

Capital Markets Day 2002

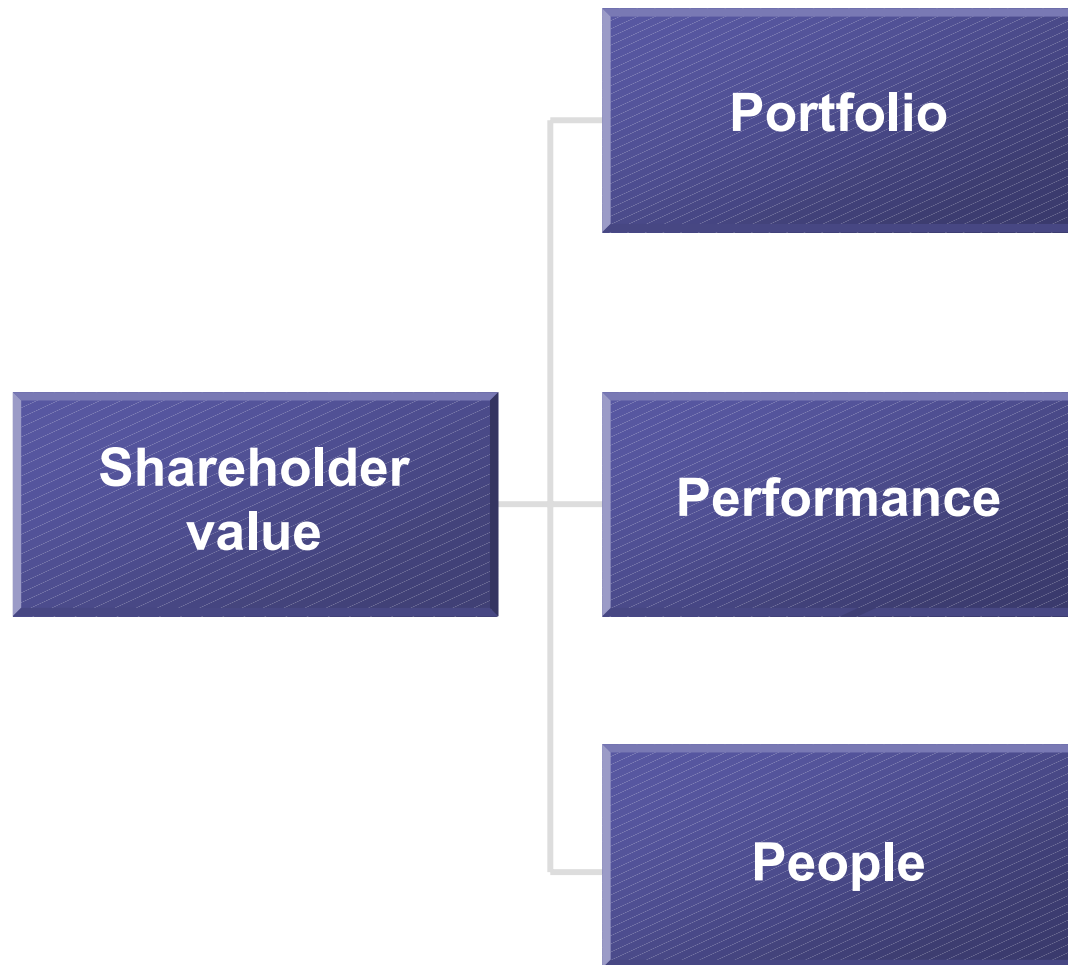
Financial Issues

Executive Vice President and CFO
John Ottestad
Oslo, December 9, 2002





Creating shareholder value





CROGI – our key measure of return

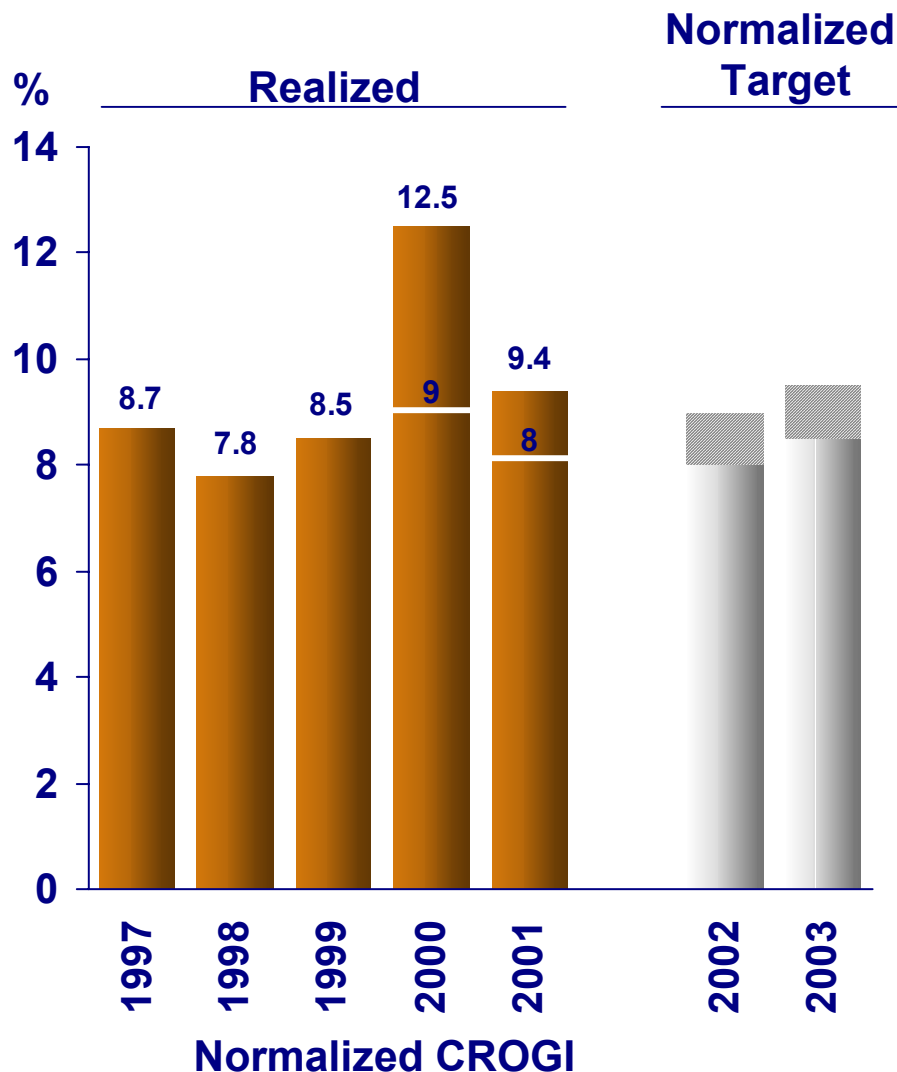
- CROGI – cash return on gross investment

$$\frac{\text{EBITDA less tax}}{\text{Gross invested capital}}$$

- CROGI at normalized prices
 - Indicator for average performance over the cycle
 - Target 10%
- CROGI as a management tool
 - Measures effects of internal improvement efforts
 - Gives the right incentives



CROGI development



● Normalized assumptions:

■ NOK/USD	8.00
■ NOK/EUR	7.60
■ Brent bbl	\$18
■ CAN27 tonne	\$113
■ LME 3M tonne	\$1 500

