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*Financial statements***FINANCIAL STATEMENTS**

CONSOLIDATED FINANCIAL STATEMENTS
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## Consolidated financial statements

### Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended 31 December	Notes	2009	2008
Revenue	8	67 409	88 455
Share of the profit (loss) in equity accounted investments	8, 25, 26	(809)	(915)
Other income, net	8, 9	107	865
<b>Total revenue and income</b>		<b>66 706</b>	<b>88 405</b>
Raw material and energy expense	10	42 195	58 027
Employee benefits expense	11	11 699	12 018
Depreciation and amortization expense	12	3 193	3 370
Impairment of non-current assets	13	301	1 545
Other	14, 15	10 724	12 251
<b>Total expenses</b>	8	<b>68 113</b>	<b>87 211</b>
<b>Earnings before financial items and tax</b>	8	<b>(1 407)</b>	<b>1 194</b>
Financial income	16	429	795
Financial expense	16	2 344	(5 821)
<b>Financial income (expense), net</b>		<b>2 774</b>	<b>(5 026)</b>
<b>Income (loss) from continuing operations before tax</b>		<b>1 367</b>	<b>(3 832)</b>
Income taxes	17	(951)	565
<b>Income (loss) from continuing operations</b>		<b>416</b>	<b>(3 267)</b>
Loss from discontinued operations	7	-	(247)
<b>Net income (loss)</b>		<b>416</b>	<b>(3 514)</b>
Net income attributable to minority interests		117	411
<b>Net income (loss) attributable to Hydro shareholders</b>		<b>299</b>	<b>(3 925)</b>
Basic and diluted earnings per share from continuing operations		0.25	(3.04)
Basic and diluted earnings per share from discontinuing operations		-	(0.20)
<b>Basic and diluted earnings per share attributable to Hydro shareholders</b>		<b>0.25</b>	<b>(3.25)</b>

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

## Consolidated statements of comprehensive income

Amounts in NOK million. Years ended 31 December	Notes	2009	2008
Net income (loss)		416	(3 514)
<b>Other comprehensive income</b>			
Currency translation differences, net of tax	34	(6 908)	8 646
Unrealized gain (loss) on securities, net of tax	34	18	169
Cash flow hedges, net of tax	34	(84)	277
Share of other comprehensive income in equity accounted investments, net of tax		87	(30)
Other comprehensive income		(6 888)	9 063
<b>Total comprehensive income</b>		<b>(6 472)</b>	<b>5 549</b>
Total comprehensive income attributable to minority interests		(150)	691
Total comprehensive income attributable to Hydro shareholders		(6 322)	4 858

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

## Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	2009	2008	2007
<b>Assets</b>				
Cash and cash equivalents		2 573	3 333	9 330
Short-term investments	18	1 519	1 648	2 742
Accounts receivable	19	11 571	16 254	15 564
Inventories	20	10 030	16 293	12 227
Other current financial assets	21, 40	2 109	2 579	967
<b>Total current assets continuing operations</b>	<b>8</b>	<b>27 802</b>	<b>40 108</b>	<b>40 830</b>
Assets held for sale		-	-	6 741
Property, plant and equipment	22	25 647	29 338	26 750
Intangible assets	23, 24	1 881	2 178	1 514
Investments accounted for using the equity method	25, 26	15 721	14 457	9 659
Other non-current financial assets	21, 40	3 818	5 592	4 341
Prepaid pension	32	1 328	1 458	1 246
Deferred tax assets	33	1 402	2 026	963
<b>Total non-current assets continuing operations</b>	<b>8</b>	<b>49 797</b>	<b>55 049</b>	<b>44 474</b>
<b>Total assets</b>	<b>8</b>	<b>77 599</b>	<b>95 157</b>	<b>92 046</b>
<b>Liabilities and equity</b>				
Bank loans and other interest-bearing short-term debt	28	2 010	1 169	1 045
Trade and other payables	29	9 917	12 944	12 193
Provisions	31	1 094	2 060	1 599
Taxes payable		1 196	1 984	2 361
Other current financial liabilities	21, 40	826	5 187	1 157
<b>Total current liabilities continuing operations</b>		<b>15 042</b>	<b>23 344</b>	<b>18 355</b>
Liabilities included in disposal groups		-	-	2 021
Long-term debt	30	88	279	263
Provisions	31	2 007	2 115	1 849
Pension obligation	32	9 368	9 953	8 920
Other non-current financial liabilities	21, 40	2 144	2 996	2 795
Other liabilities		906	1 071	588
Deferred tax liabilities	33	849	1 258	2 246
<b>Total non-current liabilities continuing operations</b>		<b>15 361</b>	<b>17 673</b>	<b>16 662</b>
<b>Total liabilities</b>		<b>30 403</b>	<b>41 016</b>	<b>37 038</b>
Share capital	34	1 362	1 370	1 370
Additional paid-in capital		43	309	360
Other components of equity	34	813	7 435	(1 348)
Retained earnings		45 128	47 968	57 950
Treasury shares	34	(1 177)	(4 274)	(4 283)
<b>Equity attributable to Hydro shareholders</b>		<b>46 169</b>	<b>52 808</b>	<b>54 049</b>
Minority interests		1 026	1 333	959
<b>Total equity</b>		<b>47 195</b>	<b>54 141</b>	<b>55 008</b>
<b>Total liabilities and equity</b>		<b>77 599</b>	<b>95 157</b>	<b>92 046</b>

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

## Consolidated statements of cash flows

Amounts in NOK million. Years ended 31 December	Notes	2009	2008
<b>Operating activities:</b>			
Net income (loss)		416	(3 514)
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss from discontinued operations	7	-	247
Depreciation, amortization and impairment	8, 12, 13	3 494	4 915
Share of (profit) loss in equity accounted investments	8, 25, 26	809	915
Dividends received from equity accounted investments	25, 26	73	247
Deferred taxes		248	(2 383)
Loss (gain) on sale of non-current assets		808	(412)
Loss (gain) on foreign currency transactions	16	(2 774)	5 491
Net sales of trading securities		245	230
Capitalized interest	16	(3)	-
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		2 063	2 770
Inventories		4 381	(1 761)
Trade and other payables		(1 702)	(1 801)
Financial and commodity derivatives		(2 889)	(1 801)
Other items		(623)	(222)
<b>Net cash provided by continuing operating activities</b>	<b>43</b>	<b>4 546</b>	<b>2 921</b>
<b>Investing activities:</b>			
Purchases of property, plant and equipment		(2 743)	(3 485)
Purchases of other long-term investments		(3 137)	(5 374)
Purchases of short-term investments		-	(2 850)
Proceeds from sales of property, plant and equipment		24	95
Proceeds from sales of other long-term investments		8	679
Proceeds from sales of short-term investments		-	3 600
<b>Net cash used in continuing investing activities</b>		<b>(5 848)</b>	<b>(7 335)</b>
<b>Financing activities:</b>			
Loan proceeds		2 878	93
Principal repayments		(1 978)	(187)
Net increase (decrease) in other short-term debt		15	(159)
Ordinary shares purchased		(124)	(149)
Ordinary shares issued		43	44
Dividends paid		(166)	(6 359)
<b>Net cash provided by (used in) continuing financing activities</b>		<b>668</b>	<b>(6 717)</b>
Foreign currency effects on cash and bank overdraft		(56)	(11)
Net cash provided by discontinued operations	7	-	5 075
Net decrease in cash, cash equivalents and bank overdraft		(690)	(6 067)
Cash, cash equivalents and bank overdraft at beginning of year		3 189	9 256
<b>Cash, cash equivalents and bank overdraft at end of year</b>	<b>43</b>	<b>2 499</b>	<b>3 189</b>

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

## Consolidated statements of changes in equity

Amounts in NOK million	Notes	Share capital	Additional paid-in capital	Treasury shares	Retained earnings	Other component of equity	Equity attributable to Hydro share-holders	Minority interest	Total equity
31 December 2007		1 370	360	(4 283)	57 950	(1 348)	54 049	959	55 008
Purchase of treasury shares	34			(149)			(149)		(149)
Treasury shares reissued to employees	34		(51)	158			107		107
Dividends declared and paid	36				(6 053)		(6 053)	(306)	(6 359)
Transactions with minority equity holders/with group					(4)		(4)	(1)	(5)
Equity interests purchased (sold)								(10)	(10)
Total comprehensive income for the year					(3 925)	8 783	4 858	691	5 549
31 December 2008		1 370	309	(4 274)	47 968	7 435	52 808	1 333	54 141
Treasury shares reissued to employees	34		(17)	63			46		46
Cancellation treasury shares	34	(5)	(61)	147	(81)		-		-
Redeemed shares, the Ministry of Trade and Industry	34, 46	(4)	(121)				(124)		(124)
Dividends declared and paid	36				-		-	(166)	(166)
Equity interests purchased (sold)								9	9
Demerger adjustment	7				(237)		(237)		(237)
Other adjustments			(67)	2 887	(2 820)		-		-
Total comprehensive income for the year					299	(6 621)	(6 322)	(150)	(6 472)
31 December 2009		1 362	43	(1 177)	45 128	813	46 169	1 026	47 195

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

Oslo, 17 March 2010

  
Terje Vareberg  
Chair

  
Bente Rathe  
Deputy chair

  
Jørn B. Lilleby  
Board member

  
Finn Jebsen  
Board member

  
Inge K. Hansen  
Board member

  
Sten Roar Martinsen  
Board member

  
Heidi M. Petersen  
Board member

  
Billy Fredagsvik  
Board member

  
Svein Richard Brandtzæg  
President and CEO

## Notes to the consolidated financial statements

### 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 19,000 people in 40 countries. Hydro is a global supplier of primary aluminium and aluminium products, 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.

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 2009.

The following description of accounting principles applies to Hydro's 2009 financial reporting, including all 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 eliminated. 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.

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.

#### *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, 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 and any impairment losses, 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.

### *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 recognized in Other comprehensive income and accumulated in the Currency translation reserve in Other components of 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 entity is recognized in the income statement.

### *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.

Activities related to the trading of derivative commodity instruments, including when such instruments are used for economic hedge purposes, 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 government grants, 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.

### *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 at fair value when acquired. 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 CO<sub>2</sub> 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 CO<sub>2</sub> emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO<sub>2</sub> 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 CO<sub>2</sub> 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 unit'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. 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 in Other comprehensive income. 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 estimated 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 recognized in Other comprehensive income and deferred in the Hedging reserve in Other components of equity 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 the Hedging reserve 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.

#### *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.

#### *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.

#### *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*

During 2009, Hydro has adopted a new accounting policy for classification of the effects of derivative instruments. Based on a renewed assessment of the interrelationship in our business model for using certain derivative instruments we have determined that it is more appropriate to classify the effects of certain derivative instruments entered into as economic hedges of sales prices for own production of aluminium and instruments entered into with the purpose of hedging margins in the mid and downstream activities as part of revenues. Some of these effects were previously classified as part of raw materials and energy cost. Following the change, we now present the realized and unrealized effects of all net settled derivative contracts, whether for trading purposes or hedging purposes (hedge accounting not applied) in revenue. The effects of embedded derivatives are presented on the same line item as the host contract.

In addition, Hydro implemented the following new guidance as of 1 January 2009 with no material impact.

- IAS 23 (revised 2007) Borrowing Costs (IAS 23R)
- IAS 1 (revised 2007) Presentation of Financial Statements (IAS 1R)
- Amendments resulting from May 2008 Annual Improvements to IFRSs
- IFRIC 13 Customer Loyalty Programs (IFRIC 13)
- IFRIC 18 Transfers of Assets from Customers (IFRIC 18)

#### *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 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.
- Amendments resulting from May 2008 Annual Improvements to IFRSs (2008 Annual amendments) effective date and Hydro implementation date 1 January 2010 for some of the amendments.
- Amendments resulting from April 2009 Annual Improvements to IFRSs (2009 Annual amendments) effective date and Hydro implementation date 1 January 2010.

#### Implementation in 2011:

- IAS 24 (revised 2009) Related Party Disclosure (IAS 24R), effective date and expected Hydro implementation date 1 January 2011

#### Implementation in later years:

- IFRS 9 Financial Instruments - Classification and Measurement (IFRS 9); effective date 1 January 2013. Hydro has not yet decided whether to implement this standard early.

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 the 2009 Annual amendments, IAS 24R, and IFRS 9.

Adoption of IFRS 3R changes the accounting for business combinations completed after 1 January 2010, including the amount of goodwill recognized. The most significant changes are expected to relate to the requirement to expense all acquisition cost as incurred, and the changed regulation of recognition of goodwill in an acquisition of a part-owned subsidiary. Adoption of IAS 27R will change the accounting for losses incurred in part-owned subsidiaries, as well as accounting for loss of control of a subsidiary where a minority interest is retained. The adoption of the 2009 Annual amendments will not materially change the presentation or measurement of items in Hydro's financial statements. Hydro is currently evaluating the potential accounting impact of IAS 24R and IFRS 9.

## 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.

Assets and liabilities, and related income and expense, are not necessarily representative of how Hydro's financial statements would have appeared had Hydro applied IFRS over its entire reporting history due to the policies elected for implementation of IFRS as of 1 January 2006. Specifically, Hydro elected to utilize the option in IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS 1) to recognize all 1 January 2006 cumulative actuarial gains and losses with the effect recognized directly to equity. This affects future period pension cost. Hydro has also upon transition to IFRS reset to zero all 1 January 2006 cumulative translation differences. This affects reported gains and losses on disposal of subsidiaries.

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 calculation, 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.

Fair value is estimated using inputs which are to varying degrees objectively observable. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities, others are valued on the basis of inputs that are derived from observable prices, while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data.

### **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. 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 utilizing significant unobservable data, 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 2009 and 31 December 2008.

The fair value of commodity derivatives, including futures, forwards and options, is measured as the present value of future cash flows, calculated using forward curves and exchange rates as of 31 December 2009 and 31 December 2008. 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 judgment 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 Hydro's business plan for the asset have been made or whether a significant adverse change in the business and legal climate has arisen. During 2009 prices and economic activity continued to be at relatively low levels following the sharp downturn towards the end of 2008. Even though aluminium prices and demand have picked up from the very low levels observed in late 2008 and the first half of 2009, the activity is still at a low level. Economic outlook for the coming years is uncertain. However, we have not identified any impairment indicators for Hydro in total at the end of 2009. Each Cash Generating unit (CGU) or individual asset is reviewed to assess whether impairment indicators exist. Most of Hydro's assets are assigned to 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, production processes and market mechanisms as well as Hydro's organizational structure are 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, 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 on market prices for products and input factors where available, but must also include assumptions on production volumes, cost of operations, commodity prices after the liquid period with observable prices, product prices, 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 above inflation 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 11.75 and 14.25 percent (2008: 11-14 percent). For further information about impairment tests, see note 13 Impairment of non-current assets.

