of electric power in Norway. Hydro is a major worldwide supplier of value-added casthouse products, including extrusion ingots, sheet ingots and foundry alloys. We are a significant supplier to the building industry, especially in Europe, and of rolled products to the packaging and graphics industries. Hydro is listed on the Oslo and London stock exchanges.

Prior to 1 October 2007, Norsk Hydro ASA was an integrated energy and aluminium company, operating as an offshore producer of oil and gas, transacting as a major player in the Nordic and European energy market, taking a active role in the development of new energy forms and supplying aluminium and aluminium products.

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the disclosure requirements as specified under the Norwegian Accounting Law ("Regnskapsloven"). All standards applied by Hydro have been endorsed by the European Union (EU) and Norwegian authorities and are effective as of 31 December 2008.

The financial statements for the fiscal year ended 31 December 2007 were Hydro's first IFRS financial statements. Hydro converted from the accounting principles generally accepted in the United States of America (US GAAP) with a transition date of 1 January 2006.

The following description of accounting principles applies to Hydro's 2008 financial reporting, including all 2007 comparative figures. See note 3 Basis of presentation and measurement of fair value, and note 4 Critical accounting judgments and key sources of estimation uncertainty for additional information related to the presentation, classification and measurement of Hydro's financial reporting.

#### **BASIS OF CONSOLIDATION**

The consolidated financial statements include Norsk Hydro ASA and subsidiaries. Hydro consolidates subsidiaries where Hydro has the ability to exercise control. Control is achieved when Hydro has the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Control can also be achieved through power over more than half of the voting rights by virtue of an agreement with other investors, or exercise of de facto control.

Inter-company transactions and balances have been elimi-

nated. Profits and losses resulting from intra-group transactions have been eliminated.

#### **BUSINESS COMBINATIONS**

Business combinations are accounted for using the purchase method in accordance with IFRS 3 Business Combinations (IFRS 3). The purchase price is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by Hydro in exchange for control of the acquiree, plus any costs directly attributable to the combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized separately at the acquisition date at their fair value irrespective of any minority interest.

Goodwill is recognized from the date of exchange and is initially measured as the excess of the purchase price over Hydro's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is not amortized, but is tested for impairment annually and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 Impairment of Assets (IAS 36). Goodwill is allocated to the groups of cash generating units expected to benefit from the synergies of the combination and that are monitored for internal management purposes. For Hydro this is at the sector level, which is the next organizational level within Hydro's reportable segments Aluminium Metal, Aluminium Products, and Energy.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Subsequent adjustments include the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the equity attributable to the shareholders of the parent except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Hydro has elected to utilize the option in IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) to not apply IFRS 3 retrospectively to past business combinations completed as of 1 January 2006. The impact of this policy decision is that all prior business combinations will continue to be accounted for as they originally were under US GAAP, including the allocation of acquisition cost. This includes the recognition of any goodwill identified in these transactions.

#### **INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES**

Classification of an equity investment as an associate is based on Hydro's ability to exercise significant influence, which is the power to participate in the financial and operating policy decisions of the entity. Significant influence is assumed to exist when Hydro owns between 20 to 50 percent of the voting rights. Consideration of additional evidence may, however, lead to the conclusion of significant influence at ownership levels less than 20 percent or lead to a lack of significant influence at ownership

percentages greater than 20 percent. Currently, only one equity investment of less than 20 percent ownership is classified as an associate.

A joint venture is an entity, asset or operation that is subject to contractually established joint control. In jointly controlled entities, special voting rights in some companies give the partners decision rights that exceed what normally would follow from the ownership share. This may be in the form of a specified number of board representatives, in the form of a right of refusal on important decisions, or by requiring a qualified majority for all or most of the important decisions which effectively impose joint control with the specific ownership situation.

Hydro accounts for associates and participation in a joint venture which is conducted in an entity using the equity method. The equity method involves showing the investment in the associate or joint venture at Hydro's percentage ownership of the equity in the associate or joint venture, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Share of the profit (loss) in equity accounted investments. Hydro's relative share of unrealized profits resulting from transactions with an associate or joint venture is eliminated.

The accounting policies used by the associates and joint ventures may differ from the accounting policies adopted by Hydro. Prior to equity accounting for the associates and joint ventures, Hydro adjusts for any recognition or measurement discrepancies due to the application of non-Hydro consistent accounting policies adopted by the equity accounted investments.

The financial statements for associates and joint ventures are prepared for the same reporting period as the group, with the exception of one associate where a lag of three months exists. Significant transactions of the associate occurring during the reporting lag period are adjusted for in Hydro's equity accounting for the associate so as to include the transaction in the correct reporting period.

Hydro evaluates investments in associates and joint ventures for impairment when indicators of a possible loss in value are identified. If the recoverable amount, estimated as either fair value or value in use of the associate or joint venture is below Hydro's carrying value and the impairment is considered to be significant or prolonged, the investment is written down as impaired to its recoverable amount. Impairment losses are reversed when the impairment situation is no longer deemed to exist.

#### **INVESTMENTS IN JOINTLY CONTROLLED AND JOINTLY OWNED ASSETS**

Jointly controlled assets or operations are arrangements where Hydro and the other partners have a direct ownership in specifically identified assets or a direct participation in certain operations that are under contractually joint control. Jointly owned assets are assets where Hydro and the other parties have direct ownership in specifically identified assets.

Hydro uses the proportional method of accounting for both jointly controlled and jointly owned assets or operations. Under

the proportional method of accounting, Hydro's percentage ownership share of the assets, liabilities, income and expense for these arrangements is included on a line-by-line basis in the group financial statements.

#### **ASSETS HELD FOR SALE AND INCOME FROM DISCONTINUED OPERATIONS**

When an asset or a group of assets are decided to be sold, they are reported separately as Assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5), provided that the sale is highly probable, which includes the criteria that management is committed to the sale, and that the sale will be completed within one year. Assets held for sale are not depreciated, but are measured at the lower of carrying value and the fair value less costs to sell. Assets meeting the criteria for presentation as an Asset held for sale are not reclassified as an Asset held for sale in prior period balance sheets. Immaterial disposal groups are not reclassified.

A discontinued operation is a component of Hydro that can be clearly distinguished from the rest of Hydro, both operationally and for financial reporting purposes. A discontinued operation is a separate major line of business or geographical area of operations. Cash flows, results of operations and any gain or loss from disposal are excluded from Earnings before financial items and tax and reported separately as Income from discontinued operations.

Components disposed of through a spin-off to shareholders are presented as discontinued operations as of the date of disposal. Hydro has elected to reclassify assets and liabilities in prior periods as discontinued operations to facilitate a better understanding of the effect of such transactions.

#### **FOREIGN CURRENCY TRANSACTIONS**

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. The realized and unrealized currency gains or losses are included in financial expense.

#### **FOREIGN CURRENCY TRANSLATION**

In the consolidated financial statements, the assets and liabilities of non-Norwegian krone functional currency subsidiaries, joint ventures and associates, including the related goodwill, are translated into Norwegian kroner (NOK) using the rate of exchange as of the balance sheet date. The results and cash flows of non-Norwegian krone functional currency subsidiaries, joint ventures and associates are translated into NOK using the average exchange rate for the period reported. Exchange adjustments arising when the opening net assets and the net income for the year retained by the non-Norwegian krone operation are translated into NOK are taken into Other reserves and reported in the Consolidated statement of changes in equity. On disposal of a non-Norwegian krone functional currency subsidiary, joint

venture or associate, the deferred cumulative amount recognized in equity relating to that particular non-Norwegian krone entity is recognized in the income statement.

Upon adoption of IFRS, Hydro elected to utilize the cumulative translation difference option in IFRS 1, and has reset the (US GAAP) cumulative translation differences for all foreign operations to zero as of 1 January 2006. Future gains or losses recognized on a disposal of any foreign operation will therefore exclude translation differences that arose before 1 January 2006.

### PROVISIONS

Provisions are recognized when Hydro has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that Hydro will be required to settle the obligation, and a reliable estimate can be made of the amount, taking into account the risks and uncertainties. When the effect of discounting the provision is material, the provision is measured using the present value of the cash flows estimated to settle the present obligation. See also the accounting policy discussion for Property, plant and equipment – asset retirement obligations.

**Exit and disposal activity costs** Hydro recognizes a provision for the direct costs associated with an exit and/or disposal activity after formal commitment to a detailed exit plan and communication of the exit plan to those who will be affected. A provision for termination benefits related to the involuntary termination of employees is recognized as of the date of employee notification. Exit or disposal activities are classified as restructuring costs when the activities materially change the scope of Hydro's business.

### CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from a past event, with the resolution of the contingency dependent on the occurrence or non-occurrence of uncertain future events not controlled by Hydro. Contingent liabilities are disclosed in the financial statements unless the possibility of an outflow of economic resources is remote. Contingent assets are not recognized in the financial statements.

### GUARANTEES

Hydro recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees, including Hydro's ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

### 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. 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. In pass-through arrangements where Hydro effectively passes through terms of a purchase arrangement to a sales arrangement with virtually no change in terms or risks, the arrangement is reported net with the fee or margin reported as revenue.

To the extent a transaction consists of multiple elements, the transaction is analyzed into the separately identifiable components for revenue recognition.

Revenues from the production of oil and gas (2007 comparative figures only) were recognized on the basis of Hydro's net working interest, regardless of whether the production was sold (entitlement method).

Activities related to the trading of derivative commodity instruments, or related to the purchase or delivery of physical commodities on a commodity exchange, as well as physical commodity swaps with a single counterparty, are presented on a net basis in the income statement, with the margin from trading recognized in revenues.

### OTHER INCOME, NET

Transactions resulting in income from sources other than normal production and sales operations are classified as Other income, net. Gains and losses resulting from the sale or disposal of PP&E, investments in associates or joint ventures, and subsidiaries are included in Other income, net as well as rental revenue and revenue from utilities.

### INVENTORIES

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory cost includes direct materials, direct labor and the appropriate portion of production overhead or the purchase price of the inventory. Abnormal amounts of idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period. A write-down to net realizable value occurs when the cost of the inventory is not recoverable, and is reversed in later periods when there is clear evidence of an increase in the net realizable value.

### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) is recognized when there is probable future economic benefit and when the acquisition cost can be measured reliably. PP&E carrying value is the historical cost less accumulated depreciation and any accumulated impairment losses. If an obligation for the retirement of a tangible non-current 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.

**Capitalized maintenance** Expenditures for maintenance and repairs applicable to production facilities are capitalized when these costs meet the criteria in accordance with IAS 16 Property,

Plant and Equipment (IAS 16). Maintenance and repair costs incurred on a scheduled basis with a time interval of greater than one year are capitalized. Expenditures related to maintenance and repairs that occur at regular intervals of less than twelve months, for example daily, weekly or monthly servicing, are expensed as incurred. Major replacements and renewals are capitalized and any assets replaced are retired.

**Capitalized interest** Hydro capitalizes borrowing costs on qualifying assets in accordance with IAS 23 Borrowing Costs (IAS 23). Currency gains or losses related to Hydro's foreign currency denominated borrowings are not capitalized.

**Leased assets** Leases which transfer to Hydro substantially all the risks and benefits incidental to ownership of the leased item are accounted for as finance leases in accordance with IAS 17 Leases (IAS 17) and IFRIC 4 Determining whether an Arrangement contains a lease (IFRIC 4). Finance leases are capitalized at inception as assets under Property, plant and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. The liability is included in Long-term debt. The assets related to finance leases are depreciated over the shorter of the estimated useful life of the asset or the lease term. The related liability is amortized by the amount of the lease payment less the effective interest expense. All other leases are classified as operating leases and the lease payments are recognized as an expense over the term of the lease.

**Depreciation and amortization** Depreciation and amortization expense are measured on a straight-line basis over the estimated useful life of the asset. Estimated useful life by category is as follows:

Machinery and equipment	4-30 years
Capitalized maintenance	2-15 years
Buildings	20-50 years
Other, including intangibles with definite lives	5-10 years

Hydro depreciates separately any component of an item of property, plant and equipment when that component has a useful life and a cost that is significant in relation to the total PP&E useful life and PP&E cost. At each financial year-end Hydro reviews the residual value and useful life of our assets, with any estimate changes accounted for prospectively over the remaining useful life of the asset.

Oil and gas producing properties (2007 comparative figures only) were depreciated individually using the unit-of-production method as proved developed reserves were produced.

#### ASSET RETIREMENT OBLIGATIONS

Hydro recognizes the estimated fair value of asset retirement obligations (ARO) in the period in which it is incurred in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). This cost includes the cost of dismantlement or removal of buildings or other assets, and the restoration or rehabilitation of site or other liabilities related to the retirement of an item of PP&E. The present value of the obligation is recognized when the asset is constructed and ready for use, or at a later date when the obligation is incurred. Related

asset retirement costs are capitalized as part of the carrying value of the non-current asset and the liability is accreted for the change in its present value each reporting period. Asset retirement costs are depreciated over the useful life of the related non-current asset. Accretion expense related to the time value of money is classified as part of Financial expense. Liabilities that are conditional on a future event (e.g. the timing or method of settlement), whether under the control of Hydro or not, are recognized if the fair value of the liability can be reasonably estimated.

#### INTANGIBLE ASSETS

Intangible assets acquired individually or as a group are recognized when acquired at fair value. 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 useful life and tested for impairment whenever indications of impairment are present. Intangible assets determined to have an indefinite useful life are not amortized but are subject to impairment testing on an annual basis.

**Emission rights** Hydro accounts for government granted and purchased CO<sub>2</sub> emission allowances at nominal value (cost) as an intangible asset. The emission rights are not amortized as they are either settled on an annual basis before year-end (matched specifically against actual CO<sub>2</sub> emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO<sub>2</sub> emissions over the level granted by the government are recognized as a liability at the point in time when emissions exceed the level granted. Any sale of government granted CO<sub>2</sub> emission rights is recognized at the time of sale at the transaction price.

**Research and development** All expenditures on research are expensed as incurred. Development costs are capitalized as an intangible asset at cost when all of the recognition criteria in IAS 38 Intangible Assets (IAS 38) are met. These criteria are when it is probable that Hydro will receive a future economic benefit that is attributable to the asset and when the cost can be measured reliably.

#### IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Hydro reviews property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 Impairment of Assets (IAS 36). The carrying amount is not recoverable if it exceeds the asset's or cash generating group's fair value less costs to sell or the value in use. If the carrying amount is not recoverable, an impairment loss is recognized in the amount that the carrying value exceeds its recoverable amount. In the event of a subsequent increase in the recoverable amount, previously recognized impairment losses are reversed.

## FINANCIAL ASSETS

Financial assets represent a contractual right by Hydro to receive cash or another financial asset in the future. Financial assets include financial instruments used for cash-flow hedges, financial derivatives and commodity derivative contracts. Financial assets classified as non-current include long-term financial instruments, other investments, long-term loans to employees, long-term bank accounts, restricted cash and other long-term receivables.

Financial assets are derecognized when the rights to receive cash from the asset have expired or when Hydro has transferred its rights to receive cash flows from the asset and has either transferred substantially all of the risks and rewards of the asset or has transferred control of the asset.

Cash and cash equivalents, short-term investments, accounts receivable and other non-current financial assets are discussed below. All other financial assets are measured at amortized cost.

**Cash and cash equivalents** Cash and cash equivalents is measured at fair value, and includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition.

Cash and cash equivalents, as defined for reporting purposes in the statement of cash flows, consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts connected to cash management activities.

**Short-term investments** Short-term investments 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 recognized when earned.

**Accounts receivable** Accounts receivable are initially recognized at fair value, and subsequently accounted for at amortized cost and reviewed for impairment on an ongoing basis. Hydro recognizes an impairment loss on individual customer accounts based on an assessment of delayed payments, and other indicators of financial difficulty. Excluding the account balances that have been impaired based on the individual account evaluation process, Hydro then assesses all remaining overdue accounts receivable for impairment based on prior collection experience, the customer portfolio, local economic conditions and management assessment. Discounting generally does not have a material effect on accounts receivable, however, in special cases discounting may be applied.

**Other non-current financial assets** Other non-current financial assets includes Hydro's portfolio of non-marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is classified as available-for-sale securities and is measured at fair value with changes in fair value recognized through equity. Other investment income is recognized when earned.

Investments are reviewed for impairment if indications of a loss in value are identified. Fair value of the investment is esti-

mated based on valuation model techniques for non-marketable securities. When the estimated fair value of the investment is below Hydro's carrying value the impairment is recognized in earnings.

## FINANCIAL LIABILITIES

Financial liabilities represent a contractual obligation by Hydro to deliver cash in the future, and are classified as either short or long-term. Financial liabilities include financial instruments used for cash-flow hedges, financial derivatives and commodity derivative contracts.

Financial liabilities, with the exception of derivatives, are initially recognized at fair value including transaction costs directly attributable to the transaction. Subsequently, all liabilities, with the exception of derivatives, are accounted for at amortized cost.

Financial liabilities are derecognized when the obligation is discharged through payment or when Hydro is legally released from the primary responsibility for the liability.

## DERIVATIVE INSTRUMENTS

Hydro applies IFRS 7 Financial Instruments: Disclosures (IFRS 7), IAS 32 Financial Instruments: Presentation (IAS 32) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) when reporting and accounting for financial instruments and derivatives, as well as when determining whether contracts are financial instruments and derivatives.

Derivative instruments are marked-to-market with the resulting gain or loss reflected in the income statement, except when the instruments meet the criteria for cash flow hedge accounting. Derivatives and embedded derivatives are classified as short-term, provided that the final maturity date is before twelve months after the balance sheet date, or they are held solely for the purpose of trading. Derivatives and embedded derivatives are classified as long-term provided that their final maturity date is more than 12 months after the balance sheet date. Hedging instruments are classified accordingly.

If Hydro has payment netting agreements and the intention and ability to settle two or more derivatives, or contracts accounted for as derivatives, net, the contracts are presented net on the face of the balance sheet. The ability to settle net is conditional on simultaneous offsetting cash-flows from the two contracts. Otherwise, derivative contracts are presented gross at their fair value.

Physical commodity contracts are considered on a portfolio basis. If a portfolio of contracts contains contracts of a similar nature that are settled net in cash, or the assets are not intended for own use, the entire portfolio of contracts is recognized at fair value, and classified as a derivative. Physical commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with Hydro's expected purchase, sale or usage requirements (own use) are not accounted for at fair value. When determining whether electricity purchase contracts are for own use, such contracts are generally considered to be the primary source for usage

requirements. Own production of electricity is considered to be available for use or sale at Hydro's discretion unless restrictions for use of the power are present in concessions.

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in Financial expense.

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 expense.

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 revenue and/or operating cost, unless the instrument is designated as a cash flow hedge instrument and qualifies for hedge accounting.

The fair value option is currently not utilized by Hydro.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of the qualifying hedging instruments are offset in part or in whole by the 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 reserves until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is no longer expected to occur, all the corresponding gains and losses deferred in Other reserves are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in the current period's income statement. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of the hedged item are recognized currently in earnings.

An embedded derivative is bifurcated and accounted for as a separate financial instrument, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the host contract is not accounted for at fair value. Embedded derivatives are classified both in the income statement and on the balance sheet based on the derivatives' underlying.

#### **EXPLORATION AND DEVELOPMENT COSTS OF OIL AND GAS RESERVES**

Related to the oil and gas operations included in the 2007 comparative figures, Hydro used the successful efforts method of accounting for oil and gas exploration and development costs, in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). Exploratory costs, excluding the cost of exploratory wells and acquired exploration rights, were charged to expense as incurred. Drilling costs for exploratory wells were capitalized pending the determination of the exist-

ence of proved reserves. If reserves were not found, the drilling costs were charged to operating expense.

#### **INCOME TAXES, CURRENT AND DEFERRED**

Taxes payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years. In addition, it also excludes items that are never taxable or deductible. Hydro's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 Income Taxes (IAS 12). Deferred tax assets and liabilities are classified as non-current in the balance sheet and are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Temporary differences related to intercompany profits are deferred using the buyer's tax rate. Deferred tax assets are reviewed for recoverability every balance sheet date, and the amount probable of recovery is recognized.

Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for the deferred tax related to items charged directly to equity or resulting from a business combination or disposal. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective or are substantively enacted. Uncertain tax positions are recognized in the financial statements based on management's expectations.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are not provided on undistributed earnings of subsidiaries, when the timing of the reversal of this temporary difference is controlled by Hydro and is not expected to happen in the foreseeable future. This is applicable for the majority of Hydro's subsidiaries.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date (2007 comparative figures only).

#### **SHARE-BASED COMPENSATION**

Hydro accounts for share-based compensation in accordance with IFRS 2 Share-based Payment (IFRS 2). Share-based compensation expense is measured at fair value over the service period and includes social security taxes that will be paid by Hydro at the settlement date. All changes in fair value are recognized in profit and loss for the period.

#### **EMPLOYEE BENEFITS AND POST-EMPLOYMENT BENEFITS**

Payments to employees, such as wages, salaries, social security contributions, paid annual leave, as well as bonus agreements are

accrued in the period in which the associated services are rendered by the employee.

Post-employment benefits are recognized in accordance with IAS 19 Employee Benefits (IAS 19). The cost of providing pension benefits under a defined benefit plan is determined separately for each plan using the projected unit credit method. Past service costs are recognized in the income statement on a straight-line basis over the remaining vesting period. Past service cost related to benefits that are already vested are recognized immediately. Net cumulative actuarial gains and losses in excess of the greater of 10 percent of the benefit obligation (before deducting plan assets) and 10 percent of the fair value of any plan assets are recognized in the income statement over the remaining service period of active plan participants. When the number of active plan participants is negligible as compared to the number of inactive plan participants, then the excess cumulative actuarial gain (loss) is fully recognized at the beginning of the following year. The funded status of a defined benefit pension plan is measured as of 31 December and disclosed in note 32 Employee retirement plans.

Contributions to defined contribution plans are recognized in the income statement in the period in which they accrue. Multi-employer defined benefit plans where available information is insufficient to use defined benefit accounting are accounted for as if the plan were a defined contribution plan.

Upon transition to IFRS Hydro elected to utilize the option in IFRS 1 to recognize all 1 January 2006 US GAAP prior periods' unrecognized cumulative actuarial gains and losses with the effect posted directly to Hydro's IFRS equity as of 1 January 2006.

#### SEGMENT INFORMATION

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments (IFRS 8). IFRS 8 is required for accounting periods beginning on or after 1 January 2009, with earlier adoption permitted. Hydro early adopted IFRS 8 as of 1 January 2006.

## NOTE 2

### Changes in accounting principles and new pronouncements

#### CHANGES IN ACCOUNTING PRINCIPLES

IFRIC 14 IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14) provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. Hydro implemented IFRIC 14 as of 1 January 2008 with no material impact.

#### NEW PRONOUNCEMENTS

As of the date of authorization of these financial statements, the following standards, amendments and interpretations are those that were issued but not yet effective, have not yet been adopted

by Hydro and are relevant related to Hydro's IFRS financial reporting. The effective date is applicable to annual accounting periods beginning on or after that date, unless stated otherwise.

#### Implementation during 2009:

- IAS 23 (revised 2007) Borrowing Costs, (IAS 23R), effective date and Hydro implementation date 1 January 2009.
- IAS 1 (revised 2007) Presentation of Financial Statements (IAS 1R), effective date and Hydro implementation date 1 January 2009;
- Amendments resulting from May 2008 Annual Improvements to IFRSs (Amendments) effective date and Hydro implementation date 1 January 2009.
- IFRIC 13 Customer Loyalty Programs (IFRIC 13), effective date 1 July 2008; Hydro implementation date 1 January 2009.
- IFRIC 18 Transfers of Assets from Customers (IFRIC 18), effective for transfers received on or after 1 July 2009.

#### Implementation in 2010:

- IFRS 3 (revised 2008) Business Combinations (IFRS 3R); effective date 1 July 2009; Hydro implementation date 1 January 2010.
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements (IAS 27R), effective date 1 July 2009; Hydro implementation date 1 January 2010.

As of the date of issue of Hydro's financial statements, all of the above listed standards, amendments to standards and interpretations were endorsed by the EU except IFRS 3R, IAS 27R, and IFRIC 18.

Adoption of IAS 23 will have no impact on Hydro's financial statements as Hydro already capitalizes interest. Adoption of IAS 1R will not materially change the presentation of Hydro's financial statements. Adoption of IFRIC 13 have no impact on Hydro's financial statements as Hydro currently has a policy to defer revenue related to customer loyalty programs; the amount of deferred revenue related to customer loyalty programs as of 31 December 2008 is not material. Hydro is currently evaluating the potential accounting impact of IFRIC 18 and the Amendments resulting from May 2008 Annual Improvements to IFRSs, which consist of various changes to several standard. The impact of IFRS 3R and IAS 27R on Hydro's financial statements is in part dependent upon the specific fact pattern of future business combination transactions.

## NOTE 3

### Basis of presentation and measurement of fair value

#### BASIS OF PRESENTATION

The financial statements have been prepared on a historical cost basis except as regards certain assets, liabilities and financial instruments, which are at fair value. Financial statement



preparation requires management to make 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. See note 4 Critical accounting judgments and key sources of estimation uncertainty.

The presentation and classification of items in the financial statements is consistent for all periods presented. Gains and losses on the disposal of non-current assets are presented net, as well as expenditures related to provisions that are reimbursed by a third party.

