ing EBIT based on Hydro's effective tax rate for the corresponding periods presented. We have also excluded unrealized gains and losses on all foreign denominated contracts and balances included in our balance sheet for the periods presented. Such amounts mainly relate to forward currency contracts used to hedge net future cash flows from operations, sales contracts and working capital, mainly by selling US dollars and euro where hedge accounting is not applied. We have also excluded certain tax credits which are deemed to be non-recurring in nature.

Market outlook

For the full-year 2007, primary aluminium demand rose by 3.5 million tonnes, or 10 percent, from 2006, driven mainly by strong growth in China. After a decline in aluminium prices in late 2007, prices strengthened again in early 2008 following production curtailments in China, South Africa and South America. Hydro expects these disruptions to impact primary metal supply at least during the first half of the year.

Hydro expects a moderate slowdown in market growth for semi-fabricated products in Europe in 2008 compared with 2007. In the United States, the market for semi-fabricated products declined during 2007. Overall, Hydro expects a fairly flat development in its core downstream markets in 2008 compared to 2007, depending on the direction of the global economy.

Aluminium Metal

Aluminium Metal

NOK million	2007	2006	% change prior year
Operating revenues	**61,592**	68,259	(10)%
Earnings before financial items and tax (EBIT)	**8,365**	7,302	15%
Items excluded from underlying EBIT	**(324)**	825	>(100)%
Aluminium Metal underlying EBIT	**8,041**	8,127	(1)%
Bauxite & Alumina	**681**	898	(24)%
Primary Aluminium	**6,552**	6,651	(1)%
Commercial	**722**	643	12%
Other and eliminations	**84**	(65)	>100%
Aluminium Metal underlying EBIT	**8,041**	8,127	(1)%
ROACE	**22.5%**	19.1%	na
Number of employees	**4,959**	5,286	na

Market conditions

Market statistics [1)]

	2007	2006	% change prior year
LME three month average (USD/mt)	**2,661**	2,594	3%
LME three month average (NOK/mt)	**15,627**	16,616	(6)%
Global production of primary aluminium (kmt)	**38,156**	33,908	13%
Global consumption of primary aluminum (kmt)	**37,811**	34,352	10%
Reported primary aluminium inventories (kmt)	**2,830**	2,718	4%

1) Revised figures. Source CRU / Hydro. Prior CRU figures may have been revised.

In the discussion below, industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated.

During 2007, developments on the LME were characterized by volatile market conditions, with three-month prices ranging between USD 2,935 and USD 2,375 per mt. The ongoing credit crisis continued to impact consumer sentiment throughout the latter part of the year, putting pressure on industrial commodities. Average 2007 LME prices measured in US dollars increased 3 percent compared to 2006, but declined 6 percent measured in Norwegian kroner due to the weakening US dollar.

During 2007, global primary aluminium consumption increased around 10 percent, heavily influenced by Chinese consumption which increased about 38 percent in 2007 compared with 2006, following an increase of 22 percent in 2006 compared with 2005. Primary aluminium consumption in the rest of the world increased about 1 percent in 2007, compared with an increase of 4 percent in 2006. Consumption in the US and Japan declined in 2007 by 7 percent and 3 percent, respectively. Globally, production increased by almost 13 percent, also led by China. Chinese production increased about 35 percent in 2007, and by 19 percent in 2006. Production of primary aluminium in the rest of the world increased about 4 percent from 2007 and almost 2 percent in 2006. China's share of global primary aluminium consumption and production in 2007 was about 32 percent.

Net exports of primary aluminium from China amounted to approximately 250,000 mt in 2007, down from 700,000 mt in 2006. Adjusting for net imports of scrap metal, and including net exports of rolled and extruded products, as well as other fabricated products, China exported an estimated 750,000 mt of aluminium on a net basis in 2007. 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, reaching about 1,100,000 mt in 2007 compared with 550,000 mt in 2006.

The extrusion ingot market in Europe started strong and remained robust before easing towards the end of the third quarter, with slower demand especially in the construction market. The extrusion market in the US was down significantly in 2007, impacting demand for extrusion ingot which remained slow during 2007. The European market for sheet ingot increased moderately during 2007. While the market developed positively in the first half of the year, some signals of a slowdown in demand were apparent in the second half of the year. Market conditions for foundry alloys in Europe remained positive mainly due to firm demand from the automotive sector, which is the main end-user segment for foundry alloys.