### *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 bifurcated 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. During 2009 the markets have stabilized and liquidity increased, however, not to the level observed prior to the financial unrest. 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 70 percent of Hydro's projected benefit obligation relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2009 is 4.5 percent. This is in line with the guidance from the Norwegian Accounting Standards Board on pension assumptions for use as of 31 December 2009 when considering the rounding practice for such estimates. 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 2009, credit markets were volatile and still less active than for previous periods, however, not as volatile as at the end of 2008. We have therefore carefully reviewed the benchmark indexes for determining the relevant discount rates. The discount rates used are 5.25 percent and 5.75 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 1.75 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 a somewhat lower salary increase for our Norwegian activities compared to the average development in Norway, based on the challenged profitability and international competition in our industry.

Changes in these assumptions can influence the funded status of the plan as well as the net periodic pension cost. Hydro incurred an actuarial gain of NOK 5,047 million for the year, mainly resulting from reduced estimated future compensation increase, primarily related to pensions in payment in Norway. 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 2009 this is around NOK 1.4 billion. For 2009, Hydro incurred a change in the average discount rate of 0.1 percentage points as a result of the increase of interest levels in the areas where Hydro's main pension obligations are situated. 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 2009 around NOK 0.9 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 2009 around NOK 0.7 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 and decommissioning, restoration and similar liabilities (asset retirement obligations), are recognized when a liability arises from a past event and an outflow of cash or other resources 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, the time 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 and asset retirement obligations is based on an evaluation of currently available facts with respect to each asset or 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. Long-term obligations are discounted to reflect time value of money. 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.

Hydro accounts for the implicit asset cost represented by asset retirement obligations under IAS 16 Property, plant and equipment. Hydro's asset retirement obligations are mainly related to contaminated material used in electrolysis when producing aluminium, and are disclosed in note 31 Provisions.

#### *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.

## Note 5 - Acquisitions

Hydro has not entered into any significant business combinations during 2009 or 2008.

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.

## Note 6 - Disposals

During 2009 and 2008, Hydro entered into the following significant disposals.

In October 2009 Hydro agreed to sell its automotive structures activities to the German group Benteler. The transaction was subject to clearance by completion authorities, and was completed on 31 December 2009. The main products of the sold business is aluminium bumper and crash management systems for the automotive industry. The business has production and/or assembly facilities in several countries, with the most significant activities in Norway, the US, Denmark, France, China and Germany. The sale resulted in a loss of NOK 472 million in 2009. As part of the transaction a post closing settlement will take place. The post closing settlement might result in profit or loss effects in 2010.

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. 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.

## 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-emptive 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. No interest expense related to loans is allocated to discontinued operations. 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 components of equity 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 was reported as part of Discontinued operations for 2008. Cash flows from discontinued operations were presented separately, and include cash flows from the Polymers activities and the sales proceeds. In balance sheets after the sales decision was made, assets in the disposed businesses and the related liabilities were reported as Assets held for sale and Liabilities included in disposal groups, respectively.

The discontinued Polymers activities were previously included as part of Other. The following table summarizes the financial information for discontinued operations related to Polymers for the period 2008.

**Summary of financial data for discontinued operations**

Amounts in NOK million	2009	2008
Revenue	-	575
Share of the profit in equity accounted investments	-	33
Other income, net	-	19
Other expenses	-	(499)
<b>Earnings before financial items and tax</b>	<b>-</b>	<b>129</b>
Financial expense, net	-	(11)
Income before tax	-	118
Income taxes	-	(32)
Income before sale of shares	-	86
Loss from sale of shares	-	(333)
<b>Loss from discontinued operations</b>	<b>-</b>	<b>(247)</b>
Net cash used in operating activities	-	(150)
Net cash provided by investing activities	-	5 225
Net cash used in financing activities	-	-
Foreign currency effects on cash and bank overdraft	-	-
<b>Net cash provided by discontinued operations</b>	<b>-</b>	<b>5 075</b>

*Demerger of Hydro in 2007*

On 12 March 2007 Hydro's Board of Directors and the Board of Directors of Statoil ASA agreed to a proposed merger of Hydro's petroleum activities (Hydro Petroleum) with Statoil to form StatoilHydro ASA (now Statoil 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 Statoil. 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 components of 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 process was concluded in the first quarter of 2009, and resulted in a reduction of Hydro's equity of NOK 237 million. No payments were made or received.

**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 five business areas Primary Metal, Metal Markets, Rolled Products, Extruded Products and Energy.

Primary Metal activities include the production of bauxite and alumina, production of primary aluminium and primary casthouses including their remelting of metal. The main products are extrusion ingots, foundry alloys and sheet ingot.

Metal Markets is responsible for metal sales, recycling, remelting and physical and financial metal trading activities.

Rolled Products is responsible for Hydro's rolling mills. Rolled Products delivers foil, strip, sheet, and lithographic plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates.

Extruded Products activities include Hydro's extrusion-based downstream activities. Extruded Products delivers custom-made general extrusion products, 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 consist of Hydro's investments in the Solar Industry, the captive insurance company Industriforsikring, Hydro's internal service providers, Polymers (reported as discontinued operations, sold in February 2008) and certain other activities.

### *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, considering the principles for measuring certain intersegment transactions and contracts described below. 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 the 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 not considered part of Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported together with Other under the caption Other 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 Other 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 Other and eliminations.

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

Amounts in NOK million	External revenue		Internal revenue		Total revenue	
	2009	2008	2009	2008	2009	2008
Primary Metal	4 132	4 359	21 354	32 397	25 486	36 756
Metal Markets	23 650	32 787	10 548	18 425	34 197	51 212
Rolled Products	17 486	23 466	925	(955)	18 411	22 511
Extruded Products	19 906	24 552	159	90	20 065	24 642
Energy	1 682	2 350	3 605	5 563	5 286	7 913
Other and eliminations <sup>1) 2)</sup>	554	941	(36 590)	(55 520)	(36 036)	(54 579)
<b>Total</b>	<b>67 409</b>	<b>88 455</b>	<b>-</b>	<b>-</b>	<b>67 409</b>	<b>88 455</b>

Amounts in NOK million	Other income, net		Share of the profit (loss) in equity accounted investments <sup>3)</sup>		Depreciation, amortization and impairment <sup>4)</sup>	
	2009	2008	2009	2008	2009	2008
Primary Metal	58	34	(503)	(490)	1 820	2 711
Metal Markets	5	19	(14)	(1)	118	140
Rolled Products	(182)	49	(91)	(52)	730	585
Extruded Products	(425)	14	12	17	666	1 324
Energy	-	-	24	26	109	103
Other and eliminations <sup>1)</sup>	650	749	(237)	(415)	50	53
<b>Total</b>	<b>107</b>	<b>865</b>	<b>(809)</b>	<b>(915)</b>	<b>3 494</b>	<b>4 915</b>

Amounts in NOK million	Earnings before financial items and tax (EBIT) <sup>5)</sup>		EBITDA	
	2009	2008	2009	2008
Primary Metal	(3 403)	1 679	(1 449)	5 024
Metal Markets	403	332	523	473
Rolled Products	1 186	(934)	1 977	(292)
Extruded Products	(413)	(515)	253	808
Energy	1 386	1 887	1 501	1 995
Other and eliminations <sup>1) 2) 6)</sup>	(567)	(1 255)	(374)	(896)
<b>Total</b>	<b>(1 407)</b>	<b>1 194</b>	<b>2 432</b>	<b>7 112</b>

Amounts in NOK million	Current assets <sup>7)</sup>		Non-current assets		Total assets <sup>7)</sup>	
	2009	2008	2009	2008	2009	2008
Primary Metal	8 142	12 566	28 720	28 518	36 862	41 083
Metal Markets	7 537	12 108	1 481	2 991	9 017	15 099
Rolled Products	6 515	9 012	5 166	7 315	11 681	16 327
Extruded Products	5 501	8 756	5 391	6 864	10 893	15 620
Energy	1 615	2 143	5 451	6 536	7 067	8 679
Other and eliminations <sup>1)</sup>	(1 508)	(4 477)	3 587	2 825	2 079	(1 651)
<b>Total</b>	<b>27 802</b>	<b>40 108</b>	<b>49 797</b>	<b>55 049</b>	<b>77 599</b>	<b>95 157</b>

Amounts in NOK million	Investments accounted for using the equity method <sup>3) 8)</sup>		Segment debt <sup>9)</sup>		Investments <sup>10)</sup>	
	2009	2008	2009	2008	2009	2008
Primary Metal	12 330	10 299	3 074	4 737	4 416	5 926
Metal Markets	31	49	5 482	10 000	54	160
Rolled Products	1 280	1 632	2 372	5 401	314	598
Extruded Products	28	32	3 586	6 012	617	1 382
Energy	389	376	1 396	1 940	340	164
Other and eliminations <sup>1)</sup>	1 663	2 069	(4 072)	(7 901)	206	782
<b>Total</b>	<b>15 721</b>	<b>14 457</b>	<b>11 836</b>	<b>20 190</b>	<b>5 947</b>	<b>9 012</b>

Amounts in NOK million	Total assets		Non-current assets		Investments <sup>10)</sup>	
	2009	2008	2009	2008	2009	2008
Norway	33 181	40 515	18 654	21 134	1 552	2 254
Germany	11 105	15 627	5 703	6 945	421	814
Italy	1 933	2 898	610	1 097	40	135
Slovakia	1 875	2 714	1 237	1 530	141	164
Spain	1 752	2 589	941	1 159	87	719
France	1 703	2 621	670	849	77	109
Denmark	654	1 162	310	506	19	71
Great Britain	559	712	249	295	12	19
Austria	361	527	175	223	10	8
Other	1 813	2 505	1 267	1 495	134	103
<b>Total EU</b>	<b>21 755</b>	<b>31 355</b>	<b>11 162</b>	<b>14 099</b>	<b>941</b>	<b>2 142</b>
Other Europe	37	50	4	6	2	1
<b>Total Europe</b>	<b>54 973</b>	<b>71 920</b>	<b>29 821</b>	<b>35 239</b>	<b>2 495</b>	<b>4 397</b>
USA	2 195	3 066	1 326	1 782	111	295
Canada	1 876	2 372	1 691	2 093	106	59
Brazil	8 145	7 723	7 884	7 518	73	592
Other Americas	127	362	60	133	90	18
Qatar	5 911	4 426	5 911	4 426	2 623	3 140
Other Asia	874	1 079	320	484	31	63
Australia and New Zealand	3 492	4 162	2 785	3 375	418	449
Africa	7	46	1	-	-	-
<b>Total outside Europe</b>	<b>22 627</b>	<b>23 237</b>	<b>19 976</b>	<b>19 810</b>	<b>3 451</b>	<b>4 615</b>
<b>Total</b>	<b>77 599</b>	<b>95 157</b>	<b>49 797</b>	<b>55 049</b>	<b>5 947</b>	<b>9 012</b>

1) Other and eliminations includes business activities outside the reportable segments. The main activities are Hydro's solar investments, the industrial insurance company Industriforsikring, and Hydro's internal service providers.

2) Other and eliminations include elimination of unrealized gains and losses on power contracts between Energy and other units in Hydro with a gain of 784 million in 2009 and a loss of NOK 1,087 million in 2008.

3) Share of the profit (loss) in equity accounted investments includes impairment write-downs of NOK 138 million in the solar activities in 2009, and 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 non-current 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) Other and elimination's EBIT and EBITDA includes a net periodic pension cost of NOK 727 million for 2009 and NOK 222 million for 2008.

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 free liabilities excluding income tax payable.

10) Additions to property, plant and equipment plus long-term securities, intangible assets, long-term advances and investments in equity accounted investments.

Amounts in NOK million	Revenue	
	2009	2008
Norway	3 223	6 376
Germany	11 849	16 831
Great Britain	4 744	5 570
France	4 715	6 282
Italy	4 476	6 231
Spain	3 838	5 297
Poland	1 764	2 545
The Netherlands	1 680	2 293
Austria	1 424	2 128
Other	6 822	10 862
Total EU	41 313	58 038
Switzerland	4 613	4 154
Other Europe	2 250	2 896
Total Europe	51 399	71 463
USA	5 841	7 598
Canada	203	203
Other Americas	1 675	1 844
Asia	7 198	5 789
Australia and New Zealand	815	1 267
Africa	279	291
Total outside Europe	16 010	16 992
Total	67 409	88 455

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in equity accounted investments; 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	2009	2008
Gain on sale of property, plant and equipment	15	69
Gain (loss) on sale of subsidiaries, associates and jointly controlled entities <sup>1)</sup>	(675)	459
Revenue from utilities <sup>2)</sup>	151	179
Rental revenue	288	90
Other <sup>3)</sup>	328	68
Other income, net	107	865

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.

3) Other includes insurance compensation.

## Note 10 - Raw material and energy expense

Amounts in NOK million	2009	2008
Raw material expense and production supplies	40 450	58 001
Change in inventories own production	910	(1 220)
Write-downs of inventories	836	1 246
Raw material and energy expense	42 195	58 027

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

## 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 2010 meeting. The Board of Directors proposes that the statement below applies for 2010 and in 2011 until the Annual General Meeting.

### **Guidelines for management remuneration**

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 markets, but not a wage leader. The determination of the level will also reflect Hydro's international focus.

The arrangements will be transparent and in accordance with principles of good corporate governance.

Remuneration to the Corporate Management Board will consist of both fixed and variable elements. The variable portion of the total remuneration will consist of a bonus element.

**Fixed Remuneration** The fixed element of the Corporate Management Board remuneration will be comprised of a base salary (the main element) and other compensations including a company car or car allowance, telephone, newspapers and similar benefits, as well as pension benefits. All Corporate Management Board members will continue to be covered by the insurance arrangements applicable for the level of vice president and above within Hydro.

**Bonus** The annual bonus will be determined based on the achievement of agreed financial targets and key performance indicators (KPIs). The KPIs are considered ambitious and are related to financial and operational business targets and individual leadership expectations. Positive underlying EBIT is necessary for payment of any bonus to the President and CEO and the Corporate Management Board. The Board of Directors is committed to setting KPIs that are balanced and that 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 and improvements. 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. Other Corporate Management Board members will have a maximum bonus potential of forty percent of their annual salary. Bonus payments will not be included in determining pension or vacation pay.