The functional currency of Norsk Hydro ASA is the Norwegian krone (NOK). The Hydro group accounts are presented in NOK.

As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

#### NET PRESENT VALUE

Interest rates used when performing any net present value analysis, for example discounted cash flows for impairment testing, or measurement of post retirement obligations or other provisions, are rounded to the nearest 25 basis points.

#### MEASUREMENT OF FAIR VALUE

The following discussion on the measurement of fair value applies to the entirety of the financial statements, both to the measurement of specific assets, liabilities, revenues and expenses and to the note disclosures which accompany the financial statements.

**Financial Instruments** The estimated fair value of Hydro's financial instruments is based on market prices and valuation methodologies. For all valuations Hydro attempts to incorporate the factors market participants would consider in setting a price and to apply accepted economic and financial methodologies for the pricing of financial instruments. In the situation of less active markets, market references are carefully reviewed to establish relevant and comparable data. For periods when there are few or no transactions, extrapolation and accepted valuation techniques are employed.

Hydro's credit spread is used when determining the fair value of financial instruments, where Hydro is net liable. Hydro has no outstanding loans where market spreads can be observed. Given the uncertain market situation, the best proxy for Hydro's credit spread as of 31 December 2008 has been evaluated to be the borrowing rate associated with medium-term bank loans. An evaluation of the appropriate credit spread is made for each type of financial liability, and when our assessment of the credit risk indicates Hydro's credit spread is not appropriate, an adjustment is made. Hydro determines the appropriate discount factor and credit spread for financial assets based on both an individual and portfolio assessment.

**Marketable and non-marketable equity securities** The fair value for listed shares is based on quoted prices as of the end of the relevant reporting period. The fair value for unlisted shares

is calculated by using commonly accepted and recognized valuation techniques, or recognized at cost if the fair value cannot be measured reliably.

**Interest bearing liabilities** The fair value of debt instruments issued by Norsk Hydro ASA is calculated using yield curves, which incorporates estimates of the Norsk Hydro ASA credit spreads as of the balance sheet date.

**Derivatives** The fair value of financial derivatives, including currency swaps, foreign currency forward contracts and interest rate swaps, is estimated as the present value of future cash flows, calculated by using quoted swap curves and exchange rates as of the end of the reporting periods 31 December 2008 and 31 December 2007.

The fair value of commodity derivatives, including futures, forwards and options, is measured as the present value of future cash flows, calculated by using forward curves and exchange rates as of 31 December 2008 and 31 December 2007. Estimates from brokers and extrapolation techniques are applied for non-quoted periods to achieve the most relevant forward curve. In addition, when deemed appropriate, correlation techniques between commodities are applied. Options are re-valued using appropriate option pricing models and credit spreads are applied where deemed to be significant.

**Embedded derivatives** Hydro measures embedded derivatives that are separated (i.e. bifurcated) from the host contract by comparing the forward curve at contract inception to the forward curve as of the balance sheet date. Changes in the present value of the cash flows related to the embedded derivative are recognized in the balance sheet and in the income statement. Forward curves are established as described above under Derivatives. For contracts that contain embedded caps or floors, Asian option valuation models are used.

#### NOTE 4

#### Critical accounting judgement and key sources of estimation uncertainty

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.

#### IMPAIRMENT OF NON-CURRENT ASSETS

Hydro accounts for the impairment of non-current assets in accordance with IAS 36 Impairment of Assets. Under IAS 36, we are required to assess the conditions that could cause an asset to become impaired and to perform a recoverability test for potentially impaired assets held by Hydro. These conditions include whether a significant decrease in the market value of the asset has occurred, whether changes in the Hydro's business plan for the asset have been made or whether a significant

adverse change in the business and legal climate has arisen. Towards the end of 2008 Hydro's shares were trading at a level well below the carrying value of net assets. In addition, we have observed a substantial downward shift in prices and economic activity over the recent months and a negative economic outlook for the coming years. This is considered an impairment indicator for Hydro in total, and has resulted in a thorough review of assets and cash generating units that might be impaired. Most of Hydro's assets are assigned to Cash Generating Units (CGUs), which is the lowest level where largely independent cash flows are deemed to exist. The identification of CGUs involves judgment, including assessment of where active markets exist, and the level of interdependency of cash inflows. In this assessment, Hydro's organizational structure is also considered, as management's ability to control and impact Hydro's actions in the market is an important factor and thus is an element in determining the level of interdependency in cash flows. The CGU is usually the individual plant or production line, unless the asset or asset group is an integral part of a value chain where no independent prices for the intermediate products exist, or where circumstances otherwise indicate significant interdependencies.

If there are indications of loss in value, the recoverable amount is estimated. The recoverable amount is the higher of the asset or CGU's fair value less cost to sell, or its value in use. Directly observable market prices rarely exists for our assets, however, fair value may be estimated based on recent observed transactions on comparable assets, bids or other discussions of potential transactions involving the asset, or internal models used by Hydro for transactions involving the same type of assets. Internal fair value models rely primarily on market prices, but must also include assumptions on production volumes, cost of operations, and investment requirements. Calculation of value in use is a discounted cash flow calculation based on continued use of the assets in its present condition, excluding potential exploitation of improvement or expansion potential. Determination of the recoverable amount involves management estimates on highly uncertain matters, such as commodity prices and their impact on markets and prices for upgraded products, development in inflation and operating expenses, and technology changes. We use internal business plans, quoted forward prices and our best estimate of commodity prices, currency rates, discount rates and other relevant information. Such estimates may vary with business cycles and other changes. In periods when observed prices in the market are considered inconsistent because they over time render either exceptionally positive cash flows or consistently negative cash flows for a majority of market participants over time, adjustments in the mid to long term prices are made in order to reflect Hydro's current expectations of net cash flows. A detailed forecast is developed for a period of three to five years with projections thereafter. Hydro does not include a general growth factor to volumes or cash flows for the purpose of impairment tests. Estimated cash flows are discounted with a risk adjusted discount rate derived as the weighted average cost

of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre tax nominal discount rate is estimated at between 11 and 14 percent (2007: 12.5-14.5 percent). For further information about impairment tests, see note 13 Impairment of non-current assets.

Goodwill is allocated to sectors as described in Note 1 Significant accounting policies and reporting entity. The allocation of goodwill to segments is included in note 24 Goodwill. All goodwill included in Aluminium Metal is allocated to Commercial Products, in total NOK 283 million. The sector is profitable, and the calculated value in use exceeds the carrying value substantially.

The following table sets out the allocation of goodwill to sectors within Aluminium Products:

In NOK million	
Extrusion Eurasia	417
Building Systems	274
Extrusion Americas	173
Precision Tubing	37
Total Aluminium Products	902

The Extrusion Eurasia sector and the Building Systems sector are profitable, and the calculated value in use exceeds the carrying value substantially. The estimates are based on continued growth in the market over time following the present market downturn. Seriously depressed volumes and margins over an extended period of time may change the outcome of the test. The Extrusion Americas sector has experienced difficult market conditions and reported operating losses for 2007 and 2008. Several assets within the sector have been written down as impaired during 2008. The impairment test suggests a value in use of the sector with limited coverage over carrying value. The value is sensitive to sold volumes as well as margins. Continued depressed markets may result in an impairment situation whereby the goodwill, and possibly also remaining value of fixed assets might be impaired in a future period. The Automotive Structures sector also has experienced losses in 2007 and 2008. The impairment test suggests a value of the sector that does not support the carrying value of goodwill, and the goodwill of NOK 27 million has therefore been written down as impaired.

#### FINANCIAL INSTRUMENTS

Certain commodity contracts deemed to be financial instruments under IAS 39 are required to be recognized at fair value or to contain embedded derivatives which are required to be recognized at fair value, with changes in fair value impacting earnings. Determining whether contracts qualify as financial instruments at fair value involves evaluation of markets, Hydro's use of those instruments and historic or planned use of physically delivered products under such contracts. Determining whether embedded derivatives are required to be bifur-

cated for separate valuation involve assessing price correlations and normal market pricing mechanisms for various products and market places. When market prices are not directly observable through market quotes, the estimated fair value is calculated using valuation models, relying on internal assumptions as well as observable market information. Such assumptions include forward curves, yield curves and interest rates. Towards the end of 2008, the financial and commodity markets were significantly impacted by the financial turmoil, resulting in falling prices and significantly reduced trading volumes. The market situation impacts the reliability of observed prices, and increases the need for judgment to determine appropriate market prices used for valuation of Hydro's derivative instruments and embedded derivatives. The use of models and assumptions are in accordance with prevailing guidance from the IASB, including the IASB Expert Advisory Panel report "Measuring and disclosing the fair value of financial instruments in markets that are no longer active" and valuations are based on Hydro's best estimate. However, changes in observable market information and assumptions will likely occur and such changes may have a material impact on the estimated fair value of financial instruments, in particular on long-term contracts, resulting in corresponding gains and losses affecting future periods' income statements. In periods with volatile prices in financial and commodity markets such changes can be substantial.

It is important to note that the 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 to the "Indicative income statement sensitivities" table included in Note 41 Financial and commercial risk management.

#### **EMPLOYEE RETIREMENT PLANS**

Hydro's employee retirement plans consist primarily of defined benefit pension plans. Measurement of pension cost and obligations under the plans require us to make a number of assumptions and estimates. These include future salary levels, discount rates, turnover rate, and the 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 debt instruments. Hydro provides defined benefit plans in several countries and in various economic environments that will affect the actual discount rate applied. Around 75 percent of Hydro's projected benefit obligation relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2008 is 4.25 percent. This is in line with the guidance from the Norwegian Accounting Standards Board on pension assumptions for use as of 31 December 2008 when considering the duration of Hydro's pension obligations, the rounding practice for such estimates and the uncertainty in assumption for real interest rate underlying also the compensation increase. The discount rates applied in Germany and the UK are based on high quality corporate bonds, which are

available in those markets. As of the end of 2008, credit markets were volatile and less active than for previous periods. We have therefore carefully reviewed the benchmark indexes for determining the relevant discount rates. The discount rates used are 5.75 percent and 6 percent, respectively. The expected rate of return on plan assets is, based on the current portfolio of plan assets, determined to be approximately 1.5 percentage points above the yield on government bonds (Norway) and up to 1.5 percentage points above the yield on high quality corporate bonds (abroad) dependent on the mix of plan assets. Assumptions for salary increase in the remaining service period for active plan participants are based on expected salary increases for each country or economic area. Hydro expects limited deviation compared to the average development.

Changes in these assumptions can influence the funded status of the plan as well as the net periodic pension cost. The Projected Benefit Obligation (PBO) is sensitive to changes in assumed discount rates and assumed compensation rates. Based on indicative sensitivities calculated for the Norwegian plans, a 0.5 percentage point reduction or increase in the discount rate will increase or decrease the PBO in the range of 8 percent, for 2008 this is around NOK 1.9 billion. For 2008, Hydro incurred a change in the average discount rate of 0.3 percentage points as a result of the decrease of interest levels in the areas where Hydro's main pension obligations are situated. Hydro incurred an actuarial loss of NOK 5,211 million for the year, mainly resulting from negative return on plan assets and discount rate reduction. A 0.5 percentage point reduction or increase in compensation rates for all plan member categories in Norway will decrease or increase the PBO in the range of 5 percent, for 2008 around NOK 1.2 billion. The PBO is also sensitive to demographic assumptions. An indicative sensitivity for change in mortality assumptions indicates that a one year increase in expected life for each plan member increases the PBO with around 4 percent, for 2008 around NOK 0.9 billion. 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 the amortization of any unrecognized net gains or losses.

#### **CONTINGENCIES, UNCERTAIN LIABILITIES AND ENVIRONMENTAL LIABILITIES**

Liabilities that are uncertain in timing or amount, including environmental liabilities, are recognized when a liability arises from a past event and a cash outflow is probable and can be reasonably estimated. Contingent liabilities are possible obligations for which the occurrence or non-occurrence of a future event will determine whether Hydro will be required to make a payment to settle the liability, or where the size of the payment cannot be determined reliably. Contingent liabilities are disclosed unless a future payment is considered remote. Evaluation of uncertain liabilities and 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. Such estimates may vary from the ultimate outcome based on differing interpretations of laws and the assessment of the amount of damages. The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each site, and considers factors such as type and level of contamination, present laws and regulations related to such contamination, 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. A description of Hydro's major contingencies is included in note 38 Contingent liabilities and contingent assets. Provisions for liabilities of uncertain timing or amount are included in Provisions in the balance sheet.

#### **ASSET RETIREMENT OBLIGATIONS AND SIMILAR LIABILITIES**

Hydro accounts for asset retirement obligations, including decommissioning, restoration and similar liabilities related to the retirement of non-current assets under IAS 37 Provisions, Contingent Liabilities and Contingent Assets which prescribes the accounting for obligations associated with the retirement of non-current assets, and IAS 16 Property, plant and equipment. The fair value of the asset retirement obligation is recognized as a liability when it is incurred, and added to the carrying amount of the non-current asset as an element of its cost. The effect of the passage of time on the liability is recognized as an accretion expense, included in Financial expense, and the costs added to the carrying value of the asset are subsequently expensed over the assets' useful life. Measurement of an asset retirement obligation requires us to evaluate legal, technical and economic data to determine which activities or sites are subject to asset retirement obligations, as well as the method, cost and timing of such obligations. Hydro's asset retirement obligations are mainly related to contaminated material used in electrolyses when producing aluminium, and are disclosed in note 31 Provisions.

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. Changes to technology, regulations, prices for necessary goods and services and other factors may affect the timing and scope of retirement activities, and may substantially alter the book value of property, plant and equipment, decommissioning liabilities and future operating costs.

#### **INCOME TAX**

Hydro calculates income tax expense based on reported income in the different legal entities. Deferred income tax expense is calculated based on the differences between the assets' carrying

value for financial reporting purposes and their respective tax basis that are considered temporary in nature. The total amount of income tax expense and allocation between current and deferred income tax requires management's interpretation of complex tax laws and regulations in the 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. Tax authorities in different jurisdictions may challenge Hydro's calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change. During the period when tax authorities may challenge the taxable income, management is required to make estimates of the probability and size of possible tax adjustments. Such estimates may change as additional information becomes known.

#### **BUSINESS COMBINATIONS AND GOODWILL**

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

Under IAS 36 Impairment of Assets, goodwill and certain intangible assets are reviewed at least annually for impairment. The impairment test for goodwill involves estimating the value in use of the group of cash generating units to which goodwill is assigned, and comparing the estimated value to the carrying value of the group of cash generating units including goodwill. Should the carrying value exceed the estimated fair value, the excess is written down as impaired. To determine whether and how much goodwill is impaired we must develop estimates on highly uncertain matters, see discussion above about impairment of non-current assets.

#### **NOTE 5 Acquisitions**

Hydro has not entered into any significant business combinations during 2008 or 2007.

During 2008 Hydro acquired the Spanish Alumafel group,

an aluminium building systems company. In addition, the Spanish extrusion company Expral was acquired. The total acquisition cost for the two entities was approximately NOK 800 million.

In March 2006, Hydro entered into an agreement with Qatar Petroleum to establish the joint venture Qatalum with the aim to develop and operate an aluminium smelter in Qatar. The jointly controlled entity Qatar Aluminium Limited was established during the third quarter of 2007, and is accounted for under the equity method.

## NOTE 6 Disposals

During 2008 and 2007, Hydro entered into the following significant disposals.

In February 2008 Hydro agreed to sell 85 percent of its shares in the subsidiaries Production Partner AS and Production Services, conducting Hydro's activities within industrial maintenance, projects and service to Bilfinger Berger. The transaction was subject to clearance by competition authorities, and was completed on 1 April 2008. The total sales price for the majority stake in the two subsidiaries was NOK 733 million, resulting in a gain of NOK 419 million, reported as part of Other income, net.

In May 2007 Hydro's Board of Directors decided to sell the Polymers activities. Contracts to sell the 100 percent owned subsidiary Kerling ASA, with production facilities in Norway, Sweden and the UK, and Hydro's 29.7 percent interest in Qatar Vinyl Company (QVC) were entered into in late May 2007. The transaction was subject to clearance by competition authorities and the sale of the 29.7 percent ownership interest in QVC was subject to pre-emption rights. The regulatory approval was received on 29 January 2008. The pre-emptive rights in QVC were utilized by Qatar Petroleum. Following these events, the sale of Kerling ASA with subsidiaries to INEOS was completed on 1 February 2008. The sale of QVC to Qatar Petroleum was completed 18 August 2008. The Polymers business is reported as Discontinued operations and Assets held for sale as of the time of the sales decision. For further information, see note 7 Discontinued operations and assets held for sale.

In November 2006 Hydro's Board of Directors decided to sell the Company's Automotive Castings activities. Contracts to sell the 100 percent owned operations in Europe and Hydro's 50 percent interest in a joint venture company in Mexico were entered into in late November. The transaction was completed on 28 February 2007 after receiving clearance from competition authorities, and resulted in a gain of NOK 639 million. The Automotive Castings business was reported as Assets held for sale as of the time of the sales decision.

## NOTE 7 Discontinued operations and assets held for sale

### SALE OF BUSINESSES

In May 2007 Hydro's Board of Directors decided to sell the Polymers activities. Contracts were entered into in late May 2007. The transaction was subject to clearance by competition authorities and the sale of the 29.7 percent ownership interest in QVC was subject to pre-emption rights. The regulatory approval was received on 29 January 2008. The pre-emptive rights in QVC were utilized by Qatar Petroleum. Following these events, the sale of Kerling ASA with subsidiaries to INEOS was completed on 1 February 2008, and the sale of QVC was closed on 18 August 2008.

The Polymers business is reported as Assets held for sale and Discontinued operations as of the end of May 2007, and depreciation ceased from the same date. The results of operations in the disposed business are reported separately under the caption Income from discontinued operations for the current and all prior periods. No interest expense related to loans is allocated to discontinued operations. The final price for the sale was dependent on development in the period until closing, and secured that Hydro retained the results of operations after depreciation charges and currency translation effects. As of 31 December 2007, the investment was impaired by NOK 120 million.

Hydro continues to supply electricity to Polymers' production facilities in Norway under existing contracts until the existing internal contracts expire in the period 2010 to 2015. At closing, the accumulated currency translation effects related to translation of foreign subsidiaries included in Other reserves were recycled through the income statement with a loss of NOK 232 million, which was included in the total loss on the sale. Hydro's loss on the sale, after direct sales expenses and taxes, of NOK 333 million is reported as part of Discontinued operations for 2008. Cash flows from discontinued operations are presented separately, and include cash flows from the Polymers activities and the sales proceeds. In balance sheets after the sales decision was made, including the 31 December 2007 balance sheet, assets in the disposed businesses and the related liabilities are reported as Assets held for sale and Liabilities included in disposal groups, respectively. Prior period balance sheets are not reclassified.

The discontinued Polymers activities were previously included as part of Other activities. The following table summarizes the financial information for discontinued operations related to Polymers for the periods 2008 and 2007, and the balance sheet as of 31 December 2007.

## SALE OF BUSINESSES

### Summary of financial data for discontinued operations

Amounts in NOK million	2008	2007
Revenue	575	7,087
Share of the profit (loss) in equity accounted investments	33	161
Other income, net	19	-
Depreciation, amortization and impairment	-	(297)
Other expenses	(499)	(6,105)
Earnings before financial items and tax	129	846
Financial income (expense), net	(11)	(36)
Income before tax	118	810
Income taxes	(32)	(217)
Income before sale of shares	86	593
Loss from sale of shares	(333)	-
Income (loss) from discontinued operations	(247)	593
Net cash provided by (used in) operating activities	(150)	1,020
Net cash provided by (used in) investing activities	5,225	(290)
Net cash used in financing activities	-	-
Foreign currency effects on cash and bank overdraft	-	(58)
Net cash provided by discontinued operations	5,075	672

### Asset groups held for sale

Amounts in NOK million	2008	2007
Cash and cash equivalents		105
Receivables and other current assets		1,341
Inventories		816
Current assets held for sale	-	2,262
Property, plant and equipment		3,270
Other non-current assets		1,209
Non-current assets held for sale	-	4,479
Total assets held for sale	-	6,741
Current liabilities in disposal groups	-	1,389
Other long-term liabilities		558
Deferred tax liabilities		74
Non-current liabilities in disposal groups	-	632
Total liabilities in disposal groups	-	2,021
Assets held for sale, net	-	4,720

## DEMERGER OF HYDRO IN 2007

On 12 March 2007 Hydro's Board of Directors and the Board of Directors of StatoilHydro ASA (previously Statoil ASA) agreed to a proposed merger of Hydro's petroleum activities (Hydro Petroleum) with Statoil to form StatoilHydro ASA. The agreed economic effective date of the merger was 1 January 2007. From this date, the merged company StatoilHydro assumed the risks and rewards of Hydro's petroleum activities. The merger was completed as of 1 October 2007.

Upon the completion of the merger, all assets, rights and obligations of Hydro Petroleum were transferred to StatoilHydro. As a result of the demerger, Hydro's share capital was reduced by 70 percent, representing the estimated relative value of the transferred petroleum activities compared to the retained businesses. The total equity reduction amounted to NOK 47,089 million, including Other reserves temporarily recognized directly in equity of NOK 4,174 million. In accordance with the demerger plan, adjustments to the equity reduction through a different final allocation of assets and/or liabilities may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable, and following a verification process for the demerger of Hydro. The verification period ended during the first quarter of 2008 for the majority of items, while certain items continued to be open to verification through the third quarter of 2008. An agreement on adjustments was reached late February 2009. The adjustment will not require any payments, but will reduce Hydro's retained earnings by approximately NOK 250 million as recognized receivables from the demerger will not be paid.

The demerger took place by reducing the share capital of Hydro through a reduction of par value of each share, while increasing the share capital of StatoilHydro by issuing new shares as consideration to Hydro shareholders. This resulted in the Hydro shareholders receiving 0.8622 shares in StatoilHydro for each share owned in Hydro as of the transaction date. For the impact on Hydro's equity, please refer to the Consolidated Statements of changes in equity and note 34 Shareholders' equity. Hydro did not receive any ownership in StatoilHydro or retain any continued interest in the petroleum activities.

Under the Norwegian Public Limited Companies Act section 14-11, Hydro and StatoilHydro 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, ASSETS AND LIABILITIES IN DISCONTINUED OPERATIONS

The financial information for Hydro Petroleum as discontinued operations is based on the provisions in the Merger Plan. Income from discontinued operations includes results from activities which have been transferred to StatoilHydro. Effects directly related to the demerger process, including legal transfer of subsidiaries, costs and expenses related to the demerger transaction and the operational separation of Hydro Petroleum from Hydro's other activities, have been included in discontinued operations. The majority of costs originate in the individual business units. Costs related to shared services and corporate services, such as legal, IS/IT, human resources services and other, are charged to units based on services delivered in each period. General corporate overhead has been allocated to discontinued operations to the extent these costs were transferred or terminated following the demerger.

Hydro uses a centralized approach to the financing of its operations. Therefore, neither the Hydro Petroleum operations nor other Hydro operations have had separate external financing. Based on the Merger Plan, Hydro's debenture loan balance in its entirety has been allocated to Hydro Petroleum as discontinued operations (with the associated income statement adjustments for interest and foreign currency exchange effects).

Significant effects of the tax consolidation of taxable income in Hydro's continuing and discontinued operations in the various countries have been eliminated to arrive at an income tax expense as if separate tax returns had been filed for previous periods.

Contracts between Hydro's continuing and discontinued operations have been recognized as if they were contracts with unrelated parties at arm's length. These contracts include the sale and purchase of goods and services, and certain derivative instruments, primarily with currency and electricity underlying. Effects of such contracts are included in results of operations for continuing and discontinued operations, respectively, but have no effect on reported revenues, assets and liabilities.

The operations and companies of Hydro Petroleum are not identical with the operations previously reported as Oil & Energy in Hydro's segment reporting. In accordance with the Merger Plan, Hydro IS Partner, previously reported as part of Other Businesses, was transferred to StatoilHydro in the demerger. The Power activities, previously reported as part of Energy and Oil Marketing within Oil & Energy, have been retained in Hydro, along with solar activities, as a separate segment, Energy.

**Summary of financial data for discontinued operations**

Amounts in NOK million	2008	2007
Revenue	-	65,149
Share of the profit (loss) in equity accounted investments	-	66
Other income, net	-	675
Depreciation, amortization and impairment	-	(11,163)
Other expenses	-	(21,987)
Earnings before financial items and tax	-	32,739
Financial income (expense), net	-	748
Income before tax	-	33,486
Income taxes	-	(24,633)
Net income from discontinued operations	-	8,853
Net cash provided by operating activities	-	23,980
Net cash used in investing activities	-	(10,665)
Net cash used in financing activities	-	(26,772)
Foreign currency effects on cash and bank overdraft	-	(14)
Net cash used in discontinued operations	-	(13,471)



## NOTE 8

### Operating and geographic segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Hydro to identify its segments according to the organization and reporting structure used by management. 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 business area that offers different products and serves different markets. Hydro's operating segments are the three business areas Aluminium Metal, Aluminium Products and Energy.

Aluminium Metal activities include the production of bauxite and alumina, primary aluminium, remelting of metal, and the international trading of aluminium and aluminium products.

