Annual Report – 2010

KEY FIGURES

Amounts in NOK million unless other unit indicated	2010	2009
Revenue	75 754	67 409
Underlying EBIT : (a)		
Primary Metal	198	(2 556)
Metal Markets	321	(83)
Rolled Products	864	26
Extruded Products	444	(67)
Energy	1 416	1 240
Other and eliminations	(893)	(1 114)
Total	3 351	(2 555)
Income (loss) from continuing operations	2 118	416
Underlying return on average capital employed (RoaCE), percent	4.0%	(6.4%)
Investments (b)	6 231	5 947
Total assets	88 788	77 599
Share price year-end, NOK	42.61	48.71
Dividend per share, NOK	0.75	0.50
Number of employees, year-end (c)	18 894	19 249
Total recordable injuries, per million hours worked	3.7	2.9
Greenhouse gas emissions, million mt CO2e (d)	2.8	2.9

HIGHLIGHTS

SIGNIFICANT IMPROVEMENTS IN UNDERLYING RESULTS

2010 marks a significant improvement in underlying operating results for Hydro. Underlying EBIT increased significantly, driven by a market recovery which lifted prices and strengthened demand combined with reduced costs and manning throughout our operations. Having weathered the financial storm, Hydro has emerged stronger, with leaner operations, and is ready to embark on a new era as a resource-rich and fully integrated aluminium company.

TRANSFORMING TRANSACTION

On February 28, 2011 Hydro completed the acquisition of a majority of Vale's aluminium business in Brazil. Combining Vale Aluminium with Hydro has resulted in a stronger company, fully integrated into bauxite, with a long alumina balance and a preferred position in a more consolidated market. The Vale acquisition will significantly reshape Hydro in 2011 and the years to come. We have acquired premier assets, including substantial ownership interests in one of the largest bauxite mines in the world, the largest alumina refinery in the world and substantial expansion opportunities in this critical part of the value chain.

(a)
Underlying EBIT
Hydro's underlying results increased significantly in 2010, driven by reduced costs and manning throughout our operations combined with a market recovery which lifted prices and strengthened demand. Overall sales volumes increased by 17 percent, compared with a decline of 18 percent in the previous year.

(b)
Investments
During 2010, Hydro continued a strong focus on liquidity and sustaining capital expenditures. Except for Qatalum, investments were mainly related to maintenance activities to safeguard our production assets.

(c)
Number of employees
The number of employees was reduced through divestments in Spain, closure of a plant in the U.S., and cost improvements in our primary metal business. At the same time, new employees joined Hydro through acquisitions in Spain and Taiwan. After completion of the Vale aluminium transaction in February 2011, the number of employees was about 23,000.

(d)
Greenhouse gas emissions
We have reduced our greenhouse gas emissions by 54 percent since 1990. We have also reduced specific greenhouse gas emissions from our primary production by more than 60 percent since 1990. Total emissions increased in 2010 following Qatalum coming into production.

Annual Report – 2010

HYDRO'S REPORTING 2010

In 2010, Hydro has included its Board of Directors' report as an integral part of its "Annual Report – 2010".

The Board of Directors report, together with the Financial Statements and accompanying notes, fulfills our Norwegian statutory requirements for annual reporting . The remainder of the Annual Report includes additional information about Hydro's business, viability performance, financial and operating performance, risk, shareholder information and corporate governance.

The "Annual report – 2010" is available in PDF format on our website www.hydro.com/reporting2010 in English. The "Board of Directors' report and Financial Statements – 2010" is also available in PDF format as a separate document in both English and Norwegian. All parts of the reports can be downloaded and printed in PDF format, together with more information. Paper copies of the reports can also be ordered on our website.

RESULTS INCREASE SIGNIFICANTLY

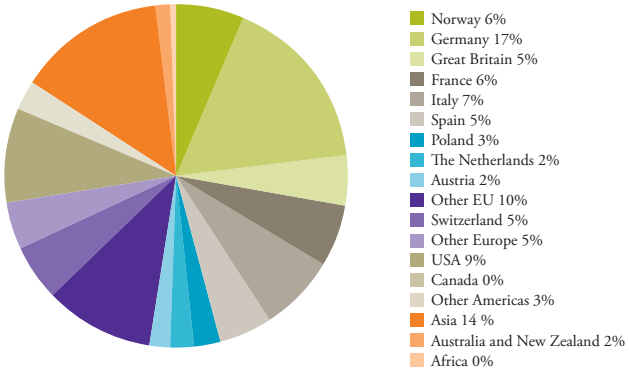
Market recovery and cost initiatives drive improvement

Hydro's underlying results increased significantly in 2010, driven by reduced costs and manning throughout our operations combined with a market recovery which lifted prices and strengthened demand. Underlying EBIT increased to NOK 3,351 million, compared with an underlying loss amounting to NOK 2,555 million in 2009. Overall sales volumes increased by 17 percent, compared with a decline of 18 percent in the previous year, partly reflecting customer restocking activities.

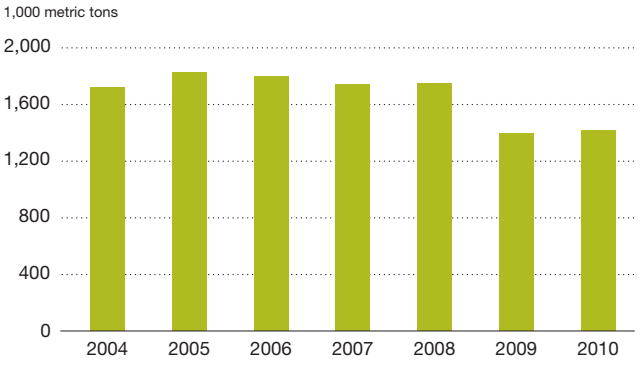
Primary aluminium production amounted to 1.4 million mt and we delivered 2.8 million mt of casthouse products to internal and external customers. Downstream, we shipped roughly 945 kmt of rolled products and 530 kmt of extruded products to the market. Our Energy operations produced 8.1 TWh of renewable hydroelectric power.

Geographical distribution of operating revenues

NOK million 75,754



Primary aluminium production



OUR BUSINESS

Hydro is a resource rich, fully integrated aluminium company with operations in all major activities along the aluminium industry's value chain. The acquisition of Vale's aluminium assets has transformed our alumina position, fully integrated into bauxite, and provided substantial expansion opportunities.

We have modern, cost-efficient primary metal production facilities in Europe, Canada, Australia and Qatar. We are a leading worldwide supplier of value-added casthouse products, such as extrusion ingots, sheet ingots and foundry alloys. In 2010, we delivered 2.8 million metric tons of products to internal and external customers mainly from casthouses integrated with our primary smelters and from an extensive network of specialized remelt facilities close to customers in Europe and the U.S.

We are an industry leader as a supplier to a range of downstream markets, in particular the building, packaging, lithographic, automotive and transport sectors. We deliver high-quality, energy-saving aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns.

With more than 100 years of experience in hydropower, Hydro is the second-largest power producer in Norway, and the largest privately owned producer. We have substantial, self-generated power capacity to support our production of primary metal and are engaged in a number of initiatives to secure competitive power supplies for our aluminium operations and to grow our aluminium business.

Project management competence has been and continues to be crucial to our business. We have a single organization responsible for the execution of all projects, with dedicated teams, defined work processes and supporting systems and procedures.

THE HYDRO WAY

The Hydro Way is our approach to business, an approach that has existed within our company from the beginning and that has underpinned our success over the years.

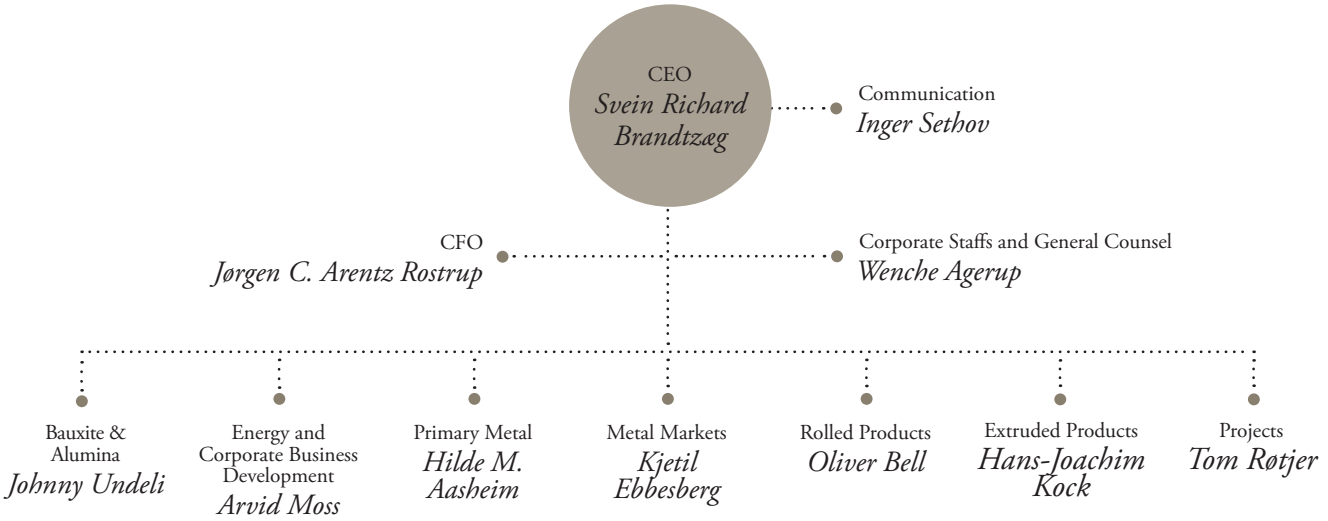
The Hydro Way defines our identity – our distinct set of characteristics – and constitutes a unique way of doing things that differentiates us from other companies. It also describes how we run our business in terms of:

- Our mission
- Our values
- Our talents
- Operating model
- Strategic direction

See page 54 of this report for more information about The Hydro Way.

EMPLOYEES

Hydro's organization is made up of about 23,000 employees in 40 countries. These employees represent great diversity, both in terms of education, experience, gender, age and cultural background. We see this diversity as a significant resource, not least to encourage innovation. To be able to pull together as a team we depend on an efficient organization with common values and goals. Good leadership, proper organizational structure and the right tools are all essential if we are to achieve this. This includes attracting – and retaining – the right employees. See page 62 of this report for more information about our organization.


CEO
Svein Richard Brandtzæg
Communication
Inger Sethov
CFO
Jørgen C. Arentz Rostrup
Corporate Staffs and General Counsel
Wenche Agerup
Bauxite & Alumina
Johnny Undeli
Energy and Corporate Business Development
Arvid Moss
Primary Metal
Hilde M. Aasheim
Metal Markets
Kjetil Ebbesberg
Rolled Products
Oliver Bell
Extruded Products
Hans-Joachim Kock
Projects
Tom Røtjer

The turning point that initiates a new era

Last year was a turning point for Hydro. Partly because we emerged from the crisis as a stronger company. Partly because the completion of Qatalum gives Hydro an important presence in the best quartile of the world's primary aluminium production. But first and foremost because the acquisition of Vale's aluminium operations in Brazil initiates a new era in our history.

After a decade of restructuring, demergers and the sale of businesses in the former industrial conglomerate, Hydro has expanded with determination to become a fully integrated aluminium company.

Transforming transaction

The Vale deal transforms Hydro as a company. One of the world's largest bauxite mines and the largest alumina refinery in the world now supplement the part of the value chain in which we have had been engaged on a much lesser scale. We are proud and happy to welcome to our company close to 4,000 skillful Brazilian colleagues. Brazil, Germany and Norway are now our three largest countries in terms of employees. Furthermore, with the acquisition, Hydro is now long in raw materials for several decades to come, securing new and exciting strategic opportunities.

Not least, Vale has now become Hydro's second-largest shareholder. The deal is more than a transaction. It is a partnership in which Hydro and Vale are creating a common future in aluminium.

Responsible challenger

Agenda 2010 – our two-year program to meet the challenges of the financial crisis – has been successfully implemented. It has now been replaced by a new ambition: To lift Hydro to the highest level of the world's aluminium industry. We want to challenge our competitors, customers, suppliers and decision-makers – and first and foremost, we will challenge ourselves – to be ambitious and innovative in our mission to create more viable societies with aluminium.

We will challenge established truths. We will seek to set new standards in our business development, in our interaction with customers, through our research and development and in how we manage our social responsibility. We will be responsible, reliable and innovative.

We will use our creative and systematic genes to make the impossible possible. At the same time, we will fight complacency. We have demonstrated our ability to act swiftly and forcefully to improve when necessary. We will continue this, not because we are forced to do it, but because we want to stretch a little further every single day.

Raise to a new and higher level

A main priority is to improve competitiveness at our primary aluminium plants which have a high cost level. The implementation of our ambitious program to reduce cash cost by $300 per metric ton is ahead of plan. Completing the Qatalum ramp-up and stabilizing operations in the first quartile are key milestones going forward.

Within our Rolled Products and Extruded Products business areas, we are focusing on margin improvements and high-grading our product portfolio. Areas like building systems and litho are already excellent examples. Rolled Products has emerged from delivering chronic weak results to becoming a solid contributor to cash flow. Aiming for 10 percent return on capital is no longer a far-off vision.

During the crisis we shielded our R&D investments. Now we can begin to harvest from this priority. We want innovation to distinguish all parts of our businesses – in products, processes, marketing, and partnering with our customers. Our future relies to a high degree on our ability to give our metal the properties that our competitors are not able to match.

We intend to make aluminium the preferred material in cars, building façades, in solutions for thermal and photovoltaic solar energy and in heat exchangers. The excellent properties of aluminium, together with booming prices on competing metals like copper, give aluminium the advantage in more and more areas.

Part of the solution

It is not a contradiction in Hydro to create profitability and to promote viability. These are two equally important and fully compatible objectives. In a world that increasingly understands the need to act in order to combat climate change, one can only succeed by adapting processes and products to meet this challenge.

Aluminium and aluminium solutions can contribute to more energy-efficient buildings, lighter vehicles using less

fossil fuel and making fewer emissions, lighter packaging that also makes foods and drinks last longer, and materials for the renewable energy industry. Contributing to reducing the vast global waste of energy and lowering CO_2 emissions is an important corporate responsibility, but to Hydro it is also a formidable business opportunity.

In 2009, we set a target to reduce emissions in our production of primary aluminium from 1.85 metric tons of CO_2 equivalents per metric ton of aluminium to 1.52 in 2013. Our test cells in Årdal, Norway, surpassed the target already in 2010. We are also progressing in the rest of our production, but we recognize that it will be harder to reach the goal the closer we get. Our ambition to develop the next generation of electrolysis technology, with significantly reduced energy consumption, will be important to Hydro's cost level and to the global climate.

In the same spirit, we are aiming to multiply Hydro's production of recycled and remelted aluminium. It certainly is a paradox that a Europe short of energy is exporting so much aluminium "scrap," which is in fact energy in solid form. By taking a lead in reshaping the European aluminium recycling business, we foresee a significant business opportunity for Hydro that can also help Europe save a valuable energy resource.

Challenge responsibly

I am convinced that there is a link between the ability to avoid accidents and the ability to deliver impressive operational and financial results. Being good at the one thing should provide the foundation for being good at the other, too. So I won't hesitate to state that safety should have first priority in Hydro.

After a considerable reduction in recordable injuries in 2009, far more than the 20 percent target, we experienced a setback in 2010. This is not acceptable. Even though plants operated by Hydro did not have any fatal accidents in 2010, two occurred in part-owned companies. And in January this year, an electrician died in France at a Hydro plant under construction. We will work hard to reduce the number of accidents by 28 percent in 2011, and by a further 20 percent every year going forward.

We view social responsibility, too, as an investment rather than a cost. Hydro is affiliated with the UN initiative Global Compact, we take part in the World Business Council for Sustainable Development, and we are evaluated by institutions like the Dow Jones Sustainability Indexes and FTSE4Good.

Being good at doing our homework in advance, being open to dialog and practicing zero tolerance against corruption, are not hindrances to developing the business, but ways to reduce financial, legal and reputational risk. Acting responsibly saves time and money and promotes our reputation, and should be regarded an investment in new business opportunities and long-term partnerships.

Being responsible is even more important as we now manage the extraction of bauxite in areas with vulnerable societies and ecosystems. We shall manage our responsibility according to the highest standards.

It will require vast investments to manage and utilize the resources and opportunities we have acquired in Brazil. Success is not secured merely by closing the deal. It is now that the thorough, long-term and ambitious work begins, to realize the full potential in the Vale investment.

The last couple of years have shown me the outstanding potential within Hydro's people and organization when we have to perform in order to thrive. In 2011, I am excited about what can be achieved when mobilizing the same spirit in a more normal and promising economic climate.

"We are proud and happy to welcome to our company close to 4,000 skillful Brazilian colleagues."

Svein Richard Brandtzæg
President & CEO

Board and Management

Board of Directors

From left to right: Jørn B. Lilleby, Eva Persson, Bente Rathe, Inge K. Hansen, Terje Vareberg, Sten Roar Martinsen, Finn Jebsen, Liv Monica Stubholt, and Billy Fredagsvik.

Corporate Management Board

From left to right: Tom Røtjer, Hilde Merete Aasheim, Hans-Joachim Kock, Kjetil Ebbesberg, Svein Richard Brandtzæg, Jørgen C. Arentz Rostrup, Oliver Bell, Johnny Undeli, Wenche Marie Agerup, and Arvid Moss.

BOARD OF DIRECTORS' REPORT

(Taken from "Financial statements and Board of Directors report – 2010")

Key developments

2010 marks a significant improvement in underlying operating results for Hydro. Having weathered the financial storm, the company has emerged stronger, with leaner operations, and is ready to embark on a new era as a resource-rich and fully integrated aluminium company.

Transforming transaction

Following a decade of restructuring and consolidation, last year marked another turning point in Hydro's industrial development. On February 28, we concluded an agreement to take over the majority of Vale's aluminium business in Brazil. Combining Vale Aluminium with Hydro has resulted in a stronger company, fully integrated into bauxite, with a long alumina position and a preferred standing in a more consolidated market. We have acquired premier assets, including substantial ownership interests in one of the largest bauxite mines in the world, the largest alumina refinery in the world and significant expansion opportunities in this critical part of the value chain. We have also acquired a majority interest in one of the largest aluminium smelters in South America. The acquisition is expected to lower the operating break-even point for Hydro and improve our overall cash-cost position.

To partly finance the transaction, support the company's investment-grade credit rating and improve our capacity to implement future projects, Hydro completed a rights offering strengthening its equity by NOK 10 billion in July 2010. The transaction and the rights issue are expected to enhance our growth potential through new expansion projects and a stronger balance sheet.

The Vale aluminium acquisition represents a transforming transaction that will significantly reshape Hydro in 2011 and the years to come. We see exciting opportunities and potential in the new business portfolio. Hydro's long-standing strategic partnership with Vale, the world's second-largest metals and mining company, will be extended through Vale's 22 percent equity holding in Hydro.

Underlying operating results

Hydro's underlying results increased significantly in 2010, driven by a market recovery which lifted prices and strengthened demand combined with reduced costs and manning throughout our operations. Underlying EBIT increased to NOK 3,351 million, compared with an underlying loss amounting to NOK 2,555 million in 2009. Overall sales volumes increased by 17 percent, compared with a decline of 18 percent in the previous year, partly reflecting customer restocking activities. Although the overall market surplus narrowed, market inventories remained at high levels.

Underlying results improved for our upstream business, mainly due to higher realized aluminium prices and an improved performance from our existing alumina and raw materials business. Qatalum incurred substantial losses in 2010 due to the ongoing ramp-up of the plant and delays caused by a power outage that stopped production requiring a restart of the cells that were in production. Insurance proceeds are expected to cover a majority of the loss relating to the outage. Ramp-up continued but is being hampered by delayed commissioning of the power plant's steam turbines.

Our metal markets and downstream business delivered substantially higher underlying results as sales approached pre-crisis levels. Continued focus on cost-reduction measures and firm operating margins leveraged the positive effects of the market developments. Our rolled products business achieved record results for the year with underlying EBIT in excess of NOK 900 per metric ton, substantially higher than all of the previous four years.

Our energy business contributed to the improved underlying EBIT with solid operating results.

Priorities for 2011

Hydro will take the further steps necessary to secure and expand on the improvements achieved in the past year and position the company to take full advantage of the new business opportunities inherent in the Vale transaction including:

- Improving Hydro's safety performance
- Ensuring the Vale integration process and improving performance
- Finalizing the ramp-up and stabilizing operations at Qatalum
- Executing the extended smelter cost-reduction program of USD 300 per mt by end of 2013
- Capturing opportunities midstream and downstream
- Increasing the value of our energy assets and competence
- Developing our alumina business through expansion projects in Brazil
- Maintaining the viability of our Norwegian and global smelter portfolio
- Maintaining firm capital discipline

Our TRI rate (total recordable injuries per million hours worked) increased by 27 percent to 3.7 in 2010. As a result, we did not reach our targeted reduction of 20 percent. We had no fatal accidents in our consolidated operations in 2010, but suffered two fatal accidents in our partly owned activities. In January 2011, we experienced a fatal accident during installation work at a plant under construction in France. We have targeted a TRI rate of 2.7 for 2011. Safety performance is considered a key operating objective and is a factor in determining compensation for our management, including the President & CEO.

We have for several decades monitored our impact on the environment as part of a holistic approach to value creation. Our climate strategy includes a set of priorities to reduce the environmental impact of our production activities as well as to take advantage of business opportunities by enabling our customers to do the same. Since 1990, we have reduced specific greenhouse gas emissions from our primary production by more than 60 percent. Our goal is a specific direct emission of

1.52 mt CO2e/mt aluminium in 2013. In 2010, we achieved more than our intermediate target.

Successful integration of the Vale acquisition will be Hydro's top priority in 2011, building a foundation for secure and profitable operations and a basis for extracting value through improving efficiency and operational excellence. A main focus in the coming years will be related to capacity utilization and efficiency of operations, including the level of integration between the bauxite mine and alumina refinery. Safe, sustainable practices will be at the core of our activities, promoting responsible and cost-effective operations. As we integrate the new operations, we will also emphasize social responsibility, including working conditions, combating corruption and engaging with stakeholders as we do in our existing operations. Hydro will implement appropriate HSE and CSR strategies reflecting our new, major presence in Brazil based on our core values reflected in The Hydro Way.

We have a solid track record of repositioning our smelter system, including closures of higher-cost and less-competitive operations and our investment in Qatalum, which is expected to be among the most efficient smelters in the world. The temporary setback due to the power outage at Qatalum was a disappointment in 2010. However, the rapid and effective response by the local organization, in collaboration with Hydro and Qatar Petroleum, succeeded in minimizing losses and securing the ongoing ramp-up of the plant. Finalizing Qatalum will be a key priority in 2011, followed by a continuing focus on efficient operations and cost control. It will also be at the top of our agenda to follow through with the tougher targets for sustainable cost reductions within our fully owned smelters. By the end of 2010, we achieved a reduction of roughly USD 50 per mt. We aim to achieve around 60 percent of the total targeted savings in 2011.

We plan to utilize the flexibility in our midstream and downstream businesses to capture opportunities following the market recovery, and to secure the profitability of these operations through effective management of operating margins and continued focus on costs. The successful execution of our marketing plan for the full production volumes of Qatalum will be an important priority in 2011. We intend to increase our aluminium recycling activities in line with our position as the leading supplier of casthouse and semi-fabricated products. We will continue to evaluate selected growth opportunities within our high-performance downstream sectors. Our building systems activities have gained market share despite the significant slowdown in southern Europe and we are at the forefront in the development of energy-efficient buildings. We will continue to expand these operations.

Maintaining and increasing the value of our energy assets is an important priority for Hydro. Our main focus in 2011 will be the successful execution of several significant upgrades and expansions in our project portfolio including Rjukan, Holsbru, Herva and Vasstøl.

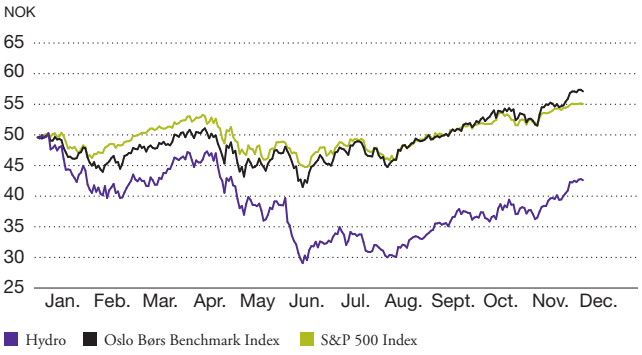
Hydro is committed to maintaining the viability of its global smelter system, which is heavily dependent on securing adequate supplies of competitively priced energy. We have a history of substantial investment during the last decade including expansions, upgrading and research and development. This includes roughly NOK 18 billion in our aluminium and energy business in Norway (excluding petroleum activities). Identifying opportunities for long-term, competitive energy sourcing to protect and develop our portfolio, taking into consideration license reversion in Norway and emission legislation in general is an important priority for Hydro.

We aim to provide our shareholders competitive returns compared to alternative investments in peer companies, and are maintaining our dividend policy of paying 30 percent of net income in ordinary dividends over the business cycle. We will continue to focus on securing our financial position through exercising firm capital discipline to secure an optimal level of operating capital, and to maintain a sustainable level of capital expenditures safeguarding our operating portfolio. Sufficient cash generation and preserving our investment grade credit rating will be key priorities.

Investor information

Hydro's share price closed at NOK 42.61 at the end of 2010. The return for 2010 was negative by NOK 6.10 per share, or 12.5 percent.

Share price development in 2010



Due to the strong commitment of returning cash to shareholders, improved earnings and market outlook as well as Hydro's strong financial position and cash generating capabilities, the board of directors has proposed a dividend of NOK 0.75 per share for approval by the Annual General Meeting on May 5, 2011.

Financial and underlying operating results

Financial results for 2010

EBIT for Hydro amounted to NOK 3,184 million, compared with a loss of NOK 1,407 million 2009. EBIT included negative effects of NOK 166 million from unrealized gains and losses relating to LME, power, currency and raw material

derivative contracts and metal effects in our Rolled Products business in 2010. Corresponding effects were positive in 2009 amounting to NOK 2,585 million. The magnitude of these recurring effects depends on changes in market values, which have been significant.

Other significant items impacting EBIT include gains and 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 317 million and NOK 956 million for 2010 and 2009, respectively, together with divestment gains of NOK 74 million in 2010 and divestment losses of NOK 684 million in 2009. These also included other items amounting to a net positive effect of NOK 242 million in 2010 and NOK 204 million in 2009.

Net financial income for the year amounted to NOK 522 million compared with NOK 2,774 million in 2009. These amounts included net foreign currency gains of NOK 513 million and NOK 2,774 million for 2010 and 2009, respectively. The currency gains related primarily to intercompany balances denominated in Euro. The gains have no cash effect

Key financial information NOK million, except per share data	**Year 2010**	Year 2009
Revenue	**75 754**	67 409
Earnings before financial items and tax (EBIT)	**3 184**	(1 407)
Items excluded from underlying EBIT	**167**	(1 148)
Underlying EBIT	**3 351**	(2 555)
Underlying EBIT :		
Primary Metal	**1 198**	(2 556)
Metal Markets	**321**	(83)
Rolled Products	**864**	26
Extruded Products	**444**	(67)
Energy	**1 416**	1 240
Other and eliminations	**(893)**	(1 114)
Underlying EBIT	**3 351**	(2 555)
Net income (loss)	**2 118**	416
Underlying net income (loss)	**1 852**	(3 066)
Earnings per share [1]	**1.33**	0.24
Underlying earnings per share [1]	**1.14**	(2.50)
Financial data:		
Investments	**6 231**	5 947
Adjusted net interest-bearing debt [2]	**(6 427)**	(15 645)
Key Operational information [3]		
Primary aluminium production (kmt)	**1 415**	1 396
Realized aluminium price LME (USD/mt) [4]	**2 113**	1 698
Realized aluminium price LME (NOK/mt) [4]	**12 674**	10 764
Realized NOK/USD exchange rate	**6.00**	6.34
Metal Markets sales volumes to external market (kmt) [5]	**1 717**	1 468
Rolled Products sales volumes to external market (kmt)	**945**	794
Extruded Products sales volumes to external market (kmt) [6]	**529**	463
Power production (GWh)	**8 144**	7 897

1) "Earnings per share" and "Underlying earnings per share" are computed using Net income and Underlying net income attributable to Hydro shareholders, and using the weighted average number of ordinary shares outstanding adjusted for the discount element in the rights issue completed in July 2010. There were no significant diluting elements.
2) 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.
3) Operating statistics includes proportionate share of production and prices in equity-accounted investments.
4) Including the effect of strategic LME hedges (hedge accounting applied).
5) Excluding ingot trading volumes.
6) Excluding volumes for Automotive Structures divested in 2009: 35 kmt. Volumes have also been adjusted to include extrusion shipments made to Automotive Structures that were eliminated earlier as internal transactions in order to make prior periods comparable following the divestment.

and are offset in equity by translation of the corresponding subsidiaries during consolidation.

Income taxes amounted to a charge of NOK 1,588 million in 2010, compared with a charge of NOK 951 million in 2009. Income tax expense for 2010 was roughly 43 percent of pre-tax income. The tax rate for the year was influenced by the effects of power surtax and results from equity-accounted investments, which are recognized net of tax.

Net income amounted to NOK 2,188 million in 2010, compared with NOK 416 million in 2009.

Underlying operating results

To provide a better understanding of Hydro's underlying performance, the following discussion of operating performance excludes certain items from EBIT (earnings before financial items and tax) and net income, such as unrealized gains and losses on derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or are not expected to be incurred on an ongoing basis.

Underlying EBIT for Primary Metal increased significantly for 2010 from a substantial loss in 2009. The improvement was mainly driven by higher realized aluminium prices and an improved performance for Hydro's alumina and raw materials business. Underlying results for Alunorte increased mainly due to significantly higher LME-linked alumina prices. Underlying results and margins for our alumina commercial activities improved substantially partly influenced by the increase in LME prices. Significantly higher aluminium prices contributed about NOK 2.5 billion to underlying EBIT for Primary aluminium compared to 2009. Higher volumes and product premiums had a positive impact of about NOK 940 million on underlying EBIT. Variable costs increased by about NOK 400 million, mainly due to higher alumina costs. Fixed costs declined due to further cost-improvement measures. Operating losses for Qatalum increased in 2010 due to the ongoing ramp-up of production at the plant and to the negative effects of the power outage.

Underlying EBIT for Metal Markets increased in 2010 compared to 2009, which included substantial net negative currency and ingot inventory valuation effects. Operating results declined, mainly due to lower contribution from resale of third-party metal products and lower trading margins. Total metal product sales improved significantly from 2009, reflecting improved demand for all products and entry into new markets. Our remelt operations again delivered good operating results, however, the positive results were largely offset by higher raw material prices. Operating results from our sourcing and trading activities declined from 2009.

Rolled Products achieved record results for 2010. Continued focus on cost and firm operating margins contributed strongly, together with a significant increase in sales volumes as the market recovered.

Underlying EBIT for Extruded Products increased significantly in 2010, compared with an underlying loss in 2009, driven by higher volumes and cost reductions. Volumes increased for all sectors, excluding building systems, impacted by customer restocking and the general economic recovery. Volumes remain, however, below pre-crisis levels. Cost-improvement programs initiated as a result of the market downturn had a positive impact on all operating units during the year.

Underlying EBIT for Energy increased for the year mainly due to considerably higher spot prices.

Liquidity, financial position, investments

Cash and short-term investments exceeded interest bearing debt by roughly NOK 11.0 billion at the end of 2010.

Hydro's adjusted debt/equity ratio, defined as net interest-bearing debt divided by adjusted equity, was 0.11 at the end of the year. The adjustments are 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.

In 2010, cash provided by operating activities increased significantly to NOK 6.4 billion compared to NOK 4.5 billion in the previous year, including a negative contribution from working capital of NOK 2.0 billion. The improvement was mainly due to increased aluminium prices, higher sales volumes and lower operating costs. Higher volumes and prices also contributed to the increase in working capital. See the "Consolidated statement of cash flows" later in this report for a reconciliation of net cash provided by operating activities to net income. Operating cash was sufficient to cover operating requirements and investment activities of NOK 6.1 billion in 2010. Investments were mainly limited to maintenance activities to safeguard our production assets in addition to NOK 3.5 billion of investments in Qatalum.

Net cash inflow amounted to NOK 8.2 billion for the year, increasing cash, cash equivalents and bank overdraft from NOK 2.5 billion at the end of 2009 to NOK 10.7 billion at the end of 2010. In addition to cash provided by operating activities, the main source of cash was net proceeds of NOK 9.9 billion from the rights issue completed in July 2010.

A payout of USD 1.1 billion was made in connection with the acquisition of Vale Aluminium in February 2011.

Hydro's adjusted funds from operation/adjusted net interest-bearing debt ratio was 1.18 for 2010, well above our minimum target of 0.40. Adjusting for the payment made to Vale, the ratio would continue to meet our minimum target.

Hydro expects that cash from continuing operations, together with its liquidity holdings and available credit facilities, will be more than sufficient to cover our planned capital expenditures, operational requirements, and financing activities in 2011.

Outlook

Demand for metal products (extrusion ingot, sheet ingot, foundry alloys and wire rod) in Europe and North America remained strong during 2010 following a healthy recovery in the beginning of the year. Demand for foundry alloys improved in Northern Europe and in Germany, and was also stronger in export markets in Asia. Demand for primary aluminium is expected to grow by about 7 percent in 2011, following the strong increase in 2010. The market is expected to be within a manageable surplus in 2011.

European flat-rolled products consumption increased substantially in 2010, compared with the previous year. Continued strong demand is expected in the first half of 2011. Demand in North America also increased. The U.S. outlook for the early part of 2011 has turned more positive as consumer confidence has improved.

In Europe, demand for extruded aluminium products was substantially higher in nearly all geographic segments, in particular Northern Europe. Demand in Southern Europe was somewhat lower. In North America, demand increased more moderately. Developments in South America continued to be positive, particularly in Brazil. Overall market demand is expected to continue at current levels in Europe and the U.S., with the construction sector being the most challenging market segment.

Total power production in Norway amounted to 121 TWh, which was 9 TWh lower than 2009, due to lower inflow and reservoir levels. Hydro's water and snow reservoirs were lower than normal at the end of January and also lower than the corresponding period in 2009. Due to the high spot-price levels, Hydro's power production during the first quarter of 2011 is expected to be at same level as for the fourth quarter of 2010.

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 the corporate level. Policies and procedures have been established to manage risk. Hydro's Board of Directors regularly reviews and evaluates the overall risk-management system and environment within Hydro.

Hydro faces many risks and uncertainties within its worldwide business operations and the global marketplace. We are exposed to changing economic and market conditions and may not succeed in reducing the cost of our asset portfolio sufficiently to compensate for future market declines. The Vale aluminium acquisition represents a significant portion of Hydro's capital employed and we face risks and challenges integrating the operations into our existing business. 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 results. Hydro's reported and operating results and competitive position are influenced by developments in currency exchange rates and in particular the U.S. dollar, Brazilian Real, Euro and Norwegian krone. Hydro is exposed to increasingly onerous legislation on reducing CO_2 emissions. Major accidents, legal proceedings or investigations and incidents relating to HSE and corporate responsibility could impose significant costs and substantially damage the company's reputation.

Hydro's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong creditworthiness. 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, for example, in connection with the acquisition of the Vale aluminium assets. Forward U.S. 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-forward contracts were outstanding at the end of 2010.

Controls and procedures

Hydro follows the Norwegian Code of Practice for Corporate Governance of October 2010. A detailed description of Hydro's compliance with this code is presented on page 124. Information regarding the company's shareholder policy can be found on page 107.

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

In 2010 the research and development costs recognized as an expense amounted to NOK 543 million compared to NOK 690 million in 2009. The reduction of the expensed R&D costs is partly offset by an increase in capitalized development costs. Divestment of Hydro's automotive structures activities in 2009 also involved a reduction in R&D expenses.

The greater part of our R&D expenses goes to our in-house research organization, while the remainder supports work carried out at external institutions. See note 14. We have a number of R&D centers in Europe and a Technology & Competence Center in 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 & CEO Svein Richard Brandtzæg.

Hydro's proprietary electrolytic process is one of the most efficient in the world. The smelters in Sunndal and Qatalum are using the newest technology. We work continuously to develop the next generation technology, HAL4e, emphasizing cell productivity as well as reduced energy consumption and climate gas emissions from the production process.

R&D in Primary Metal is important to strengthen the competitiveness through improving the cost position at our smelters. Prioritized tasks are operational support, implementation of new technology in existing activities as well as development of next generation electrolysis technology.

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. The energy neutrality is achieved by using heat pumps, integrated photovoltaic systems and intelligent building design. We have constructed in Hydro three such buildings - in Germany, France and India.

Work environment

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

Registered sick leave was 3.3 percent in 2010, down from 3.7 percent in 2009. 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 4.4 percent in 2010, compared with 5.1 percent in the previous year. Sick leave among male employees was 4.2 percent, down from 4.9 percent in 2009, while sick leave among females decreased from 6.0 percent in 2009 to 5.5 percent in 2010.

Our TRI rate (total recordable injuries per million hours worked) increased by 27 percent in 2010. Consequently, we did not reach our target of a 20 percent decrease. We had no fatal accidents in our consolidated operations, but two of our part-owned activities suffered one fatal accident each. In addition, in January 2011, a contractor employee lost his life in an accident during installation work at a new plant in France. As a result, we will not reach our 2011 target of no fatal accidents. Our TRI target of 2.7 in 2011, with no fatal accidents, is one of the President & CEO's personal KPIs and part of his bonus scheme.

We continue following up all high-risk incidents through thorough analyses and risk evaluations to determine how fatalities can be avoided. To further systematize our efforts, a fatality-prevention program was started in 2010. The program is rooted in risk assessments throughout the company, improved sharing of learning and regular audits – in addition to the aforementioned investigation of high-risk incidents.

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 to do the same. Some of the measures we pursue include:

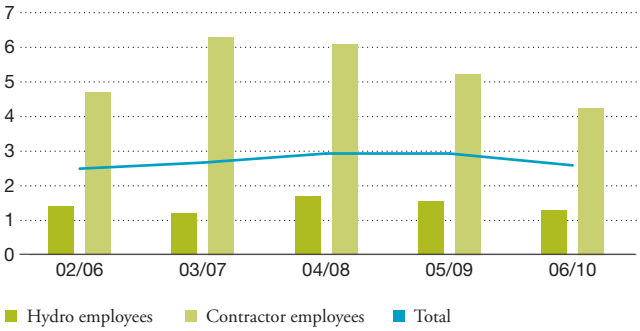
- Using viable energy sources
- Reducing energy consumption and emissions in production
- Reducing CO_2 emissions through the use of our products
- Increasing the recycling of aluminium

Total greenhouse gas emissions from our ownership equity have decreased from 12.5 million metric tons (mt) CO_2 equivalents (CO2e) in 1990 to 5.8 million mt CO2e in 2010, including 0.9 million mt CO2e from the new Qatalum gas-fired power plant. This is a 54 percent decrease. Total emissions increased in 2010 following the start of production at Qatalum. With Qatalum coming into full production and the acquisition of Vale's aluminium business in Brazil, Hydro's total greenhouse gas emissions will increase further in 2011.

During the same period, we have also reduced specific greenhouse gas emissions from primary production by more

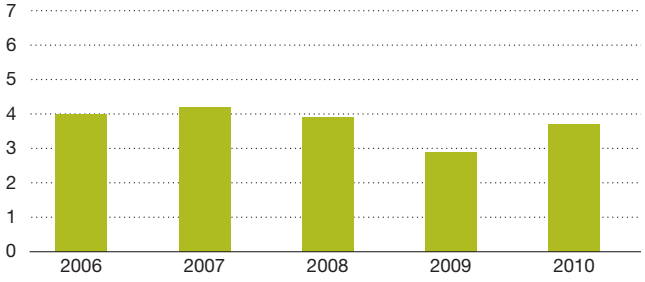
Fatal accidents

Per 100 million hours worked, five-year rolling average

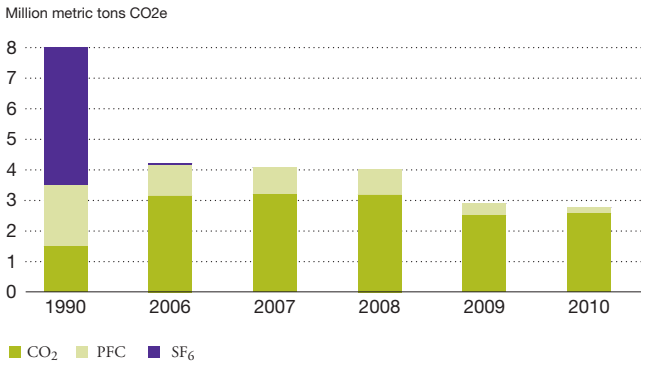


Total recordable injuries

Per million hours worked



Direct greenhouse gas emissions from Hydro's consolidated activities



than 60 percent. Our goal is a specific direct emission of 1.52 mt CO2e/mt aluminium in 2013. With performance of 1.63 mt CO2e per mt aluminium, we outdid our 2010 ambition of 1.73. The performance of our newest technology, HAL4e, was even better, 1.5 mt CO2e per mt aluminium in 2010.

In 2010, we developed a new recycling strategy. It is our ambition to grow faster than the market in recycling, assuming a leading position also in this part of the value chain. By 2020 our ambition is to annually recover 1 million mt of contaminated and post-consumer scrap. The first step is to improve our existing capacity utilization. During 2010 we have increased the recycling volume by about 30 percent to more than 260,000 mt. Our ambition for 2011 is to further lift our recycling volume and improve capacity utilization of existing assets.

Spent potlining (SPL) from the electrolytic cells used in primary aluminium production is defined as hazardous waste. In 2010, Hydro produced 19,768 mt of SPL, a 30 percent decrease from 2009. The reduction was mainly due to the closure of the Søderberg lines in Norway and reduced production in Neuss, Germany. In total, we produced 247,191 mt of waste, of which 45 percent was classified as hazardous waste.

Systematic mapping of our water situation in 2010 showed that about 6 percent of our water consumption took place in water-stressed areas, according to the definition used by the World Business Council for Sustainable Development. Our consolidated operations had only minor water consumption in water-scarce areas in 2010. Freshwater considerations will be taken into account in the development of our new environmental strategy in 2011.

Emergency preparedness

Hydro holds and safeguards infrastructure and functions which on local and regional levels 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 is our main means to prevent corruption and human rights violations connected to our activities. The program includes risk mapping, tools and training and was last updated in 2009.

Hydro supports the principle of freedom of association and collective bargaining, and has a long tradition in maintaining a good dialog with employee organizations. As an employer, owner and purchaser, 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 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

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

NOK million	**2010**	2009	2008	2007	2006
Australia	**-**	(0.7)	0.4	6	-
Brazil	**98**	160	139	89	127
Jamaica	**0.02**	19	90	81	79

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, license fees, rental fees, entry fees, etc. The reporting is based on the principles in the Extractive Industries Transparency Initiative (EITI). The table is included in auditor's review of Hydro's viability performance reporting 2010, but not in the financial audit.

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 and report voluntarily on payments to host governments in connection with exploration and production of bauxite and alumina based on the principles in the Extractive Industries Transparency Initiative. We use the Global Reporting Initiative (GRI) G3 Guidelines for voluntary reporting of sustainable development. See www.hydro.com/gri

Employees

Hydro had 18,894 employees at the end of 2010, a decrease from 19,249 in 2009. The reduction was primarily a result of restructuring processes initiated in 2008 and 2009 as well as the NOK 300 per metric ton aluminium cost-saving program in our primary metal business.

We 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.

After the closing of the Vale transaction in February 2011 Hydro has about 23,000 employees. We have more than 4,000 employees each in Germany, Brazil and Norway. Sixty-seven percent of our employees are in Western Europe. In the U.S. we have 1,500 employees and about as many in Asia and Australia combined. 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 most business area and sector management teams, and we are aiming at further diversity at all levels.

An example is our extrusion business. The business area has 9,500 employees, and its top management consists of 54 leaders. This includes all members of sector management teams as well as the managing directors of strategic units. These 54 leaders represent 16 nationalities. Nine – or 17 percent – are women. Women comprise 50 percent of Extrusion Eurasia's sector management team and one-third of sector management in Extrusion North America. It is our ambition to increase the total proportion of female leaders even more.

In 2010, around 100 new employees were recruited to the Norwegian part of the organization, compared to 70 in 2009 and 450 in 2008. Of these, 20 percent were women in 2010, compared to 21 percent in 2009. Fifteen percent of Hydro's employees globally, but excluding the U.S., are women, compared to 19 percent in our Norwegian part of the organization.

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. An example is our rolling mill in Grevenbroich, Germany. Some positions are reserved for disabled employees, and accessible work places are adapted for both employees and apprentices.

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 in the Norwegian business are reviewed on a regular basis. No significant general gender-related differences have been found. See also note 11 for further information on our compensation system.

After two tough years for Hydro's employees, we acknowledge their efforts to strengthen the company's performance in a new economic setting. We are also glad to welcome nearly 4,000 competent Brazilian employees.

Share of non-Norwegian leaders

Share of women leaders

The total share of women at all levels in Hydro (excluding U.S.) was 15 percent in 2010.

Board developments

The board has an annual plan for its work. It includes recurring topics such as a review of board procedures, competency, priorities, collaboration with the company's management, strategy review, business planning as well as HSE and CSR, including risk and compliance oversight. The board has also used significant time on the Vale transaction. This included strategic positioning, valuation, negotiation mandate for the transaction and recommendations for Hydro's general meeting of shareholders and corporate assembly. The board visited Hydro's smelter in Høyanger, Norway, and participated in the opening of Qatalum in Qatar. The latter visit included follow-up of both Qatalum and working conditions for the construction workers. The board was also involved in evaluating market developments and Hydro's capacity adjustments, including continuous evaluation of curtailed capacity.

In 2010, the board also made a self-assessment and a separate assessment of the board's chairperson. Both were presented to the nomination committee.

The board held 21 meetings in 2010 with an attendance of 94 percent. The compensation committee held five meetings and the audit committee eight meetings.

Liv Monica Bargem Stubholt and Eva Persson were elected new board members on May 7, replacing Heidi M. Petersen who stepped down as per the same date, and Grete Faremo who stepped down from the board on October 21, 2009. As per February 28, 2011 Tito Botehlo Martins Jr. entered the board of directors as a 10th board member.

Net income and dividend - Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had net income of NOK 1,712 million in 2010 compared with a net loss of NOK 290 million in 2009.

Due to the strong commitment of returning cash to shareholders, improved earnings and market outlook as well as Hydro's strong financial position and cash generating capabilities, the board of directors has proposed a dividend of NOK 0.75 per share for approval by the Annual General Meeting on May 5, 2011.

Unrestricted equity after the proposed dividend payment amounted to NOK 26,622 million at the end of the year.

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, March 16, 2011

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Jørn B. Lilleby
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
Board member

Svein Richard Brandtzæg
President and CEO

01:
Overview

22,734
EMPLOYEES

after the acquisition of Vales aluminium assets on February 28, 2011, transforming Hydro into a fully integrated and truly global aluminium company.

QUICK OVERVIEW

Hydro's underlying results increased significantly in 2010, driven by reduced costs and manning throughout our operations combined with a market recovery which lifted prices and strengthened demand. Underlying results improved for our upstream business mainly due to higher realized aluminium prices and improved performance from our existing alumina and raw materials business. Our mid and downstream business delivered substantially higher underlying results than in 2009 as sales approached pre-crisis levels. Record results were achieved by our rolled products business. Our energy business contributed to the improved underlying EBIT with solid operating results.

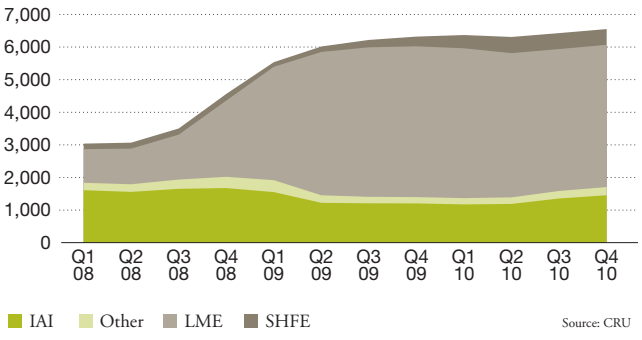
On May 2, we announced an agreement to take over the majority of Vale's aluminium business in Brazil. To partly finance the transaction, support the company's investment-grade credit rating and improve our capacity to implement future projects, Hydro launched a rights offering to strengthen its equity by NOK 10 billion.

Encouraging market signals – aluminium price recovers

LME 3-month in USD/metric tons

LME inventories stable, but remain high

World reported primary aluminium inventories, 1,000 metric tons



KEY DEVELOPMENTS

Hydro's underlying results increased significantly in 2010, driven by reduced costs and manning throughout our operations combined with a market recovery which lifted prices and strengthened demand. Underlying EBIT increased to NOK 3,351 million, compared with an underlying loss amounting to NOK 2,555 million in 2009.[1)] Overall sales volumes increased by 17 percent, compared with a decline of 18 percent in the previous year, partly reflecting customer restocking activities. Although the overall market surplus narrowed, inventories remained at high levels.

Following a decade of restructuring and consolidation, last year marked another turning point in Hydro's industrial development. On February 28, we concluded an agreement to take over the majority of Vale's aluminium business in Brazil. Combining Vale Aluminium with Hydro has resulted in a stronger company, fully integrated into bauxite, with a long alumina balance and a preferred position in a more consolidated market. We have acquired premier assets, including substantial ownership interests in one of the largest bauxite mines in the world, the largest alumina refinery in the world and substantial expansion opportunities in this critical part of the value chain. We have also acquired a majority interest in one of the largest aluminium smelters in South America. The acquisition is expected to lower our operating break-even point and improve our overall cash-cost position.

To partly finance the transaction, support the company's investment-grade credit rating and improve our capacity to implement future projects, Hydro launched a rights offering to strengthen its equity by NOK 10 billion.

The transaction and the rights issue are expected to enhance our growth potential through new expansion projects, a stronger balance sheet and an enhanced strategic relationship with Vale, the world's second-largest mining company, in Brazil.

Underlying results improved for our upstream business mainly due to higher realized aluminium prices and improved performance from our existing alumina and raw materials business. We continued to focus on reducing the operating cost of our smelter portfolio. Following the curtailment of roughly 26 percent of high-cost primary capacity early in the previous year, Hydro launched a phased cost-improvement program for its fully owned smelters targeting improvements of USD 300 per metric ton. The program was ahead of schedule with roughly USD 50 per mt achieved by the end of 2010 and a further USD 125 per mt targeted for 2011. The remainder of the improvements are expected to be achieved by the end of 2013.

In August, a power outage stopped production at Qatalum requiring a restart of most of the cells in operation. Losses increased in 2010 due to lost production and sales but were partly offset by insurance proceeds of approximately NOK 210 million included in underlying EBIT for the year. Insurance proceeds are expected to cover a majority of the loss relating to the outage. Ramp-up was restarted in the middle of September with 321 cells fully operational at the end of the year. Final ramp-up to full production capacity will be hampered by delayed commissioning of the power plant's steam turbines. Qatalum is expected to reach full production from June 2011.

Our metal markets and downstream business delivered substantially higher underlying results than in 2009 as sales approached pre-crisis levels. Continued focus on cost-reduction measures and firm operating margins leveraged the positive effects of the market developments. Our rolled products business achieved record results for the year with underlying EBIT in excess of NOK 900 per mt, substantially higher than all of the previous four years.

Our energy business contributed to the improved underlying EBIT with solid operating results.

1) All financial and operating information relating to Hydro's results for 2010 is presented on the basis of our business and assets excluding the Vale acquisition.

Primary Metal cost improvement program

Safety remains a top priority

TRI rate

The rights offering was successfully completed on July 16, and the transaction with Vale was concluded on February 28, 2011. Please refer to the Information Memorandum and Prospectus dated June 2, 2010, and June 21, 2010, respectively, for further information. Please also see the section on the Vale aluminium acquisition included later in this report. Hydro has hedged the majority of the net aluminium price exposure in the acquired business until the end of 2011 at about USD 2,400 per mt.

Net cash generated from operating activities amounted to NOK 6.4 billion for the year. Investments amounted to NOK 6.2 billion including roughly NOK 3.5 billion relating to Qatalum. Hydro had a net cash position amounting to NOK 11 billion at the end of the year including roughly NOK 10 billion from the rights offering. A payout of USD 1.1 billion was made in February 2011 in connection with the completion of the Vale aluminium acquisition.

Hydro's board of directors proposes to pay a dividend of NOK 0.75 per share for 2010 reflecting the company's strong commitment to provide a cash return to its shareholders. The decision is based on improved earnings and market outlook as well as Hydro's strong financial position and cash generating capabilities.

STRATEGIC DIRECTION

The Vale acquisition represents a transforming transaction that will significantly reshape Hydro in 2011 and the years to come. We see exciting opportunities and potential in the new business portfolio. Integrating the new operations into our existing business will be a top priority in 2011 in addition to lifting the operational performance of the acquired assets. [2)]

We have a solid track record of continually upgrading our smelter system. This includes closures of higher-cost and less-competitive operations, and our investment in Qatalum, which is expected to be among the most efficient smelters in the world. Completing the effective ramp-up of Qatalum will be a key priority in 2011 followed by a strong focus on efficient operations and cost control. Following through with tougher targets for sustainable cost reductions within our smelter portfolio will be at the top of our agenda.

We plan to utilize the flexibility in our metal markets and downstream businesses to capture opportunities following the market recovery, and to secure the profitability of these operations through effective management of operating margins. We intend to maintain the efficiencies we have achieved through fixed cost reductions. We will also continue to evaluate selected growth opportunities with our high-performance sectors.

Maintaining and increasing the value of our energy assets is an important priority for Hydro. Our main focus in 2011 will be the successful execution of several significant upgrades and expansions in our project portfolio including Rjukan, Holsbru, Herva and Vasstøl.

We aim to provide our shareholders competitive returns compared to alternative investments in peer companies, and are maintaining our dividend policy of paying 30 percent of net income in ordinary dividends over the business cycle. We will continue to focus on securing our financial position through exercising firm capital discipline to secure an optimal level of operating capital and to maintain a sustainable level of capital expenditures safeguarding our operating portfolio. Sufficient cash generation and preserving our investment-grade credit rating will be key priorities.

Following many years of substantial improvement, our recordable injury rate increased in 2010, compared with the previous year. Although disappointing, we remain committed to safety in all our operations. We have targeted a TRI rate of 2.7 for 2011.

2) See separate section of this document "Vale aluminium acquisition" for more information relating to the Vale transaction.

PRIMARY METAL

Key developments

Underlying EBIT for Primary Metal increased to NOK 1,198 million from losses of NOK 2,556 million in the previous year, heavily influenced by higher realized aluminium prices and improved performance for Hydro's alumina and raw materials business. Underlying results for Alunorte were positively influenced by substantially higher realized alumina prices due to higher LME prices. Increased alumina costs had a negative impact on underlying EBIT for primary aluminium, together with higher operating losses at Qatalum due to the ongoing ramp-up of production and negative effects of the power outage at the plant in August. Fixed costs declined further in 2010.

Total operating costs increased somewhat for our smelters following a significant decline in the previous year, which was impacted by closures and curtailments of higher-cost smelters and lower raw material costs due to the market decline. In the autumn of 2009, Hydro launched a cost improvement program for its wholly owned smelters in order to reduce conversion costs by USD 100 per metric ton of primary aluminium produced by the end of 2011, compared to the 2009 level. The program was ahead of schedule with roughly half of the improvement realized by the end of 2010. During 2010, the improvement ambition was increased to USD 300 per mt by the end of 2013.

Underlying results were impacted by increased losses for Qatalum relating to lost production and sales due to a power outage which stopped production at the plant. In addition, write-downs of NOK 98 million primarily relating to damaged metal in the cells were recognized but excluded from underlying EBIT. Results for the year included NOK 300 million relating to insurance reimbursements, of which NOK 210 was included in underlying EBIT.

Strategy

A key ongoing strategic focus is to continually improve our competitive position by increasing the efficiency of our smelter system. Operational excellence is the foundation for realizing performance improvements within our existing portfolio of production assets, while continually addressing the cost challenges facing our business. In order to ensure the development of our operations over time, we focus on business opportunities that will further enhance our cost position. In addition, strengthening our technological leadership contributes to reducing emissions and lowering our operating costs, while also improving our attractiveness as a partner for world-class projects within an industry with sound long-term fundamentals.

Improve our average smelter-cost position

In recent years, we have completed major programs aimed at lowering the cost of our primary aluminium capacity by closing less-competitive production in our European system and replacing it with new capacity in larger and more efficient smelters. These efforts, together with the more recent shutdowns and curtailments of substantial additional higher-cost capacity, mean that we are better prepared to meet challenges ahead. To further improve the competitiveness of Hydro's wholly-owned smelters, our improvement ambition was increased to USD 300 per mt. We expect to realize the savings through improved efficiency and reduced costs in areas such as purchasing, logistics, technology, manning and organization. In addition, we aim to obtain a further improvement from margins on metal products from smelter casthouses. The program is expected to be achieved by the end of 2013. Another key priority in the coming year is the successful ramp-up of the Qatalum smelter.

Optimize our position in alumina, power, carbon and other key raw material costs

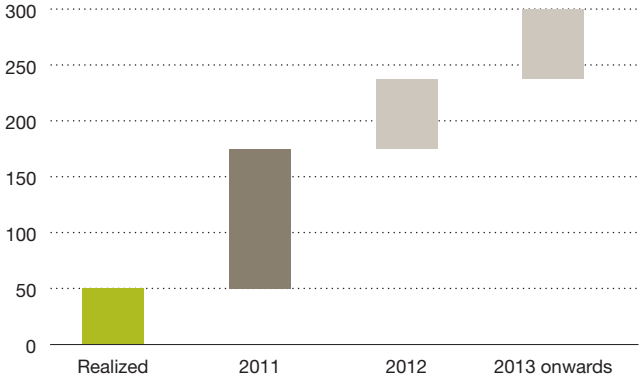
With the acquisition of the aluminium assets of Vale, we have secured our equity alumina coverage and captured the value of

Improvement program increased to USD 300 per mt

Improvement initiatives:

- Operational improvements
  - Improved current efficiency
  - Reduced power consumption
  - Reduced anode consumption
- Fixed cost reductions and lean operations
- Further operational improvements
- Technology costs/spin-offs
- Investments
- Maintenance and relining
- Procurement
- Logistics
- Organization and manning
- Casthouse product margin

Annual cost savings compared to 2009:



this important part of the value chain. We also have an industry-leading captive power position. We are increasing our focus on the procurement and supplier portfolio for our carbon requirements and seeking increasing efficiencies in the activities driving other operating costs.

Focus on upstream growth projects

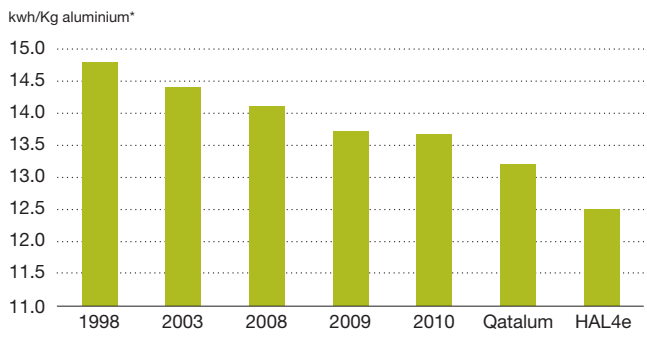
Our growth efforts are directed toward projects that improve Hydro's cost position in the industry, while maintaining a strong focus on sustainable development. A second phase of the Qatalum smelter may be an attractive opportunity that can potentially increase the plant's annual capacity to 1.2-1.5 million mt. There is also potential to expand the low-cost Alouette smelter in Canada from 600,000 mt to 900,000 mt. Our share of Alouette is 20 percent. We have an existing interest in the joint venture partnership Companhia de Alumina do Pará (CAP), for an alumina refinery close to Alunorte in Brazil. The plant will have an initial annual capacity of 1.9 million mt (Hydro share 81 percent following the completion of the Vale acquisition) with potential expansions up to 7.4 million mt.

Advance our operational excellence and technological leadership

Our Aluminium Metal Production System (AMPS) is designed to ensure best practices and operating efficiencies across our business, and we focus on extracting measurable benefits from this system. In 2010, we achieved a record-low injury rate in our smelter operations and we are committed to continually improving our safety performance, which also improves operating performance. We believe that AMPS makes a valuable contribution to this effort. New proprietary smelting technology is under development with the aim to raise our cost competitiveness, to further strengthen our environmental standards and to support our growth ambitions.

Strong performance culture

Reduced specific energy consumption



* Average specific energy consumption from 100%-owned Norwegian smelters

2010 targets

- Reduce cost per mt by USD 100, realizing 90 percent by end 2011
- Effective ramp-up of Qatalum completed during fourth quarter 2010
- Achieve measurable benefits toward cost reduction from AMPS
- Enhance value from existing alumina assets
- Assertive approach in raw materials markets
- Strong capital discipline

2010 results

- Cost reductions ahead of plan
- Ramp-up of Qatalum negatively impacted by power outage
- Achieved significant operational stability improvements in Norwegian smelters and Neuss
- Assertive approach in tight markets for strategic raw materials
- Reduced investments and expenditures for major maintenance

2011 targets

- Safe and efficient operations
- Effective integration of Albras smelter
- Cost reductions extended to USD 300 per mt, including USD 175 per mt by end 2011
- Complete Qatalum ramp-up
- Continue strong capital discipline

Ambitions going forward

Hydro has an ambition to expand its upstream activities while maintaining a strong emphasis on sustainable cost development. We will continue to focus on lean smelter operations, operational excellence and safety. The ongoing development of next-generation technology, HAL4e, will provide a strong technological basis for continued organic growth, increased efficiency and lower emissions.