**Long Term Incentive** From 2010, the Board of Directors proposes to establish a Long Term Incentive (LTI) program in the form of a remuneration of 30 and 25 per cent of annual base salary for the President and CEO and the other members of Corporate Management Board respectively. The LTI payment requires that Hydro has a positive underlying EBIT. Leaders in other key functions may also be included in the LTI arrangement at 15 or 20 per cent of their base salary. Participants will be required to invest the net amount after tax in Hydro shares. Such shares shall be acquired in the market and must be held in for at least three years. A participant who on his/her own initiative leaves the company will be required to repay the company an amount equivalent to the after tax value at the time of resignation for any shares not held for the three year requirement. The LTI arrangement will be evaluated annually. When implementing the LTI, changes in respect of mutual notice periods, compensation level in the event of termination of employment as well as the possibility for early retirement from the age of 62 with reduced pension payment until the age 65 will be sought from the other Corporate Management Board members.

**Other share based compensation** 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 on the same terms as all other eligible employees.

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

**Pension** The President and CEO will have the right to and the Board of Directors may require that he retires with pension 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 the President and CEO. 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 annual percentage changes in the Norwegian government's pension base ("Folketrygdens Grunnbeløp") from the time the President and CEO commenced his position).

For all other Norwegian 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. In 2010 the members of the Corporate Management Board may select to transfer to a defined contribution pension plan in line with the company's other employees in Norway.

**Termination agreement** In the event the President and CEO'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 the President and CEO receives new income from other sources, Hydro may decide to reduce his payments, based on certain conditions.

#### **Statement for 2009, the prior financial year**

The remuneration of the President and CEO and the Corporate Management Board for the previous financial year (2008) was substantially based on the same guidelines as set out above with the exception of LTI that is being considered for introduction in 2010.

The President and CEO Eivind Reiten stepped down as of 30 March 2009, and his termination agreement came into force. He has the right to salary and benefits (excluding bonus) for a three-year period, beginning 30 March 2009. Hydro's obligation may be reduced by salary received from other sources under certain conditions. From the age of 60, Eivind Reiten has the right to pension benefits in the amount of 65 percent of his pension-qualifying remuneration. At the time of resignation, Reiten's base salary was NOK 5,770,000.

Svein Richard Brandtzæg, who replaced Eivind Reiten as President and CEO, has an annual base salary of NOK 5,000,000 from his date of appointment as President and CEO.

In light of prevailing market conditions, the salaries for the other members of the Corporate Management Board were not adjusted. The bonus agreement for the President and CEO and the other members of the Corporate Management Board did not result in any bonus payments for 2009. The maximum bonus potential was 50 and 40 percent of base salary respectively.

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 2008 paid in 2009 and the estimated increase in the value of their pension benefits for 2009, as well as any loans outstanding and Hydro share ownership as of 31 December 2009 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 2009.

Name	Salary <sup>1) 2)</sup>	Remuneration in kind <sup>1) 2)</sup>	Bonus <sup>1) 2)</sup>	Pension benefits <sup>1) 3)</sup>	Outstanding loans <sup>1) 4)</sup>	Hydro share ownership <sup>5)</sup>
Svein Richard Brandtzæg <sup>6)</sup>	4 849	221	-	20 520	210	26 528
Eivind Reiten <sup>6)</sup>	6 147	387	-	1 017	-	87 383
Odd Ivar Biller	2 534	174	-	1 071	-	19 283
Anne Harris	2 190	161	-	777	925	13 902
Arvid Moss	2 213	217	9	538	-	61 268
Oliver Bell <sup>7)</sup>	3 972	156	762	11 998	-	-
Johnny Undeli <sup>7)</sup>	4 000	143	1 107	9 264	-	980
Kjetil Ebbesberg <sup>7)</sup>	1 751	119	-	761	-	141
Jørgen C. Arentz Rostrup <sup>8)</sup>	2 584	206	-	2 218	-	7 073
John Ove Ottestad <sup>8)</sup>	3 165	198	-	889	-	79 118
Tom Røtjær	2 694	216	-	455	-	16 943
Ola Sæter <sup>9)</sup>	2 154	163	318	4 801	-	5 153
Hilde Aasheim	2 545	223	-	1 266	-	547

1) Amounts in NOK thousand. Amounts paid by subsidiaries outside Norway have been translated to NOK at average exchange rates for 2009.

2) Salary is the amount paid to the individual during 2009, 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 2009 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 2009 based on performance achieved in 2008. Such bonus was earned before the individuals joined the Corporate Management Board.

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 Kjetil Ebbesberg, this is the estimated change from 1 January 2009 to 31 December 2009. Kjetil Ebbesberg's estimated change in value of pension benefits is calculated from 30 March 2009 to 31 December 2009. Kjetil Ebbesberg returned to Hydro from an external company effective 30 March 2009.

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 3.9 percent and a repayment period of 7 years. The loans to Anne Harris have interest rate of 3.9-6.25 percent and repayment periods of 1-17 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 2009.

6) Effective 30 March 2009, Svein Richard Brandtzæg succeeded Eivind Reiten as President and CEO, and Reiten resigned from the Corporate Management Board and left Hydro.

7) Oliver Bell, Johnny Undeli and Kjetil Ebbesberg became members of the Corporate Management Board as of 30 March 2009.

8) Effective 1 May 2009, Jørgen C. Arentz Rostrup succeeded John Ove Ottestad as CFO, and Ottestad resigned from the Corporate Management Board.

9) Ola Sæter became member of the Corporate Management Board as of 1 May 2009.

### 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 Statoil, the value of the options was reduced. The options remain options over Hydro shares only and do not give an option to purchase the Statoil shares which were issued for each Hydro share to the trust.

At 1 January 2008, 28,788 options were outstanding and the trust's balance of shares at 1 January 2008 was 534,580 Hydro shares and 460,914 Statoil shares. 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 of Statoil shares was 354,628. There were 25,068 options outstanding as of 31 December 2008.

During 2009 no options were exercised and 5,255 options expired. As of 31 December 2009 the trust's balance of Hydro shares was 407,908 and 271,768 Statoil shares. There were 19,813 options outstanding as of 31 December 2009. Activity during 2009 is given in the table below.

#### UK employee share-based compensation

	Average number of shares	Strike price (NOK) <sup>1)</sup>
Options outstanding as of 31 December 2008	25 068	58.90
Options exercised during 2009	-	-
Options expired during 2009	(5 255)	47.92
Options outstanding as of 31 December 2009	19 813	55.82

1) Presentation in NOK is based on a translation from GBP using the 31 December 2009 exchange rate of 9.304 and the 31 December 2008 exchange rate of 10.121 (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 2009, eligible Hydro employees received a NOK 2,500 share-purchase rebate to purchase NOK 10,000 of shares of Norsk Hydro ASA, which corresponds to a 25 percent discount from the market price, as shareholder return did not exceed 12 percent in the period from 1 January to 31 December 2008 (the performance measurement period).

In the performance period 1 January to 31 December 2009 shareholder return exceeded 12 percent. Therefore, under the plan to be offered in 2010, employees will receive a rebate of NOK 10,000 on their purchase of NOK 20,000 of Norsk Hydro ASA shares. The rebate of NOK 10,000 corresponds to a 50 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 more than 90 percent 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 2008 performance measurement period was accrued and recognized over the service period of 31 December 2008 through 27 March 2009, the final acceptance date of the offer. In 2008 and 2009 the participation rates of eligible employees in the employee share purchase plan were 79 and 88 percent, respectively. Details related to the employee share purchase plan are given in the table below.

<b>Performance measurement period</b>	2009	2008	2007
Total shareholder return performance target achieved	≥12%	<12%	≥12%
Employee rebate, NOK	10 000	2 500	10 000
Employee rebate, percent	50%	25%	50%

<b>Share purchase plan compensation</b>	2009	2008
Award share price, NOK	24.30	37.57
Number of shares issued, per employee	411	266
Total number of shares issued to employees	1 898 820	1 429 484
Compensation expense related to the award, NOK thousand	11 535	53 706

### *Employee benefit expense*

The average number of employees for 2009 and 2008 was 20,757 and 23,074, respectively. As of year end 2009 and 2008 Hydro employed 19,249 and 22,634 people, respectively. The decrease in the number of employees is primarily a result of the ongoing restructuring processes, including closure of the Söderberg line at Karmøy, Norway, as well as closures and reductions in our downstream operations and central staffs. Our Automotive Structures operations were sold late 2009, directly affecting some 1,200 employees. The specification of employee benefit expenses from continuing operations for 2009 and 2008 is given in the table below.

#### **Employee benefit expense**

Amounts in NOK million	2009	2008
Salary	8 495	9 310
Social security costs	1 562	1 581
Other benefits	218	351
Net periodic pension cost (note 32)	1 424	775
<b>Total</b>	<b>11 699</b>	<b>12 018</b>

## Note 12 - Depreciation and amortization expense

#### **Specification of depreciation and amortization by asset category**

Amounts in NOK million	2009	2008
Buildings	457	448
Machinery and equipment	2 604	2 785
Intangible assets	133	137
<b>Depreciation and amortization expense</b>	<b>3 193</b>	<b>3 370</b>

## Note 13 - Impairment of non-current assets

Amounts in NOK million	2009	2008
<b>Classification by asset category</b>		
<b>Impairment losses</b>		
Property, plant and equipment	303	1 518
Intangible assets	2	31
<b>Impairment reversals</b>		
Property, plant and equipment	(4)	(4)
<b>Total impairment of non-current assets</b>	<b>301</b>	<b>1 545</b>

### Classification by segment

<b>Impairment losses</b>		
Primary Metal	5	761
Metal Markets	-	35
Rolled Products	286	129
Extruded Products	13	624
<b>Impairment reversals</b>		
Primary Metal	(4)	-
Extruded Products	-	(4)
<b>Total impairment of non-current assets</b>	<b>301</b>	<b>1 545</b>

Hydro has experienced difficult market conditions from the autumn of 2008. At the end of 2008, those conditions were considered impairment indicators for several of our Cash Generating Units (CGUs), and several CGUs were tested for impairment. During 2009, results have developed largely in line with expectations inherent in the cash flow estimates in the 2008 impairment tests for most of the CGUs tested.

In Rolled Products, an updated market assessment during the summer of 2009 was considered an impairment indicator for all CGUs in that segment. Value in use (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 (FV) of individual assets or asset groups have also been calculated. For Rolled Products, testing resulted in an impairment write-down of one CGU to the estimated VIU. The impairment write-down for this plant was NOK 286 million. For two other plants FV was estimated based on observed or assumed second hand value of equipment for which transactions are regularly observed. Estimated FV covered the carrying value for these CGUs.

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 2009. The resulting impairment write-downs are included in the table above.

In Automotive Structures the sales effort during the second half of 2009 was considered an impairment indicator. Value in use (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 business planning process and existing and probable new contracts. The estimated VIU suggested that the carrying value was recoverable when tested as held for use.

The impairment charges in 2008 in the Primary Metal segment relate to the smelter in Neuss, Germany, by NOK 662 million, and the assets related to the Söderberg line in Karmøy, decided to be closed, by NOK 99 million. In Extruded Products, four CGUs in Extrusion America was written down by a total of NOK 252 million and three CGUs in Automotive Structures were written down by NOK 342 million. In Rolled Products one CGU was written down by NOK 129 million.

Goodwill and intangible assets with indefinite life are required to be tested annually, in addition to any tests required when impairment indicators are determined to be present. Hydro has elected to do the annual impairment test of goodwill in the fourth quarter.

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 Metal Markets is allocated to Remelters, in total NOK 236 million. The goodwill was tested for impairment in the second quarter when the goodwill was reallocated as part of the new segment structure in Hydro. The goodwill was also tested at the end of the year. 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 Extruded Products:

Amounts in NOK million	2009
Extrusion Eurasia	333
Building Systems	233
Extrusion Americas	152
Precision Tubing	38
<b>Total Extruded Products</b>	<b>756</b>

The Building Systems sector is profitable while the Extrusion Eurasia sector, the Extrusion Americas sector and the Precision Tubing sector has all experienced challenging markets and reported negative results during 2009. For all these sectors, impairment tests have been based on approved business plan for the next five years, extrapolated to a 15 years cash flow estimate with a positive terminal value. The estimates are based on continued growth in the market over time following the present market downturn. The estimated value in use exceeds the carrying value substantially for all sectors. The value is sensitive to sold volumes as well as margins. Seriously depressed volumes and margins over an extended period of time may change the outcome of the test and may result in an impairment situation whereby the goodwill, and possibly also fixed assets might be impaired in a future period.

See note 4 Critical accounting judgments 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 690 million in 2009 and NOK 606 million in 2008. 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			Total
	1 year	1-5 years	Thereafter	
<b>Operating lease obligation</b>	<b>367</b>	<b>1 126</b>	<b>1 503</b>	<b>2 996</b>

Operating lease expense for office space, machinery and equipment amounts to NOK 628 million for 2009 and NOK 701 million for 2008.

## Note 16 - Financial income and expense

Amounts in NOK million	2009	2008
Interest income	233	769
Net gain (loss) on securities	94	(154)
Dividends received	103	180
<b>Financial income</b>	<b>429</b>	<b>795</b>
Interest expense	(337)	(221)
Capitalized interest	3	-
Net foreign exchange gain (loss)	2 774	(5 491)
Other, net	(96)	(109)
<b>Financial expense</b>	<b>2 344</b>	<b>(5 821)</b>
<b>Financial income (expense), net</b>	<b>2 774</b>	<b>(5 026)</b>

## Note 17 - Income tax expense

Amounts in NOK million	2009	2008
<b>Income (loss) from continuing operations before taxes:</b>		
Norway	2 559	(4 455)
Other countries	(1 192)	623
<b>Total</b>	<b>1 367</b>	<b>(3 832)</b>
<b>Current taxes:</b>		
Norway	568	1 002
Other countries	135	816
<b>Current income tax expense</b>	<b>703</b>	<b>1 818</b>
<b>Deferred taxes:</b>		
Norway	555	(2 013)
Other countries	(307)	(370)
<b>Deferred tax expense (benefit)</b>	<b>248</b>	<b>(2 383)</b>
<b>Total income tax expense (benefit)</b>	<b>951</b>	<b>(565)</b>
<b>Components of deferred taxes:</b>		
Deferred tax expense (benefit), excluding items below	473	(2 684)
Benefit tax loss carryforwards	(627)	(338)
Net change not recognized tax asset	412	499
Tax expense (benefit) allocated to Other components of equity	(10)	140
<b>Deferred tax expense (benefit)</b>	<b>248</b>	<b>(2 383)</b>

#### Reconciliation of Norwegian nominal statutory tax rate to effective tax rate:

Amounts in NOK million	2009	2008
Expected income taxes at statutory tax rate <sup>1)</sup>	383	(1 073)
Hydro-electric power surtax <sup>2)</sup>	408	506
Losses and other deductions with no tax benefit	486	626
Non-deductable costs	27	20
Foreign tax rate differences	67	(46)
Tax free income	(147)	(280)
Dividend exclusions	(25)	(51)
Losses and other benefits not previously recognized	(59)	(74)
Other, net	(188)	(192)
Income tax expense (benefit)	951	(565)
Effective tax rate	69.6%	14.7%

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 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	2009	2008
Equity securities	1 014	340
Debt securities and other	505	1 308
Total short-term investments	1 519	1 648

#### Note 19 - Accounts receivable

Amounts in NOK million	2009	2008
Accounts receivable, net of allowance for credit losses	9 218	12 339
VAT receivables	1 068	1 355
Other receivables	1 285	2 560
Accounts receivable	11 571	16 254
Allowance for credit losses 1 January	613	502
Change in allowance for credit losses	(44)	34
Foreign exchange adjustments	(67)	77
Allowance for credit losses 31 December	502	613

## Note 20 - Inventories

Amounts in NOK million	2009	2008
Raw materials	3 616	5 565
Work in progress	2 178	3 395
Finished goods	4 237	7 334
<b>Inventories</b>	<b>10 030</b>	<b>16 293</b>

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 176 million in 2009 and NOK 1,339 million in 2008.