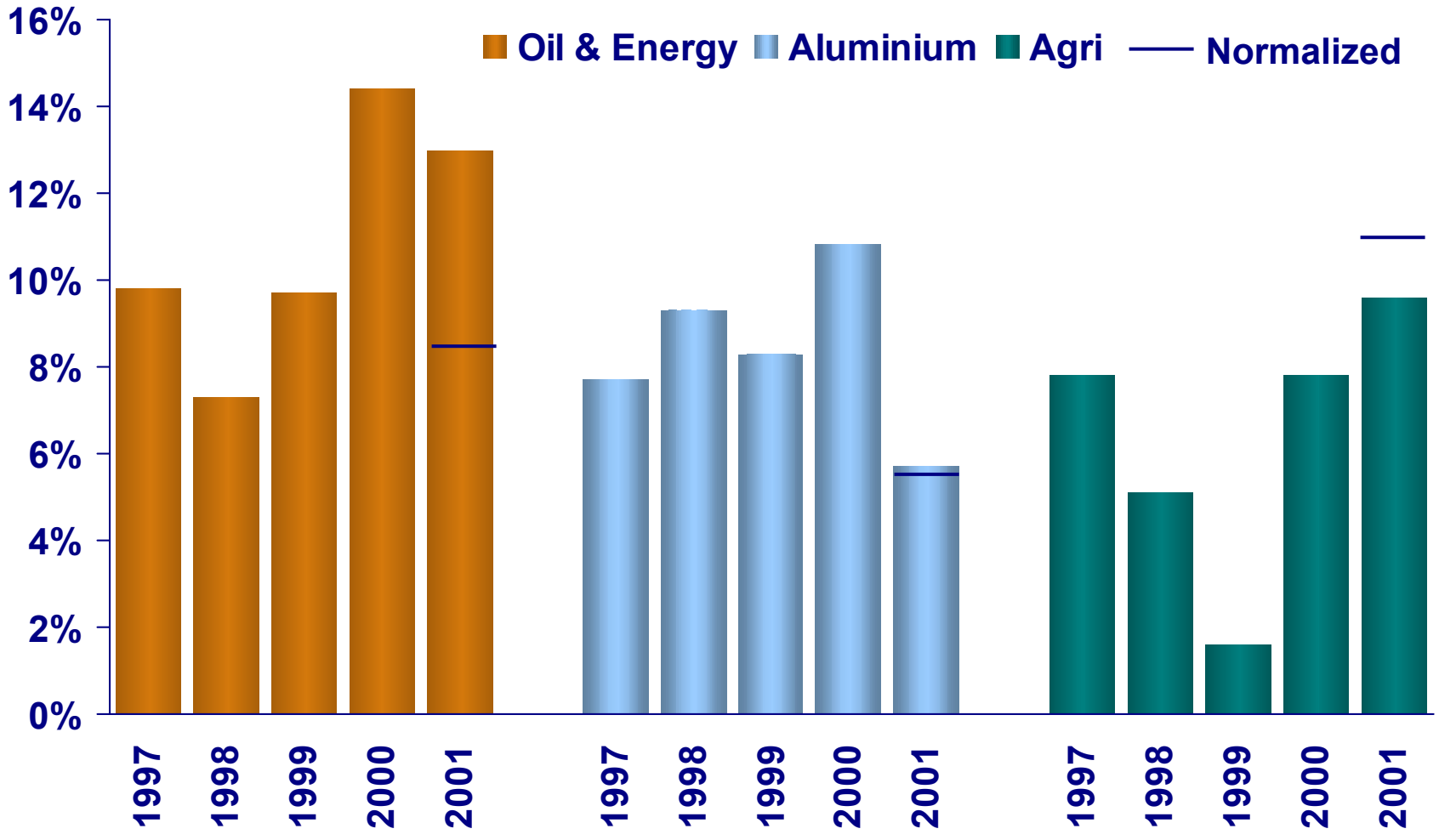
■ Restructuring charges and gain/loss on divestments excluded in normalized CROGI