METAL MARKETS

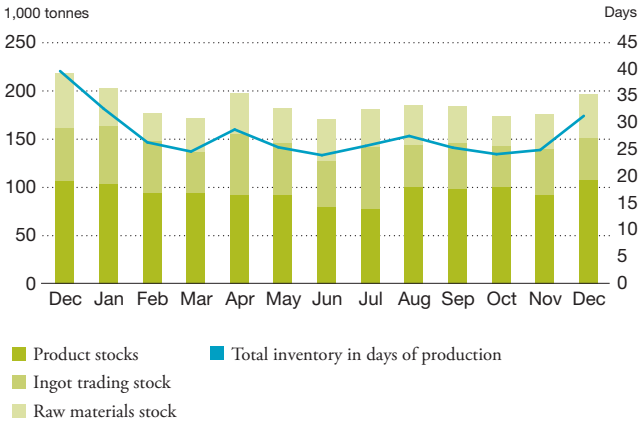
Key developments

Underlying EBIT for Metal Markets increased to NOK 321 million in 2010, compared with underlying losses of NOK 83 million in 2009. The 2009 figure included substantial net negative currency and ingot inventory valuation effects amounting to roughly NOK 700 million. Excluding currency and ingot inventory valuation effects, underlying results in 2010 declined to NOK 447 million from NOK 611 million in the previous year, mainly due to lower contribution from resale of third-party metal products and lower trading margins. Results for 2009 were positively impacted by a reversal of inventory write-downs of about NOK 140 million made in 2008. Total metal sales improved by 15 percent following the substantial decline in volumes in 2009.

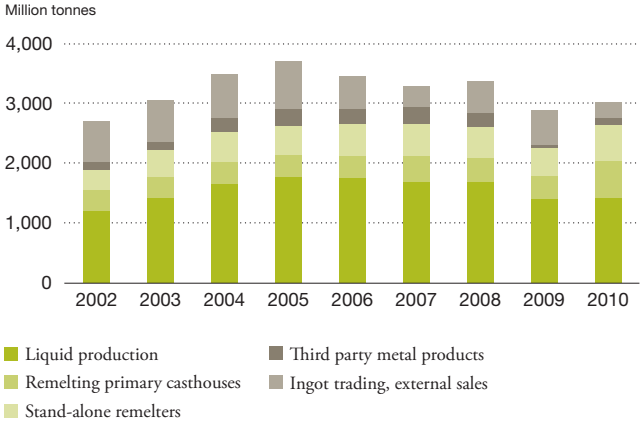
Strategy

Hydro's flexible multi-sourcing system enables us to rapidly adjust our remelt production to market demand. We intend to capitalize on this flexibility going forward to create additional value on top of LME for our primary capacity, to maximize our casthouse utilization, increase our business volume and provide a strong basis for strategic alliances. The successful execution of our marketing plan for the full production volumes of Qatalum will be a key priority for 2011.

Inventory development 2010



Sales of casthouse value added products and ingot trading



2010 targets
- Successful market entry for Qatalum's value-added metal products
- Utilize flexibility in remelting and recycling production systems to capture opportunities
- Operational excellence and safety in plant operations
- Profitable metal sourcing and trading activities and efficient hedging operations

2010 results
- Market entry of Qatalum products but with lower-than-planned volumes due to power failure
- All Qatalum production sold as value-added casthouse products
- Full utilization of remelt capacity at record-high production levels
- Eight of 11 plants with no recordable incidents in 2010
- Strong operational performance in metal sourcing and trading
- Captured market opportunities for high purity aluminium and other specialty products

2011 targets
- Safe operations and improved profitability for all remelt operations
- Margin improvements for all casthouse products including primary smelter casthouses
- Execution of Qatalum marketing plan for full production volumes
- Further develop recycling business opportunities

Ambitions going forward
Our vision is to be the preferred partner for casthouse products and services. Our ambition is to have safe and profitable operations and to increase our global market share. We focus on margin improvements, developing new market opportunities and further cost reductions.

Strengthen our margin management

Our system of primary casthouses, dedicated remelters, third-party and partly owned primary sources enables us to extract value in servicing downstream customers while optimizing our logistical operations. Through offering a diversified product mix, scrap conversion services, commercial services and technical support, we enhance our margins while protecting and developing our market shares. A key focus for the coming year will be to strengthen our margin management and contribute to improved earnings in our primary casthouses and stand-alone remelters.

Increase our business volume with limited asset investment and grow in recycling

We have focused on building a strong position in the metal products markets to optimize the capacity of our integrated casthouses, grow our remelt operations and offer substantially higher volumes of value-added products into the marketplace. We intend to increase our aluminium recycling activities to become a European leader in line with our position as the leading supplier of casthouse and semi-fabricated aluminium products. We expect the strong global growth in recycled aluminium to continue at a high pace, driven by growing environmental concerns and the need to save energy.

Risk management

We have developed expertise within our sourcing and trading operations to enhance the value of our commercial portfolio, using strategies aimed at reducing the exposure of our product premiums to changes in the LME commodity prices and currency rates. We leverage this expertise by developing and executing strategies to hedge such risk exposures within our upstream and downstream businesses, mainly resulting from time lags between our manufacturing process and the pricing of products to our customers.

ROLLED PRODUCTS

Key developments

Rolled Products achieved record results for 2010, increasing substantially compared with the previous year. Underlying EBIT increased to NOK 864 million from NOK 26 million in 2009. The continued focus on cost and firm operating margins contributed strongly to the result, together with a significant increase in sales volumes as the market recovered. Shipments increased by 22 percent following a decline of 18 percent in 2009.

2010 targets

- Further TRI reduction of 20 percent
- Selective gain in market share and improvement in margins
- Improvement in operational performance with focus on customer service
- Maintain focus on cost level and benefits achieved in 2009, counterparty risk and net operating capital
- Implementation of Rolled Products Business System in all units

2010 results

- TRI reduction lower than target despite high attention
- Volume recovery above market level with somewhat higher margins
- Rolled Products Business System introduced in all units
- Lower cost per mt and higher labor productivity
- Lower operating capital relative to business volume
- No significant counterparty defaults

2011 targets

- Further HSE improvement to secure safe operations
- Margin development for non-contracted volumes above 2010 levels
- Product optimization program implemented at focus plants
- Increased cost efficiency compared to 2010 achievements
- Operational performance improvements from ramp-up of Rolled Products Business System

Ambitions going forward

We are committed to safety and to eliminating serious accidents in our operations. We aim to increase the returns of our business, concentrating on margins, cost efficiency and operational excellence – well supported by the roll-out of the Rolled Products Business System involving all employees in continuous improvement. We will stay focused on innovation and technology to sharpen our competitive edge.

Strategy

Securing increasing returns for our Rolled Products business operations continues to be our key priority. We will focus on managing our margins while maintaining market share as we continue to emphasize product development in close cooperation with our customers, resulting in more high-grade products. Key priorities will be continuous cost reduction and the cost-effective procurement of materials and supplies. We plan to enhance profitability by optimizing the flexibility inherent in our production system and focusing on the core assets within our portfolio.

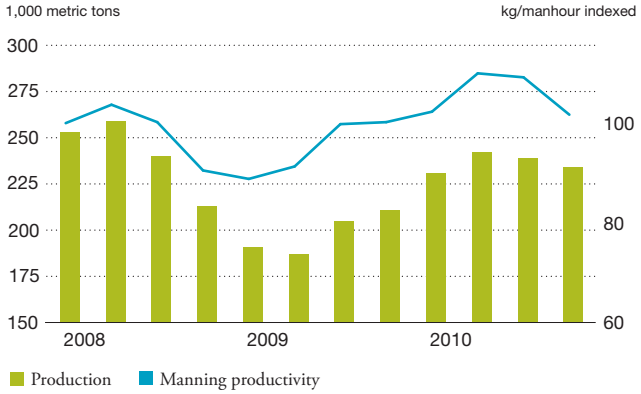
Build on our strong position in Europe

We intend to develop and improve our market share by leveraging our preferred supplier position and optimizing our margins through the mix of products that we deliver to the market. With a focus on our strong position within packaging, general engineering applications, lithographic sheet, construction and automotive applications, we will continue to emphasize the quality of our products and services to our customers in order to drive the performance of this business.

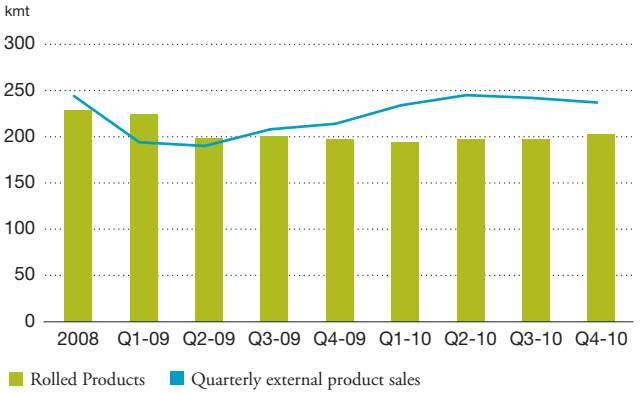
Sustain our cost reductions through continuous improvement

We will maintain our focus on efficiency throughout our operating environment through optimization of shift models, continuous cost management and the implementation of programs designed to enhance the operational excellence of our production system. The ongoing implementation of our Rolled Products Business System will be a key focus in 2011, together with optimizing production runs by shifting volumes between plants, and exploiting strengths in our asset base and core competencies.

Strong performance in Rolled Products



Stable inventory levels – increasing sales volumes



EXTRUDED PRODUCTS

Key developments

Underlying EBIT for Extruded Products increased significantly in 2010, compared with 2009, driven by higher volumes and cost reductions. Underlying EBIT amounted to NOK 444 million, compared with an underlying loss of NOK 67 million in 2009. The 2009 figure included losses from Hydro's automotive structures business, which was divested in the final quarter of that year. Volumes increased for all sectors, excluding building systems, impacted by customer restocking and the general economic recovery. Shipments were up by 14 percent, compared with a decline of 19 percent in the previous year.

Strategy

We intend to build upon our distinct businesses, utilizing technological leadership and operational excellence together with superior product quality and customer service, to further improve our business performance. We will continue to target selective growth within our high-performing sectors.

Capture opportunities as the market stabilizes

While keeping a sharp eye on cost and working capital levels, we will focus on protecting our margins to ensure an attractive level of profitability. We will actively pursue opportunities to further increase our share of the market by offering superior value in the marketplace.

Build on the high performance of our European operations

We intend to maintain our strong operational performance, and target further business development, based on our existing platform of technological strength and strong market positions in Europe. We will continue to work closely with our customers to ensure top product innovation and design as well as excellent service levels. We will capitalize on our strong building systems brands – Wicona, Domal/Alumafel and Technal – each of which represent distinct value propositions to customers.

2010 targets
- Further TRI reduction of 20 percent
- Decisive cost management and focus on cash flow
- Realize market, cost and growth ambitions in Extrusion Eurasia
- Prepare for additional growth and manage additional market challenges

2010 results
- TRI development with increase in incidents from 2009
- Volumes increase 14 percent, compared with 6 percent cost increase
- Strong volume development within Extrusion Eurasia, in particular for solar market segment
- Several growth projects under development

2011 targets
- Safe operations with a return to trend of continual reductions in TRI rate
- Grow volumes and reinforce leading position in Europe
- Execute further rationalization in European operations
- Execute growth projects in emerging markets

Ambitions going forward

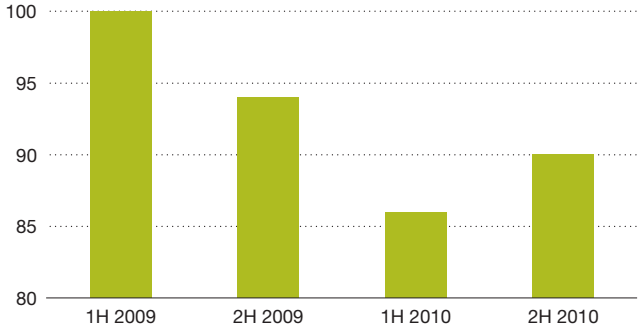
Our goal is to remain the clear performance leader in Europe's extrusion-based industries, including building systems, reinforcing our leadership position through selective growth and further development of new high-performing solutions. We focus on innovation and technology to sharpen our competitive edge. We are committed to safety and to eliminating serious accidents in our operations. We will actively adjust capacity in markets with insufficient demand. We intend to expand in emerging markets to grow our business and maintain the profitability of our operations.

Selective growth of our strong performers, especially in emerging markets

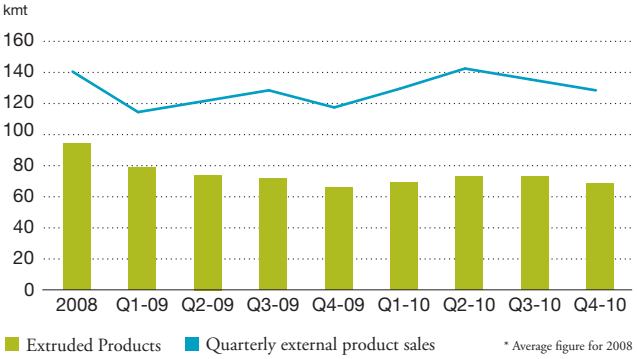
We will continue to grow our high-performance businesses. Entry into new markets will be a priority and we intend to be recognized as an industry specialist in energy-neutral building solutions. We will also prioritize investments designed to ensure stable operations and good safety standards, and which maintain the value of our assets. Maintaining a lean level of operating capital will also be a strategic focus together with the careful follow-up of our counterparty risk.

Strong cost focus in Extruded Products

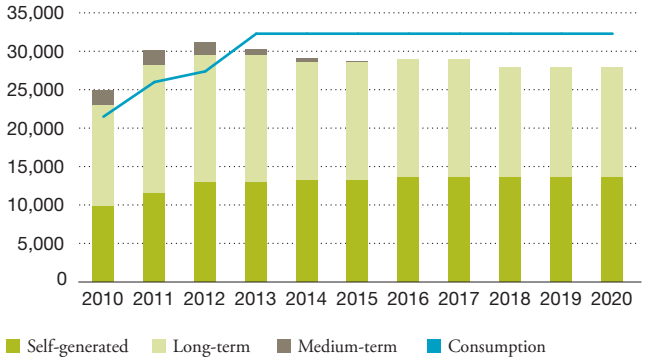
Fixed cost per metric ton for Extrusion Eurasia indexed



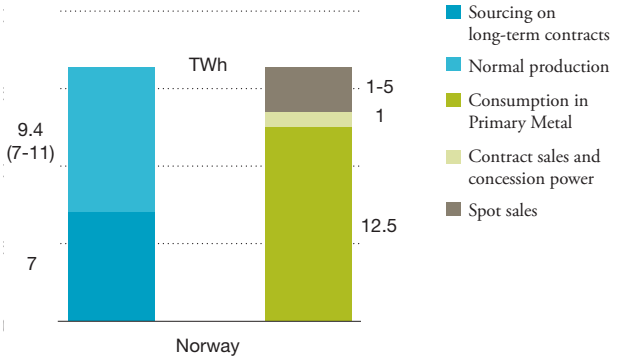
Stable inventory levels – increasing sales volumes



Solid long-term power coverage



Generation and power sourcing



ENERGY

Key developments

Underlying EBIT for Energy increased to NOK 1,416 million, compared with NOK 1,240 million in 2009, mainly due to higher power prices and higher production.

Hydro's Suldal I power station at the Røldal-Suldal hydroelectric facility in Norway came on stream in the first quarter of 2010 after being out of operation for most of 2009.

Strategy

Hydro's captive power covers about one-third of the energy needs of our smelter operations, excluding the newly acquired Albras smelter in Brazil. With Qatalum in full production during 2011, the share of captive power will increase. Our strong energy-resource base, with significant amounts of renewable, self-generated power, ensures stable supplies of power at competitive prices to our smelter operations.

Develop our captive power capacity

Our ambition is to increase Hydro's share of captive power from renewable sources, including exploring opportunities within our existing concession areas in Norway. Securing and increasing the value of our energy assets is a key priority, and we are planning several investments from 2011 through 2015. Hydro's distinct hydroelectric, renewable power position ensures access to energy at predictable costs, reducing exposure to fluctuating generation fuel and carbon emission costs.

Value-enhancing power asset management and operational excellence

We are continuously developing our expertise in optimizing power production and market operations, with the objective to minimize the cost of industrial sourcing and maximize the value of our production assets. Active participation in power markets – optimizing the flexibility within our smelter power consumption – is also a key priority. We have made significant cost and safety improvements in our hydropower plant operations during the last decade and we will continue to focus on operational excellence as a basis for further performance improvements. Safe and reliable operations continue to be among our top priorities in 2011.

2010 targets
- Competitive energy-sourcing arrangements for aluminium operations
- Operational excellence and safe operations
- Competitive framework conditions

2010 results
- Successful reconstruction of Suldal I pressure shaft and Svandalsflona power station
- Positive developments in operating and safety performance
- Successful power portfolio optimization
- Investment decision and start of construction of Holsbru power station
- Extended power-sourcing contract for Tomago smelter at competitive prices until 2027

2011 targets
- Operational excellence and safe operations
- Realize committed development and upgrade projects within targets
- Value enhancement through optimization using asset flexibility
- Competitive framework conditions and energy sourcing for aluminium operations

Ambitions going forward
Maintaining and increasing the value of our energy assets is a key priority. Our goal is to develop our equity power position and capitalize on our energy competence, supporting the sourcing of power to our smelters on a global basis.

Sourcing competitive energy for our aluminium business

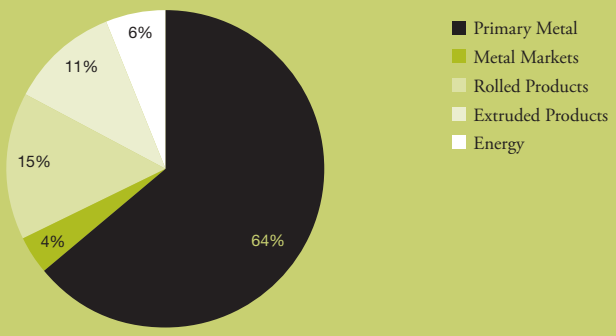
We are engaged in a number of initiatives to identify and secure competitive energy supplies for Hydro's operations, covering both ongoing activities and future growth ambitions.

02:

Business description

Capital employed – upstream focus

December 31, 2010: NOK 46 billion



NOK MILLION

3,351

Underlying EBIT 2010

QUICK OVERVIEW

Hydro is a leading worldwide supplier of primary aluminium, aluminium casthouse products and fabricated aluminium products.

With the Vale acquisition, we now have substantial interests in bauxite and alumina production. We operate or are partners in modern, cost-efficient primary metal production facilities in Europe, Canada, Australia, Brazil and Qatar, and in flexible remelting plants in a range of countries in Europe, the U.S. and Asia.

We are an industry leader for a range of downstream products and markets, in particular the building, packaging, lithographic and automotive sectors. We supply high-quality, value-added aluminium products and solutions, and have strong positions in markets that provide opportunities for good financial returns.

With more than 100 years of experience in hydropower, Hydro is the second-largest power producer in Norway, and the largest privately owned producer.

INTRODUCTION

Hydro's business is divided into five operating segments: Primary Metal, Metal Markets, Rolled Products, Extruded Products and Energy. The following description of our business operations covers our existing assets and operations and excludes the assets and operations acquired from Vale. See section on "Vale aluminium acquisition" later in this document for more information relating to the Vale transaction.

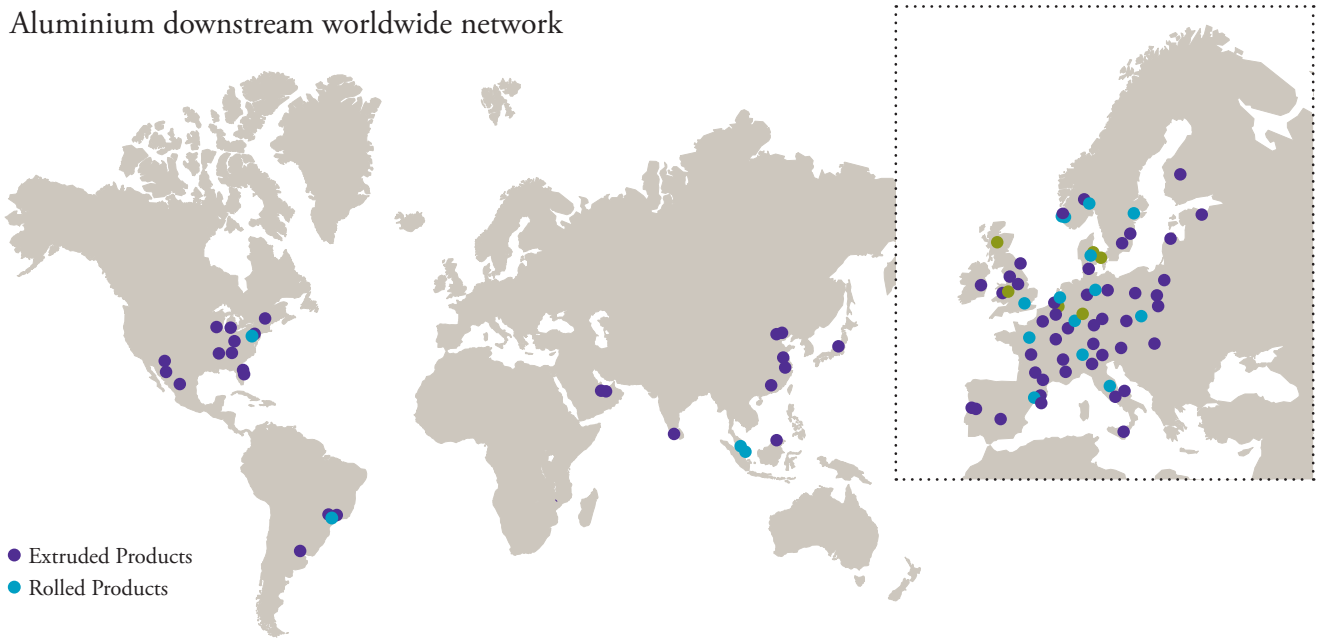
- Primary Metal consists of our primary aluminium production, remelting and casting activities at our wholly owned plants in Norway, Germany and Australia, and Hydro's share of the primary production in part-owned companies in Norway, Slovakia, Qatar, Australia and Canada. Primary Metal also covers our existing alumina and bauxite operations. These activities include Hydro's long-term alumina sourcing arrangements and alumina trading operations, our 34-percent share in the Alunorte alumina refinery in Brazil, our 35-percent interest in the Alpart refinery in Jamaica and our 5-percent interest in the Brazilian bauxite company Mineracao Rio de Norte (MRN).
- Metal Markets includes all sales and distribution activities relating to products from our primary metal plants and operational responsibility for our stand-alone remelters, which are located in most major European markets, the United States and Taiwan. Metal Markets also includes metal sourcing and trading activities. These secure a competitive supply of standard aluminium ingots for our global production system, and operational risk management through LME hedging activities relating to our own operations and on behalf of other business areas.
- Rolled Products consists of our rolling mills, which are located primarily in Europe. Rolled Products also includes our 50-percent interest in the AluNorf rolling mill in Germany.
- Extruded Products consists of our extrusion-based business, located mainly in Europe and the Americas, which is focused on delivering solutions to the building and construction, transportation, and engineered products industries. Extruded Products also includes our aluminium building systems and precision tubing activities.
- Energy is responsible for managing Hydro's captive hydropower production and external power sourcing arrangements to the aluminium business.

Upstream activities

Hydro is one of the world's largest producers of primary aluminium, with production from 11 wholly or partly owned plants in 2010. These include the Norwegian plant in Sunndal, which is the largest and most modern primary metal plant in Europe, and Qatalum (50-percent interest), our new,

Aluminium upstream production facilities

Aluminium downstream worldwide network



world-class smelter in Qatar. We also operate nine remelters, which recycle scrap as well as standard ingot into new products. Most of our aluminium is sold in the form of value-added casthouse products and we are the leading worldwide supplier of extrusion ingot, sheet ingot, wire rod and primary foundry alloys. Alumina is one of the most important cost elements in the production of aluminium. We have ownership interests in alumina refineries that provided approximately 68 percent of our alumina needs in 2010. The most important of these interests, Alunorte in Brazil, is the world's largest alumina refinery with one of the lowest conversion costs in the industry. We have access to substantial self-generated power capacity based on hydropower production in Norway and a captive gas-fired power plant for Qatalum.

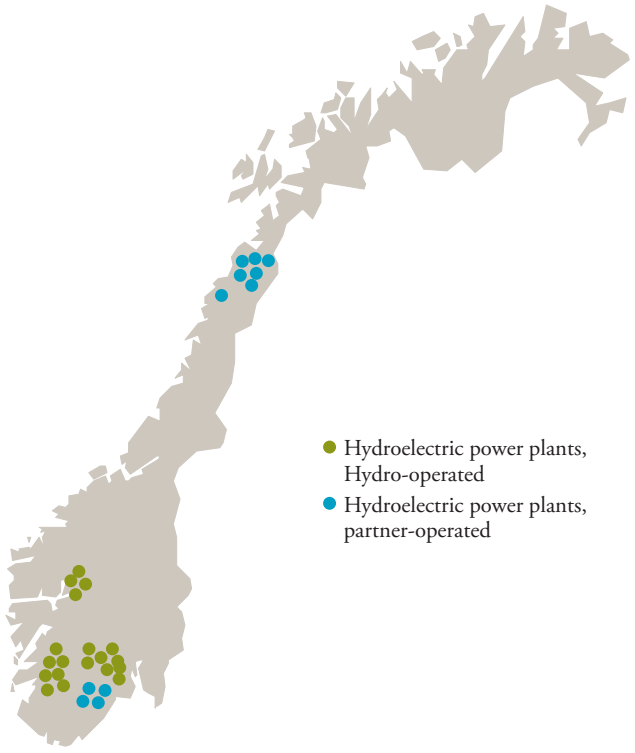
Downstream activities

Hydro is an industry leader for a range of downstream aluminium products and markets, in particular the building, packaging, lithographic and automotive market sectors. Our ambition is to be recognized as the world's foremost aluminium solutions supplier, an agile and innovative technology leader working in partnership with our customers, driving our business and the aluminium industry forward.

Our flat rolled products operations are primarily located in Europe, where we generated approximately 75 percent of our total sales volume in 2010. We are the largest producer in the European rolling industry with an estimated market share of 19 percent in Europe. We hold leading global positions within high value-added product segments such as lithographic printing plates, aseptic foil and automotive products. We have a 50-percent interest in AluNorf, the world's largest hot rolling mill, and fully own the world's largest finishing mill, Grevenbroich in Germany.

Our extrusion operations consist mainly of general soft alloy extruded products and building systems for a diverse customer base within the transportation, building, electrical and

Power plants in Norway



Hydro is the second largest power producer in Norway and operates 17 hydroelectric power plants.

engineering market sectors. Our extrusion network includes plants across the world, serving local and global customers with customized profiles and building systems. Hydro is the European leader in aluminium building systems, focusing on energy-efficient building solutions. We have precision tubing production in all major regions, and a leading position in the global market for heat transfer product applications.

Energy

Hydro is the second-largest power plant operator in Norway, with more than 100 years of experience in hydropower, and is the country's largest privately owned producer. In addition, we purchase around 7 TWh annually under long-term contracts, mainly with the Norwegian state-owned company, Statkraft. Our portfolio provides long-term power at predictable prices for our industrial operations in Norway.

HISTORY AND DEVELOPMENT

Norsk Hydro ASA was organized under Norwegian law as a public company in 1905 to utilize Norway's large hydroelectric energy resources for the industrial production of nitrogen fertilizers. Our history, spanning many industries and several continents, has been underpinned by three distinctive strengths: the spirit of entrepreneurship, a dedication to innovation and the careful nurturing of our system of values.

An emphasis on industrial research and new business alliances enabled us to expand our fertilizer operations following the First World War. In 1928-29, improved fertilizer technology was introduced at Hydro's first industrial sites in Telemark in Southern Norway. Advancements in electricity transmission technology paved the way for the construction of a new fertilizer plant at Herøya, close to Porsgrunn. This provided us with easier access to important raw materials and ideal harbor conditions. New, innovative technologies also provided the foundation for new business opportunities.

An era of diversification

The period following the end of the Second World War was a time of reconstruction in Europe. Over the next three decades, Hydro rebuilt itself into an industrial conglomerate, expanding into a number of new businesses in Norway. In 1951, we began producing magnesium metal and polyvinyl chloride at Porsgrunn. We constructed the Røldal-Suldal hydroelectric power plant to provide energy for our operations at Karmøy and opened an aluminium reduction and semi-fabricating plant there in 1967.

In order to secure stable access to raw materials and energy for our fertilizer operations, we began investigating various opportunities to participate in oil and gas production in the middle of the 1960s. After obtaining concessions to explore for petroleum on the Norwegian Continental Shelf, Hydro and its partners discovered oil and gas in the Ekofisk field in 1969 and in the Frigg field in 1971. Norway's natural gas liquids resources and our experience in the chemical process industry served as the foundation for our investments in the petrochemicals industry in Norway. In 1978, we commenced production of ethylene and vinyl chloride monomer.

During this time, we also pioneered new labor relations practices aimed at democratizing the workplace and increasing the cooperation between management and employees leading to a spirit of collaboration which continues to define the company today.

Decades of global expansion

Hydro expanded globally in the 1980s. We developed our fertilizer operations into one of the leading suppliers in Europe. We also entered a new era as an oil company, becoming operator of the Oseberg offshore oil field. Research remained high on our agenda as we developed new technologies for deepwater oil and gas production and horizontal drilling that we commercialized in developing the Troll oil project. In 1986-87, we acquired the Norwegian state-owned aluminium company, Årdal og Sunndal Verk, and several European aluminium extrusion plants from Alcan and Alcoa, establishing Hydro Aluminium as a major business within Hydro and an important player in the European aluminium industry.

In more recent years, we developed our businesses further through substantial investments, including the acquisition of Saga Petroleum in 1999, VAW Aluminium in 2002 and Spinnaker Exploration Company in 2005. We also invested significant capital toward the expansion of existing aluminium production facilities, including our fully owned Sunndal primary metal plant in Norway and the part-owned Alouette smelter in Canada. This was followed by the decision to participate in the construction of the Qatalum smelter in Qatar, which started production at the end of 2009. In addition, we have participated in three substantial expansions of the Alunorte alumina refinery in Brazil. In 2007, Hydro completed the first phase of the giant Ormen Lange gas field, considered one of the largest industrial projects ever undertaken in Norway. A significant portion of the expansion of these businesses was financed through the sale of non-core operations.

Hydro has invested roughly NOK 18 billion in its aluminium and energy business (excluding petroleum activities) in Norway during the last decade, including NOK 11 billion in its Norwegian smelter system, NOK 2.2 billion upgrading and expanding its hydropower production operations and NOK 3 billion in research, development and production support relating to both its upstream and downstream aluminium businesses. Annual electrolysis production in Norway increased from 760,000 mt to about 900,000 mt in the same period, including the shutdown of roughly 250,000 mt of older, higher cost and higher emission capacity in Norway.

Throughout this period, we have continued to focus on improving working conditions and have developed principles and directives underlying our global commitment to a viable society.

Restructuring and concentration

The same period also encompassed a major restructuring of our downstream operations, the closure of higher cost smelters, and ultimately, the transformation of Hydro into a focused aluminium and energy company. In 2004, we demerged our fertilizer business through the creation of Yara and we merged Hydro's petroleum activities with Statoil to form StatoilHydro in 2007, now Statoil. We completed the divestment of our Polymers activities in 2008. Restructuring continued in 2009 with the sale of Hydro's automotive structures business.

Following this period of consolidation, Hydro completed a major expansion of its business through the acquisition of the aluminium assets of Vale SA securing its position in bauxite and alumina and lifting the company to the top tier in the aluminium industry. The acquisition was completed February 28, 2011.

For further information, see www.hydro.com/about hydro/our history

INDUSTRY OVERVIEW

Aluminium

Aluminium smelting is a capital-intensive, technology-driven industry concentrated in relatively few companies. In recent years, China has emerged as a main consumer and producer, impacting market fundamentals. Russia and the Middle East are also growing in importance in the production of aluminium.

Primary aluminium is derived from the naturally occurring ore, bauxite, which is refined into alumina. Bauxite is typically mined in open pits and either processed into alumina in close proximity to the mining operations or shipped to alumina refineries around the world for processing.

Secondary aluminium is derived from the remelting and recycling of aluminium scrap. Scrap is generated throughout the value chain when producing finished aluminium products and it is also collected in the marketplace after the use of the products has ended. The recycling process requires approximately 5 percent of the amount of energy that is needed for the electrolysis process. About 25 percent of new aluminium products is made from consumer scrap, and roughly 75 percent of all aluminium produced since the Hall-Heroult process was discovered in 1886 is still in use.

Aluminium is used in a variety of applications in several industries. The major consumer segments are transportation, building and construction, and packaging. The major consuming areas are China, Western Europe, North America and Japan.

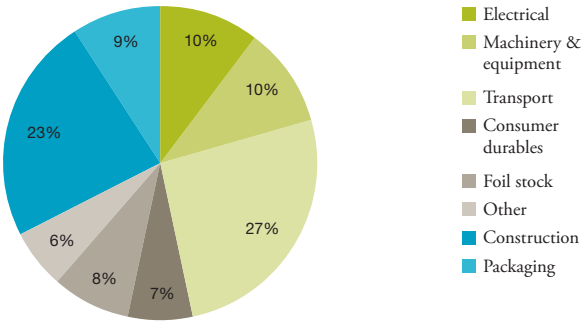
Demand for aluminium products in mature markets like North America and Europe is normally in line with economic developments, but tends to be pro-cyclical – i.e. falling to a greater extent than other products but also growing faster during a recovery. This was evident in 2009, when demand in Europe declined significantly as the financial crisis spread throughout the general economy. In 2010, demand for aluminium products, such as flat-rolled products, grew faster than other products as the markets recovered. The global aluminium market increased around 19 percent following a decline of about 18 percent in 2009. We expect growth in global market demand of 5 to 9 percent in 2011 and then stable long-term growth, driven primarily by infrastructure investments and economic development in China and other large, developing economies.

Structural developments

As result of the substantial consolidation of upstream aluminium activities during the past two decades, relatively few companies are producing a substantial portion of primary metal on a global basis. Hydro's aim for the medium term has been to maintain the present size of its aluminium smelting operations, which corresponds to about half of the upstream

2011 Global aluminium consumption* by end use

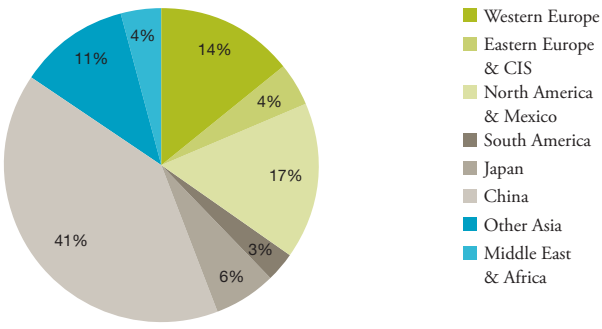
Total market 58,174 mt



* Consists of semi fabricated products (included recycled aluminium)
Source: CRU LT forecast 2010

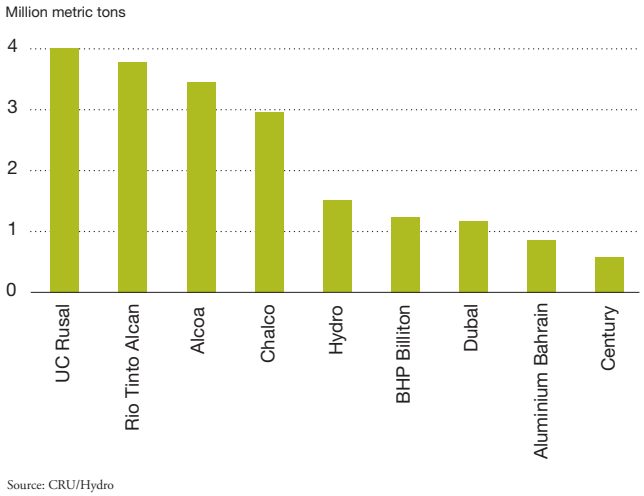
2011 Global aluminium consumption* by region

Total market 58,174 mt



* Consists of semi fabricated products (included recycled aluminium)
Source: CRU LT forecast 2010

Primary aluminium production
selected companies 2009



Source: CRU/Hydro

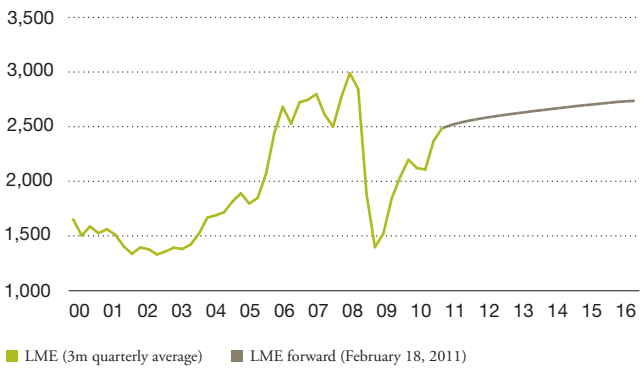
capacity of the four largest producers. At the same time, an important strategy has been to secure access to raw materials for existing production and, in addition, enable future expansions of electrolysis capacity. See section on Vale aluminium acquisition – industry development for more information on developments within the bauxite and alumina industry.

Several important smaller primary aluminium producers in emerging markets have demonstrated very strong growth ambitions over the last few years. Access to sufficient bauxite resources, however, appears to be a constraint. There are also several new, smaller operators in China but with a focus on supplying the Chinese market.

Characterizing companies in the industry has become more challenging, as they appear to have very different interests in the mining, metal and downstream aluminium sectors. In general, it seems that most companies are targeting integration into both energy and bauxite, while the focus on downstream integration appears to be lower. Over the last decade, the downstream aluminium industry has evolved significantly, with consolidation as well as spin-offs from large integrated aluminium companies. Today, there are only two major global integrated aluminium companies – Alcoa and Hydro – but both have also restructured their downstream portfolios significantly during the last several years.

Industry analysts expect the restructuring to continue as the major metals and mining companies seek to reduce their exposure to downstream operations, focus on upstream activities and streamline their metal portfolios, thereby targeting specific markets and seeking benefits by increasing the scale of their core operations. This led to the opportunity for Hydro to acquire the aluminium operations of Vale. A shift in capacity build-up toward emerging, fast-growing markets is also expected.

Aluminium price in USD/mt



Aluminium price developments

Primary aluminium in standard ingot form is traded on various metal exchanges, primarily the London Metal Exchange (LME). The Shanghai Futures Exchange (SHFE) has grown in importance for sales of standard aluminium ingots imported to and exported from China, and priced in a way that includes Chinese VAT. During 2009, China became a net importer of primary aluminium for the first time since 2005, driven by higher prices – at comparable terms – than the LME. In 2010, China exported small quantities of primary metal on a net basis, mainly through tolling arrangements.

Trading by financial investors in the derivative markets, as experienced in 2009 and 2010, can have a significant influence on price developments in the short and medium term, occasionally in contradiction with developments in the physical market. Price volatility, therefore, has been high the last several years and may continue. Aluminium prices exhibited an historic decline during the first quarter of 2009 as the turmoil in the financial markets spread into the general economy. Prices remained volatile but improved continuously throughout 2010.

In the 2003-2008 period, there was a strong upward shift in the cost curve for primary aluminium production, triggered mainly by a significant increase in prices of energy and natural resources. The significant drop in demand for aluminium described above resulted in declining demand for raw materials and falling smelter input costs. Commodity prices in general fell as a result of the economic downturn. Consequently, the cost of producing aluminium declined and the industry cost curve ended up lower in 2009 than the previous year. Prices for energy and natural resources increased again in 2010, resulting in a new increase of the cost curve.

In the future, primary aluminium production is expected to be developed in energy-rich areas where power prices are more competitive than market prices in developed energy markets such as Europe and the U.S. Such countries and regions are expected to include the Middle East, India, Iceland and some countries in Africa, Asia and South America. China will also continue to be an important producer and consumer of primary metal.

Developments within the flat rolled products industry

The aluminium rolled products industry is characterized by economies of scale, with significant capital investment required to achieve and maintain technological capabilities and to meet demanding customer qualification standards. Service and efficiency demands from large customers have encouraged consolidation among suppliers. Worldwide consumption amounted to approximately 18 million mt in 2010 and was roughly evenly split between China, Europe, North America and the rest of the world. In Europe, the five largest producers account for about 80 percent of the market. In general, a certain level of overcapacity prevails in the Chinese, Western European and North American markets.

Developments within the extruded products industries

In Europe, the five largest producers of extruded products represent about half of the market. The remainder is very fragmented with about 220 producers. Only about 5 percent of volume is imported. Competition has increased significantly over time, and there is overcapacity in many European markets, in particular since the extent of the market recovery has varied across the continent. New capacity is being built, however, mainly in Eastern Europe, reflecting higher regional demand. Mainly due to large differentiated product segments, extrusion companies with superior products and services, and competitive costs, are able to defend margins that lead to sustainable high returns. Hydro's extrusion system falls within this category.

The North American extrusion industry is somewhat more consolidated than the European industry. Today, the four largest producers represent about 60 percent of the domestically supplied market, while another five medium-sized producers cover about 15 percent of the market. In 2010, almost 20 percent of the market was based on imports, mainly from Asia, as Chinese imports have grown rapidly. However, the recent imposition of anti-dumping and countervailing duties on extruded products from China is expected to substantially impact the future market penetration of imports. Despite the market exit of over 25 extruders during the economic downturn, margins remain under pressure due to overcapacity and cyclically weak demand. Further restructuring could occur.

In South America, many small presses indicate an undeveloped market. However, the four biggest operators in both Brazil and Argentina account for over 50 percent of the sales volumes and Brazil alone represents over half the total market.

The European building systems industry remains fragmented, with five large producers and a significant number of smaller operators that serve regional markets. Overcapacity in southern Europe and the U.K. due to the sharp decline in the construction market has resulted in increasing competition between all market players.

Precision tubing is a global business mainly focused on heat transfer application such as air conditioning and refrigeration systems. Automotive is a key market, however, non-automotive applications are growing in importance, supported by increasing substitution of aluminium for copper.

Energy

A common Nordic electricity market has been in existence since the late 1990s. Total annual consumption is slightly below 400 TWh. Generating facilities are owned by a few large producers in each country and a number of smaller operators. Spot prices are set at the Nordic power exchange, Nasdaq OMX (formerly called Nord Pool). The Nordic system price provides a reference price for the forward market, and spot prices are set for five areas within Norway, two areas in Denmark, and one area in Sweden and Finland. Sweden is expected to be divided into four areas by the end of 2011.

In 2010, the mix of power generation in the Nordic market was comprised of hydropower (52 percent), nuclear power (21 percent) and other sources (27 percent), mainly thermal power. Hydroelectric power represents almost all of the power generation in Norway. Power prices in the Nordic market are set by a multitude of supply and demand factors, including temperature/weather and hydrological conditions, generation fuel costs, CO_2 emission costs and prices in adjoining markets on the European continent. Due to the strong influence of hydrological conditions, there have been large variations in the Nordic prices, both on a quarterly and annual basis, throughout the history of this market.

In January 2010, the price area in southern Norway (NO1) was split into two (NO1 and NO2). This split has resulted in price differences due to variations in power balances and limitations in transmission capacity. In March 2010, an additional price area, NO5 (Western Norway), was established. Hydro has about one-third of its production in NO5 and two-thirds in NO2.

In April 2009, the EU formally approved as law its "20-20-20" climate change package. The EU aims at cutting greenhouse gas emissions by 20 percent, increasing the share of renewable energy in the energy mix to 20 percent, and improving energy efficiency by 20 percent, all by 2020. The implementation of these directives is expected to have a significant influence on power prices and environmental regulations in Europe. To avoid or reduce the risk of "carbon leakage," which is the risk of EU-based businesses losing market share to less carbon efficient installations outside the European Community, the EU has agreed on introducing national compensatory measures for energy-intensive industries competing on a global basis. A proposed Norwegian-Swedish electricity certificate market is likely to support new renewable generation capacity from 2012.

OPERATIONS

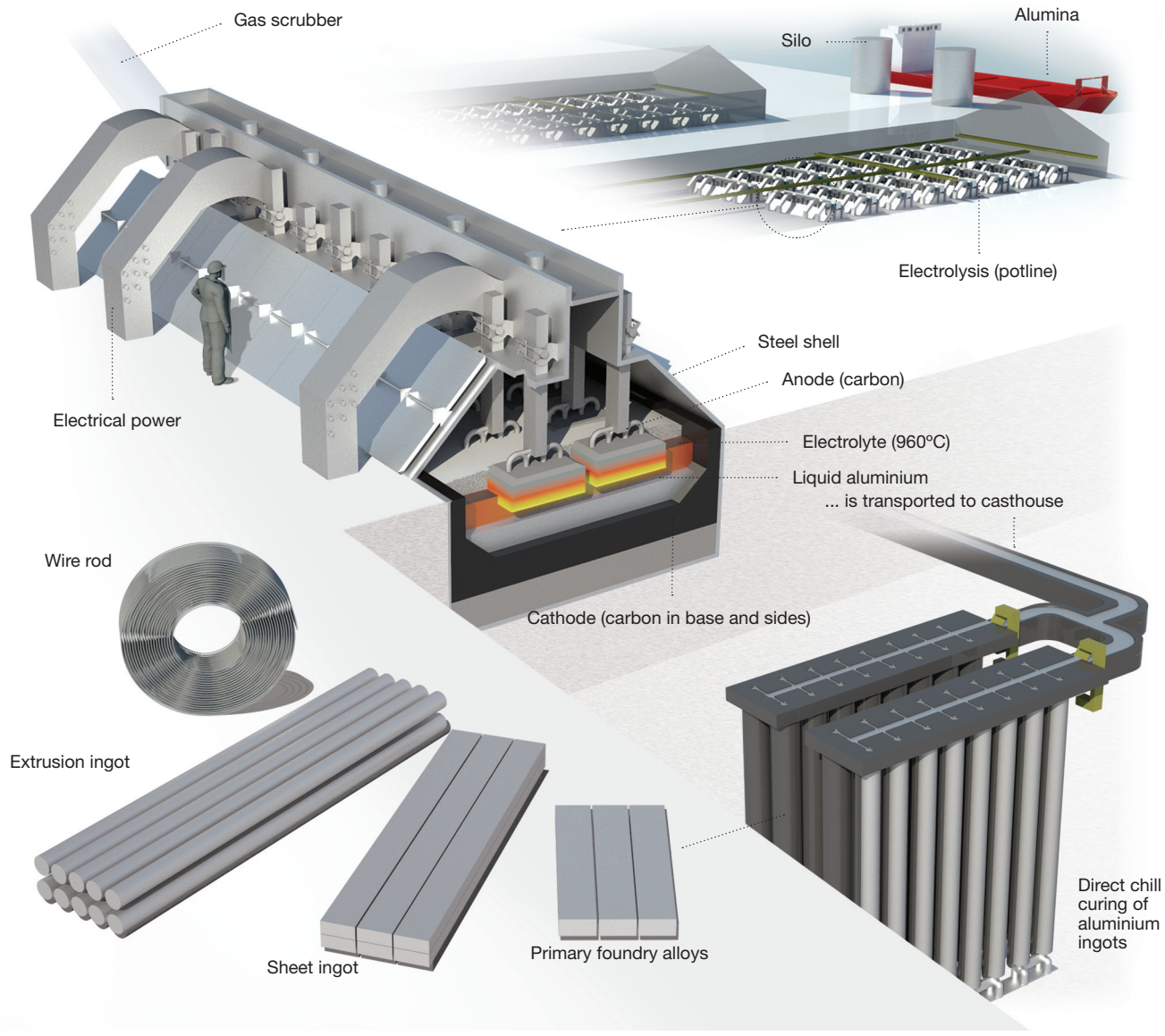
Primary Metal

Hydro's primary aluminium plants have reduction facilities with potlines and casthouses where liquid and remelted aluminium is cast to form value-added products such as extrusion ingot, primary foundry alloys, sheet ingot and wire rod, in addition to standard ingot. Approximately two metric tons of alumina are required to produce one metric ton of aluminium. Energy represents on average about 25-30 percent of the operating costs associated with primary aluminium production. Carbon anodes consumed in the smelting process account for 15-20 percent of the total production cost of primary aluminium.

Aluminium smelter system

We produced primary aluminium at 11 wholly or partly owned primary aluminium plants in 2010. Actual electrolysis production continued to be impacted by curtailments that were completed at several plants in the first half of 2009. See the section "Financial and operating performance" for actual electrolysis and casthouse production for the years 2010 and 2009.

Aluminium smelting process



Primary aluminium is produced in reduction plants where pure aluminium is formed from alumina by an electrolytic process. This process is carried out in electrolytic cells, in which the carbon cathode placed in the bottom of the cells forms the negative electrode. Anodes, which are made of carbon, are consumed during the electrolytic process when the anode reacts with the oxygen in the alumina to form CO_2. The process requires electric energy, about 13 kWh per kilo aluminium produced in modern production lines.

Qatalum

The new primary aluminium plant in Qatar has an annual production capacity of 585,000 mt (Hydro share 50 percent) and is expected to produce around 500,000 mt in 2011. The ramp-up of production from the plant's 704 cells is expected to be completed in the second quarter of 2011 with full production from June. The plant had roughly 1,100 employees at the end of 2010. Most of Qatalum's production will be shipped in the form of value-added, alloyed casthouse products with capacity of 350,000 mt of extrusion ingot and 275,000 mt of foundry alloys. An integrated natural gas-fired power plant provides energy for the smelting operations. The gas is supplied by Hydro's joint venture partner Qatar Petroleum. An integrated carbon plant will provide approximately 300,000 mt of anodes per year.

Alumina

The following description of our alumina operations covers existing assets and operations and excludes the assets and operations acquired from Vale. See section on "Vale aluminium acquisition" for more information relating to the Vale transaction.

Plant	Country	Employees (per Dec. 31)	Electrolysis capacity (000 mt) [1]	Casthouse capacity (000 mt)	Main products	Key characteristics [2]
Karmøy	Norway	418	180 [3]	230	extrusion ingot, wire rod	• Two prebake lines, one Sødererg line (Søderberg line shutdown first quarter 2009) • R&D center, rolling mill, extrusion plant and other downstream activities
Årdal	Norway	611	190	330	sheet ingot, foundry alloys	• Two prebake lines • Substantial anode production • Technology and competence center
Sunndal	Norway	747	390 [4]	515	extrusion ingot, foundry alloys	• Two prebake lines • Major expansion completed 2004 • Largest and most modern plant in Western Europe • Casthouse expansion and other enhancements completed in 2007
Høyanger	Norway	170	60	120	sheet ingot	• One prebake line • New casting furnace installed 2009
Søral (49.9%)	Norway	305 (100% basis, per Dec. 31)	90 [5]	95	extrusion ingot	• Joint venture between Hydro and Rio Tinto Alcan (RTA). • Plant expansions in 1997 and 2003 • Long-term power contracts through 2012
Slovalco (55.3%)	Slovakia	516 (100% basis)	165 [6]	179	extrusion ingot, foundry alloys	• Joint venture with Ziar nad Hronom, Slovakia • One prebake line • Long-term power contract through 2013 • Among the world's lowest cost smelters
Neuss	Germany	699	235 [7]	370	sheet ingot	• Three prebake lines • Key supplier to Alunorf rolling mill • Power supplied under short-term contracts
Kurri Kurri	Australia	537	180	185	extrusion ingot, foundry alloys	• Three prebake lines • Completed substantial plant upgrade in 2006 • Long-term power contract through 2017
Tomago (12.4%)	Australia	1 051 (100% basis)	65	65	standard ingot, extrusion ingot, sheet ingot	• Joint venture with RTA and GAF • Three prebake lines • Largest producer in Australia • Among world's lowest cost smelters • Expansions in 1992, 1998, 2002 and 2006
Qatalum (50%)	Qatar	1 114 (100% basis)	293	313	extrusion ingot, foundry alloys	• Joint venture with Qatar Petroleum • Two prebake lines • Among world's lowest cost smelters
Alouette (20%)	Canada	1 093 (100% basis)	115	115	standard ingot	• Joint venture with RTA, AMAG and SGF/Marubeni • Two prebake lines • Largest producer in North America • Among the world's lowest cost smelters • Expansion completed May 2005

1) Production and casthouse capacity for part-owned companies represents our proportional share. For financial reporting, Søral and Qatalum are accounted for as an equity investment while Tomago and Alouette are consolidated on a proportional basis. Slovalco is fully consolidated in terms of volumes and financial results.
2) See discussion below regarding power supply for our four wholly owned Norwegian smelters.
3) Capacity reduced by 120,000 mt due to permanent closure of Søderberg line in the first quarter of 2009.
4) Actual production impacted by temporary shutdown of about 100,000 mt of capacity in the second quarter of 2009.
5) Actual production impacted by temporary shutdown of about 43,000 mt of capacity (Hydro share) in the first quarter of 2009.
6) Actual production impacted by temporary shutdown of about 15,000 mt of capacity in the first quarter of 2009. In the beginning of 2010, Slovalco resumed full production.
7) Actual production impacted by temporary shutdown of about 190,000 mt of capacity in the second quarter of 2009

Over the last decade, we have mainly met our alumina needs through equity investments in alumina production and a portfolio of medium to long-term contracts. Hydro's major alumina investment is its 34 percent interest in Alunorte, the Brazilian refinery. Following the completion of a third expansion in 2008, the Alunorte refinery has an annual capacity of approximately 6.3 million mt of alumina.

We purchase alumina from Alunorte based on prices linked to the LME, with a lag of one month.[1] The financial effects of our equity ownership in Alunorte are reflected in "Share of profit (loss) in equity accounted investments." The reported results for Alunorte can include significant currency effects from the re-valuation of USD liabilities that are excluded from our underlying results. See section "Financial and operating performance" – "Items excluded from underlying EBIT" for more information. Bauxite for Alunorte is sourced under long-term contracts from MRN, in which Hydro has an equity participation of 5 percent, and from the Paragominas mine formerly owned by Vale. Purchases are made under long-term contracts based on prices partly linked to the LME and to alumina market prices. Earnings from our investment in MRN are included in "Financial income."

Hydro also has a 35 percent equity interest in the Alpart alumina refinery in Jamaica, which has a normal annual production capacity of approximately 1.65 million mt and its own captive bauxite mine. Production at Alpart has been curtailed since the end of June 2009.

Hydro has a contract with Rio Tinto for the supply of 500,000 mt of alumina annually from 2006 through 2030. We have also exercised an option for an additional 400,000 mt of alumina deliveries linked to the expansion of Rio Tinto's Yarwun refinery in Australia. In addition, we have a number of short, medium and long-term purchase contracts to secure alumina for our own smelters. These contracts typically have pricing formulas based upon a percentage of the LME price. We also enter into contracts to buy and sell alumina in order to optimize our physical alumina portfolio on a short and medium-term basis.

Power

Internal supply contracts between our hydropower production operations and our aluminium metal business covered about half of the energy consumption of our wholly owned Norwegian smelters in 2010. The remainder was mainly covered by external supply contracts with Statkraft, a Norwegian electricity company. These contracts will expire in 2020. In addition, Hydro has a power contract with the Swedish company Vattenfall for the supply of close to 18 TWh of electricity over an eight-year period starting in 2013. Energy for the remainder of our smelter system is covered under medium to long-term contracts with the exception of our German smelter in Neuss, which is covered in the short-term market.

Anodes

Most of our smelters produce anodes on-site. Over the past several years, we have expanded the capacity of anode production at our Årdal plant in Norway and in our part-owned company Aluchemie in the Netherlands. In addition, we have upgraded the anode facility at our Kurri Kurri plant in Australia. The new plant in Qatar has an anode facility with capacity aligned to the production of primary metal.

Technology and HSE

Our proprietary technology plays an important role in securing our competitive position. We believe our technology serves as an industry benchmark for environmental performance, and sets high standards for safety and productivity. We have targeted a 25 percent reduction in research and development costs, which will mainly impact lower priority projects, as part of our USD 300-per-mt improvement program.

We have a strong commitment to safety and systematically review and follow several key performance indicators. One of these is the TRI rate (total recordable injuries per million hours worked), which remained in 2010 at the same low level (2.5) as in 2009. We are targeting a 20 percent reduction in 2011.

Metal Markets

Metal Markets includes all sales and distribution activities relating to products from our primary metal plants, our standalone remelters, our high purity aluminium business, contracts with external metal sources and other sourcing and trading activities, including hedging activities, on behalf of all business areas in Hydro.

Remelting

We have a network of remelt plants in Europe (6), Taiwan (1) and the United States (2), active in the conversion of scrap metal and standard ingot into extrusion ingot. Our facilities in Europe are located in Luxembourg, the United Kingdom, Germany, Spain and France. Remelt activity, including remelted metal for casthouses integrated with our primary metal plants, and third-party sourcing, normally represents about half of our total sales of metal each year. In addition to remelting scrap returned from customers, we purchase clean scrap and end-of-life scrap from third parties. Standard ingot is procured globally under a combination of short and long-term contracts.

Sourcing and trading

Our sourcing portfolio consists of third-party purchase contracts of standard ingot[2] for remelting in Hydro's remelters and primary casthouses. Some of the sourced metal, as well as our own equity production of primary standard ingot, is sold to external customers. We also enter into third-party contracts to optimize our total portfolio position and to reduce logistics

1) Alumina prices are adjusted monthly based on the average monthly LME three-month prices, applied with a one-month delay.
2) Aluminium standard ingot is a global aluminium product traded on the London Metal Exchange (LME).

costs. The accounting results of these activities are, by their nature, volatile.[3)]

Our main hedging objectives are to secure margins in our midstream and downstream businesses and to obtain the prevailing average LME price for our smelting system. Our sourcing and trading operation acts as an internal broker for all LME-hedging transactions by our business units in order to consolidate our exposure positions, reduce transaction costs and utilize our trading knowledge and expertise.[4)]

Markets, products and customers

Most of our aluminium is sold in the form of value-added casthouse products such as extrusion ingot, sheet ingot, wire rod and foundry alloys. Our product with the highest volume is extrusion ingot, which is sold to extruders producing aluminium profiles used mainly in the building and construction industry. Other important end-use segments include the transport and general engineering market sectors. Our key market region for extrusion ingot is Europe, followed by the U.S. and Asia. With the ramp-up of Qatalum, the Asian and U.S. markets will become increasingly important to Hydro.

Sheet ingot, our second-largest product in terms of sales volume, is sold to European rolling mills, with packaging and transportation as the most important end-use segments. Foundry alloys are sold to foundries producing cast parts primarily for the automotive industry. Our largest market for foundry alloys is Europe, but Asia is becoming increasingly important. Wire rod is sold to wire and cable mills in Europe for power transmission and other electrical applications.

We also produce and sell high purity aluminium products and other specialty products, mainly used in the electronics industry in products like electrolytic capacitors, semi-conductors and flat-panel displays, as well as in aviation and aerospace applications.

In addition to marketing our own products, we have commercial agreements to market products from part-owned smelters and handle the resale of products under third-party purchase contracts. Hydro also has full marketing responsibility for all of the casthouse production at the new smelter in Qatar.

Our regional market teams are key to our customer approach, delivering commercial, technical, logistical and scrap conversion services. Optimized solutions such as our customer service programs and on-line customer portal add further value and help build and reinforce customer relationships.

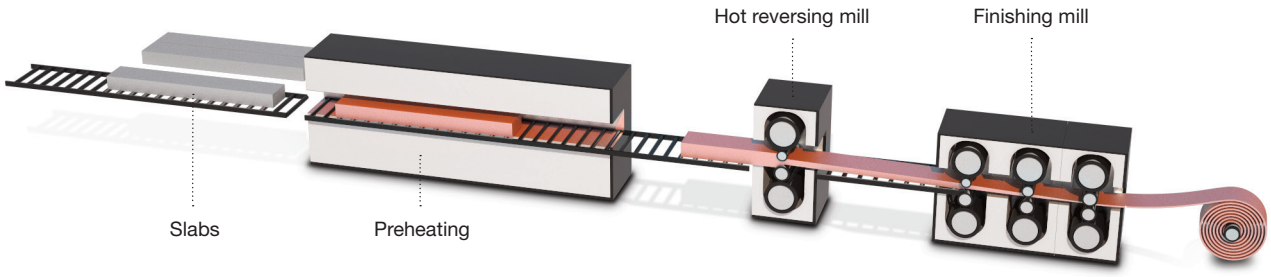
Rolled Products

The rolling process consists of heating sheet ingot with thickness of 600 millimeters (mm) to around 500 degrees Celsius and gradually rolling it into thickness of 3-13 mm for further processing. An alternative process, continuous casting, converts molten metal directly into coiled strip, typically 4-8 mm thick. Once cool, the thinner metal is further processed in cold rolling mills producing various types of products including foil, lithographic sheet, sheet and strip.

Rolling mills

In 2010, we produced rolled products at six rolling plants in Europe and one plant in Malaysia. More than half of our European production was produced in the Grevenbroich/AluNorf rolling system in Germany, which is the largest and one of the most modern and efficient rolling operations in the world. Grevenbroich is also the center of our rolled aluminium foil and lithographic sheet operations. Our plants employ around 4,000 people.

