

Board of Directors' report

Hydro acted decisively in response to the unprecedented drop in aluminium markets toward the end of 2008 and will continue to take further proactive measures to meet the demanding market conditions and secure its financial position. We are in the process of closing, temporarily or permanently, those parts of our primary aluminium and alumina production with the highest cost levels. We have also shut down a considerable volume of the production at our remelters. Together with production adjustments in our downstream activities, and the notified workforce reductions within our staff and support organization, this will affect about 3,500 of our employees; many of them will have to leave the company. We are continually considering further reductions in the form of temporary closures or production shutdowns in high-cost, upstream production plants, as well as at production plants within the Aluminium Products business area.

Having of late profited from share price increases and ever higher dividends, our shareholders have also now felt the impact of the worldwide financial setback. Given the company's dramatically weaker earnings since the end of last year, and the uncertainty with respect to 2009, the Board of Directors proposes that no dividend be paid for the accounting year 2008.

An important objective in 2009 will be to boost Hydro's competitive position, and the completion of Qatalum according to schedule is one of our most important objectives. The coming on stream of Qatalum, along with the closure of high-cost production capacity, reduce the average production costs in Hydro's smelter system, and help the company stand more firmly should the crisis last and emerge more strongly when it finally ends.

The cost situation in 2009 will be impacted by falling prices for the raw materials used in our upstream activities. Cost-saving measures have already been implemented, or are currently being prepared, throughout the company. Addressing the cost challenges facing our business is important in meeting the challenges ahead.

Going forward, we will still evaluate growth opportunities within alumina and primary metal, focusing on business opportunities that will further enhance our competitive position in an industry with sound long-term fundamentals. We will continue to develop our downstream operations, targeting selective growth within our high-performing sectors. Our energy operations will play a leading role in ensuring competitive power for our aluminium operations.

In January 2009 the Board announced that Eivind Reiten wished to step down after more than 20 years in the company's service. The Board regrets this, but respects his decision. Throughout the last eight years Reiten has steered the company through the most extensive restructuring in the company's 103-year-long history, from being an industrial conglomerate to become a focused aluminium and energy company. At the same time the Board is pleased to announce that Reiten will be succeeded by Svein Richard Brandtzæg with effect from March 30. Brandtzæg has wide-ranging and solid experience from various parts of Hydro's metal activities, including leading positions outside Norway.

KEY DEVELOPMENTS

Hydro's results for 2008 were significantly impacted as the global financial crisis led to a dramatic fall in world demand for primary aluminium and aluminium products toward the end of 2008. Underlying EBIT declined to NOK 6,009 million, down from the solid result achieved in 2007 of NOK 10,153 million. Higher raw material costs affecting the entire industry had a substantial impact on Hydro's underlying results, in addition to the significant market downturn in the fourth quarter. Underlying results were also impacted by inventory write-downs of about NOK 700 million due to the sharp drop in aluminium prices toward the end of the year.

Due to the deteriorating market conditions and high input costs, reported EBIT and Income from continuing operations were charged with roughly NOK 2.5 billion of impairment losses.

The severe downturn in the global economy has led to a sharp decline in demand for aluminium and rapidly increasing stocks. By year-end and into 2009, prices reached a level that is lower than the cash-costs for a majority of the aluminium industry's smelter capacity. The decline from the high price levels experienced in the middle of 2008 was of a magnitude which is unprecedented in the history of the industry. In response, announced smelter curtailments excluding China reached a global level of around 1.5 million tonnes per year as of the end of 2008, and have increased further to around 3 million tonnes. The major part of the announced capacity reduction is expected to be implemented within the first half of the year. Markets for metal products in Europe and North America weakened dramatically during the fourth quarter of 2008. The automotive markets collapsed, leading to a sharp decrease in demand for automotive components and aluminium foundry alloys. In addition, the building and construction markets in the U.S. and Europe deteriorated significantly, leading to reduced demand.

Hydro has made wide-ranging adjustments in response to the severe drop in aluminium markets, and has announced reductions in its primary aluminium production of 23 percent, representing about 400,000 tonnes per year of our higher-cost production capacity. Approximately 140,000 tonnes of the total will be shut down by the end of the first quarter of 2009, with the remainder shut down by the end of the second quarter of 2009. These measures will improve the average cost of our smelter system. Production of remelted metal at Hydro's casthouses has been cut by 45 percent, or around 500,000 tonnes per year. A decision was taken for the temporary closure of alumina production at the part-owned Alpart refinery in Jamaica. Hydro has also taken out significant capacity in its downstream operations through shift reductions and has implemented cost-cutting measures throughout the company.

