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Financial statements

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Consolidated income statements

Amounts in NOK million (except per share amounts), Year ended 31 December	Notes	2008	2007
Revenue	8	88,643	94,316
Share of the profit (loss) in equity accounted investments	8, 25, 26	(915)	1,000
Other income, net	8, 9	865	1,093
Total revenue and income		88,593	96,409
Raw material and energy expense	10	58,215	58,905
Employee benefits expense	11	12,018	12,440
Depreciation and amortization expense	12	3,370	3,407
Impairment of non-current assets	13	1,545	145
Other	14, 15	12,251	12,488
Total expenses	8	87,399	87,385
Earnings before financial items and tax	8	1,194	9,025
Financial income	16	795	1,403
Financial expense	16	(5,821)	1,805
Financial income (expense), net		(5,026)	3,208
Income (loss) from continuing operations before tax		(3,832)	12,233
Income taxes	17, 33	565	(3,075)
Income (loss) from continuing operations		(3,267)	9,158
Income (loss) from discontinued operations	7	(247)	9,447
Net income (loss)		(3,514)	18,604
Net income attributable to minority interests		411	408
Net income (loss) attributable to equity holders of the parent		(3,925)	18,196
Basic and diluted earnings per share from continuing operation		(3.04)	7.17
Basic and diluted earnings per share from discontinuing operation		(0.20)	7.74
Basic and diluted earnings per share attributable to equity holders of the parent		(3.25)	14.90

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	2008	2007
Assets			
Cash and cash equivalents		3,333	9,330
Short-term investments	18	1,648	2,742
Accounts receivable	19	16,254	15,564
Inventories	20	16,293	12,227
Other current financial assets	21, 40	2,579	967
Total current assets continuing operations	8	40,108	40,830
Assets held for sale	7	-	6,741
Property, plant and equipment	22	29,338	26,750
Intangible assets	23, 24	2,178	1,514
Investments accounted for using the equity method	25, 26	14,457	9,659
Other non-current financial assets	21, 40	5,592	4,341
Prepaid pension	32	1,458	1,246
Deferred tax assets	33	2,026	963
Total non-current assets continuing operations	8	55,049	44,474
Total assets	8	95,157	92,046

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	2008	2007
Liabilities and equity			
Bank loans and other interest-bearing short-term debt	28	1,169	1,045
Trade and other payables	29	12,944	12,193
Provisions	31	2,060	1,599
Taxes payable	33	1,984	2,361
Other current financial liabilities	21, 40	5,187	1,157
Total current liabilities continuing operations		23,344	18,355
Liabilities included in disposal groups	7	-	2,021
Long-term debt	30	279	263
Provisions	31	2,115	1,849
Pension obligation	32	9,953	8,920
Other non-current financial liabilities	21, 40	2,996	2,795
Other liabilities		1,071	588
Deferred tax liabilities	33	1,258	2,246
Total non-current liabilities continuing operations		17,673	16,662
Total liabilities		41,016	37,038
Share capital	34	1,370	1,370
Additional paid-in capital	34	309	360
Other reserves	34	7,435	(1,348)
Retained earnings	34	47,968	57,950
Treasury shares	34	(4,274)	(4,283)
Equity attributable to equity holders of the parent	34	52,808	54,049
Minority interest		1,333	959
Total equity		54,141	55,008
Total liabilities and equity		95,157	92,046

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

Amounts in NOK million	Notes	2008	2007
Operating activities:			
Net income (loss)		(3,514)	18,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Net (income) loss from discontinued operations	7	247	(9,447)
Depreciation, amortization and impairment	8, 12, 13	4,915	3,552
Share of (profit) loss in equity accounted investments	8, 25, 26	915	(1,000)
Dividends received from equity accounted investments	25, 26	247	456
Deferred taxes		(2,383)	44
Gain on sale of non-current assets		(412)	(598)
Loss (gain) on foreign currency transactions	16	5,491	(2,254)
Net sales of trading securities		230	114
Capitalized interest	16	-	(5)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		2,770	146
Inventories		(1,761)	545
Trade and other payables		(1,801)	89
Financial and commodity derivatives		(1,801)	3,577
Other items		(222)	450
Net cash provided by continuing operating activities	43	2,921	14,273
Investing activities:			
Purchases of property, plant and equipment		(3,485)	(3,485)
Purchases of other long-term investments		(5,374)	(1,403)
Purchases of short-term investments		(2,850)	(5,000)
Proceeds from sales of property, plant and equipment		95	122
Proceeds from sales of other long-term investments		679	4,330
Proceeds from sales of short-term investments		3,600	17,200
Net cash provided by (used in) continuing investing activities		(7,335)	11,764
Financing activities:			
Loan proceeds		93	25
Principal repayments		(346)	(1,108)
Ordinary shares purchased		(149)	(2,887)
Ordinary shares issued		44	66
Dividends paid		(6,359)	(6,236)
Net cash used in continuing financing activities		(6,717)	(10,140)
Foreign currency effects on cash and bank overdraft		(11)	(285)
Net cash provided by (used in) discontinued operations	7	5,075	(12,799)
Net increase (decrease) in cash, cash equivalents and bank overdraft		(6,067)	2,813
Cash, cash equivalents and bank overdraft reclassified to assets held for sale		-	(105)
Cash, cash equivalents and bank overdraft at beginning of year		9,256	6,548
Cash, cash equivalents and bank overdraft at end of year	43	3,189	9,256

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

Amounts in NOK million	Notes	2008	2007
Ordinary shares issued - amount			
Balance at 1 January		1,370	4,708
Cancellation treasury shares	34	-	(79)
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(62)
Demerger	34	-	(3,197)
Balance at 31 December		1,370	1,370
Additional paid-in capital			
Balance at 1 January		360	9,736
Treasury shares reissued to employees	34	(51)	53
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(2,701)
Demerger	34	-	(6,727)
Balance at 31 December		309	360
Other reserves			
Balance at 1 January		(1,348)	(1,533)
Currency translation differences	34	8,391	(4,279)
Net unrealized gain (loss) on securities, net of tax	34	167	(295)
Cash flow hedges, net of tax	34, 42	225	585
Demerger	34	-	4,174
Balance at 31 December		7,435	(1,348)
Retained earnings			
Balance at 1 January		57,950	89,544
Net income attributable to equity holders of the parent		(3,925)	18,196
Dividend declared and paid		(6,053)	(6,134)
Cancellation treasury shares	34	-	(2,317)
Transactions with minority equity holders		(4)	-
Demerger	34	-	(41,339)
Balance at 31 December		47,968	57,950
Treasury shares issued - amount			
Balance at 1 January		(4,283)	(6,624)
Purchase of treasury shares	34	(149)	(123)
Treasury shares reissued to employees	34	158	68
Cancellation treasury shares	34	-	2,396
Balance at 31 December		(4,274)	(4,283)
Equity interests attributable to equity holders of the parent			
Balance at 1 January		54,049	95,831
Transactions with equity holders		(42)	(2,765)
Distributions to equity holders		(6,053)	(6,134)
Transactions with minority equity holders		(4)	-
Demerger	7	-	(47,089)
Other changes in shareholders equity		4,858	14,207
Balance at 31 December		52,808	54,049

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

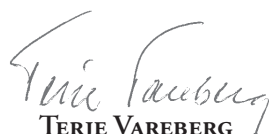
Amounts in NOK million	Notes	2008	2007
Minority interest			
Balance at 1 January		959	771
Minority's share of net income current period		411	408
Minority's share of dividend declared and paid		(306)	(102)
Minority's share of cash flow hedges, net of tax		34	-
Equity interest purchased (sold)		(10)	-
Transactions with the group		(1)	-
Currency translation differences		246	(117)
Balance at 31 December		1,333	959
Total equity		54,141	55,008

Share information

Ordinary shares issued - numbers in thousands			
Balance at 1 January		1,247,957	1,286,455
Cancellation treasury shares	34	-	(21,627)
Redeemed shares, the Ministry of Trade and Industry	34, 35, 46	-	(16,872)
Balance at 31 December		1,247,957	1,247,957
Treasury shares issued - numbers in thousands			
Balance at 1 January		(38,653)	(60,280)
Purchase of treasury shares	34	(4,408)	(622)
Treasury shares reissued to employees	34	1,429	622
Cancellation treasury shares	34	-	21,627
Balance at 31 December		(41,631)	(38,653)

The accompanying notes are an integral part of the consolidated financial statements.

Oslo, 18 March 2009


TERJE VAREBERG
 Chair


GRETE FAREMO
 Deputy chair


BILLY FREDAGSVIK
 Board member


FINN JEBSEN
 Board member


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JØRN B. LILLEBY
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 Board member


INGE K. HANSEN
 Board member


STEN ROAR MARTINSEN
 Board member


EIVIND REITEN
 President and CEO

NOTE 1

Significant accounting policies and reporting entity

The parent company Norsk Hydro ASA and consolidated subsidiaries (Hydro) is a supplier of aluminium and aluminium products. Hydro's headquarters are in Oslo, Norway, and the group employs around 23,000 people in more than 40 countries. Hydro is the world's fifth largest primary aluminium producer and the second largest producer of electric power in Norway. Hydro is a major worldwide supplier of value-added casthouse products, including extrusion ingots, sheet ingots and foundry alloys. We are a significant supplier to the building industry, especially in Europe, and of rolled products to the packaging and graphics industries. Hydro is listed on the Oslo and London stock exchanges.

Prior to 1 October 2007, Norsk Hydro ASA was an integrated energy and aluminium company, operating as an offshore producer of oil and gas, transacting as a major player in the Nordic and European energy market, taking a active role in the development of new energy forms and supplying aluminium and aluminium products.

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the disclosure requirements as specified under the Norwegian Accounting Law ("Regnskapsloven"). All standards applied by Hydro have been endorsed by the European Union (EU) and Norwegian authorities and are effective as of 31 December 2008.

The financial statements for the fiscal year ended 31 December 2007 were Hydro's first IFRS financial statements. Hydro converted from the accounting principles generally accepted in the United States of America (US GAAP) with a transition date of 1 January 2006.

The following description of accounting principles applies to Hydro's 2008 financial reporting, including all 2007 comparative figures. See note 3 Basis of presentation and measurement of fair value, and note 4 Critical accounting judgments and key sources of estimation uncertainty for additional information related to the presentation, classification and measurement of Hydro's financial reporting.

BASIS OF CONSOLIDATION

The consolidated financial statements include Norsk Hydro ASA and subsidiaries. Hydro consolidates subsidiaries where Hydro has the ability to exercise control. Control is achieved when Hydro has the power to govern the financial and operating policies of the entity. Control is normally achieved through ownership, directly or indirectly, of more than 50 percent of the voting power. Control can also be achieved through power over more than half of the voting rights by virtue of an agreement with other investors, or exercise of de facto control.

Inter-company transactions and balances have been elimi-

nated. Profits and losses resulting from intra-group transactions have been eliminated.

BUSINESS COMBINATIONS

Business combinations are accounted for using the purchase method in accordance with IFRS 3 Business Combinations (IFRS 3). The purchase price is the sum of the fair values, as of the date of exchange, of the assets given, liabilities incurred or assumed, and equity instruments issued by Hydro in exchange for control of the acquiree, plus any costs directly attributable to the combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized separately at the acquisition date at their fair value irrespective of any minority interest.

Goodwill is recognized from the date of exchange and is initially measured as the excess of the purchase price over Hydro's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is not amortized, but is tested for impairment annually and more frequently if indicators of possible impairment are observed, in accordance with IAS 36 Impairment of Assets (IAS 36). Goodwill is allocated to the groups of cash generating units expected to benefit from the synergies of the combination and that are monitored for internal management purposes. For Hydro this is at the sector level, which is the next organizational level within Hydro's reportable segments Aluminium Metal, Aluminium Products, and Energy.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized. Subsequent adjustments include the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the equity attributable to the shareholders of the parent except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Hydro has elected to utilize the option in IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) to not apply IFRS 3 retrospectively to past business combinations completed as of 1 January 2006. The impact of this policy decision is that all prior business combinations will continue to be accounted for as they originally were under US GAAP, including the allocation of acquisition cost. This includes the recognition of any goodwill identified in these transactions.

INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Classification of an equity investment as an associate is based on Hydro's ability to exercise significant influence, which is the power to participate in the financial and operating policy decisions of the entity. Significant influence is assumed to exist when Hydro owns between 20 to 50 percent of the voting rights. Consideration of additional evidence may, however, lead to the conclusion of significant influence at ownership levels less than 20 percent or lead to a lack of significant influence at ownership

percentages greater than 20 percent. Currently, only one equity investment of less than 20 percent ownership is classified as an associate.

A joint venture is an entity, asset or operation that is subject to contractually established joint control. In jointly controlled entities, special voting rights in some companies give the partners decision rights that exceed what normally would follow from the ownership share. This may be in the form of a specified number of board representatives, in the form of a right of refusal on important decisions, or by requiring a qualified majority for all or most of the important decisions which effectively impose joint control with the specific ownership situation.

Hydro accounts for associates and participation in a joint venture which is conducted in an entity using the equity method. The equity method involves showing the investment in the associate or joint venture at Hydro's percentage ownership of the equity in the associate or joint venture, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Share of the profit (loss) in equity accounted investments. Hydro's relative share of unrealized profits resulting from transactions with an associate or joint venture is eliminated.

The accounting policies used by the associates and joint ventures may differ from the accounting policies adopted by Hydro. Prior to equity accounting for the associates and joint ventures, Hydro adjusts for any recognition or measurement discrepancies due to the application of non-Hydro consistent accounting policies adopted by the equity accounted investments.

The financial statements for associates and joint ventures are prepared for the same reporting period as the group, with the exception of one associate where a lag of three months exists. Significant transactions of the associate occurring during the reporting lag period are adjusted for in Hydro's equity accounting for the associate so as to include the transaction in the correct reporting period.

Hydro evaluates investments in associates and joint ventures for impairment when indicators of a possible loss in value are identified. If the recoverable amount, estimated as either fair value or value in use of the associate or joint venture is below Hydro's carrying value and the impairment is considered to be significant or prolonged, the investment is written down as impaired to its recoverable amount. Impairment losses are reversed when the impairment situation is no longer deemed to exist.

INVESTMENTS IN JOINTLY CONTROLLED AND JOINTLY OWNED ASSETS

Jointly controlled assets or operations are arrangements where Hydro and the other partners have a direct ownership in specifically identified assets or a direct participation in certain operations that are under contractually joint control. Jointly owned assets are assets where Hydro and the other parties have direct ownership in specifically identified assets.

Hydro uses the proportional method of accounting for both jointly controlled and jointly owned assets or operations. Under

the proportional method of accounting, Hydro's percentage ownership share of the assets, liabilities, income and expense for these arrangements is included on a line-by-line basis in the group financial statements.

ASSETS HELD FOR SALE AND INCOME FROM DISCONTINUED OPERATIONS

When an asset or a group of assets are decided to be sold, they are reported separately as Assets held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (IFRS 5), provided that the sale is highly probable, which includes the criteria that management is committed to the sale, and that the sale will be completed within one year. Assets held for sale are not depreciated, but are measured at the lower of carrying value and the fair value less costs to sell. Assets meeting the criteria for presentation as an Asset held for sale are not reclassified as an Asset held for sale in prior period balance sheets. Immaterial disposal groups are not reclassified.

A discontinued operation is a component of Hydro that can be clearly distinguished from the rest of Hydro, both operationally and for financial reporting purposes. A discontinued operation is a separate major line of business or geographical area of operations. Cash flows, results of operations and any gain or loss from disposal are excluded from Earnings before financial items and tax and reported separately as Income from discontinued operations.

Components disposed of through a spin-off to shareholders are presented as discontinued operations as of the date of disposal. Hydro has elected to reclassify assets and liabilities in prior periods as discontinued operations to facilitate a better understanding of the effect of such transactions.

FOREIGN CURRENCY TRANSACTIONS

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying the rate of exchange as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange at the balance sheet date. The realized and unrealized currency gains or losses are included in financial expense.

FOREIGN CURRENCY TRANSLATION

In the consolidated financial statements, the assets and liabilities of non-Norwegian krone functional currency subsidiaries, joint ventures and associates, including the related goodwill, are translated into Norwegian kroner (NOK) using the rate of exchange as of the balance sheet date. The results and cash flows of non-Norwegian krone functional currency subsidiaries, joint ventures and associates are translated into NOK using the average exchange rate for the period reported. Exchange adjustments arising when the opening net assets and the net income for the year retained by the non-Norwegian krone operation are translated into NOK are taken into Other reserves and reported in the Consolidated statement of changes in equity. On disposal of a non-Norwegian krone functional currency subsidiary, joint

venture or associate, the deferred cumulative amount recognized in equity relating to that particular non-Norwegian krone entity is recognized in the income statement.

Upon adoption of IFRS, Hydro elected to utilize the cumulative translation difference option in IFRS 1, and has reset the (US GAAP) cumulative translation differences for all foreign operations to zero as of 1 January 2006. Future gains or losses recognized on a disposal of any foreign operation will therefore exclude translation differences that arose before 1 January 2006.

PROVISIONS

Provisions are recognized when Hydro has a present obligation (legal or constructive) as a result of a past event, it is probable (more likely than not) that Hydro will be required to settle the obligation, and a reliable estimate can be made of the amount, taking into account the risks and uncertainties. When the effect of discounting the provision is material, the provision is measured using the present value of the cash flows estimated to settle the present obligation. See also the accounting policy discussion for Property, plant and equipment – asset retirement obligations.

Exit and disposal activity costs Hydro recognizes a provision for the direct costs associated with an exit and/or disposal activity after formal commitment to a detailed exit plan and communication of the exit plan to those who will be affected. A provision for termination benefits related to the involuntary termination of employees is recognized as of the date of employee notification. Exit or disposal activities are classified as restructuring costs when the activities materially change the scope of Hydro's business.

CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from a past event, with the resolution of the contingency dependent on the occurrence or non-occurrence of uncertain future events not controlled by Hydro. Contingent liabilities are disclosed in the financial statements unless the possibility of an outflow of economic resources is remote. Contingent assets are not recognized in the financial statements.

GUARANTEES

Hydro recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees, including Hydro's ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur.

REVENUE RECOGNITION

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent,

such as commission sales, only the net commission fee is recognized as revenue. In pass-through arrangements where Hydro effectively passes through terms of a purchase arrangement to a sales arrangement with virtually no change in terms or risks, the arrangement is reported net with the fee or margin reported as revenue.

To the extent a transaction consists of multiple elements, the transaction is analyzed into the separately identifiable components for revenue recognition.

Revenues from the production of oil and gas (2007 comparative figures only) were recognized on the basis of Hydro's net working interest, regardless of whether the production was sold (entitlement method).

Activities related to the trading of derivative commodity instruments, or related to the purchase or delivery of physical commodities on a commodity exchange, as well as physical commodity swaps with a single counterparty, are presented on a net basis in the income statement, with the margin from trading recognized in revenues.

OTHER INCOME, NET

Transactions resulting in income from sources other than normal production and sales operations are classified as Other income, net. Gains and losses resulting from the sale or disposal of PP&E, investments in associates or joint ventures, and subsidiaries are included in Other income, net as well as rental revenue and revenue from utilities.

INVENTORIES

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory cost includes direct materials, direct labor and the appropriate portion of production overhead or the purchase price of the inventory. Abnormal amounts of idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period. A write-down to net realizable value occurs when the cost of the inventory is not recoverable, and is reversed in later periods when there is clear evidence of an increase in the net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) is recognized when there is probable future economic benefit and when the acquisition cost can be measured reliably. PP&E carrying value is the historical cost less accumulated depreciation and any accumulated impairment losses. If an obligation for the retirement of a tangible non-current asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability.

Capitalized maintenance Expenditures for maintenance and repairs applicable to production facilities are capitalized when these costs meet the criteria in accordance with IAS 16 Property,

Plant and Equipment (IAS 16). Maintenance and repair costs incurred on a scheduled basis with a time interval of greater than one year are capitalized. Expenditures related to maintenance and repairs that occur at regular intervals of less than twelve months, for example daily, weekly or monthly servicing, are expensed as incurred. Major replacements and renewals are capitalized and any assets replaced are retired.

Capitalized interest Hydro capitalizes borrowing costs on qualifying assets in accordance with IAS 23 Borrowing Costs (IAS 23). Currency gains or losses related to Hydro's foreign currency denominated borrowings are not capitalized.

Leased assets Leases which transfer to Hydro substantially all the risks and benefits incidental to ownership of the leased item are accounted for as finance leases in accordance with IAS 17 Leases (IAS 17) and IFRIC 4 Determining whether an Arrangement contains a lease (IFRIC 4). Finance leases are capitalized at inception as assets under Property, plant and equipment at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments. The liability is included in Long-term debt. The assets related to finance leases are depreciated over the shorter of the estimated useful life of the asset or the lease term. The related liability is amortized by the amount of the lease payment less the effective interest expense. All other leases are classified as operating leases and the lease payments are recognized as an expense over the term of the lease.

Depreciation and amortization Depreciation and amortization expense are measured on a straight-line basis over the estimated useful life of the asset. Estimated useful life by category is as follows:

Machinery and equipment	4-30 years
Capitalized maintenance	2-15 years
Buildings	20-50 years
Other, including intangibles with definite lives	5-10 years

Hydro depreciates separately any component of an item of property, plant and equipment when that component has a useful life and a cost that is significant in relation to the total PP&E useful life and PP&E cost. At each financial year-end Hydro reviews the residual value and useful life of our assets, with any estimate changes accounted for prospectively over the remaining useful life of the asset.

Oil and gas producing properties (2007 comparative figures only) were depreciated individually using the unit-of-production method as proved developed reserves were produced.

ASSET RETIREMENT OBLIGATIONS

Hydro recognizes the estimated fair value of asset retirement obligations (ARO) in the period in which it is incurred in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). This cost includes the cost of dismantlement or removal of buildings or other assets, and the restoration or rehabilitation of site or other liabilities related to the retirement of an item of PP&E. The present value of the obligation is recognized when the asset is constructed and ready for use, or at a later date when the obligation is incurred. Related

asset retirement costs are capitalized as part of the carrying value of the non-current asset and the liability is accreted for the change in its present value each reporting period. Asset retirement costs are depreciated over the useful life of the related non-current asset. Accretion expense related to the time value of money is classified as part of Financial expense. Liabilities that are conditional on a future event (e.g. the timing or method of settlement), whether under the control of Hydro or not, are recognized if the fair value of the liability can be reasonably estimated.

INTANGIBLE ASSETS

Intangible assets acquired individually or as a group are recognized when acquired at fair value. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Intangible assets with finite useful lives are amortized on a straight-line basis over their useful life and tested for impairment whenever indications of impairment are present. Intangible assets determined to have an indefinite useful life are not amortized but are subject to impairment testing on an annual basis.

Emission rights Hydro accounts for government granted and purchased CO₂ emission allowances at nominal value (cost) as an intangible asset. The emission rights are not amortized as they are either settled on an annual basis before year-end (matched specifically against actual CO₂ emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO₂ emissions over the level granted by the government are recognized as a liability at the point in time when emissions exceed the level granted. Any sale of government granted CO₂ emission rights is recognized at the time of sale at the transaction price.

Research and development All expenditures on research are expensed as incurred. Development costs are capitalized as an intangible asset at cost when all of the recognition criteria in IAS 38 Intangible Assets (IAS 38) are met. These criteria are when it is probable that Hydro will receive a future economic benefit that is attributable to the asset and when the cost can be measured reliably.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Hydro reviews property, plant and equipment and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, in accordance with IAS 36 Impairment of Assets (IAS 36). The carrying amount is not recoverable if it exceeds the asset's or cash generating group's fair value less costs to sell or the value in use. If the carrying amount is not recoverable, an impairment loss is recognized in the amount that the carrying value exceeds its recoverable amount. In the event of a subsequent increase in the recoverable amount, previously recognized impairment losses are reversed.

