

We will continue to focus on our upstream business, developing our highly competitive portfolio of aluminium assets, prioritizing operational excellence and growth opportunities within alumina and primary metal production.

### Hydro's reporting structure

Aluminium Metal	Aluminium Products	Energy
Bauxite & Alumina	Rolled Products	Power
Primary Aluminium	Extrusion	Solar
Commercial	Automotive	

**24,692**  
EMPLOYEES  
per 31 December 2007



### HIGHLIGHTS

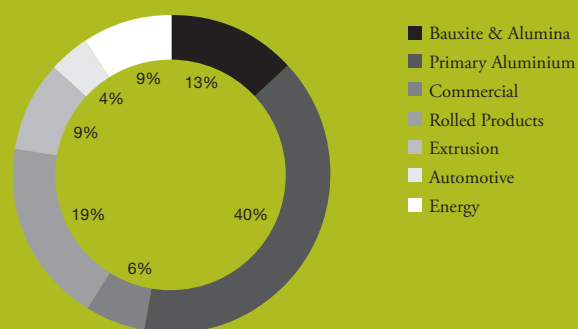
#### Significant progress

During 2007, Qatar Petroleum and Hydro reached a final decision to proceed with the construction of the new Qatalum primary aluminium plant in Qatar. We also made good progress developing our alumina business during the year. The third expansion of our Alunorte alumina refinery in Brazil is ongoing and we signed a Memorandum of Understanding (MoU) with the Brazilian mining group Vale with the intention of building a new alumina refinery close to Alunorte. In June 2007, Hydro finalized the closure of the Söderberg line in Årdal concluding the rationalization program initiated in 2005.

Comprehensive rationalization programs have been executed during 2007 in Aluminium Products to improve the financial performance and align the cost structure with lower market demand.

### Capital employed – upstream focus

31 December 2007: NOK 44.2 billion



Including NOK 1.7 billion in negative capital employed in "Corporate and Eliminations" not shown in graph

01:

# *Business description*



**All continents**

Based in Norway, Hydro employs 22,000 people in more than 30 countries and has activities on all continents.

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## QUICK OVERVIEW

Hydro is a Fortune Global 500 supplier of aluminium and aluminium products. Based in Norway, we employ 22,000 people in more than 30 countries and have activities on all continents. Hydro is one of the world's largest aluminium companies focused on growing profitably through operational excellence, leading technology and innovative solutions and attractive upstream projects. We are financially strong and intent on pursuing opportunities on a global basis through targeted international business development.

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.

## OUR BUSINESS

Hydro is a leading worldwide supplier of value-added cast-house 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 2007, we delivered 3.2 million metric tonnes (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 US.

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.

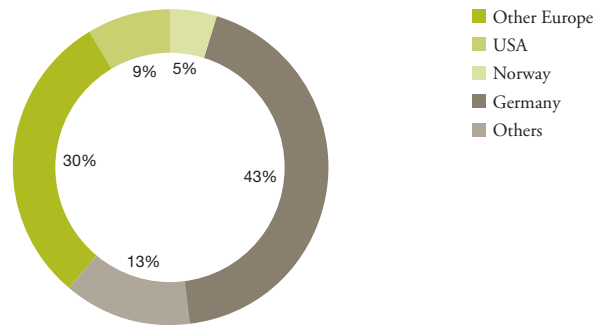
With more than 100 years of experience in hydropower, Hydro is the second largest power producer in Norway, and the largest privately owned producer. We have substantial, self-generated power capacity to support our production of primary metal and are engaged in a number of initiatives to secure competitive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