Aluminium Products comprises the downstream activities. The main activities include Rolled Products, Extrusion and Building systems. During 2007, the operations within Automotive castings and Magnesium were sold or closed. Rolled Products delivers foil, strip, sheet, litho and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion delivers custom-made general extrusion products, surface treatment, fabrication and components and finished products, including extruded aluminium products and components for the automotive industry. Building systems supplies complete designs and solution packages to metal builders, including products such as facades, partition walls, doors and windows.

Energy is responsible for the operation of Hydro's power stations in Norway and external sourcing of energy to Hydro's worldwide aluminium operations. Energy includes Hydro's commercial operations in the power markets.

Other activities consist of Polymers (reported as discontinued operations, sold in February 2008) and certain other activities.

Effective 30 March 2009, Hydro has decided to split the two business areas Aluminium Metal and Aluminium Products into in total four new business areas. The following new business areas are announced: Primary Metal, responsible for all Hydro's alumina production, metal plants and primary casthouses. Metal Markets will be responsible for metal sales, recycling, remelting and trading. The two new business areas will cover the activities currently conducted within Aluminium Metal. Rolled Products will be responsible for Hydro's rolling mills. Extruded Products will include activities within profiles and building systems. The two new business areas will cover the activities within Aluminium Products.

#### OPERATING SEGMENT INFORMATION

Hydro uses two measures of segment results, Earnings before financial items and tax – EBIT and EBITDA. EBIT is consistent with the same measure for the group. Hydro defines EBITDA as Income/(loss) before tax, financial income and expense, depreciation, amortization and write-downs, including amortization and impairment of excess values in equity accounted investments. Hydro's definition of EBITDA may differ from that of other companies. Hydro's management makes regular use of both these measures to evaluate performance in the operating segments and to allocate resources among its operating segments.

Hydro manages long-term debt and taxes on a Group basis. Therefore, Net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arm's length prices as if sold or transferred to third parties at the time of inception of internal contract. For certain goods and services, including power, delivery terms are agreed for several years, similarly to external contracts for the same deliveries. Transfers of businesses or assets within or between Hydro's segments are not considered to be intersegment sales, and are 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 operating segments are included in Corporate and Eliminations.

The accounting policies used for segment reporting reflect those used for the group with the following exceptions: Certain internal commodity contracts may meet the definition of a financial instrument in IAS 39 or contain embedded derivatives that are required to be bifurcated and valued at fair value under IAS 39. However, Hydro considers these contracts as sourcing of raw materials or sale of own production even though the contracts for various reasons include clauses that meet the definition of a derivative or an embedded derivative. Such internal contracts are accounted for as executory contracts. Certain other internal contracts may contain lease arrangements that qualify as capital leases. However, the segment reporting reflects the responsibility allocated by Hydro's management for those assets. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based either on the premium charged or the estimated service cost. Any difference between these charges and pension expenses measured in accordance with IFRS, as well as pension assets and liabilities are included in Corporate and Eliminations.

The following pages include information about Hydro's operating segments.

Amounts in NOK million	External revenue		Internal revenue		Total revenue	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	<b>37,334</b>	40,506	<b>17,363</b>	21,086	<b>54,697</b>	61,592
Aluminium Products	<b>48,018</b>	51,166	<b>162</b>	233	<b>48,180</b>	51,399
Energy	<b>2,353</b>	1,268	<b>5,562</b>	5,200	<b>7,915</b>	6,468
Corporate, other and eliminations <sup>1) 2)</sup>	<b>939</b>	1,376	<b>(23,087)</b>	(26,519)	<b>(22,149)</b>	(25,143)
<b>Total</b>	<b>88,643</b>	94,316	<b>-</b>	-	<b>88,643</b>	94,316

Amounts in NOK million	Other income, net	Share of the profit (loss) in equity accounted investments <sup>3)</sup>	Depreciation, amortization and impairment <sup>4)</sup>	
			2008	2007
Aluminium Metal	<b>52</b>	145	<b>(491)</b>	975
Aluminium Products	<b>64</b>	742	<b>(35)</b>	46
Energy	<b>36</b>	8	<b>(391)</b>	(24)
Corporate, other and eliminations <sup>1)</sup>	<b>713</b>	199	<b>2</b>	3
<b>Total</b>	<b>865</b>	1,093	<b>(915)</b>	1,000

Amounts in NOK million	Earnings before financial items and tax (EBIT) <sup>5)</sup>		EBITDA	
	2008	2007	2008	2007
Aluminium Metal	<b>2,151</b>	<b>8,365</b>	<b>5,636</b>	10,597
Aluminium Products	<b>(1,450)</b>	<b>1,098</b>	<b>516</b>	2,361
Energy	<b>1,471</b>	<b>1,303</b>	<b>1,872</b>	1,432
Corporate, other and eliminations <sup>1) 2) 6)</sup>	<b>(978)</b>	<b>(1,741)</b>	<b>(912)</b>	(1,678)
<b>Total</b>	<b>1,194</b>	<b>9,025</b>	<b>7,112</b>	12,711

Amounts in NOK million	Current assets <sup>7)</sup>		Non-current assets		Total assets <sup>7)</sup>	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	<b>20,816</b>	16,441	<b>31,504</b>	25,757	<b>52,320</b>	42,198
Aluminium Products	<b>17,724</b>	15,081	<b>14,179</b>	11,076	<b>31,904</b>	26,158
Energy	<b>2,104</b>	1,311	<b>7,050</b>	6,090	<b>9,154</b>	7,402
Corporate, other and eliminations <sup>1)</sup>	<b>(536)</b>	7,997	<b>2,315</b>	1,551	<b>1,779</b>	9,547
Total continued operations	<b>40,108</b>	40,830	<b>55,049</b>	44,474	<b>95,157</b>	85,304
Classified as held for sale					-	6,741
<b>Total</b>					<b>95,157</b>	92,046

- 1) Corporate, other and eliminations includes business activities outside the reportable segments. The main activities are Hydro Production Partner (sold in April 2008), the industrial insurance company Industriforsikring, and Hydro's internal service providers.
- 2) Corporate, other and eliminations include elimination of unrealized gains and losses on power contracts between Energy and other units in Hydro with a loss of NOK 1,087 million in 2008 and a loss of NOK 920 million in 2007.
- 3) Share of the profit (loss) in equity accounted investments includes impairment write-downs of NOK 597 million in Aluminium Metal and NOK 307 million in Energy in 2008.
- 4) Impairment write-downs for Property, Plant and Equipment by segment are presented in note 13 Impairment of fixed assets.
- 5) Total segment Earnings before financial items and tax is the same as Hydro group's total Earnings before financial items and tax. Financial income and financial expense are not allocated to the segments. There are no reconciling items between segment Earnings before financial items and tax to Hydro Earnings before financial items and tax. Therefore, a separate reconciliation table is not presented.
- 6) Corporate, other and elimination's EBIT and Adjusted EBITDA includes a net periodic pension cost of NOK 222 million for 2008 and NOK 326 million for 2007.
- 7) Current assets and assets exclude internal cash accounts and accounts receivables related to group relief.
- 8) Investments accounted for using the equity method comprises investments and advances, see note 25 Investments in associates and note 26 Investments in jointly controlled entities.
- 9) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.
- 10) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in equity accounted investments.

Amounts in NOK million	Investments accounted for using the equity method <sup>(3) (8)</sup>		Segment debt <sup>(9)</sup>		Investments <sup>(10)</sup>	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	<b>10,348</b>	6,648	<b>10,837</b>	8,445	<b>6,086</b>	3,541
Aluminium Products	<b>1,664</b>	1,437	<b>11,369</b>	8,183	<b>1,980</b>	866
Energy	<b>833</b>	660	<b>1,978</b>	1,043	<b>719</b>	233
Corporate, other and eliminations <sup>1)</sup>	<b>1,612</b>	915	<b>(3,994)</b>	(2,722)	<b>227</b>	566
Total continued operations	<b>14,457</b>	9,659	<b>20,190</b>	14,949	<b>9,012</b>	5,206

Amounts in NOK million	Total assets		Non-current assets		Investments	
	2008	2007	2008	2007	2008	2007
Norway	<b>40,515</b>	42,753	<b>21,134</b>	19,368	<b>2,254</b>	1,866
Germany	<b>15,627</b>	13,367	<b>6,945</b>	6,072	<b>814</b>	646
Italy	<b>2,898</b>	2,725	<b>1,097</b>	984	<b>135</b>	82
Slovakia	<b>2,714</b>	2,273	<b>1,530</b>	1,183	<b>164</b>	140
France	<b>2,621</b>	2,276	<b>849</b>	789	<b>109</b>	66
Spain	<b>2,589</b>	1,009	<b>1,159</b>	303	<b>719</b>	44
Denmark	<b>1,162</b>	947	<b>506</b>	412	<b>71</b>	59
Great Britain	<b>712</b>	787	<b>295</b>	299	<b>19</b>	45
Austria	<b>527</b>	446	<b>223</b>	201	<b>8</b>	35
Other	<b>2,505</b>	1,625	<b>1,495</b>	859	<b>103</b>	180
Total EU	<b>31,355</b>	25,455	<b>14,099</b>	11,102	<b>2,142</b>	1,296
Other Europe	<b>50</b>	48	<b>6</b>	6	<b>1</b>	3
Total Europe	<b>71,920</b>	68,256	<b>35,239</b>	30,476	<b>4,397</b>	3,165
USA	<b>3,066</b>	2,760	<b>1,782</b>	1,509	<b>295</b>	113
Canada	<b>2,372</b>	1,877	<b>2,093</b>	1,716	<b>59</b>	48
Brazil	<b>7,723</b>	6,675	<b>7,518</b>	6,290	<b>592</b>	749
Other Americas	<b>362</b>	758	<b>133</b>	647	<b>18</b>	19
Qatar	<b>4,426</b>	881	<b>4,426</b>	881	<b>3,140</b>	790
Other Asia	<b>1,079</b>	824	<b>484</b>	342	<b>63</b>	14
Australia and New Zealand	<b>4,162</b>	3,227	<b>3,375</b>	2,584	<b>449</b>	307
Africa	<b>46</b>	45	-	29	-	-
Total outside Europe	<b>23,237</b>	17,048	<b>19,810</b>	13,999	<b>4,615</b>	2,041
Total continued operations	<b>95,157</b>	85,304	<b>55,049</b>	44,474	<b>9,012</b>	5,206
Classified as held for sale	-	6,741				
Total	<b>95,157</b>	92,046				

Amounts in NOK million	Revenue	
	2008	2007
Norway	<b>6,376</b>	6,770
Germany	<b>16,831</b>	18,477
France	<b>6,282</b>	6,773
Italy	<b>6,231</b>	6,493
Great Britain	<b>5,758</b>	5,029
Spain	<b>5,297</b>	5,634
Poland	<b>2,545</b>	2,699
The Netherlands	<b>2,293</b>	2,305
Austria	<b>2,128</b>	2,088
Other	<b>10,862</b>	12,167
Total EU	<b>58,226</b>	61,666
Switzerland	<b>4,154</b>	3,764
Other Europe	<b>2,896</b>	2,450
Total Europe	<b>71,651</b>	74,650
USA	<b>7,598</b>	8,706
Canada	<b>203</b>	419
Other Americas	<b>1,844</b>	1,838
Asia	<b>5,789</b>	7,287
Australia and New Zealand	<b>1,267</b>	1,160
Africa	<b>291</b>	257
Total outside Europe	<b>16,992</b>	19,666
Total	<b>88,643</b>	94,316

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.

## NOTE 9 Other income

Amounts in NOK million	2008		2007	
Gain on sale of property, plant and equipment	<b>69</b>		77	
Gain on sale of subsidiaries, associates and jointly controlled entities <sup>1)</sup>	<b>459</b>		636	
Revenue from utilities <sup>2)</sup>	<b>179</b>		134	
Rental revenue	<b>90</b>		75	
Other	<b>68</b>		171	
Other income, net	<b>865</b>		1,093	

1) Significant gains and losses are discussed in note 6 Disposals.

2) Revenue from utilities include quay structures, pipe network, tank terminal, process water and grid rental.

## NOTE 10 Raw material and energy expense

Amounts in NOK million	2008		2007	
Raw material expense and production supplies	<b>58,189</b>		58,504	
Change in inventories own production	<b>(1,220)</b>		338	
Write-downs of inventories	<b>1,246</b>		63	
Raw material and energy expense	<b>58,215</b>		58,905	

Raw material expense and production supplies include effect of commodity derivative instruments. See note 42 Derivative instruments and hedge accounting.

Hydro values inventories at the lower of cost or net realizable value. As a consequence of the weaker market in the fourth quarter, and particularly the decline in the aluminium price, Hydro has identified impairment write-downs of NOK 1,034 million. The impairment is related to the sharp fall in metal prices towards the end of the quarter, while input factors still reflect higher prices from purchases and contracts earlier in the year.

## NOTE 11 Employee and management remuneration

### BOARD OF DIRECTORS' STATEMENT ON CORPORATE MANAGEMENT BOARD REMUNERATION

The following statement and guidelines for Corporate Management Board salary and benefits will be presented to the Annual General Meeting for their recommendation at the May 2009 meeting. The Board of Directors proposes that the statement below applies for 2009 and in 2010 until the Annual General Meeting.

**General Principles** The principles for salary paid to top management is determined by the Board of Directors. The Board of Directors performs an annual evaluation of the total remuneration plan for the President and CEO, as well as deciding for each year the annual bonus targets and bonus payment. The Board of Directors' compensation committee functions as an advisory committee for the Board of Directors in these matters. The President and CEO consults with the Board of Directors' compensation committee in respect of the remuneration for the other corporate management members.

Hydro's remuneration policy will be based on Hydro's People Policy:

*"Hydro should offer employees a compensation package that is competitive and in accordance with good industry standards locally. Where appropriate, this should include an incentive element, and the base pay should reflect individual performance."*

Corporate Management Board remuneration will, at all times, reflect the President and CEO's and the Executive Vice Presidents' responsibility for the management of Hydro, taking into account the complexity and breadth of the operations, as

well as the growth and sustainability of Hydro. The determination of the level of the total compensation package will be, first and foremost, based on being competitive within the relevant labor market, while at the same time reflecting Hydro's international focus.

**Specific principles** Remuneration to the Corporate Management Board will consist of both variable and fixed elements. The variable portion of total remuneration will consist of a bonus element. The annual bonus will be determined based on the achievement of agreed financial targets and key performance indicators (KPIs) that are related to other targets and goals that are non-financial in nature. The Board of Directors is committed to setting KPIs that are balanced and reflect the different aspects of Hydro's operations. Key performance indicators will typically be related to health, safety and environment and corporate social responsibility (CSR), in addition to organizational and operational objectives. The financial targets and KPIs are established as part of the annual business planning process. The President and CEO will have a maximum annual bonus potential of fifty percent of his annual salary. The other Corporate Management Board members will have a maximum bonus potential of forty percent of their annual salary. Bonus payments will not be included when determining pension or vacation pay.

In light of the existing economic conditions, the bonus plan for the President and CEO, and the other members of the Corporate Management Board who are employees in Norway, is suspended.

No share-based compensation plans in the form of share options, or share appreciation rights (SARs), will be implemented.

The fixed components of the Corporate Management Board remuneration will be a base salary and other remuneration. In this regard, other remuneration will consist of a company car or car allowance, telephone and electronic communication, newspapers and similar benefits, as well as pension benefits. All Corporate Management Board members will continue to be covered by the insurance arrangements applicable within Hydro for all vice presidents and above. In respect of Hydro's employee share purchase plan, as described later in this note, the Corporate Management Board has the opportunity to participate fully at the same terms as all other eligible employees.

The President and CEO Eivind Reiten will step down as president and CEO as of 30 March 2009, and his existing termination agreement will come into force. He has the right to salary and benefits (excluding bonus) for a three-year period, beginning 30 March 2009. Hydro's obligation can be reduced by salary received from other sources. From the age of 60, President and CEO Eivind Reiten has the right to pension benefits in the amount of 65 percent of his pension-qualifying remuneration.

Svein Richard Brandtzæg, who replaces Eivind Reiten as President and CEO, will from his date of appointment as President and CEO receive an annual salary of NOK 5,000,000. Svein Richard Brandtzæg will have the right to retire with pen-

sion benefits from the age of 62. Full pension benefits are earned after 30 years employment in Hydro. Pension benefits are 60 percent of pension-qualifying remuneration from the age of 62. After age 65, pension benefits are 65 percent. A ceiling has been established related to the amount of pension-qualifying remuneration for Svein Richard Brandtzæg. Future remuneration increases will increase the pension-qualifying remuneration as of the date of retirement until a ceiling of NOK 5,500,000 is reached (adjusted in accordance with the percentage changes in the Norwegian government's pension base ("Folketrygdens Grunnbeløp")).

President and CEO Svein Richard Brandtzæg will have a termination agreement. In the event Svein Richard Brandtzæg's employment is terminated either on the initiative of Hydro or as a result of a mutual agreement, he has the right to salary and other remuneration (excluding bonus) for a period of 12 months; termination payments are not made after he has reached the age of 62. If during the course of these 12 months Svein Richard Brandtzæg receives new income from other sources, Hydro can, based on certain conditions, decide to reduce his payments.

For all other members of the Corporate Management Board, the pension benefit will represent 65 percent of the individual's pension-qualifying remuneration with a retirement age set at 65 years, with the exception of two corporate management board members who have an agreed retirement age of 62 as a result of a previous arrangement offered to about 50 executive managers.

**Statement for 2008, the prior financial year** The remuneration of the President and CEO and the Corporate Management Board for the previous financial year (2008) was based on the same guidelines as set out above.

As of 1 January 2008 the President and CEO's salary was adjusted three percent from NOK 5.6 million to NOK 5.770 million.

The fixed salary for the other members of the Corporate Management Board was adjusted between 3.8 percent and 12.2 percent, for an average adjustment of 6.3 percent. The bonus agreement for the President and CEO and the other members of the Corporate Management Board, with a maximum bonus potential of 50 and 40 percent of base salary, respectively, will result in no bonus payments in 2009 for the 2008 fiscal year.

This concludes the section "Board of Directors' statement on Corporate Management Board remuneration."

#### **CORPORATE MANAGEMENT BOARD REMUNERATION**

Corporate management board member's salaries, remuneration in kind, bonus for 2007 paid in 2008 and the estimated increase in the value of their pension benefits for 2008, as well as any loans outstanding and Hydro share ownership as of 31 December 2008 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2008.

## Corporate Management Board remuneration and share holdings

Name	Salary <sup>1)2)</sup>	Remuneration in kind <sup>1)2)</sup>	Bonus <sup>1)2)</sup>	Estimated change in value of pension benefits <sup>1)3)</sup>	Outstanding loans <sup>1)4)</sup>	Hydro share ownership <sup>5)</sup>
Eivind Reiten <sup>6)</sup>	6,075	377	1,400	4,103	-	86,972
Svein Richard Brandtzæg <sup>6)</sup>	3,604	252	952	2,995	237	26,117
Odd Ivar Biller	2,545	174	607	9,221	260	18,872
Anne Harris	2,117	162	513	1,782	1,068	13,902
Arvid Moss <sup>7)</sup>	2,179	218	434	2,701	294	60,857
Jørgen C. Arentz Røstrup	2,483	202	147	2,553	-	6,662
Tom Røtjer	2,669	220	175	7,927	-	16,532
Torstein Dale Sjøtveit <sup>8)</sup>	2,058	117	728	(8,492)	-	20,378
John Ove Ottestad	3,128	231	753	2,702	-	78,707
Hilde Aasheim <sup>9)</sup>	452	33	-	22,212	-	136

1) Amounts in NOK thousands.

2) Salary is the amount paid to the individual during 2008, including any payments made before they joined the Corporate Management Board or after stepping down from the board and includes vacation pay. Remuneration-in-kind is the total of all non-cash related benefits received by the individual during 2008 and includes such items as the taxable portion of insurance premiums, car and mileage allowances and electronic communication items. Bonus is the amount paid in 2008 based on performance achieved in 2007.

3) The estimated change in the value of pension benefits reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights. It is calculated as the increase in Projected Benefit Obligations (PBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefit. For all individuals listed in the table except Torstein Dale Sjøtveit and Hilde Aasheim, this is the estimated change from 1 January 2008 to 31 December 2008. Torstein Dale Sjøtveit's estimated change in value of pension benefits is calculated from 1 January 2008 to 31 August 2008, and reflects the fact that he was no longer employed by Hydro after 31 August 2008. Hilde Aasheim's estimated change in value of pension benefits reflects that Hydro has granted her immediate credit for past service with previous employers, reduced by the amount of pension benefits to be received from prior employment.

4) The loans to corporate management board members were extended under an employee benefit scheme applicable to all employees in Norway. The loan to Svein Richard Brandtzæg has an interest rate of 6.25 percent and a repayment period of 8 years. The loan to Odd Ivar Biller has an interest rate of 6.25 percent and a repayment period of 6.5 years. The loans to Anne Harris have an interest rate of 6.25-6.85 percent and a repayment period of 1-18 years. The loan to Arvid Moss has an interest rate of 6.25 percent and a repayment period of 10 years. Loans to corporate management board members were extended to them prior to their appointment on the Corporate Management Board. Since their appointment to the Corporate Management Board, there have been no modifications to any loan agreements. No additional credit has been extended post appointment and the payment plan schedule has remained the same. Payments have been made in a timely fashion and the loans are not in default.

5) Hydro share ownership is the number of shares held directly by the corporate management board member and any related party shareholdings. Hydro share ownership for all corporate management board members is as of 31 December 2008, except for Torstein Dale Sjøtveit. Hydro share ownership for Torstein Dale Sjøtveit is as of 31 August 2008, his last day of employment.

6) Eivind Reiten will step down as CEO on 30 March 2009, and Svein Richard Brandtzæg will take over as CEO.

7) Arvid Moss became a member of the Corporate Management Board as of 15 August 2008.

8) Torstein Dale Sjøtveit stepped down from the Hydro Corporate Management Board and resigned as a Hydro employee as of 31 August 2008. In the interim period 20 August 2008 to 1 November 2008 Jan Arve Haugan served as a member of the Corporate Management Board. Jan Arve Haugan received an additional NOK 50,000 per month while serving on the Corporate Management Board, and his total salary payments during this period totaled NOK 535 thousand.

9) Hilde Aasheim came back to Hydro, from StatoilHydro, as a member of the Corporate Management Board effective 1 November 2008. Hilde Aasheim first joined Hydro as a member of the Corporate Management Board in October 2005. In connection with her return from StatoilHydro, her original Hydro terms of employment were reinstated, including specific terms related to her pension benefits. See footnote 3 to this table for additional information.

## EXECUTIVE MANAGEMENT SHARE-BASED COMPENSATION

Hydro granted executive management share appreciation rights (SARs) during the years 2002-2006. The cash-settled awards were granted to approximately 30 Hydro executives each year, including the president and CEO and members of the corporate management board. SARs granted in 2004, 2005 and 2006 had a three year vesting schedule and three year exercise period. The 2002 and 2003 grant year SARs had a three year vesting period and two year exercise period. As of 1 January 2007 there were no 2002 SARs outstanding.

The SAR vesting schedule for the 2003 plan was based on total shareholder return. If shareholder return was less than

12 percent between the grant date and vesting date, none of the granted SARs would be vested. If the shareholder return was between 12 percent and 20 percent over the vesting period, the corresponding percentage of SARs that vested would increase linearly between 20 percent and 100 percent. On 30 June 2006, the vesting date for the 2003 SARs, the total shareholder return target of 20 percent was met, and all 487,500 SARs outstanding were vested 100 percent. The SARs granted in 2004-2006 did not have any performance related vesting requirement. The 2004 granted SARs vested on 30 June 2007.

In July 2007 the Board of Directors terminated the Executive Share Appreciation Right Plan (SAR Plan) for corporate officers and certain key employees. As of the SAR Plan termination date, the SARs granted in 2004 and earlier were vested and the 2005 and 2006 grant year SARs had a remaining life of four years and five years, respectively. Upon termination of the SAR Plan, the Board of Directors approved the exercise of the outstanding 2003 and 2004 SARs at an exercise price based on the five previous trading days' average market price on 10 July 2007. The average closing price 4 July – 10 July 2007 was NOK 234.40 and the corresponding exercise values are NOK 170.08 for the 2003 SARs (closing price NOK 234.40 less the exercise price of NOK 64.32) and NOK 139.20 for the 2004 SARs (closing price NOK 234.40 less the exercise price of NOK 95.20). The 2005 and 2006 SARs were terminated with a payout to SAR holders based on the Black-Scholes fair market value as of 2 July 2007. The Black-Scholes fair value as of 2 July 2007 was NOK 117.01 and NOK 91.43 for the 2005 and 2006 SARs, respectively.

Previously, all SAR holders were restricted from exercising SARs that would result in gross cash proceeds upon exercise per calendar year that exceeded the SAR holder's annual base salary. This restriction applied to SARs granted in 2004 and later, and was waived upon termination of the SAR Plan. All granted SARs that have not been exercised are forfeited if the SAR holder resigns from the company.

Previously, in order to remain eligible to exercise vested SARs in the future and to receive new grants, plan participants were required to convert the net after-tax value of exercised SARs into an equivalent value of Hydro shares until a specified percentage of their annual salary was reached. In connection with the termination of the SAR Plan, the requirement to purchase shares was waived.

