

Board of Directors' report

Following an extraordinary market decline towards the end of the previous year, 2009 has been characterized by weak and volatile financial markets, significantly weakened demand for our products and historically low prices for our primary metal. The company has handled these dramatic developments by swift responses within its production system and organization while at the same time securing the successful development and start-up of the Qatalum joint venture.

Responding to the economic crisis

Hydro acted quickly to the market decline and global economic downturn at the end of the previous year including:

- Early closure of Söderberg line at Karmøy (120,000 mt)
- Temporary curtailments at Neuss, Sunndal, Sørå and Slovalco (340,000 mt)
- Temporary curtailments of alumina production at Alpart (578,000 mt)
- Manning reductions in downstream operations equivalent to about 3,100 employees
- Manning reduction in corporate staff functions by about 250 - 300 employees
- Reduction in capital expenditures amounting to almost NOK 6 billion excluding Qatalum
- Reduction in operating capital by close to NOK 6 billion

Curtailments of primary production capacity at Hydro's least efficient smelters amounted to 460,000 mt in total or about 26 percent of its upstream capacity. Cash cost per mt declined by 30 percent as a result of the curtailments and reduced raw material costs. However, although the company made good progress reducing the operating cost of its smelter system in 2009, it has been unable to adjust the company's cost profile to a sufficient extent and its smelters have generated significant underlying operating losses within the depressed market environment. Downstream, the company's focused efforts have enabled it to cover nearly 80 percent of the loss due to the market downturn within its rolled and extruded products operations helping these businesses to return to profitability during the second half of 2009 and demonstrating a high degree of flexibility to adjust to the new market realities. This flexibility was also apparent within Hydro's mid-stream business where remelt production was quickly reduced by nearly 50 percent and then ramped up to full capacity in the third quarter in response to tight physical markets for metal products. Hydro also made portfolio adjustments during the year including the divestment of its automotive structures business and Inasa rolling mill located in Spain. A decision was also taken to close the company's precision tubing plant located in Adrian, Michigan in the US, relocating the production volumes to plants in Rockledge, Florida and Reynosa, Mexico.

Qatalum and beyond

In December 2009 the first cell of the new Qatalum primary aluminium smelter was started as planned. This achievement represents a major milestone in our strategy emphasizing a sustainable upgrading of our portfolio aimed at achieving an operating cost position among the best in the world. The new primary aluminium plant in Qatar has an initial production capacity of 585,000 mt. Substantially all of Qatalum's production will be shipped in the form of value-added, cast-house products. A second phase of the Qatalum smelter may present an attractive opportunity with the potential of expanding the production capacity of the plant up to 1.2 million mt.

Going forward, Hydro has an ambition to expand its upstream activities worldwide while maintaining a strong emphasis on sustainable development. In addition to the possible expansion at Qatalum, Hydro is a joint venture partner in Companhia de Alumina do Para (CAP) together with Vale and Dubal for the construction of an alumina refinery close to Alunorte in Brazil. Hydro will continue to advance the operational excellence of its existing smelter portfolio. New proprietary technology is under development with the aim to raise its cost competitiveness, further strengthen its environmental standards, and support the company's growth ambitions.

Ongoing focus on extracting value from Hydro's midstream and downstream businesses will continue. Hydro will further develop the company's leading position in the metal products markets in order to optimize the capacity of its integrated casthouses, grow its remelt operations and offer substantially higher volumes of value added products into the marketplace. An emphasis on operating efficiency and margin management will underlie development for Hydro's rolling operations. Hydro intends to maintain the strong operational performance of its extrusion business targeting further business development based on its existing platform of technological strength and strong market positions. Entry into new markets will be a priority and Hydro intends to be recognized as an industry specialist in energy-neutral building solutions.

Underlying operating results

Hydro incurred an underlying loss before financial items of NOK 2,555 million in 2009 compared to underlying EBIT of NOK 6,009 million in 2008. Underlying results were significantly impacted by the global economic downturn which led to a drop in overall sales volumes in the magnitude of 18 percent compared to 2008. Underlying EBIT was heavily influenced by an unprecedented decline in aluminium prices which occurred toward the end of 2008 and the beginning of 2009. Prices remained weak but improved continuously following the first quarter of 2009. Hydro's downstream business also incurred an underlying loss for the year due to the significant market decline and substantial losses from its automotive operations, in particular the automotive structures business which was divested in the fourth quarter. Underlying EBIT for Hydro's energy business declined compared to 2008 mainly due to lower power production.