## THE HYDRO WAY

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

## Geographical distribution of operating revenues

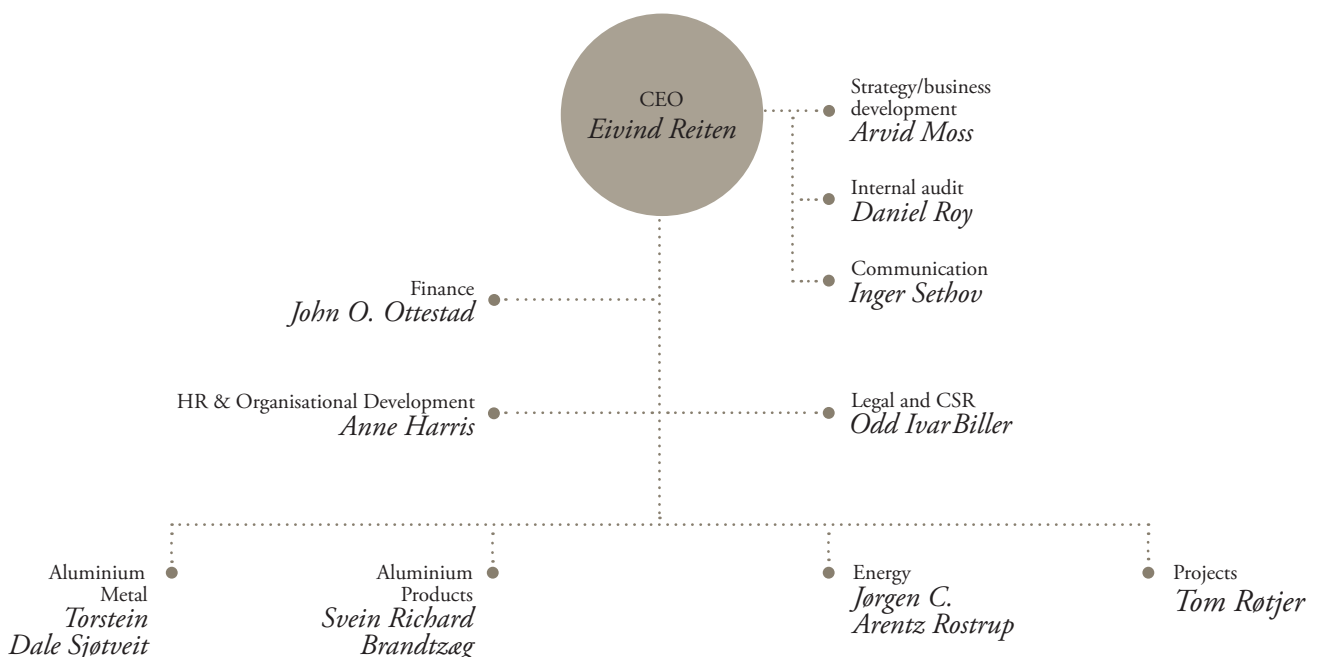
NOK 94,316 million



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 22,000 employees in almost 30 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.

## STRATEGIC DIRECTION

Following the merger of Hydro's oil and gas operations with Statoil in October 2007, Hydro has entered a new era as Europe's leading aluminium company with a solid captive power position.

We will continue to focus on our upstream business by developing our highly competitive portfolio of aluminium assets, prioritizing operational excellence and growth opportunities within alumina and primary metal production. We will play a leading role in developing new, large-scale, efficient and environmentally viable primary aluminium plants and are currently engaged in the construction of a major new metal plant in Qatar. Structured, efficient and predictable project development and execution will underlie our global growth ambitions.

2007 was a year of extensive restructuring of Hydro's downstream business. Going forward, we will build upon our distinct businesses within rolled products, general extrusion and building systems, and precision tubing and automotive structures, all with leading positions in their respective markets for our products. We will focus on technological leadership and operational excellence together with superior product quality and customer service levels to further improve the performance of our businesses. We will target selective growth within our high-performing sectors including our European extrusion and building systems businesses.

Our energy operations will play a leading role in ensuring competitive, power for our aluminium operations. We aim to develop a competitive position in the solar industry together with our partnership companies.

## KEY DEVELOPMENTS IN 2007

Hydro achieved solid results in 2007, supported by firm global demand and high aluminium prices, with underlying income from continuing operations rising to NOK 7,847 million from NOK 7,811 million in 2006.

2007 was an exceptional year for Hydro, with sweeping structural changes resulting in a streamlined aluminium company well-positioned for further growth. Hydro has the necessary financial strength, asset base and market positions to take full advantage of attractive business opportunities.

Hydro's oil and gas activities were merged with Statoil to create StatoilHydro on 1 October 2007, marking a fundamental milestone and transforming Hydro into a world-class aluminium company, with solid positions in each of its three business areas – Aluminium Metal, Aluminium Products and Energy.

During 2007, Qatar Petroleum and Hydro reached a final decision to proceed with the construction of the new Qatalum primary aluminium plant in Qatar. We also made good progress developing our alumina business during the year. The third expansion of our Alunorte alumina refinery in Brazil is ongoing and we signed a Memorandum of Understanding (MoU) with the Brazilian mining group Vale (formerly CVRD) with the intention of building a new alumina refinery close to Alunorte. In June 2007, Hydro finalized the closure of the Söderberg line in Årdal which concluded the rationalization program initiated in 2005.

Results for our downstream business improved during the year but were impacted by losses within our Automotive and US extrusion operations. Comprehensive rationalization programs have been executed during 2007 to improve the financial performance of these businesses to align the cost structure with significantly lower market demand in North America.

Hydro is leveraging its experience and competence in energy markets to secure competitive power supplies for the company's primary aluminium capacity. We are also working together with external partners to develop new technologies and manufacturing processes in the solar energy industry. Market demand and government incentives are expected to result in fast growing markets for solar energy solutions.

In May 2007 Hydro announced the sale of its Polymers activities to the UK-based chemical company INEOS. The major part of the transaction was finalized in February 2008. The agreement is in line with our strategy to divest non-core activities, and we believe it represents a good long-term industrial solution for Polymers.

Public attitudes on climate change and global regulatory developments and their influence on power prices will have an increasing strategic impact on our business. Emissions from aluminium production are currently excluded from the EU Emissions Trading Scheme (the ETS). The ETS presently impacts production costs at Hydro's facilities in the EU indirectly through increased electricity costs. The European Commission has recently proposed to amend the ETS for the period beginning in 2013 which includes a proposal to also cover direct emissions of CO<sub>2</sub> and PFC gases from primary and secondary aluminium production. The number of emission allowances and the method by which they will be distributed (gratuitously or for payment) could have a relatively high impact on Hydro operations both in Norway and in the EU from 2013 onwards. Hydro has included climate change as a key item on its strategy and business development agenda to ensure focus on these issues regarding future investment decisions and strategic development.

## ALUMINIUM METAL

Beginning with this annual report, we are presenting our Aluminium metal business operations on a segmented basis in order to provide a better understanding of this business for our key stakeholders. We will discuss our business and results of operations for 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 include 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 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. Most of our aluminium is sold in the form of value-added products such as extrusion ingot, sheet ingot, wire rod and foundry alloys. Commercial includes sourcing and trading activities to secure a competitive supply of aluminium standard ingots to Hydro's global production system and manage risks through hedging activities. Short-term sourcing of alumina is also handled by Commercial.