● Volumes and margins are not normalized



CROGI per business area

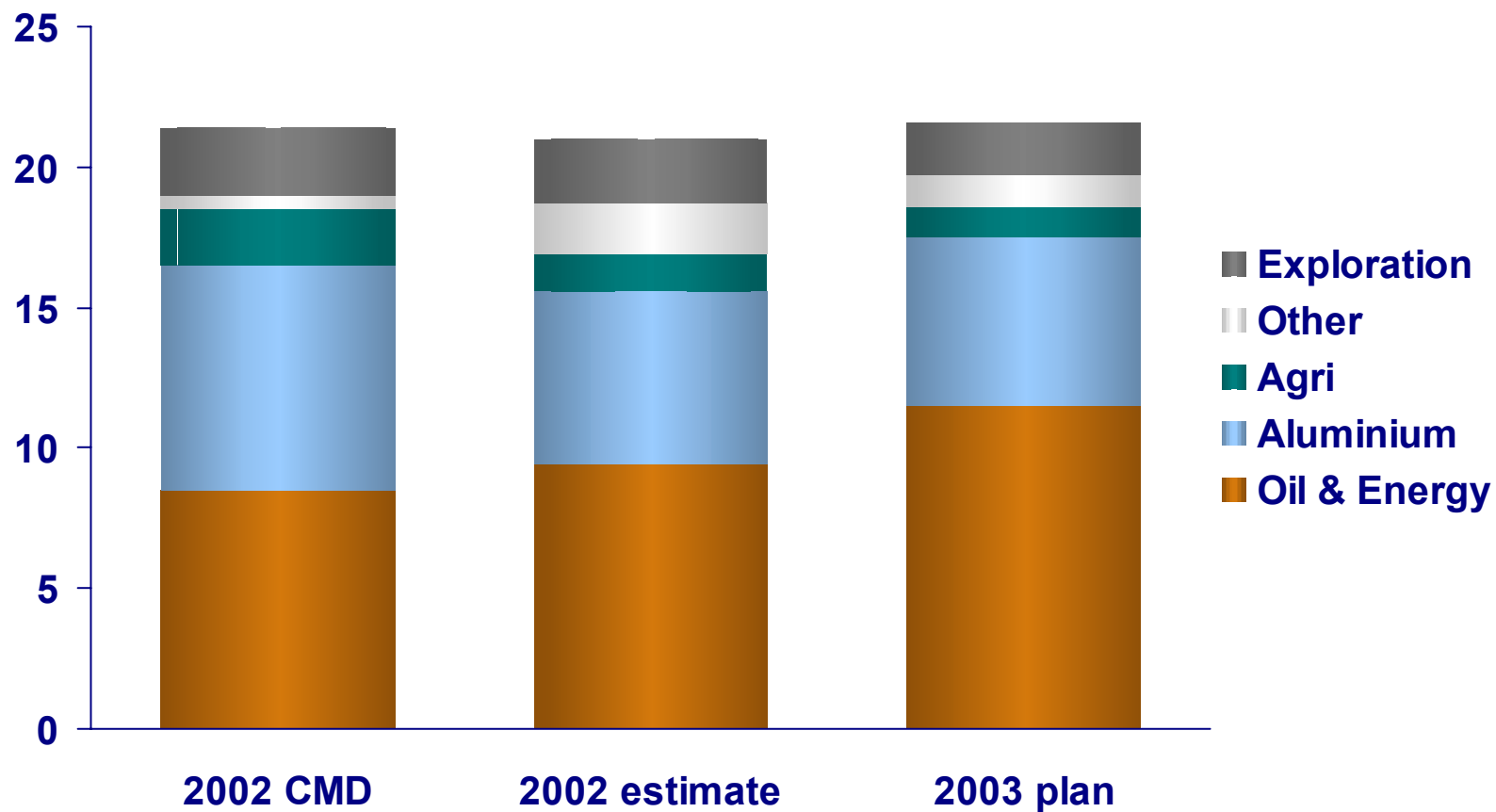
Actual and normalized prices





Capital expenditures

NOK billion



2002: VAW and SDFI acquisitions not included



Acquisitions 2002

- **VAW Aluminium – a transforming transaction**
 - Cash and debt: NOK 20.4 billion
 - Pension liabilities: NOK 3.2 billion

- **SDFI – strengthening position in core areas**
 - Cash: NOK 3.5 billion

- **Technal – creating world leader in building systems**
 - Cash and debt: NOK 870 million

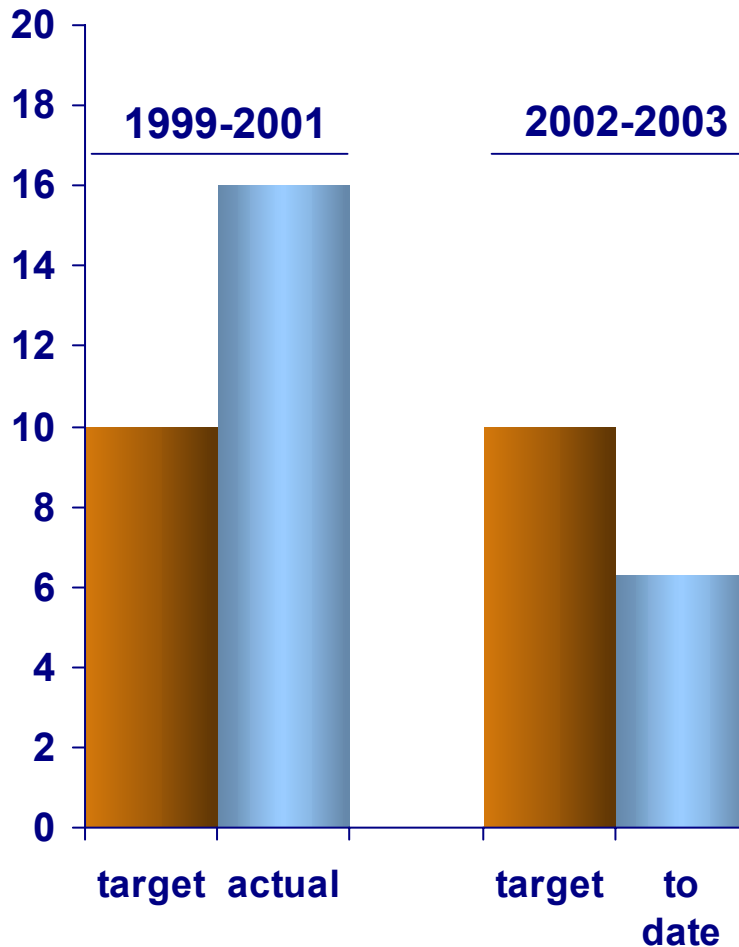
- **All three acquisitions accretive to 2002 earnings**

