



Viability Performance Reporting - Principles and Accounting Practice

Viability Performance Reporting Principles

The purpose of Hydro's Viability Performance Reporting ("the 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.

The Reporting 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 the firm. In addition, the reporting builds on processes that are part of the Company's daily operations. Important stakeholders include investors and financial analysts, customers, employees and their representatives, potential employees, non-governmental organizations and local communities affected by major development projects or restructuring processes. The Reporting is guided by a need to demonstrate how The Hydro Way is embedded in the way we conduct our business.

Commitment to be accountable

Hydro is committed to be accountable to those on whom Hydro has an impact or who have an impact on us. Hydro adheres, therefore, to the principles of transparency, honesty and sensitivity when interacting with its stakeholders. We engage with our stakeholders in many ways and throughout our organization depending on the specific subjects. These could be stakeholder engagements related to everything from local issues at our operations, business and project development activities, restructuring/close downs/ acquisition processes, policy developments and lobbying and many more.

We have developed a Stakeholder Engagement Guidelines to help our organization to engage with key stakeholders in a systematic and appropriate way. The guideline outlines our engagement principles and describes the stakeholder engagement process. The process includes measures to ensure that key stakeholders are identified and engaged, and that their competences and capabilities to engage are assessed and supported if necessary.

We are responsive to our stakeholders throughout our organization from corporate down to local level. Our response is based on the outcome of the stakeholder engagement processes referred to above and may take form of information, meetings, dialogues and involvement of stakeholders in other ways. The Reporting is one way of being responsive to our stakeholders and is a distinct structured way of keeping report users informed as one key feature of maintaining our accountability to stakeholders.

Focusing on what's matter

We identify material issues to be informed about in the Reporting based on several sources and processes, including stakeholder engagement processes referred to above, sustainability rating indexes, media, and internal processes on developing our Reporting. Such processes include and are in many cases driven by business areas and sectors and are supported by "issue" experts. Issues

presented in the Reporting are deemed to have a significant impact on the company's future business performance and may support stakeholders in their decision-making. What is material at local level and for specific activities, projects, geographies may differ from what is regarded material at corporate level. Other media than the Reporting reflect such other information needs and engagements.

References and caution

As we have chosen to apply AA1000 for assurance purposes we assert that the way we conduct our business and embed the Hydro Way is consistent with the principles of inclusiveness, materiality and responsiveness required of reporting organizations by the voluntary AA1000 Accountability Principles Standard (AA1000APS) drawn up by the Institute of Social and Ethical Accountability (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 further analyses, interpretations and eventual information.

Assurance principles and scope

We have requested our company auditor to review the information relating to Viability Performance and apply the AA1000 Assurance Standard. This is a standard of assurance for this type of reporting, and the review considers both the accountability principles and performance information. The review was also 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 in Hydro Annual Report 2008. Based on the AA1000 Assurance Standard, the auditor also provides "commentary" with certain complementary formal information and recommendations for further improving our viability reporting. A summary is presented in our Annual Report 2008 on web, see www.hydro.com/reports

Reporting scope and limitations

The scope of the Reporting 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. For 2008 this applies primarily for the divestment of Hydro Polymers and Hydro Production Partner. 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, security, safety and environment 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. We do, however, 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 Reporting, 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.

Reporting Criteria for Viability Performance Data

Performance data presented under Facts and Figures in the Reporting has been collected, compiled and quality controlled according to the following reporting criteria:

Society Data

Covers selected financial data and employment data.

- **Payroll:** Based on Hydro's consolidated financial statements.
- **Current Income Tax:** Based on Hydro's financial statements.
- **Employees:** Number of and geographical distribution of employees is based on standardized quarterly manning report. Data presented represent head count at year end.

People Data

Covers selected diversity data, and health and safety data. Diversity data and statistics for the Norwegian part of the organization are primarily based on the company's SAP system. Health and safety data is based on the corporate reporting system for incident reporting, Synergi. All organizational units report incidents to the Synergi system on a regular basis in accordance with a corporate directive on HSE incidents and sick leave data

- **Diversity in management:** Data for the Board of Directors and Corporate Management Board for Norsk Hydro ASA counted per year end. Diversity data for Top 50 managers is based on the list of people included in or reporting to the Corporate Management Board at year end, in total 61 persons in 2008. For Top 200 managers the data is based on the list of persons invited to the Hydro Summit in January 2009, in total 212 persons. The Hydro Summit is an annual meeting for top management in Hydro. The participants are nominated by the line organization.
- **Diversity in Norway:** Data prepared by the Corporate HR department based on data from the SAP system plus data for persons not in SAP (data for 20 percent of our employees in Norway are not included in the SAP system, correspondingly 7 percent of people recruited in 2008). *Managers* are Executives and people placed at the management level in the Hydro Job Category list. These includes line managers as well as senior specialists. The group *salaried employees* is a diverse group consisting of graduates and experienced employees with secondary education. The group *hourly paid* represents employees with tariff wages.
- **Part-time employees in Norway:** Data from SAP system per year end, covering about 80 percent of all Hydro employees in Norway.
- **Health and safety:** Data from Synergi. Standardized statistics are prepared and reported to management and on the intranet pages on a monthly basis. Data covers all organizational units within Hydro, including sales offices and administrative functions. *Total recordable injuries (TRI)* index is calculated as the number of TRI injuries per one million hours