Reported primary metal inventories, defined as producer stocks reported by IAI, metal exchange stocks and Japanese port stocks, were up to 2.8 million mt at the end of 2007 compared with 2.7 million mt at the end of 2006.

The average alumina spot price has been relative stable during 2007, trading in the range from USD 325 per mt to USD 392 per mt.

Outlook

Key economic indicators continue to signal somewhat slower growth in all major regions. European industrial production growth is expected to slow throughout 2008. The economic outlook for North America remains weak. China continues its rapid development, although growth in industrial production shows signs of moderate easing in recent months, with an expected annual growth rate of 16 percent in 2008, down from 18 percent in 2007.

Growth in China's apparent consumption of primary aluminium is expected to continue at a very strong pace in 2008, but is forecast to decline to about 24 percent from an annual growth rate of 38 percent in 2007. Growth in Chinese production of primary metal is expected to reach 24 percent in 2008, down from an annual growth rate of 35 percent in 2007. However, recent power shortages in China have hit aluminium production in several regions, which may cause 2008 production growth rates to slow further.

There is a growing expectation that China will become a net importer of primary metal over time. China is expected to concentrate on the more value added, labor-intensive production of semi-finished and fabricated products for export. This would be in line with previously announced Chinese policy, which has been confirmed through the imposition of duties on exports of primary metal and simpler forms of semi-finished products.

Primary aluminium consumption in the rest of the world is expected to grow by about 2 percent from 2007 to 2008. Annual growth in consumption in Europe is expected to be about 2 percent in 2008, while consumption in the US is expected to remain unchanged following a decline of almost 7 percent in 2007. Production in the rest of the world is estimated to grow at an annual rate of around 6 percent in 2008, compared to an annual growth rate of 4 percent in 2007. Global consumption growth is expected to be around 9 percent in 2008. Global production growth is estimated to reach between 10 and 12 percent, depending on the development in the Chinese power situation.

A moderate increase in reported primary aluminium inventories is expected in 2008. In addition to the global market balance, the behavior of financial investors will continue to affect the development of primary aluminium prices on the LME.

Demand for extrusion ingot in Europe in the first half of 2008 is expected to be in line with the last quarter of 2007, with continued slowing of demand in the building and construction sectors. Generally, 2008 is expected to show a slower growth of demand than 2007. Demand for sheet ingot is expected to remain robust, although there are signs of slower growth in 2008. Demand for foundry alloys is expected to remain firm in the beginning of 2008. The weakening of the automotive outlook for Western Europe in 2008 is expected to dampen growth mainly in the second half of the year, while Eastern European car production and demand for foundry alloys is forecast to continue showing good growth. Market demand for casthouse products in the US is expected to remain weak.

Key development projects

The development of the Qatalum primary aluminium plant in Qatar is progressing according to plan, and was 9 percent completed at the end of 2007. On-site construction activity increased substantially in the fourth quarter. Key activities included site and harbor preparations and construction of housing for the construction workers. Total investment costs for the project are estimated at USD 5.6 billion (for the entire joint venture). Operations of the 50/50 joint venture between Hydro and Qatar Petroleum are expected to begin in late 2009.

The third expansion of Alunorte, our most important alumina equity interest (Hydro share 34 percent), is ongoing. The expansion is expected to increase total annual production capacity to 6.5 million mt (100 percent) by 2009. The project is progressing according to plan and within budget.

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. If realized, 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 would have a 20 percent interest in the refinery. Progress toward developing a final agreement continued during the fourth quarter.

In September 2007 Hydro exercised an option under a long-term alumina agreement with RioTintoAlcan (formerly Comalco), increasing the volume supplied by RioTintoAlcan from 500,000 mt per year to 900,000 mt per year, beginning in 2011 and for the duration of the contract through 2030.

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.