Underlying EBIT for Aluminium Metal declined significantly for the year, impacted by lower realized prices and substantial increases in the cost of power, fossil fuels, freight, caustic, alloying materials and carbon in addition to the effect of the inventory

write-downs discussed above. Prices measured in Norwegian kroner declined, having a negative impact on underlying results. Underlying EBIT declined for Aluminium Products business for 2008 due to the sharp drop in market demand, particularly towards the end of the year. Energy delivered record underlying results for the year, mainly due to record power production and continued strong spot prices.

The new 585,000-tonne Qatalum smelter – owned 50/50 by Qatar Petroleum and Hydro – was about 60 percent complete by year-end, on schedule for start-up around year-end 2009 and within budget. Once on stream, Qatalum will be one of the most cost-efficient smelters in the world positioned within the first decile on the industry cost curve. The total estimated investment of the Qatalum project is USD 5.6 billion of which Hydro's share is USD 2.8 billion. Fiftyfive percent of the total cost is funded by equity from the partners, with the remainder provided by project financing on favorable terms.

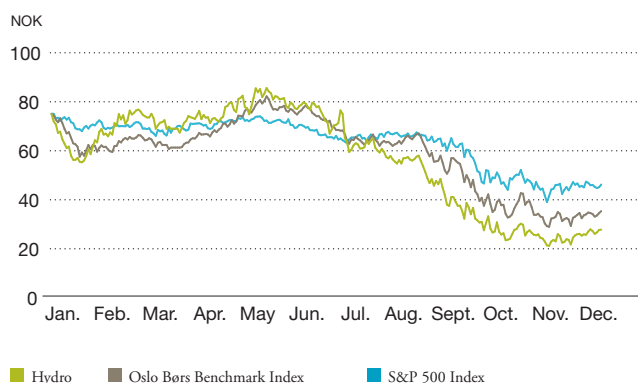
The third expansion of the Alunorte alumina refinery in Brazil was successfully started up in third quarter 2008 and achieved stable production at designed capacity in the fourth quarter. The project was completed on time and within budget.

Due to our present high investment level and expected lower level of cash generated from operations, Hydro is in the process of raising additional financing to meet future capital requirements. Hydro has recently signed a EUR 750 million syndicated three-year revolving credit facility. In March 2009 EUR 100 million of this facility was drawn upon. A USD 1.7 billion multi-currency stand-by credit facility entered into in 2007 and maturing in 2014 is fully undrawn. In order to secure our financial position, capital expenditures (excluding Qatalum) have been reduced by NOK 2.5 billion, roughly 40 percent from the 2008 level.

INVESTOR INFORMATION

Hydro's share price closed at NOK 27.80 at the end of 2008. Taking into consideration the dividend of NOK 5.00 per share paid in 2008, the total return for 2008 was negative with NOK 44.80 or 58 percent.

Share price development in 2008



Due to demanding markets and low forward visibility in both the aluminium and financial markets, Hydro's Board of Directors proposes to forgo a dividend payment for 2008. The Board regards it as prudent to conserve the company's financial resources for organic investments into the Qatalum project and to minimize funding requirements.

During 2008 we repurchased 4,408,000 shares for NOK 149 million.

Financial and underlying operating results

FINANCIAL RESULTS FOR 2008

EBIT for Hydro amounted to NOK 1,194 million for the year, compared with NOK 9,025 million in 2007. EBIT included charges of roughly NOK 2.5 billion, comprised of impairment losses of NOK 2,150 million due to the deteriorating market conditions and write-downs of roughly NOK 300 million relating to our minority interests in solar businesses reflecting lower market values for solar companies. EBIT also included about NOK 2,200 million and NOK 920 million for 2008 and 2007, respectively, from unrealized derivative effects relating to LME, power contracts and currency contracts. The magnitude of these recurring effects depends on changes in market values which can be significant. The remainder of items excluded from underlying EBIT is comprised mainly of gains/losses on divestments and other cost and charges that are typically non-recurring for individual plants or operations. These items amounted to a net charge NOK 148 million and NOK 62 million for 2008 and 2007, respectively.

Net financial expense for the year amounted to NOK 5,026 million, including a net foreign currency loss of NOK 5,491 million. Approximately 60 percent of the losses related U.S. dollars and mainly to Hydro's U.S. dollar hedging program. The remainder related primarily to losses on intercompany balances denominated in Euro. The Euro losses have no cash effect and are offset in equity by translation of the corresponding subsidiaries when consolidated into the accounts of the Hydro group. Interest income declined to NOK 769 million compared to NOK 1,228 million in 2007. Earnings in 2007 reflected high amounts of cash and short-term investments during the first nine months of the year prior to the payment of demerger debt to StatoilHydro October 1, 2007.

Income taxes amounted to a positive amount of NOK 565 million in 2008 compared with a charge of NOK 3,075 million for 2007, which was approximately 15 percent and 25 percent of income (loss) from continuing operations before tax, respectively.

Losses from continuing operations amounted to NOK 3,267 million for the year compared to income of NOK 9,158 million in the previous year.

RoCE¹⁾ was 0.7 percent for 2008, compared with 14.5 percent for 2007.