FINANCIAL ASSETS

Financial assets represent a contractual right by Hydro to receive cash or another financial asset in the future. Financial assets include financial instruments used for cash-flow hedges, financial derivatives and commodity derivative contracts. Financial assets classified as non-current include long-term financial instruments, other investments, long-term loans to employees, long-term bank accounts, restricted cash and other long-term receivables.

Financial assets are derecognized when the rights to receive cash from the asset have expired or when Hydro has transferred its rights to receive cash flows from the asset and has either transferred substantially all of the risks and rewards of the asset or has transferred control of the asset.

Cash and cash equivalents, short-term investments, accounts receivable and other non-current financial assets are discussed below. All other financial assets are measured at amortized cost.

Cash and cash equivalents Cash and cash equivalents is measured at fair value, and includes cash, bank deposits and all other monetary instruments with a maturity of less than three months from the date of acquisition.

Cash and cash equivalents, as defined for reporting purposes in the statement of cash flows, consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts connected to cash management activities.

Short-term investments Short-term investments include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recognized when earned.

Accounts receivable Accounts receivable are initially recognized at fair value, and subsequently accounted for at amortized cost and reviewed for impairment on an ongoing basis. Hydro recognizes an impairment loss on individual customer accounts based on an assessment of delayed payments, and other indicators of financial difficulty. Excluding the account balances that have been impaired based on the individual account evaluation process, Hydro then assesses all remaining overdue accounts receivable for impairment based on prior collection experience, the customer portfolio, local economic conditions and management assessment. Discounting generally does not have a material effect on accounts receivable, however, in special cases discounting may be applied.

Other non-current financial assets Other non-current financial assets includes Hydro's portfolio of non-marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is classified as available-for-sale securities and is measured at fair value with changes in fair value recognized through equity. Other investment income is recognized when earned.

Investments are reviewed for impairment if indications of a loss in value are identified. Fair value of the investment is esti-

mated based on valuation model techniques for non-marketable securities. When the estimated fair value of the investment is below Hydro's carrying value the impairment is recognized in earnings.

FINANCIAL LIABILITIES

Financial liabilities represent a contractual obligation by Hydro to deliver cash in the future, and are classified as either short or long-term. Financial liabilities include financial instruments used for cash-flow hedges, financial derivatives and commodity derivative contracts.

Financial liabilities, with the exception of derivatives, are initially recognized at fair value including transaction costs directly attributable to the transaction. Subsequently, all liabilities, with the exception of derivatives, are accounted for at amortized cost.

Financial liabilities are derecognized when the obligation is discharged through payment or when Hydro is legally released from the primary responsibility for the liability.

DERIVATIVE INSTRUMENTS

Hydro applies IFRS 7 Financial Instruments: Disclosures (IFRS 7), IAS 32 Financial Instruments: Presentation (IAS 32) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39) when reporting and accounting for financial instruments and derivatives, as well as when determining whether contracts are financial instruments and derivatives.

Derivative instruments are marked-to-market with the resulting gain or loss reflected in the income statement, except when the instruments meet the criteria for cash flow hedge accounting. Derivatives and embedded derivatives are classified as short-term, provided that the final maturity date is before twelve months after the balance sheet date, or they are held solely for the purpose of trading. Derivatives and embedded derivatives are classified as long-term provided that their final maturity date is more than 12 months after the balance sheet date. Hedging instruments are classified accordingly.

If Hydro has payment netting agreements and the intention and ability to settle two or more derivatives, or contracts accounted for as derivatives, net, the contracts are presented net on the face of the balance sheet. The ability to settle net is conditional on simultaneous offsetting cash-flows from the two contracts. Otherwise, derivative contracts are presented gross at their fair value.

Physical commodity contracts are considered on a portfolio basis. If a portfolio of contracts contains contracts of a similar nature that are settled net in cash, or the assets are not intended for own use, the entire portfolio of contracts is recognized at fair value, and classified as a derivative. Physical commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of the commodity in accordance with Hydro's expected purchase, sale or usage requirements (own use) are not accounted for at fair value. When determining whether electricity purchase contracts are for own use, such contracts are generally considered to be the primary source for usage

requirements. Own production of electricity is considered to be available for use or sale at Hydro's discretion unless restrictions for use of the power are present in concessions.

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in Financial expense.

Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial expense.

Derivative commodity instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenue and/or operating cost, unless the instrument is designated as a cash flow hedge instrument and qualifies for hedge accounting.

The fair value option is currently not utilized by Hydro.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of the qualifying hedging instruments are offset in part or in whole by the corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other reserves until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is no longer expected to occur, all the corresponding gains and losses deferred in Other reserves are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in the current period's income statement. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of the hedged item are recognized currently in earnings.

An embedded derivative is bifurcated and accounted for as a separate financial instrument, provided that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the host contract is not accounted for at fair value. Embedded derivatives are classified both in the income statement and on the balance sheet based on the derivatives' underlying.

EXPLORATION AND DEVELOPMENT COSTS OF OIL AND GAS RESERVES

Related to the oil and gas operations included in the 2007 comparative figures, Hydro used the successful efforts method of accounting for oil and gas exploration and development costs, in accordance with IFRS 6 Exploration for and Evaluation of Mineral Resources (IFRS 6). Exploratory costs, excluding the cost of exploratory wells and acquired exploration rights, were charged to expense as incurred. Drilling costs for exploratory wells were capitalized pending the determination of the exist-

ence of proved reserves. If reserves were not found, the drilling costs were charged to operating expense.

INCOME TAXES, CURRENT AND DEFERRED

Taxes payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years. In addition, it also excludes items that are never taxable or deductible. Hydro's liability for current tax is calculated using tax rates that have been enacted or substantively enacted as of the balance sheet date.

Deferred income tax expense is calculated using the liability method in accordance with IAS 12 Income Taxes (IAS 12). Deferred tax assets and liabilities are classified as non-current in the balance sheet and are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Temporary differences related to intercompany profits are deferred using the buyer's tax rate. Deferred tax assets are reviewed for recoverability every balance sheet date, and the amount probable of recovery is recognized.

Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for the deferred tax related to items charged directly to equity or resulting from a business combination or disposal. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective or are substantively enacted. Uncertain tax positions are recognized in the financial statements based on management's expectations.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxes levied by the same taxation authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

Deferred taxes are not provided on undistributed earnings of subsidiaries, when the timing of the reversal of this temporary difference is controlled by Hydro and is not expected to happen in the foreseeable future. This is applicable for the majority of Hydro's subsidiaries.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date (2007 comparative figures only).

SHARE-BASED COMPENSATION

Hydro accounts for share-based compensation in accordance with IFRS 2 Share-based Payment (IFRS 2). Share-based compensation expense is measured at fair value over the service period and includes social security taxes that will be paid by Hydro at the settlement date. All changes in fair value are recognized in profit and loss for the period.

EMPLOYEE BENEFITS AND POST-EMPLOYMENT BENEFITS

Payments to employees, such as wages, salaries, social security contributions, paid annual leave, as well as bonus agreements are

accrued in the period in which the associated services are rendered by the employee.

Post-employment benefits are recognized in accordance with IAS 19 Employee Benefits (IAS 19). The cost of providing pension benefits under a defined benefit plan is determined separately for each plan using the projected unit credit method. Past service costs are recognized in the income statement on a straight-line basis over the remaining vesting period. Past service cost related to benefits that are already vested are recognized immediately. Net cumulative actuarial gains and losses in excess of the greater of 10 percent of the benefit obligation (before deducting plan assets) and 10 percent of the fair value of any plan assets are recognized in the income statement over the remaining service period of active plan participants. When the number of active plan participants is negligible as compared to the number of inactive plan participants, then the excess cumulative actuarial gain (loss) is fully recognized at the beginning of the following year. The funded status of a defined benefit pension plan is measured as of 31 December and disclosed in note 32 Employee retirement plans.

Contributions to defined contribution plans are recognized in the income statement in the period in which they accrue. Multi-employer defined benefit plans where available information is insufficient to use defined benefit accounting are accounted for as if the plan were a defined contribution plan.

Upon transition to IFRS Hydro elected to utilize the option in IFRS 1 to recognize all 1 January 2006 US GAAP prior periods' unrecognized cumulative actuarial gains and losses with the effect posted directly to Hydro's IFRS equity as of 1 January 2006.

SEGMENT INFORMATION

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments (IFRS 8). IFRS 8 is required for accounting periods beginning on or after 1 January 2009, with earlier adoption permitted. Hydro early adopted IFRS 8 as of 1 January 2006.

NOTE 2

Changes in accounting principles and new pronouncements

CHANGES IN ACCOUNTING PRINCIPLES

IFRIC 14 IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14) provides general guidance on how to assess the limit in IAS 19 Employee Benefits on the amount of the surplus that can be recognized as an asset. Hydro implemented IFRIC 14 as of 1 January 2008 with no material impact.

NEW PRONOUNCEMENTS

As of the date of authorization of these financial statements, the following standards, amendments and interpretations are those that were issued but not yet effective, have not yet been adopted

by Hydro and are relevant related to Hydro's IFRS financial reporting. The effective date is applicable to annual accounting periods beginning on or after that date, unless stated otherwise.

Implementation during 2009:

- IAS 23 (revised 2007) Borrowing Costs, (IAS 23R), effective date and Hydro implementation date 1 January 2009.
- IAS 1 (revised 2007) Presentation of Financial Statements (IAS 1R), effective date and Hydro implementation date 1 January 2009;
- Amendments resulting from May 2008 Annual Improvements to IFRSs (Amendments) effective date and Hydro implementation date 1 January 2009.
- IFRIC 13 Customer Loyalty Programs (IFRIC 13), effective date 1 July 2008; Hydro implementation date 1 January 2009.
- IFRIC 18 Transfers of Assets from Customers (IFRIC 18), effective for transfers received on or after 1 July 2009.

Implementation in 2010:

- IFRS 3 (revised 2008) Business Combinations (IFRS 3R); effective date 1 July 2009; Hydro implementation date 1 January 2010.
- IAS 27 (revised 2008) Consolidated and Separate Financial Statements (IAS 27R), effective date 1 July 2009; Hydro implementation date 1 January 2010.

As of the date of issue of Hydro's financial statements, all of the above listed standards, amendments to standards and interpretations were endorsed by the EU except IFRS 3R, IAS 27R, and IFRIC 18.

Adoption of IAS 23 will have no impact on Hydro's financial statements as Hydro already capitalizes interest. Adoption of IAS 1R will not materially change the presentation of Hydro's financial statements. Adoption of IFRIC 13 have no impact on Hydro's financial statements as Hydro currently has a policy to defer revenue related to customer loyalty programs; the amount of deferred revenue related to customer loyalty programs as of 31 December 2008 is not material. Hydro is currently evaluating the potential accounting impact of IFRIC 18 and the Amendments resulting from May 2008 Annual Improvements to IFRSs, which consist of various changes to several standard. The impact of IFRS 3R and IAS 27R on Hydro's financial statements is in part dependent upon the specific fact pattern of future business combination transactions.

NOTE 3

Basis of presentation and measurement of fair value

BASIS OF PRESENTATION

The financial statements have been prepared on a historical cost basis except as regards certain assets, liabilities and financial instruments, which are at fair value. Financial statement

preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates. See note 4 Critical accounting judgments and key sources of estimation uncertainty.

The presentation and classification of items in the financial statements is consistent for all periods presented. Gains and losses on the disposal of non-current assets are presented net, as well as expenditures related to provisions that are reimbursed by a third party.

The functional currency of Norsk Hydro ASA is the Norwegian krone (NOK). The Hydro group accounts are presented in NOK.

As a result of rounding adjustments, the figures in one or more columns included in the financial statements may not add up to the total of that column.

NET PRESENT VALUE

Interest rates used when performing any net present value analysis, for example discounted cash flows for impairment testing, or measurement of post retirement obligations or other provisions, are rounded to the nearest 25 basis points.

MEASUREMENT OF FAIR VALUE

The following discussion on the measurement of fair value applies to the entirety of the financial statements, both to the measurement of specific assets, liabilities, revenues and expenses and to the note disclosures which accompany the financial statements.

Financial Instruments The estimated fair value of Hydro's financial instruments is based on market prices and valuation methodologies. For all valuations Hydro attempts to incorporate the factors market participants would consider in setting a price and to apply accepted economic and financial methodologies for the pricing of financial instruments. In the situation of less active markets, market references are carefully reviewed to establish relevant and comparable data. For periods when there are few or no transactions, extrapolation and accepted valuation techniques are employed.

Hydro's credit spread is used when determining the fair value of financial instruments, where Hydro is net liable. Hydro has no outstanding loans where market spreads can be observed. Given the uncertain market situation, the best proxy for Hydro's credit spread as of 31 December 2008 has been evaluated to be the borrowing rate associated with medium-term bank loans. An evaluation of the appropriate credit spread is made for each type of financial liability, and when our assessment of the credit risk indicates Hydro's credit spread is not appropriate, an adjustment is made. Hydro determines the appropriate discount factor and credit spread for financial assets based on both an individual and portfolio assessment.

Marketable and non-marketable equity securities The fair value for listed shares is based on quoted prices as of the end of the relevant reporting period. The fair value for unlisted shares

is calculated by using commonly accepted and recognized valuation techniques, or recognized at cost if the fair value cannot be measured reliably.

Interest bearing liabilities The fair value of debt instruments issued by Norsk Hydro ASA is calculated using yield curves, which incorporates estimates of the Norsk Hydro ASA credit spreads as of the balance sheet date.

Derivatives The fair value of financial derivatives, including currency swaps, foreign currency forward contracts and interest rate swaps, is estimated as the present value of future cash flows, calculated by using quoted swap curves and exchange rates as of the end of the reporting periods 31 December 2008 and 31 December 2007.

The fair value of commodity derivatives, including futures, forwards and options, is measured as the present value of future cash flows, calculated by using forward curves and exchange rates as of 31 December 2008 and 31 December 2007. Estimates from brokers and extrapolation techniques are applied for non-quoted periods to achieve the most relevant forward curve. In addition, when deemed appropriate, correlation techniques between commodities are applied. Options are re-valued using appropriate option pricing models and credit spreads are applied where deemed to be significant.

Embedded derivatives Hydro measures embedded derivatives that are separated (i.e. bifurcated) from the host contract by comparing the forward curve at contract inception to the forward curve as of the balance sheet date. Changes in the present value of the cash flows related to the embedded derivative are recognized in the balance sheet and in the income statement. Forward curves are established as described above under Derivatives. For contracts that contain embedded caps or floors, Asian option valuation models are used.

NOTE 4

Critical accounting judgement and key sources of estimation uncertainty

Inherent in many of the accounting policies is the need for management to make estimates and judgments in the determination of certain revenues, expenses, assets, and liabilities. The following accounting policies represent the more critical areas that involve a higher degree of judgment and complexity which, in turn, could materially impact Hydro's financial statements if various assumptions were changed significantly.

IMPAIRMENT OF NON-CURRENT ASSETS

Hydro accounts for the impairment of non-current assets in accordance with IAS 36 Impairment of Assets. Under IAS 36, we are required to assess the conditions that could cause an asset to become impaired and to perform a recoverability test for potentially impaired assets held by Hydro. These conditions include whether a significant decrease in the market value of the asset has occurred, whether changes in the Hydro's business plan for the asset have been made or whether a significant

adverse change in the business and legal climate has arisen. Towards the end of 2008 Hydro's shares were trading at a level well below the carrying value of net assets. In addition, we have observed a substantial downward shift in prices and economic activity over the recent months and a negative economic outlook for the coming years. This is considered an impairment indicator for Hydro in total, and has resulted in a thorough review of assets and cash generating units that might be impaired. Most of Hydro's assets are assigned to Cash Generating Units (CGUs), which is the lowest level where largely independent cash flows are deemed to exist. The identification of CGUs involves judgment, including assessment of where active markets exist, and the level of interdependency of cash inflows. In this assessment, Hydro's organizational structure is also considered, as management's ability to control and impact Hydro's actions in the market is an important factor and thus is an element in determining the level of interdependency in cash flows. The CGU is usually the individual plant or production line, unless the asset or asset group is an integral part of a value chain where no independent prices for the intermediate products exist, or where circumstances otherwise indicate significant interdependencies.

If there are indications of loss in value, the recoverable amount is estimated. The recoverable amount is the higher of the asset or CGU's fair value less cost to sell, or its value in use. Directly observable market prices rarely exists for our assets, however, fair value may be estimated based on recent observed transactions on comparable assets, bids or other discussions of potential transactions involving the asset, or internal models used by Hydro for transactions involving the same type of assets. Internal fair value models rely primarily on market prices, but must also include assumptions on production volumes, cost of operations, and investment requirements. Calculation of value in use is a discounted cash flow calculation based on continued use of the assets in its present condition, excluding potential exploitation of improvement or expansion potential. Determination of the recoverable amount involves management estimates on highly uncertain matters, such as commodity prices and their impact on markets and prices for upgraded products, development in inflation and operating expenses, and technology changes. We use internal business plans, quoted forward prices and our best estimate of commodity prices, currency rates, discount rates and other relevant information. Such estimates may vary with business cycles and other changes. In periods when observed prices in the market are considered inconsistent because they over time render either exceptionally positive cash flows or consistently negative cash flows for a majority of market participants over time, adjustments in the mid to long term prices are made in order to reflect Hydro's current expectations of net cash flows. A detailed forecast is developed for a period of three to five years with projections thereafter. Hydro does not include a general growth factor to volumes or cash flows for the purpose of impairment tests. Estimated cash flows are discounted with a risk adjusted discount rate derived as the weighted average cost

of capital (WACC) for a similar business in the same business environment. For Hydro's businesses the pre tax nominal discount rate is estimated at between 11 and 14 percent (2007: 12.5-14.5 percent). For further information about impairment tests, see note 13 Impairment of non-current assets.

Goodwill is allocated to sectors as described in Note 1 Significant accounting policies and reporting entity. The allocation of goodwill to segments is included in note 24 Goodwill. All goodwill included in Aluminium Metal is allocated to Commercial Products, in total NOK 283 million. The sector is profitable, and the calculated value in use exceeds the carrying value substantially.

The following table sets out the allocation of goodwill to sectors within Aluminium Products:

.....	
In NOK million	
.....	
Extrusion Eurasia	417
Building Systems	274
Extrusion Americas	173
Precision Tubing	37
Total Aluminium Products	902

The Extrusion Eurasia sector and the Building Systems sector are profitable, and the calculated value in use exceeds the carrying value substantially. The estimates are based on continued growth in the market over time following the present market downturn. Seriously depressed volumes and margins over an extended period of time may change the outcome of the test. The Extrusion Americas sector has experienced difficult market conditions and reported operating losses for 2007 and 2008. Several assets within the sector have been written down as impaired during 2008. The impairment test suggests a value in use of the sector with limited coverage over carrying value. The value is sensitive to sold volumes as well as margins. Continued depressed markets may result in an impairment situation whereby the goodwill, and possibly also remaining value of fixed assets might be impaired in a future period. The Automotive Structures sector also has experienced losses in 2007 and 2008. The impairment test suggests a value of the sector that does not support the carrying value of goodwill, and the goodwill of NOK 27 million has therefore been written down as impaired.

FINANCIAL INSTRUMENTS

Certain commodity contracts deemed to be financial instruments under IAS 39 are required to be recognized at fair value or to contain embedded derivatives which are required to be recognized at fair value, with changes in fair value impacting earnings. Determining whether contracts qualify as financial instruments at fair value involves evaluation of markets, Hydro's use of those instruments and historic or planned use of physically delivered products under such contracts. Determining whether embedded derivatives are required to be bifur-

cated for separate valuation involve assessing price correlations and normal market pricing mechanisms for various products and market places. When market prices are not directly observable through market quotes, the estimated fair value is calculated using valuation models, relying on internal assumptions as well as observable market information. Such assumptions include forward curves, yield curves and interest rates. Towards the end of 2008, the financial and commodity markets were significantly impacted by the financial turmoil, resulting in falling prices and significantly reduced trading volumes. The market situation impacts the reliability of observed prices, and increases the need for judgment to determine appropriate market prices used for valuation of Hydro's derivative instruments and embedded derivatives. The use of models and assumptions are in accordance with prevailing guidance from the IASB, including the IASB Expert Advisory Panel report "Measuring and disclosing the fair value of financial instruments in markets that are no longer active" and valuations are based on Hydro's best estimate. However, changes in observable market information and assumptions will likely occur and such changes may have a material impact on the estimated fair value of financial instruments, in particular on long-term contracts, resulting in corresponding gains and losses affecting future periods' income statements. In periods with volatile prices in financial and commodity markets such changes can be substantial.

It is important to note that the use of such instruments and other commodity contracts may preclude or limit Hydro's ability to realize the full benefit of a market improvement. To further understand Hydro's sensitivity to these factors please refer to the "Indicative income statement sensitivities" table included in Note 41 Financial and commercial risk management.

EMPLOYEE RETIREMENT PLANS

Hydro's employee retirement plans consist primarily of defined benefit pension plans. Measurement of pension cost and obligations under the plans require us to make a number of assumptions and estimates. These include future salary levels, discount rates, turnover rate, and the rate of return on plan assets. The discount rate used for determining pension obligations and pension cost is based on the yield from a portfolio of long-term debt instruments. Hydro provides defined benefit plans in several countries and in various economic environments that will affect the actual discount rate applied. Around 75 percent of Hydro's projected benefit obligation relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2008 is 4.25 percent. This is in line with the guidance from the Norwegian Accounting Standards Board on pension assumptions for use as of 31 December 2008 when considering the duration of Hydro's pension obligations, the rounding practice for such estimates and the uncertainty in assumption for real interest rate underlying also the compensation increase. The discount rates applied in Germany and the UK are based on high quality corporate bonds, which are

available in those markets. As of the end of 2008, credit markets were volatile and less active than for previous periods. We have therefore carefully reviewed the benchmark indexes for determining the relevant discount rates. The discount rates used are 5.75 percent and 6 percent, respectively. The expected rate of return on plan assets is, based on the current portfolio of plan assets, determined to be approximately 1.5 percentage points above the yield on government bonds (Norway) and up to 1.5 percentage points above the yield on high quality corporate bonds (abroad) dependent on the mix of plan assets. Assumptions for salary increase in the remaining service period for active plan participants are based on expected salary increases for each country or economic area. Hydro expects limited deviation compared to the average development.

Changes in these assumptions can influence the funded status of the plan as well as the net periodic pension cost. The Projected Benefit Obligation (PBO) is sensitive to changes in assumed discount rates and assumed compensation rates. Based on indicative sensitivities calculated for the Norwegian plans, a 0.5 percentage point reduction or increase in the discount rate will increase or decrease the PBO in the range of 8 percent, for 2008 this is around NOK 1.9 billion. For 2008, Hydro incurred a change in the average discount rate of 0.3 percentage points as a result of the decrease of interest levels in the areas where Hydro's main pension obligations are situated. Hydro incurred an actuarial loss of NOK 5,211 million for the year, mainly resulting from negative return on plan assets and discount rate reduction. A 0.5 percentage point reduction or increase in compensation rates for all plan member categories in Norway will decrease or increase the PBO in the range of 5 percent, for 2008 around NOK 1.2 billion. The PBO is also sensitive to demographic assumptions. An indicative sensitivity for change in mortality assumptions indicates that a one year increase in expected life for each plan member increases the PBO with around 4 percent, for 2008 around NOK 0.9 billion. Changes in the aforementioned parameters and changes in the PBO will affect net periodic pension cost in subsequent periods, both the service cost and interest cost components, in addition to the amortization of any unrecognized net gains or losses.