### Introduction

Hydro is one of the world's largest primary aluminium producers. We are the leading worldwide supplier of value-added casthouse products such as extrusion ingots, sheet ingots, wire rod and foundry alloys. Our 2007 operating revenues were approximately NOK 62 billion, generated by around 5,000 employees in 20 countries.

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 61 percent of our alumina needs in 2007 (Alunorte in Brazil and Alpart in Jamaica). 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

### Aluminium Metal production facilities





Hydro holds a 34 percent investment in the Brazilian alumina refinery, Alunorte.

which Hydro has an equity participation of 5 percent and partly by long-term contracts. Alpart has its own captive bauxite supplies.

We produced 1.7 million metric tons (mt) of primary metal during the year at plants located in Australia, Canada, Germany, Norway and Slovakia. 2007 marks the completion of a major program to reposition our primary smelter capacity towards modern, cost-efficient production facilities, and we are well positioned on the industry's cost curve. We also finalized the decision to build Qatalum, a new major primary metal facility in Qatar based on Hydro's proprietary reduction technology. Our 50 percent ownership share is expected to add additional production capacity of approximately 290,000 mt per year of highly competitive metal by the end of 2010. Our ambition is to reach a total of 2 million mt of primary aluminium per year by 2011, the first year of full production from Qatalum.

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 worldwide production with the exception of our plant in Neuss, Germany.

In 2007, we delivered a total of 3.2 million mt of casthouse products to internal and external customers, including 1.1 million mt of remelted and recycled metal and 0.3 million mt of third party metal. More than 90 percent of this was in the form of casthouse products sourced from casthouses which are integrated with our primary aluminium plants and specialized remelt and/or recycling facilities close to our customers in Europe and the US.

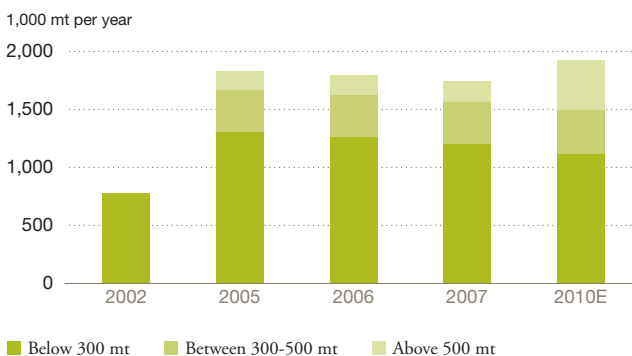
### Strategy

Our strategy is to maximize value creation by developing a highly competitive portfolio of bauxite, alumina and primary production assets. In order to improve and secure sufficient returns on capital employed, we focus on operational excellence and on pursuing competitive growth opportunities within bauxite, alumina and primary metal production and continue to build stronger market positions.

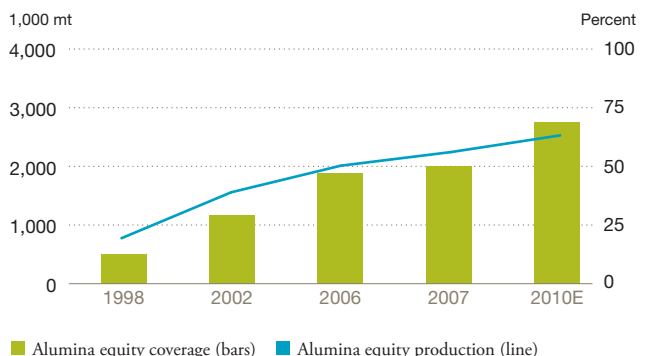
### *Repositioning and operational excellence*

We continually strive to improve our competitive position by increasing the efficiency of our smelter system. 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 with new capacity in larger and more efficient smelters. 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 31 percent of our total production capacity in 2007 and plan to reach 42 percent in 2010. Operational excellence within our existing portfolio of production assets is the foundation for realizing further performance improvements within our upstream business. Our AMPS program (Aluminium Metal Production System) is designed to promote and deploy best

### Smelter size



### Alumina equity coverage



## Targets

### 2007 TARGETS

- Metal repositioning – final investment decision on Qatalum
- 1,730,000 mt primary aluminium after closures
- Successful advancement on Alunorte phase 3 alumina expansion
- No serious accidents. Total recordable incidents (TRI) per million hours down by 20 percent

### 2007 RESULTS

- Major repositioning program completed
- 1,742,000 mt primary aluminium production following completion of closure program
- Final investment decision on Qatalum taken
- Alunorte phase 3 expansion on schedule and on budget
- No serious accidents. TRI down 8 percent

### 2008

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

### AMBITIONS

Our ambition is to reach a total of 2 million mt of primary aluminium per year by the end of 2011, the first year of full production from Qatalum. We plan to transfer project competence gained with Qatalum to new smelter projects. We aim to improve further our smelter cost position and to be ready to begin utilizing next-generation cell technology to improve our global competitive position and ambitious performance goals. Our goal is to increase our equity alumina production from 63 percent at the end of 2007 to 75 percent in 2011. We intend to maintain our focus on safety, aiming for no serious accidents.

practices and operating efficiencies across our assets. Pilot programs have been run during 2007 and we aim to complete the roll out of the program in all our Norwegian plants during 2008. We are also committed to improve our safety performance and believe that AMPS will make a valuable contribution to this effort. New proprietary smelting technology is under development to support our growth ambitions, enhance our cost competitiveness and further strengthen our environmental standards.