1) RoCE is defined as Earnings after tax divided by average Capital Employed.

UNDERLYING OPERATING RESULTS

Key financial information

NOK million, except per share data	2008	2007	% change prior year
Revenue	88,643	94,316	(6) %
Earnings before financial items and tax (EBIT)	1,194	9,025	(87) %
Items excluded from underlying EBIT ¹⁾	4,815	1,128	
Underlying earnings before financial items and tax (EBIT)	6,009	10,153	(41) %
Underlying earnings before financial items and tax (EBIT) :			
Aluminium Metal	3,575	8,265	(57) %
Aluminium Products	988	1,352	(27) %
Energy	1,736	1,184	47 %
Corporate, other and eliminations	(290)	(647)	55 %
Underlying earnings before financial items and tax (EBIT)	6,009	10,153	(41) %
Income (loss) from continuing operations	(3,267)	9,158	>(100) %
Underlying income (loss) from continuing operations	3,579	8,057	(56) %
Earnings per share from continuing operations ²⁾	(3.04)	7.17	>(100) %
Underlying earnings per share from continuing operations ²⁾	2.62	6.26	(58) %
Financial data:			
Investments	9,012	5,206	73 %
Adjusted net interest-bearing debt ³⁾	(15,440)	(842)	>(100) %

1) See section later in this report "Items excluded from underlying EBIT and income from continuing operations" for more information on these items.

2) "Earnings per share from continuing operations" and "Underlying earnings per share from continuing operations" are calculated using Income from continuing operations and Underlying income from continuing operations less Net income attributable to minority interests, and using the weighted average number of ordinary shares outstanding. There were no diluting elements.

3) Calculation is based on amounts as of the end of the periods presented. See note 35 *Capital Management* in Hydro's Financial statements - 2008 for a discussion on net interest-bearing debt. We have revised our definition of certain items included in the calculation of adjusted net interest-bearing debt. Prior periods have been restated on a comparable basis.

Financial and operating statistics ⁴⁾

	2008	2007	% change prior year
Realized aluminium price LME (USD/mt) ⁵⁾	2,638	2,561	3 %
Realized aluminium price LME (NOK/mt) ⁵⁾	14,724	15,521	(5) %
Primary aluminium production (kmt)	1,750	1,742	0 %
Total metal products sales excluding ingot trading (kmt) ⁶⁾	2,923	3,203	(9) %
Rolled Products sales volumes to external market (kmt)	965	1,030	(6) %
Extrusion sales volumes to external market (kmt)	488	508	(4) %
Automotive sales volumes to external market (kmt) ⁷⁾	105	117	(10) %
Power production (GWh)	11,361	11,018	3 %

4) Operating statistics includes proportionate share of production and prices in equity accounted investments.

5) Including the effect of strategic hedges (hedge accounting applied). In the fourth quarter of 2008, Hydro changed its definition of realized prices to be determined when products are shipped and invoiced to customers. Previously, realized prices were determined as liquid metal is transferred from electrolysis to casthouses for further processing. This price mainly reflected the prevailing three month forward LME aluminium price three months prior to production. The casting process results in about an additional three week time lag before metal is finally shipped and invoiced to customers. Prior periods in this report have been restated to reflect the change in definition.

6) Excluding Slovalco sales to local market in 2007.

7) Excluding divested businesses Castings, Magnesium and Worcester.

Underlying results¹⁾ for our Aluminium Metal business declined for the year, impacted by lower realized prices measured in Norwegian kroner and substantial increases in the cost of power, freight, alloying metals and carbon, in addition to the effect of the inventory write-downs of about NOK 700 million. Production of primary metal was strong and stable during the year and several of our smelters achieved record levels. Volume from our casthouses declined in the second half of the year due to the substantial fall in market demand. Results for our Bauxite and Alumina operations fell compared to the previous year, impacted by losses from our Alpart alumina refinery. Underlying results for Alunorte also declined for the year. Positive effects from the higher volumes and higher alumina prices were more than offset by significantly higher energy prices, currency effects and higher bauxite prices. Volumes increased for Alunorte following the successful start-up of the third expansion of the plant in third quarter of 2008. Alunorte also completed a restructuring of the plants power facilities with the implementation of additional co-generation of electricity following the start-up of new coal-fired boilers toward the end of 2007. The improved energy mix, together with a sharp drop in oil prices, reduced the plant's energy cost in the final quarter of the year. Underlying results for our Commercial operations decreased for the full year of 2008 compared to 2007, mainly reflecting significantly lower results from our Sourcing and Trading business and lower production due to the market development in second half of the year.