Hot rolling process



The slabs are preheated before entering the hot reversing mill. The sheets are rolled to the desired thickness in the finishing mill.

3) Underlying results for our sourcing and trading activities include the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly US dollars and Euro for our Norwegian operations) and the effects of changes in currency rates on the fair market valuation of dollar denominated derivative contracts (including LME futures) and inventories mainly translated to Norwegian kroner. These amounts can be very substantial. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.

4) These hedging activities which are designed to mitigate cash exposures can generate significant underlying accounting effects partly due to asymmetrical accounting treatment.

Plant	Country	Capacity (000 mt)	Main products	Key characteristics
Grevenbroich Alunorf 50%	Germany	650	Foil, lithographic sheet, strip	- Grevenbroich is the center of our foil and lithographic business - Supplied by nearby Alunorf hot-rolling mill - Alunorf is currently the world's largest hot-rolling mill - 50/50 joint venture with Novelis - Partly supplied with sheet ingot from nearby Neuss Rheinwerk smelter - Newly invested recycling furnace
Hamburg	Germany	180	General engineering, automotive, heat exchanger	- Integrated casthouse - Major upgrade in 2000-2001
Slim	Italy	95	General engineering, heat exchanger, packaging	- Integrated casthouse - New cold-rolling mill and major upgrade of hot-rolling mill in 2005-2006
Karmøy	Norway	95	General engineering	- Continuous casting
Holmestrand	Norway	83	Building, heat exchanger, general engineering	- Integrated casthouse
AISB	Malaysia	30	Foil, general engineering, packaging	- Continuous casting

Our production network mainly comprises so-called "wall-to-wall" processing, including an integrated casthouse combined with both hot and cold rolling mills. Around 8 percent of our production is based on a continuous casting process, taking place at the Karmøy plant in Norway and the plant in Malaysia.

More than half of the metal we process is sourced internally based on arm's-length prices related to the LME price and sheet ingot premium. External supplies of sheet ingot and standard ingot amounted to approximately 42 percent of our total requirements in 2010. In addition, we recycle process scrap from customers and scrap collected from the market, together with our own process scrap.

Markets, products and customers

Our ambition is to be the preferred supplier for the products we supply. This approach is founded on value creation for our customers, with a continuous emphasis on product quality through research, product development and innovative solutions, prioritizing our service approach toward customers as well as overall cost effectiveness. To foster strong market orientation, our sales function is organized centrally along the business lines in our respective business units. This is supported by sales offices in Europe – in France, U.K., Spain, Italy, Switzerland, Poland, Sweden and Denmark – and in Brazil, the U.S., Malaysia and Singapore, where we can optimize market contact and sales potential.

Our rolled products business is organized into three product-based business units serving the different market segments in which we operate.

Packaging & Building

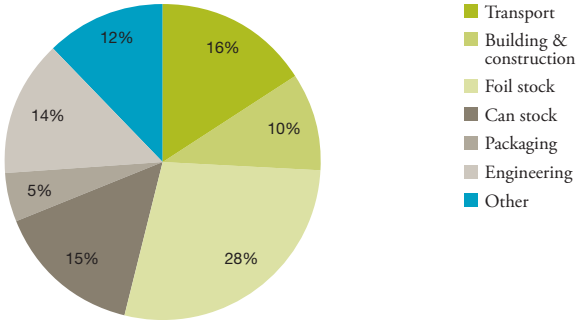
Foil: We serve customer needs in the rigid and semi-rigid packaging industry, and also specialize in thin-gauge foil for flexible packaging. ISO-certified, we manufacture plain and converted strip and foil in thicknesses ranging from 0.006 - 0.500 mm. We provide complete packaging solutions combining high-quality manufacturing with innovation, cost effectiveness and sound ecological characteristics. Furthermore, we offer a wide spectrum of services relating to our packaging products in terms of consulting and technical support ranging from design, to the forming of materials and the use of appropriate lacquering solutions. As one of the world's leading foil producers, we supply foil as thin as 6.0 µm for packaging of food and pharmaceuticals as well as for technical applications. We offer converted qualities using a variety of lacquering, laminating and coating techniques. Production is concentrated in our Grevenbroich rolling mill supplemented by our operations in Malaysia and Italy. TetraPak, with liquid packaging, is one of our key customers.

Beverage can: Hydro is a major worldwide supplier of body, end and tab stock in the form of rolled coil for the production of aluminium beverage cans. Our modern and efficient production facilities, extensive technical know-how and experienced development support, facilitate the delivery of high-quality materials to meet the specific requirements of can manufacturers. Our Grevenbroich plant is dedicated to the production of Hydro's quality proprietary end stock efficiEND®, which promotes maximum productivity and thereby cost-effective beverage can-end manufacturing. Key customers include Ball, Rexam and Crown.

Building (coated): Hydro is one of the leading manufacturers of coated aluminium strip with many years of experience

Flat rolled products consumption Western Europe 2010

Total market 3,554 Kmt



Source: CRU quarterly November 2010

Business unit	Shipments in %	Key characteristics
Lithography	19	- Largest supplier in the lithographic products market
Packaging and Building	43	- Main markets include beverage can, foil packaging and lacquered building products - Global player with strong lead leadership position in the high value-added liquid packaging market
Automotive, Heat-Exchanger and General Engineering	38	- Serving OEMs and their suppliers with strip and sheet for body, component and chassis applications - Automotive and non-automotive heat-transfer applications - Genereal engineering products used in building and transportation applications such as trucks

backing our expertise in the building market. We strive to continuously improve our dedicated production lines in our Grevenbroich and Holmestrand rolling mills, with the aim to be the quality leader in Europe in this market. We offer customers a portfolio of cost-effective solutions including product applications for roller shutters, ceilings, composites and curtains for windows.

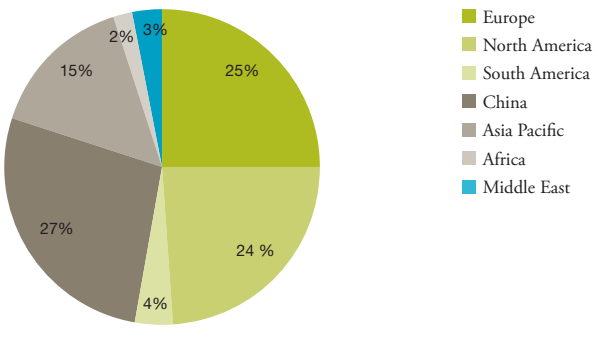
Automotive, Heat Exchanger & General Engineering

General Engineering: Hydro provides customers with a comprehensive range of hot and cold rolled aluminium strip and sheet for these markets. Our products are tailored to meet the individual requirements of a variety of applications in the industrial and consumer products sectors. Examples include standard and tailor-made coil and sheet for wholesalers, aluminium coil for transformers, and electrical-technical applications, coil, sheet and circles for household applications such as cookware, baking trays, and ladders. We are recognized as a leading supplier due to our state-of-the-art manufacturing processes, product quality, and extensive technical support.

Heat Exchanger: Our rolling mills produce a wide variety of strip and sheet used in the manufacture of heat exchangers for passenger and commercial vehicles as well as other product applications. We are the largest supplier in Europe, working with key customers such as Behr, Denso and Modine, to develop specially adapted alloys and optimized production techniques to fit their manufacturing processes.

Global flat rolled products consumption 2010

Total market 18,244 Kmt



Source: CRU quarterly November 2010

Automotive: We are the second-largest supplier of aluminium sheet and coil to the European automotive market for interior and exterior vehicle body parts, chassis and component applications. Key customers include BMW and Daimler. Production is focused within our Grevenbroich and Hamburg plants.

Lithography

Hydro is the leading global supplier of lithographic sheet for printing plates, a market characterized by extremely demanding customer requirements for surface quality, metal characteristics and mechanical properties. We differentiate ourselves in all these areas through innovation, quality assurance and extensive service to our customers. Key customers in this segment include Kodak, FujiFilm and AGFA. Our litho production is concentrated at the Grevenbroich plant.

Extruded Products

The extrusion process involves pressing preheated metal (450-500 degrees Celsius) under high pressure (1,600-6,500 tons) through a die which forms the metal into the desired shape. Dies come in thousands of shapes, sizes and levels of complexity. Surface treatments such as anodizing, powder coating, lacquering and various mechanical treatments, like grinding and polishing, are employed to reduce corrosion and mechanical wear or provide decorative appearance. In addition, extrusions often go through some form of fabrication activity, like machining, which includes cutting, drilling and tapping. Other value-added activities include joining, in the form of welding, adhesive bonding, bolting or riveting.

Our major extrusion and extrusion-related fabrication and building systems operations are located throughout Europe and in North America. We also have a solid foothold in South America, with plants in Brazil and Argentina that provide a basis for future development in the region, and minor operations in Asia.

Our general extrusion activities are organized into three geographic business sectors – Extrusion Eurasia, Extrusion North America and Extrusion South America – while our Building Systems and Precision Tubing operations are organized as separate business sectors.

Extrusion Eurasia is headquartered in Lausanne, Switzerland, and operates out of 33 locations in Europe. This includes sales offices. We have 19 extrusion plants in 11 countries, in Austria, Belgium, Denmark, France, Germany, Italy, Norway, Portugal, Poland, Spain and the U.K. In addition to these plants, we have eight sites dedicated to die production or

fabrication activities. At the end of 2010, the sector employed around 3,300 people.

Extrusion North America operates eight plants in North America and is headquartered in the United States in Baltimore, Maryland. Four of the sector's production facilities are located in the Midwest and two plants are in the southeast. We also have one extrusion plant in the western part of the U.S. and a fabrication facility in Mexico. The business sector employed 1,325 people at the end of 2010.

Extrusion South America is the third-largest extruder in South America. The sector operates plants in Argentina and Brazil and employed about 400 people at the end of 2010.

Building Systems designs and delivers solutions for products such as aluminium windows, doors, facades, and other building applications, and is headquartered in Lausanne. Each of our brands – Technal, Wicona and Domal/Alumafel – represent distinct systems that enable our customers to tailor offerings to their market needs, from single window replacements to the erection of facades on major structures such as new airports or high-rise buildings. Our 2,850 employees operate out of 140 locations in Europe, three locations in Asia and two in the Americas, including sales, technical support, distribution and service.

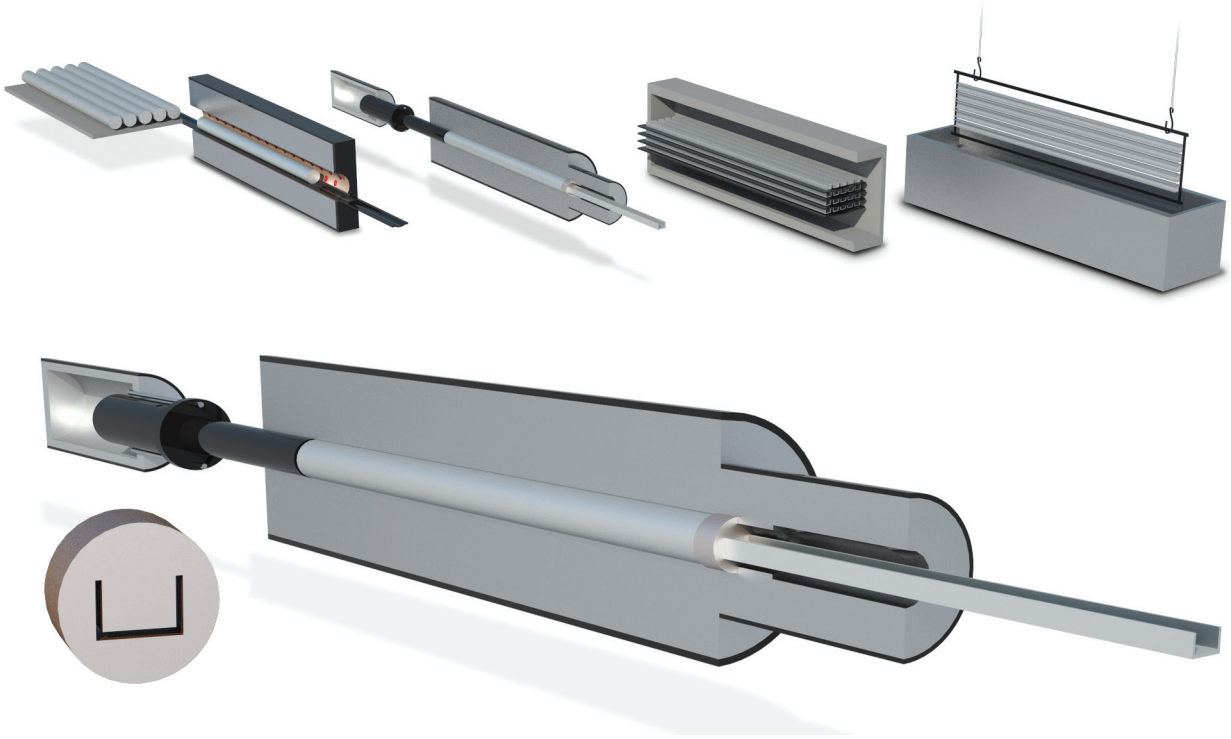
Precision Tubing makes products used in heat transfer applications for automotive and industrial customers, primarily in radiators, evaporators, fuel coolers and liquid lines. Precision Tubing is also headquartered in Lausanne. We are a global producer with eight manufacturing operations located in Belgium, Brazil, China, Denmark, Germany, Mexico, the U.K. and the U.S.

Markets, products and customers

General extrusions

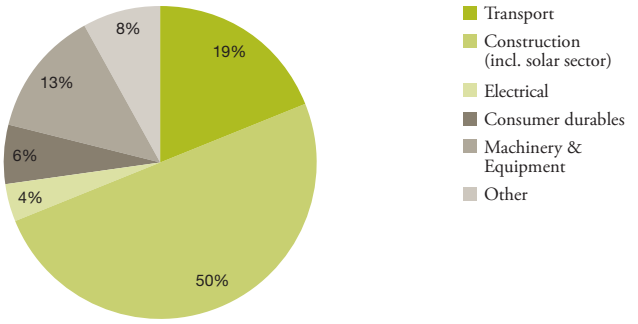
We sell high-quality extrusion profiles, delivered on time and according to specifications, to customers in most industries. About half of our products go to the building and construction markets, while about a quarter are used for various transportation applications. The remainder are used for consumer goods and other applications. We do not focus on standard profiles because of the strong competition and low margins within that market segment. Our local extruders work closely with their customers, and tailor aluminium profiles and services to meet individual needs. We do not offer finished goods to the market, but create value by enabling our customers to develop excellent products, and to manufacture and ship their products efficiently to their customers.

The extrusion process



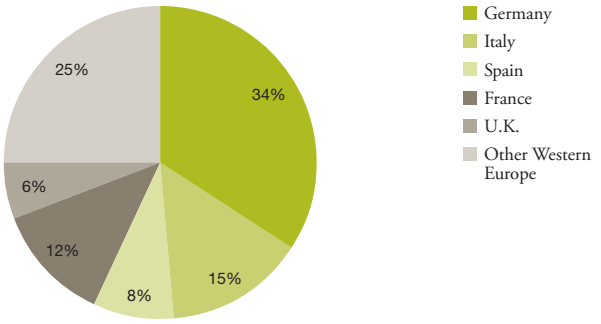
The ingots are preheated, extruded through a die and hardened before surface treatment.

European extrusion consumption (total 2,450 Kmt)
By end-use



Source: CRU

European extrusion consumption (total 2,450 Kmt)
By region



Source: CRU

A key to the success of our European extrusion business is our network of smaller, relatively independently operated extrusion plants, where decentralized organizations ensure good market alignment and close contact with customers. Our plants also use internal benchmarking actively, and apply best practices to ensure continuous improvement in the flexibility and efficiency of operations. Many of the plants in our system are characterized by modern equipment and advanced technology, enabling high efficiency, reliable deliveries and consistent quality. We possess considerable experience and skill in fabrication and surface treatment, thus offering an important resource to our customers and contributing to the production of finished components and the supply of system solutions.

In the U.S., we serve highly diverse markets and provide a wide range of end-use products. We focus on serving the customers and segments where close integration and special service create value for the customers, and have a particular competence in complex fabrication and assembly services. A particular focus at present is the solar energy market, where we have emerged as the leading supplier of mounting systems for large-scale solar energy fields.

In South America, we focus on delivering high-quality products within the shortest lead times and providing superior technical assistance to our industrial customers in the design phase of their products. Hydro has realized strong margin development supported by differentiation in terms of quality and service as well as a wide product range to the building and construction market.

Building Systems

The extensive geographic coverage and differentiated product offerings of Hydro's aluminium building systems brands are competitive strengths in a fragmented European market that favors solutions linked to regional building habits and local culture. Our technologies enable architects and builders to develop attractive design solutions, providing a variety of functional characteristics in terms of sound and wind insulation; safety; earthquake; fire and theft resistance; and thermal requirements. The latter includes solutions that range from satisfying local requirements to energy-neutral buildings and including buildings that actually produce more energy than they consume. Our distribution system and logistics operations enable quick and accurate deliveries.

The cost of energy and the continuously increasing focus on CO_2 emissions are expected to drive demand for more sustainable and energy-efficient building solutions. We are at the forefront of these developments, having constructed, through our research centers in France, Germany, India, Italy and Spain, several showcases as well as commercial buildings in this field. Our leading position within this market area was acknowledged through being awarded first prize for innovation within the category of building rehabilitation at BAU 2011 in Munich, Germany and at the INTERSOLAR Trade Fair 2010 in Germany, where we shared a prestigious award with our business and development partners for an innovative aluminium-based façade with an integrated solar energy solution.

We continue to expand our building systems activities and have gained market share despite the considerable slowdown in southern Europe. We have also expanded our operations outside Europe and have completed the construction of a new distribution center in India.

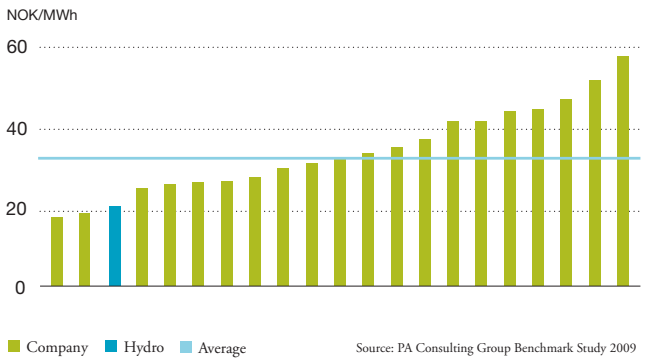
Precision Tubing

Our precision tubing business manufactures products used in heat transfer applications, both for the automotive and non-automotive market segments, and tube lines for carrying liquids or gases. We have a significant market presence in Europe, North America and South America and in Asia, and we offer a complete package of products on a global basis.

Customers use our products in a range of heat transfer applications that includes air conditioning and cooling systems, radiators, heat pumps, charge air coolers, transmission oil

Solid operational performance

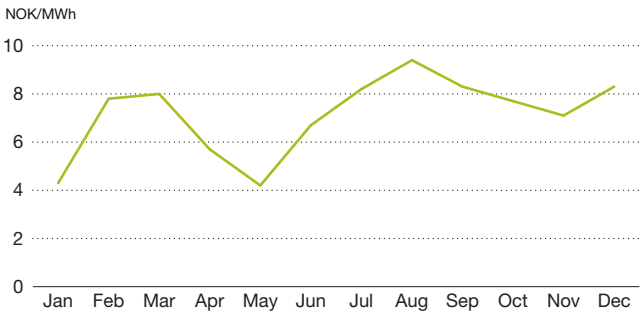
Production cost 2009



Source: PA Consulting Group Benchmark Study 2009

Solid energy market operations secure spot premium

Accumulated spot price premium*



* Difference between realized spot price and monthly average spot price 2010

coolers and evaporators. We have a strong presence with aluminium solutions in this market and supply global automotive customers such as Volkswagen, Denso, BMW, Delphi, TI, Valeo, Hutchinson, Visteon, Parker and Behr. The automotive market represents about 84 percent of the total precision tubing market. We also serve customers worldwide in promising and faster expanding non-automotive market segments.

Energy

Hydro operates 17 hydroelectric power plants in Norway, with a total installed capacity of 1,762 MW and annual normal production of 9.4 TWh. Annual hydropower production can vary by as much as 20 percent in either direction, depending on variations in hydrological conditions. Our power plants are located in three main areas – Telemark, Sogn and Røldal-Suldal – and managed from a common operations center at Rjukan in Telemark.

We also hold a 20.9 percent interest in SKS Production AS, a regional hydropower producer in northern Norway with 1.7 TWh of normal production capacity, and a 33 percent interest in Skafså Kraftverk ANS in Telemark.

In order to secure continued robust production in the Rjukan area, we have initiated a significant upgrade project that is expected to be completed in 2015. In addition, investment decisions for new power stations at Holsbru (Sogn) and Vasstøl (Røldal-Suldal) were made in 2010 and early 2011. Operations are expected to commence during 2012, with a combined installed capacity of 54 MW and a normal annual production just above 100 GWh.

In addition to sourcing power for our aluminium operations, Hydro sells about 1 TWh of the electricity related to concession power obligations to the local communities where the power stations are located. Power is also sold on existing contracts to our former petrochemicals business.

We optimize power production daily based on the market outlook and the hydrological situation within Hydro's water reservoirs. By utilizing the flexibility of the hydropower plants and the volatility in the spot market price, Hydro aims to realize a premium above the average spot price. Our total portfolio, including own our production, is balanced in the market on the Nord Pool power exchange. Spot market sales vary significantly between dry and wet years, with an average of 3 TWh, excluding the effects of curtailed smelter capacity.

REGULATION AND TAXATION

Hydro is subject to a broad range of laws and regulations in the countries and legal jurisdictions in which we operate. These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. We believe we are in material compliance with currently applicable laws and regulations.

Aluminium – regulation

Environmental matters

Hydro's aluminium operations are subject to a broad range of environmental laws and regulations in each of the jurisdictions in which they operate. These laws and regulations, as interpreted by relevant agencies and the courts, impose increasingly stringent environmental protection standards regarding, among other things, air emissions, the storage, treatment and discharge of waste water, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination. The costs of complying with these laws and regulations, including participation in assessments and remediation of sites, could be significant.

Aluminium production is an energy-intensive process that has the potential to produce significant environmental emissions, especially air emissions. Carbon dioxide and perfluorocarbons

Ownership percent	Rated capacity (MW) (100%)	Normal annual production (TWh) (Hydro share)	Key characteristics / concession period
Sogn (100 %)			• Total catchment area 761 km^2 • New Tyin power station opened 2004 • Concession expiration Tyin 2051 and Fortun 2057
Tyin	374		
Skagen	252		
Fivlemyr	2		
Herva	40		
Total Sogn		3.1	
Røldal-Suldal Kraft (95.2%)			• Total catchment area 793 km^2 • Concession expiration 2022
Middyr	1		
Svandalsflona [3]	18		
Novle	48		
Røldal	160		
Suldal I [4]	170		
Suldal II	148		
Kvanndal	45		
Total Røldal-Suldal Kraft		2.8	
Telemark (100%) [1]			• Total catchment area 4 108 km^2 • No reversion except for Frøystul 50% 2044, Moflåt and Mæl 2049
Frøystul	47		
Vemork [2]	204		
Såheim [2]	187		
Moflåt	29		
Mæl	38		
Svelgfoss	92		
Total Telemark		3.4	
Skafså (33%)			
Åmdal [2]	21		
Osen [2]	15		
Skree [2]	7		
Gausbu [2]	7		
Total Skafså		0.1	
Total		**9.4**	

1) All plants in Telemark are wholly owned except for Svelgfoss, in which Hydro owns 70.22 percent.
2) No reversion.
3) Svandalsflona resumed operation in April 2010 after the tragic accident in May 2009.
4) Suldal I was out of operation due to repair of pressure shaft from March 2009 to January 2010, when it resumed operation.

(PFCs), both greenhouse gases, are emitted during primary aluminium production.

In the European Union and other jurisdictions, various protocols address transboundary pollution controls, including the reduction in emissions from industrial sources of various toxic substances such as polyaromatic hydrocarbons, and the control of pollutants that lead to acidification.

The European Union has a framework of environmental directives integrated into the Water Framework Directive (2000/60/EC) regarding discharges of dangerous substances to water. The directive does not, however, set specific emission limit values for specific pollutants. The implementation of the directive is done through specific legislation on bathing waters, drinking water, nitrates in ground and surface waters, and urban wastewater treatment. Based upon the information currently available regarding implementation in the Member States and Norway, Hydro's management does not believe it will have a material negative impact on its business. The European Union has also adopted Directive 2008/105/EC on environmental quality standards in the field of water policy, which sets environmental quality standards (EQS) for surface waters for a number of priority substances and priority hazardous substances (PHS). These standards must be observed from 2015. Among the substances found on the PHS list are polycyclic aromatic hydrocarbons, which are sometimes emitted by the aluminium industry. Any emissions, discharges and losses of such substances (i.e.

PHS) must cease in the EU by 2025. Hydro will develop its own implementation plan to ensure compliance with the new rules.

Hydro has a number of facilities that have been operated for a number of years or have been acquired after operation by other entities. Subsurface contamination of soil and groundwater has been identified at a number of such sites and may require remediation under the laws of the various jurisdictions in which the plants are located. Hydro has made provisions in its accounts for expected remediation costs relating to sites where contamination has been identified that, based on presently known facts, it believes will be sufficient to cover the cost of remediation under existing laws. Because of uncertainties inherent in making such estimates or possible changes to existing legislation, it is possible that such estimates may prove to be insufficient and will need to be revised and increased in the future. In addition, contamination may be determined to exist at additional sites that could require future expenditure. Therefore, actual costs could be greater than the amounts reserved.

Hydro believes that it is currently in material compliance with the various environmental regulatory and permitting systems that affect its facilities. However, the effect of new or changed laws or regulations or permit requirements, or changes in the ways that such laws, regulations or permit requirements are administered, interpreted or enforced, cannot always be accurately predicted.

Integrated pollution prevention and control

Under the EU Directive on Integrated Pollution Prevention and Control 1996/61/EC (the "IPPC Directive"), industrial installations require national operating permits based on best available techniques (BAT) for pollution prevention and control. The European Commission has issued a guidance document relevant for the aluminium industry: Best Practice Reference (BREF) for the Non-Ferrous Metals Industries (2001). In 2000, the Norwegian authorities established stricter emission limits for the aluminium industry in Norway from January 1, 2007, in line with the IPPC Directive. Hydro's aluminium production facilities comply with the new requirements. The IPPC Directive has been amended by Directive 2010/75/EU on Industrial Emissions (IED), while the related BREF note is in the process of being revised at the European level. The new IED requirements will be applicable from 2013. We expect Hydro to be in a position to comply with the new rules.

Climate gases

The EU Emissions Trading Directive 2003/87/EC (the ETS Directive) establishes a scheme for trading greenhouse gas emission allowances. The directive establishes an internal emission trading system (ETS) in CO_2 emission allowances for the period from 2005-2012. During this period, the aluminium industry has not been included in the emission-trading directive, but has been exposed to the EU emission-trading system through the effects of the law on the power generation industry and the resulting increase in power prices ("indirect effects"). The implementation of the ETS Directive in Germany, which resulted in a major pass-through of CO_2 allowance prices by producers to customers, has led to significant increases in the cost of electricity, which again have necessitated restructuring throughout Germany's aluminium industry. This EU Directive is also relevant for the EEA, and Norway joined the EU ETS in 2008.

In April 2009, the European Union adopted a new law amending these rules (Directive 2009/29/EC) to include primary and secondary aluminium production where combustion units have a total rated thermal input exceeding 20 MW in the ETS for the period from 2013-2020 for the direct emissions of CO_2 and PFC gases from aluminium plants. Aluminium production is qualified as an industrial sector exposed to a high risk of "carbon leakage" (i.e. risk of European operations losing market share to less carbon-efficient installations outside the EU).

This means aluminium producers would, in principle, receive a high percentage of the emission allowances they need free of charge (100 percent free allocation for smelters operating at the EU-agreed benchmark value). The free allocation of emission allowances is agreed until 2020, but the list of sectors exposed to the risk of carbon leakage will be amended in 2014. The precise rules for free allocation have been agreed at the EU level and, provided there are no objections from the Council of Ministers and the European Parliament by March 2011, they will enter into force in the second quarter of 2011. The rules will apply as of January 1, 2013. Hydro expects to meet the benchmark values by 2013, so the financial impact of these regulations should be limited.

Rolling operations are also covered by the new rules and will be allocated allowances free of charge based on a green house gas efficiency benchmark. Hydro's extrusion operations are not covered by the ETS directive, except for their remelting activities, where Hydro expects to be close to, or within, the benchmark values by 2013.

Even more important for the aluminium industry are provisions allowing Member States to grant financial compensation for the increase in electricity prices due to ETS implementation, while observing EU state aid rules. These rules are in the process of being amended, but the process has been delayed. Hydro expects the EU Guidelines for Environmental State Aid to be amended in 2011, and could be used by Member States for providing compensation from 2013 onwards. At this point in time, however, Hydro cannot estimate the level of such compensation in the various jurisdictions it operates in the EEA.

EU aluminium tariffs

In 2007, the EU reduced the import duty on non-EU imports of primary unalloyed aluminium from 6 percent to 3 percent. Aluminium metal produced in the EEA is exempt from such duty. The level of import duty for unwrought unalloyed

aluminium has been reviewed in 2010 and the tariff level has been kept at 3 percent.

The World Trade Organization (WTO) round of negotiations on tariff and non-tariff barriers on industrial products may ultimately lead to further reduction, and perhaps elimination, of aluminium tariffs. Nevertheless, the WTO negotiations are not expected to have a substantial impact on Hydro in the near future.

In the absence of a WTO multilateral trade agreement, the EU has been negotiating bilateral free-trade agreements with various third countries of interest to Hydro, which will, in time, lead to the suspension of aluminium tariffs with such third countries.

Chemicals legislation – REACH

The European Union Regulation (EC) No. 1907/2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (known as "REACH") was adopted in late 2006 and entered into force in the EU on June 1, 2007. Aluminium is covered by this regulation and the regulation has also been applicable in Norway since June 2008 through the EEA agreement.

The main aim of REACH is to protect European citizens and the environment from exposure to hazardous chemicals. This will be achieved by requiring producers and importers of chemicals to register them formally and to evaluate their health and safety impacts. In some cases, REACH may require producers and importers to replace hazardous chemicals with those of less concern. The registration of chemicals will be a lengthy process over a number of years and will be prioritized by volumes produced.

Hydro is on track to implement REACH, having successfully completed the first stage in the legal process, i.e. the full registration of substances produced and/or imported above 1,000 metric tons/year by the legal deadline of November 30, 2010. The next step in the implementation of REACH is the registration of substances produced and/or imported in volumes above 100 metric tons/year by June 1, 2013.

Energy – regulation and taxation

The Norwegian regulatory system for hydropower production

The ownership and utilization of Norwegian waterfalls for i.e. hydropower production, other than small-scale power production, requires a concession from the Ministry of Oil and Energy. According to new legislation passed in 2008, new concessions may no longer be granted to private entities such as Hydro. Moreover, private entities may not acquire nor own more than one-third of the shares in companies that own hydropower plants.

Our waterfall rights and hydropower plants in Norway were acquired and developed under previous legislation that allowed for private ownership. Approximately one-third of our normal annual production in Norway – about 3 TWh per year – was acquired before concession laws were enacted and does not contain any compulsory reversion to the Norwegian state. About two-thirds of our normal annual production, or 6 TWh per year, are subject to concessions granted at the time the waterfall rights were acquired. Such power plants operate under concession terms of Norwegian state reversion, with individual concessions expiring in two main parts around 2022 and 2050. Hydro's power plants at Røldal-Suldal, with normal annual production of 2.8 TWh, will be the first significant production facilities to revert to the Norwegian state towards the end of 2022. Reversion to the Norwegian state can be avoided if the power plants, or two-thirds or more of the shares of the entity that owns the power plants, are sold to a public entity prior to reversion.

Under the new legislation, private entities like Hydro may be granted a concession to lease a waterfall for up to 15 years.

Taxation of hydropower production in Norway

Profits from Hydro's hydropower production in Norway are subject to ordinary income tax, currently 28 percent. Revenue for ordinary income tax purposes is based on realized prices. Dams, tunnels and power stations are for tax purposes depreciated on a linear basis over 67 years, and machinery and generators over 40 years. However, such fixed assets are depreciated over the concession period if that is shorter. Transmission and other electrical equipment are depreciated at a 5 percent declining balance.

A natural resource tax of NOK 13 per MWh is currently levied on water-generated electricity. The tax is fully deductible from the ordinary income tax.

In addition, a special resource rent tax, currently 30 percent, is imposed on hydropower production in Norway. Unlike the ordinary income tax, financial costs are not deductible against the basis for the resource rent tax. Uplift is a special deduction in the net income, computed as a percentage of the average tax basis of fixed assets (including intangible assets and goodwill) for the income year. The percentage, which is determined annually by the Ministry of Finance, essentially provides for a certain return on fixed assets above which income becomes subject to the resource rent tax. The percentage used to calculate the uplift for 2010 was 2.3 percent.

Revenue for resource rent tax is, with certain exceptions, calculated based on the plant's hourly production, multiplied by the area spot price in the corresponding hour. However, revenues from sales under certain long-term contracts are valued at contract price and power supplied to Hydro's own industrial production facilities is valued at the price in the so-called "Statkraft's 1976 contracts" for tax purposes, which for 2010, was 228.54 NOK/MWh. As most of Hydro's hydropower production is used for our own industrial production or sold under qualifying contracts, only a minor portion of our production has been subject to spot-price taxation.

OTHER INFORMATION

As a public limited company organized under Norwegian law, Hydro is subject to the provisions of the Norwegian Public Limited Companies Act. Our principal executive offices are located at Drammensveien 260, Vækerø, N-0240 Oslo, Norway; telephone number: +47 2253 8100. Hydro's internet site is www.hydro.com

03:

Vale aluminium acquisition

QUICK OVERVIEW

With the acquisition of Vale's aluminium assets, Hydro is a fully integrated, resource-rich aluminium company with attractive positions in alumina and power, two of the most important input factors in the production of primary metal. We have transformed our position in bauxite and alumina, making us self-sufficient with regard to all of our raw material needs and positioning Hydro as a leading global supplier to other industry players. We are one of the world's largest producers and suppliers of alumina and primary aluminium, with strong global positions in mid and down-stream operations.

KEY DEVELOPMENTS AND STRATEGIC DIRECTION

Key developments

Completing the acquisition of Vale's aluminium assets transforms Hydro into one of the largest producers and suppliers of alumina. The acquisition increases our ownership in Alunorte, the world's largest alumina refinery and one of the most cost effective, from 34 percent to 91 percent. It gives us control over one of the largest bauxite mines, through a 60 percent ownership in the Paragominas mine with a commitment to increase our interest to 100 percent by 2015. The acquisition raises our ownership interest from 20 percent to 81 percent in Companhia de Alumina do Pará (CAP), an alumina refinery under development that will be supplied with bauxite from the Paragominas mine. It also gives us 51 percent of the Albras aluminium smelter, and rights in certain agreements and contracts related to these assets.

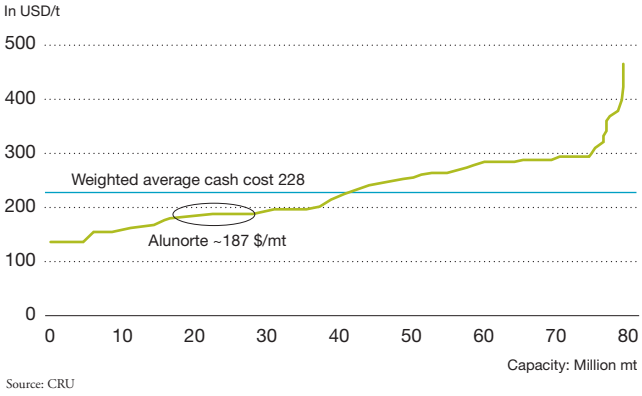
The integration process is underway, affecting roughly 4,100 employees in Brazil. A strong management team for the new business area is in place, headquartered in Rio de Janeiro, and includes a commercial office established in Lausanne, Switzerland.

Strategic direction

Successful integration of the Vale assets and organization will be a top priority in the coming year, building a foundation for secure and profitable operations and a basis for extracting value through improving efficiency and operational excellence. Safe, sustainable practices will be at the core of our activities, promoting responsible, cost-effective operations. The acquisition secures the supply of alumina to our own operations and creates a strong platform for further organic smelter growth. A long alumina equity position enhances Hydro's value as an attractive partner for new projects, and places us in a profitable alumina market where we can influence the trend toward more sustainable pricing mechanisms.

Strong position – ambitious targets

World cash cost curve 2009



Source: CRU

Improve the performance of Paragominas and Alunorte

A main target in the coming years will be capacity utilization and operational efficiency, including the level of integration between the bauxite mine and alumina refinery. We will concentrate on effective production systems, rigorous productivity improvements and systematic implementation and follow-up of maintenance activities. Our aim is to achieve targeted increases in production levels and to significantly enhance the performance culture within these core activities. We want Paragominas and Alunorte to be among the top three bauxite mines and alumina refineries worldwide.

Establish and reinforce safe and sustainable business practices

Establishing and implementing an appropriate HSE and CSR strategy reflecting our new major presence in Brazil will be on top of our agenda. Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways. This principle will guide our actions as we develop our new business. In the coming year, we will work to complete a review project of the bauxite residue deposit area and then implement the improvements that are recommended by the project.

Expansion of our alumina capacity

Our ambition is to increase our capacity of low-cost alumina, reinforcing our position as a leading global supplier. CAP, the new alumina refinery under development in Barcarena, close to Alunorte, will have an initial annual capacity of 1.9 million metric tons. Potential expansions can increase this to 7.4 million mt.

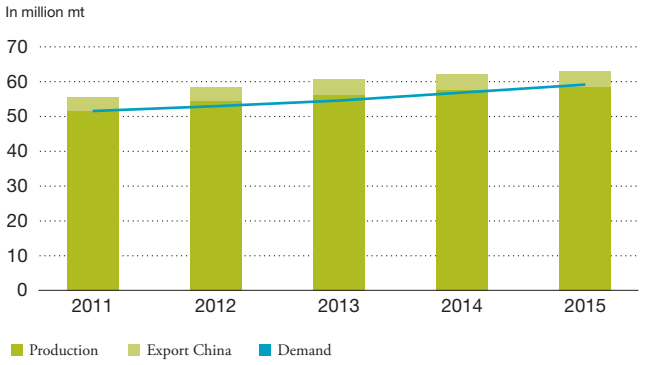
INDUSTRY OVERVIEW

Alumina processing begins by sorting and crushing bauxite, then mixing it with caustic soda at high temperature and pressure. The resulting slurry is pumped into a digester, where a chemical reaction dissolves the alumina. This process produces a sodium aluminate solution, which is transferred into tanks to separate impurities through settling and filtration. The cooled sodium aluminate solution is then pumped into precipitators to grow alumina crystals, which are transferred to thickening tanks and eventually to kilns to remove water, producing pure alumina.

Developments within the alumina and bauxite industry

Major bauxite-producing countries include Australia, China, Russia, Brazil, India and Guinea. In 2010, the world's 10 leading bauxite-producing countries accounted for more than 95 percent of global production of roughly 240 million mt. The sector is also highly concentrated, with the five largest mines controlling around 35 percent of global production last year. Currently, Paragominas' capacity represents about 4 percent of global production.

A balanced alumina market but with some uncertain capacity



Alumina is one of the most significant cost elements in the production of aluminium. The alumina market is competitive, but small, compared with the primary aluminium market, because many of the major aluminium-producing companies have integrated bauxite, alumina and aluminium operations. Competition in the alumina market is based primarily on quality, the reliability of supply, and price, which are directly related to operating costs and logistics. Hydro believes that Alunorte is competitive in the alumina market because of the high quality of its alumina, its advantages in scale and technology, low energy consumption and labor costs, and efficient port facilities.

Bauxite and alumina prices have been strongly affected by developments in China, with three-to-seven-year contract prices increasing from a level of around 12 percent of the LME's aluminium reference prices in 1990 to around 14-15 percent in 2010. There also has been a shift in the alumina market toward shorter contract durations. In general, the owners of the natural resources that provide the basic raw materials for industrial commodities are taking an increasing share of profits, a trend that is expected to continue.

OPERATIONS

Overview

Hydro has acquired Vale's interests in alumina refining operations and projects (Alunorte and CAP), aluminium smelting operations (Albras) and 60 percent of Vale's interest in the Paragominas bauxite mining assets. All of the assets are located in Brazil.

The Paragominas mine is one of the world's largest bauxite mines based on historical output. Current nominal production capacity amounts to 9.9 million metric tons on an annual basis.

Alunorte is the world's largest alumina refinery. It is positioned in the first quartile on the industry cost curve, based on highly competitive conversion costs and an integrated bauxite supply. Alunorte has annual production capacity of approximately 6.3 million mt. As part of the Vale acquisition, Hydro increased its ownership interest in Alunorte from 34 percent to 91 percent.

Albras is a hydro-powered aluminium smelter with annual production capacity of 460,000 mt. It is among the largest smelters in the Americas with a cash-cost position in the upper second quartile on the industry cost curve. Hydro owns 51 percent of Albras, as part of the Vale acquisition.

Companhia de Alumina do Pará (CAP) is a joint-venture project for the development of a new alumina refinery close to Alunorte. Hydro increased its ownership interest in CAP from 20 percent to 81 percent following the Vale acquisition.

The business and assets comprising Vale Aluminium also include the rights of Vale and its subsidiaries in certain shareholders' agreements, shareholder loans, off-take agreements and other commercial agreements relating to the interests described above.

Bauxite mining

Operations at the Paragominas mine, in the Brazilian state of Pará, commenced in the first quarter of 2007 and began supplying raw material to the Alunorte alumina refinery at the same time. The first expansion of the Paragominas mine (Paragominas II) was completed in the second quarter of 2008. The mine has a nominal annual production capacity of 9.9 million mt of 12-percent moisture bauxite. The site is connected to a 244-kilometer slurry pipeline with an annual capacity of 14.9 million mt.

The following table includes production volumes for the Paragominas mine (on a 100 percent basis):

In millions of mt	Mine type	2010	2009	Nominal capacity	Recovery rate
Final bauxite production	Open pit	7.5	6.2	9.9	70%

Vale has performed a feasibility study for a second expansion, Paragominas III, which would increase production capacity by 5.0 million mt per year.

Alumina

Alunorte produces alumina by refining bauxite supplied by Vale and sourced from MRN and the Paragominas mine. In 2009 and 2010, respectively, Alunorte sourced approximately 58 and 48 percent of its bauxite requirements from MRN with the remainder acquired from the Paragominas mine. Alunorte is the largest alumina refinery in the world and among the lowest cost producers. The refinery has a nominal production capacity of 6.3 million mt per year, following the most recent expansion completed in the second quarter of 2008. Alunorte supplies alumina to the Albras smelter, which is located nearby in Barcarena in the state of Pará. Alunorte and Albras share infrastructure and other resources. Alunorte supplies alumina to Hydro and, prior to the completion of the acquisition, to Vale, which sold alumina to unaffiliated customers.

The following table includes production volumes for Alunorte (on a 100 percent basis):

In millions of mt	2010	2009	Nominal capacity
Production	5.8	5.9	6.3

CAP, a new alumina refinery to be located in Barcarena, close to Alunorte, is under development in a joint venture formerly between Vale, Hydro and Dubai Aluminium Company Limited. The refinery will have initial annual capacity of 1.9 mt with potential for expansions up to 7.4 million mt, over four phases. The plant will be supplied with bauxite from the Paragominas mine.

Aluminium

The Albras smelter, located in Barcarena, in the state of Pará, is one of the largest aluminium plants in the Americas, with a nominal capacity of 460,000 mt of primary aluminium per year. Alunorte supplied 100 percent of the alumina requirements for Albras in 2009 and 2010. Albras commenced operations during 1985-86 and produces standard metal ingots.

Albras purchases electricity from the Tucuruí hydroelectric power plant located on the Tocantins River in Tucurui, Brazil. This plant, which is owned by Eletronorte, is the only source of electrical power in the region able to deliver the quantities required for Albras' operations. Albras consumes approximately one-fifth of the non-peak period output of the Tucuruí plant.

The following table includes production volumes for the Albras aluminium smelter (on a 100 percent basis):

In millions of mt	2010	2009	Nominal capacity
Production	446	450	460

Customers and sales

Bauxite – The Paragominas mine sells all of its production to Alunorte, which corresponded to about 42 and 52 percent of Alunorte's bauxite requirements in 2009 and 2010, respectively.

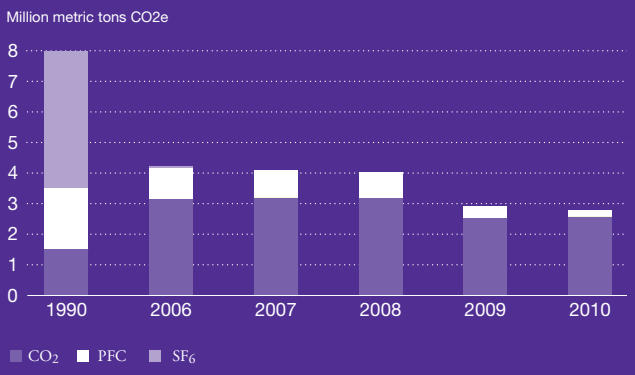
Alumina – The majority of Alunorte's produced alumina is purchased by its shareholders on a take-or-pay basis in proportion to their respective ownership interests. The shareholders pay the same price, which is determined by a formula based on the price of aluminium for three-month futures contracts on the LME. Part of Vale's share of Alunorte's alumina production is used to supply the Albras smelter. The remainder of Vale's share of production prior to completion of the acquisition was sold to customers in Argentina, Canada, Egypt, Norway, the United States and other countries.

Aluminium – Each of Albras' shareholders must purchase on a take-or-pay basis all of the aluminium produced by Albras in proportion to their ownership interests. Formerly, Vale's share was partly sold to customers in the aluminium industry in domestic markets, with the remainder sold in international markets, mainly Asia and Europe.

04:

Viability performance

Direct greenhouse gas emissions from Hydro's consolidated activities



QUICK OVERVIEW

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

In our terms, pursuing viability comprises a specific way of bridging viability and business, and a set of performance areas where we measure our progress.

This is what our viability performance reporting is about.

First, we describe The Hydro Way, a set of guiding principles that govern our activities and underpin our approach to viability. Next, we report on our viability performance in 2010 according to a set of areas that capture our most important viability issues while corresponding to generally acknowledged domains of reporting.

VIABILITY – THE HYDRO WAY

The Hydro Way is our approach to business. It's an approach that has lived within Hydro since 1905 and has underpinned our development over the years.

The Hydro Way originates from our company's identity – our unique set of characteristics – and constitutes a way of doing things that differentiates us from other companies.

The Hydro Way explains how we run our business through:

- Our mission
- Our values
- Our talents
- Operating model
- Strategic direction

These principles help us set our priorities and serve as a reference point when questions arise. Our mission describes our higher purpose and is supported by our values and our talents, which define how we conduct our business.

Hydro's mission is to create a more viable society by developing natural resources and products in innovative and efficient ways.

In order to ensure a uniform high standard, Hydro's corporate directives lay down requirements. They are compulsory for all parts of the organization and build on The Hydro Way. The directives address various issues including strategy and business planning, economy and finance, risk management, organizational and employee development, health, safety, security and environment (HSE), as well as ethics and social responsibility.

Hydro has been listed on the Dow Jones Sustainability Indexes (DJSI) each year since the index series started in 1999. We are also listed on the corresponding UK index, FTSE4Good.

Dow Jones Sustainability Indexes Member 2010/11

FTSE4Good

ENERGY AND CLIMATE CHANGE

For several decades we have monitored our impact on the environment as part of our 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. These priorities are essential to our overall business strategy. They include reducing the environmental impact of our production activities as well as taking advantage of business opportunities by enabling our customers to do the same. Some of the measures we pursue include:

- Using viable energy sources
- Reducing energy consumption and emissions in production
- Reducing CO_2 emissions and energy consumption through the use of our products
- Increasing recycling of aluminium

Renewable energy is our preferred choice. About two-thirds of the electricity used in our primary aluminium production is from renewable sources, and we are the second-largest hydropower producer in Norway with normal production of 9.4 TWh per year. In 2010, we produced 8.1 TWh, see page 40.

The part-owned Qatalum smelter, which is planned to come into full production from June 2011, is using natural gas as an energy source. The International Energy Agency recognizes natural gas as an important energy source that can help reduce global temperature increases. In Brazil and Australia, we use power from the grid. The grid in Brazil is mainly supplied by hydropower, while the grid in Australia is mainly supplied by coal power.

In addition, we are utilizing our long experience as a hydropower producer to find more renewable energy sources around the world. In cases where new production triggers the construction of coal-fired power plants, we will require the plant to plan for carbon capture and to be in a location with realistic storage solutions.

Starting in 1990, total greenhouse gas emissions from our ownership equity have decreased from 12.5 million metric tons (mt) CO_2 equivalents (CO2e) to 5.8 million mt CO2e last year, including 0.9 million mt CO2e from the new Qatalum power plant. This is a 54 percent decrease. We have also reduced specific greenhouse gas emissions from our primary production by more than 60 percent since 1990. Our total emissions increased in 2010 after Qatalum's start of production. In 2011, with Qatalum coming into full production, and with our acquisition of Vale's aluminium business in Brazil, Hydro's total greenhouse gas emissions will increase further.

In 2009, we revised our goal to a specific direct emission of 1.52 mt CO2e per mt aluminium in 2013. With performance of 1.63 mt CO2e per mt aluminium, we surpassed our 2010 goal of 1.73. Our newest technology, HAL4e, achieved 1.5 mt CO2e per mt aluminium in 2010.

To help meet our 2013 target, the Sunndal plant in Norway initiated a project to reduce the PFC emission from anode effects. The anode effects at the newest potline at Sunndal have been reduced by about 75 percent. This implies an annual reduction of the emission of PFC greenhouse gases of about 80,000 mt CO2e, and an anode-effect energy reduction equal to about 4,000 MWh. Today, this method is being utilized widely at other Hydro potlines.

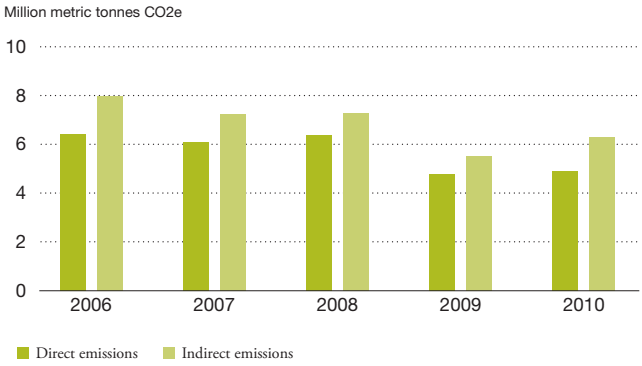
On average in our consolidated smelters, we consumed 13.8 kWh of electricity to produce one kilogram of aluminium in 2010. Our HAL4e technology, which we are testing in full scale, has achieved energy consumption of 12.5 kWh per kg aluminium. We are increasing our efforts to reduce energy consumption further.

We work closely with customers to develop products that save energy and reduce emissions. Aluminium façades can lead to lower operating costs and also enable buildings to produce as much energy as they consume during operation. Lighter cars result in fuel savings and lower emissions on the road, and lighter aluminium products and packaging reduce transport costs and emissions. Excellent barrier properties reduce the cooling needs of food products while improving durability, thus reducing food spoilage. In addition to making internal improvements, our Rolled Products operations are helping customers save energy and greenhouse gases through the use of their products. See also page 68.

We are currently upgrading several of our hydropower plants. This will increase the potential electricity output by 150 GWh per year. The Rjukan watershed in Norway, with total annual normal capacity of 3 TWh, is the largest upgrade. The project has an estimated cost above NOK 800 million and

Direct greenhouse gas emissions from Hydro's consolidated activities

Direct and indirect greenhouse gas emissions from Hydro's ownership equity



Greenhouse gas emissions based on Hydro's ownership equity as per December 31, 2010. Indirect emissions are based on electricity consumption and IEA "CO_2 Emissions from Fuel Consumption" 2005 factors. In addition, indirect emissions include 0,90 million metric tons CO2e from Hydro's ownership equity in the Qatalum-owned gas-fired power plant in Qatar.

Taking action together

"Europe needs investments in new metal plants and investments that can improve existing plants. Bellona believes it is necessary to ensure that industry is compensated for the additional costs being forced upon it. In our view, this must occur in a system where industry also provides something in return. The goal must be lower energy consumption and less greenhouse gas emissions per kilogram of aluminium produced, and in an energy regime that is competitive. This demands political solutions that are more overall in scope."

Marius Holm
Vice President, Bellona Foundation

Read full interview at www.hydro.com/reporting2010

2010 target
- The electrolysis process of aluminium production emits 1.73 mt CO2e/mt aluminium
- Develop a recycling strategy

2010 result
- The electrolysis process of aluminium production emitted 1.63 mt CO2e/mt aluminium, thus reaching our target
- A recycling strategy with ambitious targets was developed
- Recycling of contaminated and post-consumer scrap increased by about 30 percent

2011 target
- Further lift our recycling volume to improve capacity utilization
- Develop new business opportunities within recycling

Ambition
- Aluminium production emits 1.52 mt CO2e/mt aluminium in 2013
- Recycle 1 million metric tons of contaminated and post-consumer scrap in 2020

is expected to be completed in 2015. New capacity at Holsbru, Herva and Vasstøl will also be added.

We support the development of international frameworks on climate change and greenhouse gas emissions and participate actively in organizations such as the World Business Council for Sustainable Development and the International Emissions Trading Association, to provide business solutions to climate change. In addition, we work through aluminium associations to establish a level playing field globally for aluminium production.

Remelting and recycling

Aluminium can be recycled over and over again without degradation of quality. Aluminium recycling requires up to 95 percent less energy than primary aluminium production. This makes aluminium a viable material for the future. Hydro is a large remelter of aluminium, with nearly 30 facilities worldwide. We remelt process scrap from other companies and from our own production. Our expertise in remelting is a good basis for further expansion.

In 2010, we developed a new recycling strategy. It is our ambition to grow faster than the market in recycling and take a leading position also in this part of the value chain. By 2020, we want to recover 1 million metric tons (mt) of contaminated and post-consumer scrap annually. The first step is to improve our existing capacity utilization. In 2010, we increased our recycling volume by about 30 percent to more than 260,000 mt. Our goal for 2011 is to continue to lift our recycling volume and improve capacity utilization of existing assets.

In the next phase, we intend to invest in additional recycling assets to capture scrap volumes generated in our plants and from plants operated by partners. One of our goals is to develop recycling plants that serve internal and external customers with metal products produced from industrial and end-of-life scrap. In 2010 we announced our intention to build the biggest recycling plant in Scandinavia on the site of our aluminium activities in Karmøy, Norway. In addition, we are evaluating the development of a recycling center in Neuss, Germany, where we produce primary aluminium.

In Europe, approximately 95 percent of the aluminium in automotive applications and 96 percent of the aluminium in commercial buildings is recycled at end-of-life. The recycling rate for used aluminium cans has continued to grow and now stands at 63 percent for the whole of Europe. The recycling of other aluminium packaging has increased as well. It is estimated that at least 55 percent of all used aluminium packaging in Europe is being recycled today, and further growth, due to additional and new collection activities, is expected. Hydro and our partners in the market support aluminium packaging promotions and recycling initiatives throughout Europe. We team up with producers of beverage cans, drinks and food, and other interest groups and industries, to develop specific activities aimed at raising public awareness about the importance of recycling. See also page 68.

Development in solar energy

Solar energy is one of the alternatives that can reduce the world's reliance on fossil fuels. Our experience in metals, industrial development and large-scale project management provides a strong platform for our solar business. Hydro produces large volumes of frames and support structures for solar installations and is involved in all main solar technology areas:

- Photovoltaics (PV), converting sunlight directly into electricity
- Solar thermal installations, which use sunlight to heat water
- Concentrated solar power, focusing sunlight using mirrors and producing high-temperature heat and steam for power production

Hydro carries out R&D and marketing activities to provide the solar industry with aluminium sheet and tubes that replace traditional materials such as copper in absorbers and glass as a mirroring material, to improve performance and lower the cost of solar installations, and to promote broader use of solar-energy technologies worldwide. See page 69.

We have minority ownership interests in two solar companies: NorSun and Ascent Solar. With production plants in Finland and Norway, NorSun aims to be a world leader in supplying silicon wafers to manufacturers of high-efficient solar cells. U.S.-based Ascent Solar is ramping up series production on its fabrication line in Denver, Colorado. Due to delays in the certification of Ascents' solar modules, Hydro's building systems sector has temporarily postponed the deployment of innovative façade-integrated PV solutions for its brands Wicona and Technal in cooperation with Ascent.

RESOURCE MANAGEMENT

In addition to climate change and energy consumption, our main environmental challenges are related to waste, emissions and biodiversity. With regard to the Vale transaction, Hydro has performed an environmental asset evaluation and established a strategy to integrate these assets into our organization. Our aim is to align practices and policies from an environmental point of view and to thereby minimize our environmental footprint through the life cycle of our products.

As a result of the Vale transaction, we have become operators in bauxite mining and alumina refining in Pará in Brazil. Operations include the handling of significant amounts of tailings and red mud. Biodiversity management has also become a more important part of our agenda.

We have established environmental performance indicators for our production plants. The indicators vary between plants due to the inherent differences between, for example, large smelters and small extrusion plants. They help us measure status and improvements, and enable us to concentrate on the most important issues.

Minimizing waste

Our goal is to minimize the amount of waste produced and then reuse or recycle it. This is beneficial environmentally and economically.

Spent potlining (SPL) from the reduction cells used in primary aluminium production is defined as hazardous waste. In 2010, we generated 19,768 metric tons of SPL, which was 30 percent below the amount from 2009. The reduction was mainly due to the closure of the Søderberg lines in Norway and reduced production in Neuss, Germany. The amount of SPL was equal to 8 percent of our total waste and 18 percent of our amount of hazardous waste. By extending the life of potlining, we expect to further reduce the amount of SPL. We continued our cooperation with NOAH, the company which handles our SPL waste in Norway, in 2010. At the same time, we are pursuing alternatives to landfill for several of the waste fractions, including the use of SPL as alternative fuel in the cement and mineral wool industries. Our Qatalum joint venture is aiming at "no-SPL-to-landfill" together with several Arabian Gulf smelters, with a view to using SPL in the cement industry.

A project was launched in 2010 to study the overall waste situation at our smelters. This will continue in 2011. Although local initiatives through minimization and reuse have reduced waste production, this amount increased in 2010. This was due to rehabilitation after the closure of our Søderberg lines in 2009.

In 2009, we formalized a cooperation with an external partner to help identify applications for production waste from our Norwegian smelters. As part of our ambition to develop a sustainable solution for recycling dross from Scandinavian sources, we plan to build a recycling plant on-site the primary smelter at Karmøy, Norway. The plant will have annual capacity of 70,000 mt.

Biodiversity and water

Hydro has majority shares in bauxite mining and alumina refining. Part-owned MRN in Brazil follows a program, regarded as industry best practice, that is systematically replanting forests using local seeds and rehabilitating fauna. We will review this rehabilitation practice in 2011 as the basis for future rehabilitation work in Hydro. The red mud deposits at Alpart in Jamaica – which were temporarily shut down in June 2009 due to the financial crisis – represent a challenge, and will be evaluated before the restart of operations. The company's land rehabilitation program is continuing independent of the shutdown.

After a red mud spillage from the alumina refinery Alunorte in Brazil in April 2009, corrective actions have been taken, including strengthening the drainage system and improving the surveillance of the water treatment facility. A need for better emergency handling, including information to the local community, was also identified. Alunorte was fined after the incident, but has appealed.

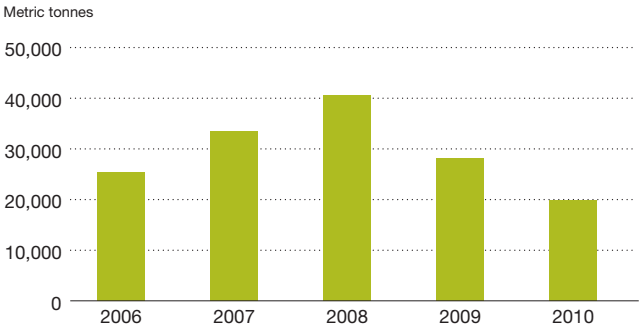
2010 target
- Continue work to minimize the amount of spent potlining (SPL) and to find a sustainable use for it

2010 result
- SPL production reduced by 30 percent due to the Søderberg closure and reduced capacity in Neuss, Germany

2011 target
- Establish a new environmental strategy

Ambition
- Minimize our environmental footprint through the life cycle of our products

Spent potlining



The decrease in 2009 and 2010 is a result of closing down our last Søderberg lines. The increased amount of spent potlining in 2007 and 2008 was caused by the Slovalco smelter in Slovakia being included in our figures, and increased relinings at Sunndal, Norway as the first cells in the new line were due for relining, and increased relining at Karmøy, Norway.

When developing new projects, we examine environmental issues ahead of time. The early detection of possible biodiversity challenges is vital.

The ongoing loss of biodiversity and degradation of ecosystem services represents a long-term risk for industry. We see a need for more sustainable frameworks and are participating in several initiatives, including the WBCSD Ecosystem program. We are also sponsoring the Norwegian NGO SABIMA, which focuses on the spread of information on biodiversity.