## Note 21 - Other financial assets and liabilities

Amounts in NOK million	2009	2008
<b>Other current financial assets</b>		
Currency derivative instruments	3	103
Commodity derivative instruments	2 101	2 400
Cash flow hedging derivative instruments	5	76
<b>Other current financial assets</b>	<b>2 109</b>	<b>2 579</b>

### Other non-current financial assets

Non-marketable equity securities	1 483	1 607
Employee loans	304	439
Currency derivative instruments	152	77
Commodity derivative instruments	608	2 097
Cash flow hedging derivative instruments	-	40
Other financial assets	1 272	1 333
<b>Other non-current financial assets</b>	<b>3 818</b>	<b>5 592</b>

### Other current financial liabilities

Currency derivative instruments	32	1 281
Commodity derivative instruments	794	3 906
Cash flow hedging derivative instruments	-	-
<b>Other current financial liabilities</b>	<b>826</b>	<b>5 187</b>

### Other non-current financial liabilities

Currency derivative instruments	11	-
Commodity derivative instruments	2 132	2 996
Cash flow hedging derivative instruments	-	-
<b>Other non-current financial liabilities</b>	<b>2 144</b>	<b>2 996</b>

## Note 22 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
<b>Cost</b>					
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
Additions	9	107	1 348	1 329	2 793
Disposals	(25)	(462)	(3 521)	(60)	(4 068)
Transfers	(4)	379	824	(1 198)	-
Foreign currency translation effect	(169)	(1 094)	(4 124)	(140)	(5 527)
31 December 2009	982	15 633	42 269	1 092	59 975
<b>Accumulated depreciation and impairment</b>					
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)
Depreciation for the year	-	(457)	(2 604)	-	(3 061)
Impairment losses	-	(58)	(239)	(5)	(303)
Impairment reversals	-	-	4	-	4
Disposals	-	315	3 215	-	3 530
Transfers	-	(71)	71	-	-
Foreign currency translation effect	-	485	2 455	1	2 941
31 December 2009	(1)	(7 930)	(26 393)	(4)	(34 328)
<b>Carrying value</b>					
31 December 2008	1 170	8 560	18 447	1 162	29 338
31 December 2009	981	7 703	15 875	1 088	25 647

## Note 23 - Intangible assets

Amounts in NOK million	Intangible assets under development	Capitalized software systems	Other intangible assets	Total
<b>Cost</b>				
31 December 2007	-	916	1 228	2 144
Additions	75	100	247	423
Disposals	-	(5)	(27)	(32)
Transfers	5	(5)	-	-
Foreign currency translation effect	3	186	197	387
31 December 2008	84	1 193	1 645	2 922
Additions	117	28	50	195
Disposals	-	(59)	(63)	(122)
Transfers	(38)	17	21	-
Foreign currency translation effect	(5)	(150)	(167)	(322)
31 December 2009	158	1 029	1 485	2 672
<b>Accumulated amortization and impairment</b>				
31 December 2007	-	(646)	(911)	(1 557)
Amortization for the year	-	(81)	(56)	(137)
Impairment loss	-	(3)	-	(3)
Disposals	-	4	16	20
Foreign currency translation effect	-	(130)	(121)	(251)
31 December 2008	-	(857)	(1 072)	(1 928)
Amortization for the year	-	(75)	(58)	(133)
Impairment loss	-	(2)	-	(2)
Disposals	-	59	6	65
Foreign currency translation effect	-	109	105	214
31 December 2009	-	(766)	(1 018)	(1 784)
<b>Carrying value</b>				
31 December 2008	84	336	574	993
31 December 2009	158	263	467	888

In 2008, additions amounting to NOK 183 million were acquired through business combinations.

## Note 24 - Goodwill

Amounts in NOK million	Metal Markets	Extruded Products	Total
<b>Cost</b>			
31 December 2007	226	700	926
Additions	-	69	69
Foreign currency translation effect	57	160	217
31 December 2008	283	930	1 213
Goodwill derecognized	-	(47)	(47)
Foreign currency translation effect	(47)	(127)	(174)
31 December 2009	236	756	992
<b>Accumulated impairment</b>			
31 December 2007	-	-	-
Impairment loss	-	(28)	(28)
31 December 2008	-	(28)	(28)
Goodwill derecognized	-	27	27
Foreign currency translation effect	-	1	1
31 December 2009	-	-	-
<b>Carrying value</b>			
31 December 2008	283	902	1 185
31 December 2009	236	756	992

See note 13 Impairment of non-current assets for information about the impairment testing of goodwill on an annual basis.

## Note 25 - Investments in associates

Amounts in NOK million	Alunorte	Aluchemie	SKS Pro- duksjon	NorSun	Ascent Solar	Other	Total
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
Investments (sale), net	25			92	47	22	186
Change in long-term advances, net		59				(6)	54
Hydro's share of net income (loss)	277	3	31	(43)	(40)	5	233
Amortization	(19)	(18)	(5)	(1)		(26)	(70)
Impairment losses				(135)		(11)	(146)
Dividends and other payments received by Hydro	(20)		(29)			(1)	(50)
Foreign currency translation and other	208	(98)	14		(25)	(8)	93
31 December 2009	6 276	573	345	180	174	209	7 757

Change in elimination of internal profit in inventory on goods sold from associates to Hydro amounted to NOK 3 million in 2009.

**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	
	2009	2009	2008	2009	2008
Alunorte	34.0%	6 253	5 805	(437)	(337)
Aluchemie	36.2%	573	626	(1)	-
SKS Produksjon	20.9%	345	335	-	-
NorSun	18.4%	180	267	-	-
Ascent Solar	30.4%	174	191	-	-
Others		234	235	-	3
<b>Total</b>		<b>7 757</b>	<b>7 458</b>	<b>(438)</b>	<b>(334)</b>

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 3,061 million and NOK 3,240 million in 2009, and 2008, respectively. Pricing of Hydro's purchases from Alunorte is based on a percentage of aluminium prices as quoted on the LME. During 2009, the alumina price paid by Hydro and its partners was increased as a temporary measure to address the challenging financial situation in the company. 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 Primary 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 825 million in 2009 and NOK 851 million in 2008 on the basis of cost plus. Sales of anode butts from Hydro to Aluchemie amounted to NOK 61 million in 2009 and NOK 92 million in 2008. 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 Primary 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 2009 or 2008. 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 is 18.4 percent. In February 2009 Hydro invested NOK 92 million in NorSun through a private placement, maintaining our ownership share of 18.4 percent. 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 2009 or 2008. In 2009 and 2008 the investment in NorSun was tested for impairment, resulting in an impairment loss of NOK 135 million in 2009 and NOK 92 million in 2008. NorSun is part of Other.

**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 2009 Hydro's ownership interests was diluted from 34.9 to 30.4 percent through a combined public offering and private offering where Hydro participated with an additional NOK 28 million. The dilution resulted in a gain of NOK 19 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 2009 or 2008. In 2008 the investment in Ascent was tested for impairment, resulting in an impairment loss of NOK 179 million. The financial information for Ascent has a three months lag to Hydro's reporting dates. Ascent is part of Other.

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.

Amounts in NOK million (unaudited)	2009	2008
<b>Income statement data</b>		
Revenues	12 326	12 941
Earnings before financial items and tax	(81)	2 247
Income before tax	1 227	938
Net income	625	580
Hydro's share of net income from continuing operations	233	213
<b>Balance sheet data</b>		
Current assets	3 621	6 864
Non-current assets	23 921	20 318
<b>Assets</b>	<b>27 542</b>	<b>27 182</b>
Current liabilities	1 847	3 250
Non-current liabilities	6 641	7 302
<b>Equity</b>	<b>19 054</b>	<b>16 629</b>
<b>Liabilities and equity</b>	<b>27 542</b>	<b>27 182</b>
Hydro's investments and advances	7 757	7 458

## Note 26 - Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Other	Total
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) <sup>1)</sup>	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
Investments (sale), net			2 608	170	(14)	2 763
Change in long-term advances, net	(17)		15		16	14
Hydro's share of net income (loss) <sup>1)</sup>	(37)	30	(495)	(169)	(31)	(702)
Amortization	(61)					(61)
Impairment losses				(71)	4	(67)
Dividends and other payments received by Hydro	(12)				(10)	(22)
Foreign currency translation and other	(267)		(675)	6	(24)	(960)
31 December 2009	1 410	584	5 879	(65)	156	7 964

1) Includes impairment losses made by the jointly controlled entities.

Change in elimination of internal loss in inventory on goods sold from jointly controlled entities to Hydro amounted to NOK 7 million in 2009.

## 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	
	2009	2009	2008	2009	2008
Alunorf	50.0%	1 410	1 805	(232)	353
Søral	49.9%	584	554	(64)	(246)
Qatalum	50.0%	5 879	4 426	233	(54)
Alpart	35.0%	(65)	-	1	-
Others		156	215	(44)	(53)
<b>Total</b>		<b>7 964</b>	<b>6 999</b>	<b>(107)</b>	<b>-</b>

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)** is the world's largest rolling mill, and 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 1,378 million in 2009 and NOK 1,563 million in 2008. 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 192 million as of 31 December 2009. Hydro's financing commitment based on its interest is NOK 98 million as of 31 December 2009. Alunorf is part of Rolled 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. A production curtailment of around 50 percent was decided early in 2009. Sale of aluminium from Søral to Hydro amounted to NOK 740 million in 2009 and NOK 1,609 million in 2008. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 350 million in 2009 and NOK 699 million in 2008. In 2008 Søral was tested for impairment resulting in a write-down of NOK 85 million. Søral is part of Primary Metal.

**Qatar Aluminium Ltd. (Qatalum)** is a jointly controlled entity established in 2007. The owners of Qatalum are Hydro and Qatar Petroleum Ltd., each with an ownership of 50 percent. Qatalum is constructing a primary aluminium smelter and a power plant in Qatar with production capacity of 585,000 mt. In December 2009 the first of the 704 cells was started, and the smelter is expected to reach full production capacity in the fourth quarter of 2010 and produce about 350,000 mt primary metal for 2010. The Qatalum project was 95 percent complete as of 31 December 2009.

During construction and start-up phase Hydro delivers 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 License Agreement. Sales from Hydro to Qatalum amounted to NOK 941 million in 2009 and 538 million in 2008. Hydro has entered in to agreements with Qatalum, in which Hydro is committed to sell fixed quantities of alumina and purchase all products from Qatalum from commencement of production at market based prices.

Qatalum has remaining contractual commitments related to the finalization of plant construction of NOK 2 billion (Hydro's share). Hydro and Qatar Petroleum Ltd. are committed to finance Qatalum on the basis of their ownership interest. Qatalum is bound by several agreements in connection with raw material purchases (e.g. natural gas from Qatar Petroleum, alumina, etc.) upon commencement of production, and contracts such as a long term land lease. Total investment costs for the project are at USD 5.7 billion (for the entire joint venture). Qatalum is part of Primary 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. In the first half of 2009 the production of Alpart was discontinued temporarily. Purchases in 2009 and 2008 amounted to NOK 205 million and NOK 1,111 million, respectively. Hydro's capital commitments are regulated in the shareholder agreement. Hydro is committed to financing capital expenditures on the basis of its ownership

interest. In 2008 Alpart was tested for impairment and was considered to be fully impaired, resulting in a write-down of NOK 512 million. Alpart is part of Primary 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.

Amounts in NOK million (unaudited)	2009	2008
<b>Income statement data</b>		
Revenues	4 470	7 214
Earnings before financial items and tax	(1 626)	(190)
Income before tax	(1 596)	(247)
Net income	(1 594)	(258)
Hydro's share of net income from continuing operations	(702)	(126)
<b>Balance sheet data</b>		
Current assets	2 736	4 628
Non-current assets	32 274	26 362
<b>Assets</b>	<b>35 010</b>	<b>30 990</b>
Current liabilities	2 703	6 163
Non-current liabilities	17 331	10 815
Equity	14 976	14 012
<b>Liabilities and equity</b>	<b>35 010</b>	<b>30 990</b>
Hydro's investments and advances	7 964	6 999

## Note 27 - Jointly owned assets

Hydro is invested 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 show the main impact of these two arrangements:

Amounts in NOK million	2009	2008
Current assets	116	150
Property, plant and equipment	2 406	3 027
Derivatives	7	68
<b>Total</b>	<b>2 529</b>	<b>3 245</b>
Current liabilities	81	85
Non-current liabilities	56	56
Derivatives	307	187
<b>Total</b>	<b>443</b>	<b>328</b>
Share of expenses	1 178	968
Depreciation and amortization	254	217
Change in derivative positions	220	(322)
<b>Expenses included in EBIT</b>	<b>1 652</b>	<b>864</b>
Produced volume (kmt)	179	179

## Note 28 - Bank loans and other interest-bearing short-term debt

Amounts in NOK million	Weighted average interest rate	2009	2008
Bank loans and overdraft facilities	3.7%	198	279
Other interest bearing short-term debt	2.1%	1 685	803
Current portion of long-term debt	-	127	86
<b>Bank loans and other interest-bearing short-term debt</b>		<b>2 010</b>	<b>1 169</b>

## Note 29 - Trade and other payables

Amounts in NOK million	2009	2008
Accounts payable	6 487	9 016
Payroll and value added taxes	1 843	2 350
Accrued liabilities and other payables	1 587	1 578
<b>Trade and other payables</b>	<b>9 917</b>	<b>12 944</b>

## Note 30 - Long-term debt

Long-term debt payable in various currencies Amounts in million	Weighted average interest rates	Denomi- nated amount 2009	Balance in NOK	
			2009	2008
USD	1.8%	19	110	199
EUR	2.6%	3	24	47
CNY	6.5%	60	50	99
Other			5	-
<b>Total unsecured bank loans</b>			<b>189</b>	<b>345</b>
Finance lease obligations			11	1
Mortgage loans			1	2
Other long-term debt			13	16
<b>Outstanding debt</b>			<b>215</b>	<b>365</b>
Less: Current portion			(127)	(86)
<b>Total long-term debt</b>			<b>88</b>	<b>279</b>

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	Interest	Total
2011	61	7	1	70
2012	4	6	1	11
2013	2	3	-	5
2014	2	1	-	3
Thereafter	1	-	-	1
<b>Total</b>	<b>189</b>	<b>25</b>	<b>8</b>	<b>222</b>

Norsk Hydro ASA has a USD 1,700 million, seven-year revolving multi-currency credit facility with a syndicate of international banks, maturing in July 2014. In addition, Norsk Hydro ASA has a EUR 750 million revolving credit facility with a syndicate of international banks, maturing in March 2012. A commitment fee on undrawn amounts is calculated as a percentage of the loan margin under each of the facilities. Any borrowing under the facilities will be unsecured, and the debt agreements contain no financial ratio covenants and no provisions connected to the value of underlying assets. The facilities are for general corporate purposes, and provide readily available and flexible long-term funding. There was no borrowing under any of these facilities as of 31 December 2009.