Underlying EBIT declined for our Aluminium Products business for 2008 as a whole compared to 2007. Our Rolled Products business delivered improved underlying results with positive margin developments offsetting volume declines. Our European extruders outperformed a general market decline for the first nine months of 2008, but underlying results declined for the year, heavily impacted by market decline in the final quarter. Underlying results for our U.S. operations also improved from 2007 during the first nine months, driven by significant cost reductions, but the market turbulence in the final quarter of 2008 more than offset the positive developments. Underlying results for our South American operations improved for the year compared to 2007. Significantly lower volumes also impacted underlying results for 2008 in our Automotive operations compared to the previous year. In addition, our Automotive business incurred costs related to start-up of new product lines as well as costs for reducing capacity to meet current market conditions.

Underlying EBIT for Energy improved by 47 percent compared with 2007. The improvement was mainly caused by significantly higher spot prices, higher power production and somewhat lower operating costs.

Hydro's power production in Norway amounted to nearly

11.4 TWh in 2008, which is the highest recorded volume historically. Due to high reservoir precipitation levels in 2007 and 2008, power production has been significantly higher than the historic average in both years. Direct power production costs, which include operations and maintenance, transmission costs, property taxes and concession fees, decreased slightly from 2007. The decrease primarily reflects lower transmission grid tariffs. Our Solar businesses, which are in a development phase, incurred an underlying loss of NOK 130 million in 2008, compared to an underlying loss of NOK 82 million in 2007.

ITEMS EXCLUDED FROM UNDERLYING EBIT AND RESULTS

To provide a better understanding of the underlying performance of Hydro's operating units, the items in the table on the next page have been excluded from EBIT (earnings before financial items and tax) and income from continuing operations.

Unrealized derivative effects on LME and power contracts include unrealized gains and losses on contracts evaluated at market value where hedge accounting is not applied. The magnitude of these recurring effects depends on changes in market values which can be significant. Unrealized derivative effects on currency contracts include unrealized gains and losses on certain foreign denominated contracts relating to our equity accounted investments.

The remainder of items excluded from underlying EBIT comprised mainly of gains/losses on divestments and other cost and charges that are typically non-recurring for individual plants or operations.

Net foreign exchange gains/losses include realized and unrealized gains and losses on all foreign denominated contracts and balances included in our balance sheet for the periods presented. These amounts mainly relate to Hydro's US-dollar hedging program and losses on intercompany balances denominated in Euro. Calculated income tax effect of items excluded from underlying EBIT is based on Hydro's effective tax rate adjusted for the tax effect of financial items, while the income tax effect of currency gains/losses is calculated at 28 percent.

LIQUIDITY, FINANCIAL POSITION, INVESTMENTS

Cash and short-term investments exceeded interest bearing debt by NOK 3.5 billion at the end 2008.

Hydro's adjusted debt/equity ratio, defined as net interest-bearing debt (mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and Hydro's portion of interest bearing debt in equity accounted investees) divided by adjusted equity, was 0.30 at the end of the year.

1) To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and income from continuing operations, such as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis. See section later in this report "Items excluded from underlying EBIT and income from operations" for more information on these items.

Items excluded from underlying income from continuing operations ¹⁾

NOK million	2008	2007
Unrealized derivative effects on LME related contracts	1,120	131
Unrealized derivative effects on power contracts	768	928
Unrealized derivative effects on currency contracts	314	(137)
Metal effect, Rolled Products	235	235
Significant rationalization charges and closure costs	109	224
Impairment charges (PP&E and equity accounted investments)	2,464	144
Loss provisions (power contracts)	257	-
(Gains)/losses on divestments	(453)	(641)
Correction of elimination of profit in inventory	-	291
Germany, change in tax rate	-	(47)
Items excluded from underlying EBIT	4,815	1,128
Net foreign exchange (gain)/loss	5,491	(2,254)
Calculated income tax effect	(3,460)	325
Germany, change in tax rate	-	(300)
Items excluded from underlying income from continuing operations	6,846	(1,101)

1) Negative figures indicate a gain and positive figures indicate a loss.

In 2008, net cash provided by operating activities declined significantly from NOK 14.3 billion in 2007 to NOK 2.9 billion in 2008.

Net cash outflows amounted to NOK 6.1 billion for the year. As a result, Hydro's liquid assets declined by NOK 7.1 billion to NOK 5 billion. The most significant uses of cash in 2008 included substantial investments in property plant and equipment and other long-term investments totaling NOK 9.0 billion, and dividend payments of NOK 6.4 billion. Included in these amounts were NOK 3.1 billion of investments relating to Qatalum and NOK 4.5 billion of extraordinary dividends. The main sources of cash included NOK 2.9 billion from continuing operating activities and NOK 5.2 billion relating to the sale of Hydro's Polymers activities.

Net cash provided by operations in 2009 will be negatively impacted by very challenging market conditions and continued low expected aluminium prices.

Outlook

Hydro is facing challenging market conditions, with a severely oversupplied aluminium market resulting in substantial downward pressure on aluminium prices. Since the end of the year, LME three-month aluminium prices reached the lowest level in more than seven years of USD 1,289 per tonne on February 24, 2009. Aluminium prices are expected to remain low in the medium term, but there is limited forward visibility and significant uncertainty regarding developments.