We follow up regularly the impact on aquatic life in rivers near our hydropower plants. In addition, we are following up a rehabilitation project of the Måna River in Rjukan, Norway, with improvement of fish habitats in 2010-2011.

Local initiatives show that with simple measures, substantial water savings are achievable. Systematic mapping of our water situation in 2010 showed that about 6 percent of our water consumption took place in water-stressed areas, according to the definition used by the WBCSD. Our consolidated operations had only minor water consumption in water-scarce areas in 2010. Freshwater considerations will be taken into account in the development of our new environmental strategy in 2011.

Emissions

We have achieved significant emission reductions over the years. The major achievements are related to greenhouse gases as well as dust and particle emissions. The closure of our former Søderberg lines has reduced plant emissions of PAH, greenhouse gases, dust, particles and fluoride. In the last five years, our emissions of fluoride and PAH to air per metric ton primary aluminium produced have decreased by 18 and 83 percent, respectively.

Some dusting incidents from the red mud deposits at Alpart have occurred since the temporary shutdown of the plant. Following this, we have asked for an evaluation of possible dusting challenges at Alunorte.

One of the many improvement projects we initiated in 2010 was the enlargement of the central wastewater treatment facility at our Grevenbroich plant in Germany. The process technology will be installed in the first quarter of 2011. This state-of-the-art facility will treat the increased amount of wastewater caused by higher production of lithographic sheet.

INTEGRITY AND HUMAN RIGHTS

We have zero tolerance of corruption and human rights violations. If non-conformities are registered, our policy is to demonstrate openness and learn from negative experiences.

The annual business planning process and inclusion of key performance indicator actions are used to implement the integrity program as well as other corporate responsibility topics. Requirements have been drawn up regarding how corporate responsibility should be taken into account in business development, investments and during the execution of projects. A risk-mapping tool for integrity and human rights is included in Hydro's business planning process. As an example, our extrusion business carried out a risk-mapping process in 2009 and will update the mapping every second year.

Employees may report breaches or perceived breaches of Hydro's requirements through the whistleblower channel. A number of cases were reported in 2010, and all cases were investigated. Two of the incidents investigated by Hydro's internal audit unit resulted in termination of employment. In 2010, we worked to improve accessibility to the whistleblower channel. At least once per year, Hydro's internal auditor informs corporate management about utilization of the channel. As required, it is possible to report anonymously. The internal audit unit reports to the company's board of directors through the board audit committee.

Information about the whistleblower channel, anti-corruption and basic employee rights are also given through "You and Hydro" – a brochure and an e-learning program available to all employees in 12 languages.

Combating corruption and respecting human rights are both included in our supplier requirements, see page 59.

Combating corruption

Hydro's Code of Conduct is approved by the board of directors. Based on this, the Hydro Integrity Program is an important tool to prevent corruption and human rights violations connected to our activities. The program was last updated in 2009 and includes risk mapping, tools and training. About 3,200 employees have participated in the training program since 2006, in addition to 120 employees from joint-venture companies. In 2010, approximately 250 employees participated. The management of one of our suppliers in China was also trained in the program. Training includes dilemma discussions on combating corruption and promoting human rights.

To further enhance implementation of the integrity program in our building systems business, the sector chose to organize a dialog at all relevant levels. They pinpointed the most relevant information and developed Q&As to illustrate the cases, with support in several languages. A large proportion of the employees in our building systems business has taken part so far.

A fraud awareness and detection questionnaire has been developed. The questionnaire will form part of internal audit activities where relevant. Our accounting centers are trained to ask relevant questions to reveal possible fraud or other questionable accounts.

Work more with local organizations

"Businesses should work closer with humanitarian organizations. What companies call new or emerging markets are often well-known environments for humanitarian organizations which have valuable local and national knowledge gained over long periods of time. Hydro's conscious and well-communicated work with social responsibility is now mirrored in positive expectations in the local community as it enters into new projects in Brazil. Strategic cooperation with actors close to the reality on the ground is efficient risk management."

Anne Kristin Sydnes
International Director
Norwegian Church Aid 2008-2010

Read full interview at www.hydro.com/reporting2010

2010 target
- No instances of corruption
- No instances of human rights violations

2010 result
- No known instances of corruption or human rights violations

2011 target
- No instances of corruption
- No instances of human rights violations
- Implement CSR strategy for the new organization in Brazil

Ambition
All important suppliers should comply with our supplier standards. All our units should comply with our anti-corruption, human and labor rights standards, and report their performance. We intend to be a preferred partner worldwide because of our responsible business operations.

Promoting human rights

We support the principle of freedom of association and collective bargaining, and have a long tradition of maintaining good dialog with employee organizations. As an employer, owner and purchaser, our most important role related to human rights is to secure decent working conditions in our organization, in minority-owned companies and with our suppliers.

Almost all our production sites in Europe, Australia, Brazil and Argentina - representing 89 percent of our employees - are unionized. About 80 percent of our employees in Norway belong to unions, and a large proportion of employees in Germany and Brazil are also union members, the majority in Germany belonging to IG Metall and IG Bergbau, Chemie, Energie. Hydro has facilitated contact between union representatives across borders. In countries where the right to form trade unions is restricted, we try to find alternative forums to uphold the right of employees to influence their work situation, such as in Qatar and China. In March 2011, Hydro signed a global frame agreement with four unions, aiming to secure the development of good working relations in Hydro's worldwide operations.

It is essential for us to avoid the use of child labor and forced labor, in Hydro's activities and in those of our suppliers and partners. We are concerned about fundamental labor rights, such as freedom of association, minimum wage requirements and the regulation of working hours. We do not tolerate discrimination on the basis of gender, race, national or ethnic origin, cultural background, social group, disability, sexual orientation, marital status, age or political opinion. See page 63.

In 2010, we measured the implementation of the Hydro Integrity Program across the company, including respect for human rights. This self-assessment confirmed that employees are made aware of basic human rights.

It is necessary to employ security staff in some areas, including armed guards for the protection of personnel, property and business activities. No negative incidents in connection with our use of security staff were registered in 2010.

Maintaining the rights of indigenous peoples are a concern in the part-owned operations MRN in Brazil and Alouette in Canada. Local management is handling the dialog with the indigenous' representatives. With the Vale transaction, Hydro has become operator of the Paragominas bauxite pipeline that crosses areas with the indigenous Quilombolas population. There are certain disputes between the operating company and the local population. While the legal consequences of these disputes remains with Vale, Hydro will seek to find proper communication channels for future cooperation.

The relocation of people is sometimes necessary in connection with our operations. At part-owned Alpart, in Jamaica, a number of families are relocated every year. These relocations are voluntary. Agreed relocations are also taking place during the temporary shutdown of Alpart. For relocations related to the CAP project in Brazil, see page 61.

Corporate responsibility in the supply chain

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

Contracts with a value above NOK 3 million must include CSR requirements in the contract or a separate supplier declaration that is signed by the supplier. The same requirements are valid for all contracts irrespective of value, that are either conducted in high-risk countries or that have great strategic importance. In our projects organization, which is responsible for all major projects in Hydro, all supplier contracts in new projects follow the above requirements.

A procurement information database is used to systematize supplier data and share information on supplier qualification, non-compliance and action plans. The database contains relevant information related to specific requirements and evaluation. In 2010, we reviewed our HSE and CSR performance requirements and made them easier to use and evaluate for our procurement staff. The database is used by our Primary Metal and Metal Markets business.

Voluntary commitments

Our most important voluntary commitments are our support of the principles in the Universal Declaration of Human Rights and the UN Global Compact. We also support the OECD's Guidelines for Multinational Enterprises, Transparency International's Business Principles for Countering Bribery, the World

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

NOK million	**2010**	2009	2008	2007	2006
Australia	**-**	(0.7)	0.4	6	**-**
Brazil	**98**	160	139	89	127
Jamaica	**0.02**	19	90	81	79

1) Total payments to host governments in connection with the exploration and production of bauxite and alumina. Payments include benefit streams, profit tax, royalty, license fees, rental fees, entry fees, etc. The reporting is based on the principles in the Extractive Industries Transparency Initiative (EITI).

Economic Forum's Partnering Against Corruption Initiative, and the Extractive Industries Transparency Initiative (EITI). We voluntarily report payments to host governments related to exploration and extraction activities for bauxite, as well as operations for the production of aluminium oxide, based on EITI's principles. In addition, we cooperate with organizations including Transparent Agent and Contracting Entities, Transparency International and Amnesty International. Learn more at www.hydro.com

According to our internal directives, Hydro is not permitted to make financial contributions to political parties.

COMMUNITY IMPACT

Ensuring responsible conduct in relation to society at large is an important element in restructuring processes. The financial crisis put Hydro's organization under severe strain, and our long experience in responsible restructuring was severely tested.

On February 28, 2011, we took over the majority of Vale's aluminium business in Brazil. Combining Vale Aluminium with Hydro will result in a stronger company, fully integrated into bauxite, with a long alumina position. We have become majority owner of one of the largest bauxite mines in the world, the largest alumina refinery in the world and have substantial expansion opportunities in this critical part of the value chain. It has also given us 3,850 new colleagues in Brazil – or about 6,500 people including apprentices and employees on long-term contracts. Germany and Brazil are now the countries where we have most employees, followed by Norway. The transaction has also given us substantial presence in a geographical area with exposed societies and vulnerable ecosystems. We are working on the integration of the new organization while learning from their experience, and have just entered into dialog with our new neighbors.

Completing construction of the new aluminium plant Qatalum in Qatar was a core activity in 2010. The plant's first cells were put into production late in 2009. Completion of the project, however, was delayed following a power failure in August 2010 and due to technical problems related to the water-cooling system for steam turbines under the power plant contract. Full production is expected from June 2011.

"In the same boat"

"My experience is that we generally agree on the major, long-term issues. Examples of this are the construction of the new, part-owned aluminium plant in Qatar and the acquisition of Vale's aluminium operations in Brazil. Disagreements are more common on short-term such as the restart of capacity that is temporarily shut down in Neuss and Sunndalsøra. Here we feel management is incredibly slow and we are pushing with everything we have."

Billy Fredagsvik
Employee-elected member of Hydro's board of directors, representing the Norwegian Confederation of Trade Unions (LO)

Read full interview at www.hydro.com/reporting2010

Continued restructuring

After major restructuring processes in 2009, there were fewer new measures in 2010. Still, many of our employees remain affected. At our primary metal plant in Neuss, Germany, production capacity was temporarily reduced in 2009 from 235,000 metric tons to 50,000 mt, affecting 700 employees who have different levels of reduced working hours. Mothballing the plant's primary production is undecided, while casthouse production will continue. Part-owned Søral in Husnes, Norway, temporarily stopped half its production in 2009. The number of temporarily laid-off employees at Søral varied between 85 in 2009 and zero in the second half of 2010, with employees utilized as holiday relief and in investment projects. Entering 2011, Søral had 50 employees on reduced working hours. The oldest production line in Sunndal, Norway, was temporarily closed down in May 2009. Upon request from the main local union and in agreement with the local Labor and Welfare Organization (NAV), it was decided to introduce a system of rolling temporary layoffs to minimize the strain on each individual. Instead of temporarily laying off 160 employees for a longer period, all employees in the affected organization are included in a scheme of five-week layoffs.

We have decided to phase out our extrusion plant at Karmøy in 2012 as part of our work to restructure the production of aluminium profiles in Norway. This will directly affect 94 employees at Karmøy. The entire production and about 40 of the positions will be transferred to Magnor and Raufoss, strengthening operations at the two sites. Overall, our Norwegian extrusion business has 380 employees. The planned recycling center at Karmøy, with initial annual capacity of 35,000 mt, will have about 40 employees. The final decision regarding construction of the facility is expected in the spring of 2011. The new facility should be operative from the summer of 2012.

Operations at the minority-owned alumina refinery Alpart, in Jamaica, have been temporarily closed since June 2009. A staff of 40 permanent and 40 contractor employees are responsible for necessary maintenance and the ongoing land-rehabilitation program.

All manning reductions have been communicated in advance to union or employee representatives and have followed the layoff requirements specified in relevant collective bargaining agreements and legislation. All layoffs have been handled fairly, objectively and in a manner that reduces the risk of discrimination as it pertains to age, gender, race and veteran status, while preserving the competence needed. Different means have been used to reduce the impact on the employees and local communities concerned.

In June 2010 Hydro acquired the Spain-based company Edinco, which includes an anodizing and painting line for extruded products. The plant has about 65 employees.

After a difficult period for our extrusion business in Tønder, Denmark, with significant layoffs, the plant increased slightly its number of employees in 2010. Close cooperation between management and employee representatives has been key during the process.

Our Rolled Products business sector, with about 3,900 employees, has experienced several challenging years. The optimism is now growing after a financially sound 2010, and the rolled products business has emerged from the financial downturn with a more robust structure.

New projects

When planning new projects, we map the environmental and social impact. Our analyses follow the Equator Principles, and thus reflect the requirements of the World Bank and the International Finance Corporation regarding information, consultation and investigation of the project's environmental and social impact, including human rights, as well as an action plan and proposed initiatives. Dialog with affected groups gives input to plans detailing our environmental and social responsibilities. We strive to act in an open and credible manner, and gather views from interested parties, aiming for a common understanding of the decisions that are made.

Through the Vale transaction, Hydro's ownership share increased from 20 to 81 percent in a planned alumina refinery Companhia de Alumino do Pará (CAP) in Brazil. Before entering into the project, we initiated an independent review of the resettlement process. The review concluded that the resettlement had been conducted in compliance with the Equator Principles and the International Finance Corporation Performance Standards. There are currently legal disputes between some of the 120 relocated families and the local authorities about the authorities' share of the compensation.

Qatalum, where Hydro holds a 50 percent share, started production at the end of 2009 and is planned to be at full production in June 2011. The company aims to be a catalyst for growth in the manufacturing sector in Qatar. This includes the purchase of goods and services.

In January 2011, we announced a planned expansion from one to three lines at our precision tubing plant in Suzhou, China. One of the lines will be for precision tubes and the other will be for other extruded products, targeting customers mainly in the Chinese market. The plant has about 270 employees.

2010 target
- Effective restructuring carried out with respect to employees and their communities

2010 result
- Restructuring processes executed in cooperation with employees and local communities

2011 target
- Integrate our new colleagues from Vale Aluminum
- Secure good and efficient dialog with the local societies in Pará, Brazil
- Establish CSR action plan for community investments in Pará, Brazil

Ambition
We intend to be a preferred partner worldwide due to our responsible business operations.

Dialog with affected parties

We have a long tradition of conducting a dialog with the relevant parties affected by our activities, such as unions, works councils, customers, suppliers, business partners, local authorities and non-governmental organizations. Stakeholder dialog is based on our experience and principles developed by an international working group headed by the Institute of Social and Ethical Accountability. We identify and initiate dialog to ensure that all views are aired and our decisions communicated. In major projects, stakeholder dialog is a requirement of Hydro directives, local law, World Bank guidelines, the Equator Principles, etc.

At regular intervals, employees are given the opportunity to pose questions over the intranet to top management. It is possible to ask questions anonymously, and answers are posted on the intranet. President & CEO Svein Richard Brandtzæg has his own blog on our intranet where employees can add their comments, also anonymously.

Communicating with our new employees in Brazil, their representatives, local authorities and other important stakeholders will be essential for securing good relationships and the mutual transfer of competence.

Sponsorships and community investments

In total, Hydro spent NOK 20 million on charitable donations, sponsorships and community investments in 2010, down from NOK 26 million in 2009. Important elements are our support of the Nobel Peace Center in Oslo and the Oslo

Tools for Schools

Our extrusion business in North America has a long tradition of volunteer work by employees. An example is our plant in St. Augustine, Florida, that spearheaded a local community campaign in St. John's County in 2010. After a period with severe manning reductions, the 300 employees collected almost 11,000 items for schoolchildren. The contribution is expected to help more than 2,500 needy children throughout the county.

Høyanger plant heating local community

In Høyanger, Norway, Hydro delivers excess heat from its smelter to public buildings in the municipality, including the local swimming pool. Even a football pitch can be played upon through the winter, thanks to ground heating. Other Hydro smelters also have a long tradition of supplying excess heat to benefit the local community.

"Hydro has done what they said"

"I have to say that they have done everything they said they would. The board was most concerned about that, when they voted to accept the land. But Hydro has done what they said and that is all we can ask for."

Larry Richardson
Township supervisor, Madison Township, Michigan

Read full interview at www.hydro.com/reporting2010

"Taking action together"

"We got through the crisis by examining the things we could influence. We did it through close cooperation between management and employees, and with that, we actually came into 2010 stronger than before. Like everyone else, we had to make cuts during the crisis and lay off competent colleagues. But employees and management stood together and we were able to start 2010 even stronger, united."

Kirsten Hansen and Kenneth Enemark (union representatives), and Mads Bonde (managing director), Extruded Products, Tønder, Denmark

Read full interview at www.hydro.com/reporting2010

Philharmonic Orchestra. We also have a sponsorship agreement with Save the Children Norway.

Other important contributions are the transfer of competence that takes place through our cooperation with universities and research institutions. This includes scholarships to selected PhD aspirants working in our business areas. In 2010, in connection with the 100-year anniversary of the Norwegian University of Science and Technology (NTNU), Hydro donated scientific equipment and a two-year professorship within the aluminium field. In 2008, we agreed with NTNU to sponsor two professorships for three years in the fields of electrolysis, and alloy development and material technology. NTNU is committed to retaining the positions after the conclusion of the sponsorship period. Together with Qatalum, we are sponsoring an Aluminium Faculty Chair at the Department of Chemical Engineering at Qatar University in Doha. The professor lectures on aluminium production technology.

After the closing of Hydro's Adrian precision tubing plant in Michigan, we donated the 33 acres of land to the local society of Madison Township. The area has been used for industrial purposes for 70 years, and remediation of goundwater and soil was necessary. All deconstruction and remediation work was done on Hydro's expense before handover of the land.

We will review our sponsor- and partnership strategy during 2011.

ORGANIZATION AND WORK ENVIRONMENT

Our ambition is to be highly competitive when it comes to recruiting and keeping the best-qualified personnel. We focus on developing a healthy and safe work environment, providing each employee with conditions for the continuous development of her or his expertise. Our TRI rate (total recordable injuries per million hours worked) increased by 27 percent in 2010, compared with our target of a 20 percent decrease. We had no fatal accidents in our consolidated operations, but two of our part-owned activities suffered one fatal accident each.

Hydro's organization in 40 countries represents great diversity in education, experience, gender, age and cultural background. We see this diversity as a significant resource, not least to encourage innovation. Good leadership, proper organizational structure and the right tools are essential to achieving this. This includes attracting and retaining the right employees.

It is important that our employees enjoy good health, and feel safe and appreciated. Healthy and motivated employees perform better and are more creative, and in that way contribute to increased profitability and better results.

Effective organization

Hydro had 18,894 employees at the end of 2010, a decrease from 19,249 in 2009. Following the Vale transaction, we are now almost 23,000 emplyees. The reduction during 2010 was primarily a result of restructuring processes initiated in 2008 and 2009, including the program in our Primary Metal business to reduce aluminium production costs by NOK 300 per metric ton.

Restructuring and continuous improvement are essential elements of our business operations, and many employees were affected by restructuring processes in 2010. Our aim is to involve employees in such processes at an early stage to achieve the best results for the individual and for the company. See page 61.

Attract, develop and retain innovative and competent employees

Even in the difficult market situation, we have seen the importance of maintaining our position as an attractive employer. In 2010, we introduced a new program for graduate recruits. The aim is to combine business and individual needs, ensuring that graduate recruits go through a structured and individual process that maximizes their potential in their new job and for the longer term. The program has a length of 12 months.

Competence development is an important part of our defined production and business systems, which are established for all parts of the value chain.

We offer new employees training related to the organization and their individual work tasks. This includes required competence within health, security, safety and environment. A special training course welcomes the employees, giving them insight

Welcoming new colleagues

On March 1 we welcomed almost 4,000 employees from Vale's aluminium business. Everyone received an introduction package with information about Hydro and the company's ambitions and values. They have also been given access to an intranet-based onboarding program specially designed for the Brazilian employees. All new employees will go through the mandatory "You and Hydro" e-learning to learn about their rights and obligations as a Hydro employee. In addition, we will offer leaders and managers at different levels a Hydro Fundamentals course that provides information about Hydro's history, values, strategy and other important topics. Separate HSE training for all employees will familiarize them with specific Hydro requirements.

People matter in Poland

Our extrusion plant in Poland is nearly finished with a 15-month program that has been designed to raise the professional skills of each of the 162 employees at the plant. The Chrzanów-based site, near Krakow, has had two main goals with the program, one to improve the soft skills of managers and to lift their overall qualification level. The other has been to engage employees while encouraging innovation and continuous improvement. This includes showing the value that each employee creates in his or her work, thus providing a more clear sense of purpose. In addition, employees are being given a deeper understanding of the business and the value they bring. The European Union has financed approximately 60 percent of the organizational development program.

into Hydro's history, values, competitive landscape and businesses. An interactive e-learning program – "You and Hydro" – deals with Hydro's policies and the rights and obligations of its employees, and is mandatory for all employees. The program discusses some of the dilemmas employees may meet in their daily work and presents a spectrum of work situations relevant to employees everywhere. It also raises issues like safety, security, work environment, human rights, combating corruption and reporting. See also www.hydro.com/youandhydro

The most important development takes place locally, primarily with on-the-job training, but also through locally organized training.

Our aim is that every employee should have an annual appraisal dialog and participate in an organizational survey at least once every two years. Several processes are initiated to form the basis of organizational development in Hydro. Hydro Monitor is an employee survey that gauges the climate in the organization at regular intervals. The Hydro Leadership Development Process (HLDP) is our common tool for employee appraisal dialog, individual development and follow-up. HLDP is mandatory for leaders.

Almost all employees were invited to participate in Hydro Monitor in 2010, and the response rate was 92 percent. Our target was 86 percent. In 2007, when more than 10,000 employees had the opportunity to take part, the response rate was 85 percent. Our ambition is to use the survey as an organizational tool to drive employee engagement and improve effectiveness and performance. Employees throughout the company are involved in organized discussions and workshops to identify improvement actions. Implementation of these actions is followed up. In 2010, 72 percent of the participants gave positive responses on our measure of satisfaction and commitment, compared with 71 percent in 2007 and 70 percent in 2006. The next survey for all employees will be in 2012.

Developing managers able to deliver on Hydro's strategy and ambitions is key to our leadership planning process and leadership training programs. In 2010, we further developed our leadership expectations based on Hydro's values and embedded these expectations into our 360-degree feedback tool. The leadership expectations define the behavior expected of leaders at all levels, and they will guide leadership assessment, reward and development activities. The 360-degree tool is developed to support individual leaders in their development. Level 1 and 2 leaders were assessed in 2010, and further implementation is planned for all participants in leadership training programs. Feedback from use of the tool is also included as an input to HLDP.

In order to have a healthy pipeline of senior leaders with the required breadth of experience, we emphasize rotating employees early in their careers so that they gain skills from different parts of the organization. Performance indicators are developed in the business areas to measure rotation.

Diversity

We emphasize diversity with regard to nationality, culture, gender and educational background when recruiting, and when forming management teams and other working groups. Women are represented in most business area and sector management teams, and we are aiming at further diversity at all levels. Most female executives hired in recent years have been recruited internally.

2010 target
- No fatal accidents
- Total recordable injuries per million hours down by 20 percent to 2.3
- Response rate of Hydro Monitor employee survey exceeding 86 percent

2010 result
- No fatal accidents in consolidated activities
- Total recordable injuries per million hours increased by 27 percent
- Response rate of Hydro Monitor employee survey was 92 percent

2011 target
- No fatal accidents
- Total recordable injuries per million hours down by 28 percent to 2.7
- Review HR strategy including setting diversity ambitions

Ambition
Our ambition is to have no fatalities or other serious injuries and no new work-related illnesses. We will utilize HSE opportunities as a competitive edge.

Share of non-Norwegian leaders

Share of women leaders

The total share of women at all levels in Hydro (excluding the U.S.) was 15 percent in 2010.

We are continually adjusting working conditions so that all employees, regardless of their operability, have the same opportunities in their places of work. The principle of equal terms is prioritized in recruitment, job promotions and individual development. An example is our rolling mill in Grevenbroich, Germany. Some positions are reserved for disabled emloyees, and accessible workplaces are adapted for both employees and apprentices.

In 2010, about 100 new employees were recruited to the Norwegian part of the organization, compared with about 70 in 2009 and 450 in 2008. Twenty percent of the new employees in 2010 were women, compared with 21 percent in 2009. Fifteen percent of Hydro's employees in total, excluding the United States, are women, compared with 19 percent in the Norwegian part of the organization.

Compensation

All employees are to receive 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 are to 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 in the Norwegian business are reviewed on a regular basis. No significant gender-related differences have been found.

Executive variable compensation takes into consideration performance on individual as well as corporate KPIs and includes non-financial indicators. The President & CEO's bonus scheme includes KPIs on safety and a dicretionary element on corporate social responsibility. His safety targets are identical to our corporate targets. See Note 11 for further information on our compensation system.

Health and work environment

Hydro seeks to be a leading company in the area of health and work environment. Our business planning process is used to ensure continuous improvement throughout the organization, and follow-up is reported on a quarterly basis.

We work continuously to avoid new work-related illnesses, 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.

Diverse management

Top management in our Extruded Products business, which has 9,500 employees, consists of 54 leaders. This includes all members of sector management teams as well as the managing directors of strategic units. These 54 leaders represent 16 nationalities. Nine of them – or 17 percent – are women. Women make up half of the management team of the Eurasia sector and 33 percent of the management team of the North America sector. It is our ambition to increase the proportion of female leaders across our extrusion business further.

Respect and cooperation in Malaysia

Malaysia is a truly multicultural country. This is reflected in Hydro's Malaysian rolling mill, which has about 250 employees. Some 60 percent of them are Malay, one third are Indian, and most of the remaining employees are of Chinese origin. Each ethnic group celebrates their festivals, which are declared public holidays. When the Malays celebrate their new year – Hari Raya Aidil Fitri – the Indians will be working. And during the Deepavali new year celebration for the Indians, their Malay colleagues will be working. There is a common understanding that annual leave priority will be given to those who are celebrating their festivals or events. The ethnic diversity of race and religion is teaching employees the values of respect and tolerance for each other, and has brought these values into the workplace.

To ensure focus on the physical and chemical work environment and encourage further improvements, we have established a performance indicator linked to risk assessment in the work environment. It is a proactive indicator, describing the potential for possible future damage to health. The indicator has been implemented at most of our sites. Local targets for 2011 have been based on identified risk-reducing measures, and may be followed up through a corporate reporting tool. We are working on further implementation, including evaluation of introduction of the indicator in our new bauxite and alumina business.

The occupational-illness rate in 2010 was 1.2 cases per million hours worked, up from 1.1 in 2009. We believe the increase was caused mainly by improved reporting, and we expect a further increase in 2011. Most of the occupational-illness cases are related to noise.

Hydro Monitor (see page 63) is another tool we use to track the organizational work environment, and results are implemented in local action plans.

Through our new activities in Brazil, we now have significant activities in areas where tropical diseases are present. Existing programs will be evaluated, and necessary precautions and relevant training identified.

Registered sick leave in Hydro was 3.3 percent in 2010, down from 3.7 percent in 2009. The rules for sick-leave registration differ from country to country. Hydro's sick leave in Norway is significantly higher than in the rest of the company, on average, but relatively low compared to the average rate in Norwegian industry. Sick leave in Norway was 4.4 percent in 2010, compared with 5.1 percent in the previous year. Men's sick leave was 4.2 percent, down from 4.9 percent in 2009, while women's sick leave decreased from 6.0 percent in 2009 to 5.5 percent in 2010.

Safety

Our ambition is to avoid all serious accidents. We work continuously to avoid damage to property and loss of production. This applies to all our activities.

Our TRI rate (total recordable injuries per million hours worked) increased by 27 percent in 2010. Our target was a 20 percent decrease. We had no fatal accidents in our consolidated operations, but the German company Alunorf, in which Hydro owns 50 percent, and MRN in Brazil, in which Hydro owns 5 percent, each suffered one fatal accident. Both companies, with the support of Hydro, initiated investigations to identify the causes and reduce risk for recurrences.

In January 2011, a contractor employee died from electrical shock during installation work at a new plant in France. Consequently, we will not reach our main target of no fatal accidents in 2011.

In 2009, we improved our TRI rate by 26 percent. Our target for 2011 will be a TRI rate of 2.7, or a 28 percent decrease from the actual level in 2010. This target, together with no fatal accidents, is part of the President & CEO's personal KPIs and bonus scheme.

In a 10-year perspective, we reduced the number of injuries per million hours worked from 13.7 in 2000 to 3.7 in 2010.

We continue using thorough analyses and risk evaluations of all high-risk incidents to determine how fatalities can be avoided. To further systematize our efforts, we started a fatality-prevention program in 2010. The program is rooted in risk assessments throughout the company, improved sharing of

President's HSE Award 2010

Hydro's extrusion plant in Argentina won the President's HSE Award 2010. The plant received the award for its strong management commitment to safety and ability to involve the entire organization. The jury also highlighted the plant's risk management, excellent housekeeping, its ability to visualize safety in a good way, and its implementation of best practices throughout the organization. The plant has 80 employees.

The other nominees for the award were:

Class 1 (fewer than 200 employees)
Metal Markets, Azuqueca, Spain
Building Systems, Gerstungen, Germany
Precision Tubing, Itu, Brazil
Extrusion Eurasia, La Roca, Spain

Class 2 (more than 200 employees)
Primary Metal, Høyanger, Norway
Rolled Products, Karmøy, Norway
Precision Tubing, Tønder, Denmark

HSE in leadership development

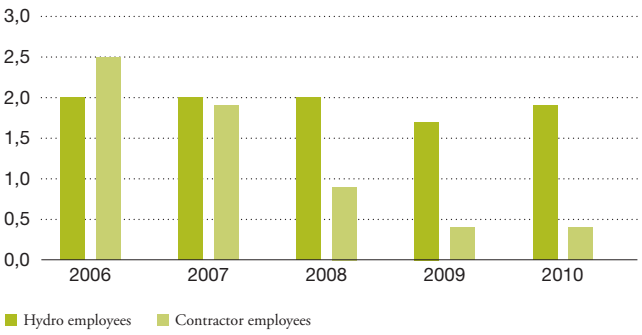
Our extruded products business had too many injuries in 2010, which is disappointing, because the people, the knowledge and the necessary tools are in place such that all injuries can be avoided. All sectors have initiated actions to reverse the trend and reduce the number of safety incidents. Special emphasis has been placed on leadership training and development, risk assessment, and communication. As an example, in 2010 the Eurasia sector introduced the HSE Excellence Academy, which is mandatory for all unit management teams and which also gathers other leaders at all levels of various sites. The program concentrates on the technical and people sides of leading HSE. Its emphasis is to develop the ability of leaders to identify risks, understand why people are taking risks and how to influence employees to avoid taking risks. Two sessions were carried out in 2010 and four more are planned in 2011.

Safety musketeers

To be able to deliver safety support with strong expertise across the organization, our building systems' safety network is made up of four specialists, each in charge of a geographical area and specific projects. We call them safety musketeers. Each person gives advice within his respective geographical area, and across borders when it comes to specific competence areas like machines risks, loading and unloading, traffic segregation, audits and training. The four work closely together and help implement the sector's key ambitions within safety.

Lost-time injuries

Per million hours worked



lessons learned, and systematic audits – in addition to the aforementioned investigation of high-risk incidents.

Risk awareness and management commitment are important to improved safety performance. Internal investigations are routinely initiated after fatal accidents and other serious incidents. We place special emphasis on work permits, energy control, on-site and off-site traffic, contractor safety, cranes and lifting equipment, and work at heights.

REACH

The EU regulation on chemicals, REACH, entered into force on June 1, 2007. Aluminium is covered by the regulation.

Hydro is on track with our implementation of REACH, having successfully completed the second stage in the legal process, i.e. the registration of substances produced and/or imported into the EU in volumes above 1,000 metric tons per year. The work was coordinated at the corporate level through a cross-sector group, chaired by the HSE function, with additional support from the European Aluminium Association. The next step in the implementation of REACH is the registration of substances produced and/or imported in volumes above 100 mt. The deadline for this registration is June 1, 2013. A further deadline, for substances above 1 mt, is June 1, 2018.

Classification, Labelling and Packaging (CLP)

The Regulation on Classification, Labelling and Packaging (CLP) sets forth in European law the Globally Harmonised System (GHS) for classification and labeling adopted by the United Nations. It covers substances and mixtures and replaces the previous EU Dangerous Substances Directive and Dangerous Preparations Directive.

CLP addresses about the hazards of chemical substances and mixtures and how to inform others about them. It is the task of industry to identify the hazards of substances and mixtures before these are placed on the market, and to classify them in line with the identified hazards.

Importers and manufacturers must provide notification about substances subject to registration under the REACH Regulation and hazardous substances, irrespective of volume, prior to placing them on the market. The first notification deadline was January 3, 2011, and was successfully met by Hydro.

Security

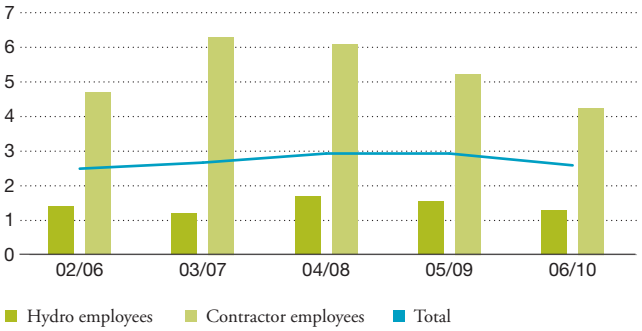
It is important to safeguard employees, the environment, our assets and reputation. An increased presence in areas of risk, and increased threats generally, have led us to intensify our preventive efforts.

We are responsible for infrastructure and functions which on the local and regional levels might be critical to society's operability. Our hydroelectric power business is subject to control and tight follow-up of critical infrastructure by national authorities. Parts of the power grid we utilize for energy supply to our industry are also important for supplying the general public. Other areas of greater importance are supervision and maintenance of dam installations, and actions to prevent flooding and damage caused by flooding along waterways. These issues are core to our emergency planning, and we keep a high state of readiness. This is monitored through annual exercises.

Employees are trained in information security. Crucial

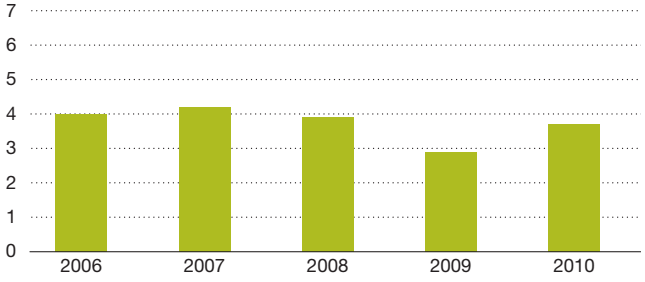
Fatal accidents

Per 100 million hours worked, five-year rolling average



Total recordable injuries

Per million hours worked



computer systems are subject to surveillance and regulations. Every person with access to sensitive information is bound to secrecy and required to handle the information with due care.

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.

New emergency procedures for Hydro's activities in Brazil were established in 2010. The relationships with local communities were evaluated and will be used as input to Hydro's strategy for social investments in Brazil.

Hydro has learning tools for risk management, travel safety and security. Employees are safeguarded through our systems for travel planning, risk assessment and emergency preparedness. Our ability to respond quickly to incidents worldwide has increased through risk monitoring, incident-monitoring tools and competence development.

INNOVATION

In our industry, we must start developing today the technology we will be using 10-20 years down the road. That's why we are working to maintain progress, unaffected by the fluctuations of the business cycle. Reduction technology, solar energy and building-integrated photovoltaic systems are among the areas we are developing. At our development center in Toulouse, France, we test systems that can help buildings produce as much energy as they use. Further, we work closely with architects to ensure that these solutions are aesthetically rewarding. We also collaborate with universities and external research institutions to improve the efficiency of our building systems solutions.

It is our ambition to be a leader in the development of reduction technology, and our HAL4e technology demonstrates that we are meeting our goal in this field. Intensive efforts are being made to achieve further improvement.

In 2010 the research and development costs recognized as an expense amounted to NOK 543 million compared with NOK 690 million in 2009. The reduction of the expensed R&D costs is partly offset by an increase in capitalized development costs. Divestment of Hydro's automotive structures activities in 2009 also involved a reduction in R&D expenses. We will further streamline our R&D activities during 2011.

The greater part of our R&D expenses goes to our in-house research organization, while the remainder supports work carried out at external institutions. See Note 14. We have a number of R&D centers in Europe and a Technology & Competence Center in 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 of being a technology leader. The board is headed by President & CEO Svein Richard Brandtzæg.

Hydro Innovation Award

Hydro's Innovation Award was established to stimulate innovation within all aspects of the organization. An automated packing line, presented by a German-Norwegian team in our extrusion business, was named as the 2010 winner. The line uses robots to gather extrusions and ready them for shipment by trailer to the customer. The idea represents a quantum leap in labor productivity, lower packing costs and an advantage over competitors. The system has two six-axis industrial robots – one fixed and one on a track – and a flexible gripping system. A rotating gripper can pick up and place profiles in any position. The user interface allows easy operation and definition of recipes by shop floor staff. Cost savings are estimated to about EUR 500,000 per 10,000 metric tons/year per line, with potential annual savings of more than EUR 10 million in Hydro's Eurasia sector. The concept can be used in other areas, such as anodizing, painting and fabrication, and the technology is transferable to other parts of Hydro.

Metal production moving forward

We intend to make production more efficient and to secure the necessary access to alumina and electrical power. Improvement efforts revolve around reduction technology and the positioning of new capacity in locations where there is a surplus of power.

Hydro's proprietary electrolytic process is one of the most efficient in the world. The smelters in Sunndal, Norway, and Qatalum, Qatar, are using the newest technology. We work continuously to develop the next generation technology, HAL4e, emphasizing cell productivity as well as reduced energy consumption and climate gas emissions from the production process.

Quenching anode effects

An important means of reducing greenhouse-gas emissions from our smelters is to reduce the so-called anode effect, which generates PFC emissions. PFCs are high-potent greenhouse gases. At our newest potline in Sunndal, Norway, the implementation of automatic anode-effect quenching has reduced the duration of anode effects by about 75 percent. This implies an annual reduction of PFC emissions equal to about 80,000 metric tons CO_2, and an energy reduction equal to about 4,000 MWh. The change has also helped increase the operational performance of the reduction cells due to less process instability after anode effects.

More efficient anode replacement

Our Primary Metal business area wanted to develop a simpler, easier way to change anodes during the production process for primary aluminium. That included a need to automate the anode-change operation so the crane operator could do the sequence himself. The innovator developed a new method of anode replacement, which utilizes the old anode butt as a reference for the pot-tending machine crane. The method gives room for significant cost savings in manning and current efficiency, and less exposure of workers to fluorides, heat and dust.

R&D in Primary Metal is important for strengthening the competitiveness through improving the cost position at our smelters. Prioritized tasks are operational support, implementation of new technology in existing activities as well as development of next generation electrolysis technology.

Our casthouses focus on process efficiency in terms of improved capacity utilization and improved process capability. Continuous improvement of product quality is an important part of our business concept, and is strongly linked to technical customer service. We develop our products together with customers, listening to their needs while improving our own casthouse processes.

In the area of recycling, we have lifted our budgets as a joint effort between our Metal Markets, Rolled Products and Extruded Products business areas. This includes funding for projects related to closed-loop recycling of downstream products, recycling-friendly alloys and products, upgraded scrap processing, and furnace technologies that help improve the recycling rates and quality of scrap and metal produced. The scope of all our recycling-related projects also includes reduction of total waste and waste sent to landfill. Hydro participates in national and EU-funded projects to support our ambition as a company and industry.

Product development

Implementing and commercializing innovative product ideas and concepts are core activities. Innovation often takes place in joint projects with the customer, once the needs have been identified. Numerous new products are launched every year.

The carbon footprint of our solutions is gaining increasing attention and relevance, especially when looking at new applications of aluminium, and when improving the ecological performance of existing ones. Our approach to involve customers and key stakeholders in developing better solutions helps us to differentiate and become the partner of choice. For example, our Rolled Products business area works with packaging manufacturers to improve certain packaging material to provide high functionality while improving recycling rates.

We also work closely with our customers to develop products that save energy and reduce emissions. Aluminium façades can lower operating costs and help enable buildings to produce as much energy as they consume during operation. Hydro has constructed three such buildings so far, in Germany, France and India. Heat pumps, integrated photovoltaic systems and intelligent building design all contribute to energy neutrality.

By bringing our building systems operation's R&D team closer to product development, we aim to increase sharing and thereby strengthen the Domal, Wicona, Technal and Alumafel brand centers, and to increase speed-to-market of new products. This includes utilizing competence from our India unit, where craftsmen come closer to our brands' range of specialty products and systems, working mode and overall product offer. In fact, the operation's six locations in Europe and one in India work as if they were in the same location. In addition to the technical specifications of the products, delivery time is an important competitive factor. A separate KPI has been introduced to reduce the time elapsing from project to product to customer delivery.

Through our Rolled Products business area, we have a strategic research partnership with the University of Aachen in Germany, aiming at modeling the whole rolling process chain.

Best practice sharing

We strive toward business excellence through continuous improvement, utilizing people, technology and systems to generate maximum value for our customers. Through decentralized power and responsibility, decisions are made by those best able to take them. Our business systems define the underlying principles needed to create a performance culture in a unit. An example is our Aluminium Metal Production System (AMPS),

"Still more can be done"

"We commit ourselves to more recycling and we are keen to work with our metal suppliers to get robust systems in place in our respective markets to ensure that collection and recycling can be facilitated. As higher recycling rates offer the greatest potential for further improving the beverage can`s environmental performance, the beverage can makers in Europe and the metal suppliers agreed upon a common objective to facilitate the recycling of at least three of four cans in Europe. Towards this ambitious target, we appreciate having Hydro as reliable and committed partner."

Stephan Rösgen
Vice President Regulatory Affairs
Ball Packaging Europe

Read full interview at www.hydro.com/reporting2010

Award-winning façades

Hydro's building systems brand Wicona won first prize in the building rehabilitation category at the world's biggest building exhibition, BAU 2011, in Munich, Germany. The award-winning façade solution, TEmotion, can reduce energy consumption in existing buildings by more than 50 percent. TEmotion is a complete façade module with a series of energy-saving elements such as sun-shading devices, ventilation, lighting, heat pumps and electricity production from solar cells. About 40 percent of the world's energy consumption is related to buildings. Unlike ordinary rehabilitation projects, where the occupants of the building often must move out, the TEmotion concept makes it possible to rehabilitate office by office during a period ranging from just days to a maximum of a couple of weeks. This saves time, money and energy.

More efficient solar power stations

Hydro is developing a new system together with 3M to create less expensive and more efficient large-mirror solar power stations that are almost completely recyclable. The system combines an extremely good reflective foil from 3M with a special aluminium strip developed by Hydro, called HyBridAl. The strip acts as a light, robust base material that facilitates the manufacture of considerably larger one-piece mirrors than those previously made of glass.

which is our best practice system and standard for world-class production and improvement in our Primary Metal and Metal Markets business. AMPS builds on the principle of empowerment of each employee. The productions system is implemented at all our smelters, including the joint-venture plants Qatalum and Slovalco. All employees in the organization are included in the process, which involves e-learning, classroom training and more. AMPS also includes an ongoing leadership development program for all employees in management or supervisory positions. So far, nearly 2000 employees have participated, including 750 managers and supervisors.

Our extrusion and rolling activities have similar systems adapted to their business needs.

ABOUT THE REPORTING

Hydro's main reporting for 2010 on Viability Performance is included in the Annual Report. In the web version of the Annual Report, we have included supplementary information on reporting principles (scope, definitions, explanation), and our adherence to the AA1000APS. An index referring to the Global Reporting Initiative's Sustainability Reporting Guidelines and a Communication on Progress report in accordance with the United Nations Global Compact is also on the internet, with links to the relevant information. The Communication on Progress report is included on page 78 in this document. Visit www.hydro.com/gri and www.hydro.com/globalcompact

Principles for reporting on viability performance

The purpose of Hydro's reporting is to provide stakeholders with a fair and balanced picture of relevant aspects, engagements, practices and results for 2010 at the corporate level. We believe that the reporting in total satisfies this purpose. Our reporting on viability performance is in accordance with the main reporting principles of the Sustainability Reporting Guidelines from the Global Reporting Initiative. The selection of elements reported is based on extensive dialog with stakeholders and proposals from them. In addition, the reporting builds on processes that are part of the our daily operations. Important stakeholders include authorities, investors and financial analysts, employees and their representatives, potential employees, customers, non-governmental organizations and local communities affected by major development projects or restructuring processes. Reporting is not necessarily a target of the dialog process, but when relevant, we use the outcome to improve our reporting.

We believe this approach is consistent with the principles of inclusiveness, materiality and responsiveness required of reporting organizations by the voluntary AA1000 Accountability Principles Standard, drawn up by the Institute of Social and Ethical Accountability.

We have endeavored to provide information that is in accordance with the principles of sound reporting practice. The absence of generally accepted reporting standards and practices in certain areas may nevertheless make it difficult to compare results with reports compiled by other companies, without the availability of further data, analyses and interpretations.

Reporting scope and limitations

The scope of the report is Hydro's global organization for the period January 1 to December 31, 2010. Operations sold or demerged during the year have in general not been included. All consolidated operations that have been part of Hydro during parts of 2010 are still included in our health and safety data for the period the unit was owned by Hydro.

Data relating to health, environment and safety has been prepared by individual reporting units in accordance with corporate procedures. This applies to all Hydro's operations, including consolidated subsidiaries and units for which we have operator responsibility. This applies if not otherwise stated.

Non-operated minority-owned operations are not included in the reported data except for direct and indirect greenhouse gas emissions, as reported on page 55. In addition, we include some examples that demonstrate how we promote our policies toward these operations.

It is not the intention to include detailed information that is primarily of significance for individual sites, processes, activities and products.

Information in the reporting is based on input from many units and sources of data. Our emphasis has been to ensure that the information is neither incomplete nor misleading. However, the scope of the report, and the varying certainty of data in connection with diversity and HSE matters, for example, may mean that there are uncertainties regarding some of the figures reported.

Hydro's acquisition of Vale's aluminium activities was closed on February 28, 2011. These activities are consequently not included in our 2010 reporting. Some expected implications and planned initiatives related to the acquisition are, however, described in the report.

Assurance principles and scope

We have requested our company auditor to review the information relating to viability performance in accordance with the AA1000 Assurance Standard (2008) (AA1000 AS). This is an assurance standard for this type of reporting, and the review considers both the accountability principles and performance information. The review was conducted in accordance with the international audit standard ISAE 3000 – Assurance Engagements other than Audits or Reviews of Historical Financial Information. This year, we have adopted a limited level of assurance, which is deemed as being equal to a moderate level of assurance as defined by AA1000AS. For the underlying systems, the reader is referred to Hydro's steering documents as described under Corporate Governance, see page 115. The auditor's review report is presented on page 71. Based on the AA1000 AS, the auditor. We describe our adherence to the AccountAbility principles in our Annual Report 2010 on the web, see www.hydro.com/reporting2010

AUDITOR'S REVIEW REPORT ON HYDRO VIABILITY PERFORMANCE 2010

To the readers of Hydro Viability Performance 2010:

Introduction

We have been engaged by Hydro's Board of Directors to review the Viability Performance presented on page 9-17 and 53-78 in Hydro's Annual Report 2010 and on Hydro's website www.hydro.com/reporting2010 under the heading Viability Performance. The Board of Directors and Corporate Management Board are responsible for ongoing CSR activities, and for the preparation and presentation of the Viability Performance in accordance with the applicable criteria. Our responsibility is to express a conclusion on the Viability Performance based on our review.

Scope of review

We have performed our review in accordance with ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board as well as AA1000 Assurance Standard (2008), type 2, as issued by AccountAbility. A review [1)] consists of making inquiries, primarily of persons responsible for different sustainability matters and for preparing the Viability Performance, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with IAASB's Standards on Auditing and Quality Control and other generally accepted auditing standards in Norway. The procedures performed in a review consequently do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The criteria on which our review is based are the sections of the "Sustainability Reporting Guidelines, G3" published by the Global Reporting Initiative (GRI), which are applicable to the Viability Performance. We consider these criteria suitable for the preparation of the Viability Performance.

IFAC require us to act in accordance with IFAC Code of Ethics for Professional Accountants. In accordance with AA1000AS (2008), we confirm that we are independent of Hydro. Our review has been performed by a multidisciplinary team specialized in reviewing economic, environmental and social issues in sustainability reports, and with experience from the industry Hydro operates within.

Our review has, based on an assessment of materiality and risk, among other things included the following procedures:

- An update of our knowledge and understanding of Hydro's organization and activities.
- An assessment of the suitability and application of certain criteria in respect to the information provided to stakeholders.
- Interviews with responsible management, at different levels within the Group, with the aim of assessing whether the qualitative and quantitative information stated in the Viability Performance is complete, correct and sufficient.
- Reading of internal documents to assess whether the information stated in the Viability Performance is complete, correct and sufficient.
- An evaluation of routines implemented for the collection and reporting of information and data.
- An analytical review of reported information.
- A review of underlying documentation, on a test basis, to assess whether the information and data in the Viability Performance is accurate.
- Pre-announced visits to Hydro facilities located in Norway, Spain and the US.
- A review of qualitative information and statements in the Viability Performance.
- An assessment of Hydro's self-declared application level according to GRI's guidelines.
- We have gained an overall impression of the Viability Performance, and its format, considering the information's mutual conformity with the applicable criteria.
- Reconciliation of the reviewed information with the viability information in the Hydro Annual Report 2010.

1) A review provides a limited level of assurance which is deemed as being equal to a moderate level of assurance as defined by AA1000AS.

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that Hydro's 2010 Viability Performance has not, in all material respects, been prepared in accordance with the above stated criteria and that Hydro has not adhered to the AA1000APS principles inclusivity, materiality and responsiveness to the extent reported on Hydro's website www.hydro.com/reporting2010 under the heading Viability Performance.

Other information

The following is other information that has not affected our conclusion above. The principles inclusivity, materiality and responsiveness apply to the extent reported in the description on www.hydro.com/reporting2010 under the heading Viability Performance which includes the following points that requires further attention:

- In relation to inclusiveness, Hydro will work to further secure stakeholder engagement in general and specifically ensure fulfillment also in locally managed projects.
- In relation to materiality, the widened scope that comes with the Vale transaction means that issues such as biodiversity, indigenous peoples and other stakeholder groups will be important and should be taken into account.
- In relation to responsiveness, Hydro will discuss if resources available to support in the planning of dialogues are sufficient. Another important area for Hydro is to secure timeliness and relevance of responses to stakeholders at relevant levels in the organization.

Oslo, March 16, 2011

KPMG AS

Arne Frogner
State Authorized Accountant

Åse Bäckström
Head of Climate Change
& Sustainability Services

FACTS AND FIGURES

Society

For geographical distribution of total assets, investments and revenues, see note 8 in the consolidated financial statements.

Geographical distribution of employees and payroll

	Number of employees [1]					Payroll (NOK million)				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Norway	**4 146**	4 421	6 019	7 139		**2 915**	3 023	3 757	3 348	
Germany	**4 373**	4 417	4 553	4 618		**1 950**	1 937	1 986	1 983	
France	**1 432**	1 468	1 785	1 658		**508**	582	581	559	
Italy	**1 159**	1 211	1 287	1 334		**365**	381	392	388	
Great Britain	**442**	453	506	887		**144**	136	168	207	
Spain	**806**	1 005	1 051	640		**260**	317	269	231	
Poland	**151**	65	188	184		**24**	18	24	16	
Austria	**448**	408	415	408		**209**	193	197	213	
Other	**2 228**	2 279	2 850	3 436		**631**	773	878	916	
Total EU	**11 039**	11 306	12 635	13 165		**4 092**	4 337	4 495	4 513	
Other Europe	**66**	63	81	129		**89**	77	78	89	
Total Europe	**15 251**	15 790	18 735	20 433		**7 096**	7 436	8 330	7 950	
USA	**1 497**	1 504	1 967	2 519		**501**	585	616	752	
Other Americas	**769**	703	837	803		**125**	87	78	104	
Asia	**833**	691	532	487		**70**	58	51	51	
Australia	**544**	561	563	490		**350**	302	259	243	
Total outside Europe	**3 643**	3 459	3 899	4 299		**1 046**	1 032	1 003	1 151	
Total [2]	**18 894**	19 249	22 634	24 732	33 605	**8 142**	8 468	9 333	9 101	14 321

1) Per December 31.
2) Numbers for 2006 include discontinued operations.

The reduction in number of employees from 2009 to 2010 is mainly due to the divestment of our smallest rolling mill Inasa in Spain, the closure of our extrusion plant in Adrian, Michigan, and the cost improvement program in our Primary Metal business. During the same period new employees have joined Hydro, among other things, through acquisitions in Spain and Taiwan. Earlier reductions are mainly due to restructuring processes following the financial crisis in 2008 and 2009, divestment of Hydro Polymers to the British company Ineos and Hydro Production Partner to the German company Bilfinger Berger in 2008, and the demerger of our former oil and gas activities, the sale of Automotive Castings, and the restructuring of our Extrusion business in the U.S. in 2007.

Current income tax

NOK million	**2010**	2009	2008	2007
Norway	**1 198**	568	1 002	1 602
Germany	**98**	35	230	485
France	**47**	34	68	113
Italy	**17**	32	63	70
Great Britain	**-**	(4)	-	(10)
Spain	**(1)**	7	(13)	39
Poland	**3**	-	3	1
Austria	**25**	20	45	38
Other	**140**	17	80	252
Total EU	**329**	141	476	988
Other Europe	**3**	4	5	18
Total Europe	**1 529**	713	1 483	2 608
USA	**(1)**	11	(42)	16
Other Americas	**93**	19	196	230
Asia	**5**	4	3	-
Australia	**27**	(44)	178	389
Total outside Europe	**123**	(10)	335	559
Total	**1 652**	703	1 818	3 167

People

Diversity in management [1)]

	Women					Non-Norwegians				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Board of directors (nine members) [2)]	**33%**	33%	33%	33%	33%	**11%**	-	-	-	22%
Corporate assembly	**33%**	33%	33%	28%	28%	**-**	-	-	-	-
Corporate management board	**20%**	18%	22%	13%	29%	**20%**	9%	-	-	-
Top 50 managers	**21%**	19%	19%	17%	19%	**25%**	22%	13%	13%	11%
Top 200 managers	**16%**	18%	17%	16%	20%	**43%**	45%	35%	32%	19%

1) The 2006 numbers include discontinued operations.
2) Three of the board members are employee representatives. All are men.

The Norwegian organization has been substantially reduced following the demerger of the oil and gas activities, resulting in a more international organization. The flipside is that the ratio of women at all levels is higher in Norway than in our global organization.

Diversity in Norway

Women and men at different levels [1)]

	Women					Men				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Managers	**20%**	20%	21%	19%	20%	**80%**	80%	79%	81%	80%
Salaried employees	**32%**	41%	44%	43%	43%	**68%**	59%	56%	57%	57%
Hourly paid	**12%**	12%	13%	11%	14%	**88%**	88%	87%	89%	86%
Total	**19%**	19%	19%	18%	22%	**81%**	81%	81%	82%	78%

1) The 2006 numbers include discontinued operations.

An adjustment in the wage system in 2010 moved a large number of technical positions, including first line supervisors, from hourly paid to salaried employees. The greater proportion of them are men, causing a significant increase in the proportion of men in the category salaried employees. The change had only limited consequences for the salary level.

Recruitment [1]

	Women					Men				
	2010	2009	2008	2007	2006	**2010**	2009	2008	2007	2006
Managers	**-**	29%	33%	19%	22%	**100%**	71%	67%	81%	78%
Salaried employees	**35%**	29%	51%	46%	34%	**65%**	71%	49%	54%	66%
Hourly paid	**16%**	5%	21%	17%	15%	**84%**	95%	79%	83%	85%
Total	**20%**	21%	30%	22%	26%	**80%**	79%	70%	78%	74%

1) The 2006 numbers include discontinued operations.

About 100 persons were employed in 2010, compared with about 70 in 2009 and 450 in 2008. Only three new employees at managerial level were recruited externally in 2010.

Part-time employees in Norway

	2010	2009	2008	2007	2006
Women	**4.8%**	10%	12%	14%	16%
Men	**0.4%**	1.5%	2.0%	1.4%	1.3%

Hydro employees normally work full-time. The opportunity to work part-time is considered a benefit for which a special application must be made.

Health and safety

	2010	2009	2008	2007	2006
Total recordable injuries (TRI) [1]	**3.7**	2.9	3.9	4.1	4.0
Lost-time injuries (LTI) [1]					
Employees	**1.9**	1.7	2.0	2.0	2.1
Contractors	**0.4**	0.4	0.9	1.9	2.5
Total fatal accident rate [2]	**2.4**	2.8	2.8	2.5	2.3
Fatality rate, employees [2]	**2.1**	1.5	1.7	1.2	1.4
Fatality rate, contractors [2]	**3.1**	5.2	6.1	6.3	4.8
Total number of fatal accidents	**0**	3	3	2	1
Number of fatal accidents, employees	**0**	0	2	0	1
Number of fatal accidents, contractors	**0**	3	1	2	0
Sick leave, percent	**3.3**	3.7	3.4	2.8	2.6

1) Per million working hours. The numbers include discontinued operations.
2) Per 100 million working hours, five-year rolling average

Environment

Greenhouse gases

Million tonnes CO2e	**2010**	2009	2008	2007	2006
CO_2	**2.5741**	2.5148	3.1845	3.1948	3.3761
CH_4	**0.0002**	0.0002	0.0001	0.0001	0.0396
N_2O	**0.0003**	0.0002	0.0000	0.0000	0.0202
PFC	**0.2004**	0.4017	0.8396	0.8978	1.0236
Total	**2.7750**	2.9169	4.0242	4.0927	4.4596

The reductions of climate gas emissions from 2008 was a result of process improvements and reduced production in our consolidated activities. SF6 emissions were phased out in 2006 and 2007 due to process improvements in and sales of our magnesium activities. The reduction in PFC emissions mainly resulted from the closure of Søderberg production at Høyanger, Norway, in 2006, Årdal, Norway, in 2007, and Karmøy, Norway in 2009, as well as improvements to existing technology at Kurri Kurri, Australia, in 2006 and improved operations at Sunndal in 2010. Greenhouse gas emissions include plants owned more than 50 percent by Hydro.

Energy consumption

PJ	**2010**	**2009**	**2008**	**2007**	**2006**
Coke	**13.0**	13.1	20.7	21.4	19.3
Electricity	**67.7**	70.1	90.7	90.8	93.5
Natural gas	**11.1**	9.9	10.9	10.6	32.1
Natural gas liquids	**1.4**	1.4	1.7	2.4	2.2
Oil	**0.4**	0.3	0.4	0.4	1.7
Other	**3.5**	3.3	5.9	5.6	5.3
Total	**97.1**	**98.2**	**130.4**	**131.1**	**89.9**

The reductions from 2008 were primarily a result of reduced production in our consolidated activities. Energy consumption includes energy losses in hydroelectric plants.

Energy consumption per sector

PJ	**2010**	2009	2008	2007	2006
Electrolysis/Carbon	**78.3**	80.3	109.3	109.7	111.7
Casting	**3.1**	3.3	3.6	3.1	2.9
Extrusion, Building System, Automotive	**4.2**	4.3	4.9	5.5	7.6
Others	**3.2**	3.1	4.6	4.5	39.9
Remelt	**2.6**	2.1	2.2	2.3	2.4
Rolled Products	**5.7**	5.1	5.7	6.0	5.2
Total	**97.1**	98.2	130.4	131.1	169.7

Resource use

1,000 metric tons	**2010**	2009	2008	2007	2006
Alumina	**2 172**	2 245	2 854	2 553	2 658
Aluminium fluoride	**19**	20	28	29	26

Other emissions

	2010	2009	2008	2007	2006
Dust and particles	**1 249.9**	1 437.1	2 022.9	2 806.0	3 224.7
Fluorides to air	**384.4**	419.3	539.4	592.3	614.3
NM VOC	**406.9**	435.2	442.7	372.8	1 204.5
Nitrogen oxide (NO_x)	**1 801.2**	1 558.6	1 615.3	1 098.9	3 587.7
PAH to air	**6.2**	11.9	31.3	38.0	49.3
PAH to water	**0.7**	0.8	0.7	1.1	0.9
Sulphur dioxide to air	**6 211.7**	6 455.6	8 230.5	8 247.6	7 595.7

The reductions of sulphur dioxide and fluoride emissions from 2009 were a result of process improvements and reduced primary aluminium production in our consolidated activities. The increase in sulphur dioxide emissions in 2007 was a result of the use of anodes with increased sulfur content. PAH to air is according to NS 16 PAH and to water is according to Borneff 6 PAH. Hydro did not emit ozone depleting substances from its production processes in 2010.