### Secured debt

Amounts in NOK million	2009	2008
Amount of secured debt	1	2
Assets used as security:		
Machinery and equipment	7	-
Buildings	31	39
Other	3	3
<b>Total</b>	<b>41</b>	<b>42</b>

## Note 31 - Provisions

Amounts in NOK million	2009			2008		
	Short-term	Long-term	Total	Short-term	Long-term	Total
Warranties	96	13	109	85	-	85
Exit and disposal activities	159	42	201	215	63	278
Environmental cleanup	115	167	281	114	153	267
Asset retirement obligations (ARO)	95	643	738	61	701	762
Postretirement medical benefits	-	92	92	-	140	140
Other employee benefits	67	375	442	299	413	713
Social security costs on pension	-	648	648	-	601	601
Insurance claims	464	-	464	573	-	573
Onerous contracts	7	-	7	333	12	345
Other	90	28	118	380	31	411
<b>Total provisions</b>	<b>1 094</b>	<b>2 007</b>	<b>3 101</b>	<b>2 060</b>	<b>2 115</b>	<b>4 175</b>

Amounts in NOK million	Warranties	Exit and disposal	Environmental cleanup	ARO	Medical benefits	Other employee benefits	Social security costs pension	Insurance	Onerous contracts	Other	Total
<b>Specification of change in provisions</b>											
31 December 2008	85	278	267	762	140	713	601	573	345	411	4 175
Additions	205	168	78	80	14	188	122	6	-	55	915
Used during the year	(123)	(174)	(20)	(40)	(28)	(265)	(36)	(80)	(291)	(200)	(1 258)
Reversal of unused provisions	(43)	(45)	(12)	(18)	(12)	(134)	(6)	(35)	-	(120)	(427)
Accretion expense and effect of change in discount rate	-	-	2	(17)	-	-	-	-	-	-	(15)
Transfers and companies sold	-	(1)	-	(2)	-	-	(33)	-	(12)	(1)	(50)
Foreign currency translation	(15)	(26)	(33)	(26)	(22)	(58)	-	-	(35)	(27)	(241)
<b>31 December 2009</b>	<b>109</b>	<b>201</b>	<b>281</b>	<b>738</b>	<b>92</b>	<b>442</b>	<b>648</b>	<b>464</b>	<b>7</b>	<b>118</b>	<b>3 101</b>

### Timing of cash outflows

2010	96	159	115	95	6	67	55	464	7	90	1 155
2011-2014	13	42	120	251	21	180	233	-	-	23	884
Thereafter	-	-	46	392	65	194	360	-	-	5	1 062
<b>31 December 2009</b>	<b>109</b>	<b>201</b>	<b>281</b>	<b>738</b>	<b>92</b>	<b>442</b>	<b>648</b>	<b>464</b>	<b>7</b>	<b>118</b>	<b>3 101</b>

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. 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 government 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.

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

A substantial part of the unfavorable electricity contracts in Germany reported as onerous contracts at the beginning of the year does no longer qualify as own use contracts and are therefore reclassified to financial instruments during the year.

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 2009.

## 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.

Amounts in NOK million	2009	2008
<b>Net periodic pension cost</b>		
<b>Defined benefit plans</b>		
Benefits earned during the year, net of participants' contributions	610	483
Interest cost on prior period benefit obligation	1 036	987
Expected return on plan assets	(643)	(911)
Recognized (gain) loss	148	(27)
Past service cost	49	23
Curtailment/settlement (gain) loss	(14)	(3)
Net periodic pension cost	1 185	551
Defined contribution plans	30	26
Multiemployer plans	21	1
Termination benefits and other	188	198
Total net periodic pension cost	1 424	775
<b>Change in projected benefit obligation (PBO)</b>		
Projected benefit obligation at beginning of year	(23 440)	(20 584)
Benefits earned during the year	(616)	(490)
Interest cost on prior period benefit obligation	(1 036)	(987)
Actuarial gain (loss)	4 221	(2 053)
Plan amendments	(45)	(25)
Benefits paid	861	844
Curtailment/settlement gain (loss)	496	141
Special termination benefits	(6)	(11)
Divestments	749	624
Foreign currency translation	893	(898)
Projected benefit obligation at end of year	(17 922)	(23 440)

**Change in pension plan assets**

Amounts in NOK million	2009	2008
Fair value of plan assets at beginning of year	12 386	15 579
Actual return on plan assets	1 226	(2 307)
Company contributions	100	166
Plan participants' contributions	6	8
Benefits paid	(529)	(534)
Settlements	(248)	(135)
Divestments	(509)	(411)
Foreign currency translation	(197)	20
Fair value of plan assets at end of year	12 234	12 386

**Status of pension plans reconciled to balance sheet**

**Defined benefit plans**

Funded status of the plans at end of year	(5 688)	(11 054)
Unrecognized net (gain) loss	(1 729)	3 315
Unrecognized past service cost	4	7
Net accrued pension recognized	(7 413)	(7 732)
Termination benefits and other	(626)	(764)
Total net accrued pension recognized	(8 040)	(8 496)

**Amounts recognized in the balance sheet consist of**

Prepaid pension	1 328	1 458
Accrued pension liabilities	(9 368)	(9 953)
Net amount recognized	(8 040)	(8 496)

**Weighted-average assumptions used to determine net periodic pension cost**

Discount rate	4.7%	5.0%
Expected return on plan assets	5.7%	6.3%
Rate of compensation increase	3.8%	3.7%

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

Discount rate	4.8%	4.7%
Rate of compensation increase	3.0%	3.8%

**Analysis of projected benefit obligation (PBO)**

PBO arising from plans that are wholly or partly funded	(11 176)	(15 336)
PBO arising from plans that are unfunded	(6 746)	(8 104)
Total PBO	(17 922)	(23 440)

Weighted-average investment profile plan assets at end of year <sup>1)</sup>	allocation	2009	2008
<b>Asset category</b>			
Equity securities	19-32%	31%	27%
Debt securities	36-56%	33%	33%
Real estate	18%	22%	22%
Other	7-14%	14%	18%
Total		100%	100%

1) Property used by Hydro represents 21% and 16% of total plan assets at the end of 2009 and 2008 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 ("avtafestet 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 were included in Termination benefits and other in 2008, while in 2009 the fixed annual amount is included in Multiemployer plans. 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 expected to be effective from 2011.

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.

In 2009 Hydro decided to close its main defined benefit retirement plans in Norway for new employees as from 1 March 2010 and offer new defined contribution retirement plans. Employees who are members of the defined benefit plans will be given a choice to change to the new defined contribution plans as from 1 June 2010. The effect to the accounts will depend on the number of employees who choose to change to the new pension plans.

#### *Other retirement benefits*

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. In 2009 the benefits for the main plans were changed, resulting in a one-time adjustment (gain) of NOK 20 million, while the related net periodic postretirement cost was NOK 9 million in 2008. The post retirement liability as of 31 December 2009 was NOK 92 million and NOK 140 million in 2008.

### 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 2009 and 31 December 2008:

Amounts in NOK million	Assets	Liabilities	Assets	Liabilities
	2009	2009	2008	2008
Marketable securities	1	-	-	(6)
Inventory valuation	112	(112)	321	(427)
Accrued expenses	1 062	(1 724)	1 667	(1 446)
Unrealized exchange (gains) losses	70	(162)	439	(537)
Property, plant and equipment	2 741	(3 392)	3 098	(4 169)
Ground rent surtax	190	-	282	-
Capitalized interest	-	(64)	-	(72)
Other non-current assets	237	(326)	272	(409)
Pensions	1 729	(427)	1 810	(477)
Deferred (gains) losses on sales	10	(62)	5	(113)
Derivatives	564	(163)	1 126	(507)
Cash flow hedges	-	(31)	-	(60)
Other	363	(260)	396	(275)
Tax effect tax loss carryforwards	1 641	-	1 600	-
Subtotal	8 720	(6 723)	11 016	(8 498)
Of which not recognized as tax asset	(1 444)		(1 751)	
Gross deferred tax assets and liabilities	7 276	(6 723)	9 265	(8 498)

Recognition of deferred tax asset is based on expected taxable income in the near future.

At the end of 2009, Hydro had tax loss carryforwards of NOK 5,377 million, primarily in Jamaica, the United States, Germany, Malaysia, Spain, Italy, United Kingdom and Denmark. Carry forward amounts expire as follows:

Amounts in NOK million	
2010	41
2011	79
2012	54
2013	52
2014	324
After 2014	1 524
Without expiration	3 302
Total tax loss carryforwards	5 377

## Note 34 - Shareholders' equity

### Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
31 December 2007	1 247 956 949	(38 652 570)	1 209 304 379
Purchase of treasury shares	-	(4 408 000)	(4 408 000)
Treasury shares reissued to employees	-	1 429 484	1 429 484
31 December 2008	1 247 956 949	(41 631 086)	1 206 325 863
Treasury shares reissued to employees	-	1 898 820	1 898 820
Cancellation treasury shares	(4 408 000)	4 408 000	-
Redeemed shares, the Ministry of Trade and Industry	(3 438 738)	-	(3 438 738)
31 December 2009	1 240 110 211	(35 324 266)	1 204 785 945

The share capital of Norsk Hydro ASA as of 31 December 2009 was NOK 1,361,641,011.68 consisting of 1,240,110,211 ordinary shares at NOK 1.098 per share. The share capital as of 31 December 2008 was NOK 1,370,256,730 and the number of ordinary shares was 1,247,956,949. The General Meeting on 5 May 2009 approved a capital reduction of NOK 8,615,718.32 with the cancellation of 4,408,000 treasury shares and the redemption of 3,438,738 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 124 million. The compensation was calculated using the average purchase price paid when the shares were repurchased in the market, including interest. Additional paid-in capital was reduced by NOK 182 million, which represented the part of the compensation exceeding par value.

The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,205,376,724 for the year 2009 and 1,209,143,809 for 2008.

### Treasury shares

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. The repurchased shares were to be used for the purpose of cancellation through capital reduction. The authorization applied from 6 May 2008 to 5 May 2009. The number of shares repurchased under this authorization was 4,408,000 and the shares were cancelled in 2009.

The remaining 35,324,266 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 2009 of NOK 1,177 million was comprised of NOK 39 million share capital and NOK 1,138 million retained earnings. The treasury shares per 31 December 2008 included NOK 46 million share capital.

### Demerger adjustment

The verification process following the merger in 2007 of Hydro's petroleum activities and Statoil was concluded in 2009 resulting in a reduction of Hydro's retained earnings of NOK 237 million. See note 7 Discontinued operations and assets held for sale.

### Change in Other components of equity

The table below specifies the changes in Other components of equity for 2009 and 2008.

Amounts in NOK million	2009	2008
<b>Currency translation differences</b>		
1 January	7 131	(1 514)
Currency translation differences during the year	(7 051)	8 414
Reclassified to Net income on sale of foreign operations	143	231
31 December	223	7 131
<b>Unrealized gain (loss) on securities</b>		
1 January	264	95
Unrealized gain (loss) on available-for-sale securities	27	213
Reclassified to Net income on sale of available-for-sale securities	1	(7)
Tax benefit (expense)	(10)	(37)
31 December	282	264
<b>Cash flow hedges - See note 42 Derivative instruments and hedge accounting</b>		
1 January	157	(120)
Period gain (loss) recognized in Other comprehensive income	(33)	(206)
Reclassification of hedging gain (loss) to Net income	(72)	575
Tax benefit (expense)	20	(92)
31 December	73	157
<b>Other components of equity in equity accounted investments</b>		
1 January	(22)	8
Period gain (loss) recognized in Other comprehensive income	87	(30)
31 December	64	(22)
Total other components of equity attributable to Hydro shareholders as of 31 December	813	7 435
Total other components of equity attributable to minority interests as of 31 December	(171)	96

## 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.

### *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 (current rating BBB-) and Moody's (current rating Baa2). To maintain a stable investment grade 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 2009 net cash provided by operations and cash raised in the domestic commercial paper market and from long term bank facilities, together with our liquidity holdings, were sufficient to cover our operating requirements and capital expenditures. 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. As of 31 December 2009 there was no borrowing under Hydro's long term bank facilities and Hydro had no bond debt outstanding. 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 2009 was USD 2,589 million, compared to USD 1,146 million outstanding as of 31 December 2008. 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 outlook. 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.

Adjusted net interest-bearing debt, Adjusted equity and Adjusted net interest-bearing debt to Adjusted equity ratio are presented in the following tables.

### Adjusted net interest-bearing debt to equity

Amounts in NOK million, except ratio	2009	2008
Cash and cash equivalents	2 573	3 333
Short-term investments	1 519	1 648
Bank loans and other interest-bearing short-term debt	(2 010)	(1 169)
Long-term debt	(88)	(279)
<b>Net interest-bearing debt</b>	<b>1 995</b>	<b>3 534</b>
Cash and cash equivalents and Short-term investments in captive insurance company <sup>1)</sup>	(1 508)	(1 709)
Net pension obligation at fair value, net of expected income tax benefit <sup>2)</sup>	(5 595)	(9 587)
Operating lease commitments, net of expected income tax benefit <sup>3)</sup>	(1 687)	(1 909)
Net interest-bearing debt equity accounted investments <sup>4)</sup>	(7 996)	(4 855)
Short- and long-term provisions, net of expected income tax benefit <sup>5)</sup>	(854)	(915)
<b>Adjusted net interest-bearing debt</b>	<b>(15 645)</b>	<b>(15 440)</b>
<b>Total equity</b>	<b>(47 195)</b>	<b>(54 141)</b>
Net pension liability (asset) not recognized	(1 725)	3 322
Expected income tax liability (benefit)	518	(997)
Equity adjustments off-balance sheet pension liabilities	(1 208)	2 325
<b>Adjusted equity</b>	<b>(48 403)</b>	<b>(51 815)</b>
<b>Adjusted net interest-bearing debt / Adjusted equity ratio</b>	<b>0.32</b>	<b>0.30</b>

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% of the unrecognized net pension liability as of 31 December and is NOK 767 million and NOK 2,330 million, respectively, for 2009 and 2008. The figure shown also includes the long-term provision for postretirement medical benefits of NOK 92 million, net of an estimated 30% expected tax benefit.