The economic downturn has resulted in declining demand for raw materials and smelter input costs are falling. The cost of alumina is normally linked to aluminium prices and there-

fore price adjustments are relatively quick. Prices for other important raw materials are also declining. Contractual arrangements and time lags in production and logistic processes for some raw materials will result in continued high costs in the early part of 2009 having a negative effect on Hydro's operating results. There are indications that energy prices in Europe and the U.S., although trending downwards, will remain elevated.

Demand within main aluminium market segments is expected to remain depressed, a situation that could continue throughout the entire year. There is substantial uncertainty regarding the timing of a recovery. Global primary aluminium consumption excluding China could potentially decline by up to 10 to 15 percent in 2009 from a consumption level of 25 million tonnes in 2008. Chinese consumption of primary aluminium may fall slightly from the 2008 level of 12.5 million tonnes.

Market demand for flat rolled products in Europe is expected to continue declining during the coming months, driven by lower demand from most markets. The overall outlook for the European extrusion market is weak with lower demand across most market segments, in particular the automotive and transportation segments. In the U.S., extrusion markets are expected to remain severely depressed, with no signs of recovery.

Nordic power prices have declined during the first weeks of 2009, both in the spot market and for forward contracts traded at the Nord Pool power exchange. High winter consumption of power and lower than normal water reservoir levels in Norway and Sweden are, however, expected to support prices at a fairly high level throughout the first three to four months of 2009.

Risk

Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's Board of Directors regularly reviews and evaluates the overall risk management systems and environment within Hydro.

Hydro faces many risks and uncertainties within the global marketplace. Changes in competitive and market conditions affect margin, price and volume developments. Following a period of extreme financial turmoil and unprecedented market decline towards the end 2008, we face a seriously oversupplied aluminium market and low aluminium prices. Input costs are falling but many are anticipated to remain high in the short-term. We face challenges in securing adequate financing and a higher risk of counterparty default in an environment of limited availability of risk mitigating instruments. Price volatility can have a significant impact on our reported and operating results. Our reported operating results and competitive position are influenced by developments in currency exchange rates and in particular the U.S. dollar, Euro and Norwegian krone. China is encouraging the production of more labor intensive semi-fabricated and fabricated products increasing the exposure of our downstream businesses. Our primary smelting operations are highly dependent on securing substantial amounts of energy at competitive prices. We are exposed to increasingly onerous legislation on CO₂ emissions directly impacting Hydro relating to aluminium production and indirectly through higher power prices. Repositioning and restructuring activities are important in determining the viability of our future aluminium operations. It is challenging to complete large upstream projects on time and within budgets. Major accidents, legal proceedings or criminal investigations could have a serious impact on our reputation. Our business expansion is expected to take place increasingly in emerging and transitioning market areas heightening the risk related to unforeseen changes in the overall operating framework.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is therefore placed with the business areas and coordinated by staff units at the corporate level. Policies and procedures have been established to manage risk.

FINANCIAL POSITION

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong credit-worthiness. To achieve this, Hydro targets, over the cycle, to keep its adjusted net interest bearing debt/equity ratio below 0.55 and to maintain a ratio of funds from operations to adjusted net interest bearing debt above a level of 0.40. In addition, Hydro has established guidelines for liquidity reserves and for the profile of instalment payments on debt in order to secure its financial position. At the end of 2008, our financial position was within these ratios and guidelines.

LIQUIDITY RISK

The challenging market conditions toward the end of 2008 have led to an increased focus and attention on credit and liquidity risk throughout our entire organization. Planned capital expenditures have been reduced and we have and will continue to implement initiatives to cut costs.

Hydro is taking proactive approach towards customers to reduce credit risk. We are also monitoring the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

PRICES AND CURRENCY

Hydro's operating results are primarily affected by price developments of its main products, aluminium and power, in addition to foreign currency fluctuation of the most significant currencies, the U.S. dollar and the Euro, against the Norwegian krone. Hydro's main risk management strategy for its upstream operations is to accept exposure to aluminium and energy price movements, while focusing on reducing the average cost position of its smelters.

Downstream and other margin-based operations are to a certain extent hedged to protect processing and manufacturing margins against raw material price fluctuations. Hydro has an operational hedging system in place to protect commercial contracts from aluminium price fluctuations. In order to mitigate part of its exposure to U.S. dollar currency fluctuations, Hydro has been utilizing currency forward contracts selling the U.S. dollar mainly against the Norwegian krone. This program is currently being reduced to reflect lower exposures due to falling LME prices and an increasing amount of U.S. dollar denominated debt. During 2008, Hydro has to a limited extent entered into forward contracts in other currencies to hedge revenue and cost positions.