worked. TRI include LTI + RWC + MTC. *Lost time injury (LTI)* is a personal injury at work leading to unfitness for work and absence beyond the day of the accident. *Restricted work case (RWC)* is a personal injury at work that does not lead to absence beyond the day of the accident, because of alternative job assignment. *Medical treatment case (MTC)* is treatment, other than first aid, administered by a physician or registered professional personnel under the standing orders of a physician. *Contractors* are persons who are under contract to execute work for Hydro, and who are under the supervision of the contractor. *Fatalities* are measured as number of work related fatalities per 100 million working hours as a five-year rolling average. *Sick leave* is as all absence due to both injuries, work related and other illness, measured as number of hours lost due to sick leave as percent of number of hours worked plus number of hours lost due to sick leave. Major accidents are reported to Synergi on a daily basis and other incidents minimum on a monthly basis. Corporate definitions are adopted globally. However, there are challenges in ensuring consistent reporting practice on sick leave due to legislative and cultural differences between countries.

Environment data

Environmental, energy and resources data are reported to the HERE corporate data reporting tool on an annual basis covering all consolidated operational units and units where Hydro has operational responsibility. Reported data to HERE should be based on specific environmental, energy and resources data reporting processes established for management purposes at site, sector and Business area level within our organization. Data is reported 100 percent for operational units included. Data reporting to HERE is in accordance with a corporate directive on Registration of environment, resource and energy data. The directive provides definitions and emissions factor for estimating emissions values. Data compiled at each operational unit according to local environmental management system and typically based on process data system, measurements, calculations and/or purchasing data.

- **Greenhouse gas emissions:** Based on data from HERE. Include those greenhouse gases (GHG) relevant to Hydro's operations, i.e. CO₂, PFC, SF₆, CH₄, measured as CO₂ equivalents based on conversion factors for their 100-year Global Warming Potentials from the Intergovernmental Panel on Climate Change (IPCC). CO₂ emissions are calculated based on energy consumption (primarily coal/coke, natural gas, gasoil/oil). PFC emissions consist of the two greenhouse gases CF₄ and C₂F₆ which is formed during anode effect situations in the aluminium electrolytic cells. Emissions are calculated based on on-line process measurements.. SF₆ is primarily linked to the magnesium production which is no longer part of Hydro's operations and are, together with the CH₄ emissions, negligible compared to the other GHG emissions from Hydro.
- **Greenhouse gas emissions based on ownership equity:** In addition to the GHG emissions referred above, we have included in the Reporting also GHG emissions based on our ownership equity as per year end. These data include also non-consolidated operations where Hydro has a minority interest. This data also cover indirect GHG emissions from purchased electricity. GHG emissions based on ownership equity have been calculated based on the principles of the WRI/WBCSD GHG Protocol.
- **Energy consumption:** Energy sources are primarily purchased electricity and coke for anode production. Other energy sources are natural gas, gasoil and other minor energy sources. Energy consumption includes energy losses in hydroelectric plants.

- **Resource use:** Cover major raw materials for the aluminium electrolysis process beyond what is included in the energy consumption data.
- **Waste and waste treatment:** Waste is reported to HERE specified according to the EU waste directive/waste catalogue. Hazardous waste is waste defined as hazardous waste in the EU waste directive/waste catalogue. Waste sorted on treatment includes both hazardous and other waste and both external and internal treatment.
- **Water consumption:** Includes process water and cooling water. Except of some water losses through steam emissions, water is generally treated according to site specific discharge permits before discharged to local water systems. The greater part of our water consumption takes place in Norway where access to freshwater is abundant.
- **Emissions:** *Fluorides* covers emissions to air of gaseous and particulate fluorides from primary production. *Dust and particles* includes measured and calculated/estimated diffuse emissions. *Sulphur dioxide* to air is primarily from the aluminium electrolysis process and about 88 percent of the total emissions come from KurriKurri, Neuss and Slovalco. SO₂ emissions from the Norwegian smelters are considerable lower due to different waste gas treatment techniques used at these plants. *PAH to air* is primarily from primary metal and especially from the Söderberg electrolysis cells. Emissions are measured as NS 16 PAH. *PAH to water* is from primary metal and measured as Borneff 6 PAH. *NM VOC* (non-methane volatile organic compound) emissions to air stems primarily from Aluminium Products activities and especially within the Rolled Products and Extrusion Americas sectors.