3) Operating lease commitments are discounted using a rate of 4.3% and 3.8% for 2009 and 2008, respectively. The expected tax benefit on operating lease commitments is estimated at 30%.

4) Net interest-bearing debt 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 fourth quarter results that are published in February 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 2009 The Board of Directors' has proposed a dividend of NOK 0.50 per share to be paid in May 2010. The Annual General Meeting, scheduled to be held 4 May 2010, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 602 million.

In accordance with IFRS, the fiscal year 2009 proposed dividend is not recognized as a liability in the 2009 financial statements.

Dividends declared and paid in 2009 and 2008 for the prior fiscal year, respectively, are as follows:

	Paid in 2009 for fiscal year 2008	Paid in 2008 for fiscal year 2007
Dividend per share paid, NOK	-	5.00
Total dividends paid, NOK million	-	6 053
Date proposed	-	18 February 2008
Date approved	-	6 May 2008
Dividend payment date	-	19 May 2008

Dividends paid to minority shareholders in Hydro's subsidiaries are reported as dividends paid in Consolidated statements of changes in equity.

## Note 37 - Guarantees

Amounts in NOK million	2009	2008
Guarantees related to jointly controlled entities	7 685	9 138
Sales guarantees	4 351	5 170
Other guarantees	30	84
Total guarantees not recognized	12 066	14 392

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 7.5 billion plus accrued interest and fees represents the maximum exposure under the guarantee when the facility is fully drawn. The facility is now almost fully drawn.

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 recent years, 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 judgment and key sources of estimation uncertainty for additional information.

Hydro and Statoil 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 Statoil'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. Neither of these authorities have found reason to open investigations of the matter.

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 Statoil ASA (previously 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 Statoil, Statoil assumed a share of 70 percent 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	Investments		Total
	2010	thereafter	
Contract commitments for investments in property, plant and equipment	341	9	350
Additional authorized future investments in property, plant and equipment	313	94	408
Contract commitments for other future investments	3 192	52	3 244
<b>Total</b>	<b>3 846</b>	<b>154</b>	<b>4 001</b>

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.

Hydro has entered into take-or-pay and long-term contracts providing for future payments to secure aluminium, raw materials, electricity, transportation capacity and processing services. In addition, Hydro has entered into long-term sales commitments. The non-cancellable future fixed and determinable obligation as of 31 December 2009 is as follows:

Amounts in NOK million	Alumina	Energy	Other	Sales
	and aluminium	related		commit- ments
2010	859	2 425	754	(2 613)
2011	244	2 605	399	(714)
2012	217	2 485	154	(775)
2013	251	3 225	111	(412)
2014	323	2 805	107	(195)
Thereafter	5 165	16 961	587	(2 962)
<b>Total</b>	<b>7 059</b>	<b>30 506</b>	<b>2 112</b>	<b>(7 671)</b>

Long-term sales commitments principally relate to delivering of aluminium and electricity. Hydro has electricity delivery commitments relating to power stations to be reverted to the government of 16.6 TWh of which 614 GWh in 2010. 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 and sales 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 to purchase 13 million mt of alumina over the next 21 years and long-term contracts to sell 497 kmt of aluminium in 2010. For these contracts 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:

2009	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
Amounts in NOK million							
<b>Assets - current</b>							
Cash and cash equivalents	9	-	2 564	-	-	-	2 573
Short-term investments	1 519	-	-	-	-	-	1 519
Accounts receivable	-	-	10 059	-	-	1 512	11 571
Other current financial assets	2 104	5	-	-	-	-	2 109
<b>Assets - non-current</b>							
Investments accounted for using the equity method	-	-	2 121	-	-	13 600	15 721
Other non-current financial assets	760	-	1 576	1 483	-	-	3 818
<b>Liabilities - current</b>							
Bank loans and other interest-bearing short-term debt	-	-	-	-	2 010	-	2 010
Trade and other payables	-	-	-	-	5 546	4 371	9 917
Other current financial liabilities	826	-	-	-	-	-	826
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	-	88	88
Other non-current financial liabilities	2 144	-	-	-	-	-	2 144

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.

2008	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
<b>Assets - current</b>							
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
<b>Assets - non-current</b>							
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
<b>Liabilities - current</b>							
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
<b>Liabilities - non-current</b>							
Long-term debt	-	-	-	-	-	279	279
Other non-current financial liabilities	2 996	-	-	-	-	-	2 996

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 <sup>1)</sup>
<b>2009</b>							
<b>Income statement line item</b>							
Revenue	(629)	(67)	-	-	-	-	(695)
Raw material and energy expense	685	-	-	-	-	-	685
Financial income	(129)	-	-	(83) <sup>2)</sup>	-	-	(212)
Financial expense	(785)	-	-	-	-	-	(785)
<b>Gain/loss recognized in Other comprehensive income</b>							
Recognized in Other comprehensive income (before tax)				(27)			
Removed from Other components of equity and recognized in the income statement				(1)			
<b>2008</b>							
<b>Income statement line item</b>							
Revenue	108	572	-	-	-	-	681
Raw material and energy expense	15	-	-	-	-	-	15
Financial income	144	-	-	(170) <sup>2)</sup>	-	-	(27)
Financial expense	3 915	-	-	-	-	-	3 915
<b>Gain/loss recognized in Other comprehensive income</b>							
Recognized in Other comprehensive income (before tax)				(213)			
Removed from Other components of equity and recognized in the income statement				7			

1) Amount indicates the total gains and losses 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.

The following is an overview of fair value measurements categorized on the basis of observability of significant measurement inputs. Certain items are valued on the basis of quoted prices in active markets for identical assets or liabilities (level 1 inputs), others are valued on the basis of inputs that are derived from observable prices (level 2 inputs), while certain positions are valued on the basis of judgmental assumptions that are to a limited degree or not at all based on observable market data (level 3 inputs). The level in this fair value hierarchy within which measurements are categorized is determined on the basis of the lowest level input that is significant to the fair value measurement.

Amounts in NOK million	2009	Level 1	Level 2	Level 3
<b>Assets</b>				
Commodity derivatives	2 709	2 033	669	7
Currency derivatives	155	76	78	-
Cash flow hedges	5	5	-	-
Securities held for trading	1 528	412	1 065	51
Available for sale financial assets	1 483	-	-	1 483
<b>Total</b>	<b>5 879</b>	<b>2 526</b>	<b>1 812</b>	<b>1 541</b>
<b>Liabilities</b>				
Commodity derivatives	(2 926)	(147)	(1 014)	(1 765)
Currency derivatives	(43)	-	(43)	-
<b>Total</b>	<b>(2 969)</b>	<b>(147)</b>	<b>(1 057)</b>	<b>(1 765)</b>

The following is an overview in which changes from 2008 to 2009 in level 3 measurements are specified:

Amounts in NOK million	Commodity derivatives		Investments	
	Assets	Liabilities	Securities held for trading	Available for sale financial assets
31 December 2008	67	(2 395)	57	1 607
Total gains or (losses)				
in income statement	(51)	455	(5)	(10)
in Other comprehensive income	-	-	-	28
Purchases	-	-	2	5
Settlements	(2)	116	(2)	(3)
Currency translation difference	(7)	59	-	(144)
<b>31 December 2009</b>	<b>7</b>	<b>(1 765)</b>	<b>51</b>	<b>1 483</b>
Total gains or (losses) for the period included in the income statement	(51)	455	(5)	(10)
Of which relate to positions held at the end of the reporting period	(51)	455	-	(6)

Gains or losses relating to commodity derivatives are included in the income statement in Raw material and energy expense. Losses relating to available for sale assets are included in Financial income.

Certain measurements classified as level 3 are highly sensitive to changes in assumptions, the effects of which would be material. Sensitivities relating to commodity derivatives are based on models utilized in the calculation of position balance as of 31 December, adjusted for alternate assumptions. Please see note 41 Financial and commercial risk management for more detail on valuation methodology and limitations inherent in the analysis. The following is an overview of such sensitivity:

Amounts in NOK million	Assumption			
	USD	Aluminium	Other commodity	Equity prices
Sensitivity observable in 10% change in assumptions in significant commodity derivatives	477	359	227	-
Sensitivity observable in 10% change in assumptions in Available for sale financial assets	131	-	-	131

## 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 usage needs are mainly secured through long-term contracts with other producers and suppliers to secure electricity for Hydro's own consumption and delivery commitments, in addition to own production. A major part of contracted volumes are with rated counterparts.

In order to manage and mitigate risks related to 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 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.

#### **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 did not give rise to significant fair value exposure in 2009 and 2008.

### *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.

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 a period of six months

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.

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 valuation 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, mainly in equity accounted investments, high investments, and lower exposure due to lower aluminium prices, the use of currency derivatives has been substantially reduced during 2009.

### *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 liquidity on current accounts or short term deposits with banks.

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

The fair value of interest rate derivatives as of 31 December 2009 and 2008 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 2009 and 31 December 2008, 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.

Amounts in NOK million	Fair value as of 31 December 2009 <sup>1)</sup>	Hypothetical gain/loss from +/- 10 percent change in				
		Interest rates	Foreign currency exchange rates	Commodity prices	Volatility	Other
Derivative financial instruments <sup>2)</sup>	111	1	128	-	1	1
Other financial instruments <sup>3)</sup>	10 205	14	525	-	-	43
Derivative commodity instruments <sup>4)</sup>	(217)	58	327	636	6	17
Financial instruments directly to equity <sup>5)</sup>	1 488	-	134	-	-	132

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

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 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, enforceable netting agreements, guarantees, and credit insurance, all contribute to further reduce credit risk.

In light of the challenging market conditions apparent at the end of 2008 and during 2009, Hydro has adopted an increasingly proactive approach towards customers to reduce credit risk. 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 commodity prices and exchange rates 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. In 2009 Hydro signed a revolving credit facility for Euro 750 million maturing in 2012. In addition, in 2007, Hydro entered into a seven year stand-by credit facility of USD 1.7 billion. Both of these facilities were undrawn at year-end 2009.

Given the current market conditions, planned capital expenditures are kept at low levels 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. 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
2010	(889)	2 330
2011	(433)	753
2012	(40)	184
2013	-	32
2014	-	9
<b>Total</b>	<b>(1 362)</b>	<b>3 308</b>

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 2009 and 31 December 2008. 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	2009	2008
<b>Assets</b>		
Electricity contracts	576	1 634
Aluminium futures, forwards, swaps and options	2 132	2 862
<b>Total</b>	<b>2 709</b>	<b>4 497</b>
<b>Liabilities</b>		
Electricity contracts	(625)	(1 288)
Coal forwards	(1 309)	(2 006)
Aluminium futures, forwards, swaps and options	(1 097)	(3 679)
Other	105	70
<b>Total</b>	<b>(2 926)</b>	<b>(6 903)</b>

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 2009 and 31 December 2008.

Amounts in NOK million	2009	2008
<b>Assets</b>		
Currency forwards and swaps	51	112
Embedded currency derivatives	78	40
Equity warrants	25	28
<b>Total</b>	<b>155</b>	<b>180</b>
<b>Liabilities</b>		
Currency forwards and swaps	-	(1 041)
Embedded currency derivatives	(43)	(240)
<b>Total</b>	<b>(43)</b>	<b>(1 281)</b>

The currency contracts listed below were outstanding as of 31 December 2009. Bifurcated embedded currency derivatives are not included.

Amounts in million	Nominal value in currency	Fair value in NOK	Maturity by nominal amount in currency	
			Within one year	More than one year
Buying USD	63	358	-	63
Selling JPY	4 942	(306)	-	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 periodically 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. Certain of these hedge programs have been accounted for as cash flow hedges, where gains and losses on the hedge derivatives are recognized in Other Comprehensive Income, and accumulated in the hedging reserve 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 2009 or 2008 in connection with these cash flow hedges. The scope of cash flow hedge programs has been greatly reduced during 2009.

The table below gives aggregated numbers related to the aluminium cash flow hedges for the period 2008 to 2009.

	2010	2009	2008
Aluminium sold forward with hedge accounting (kmt) <sup>1)</sup>		10	25
of which open at year-end (kmt) <sup>2)</sup>		8	21
Average prices achieved in hedges in USD (per mt) <sup>3)</sup>		2 300	2 353
Expected to be reclassified to Net income during the year (NOK million)	4	59	(183)
Reclassified to Net income from Other components of equity (NOK million) <sup>4)</sup>		54	(418)

1) Remaining volume sold forward at inception of hedge programs. Hydro has sold forward through 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) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

At the end of 2009 the maximum horizon for existing cash-flow hedging instruments is 12 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 hedging reserves in equity into earnings during both the period ending 31 December 2009 and 31 December 2008. A gain after tax of NOK 3 million is expected to be reclassified from hedging reserves in equity into earnings during the period ending 31 December 2010.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2009 and 31 December 2008.

Amounts in NOK million	2009	2008
<b>Assets</b>		
Cash flow hedging instruments, aluminium	5	116
<b>Total</b>	<b>5</b>	<b>116</b>

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, in the income statement.

For the after tax movement in Hydro equity relating to cash-flow hedges for 2009 and 2008 please refer to note 34 Shareholders' equity.

Hydro has not applied net investment or fair value hedge accounting for 2009 and 2008.

#### *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/EEX (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. See note 40 Financial instruments for a specification of the classification of derivative positions according to a fair value hierarchy.

## Note 43 - Cash flow information

### Reconciliation of cash and cash equivalents

Amounts in NOK million	2009	2008
Cash and cash equivalents	2 573	3 333
Bank overdraft	(74)	(144)
Cash, cash equivalents and bank overdraft	2 499	3 189

### Cash disbursements and receipts included in cash from operations

Amounts in NOK million	2009	2008
Income taxes paid	1 417	2 324
Interest paid	309	220
Interest received	233	769
Other dividends received	103	180

## 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 2009 and 2008. 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.

Other fees, Norway, relates primarily to Deloitte's audit of Hydro's viability performance reporting.