Controls and procedures

We follow the Norwegian Code of Practice for Corporate Governance of December 2007. A detailed description of our compliance is presented at page 16.

The Board's audit committee carries out a control function and arranges for the Board to deal with the company's financial reporting.

Research and development

During 2008, Hydro allocated NOK 606 million to R&D compared to NOK 507 million in 2007. The greater part of this goes to our in-house research organization, while the remaining supports work carried out at external institutions. We have a number of R&D centers in Europe and established in February 2009 a new Technology and Competence Center in Doha, Qatar.

Our main R&D tasks are connected to our smelter technology and product development. In February 2008 test production commenced on a new generation of electrolytic cells at the Årdal Research Center in Norway. The goal is higher energy efficiency, lower PFC emissions and thus a reduction in greenhouse gas emissions.

Hydro made significant progress developing technology and solutions for energy neutral buildings, by combining high thermal performing facades, windows and doors with solar photovoltaic and thermal collector solutions. Hydro Building Systems completed an energy neutral building for its own use – the new test center and office building in Ulm, Germany.

The Hydro Technology Board aims to further enhance innovation and ensure that we live up to our ambition to be a leader in technology.

Work environment

Total recordable injuries per million hours (TRI) went down by 7 percent in 2008, including acquisitions done during 2008. Excluding these acquisitions, Hydro's TRI improvement was 15 percent. We did not reach our target of a 20 percent improvement, and we had three fatal accidents. In addition, we had one fatal accident in February 2009. Our ambition to improve TRI by 20 percent per year remains unchanged, and we are working on appropriate measures to make this possible.

The prevention and follow-up of work-related illnesses are important to us. A new reporting tool for work-related illnesses is under implementation. Registered sick leave was 3.4 percent in 2008, up from 2.8 percent in 2007. The rules for

sick-leave registration differ from country to country. Our sick leave in Norway is significantly higher than in Hydro on average, but relatively low compared to the Norwegian industry average. In Norway, sick leave was 5.6 percent compared to 5.2 percent in the previous year. Men's sick leave was 5.1 percent, up from 4.9 percent in 2006, while women's sick leave increased from 6.4 percent in 2007 to 7.5 percent in 2008.

Risk awareness and management commitment are important to improve our safety performance. Internal investigations are routinely initiated after fatal accidents and other serious incidents. Special emphasis is made on work permits, energy control, traffic at site and on public roads, contractor safety, cranes and lifting equipment and work at heights. An important initiative in 2008 was the work-at-height training in the Qatalum project. In total, 6,000 contractor employees have already been through or are signed up for the program. Management awareness training was performed in our Aluminium Metal organization in 2008 and will continue in throughout our operations in 2009.

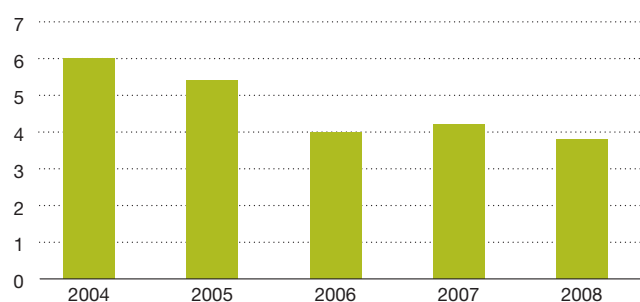
Environment

We have for several decades monitored our impact on the environment as part of a holistic approach to value creation. The increasing urgency of the situation has led us in 2008 to establish a thorough climate strategy with a revised set of priorities to guide our business to address this challenge. These priorities are an integral part of our overall business strategy including reducing the environmental impact of our own production activities as well as taking advantage of business opportunities by enabling our customers to do the same. Some of the measures we pursue include:

- Reducing climate gas emissions through the use of our products
- Developing our solar energy business
- Increasing recycling of aluminium
- Reducing energy consumption and emissions in production
- Using viable energy sources

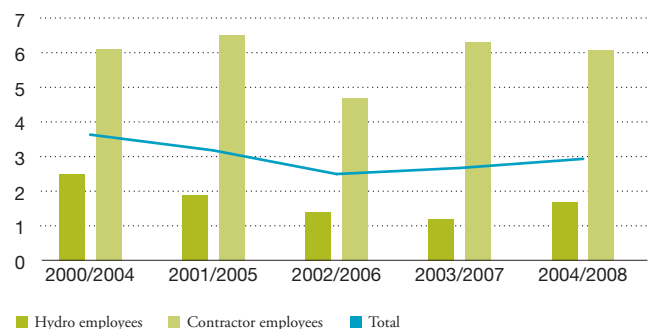
Total recordable injuries

Per million hours worked



Fatal accidents

Per 100 million hours worked, five years rolling average



From 1990, total greenhouse gas emissions from our ownership equity have decreased from 12.5 million tonnes of CO₂ equivalents (CO₂e) to 6.4 million tonnes CO₂e. This is a 49 percent decrease. During the same period we have reduced specific greenhouse gas emissions from primary production by 58 percent. We will reduce this further in coming years, and our goal is a specific direct emission of 1.71 tonnes CO₂e per tonne aluminium in 2012, which is a further improvement of 20 percent from the current level of 2.12 tonnes CO₂e per tonne aluminium.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste and is of major concern. In 2008, Hydro produced 40,445 tonnes of SPL, a 22 percent increase from 2007. The increased amount is a result of increased relinings at Sunndal, Norway as the first cells in the new line were due for relining and increased relining at Karmøy, Norway.