Priorities for 2010

The Board will take further steps necessary to secure Hydro's ongoing operations in the challenging economic conditions expected in 2010. A key element in our strategy to improve the overall competitive position of Hydro is the ongoing repositioning of our upstream business. The successful ramp-up of Qatalum will be a key priority in 2010. Production from the plants 704 cells will be phased in during 2010 and the plant will have roughly 1,200 employees in place by the end of the year.

To address the cost challenge at Hydro's other smelters, a new cost-cutting program has been launched aimed at reducing the cash operating cost by USD 100 per mt excluding the effects of Qatalum and the impact of changes in raw material prices and currencies. We expect to make substantial progress toward this target in 2010 and to achieve most of the improvement by the end of 2011. Hydro will also focus on improving the margins at its primary casthouses through optimization of the markets it serves and further productivity improvements.

Downstream, we will prioritize capturing opportunities as the market stabilizes and recovers. While keeping a sharp eye on cost and working capital levels, Hydro will concentrate on protecting its margins to ensure a sustainable level of profitability. We will actively pursue opportunities to further increase Hydro's share of the market by offering superior value in the market place.

To protect Hydro's liquidity the Board and management will maintain a strong priority on capital discipline including the prioritization of capital expenditures and optimization of working capital. The company will also work to maintain our financial flexibility and secure our investment grade credit rating.

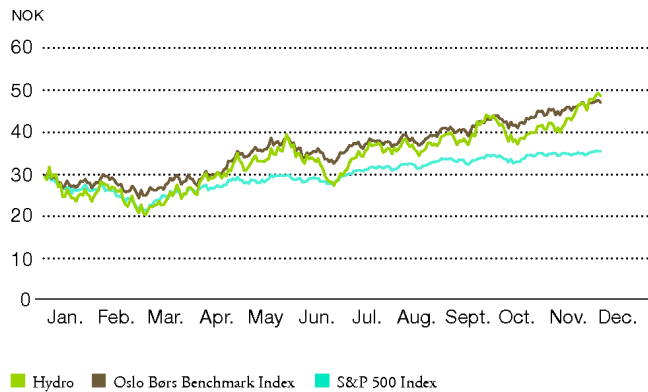
Careful attention to improving our environment and safety performance will continue. In 2009 we reduced our TRI rate (recordable injuries per million hours worked) by 26 percent, exceeding our target of 20 percent reduction compared to 2008. We have targeted an additional reduction of 20 percent for 2010. In 2009, the company revised its climate gas emission target down to a specific direct emission of 1.5 t CO₂e/t aluminium in 2013, which is a further improvement of 19 percent of the current level.

Funding

Despite the challenging market situation and difficult funding environment early in 2009, Hydro established additional funding including a new EUR 750 million syndicated three-year revolving credit facility. This was on top of an existing USD 1.7 billion standby facility. Hydro also issued NOK 1 billion of six month commercial paper on two occasions during the year.

Investor information

Share price development in 2009



Hydro's share price closed at NOK 48.71 at the end of 2009. The return for 2009 was positive with NOK 20.91 or 75 percent.

Due to the strong commitment of returning cash to shareholders, improved market and earnings visibility compared to the beginning of 2009 and Hydro's cash position the Board of Directors has proposed a dividend of NOK 0.50 per share for approval by the Annual General Meeting on May 4th, 2010.

Financial and underlying operating results

Financial results for 2009

EBIT for Hydro amounted to a loss of NOK 1,407 million for the year, compared with positive EBIT of NOK 1,194 million in 2008. EBIT included positive effects of NOK 3,173 million and negative effects of NOK 2,202 million for 2009 and 2008, respectively, from unrealized gains and losses relating to LME, power and currency derivative contracts. Results were also impacted by negative metal effects of NOK 588 million and NOK 235 million for 2009 and 2008, respectively. The magnitude of these recurring effects depends on changes in market values, which have been significant.

Other significant items impacting EBIT include gains/losses and other cost and charges that are typically non-recurring for individual plants or operations. These included rationalization and impairment charges amounting to NOK 956 million and NOK 2,573 million for 2009 and 2008, respectively, together with divestment losses of NOK 684 million in 2009 and divestment gains of NOK 453 million in 2008. These also included other items amounting to a net positive effect of NOK 204 million in 2009, compared to other items amounting to a net negative effect of NOK 257 million in 2008.