## Smelter geography



### Increase low cost equity alumina coverage

We continuously focus on securing low cost alumina to cover our needs and to support future smelter growth projects. We meet our existing alumina needs by a combination of equity investments in production facilities and a portfolio of medium- to long-term contracts. In 2007, approximately 61 percent of our alumina needs were covered by equity production. The ongoing expansion of the Alunorte alumina refinery in Brazil (Hydro share 34 percent) has been a key component in our strategy. The third expansion at Alunorte is planned to be completed in 2008 and is expected to reduce our average alumina costs and increase our equity alumina coverage to approximately 70 – 75 percent by 2011, the first year of full production from Qatalum. We have evaluated a number of new bauxite and alumina projects and are pursuing several opportunities globally with the intention of further developing these into profitable projects.

### Leverage the value of our commercial operations

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. We will focus on operational excellence in remelt production through continuous improvement programs, developing alternative metal sources through commercial alliances and other agreements and market driven growth from existing or new capacity.

## Overview 2007

Hydro's aluminium metal business delivered an underlying EBIT of NOK 8,041 million, only slightly lower than the record high underlying result of NOK 8,127 million for 2006.

During 2007, Qatar Petroleum and Hydro reached a final decision to proceed with the construction of the new Qatalum primary aluminium plant in Qatar (Hydro's share 50 percent). The plant is expected to begin production late in 2009 reaching full capacity of 585,000 mt in the second half of 2010. The develop-



In July 2007 Qatar Petroleum and Hydro reached a final decision to proceed with the construction of the new Qatalum primary aluminium plant in Qatar.

ment of the Qatalum plant is progressing on plan and was 9 percent complete at the end of 2007. Total investment costs are estimated at USD 5.6 billion (for the entire joint venture).

We have made good progress developing our alumina business during the year. The third expansion of Alunorte, our most important alumina equity interest, is expected to start up by the end of 2008 and increase total annual production capacity to 6.3 million mt (100 percent) by 2009. In September 2007 Hydro exercised an option under a long-term alumina agreement with Rio Tinto Alcan (formerly Comalco) to increase the volume supplied by Rio Tinto Alcan from 500,000 mt per year to 900,000 mt per year beginning 2011 and for the duration of the contract through 2030. In July 2007, Hydro signed a Memorandum of Understanding (MoU) with the Brazilian mining group Vale (formerly CVRD) with the intention of building a new alumina refinery close to the existing Alunorte refinery in Brazil. 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 will have a 20 percent interest in the refinery.

New business development opportunities have been identified within bauxite/alumina and primary metal. In November 2007, Hydro entered into a joint venture agreement with United Minerals Corporation (UMC) with the intention of exploring for bauxite in Kimberley, Western Australia. The agreement gives Hydro a 75 percent interest in the partnership. We are evaluating other potential project opportunities within key bauxite-rich regions of the world as well as several smelter opportunities, including expansions of our primary metal operations in Norway (Karmøy), Australia (Kurri Kurri) and the possible doubling of the Qatalum capacity.

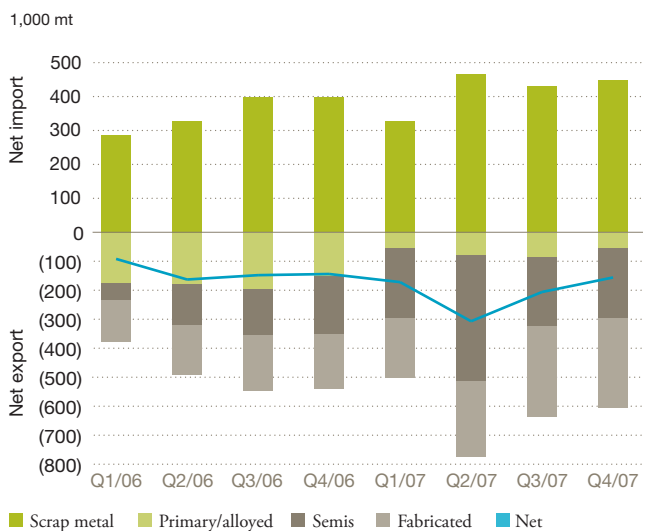
The significant increase in power costs in major aluminium producing regions such as Europe and the United States has been an important factor driving higher aluminium prices. Our long-term power contract portfolio should ensure continued competitive cost levels for Hydro through the next decade. However, identifying long-term power arrangements at competitive prices to enable further expansion in capacity is becoming increasingly difficult for the industry as a whole.

In June 2007, Hydro finalized the closure of the Söderberg line in Årdal. The closure concludes the rationalization program initiated in 2005 which, in addition, included the closure of the German metal plant in Hamburg and Stade and the Söderberg line in Høyanger, Norway. Total costs relating to the closures amounted to about NOK 900 million, roughly NOK 100 million lower than original estimates.

Developments in China continue to be a main driver of industry fundamentals. China has been a net exporter of primary aluminium during the past several years but is expected to discourage the export of energy in the form of primary aluminium while favoring the export of the more labour intensive fabricated products.

Chinese production of semi-fabricated aluminium products is increasing rapidly, up an estimated 45 percent in 2007 compared with 2006. This has led to a doubling of net exports of semi-fabricated products in 2007, compared with 2006.

