

# Capital Markets Day 2002

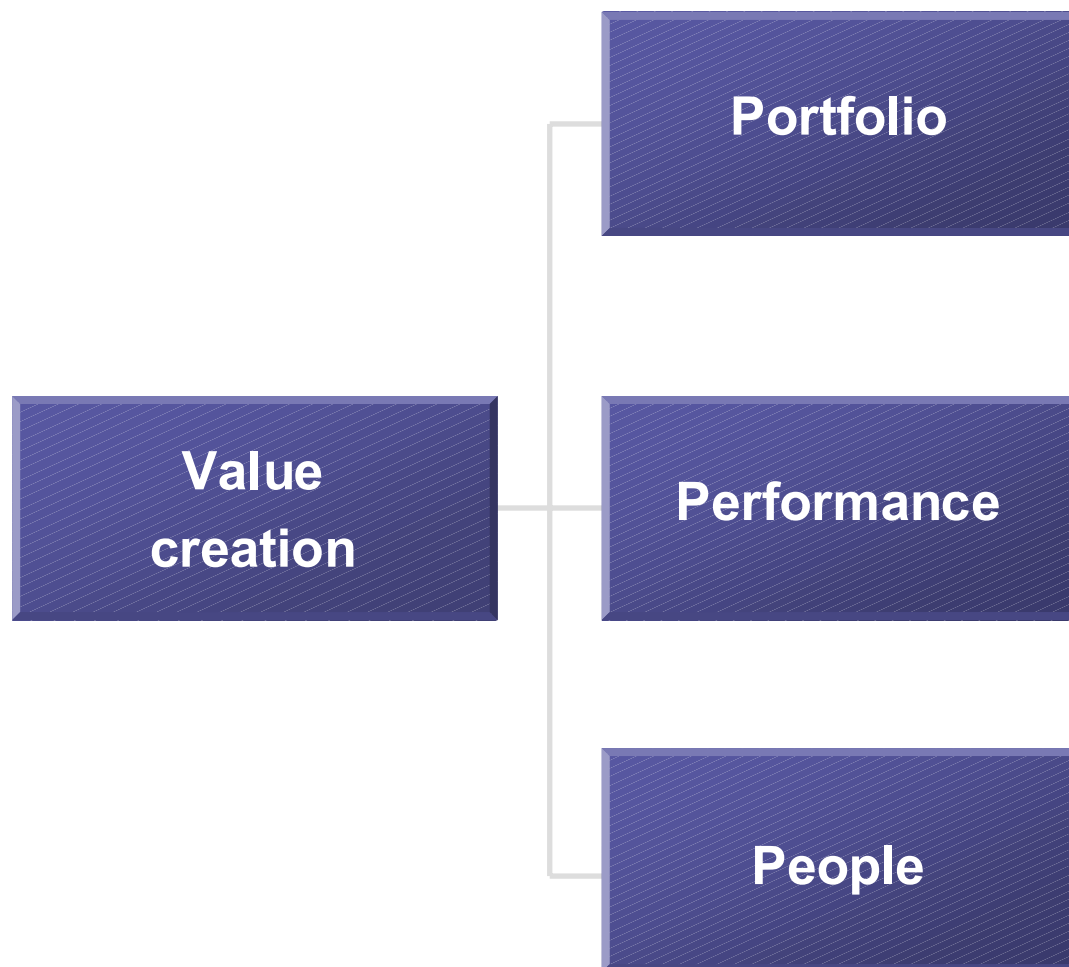
## A performance culture

Executive Vice President  
Alexandra Bech  
Oslo, December 9, 2002





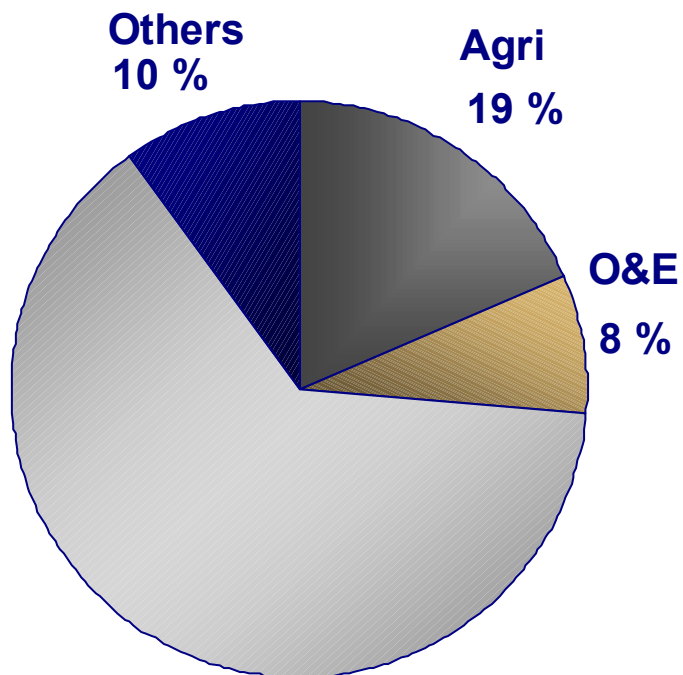
# Key levers for value creation





# A large international organisation

**50 700 employees\***



**63 %  
Aluminium**

**60+ countries  
(Top ten)**

Norway	14 669
Germany	6 788
USA	4 153
France	3 913
Denmark	2 449
UK	2 156
Italy	2 141
Sweden	1 731
China	1 701
Brazil	1 120

\*Per 30.09.02



# Improving from a strong position

- **Capitalising on our legacy**
  - **Openness & flexibility**
  - **Proactive employee and community dialogue**
  - **Equality and respect**
  - **Responsible business practices**
  
- **Pushing further on key issues**
  - **Performance orientation**
  - **Norwegian company, international employer**



# People Policy for culture change

***“The main objective of our People Policy is to strengthen Hydro’s competitiveness. We want to be a dynamic, diverse and energetic organisation where everyone contributes to innovation, performance improvement and first-class results.”***





# Key tools supporting change

- **Systematic leadership development and performance management**
- **Active use of compensation policy**
- **Open internal job market**
- **Professional change management**



# Capitalising on our management model

- **Demanding corporate owner**
  - **Portfolio, Performance, People**
- **Business Areas - accountable, competing for capital**
- **Reducing costs and increasing service through Hydro Business Partner**



# Aligned management compensation

- **Base pay**
  
- **Performance bonus**
  - 25% of base
  - Tied to improvement targets
  
- **Options**
  - 25% of base
  - 3+2 years
  - 12% - 20% TSR
  - Ownership requirements





# Real change at the top

- **Generation change, New challenges and Performance drive**
  - 4 of 6 CMB members new since 1999
  - 12 of 16 sector managers new since 1999
- **More international**
  - 44% non-Norwegian sector heads vs. 12% in 1999
- **More women**
  - 1 sector head, 9 CMB reports, vs. 0 in 1999
- **Younger**
  - Average age CMB + reports from 52 to 48 in 1999

# Capital Markets Day 2002

## Hydro Oil & Energy

- Growth
- Performance

Executive Vice President  
Tore Torvund  
Oslo, December 9, 2002





# Twin paths to create value

- **Exploration and Production opportunities**
- **Positioning in the European energy market**



# Major energy player in Europe\*

## ● Norway

- 52% of proven oil reserves
- 27% of proven gas reserves
- 31% of hydroelectric power production
- 1% of population

## ● Norsk Hydro

- Operate 1.2 million boe/day on NCS
- Hydroelectric power generation 8.5 TWh
- Largest energy consumer in Europe

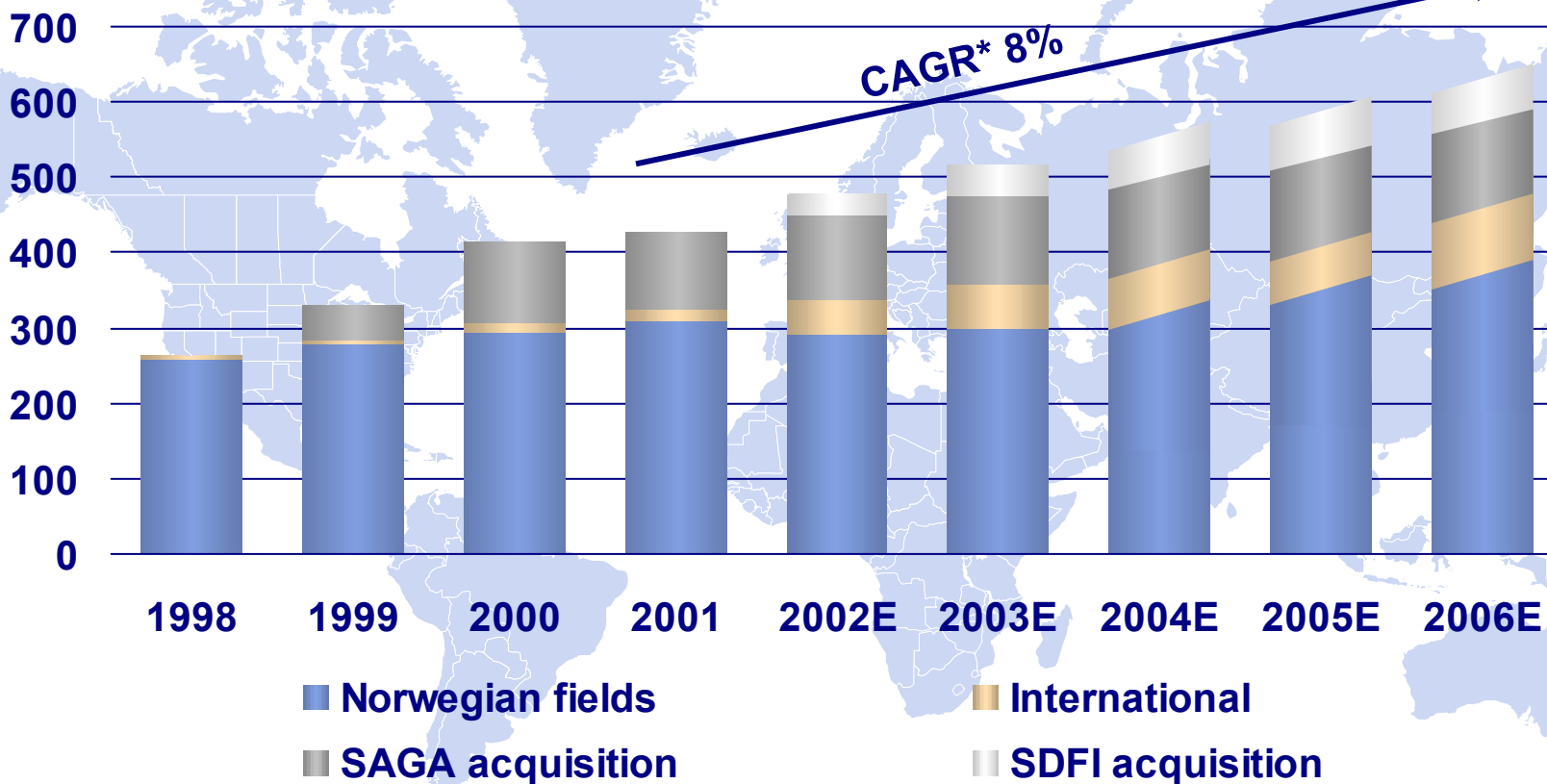
\* EU15+Norway

Sources: *BP Statistical review, Eurostat*  
40374 - 11.2002 - \* 3 - Hydro Media



# Competitive production growth

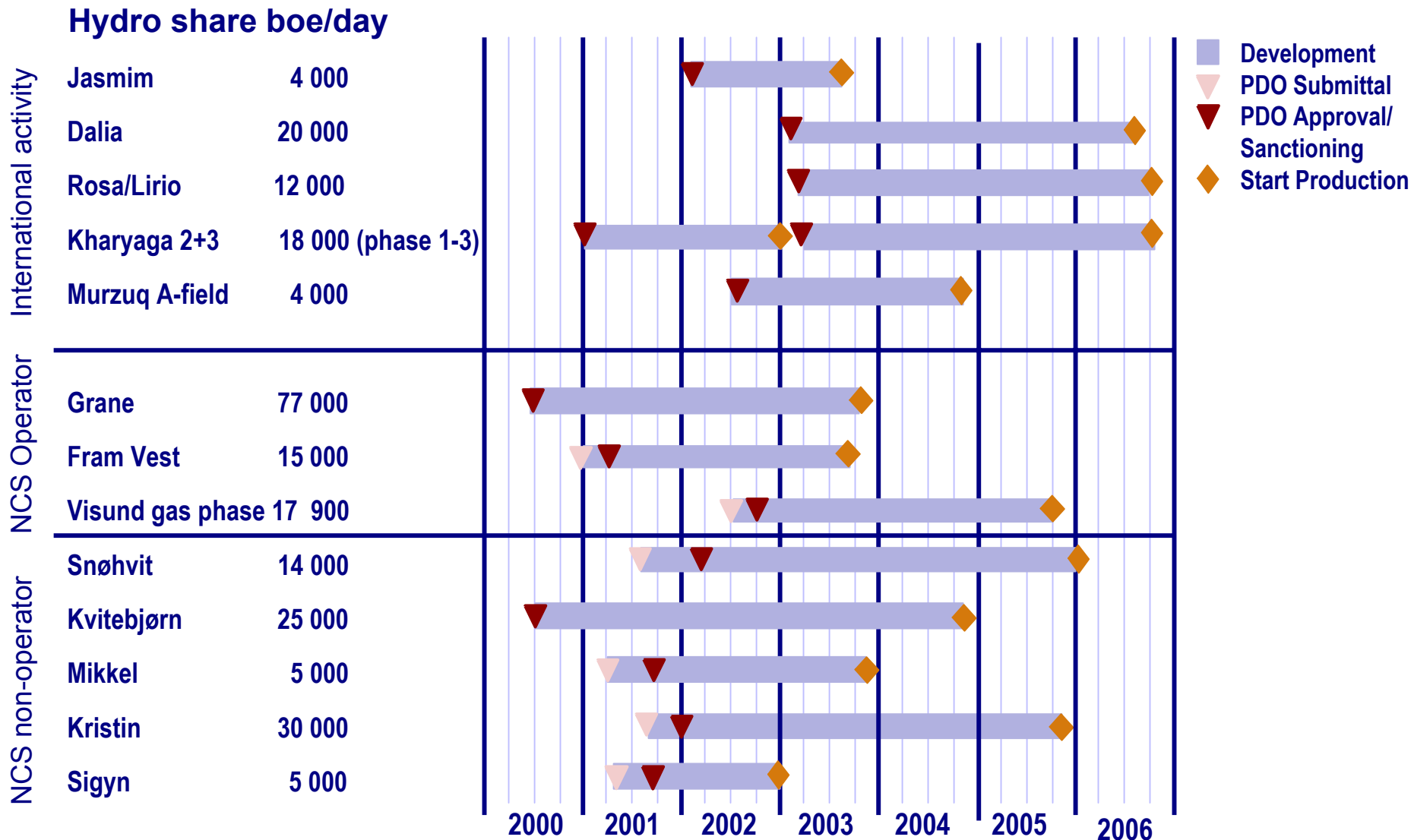
1 000 boe/day



\* Compound Annual Growth Rate, 2001 baseline



# New fields on stream 2003-2006





# Continued focus on cost discipline



- **Grane on track for 2003 Q3 start-up**
  - **Budget reduced by NOK 1 billion**

## Outlook 2003-2006<sup>1</sup>

- **Investments:**
  - **NOK 12 billion/year**
- **Operating cost level<sup>2</sup>:**
  - **Maintain at today's level**