Net financial income for the year amounted to NOK 2,774 million, compared with net financial expense of NOK 5,026 million in 2008. These amounts included net foreign currency gains of NOK 2,774 million and net foreign exchange losses of NOK 5,491 million for 2009 and 2008, respectively. All of the gains in 2009 and about 40 percent of the losses in 2008 related to gains/losses on intercompany balances are primarily denominated in Euro. These items have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation. The remaining losses in 2008 were related to US dollars and mainly to Hydro's US dollar hedging program which was terminated. Interest income declined to NOK 233 million, compared to NOK 769 million in 2008, reflecting lower cash balances during 2009.

Income taxes amounted to a charge of NOK 951 million in 2009, compared with a positive amount of NOK 565 million for 2008. For 2009, income tax expense was roughly 70 percent of pre-tax income. The high tax rate resulted mainly from the effects of power surtax and losses from equity-accounted investments, which are recognized net of tax.

Income from continuing operations amounted to NOK 416 million in 2009, compared with a loss of NOK 3,267 million in 2008.

RoaCE¹⁾ was negative 3.3 percent for 2009, compared with 0.7 percent in 2008.

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

Underlying operating results

Key financial information

NOK million, except per share data	Year 2009	Year 2008	% change prior year
Revenue	67 409	88 455	(24) %
Earnings before financial items and tax (EBIT)	(1 407)	1 194	>(100) %
Items excluded from underlying EBIT ¹⁾	(1 148)	4 815	
Underlying EBIT	(2 555)	6 009	>(100) %
<i>Underlying EBIT :</i>			
Primary Metal	(2 556)	2 732	>(100) %
Metal Markets	(83)	703	>(100) %
Rolled Products	26	651	(96) %
Extruded Products	(67)	338	>(100) %
Energy	1 240	1 865	(34) %
Other and eliminations	(1 114)	(279)	>(100) %
Underlying EBIT	(2 555)	6 009	>(100) %
Income (loss) from continuing operations	416	(3 267)	>100 %
Underlying income (loss) from continuing operations	(3 066)	3 579	>(100) %
Earnings per share from continuing operations ²⁾	0.25	(3.04)	>100 %
Underlying earnings per share from continuing operations ²⁾	(2.64)	2.62	>(100) %
<i>Financial data:</i>			
Investments	5 947	9 012	(34) %
Adjusted net interest-bearing debt ³⁾	(15 645)	(15 440)	(1) %

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

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

3) Calculation is based on amounts as of the end of the periods presented. See note 35 *Capital Management* for a discussion on net interest-bearing debt.

Key Operational information ¹⁾	Year 2009	Year 2008	% change prior year
Primary aluminium production (kmt)	1 396	1 750	(20) %
Realized aluminium price LME (USD/mt) ²⁾	1 698	2 638	(36) %
Realized aluminium price LME (NOK/mt) ²⁾	10 764	14 699	(27) %
Realized NOK/USD exchange rate ³⁾	6.34	5.57	14 %
Metal Markets sales volumes to external market, excluding ingot trading (kmt)	1 468	1 733	(15) %
Rolled Products sales volumes to external market (kmt)	794	965	(18) %
Extrusion products sales volumes to external market (kmt)	401	488	(18) %
Automotive products sales volumes to external market (kmt)	87	105	(17) %
Power production (GWh)	7 897	11 361	(30) %

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

2) Including the effect of strategic LME hedges (hedge accounting applied).

3) Including the effect of strategic currency hedges (hedge accounting applied).

Primary Metal incurred a substantial loss in 2009, declining sharply from positive underlying EBIT in the previous year. Significantly lower realized aluminium prices had a negative impact on underlying results of about NOK 6.3 billion. Write-downs reversed in inventory amounted to NOK 470 million, compared to write-downs of NOK 550 million in 2008. Lower volumes and product premiums had a negative impact on underlying EBIT amounting to about NOK 1.2 billion and NOK 600 million, respectively. Variable costs at our smelters decreased by about NOK 1.7 billion, compared to 2008, mainly due to lower alumina costs, which declined by roughly NOK 1.0 billion. Fixed costs declined by about NOK 900 million due to capacity curtailments and manning reductions that took place mainly in the first half of 2009, in addition to lower maintenance activities.