CONTINGENCIES, UNCERTAIN LIABILITIES AND ENVIRONMENTAL LIABILITIES

Liabilities that are uncertain in timing or amount, including environmental liabilities, are recognized when a liability arises from a past event and a cash outflow is probable and can be reasonably estimated. Contingent liabilities are possible obligations for which the occurrence or non-occurrence of a future event will determine whether Hydro will be required to make a payment to settle the liability, or where the size of the payment cannot be determined reliably. Contingent liabilities are disclosed unless a future payment is considered remote. Evaluation of uncertain liabilities and contingencies requires management to make assumptions about the probability that contingencies will be realized and the amount or range of

amounts that may ultimately be incurred. Such estimates may vary from the ultimate outcome based on differing interpretations of laws and the assessment of the amount of damages. The measurement of environmental liabilities is based on an evaluation of currently available facts with respect to each site, and considers factors such as type and level of contamination, present laws and regulations related to such contamination, prior experience in remediation of contaminated material and existing technology. Environmental liabilities require interpretation of scientific and legal data, in addition to assumptions about probability and future costs. The liabilities are reviewed periodically and adjusted to reflect updated information as it becomes available. Actual costs to be incurred may vary from the estimates following the inherent uncertainties in the evaluation of such exposures. A description of Hydro's major contingencies is included in note 38 Contingent liabilities and contingent assets. Provisions for liabilities of uncertain timing or amount are included in Provisions in the balance sheet.

ASSET RETIREMENT OBLIGATIONS AND SIMILAR LIABILITIES

Hydro accounts for asset retirement obligations, including decommissioning, restoration and similar liabilities related to the retirement of non-current assets under IAS 37 Provisions, Contingent Liabilities and Contingent Assets which prescribes the accounting for obligations associated with the retirement of non-current assets, and IAS 16 Property, plant and equipment. The fair value of the asset retirement obligation is recognized as a liability when it is incurred, and added to the carrying amount of the non-current asset as an element of its cost. The effect of the passage of time on the liability is recognized as an accretion expense, included in Financial expense, and the costs added to the carrying value of the asset are subsequently expensed over the assets' useful life. Measurement of an asset retirement obligation requires us to evaluate legal, technical and economic data to determine which activities or sites are subject to asset retirement obligations, as well as the method, cost and timing of such obligations. Hydro's asset retirement obligations are mainly related to contaminated material used in electrolyses when producing aluminium, and are disclosed in note 31 Provisions.

The asset retirement obligation is estimated as the present value of the future expected dismantlement and removal costs based on an expected retirement concept and timing and current prices for goods and services. Changes to technology, regulations, prices for necessary goods and services and other factors may affect the timing and scope of retirement activities, and may substantially alter the book value of property, plant and equipment, decommissioning liabilities and future operating costs.

INCOME TAX

Hydro calculates income tax expense based on reported income in the different legal entities. Deferred income tax expense is calculated based on the differences between the assets' carrying

value for financial reporting purposes and their respective tax basis that are considered temporary in nature. The total amount of income tax expense and allocation between current and deferred income tax requires management's interpretation of complex tax laws and regulations in the many tax jurisdictions where Hydro operates. Valuation of deferred tax assets is dependent on management's assessment of future recoverability of the deferred benefit. Expected recoverability may result from expected taxable income in the near future, planned transactions or planned tax optimizing measures. Economic conditions may change and lead to a different conclusion regarding recoverability, and such change may affect the results for each reporting period. Tax authorities in different jurisdictions may challenge Hydro's calculation of taxes payable from prior periods. Such processes may lead to changes to prior periods' taxable income, resulting in changes to income tax expense in the period of change. During the period when tax authorities may challenge the taxable income, management is required to make estimates of the probability and size of possible tax adjustments. Such estimates may change as additional information becomes known.

BUSINESS COMBINATIONS AND GOODWILL

In accounting for the acquisition of businesses, Hydro is required to determine the fair value of assets, liabilities, intangible assets and contingent liabilities at the time of acquisition. Any excess purchase price is included in Goodwill. In the businesses Hydro operates, fair values of individual assets and liabilities are normally not readily observable in active markets, which require us to estimate the fair value of acquired assets and liabilities through valuation techniques. Such valuations are subject to a number of assumptions including the useful lives of assets, replacement costs and the timing and amounts of certain future cash flows, which may be dependent on future commodity prices, currency rates, discount rates and other factors.

Under IAS 36 Impairment of Assets, goodwill and certain intangible assets are reviewed at least annually for impairment. The impairment test for goodwill involves estimating the value in use of the group of cash generating units to which goodwill is assigned, and comparing the estimated value to the carrying value of the group of cash generating units including goodwill. Should the carrying value exceed the estimated fair value, the excess is written down as impaired. To determine whether and how much goodwill is impaired we must develop estimates on highly uncertain matters, see discussion above about impairment of non-current assets.

NOTE 5 Acquisitions

Hydro has not entered into any significant business combinations during 2008 or 2007.

During 2008 Hydro acquired the Spanish Alumafel group,

an aluminium building systems company. In addition, the Spanish extrusion company Expral was acquired. The total acquisition cost for the two entities was approximately NOK 800 million.

In March 2006, Hydro entered into an agreement with Qatar Petroleum to establish the joint venture Qatalum with the aim to develop and operate an aluminium smelter in Qatar. The jointly controlled entity Qatar Aluminium Limited was established during the third quarter of 2007, and is accounted for under the equity method.

NOTE 6 Disposals

During 2008 and 2007, Hydro entered into the following significant disposals.

In February 2008 Hydro agreed to sell 85 percent of its shares in the subsidiaries Production Partner AS and Production Services, conducting Hydro's activities within industrial maintenance, projects and service to Bilfinger Berger. The transaction was subject to clearance by competition authorities, and was completed on 1 April 2008. The total sales price for the majority stake in the two subsidiaries was NOK 733 million, resulting in a gain of NOK 419 million, reported as part of Other income, net.

In May 2007 Hydro's Board of Directors decided to sell the Polymers activities. Contracts to sell the 100 percent owned subsidiary Kerling ASA, with production facilities in Norway, Sweden and the UK, and Hydro's 29.7 percent interest in Qatar Vinyl Company (QVC) were entered into in late May 2007. The transaction was subject to clearance by competition authorities and the sale of the 29.7 percent ownership interest in QVC was subject to pre-emption rights. The regulatory approval was received on 29 January 2008. The pre-emptive rights in QVC were utilized by Qatar Petroleum. Following these events, the sale of Kerling ASA with subsidiaries to INEOS was completed on 1 February 2008. The sale of QVC to Qatar Petroleum was completed 18 August 2008. The Polymers business is reported as Discontinued operations and Assets held for sale as of the time of the sales decision. For further information, see note 7 Discontinued operations and assets held for sale.

In November 2006 Hydro's Board of Directors decided to sell the Company's Automotive Castings activities. Contracts to sell the 100 percent owned operations in Europe and Hydro's 50 percent interest in a joint venture company in Mexico were entered into in late November. The transaction was completed on 28 February 2007 after receiving clearance from competition authorities, and resulted in a gain of NOK 639 million. The Automotive Castings business was reported as Assets held for sale as of the time of the sales decision.

NOTE 7 Discontinued operations and assets held for sale

SALE OF BUSINESSES

In May 2007 Hydro's Board of Directors decided to sell the Polymers activities. Contracts were entered into in late May 2007. The transaction was subject to clearance by competition authorities and the sale of the 29.7 percent ownership interest in QVC was subject to pre-emption rights. The regulatory approval was received on 29 January 2008. The pre-emptive rights in QVC were utilized by Qatar Petroleum. Following these events, the sale of Kerling ASA with subsidiaries to INEOS was completed on 1 February 2008, and the sale of QVC was closed on 18 August 2008.

The Polymers business is reported as Assets held for sale and Discontinued operations as of the end of May 2007, and depreciation ceased from the same date. The results of operations in the disposed business are reported separately under the caption Income from discontinued operations for the current and all prior periods. No interest expense related to loans is allocated to discontinued operations. The final price for the sale was dependent on development in the period until closing, and secured that Hydro retained the results of operations after depreciation charges and currency translation effects. As of 31 December 2007, the investment was impaired by NOK 120 million.

Hydro continues to supply electricity to Polymers' production facilities in Norway under existing contracts until the existing internal contracts expire in the period 2010 to 2015. At closing, the accumulated currency translation effects related to translation of foreign subsidiaries included in Other reserves were recycled through the income statement with a loss of NOK 232 million, which was included in the total loss on the sale. Hydro's loss on the sale, after direct sales expenses and taxes, of NOK 333 million is reported as part of Discontinued operations for 2008. Cash flows from discontinued operations are presented separately, and include cash flows from the Polymers activities and the sales proceeds. In balance sheets after the sales decision was made, including the 31 December 2007 balance sheet, assets in the disposed businesses and the related liabilities are reported as Assets held for sale and Liabilities included in disposal groups, respectively. Prior period balance sheets are not reclassified.

The discontinued Polymers activities were previously included as part of Other activities. The following table summarizes the financial information for discontinued operations related to Polymers for the periods 2008 and 2007, and the balance sheet as of 31 December 2007.

SALE OF BUSINESSES

Summary of financial data for discontinued operations

Amounts in NOK million	2008	2007
Revenue	575	7,087
Share of the profit (loss) in equity accounted investments	33	161
Other income, net	19	-
Depreciation, amortization and impairment	-	(297)
Other expenses	(499)	(6,105)
Earnings before financial items and tax	129	846
Financial income (expense), net	(11)	(36)
Income before tax	118	810
Income taxes	(32)	(217)
Income before sale of shares	86	593
Loss from sale of shares	(333)	-
Income (loss) from discontinued operations	(247)	593
Net cash provided by (used in) operating activities	(150)	1,020
Net cash provided by (used in) investing activities	5,225	(290)
Net cash used in financing activities	-	-
Foreign currency effects on cash and bank overdraft	-	(58)
Net cash provided by discontinued operations	5,075	672

Asset groups held for sale

Amounts in NOK million	2008	2007
Cash and cash equivalents		105
Receivables and other current assets		1,341
Inventories		816
Current assets held for sale	-	2,262
Property, plant and equipment		3,270
Other non-current assets		1,209
Non-current assets held for sale	-	4,479
Total assets held for sale	-	6,741
Current liabilities in disposal groups	-	1,389
Other long-term liabilities		558
Deferred tax liabilities		74
Non-current liabilities in disposal groups	-	632
Total liabilities in disposal groups	-	2,021
Assets held for sale, net	-	4,720

DEMERGER OF HYDRO IN 2007

On 12 March 2007 Hydro's Board of Directors and the Board of Directors of StatoilHydro ASA (previously Statoil ASA) agreed to a proposed merger of Hydro's petroleum activities (Hydro Petroleum) with Statoil to form StatoilHydro ASA. The agreed economic effective date of the merger was 1 January 2007. From this date, the merged company StatoilHydro assumed the risks and rewards of Hydro's petroleum activities. The merger was completed as of 1 October 2007.

Upon the completion of the merger, all assets, rights and obligations of Hydro Petroleum were transferred to StatoilHydro. As a result of the demerger, Hydro's share capital was reduced by 70 percent, representing the estimated relative value of the transferred petroleum activities compared to the retained businesses. The total equity reduction amounted to NOK 47,089 million, including Other reserves temporarily recognized directly in equity of NOK 4,174 million. In accordance with the demerger plan, adjustments to the equity reduction through a different final allocation of assets and/or liabilities may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable, and following a verification process for the demerger of Hydro. The verification period ended during the first quarter of 2008 for the majority of items, while certain items continued to be open to verification through the third quarter of 2008. An agreement on adjustments was reached late February 2009. The adjustment will not require any payments, but will reduce Hydro's retained earnings by approximately NOK 250 million as recognized receivables from the demerger will not be paid.

The demerger took place by reducing the share capital of Hydro through a reduction of par value of each share, while increasing the share capital of StatoilHydro by issuing new shares as consideration to Hydro shareholders. This resulted in the Hydro shareholders receiving 0.8622 shares in StatoilHydro for each share owned in Hydro as of the transaction date. For the impact on Hydro's equity, please refer to the Consolidated Statements of changes in equity and note 34 Shareholders' equity. Hydro did not receive any ownership in StatoilHydro or retain any continued interest in the petroleum activities.

Under the Norwegian Public Limited Companies Act section 14-11, Hydro and StatoilHydro are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger.

INCOME FROM DISCONTINUED OPERATIONS, ASSETS AND LIABILITIES IN DISCONTINUED OPERATIONS

The financial information for Hydro Petroleum as discontinued operations is based on the provisions in the Merger Plan. Income from discontinued operations includes results from activities which have been transferred to StatoilHydro. Effects directly related to the demerger process, including legal transfer of subsidiaries, costs and expenses related to the demerger transaction and the operational separation of Hydro Petroleum from Hydro's other activities, have been included in discontinued operations. The majority of costs originate in the individual business units. Costs related to shared services and corporate services, such as legal, IS/IT, human resources services and other, are charged to units based on services delivered in each period. General corporate overhead has been allocated to discontinued operations to the extent these costs were transferred or terminated following the demerger.

Hydro uses a centralized approach to the financing of its operations. Therefore, neither the Hydro Petroleum operations nor other Hydro operations have had separate external financing. Based on the Merger Plan, Hydro's debenture loan balance in its entirety has been allocated to Hydro Petroleum as discontinued operations (with the associated income statement adjustments for interest and foreign currency exchange effects).

Significant effects of the tax consolidation of taxable income in Hydro's continuing and discontinued operations in the various countries have been eliminated to arrive at an income tax expense as if separate tax returns had been filed for previous periods.

Contracts between Hydro's continuing and discontinued operations have been recognized as if they were contracts with unrelated parties at arm's length. These contracts include the sale and purchase of goods and services, and certain derivative instruments, primarily with currency and electricity underlying. Effects of such contracts are included in results of operations for continuing and discontinued operations, respectively, but have no effect on reported revenues, assets and liabilities.

The operations and companies of Hydro Petroleum are not identical with the operations previously reported as Oil & Energy in Hydro's segment reporting. In accordance with the Merger Plan, Hydro IS Partner, previously reported as part of Other Businesses, was transferred to StatoilHydro in the demerger. The Power activities, previously reported as part of Energy and Oil Marketing within Oil & Energy, have been retained in Hydro, along with solar activities, as a separate segment, Energy.

Summary of financial data for discontinued operations

Amounts in NOK million	2008	2007
Revenue	-	65,149
Share of the profit (loss) in equity accounted investments	-	66
Other income, net	-	675
Depreciation, amortization and impairment	-	(11,163)
Other expenses	-	(21,987)
Earnings before financial items and tax	-	32,739
Financial income (expense), net	-	748
Income before tax	-	33,486
Income taxes	-	(24,633)
Net income from discontinued operations	-	8,853
Net cash provided by operating activities	-	23,980
Net cash used in investing activities	-	(10,665)
Net cash used in financing activities	-	(26,772)
Foreign currency effects on cash and bank overdraft	-	(14)
Net cash used in discontinued operations	-	(13,471)

NOTE 8

Operating and geographic segment information

Hydro identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Hydro to identify its segments according to the organization and reporting structure used by management. Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a business area that offers different products and serves different markets. Hydro's operating segments are the three business areas Aluminium Metal, Aluminium Products and Energy.

Aluminium Metal activities include the production of bauxite and alumina, primary aluminium, remelting of metal, and the international trading of aluminium and aluminium products.

Aluminium Products comprises the downstream activities. The main activities include Rolled Products, Extrusion and Building systems. During 2007, the operations within Automotive castings and Magnesium were sold or closed. Rolled Products delivers foil, strip, sheet, litho and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion delivers custom-made general extrusion products, surface treatment, fabrication and components and finished products, including extruded aluminium products and components for the automotive industry. Building systems supplies complete designs and solution packages to metal builders, including products such as facades, partition walls, doors and windows.

Energy is responsible for the operation of Hydro's power stations in Norway and external sourcing of energy to Hydro's worldwide aluminium operations. Energy includes Hydro's commercial operations in the power markets.

Other activities consist of Polymers (reported as discontinued operations, sold in February 2008) and certain other activities.

Effective 30 March 2009, Hydro has decided to split the two business areas Aluminium Metal and Aluminium Products into in total four new business areas. The following new business areas are announced: Primary Metal, responsible for all Hydro's alumina production, metal plants and primary casthouses. Metal Markets will be responsible for metal sales, recycling, remelting and trading. The two new business areas will cover the activities currently conducted within Aluminium Metal. Rolled Products will be responsible for Hydro's rolling mills. Extruded Products will include activities within profiles and building systems. The two new business areas will cover the activities within Aluminium Products.

OPERATING SEGMENT INFORMATION

Hydro uses two measures of segment results, Earnings before financial items and tax – EBIT and EBITDA. EBIT is consistent with the same measure for the group. Hydro defines EBITDA as Income/(loss) before tax, financial income and expense, depreciation, amortization and write-downs, including amortization and impairment of excess values in equity accounted investments. Hydro's definition of EBITDA may differ from that of other companies. Hydro's management makes regular use of both these measures to evaluate performance in the operating segments and to allocate resources among its operating segments.

Hydro manages long-term debt and taxes on a Group basis. Therefore, Net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arm's length prices as if sold or transferred to third parties at the time of inception of internal contract. For certain goods and services, including power, delivery terms are agreed for several years, similarly to external contracts for the same deliveries. Transfers of businesses or assets within or between Hydro's segments are not considered to be intersegment sales, and are reported without recognizing gains or losses. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption Corporate and eliminations. These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In addition, elimination of gains and losses related to transactions between the operating segments are included in Corporate and Eliminations.

The accounting policies used for segment reporting reflect those used for the group with the following exceptions: Certain internal commodity contracts may meet the definition of a financial instrument in IAS 39 or contain embedded derivatives that are required to be bifurcated and valued at fair value under IAS 39. However, Hydro considers these contracts as sourcing of raw materials or sale of own production even though the contracts for various reasons include clauses that meet the definition of a derivative or an embedded derivative. Such internal contracts are accounted for as executory contracts. Certain other internal contracts may contain lease arrangements that qualify as capital leases. However, the segment reporting reflects the responsibility allocated by Hydro's management for those assets. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based either on the premium charged or the estimated service cost. Any difference between these charges and pension expenses measured in accordance with IFRS, as well as pension assets and liabilities are included in Corporate and Eliminations.

The following pages include information about Hydro's operating segments.

Amounts in NOK million	External revenue		Internal revenue		Total revenue	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	37,334	40,506	17,363	21,086	54,697	61,592
Aluminium Products	48,018	51,166	162	233	48,180	51,399
Energy	2,353	1,268	5,562	5,200	7,915	6,468
Corporate, other and eliminations ^{1) 2)}	939	1,376	(23,087)	(26,519)	(22,149)	(25,143)
Total	88,643	94,316	-	-	88,643	94,316

Amounts in NOK million	Other income, net	Share of the profit (loss) in equity accounted investments ³⁾	Depreciation, amortization and impairment ⁴⁾			
			2008	2007		
Aluminium Metal	52	145	(491)	975	2,852	2,186
Aluminium Products	64	742	(35)	46	1,908	1,207
Energy	36	8	(391)	(24)	103	97
Corporate, other and eliminations ¹⁾	713	199	2	3	53	62
Total	865	1,093	(915)	1,000	4,915	3,552

Amounts in NOK million	Earnings before financial items and tax (EBIT) ⁵⁾		EBITDA	
	2008	2007	2008	2007
Aluminium Metal	2,151	8,365	5,636	10,597
Aluminium Products	(1,450)	1,098	516	2,361
Energy	1,471	1,303	1,872	1,432
Corporate, other and eliminations ^{1) 2) 6)}	(978)	(1,741)	(912)	(1,678)
Total	1,194	9,025	7,112	12,711

Amounts in NOK million	Current assets ⁷⁾		Non-current assets		Total assets ⁷⁾	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	20,816	16,441	31,504	25,757	52,320	42,198
Aluminium Products	17,724	15,081	14,179	11,076	31,904	26,158
Energy	2,104	1,311	7,050	6,090	9,154	7,402
Corporate, other and eliminations ¹⁾	(536)	7,997	2,315	1,551	1,779	9,547
Total continued operations	40,108	40,830	55,049	44,474	95,157	85,304
Classified as held for sale					-	6,741
Total					95,157	92,046

- 1) Corporate, other and eliminations includes business activities outside the reportable segments. The main activities are Hydro Production Partner (sold in April 2008), the industrial insurance company Industriforsikring, and Hydro's internal service providers.
- 2) Corporate, other and eliminations include elimination of unrealized gains and losses on power contracts between Energy and other units in Hydro with a loss of NOK 1,087 million in 2008 and a loss of NOK 920 million in 2007.
- 3) Share of the profit (loss) in equity accounted investments includes impairment write-downs of NOK 597 million in Aluminium Metal and NOK 307 million in Energy in 2008.
- 4) Impairment write-downs for Property, Plant and Equipment by segment are presented in note 13 Impairment of fixed assets.
- 5) Total segment Earnings before financial items and tax is the same as Hydro group's total Earnings before financial items and tax. Financial income and financial expense are not allocated to the segments. There are no reconciling items between segment Earnings before financial items and tax to Hydro Earnings before financial items and tax. Therefore, a separate reconciliation table is not presented.
- 6) Corporate, other and elimination's EBIT and Adjusted EBITDA includes a net periodic pension cost of NOK 222 million for 2008 and NOK 326 million for 2007.
- 7) Current assets and assets exclude internal cash accounts and accounts receivables related to group relief.
- 8) Investments accounted for using the equity method comprises investments and advances, see note 25 Investments in associates and note 26 Investments in jointly controlled entities.
- 9) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.
- 10) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in equity accounted investments.

Amounts in NOK million	Investments accounted for using the equity method ^{(3) (8)}		Segment debt ⁽⁹⁾		Investments ⁽¹⁰⁾	
	2008	2007	2008	2007	2008	2007
Aluminium Metal	10,348	6,648	10,837	8,445	6,086	3,541
Aluminium Products	1,664	1,437	11,369	8,183	1,980	866
Energy	833	660	1,978	1,043	719	233
Corporate, other and eliminations ¹⁾	1,612	915	(3,994)	(2,722)	227	566
Total continued operations	14,457	9,659	20,190	14,949	9,012	5,206

Amounts in NOK million	Total assets		Non-current assets		Investments	
	2008	2007	2008	2007	2008	2007
Norway	40,515	42,753	21,134	19,368	2,254	1,866
Germany	15,627	13,367	6,945	6,072	814	646
Italy	2,898	2,725	1,097	984	135	82
Slovakia	2,714	2,273	1,530	1,183	164	140
France	2,621	2,276	849	789	109	66
Spain	2,589	1,009	1,159	303	719	44
Denmark	1,162	947	506	412	71	59
Great Britain	712	787	295	299	19	45
Austria	527	446	223	201	8	35
Other	2,505	1,625	1,495	859	103	180
Total EU	31,355	25,455	14,099	11,102	2,142	1,296
Other Europe	50	48	6	6	1	3
Total Europe	71,920	68,256	35,239	30,476	4,397	3,165
USA	3,066	2,760	1,782	1,509	295	113
Canada	2,372	1,877	2,093	1,716	59	48
Brazil	7,723	6,675	7,518	6,290	592	749
Other Americas	362	758	133	647	18	19
Qatar	4,426	881	4,426	881	3,140	790
Other Asia	1,079	824	484	342	63	14
Australia and New Zealand	4,162	3,227	3,375	2,584	449	307
Africa	46	45	-	29	-	-
Total outside Europe	23,237	17,048	19,810	13,999	4,615	2,041
Total continued operations	95,157	85,304	55,049	44,474	9,012	5,206
Classified as held for sale	-	6,741				
Total	95,157	92,046				

Amounts in NOK million	Revenue	
	2008	2007
Norway	6,376	6,770
Germany	16,831	18,477
France	6,282	6,773
Italy	6,231	6,493
Great Britain	5,758	5,029
Spain	5,297	5,634
Poland	2,545	2,699
The Netherlands	2,293	2,305
Austria	2,128	2,088
Other	10,862	12,167
Total EU	58,226	61,666
Switzerland	4,154	3,764
Other Europe	2,896	2,450
Total Europe	71,651	74,650
USA	7,598	8,706
Canada	203	419
Other Americas	1,844	1,838
Asia	5,789	7,287
Australia and New Zealand	1,267	1,160
Africa	291	257
Total outside Europe	16,992	19,666
Total	88,643	94,316

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

NOTE 9 Other income

Amounts in NOK million	2008		2007
Gain on sale of property, plant and equipment	69		77
Gain on sale of subsidiaries, associates and jointly controlled entities ¹⁾	459		636
Revenue from utilities ²⁾	179		134
Rental revenue	90		75
Other	68		171
Other income, net	865		1,093

1) Significant gains and losses are discussed in note 6 Disposals.