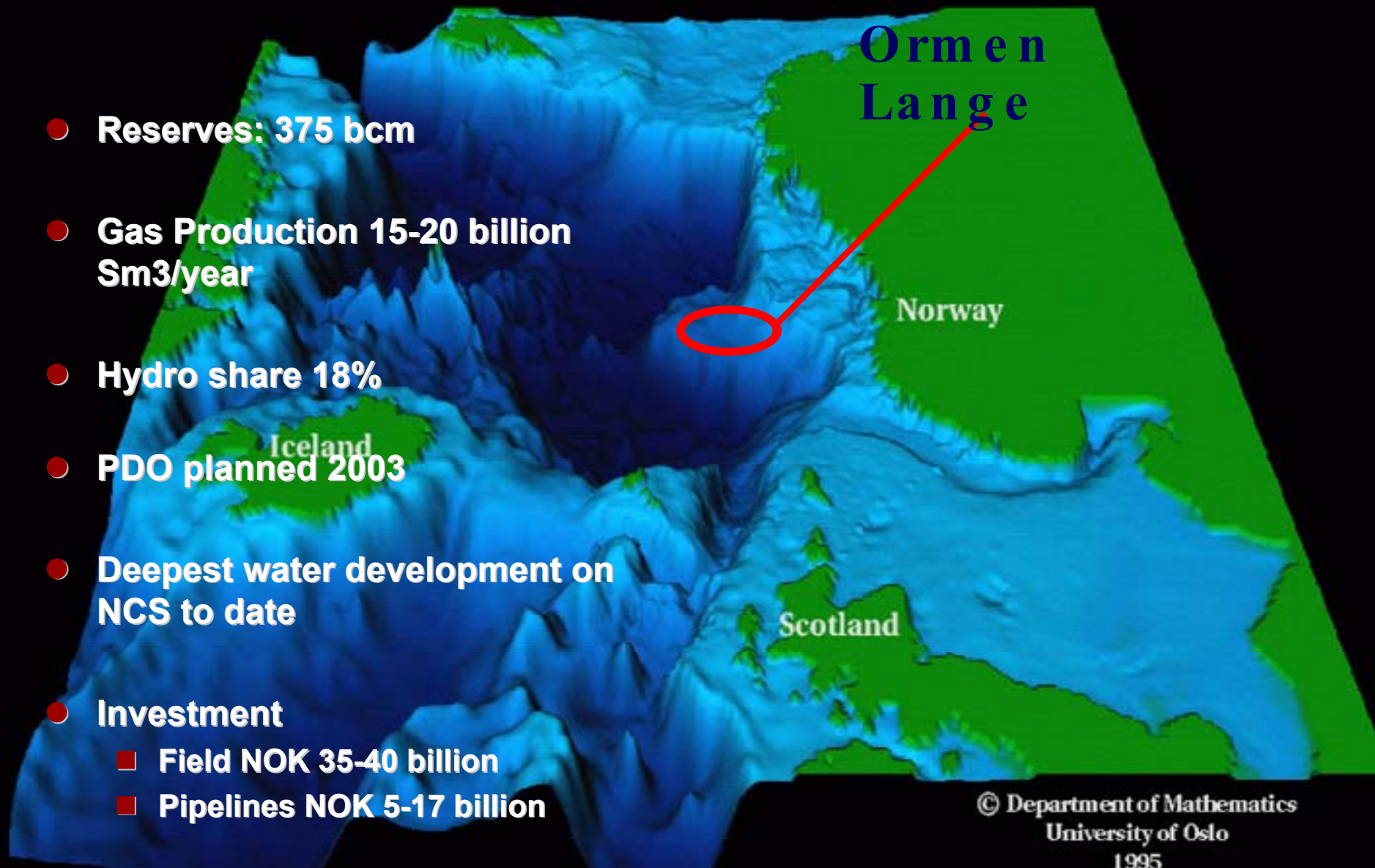
1) *Excl. Exploration*

2) *Field Production costs + depreciation and abandonment + net tariffs + other income/cost*



# Ormen Lange – planned production 2007

- Reserves: 375 bcm
- Gas Production 15-20 billion Sm<sup>3</sup>/year
- Hydro share 18%
- PDO planned 2003
- Deepest water development on NCS to date
- Investment
  - Field NOK 35-40 billion
  - Pipelines NOK 5-17 billion







# Access to attractive acreage

## International E&P strategy:

- Priority to oil prospects
- Based on NCS operator competencies
- Alliance with regional players

## Alliances:

Canada  
Petro-Canada

Angola  
Sonangol

Iran  
NIOC

Libya  
TotalFinaElf



## Potential projects:

Canada  
Hebron & Annapolis

Angola  
Further  
developments

Iran  
Anaran

Libya  
Murzuk basin

# Exploration options with low future commitments



NOK million

Exploration activities outside Norway

2 000

1 000

0

1996

1997

1998

1999

2000

2001

2002E

2003E

2004E

2005E

2006E

Gulf of Mexico

Canada: Flemish

Canada: Scotian Shelf

Iran: Anaran

Angola: Block 34 & 25

Canada: Grand Banks

Libya: Murzuk

Angola: Block 17

Options

Excluding licence acquisition costs

40374 - 11.2002 - \* 9 - Hydro Media



## Discoveries made in 2002

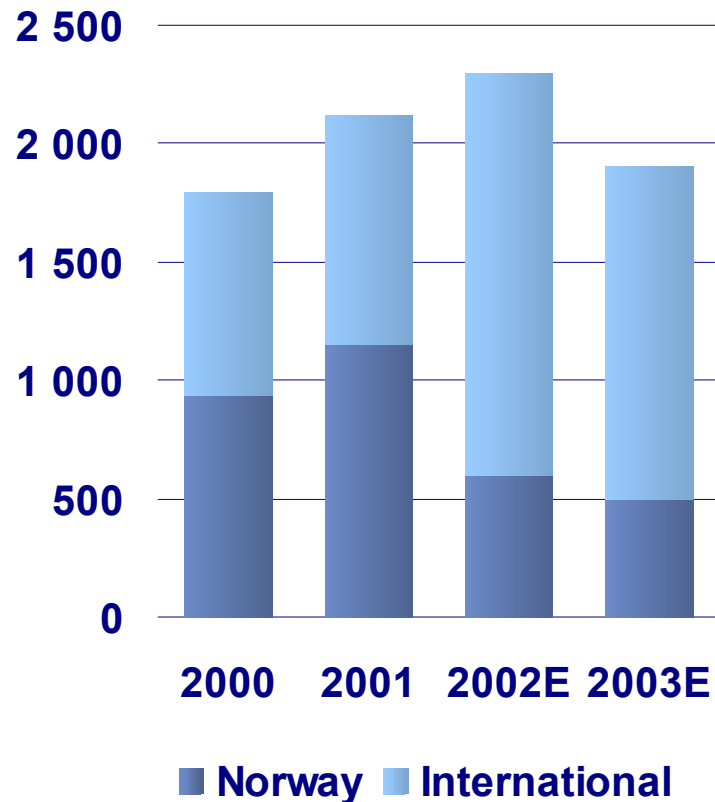
Country	Exploration well	Hydro share	Discovery
Canada	Annapolis	25%	Gas
	Hibernia & Terra Nova	5-15%	Evaluation ongoing
Libya	Block 190 B1 (P-17)	20%	Oil
	Block 186 D2 (DEL-1)	20%	Oil
	Block 186 D3 (DEL-2)	20%	Oil
Angola	Block 17	10%	Evaluation ongoing
Norway	PL 050 (34/10-45)	9%	Oil
	PL 050 (34/10-46)	9%	Oil
	PL 050 (34/10-47)	9%	Oil
	PL 128 Stær (6608/10-8)	13.5%	Oil
	PL 209 Ormen Lange (6305/4-1)*	25%	Gas
	PL 091 Tyrihans (6406/3-6)*	12%	Oil

\* Appraisal



# Substantial exploration in 2003

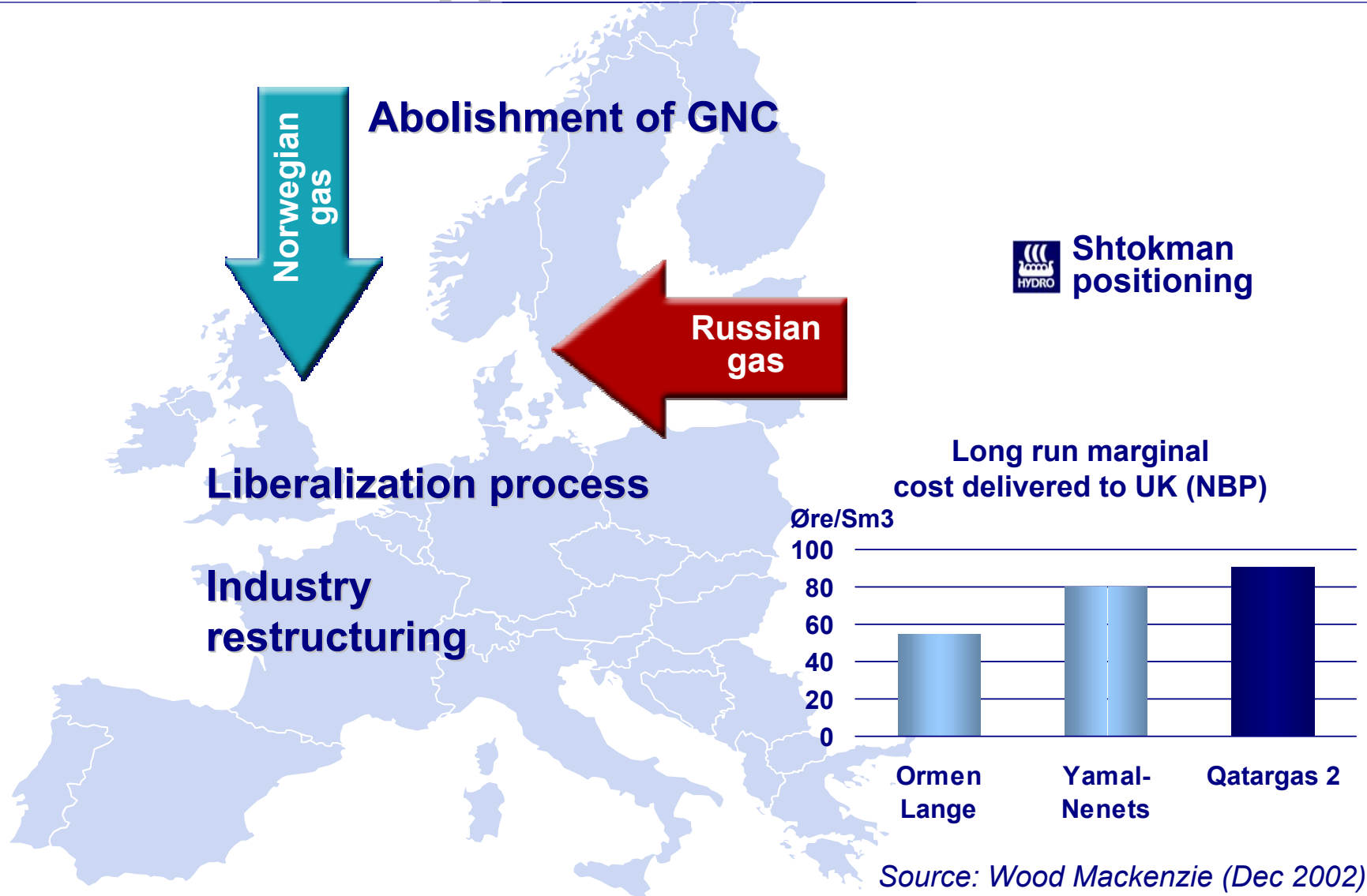
NOK million



## Major exploration wells

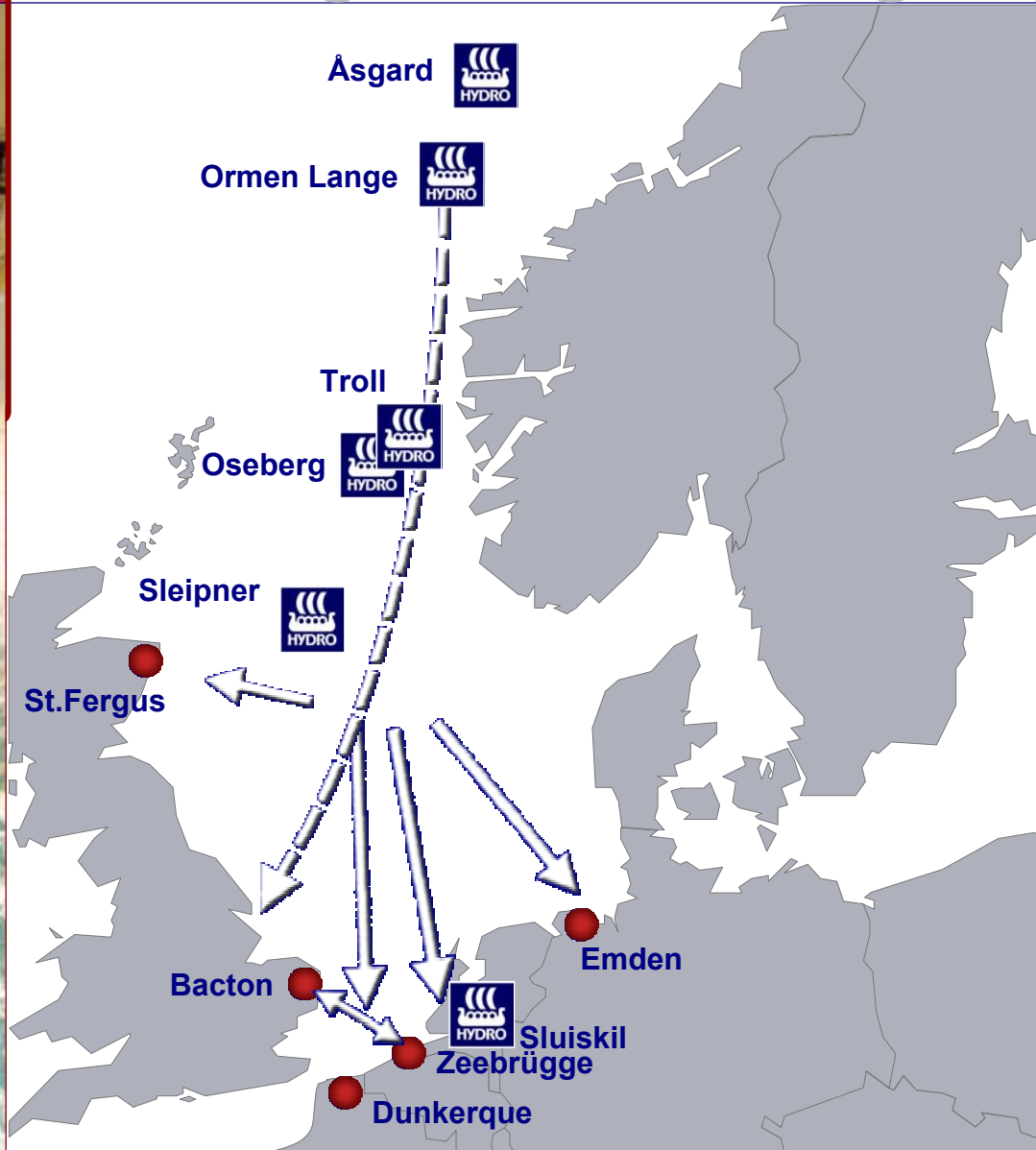
Location	Hydro share	Status
USA – Gulf of Mexico	25%	2 wells Q1, new options
Canada – Annapolis	25%	Delineation well Q4
Canada – Flemish Pass	33%	2 wells Q1-2
Iran – Anaran	100%	2 wells Q1
Angola – Block 34	30%	1 well Q4
Angola – Block 25	20%	2 wells Q2
Libya	20%	4-6 wells
Norway	–	17th round & satellite wells