Gross-up effects from deferred tax are not included in these figures



Divestments

NOK billion

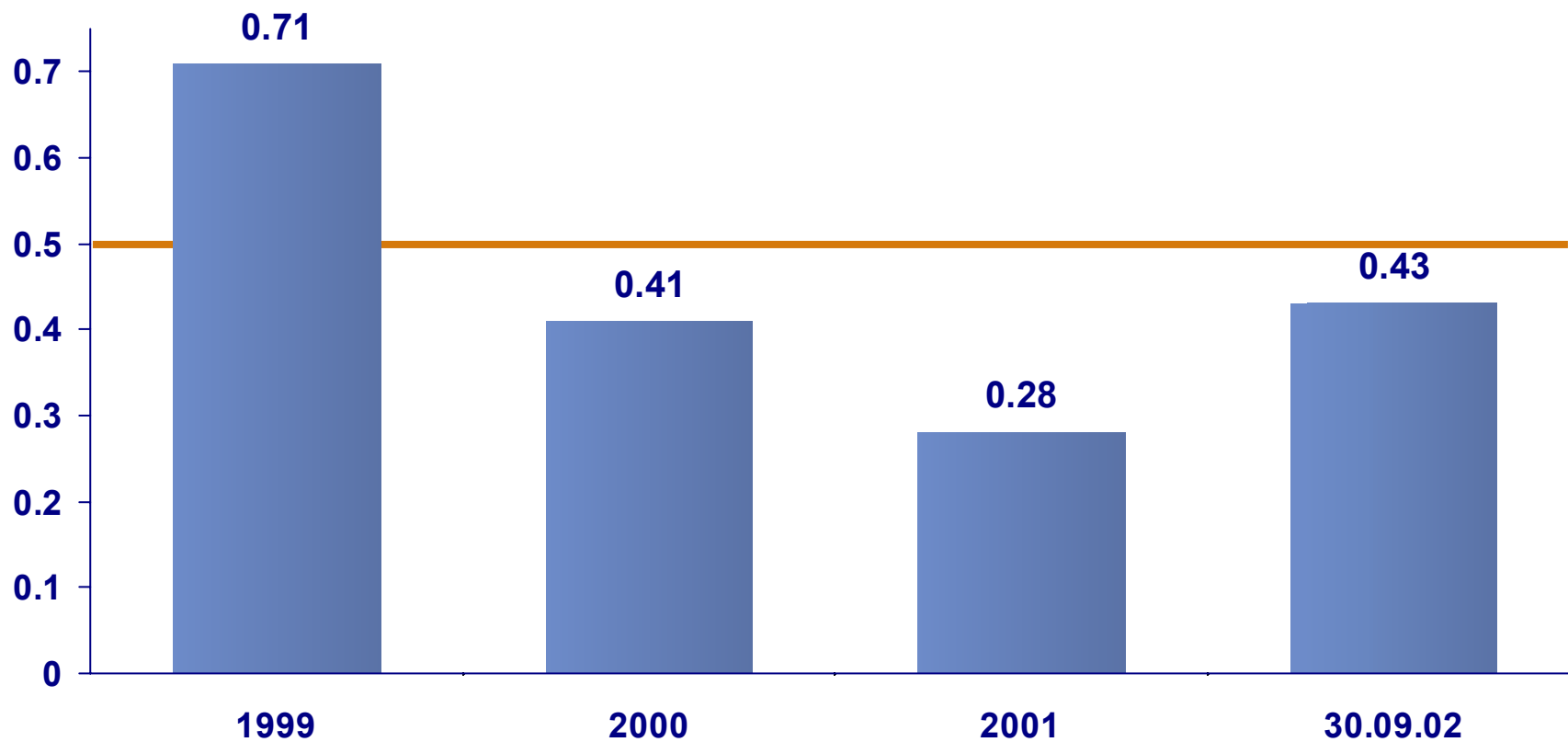


- On track to reach divestment target of NOK 10 billion by end of 2003
- Signed deals in 2002
 - KFK grain and feedstuff
 - Flexible Packaging
 - Other
- 2001 EBITDA for divested assets approximately NOK 600 million (pro forma)