2) Revenue from utilities include quay structures, pipe network, tank terminal, process water and grid rental.

NOTE 10 Raw material and energy expense

Amounts in NOK million	2008		2007
Raw material expense and production supplies	58,189		58,504
Change in inventories own production	(1,220)		338
Write-downs of inventories	1,246		63
Raw material and energy expense	58,215		58,905

Raw material expense and production supplies include effect of commodity derivative instruments. See note 42 Derivative instruments and hedge accounting.

Hydro values inventories at the lower of cost or net realizable value. As a consequence of the weaker market in the fourth quarter, and particularly the decline in the aluminium price, Hydro has identified impairment write-downs of NOK 1,034 million. The impairment is related to the sharp fall in metal prices towards the end of the quarter, while input factors still reflect higher prices from purchases and contracts earlier in the year.

NOTE 11 Employee and management remuneration

BOARD OF DIRECTORS' STATEMENT ON CORPORATE MANAGEMENT BOARD REMUNERATION

The following statement and guidelines for Corporate Management Board salary and benefits will be presented to the Annual General Meeting for their recommendation at the May 2009 meeting. The Board of Directors proposes that the statement below applies for 2009 and in 2010 until the Annual General Meeting.

General Principles The principles for salary paid to top management is determined by the Board of Directors. The Board of Directors performs an annual evaluation of the total remuneration plan for the President and CEO, as well as deciding for each year the annual bonus targets and bonus payment. The Board of Directors' compensation committee functions as an advisory committee for the Board of Directors in these matters. The President and CEO consults with the Board of Directors' compensation committee in respect of the remuneration for the other corporate management members.

Hydro's remuneration policy will be based on Hydro's People Policy:

"Hydro should offer employees a compensation package that is competitive and in accordance with good industry standards locally. Where appropriate, this should include an incentive element, and the base pay should reflect individual performance."

Corporate Management Board remuneration will, at all times, reflect the President and CEO's and the Executive Vice Presidents' responsibility for the management of Hydro, taking into account the complexity and breadth of the operations, as

well as the growth and sustainability of Hydro. The determination of the level of the total compensation package will be, first and foremost, based on being competitive within the relevant labor market, while at the same time reflecting Hydro's international focus.

Specific principles Remuneration to the Corporate Management Board will consist of both variable and fixed elements. The variable portion of total remuneration will consist of a bonus element. The annual bonus will be determined based on the achievement of agreed financial targets and key performance indicators (KPIs) that are related to other targets and goals that are non-financial in nature. The Board of Directors is committed to setting KPIs that are balanced and reflect the different aspects of Hydro's operations. Key performance indicators will typically be related to health, safety and environment and corporate social responsibility (CSR), in addition to organizational and operational objectives. The financial targets and KPIs are established as part of the annual business planning process. The President and CEO will have a maximum annual bonus potential of fifty percent of his annual salary. The other Corporate Management Board members will have a maximum bonus potential of forty percent of their annual salary. Bonus payments will not be included when determining pension or vacation pay.

In light of the existing economic conditions, the bonus plan for the President and CEO, and the other members of the Corporate Management Board who are employees in Norway, is suspended.

No share-based compensation plans in the form of share options, or share appreciation rights (SARs), will be implemented.

The fixed components of the Corporate Management Board remuneration will be a base salary and other remuneration. In this regard, other remuneration will consist of a company car or car allowance, telephone and electronic communication, newspapers and similar benefits, as well as pension benefits. All Corporate Management Board members will continue to be covered by the insurance arrangements applicable within Hydro for all vice presidents and above. In respect of Hydro's employee share purchase plan, as described later in this note, the Corporate Management Board has the opportunity to participate fully at the same terms as all other eligible employees.

The President and CEO Eivind Reiten will step down as president and CEO as of 30 March 2009, and his existing termination agreement will come into force. He has the right to salary and benefits (excluding bonus) for a three-year period, beginning 30 March 2009. Hydro's obligation can be reduced by salary received from other sources. From the age of 60, President and CEO Eivind Reiten has the right to pension benefits in the amount of 65 percent of his pension-qualifying remuneration.

Svein Richard Brandtzæg, who replaces Eivind Reiten as President and CEO, will from his date of appointment as President and CEO receive an annual salary of NOK 5,000,000. Svein Richard Brandtzæg will have the right to retire with pen-

sion benefits from the age of 62. Full pension benefits are earned after 30 years employment in Hydro. Pension benefits are 60 percent of pension-qualifying remuneration from the age of 62. After age 65, pension benefits are 65 percent. A ceiling has been established related to the amount of pension-qualifying remuneration for Svein Richard Brandtzæg. Future remuneration increases will increase the pension-qualifying remuneration as of the date of retirement until a ceiling of NOK 5,500,000 is reached (adjusted in accordance with the percentage changes in the Norwegian government's pension base ("Folketrygdens Grunnbeløp")).

President and CEO Svein Richard Brandtzæg will have a termination agreement. In the event Svein Richard Brandtzæg's employment is terminated either on the initiative of Hydro or as a result of a mutual agreement, he has the right to salary and other remuneration (excluding bonus) for a period of 12 months; termination payments are not made after he has reached the age of 62. If during the course of these 12 months Svein Richard Brandtzæg receives new income from other sources, Hydro can, based on certain conditions, decide to reduce his payments.

For all other members of the Corporate Management Board, the pension benefit will represent 65 percent of the individual's pension-qualifying remuneration with a retirement age set at 65 years, with the exception of two corporate management board members who have an agreed retirement age of 62 as a result of a previous arrangement offered to about 50 executive managers.

Statement for 2008, the prior financial year The remuneration of the President and CEO and the Corporate Management Board for the previous financial year (2008) was based on the same guidelines as set out above.

As of 1 January 2008 the President and CEO's salary was adjusted three percent from NOK 5.6 million to NOK 5.770 million.

The fixed salary for the other members of the Corporate Management Board was adjusted between 3.8 percent and 12.2 percent, for an average adjustment of 6.3 percent. The bonus agreement for the President and CEO and the other members of the Corporate Management Board, with a maximum bonus potential of 50 and 40 percent of base salary, respectively, will result in no bonus payments in 2009 for the 2008 fiscal year.

This concludes the section "Board of Directors' statement on Corporate Management Board remuneration."

CORPORATE MANAGEMENT BOARD REMUNERATION

Corporate management board member's salaries, remuneration in kind, bonus for 2007 paid in 2008 and the estimated increase in the value of their pension benefits for 2008, as well as any loans outstanding and Hydro share ownership as of 31 December 2008 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2008.

Corporate Management Board remuneration and share holdings

Name	Salary ¹⁾²⁾	Remuneration in kind ¹⁾²⁾	Bonus ¹⁾²⁾	Estimated change in value of pension benefits ¹⁾³⁾	Outstanding loans ¹⁾⁴⁾	Hydro share ownership ⁵⁾
Eivind Reiten ⁶⁾	6,075	377	1,400	4,103	-	86,972
Svein Richard Brandtzæg ⁶⁾	3,604	252	952	2,995	237	26,117
Odd Ivar Biller	2,545	174	607	9,221	260	18,872
Anne Harris	2,117	162	513	1,782	1,068	13,902
Arvid Moss ⁷⁾	2,179	218	434	2,701	294	60,857
Jørgen C. Arentz Røstrup	2,483	202	147	2,553	-	6,662
Tom Røtjer	2,669	220	175	7,927	-	16,532
Torstein Dale Sjøtveit ⁸⁾	2,058	117	728	(8,492)	-	20,378
John Ove Ottestad	3,128	231	753	2,702	-	78,707
Hilde Aasheim ⁹⁾	452	33	-	22,212	-	136

1) Amounts in NOK thousands.

2) Salary is the amount paid to the individual during 2008, including any payments made before they joined the Corporate Management Board or after stepping down from the board and includes vacation pay. Remuneration-in-kind is the total of all non-cash related benefits received by the individual during 2008 and includes such items as the taxable portion of insurance premiums, car and mileage allowances and electronic communication items. Bonus is the amount paid in 2008 based on performance achieved in 2007.

3) The estimated change in the value of pension benefits reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights. It is calculated as the increase in Projected Benefit Obligations (PBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefit. For all individuals listed in the table except Torstein Dale Sjøtveit and Hilde Aasheim, this is the estimated change from 1 January 2008 to 31 December 2008. Torstein Dale Sjøtveit's estimated change in value of pension benefits is calculated from 1 January 2008 to 31 August 2008, and reflects the fact that he was no longer employed by Hydro after 31 August 2008. Hilde Aasheim's estimated change in value of pension benefits reflects that Hydro has granted her immediate credit for past service with previous employers, reduced by the amount of pension benefits to be received from prior employment.

4) The loans to corporate management board members were extended under an employee benefit scheme applicable to all employees in Norway. The loan to Svein Richard Brandtzæg has an interest rate of 6.25 percent and a repayment period of 8 years. The loan to Odd Ivar Biller has an interest rate of 6.25 percent and a repayment period of 6.5 years. The loans to Anne Harris have an interest rate of 6.25-6.85 percent and a repayment period of 1-18 years. The loan to Arvid Moss has an interest rate of 6.25 percent and a repayment period of 10 years. Loans to corporate management board members were extended to them prior to their appointment on the Corporate Management Board. Since their appointment to the Corporate Management Board, there have been no modifications to any loan agreements. No additional credit has been extended post appointment and the payment plan schedule has remained the same. Payments have been made in a timely fashion and the loans are not in default.

5) Hydro share ownership is the number of shares held directly by the corporate management board member and any related party shareholdings. Hydro share ownership for all corporate management board members is as of 31 December 2008, except for Torstein Dale Sjøtveit. Hydro share ownership for Torstein Dale Sjøtveit is as of 31 August 2008, his last day of employment.

6) Eivind Reiten will step down as CEO on 30 March 2009, and Svein Richard Brandtzæg will take over as CEO.

7) Arvid Moss became a member of the Corporate Management Board as of 15 August 2008.

8) Torstein Dale Sjøtveit stepped down from the Hydro Corporate Management Board and resigned as a Hydro employee as of 31 August 2008. In the interim period 20 August 2008 to 1 November 2008 Jan Arve Haugan served as a member of the Corporate Management Board. Jan Arve Haugan received an additional NOK 50,000 per month while serving on the Corporate Management Board, and his total salary payments during this period totaled NOK 535 thousand.

9) Hilde Aasheim came back to Hydro, from StatoilHydro, as a member of the Corporate Management Board effective 1 November 2008. Hilde Aasheim first joined Hydro as a member of the Corporate Management Board in October 2005. In connection with her return from StatoilHydro, her original Hydro terms of employment were reinstated, including specific terms related to her pension benefits. See footnote 3 to this table for additional information.

EXECUTIVE MANAGEMENT SHARE-BASED COMPENSATION

Hydro granted executive management share appreciation rights (SARs) during the years 2002-2006. The cash-settled awards were granted to approximately 30 Hydro executives each year, including the president and CEO and members of the corporate management board. SARs granted in 2004, 2005 and 2006 had a three year vesting schedule and three year exercise period. The 2002 and 2003 grant year SARs had a three year vesting period and two year exercise period. As of 1 January 2007 there were no 2002 SARs outstanding.

The SAR vesting schedule for the 2003 plan was based on total shareholder return. If shareholder return was less than

12 percent between the grant date and vesting date, none of the granted SARs would be vested. If the shareholder return was between 12 percent and 20 percent over the vesting period, the corresponding percentage of SARs that vested would increase linearly between 20 percent and 100 percent. On 30 June 2006, the vesting date for the 2003 SARs, the total shareholder return target of 20 percent was met, and all 487,500 SARs outstanding were vested 100 percent. The SARs granted in 2004-2006 did not have any performance related vesting requirement. The 2004 granted SARs vested on 30 June 2007.

In July 2007 the Board of Directors terminated the Executive Share Appreciation Right Plan (SAR Plan) for corporate officers and certain key employees. As of the SAR Plan termination date, the SARs granted in 2004 and earlier were vested and the 2005 and 2006 grant year SARs had a remaining life of four years and five years, respectively. Upon termination of the SAR Plan, the Board of Directors approved the exercise of the outstanding 2003 and 2004 SARs at an exercise price based on the five previous trading days' average market price on 10 July 2007. The average closing price 4 July – 10 July 2007 was NOK 234.40 and the corresponding exercise values are NOK 170.08 for the 2003 SARs (closing price NOK 234.40 less the exercise price of NOK 64.32) and NOK 139.20 for the 2004 SARs (closing price NOK 234.40 less the exercise price of NOK 95.20). The 2005 and 2006 SARs were terminated with a payout to SAR holders based on the Black-Scholes fair market value as of 2 July 2007. The Black-Scholes fair value as of 2 July 2007 was NOK 117.01 and NOK 91.43 for the 2005 and 2006 SARs, respectively.

Previously, all SAR holders were restricted from exercising SARs that would result in gross cash proceeds upon exercise per calendar year that exceeded the SAR holder's annual base salary. This restriction applied to SARs granted in 2004 and later, and was waived upon termination of the SAR Plan. All granted SARs that have not been exercised are forfeited if the SAR holder resigns from the company.

Previously, in order to remain eligible to exercise vested SARs in the future and to receive new grants, plan participants were required to convert the net after-tax value of exercised SARs into an equivalent value of Hydro shares until a specified percentage of their annual salary was reached. In connection with the termination of the SAR Plan, the requirement to purchase shares was waived.

SAR compensation expense was remeasured each reporting period, until the date of the termination of the SARs, at fair value using a Black-Scholes option valuation model, and accrued pro-rata over the vesting period. The accrued liability for the SARs as of 1 January 2007 was NOK 109 million, including social security taxes. Pre-tax SAR compensation expense recognized in 2007 was NOK 119 million. Cash paid during the year upon exercise and termination of SARs was NOK 200 million, excluding social security taxes.

As of 31 December 2007 there were no SARs outstanding. Information related to SAR activity during 2007 is given in the table below.

Share appreciation rights activity

Share Appreciation Rights ¹⁾	Options	Weighted average exercise price (NOK)
Outstanding 1 January 2007	1,987,500	128.26
Exercisable 1 January 2007	175,000	64.32
Granted in 2007	-	-
Exercised ²⁾	710,000	87.59
Terminated ³⁾	1,185,000	152.90
Forfeited ⁴⁾	92,500	124.66
Expired	-	-
Outstanding 31 December 2007	-	-

- 1) Exercise prices and option prices have not been adjusted to reflect the change in the share price due to the demerger on 1 October 2007 of the oil and gas business to StatoilHydro as all options were exercised or terminated prior to 1 October 2007.
- 2) Exercised SARs of 710,000 consists of 175,000 SARs granted in 2003 that vested 30 June 2006 and 535,000 SARs granted in 2004 that vested 30 June 2007.
- 3) All SARs outstanding in 2007 that were granted in 2005 and 2006 were terminated. Terminated SARs of 1,185,000 consists of 517,500 SARs granted in 2005 that would have vested 30 June 2008 and 667,500 SARs granted in 2006 that would have vested 30 June 2009.
- 4) SARs forfeited in 2007 relates to option holders terminating their employment with Hydro before SARs were vested.

UNITED KINGDOM EMPLOYEE SHARE-BASED COMPENSATION

In 1988, Hydro established a stock option share purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time the options were granted. The last options were granted in July 2002 and the program will be operational until July 2012, when the last remaining options expire. No further options will be granted. The program consists of three different schemes following amendments to the original scheme rules.

Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from the grant date. The exercise price of the shares originally equaled the share price at the time the options were granted. On 1 October 2007, in connection with the demerger of Hydro's oil and gas business to StatoilHydro, the value of the options was reduced. The options remain options over Hydro shares only and do not give an option to purchase the StatoilHydro shares which were issued for each Hydro share to the trust.

At 1 January 2007, 143,970 options were outstanding and the trust's balance of shares at 1 January 2007 was 614,580 Hydro shares. During 2007 114,947 options were exercised (all prior to 1 October 2007) and 235 options expired. As of 31 December 2007 the trust's balance of Hydro shares was 534,580 and of StatoilHydro shares was 460,914. There were 28,788 options outstanding as of 31 December 2007.

During 2008 no options were exercised and 3,720 options expired. As of 31 December 2008 the trust's balance of Hydro shares was 411,228 and 354,628 StatoilHydro shares. There were 25,068 options outstanding as of 31 December 2008.

Activity during 2008 is given in the table below.

UK employee share-based compensation

	Average number of shares	Strike price (NOK) ¹⁾
Options outstanding as of 31 December 2007	28,788	70.66
Options exercised during 2008	-	-
Options expired during 2008	(3,720)	55.97
Options outstanding as of 31 December 2008	25,068	58.90

1) Presentation in NOK is based on a translation from GBP using the 31 December 2008 exchange rate of 10.121 and the 31 December 2007 exchange rate of 10.810 (unaudited).

EMPLOYEE SHARE PURCHASE PLAN

Hydro has established a share purchase plan for employees in Norway. The plan payout is based on share price performance. Under the plan offered in 2008, eligible Hydro employees received a NOK 10,000 share-purchase rebate to purchase NOK 20,000 of shares of Norsk Hydro ASA, which corresponds to a 50 percent discount from the market price, as shareholder returned exceeded 12 percent in the period from 1 January to 31 December 2007 (the performance measurement period). The monetary rebate was higher than in previous periods due to a plan amendment enacted in 2008.

In the performance period 1 January to 31 December 2008 shareholder return did not exceed 12 percent. Therefore, under the plan to be offered in 2009, employees will receive a rebate of NOK 2,500 on their purchase of NOK 10,000 of Norsk Hydro ASA shares. The rebate of NOK 2,500 corresponds to a 25 percent discount from the market price.

Employees are eligible to receive an offer to purchase shares under this plan if they were 1) employed by Norsk Hydro ASA or a 90 percent or more owned Norwegian subsidiary, and 2) employed as of 31 December through the final acceptance date of the share purchase offer.

Compensation expense related to the 2007 performance measurement period was accrued and recognized over the service period of 31 December 2007 through 20 April 2008, the final acceptance date of the offer. In 2007 and 2008 the participation rate of eligible employees in the employee share purchase plan was approximately 88 percent. Details related to the employee share purchase plan are given in the table below.

Employee share purchase plan

Performance measurement period	01.01.2008 - 31.12.2008	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Total shareholder return performance target achieved	<12%	≥12%	≥12%
Employee rebate, NOK	2,500	10,000	6,000
Employee rebate, percent	25%	50%	50%

Share purchase plan compensation

	2008	2007
Award share price, NOK	37.57	97.73
Number of shares issued, per employee	266	61
Total number of shares issued to employees	1,429,484	621,895
Compensation expense related to the award, NOK thousands	53,706	60,778

EMPLOYEE BENEFIT EXPENSE

The average number of employees for 2008 and 2007 was 23,074 and 28,928, respectively. As of year end 2008 and 2007 Hydro employed 22,634 and 24,692 people, respectively. The decrease in the average number of employees is primarily due to the demerger of Hydro's oil and gas activities in October 2007, as well as the divestment of Hydro Polymers and Hydro Production Partner in the first and second quarters of 2008, respectively. The decrease in the number of employees is primary due to the above mentioned divestments. Approximately 500 employees were added through the acquisitions in Extrusion and Building Systems during 2008. The specification of employee benefit expenses from continuing operations for 2008 and 2007 is given in the table below:

Employee benefit expense

Amounts in NOK million	2008	2007
Salaries	9,310	9,102
Social security costs	1,581	2,077
Social benefits	351	361
Net periodic pension cost (note 32)	775	900
Total	12,018	12,440

NOTE 12

Depreciation and amortization expense

Specification of depreciation and amortization by asset category

Amounts in NOK million	2008	2007
Buildings	448	459
Machinery and equipment	2,785	2,990
Intangible assets	137	136
Depreciation and amortization from discontinued operations	-	(177)
Depreciation and amortization expense	3,370	3,407

NOTE 13

Impairment of non-current assets

Classification by asset category:

Amounts in NOK million	2008	2007
Impairment losses		
Property, plant and equipment	1,518	150
Intangible assets	31	-
Impairment reversals		
Property, plant and equipment	(4)	(5)
Total impairment of non-current assets	1,545	145

Classification by segment:

Amounts in NOK million	2008	2007
Impairment losses		
Aluminium Metal	796	143
Aluminium Products	753	4
Corporate, other and eliminations	-	3
Impairment reversals		
Aluminium Products	(4)	(5)
Total impairment of non-current assets	1,545	145

In Aluminium Metal, all smelters were tested for impairment following the sharp fall in aluminium prices and lower economic activity over the recent months. Key assumptions used in these tests include aluminium prices, energy prices, fixed and variable cost and currency exchange rates. Prices are estimated based on existing contracts, observed market prices, and Hydro's internal expectations. For internally generated power in Norway, cost to smelters is based on market prices adjusted for the estimated effects of limitations in alternate value, as regulated by concessionary stipulations, which include requirements for consumption of certain minimum volumes of energy for industrial production purposes, either nationally or locally. Volumes are based on current capacity and experienced efficiency improvements over time. The calculations are highly sensitive to prices for aluminium and energy, and the exchange rate to the extent aluminium and input factor prices are determined on the basis of currencies which deviate from the entity's functional currency.

The impairment tests resulted in a need to write down Hydro's smelter in Neuss, Germany, by NOK 662 million. The main driver for the write-down was the downward shift in aluminium prices which was not accompanied by a similar shift in input factors. In particular the forward prices for energy reflect lower reductions relative to those observed for aluminium. The impairment write-down is based on fair value less cost to sell of groups of assets, as the Value in Use (VIU) was determined to be negative. In February 2009, Hydro decided to temporary shut down

the primary aluminium production in Neuss and to continue operation of the casthouse only. The impairment test also resulted in a full write-down of the remaining assets of NOK 99 million related to the Söderberg production line at Karmøy, which in December 2008 was decided to be closed during the first quarter of 2009.

Independent remelters are considered separate Cash Generating Units (CGU) within Metal, and were also tested for impairment to the extent indicators of impairment were considered to be present. One of the four CGUs tested was determined to be partly impaired and was written down.

The downturn in the economic activity in global and local markets triggered a thorough review of the CGUs in Products to determine whether impairment indicators were present or not. For most of the CGUs in Automotive, Extrusion Americas and Rolled Products impairment indicators were found, and VIU was calculated. The calculations are highly sensitive to changes in volume, margin and fixed costs. The calculation of VIU is based on management's best estimate, reflecting the current market downturn coupled with an assumed improvement in the market over time. For CGUs where the VIU calculation indicated substantial or full impairment, the fair value less cost to sell of individual assets or asset groups have also been calculated.