# European Energy Market – offers new opportunities





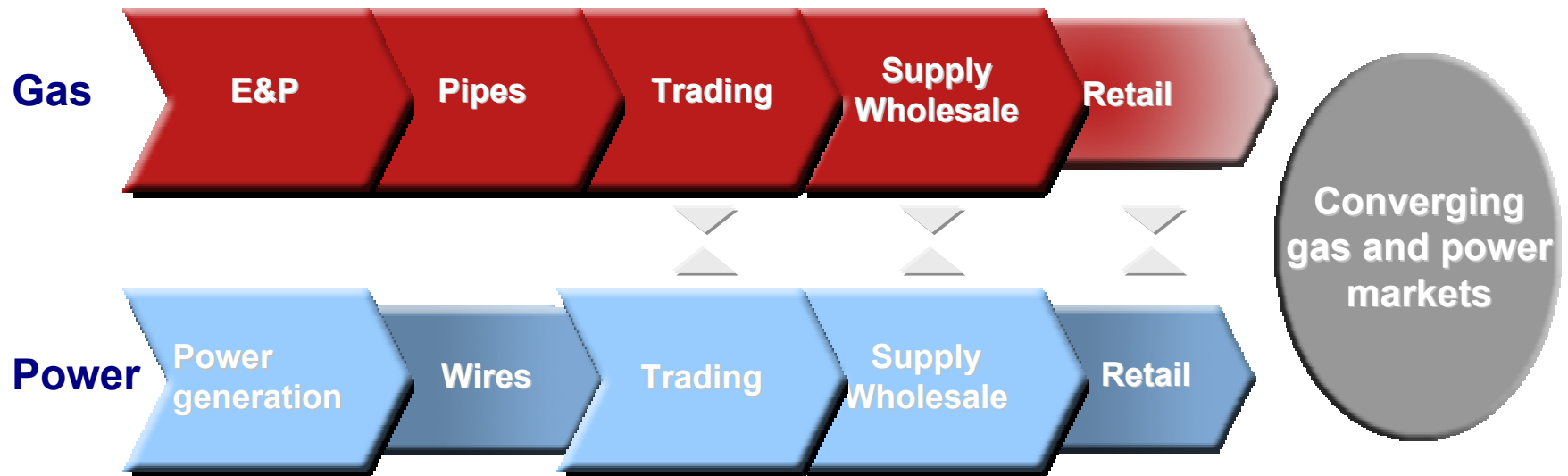
# Strong and flexible gas position in Europe



- Strong growth in equity production
- Ormen Lange – large uncommitted volumes
- Access to several landing points
- Diversified customer portfolio



# Energy markets towards integration



*Hydro participates selectively in the gas and power value chains*

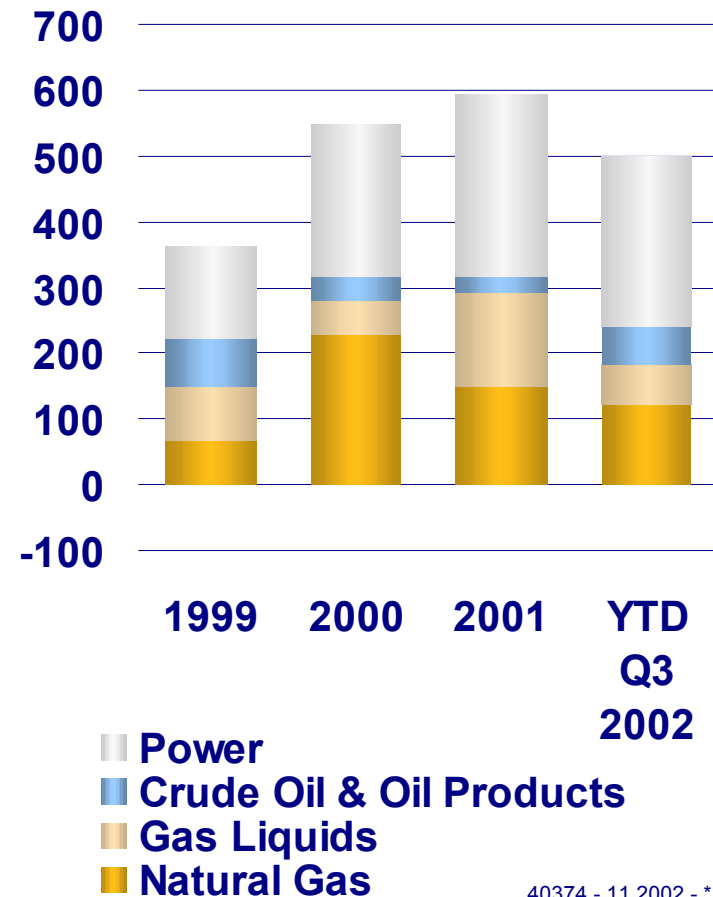


# Commercial track record

- Active player at gas hubs since market opening
- Nordpool experience in power trading
- Active portfolio management

## Contribution margin – Trading

NOK million





# Capital Markets Day 2002

## Hydro Oil & Energy

- **Growth**
- **Performance**

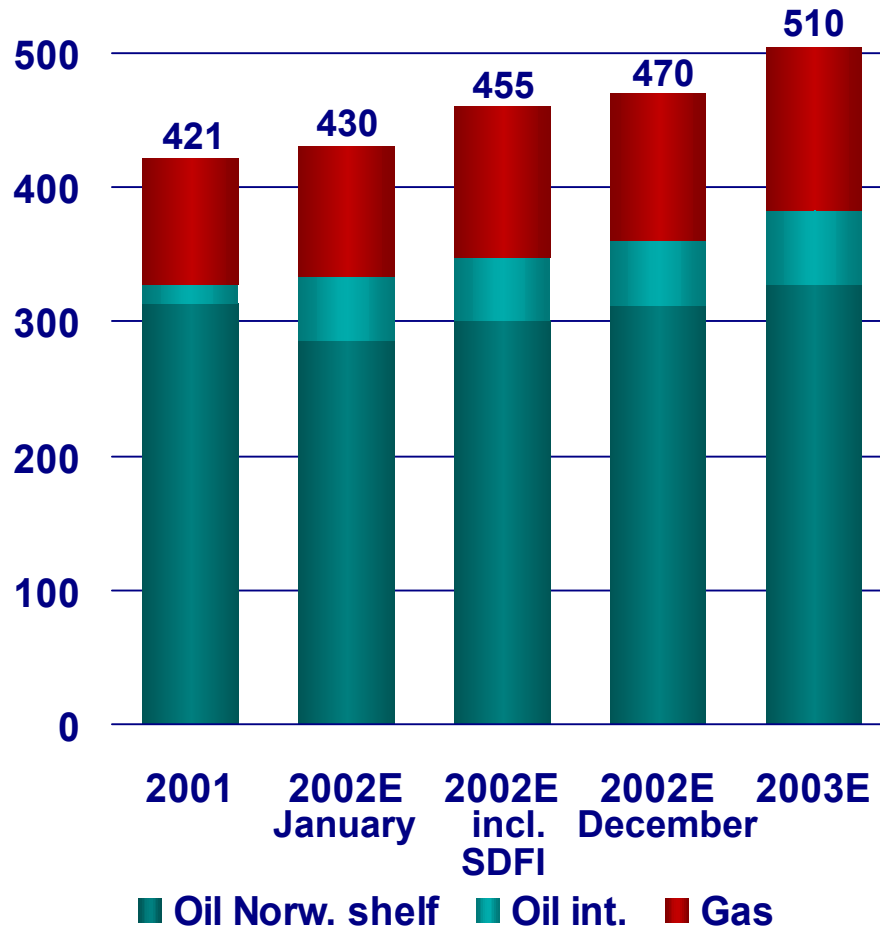
Executive Vice President  
Tore Torvund  
Oslo, December 9, 2002





# Strong production growth

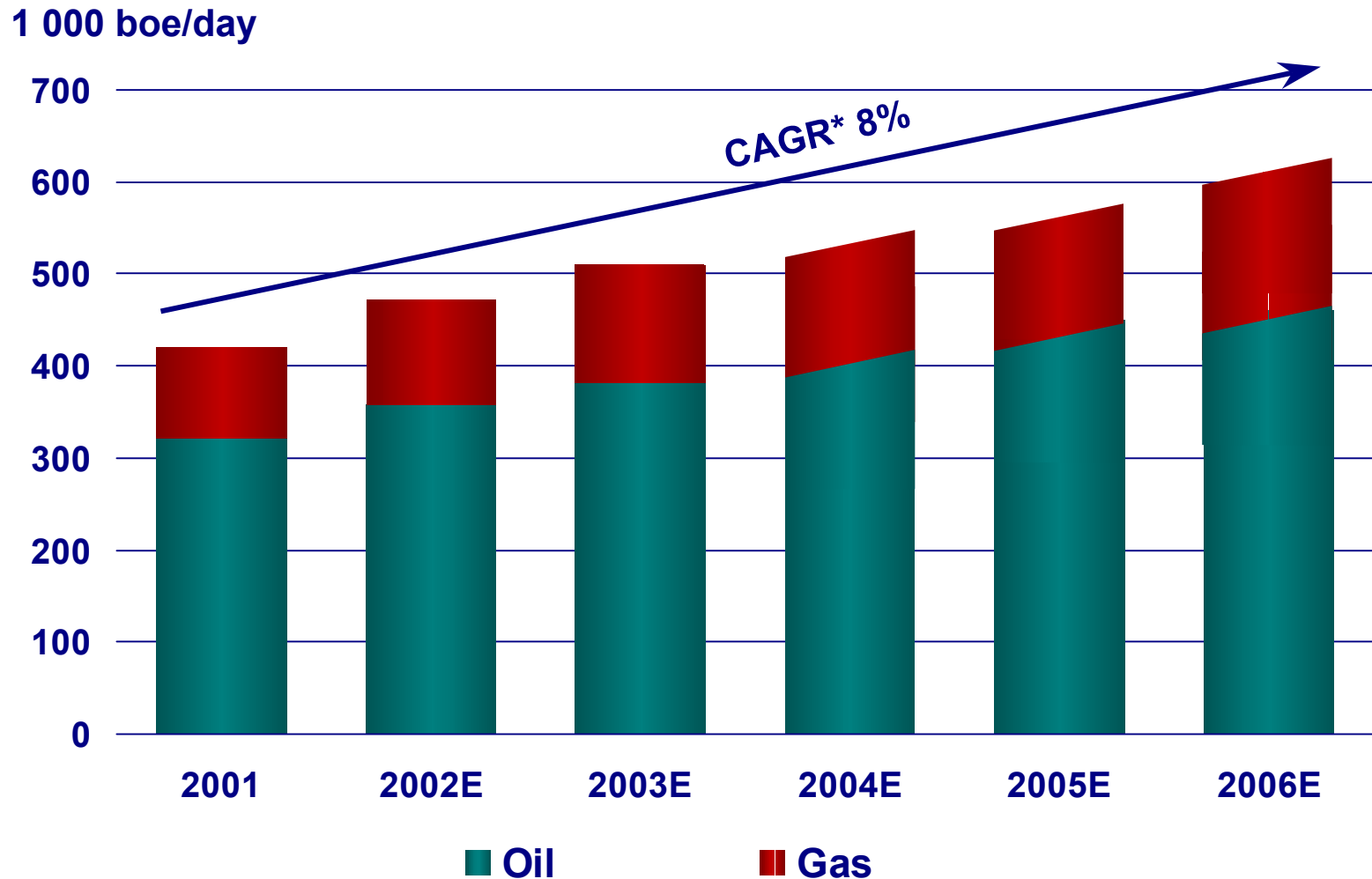
1 000 boe/day



- 12% production growth 2001-2002 including SDFI
- Production target for 2003 510 000 boe/day



