To the shareholders of Norsk Hydro ASA

Hydro takes over the majority of Vale's aluminium business in Brazil, rights offering to shareholders

Norsk Hydro ASA has entered into an agreement to combine the majority of Brazilian mining company Vale's bauxite, alumina and aluminium assets with Hydro's existing business. The transaction transforms Hydro into a resource-rich and fully integrated aluminium company, securing Hydro access to significant and long-term bauxite resources. To partly finance the transaction, support the company's investment grade rating and capacity to implement future projects, Hydro intends to launch an underwritten rights offering of NOK 10 billion.

Summary of the transaction with Vale

After the transaction Hydro will have ownership stakes in significant assets in Brazil, comprising full control and 60 percent ownership of Paragominas, one of the largest bauxite mines in the world, 91 percent ownership in the world's largest alumina refinery Alunorte, 51 percent ownership in the Albras aluminium plant and 81 percent ownership in the CAP alumina refinery project.

The combination will strengthen Hydro's position in bauxite mining and alumina refining, which, along with energy, are the most important input factors in aluminium production. The quality and cost-efficiency of the contributed assets are expected to improve Hydro's financial position.

Vale will at closing of the transaction contribute 60 percent in Paragominas, 57 percent in Alunorte, 51 percent in Albras and 61 percent in the CAP alumina refinery project in return for a consideration comprising USD 1.1 billion in cash and 22 percent of Hydro's outstanding share capital at the time of closing. Hydro will also assume USD 0.7 billion of net debt within the contributed businesses as of December 31, 2009. Prior to the combination, Hydro already has 34 percent ownership in Alunorte and 20 percent ownership in CAP.

Hydro has the right to take over the remaining 40 percent stake in Paragominas in two installments, in 2013 and 2015 respectively, against a cash payment of USD 0.2 billion for each installment. In total, around 3,600 Vale employees will become part of Hydro as a result of the transaction, representing a significant addition of competence, expertise and skills within bauxite, alumina and aluminium operations.

Vale, the world's second-largest metals and mining company, will receive 22 percent ownership in Hydro as part of the combination, extending the close to 40 years partnership between the two companies from their current joint ownership in the Alunorte alumina refinery, the MRN bauxite mine and the CAP alumina refinery project.

The transaction also comprises additional bauxite licenses, a bauxite purchase contract from the MRN bauxite mine, in which Vale has a 40 percent ownership and Hydro a 5 percent ownership, and an alumina sales contract portfolio.

The transaction is, among other factors, subject to the consent of joint-venture partners in Vale's assets, as well as regulatory approvals. Hydro considers the regulatory risks attached to the combination to be limited. The closing of the transaction with Vale is expected in fourth quarter 2010.

According to the agreement, Vale cannot, with certain exceptions, increase its ownership in Hydro beyond the 22 percent contributed as part of the transaction, will retain its shares in Hydro, with certain exceptions, 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.

It is a condition for the closing of the transaction that Hydro's Corporate Assembly elects one person appointed by Vale to Hydro's Board of Directors.

Rights offering
To partly finance the transaction, support the company's investment grade rating and capacity to implement future projects, Hydro intends to launch an underwritten rights offering of NOK 10 billion. This is done through an issuance of new shares, with pre-emptive subscription rights for existing shareholders and holders of certificates.

Projects in Hydro's growth pipeline include the construction of the CAP alumina refinery and the expansion of the Paragominas bauxite mine in Brazil, and a possible second phase of the Qatalum aluminium plant in Qatar. In Norway, Hydro will continue to develop the Holsbru hydropower project and the plan for a new recycling plant at Karmøy.

The Norwegian state, represented by the Ministry of Trade and Industry, owns 43.8 percent of the issued shares and is supportive of the transaction and the rights offering. The Ministry of Trade and Industry has put forward a parliamentary proposition to participate according to its pro rata share of the rights offering, which is expected to be approved by the Parliament by mid-June 2010. The Government Pension Fund Norway (Folketrygdfondet), currently owner of 6.1 percent of the issued shares, is supportive of the combination and the rights offering, and has entered into an agreement to underwrite and subscribe according to its pro rata share of the rights offering at the time of the announcement of the transaction.

At closing of the combination and following the rights offering, a private placement to Vale of 22 percent of Hydro's outstanding shares will result in the Norwegian state's ownership in the company being reduced from 43.8 percent to approximately 34.5 percent.

Extraordinary General Meeting June 21
Hydro will hold an Extraordinary General Meeting on June 21 to consider the rights offering, the board authorization to issue new shares to Vale as part consideration for the acquisition of interests in certain aluminium businesses and assets and the amendment to the articles of association to extend the number of members of the Board of Directors from nine to eleven. The notice of the meeting is attached. The Board of Directors recommends that the Extraordinary General Meeting adopts the resolutions relating to these three items as described in the notice.

Hydro is also preparing an information memorandum on the transaction to be published on or close to June 2, 2010 on Hydro's website www.hydro.com. In connection with the rights offering a prospectus will be prepared and published immediately prior to the commencement of the subscription period. The subscription period is planned from June 25 to July 9, 2010. The subscription price and other terms related to the offering will be announced immediately prior to the Extraordinary General Meeting on June 21. Shareholders who has not subscribed to electronic receipt of documents from Hydro will receive hard copies of the prospectus and subscription form.

Yours sincerely,

Oslo, May 27, 2010

Terje Vareberg
Chairman of the Board of Directors

Svein Richard Brandtzæg
President and CEO