Since the European Union regulation on chemicals, REACH, entered into force on June 1, 2007, we have been working actively to ensure we are in line with this legislation. We have pre-registered the substances we manufacture and import, so that we benefit from the transitional periods offered by REACH.

Integrity and human rights

Hydro has had global ethical requirements since 1995. In 2003 our current Code of Conduct was approved by the Board of Directors. Based on this, the Hydro Integrity Program was launched in 2005 to prevent corruption and human rights violations connected to our activities. The program includes risk mapping, tools and training. In 2008 we established new guidelines for non-financial compliance. The guidelines have been established to assist line management to adhere to Hydro's compliance requirements. An interactive e-learning program on corporate requirements was also introduced in 2008. The program is mandatory for all employees and includes anti-corruption training and information about our whistleblowing channel.

In the process leading up to the closing of the merger of Hydro's oil and gas activities with Statoil, October 1, 2007, questions arose concerning the Libyan petroleum assets Hydro acquired from Saga Petroleum in 1999. The questions related to Hydro's handling of certain contracts in Libya. The Board of Directors initiated an internal investigation headed by attorney-at-law Jan Fougner supported by the US-law firm Shearman & Sterling LLP. Fougner reported to a subcommittee of the Board of Directors, consisting of chairperson of the board Terje Vareberg and Finn Jebsen. The internal investigation team was coordinated with a parallel investigation in StatoilHydro.

The board is satisfied that during the period covered by the investigation Hydro has generally maintained a sound ethical framework and a healthy business culture. However, the Hydro investigation team's report gave reason to conclude that certain aspects of the handling of the Libyan contracts had been in breach of Hydro's ethical requirements. According to the report, and as acknowledged by the Board, Hydro should have realized that certain payments made were problematic. During 2008 the board has reviewed Hydro's compliance system. The board will on a continuous basis oversee that Hydro's compliance system is properly implemented.

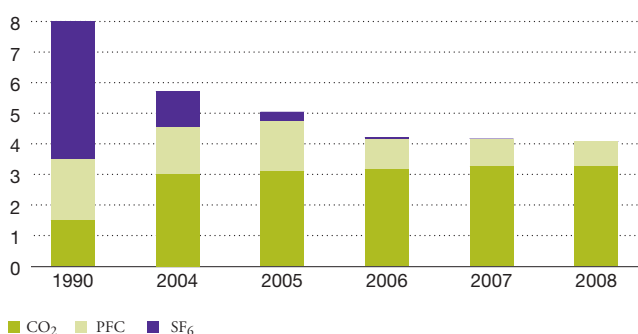
The investigation reports were submitted to the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) on October 7, 2008.

The rights of the indigenous population or other minority groups is one of several human rights issues that are addressed at an early stage in our projects. Hydro has taken a 75-percent stake in a joint venture with Australian exploration company UMC. Successful exploration and subsequent mining is dependent on cooperation and agreements with the traditional (aboriginal) land owners of the area. The project is in dialogue with the different stakeholder groups.

The society's expectations regarding corporate responsibility in the supply chain are in continuous development. In 2008 the implementation, effectiveness and suitability of the existing Supplier Declaration was evaluated. The evaluation concluded

Direct greenhouse gas emissions

Million tonnes CO₂-equivalents (CO₂e)



Total payments (taxes, fees etc.) to host governments ¹⁾

Amounts in NOK million	2008	2007	2006
Australia	0.4	6	-
Brazil	139	89	127
Jamaica	90	81	79

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, license fees, rental fees, entry fees etc. The reporting is based on the principles in Extractive Industries Transparency Initiative (EITI). The table is included in the limited level of assurance review of Hydro's viability performance reporting 2008, but not in the financial audit.

that Hydro's policy and contractual requirements towards suppliers can be further clarified. Implementation of such changes will begin in 2009.

Our most important voluntary commitments are our support of the principles set out in the Universal Declaration of Human Rights and the United Nations Global Compact. We also support the OECD's Guidelines for Multinational Enterprises. We use the Global Reporting Initiative's (GRI) G3 guidelines for voluntary reporting of sustainable development. See www.hydro.com/gri

Employees

Hydro had 22,634 employees at the end of 2008, a decrease from 24,692 in 2007. The reduction is primarily a result of the divestment of Hydro Polymers to the British company Ineos and of Hydro Production Partner to the German company Bilfinger Berger. Nearly 500 employees were added through acquisitions in Extrusion and Building Systems.