Plant closures

In June 2007, Hydro finalized the closure of the Søderberg line in Årdal, Norway. The closure concludes the rationalization program initiated in 2005, which also included the closure of the German metal plants in Hamburg and Stade and the Søderberg line in Høyanger, Norway. Total costs relating to the closures amounted to about NOK 890 million, roughly NOK 100 million lower than original estimates. Of the total amount, NOK 114 million was included in 2007. No further costs relating to these closures are expected. Closure costs are excluded from underlying EBIT (see section in this report "Items excluded from underlying EBIT").

Operations at the Ellenville remelter in New York ceased at the end of September 2007. Activities to dispose of the assets are in progress.

Revenue and underlying EBIT – sub-segments

Following is a discussion of revenues and underlying operating results for the sub-segments which comprise our Aluminium metal business area. See section later in this report "Use of non-GAAP financial measures" – "Items excluded from underlying EBIT and income from operations" for more information on the items excluded for sub-segments EBIT.

Bauxite and Alumina

Bauxite and Alumina

NOK million	**2007**	2006	% change prior year
Operating revenues	**4,176**	4,481	(7)%
Underlying earnings before financial items and tax (EBIT)	**681**	898	(24)%
Alumina production (kmt)	**2,007**	1,891	6%
Number of employees [1)]	**10**	14	na

1) Staff related to headquarter in Oslo.

Variance analysis Bauxite and Alumina

NOK million	
Underlying EBIT 2007	681
Underlying EBIT 2006	898
Variance Underlying EBIT	(217)
Margin	(22)
Equity accounted investments	(167)
Other operational costs, net	(27)
Variance Underlying EBIT	(217)

Hydro's major alumina investment is its 34 percent interest in Alunorte, the Brazilian alumina refinery. Results from Alunorte comprise a substantial portion of the underlying EBIT of Bauxite and Alumina. 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 the share of profit (loss) in equity accounted investments, and comprise a substantial portion of the underlying results of our bauxite and alumina operations. Bauxite for Alunorte is sourced under long-term contracts from MRN, in which Hydro has an equity interest, and from the Paragominas mine which is owned by Vale, under long-term contracts based on among others, prices linked to the LME. Earnings from our investment in MRN are included in financial income.

Operating revenues
Operating revenues declined 7 percent for the year despite higher LME prices and higher production volumes, manily due to lower volumes delivered relating to our long-term alumina contract portfolio.

Underlying EBIT
Underlying EBIT for our Bauxite and Alumina operations amounted to NOK 681 million in 2007, down 24 percent compared with 2006. The average cash cost of our equity alumina production increased by 17 percent in 2007 compared to 2006, mainly due to high energy prices, local currency effects and higher bauxite prices resulting from increased LME prices. In addition, reported results were negatively impacted as a result of translation effects due to the decline in the US dollar versus NOK.

Underlying results from Alunorte, our most important alumina investment, declined to NOK 523 million for the year, from NOK 691 million in 2006. Underlying EBIT for our Alpart alumina operations increased by 10 percent to NOK 150 million for 2007.

Higher alumina prices linked to a higher LME measured in US dollars contributed about NOK 230 million to the underlying EBIT for the year. Higher volumes contribute droughly NOK 120 million. However, the positive developments were more than offset by higher costs having a negative impact of close to NOK 500 million. Higher energy costs had a significant impact on results for the year due to increased costs for heavy oil and electricity. During the final quarter of 2007, Alunorte commenced the start-up of new coal-fired boilers, which is an important step to improve the plant's energy cost. The new boilers are expected to operate at full capacity within the first quarter of 2008.

Total alumina production increased by 6 percent for the year, despite losses due to temporary disruptions in the supply of bauxite in Alunorte and a production stop in Alpart due to hurricane Dean.

Primary Aluminium

Primary Aluminium

NOK million	2007	2006	% change prior year
Operating revenues	**37,164**	36,907	1%
Underlying earnings before financial items and tax (EBIT)	**6,552**	6,651	(1)%
Number of employees	**4,059**	4,336	na

Operating and financial statistics

	2007	2006	% change prior year
Primary aluminium production (kmt) [1]	**1,742**	1,799	(3)%
Total casthouse production (kmt)	**2,164**	2,162	0%
Realized aluminium price LME (USD/mt) [2]	**2,559**	2,352	9%
Realized aluminium price LME (NOK/mt) [2]	**15,522**	15,371	1%
Realized NOK/USD exchange rate [3]	**6.06**	6.54	(7)%

1) Including Hydro`s share of Søral volumes.
2) Including effect of strategic hedges and equity accounted investments (Søral).
3) Including effects of strategic currency hedging for which hedge accounting applies.