### 2009

Amounts in NOK thousand	Audit	Audit related	Other services	Tax related	Total
Norway	10 379	588	924	741	12 632
Outside Norway	25 828	1 248	402	1 450	28 928
Total	36 207	1 836	1 326	2 191	41 560

### 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

## 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 and board committee assignments. There is no fee for extraordinary meetings held during the year. Annual fees for 2009 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 committee 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 2009 there were a total of 15 board meetings, of which one was held via telephone and five were extraordinary. During 2008 there were 17 board meetings, of which five were extraordinary. In 2008, the chairperson of the board's remuneration for an extraordinary meeting was 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 was NOK 15,000 per meeting attended and NOK 5,000 for participation in an extraordinary meeting conducted via telephone. Board fees for extraordinary meetings held during 2008 will be paid in 2010.

A summary of total board fees, as well as individual board member fees for 2009, and outstanding loans and board member share ownership as of 31 December 2009, are shown in the tables below.

### **Board of Directors' fees**

Amounts in NOK thousand	2009	2008
Fees paid to board members during the year	3 274	3 480
Fees paid during the year for prior year's board committee work	-	(54)
Fees related to board service and/or extraordinary meetings during the year not yet paid	5	550
<b>Total fees for board services provided to Hydro during the year</b>	<b>3 278</b>	<b>3 976</b>
Fees - normal board activities	2 735	2 800
Fees - compensation committee	62	67
Fees - audit committee	482	559
Fees related to extraordinary meetings held during the year	-	550
<b>Total fees for board services provided to Hydro during the year</b>	<b>3 278</b>	<b>3 976</b>

Board member	Board fees <sup>1)</sup>	Outstanding loans <sup>1)2)</sup>	Number of shares <sup>3)</sup>
<b>Board members as of 31 December 2009</b>			
Terje Vareberg <sup>4)</sup>	554	-	10 000
Bente Rathe <sup>5)</sup>	385	-	-
Finn Jebsen <sup>6)</sup>	294	-	32 545
Heidi M. Petersen <sup>6)</sup>	294	-	10 000
Inge K. Hansen <sup>7)</sup>	445	-	-
Billy Fredagsvik <sup>8)</sup>	275	178	1 003
Jørn B. Lilleby <sup>8)9)</sup>	385	156	938
Sten Roar Martinsen <sup>8)</sup>	275	-	1 813
<b>Board members during 2009 not on the board as of 31 December 2009</b>			
Grete Faremo <sup>10)</sup>	367	-	-
<b>Total</b>	<b>3 274</b>	<b>334</b>	<b>56 299</b>

1) Amounts in NOK thousand.

2) Loans are extended to board members who are also Hydro employees under an employee benefit scheme available to all employees in Norway. On 9 June 2009, Hydro loaned Billy Fredagsvik NOK 90,000 at an interest rate of 3.9 percent, and on 15 June 2009, an existing loan was increased by NOK 60,000 at an interest rate of 6.25 percent. The loans have a repayment period of 3-9 years. The loans to Jørn Lilleby have an interest rate of 3.9-6.25 percent and a repayment period of 1-4 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 2009 for board members as of 31 December 2009; 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 shareholdings, 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 as of 21 October 2009 and member of the board audit committee.

6) Member of the board compensation committee.

7) Chairperson of the board audit committee.

8) 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.

9) Member of the board audit committee.

10) Deputy chairperson of the board and member of the board audit committee until 21 October 2009.

### *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 2009 and 2008 and individual Corporate Assembly member share ownership as of 31 December 2009 are given in the tables below. Loans to Corporate Assembly members were extended under an employee benefit scheme that is available to all employees in Norway. Total loans outstanding to Corporate Assembly members who are also Hydro employees totaled NOK 1,913 thousand as of 31 December 2009. The interest rate on these loans is between 3.90 and 6.25 percent and the repayment period is between 5 and 25 years.

**Corporate Assembly fees**

Amounts in NOK thousand	2009	2008
Fees paid to Corporate Assembly Chairperson	124	151
Fees paid to Corporate Assembly Deputy Chairperson	80	55
Fees paid to all other members of Corporate Assembly	371	397
Total fees paid to corporate assembly members during the year	575	603
Fees paid during the year for prior year meetings attended and/or nomination committee assignment	(58)	(63)
Fees related to meetings attended and/or nomination committee assignment during the year, not yet paid	63	52
Total fees for Corporate Assembly services provided to Hydro during the year	581	592

**Corporate Assembly member as of 31 December 2009**Number of shares <sup>1)</sup>

Siri Teigum (Chairperson) <sup>2)</sup>	1 550
Leif Teksum (Deputy Chairperson) <sup>3)</sup>	-
Anne-Margrethe Firing	6 002
Westye Høegh <sup>3)</sup>	169 000
Hans Olav Karde	-
Idar Kreutzer	-
Toril Nag	-
Bjørn Nedreaas <sup>4)</sup>	2 608
Tor Egil Skulstad <sup>4) 5)</sup>	12
Anne Merete Steensland	149 360
Unni Steinsmo	-
Svein K. Sund <sup>4)</sup>	993
Sten-Arthur Sælør	-
Eivind Torvik <sup>4) 6)</sup>	5
Lars Tronsgaard	-
Terje Venold	2 000
Bente Linnerud Østlyngen <sup>4)</sup>	1 118
Bjørn Øvstetun <sup>4)</sup>	1 173

**Deputy Member as of 31 December 2009**Number of shares <sup>1)</sup>

Rolf Arnesen <sup>4) 7)</sup>	1 118
Anne Kverneland Boggsnes	100
Ove Ellefsen <sup>4)</sup>	1 253
Odd Arne Fodnes <sup>4)</sup>	1 738
Terje Friestad <sup>4)</sup>	2 108
Oddvin Hovland <sup>4) 7)</sup>	1 068
Roar Jacobsen <sup>4) 7)</sup>	1 625
Jon Lund	-
Line Melkild <sup>4)</sup>	766
Kari Sommerfeldt <sup>4) 7)</sup>	1 733
Gro Thorstensen <sup>4) 7)</sup>	-
Gunvor Ulstein	-
Tove Wangensten	-

1) Number of shares owned as of 31 December 2009; includes any related party shareholdings, in addition to the shares held directly by the corporate assembly member.

2) Chairperson of the nomination committee.

3) Member of the nomination committee.

4) Employee representative elected by the employees in accordance with Norwegian Company Law.

5) Deputy Member until 31 December 2009 and Member of the Corporate Assembly as of 31 December 2009.

6) Member of the Corporate Assembly as of 3 June 2009.

7) Deputy Member of the Corporate Assembly as of 3 June 2009.

## Note 46 - Related party information

As of 31 December 2009, The Ministry of Trade and Industry of Norway owned 543,463,361 ordinary shares in Norsk Hydro ASA, representing 43.8 percent of the total number of ordinary shares authorized and issued and 45.1 percent of the total shares outstanding. In addition Folketrygdfondet, which manages the Government Pension Fund - Norway owned 72,359,835 ordinary shares, representing 5.8 percent of the total number of ordinary shares issued and 6.0 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 615,823,196 ordinary shares. This represents 49.7 percent of the total number of ordinary shares issued and 51.1 percent of the total shares 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 52,000 registered share holders. No other shareholder holds more than 5 percent of Hydro's outstanding shares. Hydro has concluded that the Norwegian state's shareholding represents de facto control.

The Norwegian state has ownership interests in a substantial number of companies. The ownership interests in 51 companies is managed by the ministries and covered by public information from the Ministry of Trade and Industry. We have, for the purpose of this disclosure, related to public information from the State <sup>1)</sup>, 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 agreed to propose a plan whereby Hydro's petroleum activities would be demerged and merged with Statoil to form StatoilHydro (now Statoil). 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. In total, Hydro bought back 4,408,000 shares at an average price of NOK 33.93 per share under this authorization. A decision to cancel the shares repurchased, and 3,438,738 shares owned by the Ministry, was approved at the General Meeting of shareholders on 5 May 2009. The Ministry received a total compensation of NOK 124 million for the shares, which corresponds to the average price per share for the buy-back in the market, plus interest compensation.

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 77,000 m<sup>2</sup> office and related buildings, plus certain other buildings on contracts with a remaining life of around 11 years from the trust. Of this, around 51,000 m<sup>2</sup> is subleased. Hydro has paid a total rental of NOK 186 million and NOK 143 million for 2009 and 2008, respectively. 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. Some close members of family of members of Hydro's management are employed in non-executive positions in Hydro.

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](http://www.regjeringen.no), state ownership

## Financial statements Norsk Hydro ASA

### Income statements

Amounts in NOK million	Notes	2009	2008
Revenue		334	164
Gain (loss) on sale of subsidiaries and associates, net	2	(239)	1 932
Total revenue and income		95	2 097
Employee benefits expense	3, 4	934	745
Depreciation and amortization expense	5	15	13
Other		29	56
Total operating expenses		978	814
Operating income (loss)		(882)	1 283
Financial income, net	6	547	9 361
Income loss) before taxes		(335)	10 644
Income taxes	7	46	(1 427)
Net income (loss)		(290)	9 216
<b>Appropriation of net income and equity transfers:</b>			
Dividend proposed		(602)	-
Retained earnings		892	(9 216)
Total appropriation		290	(9 216)

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

## Balance sheets

Amounts in NOK million, 31 December	Notes	2009	2008
<b>Assets</b>			
Intangible assets	7	369	90
Property, plant and equipment	5	186	172
Shares in subsidiaries	8	30 453	30 066
Intercompany receivables		18 916	10 241
Associates and jointly controlled entities	9	112	134
Prepaid pension, investments and other non-current assets	3, 10	2 516	2 812
<b>Total financial non-current assets</b>		<b>51 997</b>	<b>43 254</b>
Accounts receivable		63	11
Intercompany receivables		3 233	47 050
Prepaid expenses and other current assets	10	206	669
Cash and cash equivalents		1 692	2 162
<b>Total current assets</b>		<b>5 195</b>	<b>49 893</b>
<b>Total assets</b>		<b>57 748</b>	<b>93 409</b>
<b>Equity and liabilities</b>			
<b><i>Paid-in capital:</i></b>			
Share capital 1,240,110,211 shares of NOK 1.098	12	1 362	1 370
Treasury shares 35,324,266 shares of NOK 1.098	12	(39)	(46)
Paid-in premium	12	-	182
Other paid-in capital	12	43	127
<b><i>Retained earnings:</i></b>			
Retained earnings	12	27 760	31 790
Treasury shares	12	(1 138)	(4 228)
<b>Equity</b>	12	<b>27 988</b>	<b>29 195</b>
Other long-term liabilities	3	2 299	2 202
Intercompany payables		501	160
Bank loans and other interest-bearing short-term debt	10	1 531	597
Dividends payable		602	-
Intercompany payables		23 657	58 736
Other current liabilities		1 170	2 519
<b>Total current liabilities</b>		<b>26 961</b>	<b>61 852</b>
<b>Total equity and liabilities</b>		<b>57 748</b>	<b>93 409</b>

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

**Statements of cash flows**

Amounts in NOK million	<b>2009</b>	2008
Net income (loss)	<b>(290)</b>	9 216
Depreciation and amortization expense	<b>15</b>	13
Write-down and (gain) loss on sale of non-current assets, net	<b>45</b>	(1 746)
Other adjustments	<b>7 655</b>	(1 789)
<b>Net cash provided by operating activities</b>	<b>7 425</b>	5 694
Investments in subsidiaries	<b>(2 034)</b>	(2)
Sales of subsidiaries	<b>5</b>	4 676
Net sales (purchases) of other investments	<b>(5)</b>	792
<b>Net cash provided by (used in) investing activities</b>	<b>(2 034)</b>	5 466
Dividends paid	<b>-</b>	(6 053)
Other financing activities, net	<b>(5 929)</b>	(10 650)
<b>Net cash used in financing activities</b>	<b>(5 929)</b>	(16 703)
Foreign currency effects on cash	<b>68</b>	(194)
<b>Net decrease in cash and cash equivalents</b>	<b>(470)</b>	(5 737)
Cash and cash equivalents at beginning of year	<b>2 162</b>	7 899
<b>Cash and cash equivalents at end of year</b>	<b>1 692</b>	2 162

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

## Notes to the financial statements Norsk Hydro ASA

### Note 1 - Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with the Norwegian accounting act and accounting principles generally accepted in Norway (N GAAP). 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. Interest rates used when performing any net present value analysis, or measurement of post retirement obligations, are rounded to the nearest 25 basis points. 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.

#### *Shares in subsidiaries, associates and jointly controlled entities*

Shares in subsidiaries, associates and jointly controlled entities are presented according to the cost method. Group relief received is included in dividends from subsidiaries. Dividends from subsidiaries is recognized in the year for which it is proposed by the subsidiary to the extent Norsk Hydro ASA can control the decision of the subsidiary through its share holdings. Shares in subsidiaries, associates and jointly controlled entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

#### *Employee retirement plans*

Norsk Hydro ASA has adopted the alternative treatment allowed in NRS 6 (previously NRS 6A) whereby employee retirement plans are measured as required by IAS 19, see note 1 Significant accounting policies and reporting entity to the consolidated financial statements for additional information.

#### *Foreign currency transactions*

Realized and unrealized currency gains or losses on transactions are included in net income. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the Norwegian kroner are also included in net income.

#### *Cash and cash equivalents*

Cash and cash equivalents includes cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

#### *Short-term investments*

Short-term investments includes bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and current marketable equity and debt securities. Such securities 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.

#### *Property, plant and equipment*

Property, plant and equipment is carried at historical cost less accumulated depreciation and impairment write-downs. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment of long-lived assets is recognized when the recoverable amount determined as the higher of fair value less cost to sell or value in use of the asset or group of assets is less than the carrying value. The amount of the impairment is the difference between the carrying value and the recoverable amount. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

#### *Contingencies and guarantees*

A liability is recognized for the fair value of obligations it has undertaken in issuing guarantees, including the ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. Contingencies are recognized in the financial statements when probable of occurrence and can be estimated reliably.

#### *Research and development*

Research costs are expensed as incurred. Development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise; and (b) the cost of the

asset can be measured reliably. 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 capitalization are met.

#### *Derivative instruments*

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 interest expense and foreign exchange gain (loss).

#### *Share-based compensation*

Norsk Hydro ASA accounts for share-based payment in accordance with NRS 15A Share-Based Payment. NRS requires share-based payments to be accounted for as required by IFRS 2 Share-based Payment, see note 1 Significant accounting policies and reporting entity to the consolidated accounts for additional information.

#### *Risk management*

For information about risk management in Norsk Hydro ASA see note 41 Risk management to the consolidated financial statements.

### Note 2 - Sale of businesses

Sale of the indirectly owned Automotive Structures businesses to the German group Benteler resulted in a loss of NOK 222 million in 2009 related to Norsk Hydro ASA's funding of the businesses. The sale was completed on 31 December 2009.