In recent years we have accomplished several demanding restructuring processes worldwide, in line with The Hydro Way. These experiences are important to build on as we are now in the middle of even more challenging restructuring.

In the present recessionary environment, we see the importance of maintaining our position as an attractive employer. We continued our graduate trainee program in 2008 and have already selected most candidates for the 2009 program. New employees are offered essential training, both in order to get to know the organization and their work tasks, and to gain the required competence within health, security, safety and environment.

Developing managers able to deliver on Hydro's strategy and ambitions is key to both our leadership planning process and management training programs. In 2008 special emphasis was put on integrating and securing a global mindset in our programs. For 2009 our leadership development activities will be arranged to support our managers in their restructuring efforts.

We emphasize diversity with regard to nationality, culture, gender and educational background, both when recruiting, and when forming management teams and other working groups. Half of the shareholder-elected board members are women. Women are also represented in all business area and most sector management teams, and we are aiming at further diversity at all levels. Most women top managers hired in the recent years have been recruited internally.

The deliberate recruitment of women is important in order to increase the proportion of women in the organization. In 2008, around 450 new employees were recruited to the Norwegian part of the organization. Of these, 28 percent were women, as compared to 19 percent in the Norwegian organization as a whole. 38 percent of the university graduates recruited in 2008 were women. Our annual graduate trainee program has had an even distribution between men and women since the introduction in 2005. The participants have also represented diversity with regard to nationality and cultural background. In the 2008 program, there are 18 participants, seven women and 11 men, representing six nationalities.

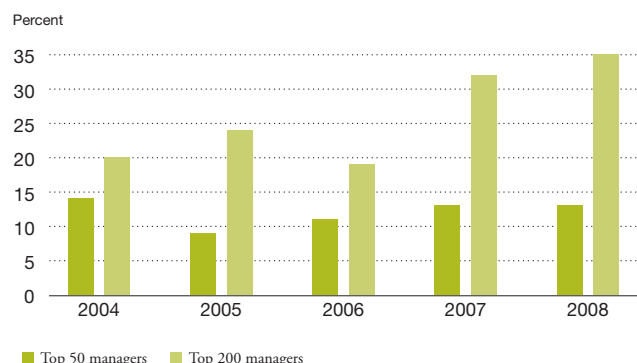
All employees shall be secured a total salary that is fair, competitive, and in accordance with the local industry standard. Only relevant qualifications such as performance, education, experience and other professional criteria shall be taken into account when making appointments, or when providing training, settling remuneration and awarding promotion. There are no significant gender pay differentials for employees earning collectively negotiated wages in Norway. Salary conditions for graduates in the Norwegian business are reviewed on a regular basis. No general gender-related differences have been found. See also Note 11 for further information on our compensation system.

We would like to extend our thanks to all Hydro's employees who work untiringly to secure the success of the company. And we would like to send our best wishes to those who during these difficult times have had to leave Hydro.

Share of women managers



Share of non-Norwegian managers



Board developments

Following substantial changes in the Board in 2007, the working program for 2008 commenced with a thorough review of Hydro's business to develop and secure the Board's knowledge and understanding of the company's organization, governance and strategy. The Board held 17 meetings in 2008, with attendance of 96 percent.

The Board has an annual plan for its work. In addition to recurring topics such as a review of board procedures, competency, priorities, collaboration with the company's management, strategy review and business planning, risk exposure and risk mitigation, the Board used significant time monitoring the handling of the Libya investigation as well as other important issues. Toward the end of the year, the Board was involved in evaluating Hydro's production curtailments and other initiatives in response to the dramatic market developments occurring in the final quarter. In January the Board regretfully accepted the resignation of the President and CEO, Eivind Reiten, and appointed his successor, Svein Richard Brandtzæg.

During 2008, the Board's Compensation Committee held four meetings and the Audit Committee nine meetings.

Svein Rennemo stepped down from the Board on March 12, 2008, and Inge K. Hansen was elected as a new member of the Board.

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 10,644 million in 2008 compared to profits of NOK 9,410 million in 2007.

Directors proposes to forgo a dividend payment for 2008. Therefore, the surplus for 2008 will be transferred to retained earnings.

According to Section 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on the assumption of a going concern.

Oslo, 18 March 2008


TERJE VAREBERG
Chair


GRETE FAREMO
Deputy chair


BILLY FREDAGSVIK
Board member


FINN JEPSEN
Board member


BENTE RATHE
Board member


JØRN B. LILLEBY
Board member


HEIDI M. PETERSEN
Board member


INGE K. HANSEN
Board member


STEN ROAR MARTINSEN
Board member


EIVIND REITEN
President and CEO