Water consumption

Million m^3	**2010**	2009	2008	2007	2006
Argentina	**0.0331**	0.0020	0.0015	0.0010	0.0015
Australia	**0.2145**	0.2415	0.2306	0.2393	0.2118
Austria	**0.0117**	0.0041	0.0063	0.0060	1.0354
Belgium	**0.0511**	0.0520	0.0599	0.0649	0.0631
Brazil	**0.0333**	0.0203	0.0576	0.0584	0.0477
Canada	**0.0843**	0.0318	0.0254	0.0214	0.0245
China	**0.0313**	0.0231	0.0171	0.0164	0.0165
Denmark	**0.0491**	0.0512	0.0681	0.0681	0.0482
France	**0.3010**	0.3250	0.4305	0.6503	0.4856
Germany	**1.7933**	1.4457	2.3027	2.3713	4.5365
Italy	**1.3423**	1.4328	1.4146	1.4647	1.5126
Luxembourg	**0.0711**	0.0504	0.0596	0.0625	0.0687
Malaysia	**0.0341**	0.0734	0.1121	0.0907	0.0930
Mexico	**0.0143**	0.0083	0.0223	0.0305	0.0027
Norway	**48.8536**	49.3063	54.6966	55.5523	38.8509
Poland	**0.0095**	0.0070	0.0087	0.0103	0.0077
Portugal	**0.0476**	0.0517	0.0640	0.0744	0.0696
Slovakia	**0.1657**	0.1728	0.1751	0.1670	
Spain	**0.1886**	0.1993	0.1771	0.1072	0.1052
Sweden		0.0153	0.0179	0.0210	0.1081
United Kingdom	**0.0849**	0.0764	0.0719	0.0987	0.0926
United States	**0.4174**	0.3832	0.5231	0.2820	0.3954
Total	**53.8316**	53.9736	60.5426	61.4585	47.7773

The reduced water consumption from 2008 was a result of reduced primary aluminium production in our consolidated activities. Water supply varies from country to country and may even vary within a country. The greater part of our water consumption takes place in Norway where access to freshwater is abundant. See also page 57. The increase in Norway in 2007 and in U.S. in 2008 was mainly due to improved reporting.

Waste

Metric tonnes	**2010**	2009	2008	2007	2006
Hazardous Waste	**111 760**	107 954	150 453	134 347	160 786
Other Waste	**135 431**	113 814	134 866	135 857	143 180
Total	**247 191**	221 768	285 320	270 204	303 966

The reduced amount of waste in 2009 was primarily a result of reduced production. The production increased in 2010. The increase in 2008 was due to an increased amount of spent potlining, acquisitions in Spain and improved reporting in several units.

Waste treatment

	2010	2009	2008	2007	2006
Energy recovery	**6%**	4%	3%	2%	6%
Landfill	**22%**	31%	35%	33%	31%
Other treatment	**12%**	11%	6%	15%	14%
Reuse/recycling	**60%**	54%	56%	50%	50%

Combustion without energy recovery is included under Other treatment.

Financial provisions

Provisions for future environmental clean-up measures amounted to NOK 272 million as of December 31, 2010.

See note 31 in the consolidated financial statements.

GLOBAL REPORTING INITIATIVE

We use the Global Reporting Initiative's (GRI) G3 guidelines for voluntary reporting of sustainable development. The guidelines comprise economic, environmental and social dimensions relating to an enterprise's activities, products and services. GRI collaborates with the United Nations Environment Programme and UN Global Compact.

We believe in all material respects that our reporting practice is consistent with GRI's reporting principles. We report according to a B+ level as defined by the GRI G3 guidelines. This has been confirmed by our external auditor KPMG, see page 70. An electronic version of the GRI Index, including the full definition of each indicator and references to specific sections in this report as well as additional information, can be found on www.hydro.com/gri

PROGRESS REPORT UN GLOBAL COMPACT

We support the principles of the UN Global Compact. Human rights, international labor standards, work against corruption, and environmental considerations are fundamental to our approach to corporate responsibility.

The Global Compact was formed at the initiative of the former UN Secretary General Kofi Annan in 1999 because the UN wants business and industry to be more closely associated with the UN's work. Companies that sign the Global Compact agree to support 10 principles regarding human rights, labor standards, the environment, and the countering of corruption, and to communicate annually on progress.

Hydro has played an active role in the Global Compact since its formation. Our commitment is expressed by the President & CEO in his letter to shareholders on page 6 of this report. The table below provides a summary of our progress in relation to the Compact's 10 principles. A more complete report can be found at www.hydro.com/globalcompact

		Page
Human rights		
Principle 1	Support and respect the protection of internationally proclaimed human rights	7, 10, 15-16, 58-64
Principle 2	Make sure not to be complicit in human rights abuses	58-64
Labor standards		
Principle 3	Uphold the freedom of association and the effective recognition of the right to collective bargaining	15-16, 58-64
Principle 4	Elimination of all forms of forced and compulsory labor	15-16, 58-59
Principle 5	Effective abolition of child labor	15-16, 58-59
Principle 6	Eliminate discrimination in respect of employment and occupation	10, 15-16, 58-64
Environment		
Principle 7	Support a precautionary approach to environmental challenges	7, 9, 14-15, 54-58, 61, 67-69
Principle 8	Undertake initiatives to promote greater environmental responsibility	7, 9, 14-15, 54-58, 61, 67-69
Principle 9	Encourage the development and diffusion of environmentally friendly technologies	7, 9, 14-15, 54-58, 61, 67-69
Anti-corruption		
Principle 10	Work against all forms of corruption, including extortion and bribery	7, 10, 15-16, 58-60, 63

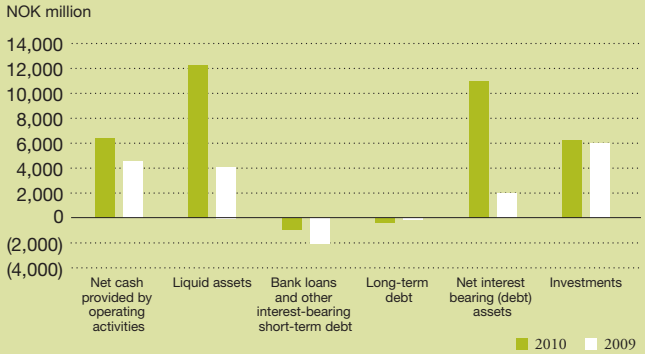
05:

Financial and operating performance

Underlying EBIT

NOK million	2010	2009
Primary Metal	**1 198**	(2 556)
Metal Markets	**321**	(83)
Rolled Products	**864**	26
Extruded Products	**444**	(67)
Energy	**1 416**	1 240
Other and eliminations	**(893)**	(1 114)
Underlying EBIT	**3 351**	(2 555)

Liquidity and financial position



QUICK OVERVIEW

Hydro had underlying EBIT of NOK 3,351 million in 2010, compared with negative underlying EBIT of NOK 2,555 million in 2009. The significant improvement was driven by a market recovery that lifted prices and strengthened demand, as well as reduced costs and manning throughout our operations.

We delivered 2.8 million metric tons of casthouse products to internal and external customers from casthouses that are integrated with our primary aluminium plants, and from remelt facilities close to our customers in Europe and the United States.

In 2010, we shipped approximately 945,000 mt of rolled products from six European plants and our plant in Malaysia. Our network of extrusion plants delivered about 530,000 mt of extruded products. Our energy business produced around 8 TWh of hydroelectric power during the year.

In 2010, cash provided by operating activities increased significantly to NOK 6.4 billion, from NOK 4.5 billion in the previous year. In addition, cash was provided from the rights issue completed in July 2010 of NOK 9.9 billion.

Financial and operating review

Summary of financial and operating results

Key financial information NOK million, except per share data	**Year 2010**	Year 2009
Revenue	**75 754**	67 409
Earnings before financial items and tax (EBIT)	**3 184**	(1 407)
Items excluded from underlying EBIT [1]	**167**	(1 148)
Underlying EBIT	**3 351**	(2 555)
Underlying EBIT :		
Primary Metal	**1 198**	(2 556)
Metal Markets	**321**	(83)
Rolled Products	**864**	26
Extruded Products	**444**	(67)
Energy	**1 416**	1 240
Other and eliminations	**(893)**	(1 114)
Underlying EBIT	**3 351**	(2 555)
Net income (loss)	**2 118**	416
Underlying net income (loss)	**1 852**	(3 066)
Earnings per share [2]	**1.33**	0.24
Underlying earnings per share [2]	**1.14**	(2.50)
Financial data:		
Investments	**6 231**	5 947
Adjusted net interest-bearing debt [3]	**(6 427)**	(15 645)

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

2) "Earnings per share" and "Underlying earnings per share" are computed using Net income and Underlying net income attributable to Hydro shareholders, and using the weighted average number of ordinary shares outstanding adjusted for the discount element in the rights issue completed in July 2010. There were no significant 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.

Hydro had underlying EBIT of NOK 3,351 million in 2010, compared with negative underlying EBIT of NOK 2,555 million in 2009. The significant improvement was driven by a market recovery that lifted prices and strengthened demand, as well as reduced costs and manning throughout our operations.

Reported EBIT and Net income

Following is a summary discussion of Hydro's reported EBIT and reported net income. See section on "Underlying EBIT - Business areas" for a discussion on the performance of our business operations and section on "Items excluded from underlying EBIT and net income" for more information regarding the effects described below.

Reported EBIT for Hydro amounted to NOK 3,184 million, compared with a loss of NOK 1,407 million in 2009. Reported EBIT included negative effects of NOK 166 million from unrealized gains and losses relating to LME, power, currency and raw material derivative contracts, and metal effects in our Rolled Products business area in 2010. In 2009, the corresponding effects were positive, amounting to NOK 2,585 million. The magnitude of these recurring effects depends on changes in market values, which have been significant.

Other significant items impacting reported EBIT include gains and 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 317 million and NOK 956 million for 2010 and 2009, respectively, together with divestment gains of NOK 74 million in 2010 and divestment losses of NOK 684 million in 2009. These also included other items that amounted to a net positive effect of NOK 242 million in 2010 and NOK 204 million in 2009.

Reported net income amounted to NOK 2,188 million in 2010, compared with NOK 416 million in 2009 including net foreign currency gains of NOK 513 million in 2010 and NOK 2,774 million in 2009. The currency gains mainly related to intercompany balances denominated in Euro. These items have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation.

Operational overview

Key Operational information [4]	**Year 2010**	Year 2009	% change prior year
Primary aluminium production (kmt)	**1 415**	1 396	1 %
Realized aluminium price LME (USD/mt) [5]	**2 113**	1 698	24 %
Realized aluminium price LME (NOK/mt) [5]	**12 674**	10 764	18 %
Realized NOK/USD exchange rate	**6.00**	6.34	(5) %
Metal Markets sales volumes to external market (kmt) [6]	**1 717**	1 468	17 %
Rolled Products sales volumes to external market (kmt)	**945**	794	19 %
Extruded Products sales volumes to external market (kmt) [7]	**529**	463	14 %
Power production (GWh)	**8 144**	7 897	3 %

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

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

6) Excluding ingot trading volumes.

7) Excluding volumes for Automotive Structures divested in 2009: 35 kmt. Volumes have also been adjusted to include extrusion shipments made to Automotive Structures that were eliminated earlier as internal transactions in order to make prior periods comparable following the divestment.

Primary Metal

Primary Metal, with around 4,100 employees, generated NOK 31 billion in operating revenues in 2010. The business area's production of primary metal amounted to 1.4 million mt, from plants in Australia, Canada, Germany, Norway, Qatar and Slovakia. We delivered 2.0 million mt of casthouse products to internal and external customers, from casthouses which are integrated with our primary aluminium plants. Deliveries included about 0.8 million mt of extrusion ingot, 0.5 million mt of sheet ingot and 0.5 million mt of foundry alloys and wire rod. We also sold about 0.2 million mt of standard ingot. Primary Metal sourced roughly 4.1 million mt of alumina in 2010.

Metal Markets

Metal Markets generated operating revenues of around NOK 43 billion in 2010. The business area, which employs around 700 people at plants and offices in Asia, Europe and North America, is responsible for sales of metal products from primary casthouses, the operation of stand-alone remelters and the resale of third-party volumes. Metal Markets is also responsible for sourcing and trading activities related to standard ingots, and LME trading and hedging operations. Our six remelters in Europe and two in the U.S. produced approximately 600,000 mt of metal products in 2010. We sold 2.8 million mt of metal products last year, including deliveries from the casthouses integrated with our primary smelters. Of this figure, we sold approximately 1.7 million mt to external customers.

Rolled Products

Rolled Products generated operating revenues of approximately NOK 21 billion in 2010. The business area has locations in 12 countries and employs about 4,000 people. In 2010, we shipped approximately 945,000 mt of rolled products from six European plants and our plant in Malaysia.

Extruded Products

Extruded Products had operating revenues of approximately NOK 19 billion from the sale of aluminium products in 2010. The business area employs around 9,500 people. Our network of extrusion plants, including those dedicated to building systems, delivered 529,000 mt of extruded products. About 70 percent of our total extrusion revenues came from our general extrusion and tubing businesses and 30 percent came from our building systems operations.

Energy
In 2010, Energy generated about NOK 7.1 billion in revenues. The business area employs around 200 people, mainly in Norway. We produced 8.1 TWh of renewable hydroelectric power. Production was limited due to the lower-than-average reservoirs going into 2010 and low precipitation during the year.

Market developments and outlook

Market statistics [1)]	**Year 2010**	Year 2009	% change prior year
NOK/USD Average exchange rate	**6.05**	6.28	(4) %
NOK/USD Balance sheet date exchange rate	**5.86**	5.78	1 %
NOK/EUR Average exchange rate	**8.01**	8.73	(8) %
NOK/EUR Balance sheet date exchange rate	**7.81**	8.32	(6) %
Primary Metal and Metal Markets:			
LME three month average (USD/mt)	**2 199**	1 702	29 %
LME three month average (NOK/mt)	**13 257**	10 575	25 %
Global production of primary aluminium (kmt)	**41 989**	37 669	11 %
Global consumption of primary aluminum (kmt)	**41 115**	34 301	20 %
Global production of primary aluminium (ex. China) (kmt)	**25 024**	24 027	4 %
Global consumption of primary aluminum (ex. China) (kmt)	**24 266**	20 370	19 %
Reported primary aluminium inventories (kmt)	**6 234**	6 321	(1) %
Rolled Products and Extruded Products:			
Consumption Rolled Products - Europe (kmt)	**4 292**	3 682	17 %
Consumption Rolled Products - USA & Canada (kmt)	**4 167**	3 726	12 %
Consumption Extruded Products - Europe (kmt)	**2 438**	2 102	16 %
Consumption Extruded Products - USA & Canada (kmt)	**1 372**	1 177	17 %
Energy:			
Southern Norway spot price (NO2) (NOK/MWh) [2)]	**407**	295	38 %
Nordic system spot price (NOK/MWh)	**426**	306	39 %

1) Industry statistics have been derived from analyst reports, trade associations and other public sources unless otherwise indicated. Amounts presented in prior reports may have been restated based on updated information. Currency rates have been derived from Norges Bank.

Primary metal and metal markets
The three-month LME aluminium price at the end of 2010 was around USD 2,470 per mt. This was similar to the price at the beginning of 2010, despite significant volatility during the course of the year. Prices fluctuated considerably in the first half of the year, peaking at roughly USD 2,480 per mt in the middle of April before declining to USD 1,860 per mt in early June. The volatility continued during the rest of the year, but on an upward trend. The three-month LME price averaged about USD 2,160 per mt in the first half of 2010, and USD 2,240 per mt in the second half.

Demand in China continued to grow in 2010 following the rapid recovery of demand in the previous year, from 13.9 million mt in 2009 to 16.8 million mt in 2010. The increase was around 21 percent. Measures to reduce energy consumption in China moderated both demand and production in the second half of 2010. We expect that China will be balanced in primary aluminium in 2011.

Outside China, demand for primary aluminium increased throughout the year to 24.3 million mt in total, and to 25.3 million mt on annualized basis in the fourth quarter. Production outside China also increased, reaching about 25.7 million mt annualized in the final quarter. This was mainly due to new greenfield smelters in the Middle East and India. Around 1.1 million mt of the 3.4 million mt of the annual production capacity that was curtailed during the market downturn, has been restarted or is in the process of being restarted.

LME stocks fell gradually from 4.6 million mt in the first quarter to 4.3 million mt during the fourth quarter of 2010. However, there are indications of an increase in unreported stocks during the year. Much of the metal continues to be owned by financial investors.

Demand for primary aluminium is expected to grow by about 7 percent in 2011, after a strong increase in 2010. The market surplus is expected to be at a manageable level in 2011.

Demand for metal products (extrusion ingot, sheet ingot, foundry alloys and wire rod) in Europe and North America remained strong during 2010, following a healthy recovery at the beginning of the year. Demand for foundry alloys improved in Northern Europe and in Germany and was also stronger in Asia.

Rolled products
Consumption in Europe of flat-rolled products increased substantially in 2010, compared with the previous year, driven by higher end-use demand and customer restocking. Shipments from European rolling mills grew by around 23 percent, supported by increased net exports. Demand is expected to remain strong in the first half of 2011, with a seasonally weaker second half. Demand in North America also increased and was 5 percent below the level achieved in 2008. The outlook for the early part of 2011 has turned more positive due to improved market conditions.

Demand in the packaging market improved strongly. The consumption of can stock and aluminium foil primarily used for end-consumer packaging reached levels near those achieved in 2007. The automotive segment also showed substantial recovery, driven by the high exports of premium cars to China and the growing use of aluminium components in automotive applications in general. Building and construction had the weakest recovery, particularly in Southern Europe. However, signals in the final quarter of 2010 indicate a more positive outlook for 2011. The general engineering market was positively impacted by increased industrial activity and a good development in export markets.

Extruded products
In Europe, demand for extruded aluminium products was substantially higher last year than in the previous year. Demand was higher for nearly all segments in Northern Europe, but somewhat lower in Southern Europe. Demand increased more moderately in North America, reflecting the fragile economic recovery. Developments in South America continued to be positive, particularly in Brazil. Demand in the automotive market improved during the year, supported by government incentives to increase the sale of new cars and strong demand from emerging markets.

Overall market demand is expected to grow at the lower rates experienced in the second half of 2010 in Europe and the U.S., with building and construction being the most challenging market segment. The outlook within automotive and transport is more positive.

Energy
Nordic electricity spot prices increased by more that 50 percent in 2010 as a result of dry hydrological conditions. High demand resulting from cold winter temperatures, low output from Swedish nuclear power facilities and higher demand due to the economic recovery, put upward pressure on spot prices during the year. The highest prices were observed in Mid-Norway due to the underlying power deficit in this area, reinforced by record-low reservoir levels. Higher coal and gas prices also lifted prices to some extent in the Nordic and Continental markets.

Demand increased by about 20 TWh to 393 TWh in the Nordic market last year, with about half covered by higher production and the remainder through imported power. Total power production in Norway amounted to 121 TWh, which was 9 TWh lower than 2009.

Additional factors impacting Hydro

Hydro has sold forward substantially all of its primary aluminium production for the first quarter of 2011 at a price level of around USD 2,325 per mt, excluding expected Qatalum production.

Hydro curtailed its production capacity in 2009 and reduced production at several plants. If it becomes necessary to permanently close plants that have been curtailed on a temporary basis, additional substantial costs will be incurred.

Qatalum is expected to produce roughly 500,000 mt of primary metal in 2011.

Hydro's water and snow reservoirs were lower than normal at the end of January 2011 and also lower than the corresponding period in 2009. Due to the high spot-price levels, Hydro's power production during the first quarter of 2011 is expected to be at same level as in the fourth quarter of 2010.

Major projects and business development

Hydro has a joint-venture agreement with Vale and Dubal for the construction of an alumina refinery close to Alunorte in Brazil. The plant is expected to have an initial capacity of 1.9 million mt (Hydro share 81 percent) with potential expansions up to 7.4 million mt over four phases. Site preparation and engineering activities have commenced and the first phase of the project is expected to be completed in 2015.

Underlying EBIT - Business areas

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

Primary Metal

Operational and financial information [1]	**Year 2010**	Year 2009	% change prior year
Underlying EBIT (NOK million)	**1 198**	(2 556)	>100 %
Underlying EBIT - Alumina and raw materials (NOK million) [2]	**676**	(483)	>100 %
Underlying EBIT - Primary aluminium (NOK million) [2]	**522**	(2 074)	>100 %
Alumina production (kmt)	**1 976**	2 091	(6) %
Realized aluminium price LME (USD/mt) [3]	**2 113**	1 698	24 %
Realized aluminium price LME (NOK/mt) [3]	**12 674**	10 764	18 %
Realized premium above LME (USD/mt) [4]	**317**	246	29 %
Realized premium above LME (NOK/mt) [4]	**1 906**	1 559	22 %
Realized NOK/USD exchange rate	**6.00**	6.34	(5) %
Primary aluminium production (kmt)	**1 415**	1 396	1 %
Casthouse production (kmt)	**2 022**	1 782	13 %
Casthouse sales (kmt)	**2 008**	1 822	10 %

1) Operating and financial information includes Hydro's proportionate share of underlying profit (loss), production, prices, premiums and exchange rates in equity-accounted investments.

2) Beginning in 2010 we are presenting additional information relating to underlying EBIT for certain operating sectors, including our alumina and raw materials operations and our primary metal operations; and for our share of underlying results in equity-accounted investments.

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

4) Average realized premium above LME for total metal products sold from Primary Metal.

Underlying results in equity accounted investments [5] NOK million	**Year 2010**	Year 2009	% change prior year
Alunorte (34.03%)	**138**	(98)	>100 %
Søral (49.90%)	**7**	(98)	>100 %
Qatalum (50.00%)	**(648)**	(489)	(33) %

5) Underlying results are defined as share of net income adjusted for items excluded.

		Primary aluminium		Casthouse	
Primary aluminium and casthouse production (kmt) [6]	Location	**Year 2010**	Year 2009	**Year 2010**	Year 2009
Karmøy	Norway	**182**	187	**239**	187
Årdal	Norway	**201**	191	**309**	284
Sunndal	Norway	**291**	321	**441**	411
Høyanger	Norway	**61**	60	**115**	97
Søral (Hydro's 49.9% share)	Norway	**44**	49	**65**	58
Slovalco	Slovakia	**163**	150	**188**	172
Neuss	Germany	**52**	82	**218**	216
Kurri Kurri	Australia	**179**	177	**182**	178
Tomago (12.4% share)	Australia	**65**	65	**65**	65
Alouette (20% share)	Canada	**114**	115	**114**	114
Qatalum (50% share)	Qatar	**63**	-	**86**	-
Total production Primary Aluminium		**1 415**	1 396	**2 022**	1 782

6) Production volumes for the part-owned companies indicated in the table represent our proportion of total production based on our equity interests. For financial reporting purposes, Søral and Qatalum are accounted for as equity-accounted investments while Tomago and Alouette are consolidated on a proportional basis. Slovalco is fully consolidated in terms of financial results and volumes.

Underlying EBIT for Primary Metal increased significantly in 2010, after a substantial loss in 2009. The improvement was mainly driven by higher realized aluminium prices and improved earnings for Hydro's alumina and raw materials business.

The increase in underlying results for Alunorte was primarily due to significantly higher LME-linked alumina prices. Alumina production declined somewhat, mainly due to disruptions in the power supply at the plant in the beginning of the year and in September. Variable costs were somewhat higher than in 2009. This was mainly due to higher energy costs, although these were partly offset by lower caustic and bauxite costs[7]. Underlying results and margins for our alumina commercial activities improved substantially, partially reflecting the increase in LME prices. Volumes sold to external parties were stable compared to 2009.

Primary aluminium benefited from significantly higher aluminium prices and contributed about NOK 2.5 billion to underlying EBIT, compared with 2009. Underlying results were also impacted by the reversal of inventory write-downs of NOK 66 million in 2010, compared with NOK 470 million in 2009. Higher volumes and product premiums had a positive impact on underlying EBIT amounting to about NOK 170 million and NOK 770 million, respectively, compared with 2009. Variable costs increased by about NOK 400 million, mainly due to higher alumina costs of roughly NOK 700 million, though these were partly offset by lower coke prices. Fixed costs declined by about NOK 175 million due to cost-improvement measures.

Operating losses for Qatalum increased in 2010 due to the ongoing ramp-up of production at the plant in addition to the negative effects of the power outage.

7) There is a time lag of about one month for the effects of LME price developments on realized alumina prices impacting the results for Alunorte. Bauxite prices are based on average LME prices for the preceding three quarters with a one-quarter delay. There is no time lag for the effects of LME price developments on the results of our alumina commercial operations.

Metal Markets

Operational and financial information	Year 2010	Year 2009	% change prior year
Underlying EBIT (NOK million)	**321**	(83)	>100 %
Currency effects [1]	**(145)**	(603)	76 %
Ingot inventory valuation effects [2]	**20**	(91)	>100 %
Underlying EBIT excl. currency and ingot inventory effects	**447**	611	(27) %
Remelt production (kmt)	**603**	455	33 %
Sale of metal products from own production (kmt) [3]	**2 666**	2 351	13 %
Sale of third-party metal products (kmt)	**121**	63	92 %
Total metal products sales excluding ingot trading (kmt)	**2 787**	2 414	15 %
Hereof external sales excluding ingot trading (kmt)	**1 717**	1 468	17 %
External revenue (NOK million) [4]	**27 090**	23 650	15 %
Product sales (NOK million) [5]	**23 616**	17 209	37 %

1) Includes the effects of changes in currency rates on sales and purchase contracts denominated in foreign currencies (mainly US dollar and Euro for our European operations) and the effects of changes in currency rates on the fair valuation of dollar denominated derivative contracts (including LME futures) and inventories mainly translated into Norwegian kroner. Hydro manages its external currency exposure on a consolidated basis in order to take advantage of offsetting positions.

2) Comprised of hedging gains and losses relating to standard ingot inventories in our metal sourcing and trading operations. Increasing LME prices result in unrealized hedging losses, while the offsetting gains on physical inventories are not recognized until realized. In periods of declining prices, unrealized hedging gains are offset by write-downs of physical inventories.

3) Includes external and internal sales from our primary casthouse operations, remelters and part owned metal sources. Sale of Qatalum volumes above Hydro's ownership share is included in sale of third-party metal products.

4) External sales revenue from our primary casthouse operations, remelters and part-owned metal sources as well as aluminium trading and hedging activities, including derivatives.

5) Excludes revenues from our aluminium trading and hedging activities and derivatives.

Remelt production (kmt)	Location	Year 2010	Year 2009
Europe			
Clervaux	Luxembourg	**109**	84
Deeside	United Kingdom	**57**	42
Rackwitz	Germany	**91**	66
Hannover	Germany	**16**	11
Luce	France	**59**	52
Azuqueca	Spain	**70**	61
US			
Henderson	Kentucky	**79**	58
Commerce	Texas	**98**	84
Asia			
Hydro Aluminium Taiwan [1]	Taiwan	**24**	-
Total remelt production Metal Markets		**603**	458

1) from April 2010

Underlying EBIT for Metal Markets in 2010 was higher than in 2009, when substantial net negative currency and ingot inventory valuation effects had a significant impact on the result. Excluding these negative effects, however, the underlying results were lower than in 2009, mainly due to lower contribution from the resale of third-party metal products and lower trading margins. Results in 2009 were positively impacted by a reversal of inventory write-downs of roughly NOK 140 million made in the previous year.

Total metal product sales improved significantly from 2009, reflecting improved demand for all products and entry into new markets.

Our remelt operations again delivered good operating results, mainly due to higher premiums and sales volumes. However, the positive results were largely offset by higher prices for raw materials due to tight supply in the markets. In addition, results for 2009 included positive effects from part of the reversal of inventory write-downs mentioned above. Production increased substantially compared to 2009, with our remelt plants reaching maximum utilization rates during 2010. New capacity in Taiwan and an expansion of our Rackwitz plant in Germany also contributed to the increase in production.

Operating results from our sourcing and trading activities declined from 2009. While both physical standard ingot trading and LME trading delivered significant positive contributions in 2010, the margins were reduced compared to the strong performance in 2009.

Rolled Products

Operational and financial information	**Year 2010**	Year 2009	% change prior year
Underlying EBIT (NOK million)	**864**	26	>100 %
Sales volumes to external market (kmt)	**945**	794	19 %
Sales volumes to external markets (kmt) - Customer business units			
Foil	**129**	115	12 %
Can beverage	**177**	145	22 %
Other packaging and building	**89**	84	5 %
Automotive, heat exchanger	**122**	86	41 %
General engineering	**259**	216	20 %
Lithography	**169**	148	15 %
Rolled Products	**945**	794	19 %

Rolled Products production sites Volumes to external market (kmt)	Location	**Year 2010**	Year 2009
AluNorf/Grevenbroich (50% share)	Germany	**569**	460
Hamburg	Germany	**143**	123
Slim	Italy	**60**	49
Inasa	Spain	**-**	17
AISB (81% share)	Malaysia	**17**	15
Karmøy	Norway	**67**	59
Holmestrand	Norway	**90**	71
Total, excluding internal sales		**945**	794

Rolled Products achieved record results in 2010, substantially better than in the previous year. The improvement was due to continued attention on costs, firm operating margins, and significantly higher sales volumes as the market recovered.

Market demand improved in all product segments. Shipments of automotive applications were around 45 percent higher, while the deliveries of thin-gauge foil improved by 26 percent and beverage can products by 22 percent. The trend continued throughout the year, although the main part of the recovery took place in the first nine months.

Average net margin development was positive, supported by improvements in the beverage can and general engineering business.

Rolled Products reduced its cost per metric ton to levels below the last two years, mainly due to improved labor productivity and cost-reduction programs.

Extruded Products

Operational and financial information	**Year 2010**	Year 2009	% change prior year
Underlying EBIT (NOK million)	**444**	(67)	>100 %
Sales volumes to external market (kmt) [1)]	**529**	463	14 %
Sales volumes to external markets (kmt) - sectors			
Extrusion Eurasia [1)]	**293**	246	19 %
Building Systems	**73**	77	(5) %
Extrusion Americas	**95**	87	9 %
Precision Tubing	**67**	52	28 %
Extruded Products	**529**	463	14 %

Extrusion sales volume per market segment 2010 Volumes to external market (kmt)	Extrusion Eurasia	Extrusion Americas	Building Systems	Precision Tubing
Domestic & office equipment	22	13	-	-
Building & construction	118	30	73	-
General Engineering	34	5	-	-
Electrical	38	17	-	-
Transport	47	22	-	56
Other	35	8	-	11
Total	293	95	73	67

Driven by higher sales volumes and further reductions in operating costs, underlying EBIT for Extruded Products increased significantly in 2010, compared with an underlying loss in 2009. Volumes increased in all business sectors, excluding building systems, reflecting customer restocking and the general economic recovery. We also improved margins in several of the sectors.

Volumes recovered for most business sectors but remain below pre-crisis levels. Growth in the first half of the year was especially strong due to customer restocking. Recovery in the building systems markets continued to lag general market developments, in particular in Southern Europe, where reduced public spending and increased economic uncertainty led to a decline in demand. As a result, we have initiated further rationalization programs to improve the results of this business. Volumes increased for our North American extrusion operations in line with the general market development. Our South American operations delivered somewhat higher volumes, but the growth was lower than the market as a whole due to capacity constraints at our Brazilian plant.

Cost-improvement programs initiated as a result of the market downturn had a positive impact on all operating units last year. Despite the challenging building and construction market, underlying results improved for our European extrusion operations as a result of our reductions in cost per ton to pre-crisis levels. Underlying results for our precision tubing business were materially higher than in the previous year, driven by stronger demand and the positive impact from cost-reduction measures. Underlying results for our extrusion operations in the Americas also improved, benefiting from good cost control in the U.S. In our building systems operations, underlying results declined in 2010.

Energy

Operational and financial information	Year 2010	Year 2009	% change prior year
Underlying EBIT (NOK million)	**1 416**	1 240	14 %
Direct production costs (NOK million) [1]	**515**	438	18 %
Power production (GWh)	**8 144**	7 897	3 %
External power sourcing (GWh) [2] [3]	**8 539**	9 480	(10) %
Internal contract sales (GWh) [3] [4]	**12 336**	13 339	(8) %
External contract sales (GWh) [5]	**1 968**	1 820	8 %
Net spot sales (GWh) [6]	**2 380**	2 217	7 %

1) Includes maintenance and operational costs, transmission costs, property taxes and concession fees for Hydro as operator.
2) Includes long-term sourcing contracts and industrial sourcing in Germany.
3) Volume balances for 2009 and 2010 are adjusted to also include financial hedges of power consumption and related internal physical contracts.
4) Internal contract sales in Norway and Germany, including sales from own production and resale of externally sourced volumes.
5) External contract sales, mainly concession power deliveries and volumes to former Hydro businesses.
6) Spot sales volumes net of spot purchases.

Underlying EBIT for Energy increased in 2010, due mainly to considerably higher realized spot prices. The increase was partly offset by higher transmission costs and area price differences.

Our Suldal I power plant in Norway resumed production early in 2010, contributing to a slight increase in production compared to the previous year. However, there was no significant impact on underlying EBIT since the effects of lost production due to the outage in 2009 were partly offset by proceeds from business interruption insurance.

Low precipitation resulted in low reservoir levels in large parts of the year and at the end of 2010.

The decline in volume in internal sales contracts was due to the curtailment of smelter capacity in 2009, which was not restarted in 2010.

Other and eliminations

Underlying EBIT for Other and eliminations amounted to a charge of NOK 893 million in 2010, compared with a charge of NOK 1,114 million in 2009. Eliminations included in Other and eliminations amounted to a charge of NOK 169 million and NOK 82 million in 2010 and 2009, respectively. Underlying EBIT also included a charge of NOK 53 million related to unallocated pension cost, compared with a charge of NOK 614 million in 2009. The higher charge in 2009 was mainly the result of lower expected returns on plan assets due to a decline in market value at the end of 2008 and to higher amortization of losses on actuarial valuation of pension obligations. Underlying EBIT for 2010 included costs related to the acquisition of Vale's aluminium operations of about NOK 100 million

Hydro's solar activities had an underlying loss of NOK 106 million in 2010, compared with a loss of NOK 118 million in 2009.

Items excluded from underlying EBIT and net income

Items excluded from underlying EBIT and net income

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

Items excluded from underlying EBIT are comprised mainly of unrealized gains and losses on certain derivatives, impairment and rationalization charges, effects of disposals of businesses and operating assets, as well as other items that are of a special nature or which are not expected to be incurred on an ongoing basis.

Items excluded from underlying net income [1] NOK million	**Year 2010**	Year 2009
Unrealized derivative effects on LME related contracts [2]	**489**	(2 630)
Derivative effects on LME related contracts (Vale Aluminium) [3]	**(166)**	-
Unrealized derivative effects on power contracts [4]	**609**	(198)
Unrealized derivative effects on currency contracts [5]	**(50)**	(345)
Unrealized derivative effects on raw material contracts [6]	**(156)**	-
Metal effect, Rolled Products [7]	**(560)**	588
Significant rationalization charges and closure costs [8]	**130**	518
Impairment charges (PP&E and equity accounted investments) [9]	**187**	438
Pension [10]	**(151)**	(52)
Insurance compensation [11]	**(91)**	(152)
(Gains)/losses on divestments [12]	**(74)**	684
Items excluded from underlying EBIT	**167**	(1 148)
Net foreign exchange (gain)/loss [13]	**(513)**	(2 774)
Calculated income tax effect [14]	**80**	441
Items excluded from underlying net income	**(266)**	(3 481)

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

2) Unrealized derivative effects on LME contracts include unrealized gains and losses on contracts measured at market value, which are used for operational hedging purposes related to fixed-price customer and supplier contracts, but where hedge accounting is not applied. The amounts include net unrealized gains and losses on derivative contracts relating to our Primary Metal and Metal Markets operations and our downstream Rolled Products and Extruded Products operations. Certain internal aluminium contracts between Metal Markets and other units are measured at market value by Metal Markets but considered for own use by consuming units. The valuation effects are eliminated as part of Other and eliminations, and excluded from underlying results. Unrealized gains and losses on derivative contracts relating to trading activities are not excluded from underlying EBIT, as these are considered to be a normal part of the trading business performance.

3) Linked to the agreement to acquire the majority of Vale's aluminium business in Brazil (Vale Aluminium), it was decided to hedge the majority of the net aluminium price exposure in Vale Aluminium until end 2011. The hedges are aimed at mitigating the risk of a weaker aluminium price and will secure a robust cash flow from the acquired assets in the transition phase. The hedges are not conditional upon completion of the transaction. The significant part of the positions expiring after closing of the transaction are subject to hedge accounting and included in other comprehensive income. Recognized unrealized and realized effects of positions not subject to hedge accounting are classified as items excluded from underlying EBIT.

4) Unrealized derivative effects on power contracts include unrealized gains and losses on embedded derivatives in power contracts for own use, as well as financial power contracts used by Primary Metal, including Søral, and Energy for hedging of power prices. Hydro's Energy operations supply electricity for Hydro's own consumption, and have entered into long-term purchase contracts with external power suppliers. Energy accounts for embedded derivatives in certain sourcing contracts and for the corresponding internal supply contracts with consuming units at fair value. These internal purchase contracts are considered for own by the consuming units, while the embedded derivative is recognized at market value in Other and eliminations, and excluded from underlying results. Embedded derivatives include exposures to changes in forward prices on aluminium and coal, as well as currency and inflation adjustments. Reported periodic effects are also influenced by changes in the contract portfolio. The majority of physical power-purchase contracts have a long duration and can result in significant unrealized gains and losses on embedded derivatives, impacting the reported results.

5) Unrealized derivative effects on currency contracts relate to currency effects in equity-accounted investments. The amounts include unrealized effects on long-term US dollar-denominated loans for Alunorte, as well as effects related to currency contracts for Qatalum.

6) Unrealized derivative effects on raw-material contracts include unrealized gains and losses on embedded derivatives in raw-material contracts for own use. Embedded derivatives include exposures to changes in forward prices on aluminium and petroleum coke.

7) Metal effect: Rolled Products' sales prices are based on a margin over the metal price. The pricing, production and logistic process of Rolled Products lasts normally four to five months. As a result, margins are impacted by timing differences resulting from the FIFO (first in, first out) inventory valuation method, due to changing aluminium prices during the process. The effect of potential inventory write-downs is included. Decreasing aluminium prices in Euro results give a negative metal effect on margins, while increasing prices have a positive effect.

8) Rationalization charges and closure costs includes costs that are typically non-recurring for individual plants or operations. Such costs involve termination benefits, dismantling of installations and buildings, clean-up activities that exceed legal liabilities, etc.

9) Impairment charges occur in the period when an asset or a group of assets is identified to have lost its value, causing a write-down to the recoverable amount. In most of our impairment situations, there is no single event directly causing the write-down. The loss is therefore not necessarily closely linked to performance in a single period.

10) Recognition of pension plan amendments, curtailments and settlements.

11) Insurance compensation for damages on assets, recognized as income.

12) Gains and losses on divestments include a net gain or loss on divested businesses and/or individual major assets.

13) Realized and unrealized gains and losses on foreign currency-denominated accounts receivables and payables, funding and deposits, and forward-currency contracts purchasing and selling currencies that hedge net future cash flows from operations, sales contracts and working capital.

14) In order to present underlying income from continuing operations on a basis comparable with our underlying operating performance, we have calculated the income tax effect of currency gains and losses with 28%, while the income-tax effect of items excluded from underlying EBIT is calculated using Hydro's effective tax rate adjusted for the tax effect of financial items.

Items excluded from underlying EBIT - Business areas

The following includes a summary table of items excluded from underlying EBIT for each of the business areas and for Other and eliminations, with a brief discussion of the major factors affecting the development of these items in 2010.

Items excluded from underlying EBIT [1)] NOK million	**Year 2010**	Year 2009
Unrealized derivative effects on currency contracts (Alunorte)	**(50)**	(357)
Derivative effects on LME related contracts (Vale Aluminium)	**(166)**	-
Unrealized derivative effects on power contracts (Søral)	**(56)**	(77)
Pension plan amendment (Søral)	**-**	(52)
Unrealized derivative effects on currency contracts (Qatalum)	**-**	12
Unrealized derivative effects on LME related contracts	**95**	285
Unrealized derivative effects on power contracts	**49**	671
Unrealized derivative effects on raw material contracts	**(156)**	-
Impairment charge (Qatalum)	**98**	-
Insurance compensation (Qatalum)	**(91)**	-
Rationalization charges and closure costs	**66**	363
Primary Metal	**(212)**	846
Unrealized derivative effects on LME related contracts	**164**	(487)
Pension - curtailment and settlement	**(2)**	-
Metal Markets	**162**	(487)
Unrealized derivative effects on LME related contracts	**222**	(2 265)
Metal effect	**(560)**	588
Impairment charges	**-**	286
Pension - curtailment and settlement	**(12)**	-
(Gains)/losses on divestments	**-**	231
Rolled Products	**(350)**	(1 160)
Unrealized derivative effects on LME related contracts	**18**	(247)
Rationalization charges and closure costs	**64**	107
Impairment charges	**28**	14
Pension - curtailment and settlement	**(25)**	-
(Gains)/losses on divestments	**(67)**	472
Extruded Products	**18**	346
Unrealized derivative effects on power contracts	**(21)**	(9)
Rationalization charges and closure costs	**-**	14
Insurance compensation	**-**	(152)
Energy	**(21)**	(146)
Unrealized derivative effects on power contracts	**637**	(784)
Unrealized derivative effects on LME related contracts	**(9)**	83
Rationalization charges and closure costs	**-**	34
Impairment charges	**61**	138
Pension - curtailment and settlement	**(112)**	-
(Gains)/losses on divestments	**(7)**	(19)
Other and eliminations	**569**	(548)
Items excluded from underlying EBIT	**167**	(1 148)

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

Primary Metal
A further weakening of the US dollar against the Brazilian real in 2010 resulted in unrealized gains on long-term U.S. dollar-denominated loans for Alunorte. Realized and unrealized effects on LME derivative contracts related to the hedge of the net aluminium price exposure in Vale Aluminium, not subject to hedge accounting, resulted in a net gain, due to realized positions somewhat offset by unrealized losses on positions expiring in 2011. Unrealized gains on power contracts in Søral were mainly an effect of realized financial positions in addition to the increasing forward prices on power, affecting the value of physical contracts. Unrealized losses on LME derivative contracts related to our operational hedge program were mainly an effect of the upward shift in LME forward prices. Unrealized derivative effects on power contracts were mainly influenced by the upward shift in LME forward prices, resulting in unrealized losses on embedded derivatives. Unrealized gain on embedded derivatives in raw-material contracts resulted from a significantly increased forward price on petroleum coke relative to the LME price. Following the power outage in Qatalum, certain assets have been written down to their recoverable amounts, offset by related recognized insurance compensation. Rationalization charges relate to programs at the Sunndal, Årdal and Karmøy plants in Norway, in addition to the Technology organization.

Metal Markets
Unrealized losses on LME derivative contracts related to our operational hedging program were mainly an effect of the upward shift in LME forward prices. Curtailment and settlement of the defined-benefit plans for employees changing their pension agreements to the new defined-contribution plan resulted in a gain.

Rolled Products
Unrealized losses on LME derivative contracts related to our operational hedging program were mainly an effect of realized positions, partly offset by the upward shift in LME forward prices. The positive metal effect reflected increasing LME prices, affecting inventories. Curtailment and settlement of the defined-benefit plans for employees changing their pension agreements to the new defined-contribution plan resulted in a gain.

Extruded Products
Unrealized losses on LME derivative contracts related to our operational hedging program were mainly an effect of realized positions, partly offset by the upward shift in LME forward prices. Rationalization charges and closure costs relate to the planned closure of our extrusion plant at Karmøy in Norway, the downsizing of building systems operations in Spain, and to the clean-up of contaminated soil related to the closed Adrian plant in United States. Impairment charges relate to the write-down of our extrusion plant at Karmøy. Curtailment and settlement of the defined-benefit plans for employees changing their pension agreements to the new defined-contribution plan resulted in a gain. Following the divestment of the Automotive Structures, an actuarial gain on pension was recognized.

Energy
Unrealized gains on financial power contracts related to operational hedging of our power portfolio reflect reversal of unrealized losses and changes in the forward prices on power for positions with delivery in 2011.

Other and eliminations
Unrealized losses on embedded derivatives in power contracts reflect mainly an increase in the forward curve for coal. Unrealized gains on LME-related derivative contracts result from the elimination of valuation effects on internal contracts between Metal Markets and the consuming units. Rationalization charges and closure costs relate to the demanning of central staff positions. Impairment charges relate to the write-down of our shares in Norsun due to declining share value. Curtailment and settlement of the defined-benefit plans for employees changing their pension agreements to the new defined-contribution plan resulted in a gain. Gains on divestments reflect a dilution gain recognized as a result of our reduced ownership interest in Ascent Solar.

Financial income (expense), net

Financial income (expense), net	**Year**	Year	% change
NOK million	**2010**	2009	prior year
Interest income	**201**	233	(14)%
Dividendes received and net gain (loss) on securities	**145**	197	(26)%
Financial income	**346**	429	(20)%
Interest expense	**(253)**	(337)	25 %
Capitalized interest	**5**	3	66 %
Net foreign exchange gain (loss)	**513**	2 774	(82)%
Other	**(89)**	(96)	8 %
Financial expense	**176**	2 344	(92)%
Financial income (expense), net	**522**	2 774	(81)%

Net financial income for the year amounted to NOK 522 million, including net foreign currency gains of NOK 513 million. The currency gains related primarily to intercompany balances denominated in Euro. The gains have no cash effect and are offset in equity by translation of the corresponding subsidiaries during consolidation.[1)]

Interest expense declined to NOK 253 million in 2010, reflecting lower debt.

1) The gains on intercompany balances arise from group positions that create an accounting gain recognized in the income statement of the parent company when the value of other currencies weaken against the Norwegian krone. No corresponding losses are recognized in the income statement of the subsidiaries that use other currencies as a functional currency. This has no cash effect for the group. When the subsidiaries' financial statements are translated into NOK for consolidation, currency effects on intercompany deposits are included directly in consolidated equity in the balance sheet, offsetting the currency gain recognized through the income statement of the parent company.

Income tax expense

Income taxes amounted to a charge NOK 1,588 million in 2010, compared with a charge of NOK 951 million in 2009.

For 2010, income tax expense was roughly 43 percent of pre-tax income. The tax rate for the year was influenced by the effects of power surtax and results from equity-accounted investments, which are recognized net of tax.

Liquidity and capital resources

The table below includes information on Hydro's liquidity, debt, investments and financial position and performance for the years indicated. See Note 35 to the Consolidated Financial Statements for more information on Hydro's capital management practices, which include borrowing facilities, share buybacks and definitions and amounts relating to adjusted interest-bearing debt, adjusted equity and funds from operations. See the shareholder information section of this report for more information on Hydro's dividend policy, share buybacks and funding and credit rating.

Liquidity and financial position NOK million, except ratios and RoaCE	**Year 2010**	Year 2009
Net cash provided by operating activities	**6 363**	4 546
Cash and cash equivalents	**10 929**	2 573
Short-term investments [1]	**1 321**	1 519
Liquid assets	**12 250**	4 092
Bank loans and other interest-bearing short-term debt	**(940)**	(2 010)
Long-term debt	**(328)**	(88)
Net interest bearing (debt) assets	**10 982**	1 994
Adjusted net interest-bearing (debt) assets [2]	**(6 427)**	(15 645)
Adjusted net interest-bearing debt to adjusted equity ratio [2]	**0.11**	0.32
Investments [3]	**6 231**	5 947
Capital employed	**46 263**	45 200
Return on average capital employed (RoaCE)	**3.8 %**	(3.3) %
Adjusted funds from operations / Adjusted net interest-bearing debt	**1.18**	0.01

1) Hydro's policy is that the maximum maturity for cash deposits is 12 months. Cash flows relating to bank time deposits with original maturities beyond three months are classified as investing activities and included in short-term investments on the balance sheet. See Note 18 to the Consolidated Financial Statements for more information on short-term investments.
2) Mainly comprised of net unfunded pension obligations after tax, the present value of operating lease obligations and interest-bearing debt held by equity-accounted investees. See Note 35 to the Consolidated Financial Statements for more information on adjusted net interest-bearing debt and adjusted equity.
3) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in equity-accounted investments.

Cash flow and liquidity

Hydro manages its liquidity at the corporate level, ensuring sufficient funds to cover group operational requirements.

In 2010, cash provided by operating activities increased significantly compared to the previous year, including a negative contribution from working capital of NOK 2.0 billion. The improvement was mainly due to increased aluminium prices, higher sales volumes and lower operating costs. Higher volumes and prices also contributed to the increase in working capital.

Operating cash was sufficient to cover operating requirements and investment activities of NOK 6.1 billion in 2010, which included NOK 3.5 billion of investments in Qatalum. In addition, available credit facilities and the commercial-paper market were used to cover fluctuations in cash flow during the year.

Net cash inflow amounted to NOK 8.2 billion for the year, increasing cash, cash equivalents and bank overdraft from NOK 2.5 billion at the end of 2009 to NOK 10.7 billion at the end of 2010. In addition to NOK 6.4 billion from operating activities, the main source of cash was net proceeds of NOK 9.9 billion from the rights issue completed in July 2010.

A payout of USD 1.1 billion in 2011 was made in connection with the acquisition of Vale Aluminium.

The "Adjusted funds from operation / Adjusted net interest-bearing debt" ratio was 1.18 for 2010, well above our minimum target of 0.40. Adjusting for the payment to be made to Vale at closing, the ratio would continue to meet our minimum target.

Short-term and long-term interest-bearing debt were reduced by NOK 0.8 billion down to NOK 1.3 billion, and NOK 0.6 billion in dividends were paid to Hydro's shareholders during 2010.

Volatility in market prices of aluminium, raw materials and exchange rates, as well as working-capital developments, represent factors which add uncertainty to the development of Hydro's cash position. Furthermore, due to uncertain economic conditions, future production and sales volumes are difficult to predict and thereby add additional uncertainty. See the section on risk review, including risk factors and market and commercial risk, in this report for additional information, including sensitivities to aluminium prices and currency-rate fluctuations.

Hydro expects that cash from continuing operations, together with its liquidity holdings and available credit facilities, will be more than sufficient to cover our planned capital expenditures, operational requirements, and financing activities in 2011.

Long-term borrowing and funding requirements

Norsk Hydro ASA has a USD 1.7 billion revolving multi-currency credit facility with a syndicate of international banks, maturing in July 2014. In addition, Hydro has a EUR 750 million revolving credit facility with a syndicate of international banks, maturing in March 2012. There was no borrowing under either of these facilities as of December 31, 2010. See Note 30 for additional information.

Planned capital expenditures and other potential financing requirements in 2011 will be covered by internally generated funds in addition to external funding.

Hydro has the ambition over time to access the national and international bond markets as its primary source for external funding of long-term capital requirements. The revolving facility maturing in 2012 is intended to serve as a source for financing until deemed unnecessary. The 2014 revolving facility will continue to serve primarily as a back-up for unforeseen funding requirements and will therefore be maintained as a reserve.

Contractual and other obligations, commitments and off-balance sheet arrangements

A summary of Hydro's total contractual obligations and commercial commitments to make future payments is presented below. For further information, see Notes 15 (Operating leases), 30 (Long-term debt), 39 (Contractual commitments and other commitments for future investments) and 31 (Provisions) to Hydro's consolidated financial statements.

Hydro is contingently liable for certain guarantees amounting to NOK 12 billion, mainly related to jointly controlled entities and in connection with the sale of companies. This amount is excluded from the table below, and none of these amounts are recorded in the consolidated balance sheet as of the end of 2009. See Note 37 (Guarantees to Hydro's consolidated financial statements) for a description of such guarantees.

Contractual and non-contractual obligations		Payments due by period			
NOK million	**Total**	Less than 1 year	1-3 years	3-5 years	Thereafter
Long-term debt including interest	**453**	89	62	83	220
Operating lease obligations	**3 003**	437	681	520	1 365
Unconditional purchase obligations	**197 930**	20 748	41 784	41 513	93 886
Contractual commitments for PP&E	**1 320**	668	407	246	-
Contractual commitments for other future investments	**186**	186	-	-	-
Short-term and long-term provisions [1)]	**3 862**	1 821	558	366	1 117
Total contractual and non-contractual obligations	**206 754**	23 949	43 492	42 728	96 588

1) Short-term and long-term provisions includes certain accruals and provisions which are non-contractual but relate to liabilities or obligations that are measurable and expected to occur in future periods.

Employee-retirement plans

Hydro's employee-retirement plans consist primarily of defined-benefit pension plans. As of December 31, 2010, the projected benefit obligation associated with Hydro's defined-benefit plans was NOK 18.4 billion. The fair value of pension plan assets was NOK 12.5 billion, resulting in a net unfunded obligation relating to the plans of NOK 5.8 billion. In addition, termination-benefit obligations and other pension obligations amounted to NOK 0.6 billion, resulting in a total net unfunded pension obligation of NOK 6.4 billion. Hydro's net pension cost for 2010 amounted to NOK 0.6 billion. Cash outflows from operating activities in 2010 regarding pensions amounted to approximately NOK 0.8 billion. Hydro decided in 2009 to close its main defined-benefit retirement plans in Norway for new employees as from March 1, 2010, while the existing employees were given the choice to move to a new defined-contribution plan with effect from June 1, 2010. See Note 32 (Employee retirement plans) in the consolidated financial statements for more information on Hydro's employee-retirement plans.

Minority interest and shareholders' equity

Minority interest was NOK 1,025 million as of December 31, 2010 compared with NOK 1,026 million as of December 31, 2009. Shareholders' equity was NOK 57,246 million at the end of 2010, compared with NOK 47,195 million at the end of 2009. The main items impacting shareholders' equity in 2010 and 2009 included net income, currency-translation adjustments and dividends declared and paid. In addition, shareholders' equity in 2010 included approximately NOK 10 billion relating to new shares issued in the rights offering that was completed in July.

See the consolidated statements of changes in equity and Note 34 (Shareholders' equity) to Hydro's consolidated financial statements for a detailed reconciliation of shareholders' equity.

Investments

Investments in 2010 amounted to NOK 6,231 million, compared with NOK 5,947 million in 2009.

Investments [1]	**Year**	Year	% change
NOK million	**2010**	2009	prior year
Primary Metal	**4 964**	4 416	12 %
Metal Markets	**148**	54	>100%
Rolled Products	**296**	314	(6)%
Extruded Products	**434**	617	(30)%
Energy	**284**	340	(16)%
Other and eliminations	**105**	206	(49)%
Total	**6 231**	5 947	5 %

1) Additions to property, plant and equipment (capital expenditures) plus long-term securities, intangible assets, long-term advances and investments in non-consolidated investees.

In 2010, Hydro continued to focus on securing its liquidity position. Except for Qatalum, investments were mainly limited to maintenance activities to safeguard our production assets. A summary of the significant investments that were made in addition to maintenance activities is included below.

The major investment for Primary Metal in 2010 and 2009 was the development of the Qatalum primary aluminium plant in Qatar.

Investments in 2010 for Metal Markets included new capacity in Taiwan and an expansion of the Rackwitz plant in Germany.

Investments for Energy in 2010 included amounts relating to the new power station at Holsbru, in Norway. In 2009, investments for Energy included plant upgrades, costs relating to Suldal I and amounts relating to the re-establishment of the Svandalsflona plant.

Return on average Capital Employed (RoaCE)

Hydro uses (underlying) RoaCE to measure the performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views this measure as providing additional understanding of the rate of return on investments over time, in each of its capital-intensive businesses, and the operating results of its business segments.

(Underlying) RoaCE is defined as (underlying) "Earnings after tax" divided by average "Capital Employed." (Underlying) "Earnings after tax" is defined as (underlying) "Earnings before financial items and tax" less "Adjusted income tax expense." Since RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income-tax expense excludes the tax effects of items reported as "Financial income (expense), net" and in addition, for underlying figures, the tax effect of items excluded based on Hydro's effective tax rate. "Capital Employed" is defined as "Shareholders' Equity" including minority interest plus long-term and short-term interest-bearing debt less "Cash and cash equivalents" and "Short-term investments." Capital Employed can be derived by deducting "Cash and cash equivalents," "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets." The two different approaches yield the same value.

	Underlying		Reported	
NOK million	**2010**	2009	**2010**	2009
EBIT	**3 351**	(2 555)	**3 184**	(1 407)
Adjusted Income tax expense	**(1 505)**	(510)	**(1 442)**	(175)
EBIT after tax	**1 845**	(3 065)	**1 742**	(1 581)

	31 December		
NOK million	**2010**	2009	2008
Current assets [1]	**24 567**	23 710	35 126
Property, plant and equipment	**24 849**	25 647	29 338
Other assets [2]	**27 122**	24 150	25 711
Other current liabilities	**(14 896)**	(13 032)	(22 175)
Other long-term liabilities [3]	**(15 378)**	(15 274)	(17 394)
Capital Employed	**46 263**	45 200	50 607

	Underlying		Reported	
Return on average Capital Employed (RoaCE)	**2010**	2009	**2010**	2009
Hydro [4]	**4.0 %**	(6.4) %	**3.8 %**	(3.3) %
Business areas [5]				
Primary Metal	**2.2 %**	(6.1) %	**2.7 %**	(7.9) %
Metal Markets	**9.7 %**	(1.8) %	**4.8 %**	8.0 %
Rolled Products	**7.7 %**	(0.1) %	**10.9 %**	10.1 %
Extruded Products	**5.5 %**	(0.6) %	**5.2 %**	(4.2) %
Energy	**21.4 %**	19.5 %	**21.7 %**	21.7 %

1) Excluding cash and cash equivalents and short-term investments.

2) Including deferred tax assets.

3) Including provisions for pension and deferred tax liabilities.

4) RoaCE is based on Adjusted Income tax expense calculated excluding tax on financial items. Underlying RoaCE is, in addition, adjusted with the tax effect of items excluded of NOK (63) million and NOK (336) million for 2010 and 2009, respectively. Hydro's effective tax rate is used.

5) RoaCE at business area level is calculated using 30% tax rate, except for Energy (50%).

Additional information

See Note 8 to the consolidated financial statements for additional financial information relating to Hydro's operating segments. Following is a table of underlying EBITDA for each of the operating segments:

Underlying EBITDA NOK million	**Year 2010**	Year 2009	% change prior year
Primary Metal	**2 983**	(602)	>100 %
Metal Markets	**428**	36	>100 %
Rolled Products	**1 318**	532	>100 %
Extruded Products	**987**	585	69 %
Energy	**1 540**	1 355	14 %
Other and eliminations	**(834)**	(1 060)	21 %
Total	**6 420**	845	>100 %

06:
Risk review

Indicative price and currency sensitivities 2011 [1)]

NOK million	EBIT	Financial items	Income before tax	Net income	Net income attributable to majority shareholders
LME	2 950	50	3 000	2 200	2 000
USD	2 550	(500)	2 050	1 500	1 350
BRL	(650)	700	50	50	100
EUR	(50)	(1 100)	(1 150)	(850)	(850)

1) Assumptions: Annual sensitivities based on expected business volumes for 2011 (including Vale assets from beginning of March), LME USD 2,500, NOK/USD 6.00, NOK/BRL 3.33 and NOK/EUR 7.70. Aluminium price sensitivity is net of aluminium price indexed costs and exclusive of Vale-hedge and unrealized effects related to operational hedging. Currency sensitivity on financial items are based on year-end financial position

QUICK OVERVIEW

Hydro faces many risks and uncertainties within its worldwide business operations and the global marketplace. We are exposed to changing economic and market conditions and price volatility can have a significant impact on Hydro's reported and operating. Repositioning and restructuring activities are important in determining the viability of our future aluminium operations.

Our primary smelting operations are highly dependent on securing substantial amounts of energy at competitive prices. We are exposed to increasingly onerous legislation on CO_2 emissions that impact Hydro directly, relating to aluminium production, and indirectly, through higher power prices.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a solid financial position and strong credit worthiness. Hydro is also taking proactive measures to reduce credit risk, improve its financial position and further adjust the cost of its smelter operations.

Risk factors

Below is a description of certain risks that may affect our business, financial condition and the results of operations from time to time and, hence, our share price. All of the information in this report should be carefully considered, in particular, the risks described below.

Hydro is exposed to changing economic and market conditions which could have an adverse effect on our operating results and liquidity

Our financial condition and results of operations depend heavily on developments in market demand and global economic conditions. Market balance, among other factors, has a significant impact on aluminium prices. Market demand and prices declined dramatically in the final quarter of 2008 and first part of 2009 and remained weak for much of the previous year. Global consumption, excluding China, dropped by about 18 percent in 2009 compared with 2008. Hydro's volumes declined by an equivalent percentage. These developments led to considerable losses within Hydro's upstream operations and substantially lower earnings for the company as a whole in 2009.

Although prices strengthened and demand recovered close to pre-crisis levels in 2010, there continues to be uncertainty regarding the quality of the recovery in market demand and the economic conditions within various countries and geographic regions in which we operate, in particular in Europe, where the recent fiscal crisis in several countries has increased the uncertainty of the economic recovery. In addition, despite significant curtailments, the global production of primary metal excluding China continues to exceed market demand and inventories remain at record levels.

Hydro may not succeed in reducing the operating cost of its smelter portfolio sufficiently to compensate for an extended period of weak aluminium markets

Hydro acted quickly to reduce costs and production capacity following the severe market decline at the end of 2008 and into 2009 but was unable to adjust the costs of its primary smelters sufficiently to avoid substantial underlying operating losses within its primary aluminium business during 2009. A substantial part of our smelter portfolio is located in Norway and a significant part of our operating costs are incurred in Norwegian kroner. The effect of the market decline was exacerbated by the weakening US dollar, which has had a negative impact on our competitive position. Hydro has implemented an improvement program targeting savings within its smelter operations of USD 300 per mt by the end of 2013. We may not succeed in making the reductions necessary to achieve a sustainable level of profitability for our smelters operations.