### China striving for balance



Source: Hydro 2007 / Antaika

## ALUMINIUM PRODUCTS

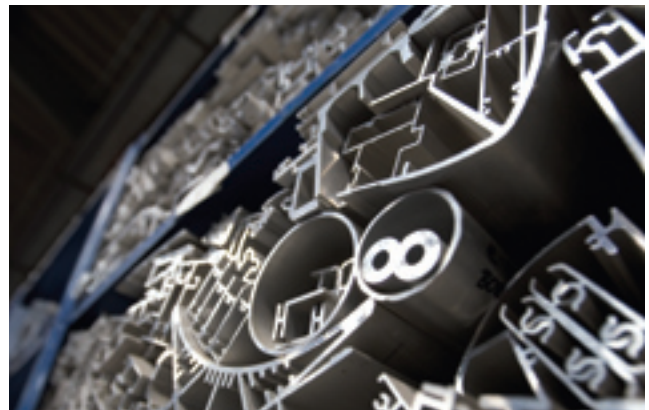
Hydro's Aluminium Products business consists of the three sub-segments: Rolled Products, Extrusion, and Automotive.

- Rolled Products consists of our rolling mills located primarily in Europe and 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.

### Introduction

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. In 2007 we completed an extensive restructuring and divestment program, including workforce reductions in our remaining businesses of around 1,000 people. We are currently working to further improve the financial performance of our downstream operations combined with selective growth within targeted segments.

We generated revenues of approximately NOK 51.4 billion from the sale of aluminium products during 2007, employing around 16,000 employees in 31 countries. Our operations are primarily located in Europe, where we generated approximately 80 percent of our total operating revenues in 2007.



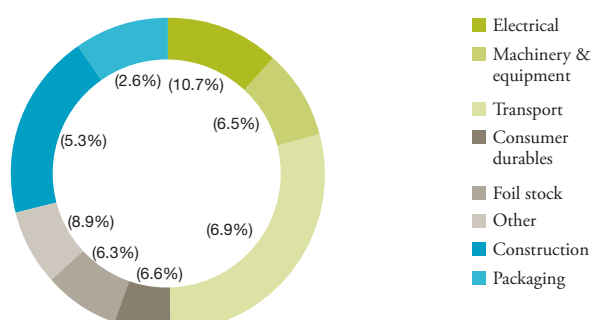
Through our global network of extrusion plants Hydro serves local customers with customized profiles and building systems.

Our extrusion operations consist mainly of general soft alloy extruded products and building systems for facades, wall partitions, doors and windows. About 70 percent of our total extrusion revenues in 2007 came from our general extrusion businesses and 30 percent came from our building systems operations. We have wholly-owned extrusion, extrusion-related fabrication and building systems operations located throughout Europe and the US, in addition to units in Brazil, Argentina, India, China and Russia, and part-owned operations in South Africa and Bahrain. Through our global network of extrusion plants we serve local customers with customized profiles and building systems. In 2007, we shipped 508,000 mt of extruded products from our network of extrusion plants (including Building Systems).

We are the second largest supplier in the European rolling industry and hold leading global positions within high value-added products segments such as lithographic (printing) plates and aseptic foil. In 2007, we shipped in excess of one million mt of rolled products from our seven European plants and our Malaysian plant. More than half of this was pro-

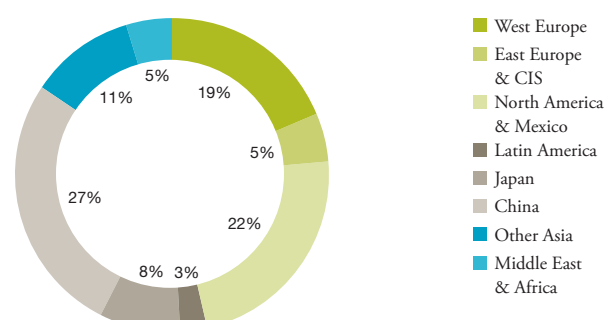
### Global semis consumptions by end use 1,000 mt

Total market 50,400 mt (Forecasted annual growth 2005-2010 in brackets)



### Aluminium consumption per region

Total market 50,400 mt



## Aluminium Products worldwide network



duced in Grevenbroich, Germany, which is the world's largest and one of the most efficient rolling mills in Europe. Grevenbroich is also the center of our rolled products' foil and lithographic sheet operations.

We are a global leader in precision tubing with production in all major regions. We supply precision tubing solutions for automotive heat exchange applications from 11 locations in Europe, Asia, North America and South America. We are one of the leading suppliers of extruded structural automotive components to original equipment manufacturers (OEMs) in Europe and North America. Our automotive business shipped around 117,000 mt during 2007.

### Strategy

2007 was a year of extensive restructuring of Hydro's downstream business and our underlying performance has improved over the last few years. Going forward we intend to build upon our distinct businesses within rolled products, extrusion and building systems and automotive structures and precision tubing, all with leading positions in their respective markets. We intend to focus on technological leadership and operational excellence together with superior product quality and customer service to further improve the performance of our businesses. We aim to target selective growth within our high-performing sectors. We will also continue to drive cost reductions and other improvement measures within underperforming units notably in our extrusion operations in the US and our automotive structures business.

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

The foundation for the success of our general extrusion operations is working closely with our customers. Our presence local to them enables top product innovation and design as well as excellent service levels. Three strong brands within our building systems operations, Wicona, Domal and Technal, represent distinct value propositions to our customers. 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.

### *Develop and improve our position in rolled products*

We are a global leader in value-added products like lithographic plates and aseptic foil and Europe's second largest supplier of rolled products. We continually emphasize the quality of our products and service to our customers. We have a strong focus on optimizing our margins through the mix of products that we deliver to the market.