Debt / equity

Ratio



Net interest-bearing debt divided by shareholders' equity plus minority interest



Commodity and currency exposure

- **Aluminium**
 - Full exposure to market prices
 - Exception: Sunndal expansion metal partly sold forward *

- **Oil and fertilizers**
 - Full exposure to market prices

- **Currency**
 - Funding used to hedge income

* Subject to hedge accounting, full details in Annual Report 2001



Indicative P&L sensitivities 2003

NOK million

Price sensitivity	Pre tax	After tax	
OIL price sensitivity, O&E	1 300	350	\$1 increase
OIL price sensitivity, Agri	(110)	(80)	\$1 increase
OIL price sensitivity	1 190	270	\$1 increase
LME price sensitivity, Aluminium	830	580	\$100 increase
CAN price sensitivity, Agri	500	350	\$10 increase
USD sensitivity *			
USD sensitivity O&E	3 000	810	1 NOK increase
USD sensitivity Aluminium	1 650	1 160	1 NOK increase
USD sensitivity Agri	600	420	1 NOK increase
USD sensitivity Hydro	5 250	2 390	1 NOK increase
USD sensitivity Financial Items **	(2 440)	(1 340)	1 NOK increase
USD sensitivity NET	2 810	1 050	1 NOK increase

* USD sensitivity estimates assuming USD/NOK changes, all other currencies fixed against NOK

** Excluding cash flow and equity hedge total exposure USD 1 275 mill and USD 400 mill debt in USD-based subsidiaries



Pension costs

- **Estimated 2002 pension cost NOK 1.6 billion, compared to NOK 1.5 billion last year**

- **2003 pension cost is expected to increase due to**
 - **Increased pension obligations**
 - **Reduction in expected return on pension plan assets**
 - **Amortization of unrecognised prior service cost and net loss**
 - **VAW included for full year**



Financial priorities

- **Operational performance**
- **Capital discipline**
- **Meet NOK 10 billion divestment target**
- **Maintain financial strength**

Additional information





Main financial targets

- **Annual performance**
 - Cash return on gross investment – CROGI
Nominal after tax, normalized prices **10%**
- **Investment criteria**
 - Real IRR after tax **10%**
(Oil \$14/bbl, Aluminium \$1 400/tonne, USD/NOK 8.00)
- **Dividend**
 - Share of net income, average over cycle **30%**
- **Solidity**
 - Net interest-bearing debt/equity **0.5**



Pensions

31.12.2001	NOK million	
Obligations - funded plans	14 306	
- unfunded plans	3 314	17 620
Pension Plan Assets – funded plans		16 876
Funded status of the plan		(744)
Net assets recognised in balance sheet 31.12.2001		2 803
Unrecognized prior service cost end net loss		(3 547)
<u>Weighted-average assumptions at end of 2001</u>		
Discount rate		7.0%
Expected return on plan assets		8.0%
Rate of compensation increase		3.0%

2002 development

- **Pension obligations increase**
 - Compensation increase higher than assumed
 - Reduction in long-term interest rates
- **Pension plan assets reduced**
 - Loss on plan assets due to reduction in values of equities
- **This leads to increased net unrecognized loss as of 31.12.2002**
- **15.03.2002: Hydro assumed unfunded VAW pension liabilities of NOK 3.2 billion**



Estimated pension cost 2002

NOK million		
1. Service costs		600
2. Interest costs on obligations:	17 620 * 7%	1 230
3. Expected return on assets:	16 876 * 8%	(1 350)
4. Amortizations (of gain/loss and prior service costs)		200
5. Curtailment loss and other		70
Net periodic pension costs		750
Termination benefits and other pension plans		600
Total		1 350
VAW for 9 ½ months of 2002		250
Total including VAW		1 600