A deterioration of our financial position or a downgrade of our ratings by credit rating agencies could increase our borrowing cost and cost of capital and have an adverse effect on our business relationships

It is important for Hydro to maintain its investment grade credit rating for competitive access to capital and to support its business relationship with customers, suppliers and other counterparties. Our credit rating is also an important factor in making Hydro attractive as a joint venture partner for new growth initiatives. Following the severe market downturn in the aluminium industry at the end of 2008 and beginning of 2009, our ratings were downgraded, together with other competitors in the aluminium industry, with one of our ratings reaching the lowest investment grade level. In November 2010, this rating was upgraded reflecting an improved outlook for Hydro's ability to meet future commitments. Any deterioration of our financial position or another downgrade of our credit rating could increase our borrowing costs and have an adverse effect on our business relationships and attractiveness for major projects, contracts and other agreements.

Price volatility can impact our operating costs and can also have a substantial effect on our reported operating results

Commodity price volatility in general has increased significantly in recent years and can have significant impact on our operating results. Commodity price volatility, including raw material commodities such as oil, petroleum, coke and coal, can significantly impact our operating costs directly and can also have a substantial effect on our reported operating results due to realized and unrealized gains and losses on derivative instruments. Underlying results for our trading and hedging operations are subject to substantial variations in periods of significant fluctuation of spot and forward prices for aluminium.

Hydro's reported results and competitive position are exposed to changes in currency exchange rates

Hydro has a substantial portion of its primary capacity based in Norway and its accounting and reporting currency is the Norwegian krone. Primary aluminium prices and a major part of the raw materials for producing aluminium are denominated in US dollars. Following the completion of the Vale aluminium acquisition roughly half of Hydro's capital employed is located in Brazil. Much of Hydro's downstream business is based in Europe and a large portion of the production is sold in Euro. As a result, the relative value of the US dollar, Brazilian Real and Euro are of high importance to Hydro's operating results, and changes in the value of these currencies can be significant and highly volatile. See the following section on "Market and commercial risk" for more information on Hydro's exposure and sensitivities to currency movements.

Periodic revaluation of foreign-denominated balances can have a significant impact on earnings. Revaluation upon realization of such balances can have a significant effect on both earnings and cash. The value of investments committed in foreign currencies is sensitive to currency movements.

Failure or delays in the execution of major projects could have a negative impact on our competitive position
The execution of major investment projects is subject to the risk of delays, cost increases, availability of adequate funding and other complications. Hydro is currently engaged in completing the ramp-up of production at Qatalum in Qatar following a power outage that stopped production at the plant in August 2010. The CAP project and the expansion of the Paragominas mine in Brazil will represent substantial development projects. These projects are expected to have a significant positive impact on the future earnings of Hydro. Failure or delays in the execution of major projects could result in additional costs and lost operating revenues in addition to weakening our competitive position, which will in turn have a negative impact on our future operating results.

The Group may face additional risks and challenges as a result of integrating the Vale aluminium business into its existing operations.
The Vale transaction may not improve, and may even adversely affect, the results of operations of Hydro, and the integration of the Vale aluminium business into Hydro's existing operations may expose Hydro to additional risks and losses unknown as of the closing of the Vale transaction. Hydro's ability to benefit from enhanced business opportunities is dependent on business conditions in future periods that cannot be predicted or measured with certainty.

Hydro cannot be certain that the integration of the Vale aluminium business into its existing operations will result in the expected benefits from anticipated business opportunities, revenue enhancements or growth levels or that such results can be achieved in the time frame expected. Future business conditions and events may reduce, eliminate or delay Hydro's ability to realize them.

The operating results of, and costs associated with, the Paragominas mine may be unpredictable and not in accordance with Hydro's assumptions.
Hydro has not previously controlled or operated a mine as part of its business and, as a result, it may have limited managerial and technical know-how and other resources that can be directly applied to manage the operations of the Paragominas mine. This may result in a delay or failure to realize the full value of the Vale aluminium business and/or to integrate the Paragominas mine into Hydro's existing business. Hydro may also be required to allocate additional managerial resources to manage the operations of the Paragominas mine, which may divert attention and resources from other parts of its business.

Costs associated with operating a mine may be unpredictable and may increase rapidly as a result of, among others, unanticipated capital expenditure requirements, production interruptions or delays, increased or new license requirements and fees, new or increased royalties and/or indirect taxes, increased labor costs, changes or variations in geologic conditions, environmental hazards and weather and other natural phenomena, mining and processing equipment failures and unexpected maintenance problems and interruptions due to transportation delays.

The acquisition of title to mineral concessions in Brazil is a detailed and time-consuming process. Failure to comply with the requirements of the Brazilian Department of Mines with respect to exploration permits and mining concessions may result in a loss of title. Third parties (including indigenous persons) may dispute title to mineral concessions or the right to conduct mining or exploration activities. In addition, such properties may be subject to undetected or undisclosed defects.

The bauxite reserves acquired in the Vale transaction and the estimated quantities of bauxite that Hydro expects can be economically mined and processed are subject to material uncertainties.

Business development is more likely to occur in emerging and transitioning markets with more volatile political, economic and legal systems
New primary smelter, alumina and bauxite capacity is expected to be mainly located in countries characterized by emerging and transitioning markets,

Investing in emerging and transitioning markets may create exposure to economic structures that are generally less diverse and mature than the geographic distribution of Hydro's current business and may involve increased risks of severe inflation, fluctuation in currency rates, changing laws and judicial interpretations, disputes over ownership of land and other property

and diverging financial, commercial or disclosure practices. Legal, fiscal and regulatory systems in emerging and transitioning markets may be less stable and have a lower degree of transparency and predictability, making investment evaluation and any eventual implementation more difficult.

Conducting business in emerging and transitioning markets may be affected by political instability or unpredictability resulting from national or regional political transitions. Conducting business in emerging and transitioning markets may also be affected by government regulations with respect to restrictions on production, price controls, export controls, restrictions on repatriation of profits, payment of dividends, income taxes, expropriation of property, environmental legislation and mine safety. The Brazilian government has in the past intervened in the Brazilian economy and has occasionally made substantial changes in policy.

Our downstream business is increasingly exposed to competition from China
China has in recent years imposed duties designed to reduce the export of aluminium metal, while also encouraging domestic production of more labor intensive semi-fabricated and finished aluminium products. This development has increased the exposure of our downstream business to lower-priced exports from China.

Emerging or transitioning markets present a competitive threat to our business
Emerging or transitioning markets in countries with abundant natural resources, low-cost labor and energy, and lower environmental and other standards, have posed and may continue to pose a significant competitive threat to our business. In 2007, the European Union (EU) reduced its duty on unalloyed aluminium. Any further reductions or cancellation of these duties could result in increased imports of primary aluminium to the EU market from sources such as Russia and the Middle East.

Hydro is exposed to increasingly onerous legislation on reducing CO_2 emissions
Hydro's smelter operations are predominately located in Europe. Legislation regulating CO_2 emissions has resulted in higher power prices for our European operations but to a lesser extent for our Norwegian smelters in the short to medium term, since most of the electricity consumption in Norway is covered by our own equity production or through long-term supply contracts. The EU has enacted emissions regulations that will apply directly to CO_2 emissions from our smelter operations in Norway and in the EU from 2013 onward. Although it is anticipated that there will be some compensation available to aluminium producers, these regulations are likely to be more onerous than those being contemplated in other regions of the world including China and Russia and could negatively impact our competitive position. See also the section in this report on Regulation and taxation for more information pertaining to climate gases.

Our aluminium operations, and in particular our smelters, are dependent upon large volumes of energy
Our position could be materially affected by the inability to replace on competitive terms our long-term energy supply contracts when they expire, or our own equity production to the extent that concessions revert to the Norwegian state. See also the section in this report on Regulation and taxation for more information pertaining to the Norwegian regulatory system for hydroelectric production.

Future acquisitions, mergers, or strategic alliances may adversely affect our financial condition
Hydro may undertake acquisitions additional to the Vale aluminium business in the future and we may not be able to effectively integrate businesses acquired or generate the cost savings and synergies anticipated. Acquisitions may contain significant unidentified liabilities which could have a material adverse effect on our financial position.

Increasing investments in jointly owned entities reduces Hydro's ability to manage its business portfolio
Investment as a minority partner in jointly owned entities and associates reduces Hydro's ability to manage and control this part of its portfolio. Investments in jointly owned entities, including those in which we hold a majority position also entail the risk of diverging interests between business partners, which could impede Hydro's ability to realize its objectives, repatriate funds from such entities and to achieve full compliance with its standards.

We may not succeed in developing technological solutions to support our growth strategies
Being at the forefront of technological development is important to remain competitive. Hydro is engaged in the development of new "next generation" cell and smelter technology together with key suppliers. We may fail to develop these technologies on a timely basis or they may not be commercially feasible, thereby resulting in a negative impact on our competitive position.

Hydro faces the risk of counterparty default
A significant downturn in the business or financial condition of a key customer or group of customers exposes us to the risk of default on contractual agreements and trade receivables, which would have a negative impact on our operational results. Weak and deteriorating economic conditions on a global, regional or industry sector level, would increase the risk of defaulting counterparties.

Major accidents could result in substantial claims, fines or significant damage to Hydro's reputation
Some of our operations are located in close proximity to sizable communities. Major accidents due to human error, systems failures, deliberate sabotage, extreme weather or other natural disasters, could result in loss of life or extensive damage to the environment or communities. Such events could result in major claims, fines, penalties and significant damage to Hydro's reputation.

Hydro could be negatively affected by legal proceedings or investigations
Hydro could be negatively affected by criminal or civil proceedings related to, but not limited to product liability, environment, health and safety, alleged breaches of anti-competitive, anti-corruption practices or other integrity legislation or commercial disputes. See also the section of this report on Viability for more information on issues relating to integrity and transparency, and Legal proceedings in this Risk review section for more information on these matters. Violation of applicable laws and regulations could result in substantial fines or penalties, costs of corrective works and, in rare instances, the suspension or shutdown of our operations and substantial damage to the company's reputation.

Hydro may be subject to unforeseen liabilities for environmental damage
Environmental laws may impose cleanup liability on owners and occupiers of contaminated property, including past or divested properties, regardless of whether the owners and occupiers caused the contamination or whether the activity that caused the contamination was lawful at the time it was conducted. Many of our present and former operations are and were located on properties with a long history of industrial use. See also the section in this report on Regulation and taxation for more information pertaining to Environmental matters.

Hydro could be adversely affected by disruptions of our operations and may not be able to maintain sufficient insurance to cover all risks related to its operations.
Hydro's business is subject to a number of risks and hazards which could result in damage to properties and production facilities, personal injury or death, environmental damages, monetary losses and possible legal liability. Breakdown of equipment, power failures or other events, including catastrophic events such as natural disasters, leading to production interruptions in our plants could have a material adverse effect on our financial results and cash flows. Although Hydro maintains insurance to protect against certain risks in such amounts as it considers reasonable, its insurance may not cover all the potential risks associated with Hydro's operations.

Hydro is subject to a broad range of laws and regulations
Hydro is subject to a broad range of laws and regulations in the countries and legal jurisdictions in which we operate. These laws and regulations impose stringent standards and requirements and potential liabilities regarding accidents and injuries, the construction and operation of our plants and facilities, air and water pollutant emissions, the storage, treatment and discharge of waste waters, the use and handling of hazardous or toxic materials, waste disposal practices, and the remediation of environmental contamination, among other things. We believe we are in material compliance with currently applicable laws and regulations. However, these laws and regulations may change or new laws and regulations enacted requiring substantial costs for compliance, reducing profitability or having a negative impact on our competitive position.

Hydro may be subject to liabilities relating to businesses transferred to successor companies
Hydro has certain joint liabilities under Norwegian statutory regulations following from demergers. Under the Norwegian public limited companies act section 14-11, Hydro and Statoil are jointly liable for liabilities accrued before the demerger date of October 1, 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, Hydro and Yara International ASA are jointly liable for liabilities accrued before the demerger date of March 24, 2004, on the same conditions.

Rights and legal remedies may be limited for certain classes of shareholders
The exercise of shareholder rights such as voting and preferential subscription rights may not be available to beneficial shareholders whose shares are registered in a nominee account, and not in the shareholders' own names with the Norwegian Central Securities Depository, *Verdipapirsentralen* (VPS). Hydro cannot guarantee that beneficial shareholders will receive the notice for a general meeting in time to instruct their nominees to affect a re-registration of their shares. Hydro is organized under the laws of the Kingdom of Norway. It may be difficult for investors to effect service of process outside Norway upon Hydro or its directors and executive officers, or to enforce against Hydro or its directors and executive officers judgments obtained in other jurisdictions. Norwegian courts are unlikely to apply other than Norwegian law when deciding on civil liability claims under securities laws.

Market and commercial risk

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. Business areas have the main responsibility for relevant risk management within their area. Corporate staff units establish policies and procedures for managing risk and coordinate an overall enterprise risk assessment.

Financial position
Hydro's main strategy for mitigating risk related to volatility in cash flow is to maintain a strong balance sheet. Specific key financial ratios are targeted over the business cycle reflecting a solid financial position and strong credit worthiness. Examples include an adjusted net interest-bearing debt/equity ratio below 0.55 and a ratio of funds from operations to adjusted net interest-bearing debt above a level of 0.40. In addition, Hydro has established guidelines for liquidity reserves and for the profile of installment payments on debt in order to secure its financial position.

Liquidity risk
Hydro's liquidity position at the end of 2010 is considered satisfactory and we do not expect any new long-term funding requirements in 2011. Two undrawn committed credit facilities from banks amounting to NOK 16 billion in total remain outstanding from the previous year. Hydro continues to focus on cash flow and credit risk throughout the organization. We take a proactive approach toward customers to reduce credit risk and also monitor the financial performance of key suppliers in order to reduce the risk of default on operations and key projects.

Prices and currency
Hydro's operating results are primarily affected by price developments of its main products, aluminium and power, in addition to fluctuations in the value of Norwegian kroner to the US dollar and the Euro, which are the most significant currencies for Hydro. The Vale aluminium acquisition [will] increase our exposure to aluminium price developments and the Brazilian Real. Our main risk management strategy for upstream operations is to accept exposure to aluminium and energy prices movements, while at the same time focusing on reducing the average cost position of the smelter portfolio. In certain circumstances, derivatives may be used to mitigate overall financial and commercial risk exposures. For example, we have hedged the net aluminium price exposure in the Vale aluminium operations until the end of 2011.

Downstream and other margin-based operations are to a certain extent hedged to protect processing and manufacturing margins against raw material price fluctuations. An operational hedging system has been established to protect commercial contracts from aluminium price fluctuations.

Other than the specific hedging activities described above, price and currency exposures are normally managed utilizing a holistic approach in which potential negative or positive correlations from other cost and income elements, including the effect of currency exchange rate fluctuations, are taken into consideration. Hydro may to a limited extent enter into forward contracts in currencies to hedge certain revenue and cost positions.

An indication of the sensitivities regarding aluminium prices and foreign currency fluctuations for 2011 is provided in the table below. The table illustrates the sensitivity of earnings, before and after tax, to changes in these factors and is provided to supplement the sensitivity analysis required by IFRS, included in note 7 to the Consolidated Financial Statements.

Indicative price and currency sensitivities 2011 [1)]

NOK million	EBIT	Financial items	Income before tax	Net income	Net income attributable to majority shareholders
LME	2 950	50	3 000	2 200	2 000
USD	2 550	(500)	2 050	1 500	1 350
BRL	(650)	700	50	50	100
EUR	(50)	(1 100)	(1 150)	(850)	(850)

1) Assumptions: Annual sensitivities based on expected business volumes for 2011 (including Vale assets from beginning of March), LME USD 2,500, NOK/USD 6.00, NOK/BRL 3.33 and NOK/EUR 7.70. Aluminium price sensitivity is net of aluminium price indexed costs and exclusive of Vale-hedge and unrealized effects related to operational hedging. Currency sensitivity on financial items are based on year-end financial position

In addition to the above sensitivities, the revaluation of derivative instruments and contracts classified as derivatives may influence reported earnings. For accounting purposes, derivative financial and commodity instruments are recognized at fair value, with changes in fair value impacting earnings unless specific hedge criteria are met. This can result in volatility in earnings, since the associated gain or loss on the related physical transactions may be reported in earnings in different periods. Please see note 7 and 41 to the Consolidated Financial Statements for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

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. Please see note 7 to the Consolidated Financial Statements for more information, and for additional information on these disclosures.

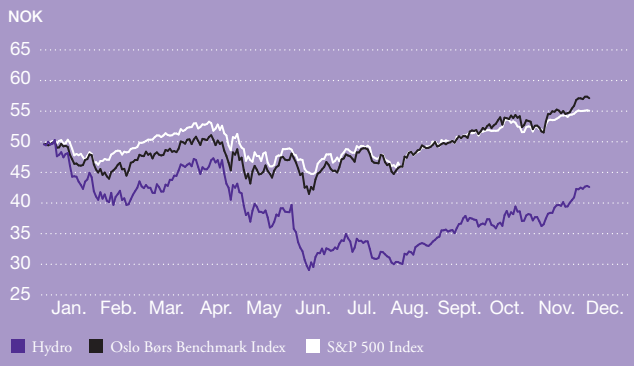
Legal proceedings

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.

07:

Shareholder information

Share price development in 2010



QUICK OVERVIEW

Hydro's share price closed at NOK 42.61 at the end of 2010. The return for 2010 was negative with NOK 6.10, or 12.5 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2010, for approval by the Annual General Meeting on May 5, 2011, reflecting the company's strong commitment to provide a cash return to its shareholders. The decision is based on improved earnings and market outlook as well as Hydro's strong financial position and cash generation capabilities.

There were 1,587,776,741 outstanding shares at the end of 2010. Hydro had 54,479 registered shareholders as per the Norwegian Central Securities Depository. The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 43.7 percent of the total number of ordinary shares authorized and issued.

Hydro's shares are also listed in London while our American Depositary Shares (ADSs) trade on OTCQX International in the U.S., the premium over-the-counter market tier on PinkSheets.

Introduction

Hydro's share price closed at NOK 42.61 at the end of 2010. The return for 2010 was negative with NOK 6.10, or 12.5 percent. Hydro's Board of Directors proposes to pay a dividend of NOK 0.75 per share for 2010, for approval by the Annual General Meeting on May 5, 2011, reflecting the company's strong commitment to provide a cash return to its shareholders. The decision is based on improved earnings and market outlook as well as Hydro's strong financial position and cash generation capabilities.

Hydro successfully completed a rights issue in July 2010, issuing 381,053,600 new shares. A total of 513,284,736 subscriptions for shares were received and the rights issue was consequently oversubscribed by 34.7 percent. The rights issue resulted in gross proceeds of approximately NOK 10,022 million.

There were 1,587,776,741 outstanding shares at the end of 2010. A total of 2.7 billion Hydro shares were traded on the Oslo Stock Exchange during 2010, representing 5.6 percent of the total turnover on the exchange in terms of share value.

At the closing of the acquisition of Vale's aluminium assets on February 28, 2011, Hydro issued 447,834,465 new shares to Vale as part of the consideration in the transaction. The number of outstanding shares subsequently increased to 2,035,611,206.

Hydro's shares are also listed in London while our American Depositary Shares (ADSs) trade on OTCQX International in the US, the premium over-the-counter market tier on PinkSheets.

Dividend policy

Long-term returns to shareholders should reflect the value created by Hydro. Shareholders' returns consist 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 policy is to pay out, on average, 30 percent of net income as ordinary dividend over time to our shareholders. In setting the dividend for a specific year, we will take into consideration future earnings, future investment opportunities, the outlook for world commodity markets and our financial position. Share buybacks or extraordinary dividends will supplement ordinary dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The total payout should reflect Hydro's aim to give its shareholders competitive returns benchmarked against alternative investments in comparable companies.

Hydro's board of directors normally propose a dividend per share in connection with the publication of our fourth quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. We pay dividends once each year. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

Buyback of shares

In periods when earnings are high, Hydro may consider buying back shares in addition to ordinary or extraordinary dividend payments. This consideration will be made in the light of alternative investment opportunities and our financial situation. In circumstances when buying back shares are relevant, our board of directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Authorizations are granted for a specific time period and for a specific share price interval during which share buybacks can be made.

Funding and credit quality

Maintaining a strong financial position and an investment grade credit rating are viewed as important risk mitigating factors, supporting Hydro's possibilities for strategic development of its businesses. Access to external financial resources is required in order to maximize value creation over time, balanced with acceptable risk exposure. To secure access to debt capital on attractive terms, we aim at maintaining an investment grade credit rating from the leading rating agencies.

Contributing toward this ambition to retain our credit rating, we intend to keep our funds from operations at a level no less than 40 percent of net adjusted interest-bearing debt, in addition to net adjusted interest-bearing debt at a ratio not higher then 0.55 to equity capital over time. In calculating this ratio, we include off-balance sheet pension obligations, operating lease

commitments, share of net interest-bearing debt in joint ventures and certain other debt-like items. For a discussion of these adjustments see Note 35 - Capital Management in the Financial Statements section of this report.

Major shareholders and voting rights

As of December 31, 2010, Hydro had 54,479 registered shareholders as per the Norwegian Central Securities Depository (VPS). The Ministry of Trade and Industry of Norway was the largest of these with a shareholding of 43.7 percent of the total number of ordinary shares authorized and issued, and 44.6 percent of the total shares outstanding. As of the same date, The Government Pension Fund - Norway (Folketrygdfondet) owned 6.2 percent of the total number of ordinary shares issued and 6.3 percent of the total shares outstanding. In total, the Norwegian state owns 49.9 percent of the total number of ordinary shares issued and 50.9 percent of the total shares outstanding. There are no different voting rights associated with the ordinary shares held by the state.

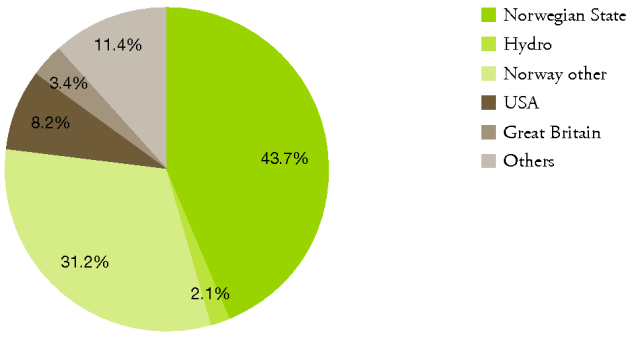
The Norwegian Ministry of Trade and Industry represents the Norwegian government in exercising the state's voting rights. The state has never taken an active role in the day-to-day management of Hydro and has for several decades not disposed of any of the ordinary shares owned by it, except when participating in the share buyback programs.

At the closing of the acquisition of Vale's aluminium assets on February 28, 2011 Hydro issued 447,834,465 new shares to Vale as part of the consideration in the transaction. Vale will therefore own 21.6 percent of the total number of ordinary shares issued and 22.0 percent of the total shares outstanding. According to the agreement, Vale cannot increase its ownership beyond the 22 percent, is required to retain its shares for at least two years after the transaction closes and following the two-year period not sell shares constituting more than 10 percent of Hydro's issued shares to any single buyer or group.

The state, represented by the Ministry of Trade and Industry, will be diluted to an ownership of 34.3 percent of the total number of ordinary shares issued, and has stated its intention to potentially increase its shareholding up to 39.9 percent through acquiring shares in the market.

JPMorgan Chase & Co, as depositary of the ADSs, through its nominee company, Morgan Guaranty Trust Company, held interests in 11,965,910 ordinary shares, or 0.75 percent of the issued and outstanding ordinary shares as of December 31, 2010. The interests are on behalf of approximately 450 registered holders of ADSs.

Geographical ownership distribution of shares



All shares basically carry one vote. It is, however, a requirement of Norwegian legislation that a shareholder can only vote for shares registered in their name. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depositary before the Annual General Meeting in order to obtain voting rights. This requirement also applies to our US-traded ADSs.

Hydro's 20 largest shareholders, December 31, 2010

Shareholder	Number of shares	Ownership interest
Ministry of Trade and Industry	708 865 253	43.7%
Folketrygdfondet	100 002 207	6.2%
Dodge & Cox	41 892 629	2.6%
Rasmussengruppen AS	37 500 000	2.3%
DnB NOR	35 217 320	2.2%
Norsk Hydro ASA	33 387 070	2.1%
BlackRock Advisors	25 975 282	1.6%
SAFE Investment Company Limited	22 681 404	1.4%
Storebrand Kapitalforvaltning ASA	22 652 976	1.4%
KLP	18 383 377	1.1%
Skagen AS	17 437 505	1.1%
Pareto Forvaltning AS	16 591 062	1.0%
ODIN Forvaltning AS	15 537 606	1.0%
State Street Global Advisors	15 475 071	1.0%
Nordea Investments	9 976 489	0.6%
Danske Capital	8 480 567	0.5%
Legal & General Investment Management Ltd	8 049 331	0.5%
Vanguard Investment	7 492 714	0.5%
Statoil Kapitalforvaltning ASA	7 230 677	0.4%
APG Asset Management	6 822 229	0.4%

Source: The data is provided by Thompson Reuters through the Share Register Analyses service. The data is obtained through the analysis of beneficial ownership and fund manager information provided in replies to disclosure of ownership notices issued to all custodians on the Hydro share register. Whilst every reasonable effort is made to verify all data, Thompson Reuters can not guarantee the accuracy of the analysis. For a list of the largest shareholders as of December 31, 2010, from the official VPS list, see Note 14 in Notes to the financial statements Norsk Hydro ASA.

Key figures for the Hydro share

Key figures for the Hydro share

	2010	2009	2008	2007	2006
Share price high, Oslo (NOK) [1]	**50.30**	49.25	85.60	80.13	64.68
Share price low, Oslo (NOK)	**29.06**	20.40	21.20	68.00	43.79
Share price average, Oslo (NOK)	**38.75**	33.65	57.32	70.32	53.22
Share price year-end, Oslo (NOK)	**42.61**	48.71	27.80	77.60	62.77
Earnings per share (EPS) (NOK)	**1.33**	0.25	(3.25)	14.90	14.00
EPS from continuing operations (NOK) [2]	**1.33**	0.25	(3.04)	7.20	13.90
Dividend per share (NOK)	**0.75**	0.50	0.00	5.00	5.00
Pay-out ratio [3]	**56 %**	200 %	-	69 %	36 %
Dividend growth	**50 %**	-	-100 %	0 %	14 %
Pay-out ratio five year average [4]	**57 %**	39 %	38 %	34 %	35 %
Adjusted debt/equity ratio [5]	**0.11**	0.32	0.30	0.01	0.22
Credit rating, Standard & Poor's	**BBB**	BBB-	BBB	BBB	A-
Credit rating, Moody's	**Baa2**	Baa2	Baa1	Baa1	A2
Non-Norwegian ownership, year-end	**23 %**	27 %	33 %	42 %	38 %
Outstanding shares, average	**1 419 052 116**	1 205 376 724	1 209 143 809	1 221 195 650	1 240 804 344
Outstanding shares, year-end	**1 587 776 741**	1 204 785 945	1 206 325 863	1 209 304 379	1 226 175 885

1) An adjustment factor of 0.324396 bas been used for share prices prior to the demerger of the oil and gas activities on October 1, 2007. The adjustments are according to Oslo Stock Exchange's calculation methods.

2) Oil and gas activities only included as discontinued for 2007.

3) Dividend per share divided by earnings per share from continuing operations.

4) Total dividend divided by net income for last five years.

5) See note 35 to the Consolidated Financial Statements. Year 2006 not adjusted for revised definition introduced in 2008.

Information from Hydro

Hydro gives a high priority to communicating with the stock market, and aims to maintain an open dialogue with market participants. Our objective is to provide sufficient information on a timely basis to all market participants to ensure a fair valuation of our shares. Information that is considered price sensitive is communicated by news releases and stock exchange announcements. We host regular meetings for investors in Europe and the US. The major brokers in Oslo and London publish equity research reports on Hydro. All information about Hydro is published on our website: www.hydro.com

Our annual and quarterly reports are available on www.hydro.com, and our latest annual reports can also be ordered in printed versions from the website.

Two weeks before the announcement of quarterly results, Hydro practices a "closed period" meaning that contact with external analysts, investors and journalists is minimized. This is done to minimize the risk of information leaks and potentially unequal information in the marketplace.

Annual General Meeting

The Annual General Meeting will be held at the company's headquarters at Drammensveien 260, Oslo, Norway, on Thursday, May 5, 2011, at 17:00 CET. Shareholders who wish to attend are asked to inform the registrar by 12:00 CET on Wednesday, May 4:

DnB NOR Bank ASA
Verdipapirservice
0021 Oslo, Norway
Fax: + 47 22 48 11 71

You may also register electronically on our website www.hydro.com/register or via VPS Investor Services. Any shareholder may appoint a proxy with written authority to attend the meeting and vote on his or her behalf. Voting rights are discussed under "Major shareholders and voting rights."

Change of address

Shareholders registered in the Norwegian Central Securities Depository should send information on changes of address to their registrar and not directly to Hydro.

Financial calendar 2011

April 29 First quarter results
May 5 Annual General Meeting
May 6 Shares traded ex-dividend
May 8 Record date for dividend
July 26 Second quarter results
October 27 Third quarter results

08:

Corporate governance

Hydro present

Based in Norway, Hydro employs 23,000 people in more than 40 countries.

QUICK OVERVIEW

Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our corporate governance has been designed to provide a foundation for value creation and to ensure good control mechanisms. We maintain common requirements in the form of corporate directives that are mandatory for all parts of our organization.

The corporate directives help ensure that all our employees carry out their activities in an ethical manner and in accordance with current legislation and Hydro standards. The board of directors has approved our code of conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. The code addresses compliance with laws and other matters such as handling of conflicts of interest and a commitment to equal opportunities for all employees. Our integrity program contributes to compliance with anti-corruption legislation and basic human rights.

Introduction

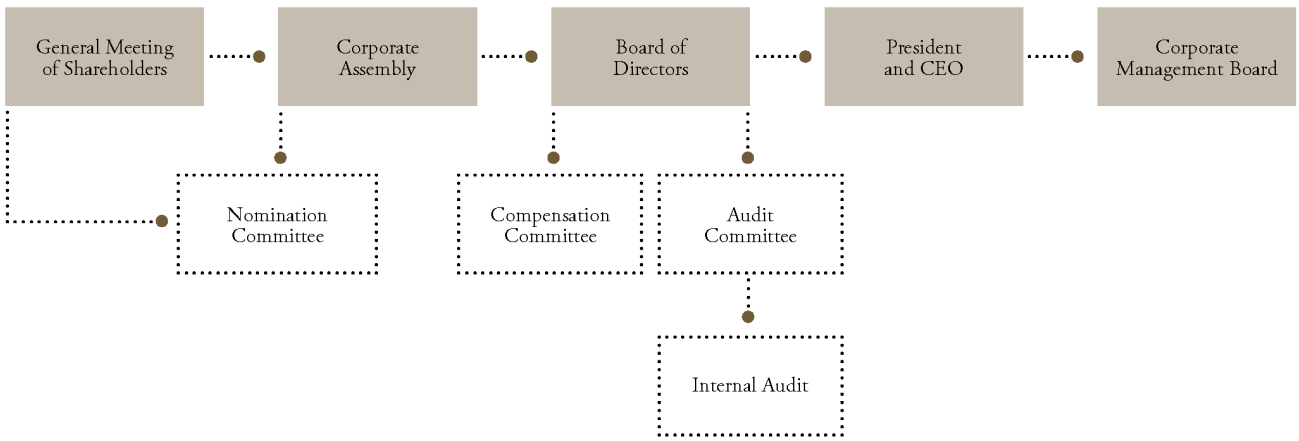
Hydro is a public limited company organized under Norwegian law with a governance structure based on Norwegian corporate law. Our main share listing is on Oslo Børs, which subjects us to Norwegian securities legislation and stock exchange regulations. Hydro has a secondary listing on London Stock Exchange.

We have developed our governance structure through cooperation between our corporate management board and our superior governance bodies to secure compliance with relevant laws and regulations and to reflect business needs. Further development is a continuous process.

We follow the Norwegian Code of Practice for Corporate Governance of October 2010. A detailed description of our compliance is presented on page 124. Information regarding our shareholder policy can be found on page 107.

Hydro has been listed on the Dow Jones Sustainability Indexes (DJSI) every year since the start of the indexes in 1999. We are also listed on the corresponding UK index, FTSE4Good.

Hydro's strategic direction is described on page 21. More comprehensive information about our governance practices, policies and requirements can be found at www.hydro.com/governance



Corporate directives and code of conduct

The Hydro Way represents our framework for leadership, organization and culture and is the foundation of our governance system. See page 54 for further information. Our system is based on the delegation of responsibility to our business areas and to corporate functions whose duties include finance, tax and accounting. In order to maintain uniformly high standards, we set common requirements in the form of corporate directives that are mandatory for all parts of our organization. The directives address a number of areas, including health, security, safety and environment (HSE), ethics and social responsibility, strategy and business planning, finance, risk management, and organizational and employee development. This information is made available to all employees.

The board of directors has approved our code of conduct, which applies to all employees throughout the world, as well as to board members of Hydro and its subsidiaries. See page 58 for more information about Hydro's code of conduct, whistleblowing procedure and integrity program, and www.hydro.com/principles for more information regarding our corporate directives.

In Hydro, compliance is defined as adherence to applicable laws and regulations worldwide as well as Hydro's steering documents. Guidelines have been established to assist line management to adhere to Hydro's compliance requirements. Special emphasis is made on reducing the risk of non-compliance within anti-corruption, competition, and health, security, safety and environment. An extensive compliance audit of the robustness of the HSE system was performed in 2009. Self-assessments were carried through for all sectors in 2010 in the four compliance areas: integrity and human rights, competition, finance and HSE.

Business planning and risk management

Hydro's overall goal is to create shareholder value through satisfied customers and motivated and competent employees. We have defined two main processes to ensure that short and long-term targets are achieved.

The portfolio, strategy and business planning process involves strategic and operative planning and results monitoring. The planning, which reflects our ambitions and values, is the basis for the strategies and measures that form the business plans at all levels of our organization. We have defined key performance indicators for each unit, including financial, human resource, ethical and HSE objectives, in addition to unit-specific operating targets.

The people process is designed to assess and develop our human resources, and is an integral part of our annual business planning. Its aim is to promote the potential of individual employees and of our organization as a whole.

Risk management is also an integrated part of our planning and reporting process. Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's board of directors regularly reviews and evaluates the overall risk management systems and environment within Hydro. We carry out risk assessments for defined exposure areas. Exposure to certain risks, particularly those threatening life and health, has been consistently reduced to very low levels. See also page 103 for a more detailed discussion of Hydro's financial risk management.

Controls and procedures

Hydro's Internal Control over Financial Reporting (ICFR) framework is primarily designed to provide reasonable assurance to our management and the board of directors regarding the preparation and fair presentation of our Financial Statements.

We established our comprehensive ICFR framework in 2006 and continue to maintain it based on the principles established by "The Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control - integrated framework." The five interrelated COSO principles are: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring.

Our overall control environment relevant for financial reporting is covered by Hydro-Wide Controls (HWC). HWC reflects the tone set by the common attitudes, ethics, and values, and competence of top management and management, and all the rest of our employees.

Our ICFR model is implemented through a top-down and risk-based approach. Therefore, we emphasize four higher-risk areas: Hydro's financial reporting risk, fraud risk, general computer risk, and financial closing risk.

In addition, a standard and minimum level of controls is required for all reporting units, documented in an internal control handbook.

Hydro's disclosure committee assists the CEO and the CFO in ensuring fairness, accuracy, completeness and timeliness of Hydro's public reports and disclosures. The disclosure committee is an integral component of Hydro's disclosure controls and procedures and assesses Hydro's compliance initiatives pertaining to ICFR. The disclosure committee reports quarterly a summary of its activities to the audit committee.

Through reporting from the disclosure committee and internal audit, the audit committee takes an active role in ensuring the effective and harmonized functioning of the ICFR framework. See page 123 and www.hydro.com/governance for additional details.

Pre-approval of audit services

The audit committee has a pre-approval policy governing the engagement of primary and other external auditors to provide audit and non-audit services to Hydro or any entity within the group. Under this pre-approval policy, the audit committee has defined and pre-approved subcategories of audit and non-audit services. The audit committee's pre-approval policy includes annual monetary frames for each of the following categories of services:

· Audit-related
· Tax
· Non-audit related

Within the scope of the pre-approval policy, all services have been pre-approved and all amounts for audit-related, tax and other non-audit related services are within the monetary frames established by the audit committee.

Transparency and communication

Hydro's corporate culture embodies the principles of honesty and respect for others. Our ability to operate efficiently in the Norwegian market and internationally requires consistent and professional communication. We adhere, therefore, to the principles of transparency, honesty and sensitivity when interacting with our stakeholders.

Management compensation

Information concerning remuneration and remuneration policies, share ownership, loans outstanding and loan policy relating to Hydro's board of directors and corporate management board is disclosed in Note 11 and Note 44 of the consolidated financial statements.

Board of directors

Name	Place of residence	Year of birth	Position	Board committee	Meetings attended [1)]	Director since	Term expires
Terje Vareberg	Stavanger, Norway	1948	Chairperson	Chairperson Compensation Committee	21	2007	2012
Bente Rathe	Trondheim, Norway	1954	Deputy chairperson	Audit Committe	20	2007	2012
Billy Fredagsvik	Høyanger, Norway	1956	Director		21	2007	2011
Inge K. Hansen	Oslo, Norway	1946	Director	Chairperson Audit Committe	19	2008	2012
Finn Jebsen	Oslo, Norway	1950	Director	Compensation Committee	21	2007	2012
Jørn B. Lilleby	Sunndalsøra, Norway	1952	Director	Audit Committe	20	2007	2011
Tito Botelho Martins Jr 2)	Toronto, Canada	1962	Director			2011	2012
Sten Roar Martinsen 3)	Kopervik, Norway	1962	Director	Compensation Committee	21	2005	2011
Heidi M. Petersen 4)	Sandefjord, Norway	1958	Director		8	2007	
Eva Persson 5)	Västra Frölunda, Sweden	1953	Director	Audit Committe	10	2010	2012
Liv Monica Stubholt 5)	Lørenskog, Norway	1961	Director	Compensation Committee	9	2010	2012

1) Total number of board meetings were 21. 11 of these were during Petersen's and 10 during Persson's and Stubholt's term of service.
2) Member of the board as of 28 February, 2011.
3) Member of the Compensation Committe from 1 January, 2011
4) Heidi M. Petersen stepped down from the board on 7 May, 2010.
5) Member of the board as of 7 May, 2010.

Terje Vareberg, chairperson
- Position: Independent businessman
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chairperson of Bergli Rådgivning AS. Board member of Bank 1 Oslo, Nets Holding A/S.
- No. of Hydro shares: 13,391

Bente Rathe, deputy chairperson
- Position: Independent businesswoman
- Education: Master of Science in business, Trondheim Økonomiske Høgskole (HIST). MBA from the University of Denver
- Current directorships: Chairperson of Ecohz AS and Cenium AS. Board member of Powel AS, Choice Hotel Scandinavia AS, Home Invest AS, Svenska Handelsbanken AB, and Innovation Norway.
- No. of Hydro shares: 6,521

Billy Fredagsvik, employee representative
- Position: Process operator / full-time union official. Represents the Norwegian Confederation of Trade Unions
- Education: Trade school (mechanics)
- Current directorships: None
- No. of Hydro shares: 1,942

Inge K. Hansen
- Position: Independent adviser
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH)
- Current directorships: Chairperson of Bertel O. Steen AS, Norsun AS, Gjensidige Forsikring BA, Hotell og Restauranthuset Continental and Leonhard Nilsen & Sønner AS. Board member of Jiffy International AS, Master Marine AS, Norwind AS, and Sissener AS
- No. of Hydro shares: None

Finn Jebsen
- Position: Independent businessman
- Education: Master of Science in business from the Norwegian School of Economics and Business Administration (NHH). MBA from the University of California, Los Angeles
- Current directorships: Chairperson of Kongsberg Gruppen ASA and Kavli Holding AS; deputy chair of KLP Forsikring; board member of A. Wilhelmsen Management AS, Berner Group AS and Fateburet AS
- No. of Hydro shares: 53,406

Jørn B. Lilleby, employee representative
- Position: Maintenance supervisor / full-time union official representing the Central Cooperative Council (Sentralt Samarbeidsråd)
- Education: Master of Science in mechanical engineering, Norwegian Institute of Technology
- Current directorships: Chairperson of the board of the community of interest ENGN Grimsmoen airfield. Board member of Ottem Transport and Ottem Resirk.
- No. of Hydro shares: 1,857

Tito Betelho Martins Jr.
- Position: Executive Director, Base Metals, Vale S.A.
- Education: Bachelor's degree in Economics from the Federal University of Minas Gerais. MBA from IEAD at the Federal University of Rio de Janeiro.
- Current directorships: President of the Board of Directors of Mineração Rio do Norte S.A. (MRN)
- No. of Hydro shares: None. Vale holds 447,834,465 shares.

Sten Roar Martinsen, employee representative
- Position: Process operator / full-time union official representing the Norwegian Confederation of Trade Unions (LO)
- Education: Certificate of apprenticeship in electrochemistry. Work supervisor training
- Current directorships: None
- No. of Hydro shares: 2,998

Eva Persson
- Position: General counsel for the Volvo Group
- Education: Master of Law from the University of Lund, Sweden
- Current directorships: Board member of Handelsbanken region Western Sweden.
- No. of Hydro shares: None

Liv Monica Stubholt
- Position: CEO and member of the board of Aker Clean Carbon AS
- Education: Master's degree in law (cand. jur.), University of Oslo
- Current directorships: Board member of Aker Clean Carbon AS and the Norwegian-German Chamber of Commerce. Deputy chair of the Norwegian Review Committee for the European Economic Area .
- No. of Hydro shares: None

Number of Hydro shares is as per 31 December, 2010 except for Vale (Martins) which is as per 28 February, 2011.

For more extensive biographical information, please see www.hydro.com/governance

Corporate management board

Name	Place of Residence	Year of birth	Employed in Hydro since	Current position since	Position
Svein Richard Brandtzæg	Oslo, Norway	1957	1985	2009	President and Chief Executive Officer
Wenche Marie Agerup	Oslo, Norway	1964	1997	2010	EVP Corporate Staffs and General Counsel
Oliver Bell	Grevenbroich, Germany	1958	1985	2009	EVP Rolled Products
Kjetil Ebbesberg	Oppegård, Norway	1971	2009 [1)]	2009	EVP Metal Markets
Hans-Joachim Kock	Lausanne, Switzerland	1954	1981	2010	EVP Extruded Products
Arvid Moss	Oslo, Norway	1958	1991	2010	EVP Energy and Corporate Business Development
Jørgen C. Arentz Rostrup	Oslo, Norway	1966	1991	2009	EVP and Chief Financial Officer
Tom Røtjer	Oslo, Norway	1953	1980	2007	EVP Projects
Johnny Undeli	Gjøvik, Norway	1953	1978	2010	EVP Bauxite and Alumina
Hilde Merete Aasheim	Oslo, Norway	1958	2008 [2)]	2008	EVP Primary Metal

EVP: Executive vice president

1) Ebbesberg also was employed in Hydro 1996-2007.

2) Aasheim also was employed in Hydro 2005-2007.

Svein Richard Brandtzæg, President and CEO

- Key experience: Executive vice president and head of Aluminium Products. Head of Rolled Products. Head of Metal Products. Head of Magnesium.
- Education: PhD, Norwegian Institute of Technology. Degree from the Norwegian School of Management.
- No. of Hydro shares: 36,176

Wenche Marie Agerup

- Key experience: Head of Hydro's bauxite exploration activities in Australia. Plant manager in Årdal, Norway. Head of Bauxite and Alumina. Head of Mergers & Acquistions.
- Education: Master's degree in law (cand. jur.), University of Oslo. MBA from Babson College in Boston, U.S.
- No. of Hydro shares: 5,320

Oliver Bell

- Key experience: Head of Rolled Products. Head of Automotive, Construction, Packaging and General Engineering in Rolled Products. Various management positions in VAW.
- Education: Degree in business administration from the University of Cologne.
- No. of Hydro shares: 3,000

Kjetil Ebbesberg

- Key experience: Chief financial officer in Norwegian retail group Coop. CFO in Metal Products. Head of Foundry Alloys. International experience from Extrusion and Building Systems.
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH).
- No. of Hydro shares: 837

Hans-Joachim Kock

- Key experience: Head of finance in Hydro's Aluminium Products. Head of Rolled Products. Plant manager Slim, Italy.
- Education: Degree in business administration and engineering from the University of Karlsruhe, Germany
- No. of Hydro shares: 7,500

Arvid Moss

- Key experience: Executive vice president and head of Corporate Strategy and Business Development. Project leader for the oil and gas merger agreement with Statoil. Head of Metal Products. Head of Automotive Structures.
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH).
- No. of Hydro shares: 66,104

Jørgen C. Arentz Rostrup

- Key experience: Executive vice president and head of Energy. Head of Markets in Oil & Energy. Head of Trading & Marketing in Markets. Head of Finance, Exploration & Production Norway. President of Norsk Hydro USA Inc.
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH).
- No. of Hydro shares: 10,121

Tom Røtjer

- Key experience: Project director for the Ormen Lange and Langeled development project. Head of Technology and Projects.
- Education: Master of Science in mechanical engineering, Norwegian Institute of Technology.
- No. of Hydro shares: 22,733

Johnny Undeli

- Key experience: Executive vice president and head of Extrusion. Various leadership positions within Hydro's extrusion business in Europe. Various positions in Hydro's former oil and gas business. Six years in Total, UK.
- Education: Master of Science in petroleum technology, Norwegian Institute of Technology.
- No. of Hydro shares: 3,265

Hilde Merete Aasheim

- Key experience: Head of Staff Functions and Corporate Services in StatoilHydro. Head of the integration between Statoil and Hydro's oil and gas activities. Head of Leadership and Culture in Hydro. 20 years of service in Elkem, three last years as head of the Silicon Division.
- Education: Master of Science in business, Norwegian School of Economics and Business Administration (NHH). Certified public accountant from NHH.
- No. of Hydro shares: 3,847

For more extensive biographical information, please see www.hydro.com/governance

Governance bodies

Description	Developments and events in 2010	References
General meeting of shareholders		
Company shareholders exercise ultimate authority through the general meeting. Shareholders registered in VPS, the Norwegian Central Securities Depository, can vote in person or by proxy. Invitations are sent to shareholders or to the shareholder's security deposit bank. The general meeting of shareholders: · Elects the shareholders' representatives to the corporate assembly · Elects the external auditor and determines the auditor's remuneration · Approves the report according to Norwegian requirements and financial statements, including the dividend proposed by the board of directors and recommended by the corporate assembly · Elects the nomination committee and determines their remuneration · Deals with any other matters listed in the notice convening the meeting Shareholders may, at least four weeks before an ordinary general meeting, request in writing that proposals for resolutions are submitted to the general meeting, or that items are added to the agenda.	General meetings in May and June	The protocols can be found at www.hydro.com/governance
Corporate assembly		
Eighteen members. Twelve are elected by the general meeting of shareholders, six are elected by and among the group's employees in Norway. In accordance with Norwegian law, the corporate assembly: · Elects the board of directors and determines their remuneration · Nominates the external auditor to be elected by the general meeting of shareholders · Based on recommendations from the board of directors, makes decisions in matters relating to investments that are substantial in relation to Hydro's resources, and when closures and reorganizations will lead to significant changes for the workforce · Provides recommendations to the general meeting of shareholders with respect to approval of the board of directors' proposal regarding the financial statements and dividend	Five meetings. 98 percent meeting attendance. Members: Siri Teigum (chairperson), Leif Teksum (deputy chairperson), Anne Kverneland Bogsnes, Anne-Margrethe Firing, Westye Høegh, Idar Kreutzer, Jon Lund, Bjørn Nedreaas, Tor Egil Skulstad, Unni Steinsmo, Svein K. Sund, Sten Arthur Sælør, Eivind Torvik, Lars Tronsgaard, Terje Venold, Tove Wangensten, Bente Linnerud Østlyngen, Bjørn Øvstetun Deputy members: Rolf Arnesen, Ove Ellefsen, Odd Arne Fodnes, Terje Friestad, Kristin Færøvik, Oddvin Hovland, Roar Jakobsen, Line Melkild, Birger Solberg, Kari Sommerfeldt, Anne Kristin Sydnes, Gro Thorstensen, Gunvor Ulstein	Note 44 to the Consolidated financial statements for remuneration and share ownership Articles of Association §§ 7-8 at www.hydro.com/governance
Nomination commitee		
Four members appointed by the general meeting of shareholders. The chairperson of the committee and at least one of the other members shall be elected among the shareholder-elected corporate assembly members. Nominates candidates to the board of directors, the corporate assembly and the nomination committee, and proposes remuneration to the board, its sub-committees, the corporate assembly and the nomination committee.	11 meetings Members: Siri Teigum (chairperson), Westye Høegh, Leif Teksum, Mette Wikborg	Articles of association § 5A and biographical information can be found at www.hydro.com/governance
Board of directors		
Following the Vale transaction in February 2011 the board increased from nine to 10 members. Six are elected by the corporate assembly, three elected by and among the company's employees in Norway, normally for a period of two years. See item In accordance with Norwegian law, the board of directors assumes the overall governance of the company, ensures that appropriate management and control systems are in place and supervises the day-to-day management as carried out by the President and CEO.	21 meetings. 96 percent meeting attendance. Liv Monica Bargem Stubholt and Eva Persson were elected new board members on May 7, replacing Heidi M. Petersen who stepped down at the same date, and Grete Faremo, who stepped down from the board on October 21, 2009. Tito Botehlo Martins Jr. joined the board of directors 28 February, 2011 as a 10th board member. The board has an annual plan for its work. It includes recurring topics such as a review of board procedures, competency, priorities, collaboration with the company's management, strategy review, business planning as well as HSE and CSR, including risk and compliance oversight.	The board's mandate can be found at www.hydro.com/governance Biographical information on the board members on page 118.

Description	Developments and events in 2010	References
Board of directors (continued) All shareholder-elected members are external. No members elected by employees are part of the company's executive management. Employee directors have no other service contractual agreements with the company outside of their employee contracts, though they are subject to their duties as board members.	The board has also used significant time on the Vale transaction. This included strategic positioning, valuation, negotiation mandate for the transaction and recommendations for Hydro's general meeting of shareholders and corporate assembly. The board visited Hydro's smelter in Høyanger, Norway, and participated in the opening of Qatalum in Qatar. The latter visit included follow-up of both Qatalum and working conditions for the construction workers. The board was also involved in evaluating market developments and Hydro's capacity adjustments, including continuous evaluation of curtailed capacity. The board also made a self-assessment and a separate assessment of the board's chairperson. Both were presented to the nomination committee. All shareholder-elected members were in 2010 deemed to be independent according to the Norwegian standards. None of the company's non-employee board members had any other service contractual agreements with the company. Martins, who is a board member as per 28 February, 2011 is not independent of Hydro's second largest shareowner, Vale.	Note 44 to the Consolidated financial statements for remuneration, share ownership and loans.
Compensation committee Consists of three of the board of directors' nine members. The committee reviews the performance of, and puts forward proposals regarding the compensation of the President & CEO to the board of directors. The committee assists in evaluating the compensation of the corporate management board and in determining performance-promoting schemes for management.	Five meetings. Meeting attendance 93 percent. Members: Terje Vareberg (chairperson) Finn Jebsen Sten Roar Martinsen* Liv Monica Stubholt** * Martinsen joined the committe as of 1 January, 2011. Martinsen is employed in Hydro and represents the employees through the Norwegian Confederation of Trade Unions. We believe that such reliance does not adversely affect, in any material way, the ability of the compensation committee to act independently or to satisfy the other requirements. ** Stubholt joined the committee as of 1 June 2010.	The mandate can be found on www.hydro.com/governance
Audit committee Consists of four of the board of directors' nine members. The audit committee meets Norwegian requirements regarding independence and competence. The audit committee assists the board of directors relating to the integrity of the company's financial statements and financial reporting processes and internal controls; the company's risk assessment and risk management policies related to financial reporting; the qualifications, independence and performance of the external auditor; and the performance of the internal audit function. To ensure the independence of the internal audit function, the head of Internal Audit reports functionally to the board through the audit committee. The audit committee maintains a pre-approval policy governing the engagement of the company's primary and other external auditors to ensure auditor independence.	Eight meetings. Meeting attendance 97 percent Members: Inge K Hansen (chairperson) Jørn Lilleby* Eva Persson** Bente Rathe * Lilleby is employed in Hydro and represents the employees through the Central Cooperative Council. We believe that such reliance does not adversely affect, in any material way, the ability of the audit committee to act independently or to satisfy the other requirements. ** Persson joined the audit committee as of 1 June 2010.	The mandate can be found on www.hydro.com/governance Pre-approval of audit services on page 117
President & CEO and corporate management board According to Norwegian corporate law, the President & CEO constitutes a formal governing body that is responsible for the daily management of the company. The division of functions and responsibilities between the President & CEO and the board of directors is defined in greater detail in the rules of procedures established by the board. The Corporate Management Board (CMB), including the President & CEO, has a shared responsibility for promoting Hydro's objectives and securing the company's property, organization and reputation. Members of the CMB are also Executive Vice Presidents (EVPs) with responsibility for the respective business areas, Projects, Finance, and Corporate Staffs and Legal.	Met every second week. Anne Harris and Odd Ivar Biller stepped down from the CMB on 15 April. From the same date Wenche Marie Agerup was appointed EVP, head of Corporate Staffs and general counsel. EVP Johnny Undeli was appointed head of the new business area Bauxite & Alumina on 2 May and Hans-Joachim Kock was appointed EVP and head of Extruded Products. Ola Sæter stepped down from the CMB on 1 September. EVP Arvid Moss was from the same date appointed head of Energy with a special responsibility for climate and business development in Hydro. No member of Hydro's board of directors or the CMB has any family relationship with any other director or member of the CMB.	Biographical information on page 120 Note 11 to the Consolidated financial statements for remuneration, share ownership and loans

Norwegian code of practice for corporate governance

Page numbers and notes to the consolidated financial statements refer to this report. All other references can be found at www.hydro.com/governance where a table with full references is available.

	Topic	Comments	References
1	Implementation and reporting on Corporate Governance	Hydro follows the Norwegian Code of Practice for Corporate Governance of 2010 including all its recommendations. The Hydro Way represents our framework for leadership, organization and culture and is the foundation for our governance system, including our code of conduct. Hydro's code of conduct is approved by the board of directors, which also oversees that Hydro has appropriate corporate directives for HSE and corporate responsibility.	www.hydro.com/principles
2	Hydro business	The objectives of the company are to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with these objectives. Activities may also proceed through participation in or in co-operation with other enterprises.	Hydro's articles of association at www.hydro.com/governance Hydro's strategy is described at page 21
3	Equity and dividends	Hydro's equity capital is appropriate to the company's objectives, strategy and risk profile. Hydro's dividend policy is to pay out over time on average 30 percent of net earnings. Mandate for buyback of Hydro shares may be granted to the board of directors by the general meeting of shareholders. If the general meeting is to consider mandates to the board for the issue of shares for different purposes, each purpose should be considered separately by the meeting. The mandates should be limited in time to no later than the date of the next annual general meeting. See also item 4.	Page 107
4	Equal treatment of shareholders.	Hydro has one share class. Any transactions Hydro does in its own shares are carried out through stock exchanges. Buy-backs of own shares are carried out at market price. Shareholders registered in VPS, the Norwegian Central Securities Depository, can vote in person or by proxy. Invitations are sent directly to shareholders or to the shareholder's security deposit bank.	Page 107
		Employee share allocations are granted at a discount to market value. See also item 6. The board of directors usually deals with investors through the administration. Under special circumstances the board of directors represented by the chairperson may have direct dialog as appropriate. On 28 May 2011, Hydro took over the majority of Vale's aluminium business in Brazil. Vale received a total consideration comprising USD 1.1 billion in cash and new Hydro shares equivalent to 22 percent ownership of Hydro's outstanding shares. To partly finance the transaction, support the company's investment grade rating and capacity to implement future projects, Hydro completed a fully underwritten rights issue of NOK 10 billion in July 2010. The consequences for existing shareholders and new shareholders through the rights issue were given in the relevant press releases, in the rights issue prospectus and in the information memorandum in connection with Hydro's takeover of the majority of Vale S.A.'s bauxite, alumina and aluminium business in Brazil, and in the extraordinary general meeting. See also item 8 and 9.	Note 11

	Topic	Comments	References
	Transactions with close associates	Hydro's code of conduct includes guidelines for handling possible conflicts of interest. The code is valid to all board of directors members and Hydro employees. It is the assessment of the board of directors that during 2010 there have been no material transactions between the group and shareholders, directors, officers or close associates of any such parties.	www.hydro.com/principles
		Regulation of share issues and pre-emptive rights are described in the Articles of Association.	www.hydro.com/governance
	The Norwegian State as an owner	The Norwegian state represented by the Ministry of Trade and Industry owned 43.73 percent of Hydro's issued shares as of 31 December 2010. Following closing of the Vale transaction 28 February, 2011, the Norwegian state owns about 34.3 percent. Hydro has regular meetings with the Ministry. Topics discussed include Hydro's economic development, strategic development, CSR, and the State's expectations regarding investment performance and return. These meetings are comparable to what is customary between a private company and its principal shareholders. The meetings comply with the provisions specified in company and securities legislation, not least with a view to equal treatment of shareholders. As a shareholder, the State does not usually have access to more information than what is available to other shareholders. If the State's participation is imperative and the Government must obtain an authorization from the Norwegian parliament (Stortinget), it may be necessary to give the Ministry insider information. In such cases, the State is subject to the general rules that apply to dealing with such information.	Page 109-110
5	Freely negotiable shares	The Hydro shares are freely negotiable. The stock is among the most traded stocks at Oslo Stock Exchange and subject to efficient pricing. The Norwegian state through the Ministry of Trade and Industry and Folketrygdfondet owns 49.9 percent of the shares as of December 31, 2010. As a part of the Vale transaction, Vale received 22 percent of Hydro's outstanding shares. At the same time, The Norwegian state's share represented through the Ministry of Trade and Industry was reduced from 43.73 percent to approximately 34.3 percent. According to the agreement between Hydro and Vale, Vale cannot increase its ownership in Hydro beyond 22 percent. Further, Vale will retain its shares in Hydro for at least two years after the transaction closes, and following the two-year period Vale shall not sell shares constituting more than 10 percent of Hydro's issued shares to any single buyer or group.	Page 107
6	General meeting of shareholders	The notice of a general meeting of shareholders is normally available at hydro.com about four weeks prior to the meeting and sent to the shareholders minimum three weeks before the meeting. Our aim is that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting. Deadline for shareholders to give notice of attendance in the meeting, is five working days before the meeting. Shareholders who cannot attend the meeting in person, can vote by proxy. Hydro will nominate a person who will be available to vote on behalf of shareholders as their proxy. Shares registered with a nominee account must be re-registered in the Norwegian Central Securities Depository before the General Meeting in order to obtain voting rights. Hydro will propose to the general meeting of shareholders on May 5, 2011 to implement the possibility to cast votes electronically in advance of the meeting. To the extent possible the form for the appointment of a proxy will allow separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election.	Page 122 www.hydro.com/governance

Topic	Comments	References
	The board of directors, the nomination committee and the auditor are present at the general meetings of shareholders. The general meeting of shareholders is presided over by the chairperson of the corporate assembly or, in his or her absence, by the deputy chairperson.	
	The notice of the general meeting of shareholders provides information on the procedures shareholders must observe in order to participate in and vote at the general meeting. These include • the procedure for representation at the meeting through a proxy, including a form to appoint a proxy • the right for shareholders to propose resolutions in respect of matters to be dealt with by the general meeting of shareholders • the web pages where the notice of the meeting and other supporting documents will be made available	The Hydro share at www.hydro.com/investor
	The following information is available at hydro.com: • information on the right of shareholders to propose matters to be considered by the general meeting of shareholders • how to make proposals for resolutions to be considered by the general meeting of shareholders, alternatively comments on matters where no resolution is proposed • a form for appointing a proxy	
	The general meeting of shareholders votes separately for each candidate nominated for election to the company's corporate assembly and nomination committee.	
7 Nomination committee	The nomination committee consists of four members who shall be shareholders or shareholders' representatives. They are appointed by the general meeting of shareholders. Minimum two including the chairperson are appointed among the shareholder elected members of the corporate assembly. The committee's compensation is determined by the general meeting of shareholders.	Page 122 Hydro's Articles of association and mandate for the Nomination committee can be found at www.hydro.com/governance
	Shareholders may nominate candidates for the board of directors, the corporate assembly and the nomination committee.	
	A revised mandate for the nomination committe will be proposed to the general meeting of shareholders on May 5, 2011 and to the shareholder elected members of the corporate assembly.	
8 Corporate assembly and board of directors: Composition and independence	All board directors and members of the corporate assembly are independent of the executive management of Hydro and its main business connections. Lars Tronsgaard, who is a member of the corporate assembly, is representing Folketrygdfondet, owned by the Norwegian State.	Note 44
	The corporate assembly elects both the chairperson and the deputy chairperson of the board. Board members are elected for a period of two years. Vale has from 28 February, 2011 one representative in Hydro's board of directors. The decision has been approved by Hydro's general meeting of shareholders and corporate assembly. Tito Botelho Martins Jr, executive director, Base Metals, in Vale S.A. has been appointed new board member in Hydro and has joined the board of directors as a 10th board member.	
	Six board members own a totality of 80,115 shares as of December 31, 2010. Hydro has no program for board members to aquire shares exept from the employee representatives who are entitled to acquire shares through the employee share purchase plan. All share transactions are conducted according to the Norwegian Securities Trading Act.	
9 Board work and responsibilities	The board of directors has established rules of procedures for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.	The Board's mandate can be found at www.hydro.com/governance
	The board of directors has an annual plan for its work with particular emphasis on objectives, strategy and implementation. The board's audit committee and compensation committee were both established in 2001. The board of directors conducts annually a self-assessment of its work, competence and cooperation with management and a separate assessment of the board's chairperson. The assessments are presented to the nomination committee.	Page 122-123

Topic	Comments	References
	In addition the nomination committee evaluates the competence of the board of directors.	
10 Risk management and	The board of directors ensures sound internal control and systems for	Page 99 and 113-117
	Hydro's internal control system includes all parts of our corporate directives, including our code of conduct, HSE and corporate responsibility requirements.	www.hydro.com/principles
11 Remuneration of the board of directors	The shareholder elected members of the board of directors have no assignments for the company other than the board work.	Note 44 See Articles of association at www.hydro.com/governance
	The compensation is determined by the corporate assembly.	
12 Remuneration of the executive management	The board of directors has established guidelines for the remuneration of the members of the executive management. These guidelines are communicated to the general meeting of shareholders and included in the annual report.	Note 11 Page 112
13 Information and communication	Hydro has established guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market. This includes contact with shareholders other than through the shareholder meetings	Page 107 and 117
	A financial calendar is available in this report and at hydro.com	Page 112
	Shareholder information is published at hydro.com. "Financial Statements and Board of Directors' Report" is sent upon request and free of charge to shareholders. Notices of general meetings of shareholders are sent directly to shareholders unless they have consented to receive these documents electronically.	See the Hydro Share at www.hydro.com/investor
14 Take-overs	The board of directors will handle any potential take-over offers in accordance with Norwegian corporate law and the Norwegian Code of Corporate Governance. There are no defence mechanisms against take-over bids in our articles of association or in any underlying steering document. Neither have we implemented any measures to limit the opportunity to acquire shares in the company. The Norwegian state through the Ministry of Trade and Industry and Folketrygdfondet owns 49.9 percent of the shares as per December 31, 2010. See also item 5.	
	Vale has agreed to certain restrictions with regard to their Hydro shares pursuant to a standstill and lock-up agreement entered into between Vale and Hydro. In the event of a take-over offer, and subject to the standstill and lock-up agreement, Vale can only accept such offer and transfer its Hydro shares if the offer (i) has either been recommended by the board of directors or declared unconditional in all respects and (ii) will result in the offeror holding more than 50 percent of the total shares in Hydro before or during the offer period	
15 Auditor	The external auditor annually submits the main features of the plan for the audit of the company to the board audit committee.	Page 70 and F87
	The external auditor participates in relevant agenda items at all meetings in the board audit committee. Minutes of these meetings are distributed to all board members. This practice is in line with the EU Audit Directive.	
	The external auditor presents their view on internal control procedures through the annual management letter.	
	The board audit committee meets at least annually with the external auditor and the head of Internal Audit without the presence of corporate management.	
	Hydro emphasizes independence and has clear guidelines for use of services performed by the external auditor. All use of external auditor, including non-audit services, are subject to a pre-approval process defined by the board audit committee.	Page 117
	Remuneration of the external auditor is disclosed in the annual report and approved by the general meeting of shareholders.	Note 43
	The general meeting of shareholders elected on May 4, 2010 KPMG as the new group external auditor as from the accounting year 2010.	