The tests resulted in impairment write-downs of four CGUs in Extrusion Americas. The total impairment write-down for these plants amounted to NOK 253 million.

The tests also resulted in impairment write-downs of three CGUs in Automotive Structures and one CGU in Precision Tubing. For two of the CGUs the VIU test indicated a negative value. For these CGUs fair value less cost to sell was assessed, and represents the basis for the impairment write-down. The fair value is primarily related to land and buildings. The total impairment write-down for these plants amounted to NOK 342 million.

For Rolled Products, testing resulted in an impairment write-down of one CGU to the estimated fair value less cost to sell. The fair value less cost to sell was determined based on observed or assumed second hand value of equipment for which transactions are regularly observed. The impairment write-down for this plant amounted to NOK 129 million.

In addition, all CGUs or fixed assets that are not part of a CGU are reviewed for impairment indicators at each balance sheet date. Certain smaller CGUs have been tested during 2008. The resulting impairment write-downs are included in the table above.

The impairment test of Automotive Structures, which has experienced losses in 2007 and 2008, suggests a value of the sector that does not support the carrying value of goodwill. Consequently, the goodwill balance of NOK 28 million has been written down in its entirety.

The impairment charges in 2007 relate to remelters in Ellenville, New York and in St. Augustine, Florida.

See note 4 Critical accounting judgements and key sources of estimation uncertainty for additional information about impairment testing.

NOTE 14 Research and development

Total expensed research and development cost is NOK 606 million in 2008 and NOK 507 million in 2007. Research and development activities are intended to make production of aluminium more efficient including further improving Hydro's electrolysis technology. A significant proportion of the means are also used for further developing the production processes and products within casting and alloy development, extrusion, precision tubing, building systems as well as rolled products.

To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalizing the cost are met. Costs incurred during the preliminary project stage, as well as maintenance costs, are expensed as incurred. Other research and development costs are expensed as incurred, when they do not meet the criteria for capitalization.

NOTE 15 Operating leases

Future minimum lease payments due under non-cancellable operating leases are as follows:

Amounts in NOK million	Less than 1 year	1-5 years	There- after	Total
Operating lease obligation	400	1,168	1,770	3,338

OPERATING LEASE EXPENSE

Operating lease expense for office space, machinery and equipment amounts to NOK 701 million for 2008 and NOK 748 million for 2007.

NOTE 16

Financial income and expense

Amounts in NOK million	2008	2007
Interest income	769	1,228
Net gain (loss) on securities	(154)	37
Dividends received	180	138
Financial income	795	1,403
Interest expense	(221)	(415)
Capitalized interest	-	5
Net foreign exchange gain (loss)	(5,491)	2,254
Other, net	(109)	(39)
Financial expense	(5,821)	1,805
Financial income (expense), net	(5,026)	3,208

NOTE 17

Income tax expense

Amounts in NOK million	2008	2007
Income (loss) from continuing operations before taxes:		
Norway	(4,455)	6,401
Other countries	623	5,832
Total	(3,832)	12,233
Current taxes:		
Norway	1,002	1,602
Other countries	816	1,565
Current income tax expense	1,818	3,167
Deferred taxes:		
Norway	(2,013)	502
Other countries	(370)	(594)
Deferred tax expense (benefit)	(2,383)	(92)
Total income expense (benefit)	(565)	3,075

Components of deferred income tax expense

Amounts in NOK million	2008	2007
Deferred tax expense (benefit), excluding items below	(2,683)	175
Benefit tax loss carryforwards	(338)	(144)
Effect of tax law changes	(1)	(329)
Net change not recognized tax asset	499	137
Tax expense (benefit) allocated to Other reserves	140	70
Deferred tax expense (benefit)	(2,383)	(92)

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2008	2007
Expected income taxes at statutory tax rate ¹⁾	(1,073)	3,425
Hydro-electric power surtax ²⁾	506	286
Tax law changes	(1)	(329)
Losses and other deductions with no tax benefit	626	366
Non-deductible costs	20	37
Foreign tax rate differences	(46)	(20)
Tax free income	(280)	(593)
Dividend exclusions	(51)	(28)
Losses and other benefits not previously recognized	(74)	(163)
Other, net	(191)	94
Income tax expense (benefit)	(565)	3,075
Effective tax rate	14.7%	25.1%

1) Norwegian nominal statutory tax rate is 28 percent.

2) A surtax of 30 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

NOTE 18 Short-term investments

Amounts in NOK million	2008	2007
Bank, time deposits	-	750
Equity securities	340	503
Debt securities and other	1,308	1,489
Total short-term investments	1,648	2,742

NOTE 19 Accounts receivable

Amounts in NOK million	2008	2007
Accounts receivable, net of allowance for credit losses	12,339	11,967
VAT receivables	1,355	1,446
Other receivables	2,560	2,151
Accounts receivable	16,254	15,564
Allowance for credit losses		
1 January	502	685
Change in allowance for credit losses	34	(135)
Reclassified to asset held for sale	-	(27)
Foreign exchange adjustments	77	(22)
31 December	613	502

NOTE 20 Inventories

Amounts in NOK million	2008	2007
Raw materials	5,565	4,255
Work in progress	3,395	2,359
Finished goods	7,334	5,614
Inventories	16,293	12,227

Raw materials include spare parts with a minor amount. All amounts are net of any write-downs. The total of write-downs included is NOK 1,339 million in 2008 and NOK 98 million in 2007.

NOTE 21 Other financial assets and liabilities

Other current financial assets

Amounts in NOK million	2008	2007
Currency derivative instruments	103	236
Commodity derivative instruments	2,400	729
Cash flow hedging derivative instruments	76	2
Other current financial assets	2,579	967

Other non-current financial assets

Amounts in NOK million	2008	2007
Non-marketable equity securities	1,607	1,150
Employee loans	439	446
Currency derivative instruments	77	66
Commodity derivative instruments	2,097	1,349
Cash flow hedging derivative instruments	40	-
Other financial assets	1,333	1,329
Other non-current financial assets	5,592	4,341

Other current financial liabilities

Amounts in NOK million	2008	2007
Currency derivative instruments	1,281	42
Commodity derivative instruments	3,906	932
Cash flow hedging derivative instruments	-	183
Other current financial liabilities	5,187	1,157

Other non-current financial liabilities

Amounts in NOK million	2008	2007
Commodity derivative instruments	2,996	2,765
Cash flow hedging derivative instruments	-	30
Other non-current financial liabilities	2,996	2,795

NOTE 22

Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
31 December 2006	913	16,307	50,705	1,243	69,169
Additions	6	182	1,209	2,325	3,723
Disposals	(20)	(376)	(2,579)	(471)	(3,445)
Assets classified as held for sale	(18)	(1,173)	(8,086)	(77)	(9,354)
Transfers	2	181	1,623	(1,805)	-
Foreign currency translation effect	(43)	(498)	(1,998)	(74)	(2,613)
31 December 2007	840	14,624	40,874	1,140	57,479
Additions	136	459	1,419	2,085	4,100
Disposals	(10)	(96)	(1,462)	(15)	(1,582)
Transfers	-	376	1,844	(2,220)	-
Foreign currency translation effect	204	1,340	5,066	171	6,781
31 December 2008	1,170	16,703	47,741	1,162	66,777
Accumulated depreciation and impairment					
31 December 2006	(1)	(7,655)	(29,363)	-	(37,018)
Depreciation for the year	-	(459)	(2,990)	-	(3,449)
Impairment losses	-	(27)	(122)	-	(150)
Impairment reversals	-	-	5	-	5
Disposals	-	286	2,436	-	2,722
Assets classified as held for sale	-	753	5,207	-	5,960
Transfers	-	(25)	25	-	-
Foreign currency translation effect	-	171	1,030	-	1,201
31 December 2007	(1)	(6,956)	(23,772)	-	(30,728)
Depreciation for the year	-	(448)	(2,785)	-	(3,233)
Impairment losses	-	(242)	(1,276)	-	(1,518)
Impairment reversals	-	4	-	-	4
Disposals	-	64	1,254	-	1,318
Transfers	-	(18)	18	-	-
Foreign currency translation effect	-	(547)	(2,733)	-	(3,280)
31 December 2008	(1)	(8,143)	(29,295)	-	(37,439)
Carrying value					
31 December 2007	840	7,668	17,102	1,140	26,750
31 December 2008	1,170	8,560	18,447	1,162	29,338

NOTE 23 Intangible assets

Amounts in NOK million	Capitalized software systems	Other intangible assets	Total
Cost			
31 December 2006	786	1,332	2,119
Additions	147	38	185
Assets classified as held for sale	-	(4)	(4)
Disposals	(13)	(75)	(89)
Transfers	26	(26)	-
Foreign currency translation effect	(30)	(36)	(66)
31 December 2007	916	1,228	2,144
Additions	162	260	423
Disposals	(5)	(27)	(32)
Foreign currency translation effect	189	198	387
31 December 2008	1,263	1,659	2,922
Accumulated amortization and impairment			
31 December 2006	(570)	(975)	(1,544)
Amortization for the year	(84)	(52)	(136)
Assets classified as held for sale	-	4	4
Disposals	13	62	76
Transfers	(22)	22	-
Foreign currency translation effect	17	26	43
31 December 2007	(646)	(911)	(1,557)
Amortization for the year	(81)	(56)	(137)
Impairment loss for the year	(3)	-	(3)
Disposals	4	16	20
Foreign currency translation effect	(130)	(121)	(251)
31 December 2008	(857)	(1,072)	(1,928)
Carrying value			
31 December 2007	271	317	587
31 December 2008	406	587	993

In 2008, additions amounting to NOK 183 million were acquired through business combinations. Other additions are fairly evenly distributed between intangibles developed internally and intangibles acquired separately. In 2007, a significant part of additions was acquired separately.

Intangible assets with indefinite useful lives are included in other intangible assets with a carrying value of NOK 2 million both as of 31 December 2008 and as of 31 December 2007.

NOTE 24

Goodwill

Amounts in NOK million	Aluminium Metal	Aluminium Products	Total
Cost			
31 December 2006	260	766	1,026
Goodwill derecognized	-	(7)	(7)
Foreign currency translation effect	(33)	(59)	(92)
31 December 2007	226	700	926
Additions			
Foreign currency translation effect	57	160	217
31 December 2008	283	930	1,213
Accumulated impairment			
31 December 2007	-	-	-
Impairment loss for the year	-	(28)	(28)
31 December 2008	-	(28)	(28)
Carrying value			
31 December 2007	226	700	926
31 December 2008	283	902	1,185

See note 4 Critical accounting judgements and key sources of estimation uncertainty for information about the impairment testing of goodwill on an annual basis.

NOTE 25 Investments in associates

Investments in associates

Amounts in NOK million	Alunorte	Aluchemie	SKS Produksjon	NorSun	Ascent Solar	QVC	Other	Total
31 December 2006	3,397	542	378	-	-	508	320	5,147
Investments (sale), net	294			150	119		13	576
Change in long-term advances, net	435						52	488
Hydro's share of net income (loss) ¹⁾	807	14	31	(5)	(6)	84	76	1,000
Amortization and impairment	(17)	(16)	(5)	(4)	(3)		3	(43)
Dividends and other payments received by Hydro	(136)	(7)	(18)				(18)	(179)
Foreign currency translation and other	188	(24)	(5)		(12)	(73)	(93)	(18)
Reclassified to assets held for sale ²⁾						(519)	(180)	(697)
31 December 2007	4,968	509	381	141	98	-	174	6,273
Investments (sale), net	(21)			250	216		49	494
Change in long-term advances, net	524						5	529
Hydro's share of net income (loss)	209	17	33	(36)	(15)		5	213
Amortization	(17)	(17)	(5)	4	(8)		(3)	(47)
Impairment losses				(92)	(179)		(2)	(274)
Dividends and other payments received by Hydro	(113)		(56)				(8)	(178)
Foreign currency translation and other	255	116	(18)		80		14	447
31 December 2008	5,805	626	335	267	191	-	235	7,458

- 1) Share of net income relating to associates classified as assets held for sale in the balance sheet and discontinued operations in the income statement amounted to NOK 91 million in 2007.
- 2) Associates owned by Polymers are classified as assets held for sale in the balance sheet and discontinued operations in the income statement in 2007. There were no associates classified as asset held for sale in 2008.

Specification of associates

Amounts in NOK million, except ownership	Percentage owned by Hydro	Investments in and advances to associates		Hydro's current receivable (payable), net with associates ¹⁾	
	2008	2008	2007	2008	2007
Alunorte	34.0%	5,805	4,968	337	(240)
Aluchemie	36.2%	626	509	-	(9)
SKS Produksjon	20.9%	335	381	-	-
NorSun	18.4%	267	141	-	-
Ascent Solar	34.9%	191	98	-	-
Others		235	174	3	(44)
Total		7,458	6,273	340	(293)

- 1) Hydro's current receivables (payable) with associates owned by Polymers are included in 2007 figures.

A description of significant associates' business, majority owners, and the nature of related party transactions with Hydro including amounts if material follow:

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's ownership share is 34 percent. Companhia Vale do Rio Doce owns 57 percent of the shares. Hydro purchased alumina from Alunorte amounting to NOK 3,240 million and NOK 2,885 million in 2008, and 2007,

respectively. Pricing of Hydro's purchases from Alunorte is based on a percentage of aluminium prices as quoted on the LME. Hydro has right and obligation to purchase a share of Alunorte's offtake equal to its ownership interest in the company. Alunorte is part of Aluminium Metal.

Aluminium & Chemie Rotterdam B.V. (Aluchemie) is an anode producer located in the Netherlands. Hydro owns 36.2 percent and has 21.2 percent of the voting rights. Other

shareholders include Rio Tinto Alcan (53.3 percent) and Søral (10.5 percent). Hydro purchased anodes from Aluchemie amounting to NOK 851 million in 2008 and NOK 613 million in 2007 on the basis of cost plus. Sales of anode butts from Hydro to Aluchemie amounted to NOK 140 million in 2008 and NOK 102 million in 2007. Hydro is committed to purchase a share of produced anodes based on its ownership interest. For certain product lines the right and obligation to purchase is higher, as agreed between the shareholders. Aluchemie is part of Aluminium Metal.

SKS Produksjon AS (SKS Produksjon) is a power producer located in Northern Norway. SKS Produksjon is owned 20.9 percent by Hydro and 79.1 percent by Salten Kraftsamband AS. There have not been any sales to or from Hydro in 2008 or 2007. SKS Produksjon is part of Energy.

NorSun AS (NorSun) was established in 2005 and is engaged in production of mono crystalline wafers for the photovoltaic industry. NorSun has currently two production facilities, one in Vantaa, Finland, and one in Årdal, Norway. Hydro's ownership share increased from 16.2 percent to 18.4 percent, through a disproportional capital contribution in February 2008. Other main shareholders are Scatec with 20.5 percent and Good Energies with 31 percent. There have not been any material sales to or from Hydro in 2007. The investment in NorSun has been tested for impairment due to the substantial loss in value for listed solar companies. The impairment test was based on the

most recent share issue in NorSun conducted in February 2009. The test for impairment resulted in a write-down of NOK 92 million. NorSun is part of Energy.

Ascent Solar Technologies Inc. (Ascent) is located in Denver, USA and listed on NASDAQ as a Development Stage Company and is engaged in development of thin-film photovoltaic modules. During 2008 Hydro's ownership interests increased from 22.2 to 34.9 percent through a share subscription under an option, followed by a dilution from a public offering and a subsequent share subscription. The dilution resulted in a gain of approximately NOK 35 million. In addition, Hydro holds 35 percent of the company's class B warrants exercisable until 11 July 2011. Through a cooperation agreement Hydro and Ascent has agreed to collaborate in the development of integrated photovoltaic products for the Building Industry. There have not been any sales to or from Hydro in 2008 or 2007. The investment in Ascent has been tested for impairment as there is substantial loss in value for listed solar companies, including Ascent. The impairment test has been based on fair value less cost to sell. The test resulted in a write-down of NOK 179 million. The financial information for Ascent Solar has a three months lag to Hydro's reporting dates. Ascent Solar is part of Energy.

Below income statement and balance sheet information based on reported figures from associates, these figures could in certain cases deviate from Hydro's assessment of the underlying values.

Income statement data

Amounts in NOK million (unaudited)	2008	2007 ¹⁾
Revenues	12,941	10,705
Earnings before financial items and tax	2,247	2,948
Income before tax	938	3,297
Net income	580	2,696
Hydro's share of net income from continuing operations	213	908

1) Associates owned by Polymers are not included in the income statement figures.

Balance sheet data

Amounts in NOK million (unaudited)	2008	2007 ¹⁾
Current assets	6,864	3,948
Non-current assets	20,318	17,958
Assets	27,182	21,906
Current liabilities	3,250	2,524
Non-current liabilities	7,302	4,227
Equity attributable to equity holders of parent	16,629	15,155
Liabilities and equity	27,182	21,906
Hydro's investments and advances	7,458	6,273

1) Associates owned by Polymers are not included in the balance sheet figures.

NOTE 26 Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Meridian	Noretyl	Other	Total
31 December 2006	1,786	719	-	315	433	445	85	3,783
Investments (sale), net			547	10	(440)		169	286
Change in long-term advances, net	(124)		153			(50)	(5)	(26)
Hydro's share of net income (loss) ¹⁾	92	209	(68)		4	61	(11)	288
Amortization and impairment	(56)						(28)	(84)
Dividends and other payments received by Hydro	(21)	(249)					(8)	(278)
Foreign currency translation and other	(61)		(17)	(44)	3		(6)	(126)
Reclassified to assets held for sale ²⁾						(456)	-	(456)
31 December 2007	1,616	679	615	281	-	-	197	3,387
Investments (sale), net			2,456	5			121	2,583
Change in long-term advances, net	(92)		684	110			(39)	664
Hydro's share of net income (loss) ³⁾	6	10	(89)				(52)	(126)
Amortization	(58)						(11)	(68)
Impairment losses		(85)		(512)			(16)	(613)
Dividends and other payments received by Hydro	(8)	(50)					(11)	(69)
Foreign currency translation and other	341		761	115			25	1,243
31 December 2008	1,805	554	4,426	-	-	-	215	6,999

- 1) Share of net income from jointly controlled entities classified as asset held for sale in the balance sheet and discontinued operations in the income statement amounted to NOK 61 million in 2007.
- 2) The jointly controlled entity Noretyl (owned by Polymers) was classified as asset held for sale in the balance sheet and discontinued operations in the income statement in 2007. There were no jointly controlled entities classified as asset held for sale in 2008.
- 3) Includes impairment losses made by the jointly controlled entities.

Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro	Investments in and advances to investees		Hydro's current receivable (payable), net with investees ¹⁾	
	2008	2008	2007	2008	2007
Alunorf	50.0%	1,805	1,616	353	310
Søral	49.9%	554	679	(246)	(181)
Qatalum	50.0%	4,426	615	(54)	(15)
Alpart	35.0%	-	281	-	9
Meridian	0.0%	-	-	-	-
Noretyl	0.0%	-	-	-	54
Others		215	197	(53)	(62)
Total		6,999	3,387	-	114

- 1) Hydro's current receivable (payable) include receivables with Noretyl in 2007.

Below a description of significant jointly controlled entities' business, owners, the nature of related party transactions with Hydro including amounts if material. If applicable the description includes contractual and capital commitments, contingent liabilities and guarantees reported by the jointly controlled entity:

Aluminium Norf GmbH (Alunorf) the world's largest rolling mill is located in Germany. Alunorf is jointly owned by Hydro and Hindalco Industries (50 percent each). Through a tolling arrangement, each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales of rolling services from Alunorf to Hydro amounted to NOK 1,563 million in 2008 and NOK 1,527 million in 2007. The tolling fee is based on cost recovery, in which each partner bears its share of cost. Hydro's capital and financing commitments are regulated in the Joint Venture agreement. Alunorf has investment commitments amounting to NOK 335 million as of December 31, 2008. Hydro's financing commitment based on its interest is NOK 221 million as of 31 December, 2008. Alunorf is part of Aluminium Products.

Sør-Norge Aluminium AS (Søral) is the fourth largest primary aluminium manufacturer in Norway located in Husnes, Hordaland. Hydro owns 49.9 percent and Rio Tinto Alcan 50 percent. Søral sells 50 percent of its production to each major owner at current market prices. Sale of aluminium from Søral to Hydro amounted to NOK 1,609 million in 2008 and NOK 1,751 million in 2007. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 699 million in 2008 and NOK 873 million in 2007. Due to the downward shift in aluminium prices which was not followed by a similar shift in input factors, Søral was tested for impairment. Based on the test, Søral was considered to be partly impaired, resulting in a write-down of NOK 84,9 million. Production curtailment of around 50 percent was decided early in 2009. Søral is part of Aluminium Metal.

Qatar Aluminium Ltd. (Qatalum) is a jointly controlled entity established in August 2007. The owners of Qatalum are Hydro and Qatar Petroleum Ltd., each with an ownership of 50 percent. Qatalum will develop and construct an aluminium smelter and a power plant in Qatar with production capacity of 585,000 tonnes. The project is on schedule for start-up around year-end 2009. During construction and start-up phase Hydro will deliver expertise and Technology to the project. Several agreements have been established to regulate the deliveries of services between Hydro and Qatalum; Technical Services Agreement, Project Management Agreement and Technology Licence Agreement. Sales from Hydro to Qatalum amounted to NOK 538 million in 2008 and 40 million in 2007. Hydro has entered in to agreements with Qatalum, in which it is committed to sell fixed quantities of alumina and purchase all products from Qatalum from commencement of production. Pricing is market based.

Hydro is in connection with the Joint Venture agreement with Qatar Petroleum Ltd. committed to finance Qatalum on the basis of its percentage share for capital requirements exceeding those covered through external financing. Qatalum is currently bound by several agreements in connection with both the construction of the plant and in connection with raw material purchases (e.g. natural gas from Qatar Petroleum, alumina, etc.) upon commencement of production. In addition a long term land lease is currently effective. Total investment costs for the project are estimated at USD 5,6 billion (for the entire joint venture). As of December 31, 2008, construction and development of the primary aluminium plant was 60 percent completed. Substantially all of the total estimated investment costs are represented by contractual commitments as of December 31, 2008. Qatalum is part of Aluminium Metal.

Alumina Partners of Jamaica (Alpart) is an alumina refinery located in Jamaica. Hydro's ownership share is 35 percent. Hydro is committed through the shareholder agreement to purchase alumina in relation to its ownership interest in Alpart, and on the basis of cost recovery. Purchases in 2008 and 2007 amounted to NOK 1,111 million and NOK 871 million, respectively. In 2007 Hydro sold caustic soda to Alpart in the amount of NOK 50 million. Hydro's capital commitments are regulated in the shareholder agreement. Hydro is committed to financing capital expenditures on the basis of its ownership interest. Alpart was tested for impairment and was considered to be fully impaired, resulting in a write-down of NOK 512 million. Production curtailment of 50 percent was decided in January 2009. Alpart is part of Aluminium Metal.

Below income statement and balance sheet information based on reported figures from the joint ventures, these could in certain cases deviate from Hydro's assessment of the underlying values.

Income statement data

Amounts in NOK million (unaudited)	2008	2007 ¹⁾
Revenues	7,214	7,757
Earnings before financial items and tax	(190)	687
Income before tax	(247)	590
Net income	(258)	453
Hydro's share of net income from continuing operations	(126)	228

1) Noretyl is not included in the income statement figures.