SAR compensation expense was remeasured each reporting period, until the date of the termination of the SARs, at fair value using a Black-Scholes option valuation model, and accrued pro-rata over the vesting period. The accrued liability for the SARs as of 1 January 2007 was NOK 109 million, including social security taxes. Pre-tax SAR compensation expense recognized in 2007 was NOK 119 million. Cash paid during the year upon exercise and termination of SARs was NOK 200 million, excluding social security taxes.

As of 31 December 2007 there were no SARs outstanding. Information related to SAR activity during 2007 is given in the table below.

#### Share appreciation rights activity

Share Appreciation Rights <sup>1)</sup>	Options	Weighted average exercise price (NOK)
Outstanding 1 January 2007	1,987,500	128.26
Exercisable 1 January 2007	175,000	64.32
Granted in 2007	-	-
Exercised <sup>2)</sup>	710,000	87.59
Terminated <sup>3)</sup>	1,185,000	152.90
Forfeited <sup>4)</sup>	92,500	124.66
Expired	-	-
Outstanding 31 December 2007	-	-

- 1) Exercise prices and option prices have not been adjusted to reflect the change in the share price due to the demerger on 1 October 2007 of the oil and gas business to StatoilHydro as all options were exercised or terminated prior to 1 October 2007.
- 2) Exercised SARs of 710,000 consists of 175,000 SARs granted in 2003 that vested 30 June 2006 and 535,000 SARs granted in 2004 that vested 30 June 2007.
- 3) All SARs outstanding in 2007 that were granted in 2005 and 2006 were terminated. Terminated SARs of 1,185,000 consists of 517,500 SARs granted in 2005 that would have vested 30 June 2008 and 667,500 SARs granted in 2006 that would have vested 30 June 2009.
- 4) SARs forfeited in 2007 relates to option holders terminating their employment with Hydro before SARs were vested.

#### UNITED KINGDOM EMPLOYEE SHARE-BASED COMPENSATION

In 1988, Hydro established a stock option share 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 the 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. No further options will be granted. 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 the grant date. The exercise price of the shares originally equaled the share price at the time the options were granted. On 1 October 2007, in connection with the demerger of Hydro's oil and gas business to StatoilHydro, the value of the options was reduced. The options remain options over Hydro shares only and do not give an option to purchase the StatoilHydro shares which were issued for each Hydro share to the trust.

At 1 January 2007, 143,970 options were outstanding and the trust's balance of shares at 1 January 2007 was 614,580 Hydro shares. During 2007 114,947 options were exercised (all prior to 1 October 2007) and 235 options expired. As of 31 December 2007 the trust's balance of Hydro shares was 534,580 and of StatoilHydro shares was 460,914. There were 28,788 options outstanding as of 31 December 2007.

During 2008 no options were exercised and 3,720 options expired. As of 31 December 2008 the trust's balance of Hydro shares was 411,228 and 354,628 StatoilHydro shares. There were 25,068 options outstanding as of 31 December 2008.

Activity during 2008 is given in the table below.

#### UK employee share-based compensation

	Average number of shares	Strike price (NOK) <sup>1)</sup>
Options outstanding as of 31 December 2007	28,788	70.66
Options exercised during 2008	-	-
Options expired during 2008	(3,720)	55.97
Options outstanding as of 31 December 2008	25,068	58.90

1) Presentation in NOK is based on a translation from GBP using the 31 December 2008 exchange rate of 10.121 and the 31 December 2007 exchange rate of 10.810 (unaudited).

#### EMPLOYEE SHARE PURCHASE PLAN

Hydro has established a share purchase plan for employees in Norway. The plan payout is based on share price performance. Under the plan offered in 2008, eligible Hydro employees received a NOK 10,000 share-purchase rebate to purchase NOK 20,000 of shares of Norsk Hydro ASA, which corresponds to a 50 percent discount from the market price, as shareholder returned exceeded 12 percent in the period from 1 January to 31 December 2007 (the performance measurement period). The monetary rebate was higher than in previous periods due to a plan amendment enacted in 2008.

In the performance period 1 January to 31 December 2008 shareholder return did not exceed 12 percent. Therefore, under the plan to be offered in 2009, employees will receive a rebate of NOK 2,500 on their purchase of NOK 10,000 of Norsk Hydro ASA shares. The rebate of NOK 2,500 corresponds to a 25 percent discount from the market price.

Employees are eligible to receive an offer to purchase shares under this plan if they were 1) employed by Norsk Hydro ASA or a 90 percent or more owned Norwegian subsidiary, and 2) employed as of 31 December through the final acceptance date of the share purchase offer.

Compensation expense related to the 2007 performance measurement period was accrued and recognized over the service period of 31 December 2007 through 20 April 2008, the final acceptance date of the offer. In 2007 and 2008 the participation rate of eligible employees in the employee share purchase plan was approximately 88 percent. Details related to the employee share purchase plan are given in the table below.

#### Employee share purchase plan

Performance measurement period	01.01.2008 - 31.12.2008	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Total shareholder return performance target achieved	<12%	≥12%	≥12%
Employee rebate, NOK	2,500	10,000	6,000
Employee rebate, percent	25%	50%	50%

#### Share purchase plan compensation

	2008	2007
Award share price, NOK	37.57	97.73
Number of shares issued, per employee	266	61
Total number of shares issued to employees	1,429,484	621,895
Compensation expense related to the award, NOK thousands	53,706	60,778



**EMPLOYEE BENEFIT EXPENSE**

The average number of employees for 2008 and 2007 was 23,074 and 28,928, respectively. As of year end 2008 and 2007 Hydro employed 22,634 and 24,692 people, respectively. The decrease in the average number of employees is primarily due to the demerger of Hydro's oil and gas activities in October 2007, as well as the divestment of Hydro Polymers and Hydro Production Partner in the first and second quarters of 2008, respectively. The decrease in the number of employees is primary due to the above mentioned divestments. Approximately 500 employees were added through the acquisitions in Extrusion and Building Systems during 2008. The specification of employee benefit expenses from continuing operations for 2008 and 2007 is given in the table below:

**Employee benefit expense**

Amounts in NOK million	2008	2007
Salaries	9,310	9,102
Social security costs	1,581	2,077
Social benefits	351	361
Net periodic pension cost (note 32)	775	900
Total	12,018	12,440

## NOTE 12

### Depreciation and amortization expense

**Specification of depreciation and amortization by asset category**

Amounts in NOK million	2008	2007
Buildings	448	459
Machinery and equipment	2,785	2,990
Intangible assets	137	136
Depreciation and amortization from discontinued operations	-	(177)
Depreciation and amortization expense	3,370	3,407

## NOTE 13

### Impairment of non-current assets

**Classification by asset category:**

Amounts in NOK million	2008	2007
<b>Impairment losses</b>		
Property, plant and equipment	1,518	150
Intangible assets	31	-
<b>Impairment reversals</b>		
Property, plant and equipment	(4)	(5)
Total impairment of non-current assets	1,545	145

**Classification by segment:**

Amounts in NOK million	2008	2007
<b>Impairment losses</b>		
Aluminium Metal	796	143
Aluminium Products	753	4
Corporate, other and eliminations	-	3
<b>Impairment reversals</b>		
Aluminium Products	(4)	(5)
Total impairment of non-current assets	1,545	145

In Aluminium Metal, all smelters were tested for impairment following the sharp fall in aluminium prices and lower economic activity over the recent months. Key assumptions used in these tests include aluminium prices, energy prices, fixed and variable cost and currency exchange rates. Prices are estimated based on existing contracts, observed market prices, and Hydro's internal expectations. For internally generated power in Norway, cost to smelters is based on market prices adjusted for the estimated effects of limitations in alternate value, as regulated by concessionary stipulations, which include requirements for consumption of certain minimum volumes of energy for industrial production purposes, either nationally or locally. Volumes are based on current capacity and experienced efficiency improvements over time. The calculations are highly sensitive to prices for aluminium and energy, and the exchange rate to the extent aluminium and input factor prices are determined on the basis of currencies which deviate from the entity's functional currency.

The impairment tests resulted in a need to write down Hydro's smelter in Neuss, Germany, by NOK 662 million. The main driver for the write-down was the downward shift in aluminium prices which was not accompanied by a similar shift in input factors. In particular the forward prices for energy reflect lower reductions relative to those observed for aluminium. The impairment write-down is based on fair value less cost to sell of groups of assets, as the Value in Use (VIU) was determined to be negative. In February 2009, Hydro decided to temporary shut down

the primary aluminium production in Neuss and to continue operation of the casthouse only. The impairment test also resulted in a full write-down of the remaining assets of NOK 99 million related to the Söderberg production line at Karmøy, which in December 2008 was decided to be closed during the first quarter of 2009.

Independent remelters are considered separate Cash Generating Units (CGU) within Metal, and were also tested for impairment to the extent indicators of impairment were considered to be present. One of the four CGUs tested was determined to be partly impaired and was written down.

The downturn in the economic activity in global and local markets triggered a thorough review of the CGUs in Products to determine whether impairment indicators were present or not. For most of the CGUs in Automotive, Extrusion Americas and Rolled Products impairment indicators were found, and VIU was calculated. The calculations are highly sensitive to changes in volume, margin and fixed costs. The calculation of VIU is based on management's best estimate, reflecting the current market downturn coupled with an assumed improvement in the market over time. For CGUs where the VIU calculation indicated substantial or full impairment, the fair value less cost to sell of individual assets or asset groups have also been calculated.

The tests resulted in impairment write-downs of four CGUs in Extrusion Americas. The total impairment write-down for these plants amounted to NOK 253 million.

The tests also resulted in impairment write-downs of three CGUs in Automotive Structures and one CGU in Precision Tubing. For two of the CGUs the VIU test indicated a negative value. For these CGUs fair value less cost to sell was assessed, and represents the basis for the impairment write-down. The fair value is primarily related to land and buildings. The total impairment write-down for these plants amounted to NOK 342 million.

For Rolled Products, testing resulted in an impairment write-down of one CGU to the estimated fair value less cost to sell. The fair value less cost to sell was determined based on observed or assumed second hand value of equipment for which transactions are regularly observed. The impairment write-down for this plant amounted to NOK 129 million.

In addition, all CGUs or fixed assets that are not part of a CGU are reviewed for impairment indicators at each balance sheet date. Certain smaller CGUs have been tested during 2008. The resulting impairment write-downs are included in the table above.

The impairment test of Automotive Structures, which has experienced losses in 2007 and 2008, suggests a value of the sector that does not support the carrying value of goodwill. Consequently, the goodwill balance of NOK 28 million has been written down in its entirety.

The impairment charges in 2007 relate to remelters in Ellenville, New York and in St. Augustine, Florida.

See note 4 Critical accounting judgements and key sources of estimation uncertainty for additional information about impairment testing.

## NOTE 14 Research and development

Total expensed research and development cost is NOK 606 million in 2008 and NOK 507 million in 2007. Research and development activities are intended to make production of aluminium more efficient including further improving Hydro's electrolysis technology. A significant proportion of the means are also used for further developing the production processes and products within casting and alloy development, extrusion, precision tubing, building systems as well as rolled products.

To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalizing the cost are met. Costs incurred during the preliminary project stage, as well as maintenance costs, are expensed as incurred. Other research and development costs are expensed as incurred, when they do not meet the criteria for capitalization.

## NOTE 15 Operating leases

Future minimum lease payments due under non-cancellable operating leases are as follows:

Amounts in NOK million	Less than 1 year	1-5 years	There- after	Total
Operating lease obligation	400	1,168	1,770	3,338

### OPERATING LEASE EXPENSE

Operating lease expense for office space, machinery and equipment amounts to NOK 701 million for 2008 and NOK 748 million for 2007.

## NOTE 16

### Financial income and expense

Amounts in NOK million	2008	2007
Interest income	<b>769</b>	1,228
Net gain (loss) on securities	<b>(154)</b>	37
Dividends received	<b>180</b>	138
Financial income	<b>795</b>	1,403
Interest expense	<b>(221)</b>	(415)
Capitalized interest	-	5
Net foreign exchange gain (loss)	<b>(5,491)</b>	2,254
Other, net	<b>(109)</b>	(39)
Financial expense	<b>(5,821)</b>	1,805
Financial income (expense), net	<b>(5,026)</b>	3,208

## NOTE 17

### Income tax expense

Amounts in NOK million	2008	2007
<b>Income (loss) from continuing operations before taxes:</b>		
Norway	<b>(4,455)</b>	6,401
Other countries	<b>623</b>	5,832
Total	<b>(3,832)</b>	12,233
<b>Current taxes:</b>		
Norway	<b>1,002</b>	1,602
Other countries	<b>816</b>	1,565
Current income tax expense	<b>1,818</b>	3,167
<b>Deferred taxes:</b>		
Norway	<b>(2,013)</b>	502
Other countries	<b>(370)</b>	(594)
Deferred tax expense (benefit)	<b>(2,383)</b>	(92)
Total income expense (benefit)	<b>(565)</b>	3,075

### Components of deferred income tax expense

Amounts in NOK million	2008	2007
Deferred tax expense (benefit), excluding items below	<b>(2,683)</b>	175
Benefit tax loss carryforwards	<b>(338)</b>	(144)
Effect of tax law changes	<b>(1)</b>	(329)
Net change not recognized tax asset	<b>499</b>	137
Tax expense (benefit) allocated to Other reserves	<b>140</b>	70
Deferred tax expense (benefit)	<b>(2,383)</b>	(92)

### Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2008	2007
Expected income taxes at statutory tax rate <sup>1)</sup>	<b>(1,073)</b>	3,425
Hydro-electric power surtax <sup>2)</sup>	<b>506</b>	286
Tax law changes	<b>(1)</b>	(329)
Losses and other deductions with no tax benefit	<b>626</b>	366
Non-deductible costs	<b>20</b>	37
Foreign tax rate differences	<b>(46)</b>	(20)
Tax free income	<b>(280)</b>	(593)
Dividend exclusions	<b>(51)</b>	(28)
Losses and other benefits not previously recognized	<b>(74)</b>	(163)
Other, net	<b>(191)</b>	94
Income tax expense (benefit)	<b>(565)</b>	3,075
Effective tax rate	<b>14.7%</b>	25.1%

1) Norwegian nominal statutory tax rate is 28 percent.

2) A surtax of 30 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.

## NOTE 18 Short-term investments

Amounts in NOK million	2008	2007
Bank, time deposits	-	750
Equity securities	340	503
Debt securities and other	1,308	1,489
Total short-term investments	1,648	2,742

## NOTE 19 Accounts receivable

Amounts in NOK million	2008	2007
Accounts receivable, net of allowance for credit losses	12,339	11,967
VAT receivables	1,355	1,446
Other receivables	2,560	2,151
Accounts receivable	16,254	15,564
<b>Allowance for credit losses</b>		
1 January	502	685
Change in allowance for credit losses	34	(135)
Reclassified to asset held for sale	-	(27)
Foreign exchange adjustments	77	(22)
31 December	613	502

## NOTE 20 Inventories

Amounts in NOK million	2008	2007
Raw materials	5,565	4,255
Work in progress	3,395	2,359
Finished goods	7,334	5,614
Inventories	16,293	12,227

Raw materials include spare parts with a minor amount. All amounts are net of any write-downs. The total of write-downs included is NOK 1,339 million in 2008 and NOK 98 million in 2007.

## NOTE 21 Other financial assets and liabilities

### Other current financial assets

Amounts in NOK million	2008	2007
Currency derivative instruments	103	236
Commodity derivative instruments	2,400	729
Cash flow hedging derivative instruments	76	2
Other current financial assets	2,579	967

### Other non-current financial assets

Amounts in NOK million	2008	2007
Non-marketable equity securities	1,607	1,150
Employee loans	439	446
Currency derivative instruments	77	66
Commodity derivative instruments	2,097	1,349
Cash flow hedging derivative instruments	40	-
Other financial assets	1,333	1,329
Other non-current financial assets	5,592	4,341

### Other current financial liabilities

Amounts in NOK million	2008	2007
Currency derivative instruments	1,281	42
Commodity derivative instruments	3,906	932
Cash flow hedging derivative instruments	-	183
Other current financial liabilities	5,187	1,157

### Other non-current financial liabilities

Amounts in NOK million	2008	2007
Commodity derivative instruments	2,996	2,765
Cash flow hedging derivative instruments	-	30
Other non-current financial liabilities	2,996	2,795

## NOTE 22

### Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
<b>Cost</b>					
31 December 2006	913	16,307	50,705	1,243	69,169
Additions	6	182	1,209	2,325	3,723
Disposals	(20)	(376)	(2,579)	(471)	(3,445)
Assets classified as held for sale	(18)	(1,173)	(8,086)	(77)	(9,354)
Transfers	2	181	1,623	(1,805)	-
Foreign currency translation effect	(43)	(498)	(1,998)	(74)	(2,613)
31 December 2007	840	14,624	40,874	1,140	57,479
Additions	136	459	1,419	2,085	4,100
Disposals	(10)	(96)	(1,462)	(15)	(1,582)
Transfers	-	376	1,844	(2,220)	-
Foreign currency translation effect	204	1,340	5,066	171	6,781
31 December 2008	1,170	16,703	47,741	1,162	66,777
<b>Accumulated depreciation and impairment</b>					
31 December 2006	(1)	(7,655)	(29,363)	-	(37,018)
Depreciation for the year	-	(459)	(2,990)	-	(3,449)
Impairment losses	-	(27)	(122)	-	(150)
Impairment reversals	-	-	5	-	5
Disposals	-	286	2,436	-	2,722
Assets classified as held for sale	-	753	5,207	-	5,960
Transfers	-	(25)	25	-	-
Foreign currency translation effect	-	171	1,030	-	1,201
31 December 2007	(1)	(6,956)	(23,772)	-	(30,728)
Depreciation for the year	-	(448)	(2,785)	-	(3,233)
Impairment losses	-	(242)	(1,276)	-	(1,518)
Impairment reversals	-	4	-	-	4
Disposals	-	64	1,254	-	1,318
Transfers	-	(18)	18	-	-
Foreign currency translation effect	-	(547)	(2,733)	-	(3,280)
31 December 2008	(1)	(8,143)	(29,295)	-	(37,439)
<b>Carrying value</b>					
31 December 2007	840	7,668	17,102	1,140	26,750
31 December 2008	1,170	8,560	18,447	1,162	29,338

## NOTE 23 Intangible assets

Amounts in NOK million	Capitalized software systems	Other intangible assets	Total
<b>Cost</b>			
31 December 2006	786	1,332	2,119
Additions	147	38	185
Assets classified as held for sale	-	(4)	(4)
Disposals	(13)	(75)	(89)
Transfers	26	(26)	-
Foreign currency translation effect	(30)	(36)	(66)
31 December 2007	916	1,228	2,144
Additions	162	260	423
Disposals	(5)	(27)	(32)
Foreign currency translation effect	189	198	387
31 December 2008	1,263	1,659	2,922
<b>Accumulated amortization and impairment</b>			
31 December 2006	(570)	(975)	(1,544)
Amortization for the year	(84)	(52)	(136)
Assets classified as held for sale	-	4	4
Disposals	13	62	76
Transfers	(22)	22	-
Foreign currency translation effect	17	26	43
31 December 2007	(646)	(911)	(1,557)
Amortization for the year	(81)	(56)	(137)
Impairment loss for the year	(3)	-	(3)
Disposals	4	16	20
Foreign currency translation effect	(130)	(121)	(251)
31 December 2008	(857)	(1,072)	(1,928)
<b>Carrying value</b>			
31 December 2007	271	317	587
31 December 2008	406	587	993

In 2008, additions amounting to NOK 183 million were acquired through business combinations. Other additions are fairly evenly distributed between intangibles developed internally and intangibles acquired separately. In 2007, a significant part of additions was acquired separately.

Intangible assets with indefinite useful lives are included in other intangible assets with a carrying value of NOK 2 million both as of 31 December 2008 and as of 31 December 2007.

## NOTE 24

### Goodwill

Amounts in NOK million	Aluminium Metal	Aluminium Products	Total
<b>Cost</b>			
31 December 2006	260	766	1,026
Goodwill derecognized	-	(7)	(7)
Foreign currency translation effect	(33)	(59)	(92)
31 December 2007	226	700	926
<b>Additions</b>			
Foreign currency translation effect	57	160	217
31 December 2008	283	930	1,213
<b>Accumulated impairment</b>			
31 December 2007	-	-	-
Impairment loss for the year	-	(28)	(28)
31 December 2008	-	(28)	(28)
<b>Carrying value</b>			
31 December 2007	226	700	926
31 December 2008	283	902	1,185

See note 4 Critical accounting judgements and key sources of estimation uncertainty for information about the impairment testing of goodwill on an annual basis.

## NOTE 25 Investments in associates

### Investments in associates

Amounts in NOK million	Alunorte	Aluchemie	SKS Produksjon	NorSun	Ascent Solar	QVC	Other	Total
31 December 2006	3,397	542	378	-	-	508	320	5,147
Investments (sale), net	294			150	119		13	576
Change in long-term advances, net	435						52	488
Hydro's share of net income (loss) <sup>1)</sup>	807	14	31	(5)	(6)	84	76	1,000
Amortization and impairment	(17)	(16)	(5)	(4)	(3)		3	(43)
Dividends and other payments received by Hydro	(136)	(7)	(18)				(18)	(179)
Foreign currency translation and other	188	(24)	(5)		(12)	(73)	(93)	(18)
Reclassified to assets held for sale <sup>2)</sup>						(519)	(180)	(697)
31 December 2007	4,968	509	381	141	98	-	174	6,273
Investments (sale), net	(21)			250	216		49	494
Change in long-term advances, net	524						5	529
Hydro's share of net income (loss)	209	17	33	(36)	(15)		5	213
Amortization	(17)	(17)	(5)	4	(8)		(3)	(47)
Impairment losses				(92)	(179)		(2)	(274)
Dividends and other payments received by Hydro	(113)		(56)				(8)	(178)
Foreign currency translation and other	255	116	(18)		80		14	447
31 December 2008	5,805	626	335	267	191	-	235	7,458

1) Share of net income relating to associates classified as assets held for sale in the balance sheet and discontinued operations in the income statement amounted to NOK 91 million in 2007.

2) Associates owned by Polymers are classified as assets held for sale in the balance sheet and discontinued operations in the income statement in 2007. There were no associates classified as asset held for sale in 2008.

### Specification of associates

Amounts in NOK million, except ownership	Percentage owned by Hydro	Investments in and advances to associates		Hydro's current receivable (payable), net with associates <sup>1)</sup>	
	2008	2008	2007	2008	2007
Alunorte	<b>34.0%</b>	<b>5,805</b>	4,968	<b>337</b>	(240)
Aluchemie	<b>36.2%</b>	<b>626</b>	509	-	(9)
SKS Produksjon	<b>20.9%</b>	<b>335</b>	381	-	-
NorSun	<b>18.4%</b>	<b>267</b>	141	-	-
Ascent Solar	<b>34.9%</b>	<b>191</b>	98	-	-
Others		<b>235</b>	174	<b>3</b>	(44)
Total		<b>7,458</b>	6,273	<b>340</b>	(293)

1) Hydro's current receivables (payable) with associates owned by Polymers are included in 2007 figures.

A description of significant associates' business, majority owners, and the nature of related party transactions with Hydro including amounts if material follow:

**Alumina do Norte do Brasil S.A. (Alunorte)** is an alumina refinery located in Brazil. Hydro's ownership share is 34 percent. Companhia Vale do Rio Doce owns 57 percent of the shares. Hydro purchased alumina from Alunorte amounting to NOK 3,240 million and NOK 2,885 million in 2008, and 2007,

respectively. Pricing of Hydro's purchases from Alunorte is based on a percentage of aluminium prices as quoted on the LME. Hydro has right and obligation to purchase a share of Alunorte's offtake equal to its ownership interest in the company. Alunorte is part of Aluminium Metal.

**Aluminium & Chemie Rotterdam B.V. (Aluchemie)** is an anode producer located in the Netherlands. Hydro owns 36.2 percent and has 21.2 percent of the voting rights. Other



shareholders include Rio Tinto Alcan (53.3 percent) and Søral (10.5 percent). Hydro purchased anodes from Aluchemie amounting to NOK 851 million in 2008 and NOK 613 million in 2007 on the basis of cost plus. Sales of anode butts from Hydro to Aluchemie amounted to NOK 140 million in 2008 and NOK 102 million in 2007. Hydro is committed to purchase a share of produced anodes based on its ownership interest. For certain product lines the right and obligation to purchase is higher, as agreed between the shareholders. Aluchemie is part of Aluminium Metal.

**SKS Produksjon AS (SKS Produksjon)** is a power producer located in Northern Norway. SKS Produksjon is owned 20.9 percent by Hydro and 79.1 percent by Salten Kraftsamband AS. There have not been any sales to or from Hydro in 2008 or 2007. SKS Produksjon is part of Energy.

**NorSun AS (NorSun)** was established in 2005 and is engaged in production of mono crystalline wafers for the photovoltaic industry. NorSun has currently two production facilities, one in Vantaa, Finland, and one in Årdal, Norway. Hydro's ownership share increased from 16.2 percent to 18.4 percent, through a disproportional capital contribution in February 2008. Other main shareholders are Scatec with 20.5 percent and Good Energies with 31 percent. There have not been any material sales to or from Hydro in 2007. The investment in NorSun has been tested for impairment due to the substantial loss in value for listed solar companies. The impairment test was based on the

most recent share issue in NorSun conducted in February 2009. The test for impairment resulted in a write-down of NOK 92 million. NorSun is part of Energy.