Underlying income from our equity-accounted smelters declined to about NOK 490 million, mainly due to charges related to the build-up of the operating organization at Qatalum, from roughly NOK 130 million in the previous year. Underlying EBIT for Alunorte, our equity-accounted alumina refinery, amounted to a loss of NOK 10 million, a decrease from positive underlying EBIT of NOK 447 million in the previous year. This decline was mainly due to lower LME linked alumina prices. More than half of the price decline, however, was offset by an increase in sales relating to the third expansion of the plant that was completed in 2008.

Metal Markets incurred an underlying loss for the year, heavily impacted by negative currency effects of roughly NOK 600 million, mainly due to the weakening of the US dollar against Norwegian kroner. Underlying EBIT in 2008 was positively impacted by currency effects of nearly NOK 500 million, but also included inventory write-downs of about NOK 160 million. Excluding currency effects, operating results from our sourcing and trading activities improved from 2008, with significant positive contributions both from our physical standard ingot portfolio and LME trading. Underlying results for our remelters also improved when compared to the 2008 result, which was negatively impacted by inventory write-downs.

Underlying EBIT for Rolled Products declined significantly in 2009 mainly due to the significant drop in volumes for the year. Margins measured in Euro weakened somewhat compared with 2008, impacted mainly by lower margins within the general engineering market segment. Shipments and order intake both improved in the second half of the year.

Extruded Products incurred an underlying loss for 2009 due to substantial volume declines for all of its operating units and lower margins for most of the businesses. Underlying results improved in the second half of the year as the markets stabilized, supported by customer restocking and significant cost reductions. All of our business sectors, however, incurred underlying losses for the year as a whole, except for our building systems business. Our US extrusion business delivered improved underlying results, although still negative, driven by substantial cost reductions from efforts to align our overall cost structure with the negative market developments experienced over the last several years.

Underlying EBIT for Energy declined for the year mainly due to significantly lower power production and lower spot prices, which were partly offset by lower area costs and lower operating costs.

Items excluded from underlying EBIT and results

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

Items excluded from underlying income from continuing operations ¹⁾ NOK million	Year 2009	Year 2008
Unrealized derivative effects on LME related contracts	(2 630)	1 120
Unrealized derivative effects on power contracts	(198)	768
Unrealized derivative effects on currency contracts	(345)	314
Metal effect, Rolled Products	588	235
Significant rationalization charges and closure costs	518	109
Impairment charges (PP&E and equity accounted investments)	438	2 464
Loss provisions (power contracts)	-	257
Pension plan amendment	(52)	-
Insurance compensation	(152)	-
(Gains)/losses on divestments	684	(453)
Items excluded from underlying EBIT	(1 148)	4 815
Net foreign exchange (gain)/loss	(2 774)	5 491
Calculated income tax effect	441	(3 460)
Items excluded from underlying income from continuing operations	(3 481)	6 846

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

Unrealized derivative effects on LME and power contracts include unrealized gains and losses on contracts measured at market value where hedge accounting is not applied. Unrealized derivative effects on currency contracts include unrealized gains and losses on certain foreign denominated contracts relating to our equity accounted investments. Metal effects relate to changes in the value of inventories due to LME price developments during the period between the order and delivery of rolled products, which normally takes 4-5 months. The remainder of items excluded from underlying EBIT are comprised mainly of cost and charges, as well as income, that are typically non-recurring for individual plants or operations.

Net foreign exchange gains/losses include realized and unrealized gains and losses on all foreign denominated contracts and balances included in our balance sheet for the periods presented. These amounts mainly relate to losses on intercompany balances denominated in Euro and, in 2008, to Hydro's US dollar hedging program which was terminated. Calculated income tax effect of items excluded from underlying EBIT is based on Hydro's effective tax rate adjusted for the tax effect of financial items, while the income tax effect of currency gains/losses is calculated at 28 percent.

Liquidity, financial position, investments

Cash and short-term investments exceeded interest bearing debt by NOK 2.0 billion at the end 2009.

Hydro's adjusted debt/equity ratio, defined as net interest-bearing debt (mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and Hydro's portion of interest bearing debt in equity accounted investees) divided by adjusted equity, was 0.32 at the end of the year.