09:

Financial statements

Consolidated financial statements

Consolidated income statements

Amounts in NOK million (except per share amounts). Years ended 31 December	Notes	**2010**	2009
Revenue	8	**75 754**	67 409
Share of the profit (loss) in equity accounted investments	8, 25, 26	**(606)**	(809)
Other income, net	8, 9	**568**	107
Total revenue and income		**75 717**	66 706
Raw material and energy expense	10	**48 694**	42 195
Employee benefits expense	11	**10 282**	11 699
Depreciation and amortization expense	12	**2 952**	3 193
Impairment of non-current assets	13	**32**	301
Other	14, 15	**10 573**	10 724
Total expenses	8	**72 533**	68 113
Earnings before financial items and tax	8	**3 184**	(1 407)
Financial income	16	**346**	429
Financial expense	16	**176**	2 344
Financial income, net		**522**	2 774
Income before tax		**3 706**	1 367
Income taxes	17	**(1 588)**	(951)
Net income		**2 118**	416
Net income attributable to minority interests		**230**	117
Net income attributable to Hydro shareholders		**1 888**	299
Basic and diluted earnings per share attributable to Hydro shareholders	34	**1.33**	0.24

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	**2010**	2009
Net income		**2 118**	416
Other comprehensive income			
Currency translation differences, net of tax	34	**(932)**	(6 908)
Unrealized gain (loss) on securities, net of tax	34	**22**	18
Cash flow hedges, net of tax	34	**(58)**	(84)
Share of other comprehensive income in equity accounted investments, net of tax		**(234)**	87
Other comprehensive income		**(1 201)**	(6 888)
Total comprehensive income		**917**	(6 472)
Total comprehensive income attributable to minority interests		**260**	(150)
Total comprehensive income attributable to Hydro shareholders		**657**	(6 322)

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

Consolidated balance sheets

Amounts in NOK million, 31 December	Notes	**2010**	2009	2008
Assets				
Cash and cash equivalents		**10 929**	2 573	3 333
Short-term investments	18	**1 321**	1 519	1 648
Accounts receivable	19	**12 783**	11 571	16 254
Inventories	20	**10 971**	10 030	16 293
Other current financial assets	21, 40	**814**	2 109	2 579
Total current assets	8	**36 817**	27 802	40 108
Property, plant and equipment	22	**24 849**	25 647	29 338
Intangible assets	23, 24	**1 920**	1 881	2 178
Investments accounted for using the equity method	25, 26	**18 649**	15 721	14 457
Other non-current financial assets	21, 40	**3 391**	3 818	5 592
Prepaid pension	32	**1 481**	1 328	1 458
Deferred tax assets	33	**1 681**	1 402	2 026
Total non-current assets	8	**51 971**	49 797	55 049
Total assets	8	**88 788**	77 599	95 157
Liabilities and equity				
Bank loans and other interest-bearing short-term debt	28	**940**	2 010	1 169
Trade and other payables	29	**9 920**	9 917	12 944
Provisions	31	**1 758**	1 094	2 060
Taxes payable		**1 999**	1 196	1 984
Other current financial liabilities	21, 40	**1 218**	826	5 187
Total current liabilities		**15 836**	15 042	23 344
Long-term debt	30	**328**	88	279
Provisions	31	**2 104**	2 007	2 115
Pension obligation	32	**9 088**	9 368	9 953
Other non-current financial liabilities	21, 40	**2 240**	2 144	2 996
Other liabilities		**838**	906	1 071
Deferred tax liabilities	33	**1 108**	849	1 258
Total non-current liabilities		**15 706**	15 361	17 673
Total liabilities		**31 542**	30 403	41 016
Share capital	34	**1 780**	1 362	1 370
Additional paid-in capital	34	**9 553**	43	309
Other components of equity	34	**(418)**	813	7 435
Retained earnings		**46 419**	45 128	47 968
Treasury shares	34	**(1 112)**	(1 177)	(4 274)
Equity attributable to Hydro shareholders		**56 221**	46 169	52 808
Minority interests		**1 025**	1 026	1 333
Total equity		**57 246**	47 195	54 141
Total liabilities and equity		**88 788**	77 599	95 157

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	**2010**	2009
Operating activities			
Net income		**2 118**	416
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and impairment	8, 12, 13	**2 985**	3 494
Share of loss in equity accounted investments	8, 25, 26	**606**	809
Dividends received from equity accounted investments	25, 26	**108**	73
Deferred taxes		**(64)**	248
Loss (gain) on sale of non-current assets		**(49)**	808
Gain on foreign currency transactions	16	**(513)**	(2 774)
Net sales of trading securities		**233**	245
Capitalized interest	16	**(5)**	(3)
Changes in assets and liabilities that provided (used) cash:			
Accounts receivable		**(1 693)**	2 063
Inventories		**(1 176)**	4 381
Trade and other payables		**311**	(1 702)
Financial and commodity derivatives		**2 003**	(2 889)
Other items		**1 499**	(623)
Net cash provided by operating activities	42	**6 363**	4 546
Investing activities			
Purchases of property, plant and equipment		**(2 138)**	(2 743)
Purchases of other long-term investments		**(3 918)**	(3 137)
Proceeds from sales of property, plant and equipment		**23**	24
Proceeds from sales of other long-term investments		**(18)**	8
Net cash used in investing activities		**(6 051)**	(5 848)
Financing activities			
Loan proceeds		**3 167**	2 878
Principal repayments		**(4 056)**	(1 978)
Net increase (decrease) in other short-term debt		**(180)**	15
Purchases of shares		**-**	(124)
Proceeds from shares issued		**9 910**	43
Dividends paid		**(866)**	(166)
Net cash provided by financing activities		**7 975**	668
Foreign currency effects on cash and bank overdraft		**(51)**	(56)
Net increase (decrease) in cash, cash equivalents and bank overdraft		**8 236**	(690)
Cash, cash equivalents and bank overdraft at beginning of year		**2 499**	3 189
Cash, cash equivalents and bank overdraft at end of year	42	**10 735**	2 499

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 components of equity	Equity attributable to Hydro share-holders	Minority interest	Total equity
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, 45	(4)	(121)				(124)		(124)
Dividends declared and paid	36				-		-	(166)	(166)
Equity interests purchased (sold)								9	9
Demerger adjustment	34				(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
Treasury shares reissued to employees	34		15	65			80		80
Shares issued	34	418	9 495				9 913		9 913
Dividends declared and paid	36				(603)		(603)	(263)	(866)
Equity interests purchased					6		6	2	8
Total comprehensive income for the year					1 888	(1 231)	657	260	917
31 December 2010		1 780	9 533	(1 112)	46 419	(418)	56 221	1 025	57 246

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

Oslo, 16 March 2011

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Jørn B. Lilleby
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
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 23,000 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 2010.

The following description of accounting principles applies to Hydro's 2010 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. Subsidiaries are included from the date control commences until the date control ceases. 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 acquisition method in accordance with IFRS 3 (revised 2008) Business Combinations (IFRS 3R). The consideration 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. To the extent Hydro had previous ownership in the acquiree, the fair value of Hydro's existing ownership interest is included in the consideration, with any gain or loss recognized in Other income, net. 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. Goodwill is initially measured either as the excess of the consideration over Hydro's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities (partial goodwill) or as the fair value of 100 percent of the acquiree in excess of the acquiree's identifiable assets, liabilities and contingent liabilities (full goodwill). The method is elected on a transaction-by-transaction basis. 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 to the extent the partial goodwill method is elected. To the extent the full goodwill is elected, the interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the fair value of the acquiree. Subsequent adjustments include the minority's share of changes in equity since the date of the combination.

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 investments in 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, and Hydro's share of other comprehensive income is included in Hydro's Other comprehensive income. 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 or events 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 the higher of fair value less cost to sell 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 in prior period balance sheets. Immaterial disposal groups are not reclassified.

A discontinued operation is a component of Hydro that is held for sale or disposed of, and 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 income statement 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 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 or a present obligation where no outflow is probable. 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.

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. Hydro uses the cost model for investment properties.

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 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 identified using the guidance in IAS 17 Leases (IAS 17) and IFRIC 4 Determining whether an Arrangement contains a lease (IFRIC 4). Such arrangements are accounted for as finance leases in accordance with IAS 17. 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 financially leased assets 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.

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 for sites where such obligations exist. The present value of the obligation is recognized when the asset is constructed and ready for use, or, if the obligation is imposed 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.

Emission rights

Hydro accounts for government granted and purchased CO_2 emission allowances expected to be used towards Hydro's own emissions 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_2 emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO_2 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_2 emission rights is recognized at the time of sale at the transaction price. Any CO_2 emission allowances purchased with the intention of trading is measured and classified as inventory.

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.

Depreciation and amortization

Depreciation and amortization expense are measured on a straight-line basis over the estimated useful life of the asset, commencing when the asset is ready for its intended use. Mine property and development costs in extractive activities are depreciated using the unit-of-production method. Tangible and intangible assets with an indefinite useful life, including land, are not depreciated. Estimated useful life by category is as follows:

- Machinery and equipment, initial investment 4-30 years, for power plants up to 75 years
- Machinery and equipment, capitalized maintenance 1-15 years
- Buildings 20-50 years
- Intangibles with definite lives 3-10 years, for rights related to hydroelectric power production up to 50 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.

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). Intangible assets with indefinite useful life is tested for impairment at least annually. The carrying amount is not recoverable if it exceeds the higher of 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, however, any impairment of goodwill is not 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. Fair value of the investment is estimated based on valuation model techniques for non-marketable securities. Investments are reviewed for impairment if indications of a loss in value are identified. When the estimated fair value of the investment is below Hydro's cost, the impairment is recognized in earnings. Any reduction in fair value previously recognized in Other comprehensive income is reclassified to the income statement.

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, included hedging instruments and embedded derivatives are classified as short-term, provided that the expected cash flows are before twelve months after the balance sheet date, or they are held solely for the purpose of trading. Derivatives, including hedging instruments and embedded derivatives are classified as long-term provided that their expected cash flows are more than 12 months after the balance sheet date.

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 derivatives. 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 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 functional currency at applicable exchange rates as of the balance sheet date with the resulting 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, 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 risks in 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 recognized in Other comprehensive income 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 the income statement.

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).

Note 2 - Changes in accounting principles and new pronouncements

Changes in accounting principles

Hydro implemented the following new guidance as of 1 January 2010 with no material impact.

- IAS 27 (revised 2008) Consolidated and Separate Financial Statements (IAS 27R 2008)
- Amendments resulting from May 2008 Annual Improvements to IFRSs
- Amendments resulting from April 2009 Annual Improvements to IFRSs

In addition, Hydro implemented IFRS 3 (revised 2008) Business Combinations (IFRS 3R). The standard resulted in some differences as to how acquisitions would have been recognized under the previous standard. Specifically, the requirement to recognize a gain on previous ownership interests in an acquiree and the requirement to expense all acquisition related expenditures represent important changes.

New pronouncements

As of the date of authorization of these financial statements, the following standards, amendments and interpretations have been issued or are about to be issued by the IASB. These standards or amendments 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 2011:

- IAS 24 (revised 2009) Related Party Disclosure (IAS 24R), effective date and expected Hydro implementation date 1 January 2011.
- Amendments resulting from May 2010 Annual Improvements to IFRSs (2010 Annual amendments) effective date and Hydro implementation date 1 January 2011.

Implementation in later years:

- IFRS 9 Financial Instruments - Classification and Measurement (IFRS 9); effective date 1 January 2013.
- IFRS 10 Consolidated Financial Statements (IFRS 10); effective date 1 January 2013.
- IFRS 11 Joint Arrangements (IFRS 11); effective date 1 January 2013.
- IFRS 12 Disclosures of Interests with Other Entities (IFRS 12); effective date 1 January 2013.
- IAS 27 Separate Financial statements (as revised in 2011) (IAS 27R 2011); effective date 1 January 2013.
- IAS 28 Investments in Associates and Joint Ventures (as revised in 2011) (IAS 28R); effective date 1 January 2013.

As of the date of issue of Hydro's financial statements, all of the implemented standards, amendments to standards and interpretations were endorsed by the EU. The new pronouncements to be implemented in 2011 were endorsed, while new pronouncements to be implemented in later years were not endorsed by the EU as of the date of issue of Hydro's financial statements.

Hydro is currently evaluating the potential accounting impact of IFRS 9, IFRS 10, IFRS 11, IFRS 12, IAS 24R, IAS 27R 2011 and IAS 28R. We expect that IFRS 11 Joint Arrangement may significantly impact how Hydro accounts for and discloses certain of or operations conducted in co-operation with others.

Note 3 - Basis of presentation and measurement of fair value

Basis of presentation

The financial statements have been prepared on a historical cost basis except as regards certain assets, liabilities and financial instruments, which are at fair value. Financial statement preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates. See note 4 Critical accounting judgments and key sources of estimation uncertainty.

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

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

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

Net present value

Interest rates used when performing any net present value 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 2010 and 31 December 2009.

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 2010 and 31 December 2009. 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 revalued 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. 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, a group of plants is combined and managed to serve a common market, 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. 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 8.75 and 13.5 percent (2009: 11.75-14.25 percent). The variance in discount rates mainly results from differences in risk free interest rates and tax levels in different regions. 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 the income statement. 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 and 2010 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 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 7 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 (PBO) relates to Norway. The discount rate applied for Norwegian plans as of 31 December 2010 is 3.75 percent, based on government bond yield as required by IAS 19 Employee Benefits. This is in line with Hydro's established methodology and slightly below the guidance from the Norwegian Accounting Standards Board on pension assumptions for use as of 31 December 2010. 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 2010 the weighted average discount rates used are 4.9 percent for the main German plans and 5.3 percent for the main UK plans. Around 86 percent of plan assets relates to Norway. 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 in Norway. 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 loss of NOK 1,003 million for the year, mainly resulting from reduced discount rates. Actual return on plan assets exceeded the estimated return by NOK 366 million for the year. The 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 2010 this is around NOK 1.5 billion. For 2010, Hydro incurred a decrease in the average discount rate of 0.7 percentage points as a result of the decrease 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 7 percent, for 2010 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 2010 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.

Business combinations and goodwill

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

Under IAS 36 Impairment of Assets, goodwill and certain intangible assets are reviewed at least annually for impairment. The impairment test for goodwill involves estimating the value in use of the cash generating unit or group of cash generating units to which goodwill is assigned, and comparing the estimated value to the carrying value of the group of cash generating units including goodwill. Should the carrying value exceed the estimated fair value, the excess is written down as impaired. To

determine whether and how much goodwill is impaired we must develop estimates, see discussion above about impairment of non-current assets.

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.

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.

Insurance and other compensation

Hydro has insurance contracts and certain other arrangements giving right to compensation for damage and/or losses. Such compensation claims are recognized when it is deemed to be virtually certain that Hydro will receive a compensation under the contract. To recognize such claims, Hydro carefully analyses the legal basis for the claim, any contingencies that is or may be raised by the liable party, any assessment from third parties whether technical, legal or other experts, and other relevant information. To recognize such claims we normally expect to have received either a confirmation from the liable party that the claim is valid and will be honoured, or a confirmation from an external expert that Hydro has a valid claim with no or remote risk of not being honoured. The claim is measured at Hydro's best estimate of the amount to be received.

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 and subsequent events

On 28 February 2011 Hydro acquired the majority of Vale S.A.'s aluminium business, held through the wholly owned subsidiary Vale Austria Holdings GmbH. The acquisition will improve Hydro's access to bauxite and alumina, the primary raw materials for production of aluminium.

Hydro acquired the following equity interests in this transaction: 57 percent of the shares in the alumina refinery Alunorte - Alumina do Norte do Brasil S.A. (Alunorte), in which we previously held 34 percent giving a total ownership interest of 91 percent, 60 percent ownership interest in the bauxite mine Paragominas. Through a put/call arrangement, Hydro has the right to acquire some or all of the remaining 40 percent ownership and Vale has the right to sell some or all of the remaining 40 percent. All put and call arrangements are at a fixed price and are exercisable within a 5 1/2 year period from signing of the contract on 2 May 2010. Further, Hydro acquired Vale's 51 percent ownership in the aluminium smelter Albras - Aluminio Brasileiro S.A. (Albras), and the 61 percent ownership in Companhia de Alumina do Pará S.A. (CAP), an alumina refinery in development phase. Hydro previously held 20 percent in CAP, and achieved a total ownership interest of 81 percent. All of these assets are located in the Pará region in Brazil. In addition, Hydro acquired certain commercial contracts related to sale of alumina and aluminium, including a contract portfolio in Switzerland. The combined businesses and assets are referred to as Vale Aluminium. The acquired business will be consolidated from the time of closure.

The consideration paid consisted of a cash element at closing of approximately USD 1,080 million and 447,834,465 Hydro shares corresponding to 22 percent of Hydro's outstanding shares. The fair value of equity consideration was determined as the price at Oslo Børs (Oslo Stock Exchange) as of the end of trading Friday 25 February, the latest market observation prior to completion of the transaction. The total consideration for the acquired shares was approximately NOK 26 billion. The put and call arrangement for Paragominas is expected to result in additional purchase price of approximately USD 400 million. In addition, Hydro assumed approximately USD 660 million of debt in the acquired entities.

In addition, the fair value of Hydro's previous ownership interests in Alunorte and CAP is part of the initial recognition of the acquired entities. The remeasurement is expected to result in a significant gain to be recognized in the first quarter of 2011. The valuation of these ownership interests as well as determination of certain adjustments to the cash consideration based on working capital in Paragominas and certain other variables are currently not determined. The final values are expected to be determined during 2011.

Initial accounting for the acquisition is incomplete as of the date these financial statements are issued. This is because the balance sheet for the acquired business as of 28 February 2011 has not yet been completed, and the valuation of assets acquired and liabilities assumed is in an early phase. Important parts of the process started after closing of the transaction. We have therefore not disclosed the acquisition date values of each major class of assets acquired and liabilities assumed, information about contingent liabilities, indemnification assets, fair value of previous ownership interests in the acquirees, goodwill and minority interest.

Hydro has existing contracts and balances with Vale Aluminium, primarily an off-take arrangement considered part of the previous equity investment in Alunorte and related payables, receivables and loans. In addition, the acquiree held certain long-term sales contracts with Hydro. The fair value of these contracts is determined to be a liability for the acquiree. This difference will be accounted for as settlement of a pre-existing relationship as a credit to Other income, net, and thus excluded from the purchase price and purchase accounting. The amount is expected to be minor compared to the business combination.

Acquisition related costs incurred during 2010 were approximately NOK 70 million, included in operating costs. As the transaction was completed in 2011, no revenue, costs or profit or loss of the acquired subsidiaries have been included in the income statement for 2010. Hydro's share of net income in Alunorte and CAP as associates is included using the equity method based on the ownership shares through the period. More information about the effect of the ownership in Alunorte is included in note 25 Investments in associates.

Mr. Tito Martins, nominated by Vale, became a member of the Board of Directors as of the date of completion of the acquisition.

Hydro has issued an Information Memorandum dated 2 June 2010 describing the acquisition, and a Prospectus dated 21 June 2010 for the rights issue in July 2010 and the private placement to Vale in connection with the agreement for sale and

contribution of Vale Aluminium. Both documents contain more detailed information about the transactions, and are available at www.hydro.com.

Hydro has not entered into any other significant business combinations during 2010 or 2009.

Note 6 - Disposals

Hydro did not enter into any significant disposals during 2010. In October 2009 Hydro agreed to sell its automotive structures activities to the German group Benteler. The transaction was subject to clearance by competition 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 had 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 took place in the third quarter of 2010, and resulted in an additional loss of NOK 6 million.

Note 7 - 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. These risks are partly offset by observed negative correlations between the risk factors. Depending on the degree of price volatility, such fluctuations in market prices may create significant fluctuations in Hydro's results. To manage this exposure, market risk exposures are evaluated based on a holistic view in order to take advantage of offsetting positions in the portfolio 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. Hydro's market risk strategy is materially unchanged in 2010 compared to previous years.

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. Hydro participates in trading, but with tight volume and risk limits as approved by the Corporate management board.

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.

Hydro has incorporated linkages to aluminium prices in significant parts of its contractual power purchases to offset market risk related to the sales of its aluminium products. These linkages are bifurcated from their host contracts and accounted for as derivatives.

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 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 the income statement, while the underlying physical transactions normally are not marked-to-market, except for those included in trading portfolios.

In order to secure cash flow or margins for certain projects or other special situations, Hydro has sold forward on a longer-term basis. In these cases, hedge accounting has normally been applied. See the section on cash flow hedges in note 41 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. With the exception of one agreement for the purchase of petroleum coke containing a bifurcated link to the price of aluminium, the contracts are off balance sheet and therefore do not give rise to fair value exposure.

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. 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 the Income statement. 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.

The acquisition of Vale Aluminium assets will imply a significant increase in exposure to the Brazilian Real, see note 5 Acquisitions and subsequent events.

To mitigate risk in US dollar, Hydro's main policy is to raise funding in US dollar. To reduce the long-term effects of fluctuations in the US dollar and other exchange rates, Hydro has also used foreign currency swaps and forward currency contracts to manage the currency exposures. Currently there are only limited amounts outstanding under such contracts.

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. Interest rate exposure will increase with US dollar debt incurred as part of the acquisition of Vale Aluminium.

The fair value of interest rate derivatives as of 31 December 2010 and 2009 is immaterial and not presented here.

Financial instruments are also exposed to changes in interest rates in connection with discounting of positions to net present value. See 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 increase in rates or prices and no changes in the portfolio of instruments as of 31 December 2010 and 31 December 2009, respectively. Effects shown below are largely also representative of reductions in rates or prices by 10 percent but with the opposite sign convention. 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.

	Fair value as of 31 December	Gain/loss from 10 percent increase in						
		Foreign currency exchange rates			Commodity prices			
Amounts in NOK million	2010 [1]	USD	EUR	Other	Aluminium	Other	Interest rates	Other
Derivative financial instruments [2]	11	86	(29)	-	-	-	-	-
Other financial instruments [3]	19 564	727	347	58	-	-	(14)	38
Derivative commodity instruments [4]	(2 156)	(558)	(12)	(1)	(905)	(294)	42	(29)
Financial instruments directly to equity [5]	1 455	108	2	1	(276)	-	(87)	-

	Fair value as of 31 December	Gain/loss from 10 percent increase in						
		Foreign currency exchange rates			Commodity prices			
	2009 [1]	USD	EUR	Other	Aluminium	Other	Interest rates	Other
Derivative financial instruments [2]	111	156	2	(31)	-	-	(1)	2
Other financial instruments [3]	10 205	185	294	45	-	-	(14)	43
Derivative commodity instruments [4]	(217)	(318)	(6)	(3)	(428)	(209)	55	(22)
Financial instruments directly to equity [5]	1 488	184	2	1	72	-	(103)	-

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 NASDAQ OMS Commodities Europe contracts, which are accounted for at fair value.

5) Includes shares classified as available-for-sale and commodity hedging derivatives.

Hydro's management emphasizes that the sensitivity analysis contains material limitations. This is primarily due to the inability of such a simple analysis, the inputs to which are individually reasonably possible, 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 relate to the balance sheet position as of 31 December, and the outcomes could differ materially from those featured above 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 over the last few years, 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. Current 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. Hydro has entered into agreements with banks for a stand-by credit facility of USD 1.7 billion maturing in 2014 and a revolving credit facility for Euro 750 million maturing in 2012. Both of these facilities were undrawn at year-end 2010.

To reduce liquidity risk, the planned sustaining capital expenditures are kept at moderate levels and cost cutting initiatives have been and will continue to be implemented. Growth investments are always evaluated considering Hydro's financial strength and ability to meet the cash flow commitments arising from such investments.

Hydro has obtained bank guarantees to cover daily settlements for positions held toward electricity or commodity exchanges.

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	31 December 2010 Liabilities	31 December 2010 Assets	31 December 2009 Liabilities	31 December 2009 Assets
2010			(889)	2 330
2011	(3 680)	3 849	(433)	753
2012	(92)	281	(40)	184
2013	-	38	-	32
2014	-	11	-	9
Total	(3 772)	4 179	(1 362)	3 308

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 41 Derivative instruments and hedge accounting.

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 the chief operating decision maker utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Hydro's chief operating decision maker is the President and CEO. Generally, financial information is required to be disclosed on the same basis that is used by the CEO 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 industry parks, internal service providers and certain other activities.

Following Hydro's acquisition of Vale Aluminium as described in Note 5 Acquisitions and subsequent events, Hydro decided to split Primary Metal into two business areas, Primary Metal and Bauxite & Alumina. Bauxite & Alumina will be responsible for bauxite mining activities, production of alumina and related commercial activities, primarily sale of alumina. The main product will be alumina, both for sale to external customers and as raw material for Hydro's production of primary aluminium. Primary Metal will be responsible for production of primary aluminium and primary casthouses including their remelting of metal. The change of organization takes effect at completion of the acquisition of Vale Aluminium, which happened 28 February 2011.

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 president and CEO 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 cervices, 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 a capital lease. 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 2010	External revenue 2009	Internal revenue 2010	Internal revenue 2009	Total revenue 2010	Total revenue 2009
Primary Metal	**4 967**	4 132	**26 112**	21 354	**31 079**	25 486
Metal Markets	**27 090**	23 650	**15 911**	10 548	**43 001**	34 197
Rolled Products	**20 611**	17 486	**569**	925	**21 180**	18 411
Extruded Products	**19 225**	19 906	**180**	159	**19 405**	20 065
Energy	**3 448**	1 682	**3 607**	3 605	**7 055**	5 286
Other and eliminations [1) 2)]	**414**	554	**(46 378)**	(36 590)	**(45 965)**	(36 036)
Total	**75 754**	67 409	**-**	-	**75 754**	67 409

Amounts in NOK million	Other income, net 2010	Other income, net 2009	Share of the profit (loss) in equity accounted investments [3)] 2010	Share of the profit (loss) in equity accounted investments [3)] 2009	Depreciation, amortization and impairment [4)] 2010	Depreciation, amortization and impairment [4)] 2009
Primary Metal	**40**	58	**(386)**	(503)	**1 739**	1 820
Metal Markets	**10**	5	**(4)**	(14)	**106**	118
Rolled Products	**47**	(182)	**(64)**	(91)	**398**	730
Extruded Products	**24**	(425)	**13**	12	**571**	666
Energy	**-**	-	**29**	24	**118**	109
Other and eliminations [1)]	**448**	650	**(193)**	(237)	**52**	50
Total	**568**	107	**(606)**	(809)	**2 985**	3 494

Amounts in NOK million	Earnings before financial items and tax (EBIT) [5)] 2010	Earnings before financial items and tax (EBIT) [5)] 2009	EBITDA 2010	EBITDA 2009
Primary Metal	**1 410**	(3 403)	**3 194**	(1 449)
Metal Markets	**160**	403	**266**	523
Rolled Products	**1 214**	1 186	**1 668**	1 977
Extruded Products	**426**	(413)	**997**	253
Energy	**1 438**	1 386	**1 561**	1 501
Other and eliminations [1) 2)]	**(1 462)**	(567)	**(1 343)**	(374)
Total	**3 184**	(1 407)	**6 343**	2 432

Amounts in NOK million	Current assets [6)] 2010	Current assets [6)] 2009	Non-current assets 2010	Non-current assets 2009	Total assets [6)] 2010	Total assets [6)] 2009
Primary Metal	**9 734**	8 142	**31 686**	28 720	**41 420**	36 862
Metal Markets	**7 460**	7 537	**1 402**	1 481	**8 861**	9 017
Rolled Products	**7 692**	6 515	**4 807**	5 166	**12 500**	11 681
Extruded Products	**5 556**	5 501	**5 120**	5 391	**10 677**	10 893
Energy	**1 244**	1 615	**5 875**	5 451	**7 120**	7 067
Other and eliminations [1)]	**5 130**	(1 508)	**3 081**	3 587	**8 211**	2 079
Total	**36 817**	27 802	**51 971**	49 797	**88 788**	77 599

Amounts in NOK million	Investments accounted for using the equity method [3) 7)]		Segment debt [8)]		Investments [9)]	
	2010	2009	**2010**	2009	**2010**	2009
Primary Metal	**15 544**	12 330	**4 491**	3 074	**4 964**	4 416
Metal Markets	**21**	31	**5 698**	5 482	**148**	54
Rolled Products	**1 242**	1 280	**2 904**	2 372	**296**	314
Extruded Products	**33**	28	**3 761**	3 586	**434**	617
Energy	**385**	389	**1 038**	1 396	**284**	340
Other and eliminations [1)]	**1 425**	1 663	**(4 995)**	(4 072)	**105**	206
Total	**18 649**	15 721	**12 897**	11 836	**6 231**	5 947

Amounts in NOK million	Total assets		Non-current assets		Investments [9)]	
	2010	2009	**2010**	2009	**2010**	2009
Norway	**39 336**	33 181	**18 127**	18 654	**1 164**	1 552
Germany	**11 677**	11 105	**5 124**	5 703	**265**	421
Italy	**1 743**	1 933	**520**	610	**35**	40
Slovakia	**1 938**	1 875	**1 179**	1 237	**51**	141
Spain	**1 608**	1 752	**915**	941	**40**	87
France	**1 551**	1 703	**660**	670	**112**	77
Denmark	**628**	654	**260**	310	**22**	19
Great Britain	**561**	559	**237**	249	**11**	12
Austria	**420**	361	**172**	175	**29**	10
Other	**1 860**	1 813	**1 181**	1 267	**31**	134
Total EU	**21 986**	21 755	**10 248**	11 162	**596**	941
Other Europe	**150**	37	**8**	4	**5**	2
Total Europe	**61 472**	54 973	**28 383**	29 821	**1 765**	2 495
USA	**2 450**	2 195	**1 293**	1 326	**77**	111
Canada	**1 952**	1 876	**1 706**	1 691	**166**	106
Brazil	**8 903**	8 145	**8 551**	7 884	**72**	73
Other Americas	**155**	127	**57**	60	**11**	90
Qatar	**8 614**	5 911	**8 614**	5 911	**3 529**	2 623
Other Asia	**1 474**	874	**448**	320	**160**	31
Australia and New Zealand	**3 764**	3 492	**2 918**	2 785	**453**	418
Africa	**6**	7	**1**	1	**-**	-
Total outside Europe	**27 316**	22 627	**23 588**	19 976	**4 467**	3 451
Total	**88 788**	77 599	**51 971**	49 797	**6 231**	5 947

1) Other and eliminations includes business activities outside the reportable segments. The main activities are Hydro's solar investments, the industrial insurance company Industriforsikring, industry parks 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 loss of NOK 637 million in 2010 and a gain of NOK 784 million in 2009.

3) Share of the profit (loss) in equity accounted investments includes impairment write-downs in the solar activities of NOK 66 million in 2010 and NOK 138 million in 2009.

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) Current assets and total assets exclude internal cash accounts and accounts receivables related to group relief.

7) 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.

8) Segment debt is defined as short-term interest free liabilities excluding income tax payable.

9) 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 2010	2009
Norway	**4 840**	3 223
Germany	**12 740**	11 849
Italy	**5 297**	4 476
France	**4 514**	4 715
Spain	**3 865**	3 838
Great Britain	**3 567**	4 744
Poland	**1 961**	1 764
The Netherlands	**1 693**	1 680
Austria	**1 489**	1 424
Other	**7 627**	6 822
Total EU	**42 754**	41 313
Switzerland	**4 070**	4 613
Other Europe	**3 447**	2 250
Total Europe	**55 110**	51 399
USA	**6 592**	5 841
Canada	**34**	203
Other Americas	**2 097**	1 675
Asia	**10 489**	7 198
Australia and New Zealand	**1 144**	815
Africa	**288**	279
Total outside Europe	**20 644**	16 010
Total	**75 754**	67 409

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	2010	2009
Gain on sale of property, plant and equipment	**40**	15
Gain (loss) on sale of subsidiaries, associates and jointly controlled entities [1)]	**-**	(675)
Revenue from utilities [2)]	**165**	151
Rental revenue	**271**	288
Other [3)]	**93**	328
Other income, net	**568**	107

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	**2010**	2009
Raw material expense and production supplies	**49 555**	40 458
Change in inventories own production	**(921)**	936
Write-downs of inventories	**74**	836
Reversals of write-down of inventories	**(15)**	(35)
Raw material and energy expense	**48 694**	42 195

Raw material expense and production supplies include effect of commodity derivative instruments. See note 41 Derivative instruments and hedge accounting.

The net realizable value of certain inventories previously written down and still on hand has, as a result of an increase in the aluminium price, developed above cost. This has resulted in reversals of write-down of inventories.

Note 11 - Employee and management remuneration

Board of Directors' statement on Management 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 2011 meeting. The Board of Directors proposes that the statement below applies for 2011 and up until the Annual General Meeting in 2012.

Guidelines for management remuneration

The principles for salary paid to top management are 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 global human resources 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, but not a wage leader, within the relevant labor markets, while at the same time reflecting Hydro's international focus.

Hydro emphasizes that the arrangements are transparent and are developed and implemented in accordance with principles for good corporate governance.

Remuneration to the Corporate Management Board will consist of both variable and fixed elements.

Fixed Remuneration The fixed element of the Corporate Management Board remuneration will include a base salary (main element) and payment in kind such as 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 presidents and above within Hydro.

Bonus The annual bonus will be determined based on the achievement of agreed financial targets, key performance indicators (KPIs) and compliance with and promotion of Hydro's core values (The Hydro Way). The bonus parameters are ambitious

and are related to financial and operational business targets and individual leadership expectations. Bonus to the President and CEO and the Corporate Management Board requires that Hydro has a positive underlying EBIT. The Board of Directors is committed to setting bonus parameters that are balanced and reflect the different aspects of Hydro's operations. Bonus parameters will typically be related to health, safety and environment and corporate social responsibility (CSR), in addition to organizational and operational objectives and improvements. The goals are established as part of the annual business planning process. The President and CEO can have a maximum annual bonus potential of 50 percent of annual salary. The other Corporate Management Board members can have a maximum bonus potential of 40 percent of their annual salary. Bonus payments will not be included when determining pension payments.

Long Term Incentive Following approval from the Annual General Assembly in 2010, the Board of Directors established a Long Term Incentive (LTI) in the form of a remuneration of 30 percent and 25 percent 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 in the previous year. Leaders in other key functions may, after further consideration, also be included in the LTI arrangement with 15 percent or 20 percent of their base salary. The participants will be required to invest the net amount after tax in Hydro shares. Such shares must be held 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 value of the shares after tax at the time of resignation for shares not fulfilling the three year requirement. For the President and CEO and group management this arrangement enters into force with payment in 2011. The LTI arrangement will be evaluated annually. When the LTI was implemented, changes were made for the other Norwegian Corporate Management Board members in respect to mutual notice periods, compensation level in case of termination of employment as well as a possibility for early retirement from the age of 62 with reduced pension payment until 65 years of age. LTI will not be included when determining pension payments.

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 at 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).

A similar pension arrangement was established in 2010 for all other Norwegian members of the Corporate Management Board, but with the limitation that future increases in remuneration cannot increase the pension-qualifying amount to more than NOK 3,500,000 as of 1 January 2010 (adjusted in accordance with the annual percentage changes in the Norwegian government's pension base ("Folketrygdens Grunnbeløp"). This does not include persons having the right to retire at the age of 62 as a result of a previous agreement. There is currently one member of the Corporate Management Board with such a right.

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 and LTI) for a period of 12 months beyond the notice period of 6 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 income from other sources, Hydro may, based on certain conditions, decide to reduce his payments. In 2010, similar termination agreements were established for other Norwegian members of the Corporate Management Board, with the exception of one member who, as a result of a previous arrangement, already has the right to go into a less demanding position at the age of 59 and retire at the age of 62. In the event of unilateral termination of employment by the President and CEO or a member of the Corporate Management Board, the general rules of termination found in the Working Environment Act will apply.

Members of the Corporate Management Board resident outside Norway Oliver Bell and Hans-Joachim Kock are employed in a foreign subsidiary. Base salary and other terms are determined in accordance with Hydro's global human resources policy and local industry standards. Johnny Undeli has certain special terms in connection with his expatriation in Brazil, but his

remuneration generally follows the principles applied to other members of the Corporate Management Board. Undeli, Bell and Kock are covered by the Long Term Incentive arrangement (described above) on the same terms as other members of the Corporate Management Board.

Statement for 2010, the prior financial year
The remuneration of the President and CEO and the Corporate Management Board for the previous financial year (2010) was substantially based on the same guidelines as set out above.

In September 2010 the Board of Directors decided to adjust the base salary of the President and CEO by 3 percent from NOK 5,000,000 to NOK 5,150,000 effective from 1 January 2010. The maximum annual bonus potential for the President and CEO, 50 percent of base salary, was unchanged in 2010.

Fixed salaries for the other members of the Corporate Management Board were increased by between 1.3 percent and 3 percent, with an average of 2.5 percent. The maximum annual bonus potential for other members of the Corporate Management Board, 40 percent of base salary, was unchanged in 2010.

As a result of market conditions and the company's loss in 2009, there were no bonus payments made to the President and CEO or the Corporate Management Board for the financial year 2009.

Bonus for 2010 will be calculated and paid in 2011 based on the principles described above.

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 2009 paid in 2010 and the estimated increase in the value of their pension benefits for 2010, as well as any loans outstanding and Hydro share ownership as of 31 December 2010 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 2010.

Name	Salary [1) 2)]	Remuneration in kind [1) 2)]	Bonus [1) 2)]	Pension benefits [1) 3)]	Outstanding loans [1) 4)]	Hydro share ownership [5)]
Svein Richard Brandtzæg	5 648	196	-	3 481	506	36 176
Jørgen C. Arentz Rostrup	2 753	204	-	1 233	-	10 121
Johnny Undeli	5 114	178	-	3 077	-	3 265
Hilde Aasheim	2 850	228	-	4 006	-	3 847
Kjetil Ebbesberg	2 530	167	-	1 199	-	837
Oliver Bell	4 267	170	-	1 329	-	3 000
Hans-Joachim Koch [6)]	3 166	383	-	11 810	-	7 500
Arvid Moss	2 456	216	-	7 829	-	66 104
Tom Røtjer	2 717	216	-	6 216	528	22 733
Wenche Agerup [7)]	2 163	164	-	6 866	340	5 320
Ola Sæter [8)]	2 249	239	-	1 030	459	7 550
Odd Ivar Biller [9)]	3 606	135	-	1 650	313	26 474
Anne Harris [10)]	1 857	133	-	(3 090)	844	13 902

1) Amounts in NOK thousand. Amounts paid by subsidiaries outside Norway have been translated to NOK at average exchange rates for 2010.

2) Salary is the amount paid to the individual during 2010, 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 2010 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 2010 based on performance achieved in 2009. For corporate management board members on net salary employment contracts, salary, remuneration in kind, and bonus, have been converted to the gross (pre-tax) amounts.

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 Anne Harris, this is the estimated change from 1 January 2010 to 31 December 2010. Anne Harris' estimated change in value of pension benefits is calculated from 1 January 2010 to 30 September 2010, and reflects the fact that she was no longer employed by Hydro after 30 September 2010.

4) The loans to corporate management board members, and any related party, were extended under an employee benefit scheme applicable to all employees in Norway. The loans to Svein Richard Brandtzæg have an interest rate of 3.75-3.9 percent and a repayment period of seven years. The loan to Tom Røtjer has an interest rate of 3.75 percent and a repayment period of 24 years. The loan to Wenche Agerup has an interest rate of 7.25 percent and a repayment period of one year. The outstanding loan balances for Ola Sæter, Odd Ivar Biller, and Anne Harris, are as of the date for stepping down from the Corporate Management Board. 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 2010, except for Ola Sæter, Odd Ivar Biller, and Anne Harris, whose share ownership is as of the date for stepping down from the Corporate Management Board.

6) Hans-Joachim Koch became member of the Corporate Management Board as of 1 June 2010.

7) Wenche Agerup became member of the Corporate Management Board as of 15 April 2010.

8) Ola Sæter stepped down from the Corporate Management Board as of 1 September 2010.

9) Odd Ivar Biller stepped down from the Corporate Management Board as of 15 April 2010.

10) Anne Harris stepped down from the Corporate Management Board as of 15 April 2010, and left Hydro as of 30 September 2010.

Effective 30 March 2009, Eivind Reiten stepped down as Presidend and CEO, and left Hydro. He has a termination agreement with right to certain benefits (excluding bonus) for a three-year period, beginning 30 March 2009. In 2010, Reiten received a total remuneration of NOK 6,892 thousand. The estimated change in value of his pension benefits increased by NOK 2,450 thousand.

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.

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 options 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 2009, 25,068 options were outstanding and the trust's balance of shares was 411,228 Hydro shares and 354,628 Statoil shares. 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 of Statoil shares was 271,768. There were 19,813 options outstanding as of 31 December 2009.

During 2010 no options were exercised and 3,860 options expired. As of 31 December 2010 the trust's balance of Hydro shares was 423,813 and 271,687 Statoil shares. There were 15,953 options outstanding as of 31 December 2010. Activity during 2010 is given in the table below.

UK employee share-based compensation

	Number of options	Average strike price (NOK) [1)]
Options outstanding as of 31 December 2009	19 813	55.82
Options exercised during 2010	-	-
Options expired during 2010	(3 860)	45.82
Options outstanding as of 31 December 2010	15 953	56.34

1) Presentation in NOK is based on a translation from GBP using the 31 December 2010 exchange rate of 9.049 and the 31 December 2009 exchange rate of 9.304 (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, and whether the share price (adjusted for dividend paid) increases with at least 12 percent or not during the performance period. Under the plan offered in 2010, eligible Hydro employees received a NOK 10,000 share-purchase rebate to purchase NOK 20,000 of shares of Norsk Hydro ASA, which corresponds to a 50 percent discount from the market price, as shareholder return exceeded 12 percent in the period from 1 January to 31 December 2009 (the performance measurement period).

In the performance period 1 January to 31 December 2010 shareholder return did not exceed 12 percent. Therefore, under the plan to be offered in 2011, employees will receive a rebate of NOK 2,500 on their purchase of NOK 10,000 of Norsk Hydro ASA shares. The rebate of NOK 2,500 corresponds to a 25 percent discount from the market price.

Employees are eligible to receive an offer to purchase shares under this plan if they were 1) employed by Norsk Hydro ASA or a 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 2009 performance measurement period was accrued and recognized over the service period of 31 December 2009 through 26 March 2010, the final acceptance date of the offer. In 2009 and 2010 the participation rates of eligible employees in the employee share purchase plan were 88 percent. Details related to the employee share purchase plan are given in the table below.

Employee share purchase plan **Performance measurement period**	2010	2009	2008
Total shareholder return performance target achieved	<12%	≥12%	<12%
Employee rebate, NOK	2 500	10 000	2 500
Employee rebate, percent	25%	50%	25%

Share purchase plan compensation	**2010**	2009
Award share price, NOK	**41.14**	24.30
Number of shares issued, per employee	**486**	411
Total number of shares issued to employees	**1 937 196**	1 898 820
Compensation expense related to the award, NOK thousand	**39 848**	11 535

Employee benefit expense

The average number of employees for 2010 and 2009 was 19,008 and 20,757, respectively. As of year end 2010 and 2009 Hydro employed 18,894 and 19,249 people, respectively. The specification of employee benefit expenses for 2010 and 2009 is given in the table below.

Employee benefit expense

Amounts in NOK million	**2010**	2009
Salary	**8 165**	8 495
Social security costs	**1 323**	1 562
Other benefits	**208**	218
Net periodic pension cost (note 32)	**586**	1 424
Total	**10 282**	11 699

Note 12 - Depreciation and amortization expense

Specification of depreciation and amortization by asset category

Amounts in NOK million	**2010**	2009
Buildings	**429**	457
Machinery and equipment	**2 393**	2 604
Intangible assets	**131**	133
Depreciation and amortization expense	**2 952**	3 193

Note 13 - Impairment of non-current assets

Amounts in NOK million	**2010**	2009
Classification by asset category		
Impairment losses		
Property, plant and equipment	**32**	303
Intangible assets	**-**	2
Impairment reversals		
Property, plant and equipment	**-**	(4)
Total impairment of non-current assets	**32**	301
Classification by segment		
Impairment losses		
Primary Metal	**3**	5
Rolled Products	**-**	286
Extruded Products	**29**	13
Impairment reversals		
Primary Metal	**-**	(4)
Total impairment of non-current assets	**32**	301

In 2010 Hydro recognized a total impairment loss of NOK 32 million. In Extruded Products the impairment loss recognized was NOK 29 million. This was mainly due to a management decision to close the Extrusion plant at Karmøy, Norway. The carrying values were assessed not to be recovered from the assets continuing use or from their sale.

In 2009 an updated market assessment for Rolled Products during the summer of 2009 was considered an impairment indicator for all CGUs in that segment. The testing resulted in an impairment write-down of one CGU to the estimated value in use (VIU). The impairment write-down for this plant was NOK 286 million. For two other plants the fair value less costs to sell (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 Automotive Structures the sales effort during the second half of 2009 was considered an impairment indicator. VIU was calculated. The calculations are highly sensitive to changes in volume, margin and fixed costs. The calculation of VIU was 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.

In addition, all CGUs or fixed assets that are not part of a CGU are reviewed for impairment indicators at each balance sheet date. Tests of impairment has been performed for the CGUs where impairment triggers have been identified. The recoverable amount for these units have been determined estimating the VIU of the asset and if appropriate its FV, and comparing the highest of the two against the carrying value of the CGUs. The calculation of VIU has been based on management's best

estimate, reflecting the business planning process. In the cases where the VIU has not covered the carrying value, the resulting impairment write-downs are included in the table above.

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 238 million in 2010 compared to NOK 236 million in 2009. The goodwill was tested at the end of the year. The sector is profitable, and the calculated VIU exceeds the carrying value.

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

Amounts in NOK million	**2010**	2009
Extrusion Eurasia	**325**	333
Building Systems	**228**	233
Extrusion Americas		152
Extrusion North America	**77**	
Extrusion South America	**78**	
Precision Tubing	**39**	38
Total Extruded Products	**747**	756

The Building Systems, the Extrusion Eurasia, the Extrusion South America and the Precision Tubing sector are profitable while the Extrusion North America sector has experienced challenging markets and reported negative results during 2010.

For all these sectors, impairment tests on goodwill have been based on approved business plan for the next five years, extrapolated to a 15 years cash flow estimate. The estimates are based on continued growth in the market over time. The value is sensitive to sold volumes as well as margins. 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 was NOK 543 million in 2010 and NOK 690 million in 2009. Research and development activities are intended to make production of aluminium more efficient including further improving Hydro's electrolysis technology. A significant proportion of the means are also used for further developing the production processes and products within casting and alloy development, extrusion, precision tubing, building systems as well as rolled products.

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

Note 15 - Operating leases

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

Amounts in NOK million	Less than 1 year	1-5 years	Thereafter	Total
Operating lease obligation 2010	437	1 202	1 365	3 003
Operating lease obligation 2009	367	1 126	1 503	2 996

Operating lease expense for office space, machinery and equipment amounts to NOK 552 million for 2010 and NOK 628 million for 2009.

Note 16 - Financial income and expense

Amounts in NOK million	**2010**	2009
Interest income	**201**	233
Net gain (loss) on securities	**121**	94
Dividends received	**23**	103
Financial income	**346**	429
Interest expense	**(253)**	(337)
Capitalized interest	**5**	3
Net foreign exchange gain (loss)	**513**	2 774
Other, net	**(89)**	(96)
Financial expense	**176**	2 344
Financial income (expense), net	**522**	2 774

Note 17 - Income tax expense

Amounts in NOK million	**2010**	2009
Income (loss) before taxes		
Norway	**1 803**	2 559
Other countries	**1 902**	(1 192)
Total	**3 706**	1 367
Current taxes		
Norway	**1 198**	568
Other countries	**455**	135
Current income tax expense	**1 652**	703
Deferred taxes		
Norway	**(264)**	555
Other countries	**199**	(307)
Deferred tax expense (benefit)	**(64)**	248
Total income tax expense (benefit)	**1 588**	951
Components of deferred taxes		
Origination and reversal of temporary differences	**(78)**	473
Benefit tax loss carryforwards	**(28)**	(627)
Net change in unrecognized deferred tax assets	**2**	412
Tax expense (benefit) allocated to Other components of equity	**39**	(10)
Deferred tax expense (benefit)	**(64)**	248

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	**2010**	2009
Expected income taxes at statutory tax rate [1]	**1 038**	383
Hydro-electric power surtax [2]	**447**	408
Losses and other deductions with no tax benefit	**163**	486
Equity accounted investments	**170**	227
Foreign tax rate differences	**(41)**	67
Tax free income	**(135)**	(147)
Dividend exclusions	**(2)**	(25)
Losses and other tax benefits not previously recognized	**(85)**	(59)
Other, net	**33**	(388)
Income tax expense (benefit)	**1 588**	951
Effective tax rate	**42.9%**	69.6%

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	**2010**	2009
Equity securities	**860**	1 014
Debt securities and other	**462**	505
Total short-term investments	**1 321**	1 519

Note 19 - Accounts receivable

Amounts in NOK million	**2010**	2009
Accounts receivable, net of allowance for credit losses	**10 211**	9 218
VAT receivables	**825**	1 068
Other receivables	**1 747**	1 285
Accounts receivable	**12 783**	11 571
Allowance for credit losses 1 January	**502**	613
Change in allowance for credit losses	**(31)**	(44)
Foreign currency translation effect	**(19)**	(67)
Allowance for credit losses 31 December	**452**	502

Note 20 - Inventories

Amounts in NOK million	**2010**	2009
Raw materials	**4 097**	3 616
Work in progress	**2 307**	2 178
Finished goods	**4 567**	4 237
Inventories	**10 971**	10 030

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 121 million in 2010 and NOK 176 million in 2009.

Note 21 - Other financial assets and liabilities

Amounts in NOK million	**2010**	2009
Other current financial assets		
Currency derivative instruments	**13**	3
Commodity derivative instruments	**780**	2 101
Cash flow hedging derivative instruments	**21**	5
Other current financial assets	**814**	2 109
Other non-current financial assets		
Non-marketable equity securities	**1 509**	1 483
Employee loans	**237**	304
Currency derivative instruments	**60**	152
Commodity derivative instruments	**386**	608
Other financial assets	**1 199**	1 272
Other non-current financial assets	**3 391**	3 818
Other current financial liabilities		
Currency derivative instruments	**61**	32
Commodity derivative instruments	**1 082**	794
Cash flow hedging derivative instruments	**75**	-
Other current financial liabilities	**1 218**	826
Other non-current financial liabilities		
Currency derivative instruments	**-**	11
Commodity derivative instruments	**2 240**	2 132
Other non-current financial liabilities	**2 240**	2 144

Other non-current financial assets includes Hydro's equity investment in the independent pension trust Norsk Hydro Pensjonskasse, and certain reimbursement rights related to post employment benefits.

Note 22 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery and equipment	Plant under construction	Total
Cost					
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
Additions	1	155	1 234	956	2 345
Disposals	(4)	(48)	(781)	(2)	(835)
Transfers	-	272	782	(1 054)	-
Foreign currency translation effect	(46)	(141)	(537)	(8)	(731)
31 December 2010	933	15 871	42 968	984	60 754
Accumulated depreciation and impairment					
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)
Depreciation for the year		(429)	(2 393)		(2 821)
Impairment losses	-	(2)	(28)	(3)	(32)
Disposals	-	47	725	-	772
Transfers	-	(30)	30	-	-
Foreign currency translation effect	-	85	418	1	505
31 December 2010	(1)	(8 258)	(27 641)	(5)	(35 905)
Carrying value					
31 December 2009	981	7 703	15 875	1 088	25 647
31 December 2010	932	7 612	15 327	978	24 849

Note 23 - Intangible assets

Amounts in NOK million	Intangible assets under development	Capitalized software systems	Other intangible assets	Total
Cost				
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
Additions	121	19	88	229
Disposals	-	(3)	(73)	(77)
Transfers	(222)	222	-	-
Foreign currency translation effect	(1)	(39)	(49)	(89)
31 December 2010	55	1 228	1 451	2 735
Accumulated amortization and impairment				
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)
Amortization for the year		(72)	(59)	(131)
Disposals	-	8	40	48
Foreign currency translation effect	-	33	34	67
31 December 2010	-	(797)	(1 003)	(1 800)
Carrying value				
31 December 2009	158	263	467	888
31 December 2010	55	431	448	934

Note 24 - Goodwill

Amounts in NOK million	Metal Markets	Extruded Products	Total
Cost			
31 December 2008	283	930	1 213
Goodwill derecognized	-	(47)	(47)
Foreign currency translation effect	(47)	(127)	(174)
31 December 2009	236	756	992
Foreign currency translation effect	2	(8)	(7)
31 December 2010	238	747	985
Accumulated impairment			
31 December 2008	-	(28)	(28)
Goodwill derecognized	-	27	27
Foreign currency translation effect	-	1	1
31 December 2009	-	-	-
31 December 2010	-	-	-
Carrying value			
31 December 2009	236	756	992
31 December 2010	238	747	985

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 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
Investments (sale), net				37	7	50	94
Change in long-term advances, net		30				(6)	24
Hydro's share of net income (loss)	206	13	36	(39)	(52)	7	171
Amortization	(19)	(16)	(5)		(3)	(3)	(47)
Impairment losses				(58)			(58)
Dividends and other payments received by Hydro	(69)		(24)				(93)
Foreign currency translation and other	329	(34)	(13)		9	8	298
31 December 2010	6 724	565	338	120	135	265	8 148

Change in elimination of internal profit in inventory on goods sold from associates to Hydro amounted to a loss of NOK 1 million in 2010.

Specification of associates

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end **2010**	Investments in and advances to associates **2010**	2009	Hydro's current trade receivable (payable), net with associates **2010**	2009
Alunorte	**34.0%**	**6 724**	6 276	**(370)**	(437)
Aluchemie	**36.2%**	**565**	573	**-**	(1)
SKS Produksjon	**20.9%**	**338**	345	**-**	-
NorSun	**17.4%**	**120**	180	**-**	-
Ascent Solar	**25.1%**	**135**	174	**-**	-
Others		**265**	209	**-**	-
Total		**8 148**	7 757	**(370)**	(438)

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

Alumina do Norte do Brasil S.A. (**Alunorte**) is an alumina refinery located in Brazil. Before Hydro's aquisition of Vale Aluminium on 28 February 2011, Hydro's ownership share was 34 percent. Vale S.A. owned 57 percent of the shares in Alunorte. See note 5 Acquisitions and subsequent events. Hydro purchased alumina from Alunorte amounting to NOK 3,131 million and NOK 3,061 million in 2010 and 2009, 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 it's 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 it's 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 are Rio Tinto Alcan (53.3 percent) and Søral (10.5 percent). Hydro purchased anodes from Aluchemie amounting to NOK 580 million in 2010 and NOK 825 million in 2009 on the basis of cost plus. Sales of anode butts and coke from Hydro to Aluchemie amounted to NOK 77 million in 2010 and sales of anode butts amounted to NOK 61 million in 2009. Hydro is committed to purchase a share of produced anodes based on it's 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 2010 or 2009. 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. In April 2010 Hydro invested NOK 37 million in NorSun through a private placement. Hydro's ownership share is 17.4 percent. Significant influence is obtained through representation in the board of directors as agreed in the shareholders' agreement. Other major shareholders are Scatec with 19 percent and Good Energies with 22 percent. There have been no material sales to or from Hydro in 2010 or 2009. In 2010 and 2009 the investment in NorSun was tested for impairment, resulting in an impairment loss of NOK 58 million in 2010 and NOK 135 million in 2009. 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 2010 Hydro's ownership interests was diluted from 30.4 to 25.1 percent through a public offering where Hydro did not participate. The dilution resulted in a gain of NOK 7 million. In addition, Hydro holds 35 percent of the company's class B warrants exercisable until 11 July 2011. The market value as of 31 December 2010 of Hydro's investment in Ascent was NOK 158 million. 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 2010 or 2009. The financial information for Ascent has a three months lag to Hydro's reporting dates. Ascent is part of Other.

Income statement and balance sheet information below is 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)	**2010**	2009
Income statement data		
Revenues	**12 525**	12 326
Earnings before financial items and tax	**955**	(81)
Income before tax	**1 048**	1 227
Net income	**504**	625
Balance sheet data		
Current assets	**4 748**	3 621
Non-current assets	**25 014**	23 921
Assets	**29 762**	27 542
Current liabilites	**3 337**	1 847
Non-current liabilities	**5 986**	6 641
Equity	**20 439**	19 054
Liabilites and equity	**29 762**	27 542

Note 26 - Investments in jointly controlled entities

Amounts in NOK million	Alunorf	Søral	Qatalum	Alpart	Other	Total
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) [1)]	(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
Investments (sale), net			4 060	7	(5)	4 062
Change in long-term advances, net	(14)		(531)			(545)
Hydro's share of net income (loss)	(12)	63	(628)	(2)	(28)	(606)
Amortization	(56)				1	(55)
Impairment losses				(7)	(8)	(15)
Dividends and other payments received by Hydro	(6)				(9)	(15)
Foreign currency translation and other	(80)		(206)	(1)	(2)	(289)
31 December 2010	1 241	647	8 574	(68)	106	10 501

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 a gain of NOK 5 million in 2010.

Specification of jointly controlled entities

Amounts in NOK million, except ownership	Percentage owned by Hydro at year end 2010	Investments in and advances to investees 2010	2009	Hydro's current trade receivable (payable), net with investees 2010	2009
Alunorf	**50.0%**	**1 241**	1 410	**(224)**	(232)
Søral	**49.9%**	**647**	584	**(89)**	(64)
Qatalum	**50.0%**	**8 574**	5 879	**(267)**	233
Alpart	**35.0%**	**(68)**	(65)	**-**	1
Others		**106**	156	**-**	5
Total		**10 501**	7 964	**(580)**	(57)

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 from Alunorf to Hydro amounted to NOK 1,423 million in 2010 and NOK 1,378 million in 2009. 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 235 million as of 31 December 2010. Hydro's financing commitment based on its interest is NOK 109 million as of 31 December 2010. 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 942 million in 2010 and NOK 740 million in 2009. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 604 million in 2010 and NOK 350 million in 2009. Søral is part of Primary Metal.