**Ascent Solar Technologies Inc. (Ascent)** is located in Denver, USA and listed on NASDAQ as a Development Stage Company and is engaged in development of thin-film photovoltaic modules. During 2008 Hydro's ownership interests increased from 22.2 to 34.9 percent through a share subscription under an option, followed by a dilution from a public offering and a subsequent share subscription. The dilution resulted in a gain of approximately NOK 35 million. In addition, Hydro holds 35 percent of the company's class B warrants exercisable until 11 July 2011. Through a cooperation agreement Hydro and Ascent has agreed to collaborate in the development of integrated photovoltaic products for the Building Industry. There have not been any sales to or from Hydro in 2008 or 2007. The investment in Ascent has been tested for impairment as there is substantial loss in value for listed solar companies, including Ascent. The impairment test has been based on fair value less cost to sell. The test resulted in a write-down of NOK 179 million. The financial information for Ascent Solar has a three months lag to Hydro's reporting dates. Ascent Solar is part of Energy.

Below income statement and balance sheet information based on reported figures from associates, these figures could in certain cases deviate from Hydro's assessment of the underlying values.

### Income statement data

Amounts in NOK million (unaudited)	2008	2007 <sup>1)</sup>
Revenues	12,941	10,705
Earnings before financial items and tax	2,247	2,948
Income before tax	938	3,297
Net income	580	2,696
Hydro's share of net income from continuing operations	213	908

1) Associates owned by Polymers are not included in the income statement figures.

### Balance sheet data

Amounts in NOK million (unaudited)	2008	2007 <sup>1)</sup>
Current assets	6,864	3,948
Non-current assets	20,318	17,958
Assets	27,182	21,906
Current liabilities	3,250	2,524
Non-current liabilities	7,302	4,227
Equity attributable to equity holders of parent	16,629	15,155
Liabilities and equity	27,182	21,906
Hydro's investments and advances	7,458	6,273

1) Associates owned by Polymers are not included in the balance sheet figures.

## NOTE 26 Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Meridian	Noretyl	Other	Total
31 December 2006	1,786	719	-	315	433	445	85	3,783
Investments (sale), net			547	10	(440)		169	286
Change in long-term advances, net	(124)		153			(50)	(5)	(26)
Hydro's share of net income (loss) <sup>1)</sup>	92	209	(68)		4	61	(11)	288
Amortization and impairment	(56)						(28)	(84)
Dividends and other payments received by Hydro	(21)	(249)					(8)	(278)
Foreign currency translation and other	(61)		(17)	(44)	3		(6)	(126)
Reclassified to assets held for sale <sup>2)</sup>						(456)	-	(456)
31 December 2007	1,616	679	615	281	-	-	197	3,387
Investments (sale), net			2,456	5			121	2,583
Change in long-term advances, net	(92)		684	110			(39)	664
Hydro's share of net income (loss) <sup>3)</sup>	6	10	(89)				(52)	(126)
Amortization	(58)						(11)	(68)
Impairment losses		(85)		(512)			(16)	(613)
Dividends and other payments received by Hydro	(8)	(50)					(11)	(69)
Foreign currency translation and other	341		761	115			25	1,243
31 December 2008	1,805	554	4,426	-	-	-	215	6,999

- 1) Share of net income from jointly controlled entities classified as asset held for sale in the balance sheet and discontinued operations in the income statement amounted to NOK 61 million in 2007.
- 2) The jointly controlled entity Noretyl (owned by Polymers) was classified as asset held for sale in the balance sheet and discontinued operations in the income statement in 2007. There were no jointly controlled entities classified as asset held for sale in 2008.
- 3) Includes impairment losses made by the jointly controlled entities.

### Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro	Investments in and advances to investees		Hydro's current receivable (payable), net with investees <sup>1)</sup>	
	2008	2008	2007	2008	2007
Alunorf	50.0%	1,805	1,616	353	310
Søral	49.9%	554	679	(246)	(181)
Qatalum	50.0%	4,426	615	(54)	(15)
Alpart	35.0%	-	281	-	9
Meridian	0.0%	-	-	-	-
Noretyl	0.0%	-	-	-	54
Others		215	197	(53)	(62)
Total		6,999	3,387	-	114

- 1) Hydro's current receivable (payable) include receivables with Noretyl in 2007.

Below a description of significant jointly controlled entities' business, owners, the nature of related party transactions with Hydro including amounts if material. If applicable the description includes contractual and capital commitments, contingent liabilities and guarantees reported by the jointly controlled entity:

**Aluminium Norf GmbH (Alunorf)** the world's largest rolling mill is located in Germany. Alunorf is jointly owned by Hydro and Hindalco Industries (50 percent each). Through a tolling arrangement, each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales of rolling services from Alunorf to Hydro amounted to NOK 1,563 million in 2008 and NOK 1,527 million in 2007. The tolling fee is based on cost recovery, in which each partner bears its share of cost. Hydro's capital and financing commitments are regulated in the Joint Venture agreement. Alunorf has investment commitments amounting to NOK 335 million as of December 31, 2008. Hydro's financing commitment based on its interest is NOK 221 million as of 31 December, 2008. Alunorf is part of Aluminium Products.

**Sør-Norge Aluminium AS (Søral)** is the fourth largest primary aluminium manufacturer in Norway located in Husnes, Hordaland. Hydro owns 49.9 percent and Rio Tinto Alcan 50 percent. Søral sells 50 percent of its production to each major owner at current market prices. Sale of aluminium from Søral to Hydro amounted to NOK 1,609 million in 2008 and NOK 1,751 million in 2007. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 699 million in 2008 and NOK 873 million in 2007. Due to the downward shift in aluminium prices which was not followed by a similar shift in input factors, Søral was tested for impairment. Based on the test, Søral was considered to be partly impaired, resulting in a write-down of NOK 84,9 million. Production curtailment of around 50 percent was decided early in 2009. Søral is part of Aluminium Metal.

**Qatar Aluminium Ltd. (Qatalum)** is a jointly controlled entity established in August 2007. The owners of Qatalum are Hydro and Qatar Petroleum Ltd., each with an ownership of 50 percent. Qatalum will develop and construct an aluminium smelter and a power plant in Qatar with production capacity of 585,000 tonnes. The project is on schedule for start-up around year-end 2009. During construction and start-up phase Hydro will deliver expertise and Technology to the project. Several agreements have been established to regulate the deliveries of services between Hydro and Qatalum; Technical Services Agreement, Project Management Agreement and Technology Licence Agreement. Sales from Hydro to Qatalum amounted to NOK 538 million in 2008 and 40 million in 2007. Hydro has entered in to agreements with Qatalum, in which it is committed to sell fixed quantities of alumina and purchase all products from Qatalum from commencement of production. Pricing is market based.

Hydro is in connection with the Joint Venture agreement with Qatar Petroleum Ltd. committed to finance Qatalum on the basis of its percentage share for capital requirements exceeding those covered through external financing. Qatalum is currently bound by several agreements in connection with both the construction of the plant and in connection with raw material purchases (e.g. natural gas from Qatar Petroleum, alumina, etc.) upon commencement of production. In addition a long term land lease is currently effective. Total investment costs for the project are estimated at USD 5,6 billion (for the entire joint venture). As of December 31, 2008, construction and development of the primary aluminium plant was 60 percent completed. Substantially all of the total estimated investment costs are represented by contractual commitments as of December 31, 2008. Qatalum is part of Aluminium Metal.

**Alumina Partners of Jamaica (Alpart)** is an alumina refinery located in Jamaica. Hydro's ownership share is 35 percent. Hydro is committed through the shareholder agreement to purchase alumina in relation to its ownership interest in Alpart, and on the basis of cost recovery. Purchases in 2008 and 2007 amounted to NOK 1,111 million and NOK 871 million, respectively. In 2007 Hydro sold caustic soda to Alpart in the amount of NOK 50 million. Hydro's capital commitments are regulated in the shareholder agreement. Hydro is committed to financing capital expenditures on the basis of its ownership interest. Alpart was tested for impairment and was considered to be fully impaired, resulting in a write-down of NOK 512 million. Production curtailment of 50 percent was decided in January 2009. Alpart is part of Aluminium Metal.

Below income statement and balance sheet information based on reported figures from the joint ventures, these could in certain cases deviate from Hydro's assessment of the underlying values.

### Income statement data

Amounts in NOK million (unaudited)	2008	2007 <sup>1)</sup>
Revenues	<b>7,214</b>	7,757
Earnings before financial items and tax	<b>(190)</b>	687
Income before tax	<b>(247)</b>	590
Net income	<b>(258)</b>	453
Hydro's share of net income from continuing operations	<b>(126)</b>	228

1) Noretyl is not included in the income statement figures.

### Balance sheet data

Amounts in NOK million (unaudited)	2008	2007 <sup>1)</sup>
Current assets	<b>4,628</b>	3,965
Non-current assets	<b>26,362</b>	8,373
Assets	<b>30,990</b>	12,337
Current liabilities	<b>6,163</b>	3,286
Non-current liabilities	<b>10,815</b>	3,887
Equity attributable to equity holders of parent	<b>14,012</b>	5,164
Liabilities and equity	<b>30,990</b>	12,337
Hydro's investments and advances	<b>6,999</b>	3,387

1) Noretyl is not included in the balance sheet figures.

## NOTE 27 Jointly owned assets

Hydro is involved in certain assets where the legal ownership takes various forms of undivided direct ownership in the assets, and where operational and strategic decisions are made by supermajority among the owners. These arrangements are not joint ventures as defined by IFRS. Hydro accounts for its relative share of assets, liabilities, expenses and, where relevant, revenues related to these arrangements. Assets, liabilities, revenues and expenses are classified with other items of the same nature incurred as part of Hydro's controlled operations.

The most significant of these arrangements are Hydro's 20 percent ownership in the Alouette plant in Canada, and the 12.4 percent ownership in the Tomago plant in Australia. Both plants produce primary aluminium. Hydro provides alumina relative to its share of the metal production, and receives produced metal for further processing or sale through Hydro's Metal operation. Other costs of operations, including power consumption and labor, are incurred on a joint basis by the owners. Unrealized losses or gains relating to embedded derivatives and operational hedges associated with the physical supply of power to the plants are also incurred or earned on a joint basis by the owners.

The following key figures represent the impact of these two arrangements:

Amounts in NOK million	2008	2007
Current assets	150	137
Property, plant and equipment	3,027	2,451
Derivatives	68	42
Jointly owned assets	3,245	2,630
Current liabilities	85	49
Non-current liabilities	56	87
Derivatives	187	440
Total liabilities	328	575
Share of expenses	968	1,056
Depreciation and amortization	217	224
Change in derivative positions	(322)	115
Expenses included in EBIT	864	1,396
Produced volume (kmt)	179	179

## NOTE 28 Bank loans and other interest-bearing short-term debt

Amounts in NOK million	Weighted average interest rate	2008	2007
Bank loans and overdraft facilities	4.4%	279	176
Other interest bearing short-term debt	5.6%	803	798
Current portion of long-term debt	-	86	71
Bank loans and other interest-bearing short-term debt		1,169	1,045

## NOTE 29 Trade and other payables

Amounts in NOK million	2008	2007
Accounts payable	9,016	8,457
Payroll and value added taxes	2,350	2,016
Accrued liabilities and other payables	1,578	1,721
Trade and other payables	12,944	12,193

## NOTE 30 Long-term debt

### Long-term debt payable in various currencies

Amounts in NOK million, except interest rates	Weighted average interest rates	Denominated amount 2008	Balance in NOK	
			2008	2007
USD	3.8%	29	199	206
EUR	4.2%	5	47	19
CNY	7.7%	98	99	72
Other			-	8
Total unsecured bank loans			345	306
Finance lease obligations			1	2
Mortgage loans			2	5
Other long-term debt			16	21
Outstanding debt			365	334
Less: Current portion			(86)	(71)
Total long-term debt			279	263

Foreign currency swaps are not reflected in the table above. See Note 42 Derivative instruments and hedge accounting for additional information.

### Payments on long-term debt including interest fall due as follows

Amounts in NOK million	Bank loans	Finance lease and other	Total
2009	103	1	105
2010	191	5	195
2011	77	6	83
2012	4	4	8
2013	2	3	5
Thereafter	1	1	3
Total	378	20	398

Norsk Hydro ASA has a USD 1,700 million, seven-year revolving multi-currency credit facility with a syndicate of international banks, through July 2014. The commitment fee on the facility is 0.06 percent per annum, increasing to 0.0675 percent the last two years. There was no borrowing under this facility as of 31 December 2008.

### Secured debt

Amounts in NOK million	2008	2007
Amount of secured debt	2	5
<b>Assets used as security:</b>		
Machinery and equipment	-	34
Buildings	39	46
Other	3	2
Total	42	83

## NOTE 31 Provisions

Amounts in NOK million	2008			2007		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Warranties	85	-	85	110	-	110
Exit and disposal activities	215	63	278	262	42	303
Environmental clean-up	114	153	267	57	137	194
Asset retirement obligations	61	701	762	32	570	603
Postretirement medical benefits	-	140	140	-	120	120
Other employee benefits	299	413	713	127	256	382
Social security costs on pension	-	601	601	-	722	722
Insurance claims	573	-	573	717	-	717
Onerous contracts	333	12	345	8	-	8
Other	380	31	411	286	4	290
Total provisions	2,060	2,115	4,175	1,599	1,849	3,448

Amounts in NOK million	Warranties	Exit and disposal activities	Environmental clean-up	Asset retirement obligations	Postretirement medical benefits	Other employee benefits	Social security costs on pension	Insurance claims	Onerous contracts	Other	Total
<b>Specification of change in provisions</b>											
31 December 2007	110	303	194	603	120	382	722	717	8	290	3,448
Additions	152	114	62	115	2	389	65	13	289	319	1,521
Used during the year	(113)	(150)	(13)	(57)	(1)	(411)	(32)	(58)	(3)	(129)	(968)
Reversal of unused provisions	(81)	(31)	(6)	(9)	(12)	(35)	(5)	(100)	-	(14)	(292)
Accretion expense and effect of change in discount rate	-	-	3	50	-	4	-	-	-	-	57
Transfers, reclassifications and companies sold	-	10	(11)	1	-	317	(153)	-	-	(97)	67
Foreign currency translation	17	32	37	60	32	67	5	-	52	41	342
31 December 2008	85	278	267	762	140	713	601	573	345	411	4,175

<b>Timing of cash outflows</b>											
2009	85	215	114	61	-	299	-	573	333	380	2,060
2010-2013	-	63	116	225	33	177	218	-	4	27	863
Thereafter	-	-	37	476	108	236	383	-	9	4	1,252
31 December 2008	85	278	267	762	140	713	601	573	345	411	4,175

Exit and disposal activities include costs related to labor force reductions, demolition costs and certain other costs. Environmental clean-up provisions relate to production facilities that are currently in operation, as well as to locations that have been shut-down. Approximately 80 percent of the payments related to the environmental clean-up costs are expected to be made within 2011. Short and medium term asset retirement obligations relate primarily to the relining of smelters. Payments related to other asset retirement obligations include, for example, asset retirement obligations related to Norwegian power plant concessions which are due when the facilities are returned to the Norwegian govern-

ment and the dismantling of factories usually paid at the time of plant closure. See note 4 Critical accounting judgments and key sources of estimation uncertainty for additional information about environmental liabilities and asset retirement obligations.

Post-retirement medical benefits relate to operations primarily in North America. The provision for social security related to pensions relates primarily to operations in Europe with defined benefit pension plans. See note 32 Employee retirement plans for additional information.

Other employee benefits includes a provision for short-term performance bonus payments. It also includes both the short and

long-term provision for bonus payments that are based on the number of years of service. Primarily located in Europe, these “jubileum” plans vary, with payments being received in the period between 10 to 50 years of service, or post-employment.

Approximately 90 percent of the amount reported as Onerous contracts relates to unfavorable electricity power contracts in Germany. These onerous contracts were recognized in December 2008 and are short-term in nature. Onerous contracts also includes building lease contracts where Hydro has discontinued use of the facilities for cost savings or business purposes, but has not been able to exit or terminate the lease contract.

Insurance claims relates to insured losses submitted by external parties to Hydro’s captive insurance company, Industriforsikring AS, that are not yet settled as of 31 December 2008. Other provisions includes various miscellaneous items, for example litigation and related fees. Other provisions also includes an immaterial amount related to CO<sub>2</sub> emissions in excess of purchased CO<sub>2</sub> emission quotas.

Long-term provisions now includes the categories postretirement medical benefits, non-current other employee benefits and social security costs on pension, reclassified from Other liabilities as of 31 December 2008. Insurance claims have been reclassified from Trade and other payables as of 31 December 2008. All 2007 figures are restated for comparative purposes.

## NOTE 32 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.

#### Net periodic pension cost

Amounts in NOK million	2008	2007
<b>Defined benefit plans</b>		
Benefits earned during the year, net of participants' contributions	483	560
Interest cost on prior period benefit obligation	987	945
Expected return on plan assets	(911)	(872)
Recognized (gain) loss	(27)	3
Past service cost	23	30
Curtailment gain	-	(5)
Settlement gain	(3)	(3)
Net periodic pension cost	551	658
Defined contribution plans	26	24
Multiemployer plans	1	1
Termination benefits and other	198	218
Total net periodic pension cost	775	900

#### Change in projected benefit obligation (PBO)

Amounts in NOK million	2008	2007
Projected benefit obligation at beginning of year	(20,584)	(23,695)
Benefits earned during the year	(490)	(630)
Interest cost on prior period benefit obligation	(987)	(1,042)
Actuarial gain (loss)	(2,053)	1,070
Plan amendments	(25)	(20)
Benefits paid	844	967
Curtailments	-	54
Settlements	141	(3)
Special termination benefits	(11)	(9)
Divestments	624	283
Assets held for sale	-	1,838
Foreign currency translation	(898)	603
Projected benefit obligation at end of year	(23,440)	(20,584)

#### Change in pension plan assets

Amounts in NOK million	2008	2007
Fair value of plan assets at beginning of year	15,579	16,843
Actual return on plan assets	(2,307)	1,502
Company contributions	166	366
Plan participants' contributions	8	22
Benefits paid	(534)	(674)
Settlements	(135)	(36)
Divestments	(411)	(221)
Assets held for sale	-	(1,746)
Foreign currency translation	20	(475)
Fair value of plan assets at end of year	12,386	15,579

#### Status of pension plans reconciled to balance sheet

Amounts in NOK million	2008	2007
<b>Defined benefit plans</b>		
Funded status of the plans at end of year	(11,054)	(5,005)
Unrecognized net (gain) loss	3,315	(1,893)
Unrecognized past service cost	7	5
Net accrued pension recognized	(7,732)	(6,893)
Termination benefits and other	(764)	(780)
Total net accrued pension recognized	(8,496)	(7,674)
<b>Amounts recognized in the balance sheet consist of</b>		
Prepaid pension	1,458	1,246
Accrued pension liabilities	(9,953)	(8,920)
Net amount recognized	(8,496)	(7,674)



**Weighted-average assumptions used to determine net periodic pension cost**

	2008	2007
Discount rate	5.0%	4.5%
Expected return on plan assets	6.3%	5.9%
Rate of compensation increase	3.7%	3.4%

**Weighted-average assumptions used to determine pension obligation at end of year**

	2008	2007
Discount rate	4.7%	5.0%
Rate of compensation increase	3.8%	3.7%

**Analysis of projected benefit obligation (PBO)**

Amounts in NOK million	2008	2007
PBO arising from plans that are wholly or partly funded	(15,336)	(13,921)
PBO arising from plans that are unfunded	(8,104)	(6,664)
Total PBO	(23,440)	(20,584)

**Weighted-average investment profile plan assets at end of year <sup>1)</sup>**

Asset category	Target Allocation	2008	2007
Equity securities	22-35%	27%	37%
Debt securities	31-51%	33%	32%
Real estate	17%	22%	17%
Other	9-15%	18%	14%
Total		100%	100%

1) Property used by Hydro represents 16% and 12% of total plan assets at the end of 2008 and 2007, respectively.

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 one to two percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

In Norway, Hydro participates in a pension plan that entitles the majority of its Norwegian employees a right to retire from the age of 62 with benefits from the plan ("avtalefestet pensjon, AFP"). The benefits are financed through a pooled arrangement by private sector employers. The Norwegian state also contributes to the plan. Employer contributions to the plan are currently determined as a fixed annual amount per employee, and as a fixed percentage of benefits paid for early retirees until the normal retirement age of 67 years. The plan is a defined benefit plan. The plan assets are not segregated. The information required to account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The retiree specific contribution is recognized in total when an early retirement agreement is signed. The employer contributions are included in Termination benefits and other. An agreement to change the plan was reached during 2008, whereby the structure of the benefits will change, and the employer contributions will solely be in the form of a salary related charge for active employees. Contributions for retirees are agreed to be discontinued. The changes are assumed to be effective from 2011, however, the detailed legislation is not yet in place.

Social security tax imposed on pensions has been recognized and accrued for where applicable, together with social security tax imposed on other personnel benefits, and has not been treated as pensions.

**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 9 million in 2008 and NOK 9 million in 2007. The post retirement liability as of 31 December, 2008 was NOK 140 million and NOK 120 million in 2007.

## NOTE 33 Deferred tax

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 2008 and 31 December 2007:

Amounts in NOK million	Asset	Liabilities	Asset	Liabilities
	2008	2008	2007	2007
Marketable securities	-	(6)	10	-
Inventory valuation	321	(427)	209	(313)
Accrued expenses	1,667	(1,446)	2,068	(1,862)
Unrealized exchange (gains) losses	439	(537)	77	(1,522)
Property, plant and equipment	3,098	(4,169)	4,445	(5,425)
Ground rent surtax	282	-	306	-
Capitalized interest	-	(72)	-	(79)
Other non-current assets	272	(409)	287	(377)
Pensions	1,810	(477)	1,697	(416)
Deferred (gains) losses on sales	5	(113)	22	(622)
Derivatives	1,126	(507)	778	(734)
Cash Flow Hedges	-	(60)	76	(31)
Other	396	(275)	336	(249)
Tax effect tax loss carryforwards	1,600	-	907	-
Subtotal	11,016	(8,498)	11,218	(11,630)
Of which not recognized as tax asset	(1,751)		(871)	
Gross deferred tax assets and liabilities	9,265	(8,498)	10,347	(11,630)

At the end of 2008, Hydro had tax loss carryforwards of NOK 5,142 million, primarily in the United States, Jamaica, Malaysia, Spain, Italy, United Kingdom and China. Carry forward amounts expire as follows:

Amounts in NOK million	
2009	-
2010	49
2011	222
2012	78
2013	763
After 2013	1,842
Without expiration	2,189
Total tax loss carryforwards	5,142

## NOTE 34 Shareholders' equity

### SHARE CAPITAL

Norsk Hydro ASA had authorized and issued 1,247,956,949 ordinary shares as of 31 December 2008 and 2007. The number of outstanding shares was 1,206,325,863 as of 31 December 2008 and 1,209,304,379 as of 31 December 2007. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,209,143,809 for the year 2008 and 1,221,195,650 for 2007.

On 5 July 2007 an extraordinary General Meeting approved the plan for the demerger of Norsk Hydro ASA as part of the merger of Norsk Hydro ASA's oil and gas activities with Statoil ASA. The extraordinary General Meeting also approved a capital reduction to be effected before completion of the merger with the cancellation of 21,627,000 treasury shares and the redemption of 16,871,506 shares owned by the Ministry of Trade and Industry in Norway. The Ministry agreed to participate in the redemption in order to leave its ownership interest unchanged, and received a compensation of NOK 2,763 million. The cancellation and redemption were completed in September 2007. As a result of the demerger the par value of each share was reduced from NOK 3.66 to NOK 1.098.

**TREASURY SHARES**

Norsk Hydro ASA had 41,631,086 treasury shares as of 31 December 2008 and 38,652,570 treasury shares as of 31 December 2007. Total buyback of shares was 4,408,000 in 2008 and 621,895 in 2007. Shares reissued to employees were 1,429,484 in 2008 and 621,895 in 2007. No treasury shares were cancelled in 2008 and the number of treasury shares cancelled in 2007 was 21,627,000.

The General Meeting on 6 May 2008 authorized a buyback of shares in the market with a maximum par value of NOK 49.4 million. At a per share par value of NOK 1.098, the market share price interval is set at NOK 20 to NOK 150 per share. The repurchased shares are to be used for the purpose of cancellation through capital reduction. Total number of shares repurchased in 2008 under this authorization was 4,408,000. The authorization applies from 6 May 2008 until 5 May 2009. The remaining 37,223,086 treasury shares may, pursuant to the decision of the General Meeting at the time these shares were acquired, 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 treasury shares amount per 31 December 2008 of NOK 4,274 million was comprised of NOK 46 million share capital and NOK 4,228 million retained earnings, and the

treasury shares amount of NOK 4,283 million per 31 December 2007 was comprised of NOK 42 million share capital and NOK 4,241 million retained earnings.