In 2009, net cash provided by operating activities increased significantly from NOK 2.9 billion in 2008 to NOK 4.5 billion in 2009, and was sufficient to cover operating requirements and a major part of investment activities. However, we were not able to meet our targeted funds from operations to adjusted net interest bearing debt ratio of 0.40 for the year.

Net cash outflows amounted to NOK 0.7 billion for the year, reducing cash, cash equivalents and bank overdraft from NOK 3.2 billion at the end of 2008 to NOK 2.5 billion at year-end 2009. Hydro's liquid assets, including cash, cash equivalents, bank overdraft and short-term investments declined by NOK 0.8 billion to NOK 4 billion. The most significant uses of cash in 2009 included investments in property, plant and equipment and other long-term investments, together totaling NOK 5.9 billion. Included in this amount was NOK 2.6 billion of equity injections to Qatalum, Hydro's 50 percent-owned green-field smelter in Qatar. The main sources of cash included NOK 4.5 billion from continuing operating activities and NOK 0.7 billion from continuing financing activities. Out of the NOK 4.5 billion cash provided by continuing operating activities, NOK 5.8 billion were related to working capital reductions.

Hydro expects that cash from continuing operations, together with the liquidity holdings and available credit facilities, will be more than sufficient to cover our planned capital expenditures, operational requirements, and financing activities in 2010.

Outlook

The underlying demand for metal products (extrusion ingot, sheet ingot, foundry alloys and wire rod) in Europe and North America was weak during the first half of the year, improving during the second half of the year. However, the consumption of metal products in both Europe and North America remains significantly below the levels experienced in 2007 and 2008 and there are no apparent indications of a quick recovery to pre-crisis consumption levels.

Despite improvement, shipments into the European flat rolled products market for 2009 were significantly below 2008 levels. We expect market demand in Europe to grow in the first quarter of 2010 and continue growing moderately into the second quarter. In the US, demand followed similar developments during 2009, but starting from low levels and improving to a lesser extent. Market demand in the US is expected to show some improvements in 2010, compared to 2009.

Total consumption of extruded aluminium products in Europe declined for the year due to the significant fall in demand in the first half of the year. Market developments in North America reflected the continued weak economy while developments in South America continued to be positive, particularly in Brazil. The overall outlook for the European and US extrusion markets continues to be weak. Demand is expected to stabilize across most markets during the first quarter, with construction being the most challenging market segment.

Hydro's water and snow reservoirs were lower than normal in the middle of January and also lower than the corresponding period in 2009. Despite the decreased reservoir levels, Hydro's power production is expected to be at seasonally high levels during the first quarter of 2010, partly due to Suldal I being back in operation.

Risk

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is therefore placed with the business areas and coordinated by staff units at our corporate level. Policies and procedures have been established to manage risk. Hydro's Board of Directors regularly reviews and evaluates the overall risk management systems and environment within Hydro.

Hydro faces many risks and uncertainties within the global marketplace. We are facing challenging economic and market conditions and we may not succeed in reducing the cost of our smelter portfolio sufficiently to compensate for an extended period of weak aluminium prices. A deterioration of Hydro's financial position or downgrade of the company's credit ratings could increase our borrowing cost and cost of capital. We face an ongoing risk of counterparty default. Price volatility can have a significant impact on Hydro's reported and operating results. Hydro's reported operating results and competitive position are influenced by developments in currency exchange rates and in particular the US dollar, Euro and Norwegian krone.

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong credit worthiness. Economic developments in 2009 resulted in low funds from operations and we were not able to reach our target of 40 percent of adjusted interest-bearing debt for the year. However, we have initiated actions to improve our financial position in order to maintain our investment grade credit rating. The challenging market conditions during 2009 also led to greater attention on cash flow and credit risk throughout our entire organization, and Hydro is taking proactive measures toward customers to reduce credit risk.

In order to protect processing and manufacturing margins against raw material price fluctuations, our downstream and other margin-based operations are hedged to a certain extent. Hydro also uses derivatives to reduce its overall financial and commercial risk exposures. Forward US dollar currency contracts have been used and Hydro has, to a limited extent, entered into forward contracts in other currencies to hedge certain revenue and cost positions. No major currency contracts were outstanding at the end of 2009.

Controls and procedures

Hydro follows the Norwegian Code of Practice for Corporate Governance of October 2009. A detailed description of Hydro's compliance is presented on page 19. Information regarding the company's shareholder policy can be found on page 17.