For the year 2008 Gain on sale of subsidiaries and associates amounted to NOK 1,932 million for Norsk Hydro ASA. The sale of the 100 percent owned subsidiary Kerling ASA (Polymers activities) resulted in a gain of NOK 1,285 million. The sale of 85 percent of Norsk Hydro ASA's shares in the subsidiaries Production Partner AS and Production Services AS resulted in a gain of NOK 638 million. The remaining 15 percent of Production Services was sold towards the end of 2008 with a gain of NOK 10 million reported as part of Norsk Hydro ASA's financial income. Norsk Hydro ASA also sold its 49.9 percent interest in the associate Quality People resulting in a gain of NOK 9 million.

### Note 3 - Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 5,640 participants as of 31 December 2009 and 6,225 participants as of 31 December 2008. The plans comply with minimum requirements for pension plans in Norway.

**Net periodic pension cost**

Amounts in NOK million	2009	2008
<b>Defined benefit plans</b>		
Benefits earned during the year	177	129
Interest cost on prior period benefit obligation	323	311
Expected return on plan assets	(285)	(406)
Recognized net (gain) loss	113	(7)
Past service cost	33	7
<b>Net periodic pension cost</b>	<b>362</b>	<b>34</b>
Multiemployer plans	4	-
Termination benefits and other	45	53
<b>Total net periodic pension cost</b>	<b>412</b>	<b>87</b>

**Change in projected benefit obligation (PBO)**

Amounts in NOK million	2009	2008
Projected benefit obligation at beginning of year	(7 848)	(6 655)
Benefits earned during the year	(177)	(129)
Interest cost on prior period benefit obligation	(323)	(311)
Actuarial (gain) loss	1 931	(1 023)
Plan amendments	(30)	(10)
Benefits paid	330	327
Curtailement/settlement (gain) loss	325	(38)
Special termination benefits	(6)	(10)
Demerger	62	-
<b>Projected benefit obligation at end of year</b>	<b>(5 738)</b>	<b>(7 848)</b>

**Change in pension plan assets**

Amounts in NOK million	2009	2008
Fair value of plan assets at beginning of year	5 440	6 840
Actual return on plan assets	318	(1 248)
Company contributions	-	80
Benefits paid	(262)	(267)
Settlements	(166)	35
Demerger	(30)	-
<b>Fair value of plan assets at end of year</b>	<b>5 300</b>	<b>5 440</b>

**Status of pension plans reconciled to balance sheet**

Amounts in NOK million	2009	2008
<b>Defined benefit plans</b>		
Funded status of the plans at end of year	(438)	(2 408)
Unrecognized net (gain) loss	(204)	1 997
Unrecognized past service cost	4	7
Net accrued pension recognized	(638)	(405)
Termination benefits and other	(115)	(144)
Total net accrued pension recognized	(753)	(548)
<b>Amounts recognized in the balance sheet consist of</b>		
Prepaid pension	1 227	1 351
Accrued pension liabilities	(1 980)	(1 900)
Net amount recognized	(753)	(548)

**Assumptions used to determine net periodic pension cost**

	2009	2008
Discount rate	4.25%	4.75%
Expected return on plan assets	5.75%	6.25%
Expected salary increase	4.50%	4.25%
Expected pension increase	4.00%	3.75%

**Assumptions used to determine pension obligation at end of year**

	2009	2008
Discount rate	4.50%	4.25%
Expected salary increase	4.00%	4.50%
Expected pension increase	2.25%	4.00%

**Investment profile plan assets at end of year**

	2009	2008
<b>Asset category</b>		
Equity securities	30%	26%
Debt securities	29%	29%
Real estate	26%	26%
Other	16%	19%
Total	100%	100%

See note 32 Employee retirement plans in notes to the consolidated financial statements for further information.

**Note 4 - Management remuneration, employee costs and auditor fees**

See note 11 Employee and management remuneration in the notes to the consolidated financial statements for information and details related to the Corporate Management Board remuneration. Johnny Undeli was employed by a subsidiary until joining the Corporate Management Board. Oliver Bell is employed by a subsidiary with a recharge of costs to Norsk Hydro ASA for services rendered as member of the Corporate Management Board.

See note 45 Board of Directors' and Corporate Assembly remuneration in the notes to the consolidated financial statements for information and details related to the Board of Directors' and Corporate Assembly.

Partners and employees of Hydro's appointed auditors, Deloitte AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2009 and 2008 to Deloitte are given below:

Amounts in NOK thousand	2009	2008
Audit fees	4 855	5 912
Audit related fees	375	2 393
Tax fees	139	-
Non-audit fees	909	1 142
<b>Total</b>	<b>6 278</b>	<b>9 447</b>

The average number of employees in Norsk Hydro ASA was 971 in 2009 as compared to 1,350 in 2008. As of year end 2009 and 2008 Norsk Hydro ASA employed 732 and 1,304 employees, respectively. The decrease in number of employees is primarily due to employees transferred from Norsk Hydro ASA to Bilfinger Berger and reductions in central staffs.

Total loans given by Norsk Hydro ASA to Norwegian employees as of 31 December 2009 were NOK 288 million. Loans to employees consists of NOK 162 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of 31 December 2009 related to the employee share purchase plan was NOK 7 million.

A substantial number of employees in Norsk Hydro ASA are engaged in activities for other Group companies. The cost for these employees is accounted for on a net basis, reducing Payroll and related costs. Employee related payroll expenses, on a net basis, are given in the table below:

Amounts in NOK million	2009	2008
<b>Payroll and related costs:</b>		
Salaries	883	1 045
Social security costs	156	168
Social benefits	(11)	9
Net periodic pension cost (note 3)	412	87
Internal invoicing of payroll related costs	(506)	(564)
<b>Total</b>	<b>934</b>	<b>745</b>

## Note 5 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost 31 December 2008	6	103	183	-	292
Additions at cost	-	-	26	3	29
Retirements	-	(3)	(26)	-	(30)
Transfers	-	-	3	(3)	-
Accumulated depreciation 31 December 2009	-	(38)	(67)	-	(105)
<b>Carrying value 31 December 2009</b>	<b>6</b>	<b>62</b>	<b>119</b>	<b>-</b>	<b>186</b>
Depreciation in 2009		(1)	(13)		(14)

Operating lease expense amounted to NOK 207 million in 2009 and NOK 211 million in 2008. The company has the following future operating lease commitments under non-cancellable leases: 2010: NOK 188 million, 2011: NOK 188 million, 2012: NOK 188 million, 2013: NOK 188 million, 2014: NOK 188 million and thereafter: NOK 1,159 million.

## Note 6 - Financial income and expense

Amounts in NOK million	2009	2008
Dividends from subsidiaries	-	5 403
Dividends from associates	-	4
Interest from group companies	662	2 308
Other interest income	63	527
Interest paid to group companies	(332)	(3 391)
Other interest expense	(168)	(21)
Impairment loss shares	(44)	(219)
Net foreign exchange gain (loss)	327	3 788
Other, net	40	962
<b>Financial income, net</b>	<b>547</b>	<b>9 361</b>

## Note 7 - Income taxes

The tax effect of temporary differences resulting in deferred tax assets (liabilities) are:

Amounts in NOK million	Temporary differences Tax effect	
	2009	2008
Short-term items	106	389
Prepaid pension	(344)	(378)
Pension liabilities	554	532
Other long-term items	34	(466)
<b>Deferred tax asset</b>	<b>350</b>	<b>77</b>

In accordance with the preliminary accounting standard for tax under NGAAP, taxable temporary differences and deductible temporary differences, which reverse or may reverse in the same period, can be netted. Recognition of deferred tax asset is based on expected taxable income in the near future.

### Reconciliation of nominal statutory tax rate to effective tax rate

Amounts in NOK million	2009	2008
Income (loss) before taxes	(335)	10 644
Expected income taxes at statutory tax rate	(94)	2 980
Dividend exclusion	-	(1 514)
Other, net	48	(39)
<b>Income taxes</b>	<b>(46)</b>	<b>1 427</b>
<b>Effective tax rate</b>	<b>13.62%</b>	<b>13.41%</b>

### Components of income tax

Current income tax	229	1 301
Change in deferred tax	(275)	126
<b>Income tax</b>	<b>(46)</b>	<b>1 427</b>

See note 17 Income tax expense and 33 Deferred tax in Notes to the consolidated financial statements for further information.

Taxes payable as of 31 December 2009 and 2008 were NOK 657 million and NOK 680 million, respectively.

## Note 8 - Shares in subsidiaries

Company name:	Currency	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)	Book value (NOK million)
Hydro Aluminium AS	NOK	100.00	7 236 126	24 472
Norsk Hydro Produksjon AS	NOK	100.00	880 000	5 603
Grenland Industriutvikling AS	NOK	100.00	26 750	111
Securus Industrier AS	NOK	100.00	59 644	109
Hydro Aluminium Deutschland GmbH <sup>1)</sup>	EUR	25.04	73 894	92
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	41
Industriforsikring AS	NOK	100.00	20 000	20
Hydro Kapitalforvaltning AS	NOK	100.00	2 500	4
Norsk Hydros Handelsselskap AS	NOK	100.00	1 000	1
Norsk Hydro Kraft OY	EUR	100.00	34	-
Total				30 453

1) The company is owned 74.96 percent by Norsk Hydro Deutschland GmbH & Co. KG, which is a subsidiary of Hydro Aluminium AS, and 25.04 percent by Norsk Hydro ASA.

Percentage of shares owned equals percentage of voting shares owned. The location of subsidiaries is indicated by the currency code used in the table or by the name of the subsidiary. Several of the above-mentioned companies also own shares in other companies as specified in their annual reports.

As a result of group contributions given, the carrying value of the shares held in Securus Industrier AS and Norsk Hydro Plastic Pipe AS have been written down by NOK 39 million and NOK 3 million respectively.

## Note 9 - Shares in associates and jointly controlled entities

Associates and jointly controlled entities consist mainly of loans to such entities owned by subsidiaries.

The most significant investments for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned	Country	Carrying value	Long-term advances	Total
HyCore ANS	49.0%	Norway		77	77
Aluminium & Chemie Rotterdam B.V.	36.2% <sup>1)</sup>	Netherlands		25	25
Other			2	8	10
Total			2	110	112

1) Norsk Hydro ASA's share of voting rights in Aluminium & Chemie Rotterdam B.V. equals 21.2%.

## Note 10 - Specification of balance sheet items

Amounts in NOK million	2009	2008
Securities	550	551
Prepaid pension	1 227	1 351
Other non-current assets	739	910
Total prepaid pension, investments and other non-current assets	2 516	2 812
Prepaid expenses	139	153
Other current assets	67	516
Total prepaid expenses and other current assets	206	669
Bank overdraft	44	77
Employee deposits	466	480
Commercial paper	1 000	-
Other interest-bearing debt	21	40
Total bank loans and other interest-bearing short-term debt	1 531	597

## Note 11 - Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. Guarantees in connection with the sale of companies, referred to as sales guarantees in the table below, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. NOK 7.5 billion of guarantees related to jointly controlled entities relates to Qatalum. See note 37 Guarantees to the consolidated financial statements for additional information.

Amounts in NOK million	2009	2008
Guarantees related to jointly controlled entities	7 672	9 124
Sales guarantees	1 763	2 171
Commercial guarantees	7 683	5 770
Other guarantees	30	84
Total guarantees not recognized	17 148	17 149

## Note 12 - Number of shares outstanding, shareholders, equity reconciliation

The share capital of Norsk Hydro ASA as of 31 December 2009 was NOK 1,361,641,011.68 consisting of 1,240,110,211 ordinary shares at NOK 1.098 per share. As of 31 December 2009 Norsk Hydro ASA had purchased 35,324,266 treasury shares at a cost of NOK 1,177 million. See Consolidated statements of changes in equity and note 34 Shareholders' equity for additional information.

The table shows shareholders holding one percent or more of the total 1,204,785,945 shares outstanding as of 31 December 2009, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Name	Number of shares
The Ministry of Trade and Industry of Norway	543 463 361
Folketrygdfondet	72 359 835
State Street Bank and Trust <sup>2)</sup>	49 019 516
JP Morgan Chase Bank <sup>1)</sup>	36 429 186
Clearstream Banking S.A. <sup>2)</sup>	19 620 966
Rasmussengruppen AS	17 152 000
State Street Bank and Trust <sup>2)</sup>	14 872 303

1) Representing American Depositary Shares

2) Nominee accounts.

### Change in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
31 December 2008	1 633	27 561	29 195
Net income		(290)	(290)
Dividend proposed		(602)	(602)
Demerger adjustment		(237)	(237)
Treasury shares	(268)	190	(78)
31 December 2009	1 366	26 622	27 988

## Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2009 have been prepared in accordance with IFRS as adopted by the European Union, as well as additional information requirements in accordance with the Norwegian Accounting Act, that the financial statements for the parent company for 2009 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements gives a true and fair view of the assets, liabilities, financial position and result of Norsk Hydro ASA and the Hydro Group for the period. We also confirm to the best of our knowledge that the Board of Directors' Report includes a true and fair review of the development, performance and financial position of Norsk Hydro ASA and the Hydro Group, together with a description of the principal risks and uncertainties that they face.

Oslo, 17 March 2010



Terje Vareberg  
Chair



Bente Rathe  
Deputy chair



Jørn B. Lilleby  
Board member



Finn Jebsen  
Board member



Inge K. Hansen  
Board member



Sten Roar Martinsen  
Board member



Heidi M. Petersen  
Board member



Billy Fredagsvik  
Board member



Svein Richard Brandtzæg  
President and CEO

## Auditor's report

To the Annual Shareholders' Meeting of Norsk Hydro ASA

### *Auditor's report for 2009*

We have audited the annual financial statements of Norsk Hydro ASA as of 31 December 2009, showing a loss of NOK 290 million for the parent company and a profit of NOK 416 million for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the income statement, the balance sheet, the statement of cash flows, and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the parent company's financial statements. The group accounts comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of cash flows, the statement of changes in equity, and the accompanying notes. International Financial Reporting Standards as adopted by the EU have been applied to prepare the group accounts. These financial statements are the responsibility of the Company's Board of Directors and President & CEO. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing practice, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the parent company's financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as of 31 December 2009, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the group accounts are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Group as of 31 December 2009, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with International Financial Reporting Standards as adopted by the EU
- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the coverage of the loss, is consistent with the financial statements and complies with law and regulations.

Oslo, 17 March 2010

Deloitte AS

Aase Aa. Lundgaard (signed)

State Authorised Public Accountant (Norway)

## Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2009 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2009 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2009 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 17 March 2010

Siri Teigum