# Both oil and gas production are growing

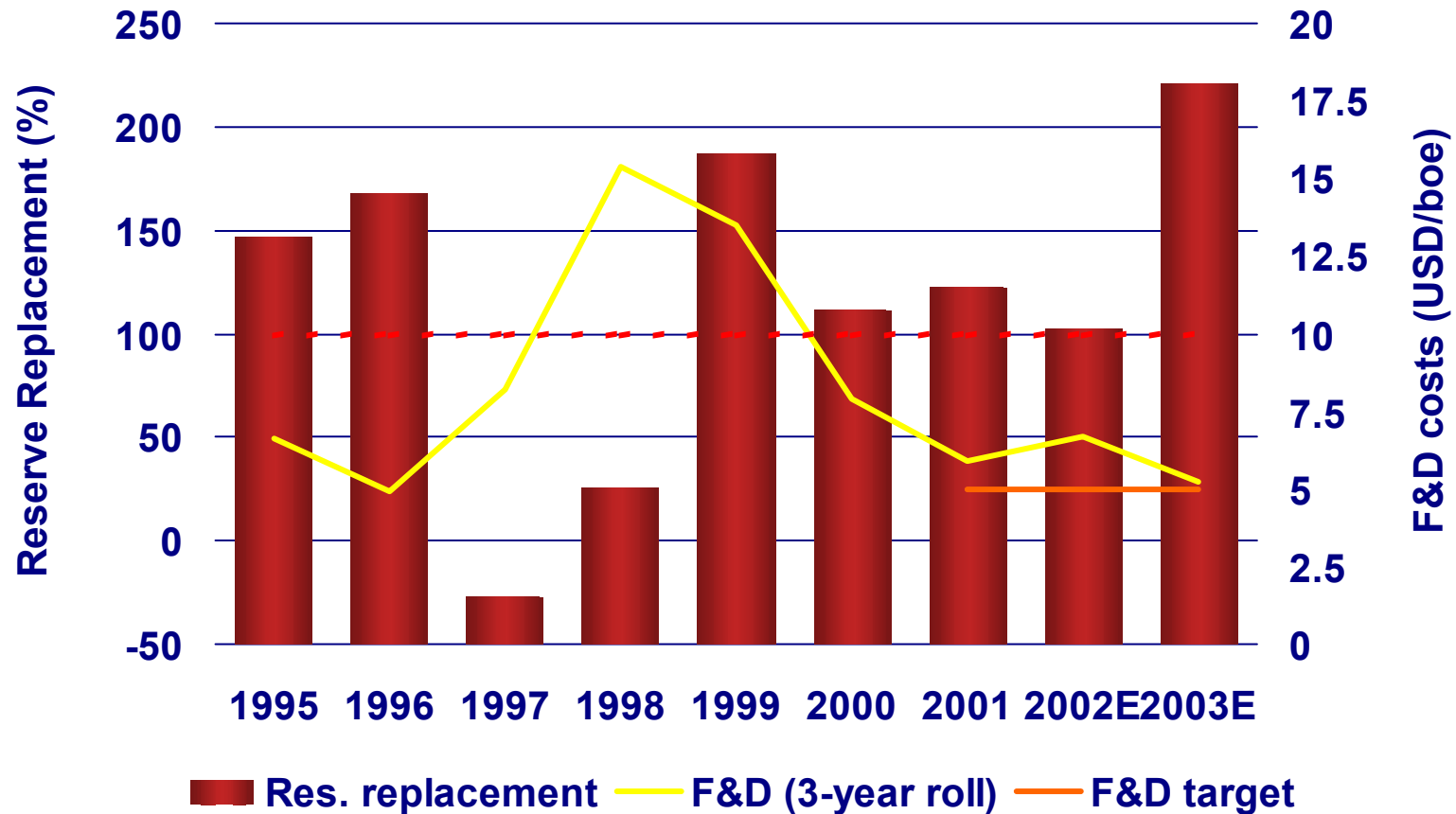


\* Compound Annual Growth Rate, 2001 baseline



# F&D costs tracking down towards target

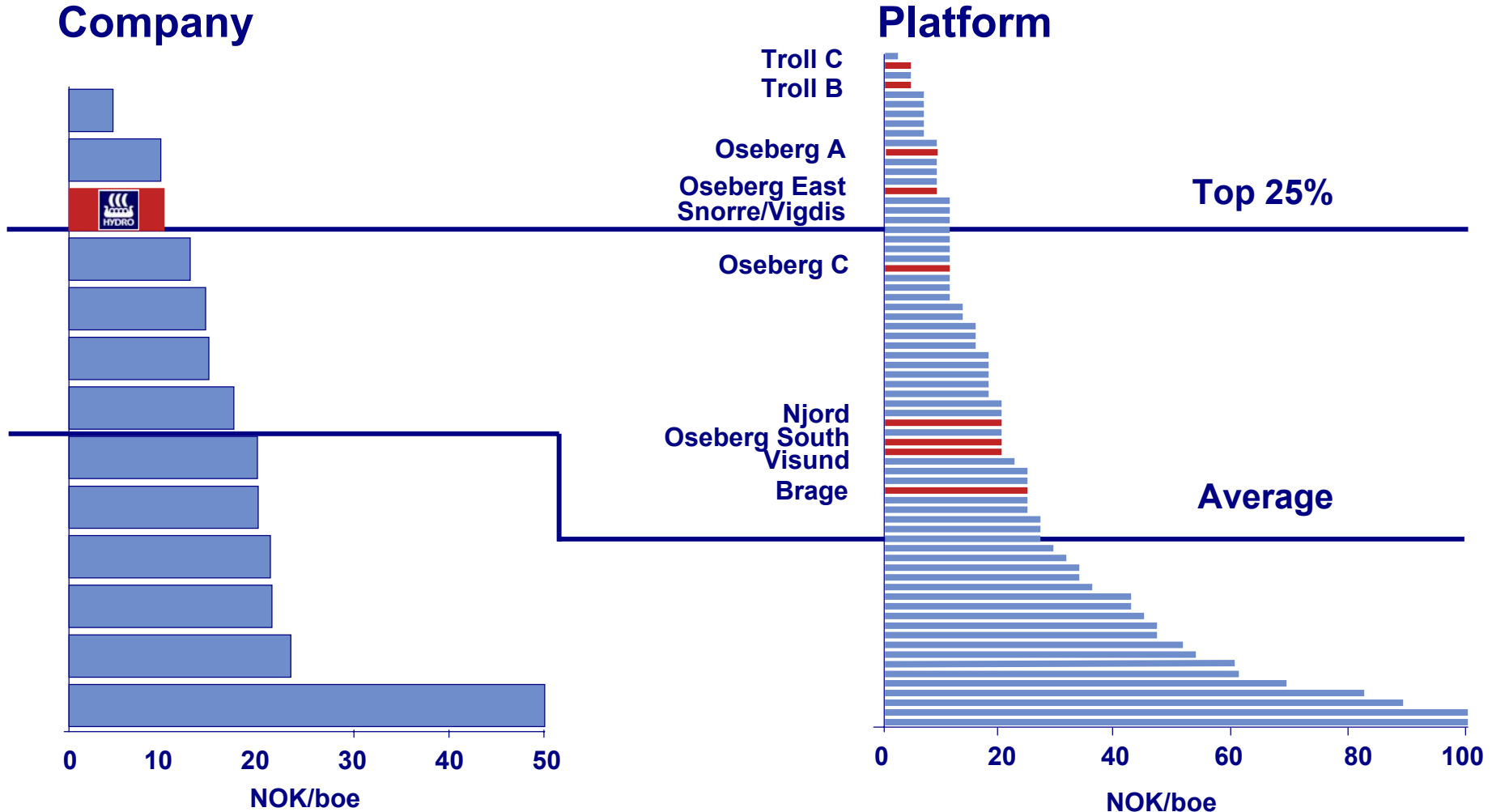
## F&D costs excl. sale & purchase



Reserves changed from P80 to P90 in 1997



# Strong performance in operations



**Benchmark of Norway and UK Central North Sea**

Source: McKinsey, June 2002  
40374 - 11.2002 - \* 20 - Hydro Media



# Financial and operating targets for 2003

- **Production target** 510 000 boe/day
- **Operating cost** NOK 82/boe  
(excl. exploration)
- **F&D costs** USD 5/boe  
(3 year average)
- **Reserves Replacement Ratio** 140%  
(3 year average)
- **CAPEX level** NOK 11.5 billion
- **Exploration level** NOK 1.9 billion



# Key Messages

- **Strong organic E&P growth**
  - CAGR of 8% extended through 2006
  - More projects to come on stream 2007 onwards
- **Substantial exploration portfolio to be tested 2003**
  - Exploration strategy to be evaluated prior to new commitments
- **Building strength in liberalizing European energy markets**
- **Ambitious financial and operating targets for 2003**



# Safe harbour statement

In order to utilize the "Safe Harbour" provisions of the United States Private Securities Litigation Reform Act of 1995, Hydro is providing the following cautionary statement: This presentation contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and certain of the plans and objectives of the Company with respect to these items. By the nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. The actual results and developments may differ materially from those expressed or implied in the forward-looking statements due to any number of different factors. These factors include, but are not limited to, changes in costs and prices, changes in economic conditions, and changes in demand for the Company's products. Additional information, including information on factors which may affect Hydro's business, is contained in the Company's 2001 Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission.



# **Capital Markets Day**

## **Hydro Aluminium**

**Executive vice president**  
**Jon-Harald Nilsen**  
**Senior vice president**  
**Arvid Moss**  
**Oslo, December 9, 2002**





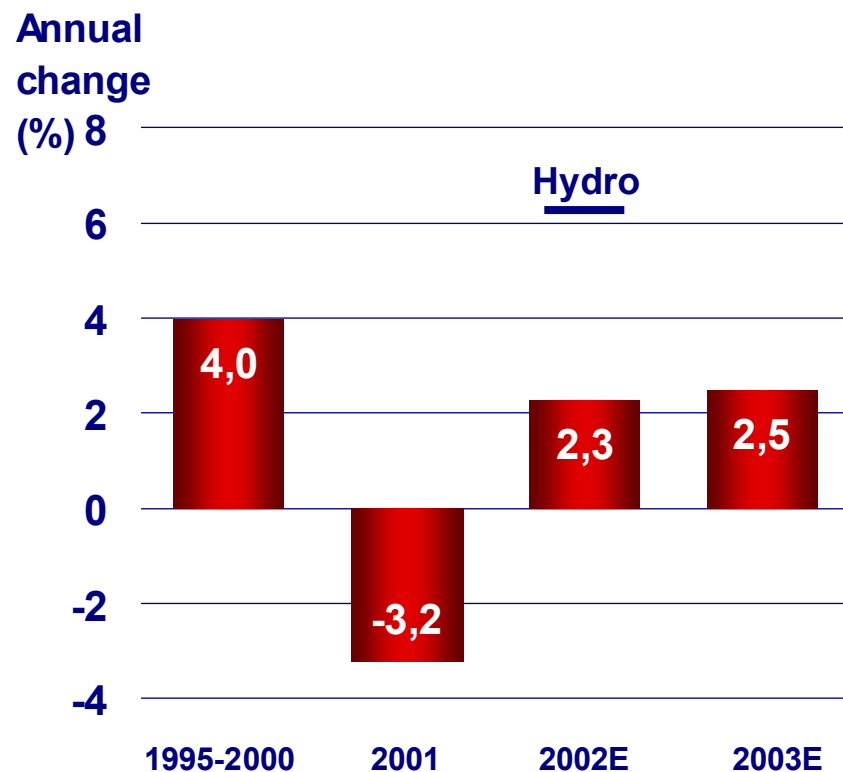
# What we said and what we have done

<i>Focus areas 2002</i>	<i>Actions taken 2002</i>
<ul style="list-style-type: none"> <li>● Successful integration of VAW and Technal</li> <li>● Realisation of significant short term improvement potentials</li> </ul>	<ul style="list-style-type: none"> <li>● All formal structures in place</li> <li>● Improvement and synergy programs on track</li> </ul>
<ul style="list-style-type: none"> <li>● Successful restructuring of Magnesium</li> <li>● Execution of large projects</li> <li>● Divestment of Flexible Packaging</li> </ul>	<ul style="list-style-type: none"> <li>● Porsgrunn primary closed Extended remelt network</li> <li>● All projects at or better than plans</li> <li>● Agreement in principle</li> </ul>

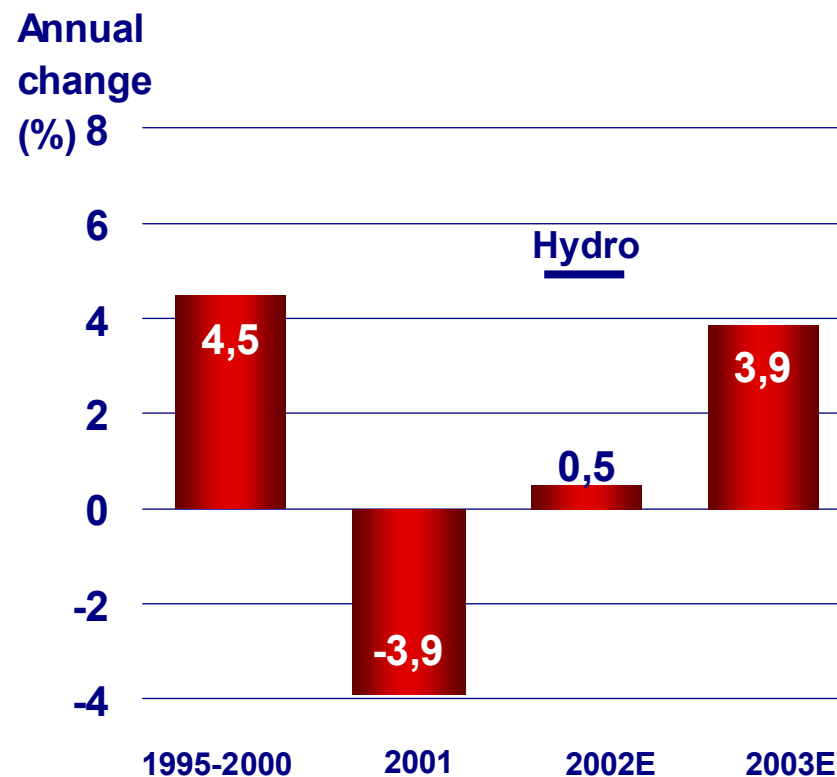


# Europe: Moderate growth

Est. European rolled products shipments



Est. European extrusion shipments

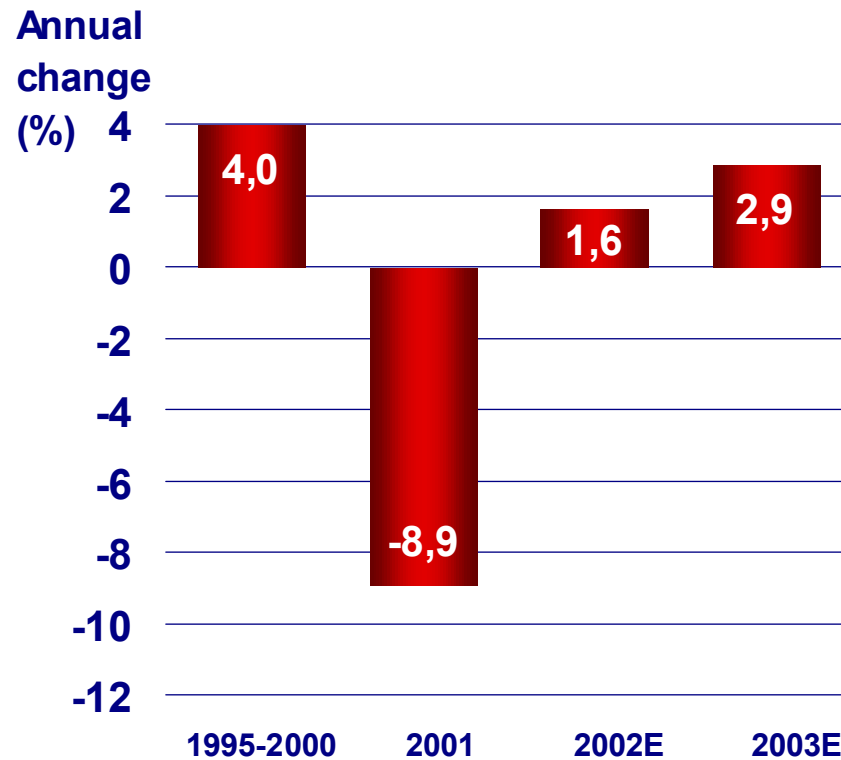


Source: EAA

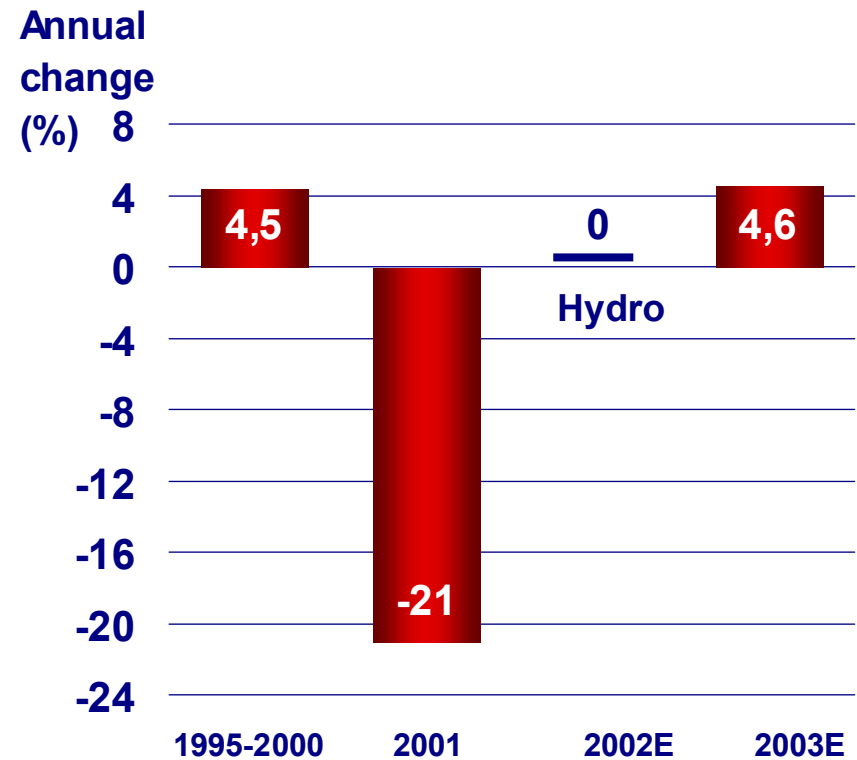
# US: Low growth, recovery expected in 2003



### Est. US rolled products shipments



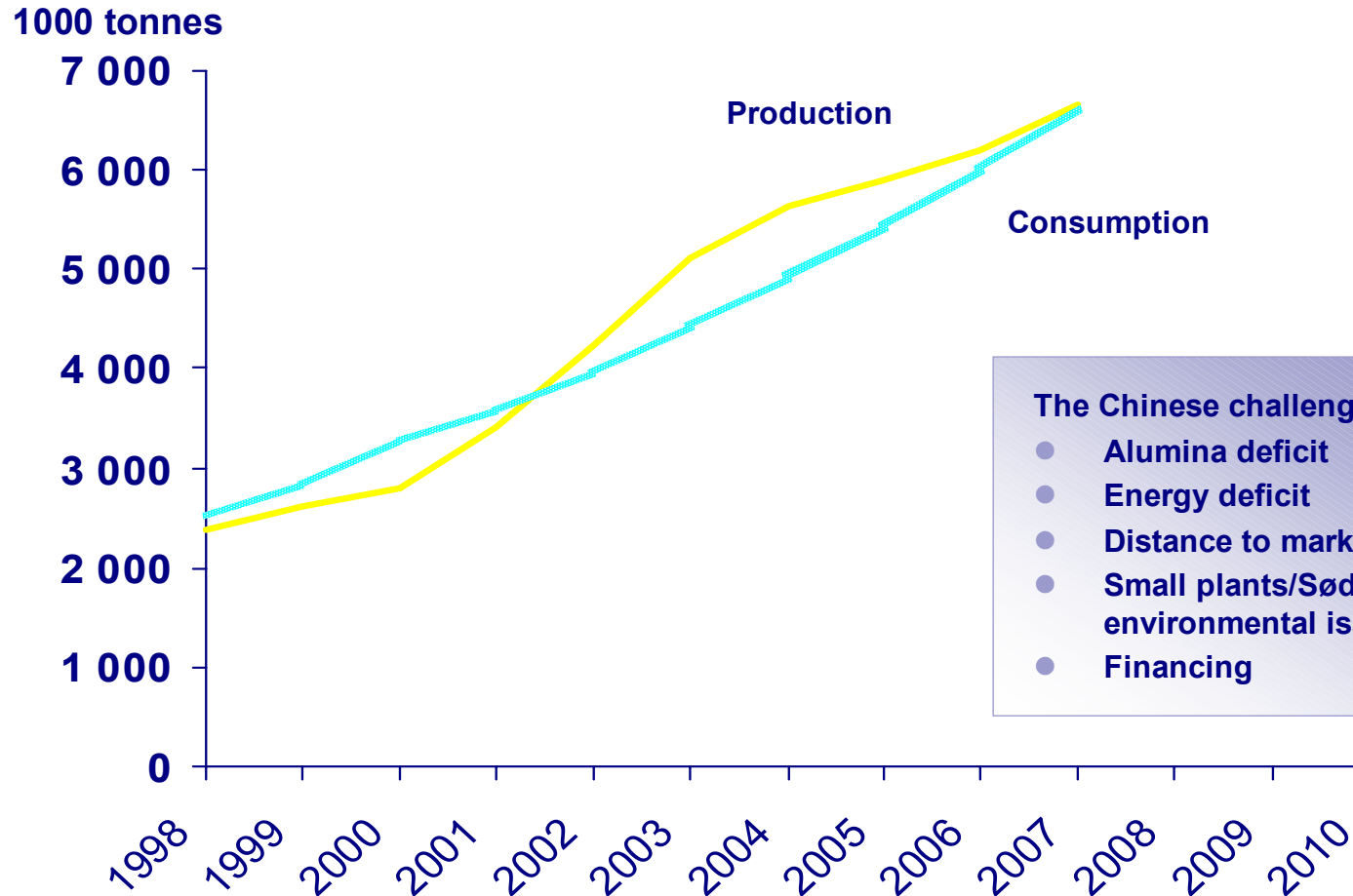
### Est. US extrusion shipments



Source: CRU



# China: Primary metal balance



Decision made by central government to close down inefficient and polluting Søderberg capacity due to environmental legislation. Søderberg plants assumed to be closed down by around 1 million tonnes between 2003-2007 (200 000 tonnes per year in 2003 and 2004, 300 000 tonnes per year in 2005 and 2006).