Balance sheet data

Amounts in NOK million (unaudited)	2008	2007 ¹⁾
Current assets	4,628	3,965
Non-current assets	26,362	8,373
Assets	30,990	12,337
Current liabilities	6,163	3,286
Non-current liabilities	10,815	3,887
Equity attributable to equity holders of parent	14,012	5,164
Liabilities and equity	30,990	12,337
Hydro's investments and advances	6,999	3,387

1) Noretyl is not included in the balance sheet figures.

NOTE 27 Jointly owned assets

Hydro is involved in certain assets where the legal ownership takes various forms of undivided direct ownership in the assets, and where operational and strategic decisions are made by supermajority among the owners. These arrangements are not joint ventures as defined by IFRS. Hydro accounts for its relative share of assets, liabilities, expenses and, where relevant, revenues related to these arrangements. Assets, liabilities, revenues and expenses are classified with other items of the same nature incurred as part of Hydro's controlled operations.

The most significant of these arrangements are Hydro's 20 percent ownership in the Alouette plant in Canada, and the 12.4 percent ownership in the Tomago plant in Australia. Both plants produce primary aluminium. Hydro provides alumina relative to its share of the metal production, and receives produced metal for further processing or sale through Hydro's Metal operation. Other costs of operations, including power consumption and labor, are incurred on a joint basis by the owners. Unrealized losses or gains relating to embedded derivatives and operational hedges associated with the physical supply of power to the plants are also incurred or earned on a joint basis by the owners.

The following key figures represent the impact of these two arrangements:

Amounts in NOK million	2008	2007
Current assets	150	137
Property, plant and equipment	3,027	2,451
Derivatives	68	42
Jointly owned assets	3,245	2,630
Current liabilities	85	49
Non-current liabilities	56	87
Derivatives	187	440
Total liabilities	328	575
Share of expenses	968	1,056
Depreciation and amortization	217	224
Change in derivative positions	(322)	115
Expenses included in EBIT	864	1,396
Produced volume (kmt)	179	179

NOTE 28 Bank loans and other interest-bearing short-term debt

Amounts in NOK million	Weighted average interest rate	2008	2007
Bank loans and overdraft facilities	4.4%	279	176
Other interest bearing short-term debt	5.6%	803	798
Current portion of long-term debt	-	86	71
Bank loans and other interest-bearing short-term debt		1,169	1,045

NOTE 29 Trade and other payables

Amounts in NOK million	2008	2007
Accounts payable	9,016	8,457
Payroll and value added taxes	2,350	2,016
Accrued liabilities and other payables	1,578	1,721
Trade and other payables	12,944	12,193

NOTE 30 Long-term debt

Long-term debt payable in various currencies

Amounts in NOK million, except interest rates	Weighted average interest rates	Denominated amount 2008	Balance in NOK	
			2008	2007
USD	3.8%	29	199	206
EUR	4.2%	5	47	19
CNY	7.7%	98	99	72
Other			-	8
Total unsecured bank loans			345	306
Finance lease obligations			1	2
Mortgage loans			2	5
Other long-term debt			16	21
Outstanding debt			365	334
Less: Current portion			(86)	(71)
Total long-term debt			279	263

Foreign currency swaps are not reflected in the table above. See Note 42 Derivative instruments and hedge accounting for additional information.

Payments on long-term debt including interest fall due as follows

Amounts in NOK million	Bank loans	Finance lease and other	Total
2009	103	1	105
2010	191	5	195
2011	77	6	83
2012	4	4	8
2013	2	3	5
Thereafter	1	1	3
Total	378	20	398

Norsk Hydro ASA has a USD 1,700 million, seven-year revolving multi-currency credit facility with a syndicate of international banks, through July 2014. The commitment fee on the facility is 0.06 percent per annum, increasing to 0.0675 percent the last two years. There was no borrowing under this facility as of 31 December 2008.

Secured debt

Amounts in NOK million	2008	2007
Amount of secured debt	2	5
Assets used as security:		
Machinery and equipment	-	34
Buildings	39	46
Other	3	2
Total	42	83

NOTE 31 Provisions

Amounts in NOK million	2008			2007		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Warranties	85	-	85	110	-	110
Exit and disposal activities	215	63	278	262	42	303
Environmental clean-up	114	153	267	57	137	194
Asset retirement obligations	61	701	762	32	570	603
Postretirement medical benefits	-	140	140	-	120	120
Other employee benefits	299	413	713	127	256	382
Social security costs on pension	-	601	601	-	722	722
Insurance claims	573	-	573	717	-	717
Onerous contracts	333	12	345	8	-	8
Other	380	31	411	286	4	290
Total provisions	2,060	2,115	4,175	1,599	1,849	3,448

Amounts in NOK million	Warranties	Exit and disposal activities	Environmental clean-up	Asset retirement obligations	Postretirement medical benefits	Other employee benefits	Social security costs on pension	Insurance claims	Onerous contracts	Other	Total
Specification of change in provisions											
31 December 2007	110	303	194	603	120	382	722	717	8	290	3,448
Additions	152	114	62	115	2	389	65	13	289	319	1,521
Used during the year	(113)	(150)	(13)	(57)	(1)	(411)	(32)	(58)	(3)	(129)	(968)
Reversal of unused provisions	(81)	(31)	(6)	(9)	(12)	(35)	(5)	(100)	-	(14)	(292)
Accretion expense and effect of change in discount rate	-	-	3	50	-	4	-	-	-	-	57
Transfers, reclassifications and companies sold	-	10	(11)	1	-	317	(153)	-	-	(97)	67
Foreign currency translation	17	32	37	60	32	67	5	-	52	41	342
31 December 2008	85	278	267	762	140	713	601	573	345	411	4,175

Timing of cash outflows											
2009	85	215	114	61	-	299	-	573	333	380	2,060
2010-2013	-	63	116	225	33	177	218	-	4	27	863
Thereafter	-	-	37	476	108	236	383	-	9	4	1,252
31 December 2008	85	278	267	762	140	713	601	573	345	411	4,175

Exit and disposal activities include costs related to labor force reductions, demolition costs and certain other costs. Environmental clean-up provisions relate to production facilities that are currently in operation, as well as to locations that have been shut-down. Approximately 80 percent of the payments related to the environmental clean-up costs are expected to be made within 2011. Short and medium term asset retirement obligations relate primarily to the relining of smelters. Payments related to other asset retirement obligations include, for example, asset retirement obligations related to Norwegian power plant concessions which are due when the facilities are returned to the Norwegian govern-

ment and the dismantling of factories usually paid at the time of plant closure. See note 4 Critical accounting judgments and key sources of estimation uncertainty for additional information about environmental liabilities and asset retirement obligations.

Post-retirement medical benefits relate to operations primarily in North America. The provision for social security related to pensions relates primarily to operations in Europe with defined benefit pension plans. See note 32 Employee retirement plans for additional information.

Other employee benefits includes a provision for short-term performance bonus payments. It also includes both the short and

long-term provision for bonus payments that are based on the number of years of service. Primarily located in Europe, these “jubileum” plans vary, with payments being received in the period between 10 to 50 years of service, or post-employment.

Approximately 90 percent of the amount reported as Onerous contracts relates to unfavorable electricity power contracts in Germany. These onerous contracts were recognized in December 2008 and are short-term in nature. Onerous contracts also includes building lease contracts where Hydro has discontinued use of the facilities for cost savings or business purposes, but has not been able to exit or terminate the lease contract.

Insurance claims relates to insured losses submitted by external parties to Hydro’s captive insurance company, Industriforsikring AS, that are not yet settled as of 31 December 2008. Other provisions includes various miscellaneous items, for example litigation and related fees. Other provisions also includes an immaterial amount related to CO₂ emissions in excess of purchased CO₂ emission quotas.

Long-term provisions now includes the categories postretirement medical benefits, non-current other employee benefits and social security costs on pension, reclassified from Other liabilities as of 31 December 2008. Insurance claims have been reclassified from Trade and other payables as of 31 December 2008. All 2007 figures are restated for comparative purposes.

NOTE 32 Employee retirement plans

PENSION BENEFITS

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans.

Net periodic pension cost

Amounts in NOK million	2008	2007
Defined benefit plans		
Benefits earned during the year, net of participants' contributions	483	560
Interest cost on prior period benefit obligation	987	945
Expected return on plan assets	(911)	(872)
Recognized (gain) loss	(27)	3
Past service cost	23	30
Curtailment gain	-	(5)
Settlement gain	(3)	(3)
Net periodic pension cost	551	658
Defined contribution plans	26	24
Multiemployer plans	1	1
Termination benefits and other	198	218
Total net periodic pension cost	775	900

Change in projected benefit obligation (PBO)

Amounts in NOK million	2008	2007
Projected benefit obligation at beginning of year	(20,584)	(23,695)
Benefits earned during the year	(490)	(630)
Interest cost on prior period benefit obligation	(987)	(1,042)
Actuarial gain (loss)	(2,053)	1,070
Plan amendments	(25)	(20)
Benefits paid	844	967
Curtailments	-	54
Settlements	141	(3)
Special termination benefits	(11)	(9)
Divestments	624	283
Assets held for sale	-	1,838
Foreign currency translation	(898)	603
Projected benefit obligation at end of year	(23,440)	(20,584)

Change in pension plan assets

Amounts in NOK million	2008	2007
Fair value of plan assets at beginning of year	15,579	16,843
Actual return on plan assets	(2,307)	1,502
Company contributions	166	366
Plan participants' contributions	8	22
Benefits paid	(534)	(674)
Settlements	(135)	(36)
Divestments	(411)	(221)
Assets held for sale	-	(1,746)
Foreign currency translation	20	(475)
Fair value of plan assets at end of year	12,386	15,579

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2008	2007
Defined benefit plans		
Funded status of the plans at end of year	(11,054)	(5,005)
Unrecognized net (gain) loss	3,315	(1,893)
Unrecognized past service cost	7	5
Net accrued pension recognized	(7,732)	(6,893)
Termination benefits and other	(764)	(780)
Total net accrued pension recognized	(8,496)	(7,674)
Amounts recognized in the balance sheet consist of		
Prepaid pension	1,458	1,246
Accrued pension liabilities	(9,953)	(8,920)
Net amount recognized	(8,496)	(7,674)

Weighted-average assumptions used to determine net periodic pension cost

	2008	2007
Discount rate	5.0%	4.5%
Expected return on plan assets	6.3%	5.9%
Rate of compensation increase	3.7%	3.4%

Weighted-average assumptions used to determine pension obligation at end of year

	2008	2007
Discount rate	4.7%	5.0%
Rate of compensation increase	3.8%	3.7%

Analysis of projected benefit obligation (PBO)

Amounts in NOK million	2008	2007
PBO arising from plans that are wholly or partly funded	(15,336)	(13,921)
PBO arising from plans that are unfunded	(8,104)	(6,664)
Total PBO	(23,440)	(20,584)

Weighted-average investment profile plan assets at end of year ¹⁾

	Target Allocation	2008	2007
Equity securities	22-35%	27%	37%
Debt securities	31-51%	33%	32%
Real estate	17%	22%	17%
Other	9-15%	18%	14%
Total		100%	100%

1) Property used by Hydro represents 16% and 12% of total plan assets at the end of 2008 and 2007, respectively.

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be one to two percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

In Norway, Hydro participates in a pension plan that entitles the majority of its Norwegian employees a right to retire from the age of 62 with benefits from the plan ("avtalefestet pensjon, AFP"). The benefits are financed through a pooled arrangement by private sector employers. The Norwegian state also contributes to the plan. Employer contributions to the plan are currently determined as a fixed annual amount per employee, and as a fixed percentage of benefits paid for early retirees until the normal retirement age of 67 years. The plan is a defined benefit plan. The plan assets are not segregated. The information required to account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The retiree specific contribution is recognized in total when an early retirement agreement is signed. The employer contributions are included in Termination benefits and other. An agreement to change the plan was reached during 2008, whereby the structure of the benefits will change, and the employer contributions will solely be in the form of a salary related charge for active employees. Contributions for retirees are agreed to be discontinued. The changes are assumed to be effective from 2011, however, the detailed legislation is not yet in place.

Social security tax imposed on pensions has been recognized and accrued for where applicable, together with social security tax imposed on other personnel benefits, and has not been treated as pensions.

OTHER RETIREMENT BENEFITS

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 9 million in 2008 and NOK 9 million in 2007. The post retirement liability as of 31 December, 2008 was NOK 140 million and NOK 120 million in 2007.

NOTE 33 Deferred tax

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December 2008 and 31 December 2007:

Amounts in NOK million	Asset		Liabilities	
	2008	2008	2007	2007
Marketable securities	-	(6)	10	-
Inventory valuation	321	(427)	209	(313)
Accrued expenses	1,667	(1,446)	2,068	(1,862)
Unrealized exchange (gains) losses	439	(537)	77	(1,522)
Property, plant and equipment	3,098	(4,169)	4,445	(5,425)
Ground rent surtax	282	-	306	-
Capitalized interest	-	(72)	-	(79)
Other non-current assets	272	(409)	287	(377)
Pensions	1,810	(477)	1,697	(416)
Deferred (gains) losses on sales	5	(113)	22	(622)
Derivatives	1,126	(507)	778	(734)
Cash Flow Hedges	-	(60)	76	(31)
Other	396	(275)	336	(249)
Tax effect tax loss carryforwards	1,600	-	907	-
Subtotal	11,016	(8,498)	11,218	(11,630)
Of which not recognized as tax asset	(1,751)		(871)	
Gross deferred tax assets and liabilities	9,265	(8,498)	10,347	(11,630)

At the end of 2008, Hydro had tax loss carryforwards of NOK 5,142 million, primarily in the United States, Jamaica, Malaysia, Spain, Italy, United Kingdom and China. Carry forward amounts expire as follows:

Amounts in NOK million	
2009	-
2010	49
2011	222
2012	78
2013	763
After 2013	1,842
Without expiration	2,189
Total tax loss carryforwards	5,142

NOTE 34 Shareholders' equity

SHARE CAPITAL

Norsk Hydro ASA had authorized and issued 1,247,956,949 ordinary shares as of 31 December 2008 and 2007. The number of outstanding shares was 1,206,325,863 as of 31 December 2008 and 1,209,304,379 as of 31 December 2007. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,209,143,809 for the year 2008 and 1,221,195,650 for 2007.

On 5 July 2007 an extraordinary General Meeting approved the plan for the demerger of Norsk Hydro ASA as part of the merger of Norsk Hydro ASA's oil and gas activities with Statoil ASA. The extraordinary General Meeting also approved a capital reduction to be effected before completion of the merger with the cancellation of 21,627,000 treasury shares and the redemption of 16,871,506 shares owned by the Ministry of Trade and Industry in Norway. The Ministry agreed to participate in the redemption in order to leave its ownership interest unchanged, and received a compensation of NOK 2,763 million. The cancellation and redemption were completed in September 2007. As a result of the demerger the par value of each share was reduced from NOK 3.66 to NOK 1.098.

TREASURY SHARES

Norsk Hydro ASA had 41,631,086 treasury shares as of 31 December 2008 and 38,652,570 treasury shares as of 31 December 2007. Total buyback of shares was 4,408,000 in 2008 and 621,895 in 2007. Shares reissued to employees were 1,429,484 in 2008 and 621,895 in 2007. No treasury shares were cancelled in 2008 and the number of treasury shares cancelled in 2007 was 21,627,000.

The General Meeting on 6 May 2008 authorized a buyback of shares in the market with a maximum par value of NOK 49.4 million. At a per share par value of NOK 1.098, the market share price interval is set at NOK 20 to NOK 150 per share. The repurchased shares are to be used for the purpose of cancellation through capital reduction. Total number of shares repurchased in 2008 under this authorization was 4,408,000. The authorization applies from 6 May 2008 until 5 May 2009. The remaining 37,223,086 treasury shares may, pursuant to the decision of the General Meeting at the time these shares were acquired, be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors.

The treasury shares amount per 31 December 2008 of NOK 4,274 million was comprised of NOK 46 million share capital and NOK 4,228 million retained earnings, and the

treasury shares amount of NOK 4,283 million per 31 December 2007 was comprised of NOK 42 million share capital and NOK 4,241 million retained earnings.

DEMERGER

Hydro's equity was reduced in 2007 by NOK 47,089 million as a result of the demerger. Par value of the shares was reduced by 70 percent from NOK 3.66 to NOK 1.098 per share reducing the share capital by NOK 3,197 million from NOK 4,568 million to NOK 1,370 million. Additional paid-in capital was reduced by NOK 6,727 million, which corresponds to 70 percent of additional paid-in capital as of 1 January 2007.

Retained earnings were reduced by NOK 41,339 million. This amount represents the portion of assets, rights and obligations transferred to StatoilHydro which exceeds the reduction in share capital and additional paid-in capital.

Other reserves related to the oil and gas activities transferred to StatoilHydro upon completion of the merger amounted to NOK 4,174 million. This NOK 4,174 million consists of accumulated currency translation differences of NOK (4,349) million and net unrealized gains on long-term marketable equity securities of NOK 175 million.

CHANGE IN OTHER RESERVES

The table below specifies the changes in Other reserves for 2008 and 2007.

Amounts in NOK million	2008			2007		
	Pretax	Tax	Net of tax	Pretax	Tax	Net of tax
Currency translation differences						
Currency translation differences during the year	8,382	-	8,382	(4,507)	-	(4,507)
Companies sold	232	-	232	112	-	112
Net currency translation differences	8,614	-	8,614	(4,395)	-	(4,395)
Unrealized gain (loss) on securities						
Unrealized gain (loss) on securities	201	(35)	165	(449)	154	(295)
Cash flow hedges - see note 42 Derivative instruments and hedge accounting						
Period gain (loss) booked into equity	(184)	53	(132)	152	(41)	111
Reclassification of hedging loss	573	(157)	415	656	(183)	474
Net change cash flow hedges	388	(105)	284	809	(224)	585
Total attributable to equity holders of the parent	8,913	(130)	8,783	(3,918)	(70)	(3,988)
Total attributable to minority interest	290	(10)	280	(117)	-	(117)

NOTE 35

Capital management

Hydro's capital management policy is to maximize value creation over time, while maintaining a strong financial position and an investment grade credit rating. Capital is defined using the measures Adjusted net interest-bearing debt and Adjusted equity. Capital is managed using the measures Adjusted net interest-bearing debt, Adjusted net interest-bearing debt to Adjusted equity and Adjusted funds from operations to Adjusted net interest-bearing debt. The definition of these key ratios is given below.

CREDIT RATING

To secure access to attractive terms in the capital markets and remain financially solid, Hydro aims at keeping investment grade rating from the leading rating agencies, Standard & Poor's (BBB) and Moody's (Baa2). To maintain the current rating, Hydro targets, over the cycle, to keep Adjusted funds from operations of at least 40 percent of Adjusted net interest-bearing debt, and the Adjusted net interest-bearing debt to Adjusted equity ratio below 55 percent.

LIQUIDITY MANAGEMENT AND FUNDING

Hydro manages its liquidity at the corporate level, ensuring sufficient liquidity to cover group operational requirements. During 2008 net cash provided by operations and cash received through asset sales, together with our liquidity holdings, were sufficient to cover our operating requirements, capital expenditures, dividend payments and share repurchase program. See note 28 Bank loans and other interest-bearing short-term debt for additional information.

Hydro manages long-term debt and equity financing at the corporate level, with an ambition to access the national and international capital markets as our primary source for external long-term funding. The last time Hydro issued shares was in connection with the acquisition of Saga Petroleum ASA in 1999.

In 2007, Hydro entered into a USD 1.7 billion seven-year multi-currency revolving credit facility with a syndicate of banks. Any borrowings under the facility will be unsecured, and the debt agreement contains no financial ratio covenants and no provisions connected to the value of underlying assets. The facility is for general corporate purposes, and provides readily available and flexible long-term funding. There is no borrowing under this facility as of 31 December 2008 and as of 31 December 2008 Hydro had no bond debt outstanding. On 6 March 2009 Hydro signed a EUR 750 million three-year revolving credit facility with a syndicate of banks. See note 30 Long-term debt for additional information.

FUNDING OF SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Normally the parent company, Norsk Hydro ASA, incurs debt and then extends loans or equity to wholly-owned subsidiaries to fund capital requirements within the group. When partially-owned subsidiaries or investments in associates and jointly controlled entities are financed, it is Hydro policy to finance according to ownership share and on equal terms with the other owners. All financing of subsidiaries and equity accounted investments is at arm's-length principles. Project financing may be used in certain cases, with the primary objective generally being to achieve risk mitigation while also taking into account partnership and other relevant considerations. Hydro's ongoing development of the aluminium smelter in Qatar, through Qatar Aluminium Ltd, is financed through a USD 2.6 billion syndicated bank facility, in addition to equity from the owners. The current outstanding amount under the credit facility as of 31 December 2008 is USD 1,146 million, compared to USD 276 million outstanding as of 31 December 2007. The facility is with limited recourse to Hydro during development of the project and without recourse to Hydro after completion of the project. See note 37 Guarantees for additional information.

SHAREHOLDER RETURN

Shareholder return consists of dividends and share price development. Over time value creation should be reflected to a greater extent by share price development than through dividends. Our dividend policy is to pay an average of 30 percent of net income over time in ordinary dividends to our shareholders. The dividend for a specific year is determined after taking into consideration expected future earnings and cash flow, future investment opportunities, the outlook for world commodity markets and Hydro's current financial position. Share buybacks or extraordinary dividends may be used to supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total dividend payout reflects Hydro's goal to give shareholders a competitive return benchmarked against alternative investments in comparable companies. See note 36 Dividends and note 34 Shareholders' equity for additional information.

HYDRO'S CAPITAL MANAGEMENT MEASURES

Management makes regular use of the Adjusted net interest-bearing debt to Adjusted equity ratio in its assessment of Hydro's financial standing and ability to incur additional debt. Net interest-bearing debt is defined as Hydro's short- and long-term interest-bearing debt adjusted for Hydro's liquidity positions. Adjusted net interest-bearing debt is defined as net interest-bearing debt adjusted for liquidity positions not regarded as available for servicing of Hydro debt and other obligations which are considered debt-like in nature. The definition also includes an adjustment for the indebtedness of Hydro's equity accounted investments. Both adjustments are relevant as the adjusting items affect Hydro's ability to service existing debt and to incur additional debt. See the table Adjusted net interest-bearing debt to equity, below, for additional specific information related to the definition and measurement of this capital management measure.

The ability to generate cash in comparison to indebtedness is an important measure for Hydro's risk exposure and financial stability. Management therefore also uses Adjusted funds from operations and the ratio Adjusted funds from operations to Adjusted net interest-bearing debt as capital management measures. Adjusted funds from operations is defined as Income from continuing operations, adjusted for depreciation, amortization and impairments, and deferred taxes. Furthermore, an adjustment is made for Hydro's share of depreciation, amortization and impairments in its equity accounted investments to create a measure which reflects Hydro's as well as its equity accounted investments' ability to generate cash. The definition also includes adjustments for unrealized effects on derivative contracts and certain other non-cash items.

CHANGES IN THE DEFINITIONS OF HYDRO'S CAPITAL MANAGEMENT MEASURES

The definition of Adjusted net interest-bearing debt, Adjusted equity and Adjusted funds from operations have been changed compared to previous years' definition. The measures as now defined provide a more complete and improved evaluation of Hydro's financial position. However, the changes in the definitions are not expected to have a major impact on the measures over time. Cash and short-term investments in Hydro's captive

insurance company Industriforsikring AS are no longer included in the definition of Adjusted net interest-bearing debt. Previously, the Expected income tax benefit on pension liability was defined as 30 percent of the net pension liability. The Expected income tax benefit on pension liability is now defined as the sum of the net deferred tax asset related to pensions and 30 percent of the unrecognized net pension liability, with a corresponding adjustment in Adjusted equity. Cash positions in equity accounted investments are considered to have an off-setting effect on the implicit indebtedness of Hydro, and are now included in the calculation of Adjusted net interest-bearing debt as part of Net interest-bearing debt in equity accounted investments. Cash positions in excess of the debt in any one of the equity accounted investments are excluded from the calculation, as is any debt borrowed from Hydro by the equity accounted investment. Net interest-bearing debt in equity accounted investments is the sum of this calculation performed for each individual equity accounted investment. Adjusted net interest-bearing debt now includes Hydro's short- and long-term provisions related to exit and disposal activities, environmental clean-up and asset retirement obligations.