Variance analysis Primary Aluminium

NOK million	
Underlying EBIT 2007	6,552
Underlying EBIT 2006	6,651
Variance Underlying EBIT	(99)
Price and currency	386
Strategic hedges	(96)
Variable costs	(647)
Margin	800
Volume	(192)
Equity accounted investments	(86)
Depreciation	(17)
Other operational costs, net	(247)
Variance Underlying EBIT	(99)

Underlying EBIT for our Primary Aluminium operations for 2007 as a whole amounted to NOK 6,552 million, down slightly compared with 2006. Our realized prices increased about 9 percent in US dollars, but only one percent measured in Norwegian kroner due to the weak US dollar. Production of primary metal amounted to 1,742,000 mt, 3 percent lower than 2006 due to the closure of the Søderberg line in Årdal in June 2007 and the Stade smelter at the end of 2006. Casthouse production in our primary smelters was substantially unchanged for the year. Underlying EBIT also includes the effects of strategic hedge programs which are accounted for as hedge contracts. The Sunndal hedge program which was implemented in connection with the Sunndal plant expansion expired at the end of 2007.

Realized premiums above LME increased about 15 percent measured in Norwegian kroner contributing to improved margins for 2007. The positive effects were largely offset, however, by higher raw material costs in our smelters. Alumina costs increased due to higer LME prices and higher transportation costs. Costs for energy also increased due to higher transmission costs in Norway and higher power costs in Germany.

Underlying results for our partly owned Søral metal plant amounted to NOK 229 million for the year, compared with NOK 267 million in 2006. In addition, underlying results from our share of profit (loss) in equity-accounted investments included about NOK 45 million of costs relating to the Qatalum project.

Commercial

Commercial

NOK million	2007	2006	% change prior year
Operating revenues	**64,898**	73,566	(12)%
Underlying earnings before financial items and tax (EBIT)	**722**	643	12%
Number of employees	**890**	936	na

Operating and financial statistics

	2007	2006	% change prior year
Remelt production (kmt)	**685**	719	(5)%
Sale of metal products from own production (kmt) [1) 2)]	**2,888**	2,916	(1)%
Sale of third-party metal products (kmt)	**315**	307	3%
Total metal products sales excluding ingot trading (kmt) [1)]	**3,203**	3,223	(1)%
External sales (kmt) [1)]	**1,858**	1,784	4%
External revenue (NOK million)	**37,952**	41,340	(8)%
Sales revenue (NOK million) [3)]	**29,090**	28,421	2%

1) Excluding Slovalco sales to local market.
2) Includes 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.

Variance analysis Commercial

NOK million	
Underlying EBIT 2007	722
Underlying EBIT 2006	643
Variance Underlying EBIT	79
Margin	(246)
Volume	(39)
Depreciation	49
Other operational costs, net	274
Other, net	41
Variance Underlying EBIT	79

Our Commercial sub-segment is comprised of our commercial products operating unit and our sourcing and trading operating unit. Commercial products activities include the operating results of our stand-alone remelters, our high purity aluminium business and operating results from contracts with external metal sources. 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.

Operating revenues

Sales revenues for our Commercial operations declined during the year, mainly due to lower revenues with sourcing and trading operations.

Underlying EBIT

Underlying EBIT for our Commercial operations increased by 12 percent to NOK 722 million for the year 2007. Our remelt operations in Europe delivered continued good results in 2007, mainly due to higher sales volume and higher premiums. However, the positive results were partly offset by losses from our North American remelt operations, which amounted to NOK 193 million for 2007 as a whole. The losses mainly resulted from difficult market conditions with volumes at severely depressed levels.

Total remelt production volumes declined by 5 percent compared with 2006 due to the market decline in the US.

Underlying results for our sourcing and trading activities remained on roughly the same level in 2007 as in 2006.