**DEMERGER**

Hydro's equity was reduced in 2007 by NOK 47,089 million as a result of the demerger. Par value of the shares was reduced by 70 percent from NOK 3.66 to NOK 1.098 per share reducing the share capital by NOK 3,197 million from NOK 4,568 million to NOK 1,370 million. Additional paid-in capital was reduced by NOK 6,727 million, which corresponds to 70 percent of additional paid-in capital as of 1 January 2007.

Retained earnings were reduced by NOK 41,339 million. This amount represents the portion of assets, rights and obligations transferred to StatoilHydro which exceeds the reduction in share capital and additional paid-in capital.

Other reserves related to the oil and gas activities transferred to StatoilHydro upon completion of the merger amounted to NOK 4,174 million. This NOK 4,174 million consists of accumulated currency translation differences of NOK (4,349) million and net unrealized gains on long-term marketable equity securities of NOK 175 million.

**CHANGE IN OTHER RESERVES**

The table below specifies the changes in Other reserves for 2008 and 2007.

Amounts in NOK million	2008			2007		
	Pretax	Tax	Net of tax	Pretax	Tax	Net of tax
<b>Currency translation differences</b>						
Currency translation differences during the year	8,382	-	8,382	(4,507)	-	(4,507)
Companies sold	232	-	232	112	-	112
Net currency translation differences	8,614	-	8,614	(4,395)	-	(4,395)
<b>Unrealized gain (loss) on securities</b>						
Unrealized gain (loss) on securities	201	(35)	165	(449)	154	(295)
<b>Cash flow hedges - see note 42 Derivative instruments and hedge accounting</b>						
Period gain (loss) booked into equity	(184)	53	(132)	152	(41)	111
Reclassification of hedging loss	573	(157)	415	656	(183)	474
Net change cash flow hedges	388	(105)	284	809	(224)	585
Total attributable to equity holders of the parent	8,913	(130)	8,783	(3,918)	(70)	(3,988)
Total attributable to minority interest	290	(10)	280	(117)	-	(117)

## NOTE 35

### Capital management

Hydro's capital management policy is to maximize value creation over time, while maintaining a strong financial position and an investment grade credit rating. Capital is defined using the measures Adjusted net interest-bearing debt and Adjusted equity. Capital is managed using the measures Adjusted net interest-bearing debt, Adjusted net interest-bearing debt to Adjusted equity and Adjusted funds from operations to Adjusted net interest-bearing debt. The definition of these key ratios is given below.

#### CREDIT RATING

To secure access to attractive terms in the capital markets and remain financially solid, Hydro aims at keeping investment grade rating from the leading rating agencies, Standard & Poor's (BBB) and Moody's (Baa2). To maintain the current rating, Hydro targets, over the cycle, to keep Adjusted funds from operations of at least 40 percent of Adjusted net interest-bearing debt, and the Adjusted net interest-bearing debt to Adjusted equity ratio below 55 percent.

#### LIQUIDITY MANAGEMENT AND FUNDING

Hydro manages its liquidity at the corporate level, ensuring sufficient liquidity to cover group operational requirements. During 2008 net cash provided by operations and cash received through asset sales, together with our liquidity holdings, were sufficient to cover our operating requirements, capital expenditures, dividend payments and share repurchase program. See note 28 Bank loans and other interest-bearing short-term debt for additional information.

Hydro manages long-term debt and equity financing at the corporate level, with an ambition to access the national and international capital markets as our primary source for external long-term funding. The last time Hydro issued shares was in connection with the acquisition of Saga Petroleum ASA in 1999.

In 2007, Hydro entered into a USD 1.7 billion seven-year multi-currency revolving credit facility with a syndicate of banks. Any borrowings under the facility will be unsecured, and the debt agreement contains no financial ratio covenants and no provisions connected to the value of underlying assets. The facility is for general corporate purposes, and provides readily available and flexible long-term funding. There is no borrowing under this facility as of 31 December 2008 and as of 31 December 2008 Hydro had no bond debt outstanding. On 6 March 2009 Hydro signed a EUR 750 million three-year revolving credit facility with a syndicate of banks. See note 30 Long-term debt for additional information.

#### FUNDING OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Normally the parent company, Norsk Hydro ASA, incurs debt and then extends loans or equity to wholly-owned subsidiaries to fund capital requirements within the group. When partially-owned subsidiaries or investments in associates and jointly controlled entities are financed, it is Hydro policy to finance according to ownership share and on equal terms with the other owners. All financing of subsidiaries and equity accounted investments is at arm's-length principles. Project financing may be used in certain cases, with the primary objective generally being to achieve risk mitigation while also taking into account partnership and other relevant considerations. Hydro's ongoing development of the aluminium smelter in Qatar, through Qatar Aluminium Ltd, is financed through a USD 2.6 billion syndicated bank facility, in addition to equity from the owners. The current outstanding amount under the credit facility as of 31 December 2008 is USD 1,146 million, compared to USD 276 million outstanding as of 31 December 2007. The facility is with limited recourse to Hydro during development of the project and without recourse to Hydro after completion of the project. See note 37 Guarantees for additional information.

#### SHAREHOLDER RETURN

Shareholder return consists of dividends and share price development. Over time value creation should be reflected to a greater extent by share price development than through dividends. Our dividend policy is to pay an average of 30 percent of net income over time in ordinary dividends to our shareholders. The dividend for a specific year is determined after taking into consideration expected future earnings and cash flow, future investment opportunities, the outlook for world commodity markets and Hydro's current financial position. Share buybacks or extraordinary dividends may be used to supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total dividend payout reflects Hydro's goal to give shareholders a competitive return benchmarked against alternative investments in comparable companies. See note 36 Dividends and note 34 Shareholders' equity for additional information.

### HYDRO'S CAPITAL MANAGEMENT MEASURES

Management makes regular use of the Adjusted net interest-bearing debt to Adjusted equity ratio in its assessment of Hydro's financial standing and ability to incur additional debt. Net interest-bearing debt is defined as Hydro's short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions. Adjusted net interest-bearing debt is defined as net interest-bearing debt adjusted for liquidity positions not regarded as available for servicing of Hydro debt and other obligations which are considered debt-like in nature. The definition also includes an adjustment for the indebtedness of Hydro's equity accounted investments. Both adjustments are relevant as the adjusting items affect Hydro's ability to service existing debt and to incur additional debt. See the table Adjusted net interest-bearing debt to equity, below, for additional specific information related to the definition and measurement of this capital management measure.

The ability to generate cash in comparison to indebtedness is an important measure for Hydro's risk exposure and financial stability. Management therefore also uses Adjusted funds from operations and the ratio Adjusted funds from operations to Adjusted net interest-bearing debt as capital management measures. Adjusted funds from operations is defined as Income from continuing operations, adjusted for depreciation, amortization and impairments, and deferred taxes. Furthermore, an adjustment is made for Hydro's share of depreciation, amortization and impairments in its equity accounted investments to create a measure which reflects Hydro's as well as its equity accounted investments' ability to generate cash. The definition also includes adjustments for unrealized effects on derivative contracts and certain other non-cash items.

### CHANGES IN THE DEFINITIONS OF HYDRO'S CAPITAL MANAGEMENT MEASURES

The definition of Adjusted net interest-bearing debt, Adjusted equity and Adjusted funds from operations have been changed compared to previous years' definition. The measures as now defined provide a more complete and improved evaluation of Hydro's financial position. However, the changes in the definitions are not expected to have a major impact on the measures over time. Cash and short-term investments in Hydro's captive

insurance company Industriforsikring AS are no longer included in the definition of Adjusted net interest-bearing debt. Previously, the Expected income tax benefit on pension liability was defined as 30 percent of the net pension liability. The Expected income tax benefit on pension liability is now defined as the sum of the net deferred tax asset related to pensions and 30 percent of the unrecognized net pension liability, with a corresponding adjustment in Adjusted equity. Cash positions in equity accounted investments are considered to have an off-setting effect on the implicit indebtedness of Hydro, and are now included in the calculation of Adjusted net interest-bearing debt as part of Net interest-bearing debt in equity accounted investments. Cash positions in excess of the debt in any one of the equity accounted investments are excluded from the calculation, as is any debt borrowed from Hydro by the equity accounted investment. Net interest-bearing debt in equity accounted investments is the sum of this calculation performed for each individual equity accounted investment. Adjusted net interest-bearing debt now includes Hydro's short- and long-term provisions related to exit and disposal activities, environmental clean-up and asset retirement obligations.

Adjusted funds from operations is now based on Income from continuing operations, whereas in previous years the definition was based on Net income, and included Income from discontinued operations. Certain adjustments for non-cash items are a change from the prior years' definition. The definition used to include only adjustments for depreciation, amortization and impairments in Hydro and its equity accounted investments, and deferred income taxes.

Adjusted net interest-bearing debt, Adjusted equity and Adjusted net interest-bearing debt to Adjusted equity ratio are presented in the following tables. Both the 2008 and the comparative 2007 figures are presented using the new definitions as discussed above. Previously published capital management measures are therefore not comparable with the figures presented below.

### Adjusted net interest-bearing debt to equity

31 December

Amounts in NOK million, except ratio	2008	2007
Cash and cash equivalents	<b>3,333</b>	9,330
Short-term investments	<b>1,648</b>	2,742
Bank loans and other interest-bearing short-term debt	<b>(1,169)</b>	(1,045)
Long-term debt	<b>(279)</b>	(263)
Net interest-bearing debt	<b>3,534</b>	10,764
Cash and cash equivalents and Short-term investments in captive insurance company <sup>1)</sup>	<b>(1,709)</b>	(2,013)
Net pension liability at fair value, net of expected income tax benefit <sup>2)</sup>	<b>(9,587)</b>	(5,154)
Operating lease commitments, net of expected income tax benefit <sup>3)</sup>	<b>(1,909)</b>	(1,498)
Net interest-bearing debt in equity accounted investments <sup>4)</sup>	<b>(4,855)</b>	(2,170)
Short- and long-term provisions, net of expected income tax benefit <sup>5)</sup>	<b>(915)</b>	(770)
Adjusted net interest-bearing debt	<b>(15,440)</b>	(842)
Total equity	<b>(54,141)</b>	(55,008)
Net pension liability (asset) not recognized	<b>3,322</b>	(1,889)
Expected income tax benefit (liability)	<b>(997)</b>	567
Equity adjustments off-balance sheet pension liabilities	<b>2,325</b>	(1,322)
Adjusted equity	<b>(51,815)</b>	(56,330)
Adjusted net interest-bearing debt / Adjusted equity ratio	<b>0.30</b>	0.01

- 1) Cash and cash equivalents and Short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net interest-bearing debt.
- 2) Net pension liability at fair value is the sum of both the recognized and unrecognized pension liability. The expected income tax benefit related to the net pension liability is defined as the sum of the net deferred tax asset related to pensions as of 31 December and 30 percent of the unrecognized net pension liability as of 31 December and is NOK 2,330 million and NOK 714 million, respectively, for 2008 and 2007. The figure shown also includes the long-term provision for postretirement medical benefits of NOK 140 million, net of an estimated 30% expected tax benefit.
- 3) Operating lease commitments are discounted using a rate of 3.8% and 5.5% for 2008 and 2007, respectively. The expected tax benefit on operating lease commitments is estimated at 30%.
- 4) Net interest-bearing debt in equity accounted investments is defined as the sum of Hydro's relative ownership percentage of each equity accounted investment's short and long-term interest-bearing debt less their cash positions, reduced by total outstanding loans from Hydro to the equity accounted investment. (Net interest-bearing debt per individual equity accounted investment is limited to a floor of zero.) Debt held by equity accounted investments affects their net income, net cash flows, and their ability to pay dividends. Therefore, Hydro's ability to incur and service future debt is affected. Cash positions in the equity accounted investments are considered to have an off-setting effect on their indebtedness, positively influencing their cash flows and thereby their and Hydro's ability to service existing, or assume additional, debt. Cash positions in excess of the debt in any one of the equity accounted investments are not considered to be available to repay or service Hydro's or any of the other equity accounted investment's debt, and are therefore excluded from the calculation.
- 5) Consists of Hydro's short and long-term provisions related to exit and disposal activities, environmental clean-up and asset retirement obligations, net an expected tax benefit estimated at 30%.

## NOTE 36 Dividends

Hydro's Board of Directors' normally proposes a dividend per share in connection with the annual accounts that are published in March each year. The Annual General Meeting considers this proposal, normally in May, and the approved dividend is then paid to the shareholders. Dividends are paid once each calendar year; generally occurring in May. For non-Norwegian shareholders, Norwegian withholding tax will be deducted at source in accordance with the applicable Norwegian tax regulations. For additional information related to Hydro's dividend and shareholder policy see note 35 Capital management.

For fiscal year 2008 The Board of Directors' has proposed no dividend.

Dividends declared and paid in 2008 and 2007 for the prior fiscal year, respectively, are as follows:

	<b>Paid in 2008 for fiscal year 2007</b>	Paid in 2007 for fiscal year 2006
Dividend per share paid, NOK	<b>5.00</b>	5.00
Total dividends paid, NOK million	<b>6,053</b>	6,134
Date proposed	<b>18 February 2008</b>	19 February 2007
Date approved	<b>6 May 2008</b>	8 May 2007
Dividend payment date	<b>19 May 2008</b>	21 May 2007

## NOTE 37 Guarantees

Amounts in NOK million	<b>2008</b>	2007
<b>Guarantees (off-balance sheet):</b>		
Guarantees related to associates	-	-
Guarantees related to jointly controlled entities	<b>9,138</b>	7,108
Sales guarantees	<b>5,170</b>	3,591
Other guarantees	<b>84</b>	65
Total	<b>14,392</b>	10,764

Guarantees in respect of jointly controlled entities primarily relates to Qatar Aluminium Ltd (Qatalum). Qatalum has secured USD 2,6 billion in debt to finance project costs during construction of the aluminum smelter and the power plant. Qatar Petroleum and Hydro have issued a completion guarantee in favor of the lenders on a pro rata (50/50) but not joint basis. The guarantee covers due and punctual payment of

interest and repayments. The guarantee terminates when a set of objective criteria related to the completion of the project has been fulfilled. The amount included in the table above of NOK 9 billion plus accrued interest and fees represents the maximum exposure under the guarantee when the facility is fully drawn. The current exposure based on outstanding debt under the credit facility as of 31. December 2008 is approximately NOK 4 billion.

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. In addition, Hydro has certain guarantees relating to sales of companies that are unspecified in amount and unlimited in time. No amounts relating to such guarantees are included in the table above. Other guarantees primarily relate to guarantees in respect of companies sold during 2007 and 2008, where the guarantee has not yet been replaced by the acquiring company. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote. Historically, Hydro has not made any significant indemnification payments under such guarantees and no amount has been accrued in the consolidated financial statements. Hydro estimates that the fair value of guarantees related to sale of companies is immaterial.

## NOTE 38 Contingent liabilities and contingent assets

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

See note 4 Critical accounting judgement and key sources of estimation uncertainty for additional information.

Hydro and StatoilHydro have in close cooperation with Norwegian and US authorities, concluded their parallel investigations in order to clarify the facts surrounding payments in connection with Hydro's (now StatoilHydro's) operations in Libya and consultancy agreements relating to Hydro's previous international oil and gas operations in relation to applicable anti-corruption regulations. The fact findings of the investigations were submitted and presented to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) on 7 October 2008 and to US authorities in November 2008. Hydro has not received any conclusion regarding this case from Norwegian or US authorities.

Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Norsk Hydro ASA and StatoilHydro ASA are jointly liable for liabilities of Norsk Hydro ASA and Norsk Hydro Produksjon AS accrued

before the demerger date of 1 October 2007. 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. Similarly, Norsk Hydro ASA and Yara International ASA are jointly liable for liabilities accrued before the demerger date of 24 March 2004 on the same conditions.

In connection with the merger of Hydro's petroleum activities with StatoilHydro, StatoilHydro assumed a share of 70 per cent of the liability for any obligations related to activities that on the time of the demerger were no longer a part of Hydro, including among other things environmental obligations related to the former fertilizer and magnesium activities.

## NOTE 39 Contractual commitments and other commitments for future investments

Amounts in NOK million	2009	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	405	112	517
Additional authorized future investments in property, plant and equipment	336	213	549
Contract commitments for other future investments	4,648	2,299	6,948
Total	5,389	2,625	8,014

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.

A substantial part of contract commitments for other future investment is related to the Qatalum project.

The non-cancelable future fixed and determinable obligation as of 31 December 2008 is as follows:

### Take-or-pay and Long-term contracts

Amounts in NOK million	Alumina and aluminium	Energy related	Other	Sales commitments
2009	1,821	2,116	829	(8,465)
2010	394	2,478	371	(1,332)
2011	377	2,428	178	(865)
2012	377	2,065	33	(503)
2013	424	2,934	23	(483)
Thereafter	7,262	21,293	185	(2,848)
Total	10,655	33,314	1,620	(14,495)

Hydro has entered into take-or-pay and long-term contracts providing for future payments to secure transportation capacity, processing services, aluminium, raw materials and electricity. In addition, Hydro has entered into long-term sales commitments. This principally relates to delivering of electricity. Hydro has delivery commitments relating to power stations to be reverted to the government of 17 TWh of which 614 GWh in 2009. Annual concession power delivery commitments relating to power stations not subject to reversion is 249 GWh annually.

Hydro has also entered into other long-term purchase contracts where terms of the agreements include additional charges covering variable operating expenses, in addition to the fixed and determinable component shown in the table above. This includes contracts where the variable part of the price normally is linked to the London Metal Exchange quoted aluminium prices.



## NOTE 40

### Financial instruments

Financial instruments, and contracts accounted for as such, are in the balance sheet included in several line items and classified in categories for accounting treatment. Below a reconciliation of the financial instruments in Hydro is presented:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total
<b>2008</b>							
<b>Assets - current</b>							
Cash and cash equivalents	7	-	3,327	-	-	-	3,333
Short-term investments	1,648	-	-	-	-	-	1,648
Accounts receivable	-	-	13,990	-	-	2,264	16,254
Other current financial assets	2,503	76	-	-	-	-	2,579
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	2,468	-	-	11,989	14,457
Other non-current financial assets	2,174	40	1,772	1,607	-	-	5,592
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	1,169	-	1,169
Trade and other payables	-	-	-	-	7,366	5,577	12,944
Other current financial liabilities	5,187	-	-	-	-	-	5,187
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	-	279	279
Other non-current financial liabilities	2,996	-	-	-	-	-	2,996

All line items not specified above, as existing in the balance sheet, does not include financial instruments.

Financial assets, classified as current and non-current, represent the maximum exposure Hydro has towards credit risk as at the reporting date.

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total
<b>2007</b>							
<b>Assets - current</b>							
Cash and cash equivalents	7	-	9,323	-	-	-	9,330
Short-term investments	1,992	-	750	-	-	-	2,742
Accounts receivable	-	-	13,425	-	-	2,139	15,564
Other current financial assets	964	2	-	-	-	-	967
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	982	-	-	8,677	9,659
Other non-current financial assets	1,416	-	1,775	1,150	-	-	4,341
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	1,045	-	1,045
Trade and other payables	-	-	-	-	7,162	5,748	12,911
Other current financial liabilities	974	183	-	-	-	-	1,157
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	263	-	263
Other non-current financial liabilities	2,765	30	-	-	-	-	2,795

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are in the income statement included in several line items. Below

is a reconciliation of the effects from Hydro's financial instruments in the income statements:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total <sup>1)</sup>
<b>2008</b>							
<b>Income statement line item</b>							
Revenue	(95)	572	-	-	-	-	478
Raw material and energy expense	203	-	-	-	-	-	203
Financial income	144	-	-	(170) <sup>2)</sup>	-	-	(27)
Financial expense	3,915	-	-	-	-	-	3,915
<b>Gain/loss directly to equity</b>							
Recognized directly in equity (before tax)				(213)			
Removed from equity and recognized in profit or loss (before tax)				7			
<b>2007</b>							
<b>Income statement line item</b>							
Revenue	(188)	652	-	-	-	-	464
Raw material and energy expense	701	-	-	-	-	-	701
Financial income	(45)	-	-	(130) <sup>2)</sup>	-	-	(175)
Financial expense	(3,092)	-	-	-	-	-	(3,092)
<b>Gain/loss directly to equity</b>							
Recognized directly in equity (before tax)				453			

- 1) Amount indicates the total gains and losses related to financial instruments for each specific income statement line item.  
2) Dividends from equity instruments classified as available-for-sale.

Currency effects, with the exception of currency derivatives, are not included above.  
Negative amounts indicate a gain.

## NOTE 41 Financial and commercial risk management

Hydro is exposed to market risks from prices of commodities bought and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create significant fluctuations in Hydro's results. To manage this exposure, Hydro's main strategy is to maintain a strong financial position.

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. Natural hedging positions are established where possible and if economically viable. Hydro uses financial derivatives to some extent to manage financial and commercial risk exposures.

### COMMODITY PRICE RISK EXPOSURE

**Electricity** Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its equity production. The deficit is mainly secured through long-term contracts with other producers and suppliers to secure electricity for Hydro's own consumption and delivery commitments. A major part of contracted volumes are with rated counterparts.

In order to manage and mitigate risks related to unfavorable fluctuations in electricity prices and production volumes, 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 participates in trading, but with tight volume and risk limits.

Hydro has commitments to deliver concession power at regulated prices. From time to time Hydro will settle obligations to physically deliver electric power in concession power agreements financially. If the agreement for financial settlement changes the risk exposure compared to the original physical delivery, it will be recognized at fair value. Currently the fair value exposure on the balance sheet relating to concession power is limited.

**Aluminium** Hydro produces primary aluminium and fabricated aluminium products. Hydro's sourcing and trading activities include procurement of raw materials and primary aluminium for use in Hydro's smelters and casthouses or in downstream operations. These materials are also sold to external customers. In addition, trading activities contribute to optimize capacity utilization and to reduce logistical costs, as well as strengthen 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.

Hydro enters into future contracts with the London Metal Exchange (LME) mainly for two purposes. The first is to achieve an average LME aluminium price on smelter production. Second, because Hydro's downstream business, remelting, and the sale of third party products are based on margins

above the LME price, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding physical or derivative 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 external LME positions based upon net exposures within given limits. Aluminium price volatility can result in significant fluctuations in earnings as the derivative positions are marked to their market value with changes to market value recognized in earnings, while the underlying physical contracts transactions normally are not marked-to-market, except for those included in trading portfolios.

In order to secure margins for certain projects or other special situations, Hydro has sold forward on a longer-term basis. In these situations, hedge accounting has normally been applied. See the section on cash flow hedges in note 42 Derivative instruments and hedge accounting.

**CO<sub>2</sub> emission rights** Hydro has entered into trading of CO<sub>2</sub> emission rights. The fair value exposure and realized effects were not material in either 2008 or 2007.

**Other raw materials** Hydro is party to both long-term and short-term sourcing agreements for a range of raw materials and services, entered into at both fixed and variable prices. These include natural gas, alumina, pitch, petroleum coke and freight. These contracts gave rise to only limited fair value accounting exposure in 2008 and 2007.

### FOREIGN CURRENCY RISK EXPOSURE

The price of Hydro's most important product, aluminium, is either denominated in US dollars or is influenced by movements in the value of other currencies against the US dollar. Further, the cost of raw materials, including alumina, is affected by 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 the production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian Krone, US dollar, Canadian dollar, Australian dollar, Brazilian Real and British Pound. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian Krone for subsidiaries outside of Norway will in some cases influence the comparative results of operations.

Contractual arrangements for the majority of the purchase and sales activities within the European aluminium business are committed in Euro based on the prevailing exchange rates between the US dollar and Euro at inception. This gives a Euro exposure in the results, from the time of entering into the contractual arrangements until settlement. The contracts are generally committed and settled within six months.

Hydro's assets and liabilities related to working capital and monetary items are denominated in various currencies. Exchange rate movements will therefore have effects on the carrying value that will be recognized in earnings. Such valua-

tion effects are one time effects, contrary to the effects of foreign exchange rates on revenues and cost.

Hydro has major producing assets in countries outside Norway. Any changes in exchange rates will affect the value of such investments and therefore in turn Hydro's equity.

To reduce the long-term effects of fluctuations in the US dollar and other exchange rates, Hydro has used foreign currency swaps and forward currency contracts to manage the currency exposures. Due to increase of USD denominated debt and lower exposure due to lower aluminium prices, the use of currency derivatives is substantially reduced.

### INTEREST RATE EXPOSURE

Hydro is exposed to changes in interest rates, primarily as a result of funding the business operations and management of liquidity in different currencies. Hydro currently features only small amounts of interest bearing debt, and the main interest exposure is therefore connected to current accounts with banks.

Hydro has an exposure to interest rate fluctuations on debt in its equity accounted investments. This is mainly related to debt in Alunorte and Qatalum. See note 35 Capital Management for additional information.

The fair value of interest rate derivatives as of 31 December 2008 and 2007 is immaterial and not presented here.

However, Hydro has interest rate exposure included in other financial and commodity contracts, included in the sensitivity analysis below.

### SENSITIVITY ANALYSIS

In accordance with IFRS requirements 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 gain/loss in fair values that would occur assuming a 10 percent change in rates or prices and no changes in the portfolio of instruments as of 31 December 2008 and 31 December 2007, respectively. Only effects that would ultimately be accounted for in profit and loss, or equity, as a result of a change in rates or prices are included. All changes are before tax.

