

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 have 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



“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 (far right), President and CEO,
May 3, 2001–March 30, 2009*

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 hasn't been called off. 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: climate change.

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 CO₂ 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 applications and applying them to buildings. Such as integrating solar energy modules in our building systems façades, 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, and 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

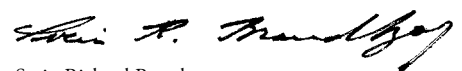
The year 2009 will be a very demanding one. We are prepared to make further adjustments to our production. At the same time, we are mindful of not taking actions that will cause long-term damage just to alleviate short-term damage.

Securing cash flow has top priority. While it is no goal in itself to be debt-free, 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 enabling us to 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 enable us to shape our own future.



Eivind Reiten
President and CEO



Svein Richard Brandtzæg
Executive Vice President