Source: CRU, HAL

# Creating value in Hydro Aluminium



# Rapid acquisition and integration processes



## Industry examples: Time from announcement to closing

	<u>Days</u>
Hydro/ VAW	67
Hydro/ Technal	86
Alcan/ Algroup	140 (440 from APA -announcement)
Pechiney/ Corus	240 (expected)
Alcoa/ Reynolds	258

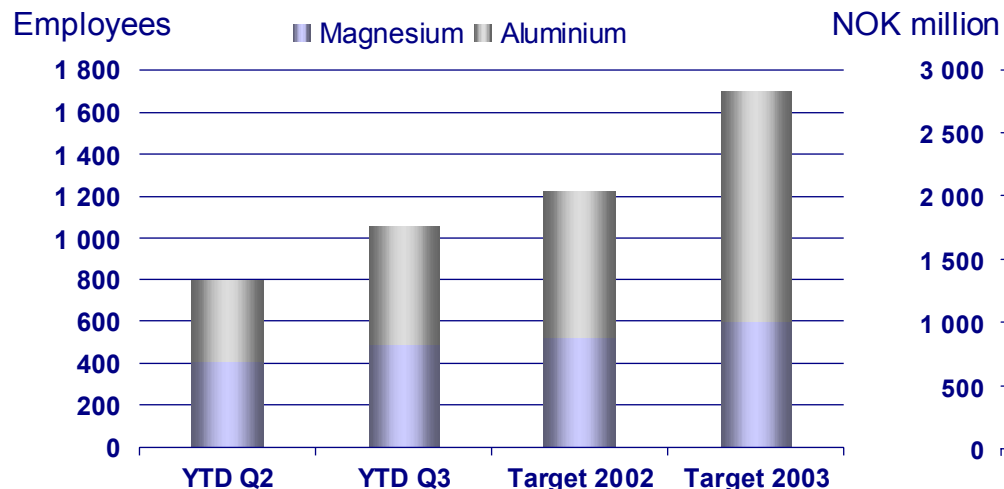
## Hydro Aluminium

- Broad experience and diversity in the management teams
- Kept momentum in day-to-day business
- Successful execution of value capturing

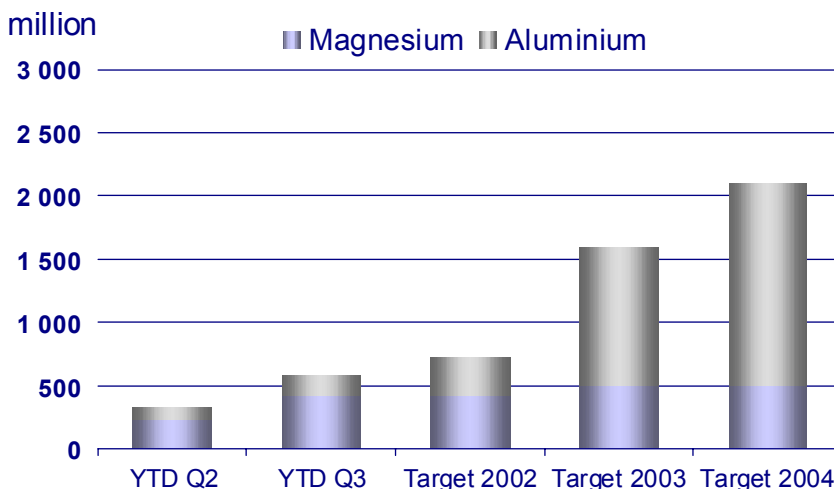


# Aluminium improvement program on track

## Workforce reduction



## Cost reductions



	Realized			Remaining	Total
	2001	1st half 2002	Q3-2002	Estimate	
Magnesium	700	59	-69	24	714
Aluminium	-	127	108*	435	670

Workforce and cost reductions relative to 2001.

\*) NOK 19 million expensed in Q3, NOK 89 million charged to VAW opening balance.

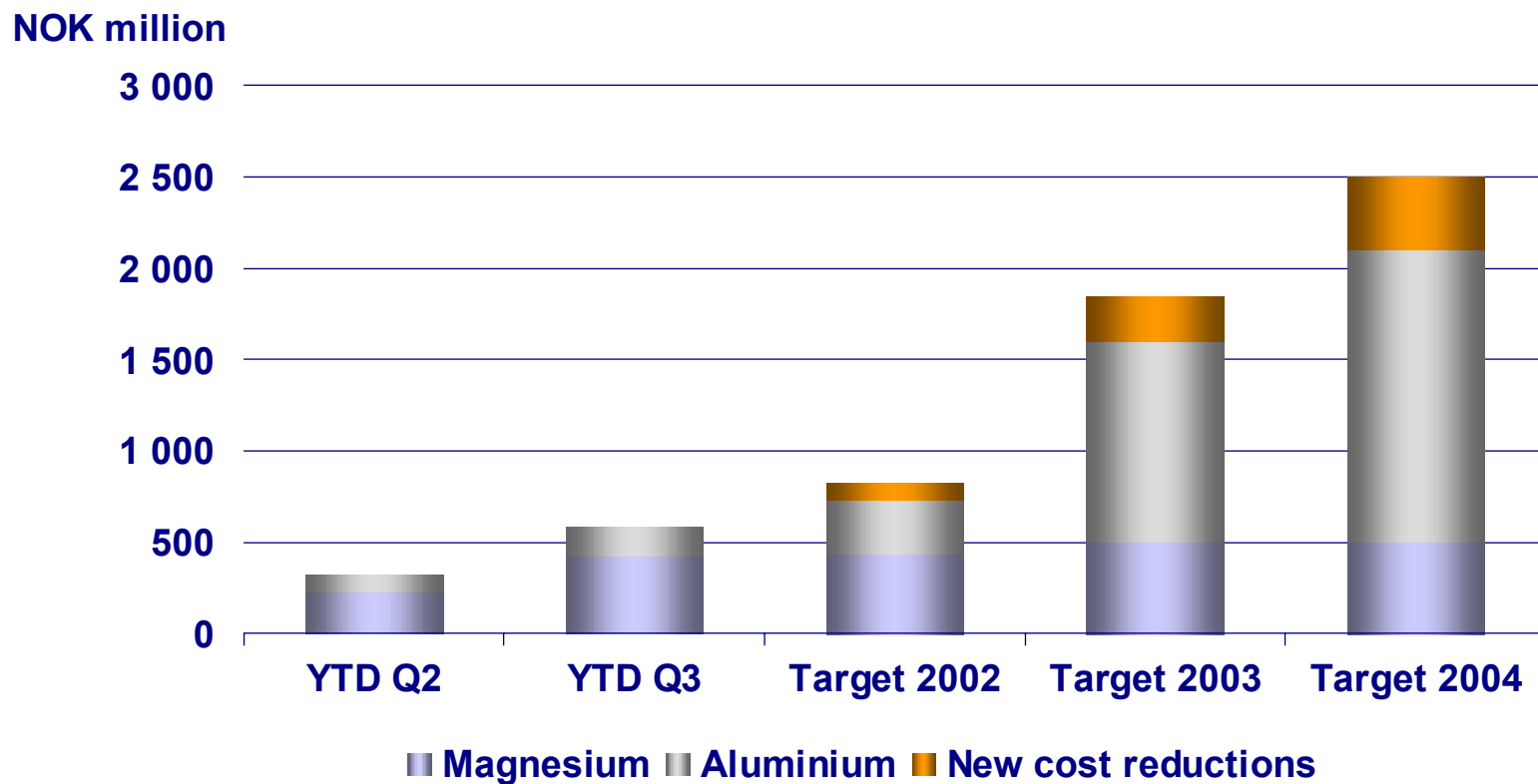


# Aluminium improvement program

## Raised targets

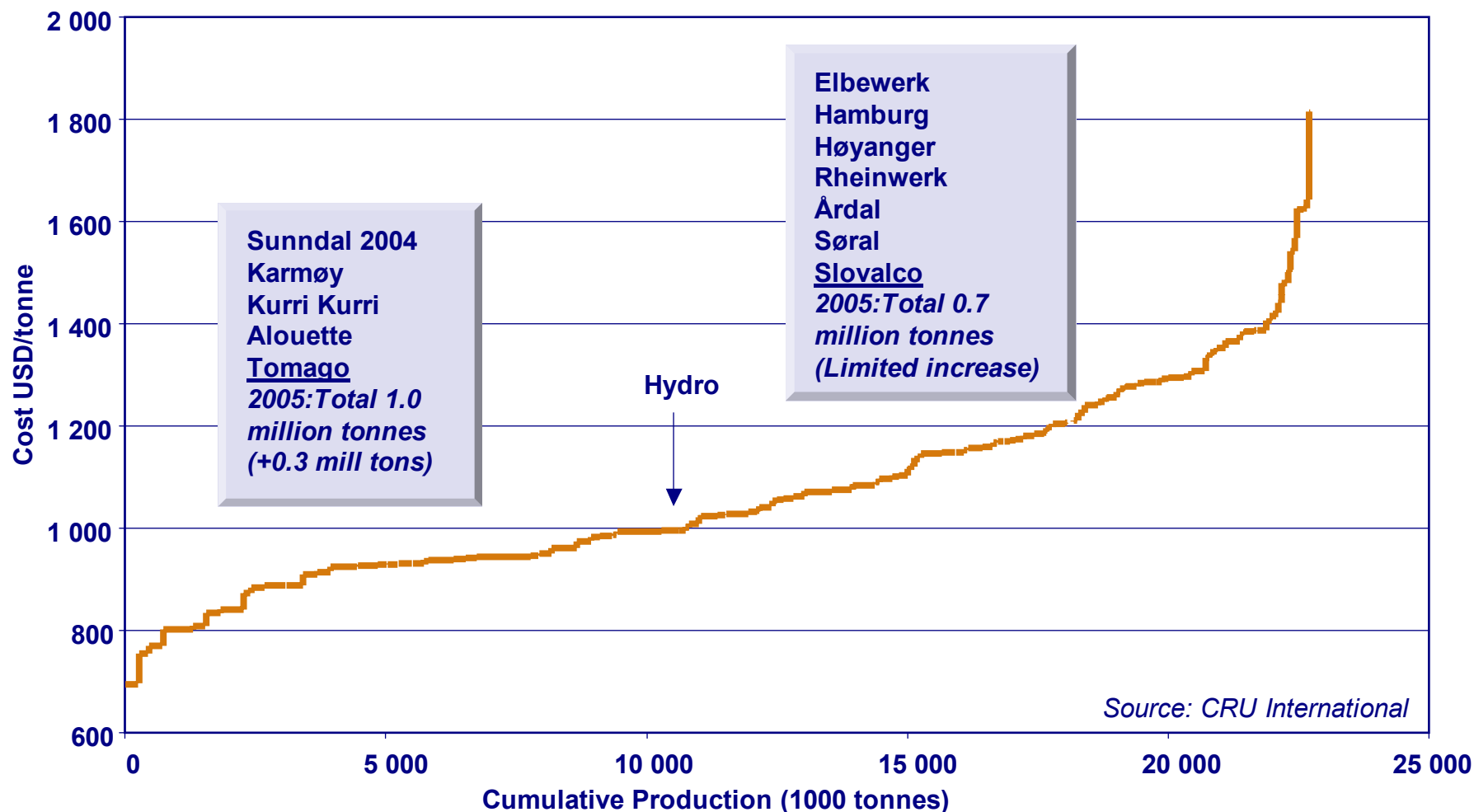


### Cost reductions





# Primary Metal: Cost Curve Position 2001



Cash operating cost calculated includes liquid metal cost, casthouse cost, casting losses, site overhead cost, freight cost interest on work in progress, margin cost and head office cost.  
VAW included in Hydro's figures