Hypothetical gain/loss from +/- 10 percent change in						
Amounts in NOK million	Fair value as of 31 December 2008 <sup>1)</sup>	Interest rates	Foreign currency exchange rates	Commodity prices	Volatility	Other
Derivative financial instruments <sup>2)</sup>	(1,101)	8	1,327	-	-	10
Other financial instruments <sup>3)</sup>	14,398	23	820	-	-	34
Derivative commodity instruments <sup>4)</sup>	(2,405)	83	651	399	11	22
Financial instruments directly to equity <sup>5)</sup>	1,723	-	146	24	-	160

Hypothetical gain/loss from +/- 10 percent change in						
Amounts in NOK million	Fair value as of 31 December 2007 <sup>1)</sup>	Interest rates	Foreign currency exchange rates	Commodity prices	Volatility	Other
Derivative financial instruments <sup>2)</sup>	246	6	1,183	-	-	-
Other financial instruments <sup>3)</sup>	16,647	-	550	-	-	199
Derivative commodity instruments <sup>4)</sup>	(1,600)	25	682	393	6	-
Financial instruments directly to equity <sup>5)</sup>	940	1	72	171	-	115

1) The change in fair value due to price changes is calculated based on pricing formulas for certain derivatives, the Black-Scholes/Turnbull-Wakeman models 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) Includes mainly forward currency contracts and currency swaps.

3) Includes cash and cash equivalents, investments in marketable securities, bank loans and other interest-bearing short-term debt and long-term debt. Trade payables and trade receivables are also included.

4) Includes all contracts with commodities as underlying, both financial and physical contracts, such as LME contracts and Nord Pool contracts, which are accounted for at fair value.

5) In the category financial instruments directly to equity, shares classified as available-for-sale are recognized in the "Other" column, while commodity hedging derivatives are included in the column "Commodity prices".

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 footnotes in the table above). The analysis does not include all 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.
- The computations, which show the most positive/negative effect to Hydro of either a 10 percent increase or decrease in each rate or price, do not take into account correlations expected to be present 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 above.
- It is not likely that all rates or prices would simultaneously move in directions that would have negative/positive 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" and contain 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.

#### CREDIT RISK MANAGEMENT

Hydro limits credit risk by setting counterparty risk limits, purchasing credit insurance, and establishing procedures for monitoring exposures and timely settlement of customer accounts. The overall credit risk level is reduced through a diversified customer base representing various industries and geographic areas in addition to Hydro's efforts to maintain credit insurance arrangements. To further reduce credit risk, enforceable netting agreements and guarantees are utilized.

The challenging market conditions at the end of 2008 have resulted in Hydro taking a more proactive approach towards customers to reduce credit risk. Requirements for supporting collateral for credit have been expanded and measures have been initiated to reduce credit periods. Hydro is also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

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 limited through settlement through commodity exchanges. Counterparty risk related to the use of derivative instruments and financial operations is regarded as limited.

#### LIQUIDITY RISK

Volatility observed in exchange rates and commodity prices for products sold and raw materials required also implies a high degree of fluctuation in Hydro's cash positions and borrowing requirements. Funds generated from operations may not be sufficient to cover Hydro's financial commitments to investment programs and other financial commitments like pension obligation payments and servicing of debt.

To fund cash deficits of a more permanent nature Hydro will normally raise long-term bond or bank debt in available markets. Hydro has further entered into a seven year stand-by credit facility of USD 1.7 billion (established 2007).

Given the market conditions, planned capital expenditures have been reduced and cost cutting initiatives have been and will continue to be implemented, to reduce liquidity risk.

Hydro has disclosed repayments of long-term debt in note 30 Long-term debt. Further all other financial liabilities, such as trade payables, with the exception of derivatives, have a final maturity date within one year. An overview of estimated gross cash flows from derivatives accounted for as liabilities and assets is presented below. The cash flows from physical sale and purchase contracts are included based on expected forward prices, and will thus not be reconcilable to the fair values on the balance sheet. Many of these assets and liabilities are offset by cash flows from contracts not accounted for as derivatives.

Expected gross cash flow from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

Amounts in NOK million	Liabilities	Assets
2009	(58,550)	51,938
2010	(6,482)	6,216
2011	(121)	531
2012	(478)	416
2013	(324)	49
Thereafter	(2,409)	45
Total	(68,365)	59,194

The cash-flows above are to a large extent subject to enforceable netting agreements, and thus reducing Hydro's exposure substantially.

For additional information on what contracts are accounted for at fair value, see note 42 Derivative instruments and hedge accounting.

## NOTE 42

### Derivative instruments and hedge accounting

Many of Hydro's commodity contracts are deemed to be derivatives under IFRS. Derivative instruments, whether physically or financially settled, are accounted for under IAS 39. All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair value of derivative instruments recognized in earnings, unless specific hedge criteria are met. For further explanation on which physical commodity contracts that are accounted for as derivatives, and which are considered own use, please refer to note 1 Significant accounting policies and reporting entity.

#### COMMODITY DERIVATIVES

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2008 and 31 December 2007. Contracts that are designated as hedging instruments in cash flow hedges are not included. The presentation of fair values for electricity and aluminium contracts shown in the table below include the fair value of traditional derivative instruments such as futures, forwards and swaps, in conjunction with the physical contracts accounted for at fair value.

Amounts in NOK million	2008	2007
<b>Assets</b>		
Electricity contracts	1,634	1,218
Aluminium futures, forwards, swaps and options	2,862	855
Total	4,497	2,073
<b>Liabilities</b>		
Electricity contracts	(1,288)	(548)
Coal forwards	(2,006)	(1,085)
Aluminium futures, forwards, swaps and options	(3,679)	(2,138)
Total	(6,972)	(3,770)

The underlying commodities for bifurcated embedded derivatives are included.

Changes in the fair value of commodity derivatives are included in operating revenues or cost of goods sold.

#### CURRENCY DERIVATIVES

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2008 and 31 December 2007. Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

Amounts in NOK million	2008	2007
<b>Assets</b>		
Currency forwards and swaps	112	279
Embedded currency derivatives	40	23
Equity warrants	28	-
Total	180	302
<b>Liabilities</b>		
Currency forwards and swaps	(1,041)	(33)
Embedded currency derivatives	(240)	(9)
Total	(1,281)	(42)

The currency contracts listed below were outstanding as of 31 December 2008. Bifurcated embedded currency derivatives are not included.

Currency	Nominal value in currency	Fair value in NOK	Maturity by nominal amount in currency	
			Within one year	More than one year
Amounts in million				
<b>Buying currency</b>				
EUR	54	521	54	-
NOK	11,630	11,512	11,630	-
USD	63	423	-	63
<b>Selling currency</b>				
USD	1,875	(13,010)	3,147	-
JPY	4,942	(374)	-	4,942

Unless used in connection with hedge accounting, changes in the fair value of currency derivatives are included in Financial expense, net, in the income statement.

#### EMBEDDED DERIVATIVES

Some contracts contain pricing links that affect cash flows in a manner different than the underlying commodity or financial instrument in the contract. For accounting purposes, these embedded derivatives are in some circumstances separated from the host contract and recognized at fair value. In some cases, the entire contract, including the embedded derivative, may be recognized at fair value. Hydro has separated embedded derivatives related to aluminium, inflation and coal links, in addition to currency forwards, from the underlying contracts and recognized at fair value.

#### CASH FLOW HEDGES

Hydro has over time entered into hedge programs to secure the price of aluminium ingot to be sold. Aluminium futures and swaps on the London Metal Exchange and with external banks

have been used for this purpose. Some of these hedge programs are accounted for as cash flow hedges, where gains and losses on the hedge derivatives are recorded to Other reserves in equity and will be reclassified into operating revenues when the corresponding forecasted sale of aluminium ingot is recognized. As the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar, no ineffectiveness was recognized in 2008 or 2007 in connection with these cash flow hedges.

The table below gives aggregated numbers related to the aluminium cash flow hedges for the period 2007 to 2008.

	2009	2008	2007
Aluminium sold forward with hedge accounting (kmt) <sup>1)</sup>		<b>25</b>	212
of which open at year-end (kmt) <sup>2)</sup>		<b>21</b>	165
Average prices achieved in hedges in USD (per mt) <sup>3)</sup>		<b>2,353</b>	2,252
Expected to be reclassified to earnings (after tax) during the year (NOK million) <sup>4)</sup>	59	<b>(183)</b>	(541)
Reclassified to earnings from Other reserves after tax (NOK million) <sup>5)</sup>		<b>(418)</b>	(471)

1) Remaining volume sold forward at inception of hedge programs. Hydro has sold forward in the period 2009-2010. Positions at end of year.

2) Including closed out positions / repurchases of hedge derivatives.

3) Weighted average of remaining volume sold forward at inception of hedge program.

4) In the period 2004 - 2007 part of the hedged ingot has also been hedged for currency risk at an exchange rate of 9.3-9.5 NOK to USD. For 2007 a currency gain after tax of NOK 370 million was expected to be reclassified into earnings, and is included in the negative NOK 541 million. Negative amounts indicate a loss. Currency effects of NOK 395 million after tax was actually realized and reversed in 2007. For 2008 no currency positions was hedged for accounting purposes.

5) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

At the end of 2008 the maximum horizon for existing cash-flow hedging instruments is 24 months.

Hydro hedged the foreign currency exposure between US and Canadian dollar in connection with a major expansion project at the Alouette plant in Canada over the period March 2003 to March 2006. No ineffectiveness was recognized during the life of the hedge. An annual gain after tax of 3 NOK million was reclassified from Other reserves in equity into earnings during both the period ending 31 December 2008 and 31 December 2007. A gain after tax of NOK 4 million is expected to be reclassified from Other reserves in equity into earnings during the period ending 31 December 2009.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2008 and 31 December 2007.

Amounts in NOK million	2008	2007
<b>Assets</b>		
Cash flow hedging instruments, aluminium	<b>116</b>	2
Total	<b>116</b>	2
<b>Liabilities</b>		
Cash flow hedging instruments, aluminium	-	(213)
Total	-	(213)

In addition to the commodity hedges described above, Hydro also performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial expense, net, in the income statement, unless subject to hedge accounting.

In addition to the cash flow hedge accounting performed by Hydro entities, some of Hydro's associates and jointly controlled entities included in the consolidated financial statements through the equity method also affect Other reserves through their cash-flow hedge accounting. The after tax movement in Hydro equity relating to cash-flow hedges for 2008 and 2007 is composed as follows:

Amounts in NOK million	2008	2007
1 January	<b>128</b>	712
Period (gain) loss booked into equity	<b>161</b>	(42)
of which relating to associates <sup>1)</sup>	<b>30</b>	7
Period gain (loss) reclassified to earnings	<b>(415)</b>	(474)
Currency translation effect (gain)	<b>(29)</b>	(69)
31 December	<b>(156)</b>	128

1) Includes the net position of items moving in and out of equity relating to cash-flow hedges in associates.

The above numbers include minority interests.

Hydro has not applied net investment or fair value hedge accounting for 2008 and 2007.

#### FAIR VALUE OF DERIVATIVE INSTRUMENTS

The fair market value of derivative financial instruments such as currency forwards and swaps is based on quoted market prices. The fair market value of aluminium and electricity futures/forwards and option contracts is based on quoted market prices obtained from the London Metals Exchange and Nord Pool/EEEX (European Energy Exchange) respectively. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with IAS 39, 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. Hydro takes credit-spread into consideration when valuating positions when necessary.

For further information on fair values, see note 3 Basis of presentation and measurement of fair value. See note 30 Long-term debt for fair value information on Hydro's long-term debt.

## NOTE 43 Cash flow information

### Reconciliation of cash and cash equivalents

Amounts in NOK million	2008	2007
Cash and cash equivalents	<b>3,333</b>	9,330
Bank overdraft	<b>(144)</b>	(74)
Cash, cash equivalents and bank overdraft	<b>3,189</b>	9,256

### Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2008	2007
Income taxes paid	<b>2,324</b>	2,672
Interest paid	<b>220</b>	433
Interest received	<b>769</b>	1,228
Other dividends received	<b>180</b>	138

## NOTE 44 Auditor remuneration

Deloitte AS is the Group auditor of Norsk Hydro ASA.

The following table shows total audit, audit-related, other services and tax-related fees for the fiscal years 2008 and 2007. The reported audit fee is the agreed fee for the corresponding fiscal period. The difference between the reported audit fee and audit expense for the period is not significant. For all other categories the reported amount is the recognized expense for the year.

Audit related fees were higher in 2007 due to the significant transactions Hydro conducted during the year, as compared to the level of transactions in 2008. Other fees, Norway, relates primarily to Deloitte's audit of Hydro's viability performance reporting.

### 2008

Amounts in NOK thousand	Audit	Audit related	Other services	Tax related	Total
Norway	12,767	3,062	1,227	125	17,181
Outside Norway	29,624	1,187	549	1,582	32,942
Total	42,391	4,249	1,776	1,707	50,123

### 2007

Amounts in NOK thousand	Audit	Audit related	Other services	Tax related	Total
Norway	21,672	6,145	954	459	29,230
Outside Norway	35,969	551	62	1,739	38,321
Total <sup>1)</sup>	57,641	6,696	1,016	2,198	67,551

1) Reported audit fees in 2007 includes NOK 177 thousand to non-Deloitte audit firms.

## NOTE 45 Board of Directors' and Corporate Assembly remuneration

### BOARD OF DIRECTORS' REMUNERATION AND SHARE OWNERSHIP

Remuneration to the Board of Directors consists solely of the payment of fees. Board members do not have any incentive or share-based compensation. Hydro has not made any guarantees on behalf of any of the board members. The only board members with loans are the employee-elected members of the board.

Fees are based on the position of the board members, board committee assignments and the number of extraordinary meetings held during the year. Annual fees for 2008 for the chairperson of the board, deputy chairperson and directors are NOK 530,000, NOK 330,000 and NOK 275,000, respectively. The chairperson of the audit and the chairperson of the compensation committee receive an additional NOK 170,000 and NOK 24,000 annually in fees, respectively, and audit and compensation committee members receive NOK 110,000 and NOK 19,000 annually, respectively, for their participation on these committees.

During 2008 there were a total of 17 board meetings, of which 5 were extraordinary. Two of these five were held via telephone. This is less than half the number of meetings held during 2007 when Hydro was in the process of demerging the oil and gas business. During 2007 there were a total of 36 board meetings, of which 24 meetings were extraordinary. The chairperson of the board's remuneration for an extraordinary meeting is NOK 30,000 per meeting attended and NOK 10,000 for participation in an extraordinary meeting conducted via telephone. Board member remuneration for an extraordinary meeting is NOK 15,000 per meeting attended and NOK 5,000 for participation in an extraordinary meeting conducted via telephone. Board fees of NOK 550 000 for extraordinary meetings held in 2008 will be paid in 2009. Board fees for extraordinary meetings held during 2007 were paid in 2007.

A summary of total board fees, as well as individual board member fees for 2008, and outstanding loans and board member share ownership as of 31 December 2008, are shown in the tables below.

### Board of Directors' Fees

Amounts in NOK thousands	2008	2007
Fees paid to board members during the year	<b>3,480</b>	5,180
Fees paid during the year for prior year's extraordinary meetings (2007) or board committee work (2008) <sup>1)</sup>	<b>(54)</b>	(705)
Fees related to board service and/or extraordinary meetings during the year not yet paid	<b>550</b>	54
Total fees for board services provided to Hydro during the year	<b>3,976</b>	4,529

Amounts in NOK thousands	2008	2007
Fees - normal board activities	<b>2,800</b>	2,567
Fees - compensation committee	<b>67</b>	51
Fees - audit committee	<b>559</b>	416
Fees related to extraordinary meetings held during the year	<b>550</b>	1,495
Total fees for board services provided to Hydro during the year	<b>3,976</b>	4,529

1) Fees paid during 2007 for prior year's extraordinary meetings excludes NOK 65,000 accrued in 2006 and paid in 2007 to board members who served on the board in 2006 but not in 2007.

**Board of Directors' fees, loans and shareholdings**

Board member	Board fees <sup>1)</sup>	Outstanding loans <sup>1)2)</sup>	Number of shares <sup>3)</sup>
<b>Board members as of 31 December 2008</b>			
Terje Vareberg <sup>4)</sup>	558	-	10,000
Grete Faremo <sup>5)</sup>	440	-	-
Finn Jebsen <sup>6)</sup>	297	-	32,545
Heidi M. Petersen <sup>6)</sup>	297	-	10,000
Bente Rathe <sup>7)</sup>	403	-	-
Inge K. Hansen <sup>8)</sup>	358	-	-
Billy Fredagsvik <sup>9)</sup>	275	67	592
Jørn B. Lilleby <sup>7)9)</sup>	438	264	527
Sten Roar Martinsen <sup>9)</sup>	275	-	1,402
<b>Board members during 2008 not on the board as of 31 December 2008</b>			
Svein Rennemo <sup>10)</sup>	139	-	12,700
<b>Total</b>	<b>3,479</b>	<b>331</b>	<b>67,766</b>

1) Amount in NOK thousands.

2) Loans are extended to board members who are also Hydro employees under an employee benefit scheme available to all employees in Norway. Since the election of Billy Fredagsvik to the Board of Directors, there have been no modifications to his loan agreement, and no additional credit has been extended to him after his election to the Board of Directors. On 2 July 2008, Hydro loaned Jørn B. Lilleby NOK 200,000 at an interest rate of 6,85 percent and a repayment period of 2,5 years. Jørn B. Lilleby's loans are at an interest rate of 6.25 and 6.85 percent, with a repayment period of 2-5 years. Billy Fredagsvik's loan has an interest rate of 6.85 percent and a repayment period of 3 years. All payments have been made in a timely fashion and in accordance with the agreed payment schedule.

3) Number of shares owned as of 31 December 2008 for board members as of 31 December 2008; otherwise it is the number of shares owned as of the date the individual stepped down from the Board of Directors. Shareholdings disclosed include all related party share holdings, in addition to shares held directly by the board member/former board member.

4) Chairperson of the board and chairperson of the board compensation committee.

5) Deputy chairperson of the board and member of the audit committee.

6) Member board compensation committee.

7) Member board audit committee.

8) Board member and chair audit committee as of 12 March 2008.

9) Employee representative on the board elected by the employees in accordance with Norwegian Company Law. As such, these individuals also are paid regular salary, remuneration in kind and pension benefits that are not included in the table above.

10) Member of the board until 1 April 2008.

## CORPORATE ASSEMBLY REMUNERATION AND SHARE OWNERSHIP

Corporate Assembly members receive an honorarium from Hydro for services rendered during the year. The Corporate Assembly Chairperson and Deputy Chairperson receive an annual fee of NOK 85,000 and NOK 42,500, respectively, plus a fee for each meeting attended. All members, including any deputy members, receive NOK 6,000 per meeting attended.

The chairperson of the nomination committee and at least one other member of the nomination committee are elected from the shareholder-elected members of the Corporate Assembly. Members of the nomination committee receive NOK 21,000 annually in fees.

A summary of Corporate Assembly fees for 2008 and 2007 and individual Corporate Assembly member share ownership as of 31 December 2008 are given in the tables below. Loans to Corporate Assembly members were extended under an employee benefit that is available to all employees in Norway. Total loans outstanding to Corporate Assembly members who are also Hydro employees totaled NOK 1,671 thousand as of 31 December 2008. The interest rate on these loans is between 6.25 and 6.85 percent and the repayment period is between 2 to 19 years.

### Corporate Assembly fees

Amounts in NOK thousands	2008	2007
Fees paid to Corporate Assembly Chairperson	151	139
Fees paid to Corporate Assembly Deputy Chairperson	55	105
Fees paid to all other members of Corporate Assembly	397	681
Total fees paid to corporate assembly members during the year	603	925
Fees paid in 2008 (2007) related to meetings attended and/or nomination committee assignment in 2007 (2006)	(63)	(139)
Fees related to 2008 to be paid in 2009/Fees related to 2007 to be paid in 2008	52	63
Total fees for Corporate Assembly services provided to Hydro during the year	592	850

### Corporate Assembly shareholdings

Corporate Assembly member as of 31 December 2008	Number of shares <sup>1)</sup>
Siri Teigum (Chairperson) <sup>2) 3)</sup>	0
Leif Teksum (Deputy Chairperson) <sup>3) 4)</sup>	0
Nils Roar Brevik	407
Anne-Margrethe Firing	5,820
Michael Hall	1
Westye Høegh <sup>3)</sup>	179,000
Hans Olav Karde <sup>4)</sup>	0
Idar Kreutzer	0
Toril Nag <sup>4)</sup>	0
Bjørn Nedreaas	2,197
Anne Merete Steensland	152,660
Unni Steinsmo <sup>5)</sup>	0
Svein K. Sund	582
Sten-Arthur Sælør	0
Lars Tronsgaard	0
Terje Venold	2000
Bente Linnerud Østlyngen <sup>6)</sup>	712
Bjørn Øvstetun <sup>5)</sup>	1,162

Deputy Member as of 31 December 2008	Number of shares <sup>1)</sup>
Anne Kverneland Bogsnes <sup>7)</sup>	100
Ove Ellefsen	842
Trygve Eriksen	5233
Odd Arne Fodnes	627
Terje Friestad	1697
Merete Jonas	766
Jon Lund <sup>7)</sup>	0
Line Melkild	367
Arne Rønningen	517
Tor Egil Skulstad	21
Brit Sæverud	5272
Gunvor Ulstein	0
Georg Vikshåland	517
Tove Wangensten <sup>7)</sup>	0

- 1) Number of shares owned as of 31 December 2008; includes any related party shareholdings, in addition to the shares held directly by the corporate assembly member.
- 2) Corporate Assembly Chairperson as of 6 May 2008. Corporate Assembly Deputy Chairperson until 6 May 2008.
- 3) Member of the nomination committee.
- 4) Member of the Corporate Assembly as of 6 May 2008.
- 5) Deputy Member until 6 May 2008 and Member of the Corporate Assembly as of 6 May 2008.
- 6) Deputy Member until 16 September 2008 and Member of the Corporate Assembly as of 16 September 2008.
- 7) Deputy Member of the Corporate Assembly as of 6 May 2008.

## NOTE 46 Related party information

As of 31 December 2008, The Ministry of Trade and Industry of Norway owned 546,902,099 ordinary shares in Norsk Hydro ASA, representing 43.8 percent of the total number of ordinary shares authorized and issued and 45.3 percent of the total shares outstanding. In addition Folketrygdfondet, which manages the Government Pension Fund – Norway owned 65,370,435 ordinary shares, representing 5.2 percent of the total number of ordinary shares issued and 5.4 percent of the total shares outstanding. Folketrygdfondet is a company by special statute with the Norwegian State as sole owner. In total the Norwegian State owns 612,272,534 ordinary shares. This represents 49.1 percent of the total number of ordinary shares issued and 50.8 percent of the total shared outstanding. There are no preferential voting rights associated with the ordinary shares held by the Norwegian State. Other shares are held by a widespread group of shareholders, in total around 49,000 registered share holders. No other shareholder holds more than 5 percent of Hydro's outstanding shares. Hydro has concluded that the Norwegian state's share holding represents de facto control.

The Norwegian state has ownership interests in around 80 companies. We have, for the purpose of this disclosure, related to public information from the State<sup>1)</sup>, and we have not assessed which of these companies are controlled by the state. Hydro has business transactions with a number of these companies, including purchase of power from Statkraft SF. Generally, transactions are agreed independent of the common control exercised by the State. In December 2006, the Board of Directors in Hydro and Statoil (now StatoilHydro) agreed to propose a plan whereby Hydro's petroleum activities would be demerged and merged with Statoil to form StatoilHydro. The plan was approved by the general meeting in July 2007, and the demerger and merger was completed on 1 October 2007. See note 7 Discontinued operations and assets held for sale for further information.

The Annual General Meeting held on 6 May 2008 approved a buyback authorization of 45,000,000 shares over a one-year period. The Ministry of Trade and Industry agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Including the share redemption, the authorization provided for a maximum of 80,105,091 shares to be cancelled.

The Annual General Meeting held on 9 May 2006 approved a buyback authorization of 22,470,482 shares over a one-year period. The Ministry of Trade and Industry agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. In total, Hydro bought back 21,627,000 shares at an average price of NOK 160.79 per share under this authorization. A decision to cancel the shares repurchased, and 16,871,506 shares owned

by the Ministry, was approved at the General Meeting of shareholders on 5 July 2007. The Ministry received a total compensation of NOK 2,702 million for the shares, which corresponds to the average price per share for the buy-back in the market, plus interest compensation and with reduction for dividends paid in May for the cancelled shares.

A significant share of Hydro's defined benefit post-employment benefit plans are managed by the independent pension trust, Norsk Hydro Pensjonskasse. This trust owns some of the office buildings rented by Hydro. The rental arrangements are based on market price benchmarks. In total, Hydro rents around 63,000 m<sup>2</sup> office and related buildings, plus certain other buildings on contracts with a remaining life of around 12 years from the trust. Of this, around 51,000 m<sup>2</sup> is subleased to StatoilHydro. Hydro also has a contract with the pension trust to rent an office building at the head office site currently under construction to Hydro's specification. Hydro has paid a total rental of NOK 143 million and NOK 132 million for 2008 and 2007, respectively. The amount for 2007 include certain other buildings not rented by Hydro as of the end of 2007. Areas where the lease arrangement were transferred to StatoilHydro in the demerger on 1 October 2007 are excluded from the figures above, while areas used for combined purposes of both the Hydro's continued business and the transferred business for the period until the completion of the demerger, and areas subleased after the demerger, are included. In addition, Hydro is involved with pension trusts in Great Britain and some other countries. There are no similar arrangements with those trusts.