Adjusted funds from operations is now based on Income from continuing operations, whereas in previous years the definition was based on Net income, and included Income from discontinued operations. Certain adjustments for non-cash items are a change from the prior years' definition. The definition used to include only adjustments for depreciation, amortization and impairments in Hydro and its equity accounted investments, and deferred income taxes.

Adjusted net interest-bearing debt, Adjusted equity and Adjusted net interest-bearing debt to Adjusted equity ratio are presented in the following tables. Both the 2008 and the comparative 2007 figures are presented using the new definitions as discussed above. Previously published capital management measures are therefore not comparable with the figures presented below.

Adjusted net interest-bearing debt to equity

31 December

Amounts in NOK million, except ratio	2008	2007
Cash and cash equivalents	3,333	9,330
Short-term investments	1,648	2,742
Bank loans and other interest-bearing short-term debt	(1,169)	(1,045)
Long-term debt	(279)	(263)
Net interest-bearing debt	3,534	10,764
Cash and cash equivalents and Short-term investments in captive insurance company ¹⁾	(1,709)	(2,013)
Net pension liability at fair value, net of expected income tax benefit ²⁾	(9,587)	(5,154)
Operating lease commitments, net of expected income tax benefit ³⁾	(1,909)	(1,498)
Net interest-bearing debt in equity accounted investments ⁴⁾	(4,855)	(2,170)
Short- and long-term provisions, net of expected income tax benefit ⁵⁾	(915)	(770)
Adjusted net interest-bearing debt	(15,440)	(842)
Total equity	(54,141)	(55,008)
Net pension liability (asset) not recognized	3,322	(1,889)
Expected income tax benefit (liability)	(997)	567
Equity adjustments off-balance sheet pension liabilities	2,325	(1,322)
Adjusted equity	(51,815)	(56,330)
Adjusted net interest-bearing debt / Adjusted equity ratio	0.30	0.01

- 1) Cash and cash equivalents and Short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net interest-bearing debt.
- 2) Net pension liability at fair value is the sum of both the recognized and unrecognized pension liability. The expected income tax benefit related to the net pension liability is defined as the sum of the net deferred tax asset related to pensions as of 31 December and 30 percent of the unrecognized net pension liability as of 31 December and is NOK 2,330 million and NOK 714 million, respectively, for 2008 and 2007. The figure shown also includes the long-term provision for postretirement medical benefits of NOK 140 million, net of an estimated 30% expected tax benefit.
- 3) Operating lease commitments are discounted using a rate of 3.8% and 5.5% for 2008 and 2007, respectively. The expected tax benefit on operating lease commitments is estimated at 30%.
- 4) Net interest-bearing debt in equity accounted investments is defined as the sum of Hydro's relative ownership percentage of each equity accounted investment's short and long-term interest-bearing debt less their cash positions, reduced by total outstanding loans from Hydro to the equity accounted investment. (Net interest-bearing debt per individual equity accounted investment is limited to a floor of zero.) Debt held by equity accounted investments affects their net income, net cash flows, and their ability to pay dividends. Therefore, Hydro's ability to incur and service future debt is affected. Cash positions in the equity accounted investments are considered to have an off-setting effect on their indebtedness, positively influencing their cash flows and thereby their and Hydro's ability to service existing, or assume additional, debt. Cash positions in excess of the debt in any one of the equity accounted investments are not considered to be available to repay or service Hydro's or any of the other equity accounted investment's debt, and are therefore excluded from the calculation.
- 5) Consists of Hydro's short and long-term provisions related to exit and disposal activities, environmental clean-up and asset retirement obligations, net an expected tax benefit estimated at 30%.

NOTE 36 Dividends

Hydro's Board of Directors' normally proposes a dividend per share in connection with the annual accounts that are published in March each year. The Annual General Meeting considers this proposal, normally in May, and the approved dividend is then paid to the shareholders. Dividends are paid once each calendar year; generally occurring in May. For non-Norwegian shareholders, Norwegian withholding tax will be deducted at source in accordance with the applicable Norwegian tax regulations. For additional information related to Hydro's dividend and shareholder policy see note 35 Capital management.

For fiscal year 2008 The Board of Directors' has proposed no dividend.

Dividends declared and paid in 2008 and 2007 for the prior fiscal year, respectively, are as follows:

	Paid in 2008 for fiscal year 2007	Paid in 2007 for fiscal year 2006
Dividend per share paid, NOK	5.00	5.00
Total dividends paid, NOK million	6,053	6,134
Date proposed	18 February 2008	19 February 2007
Date approved	6 May 2008	8 May 2007
Dividend payment date	19 May 2008	21 May 2007

NOTE 37 Guarantees

Amounts in NOK million	2008	2007
Guarantees (off-balance sheet):		
Guarantees related to associates	-	-
Guarantees related to jointly controlled entities	9,138	7,108
Sales guarantees	5,170	3,591
Other guarantees	84	65
Total	14,392	10,764

Guarantees in respect of jointly controlled entities primarily relates to Qatar Aluminium Ltd (Qatalum). Qatalum has secured USD 2,6 billion in debt to finance project costs during construction of the aluminum smelter and the power plant. Qatar Petroleum and Hydro have issued a completion guarantee in favor of the lenders on a pro rata (50/50) but not joint basis. The guarantee covers due and punctual payment of

interest and repayments. The guarantee terminates when a set of objective criteria related to the completion of the project has been fulfilled. The amount included in the table above of NOK 9 billion plus accrued interest and fees represents the maximum exposure under the guarantee when the facility is fully drawn. The current exposure based on outstanding debt under the credit facility as of 31. December 2008 is approximately NOK 4 billion.

Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. In addition, Hydro has certain guarantees relating to sales of companies that are unspecified in amount and unlimited in time. No amounts relating to such guarantees are included in the table above. Other guarantees primarily relate to guarantees in respect of companies sold during 2007 and 2008, where the guarantee has not yet been replaced by the acquiring company. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote. Historically, Hydro has not made any significant indemnification payments under such guarantees and no amount has been accrued in the consolidated financial statements. Hydro estimates that the fair value of guarantees related to sale of companies is immaterial.

NOTE 38 Contingent liabilities and contingent assets

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

See note 4 Critical accounting judgement and key sources of estimation uncertainty for additional information.

Hydro and StatoilHydro have in close cooperation with Norwegian and US authorities, concluded their parallel investigations in order to clarify the facts surrounding payments in connection with Hydro's (now StatoilHydro's) operations in Libya and consultancy agreements relating to Hydro's previous international oil and gas operations in relation to applicable anti-corruption regulations. The fact findings of the investigations were submitted and presented to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) on 7 October 2008 and to US authorities in November 2008. Hydro has not received any conclusion regarding this case from Norwegian or US authorities.

Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Norsk Hydro ASA and StatoilHydro ASA are jointly liable for liabilities of Norsk Hydro ASA and Norsk Hydro Produksjon AS accrued

before the demerger date of 1 October 2007. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. Similarly, Norsk Hydro ASA and Yara International ASA are jointly liable for liabilities accrued before the demerger date of 24 March 2004 on the same conditions.

In connection with the merger of Hydro's petroleum activities with StatoilHydro, StatoilHydro assumed a share of 70 per cent of the liability for any obligations related to activities that on the time of the demerger were no longer a part of Hydro, including among other things environmental obligations related to the former fertilizer and magnesium activities.

NOTE 39 Contractual commitments and other commitments for future investments

Amounts in NOK million	2009	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	405	112	517
Additional authorized future investments in property, plant and equipment	336	213	549
Contract commitments for other future investments	4,648	2,299	6,948
Total	5,389	2,625	8,014

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

A substantial part of contract commitments for other future investment is related to the Qatalum project.

The non-cancelable future fixed and determinable obligation as of 31 December 2008 is as follows:

Take-or-pay and Long-term contracts

Amounts in NOK million	Alumina and aluminium	Energy related	Other	Sales commitments
2009	1,821	2,116	829	(8,465)
2010	394	2,478	371	(1,332)
2011	377	2,428	178	(865)
2012	377	2,065	33	(503)
2013	424	2,934	23	(483)
Thereafter	7,262	21,293	185	(2,848)
Total	10,655	33,314	1,620	(14,495)

Hydro has entered into take-or-pay and long-term contracts providing for future payments to secure transportation capacity, processing services, aluminium, raw materials and electricity. In addition, Hydro has entered into long-term sales commitments. This principally relates to delivering of electricity. Hydro has delivery commitments relating to power stations to be reverted to the government of 17 TWh of which 614 GWh in 2009. Annual concession power delivery commitments relating to power stations not subject to reversion is 249 GWh annually.

Hydro has also entered into other long-term purchase contracts where terms of the agreements include additional charges covering variable operating expenses, in addition to the fixed and determinable component shown in the table above. This includes contracts where the variable part of the price normally is linked to the London Metal Exchange quoted aluminium prices.

NOTE 40

Financial instruments

Financial instruments, and contracts accounted for as such, are in the balance sheet included in several line items and classified in categories for accounting treatment. Below a reconciliation of the financial instruments in Hydro is presented:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total
2008							
Assets - current							
Cash and cash equivalents	7	-	3,327	-	-	-	3,333
Short-term investments	1,648	-	-	-	-	-	1,648
Accounts receivable	-	-	13,990	-	-	2,264	16,254
Other current financial assets	2,503	76	-	-	-	-	2,579
Assets - non-current							
Investments accounted for using the equity method	-	-	2,468	-	-	11,989	14,457
Other non-current financial assets	2,174	40	1,772	1,607	-	-	5,592
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	1,169	-	1,169
Trade and other payables	-	-	-	-	7,366	5,577	12,944
Other current financial liabilities	5,187	-	-	-	-	-	5,187
Liabilities - non-current							
Long-term debt	-	-	-	-	-	279	279
Other non-current financial liabilities	2,996	-	-	-	-	-	2,996

All line items not specified above, as existing in the balance sheet, does not include financial instruments.

Financial assets, classified as current and non-current, represent the maximum exposure Hydro has towards credit risk as at the reporting date.

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total
2007							
Assets - current							
Cash and cash equivalents	7	-	9,323	-	-	-	9,330
Short-term investments	1,992	-	750	-	-	-	2,742
Accounts receivable	-	-	13,425	-	-	2,139	15,564
Other current financial assets	964	2	-	-	-	-	967
Assets - non-current							
Investments accounted for using the equity method	-	-	982	-	-	8,677	9,659
Other non-current financial assets	1,416	-	1,775	1,150	-	-	4,341
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	1,045	-	1,045
Trade and other payables	-	-	-	-	7,162	5,748	12,911
Other current financial liabilities	974	183	-	-	-	-	1,157
Liabilities - non-current							
Long-term debt	-	-	-	-	263	-	263
Other non-current financial liabilities	2,765	30	-	-	-	-	2,795

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are in the income statement included in several line items. Below

is a reconciliation of the effects from Hydro's financial instruments in the income statements:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total ¹⁾
2008							
Income statement line item							
Revenue	(95)	572	-	-	-	-	478
Raw material and energy expense	203	-	-	-	-	-	203
Financial income	144	-	-	(170) ²⁾	-	-	(27)
Financial expense	3,915	-	-	-	-	-	3,915
Gain/loss directly to equity							
Recognized directly in equity (before tax)				(213)			
Removed from equity and recognized in profit or loss (before tax)				7			
2007							
Income statement line item							
Revenue	(188)	652	-	-	-	-	464
Raw material and energy expense	701	-	-	-	-	-	701
Financial income	(45)	-	-	(130) ²⁾	-	-	(175)
Financial expense	(3,092)	-	-	-	-	-	(3,092)
Gain/loss directly to equity							
Recognized directly in equity (before tax)				453			

- 1) Amount indicates the total gains and losses related to financial instruments for each specific income statement line item.
2) Dividends from equity instruments classified as available-for-sale.

Currency effects, with the exception of currency derivatives, are not included above.
Negative amounts indicate a gain.

NOTE 41

Financial and commercial risk management

Hydro is exposed to market risks from prices of commodities bought and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create significant fluctuations in Hydro's results. To manage this exposure, Hydro's main strategy is to maintain a strong financial position.

Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis. Natural hedging positions are established where possible and if economically viable. Hydro uses financial derivatives to some extent to manage financial and commercial risk exposures.

COMMODITY PRICE RISK EXPOSURE

Electricity Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its equity production. The deficit is mainly secured through long-term contracts with other producers and suppliers to secure electricity for Hydro's own consumption and delivery commitments. A major part of contracted volumes are with rated counterparts.

In order to manage and mitigate risks related to unfavorable fluctuations in electricity prices and production volumes, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange (Nord Pool). Hydro participates in trading, but with tight volume and risk limits.

Hydro has commitments to deliver concession power at regulated prices. From time to time Hydro will settle obligations to physically deliver electric power in concession power agreements financially. If the agreement for financial settlement changes the risk exposure compared to the original physical delivery, it will be recognized at fair value. Currently the fair value exposure on the balance sheet relating to concession power is limited.

Aluminium Hydro produces primary aluminium and fabricated aluminium products. Hydro's sourcing and trading activities include procurement of raw materials and primary aluminium for use in Hydro's smelters and casthouses or in downstream operations. These materials are also sold to external customers. In addition, trading activities contribute to optimize capacity utilization and to reduce logistical costs, as well as strengthen market positions by providing customers with flexibility in pricing and sourcing. Hydro has considerable activities relating to remelting and long-term commercial agreements to secure sourcing of casthouse products.

Hydro enters into future contracts with the London Metal Exchange (LME) mainly for two purposes. The first is to achieve an average LME aluminium price on smelter production. Second, because Hydro's downstream business, remelting, and the sale of third party products are based on margins

above the LME price, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding physical or derivative future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking external LME positions based upon net exposures within given limits. Aluminium price volatility can result in significant fluctuations in earnings as the derivative positions are marked to their market value with changes to market value recognized in earnings, while the underlying physical contracts transactions normally are not marked-to-market, except for those included in trading portfolios.

In order to secure margins for certain projects or other special situations, Hydro has sold forward on a longer-term basis. In these situations, hedge accounting has normally been applied. See the section on cash flow hedges in note 42 Derivative instruments and hedge accounting.

CO₂ emission rights Hydro has entered into trading of CO₂ emission rights. The fair value exposure and realized effects were not material in either 2008 or 2007.

Other raw materials Hydro is party to both long-term and short-term sourcing agreements for a range of raw materials and services, entered into at both fixed and variable prices. These include natural gas, alumina, pitch, petroleum coke and freight. These contracts gave rise to only limited fair value accounting exposure in 2008 and 2007.

FOREIGN CURRENCY RISK EXPOSURE

The price of Hydro's most important product, aluminium, is either denominated in US dollars or is influenced by movements in the value of other currencies against the US dollar. Further, the cost of raw materials, including alumina, is affected by the US dollar price of aluminium, and variations in the US dollar exchange rates against local currencies. Hydro's primary foreign currency risk is therefore linked to fluctuations in the value of the US dollar.

Hydro also incurs costs related to the production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian Krone, US dollar, Canadian dollar, Australian dollar, Brazilian Real and British Pound. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian Krone for subsidiaries outside of Norway will in some cases influence the comparative results of operations.

Contractual arrangements for the majority of the purchase and sales activities within the European aluminium business are committed in Euro based on the prevailing exchange rates between the US dollar and Euro at inception. This gives a Euro exposure in the results, from the time of entering into the contractual arrangements until settlement. The contracts are generally committed and settled within six months.

Hydro's assets and liabilities related to working capital and monetary items are denominated in various currencies. Exchange rate movements will therefore have effects on the carrying value that will be recognized in earnings. Such valua-

tion effects are one time effects, contrary to the effects of foreign exchange rates on revenues and cost.

Hydro has major producing assets in countries outside Norway. Any changes in exchange rates will affect the value of such investments and therefore in turn Hydro's equity.

To reduce the long-term effects of fluctuations in the US dollar and other exchange rates, Hydro has used foreign currency swaps and forward currency contracts to manage the currency exposures. Due to increase of USD denominated debt and lower exposure due to lower aluminium prices, the use of currency derivatives is substantially reduced.

INTEREST RATE EXPOSURE

Hydro is exposed to changes in interest rates, primarily as a result of funding the business operations and management of liquidity in different currencies. Hydro currently features only small amounts of interest bearing debt, and the main interest exposure is therefore connected to current accounts with banks.

Hydro has an exposure to interest rate fluctuations on debt in its equity accounted investments. This is mainly related to debt in Alunorte and Qatalum. See note 35 Capital Management for additional information.

The fair value of interest rate derivatives as of 31 December 2008 and 2007 is immaterial and not presented here.

However, Hydro has interest rate exposure included in other financial and commodity contracts, included in the sensitivity analysis below.

SENSITIVITY ANALYSIS

In accordance with IFRS requirements Hydro has chosen to provide information about market risk and potential exposure to hypothetical loss from its use of derivative financial instruments and other financial instruments and derivative commodity instruments through sensitivity analysis disclosures. The sensitivity analysis depicted in the tables below reflects the hypothetical gain/loss in fair values that would occur assuming a 10 percent change in rates or prices and no changes in the portfolio of instruments as of 31 December 2008 and 31 December 2007, respectively. Only effects that would ultimately be accounted for in profit and loss, or equity, as a result of a change in rates or prices are included. All changes are before tax.

Hypothetical gain/loss from +/- 10 percent change in						
Amounts in NOK million	Fair value as of 31 December 2008 ¹⁾	Interest rates	Foreign currency exchange rates	Commodity prices	Volatility	Other
Derivative financial instruments ²⁾	(1,101)	8	1,327	-	-	10
Other financial instruments ³⁾	14,398	23	820	-	-	34
Derivative commodity instruments ⁴⁾	(2,405)	83	651	399	11	22
Financial instruments directly to equity ⁵⁾	1,723	-	146	24	-	160

Hypothetical gain/loss from +/- 10 percent change in						
Amounts in NOK million	Fair value as of 31 December 2007 ¹⁾	Interest rates	Foreign currency exchange rates	Commodity prices	Volatility	Other
Derivative financial instruments ²⁾	246	6	1,183	-	-	-
Other financial instruments ³⁾	16,647	-	550	-	-	199
Derivative commodity instruments ⁴⁾	(1,600)	25	682	393	6	-
Financial instruments directly to equity ⁵⁾	940	1	72	171	-	115

1) The change in fair value due to price changes is calculated based on pricing formulas for certain derivatives, the Black-Scholes/Turnbull-Wakeman models for options and the net present value of cash flows for certain financial instruments or derivatives. Discount rates vary as appropriate for the individual instruments.

2) Includes mainly forward currency contracts and currency swaps.

3) Includes cash and cash equivalents, investments in marketable securities, bank loans and other interest-bearing short-term debt and long-term debt. Trade payables and trade receivables are also included.

4) Includes all contracts with commodities as underlying, both financial and physical contracts, such as LME contracts and Nord Pool contracts, which are accounted for at fair value.

5) In the category financial instruments directly to equity, shares classified as available-for-sale are recognized in the "Other" column, while commodity hedging derivatives are included in the column "Commodity prices".

Hydro's management emphasizes that the sensitivity analysis contains material limitations. This is due to the arbitrary nature of assumptions involved as well as the inability of such a simple analysis to model reality and continuous changes to Hydro's portfolio. The most significant limitations on the figures provided are as follows:

- The tables only include the effects of the derivative instruments discussed above and of certain financial instruments (see footnotes in the table above). The analysis does not include all related physical positions, contracts, and anticipated transactions that many of the derivative instruments are meant to secure. A rate or price change of 10 percent will often result in a corresponding effect to the fair value of the physical or underlying position such that the resulting gains and losses would offset.
- The computations, which show the most positive/negative effect to Hydro of either a 10 percent increase or decrease in each rate or price, do not take into account correlations expected to be present between the risk exposure categories. For example, the effect that a change in a foreign exchange rate may have on a commodity price is not reflected in the tables above.
- It is not likely that all rates or prices would simultaneously move in directions that would have negative/positive effects on Hydro's portfolio of instruments.

The above discussion about Hydro's risk management policies and the estimated amounts generated from the sensitivity analyses are "forward-looking" and contain risks and uncertainties. Actual results could differ materially from those projected due to actual developments in the global markets. The methods used by Hydro to analyze risks discussed above should not be considered projections of future events, gains or losses.

CREDIT RISK MANAGEMENT

Hydro limits credit risk by setting counterparty risk limits, purchasing credit insurance, and establishing procedures for monitoring exposures and timely settlement of customer accounts. The overall credit risk level is reduced through a diversified customer base representing various industries and geographic areas in addition to Hydro's efforts to maintain credit insurance arrangements. To further reduce credit risk, enforceable netting agreements and guarantees are utilized.

The challenging market conditions at the end of 2008 have resulted in Hydro taking a more proactive approach towards customers to reduce credit risk. Requirements for supporting collateral for credit have been expanded and measures have been initiated to reduce credit periods. Hydro is also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to

current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is limited through settlement through commodity exchanges. Counterparty risk related to the use of derivative instruments and financial operations is regarded as limited.

LIQUIDITY RISK

Volatility observed in exchange rates and commodity prices for products sold and raw materials required also implies a high degree of fluctuation in Hydro's cash positions and borrowing requirements. Funds generated from operations may not be sufficient to cover Hydro's financial commitments to investment programs and other financial commitments like pension obligation payments and servicing of debt.

To fund cash deficits of a more permanent nature Hydro will normally raise long-term bond or bank debt in available markets. Hydro has further entered into a seven year stand-by credit facility of USD 1.7 billion (established 2007).

Given the market conditions, planned capital expenditures have been reduced and cost cutting initiatives have been and will continue to be implemented, to reduce liquidity risk.

Hydro has disclosed repayments of long-term debt in note 30 Long-term debt. Further all other financial liabilities, such as trade payables, with the exception of derivatives, have a final maturity date within one year. An overview of estimated gross cash flows from derivatives accounted for as liabilities and assets is presented below. The cash flows from physical sale and purchase contracts are included based on expected forward prices, and will thus not be reconcilable to the fair values on the balance sheet. Many of these assets and liabilities are offset by cash flows from contracts not accounted for as derivatives.

Expected gross cash flow from derivatives accounted for as financial liabilities and financial assets, respectively, as of end of year:

Amounts in NOK million	Liabilities	Assets
2009	(58,550)	51,938
2010	(6,482)	6,216
2011	(121)	531
2012	(478)	416
2013	(324)	49
Thereafter	(2,409)	45
Total	(68,365)	59,194

The cash-flows above are to a large extent subject to enforceable netting agreements, and thus reducing Hydro's exposure substantially.

For additional information on what contracts are accounted for at fair value, see note 42 Derivative instruments and hedge accounting.

NOTE 42

Derivative instruments and hedge accounting

Many of Hydro's commodity contracts are deemed to be derivatives under IFRS. Derivative instruments, whether physically or financially settled, are accounted for under IAS 39. All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair value of derivative instruments recognized in earnings, unless specific hedge criteria are met. For further explanation on which physical commodity contracts that are accounted for as derivatives, and which are considered own use, please refer to note 1 Significant accounting policies and reporting entity.