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

Research and development

Hydro allocated NOK 690 million to R&D in 2009, compared to NOK 606 million in 2008. Most of the amount was dedicated to our in-house research organization, while the remainder supports work carried out at external institutions. See also note 14. We have a number of R&D centers in Europe and established in 2009 a new Technology and Competence Center in Doha, Qatar. Our main R&D tasks are connected to smelter technology and product development.

The Hydro Technology Board aims at enhancing innovation and ensuring that we live up to our ambition to be a leader in technology. The board is headed by President and CEO Svein Richard Brandtzæg.

Hydro's proprietary electrolytic process is one of the most efficient in the world. It is used in the new operations in Sunndal and has been improved for use at Qatalum. Moreover, it has been further enhanced through our HAL4e technology. Our next-generation technologies are advancing us further, increasing output while reducing electricity consumption and recycling energy from the production process. These technologies also address the challenge of capturing greenhouse gases from the production process.

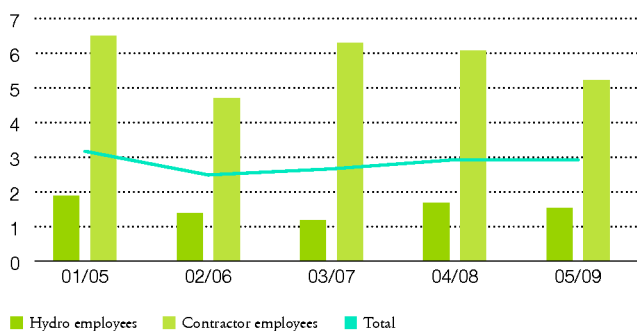
We work closely with our customers to develop products that save energy and reduce emissions. Aluminium facades enable lower operating costs and can help buildings produce as much energy as they consume during operation. In 2009, we opened two such buildings using Hydro products and solutions - one in Bellenberg, Germany, and one in Toulouse, France. The energy neutrality is achieved by using heat pumps, integrated photovoltaic systems and intelligent building design.

Work environment

We work continuously to avoid work-related illnesses and injuries, and track the development through a corporate reporting tool. Guidelines for assessing work environment risks are actively used by the business areas to help map and evaluate Hydro's work environment.

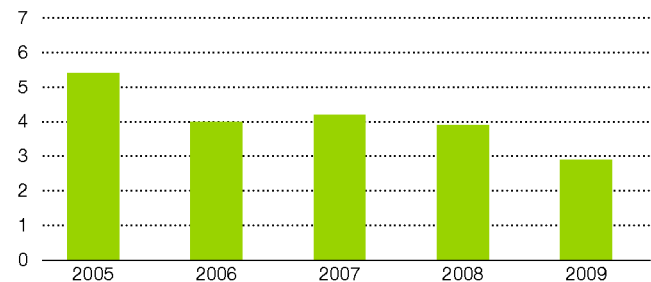
Fatal accidents

Per 100 million hours worked, five years rolling average



Total recordable injuries

Per million hours worked



Registered sick leave was 3.7 percent in 2009, up from 3.4 percent in 2008. The rules for sick-leave registration differ from country to country. Our sick leave in Norway is significantly higher than in Hydro on average, but relatively low compared to the average rate in Norwegian industry. In Norway, sick leave was 5.1 percent in 2009, compared to 5.6 percent in the previous year. Sick leave among male employees was 4.9 percent, down from 5.1 percent in 2008, while sick leave among females decreased significantly from 7.5 percent in 2008 to 6.0 percent in 2009.

We achieved our 2009 target of a 20 percent reduction in total recordable injuries per million hours worked (TRI) with an actual decrease of 26 percent. Even though Hydro's TRI rate has been steadily decreasing for many years, we have experienced that the fatality rate has not shown the same improvement. We had three fatalities in 2009. As a consequence, we intensify follow-up - including thorough analysis and risk evaluation of all high-risk incidents - to find out how fatalities can be further prevented. We will reinforce our high-risk incident and fatality-prevention activities, emphasizing incident analysis and risk management.