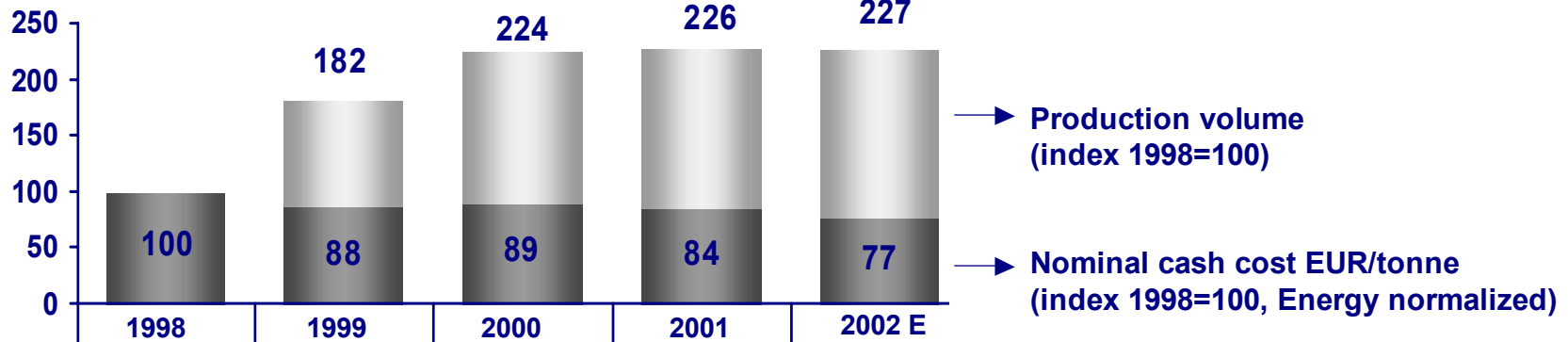


# Metal Products

## Increased volume and lower cost in operations

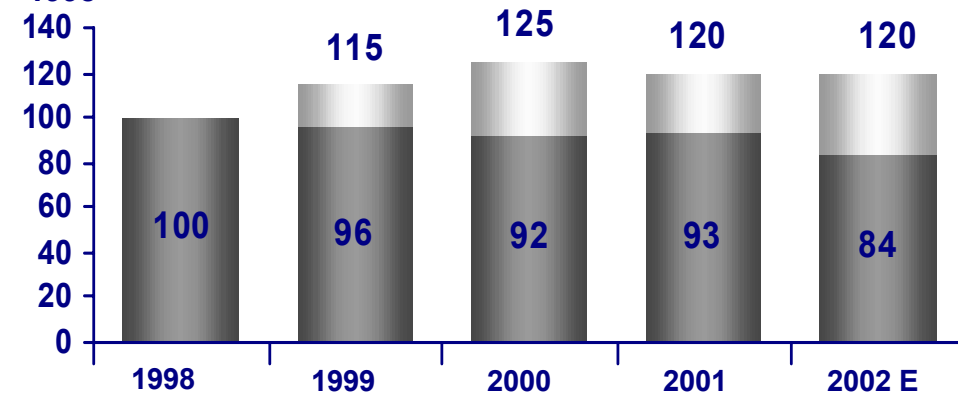
100= Cost & Production volume 1998

Rackwitz ~23 000 tonnes per year



100= Cost & Production volume 1998

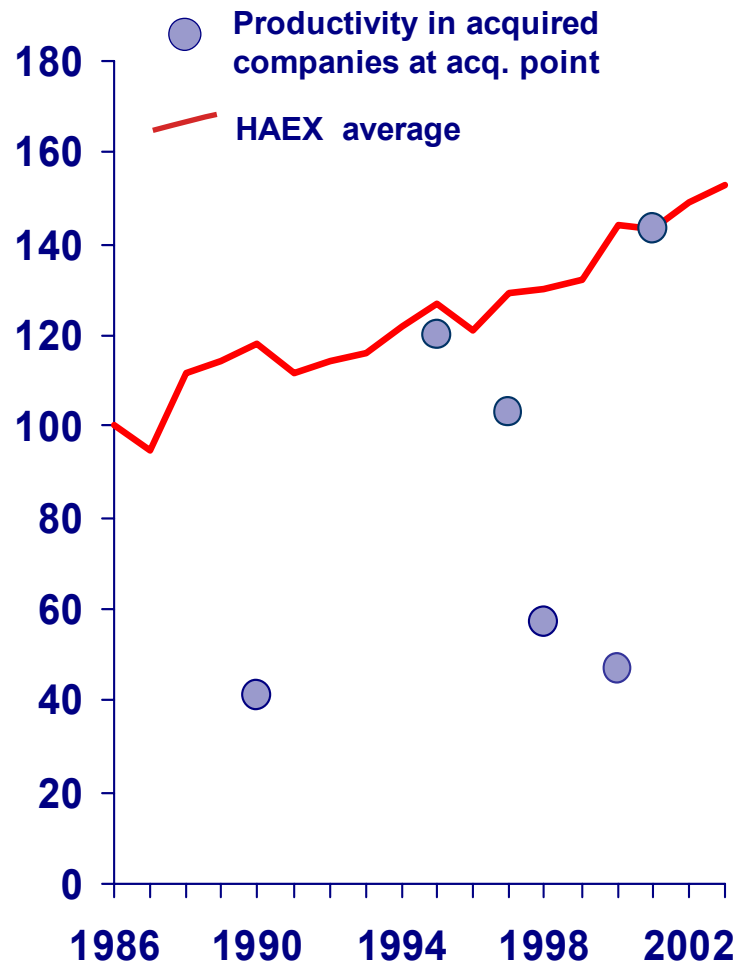
Karmøy ~196 000 tonnes per year



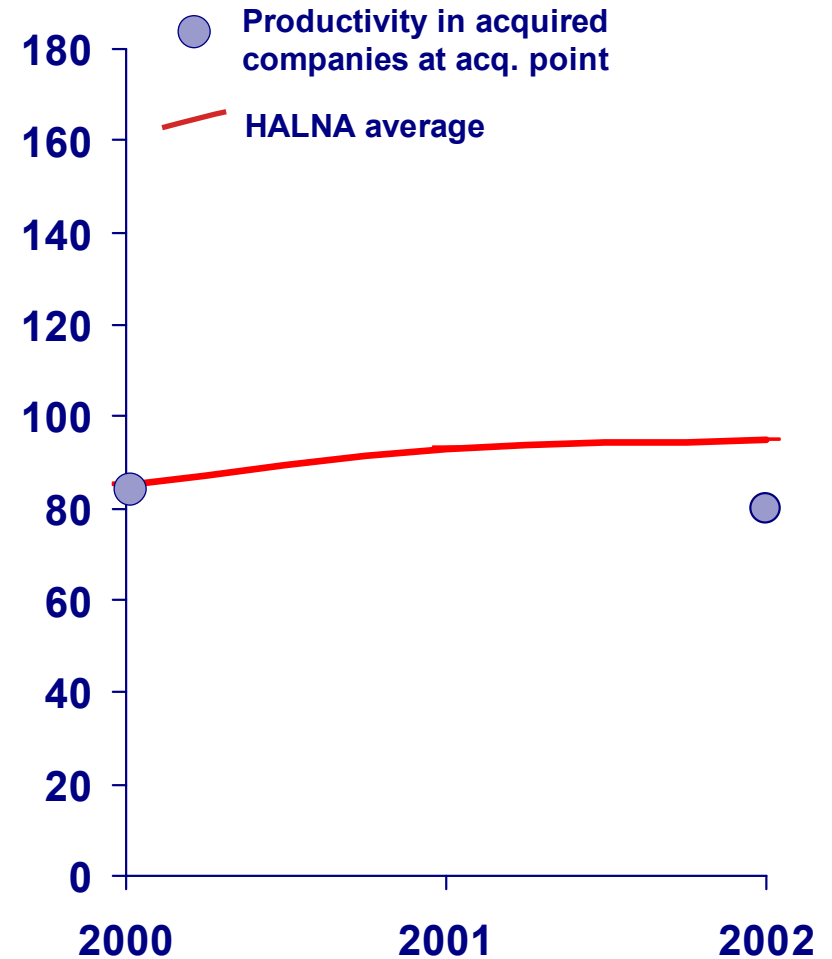


# Extrusions: Increased press productivity

Extrusion Europe & South America  
Kg/hour (index, 1986=100)



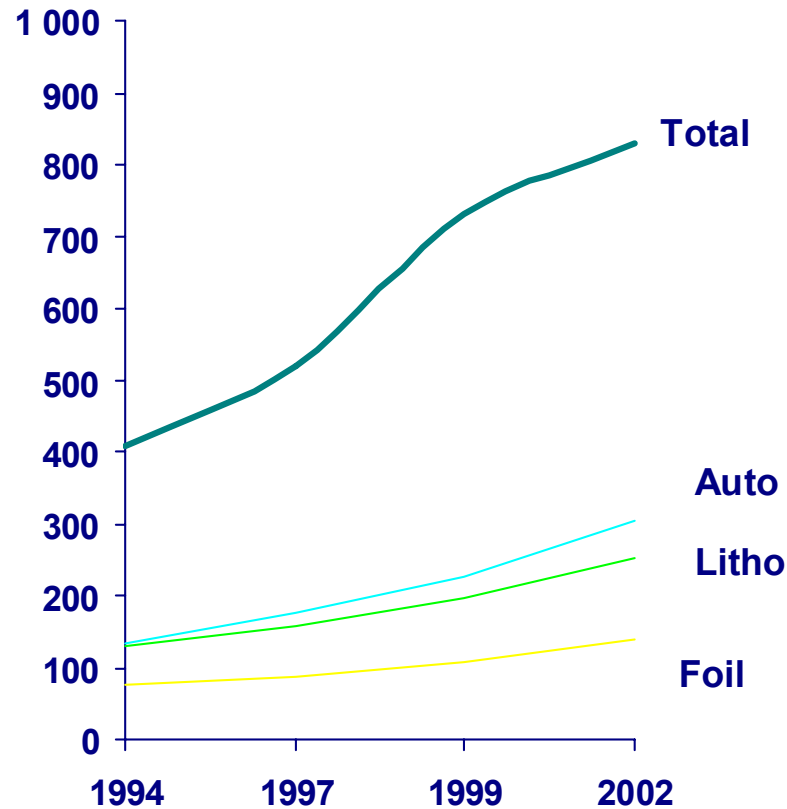
Extrusion North-America  
Kg/hour (index, European 1986=100)



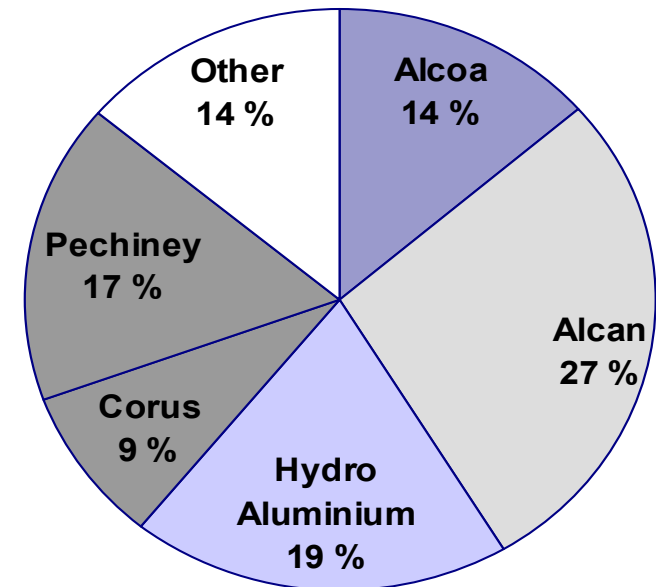


# Rolled Products: Increased volume. Improved industry structure

Volume  
1 000 tonnes per year



Estimated market shares 2001  
100% = 3.2 million tonnes per year



Four largest 2002: 86% market share\*  
Four largest 1998: 58% market share

\*Assumed Hydro/VAW and Pechiney/Corus together

Source: EAA, Annual Reports

# **Value chain priorities**

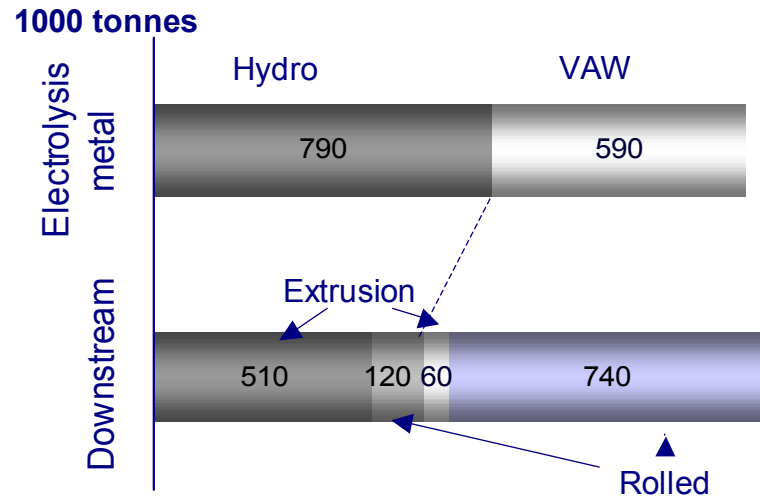
## **The path going forward**



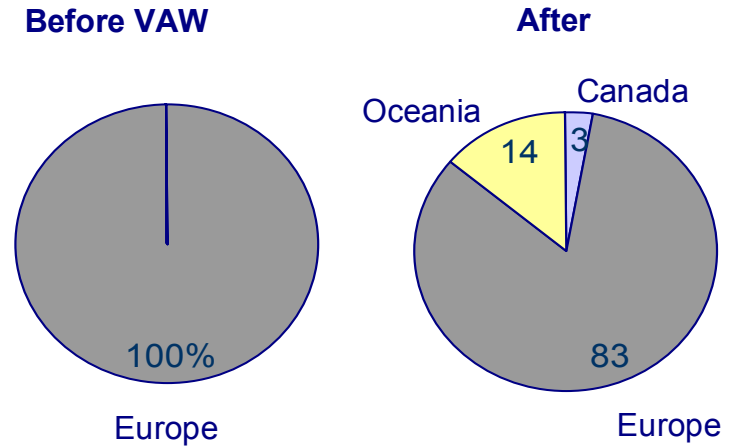


# The new strategic platform

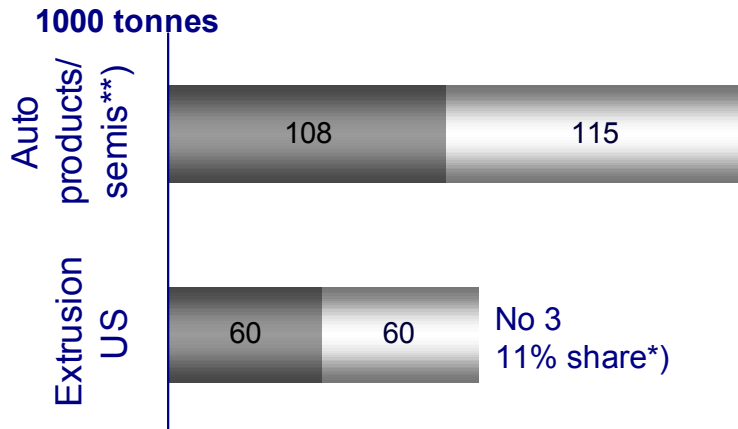
More downstream ....