Qatar Aluminium Ltd. (**Qatalum**) is a primary aluminium smelter with a dedicated power plant in Qatar with a production capacity of 585,000 mt liquid metal. The owners of Qatalum are Hydro and Qatar Petroleum Ltd., each with an ownership of 50 percent. As of 31 December 2010 the plant was still in a ramp-up phase following the effects of a power outage on 9 August 2010. Qatalum is expected to reach full production capacity in the second quarter of 2011 and will produce around 500,000 mt primary metal in 2011.

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. Sales from Hydro to Qatalum amounted to NOK 695 million in 2010 and NOK 941 million in 2009. Hydro has entered into agreements with Qatalum, in which Hydro is committed to sell fixed quantities of alumina and purchase all products from Qatalum at market based prices. Sales from Qatalum to Hydro amounted to NOK 2,025 million in 2010 and NOK 2 million in 2009.

Qatalum has remaining contractual commitments related to the finalization of plant construction of NOK 185 million (Hydro's share). Hydro and Qatar Petroleum Ltd. are committed to finance Qatalum on the basis of their ownership interest. Qatalum has secured its raw material purchases through long-term sourcing agreements (e.g. natural gas from Qatar Petroleum and alumina), and is party to a long-term land lease. 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 and there has been no production in 2010. Purchases of alumina in 2009 amounted to NOK 205 million. Hydro's capital commitments are regulated in the shareholder agreement. Hydro is committed to financing capital expenditures on the basis of its ownership interest. In 2008, Alpart was tested for impairment and was considered to be fully impaired. Additional impairment charges

were NOK 7 million in 2010 and NOK 71 million in 2009 and relate to continued financing of ongoing commitments. Alpart is part of Primary Metal.

Income statement and balance sheet information below is 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)	**2010**	2009
Income statement data		
Revenues	**7 705**	4 470
Earnings before financial items and tax	**(1 164)**	(1 626)
Income before tax	**(1 178)**	(1 596)
Net income	**(1 207)**	(1 594)
Balance sheet data		
Current assets	**6 225**	2 736
Non-current assets	**34 503**	32 274
Assets	**40 728**	35 010
Current liabilites	**3 017**	2 703
Non-current liabilities	**17 706**	17 331
Equity	**20 005**	14 976
Liabilites and equity	**40 728**	35 010

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. 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	**2010**	2009
Current assets	**253**	188
Property, plant and equipment	**2 388**	2 406
Derivatives	**-**	7
Total	**2 641**	2 601
Current liabilites	**172**	148
Non-current liabilities	**90**	75
Derivatives	**348**	307
Total	**611**	530
Share of expenses	**1 097**	1 178
Depreciation and amortization	**263**	254
Change in derivative postions	**46**	220
Expenses included in EBIT	**1 406**	1 652
Produced volume (kmt)	**178**	179

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

Amounts in NOK million	Weighted average interest rate 2010	**2010**	2009
Bank loans and overdraft facilities	2.9%	**418**	198
Other interest-bearing short-term debt	1.3%	**440**	1 685
Current portion of long-term debt		**82**	127
Bank loans and other interest-bearing short-term debt		**940**	2 010

Note 29 - Trade and other payables

Amounts in NOK million	**2010**	2009
Accounts payable	**7 088**	6 487
Payroll and value added taxes	**1 676**	1 843
Accrued liabilities and other payables	**1 157**	1 587
Trade and other payables	**9 920**	9 917

Note 30 - Long-term debt

Long-term debt payable in various currencies	Weighted average interest rates	Denominated amount	Balance in NOK	
Amounts in million		2010	**2010**	2009
USD	1.7%	49	**289**	110
EUR	2.7%	-	**1**	24
Other			**54**	55
Total unsecured bank loans			**344**	189
Finance lease obligations			**56**	11
Mortgage loans			**1**	1
Other long-term debt			**9**	13
Outstanding debt			**410**	215
Less: Current portion			**(82)**	(127)
Total long-term debt			**328**	88

Foreign currency swaps are not reflected in the table above. See note 41 Derivative instruments and hedge accounting for additional information.

Payments on long-term debt including interest fall due as follows		Finance lease and		
Amounts in NOK million	Bank loans	other	Interest	Total
2011	66	16	7	89
2012	11	14	8	33
2013	11	11	7	29
2014	10	9	7	26
2015	43	7	6	57
Thereafter	202	9	8	220
Total	344	66	44	453

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 2010.

Note 31 - Provisions

Amounts in NOK million	**2010** Short-term	**2010** Long-term	**2010** Total	2009 Short-term	2009 Long-term	2009 Total
Warranties	**80**	**5**	**84**	96	13	109
Exit and disposal activities	**123**	**34**	**157**	159	42	201
Environmental cleanup	**87**	**184**	**272**	115	167	281
Asset retirement obligations (ARO)	**75**	**743**	**818**	95	643	738
Postretirement medical benefits	**-**	**83**	**83**	-	92	92
Other employee benefits	**376**	**385**	**761**	67	375	442
Social security costs on pension	**-**	**644**	**644**	-	648	648
Insurance claims	**902**	-	**902**	464	-	464
Other	**115**	**26**	**141**	98	28	126
Total provisions	**1 758**	**2 104**	**3 862**	1 094	2 007	3 101

Amounts in NOK million	Warran-ties	Exit and disposal	Environ-mental cleanup	ARO	Medical benefits	Other em-ployee benefits	Social security costs pension	Insur-ance	Other	Total
Specification of change in provisions										
31 December 2009	109	201	281	738	92	442	648	464	126	3 101
Additions	193	120	15	71	5	503	43	584	58	1 593
Used during the year	(148)	(131)	(20)	(53)	(15)	(134)	(35)	(131)	(25)	(693)
Reversal of unused provisions	(64)	(30)	(8)	(11)	-	(30)	(12)	(15)	(14)	(185)
Accretion expense and effect of change in discount rate	-	-	5	33	-	-	-	-	-	38
Transfers and companies sold	-	-	-	-	-	-	-	-	-	(1)
Foreign currency translation	(5)	(3)	(2)	41	2	(19)	-	-	(3)	9
31 December 2010	84	157	272	818	83	761	644	902	141	3 862
Timing of cash outflows										
2011	80	123	87	75	6	376	57	902	115	1 821
2012-2015	5	34	132	326	20	179	207	-	22	925
Thereafter	-	-	52	417	58	206	379	-	4	1 117
31 December 2010	84	157	272	818	83	761	644	902	141	3 862

The timing of actual payments may differ from the estimated timing of cash outflows in the table above.

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 judgment 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.

Insurance claims relate to insurance contracts issued by Hydro's captive insurance company, Industriforsikring AS, to external parties including associates and jointly controlled entities. Related reinsurance receivables included in Accounts receivables amounted to NOK 633 million and NOK 121 million as of 31 December 2010 and 2009, respectively.

Note 32 - Employee retirement plans

Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover the majority of their employees. These plan benefits are generally based on years of service and final salary levels. Some companies have defined contribution or multiemployer plans. In Norway, Hydro closed its main defined benefit plans as from 1 March 2010 for new employees who became members of the new defined contribution retirement plans. Employees who were members of the defined benefit plans were given a choice to change to the new defined contribution plans as from 1 June 2010, of which approximately 20 percent chose the new plans. A settlement gain was recognized in the accounts in 2010.

Amounts in NOK million	**2010**	2009
Net periodic pension cost		
Defined benefit plans		
Benefits earned during the year, net of participants' contributions	**343**	610
Interest cost on prior period benefit obligation	**818**	1 036
Expected return on plan assets	**(679)**	(643)
Recognized (gain) loss	**(83)**	148
Past service cost	**14**	49
Curtailment/settlement (gain) loss	**(129)**	(14)
Net periodic pension cost	**285**	1 185
Defined contribution plans	**44**	30
Multiemployer plans	**50**	21
Termination benefits and other	**207**	188
Total net periodic pension cost	**586**	1 424
Change in projected benefit obligation (PBO)		
Projected benefit obligation at beginning of year	**(17 922)**	(23 440)
Benefits earned during the year	**(348)**	(616)
Interest cost on prior period benefit obligation	**(818)**	(1 036)
Actuarial gain (loss)	**(1 003)**	4 221
Plan amendments	**(21)**	(45)
Benefits paid	**845**	861
Curtailment/settlement gain (loss)	**630**	496
Special termination benefits	**(1)**	(6)
Divestments	**7**	749
Foreign currency translation	**275**	893
Projected benefit obligation at end of year	**(18 356)**	(17 922)

Change in pension plan assets

Amounts in NOK million	**2010**	2009
Fair value of plan assets at beginning of year	**12 234**	12 386
Actual return on plan assets	**1 045**	1 226
Company contributions	**132**	100
Plan participants' contributions	**5**	6
Benefits paid	**(525)**	(529)
Settlements	**(308)**	(248)
Divestments	**(5)**	(509)
Foreign currency translation	**(41)**	(197)
Fair value of plan assets at end of year	**12 536**	12 234

Status of pension plans reconciled to balance sheet

Defined benefit plans		
Funded status of the plans at end of year	**(5 820)**	(5 688)
Unrecognized net (gain) loss	**(1 191)**	(1 729)
Unrecognized past service cost	**11**	4
Net accrued pension recognized	**(7 000)**	(7 413)
Termination benefits and other	**(607)**	(626)
Total net accrued pension recognized	**(7 607)**	(8 040)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 481**	1 328
Accrued pension liabilities	**(9 088)**	(9 368)
Net amount recognized	**(7 607)**	(8 040)

Weighted-average assumptions used to determine net periodic pension cost

Discount rate	**4.8%**	4.7%
Expected return on plan assets	**6.0%**	5.7%
Rate of compensation increase	**3.0%**	3.8%

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

Discount rate	**4.1%**	4.8%
Rate of compensation increase	**2.7%**	3.0%

Analysis of projected benefit obligation (PBO)

PBO arising from plans that are wholly or partly funded	**(11 407)**	(11 176)
PBO arising from plans that are unfunded	**(6 949)**	(6 746)
Total PBO	**(18 356)**	(17 922)

Weighted-average investment profile plan assets at end of year [1)]	allocation	**2010**	2009
Asset category			
Equity securities	22-31%	**31%**	31%
Debt securities	34-56%	**34%**	33%
Real estate	21%	**21%**	22%
Other	7-14%	**14%**	14%
Total		**100%**	100%

1) Property used by Hydro represents 20 percent and 21 percent of total plan assets at the end of 2010 and 2009 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 up 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 until the age of 67 years with benefits from the plan ("avtalefestet pensjon, AFP"). The benefits are financed through a pooled arrangement by private sector employers. The Norwegian state also contributes to the plan. The plan is a defined benefit plan. The plan assets are not segregated. The information required to account for the plan as a defined benefit plan is not available from the plan administrator. Hydro therefore accounts for the plan as if it were a defined contribution plan. The retiree specific contribution is recognized in total when an early retirement agreement is signed. The employer contributions are included in Multiemployer plans. The plan has been closed as of 31 December 2010 and replaced with a new plan. Estimated remaining employer contributions to cover the plan deficit have been provided for. The new AFP plan is in effect from 1 January 2011, according to an agreement between the private sector employer organizations and employee unions. The new plan provides life-long benefits in addition to other plans, starting at the employees choice between the age of 62 and 75 years. The employer contributions will solely be in the form of a salary related charge for active employees. This plan is also a defined benefit plan, but is accounted for as if it were a defined contribution plan because the information from the plan administrator is insufficient for defined benefit accounting.

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

Other retirement benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 1 million in 2010. The post retirement liability as of 31 December 2010 was NOK 83 million and NOK 92 million in 2009.

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 2010 and 31 December 2009:

Amounts in NOK million	**Assets 2010**	**Liabilities 2010**	Assets 2009	Liabilities 2009
Marketable securities	**2**	-	1	-
Inventory valuation	**125**	**(321)**	112	(112)
Accrued expenses	**1 277**	**(1 426)**	1 062	(1 724)
Unrealized exchange (gains) losses	**20**	**(264)**	70	(162)
Property, plant and equipment	**3 091**	**(3 879)**	2 741	(3 392)
Ground rent surtax	**137**	-	190	-
Capitalized interest	-	**(57)**	-	(64)
Other non-current assets	**239**	**(316)**	237	(326)
Pensions	**1 698**	**(466)**	1 729	(427)
Deferred (gains) losses on sales	**8**	**(55)**	10	(62)
Derivatives	**669**	**(102)**	564	(163)
Cash flow hedges	-	**(8)**	-	(31)
Other	**266**	**(265)**	363	(260)
Tax loss carryforwards	**1 695**		1 641	
Subtotal	**9 227**	**(7 159)**	8 720	(6 723)
Of which not recognized as tax asset	**(1 495)**		(1 444)	
Gross deferred tax assets (liabilities)	**7 732**	**(7 159)**	7 276	(6 723)

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

At the end of 2010, Hydro had tax loss carryforwards of NOK 5,568 million, primarily in the United States, Jamaica, Malaysia, Spain, Germany, Italy and the United Kingdom. Carry forward amounts expire as follows:

Amounts in NOK million	
2011	57
2012	54
2013	30
2014	302
2015	73
After 2015	1 973
Without expiration	3 079
Total tax loss carryforwards	5 568

Note 34 - Shareholders' equity

Share capital

Number of shares	Ordinary shares issued	Treasury shares	Ordinary shares outstanding
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
Treasury shares reissued to employees		1 937 196	1 937 196
Shares issued	381 053 600		381 053 600
31 December 2010	1 621 163 811	(33 387 070)	1 587 776 741

The share capital of Norsk Hydro ASA as of 31 December 2010 was NOK 1,780,037,864.48 consisting of 1,621,163,811 ordinary shares at NOK 1.098 per share. The share capital as of 31 December 2009 was NOK 1,361,641,011.68 and the number of ordinary shares was 1,240,110,211.

An extraordinary General Meeting on 21 June 2010 authorized a share capital increase of NOK 418,396,852.80 by issuance of 381,053,600 new shares at a price of NOK 26.30 in a rights issue completed on 16 July 2010. Gross proceeds from the rights issue was NOK 10,021,709,680. Share issue cost amounted to NOK 109 million after tax. A significant part of the proceeds were used as part of the consideration for the acquisition of Vale Aluminium, see note 5 Acquisitions and subsequent events for further information. In addition the extraordinay General Meeting authorized the Board of directors to issue new shares for the remaining part of the consideration. At completion of the transaction 28 February 2011 shares representing 22 percent of the outstanding shares of Norsk Hydro ASA were issued to Vale Austria Holdings.

The General Meeting on 5 May 2009 approved a capital reduction of NOK 8,615,718.32 by cancellation of 4,408,000 treasury shares and 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.

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 for the purpose of cancellation. The number of shares repurchased under this authorization was 4,408,000 and the shares were cancelled in 2009.

The remaining 33,387,070 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 2010 of NOK 1,112 million was comprised of NOK 37 million share capital and NOK 1,076 million retained earnings.

Earnings per share

Earnings per share is computed using net income attributable to Hydro shareholders and the weighted average number of outstanding shares in each year. The number of shares for the year 2010 until the rights issue was completed on 16 July 2010 and all previous presented periods are adjusted for the implicit rebate in the subscription price compared to the theoretical ex-rights price at closing on 24 June 2010, i.e. immediately before trading of the subscription rights. The adjustment represents a factor of 1.055 to the number of outstanding shares for all periods. The adjusted weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,419,052,116 for the year 2010 and 1,271,683,716 for 2009.

Hydro's outstanding founder certificates and subscription certificates entitle the holders to participate in any share capital increase, provided that the capital increase is not made in order to allot shares to third parties as compensation for their transfer of assets to Hydro. These certificates represent dilutive elements for the earnings per share computation. However, the effect of the dilution was insignificant for the rights issue in the period 25 June to 16 July 2010. Diluted earnings per share is therefore the same as basic earnings per share.

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.

Change in Other components of equity

The table below specifies the changes in Other components of equity for 2010 and 2009.

Amounts in NOK million	2010	2009
Currency translation differences		
1 January	**223**	7 131
Currency translation differences during the year	**(928)**	(7 051)
Reclassified to Net income on sale of foreign operations	**(3)**	143
31 December	**(708)**	223
Unrealized gain (loss) on securities		
1 January	**282**	264
Unrealized gain (loss) on available-for-sale securities	**175**	27
Reclassified to Net income on sale or impairment of available-for-sale securities	**(90)**	1
Tax benefit (expense)	**(63)**	(10)
31 December	**304**	282
Cash flow hedges - See note 41 Derivative instruments and hedge accounting		
1 January	**73**	157
Period gain (loss) recognized in Other comprehensive income	**(69)**	(33)
Reclassification of hedging gain (loss) to Net income	**(12)**	(72)
Tax benefit (expense)	**23**	20
31 December	**15**	73
Other components of equity in equity accounted investments		
1 January	**64**	(22)
Period gain (loss) recognized in Other comprehensive income	**(225)**	87
Reclassified to Net income	**(9)**	-
31 December	**(170)**	64
Total other components of equity attributable to Hydro shareholders as of 31 December	**(418)**	813
Total other components of equity attributable to minority interests as of 31 December	**(140)**	(171)

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 business 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 2010 net cash provided by operations was sufficient to cover our operating requirements and capital expenditures. Funds raised in the domestic commercial paper market and from long term bank facilities were used to cover fluctuations throughout the year. All outstanding commercial paper and long term bank debt was fully repaid by year-end 2010. 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. After issuing shares the last time in connection with the acquisition of Saga Petroleum ASA in 1999, Hydro in 2010 raised NOK 10 billion in a rights issue in connection with the Vale Aluminium acquisition. The acquisition closing was completed 28 February 2011 and the liquidity holdings were sufficient to cover the related cash payment of USD 1.1 billion. The remainder of the consideration was settled by issuing new Hydro shares to Vale at closing, representing a 22 percent stake in Hydro.

There is no borrowing under Hydro's long term bank facilities as of 31 December 2010 and as of 31 December 2010 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. The aluminium smelter in Qatar, where Hydro holds 50 percent 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 2010 is USD 2,600 million, compared to USD 2,589 million outstanding as of 31 December 2009. 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 Net income 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	**2010**	2009
Cash and cash equivalents	**10 929**	2 573
Short-term investments	**1 321**	1 519
Bank loans and other interest-bearing short-term debt	**(940)**	(2 010)
Long-term debt	**(328)**	(88)
Net interest-bearing debt	**10 983**	1 995
Cash and cash equivalents and Short-term investments in captive insurance company [1)]	**(1 377)**	(1 508)
Net pension obligation at fair value, net of expected income tax benefit [2)]	**(5 607)**	(5 595)
Operating lease commitments, net of expected income tax benefit [3)]	**(1 746)**	(1 687)
Net interest-bearing debt equity accounted investments [4)]	**(7 807)**	(7 996)
Short- and long-term provisions, net of expected income tax benefit [5)]	**(872)**	(854)
Adjusted net interest-bearing debt	**(6 427)**	(15 645)
Total equity	**(57 246)**	(47 195)
Net pension liability (asset) not recognized	**(1 180)**	(1 725)
Expected income tax liability (benefit)	**354**	518
Equity adjustments off-balance sheet pension liabilitites	**(826)**	(1 208)
Adjusted equity	**(58 072)**	(48 403)
Adjusted net interest-bearing debt / Adjusted equity ratio	**0.11**	0.32

1) Cash and cash equivalents and Short-term investments in Hydro's captive insurance company Industriforsikring AS are assumed to not be available to service or repay future Hydro debt, and are therefore excluded from the measure Adjusted net interest-bearing debt.

2) Net pension liability at fair value is the sum of both the recognized and unrecognized pension liability. The expected income tax benefit related to the net pension liability is defined as the sum of the net deferred tax asset related to pensions as of 31 December and 30 percent of the unrecognized net pension liability as of 31 December and is NOK 878 million and NOK 784 million, respectively, for 2010 and 2009. The figure shown also includes the long-term provision for postretirement medical benefits of NOK 83 million, net of an estimated 30 percent expected tax benefit.

3) Operating lease commitments are discounted using a rate of 3.8 percent and 4.3 percent for 2010 and 2009, respectively. The expected tax benefit on operating lease commitments is estimated at 30 percent.

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 percent.

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 2010 the Board of Directors' has proposed a dividend of NOK 0.75 per share to be paid in May 2011. The Annual General Meeting, scheduled to be held 5 May 2011, will consider this dividend proposal. If approved, this would be a total dividend of approximately NOK 1,527 million. In accordance with IFRS, the fiscal year 2010 proposed dividend is not recognized as a liability in the 2010 financial statements.

Dividends declared and paid in 2010 and 2009 for the prior fiscal year, respectively, are as follows:

	Paid in 2010 for fiscal year 2009	Paid in 2009 for fiscal year 2008
Dividend per share paid, NOK	**0.50**	-
Total dividends paid, NOK million	**603**	-
Date proposed	**17 February 2010**	-
Date approved	**4 May 2010**	-
Dividend payment date	**18 May 2010**	-

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	**2010**	2009
Guarantees related to jointly controlled entities	**7 668**	7 685
Sales guarantees	**4 135**	4 351
Other guarantees	**107**	30
Total guarantees not recognized	**11 910**	12 066

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 7.6 billion plus accrued interest and fees represents the maximum exposure under the guarantee. The facility is now 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. 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. For 2010, Other guarantees relate to commercial guarantees and for 2009 relate to guarantees in respect of companies sold during recent years, where the guarantee has not yet been replaced by the acquiring company.

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 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 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	2011	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment	376	379	755
Additional authorized future investments in property, plant and equipment	291	274	565
Contract commitments for other future investments	186	-	186
Total	854	653	1 506

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.

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 2010 is as follows:

Amounts in NOK million	Alumina and aluminium	Energy related	Other	Sales commit-ments
2011	17 289	2 702	757	(3 133)
2012	17 612	2 518	397	(7 530)
2013	17 637	3 279	341	(6 294)
2014	17 737	2 780	282	(3 953)
2015	17 730	2 704	280	(1 420)
Thereafter	80 013	13 206	667	(13 425)
Total	168 017	27 189	2 724	(35 755)

The contracts where the variable part of the price is linked to the London Metal Exchange quoted aluminium price are included in the term future fixed and determinable obligations. To reflect the future obligation in these contracts the spot price of aluminium on the balance sheet date has been used.

Long-term sales commitments principally relate to delivering of aluminium and of electricity. Hydro has electricity delivery commitments relating to power stations to be reverted to the Norwegian government of 16.0 TWh of which 547 GWh in 2011. 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.

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:

2010 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
Assets - current							
Cash and cash equivalents	10 929	-	-	-	-	-	10 929
Short-term investments	1 321	-	-	-	-	-	1 321
Accounts receivable	-	-	11 569	-	-	1 214	12 783
Other current financial assets	792	21	-	-	-	-	814
Assets - non-current							
Investments accounted for using the equity method	-	-	1 552	-	-	17 097	18 649
Other non-current financial assets	446	-	1 436	1 509	-	-	3 391
Liabilities - current							
Bank loans and other interest-bearing short-term debt	-	-	-	-	940	-	940
Trade and other payables	-	-	-	-	5 975	3 945	9 920
Other current financial liabilities	1 144	75	-	-	-	-	1 218
Liabilities - non-current							
Long-term debt	-	-	-	-	328	-	328
Other non-current financial liabilities	2 240	-	-	-	-	-	2 240

The above specification relates to financial statement line items containing financial instruments.

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

2009 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
Assets - current							
Cash and cash equivalents	2 573	-	-	-	-	-	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
Assets - non-current							
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
Liabilities - current							
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
Liabilities - non-current							
Long-term debt	-	-	-	-	88		88
Other non-current financial liabilities	2 144	-	-	-	-	-	2 144

Realized and unrealized gains and losses from financial instruments and contracts accounted for as financial instruments are in the income statement included in several line items. Below is a reconciliation of the effects from Hydro's financial instruments in the income statements:

Amounts in NOK million	Financial instruments at fair value through profit or loss	Derivatives identified as hedging instruments	Loans and receivables	Available-for-sale financial assets	Other financial liabilities	Non-financial assets and liabilities	Total [1]
2010							
Income statement line item							
Revenue	(308)	(11)	-	-	-	-	(319)
Raw material and energy expense	686	-	-	-	-	-	686
Financial income	(20)	-	-	(123) [2]	-	-	(143)
Financial expense	5	-	-	-	-	-	5
Gain/loss directly in Other comprehensive income							
Recognized directly in Other comprehensive income (before tax)				(175)			
Removed from Other components of equity and recognized in the income statement				90			
2009							
Income statement line item							
Revenue	(629)	(67)	-	-	-	-	(695)
Raw material and energy expense	685	-	-	-	-	-	685
Financial income	(129)	-	-	(83) [2]	-	-	(212)
Financial expense	(785)	-	-	-	-	-	(785)
Gain/loss directly in Other comprehensive income							
Recognized directly in Other comprehensive income (before tax)				(27)			
Removed from Other components of equity and recognized in the income statement				(1)			

1) Amount indicates the total gains and losses to financial instruments for each specific income statement line item.
2) Includes dividends from equity instruments classified as available-for-sale, realization of shares, and impairments.

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	2010	Level 1	Level 2	Level 3	2009	Level 1	Level 2	Level 3
Assets								
Commodity derivatives	1 166	840	169	156	2 709	2 033	669	7
Currency derivatives	73	7	66	-	155	76	78	-
Cash flow hedges	21	21	-	-	5	5	-	-
Securities held for trading	1 337	407	905	25	1 528	412	1 065	51
Available for sale financial assets	1 509	-	-	1 509	1 483	-	-	1 483
Total	4 106	1 275	1 141	1 690	5 879	2 526	1 812	1 541
Liabilities								
Commodity derivatives	(3 322)	(248)	(606)	(2 468)	(2 926)	(147)	(1 014)	(1 765)
Currency derivatives	(61)	-	(61)	-	(43)	-	(43)	-
Cash flow hedges	(75)	(75)			-	-	-	-
Total	(3 459)	(323)	(667)	(2 468)	(2 969)	(147)	(1 057)	(1 765)

The following is an overview in which changes in level 3 measurements are specified:

	Commodity derivatives		Investments	
Amounts in NOK million	Assets	Liabilities	Securities held for trading	Available for sale financial assets
31 December 2008	67	(2 395)	57	1 607
Total gains (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)
31 December 2009	7	(1 765)	51	1 483
Total gains (losses)				
in income statement	149	(847)	(24)	101
in Other comprehensive income	-	-	-	85
Purchases	-	-	-	9
Settlements	-	149	(3)	(138)
Currency translation difference	-	(4)	-	(32)
31 December 2010	156	(2 468)	25	1 509
Total gains (losses) for the period	149	(847)	(24)	101
Total gains (losses) for the period included in the income statement for assets held at the end of the reporting period	149	(699)	(24)	(11)

Gains or losses relating to level 3 commodity derivatives appearing in the above 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 7 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:

	Gain (loss) from 10 percent increase in				Gain (loss) from 10 percent decrease in			
Amounts in NOK million	USD	Aluminium	Other commodity	Interest rates	USD	Aluminium	Other commodity	Interest rates
Commodity derivatives	(594)	(409)	(297)	41	594	404	297	(40)
Available for sale financial assets	111	20	-	(87)	(136)	(102)	-	97

Note 41 - 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 the income statement, 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 2010 and 31 December 2009. 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	**2010**	2009
Assets		
Electricity contracts	**265**	576
Aluminium futures, forwards, swaps and options	**901**	2 132
Total	**1 166**	2 709
Liabilities		
Electricity contracts	**(314)**	(625)
Coal forwards	**(1 698)**	(1 309)
Aluminium futures, forwards, swaps and options	**(1 232)**	(1 097)
Other	**(77)**	105
Total	**(3 322)**	(2 926)

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 2010 and 31 December 2009.

Amounts in NOK million	**2010**	2009
Assets		
Currency forwards and swaps	**-**	51
Embedded currency derivatives	**66**	78
Equity warrants	**7**	25
Total	**73**	155
Liabilities		
Currency forwards and swaps	**(45)**	-
Embedded currency derivatives	**(16)**	(43)
Total	**(61)**	(43)

The currency contracts listed below were outstanding as of 31 December 2010. 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	250	1 461	1 461	-
Selling NOK	1 506	(1 506)	(1 506)	-

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. 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, options 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.

The scope of cash flow hedge programs increased in 2010 compared to 2009, as Hydro, in anticipation of the Vale transaction, entered in to forward and option instruments relating to sales of alumina and aluminium to be produced in the Vale Aluminium entities Alunorte and Albras acquired 28 February 2011, see note 5 Acquisitions and subsequent events. The instruments are treated as accounting hedges from 1 July 2011. Due to uncertainties regarding the timing of the Vale Aluminium acquisition, certain previously designated hedge accounting instruments have been excluded from hedge accounting and recognized in the income statement. The fair value of these positions as of 31 December was an unrealized loss of approximately NOK 12 million.

Ineffectiveness amounting to NOK 21 million was recognized in the income statement in 2010. No ineffectiveness was recognized in 2009 in connection with cash flow hedges.

The table below gives aggregated numbers related to the aluminium cash flow hedges for the period 2009 to 2010.

	2011	**2010**	2009
Aluminium sold forward with hedge accounting (kmt) [1]		**1 593**	10
of which open at year-end (kmt) [2]		**1 593**	8
Average prices achieved in hedges in USD (per mt) [3]		**2 445**	2 300
Expected to be reclassified to the income statement during the year (NOK million)	(54)	**4**	59
Reclassified to the income statement from Other components of equity (NOK million) [4]		**8**	54

1) Remaining volume sold forward at inception of hedge programs. Hydro has sold forward through 2011.
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 2010 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 NOK 3 million was reclassified from hedging reserves in equity into the income statement during both the period ending 31 December 2010 and 31 December 2009. A gain after tax of NOK 3 million is expected to be reclassified from hedging reserves in equity into the income statement during the period ending 31 December 2011.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2010 and 31 December 2009.

Amounts in NOK million	**2010**	2009
Assets		
Cash flow hedging instruments	**21**	5
Total	**21**	5
Liabilities		
Cash flow hedging instruments	**(75)**	-
Total	**(75)**	-

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 2010 and 2009 please refer to note 34 Shareholders' equity.

Hydro has not applied net investment or fair value hedge accounting for 2010 and 2009.

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 NASDAQ OMX Commodities Europe (formerly 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 42 - Cash flow information

Reconciliation of cash and cash equivalents

Amounts in NOK million	**2010**	2009
Cash and cash equivalents	**10 929**	2 573
Bank overdraft	**(194)**	(74)
Cash, cash equivalents and bank overdraft	**10 735**	2 499

Cash disbursements and receipts included in cash from operations

Amounts in NOK million	**2010**	2009
Income taxes paid	**787**	1 417
Interest paid	**246**	309
Interest received	**201**	233
Other dividends received	**23**	103

Note 43 - Auditor remuneration

At the Annual General Meeting 4 May 2010, KPMG AS was elected as new Group auditor of Norsk Hydro ASA with effect for the fiscal year 2010. The following table shows fees to KPMG for 2010.

KPMG 2010 [1)]

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
Norway	5	-	-	-	5
Outside Norway	9	-	-	1	10
Total	14	-	-	1	15

1) For all categories the reported fee is the recognized expense for the year. It includes fee related to the share issue, recognized directly in equity.

Prior to the election of KPMG, Deloitte AS was the Group auditor of Norsk Hydro ASA. The following table shows fees to Deloitte for 2010 and 2009.

Deloitte 2010 [1)]

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
Norway	4	3	1	1	8
Outside Norway	9	-	-	1	11
Total	13	3	1	1	18

Deloitte 2009 [2]

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
Norway	10	1	1	1	13
Outside Norway	26	1	-	1	29
Total	36	2	1	2	42

1) For all categories the reported fee is the recognized expense for the year. It includes fee related to the share issue, recognized directly in equity.

2) The reported audit fee is the agreed fee for the fiscal year 2009. The difference between the reported audit fee and audit expense for the year is not significant. For all other categories the reported amount is the recognized expense for the year.

Note 44 - Board of Directors' and Corporate Assembly remuneration

Board of Directors' remuneration and share ownership

Normally, the remuneration to the Board of Directors consists of the payment of fees. In addition, board members receive a gift when leaving the board. 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. Annual fees for 2010 for the chairperson of the board, deputy chairperson and directors are NOK 530,000 (2009: NOK 530,000), NOK 330,000 (2009: NOK 330,000) and NOK 290,000 (2009: NOK 275,000), respectively. The chairperson of the audit committee and the chairperson of the compensation committee receive an additional NOK 170,000 (2009: NOK 170,000) and NOK 30,000 (2009: NOK 24,000) annually in fees, respectively, and audit and compensation committee members receive NOK 110,000 (2009: NOK 110,000) and NOK 25,000 (2009: NOK 19,000) annually, respectively, for their participation on these committees.

Total board fees and individual board member fees for 2010, and outstanding loans and board member share ownership as of 31 December 2010, are presented in the tables below. Board fees for extraordinary meetings held during 2008 were paid in 2010.

Board of Directors' fees

Amounts in NOK thousand	**2010**	2009
Fees and other remuneration paid to board members during the year	**3 956**	3 274
Fees paid during the year for service rendered in other years	**(579)**	-
Fees related to board service during the year not yet paid	**7**	5
Total fees for board services provided to Hydro during the year	**3 384**	3 278
Fees and other remuneration - normal board activities	**2 841**	2 735
Fees - compensation committee	**80**	62
Fees - audit committee	**463**	482
Total fees for board services provided to Hydro during the year	**3 384**	3 278

Board member	Board fees [1]	Outstanding loans [1) 2)]	Number of shares [3)]
Board members as of 31 December 2010			
Terje Vareberg [4)]	690	-	13 391
Bente Rathe [5)]	500	-	6 521
Finn Jebsen [6)]	370	-	53 406
Inge K. Hansen [7)]	515	-	-
Eva Persson [8)]	291	-	-
Liv Monica Stubholt [9)]	210	-	-
Billy Fredagsvik [10)]	345	137	1 942
Jørn B. Lilleby [10) 11)]	455	51	1 857
Sten Roar Martinsen [10)]	345	-	2 998
Board members during 2010 and 2009, not on the board as of 31 December 2010			
Heidi M. Petersen [12)]	162	-	10 000
Grete Faremo [13)]	73	-	-
Total	3 956	188	90 115

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. The loans to Billy Fredagsvik have an interest rate of 3.9-7.25 percent and a repayment period of 2-8 years. The loan to Jørn Lilleby has an interest rate of 3.9 percent and a repayment period of 3 years. All payments have been made in a timely fashion and in accordance with the agreed payment schedule. Loans have not been extended to related parties.

3) Number of shares owned as of 31 December 2010 for board members as of 31 December 2010; 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 and member of the board audit committee.

6) Member of the board compensation committee.

7) Chairperson of the board audit committee.

8) Member of the board as of 7 May 2010 and member of the board audit committee as of 1 June 2010.

9) Member of the board as of 7 May 2010 and member of the board compensation committee as of 1 June 2010.

10) 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.

11) Member of the board audit committee.

12) Member of the board and member of the board compensation committee until 7 May 2010.

13) Member of the board and member of the board audit committee in 2009.

Corporate Assembly remuneration and share ownership

Corporate Assembly members receive a fee from Hydro for services rendered during the year. The Corporate Assembly Chairperson and Deputy Chairperson receive an annual fee of NOK 90,000 (2009: NOK 85,000) and NOK 45,000 (2009: NOK 42,500), respectively, plus a fee for each meeting attended. All members, including any deputy members, receive NOK 6,500 (2009: 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. The chairperson of the nomination committee receives an annual fee of NOK 30,000 (2009: NOK 21,000). Other members of the nomination committee receive NOK 25,000 (2009: NOK 21,000) annually in fees.

A summary of Corporate Assembly fees for 2010 and 2009 and individual Corporate Assembly member share ownership as of 31 December 2010 are provided in the tables below. Loans to Corporate Assembly members were extended under an employee benefit scheme that is available to all employees in Norway. Loans outstanding to Corporate Assembly members who are also Hydro employees totaled NOK 3,017 thousand as of 31 December 2010. The interest rate on these loans is between 3.75 and 7.25 percent and the repayment period is between one and 28 years.

Corporate Assembly fees

Amounts in NOK thousand	**2010**	2009
Fees paid to Corporate Assembly Chairperson	**174**	124
Fees paid to Corporate Assembly Deputy Chairperson	**117**	80
Fees paid to all other members of Corporate Assembly	**559**	371
Total fees paid to corporate assembly members during the year	**850**	575
Fees paid during the year for prior year meetings attended and/or nomination committee assignment	**(63)**	(58)
Fees related to meetings attended and/or nomination committee assignment during the year, not yet paid	**-**	63
Total fees for Corporate Assembly services provided to Hydro during the year	**787**	581

Corporate Assembly member as of 31 December 2010	Number of shares [1]
Siri Teigum (Chairperson) [2]	2 021
Leif Teksum (Deputy Chairperson) [3]	-
Anne Kverneland Bogsnes [4]	1 132
Anne-Margrethe Firing	5 820
Westye Høegh [3]	260 225
Idar Kreutzer	-
Jon Lund [4]	-
Bjørn Nedreaas [5]	4 035
Tor Egil Skulstad [5]	19
Unni Steinsmo	130
Svein Kåre Sund [5]	1 928
Sten-Arthur Sælør	-
Eivind Torvik [5]	640
Lars Tronsgaard	-
Terje Richard Venold	2 608
Tove Wangensten [4]	-
Bente Linnerud Østlyngen [5]	2 096
Bjørn Øvstetun [5]	2 163

Deputy Member as of 31 December 2010	Number of shares [1]
Rolf Arnesen [5]	1 604
Ove Ellefsen [5]	2 327
Odd Arne Fodnes [5]	3 160
Terje Friestad [5]	3 383
Kristin Farøvik [6]	-
Oddvin Hovland [5]	2 026
Roar Jakobsen [5]	3 253
Line Melkild [5]	1 648
Birger Solberg [6]	51 185
Kari Sommerfeldt [5]	2 894
Anne Kristin Sydnes [6]	-
Gro Thorstensen [5]	633
Gunvor Ulstein	-

1) Number of shares owned as of 31 December 2010; 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) Deputy Member until 5 May 2010 and Member of the Corporate Assembly as of 5 May 2010.

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

6) Deputy Member of the Corporate Assembly as of 5 May 2010.

Note 45 - Related party information

As of 31 December 2010, The Ministry of Trade and Industry of Norway owned 708,865,253 ordinary shares in Norsk Hydro ASA, representing 43.7 percent of the total number of ordinary shares authorized and issued (2009: 43.8 percent) and 44.6 percent of the total shares outstanding (2009: 45.1 percent). In addition Folketrygdfondet, which manages the Government Pension Fund - Norway owned 100,002,207 ordinary shares, representing 6.2 percent of the total number of ordinary shares issued (2009: 5.8 percent) and 6.3 percent of the total shares outstanding (2009: 6.0 percent). Folketrygdfondet is a company by special statute with the Norwegian State as sole owner. In total the Norwegian State owned 808,867,465 ordinary shares. This represents 49.9 percent of the total number of ordinary shares issued (2009: 49.7 percent) and 50.9 percent of the total shares outstanding (2009: 51.1 percent). 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 54,000 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 53 companies are 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 [1)], 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.

Hydro completed a rights issue in July 2010. The Ministry of Trade and Industry participated in the rights issue for its relative share. Folketrygdfondet subscribed and underwrote for its pro rata share of the rights issue. Both shareholders participated at the same price as other shareholders.

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 canceled. 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.

On 28 February 2011 the acquisition of Vale Aluminium was completed, see note 5 Acquisitions and subsequent events for further information. As of that date, Vale Austria Holdings GmbH, a wholly owned subsidiary of Vale S.A. owns 21.6 percent of ordinary shares and 22 percent of the outstanding shares in Norsk Hydro ASA. As of the same date Hydro considers Vale S.A a related party. The issue of consideration shares to Vale reduced the ownership interest of the Ministry of Trade and Industry of Norway to 34.8 percent of outstanding shares.

A significant share of Hydro's defined benefit post-employment benefit plans are managed by the independent pension trust, Norsk Hydro Pensjonskasse. This trust owns some of the office buildings rented by Hydro. The rental arrangements are based on market price benchmarks. In total, Hydro rents around 77,000 m^2 office and related buildings, plus certain other buildings on contracts with a remaining life of around 10 years from the trust. Of this, around 51,000 m^2 is subleased. Hydro has paid a total rental of NOK 189 million and NOK 172 million for 2010 and 2009, 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 members of Hydro's board of directors during 2010 and 2009 are stated in note 44 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 as competitors in other business transactions, and do not see these relationships as related party relationships.

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

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	**2010**	2009
Revenue		**310**	334
Gain (loss) on sale of subsidiaries and associates, net	2	**-**	(239)
Total revenue and income		**310**	95
Employee benefits expense	3, 4	**473**	934
Depreciation and amortization expense	5, 6	**19**	15
Other		**232**	29
Total operating expenses		**724**	978
Operating loss		**(414)**	(882)
Financial income, net	7	**2 794**	547
Income (loss) before taxes		**2 380**	(335)
Income taxes	8	**(668)**	46
Net income (loss)		**1 712**	(290)
Appropriation of net income and equity transfers			
Dividend proposed		**(1 527)**	(602)
Retained earnings		**(186)**	892
Total appropriation		**(1 712)**	290

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

Balance sheets

Amounts in NOK million, 31 December	Notes	**2010**	2009
Assets			
Deferred tax asset	8	**266**	350
Other intangible assets	6	**56**	18
Intangible assets		**322**	369
Property, plant and equipment	5	**205**	186
Shares in subsidiaries	9	**30 451**	30 453
Intercompany receivables		**18 602**	18 916
Prepaid pension, investments and other non-current assets	3, 10, 11	**2 512**	2 628
Total financial non-current assets		**51 564**	51 997
Intercompany receivables		**6 141**	3 233
Prepaid expenses and other current assets	11	**245**	270
Cash and cash equivalents		**9 556**	1 692
Total current assets		**15 943**	5 195
Total assets		**68 035**	57 748
Equity and liabilities			
Paid-in capital			
Share capital 1,621,163,811 shares of NOK 1.098	14	**1 780**	1 362
Treasury shares 33,387,070 shares of NOK 1.098	14	**(37)**	(39)
Paid-in premium	14	**9 495**	-
Other paid-in capital	14	**58**	43
Retained earnings			
Retained earnings	14	**27 945**	27 760
Treasury shares	14	**(1 076)**	(1 138)
Equity	14	**38 165**	27 988
Long-term provisions	3	**2 350**	2 299
Long-term debt	13	**233**	-
Intercompany payables		**319**	501
Other long-term liabilities		**552**	501
Bank loans and other interest-bearing short-term debt	11	**421**	1 531
Dividends payable		**1 527**	602
Intercompany payables		**23 396**	23 657
Other current liabilities		**1 624**	1 170
Total current liabilities		**26 968**	26 961
Total equity and liabilities		**68 035**	57 748

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

Statements of cash flows

Amounts in NOK million	**2010**	2009
Net income (loss)	**1 712**	(290)
Depreciation and amortization expense	**19**	15
Write-down and (gain) loss on sale of non-current assets, net	**(118)**	45
Other adjustments	**(2 000)**	7 655
Net cash provided by (used in) operating activities	**(387)**	7 425
Investments in subsidiaries	**(433)**	(2 034)
Sales of subsidiaries	**-**	5
Net sales (purchases) of other investments	**122**	(5)
Net cash used in investing activities	**(311)**	(2 034)
Dividends paid	**(603)**	-
Proceeds from shares issued	**9 910**	43
Other financing activities, net	**(634)**	(5 972)
Net cash provided by (used in) financing activities	**8 673**	(5 929)
Foreign currency effects on cash	**(111)**	68
Net increase (decrease) in cash and cash equivalents	**7 864**	(470)
Cash and cash equivalents at beginning of year	**1 692**	2 162
Cash and cash equivalents at end of year	**9 556**	1 692

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 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 Financial income, net. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the Norwegian kroner are also included in Financial income, net. This is in accordance with NRS' preliminary standard on transactions and accounts in foreign currency.

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, net. 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. According to NRS' preliminary standard regarding impairment of non-current assets, 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.

Intangible assets

Intangible assets acquired individually or as a group are recognized at fair value when acquired, in accordance with NRS' preliminary standard on intangible assets. Intangible assets are amortized on a straight-line basis over their useful life and tested for impairment whenever indications of impairment are present.

Hydro accounts for CO_2 emission allowances at cost as an intangible asset. The emission rights are not amortized, impairment testing is done on an annual basis. Sale of CO_2 emission rights is recognized at the time of sale at the transaction price.

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 Financial income, net.

Contingencies and guarantees

Norsk Hydro ASA recognizes a liability 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.

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 7 Financial and commercial risk management to the consolidated financial statements.

Income taxes

Deferred income tax expense is calculated using the liability method in accordance with the NRS's preliminary standard on Income Taxes. Under the liability method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred income tax expense represents the change in deferred tax assets and liability balances during the year. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

The tax effect of equity transactions, such as group contribution given, is recognized as a part of the equity transaction and do not affect the income tax expense.

Note 2 - Sale of businesses

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

Note 3 - Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans. The defined benefit plans are administered by Norsk Hydro's independent pension trust. The defined benefit plans were closed as of 1 March 2010 for new employees who became members of the new defined contribution plans. Employees who were members of the defined benefit plans were given a choice to change to the defined contribution plans as of 1 June 2010, of which approximately 25 percent chose the new plans. A settlement gain was recognized in the accounts in 2010. The defined contribution plans are administered by the external Norwegian pension provider Storebrand. Norsk Hydro ASA's defined benefit plans covered 5,212 participants as of 31 December 2010 and 5,640 participants as of 31 December 2009, while the defined contribution plans covered 202 participants as of 31 Desember 2010. The plans comply with minimum requirements for pension plans in Norway.

Net periodic pension cost

Amounts in NOK million	**2010**	2009
Defined benefit plans		
Benefits earned during the year	**94**	177
Interest cost on prior period benefit obligation	**248**	323
Expected return on plan assets	**(300)**	(285)
Recognized (gain) loss	**-**	113
Past service cost	**8**	33
Curtailment/settlement (gain) loss	**(16)**	-
Net periodic pension cost	**35**	362
Defined contribution plans	**4**	-
Multiemployer plans	**6**	4
Termination benefits and other	**46**	45
Total net periodic pension cost	**92**	412

Change in projected benefit obligation (PBO)

Amounts in NOK million	**2010**	2009
Projected benefit obligation at beginning of year	**(5 738)**	(7 848)
Benefits earned during the year	**(94)**	(177)
Interest cost on prior period benefit obligation	**(248)**	(323)
Actuarial gain (loss)	**(179)**	1 931
Plan amendments	**(16)**	(30)
Benefits paid	**325**	330
Curtailment/settlement gain (loss)	**173**	325
Special termination benefits	**(1)**	(6)
Demerger	**-**	62
Projected benefit obligation at end of year	**(5 778)**	(5 738)

Change in pension plan assets

Amounts in NOK million	**2010**	2009
Fair value of plan assets at beginning of year	**5 300**	5 440
Actual return on plan assets	**484**	318
Company contributions	**51**	-
Benefits paid	**(255)**	(262)
Settlements	**(81)**	(166)
Demerger	**-**	(30)
Fair value of plan assets at end of year	**5 499**	5 300

Status of pension plans reconciled to balance sheet

Amounts in NOK million	**2010**	2009
Defined benefit plans		
Funded status of the plans at end of year	**(279)**	(438)
Unrecognized net (gain) loss	**(294)**	(204)
Unrecognized past service cost	**11**	4
Net accrued pension recognized	**(562)**	(638)
Termination benefits and other	**(91)**	(115)
Total net accrued pension recognized	**(653)**	(753)
Amounts recognized in the balance sheet consist of		
Prepaid pension	**1 372**	1 227
Accrued pension liabilities	**(2 024)**	(1 980)
Net amount recognized	**(653)**	(753)

Assumptions used to determine net periodic pension cost

	2010	2009
Discount rate	**4.50%**	4.25%
Expected return on plan assets	**6.00%**	5.75%
Expected salary increase	**4.00%**	4.50%
Expected pension increase	**2.25%**	4.00%

Assumptions used to determine pension obligation at end of year

	2010	2009
Discount rate	**3.75%**	4.50%
Expected salary increase	**3.75%**	4.00%
Expected pension increase	**2.00%**	2.25%

Investment profile plan assets at end of year

	2010	2009
Asset category		
Equity securities	**29%**	30%
Debt securities	**31%**	29%
Real estate	**24%**	26%
Other	**16%**	16%
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. Costs for corporate management board members employed by subsidiaries are charged to Norsk Hydro ASA for services rendered as members of the Corporate Management Board.

See note 44 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, KPMG, own no shares in Norsk Hydro ASA or any of its subsidiaries.

At the Annual General Meeting 4 May 2010, KPMG AS was elected as new auditor of Norsk Hydro ASA with effect for the fiscal year 2010. KPMG succeeded Deloitte AS as the company's auditor. The following table shows fees to the elected auditor for 2010 and 2009 exclusive VAT.

Amounts in NOK million	Audit	Audit related	Other services	Tax related	Total
2010					
Fees to KPMG [1)]	3	-	-	-	3
Fees to Deloitte [1)]	2	1	1	-	4
2009					
Fees to Deloitte [2)]	5	-	1	-	6

1) For all categories the reported fee is the recognized expense for the year. It includes fee related to the share issue, recognized directly in equity.
2) The reported audit fee is the agreed fee for the fiscal year 2009. For other services the reported amount is the recognized expense for the year.

The average number of employees in Norsk Hydro ASA was 655 in 2010 as compared to 971 in 2009. As of year end 2010 and 2009 Norsk Hydro ASA employed 592 and 732 employees, respectively.

Total loans given by Norsk Hydro ASA to Norwegian employees as of 31 December 2010 were NOK 224 million. Loans to employees consist of NOK 125 million secured loans (home and car loans) with the remainder unsecured. The unsecured loan balance as of 31 December 2010 related to the employee share purchase plan was NOK 13 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	**2010**	2009
Payroll and related costs		
Salaries	**728**	883
Social security costs	**136**	156
Social benefits	**1**	(11)
Net periodic pension cost (note 3)	**92**	412
Internal invoicing of payroll related costs	**(484)**	(506)
Total	**473**	934

Note 5 - Property, plant and equipment

Amounts in NOK million	Land	Buildings	Machinery, etc	Plant under construction	Total
Cost 31 December 2009	6	99	186	-	291
Additions at cost	-	3	29	5	37
Retirements	-	-	(1)	-	(1)
Transfers	-	-	5	(5)	-
Accumulated depreciation 31 December 2010	-	(39)	(83)	-	(122)
Carrying value 31 December 2010	6	63	136	-	205
Depreciation in 2010		(1)	(16)		(17)

Operating lease expense amounted to NOK 199 million in 2010 and NOK 207 million in 2009. The company has the following future operating lease commitments under non-cancellable leases: 2011: NOK 192 million, 2012: NOK 192 million, 2013: NOK 192 million, 2014: NOK 192 million, 2015: NOK 192 million and thereafter: NOK 992 million.

Note 6 - Intangible assets

Amounts in NOK million	Cost	Accumulated amortization	Carrying value
Balance 31 December 2009	22	(4)	18
Additions at cost	40		40
Amortization for the year		(2)	(2)
Balance 31 December 2010	61	(5)	56

Note 7 - Financial income and expense

Amounts in NOK million	**2010**	2009
Dividends from subsidiaries	**1 720**	-
Gain on sale of shares, tax free	**122**	-
Interest from group companies	**814**	662
Other interest income	**86**	63
Interest paid to group companies	**(220)**	(332)
Other interest expense	**(169)**	(168)
Impairment loss shares	**(3)**	(44)
Net foreign exchange gain (loss)	**558**	327
Other, net	**(114)**	40
Financial income, net	**2 794**	547

Note 8 - Income taxes

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

	Temporary differences Tax effect	
Amounts in NOK million	**2010**	2009
Short-term items	**140**	106
Prepaid pension	**(384)**	(344)
Pension liabilities	**567**	554
Other long-term items	**(57)**	34
Deferred tax asset	**266**	350

In accordance with the preliminary accounting standard for tax, 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	**2010**	2009
Income (loss) before taxes	**2 380**	(335)
Expected income taxes at statutory tax rate	**666**	(94)
Permanent differences and other, net	**2**	48
Income taxes	**668**	(46)
Effective tax rate	**28.06%**	13.62%
Components of income tax		
Current income tax	**584**	229
Change in deferred tax	**84**	(275)
Income tax	**668**	(46)

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

Tax effect of share issue costs of NOK 42 million, is credited directly to equity.

Taxes payable as of 31 December 2010 and 2009 were NOK 1,153 million and NOK 657 million, respectively.

Note 9 - 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 [1)]	EUR	25.04	73 894	92
Norsk Hydro Plastic Pipe AS	NOK	100.00	10 000	39
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				30 451

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.

The carrying value of the shares held in Norsk Hydro Plastic Pipe AS have been written down by NOK 3 million.

Note 10 - Investments 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
Aluminium & Chemie Rotterdam B.V.	36.2% [1)]	Netherlands		18	18
Other			2	7	9
Total			2	25	28

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

Note 11 - Specification of balance sheet items

Amounts in NOK million	**2010**	2009
Securities	**536**	550
Prepaid pension	**1 372**	1 227
Associates and jointly controlled entites	**28**	112
Other non-current assets	**577**	739
Total prepaid pension, investments and other non-current assets	**2 512**	2 628
Prepaid expenses	**166**	139
Trade receivables	**48**	63
Other current assets	**31**	67
Total prepaid expenses and other current assets	**245**	270
Bank overdraft	**2**	44
Employee deposits	**404**	466
Commercial paper	**-**	1 000
Other interest-bearing debt	**15**	21
Total bank loans and other interest-bearing short-term debt	**421**	1 531

Note 12 - 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 7.6 billion of guarantees related to jointly controlled entities relates to Qatalum. See note 37 Guarantees in the consolidated financial statements for additional information.

Amounts in NOK million	**2010**	2009
Guarantees related to jointly controlled entities	**7 656**	7 672
Sales guarantees	**1 695**	1 763
Commercial guarantees	**4 188**	7 683
Other guarantees	**-**	30
Total guarantees not recognized	**13 539**	17 148

Note 13 - Long-term debt

As of 31 December 2010, long-term debt amounted to NOK 233 million, of which NOK 200 million fall due after 2015. See note 30 Long-term debt in notes to the consolidated financial statements for further information.

Note 14 - Number of shares outstanding, shareholders and equity reconciliation

The share capital of Norsk Hydro ASA as of 31 December 2010 was NOK 1,780,037,864.48 consisting of 1,621,163,811 ordinary shares at NOK 1.098 per share. As of 31 December 2010 Norsk Hydro ASA had purchased 33,387,070 treasury shares at a cost of NOK 1,112 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 1,587,776,741 shares outstanding as of 31 December 2010, according to information in the Norwegian securities' registry system (Verdipapirsentralen).

Name	Number of shares
The Ministry of Trade and Industry of Norway	708 865 253
Folketrygdfondet	100 002 207
State Street Bank and Trust Co. [2)]	53 328 322
Rasmussengruppen AS	37 500 000
Clearstream Banking S.A. [2)]	33 465 644
Bank of New York Mellon [2)]	14 184 444
Vital Forsikring ASA	12 273 711
JP Morgan Chase Bank [1)]	11 965 910
State Street Bank and Trust Co. [2)]	11 051 738
Odin Norge	8 528 686
Bank of New York Mellon [2)]	8 300 305
Skagen Global	8 271 604
Pareto Aksje Norge	7 925 500

1) Representing American Depositary Shares.

2) Nominee accounts.

Change in equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total equity
31 December 2009	1 366	26 622	27 988
Net income		1 712	1 712
Dividend proposed		(1 527)	(1 527)
Shares issued	9 913		9 913
Treasury shares	17	62	79
31 December 2010	11 296	26 869	38 165

Responsibility Statement

We confirm to the best of our knowledge that the consolidated financial statements for 2010 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 2010 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, 16 March 2011

Terje Vareberg
Chair

Bente Rathe
Deputy chair

Billy Fredagsvik
Board member

Finn Jebsen
Board member

Inge K. Hansen
Board member

Jørn B. Lilleby
Board member

Sten Roar Martinsen
Board member

Liv Monica Bargem Stubholt
Board member

Eva Persson
Board member

Tito Martins
Board member

Svein Richard Brandtzæg
President and CEO

Auditor's report

To the Annual Shareholders' Meeting of Norsk Hydro ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Norsk Hydro ASA, which comprise the financial statements of the parent company Norsk Hydro ASA and the consolidated financial statements of Norsk Hydro ASA and its subsidiaries. The parent company's financial statements comprise the balance sheet as at December 31, 2010, the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The consolidated financial statements comprise the balance sheet as at December 31, 2010, and the income statement and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of the parent company financial statements in accordance with the Norwegian Accounting Act and generally accepted accounting standards and practices in Norway and for the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the separate financial statement

In our opinion, the parent company's financial statements give a true and fair view of the financial position of Norsk Hydro ASA as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Norsk Hydro ASA and its subsidiaries as at December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, and the going concern assumption are consistent with the financial statements and complies with the law and regulations.

Opinion on Accounting Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 16 March 2011
KPMG AS

Arne Frogner
State Authorised Accountant

[Translation has been made for information purposes only]

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 2010 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2010 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 2010 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 16 March 2011
Siri Teigum

Appendix

Terms and definitions

ADRs	American Depositary Receipts, evidencing a specified number of ADSs
ADSs	American Depositary Shares, each ADS representing one deposited ordinary share
AluNorf	Aluminium Norf GmbH
Articles of Association	The articles of association of the Company, as amended and currently in effect
Audit Committee	The audit committee of the Company's Board of Directors
BAT	"Best Available Techniques" for pollution prevention and control
Code	The U.S. Internal Revenue Code of 1986, as amended
Company	Norsk Hydro ASA, a Norwegian public company limited by shares, or Norsk Hydro ASA and its consolidated subsidiaries, as the context requires
Compensation Committee	The compensation committee of the Company's Board of Directors
Consolidated Financial Statements	The consolidated financial statements and notes included in the Company's annual report to shareholders
Corporate Assembly	The corporate assembly, a body contemplated by Norwegian companies' law, with responsibility, among other things, for the election of the members of the Company's Board of Directors and nomination of the external auditor
Corporate Management Board	The corporate management board established by the Company's President and Chief Executive Officer to assist him in discharging his responsibilities
CRU	CRU International Limited
Disclosure Committee	The disclosure committee of the Company, comprised of members of senior management, which is responsible for reviewing financial and related information before it is made public
EEA	European Economic Area
EEA Agreement	The European Economic Area Agreement
EFTA	European Free Trade Association
EU	European Union
HSE	Health, safety and environment
Hydro	Norsk Hydro ASA and its consolidated subsidiaries
Hydro Aluminium	The aluminium business of Hydro, comprising the sub-segments Metals, Rolled Products, and Extrusion and Automotive
kWh	Kilowatt hour
LME	London Metal Exchange
mm	Millimeter
NOK	Norwegian kroner

Nomination Committee	The nomination committee provided for in the Company's Articles of Association and operating under a charter established by the shareholders' representatives in the Corporate Assembly
OSE	Oslo Stock Exchange
tonne, mt	One metric tonne (approximately 1,000 kilograms or 2,205 pounds)
TWh	Terawatt hour (one billion kilowatt hours)
US GAAP	Generally accepted accounting principles in the United States
VAW	VAW Aluminium AG
VPS or VPS System	The Norwegian Central Securities Depository, Verdipapirsentralen
WTO	World Trade Organization
Yara	Yara International ASA

Cautionary note in relation to certain forward-looking statements

Certain statements included within this Annual Report contain forward-looking information, including, without limitation, those relating to (a) forecasts, projections and estimates, including about overall economic developments, (b) various expectations about future developments in Hydro's markets, particularly prices, supply and demand and competition, (c) statements of management's plans, objectives and strategies for Hydro, such as planned expansions, integration of acquired entities, investments, financing or other projects, (d) targeted production volumes and costs, capacities or rates, start-up costs, cost reductions and profit objectives, (e) results of operations, (f) margins, (g) growth rates, (h) risk management, as well as (i) statements preceded by "expected", "scheduled", "targeted", "planned", "proposed", "intended", "will" or similar statements.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, these forward-looking statements are based on a number of assumptions and forecasts that, by their nature, involve risk and uncertainty. Various factors could cause our actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. Factors that could cause these differences include, but are not limited to: the global supply and demand for aluminium and aluminium products, including as a result of changes in the economic climate; our continued ability to reposition and restructure our upstream and downstream aluminium business; changes in availability and cost of energy and raw materials; our ability to execute major projects and successfully integrate acquired businesses; our credit ratings and continued ability to access financing and capital at a reasonable cost; rates of inflation and industrial production; changes in the relative value of currencies and the value of commodity contracts; trends in Hydro's key markets and competition; and legislative, regulatory and political factors. For a description of factors that could cause our results to differ materially from those expressed or implied by such statements, please refer to the risk factors specified under "Risk review - Risk factors" earlier in this Annual Report.

No assurance can be given that such expectations will prove to have been correct. Hydro disclaims any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Hydro is a global supplier of aluminium with activities throughout the value chain, from bauxite extraction to the production of rolled and extruded aluminium products and building systems. Based in Norway, the company employs 23,000 people in more than 40 countries. Rooted in a century of experience in renewable energy production, technology development and progressive partnerships, Hydro is committed to strengthening the viability of the customers and communities we serve.

Norsk Hydro ASA
NO-0240 Oslo
Norway

Tel: +47 22 53 81 00
Fax: +47 22 53 85 53

www.hydro.com

Design and production: Hydro, Artbox, Poloni
Photography: Hydro, Helge Hansen
Print: Kampen Grafisk

The printer holds a Nordic Swan certificate.

HYDRO