The current and prior year members of Hydro's board of directors are stated in Note 45 Board of Directors' and Corporate Assembly remuneration, where their remuneration and share ownership is outlined. Some of the board members or their close members of family serve as board members or executive directors in other companies. In addition, some members of Hydro's corporate management board or their close members of family serve as board members in other companies. Hydro has not identified any transactions where the relationship is known to have influenced the transaction.

Hydro's significant associated companies and transactions with those companies are described in note 25 Investments in associates. Hydro's significant jointly controlled entities and transactions with those entities are described in note 26 Investments in jointly controlled entities. Hydro has joint venture arrangements with a number of other companies. Generally, the relationships are limited to a combined effort within a limited area, often raw material production in the form of power, alumina or anode production, production of aluminium or combined production of semi fabricated products. Hydro considers the joint venture partners competitors in other business transactions, and do not see these relationships as related party relationships.

1) According to information on the Government web site [www.regjeringen.no](http://www.regjeringen.no), state ownership

## Financial statements Norsk Hydro ASA

### Income statements

Amounts in NOK million	Notes	2008	2007
Revenue		<b>164</b>	258
Gain on sale of subsidiaries and associates, net	3	<b>1,932</b>	1
Total revenue and income		<b>2,097</b>	259
Employee benefits expense	4, 5	<b>745</b>	641
Depreciation and amortization expense	6	<b>13</b>	14
Other		<b>56</b>	(58)
Total operating expenses		<b>814</b>	597
Operating income (loss)		<b>1,283</b>	(338)
Financial income, net	7	<b>9,361</b>	9,748
Income before taxes		<b>10,644</b>	9,410
Income taxes	8	<b>(1,427)</b>	56
Net income		<b>9,216</b>	9,466
<b>Appropriation of net income and equity transfers:</b>			
Dividend proposed		-	(6,047)
Retained earnings		<b>(9,216)</b>	(3,419)
Total appropriation		<b>(9,216)</b>	(9,466)

The accompanying notes are an integral part of the financial statements.

**Balance sheets**

Amounts in NOK million, 31 December	Notes	2008	2007
<b>Assets</b>			
Intangible assets	8	90	209
Property, plant and equipment	6	172	172
Shares in subsidiaries	9	30,066	31,023
Intercompany receivables		10,241	29,589
Associates and jointly controlled entities	10	134	154
Prepaid pension, investments and other non-current assets	4, 11	2,812	2,661
Total financial non-current assets		43,254	63,427
Accounts receivable		11	63
Intercompany receivables		47,050	22,962
Prepaid expenses and other current assets	11	669	660
Short-term investments		-	750
Cash and cash equivalents		2,162	7,899
Total current assets		49,893	32,334
Total assets		93,409	96,141
<b>Equity and liabilities</b>			
<b>Paid-in capital:</b>			
Share capital 1,247,956,949 shares of NOK 1.098	13	1,370	1,370
Treasury shares 41,631,086 shares of NOK 1.098	13	(46)	(42)
Paid-in premium	13	182	182
Other paid-in capital	13	127	178
<b>Retained earnings:</b>			
Retained earnings	13	31,790	22,580
Treasury shares	13	(4,228)	(4,241)
Equity	13	29,195	20,027
Other long-term liabilities	4	2,202	2,134
Intercompany payables		160	261
Bank loans and other interest-bearing short-term debt	11	597	599
Dividends payable		-	6,047
Intercompany payables		58,736	66,277
Other current liabilities		2,519	796
Total current liabilities		61,852	73,719
Total equity and liabilities		93,409	96,141

The accompanying notes are an integral part of the financial statements.

## Statements of cash flows

Amounts in NOK million	2008	2007
Net income	<b>9,216</b>	9,466
Depreciation and amortization expense	<b>13</b>	14
Write-down and (gain) loss on sale of non-current assets, net	<b>(1,746)</b>	117
Other adjustments	<b>(1,789)</b>	(2,522)
Net cash provided by operating activities	<b>5,694</b>	7,075
Investments in subsidiaries	<b>(2)</b>	(54)
Sales of subsidiaries	<b>4,676</b>	1
Net sales of other investments	<b>792</b>	12,192
Net cash provided by investing activities	<b>5,466</b>	12,139
Dividends paid	<b>(6,053)</b>	(6,134)
Other financing activities, net <sup>1)</sup>	<b>(10,650)</b>	(10,666)
Net cash used in financing activities	<b>(16,703)</b>	(16,800)
Foreign currency effects on cash	<b>(194)</b>	(192)
Net increase (decrease) in cash and cash equivalents	<b>(5,737)</b>	2,222
Cash and cash equivalents at beginning of year	<b>7,899</b>	5,677
Cash and cash equivalents at end of year	<b>2,162</b>	7,899

1) Includes the effect of demerger in 2007, see note 2 Demerger.

The accompanying notes are an integral part of the financial statements.



## NOTE 1

### Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with the Norwegian accounting act and accounting principles generally accepted in Norway (N GAAP). Financial statement preparation requires management to make 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. Interest rates used when performing any net present value analysis, or measurement of post retirement obligations, are rounded to the nearest 25 basis points. As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

#### SHARES IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Shares in subsidiaries, associates and jointly controlled entities are presented according to the cost method in Norsk Hydro ASA's financial statements. Group relief received is included in dividends from subsidiaries. Dividends from subsidiaries is recognized in the year for which it is proposed by the subsidiary to the extent Norsk Hydro ASA can control the decision of the subsidiary through its share holdings.

#### EMPLOYEE RETIREMENT PLANS

Norsk Hydro ASA has adopted NRS 6A whereby employee retirement plans are measured as required by IAS 19, see note 1 Significant accounting policies and reporting entity to the consolidated financial statements for additional information.

#### FOREIGN CURRENCY TRANSACTIONS

Realized and unrealized currency gains or losses on transactions are included in net income. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the Norwegian kroner are also included in net income.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

#### SHORT-TERM INVESTMENTS

Short-term investments includes bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and current marketable equity and debt securities. Such securities 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 recognized when earned.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is carried at historical cost less

accumulated depreciation and impairment write-downs. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment of long-lived assets is recognized when the recoverable amount determined as the higher of fair value less cost to sell or value in use of the asset or group of assets is less than the carrying value. The amount of the impairment is the difference between the carrying value and the recoverable amount. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

#### CONTINGENCIES AND GUARANTEES

Norsk Hydro ASA recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees, including the ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. Contingencies are recognized in the financial statements when probable of occurrence and can be estimated reliably.

#### RESEARCH AND DEVELOPMENT

Research costs are expensed as incurred. Development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalization are met.

#### DERIVATIVE INSTRUMENTS

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in interest expense and foreign exchange gain (loss).

#### SHARE-BASED COMPENSATION

Norsk Hydro ASA accounts for share-based payment in accordance with NRS 15A Share-Based Payment. NRS requires share-based payments to be accounted for as required by IFRS 2 Share-based Payment, see note 1 Significant accounting policies and reporting entity to the consolidated accounts for additional information.

#### RISK MANAGEMENT

For information about risk management in Norsk Hydro ASA see note 41 Risk management to the consolidated financial statements.

#### RECLASSIFICATIONS

Certain costs previously included in Raw materials and energy costs are included in Other operating expenses to better reflect Norsk Hydro ASA's activities. The comparative figures for 2007 have been reclassified.

## NOTE 2 Demerger

On 12 March 2007 Hydro's Board of Directors and the Board of Directors of StatoilHydro ASA (previously Statoil ASA) agreed to a proposed merger of Hydro's petroleum activities with Statoil to form StatoilHydro ASA. The transaction took legal form of a demerger of Norsk Hydro ASA whereby the demerged business was transferred to the existing company StatoilHydro ASA (previously Statoil ASA). The demerged part of Norsk Hydro ASA primarily consisted of shares in subsidiaries engaged in oil and gas activities, and loans to those companies. In addition, the pension schemes were divided to reflect the transfer of employees and retirees to StatoilHydro, and all outstanding debenture debt were transferred. A demerger receivable was established according to the demerger plan. The demerger was accounted for based on the historical values of assets and liabilities, and no gain was recognized.

The agreed economic effective date of the merger was 1 January 2007. For the purpose of the separate accounts for Norsk Hydro ASA, the demerger takes effect as of 1 January 2007 according to the demerger plan. From this date, the merged company StatoilHydro assumed the risks and rewards of Hydro's petroleum activities. The merger was completed as of 1 October 2007. For further discussion of the demerger, see notes to the consolidated financial statements, note 7 Discontinued operations and assets held for sale. Norsk Hydro ASA does not present the demerged business as discontinued operations.

As a result of the demerger, Hydro's share capital was reduced by 70 percent, representing the estimated relative value of the transferred petroleum activities compared to the retained businesses. The total equity reduction amounted to NOK 33,403 million. In accordance with the demerger plan, adjustments to the equity reduction may occur. There is no limitation of the period for which revisions are possible.

## NOTE 3 Sale of subsidiaries and associates

For the year 2008 Gain on sale of subsidiaries and associates amounted to NOK 1,932 million for Norsk Hydro ASA. The sale of the 100 percent owned subsidiary Kerling ASA (Polymers activities) resulted in a gain of NOK 1,285 million. The sale of 85 percent of Norsk Hydro ASA's shares in the subsidiaries Production Partner AS and Production Services AS resulted in a gain of NOK 638 million. The remaining 15 percent of Production Services was sold towards the end of 2008 with a gain of NOK 10 million reported as part of Norsk Hydro ASA's financial income. Norsk Hydro ASA also sold its 49.9 percent interest in the associate Quality People resulting in a gain of NOK 9 million.

## NOTE 4 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 6,225 participants as of 31 December 2008 and 6,357 participants as of 31 December 2007.

### Net periodic pension cost

Amounts in NOK million	2008	2007
<b>Defined benefit plans</b>		
Benefits earned during the year	129	176
Interest cost on prior period benefit obligation	311	307
Expected return on plan assets	(406)	(399)
Recognized net gain	(7)	-
Past service cost	7	21
Net periodic pension cost	34	105
Termination benefits and other	53	51
Total net periodic pension cost	87	156

### Change in projected benefit obligation (PBO)

Amounts in NOK million	2008	2007
Projected benefit obligation at beginning of year	(6,655)	(16,501)
Benefits earned during the year	(129)	(176)
Interest cost on prior period benefit obligation	(311)	(307)
Actuarial gain (loss)	(1,023)	134
Plan amendments	(10)	(9)
Benefits paid	327	317
Settlements	(38)	535
Special termination benefits	(10)	(25)
Demerger	-	9,379
Projected benefit obligation at end of year	(7,848)	(6,655)

### Change in pension plan assets

Amounts in NOK million	2008	2007
Fair value of plan assets at beginning of year	6,840	12,988
Actual return on plan assets	(1,248)	507
Company contributions	80	-
Benefits paid	(267)	(264)
Settlements	35	(356)
Demerger	-	(6,034)
Fair value of plan assets at end of year	5,440	6,840

**Status of pension plans reconciled to balance sheet**

Amounts in NOK million	2008	2007
<b>Defined benefit plans</b>		
Funded status of the plans at end of year	(2,408)	185
Unrecognized net (gain) loss	1,997	(687)
Unrecognized past service cost	7	4
Net accrued pension recognized	(405)	(498)
Termination benefits and other	(144)	(186)
Total net accrued pension recognized	(548)	(684)
<b>Amounts recognized in the balance sheet consist of</b>		
Prepaid pension	1,351	1,163
Accrued pension liabilities	(1,900)	(1,847)
Net amount recognized	(548)	(684)

**Assumptions used to determine net periodic pension cost**

	2008	2007
Discount rate	4.75%	4.50%
Expected return on plan assets	6.25%	6.00%
Expected salary increase	4.25%	4.00%
Expected pension increase	3.75%	3.50%

**Assumptions used to determine pension obligation at end of year**

	2008	2007
Discount rate	4.25%	4.75%
Expected salary increase	4.50%	4.25%
Expected pension increase	4.00%	3.75%

**Investment profile plan assets at end of year**

	2008	2007
<b>Asset category</b>		
Equity securities	26%	36%
Debt securities	29%	30%
Real estate	26%	20%
Other	19%	14%
Total	100%	100%

See note 32 Employee retirement plans in notes to the consolidated financial statements for further information.

**NOTE 5  
Management remuneration,  
employee costs and auditor fees**

See note 11 Employee and management remuneration in the notes to the consolidated financial statements for information and details related to the Corporate Management Board remuneration. See note 45 Board of Directors' and Corporate Assembly remuneration in the notes to the consolidated financial statements for information and details related to the Board of Directors' and Corporate Assembly.

Partners and employees of Hydro's appointed auditors, Deloitte AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2008 and 2007 to Deloitte are given below:

Amounts in NOK thousand	2008	2007
Audit fees	5,912	9,763
Audit related fees	2,393	6145
Tax fees	-	-
Non-audit fees	1,142	954
Total	9,447	16,862

The average number of employees in Norsk Hydro ASA was 1,350 in 2008 as compared to 4,694 in 2007. As of year end 2008 and 2007 Norsk Hydro ASA employed 1,304 and 1,298 employees, respectively. The decrease in average number of employees is primarily due to employees moving from Norsk Hydro ASA to StatoilHydro ASA in connection with the demerger of the oil and gas activities.

Total loans given by Norsk Hydro ASA to Norwegian Hydro employees as of 31 December 2008 were NOK 417 million. Loans to employees consists of NOK 255 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of 31 December 2008 related to the employee share purchase plan was NOK 22 million.

A substantial number of employees in Norsk Hydro ASA are engaged in activities for other Group companies. The cost for these employees is accounted for on a net basis, reducing Payroll and related costs. Employee related payroll expenses, on a net basis, are given in the table below:

Amounts in NOK million	2008	2007
<b>Payroll and related costs:</b>		
Salaries	1,045	3,732
Social security costs	168	700
Social benefits	9	(2)
Net periodic pension cost (note 4)	87	156
Internal invoicing of payroll related costs	(564)	(3,944)
Total	745	641

## NOTE 6 Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost 31 December 2007	6	102	174	1	283
Additions at cost	-	-	2	10	13
Retirements	-	-	(4)	-	(4)
Transfers	-	-	11	(11)	-
Accumulated depreciation 31 December 2008	-	(41)	(79)	-	(120)
Carrying value 31 December 2008	6	62	104	-	172
Depreciation in 2008	-	(1)	(11)	-	(12)

Operating lease expense amounted to NOK 211 million in 2008 and NOK 264 million in 2007. The company has the following future operating lease commitments under non-cancellable leases: 2009: NOK 189 million, 2010: NOK 183 million, 2011: NOK 183 million, 2012: NOK 183 million, 2013: NOK 183 million and thereafter: NOK 1,464 million.

## NOTE 7 Financial income and expense

Amounts in NOK million	2008	2007
Dividends from subsidiaries	5,403	12,687
Dividends from associates	4	5
Interest from group companies	2,308	3,738
Other interest income	527	1,003
Interest paid to group companies	(3,391)	(4,670)
Other interest expense	(21)	(32)
Impairment loss shares	(219)	(108)
Net foreign exchange gain (loss)	3,788	(2,800)
Other, net	962	(75)
Financial income, net	9,361	9,748

In accordance with the preliminary accounting standard for tax under NGAAP, taxable temporary differences and deductible temporary differences, which reverse or may reverse in the same period, can be netted.

### Reconciliation of nominal statutory tax rate to effective tax rate

Amounts in NOK million	2008	2007
Income (loss) before taxes	10,644	9,410
Expected income taxes at statutory tax rate	2,980	2,635
Dividend exclusion	(1,514)	(2,740)
Other, net	(39)	49
Income taxes	1,427	(56)
Effective tax rate	13.41%	0.01%

## NOTE 8 Income taxes

The tax effect of temporary differences resulting in deferred tax assets (liabilities) are:

Amounts in NOK million	Temporary differences	
	2008	2007
Short-term items	389	(9)
Prepaid pension	(378)	(326)
Pension liabilities	532	517
Other long-term	(466)	20
Deferred tax asset	77	202

### Components of income tax expense

Amounts in NOK million	2008	2007
Current income tax	1,301	261
Change in deferred tax	126	(317)
Income tax expense	1,427	(56)

See note 17 and 33 in Notes to the consolidated financial statements for further information.

Taxes payable as of 31 December 2008 and 2007 were NOK 680 million and NOK 249 million, respectively.

## NOTE 9

### Shares in subsidiaries

Company name:	Currency	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)	Book value 31.12.2008 (in NOK 1,000's)
Hydro Aluminium AS	NOK	100.00	7,236,126	24,038,629
Norsk Hydro Produksjon AS	NOK	100.00	880,000	5,602,846
Securus Industrier AS	NOK	100.00	59,644	148,335
Grenland Industriutvikling AS	NOK	100.00	26,750	110,950
Hydro Aluminium Deutschland GmbH <sup>1)</sup>	EUR	25.04	73,894	92,478
Norsk Hydro Plastic Pipe AS	NOK	100.00	10,000	44,728
Industriforsikring AS	NOK	100.00	20,000	20,000
AssistCo AS	NOK	70.00	100	3,500
Hydro Kapitalforvaltning AS	NOK	100.00	2,500	3,500
Norsk Hydros Handelsselskap AS	NOK	100.00	1,000	1,000
Norsk Hydro Kraft OY	EUR	100.00	34	269
Kundeøkonomi AS	NOK	100.00	100	120
Total				30,066,355

1) The company is owned 74.96 percent by Norsk Hydro Deutschland GmbH & Co KG, which is a subsidiary of Hydro Aluminium AS and 25.04 percent by Norsk Hydro ASA.

Percentage of shares owned equals percentage of voting shares owned. The location of subsidiaries is indicated by the currency code used in the table or by the name of the subsidiary. A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

As a result of group contributions given to other group entities the carrying value of the shares held in Securus Industrier AS and Norsk Hydro Plastic Pipe AS have been written down by NOK 212 million and NOK 4 million respectively. In 2008 NOK 3 million have been recognized as impairment loss related to the share holdings in AssistCo AS.

## NOTE 10

### Shares in associates and jointly controlled entities

Associates and jointly controlled entities consist mainly of loans to such entities owned by subsidiaries. The most significant investments for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned	Country	Carrying value as of 31 December 2008	Long-term advances	Total
HyCore ANS	49.0%	Norway		87	87
Aluminium & Chemie Rotterdam B.V.	36.2% <sup>1)</sup>	Netherlands		35	35
Other			3	9	11
Total			3	131	134

1) Norsk Hydro ASA's share of voting rights in Aluminium & Chemie Rotterdam B.V. equals 21.2%.

## NOTE 11 Specification of balance sheet items

Amounts in NOK million	2008	2007
Securities	551	536
Prepaid pension	1,351	1,163
Other non-current assets	910	962
Total prepaid pension, investments and other non-current assets	2,812	2,661
Prepaid expenses	153	166
Other current assets	516	495
Total prepaid expenses and other current assets	669	660
Bank overdraft	77	1
Employee deposits	480	556
Other interest-bearing debt	40	41
Total bank loans and other interest-bearing short-term debt	597	599

## NOTE 13 Number of shares outstanding, shareholders, equity reconciliation

The share capital of Norsk Hydro ASA is NOK 1,370,256,730 consisting of 1,247,956,949 ordinary shares at NOK 1.098 per share. As of 31 December 2008 Norsk Hydro ASA had purchased 41,631,086 treasury shares at a cost of NOK 4,274 million. See Consolidated statements of changes in equity and note 34 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 1,206,325,863 shares outstanding as of 31 December 2008, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

## NOTE 12 Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. Guarantees in connection with the sale of companies, referred to as sales guarantees in the table below, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. NOK 9 billion of the commercial guarantees relates to the Qatalum project. See Note 37 Guarantees to the consolidated financial statements for additional information.

Amounts in NOK million	2008	2007
<b>Guarantees (off-balance sheet):</b>		
Guarantees related to associates	-	-
Guarantees related to jointly controlled entities	76	60
Sales guarantees	2,171	1,116
Commercial guarantees	14,818	12,785
Other guarantees	84	65
Total	17,149	14,026

Name	Number of shares
The Ministry of Trade and Industry of Norway	546,902,099
Folketrygdfondet	65,370,435
State Street Bank and Trust <sup>2)</sup>	57,986,576
Morgan Guaranty Trust <sup>1)</sup>	56,586,918
State Street Bank and Trust <sup>2)</sup>	46,522,565
Clearstream Banking S.A. <sup>2)</sup>	15,589,153
JP Morgan Chase Bank <sup>2)</sup>	14,414,323
The Bank of New York Mellon <sup>2)</sup>	12,262,535

- 1) Representing American Depositary Shares.  
2) Nominee accounts.

### Change in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
Balance 31 December 2007	1,688	18,340	20,027
Net income		9,216	9,216
Dividend paid in 2008 not accrued <sup>1)</sup>		(7)	(7)
Treasury shares	(54)	12	(42)
Balance 31 December 2008	1,633	27,561	29,195

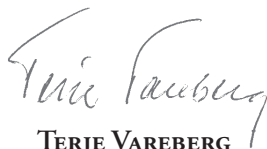
1) Owners of shares sold from treasury shares in April 2008 received dividends for those shares in May 2008. These dividends were not accrued in 2007.

## Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2008 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements in accordance with the Norwegian Accounting Act, that the financial statements for the parent company for 2008 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the informa-

tion presented in the financial statements gives a true and fair view of the assets, liabilities, financial position and result of Norsk Hydro ASA and the Hydro Group for the period. We also confirm to the best of our knowledge that the Board of Directors' Report includes a true and fair review of the development, performance and financial position of Norsk Hydro ASA and the Hydro Group, together with a description of the principal risks and uncertainties that they face.

Oslo, 18 March 2008



**TERJE VAREBERG**  
Chair



**FINN JEBSEN**  
Board member



**HEIDI M. PETERSEN**  
Board member



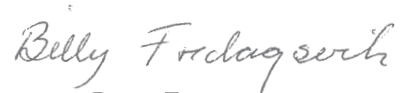
**GRETE FAREMO**  
Deputy chair



**BENTE RATHE**  
Board member



**INGE K. HANSEN**  
Board member



**BILLY FREDAGSVIK**  
Board member



**JØRN B. LILLEBY**  
Board member



**STEN ROAR MARTINSEN**  
Board member



**EIVIND REITEN**  
President and CEO

## Auditor's report and corporate assembly

To the Annual Shareholders' Meeting of Norsk Hydro ASA

### AUDITOR'S REPORT FOR 2008

We have audited the annual financial statements of Norsk Hydro ASA as of 31 December 2008, showing a profit of NOK 9,216 million for the parent company and a loss of NOK 3,514 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 the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the parent company's financial statements. The group accounts comprise the balance sheet, the statements of income and cash flows, the statement of changes in equity and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements are the responsibility of the Company's Board of Directors and President & CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing 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 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 practice, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the parent company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2008, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the group accounts are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2008, and the results of its operations, its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit, is consistent with the financial statements and complies with law and regulations.

Oslo, 18 March 2009

Deloitte AS

Aase Aa. Lundgaard (signed)

State Authorised Public Accountant (Norway)

### 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 2008 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2008 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 2008 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 18 March 2009

Siri Teigum



## Terms and definitions

Term	Definition
ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
AluNorf	Aluminium Norf GmbH
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BAT	"Best Available Techniques" for pollution prevention and control
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and related information before it is made public
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
HSE	Health, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the sub-segments Metals, Rolled Products, and Extrusion and Automotive
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
NOK	Norwegian kroner
Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly

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**Terms and definitions**

Term	Definition
OSE	Oslo Stock Exchange
tonne	One metric tonne (approximately 1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
US GAAP	Generally accepted accounting principles in the United States
VAW	VAW Aluminium AG
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
WTO	World Trade Organization
Yara	Yara International ASA

## Cautionary note in relation to certain forward-looking statements

Certain statements included within this Annual Report contain forward-looking information, including, without limitation, those relating to (a) forecasts, projections and estimates, including about overall economic developments, (b) various expectations about future developments in Hydro's markets, particularly prices, supply and demand and competition, (c) statements of management's plans, objectives and strategies for Hydro, such as planned expansions, investments, financing or other projects, (d) targeted production volumes and costs, capacities or rates, start-up costs, cost reductions and profit objectives, (e) results of operations, (f) margins, (g) growth rates, (h) risk management, as well as (i) statements preceded by "expected", "scheduled", "targeted", "planned", "proposed", "intended" or similar statements.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include, but are not limited to: the global supply and demand for aluminium and aluminium products, including as a result of changes in the economic climate; our continued ability to reposition and restructure our upstream and downstream aluminium business; changes in availability and cost of energy and raw materials; the ability of our counterparties to contracts to meet their contractual obligations; rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors. For a description of factors that could cause our results to differ materially from those expressed or implied by such statements, please refer to the risk factors specified under "Risk review – Risk factors" earlier in this Annual Report.

No assurance can be given that such expectations will prove to have been correct. Hydro disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.



Hydro is a Fortune Global 500 supplier of aluminium and aluminium products. Based in Norway, the company employs 23,000 people in more than 40 countries and has activities on all continents. Rooted in a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.



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