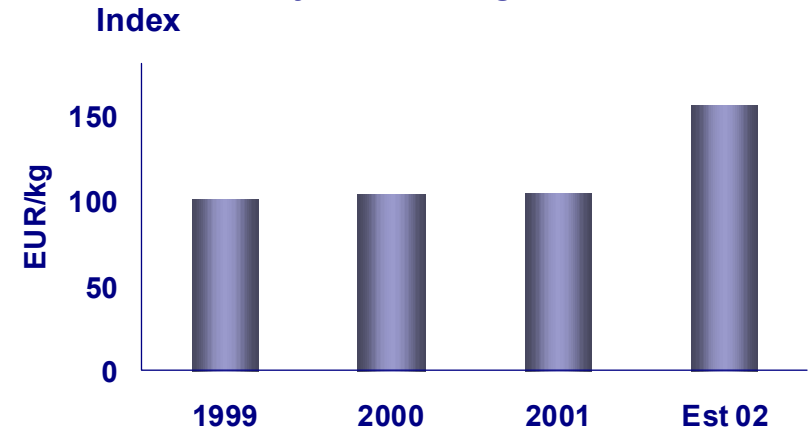
.. and Primary Metal in new areas



In addition to Rolling, leap forward in two areas



Technal: Quantum leap for Building Systems  
Systems Margin

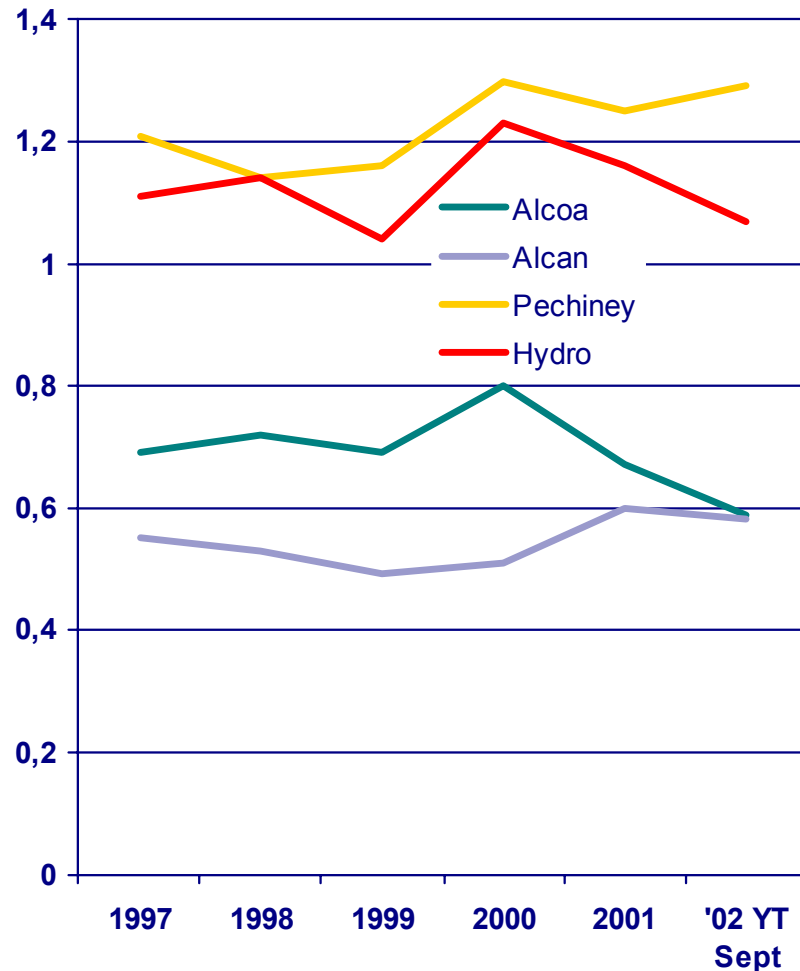


\*) With automotive \*\*) In addition HAL sells 180.000 t Foundry alloys

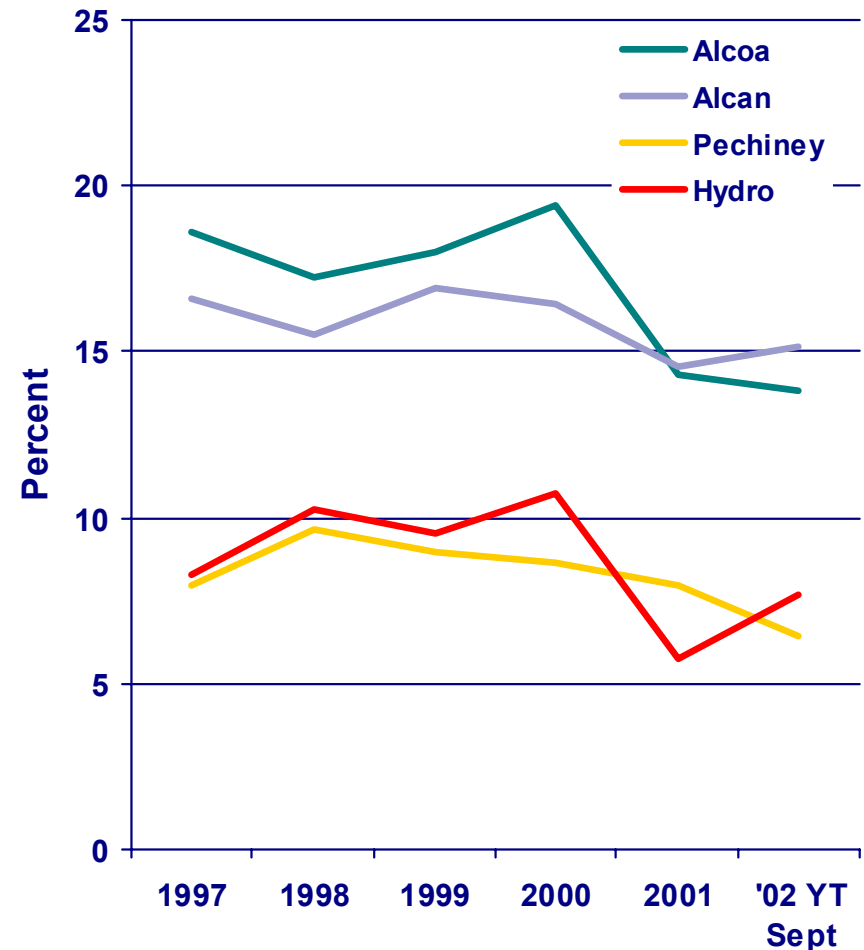


# A different business: Higher capital turn, more margin business

## Sales / Gross Investments



## EBITDA / Sales



Source: Annual reports, quarterly reports, proxy figures where needed to get comparative figures. HAL corrected for VAW 1.1 - 15.3.02 and for unrealised currency losses in Brazil





# Key steps in Hydro Aluminium's strategy

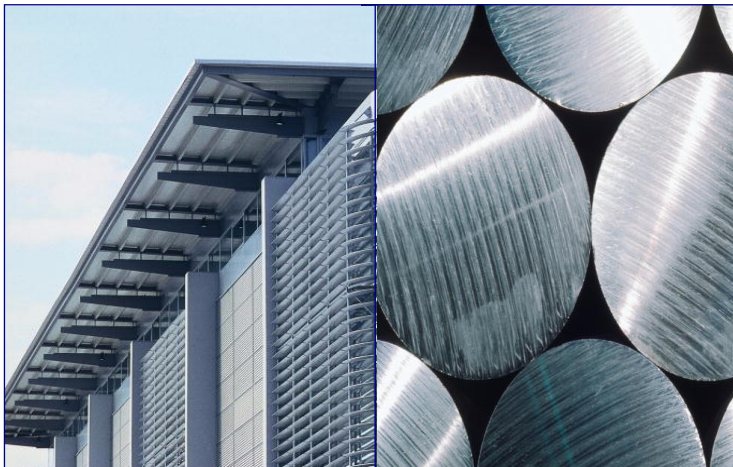
## 1. Global upstream



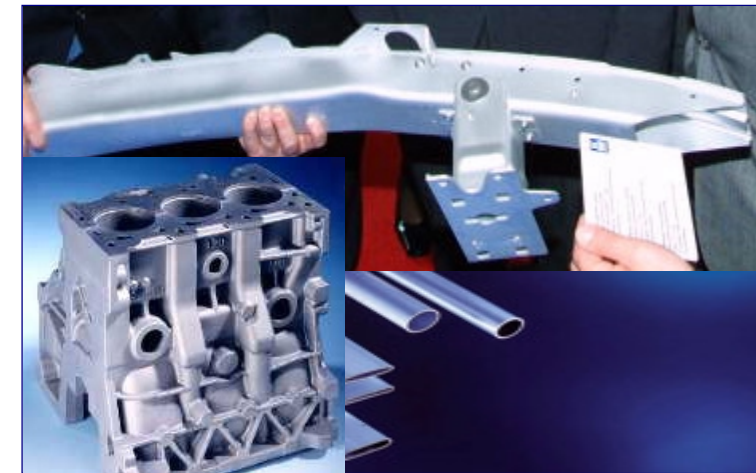
## 2. Europe mid- and downstream



## 3. Outside Europe, mid- and downstream

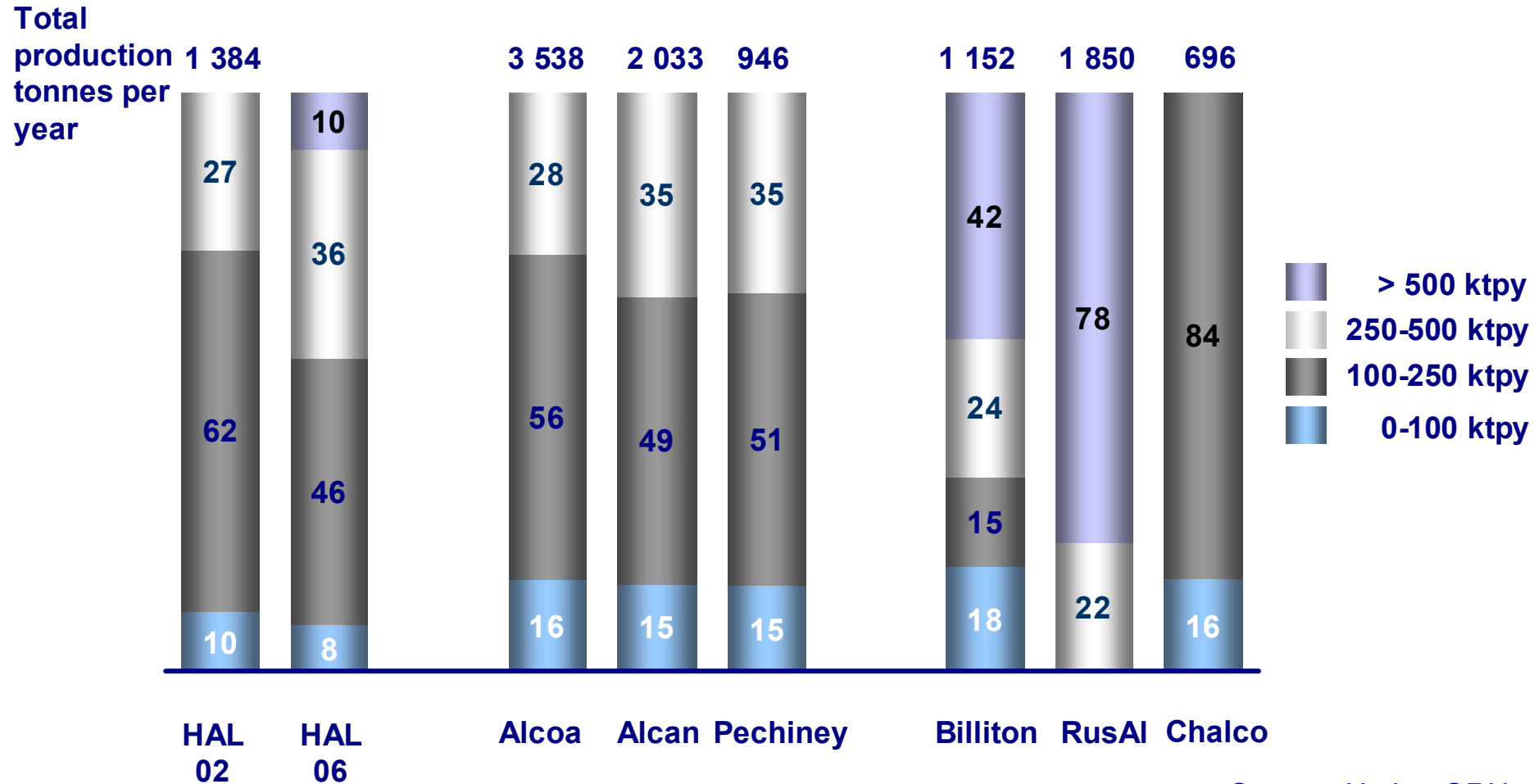


## 4. Global automotive



# Hydro Aluminium: Improved smelter structure

Percent of annual production, 2001



Source: Hydro, CRU



# The leading player in Europe

## Key strengths

### Metal (casthouse) Products

- Unique business model
- High recognition in market
- Low cost to market

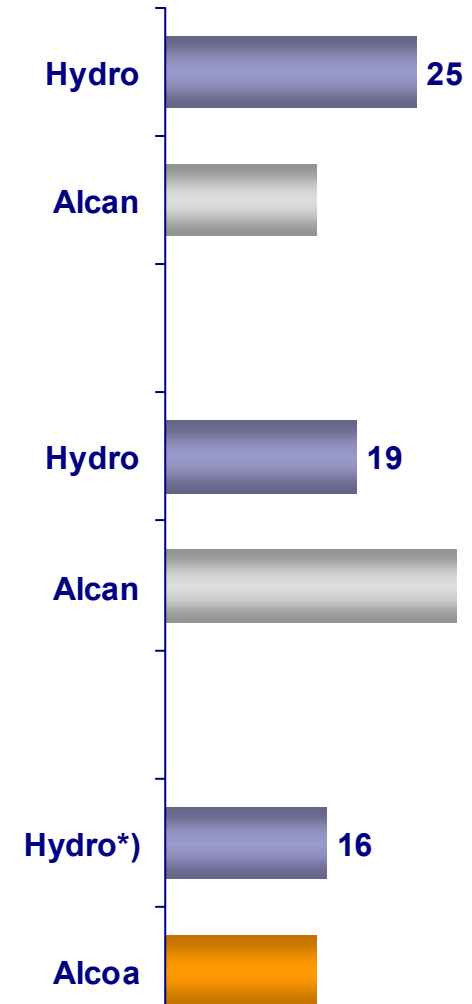
### Rolled Products

- Strong market positions in specialized products
- High technology standard
- 50% partner in the world's leading rolling mill

### Extrusion

- Unique business model
- High recognition in market
- Strong performance culture

## Market shares Europe



\*) total, including automotive use



## Key strengths

- Innovative business solutions
- Excellence in customer cooperation
- Industry benchmark in operation of key technologies





# Priorities ahead

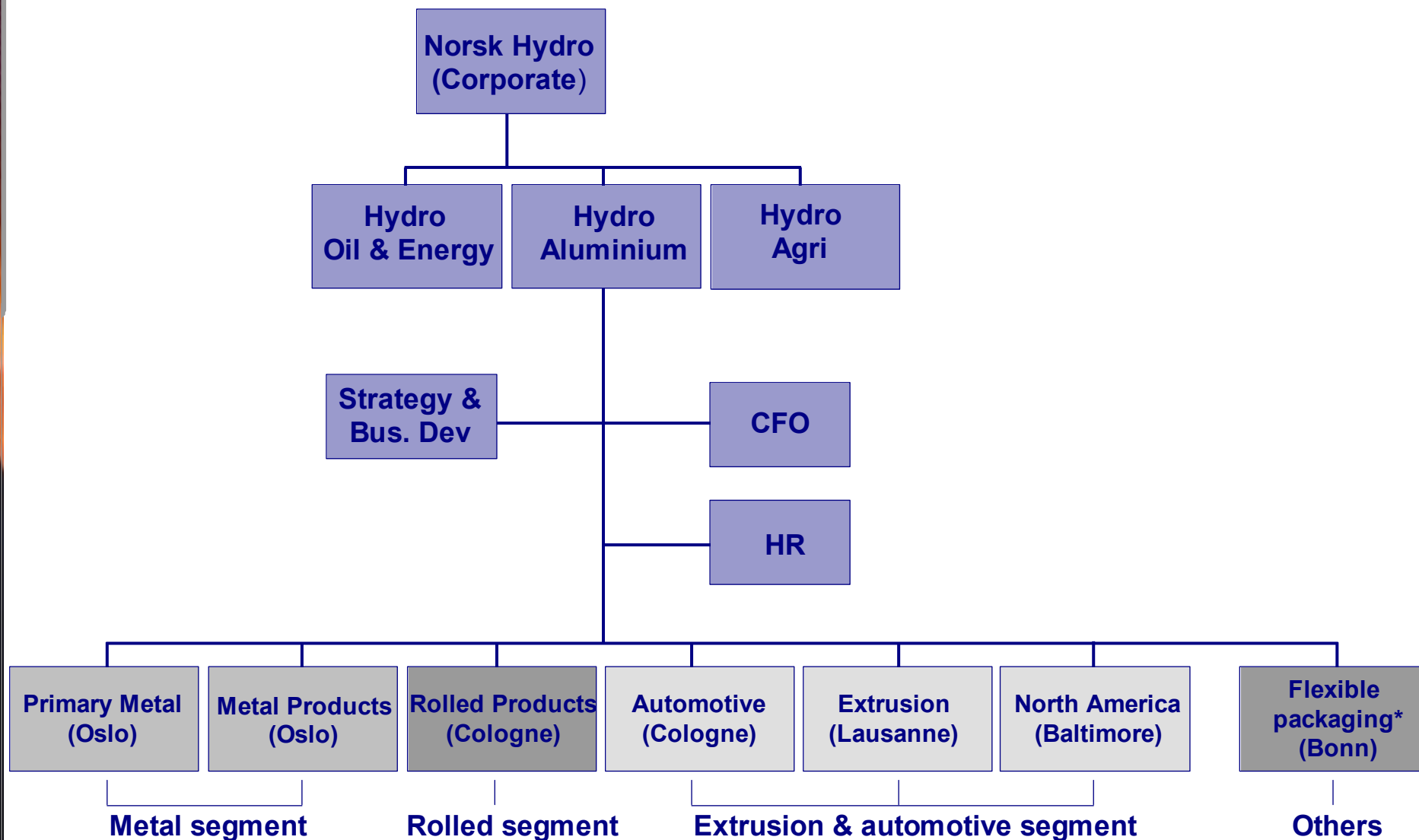
- **Deliver improvement programs and value capturing as planned**
- **Further enhance value of HAL-VAW integration**
- **Win market share based on strengths**
- **Improve relative cost position for smelter system**
- **Continue active portfolio management**
- **Meet 10% CROGI target 2004 (normalized prices)**