### *Further improvements in a restructured business portfolio*

During 2007 we divested of our automotive castings business and exited the magnesium business. Our efforts to dispose of our automotive structures operations were terminated following the conclusion that more value could be realized by turning this business around than by divesting it. Measures are also being taken to improve our US extrusion operations and to further reduce costs, mitigating the effects of a sharp downturn in North American market demand.

## Targets

### 2007 TARGETS

- Complete restructuring program defined in 2006
- Long-term portfolio defined
- No serious accidents. Total recordable injuries per million hours down by 20 percent

### 2007 RESULTS

- Automotive casting business divested
- Exited the magnesium business
- Several smaller divestments and closures
- Plant rationalizations and improvement programs executed
- Significant improvements in financial results
- One fatal contractor accident. Total recordable injuries per million hours reduced by 10 percent to 3.7

### 2008

- Continued improvement in profitability for underperforming 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

### AMBITIONS

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.

## Focus on selective growth

We plan to selectively grow our highly profitable businesses, and improve our underperforming businesses. We intend to keep capital expenditures at a moderate level, investing in selected growth 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.



Our presence local to customers enables top product innovation and design as well as excellent service levels.

## Overview 2007

Aluminium Products underlying EBIT increased by 5 percent to NOK 1,353 million in 2007. The underlying performance of our rolled products business improved during 2007 and our European extrusion and building systems operations delivered another strong performance during the year. However, our extrusion operations in the US were struggling with weak markets and unsatisfactory results. Our automotive structures business also delivered a weak performance in 2007 with underlying results impacted by costs related to starting up new production lines and costs relating to new contracts.

Rationalization programs were initiated in several units during 2006 including comprehensive programs within our general extrusion and precision tubing operations in the US. Costs have been reduced through manning reductions and other measures. By the end of 2007, we had reduced the number of US employees in our extrusion business by around 700 people compared to 2006. Measures are being implemented to further improve the financial performance of this business and align the cost structure with lower market demand.

In 2007 a new management team has been established and measures have been initiated to turn around and improve the performance of our automotive structures business. The automotive market is characterized by long lead-times for new business to come on stream. Generally new contracts are awarded three years in advance of production start-up to facilitate design and testing and normally last for the entire design lifecycle of a model (5 – 6 years or longer).

## ENERGY

Following the demerger of Hydro's oil and gas operations, Energy was established as a separate business area in 2007. 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.

### Introduction

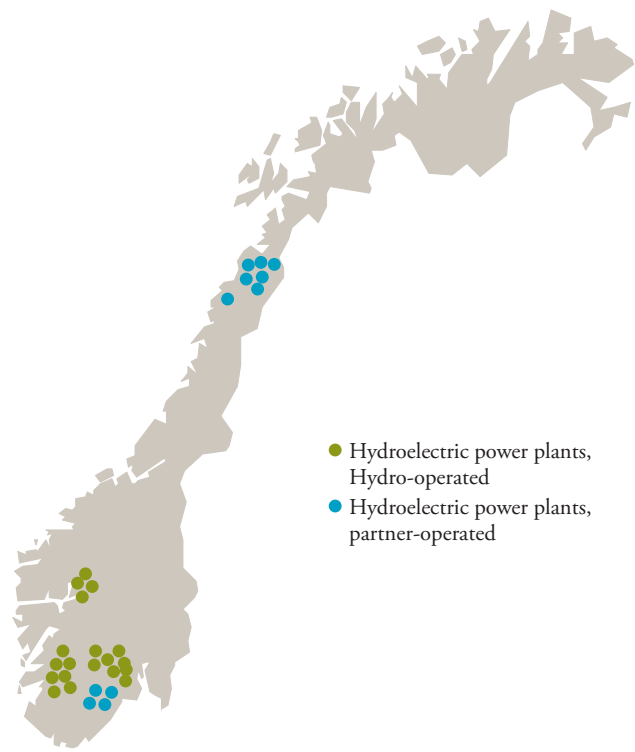
With more than 100 years of experience in hydropower, Hydro is the second largest power producer in Norway, and the largest privately owned producer. In 2007, our Energy business generated about NOK 6.5 billion in revenues, employing around 230 people, mainly in Norway.

Hydro operates 17 hydroelectric power plants in Norway with a normal annual production of approximately 9.0 TWh. Our annual hydropower production can vary by +/- 20 percent depending on variations in hydrological conditions. Our most important production facilities are located in Telemark, Rørdal-Suldal and Sogn. In addition to owned generation capacity, our power portfolio in Norway includes around 7 TWh purchased 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.

In addition to sourcing power for our aluminium operations, Hydro's Energy business also provides an average of about 2 TWh of power externally, primarily related to concession power obligations and to contracts with our former fertilizer business, Yara International ASA. We balance our portfolio in the spot market at the NordPool power exchange.

Hydro invested approximately NOK 300 million in partnership shareholdings in the solar energy business. Our invest-

### Power plants in Norway



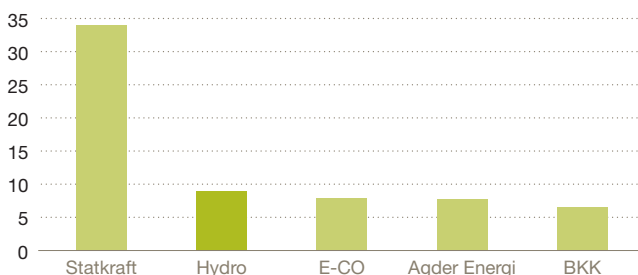
- Hydroelectric power plants, Hydro-operated
- Hydroelectric power plants, partner-operated

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

ments include a 22 percent ownership interest in US-based Ascent Solar Technologies Inc., which has an advanced position in thin film technology. We also hold a 16 percent interest in NorSun AS, which is constructing an ingot pulling and wafering plant in Årdal, Norway, as well as a 49 percent interest in HyCore ANS, a partnership with Umicore SA of Belgium, for development of new cost-efficient solar-grade polysilicon manufacturing processes.