COMMODITY DERIVATIVES

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2008 and 31 December 2007. Contracts that are designated as hedging instruments in cash flow hedges are not included. The presentation of fair values for electricity and aluminium contracts shown in the table below include the fair value of traditional derivative instruments such as futures, forwards and swaps, in conjunction with the physical contracts accounted for at fair value.

Amounts in NOK million	2008	2007
Assets		
Electricity contracts	1,634	1,218
Aluminium futures, forwards, swaps and options	2,862	855
Total	4,497	2,073
Liabilities		
Electricity contracts	(1,288)	(548)
Coal forwards	(2,006)	(1,085)
Aluminium futures, forwards, swaps and options	(3,679)	(2,138)
Total	(6,972)	(3,770)

The underlying commodities for bifurcated embedded derivatives are included.

Changes in the fair value of commodity derivatives are included in operating revenues or cost of goods sold.

CURRENCY DERIVATIVES

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2008 and 31 December 2007. Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

Amounts in NOK million	2008	2007
Assets		
Currency forwards and swaps	112	279
Embedded currency derivatives	40	23
Equity warrants	28	-
Total	180	302
Liabilities		
Currency forwards and swaps	(1,041)	(33)
Embedded currency derivatives	(240)	(9)
Total	(1,281)	(42)

The currency contracts listed below were outstanding as of 31 December 2008. Bifurcated embedded currency derivatives are not included.

Currency	Nominal value in currency	Fair value in NOK	Maturity by nominal amount in currency	
			Within one year	More than one year
Amounts in million				
Buying currency				
EUR	54	521	54	-
NOK	11,630	11,512	11,630	-
USD	63	423	-	63
Selling currency				
USD	1,875	(13,010)	3,147	-
JPY	4,942	(374)	-	4,942

Unless used in connection with hedge accounting, changes in the fair value of currency derivatives are included in Financial expense, net, in the income statement.

EMBEDDED DERIVATIVES

Some contracts contain pricing links that affect cash flows in a manner different than the underlying commodity or financial instrument in the contract. For accounting purposes, these embedded derivatives are in some circumstances separated from the host contract and recognized at fair value. In some cases, the entire contract, including the embedded derivative, may be recognized at fair value. Hydro has separated embedded derivatives related to aluminium, inflation and coal links, in addition to currency forwards, from the underlying contracts and recognized at fair value.

CASH FLOW HEDGES

Hydro has over time entered into hedge programs to secure the price of aluminium ingot to be sold. Aluminium futures and swaps on the London Metal Exchange and with external banks

have been used for this purpose. Some of these hedge programs are accounted for as cash flow hedges, where gains and losses on the hedge derivatives are recorded to Other reserves in equity and will be reclassified into operating revenues when the corresponding forecasted sale of aluminium ingot is recognized. As the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar, no ineffectiveness was recognized in 2008 or 2007 in connection with these cash flow hedges.

The table below gives aggregated numbers related to the aluminium cash flow hedges for the period 2007 to 2008.

	2009	2008	2007
Aluminium sold forward with hedge accounting (kmt) ¹⁾		25	212
of which open at year-end (kmt) ²⁾		21	165
Average prices achieved in hedges in USD (per mt) ³⁾		2,353	2,252
Expected to be reclassified to earnings (after tax) during the year (NOK million) ⁴⁾	59	(183)	(541)
Reclassified to earnings from Other reserves after tax (NOK million) ⁵⁾		(418)	(471)

1) Remaining volume sold forward at inception of hedge programs. Hydro has sold forward in the period 2009-2010. Positions at end of year.

2) Including closed out positions / repurchases of hedge derivatives.

3) Weighted average of remaining volume sold forward at inception of hedge program.

4) In the period 2004 - 2007 part of the hedged ingot has also been hedged for currency risk at an exchange rate of 9.3-9.5 NOK to USD. For 2007 a currency gain after tax of NOK 370 million was expected to be reclassified into earnings, and is included in the negative NOK 541 million. Negative amounts indicate a loss. Currency effects of NOK 395 million after tax was actually realized and reversed in 2007. For 2008 no currency positions was hedged for accounting purposes.

5) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

At the end of 2008 the maximum horizon for existing cash-flow hedging instruments is 24 months.

Hydro hedged the foreign currency exposure between US and Canadian dollar in connection with a major expansion project at the Alouette plant in Canada over the period March 2003 to March 2006. No ineffectiveness was recognized during the life of the hedge. An annual gain after tax of 3 NOK million was reclassified from Other reserves in equity into earnings during both the period ending 31 December 2008 and 31 December 2007. A gain after tax of NOK 4 million is expected to be reclassified from Other reserves in equity into earnings during the period ending 31 December 2009.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2008 and 31 December 2007.

Amounts in NOK million	2008	2007
Assets		
Cash flow hedging instruments, aluminium	116	2
Total	116	2
Liabilities		
Cash flow hedging instruments, aluminium	-	(213)
Total	-	(213)

In addition to the commodity hedges described above, Hydro also performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial expense, net, in the income statement, unless subject to hedge accounting.

In addition to the cash flow hedge accounting performed by Hydro entities, some of Hydro's associates and jointly controlled entities included in the consolidated financial statements through the equity method also affect Other reserves through their cash-flow hedge accounting. The after tax movement in Hydro equity relating to cash-flow hedges for 2008 and 2007 is composed as follows:

Amounts in NOK million	2008	2007
1 January	128	712
Period (gain) loss booked into equity	161	(42)
of which relating to associates ¹⁾	30	7
Period gain (loss) reclassified to earnings	(415)	(474)
Currency translation effect (gain)	(29)	(69)
31 December	(156)	128

1) Includes the net position of items moving in and out of equity relating to cash-flow hedges in associates.

The above numbers include minority interests.

Hydro has not applied net investment or fair value hedge accounting for 2008 and 2007.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

The fair market value of derivative financial instruments such as currency forwards and swaps is based on quoted market prices. The fair market value of aluminium and electricity futures/forwards and option contracts is based on quoted market prices obtained from the London Metals Exchange and Nord Pool/EEEX (European Energy Exchange) respectively. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with IAS 39, such fair

market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available. Hydro takes credit-spread into consideration when valuating positions when necessary.

For further information on fair values, see note 3 Basis of presentation and measurement of fair value. See note 30 Long-term debt for fair value information on Hydro's long-term debt.

NOTE 43 Cash flow information

Reconciliation of cash and cash equivalents

Amounts in NOK million	2008	2007
Cash and cash equivalents	3,333	9,330
Bank overdraft	(144)	(74)
Cash, cash equivalents and bank overdraft	3,189	9,256

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2008	2007
Income taxes paid	2,324	2,672
Interest paid	220	433
Interest received	769	1,228
Other dividends received	180	138

NOTE 44 Auditor remuneration

Deloitte AS is the Group auditor of Norsk Hydro ASA.

The following table shows total audit, audit-related, other services and tax-related fees for the fiscal years 2008 and 2007. The reported audit fee is the agreed fee for the corresponding fiscal period. The difference between the reported audit fee and audit expense for the period is not significant. For all other categories the reported amount is the recognized expense for the year.

Audit related fees were higher in 2007 due to the significant transactions Hydro conducted during the year, as compared to the level of transactions in 2008. Other fees, Norway, relates primarily to Deloitte's audit of Hydro's viability performance reporting.

2008

Amounts in NOK thousand	Audit	Audit related	Other services	Tax related	Total
Norway	12,767	3,062	1,227	125	17,181
Outside Norway	29,624	1,187	549	1,582	32,942
Total	42,391	4,249	1,776	1,707	50,123

2007

Amounts in NOK thousand	Audit	Audit related	Other services	Tax related	Total
Norway	21,672	6,145	954	459	29,230
Outside Norway	35,969	551	62	1,739	38,321
Total ¹⁾	57,641	6,696	1,016	2,198	67,551

1) Reported audit fees in 2007 includes NOK 177 thousand to non-Deloitte audit firms.

NOTE 45 Board of Directors' and Corporate Assembly remuneration

BOARD OF DIRECTORS' REMUNERATION AND SHARE OWNERSHIP

Remuneration to the Board of Directors consists solely of the payment of fees. Board members do not have any incentive or share-based compensation. Hydro has not made any guarantees on behalf of any of the board members. The only board members with loans are the employee-elected members of the board.

Fees are based on the position of the board members, board committee assignments and the number of extraordinary meetings held during the year. Annual fees for 2008 for the chairperson of the board, deputy chairperson and directors are NOK 530,000, NOK 330,000 and NOK 275,000, respectively. The chairperson of the audit and the chairperson of the compensation committee receive an additional NOK 170,000 and NOK 24,000 annually in fees, respectively, and audit and compensation committee members receive NOK 110,000 and NOK 19,000 annually, respectively, for their participation on these committees.

During 2008 there were a total of 17 board meetings, of which 5 were extraordinary. Two of these five were held via telephone. This is less than half the number of meetings held during 2007 when Hydro was in the process of demerging the oil and gas business. During 2007 there were a total of 36 board meetings, of which 24 meetings were extraordinary. The chairperson of the board's remuneration for an extraordinary meeting is NOK 30,000 per meeting attended and NOK 10,000 for participation in an extraordinary meeting conducted via telephone. Board member remuneration for an extraordinary meeting is NOK 15,000 per meeting attended and NOK 5,000 for participation in an extraordinary meeting conducted via telephone. Board fees of NOK 550 000 for extraordinary meetings held in 2008 will be paid in 2009. Board fees for extraordinary meetings held during 2007 were paid in 2007.

A summary of total board fees, as well as individual board member fees for 2008, and outstanding loans and board member share ownership as of 31 December 2008, are shown in the tables below.

Board of Directors' Fees

Amounts in NOK thousands	2008	2007
Fees paid to board members during the year	3,480	5,180
Fees paid during the year for prior year's extraordinary meetings (2007) or board committee work (2008) ¹⁾	(54)	(705)
Fees related to board service and/or extraordinary meetings during the year not yet paid	550	54
Total fees for board services provided to Hydro during the year	3,976	4,529

Amounts in NOK thousands	2008	2007
Fees - normal board activities	2,800	2,567
Fees - compensation committee	67	51
Fees - audit committee	559	416
Fees related to extraordinary meetings held during the year	550	1,495
Total fees for board services provided to Hydro during the year	3,976	4,529

1) Fees paid during 2007 for prior year's extraordinary meetings excludes NOK 65,000 accrued in 2006 and paid in 2007 to board members who served on the board in 2006 but not in 2007.

Board of Directors' fees, loans and shareholdings

Board member	Board fees ¹⁾	Outstanding loans ¹⁾²⁾	Number of shares ³⁾
Board members as of 31 December 2008			
Terje Vareberg ⁴⁾	558	-	10,000
Grete Faremo ⁵⁾	440	-	-
Finn Jebsen ⁶⁾	297	-	32,545
Heidi M. Petersen ⁶⁾	297	-	10,000
Bente Rathe ⁷⁾	403	-	-
Inge K. Hansen ⁸⁾	358	-	-
Billy Fredagsvik ⁹⁾	275	67	592
Jørn B. Lilleby ⁷⁾⁹⁾	438	264	527
Sten Roar Martinsen ⁹⁾	275	-	1,402
Board members during 2008 not on the board as of 31 December 2008			
Svein Rennemo ¹⁰⁾	139	-	12,700
Total	3,479	331	67,766

1) Amount in NOK thousands.

2) Loans are extended to board members who are also Hydro employees under an employee benefit scheme available to all employees in Norway. Since the election of Billy Fredagsvik to the Board of Directors, there have been no modifications to his loan agreement, and no additional credit has been extended to him after his election to the Board of Directors. On 2 July 2008, Hydro loaned Jørn B. Lilleby NOK 200,000 at an interest rate of 6,85 percent and a repayment period of 2,5 years. Jørn B. Lilleby's loans are at an interest rate of 6.25 and 6.85 percent, with a repayment period of 2-5 years. Billy Fredagsvik's loan has an interest rate of 6.85 percent and a repayment period of 3 years. All payments have been made in a timely fashion and in accordance with the agreed payment schedule.

3) Number of shares owned as of 31 December 2008 for board members as of 31 December 2008; otherwise it is the number of shares owned as of the date the individual stepped down from the Board of Directors. Shareholdings disclosed include all related party share holdings, in addition to shares held directly by the board member/former board member.

4) Chairperson of the board and chairperson of the board compensation committee.

5) Deputy chairperson of the board and member of the audit committee.

6) Member board compensation committee.

7) Member board audit committee.

8) Board member and chair audit committee as of 12 March 2008.

9) Employee representative on the board elected by the employees in accordance with Norwegian Company Law. As such, these individuals also are paid regular salary, remuneration in kind and pension benefits that are not included in the table above.

10) Member of the board until 1 April 2008.

CORPORATE ASSEMBLY REMUNERATION AND SHARE OWNERSHIP

Corporate Assembly members receive an honorarium from Hydro for services rendered during the year. The Corporate Assembly Chairperson and Deputy Chairperson receive an annual fee of NOK 85,000 and NOK 42,500, respectively, plus a fee for each meeting attended. All members, including any deputy members, receive NOK 6,000 per meeting attended.

The chairperson of the nomination committee and at least one other member of the nomination committee are elected from the shareholder-elected members of the Corporate Assembly. Members of the nomination committee receive NOK 21,000 annually in fees.

A summary of Corporate Assembly fees for 2008 and 2007 and individual Corporate Assembly member share ownership as of 31 December 2008 are given in the tables below. Loans to Corporate Assembly members were extended under an employee benefit that is available to all employees in Norway. Total loans outstanding to Corporate Assembly members who are also Hydro employees totaled NOK 1,671 thousand as of 31 December 2008. The interest rate on these loans is between 6.25 and 6.85 percent and the repayment period is between 2 to 19 years.

Corporate Assembly fees

Amounts in NOK thousands	2008	2007
Fees paid to Corporate Assembly Chairperson	151	139
Fees paid to Corporate Assembly Deputy Chairperson	55	105
Fees paid to all other members of Corporate Assembly	397	681
Total fees paid to corporate assembly members during the year	603	925
Fees paid in 2008 (2007) related to meetings attended and/or nomination committee assignment in 2007 (2006)	(63)	(139)
Fees related to 2008 to be paid in 2009/Fees related to 2007 to be paid in 2008	52	63
Total fees for Corporate Assembly services provided to Hydro during the year	592	850

Corporate Assembly shareholdings

Corporate Assembly member as of 31 December 2008	Number of shares ¹⁾
Siri Teigum (Chairperson) ^{2) 3)}	0
Leif Teksum (Deputy Chairperson) ^{3) 4)}	0
Nils Roar Brevik	407
Anne-Margrethe Firing	5,820
Michael Hall	1
Westye Høegh ³⁾	179,000
Hans Olav Karde ⁴⁾	0
Idar Kreutzer	0
Toril Nag ⁴⁾	0
Bjørn Nedreaas	2,197
Anne Merete Steensland	152,660
Unni Steinsmo ⁵⁾	0
Svein K. Sund	582
Sten-Arthur Sælør	0
Lars Tronsgaard	0
Terje Venold	2000
Bente Linnerud Østlyngen ⁶⁾	712
Bjørn Øvstetun ⁵⁾	1,162

Deputy Member as of 31 December 2008	Number of shares ¹⁾
Anne Kverneland Bogsnes ⁷⁾	100
Ove Ellefsen	842
Trygve Eriksen	5233
Odd Arne Fodnes	627
Terje Friestad	1697
Merete Jonas	766
Jon Lund ⁷⁾	0
Line Melkild	367
Arne Rønningen	517
Tor Egil Skulstad	21
Brit Sæverud	5272
Gunvor Ulstein	0
Georg Vikshåland	517
Tove Wangensten ⁷⁾	0

- 1) Number of shares owned as of 31 December 2008; includes any related party shareholdings, in addition to the shares held directly by the corporate assembly member.
- 2) Corporate Assembly Chairperson as of 6 May 2008. Corporate Assembly Deputy Chairperson until 6 May 2008.
- 3) Member of the nomination committee.
- 4) Member of the Corporate Assembly as of 6 May 2008.
- 5) Deputy Member until 6 May 2008 and Member of the Corporate Assembly as of 6 May 2008.
- 6) Deputy Member until 16 September 2008 and Member of the Corporate Assembly as of 16 September 2008.
- 7) Deputy Member of the Corporate Assembly as of 6 May 2008.

NOTE 46 Related party information

As of 31 December 2008, The Ministry of Trade and Industry of Norway owned 546,902,099 ordinary shares in Norsk Hydro ASA, representing 43.8 percent of the total number of ordinary shares authorized and issued and 45.3 percent of the total shares outstanding. In addition Folketrygdfondet, which manages the Government Pension Fund – Norway owned 65,370,435 ordinary shares, representing 5.2 percent of the total number of ordinary shares issued and 5.4 percent of the total shares outstanding. Folketrygdfondet is a company by special statute with the Norwegian State as sole owner. In total the Norwegian State owns 612,272,534 ordinary shares. This represents 49.1 percent of the total number of ordinary shares issued and 50.8 percent of the total shared outstanding. There are no preferential voting rights associated with the ordinary shares held by the Norwegian State. Other shares are held by a widespread group of shareholders, in total around 49,000 registered share holders. No other shareholder holds more than 5 percent of Hydro's outstanding shares. Hydro has concluded that the Norwegian state's share holding represents de facto control.

The Norwegian state has ownership interests in around 80 companies. We have, for the purpose of this disclosure, related to public information from the State¹⁾, and we have not assessed which of these companies are controlled by the state. Hydro has business transactions with a number of these companies, including purchase of power from Statkraft SF. Generally, transactions are agreed independent of the common control exercised by the State. In December 2006, the Board of Directors in Hydro and Statoil (now StatoilHydro) agreed to propose a plan whereby Hydro's petroleum activities would be demerged and merged with Statoil to form StatoilHydro. The plan was approved by the general meeting in July 2007, and the demerger and merger was completed on 1 October 2007. See note 7 Discontinued operations and assets held for sale for further information.

The Annual General Meeting held on 6 May 2008 approved a buyback authorization of 45,000,000 shares over a one-year period. The Ministry of Trade and Industry agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Including the share redemption, the authorization provided for a maximum of 80,105,091 shares to be cancelled.

The Annual General Meeting held on 9 May 2006 approved a buyback authorization of 22,470,482 shares over a one-year period. The Ministry of Trade and Industry agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. In total, Hydro bought back 21,627,000 shares at an average price of NOK 160.79 per share under this authorization. A decision to cancel the shares repurchased, and 16,871,506 shares owned

by the Ministry, was approved at the General Meeting of shareholders on 5 July 2007. The Ministry received a total compensation of NOK 2,702 million for the shares, which corresponds to the average price per share for the buy-back in the market, plus interest compensation and with reduction for dividends paid in May for the cancelled shares.

A significant share of Hydro's defined benefit post-employment benefit plans are managed by the independent pension trust, Norsk Hydro Pensjonskasse. This trust owns some of the office buildings rented by Hydro. The rental arrangements are based on market price benchmarks. In total, Hydro rents around 63,000 m² office and related buildings, plus certain other buildings on contracts with a remaining life of around 12 years from the trust. Of this, around 51,000 m² is subleased to StatoilHydro. Hydro also has a contract with the pension trust to rent an office building at the head office site currently under construction to Hydro's specification. Hydro has paid a total rental of NOK 143 million and NOK 132 million for 2008 and 2007, respectively. The amount for 2007 include certain other buildings not rented by Hydro as of the end of 2007. Areas where the lease arrangement were transferred to StatoilHydro in the demerger on 1 October 2007 are excluded from the figures above, while areas used for combined purposes of both the Hydro's continued business and the transferred business for the period until the completion of the demerger, and areas subleased after the demerger, are included. In addition, Hydro is involved with pension trusts in Great Britain and some other countries. There are no similar arrangements with those trusts.

The current and prior year members of Hydro's board of directors are stated in Note 45 Board of Directors' and Corporate Assembly remuneration, where their remuneration and share ownership is outlined. Some of the board members or their close members of family serve as board members or executive directors in other companies. In addition, some members of Hydro's corporate management board or their close members of family serve as board members in other companies. Hydro has not identified any transactions where the relationship is known to have influenced the transaction.

Hydro's significant associated companies and transactions with those companies are described in note 25 Investments in associates. Hydro's significant jointly controlled entities and transactions with those entities are described in note 26 Investments in jointly controlled entities. Hydro has joint venture arrangements with a number of other companies. Generally, the relationships are limited to a combined effort within a limited area, often raw material production in the form of power, alumina or anode production, production of aluminium or combined production of semi fabricated products. Hydro considers the joint venture partners competitors in other business transactions, and do not see these relationships as related party relationships.

1) According to information on the Government web site www.regjeringen.no, state ownership

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2008	2007
Revenue		164	258
Gain on sale of subsidiaries and associates, net	3	1,932	1
Total revenue and income		2,097	259
Employee benefits expense	4, 5	745	641
Depreciation and amortization expense	6	13	14
Other		56	(58)
Total operating expenses		814	597
Operating income (loss)		1,283	(338)
Financial income, net	7	9,361	9,748
Income before taxes		10,644	9,410
Income taxes	8	(1,427)	56
Net income		9,216	9,466
Appropriation of net income and equity transfers:			
Dividend proposed		-	(6,047)
Retained earnings		(9,216)	(3,419)
Total appropriation		(9,216)	(9,466)

The accompanying notes are an integral part of the financial statements.

Balance sheets

Amounts in NOK million, 31 December	Notes	2008	2007
Assets			
Intangible assets	8	90	209
Property, plant and equipment	6	172	172
Shares in subsidiaries	9	30,066	31,023
Intercompany receivables		10,241	29,589
Associates and jointly controlled entities	10	134	154
Prepaid pension, investments and other non-current assets	4, 11	2,812	2,661
Total financial non-current assets		43,254	63,427
Accounts receivable		11	63
Intercompany receivables		47,050	22,962
Prepaid expenses and other current assets	11	669	660
Short-term investments		-	750
Cash and cash equivalents		2,162	7,899
Total current assets		49,893	32,334
Total assets		93,409	96,141
Equity and liabilities			
Paid-in capital:			
Share capital 1,247,956,949 shares of NOK 1.098	13	1,370	1,370
Treasury shares 41,631,086 shares of NOK 1.098	13	(46)	(42)
Paid-in premium	13	182	182
Other paid-in capital	13	127	178
Retained earnings:			
Retained earnings	13	31,790	22,580
Treasury shares	13	(4,228)	(4,241)
Equity	13	29,195	20,027
Other long-term liabilities	4	2,202	2,134
Intercompany payables		160	261
Bank loans and other interest-bearing short-term debt	11	597	599
Dividends payable		-	6,047
Intercompany payables		58,736	66,277
Other current liabilities		2,519	796
Total current liabilities		61,852	73,719
Total equity and liabilities		93,409	96,141

The accompanying notes are an integral part of the financial statements.

Statements of cash flows

Amounts in NOK million	2008	2007
Net income	9,216	9,466
Depreciation and amortization expense	13	14
Write-down and (gain) loss on sale of non-current assets, net	(1,746)	117
Other adjustments	(1,789)	(2,522)
Net cash provided by operating activities	5,694	7,075
Investments in subsidiaries	(2)	(54)
Sales of subsidiaries	4,676	1
Net sales of other investments	792	12,192
Net cash provided by investing activities	5,466	12,139
Dividends paid	(6,053)	(6,134)
Other financing activities, net ¹⁾	(10,650)	(10,666)
Net cash used in financing activities	(16,703)	(16,800)
Foreign currency effects on cash	(194)	(192)
Net increase (decrease) in cash and cash equivalents	(5,737)	2,222
Cash and cash equivalents at beginning of year	7,899	5,677
Cash and cash equivalents at end of year	2,162	7,899

1) Includes the effect of demerger in 2007, see note 2 Demerger.

The accompanying notes are an integral part of the financial statements.