Environment

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

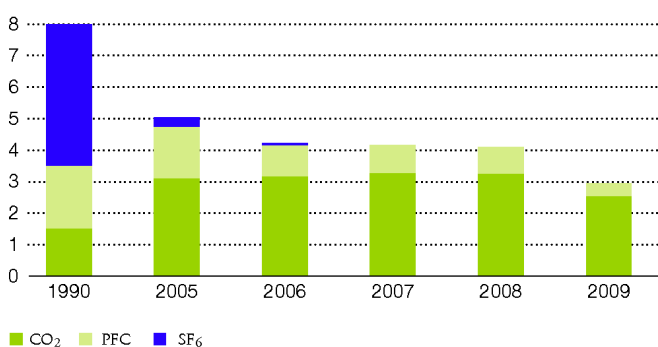
- Using viable energy sources
- Reducing energy consumption and emissions in production
- Reducing CO₂ emissions through the use of our products
- Increasing recycling of aluminium
- Developing our solar energy business

Total greenhouse gas emissions from our ownership equity have decreased from 12.5 million mt CO₂ equivalents (CO₂e) in 1990 to 4.8 million mt CO₂e in 2009. This is a 62 percent decrease. The 25 percent decrease from 2008 to 2009 is due to the closure of our Söderberg plant at Karmøy, Norway, to reduced production in 2009 and to operational improvements.

During the same period, we have also reduced specific greenhouse gas emissions from primary production by more than 60 percent. After revising in 2009 our specific targets, our goal is a specific direct emission of 1.52 mt CO₂e/mt aluminium in 2013. This is 19 percent lower than the current level of 1.85 mt CO₂e/mt aluminium.

Direct greenhouse gas emissions

Million tonnes CO₂-equivalents (CO₂e)



In 2009, we strengthened our efforts on recycling, and we will in 2010 develop a new recycling strategy.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste. In 2009, Hydro produced 28,000 mt of SPL, a 31 percent decrease from 2008. This was primarily due to the closure of the Söderberg plant at Karmøy, and reduced production in general.

Emergency preparedness

Hydro holds and safeguards infrastructure and functions which on local and regional level might be critical to society. Our hydroelectric power business is subject to control and tight follow-up by national authorities. Parts of the power grid which Hydro utilizes to supply energy to our industry, are also important for supplying the common public. Other areas of importance are the supervision and maintenance of dam installations, and actions to prevent flooding and damage caused by floods along waterways. These issues are at the core of our emergency planning, and we keep a continual focus on maintaining a high state of readiness. This is safeguarded through annual exercises.

A threat and vulnerability assessment forms the basis for preventive measures. A central emergency team is in place to support line management and ensure crisis handling in accordance with Hydro's requirements and expectations.

Integrity and human rights

Hydro's Code of Conduct is approved by the board of directors. Based on this, the Hydro Integrity Program was launched in 2005 to prevent corruption and human rights violations connected to our activities. The program includes risk mapping, tools and training. We updated the program in 2009 to make it more practicable and accessible to the employees.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) decided in May 2009 not to open an investigation of the so-called Libya case. Økokrim was presented with the results of an investigation carried out on behalf of Hydro's board of directors in October 2008. The investigation was performed after questions concerning Hydro's former Libyan activities were raised in connection with the merger of Hydro's oil and gas activities with Statoil to form StatoilHydro (now Statoil) in 2007.

Hydro supports the principle of freedom of association and collective bargaining, and has a long tradition in maintaining a good dialog with employee organizations. Our most important role related to human rights is to secure decent working conditions in our own organization, minority-owned companies and with our suppliers. In countries where the right to form trade unions is restricted, we try to find alternative fora to uphold the right of employees to influence their work situation, like in Qatar and China.

Hydro's supplier requirements regarding corporate responsibility were updated in 2009. In general, the requirements shall form an integral part of all stages of the procurement process. The requirements include environment, human rights, anti-corruption, and working conditions including work environment. Implementation is risk based and takes into consideration contractual value, country risk, etc. The principles include auditing rights and the contractors' responsibility toward subcontractors and their suppliers.

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

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

NOK million	2009	2008	2007	2006	2005
Australia	(0.7)	0.4	6	0	0
Brazil	160	139	89	127	25
Jamaica	19	90	81	79	56

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, license fees, rental fees, entry fees, etc. The reporting is based on the principles in Extractive Industries Transparency Initiative (EITI). The table is included in the limited level of assurance review of Hydro's viability performance reporting 2009, but not in the financial audit.