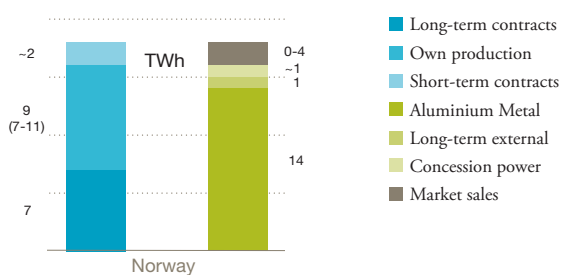
### Norway's second largest power producer

Production TWh/year



### Generation and industrial sourcing

Managed on net portfolio basis



### Targets

#### 2007 TARGETS

- Move focus in Energy business from oil and gas to aluminium
- Foothold in solar energy industry

#### 2007 RESULTS

- Energy business with sourcing focus in aluminium company
- Investments in Ascent Solar and establishment of HyCore

#### 2008

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

#### AMBITIONS

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.

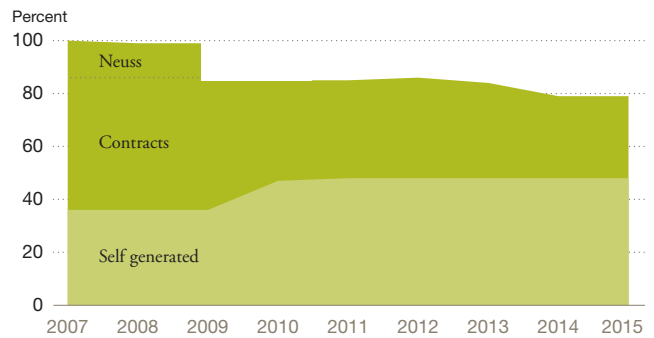
## Strategy

Hydro's Energy business is playing a leading role in identifying and developing power sourcing arrangements for continued growth in our aluminium smelter capacity. Power is a critical input factor for primary aluminium production, representing more than 30 percent of production costs. Access to competitive power supplies under predictable long-term arrangements is a critical factor for growing our primary aluminium capacity.

### Competitive energy sourcing

While Hydro is well covered with captive power, and long-term contracts for the next decade, further growth will require new sourcing arrangements. We are engaged in a number of initiatives to secure competitive energy supplies for Hydro's aluminium business, covering the full range of needs: short-term and long-term, in Norway and internationally, for growth projects and for continued operations. We intend to build on our long experience and our competence and knowledge of global, regional and local energy markets. We will also be actively engaged in energy related policy and framework issues.

## Power coverage



### Effective power portfolio management and operational excellence

We are making continuous efforts to exploit our power portfolio expertise and management capabilities in order to minimize the cost of industrial sourcing and maximize the value of our production assets. Investments in our hydropower production facilities will primarily be focused on efficient maintenance and improvements within existing concession areas.

Operational efficiency is a key priority. We have made significant cost and safety improvements in our hydropower plant operations during the last decade and will continue to focus on operational excellence as a basis for further performance improvements.

### Develop our positions in solar energy

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 energy industry over the last five years. The industry expects continued high growth up to 2020, with significant opportunities across different technologies and along the value chain.

Based on our competence in materials technology, our strong project execution skills and experience from industrializing new technologies and processes, we intend to develop a competitive position within the solar industry together with our partnership companies. Our main focus for the coming years will be on further developing technology and on establishing commercial operations for the production facilities currently under construction. Hydro's position as a leading supplier of advanced building systems provides an excellent platform for innovative integration of solar energy into new building facade designs.



Power is a critical input factor for primary aluminium production, representing about 30 percent of production costs. Access to competitive power supplies under predictable long-term arrangements is a critical factor for growing our primary aluminium capacity.

## Overview 2007

Hydro's energy business delivered an underlying EBIT of NOK 1,184 million, decreasing from the underlying EBIT of NOK 1,464 million in 2006.

The Nordic electricity market was characterized by record high hydropower production and depressed prices during the summer months of 2007, particularly in Southern-Norway where Hydro's hydropower plants are located. Driven by the expectation of increased CO<sub>2</sub> emission costs and high generation fuel prices on the European Continent, Nordic spot prices recovered later in the year averaging NOK 224 per MWh for the full year 2007. Hydro's hydropower production totalled 11.0 TWh in 2007, 22 percent higher than normal.

Hydro is leveraging its experience and competence in energy markets to secure competitive power supplies for the company's primary aluminium capacity. We are working to explore opportunities to support growth ambitions for our aluminium operations in Norway and on a world-wide basis.

Building on its long-standing experience in metallurgy, electrolysis and industrialization of new technologies, Hydro is working together with external partners to develop new technologies and manufacturing processes in the solar energy industry. In 2007, Hydro acquired a 22 percent ownership interest in the US-based thin-film company Ascent Solar Tech-

nologies Inc. and formed the HyCore ANS partnership with Umicore SA of Belgium for development of a new manufacturing process for solar-grade polysilicon. Since late 2006, Hydro also holds a 16 percent interest in NorSun AS. Climate change and security of supply are important drivers for our new solar business activities. Market demand and government incentives are expected to result in fast growing markets for photovoltaic Solar energy solutions.