Employees

Hydro had 19,249 employees at the end of 2009, a decrease from 22,634 in 2008. The reduction was primarily a result of ongoing restructuring processes, including closure of the S derberg line at Karm y, Norway, and closures and reductions in our downstream operations and central staffs. Our automotive structures operations were sold in late 2009, directly affecting some 1,200 employees.

The demanding market situation, see page 5, has resulted in capacity reductions and closures throughout the organization. This includes reductions in staff and support manning by 30 percent and NOK 750 million in reduced manning and external costs.

In this difficult situation, we also see the importance of maintaining our position as an attractive employer. New employees are offered essential training, to better understand the organization and their work tasks, and to gain the required competence within health, security, safety and environment.

Most of our roughly 19,000 employees are located in Europe, slightly more than 80 percent, with the largest concentration in Norway and Germany representing 23 percent each. The remainder is split evenly between France, Spain and Italy in total, and the rest of Europe at 19 percent each. About 11 percent of our work force is located in the Americas and roughly 5 percent is located in Asia and Australia. We emphasize diversity with regard to nationality, culture, gender and educational background when recruiting, and forming management teams and other working groups. Women are represented in all business areas and most sector management teams, and we are aiming at further diversity at all levels.

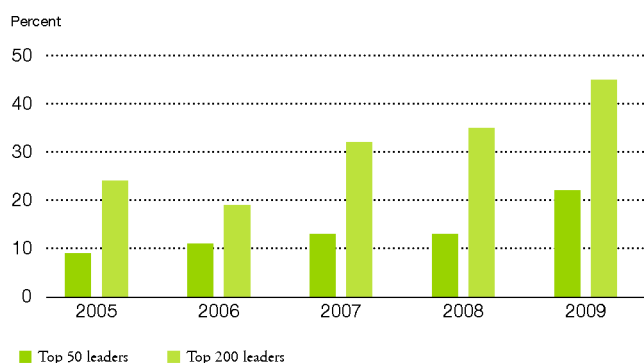
In 2009, only around 70 new employees were recruited to the Norwegian part of the organization, compared to 450 in 2008. Of these, 21 percent were women in 2009, compared to 30 percent in 2008. 27 percent of the university graduates recruited in 2009 were women. In the Norwegian organization as a whole, 19 percent are women. Since 2005, Hydro has recruited 102 graduate trainees, 45 women and 57 men. These represent 28 different nationalities. At Hydro's plant in Grevenbroich, Germany, which has close to 1,800 employees, there are 24 nationalities represented, and the share of non-German employees is 11.4 percent. The largest non-German group is Turkish, representing 55 percent of all non-German employees.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities. The principle of equal terms is prioritized in recruitment, job promotions and individual development. In the restructuring processes carried out in 2009, some jobs were organized for employees with reduced operability, with the physical working environment adapted accordingly.

Share of women leaders



Share of non-Norwegian leaders



The total share of women at all levels in Hydro (excluding USA) was 15 percent in 2009.

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

We acknowledge that 2009 has been a challenging year to most employees and would like to extend our thanks to all of them for their substantial contributions through difficult times. We also send our thoughts and best wishes to those who had to leave Hydro during the year.

Board developments

The board has an annual plan for its work. In addition to recurring topics such as a review of board procedures, competency, priorities, collaboration with the company's management, strategy review and business planning, the board used significant time in evaluating Hydro's capacity adjustments and other initiatives in response to the dramatic market developments. The board has also been occupied with Hydro's development within HSE and CSR. In January 2009, the board regretfully accepted the resignation of the President and CEO, Eivind Reiten, and appointed his successor, Svein Richard Brandtzæg. The change of CEO was effective March 30, 2009.

The board's development plan in 2009 covered market conditions as well as Hydro's specific technology and project competence, and included visits to Qatalum, Hydro's technology center in Årdal and the Tyin power plant, both in Norway. The board held 15 meetings in 2009 with an attendance of 97 percent. The compensation committee held six meetings and the audit committee 10 meetings.

Grete Faremo stepped down from the board on October 21, and Bente Rathe was elected new deputy chair person.

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a loss of NOK 290 million in 2009, compared to profits of NOK 9,216 million in 2008.

Due to the strong commitment of returning cash to the shareholders and improved market and earnings visibility the board of directors has proposed a dividend of NOK 0.50 per share.

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

Oslo, 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