## Nordic system power price



## PROJECTS

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. We employ 90 highly qualified individuals many with substantial experience working with large, highly complex projects such as the Qafco fertilizer plants in Qatar, the expansion of our Sunndal primary metal plant in Norway and, most recently, the Ormen Lange field development, processing plant and related pipeline. Our project organization acts as a strategic partner together with our business areas supporting business and technology development, new investment projects, modernization, acquisitions and other business activities demanding project competence.

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Successful execution of the Qatalum project is a top priority. Qatalum is currently the largest primary aluminium plant to be built in one phase.

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### Effective project execution

Successful execution of the Qatalum project is a top priority. Qatalum is currently the largest primary aluminium plant to be built in one phase and will be a fully-integrated primary aluminium plant consisting of a smelter, casthouse and carbon plant as well as a dedicated gas fired power plant with a capacity of approximately 1,250 MW. The power plant will be supplied with gas from Qatar Petroleum under a long-term contract. In addition to captive power, Qatalum has substantial expansion potential and attractive logistics. Hydro will utilize its experienced project organization and long history of developing and operating industrial projects in Qatar to ensure an effective completion of the project.

## HISTORY AND DEVELOPMENT

Norsk Hydro ASA, the parent company of the Hydro group, was organized under Norwegian law as a public company in 1905 to develop Norway's extensive hydroelectric energy resources for the industrial production of nitrogen fertilizers. In the years since, energy, in the form of hydroelectric power, natural gas and petroleum, has been the basis for Hydro's growth and the common link among its core business activities.

Following the end of the Second World War, we expanded into a number of new businesses. In 1951, we began to produce magnesium metal and polyvinyl chloride at Porsgrunn, Norway. In 1967, we opened an aluminium reduction plant and semi-fabricating facilities at Karmøy, Norway, and built the Røldal-Suldal hydroelectric power project to provide energy to the Karmøy facilities.

In 1965 and 1967, we commenced production of ammonia at two large ammonia plants in Norway, one of which made use of naphtha and the other, heavy fuel oil, as feedstocks (i.e. sources of hydrogen) in the ammonia production process. We had previously depended on the electrolysis of water to provide the hydrogen needed to produce ammonia used in nitrogen-based fertilizers. The discovery of natural gas in the Netherlands and on the continental shelf off England in the North Sea created a new and competing source of feedstock for ammonia in Europe. Consequently, we began to take steps to ensure that we could continue to compete with other European producers of ammonia that were obtaining access to these relatively inexpensive natural gas supplies. As a result, we began to investigate various opportunities to participate in oil and gas production. In 1965, we obtained concessions from the Norwegian State to explore for petroleum on the NCS.

Hydro and its partners discovered oil and gas in the Ekofisk field in 1969 and in the Frigg field in 1971. Exploration of these discoveries ensured a source of feedstock for our fertilizer plants and also brought us into the petroleum refining and marketing business. In 1975, we began oil refining operations at Mongstad, Norway.

Norway's natural gas liquids' resources and our experience in the chemical process industry served as the foundation for our investments in the petrochemicals industry in Norway and, in 1978, we commenced production of ethylene and vinyl chloride monomer.



The aluminium plant at Sunndal was officially opened in 1954. The first regular ingots were casted under presence of a great number of guests.

In the 1980s, we acquired a number of businesses, both in Norway and in other areas. The expansion of our fertilizer operations resulted in Hydro becoming one of the leading suppliers of fertilizer in Europe. We also entered a new era as an oil company, becoming operator of the Oseberg offshore oil field. Hydro also developed or tested new technologies for deep-water oil and gas production and horizontal drilling, which we subsequently put to commercial use in developing the Troll oil project. In 1986-87 we acquired the Norwegian State-owned aluminium company, Årdal og Sunndal Verk, and several European aluminium extrusion plants from Alcan and Alcoa, thus establishing Hydro Aluminium as a major business within Hydro and an important player in the European aluminium industry.

In recent years, our business areas have grown as a result of substantial investments, including several acquisitions. In 1999, we acquired Saga Petroleum ASA, a Norwegian-based oil company, and in 2002, we acquired significant new interests in oil and gas licenses on the NCS from the Norwegian State. In 2005, we acquired all of the shares of Spinnaker Exploration Company. In March 2002, we acquired VAW Aluminium AG

and earlier in the same year, we acquired the French building systems supplier, Technal. A significant portion of the expansion of these two core business areas was financed through the sale of non-core businesses. In March of 2004, we completed the demerger of our Agri business transferring all assets, rights, liabilities and obligations primarily relating to the Agri business to Yara International ASA.

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. Hydro did not recognize any gain or loss, or receive any proceeds as result of the demerger transaction. The demerger was completed on 1 October 2007.

In May, 2007 Hydro announced the sale of its Polymers activities. Contracts to sell Hydro's 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) to the UK-based chemical company INEOS were entered into in late May 2007. The sale of Kerling ASA to INEOS was completed on 1 February 2008. QVC will be divested in a separate transaction.

See section under "Financial performance" – "Financial review" – "Discontinued operations" later in this report for more information on the transactions occurring in 2007.

## 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 264, Vækerø, N-0240 Oslo, Norway; telephone number: 47-22-53-81-00. Hydro's internet site is [www.hydro.com](http://www.hydro.com)