# Additional information





# Norsk Hydro organization



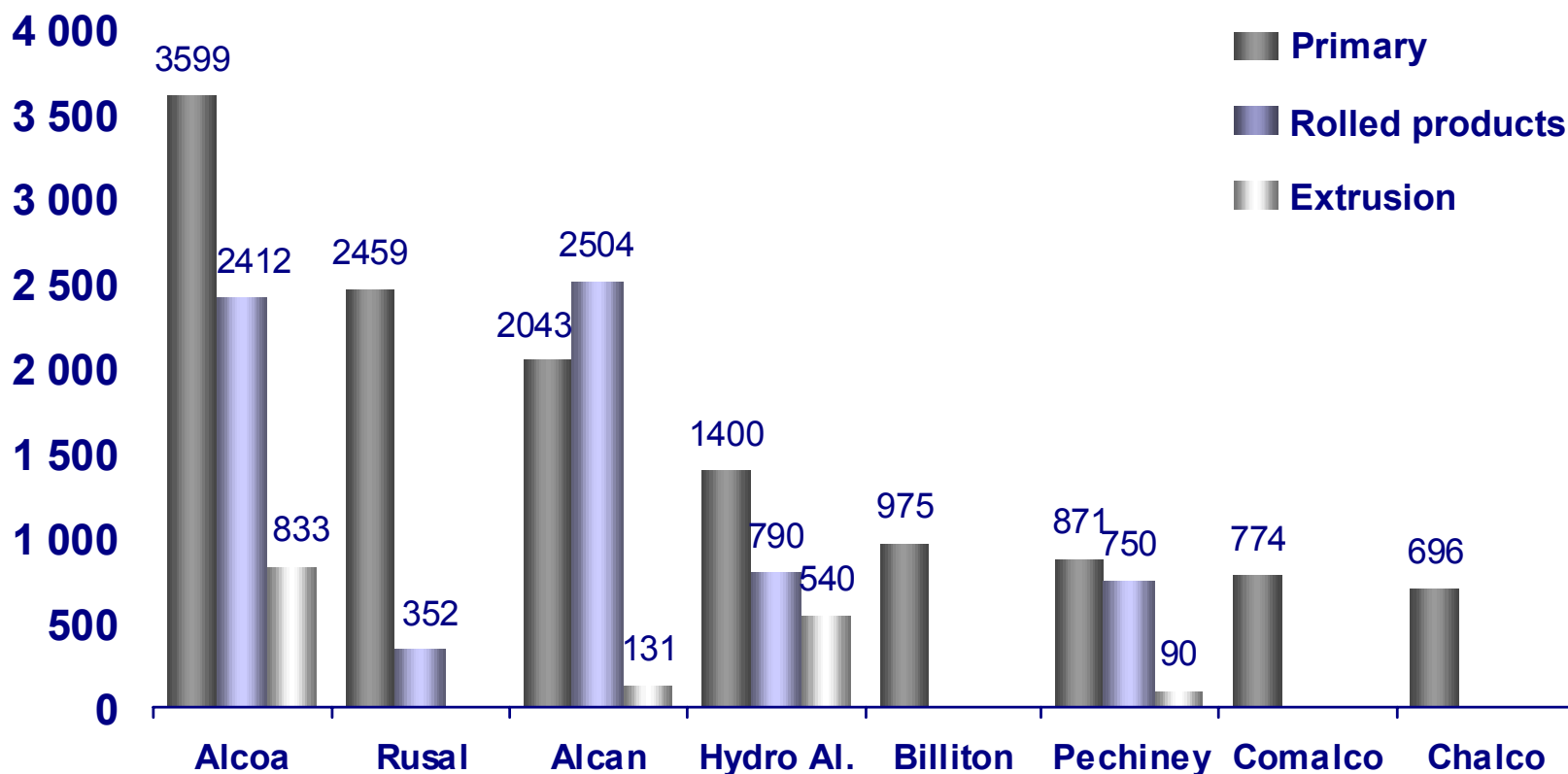
\* Flexible Packaging will be divested



# HAL is now among the top three integrated aluminium companies

Global: Companies ranked by 2001 primary production

1000 tonnes



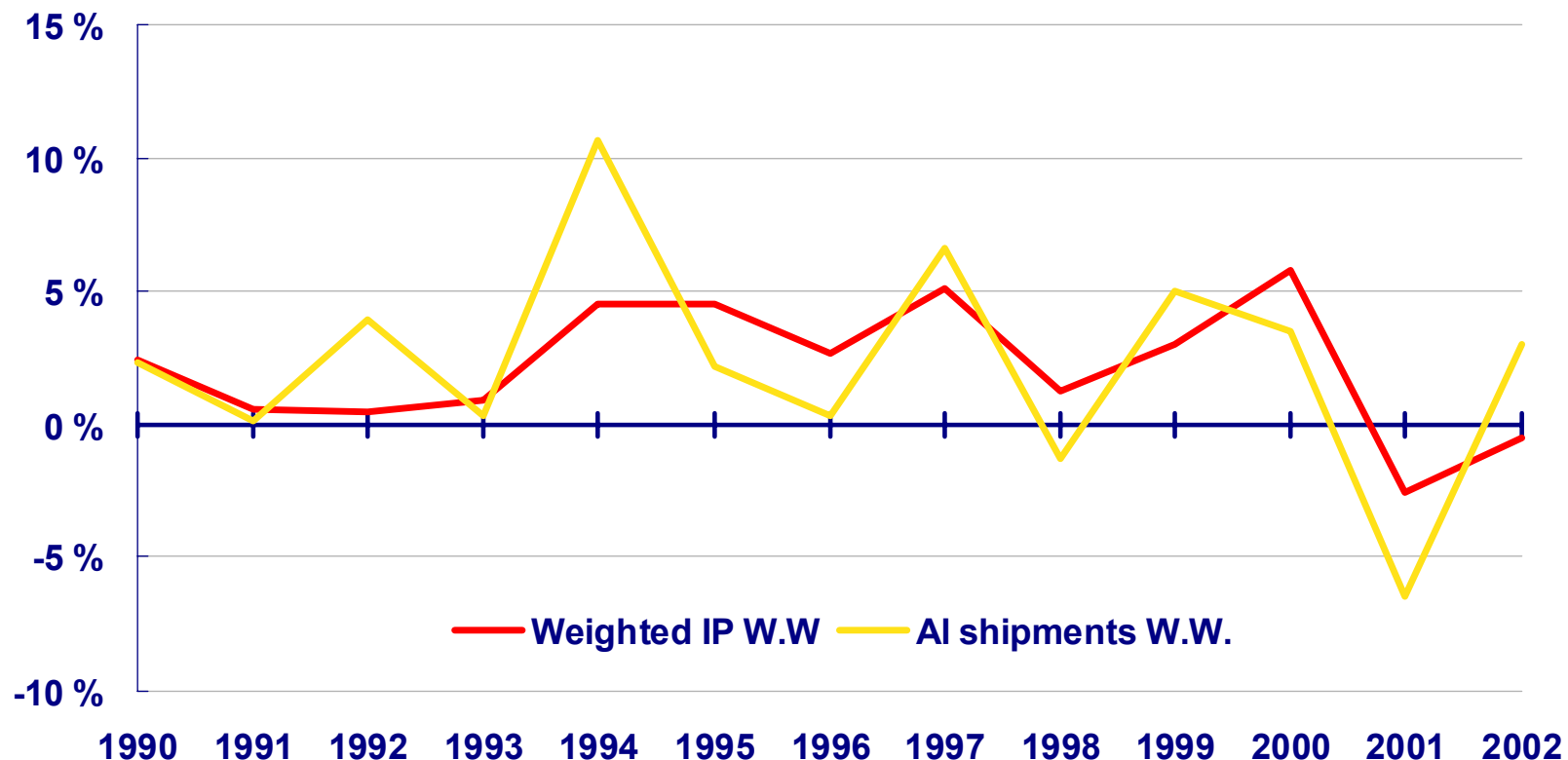
Note: VAW's Kurri Kurri-smelter in Australia and HAL's Wells extrusion system in the US included full-year  
Sources: CRU/Brook Hunt Febr 2002/Hydro/Companies' web-sides





# Moderate growth in primary shipments- 6 % drop in 2001

Change over  
previous year



Updated: November 2002

Source: CRU, WBMS, HAMP

# Capital Markets Day Hydro Agri

Executive Vice President  
Thorleif Enger  
Oslo, December 9, 2002



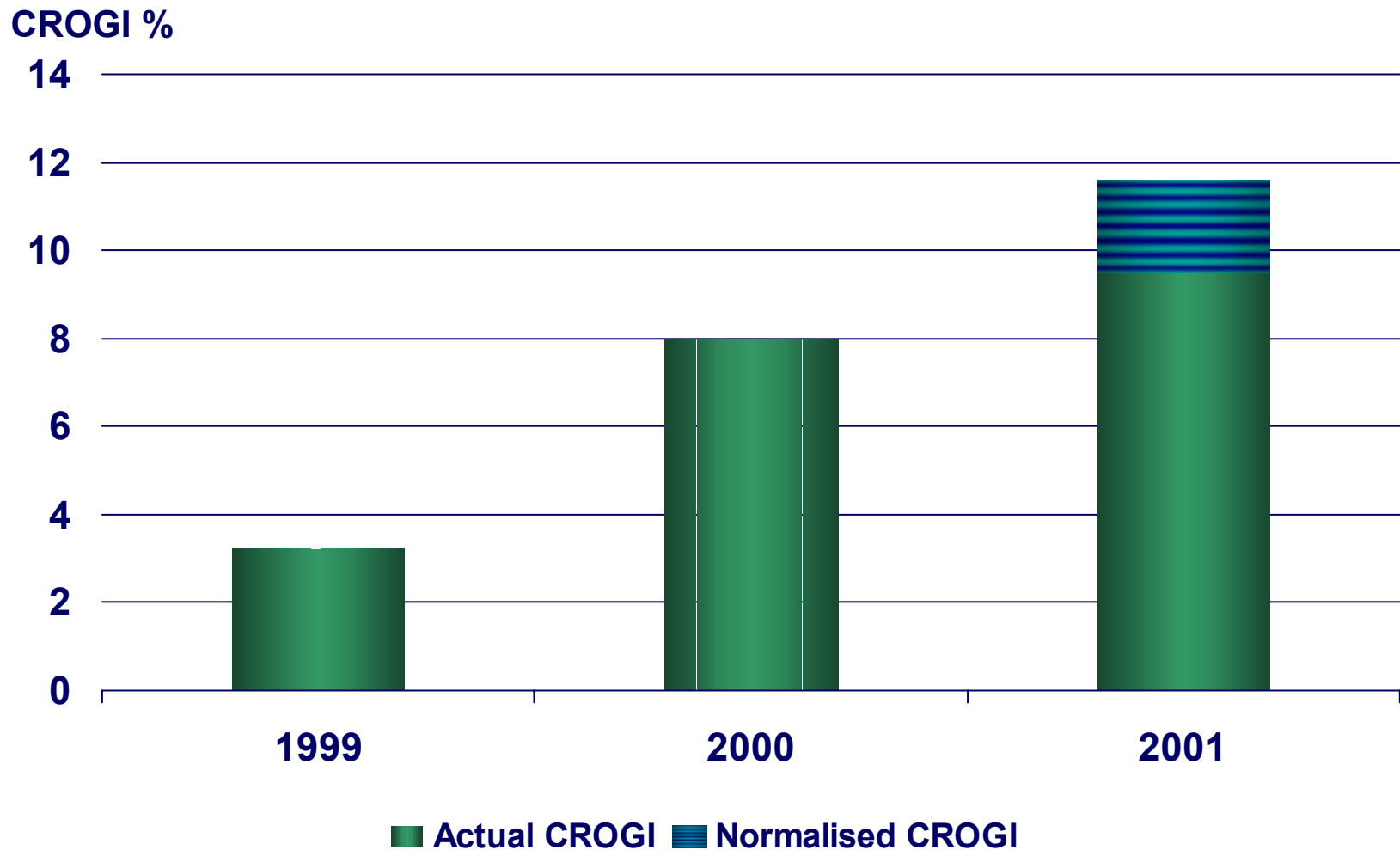


# Hydro Agri perspectives

- **From Turnaround to industry leadership**
  - Debunking myths
  - Our ability to deliver
- **Hydro Agri's unique business model and areas of global strength**
- **Opportunities ahead**



# Strongly improved performance





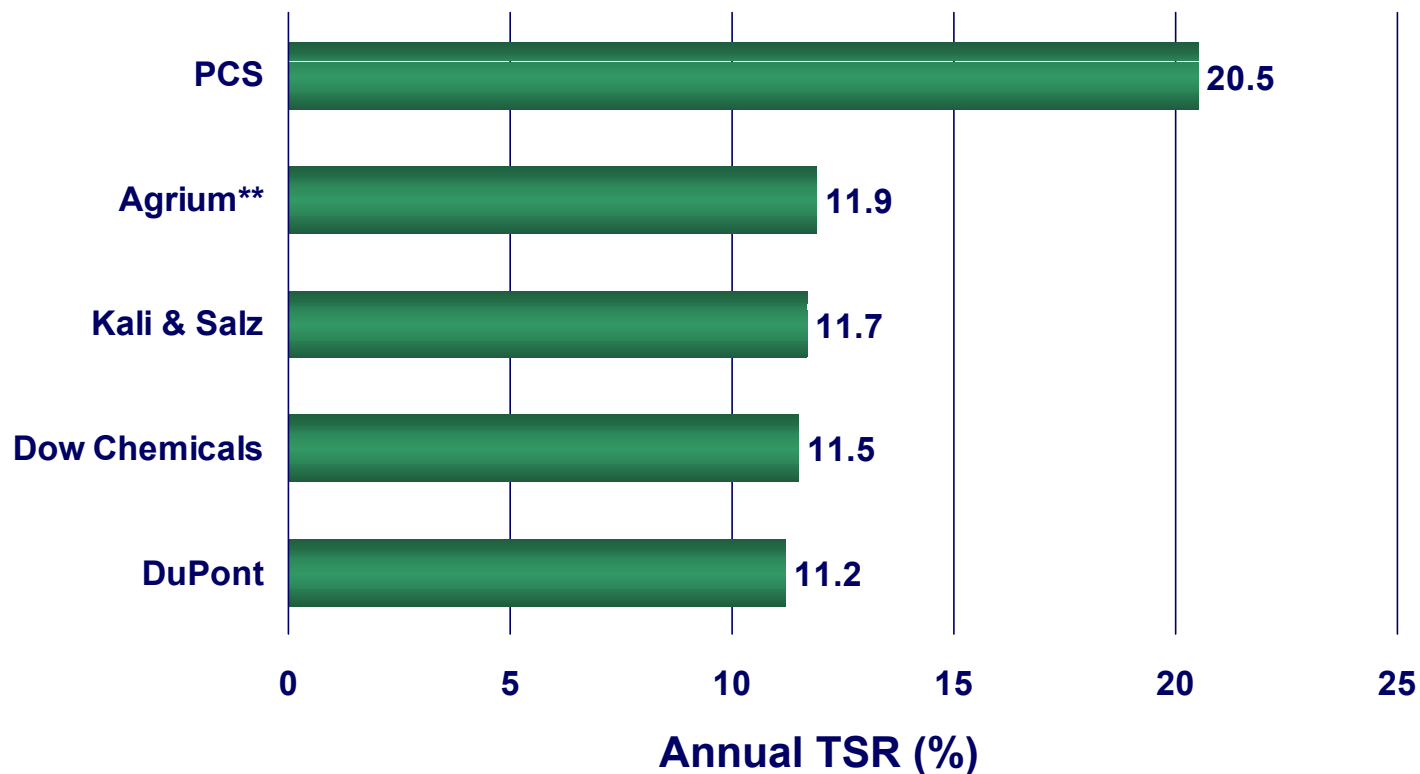
# Debunking myths

Concerns	Industry facts	Hydro Agri today
Industry attractiveness	Competitive returns	Leading player
European performance	Improved outlook	Regional balance
Nitrogen attractiveness	Position not product important	Leading position
Nitrogen cyclicity	Equal other commodities	Cyclicity mitigated

# Industry attractiveness – Competitive returns



Average annual total shareholder return\* across the business cycle (1990-2001)



\* *TSR = Share price appreciation + dividends to shareholders*

\*\* *Agrium from merger in 1993 to 2001*

*Source: BCG database*

36207\_5H - 12.2002 - \* 5 - Hydro Media

# West European performance – Improved outlook (1999-2002)



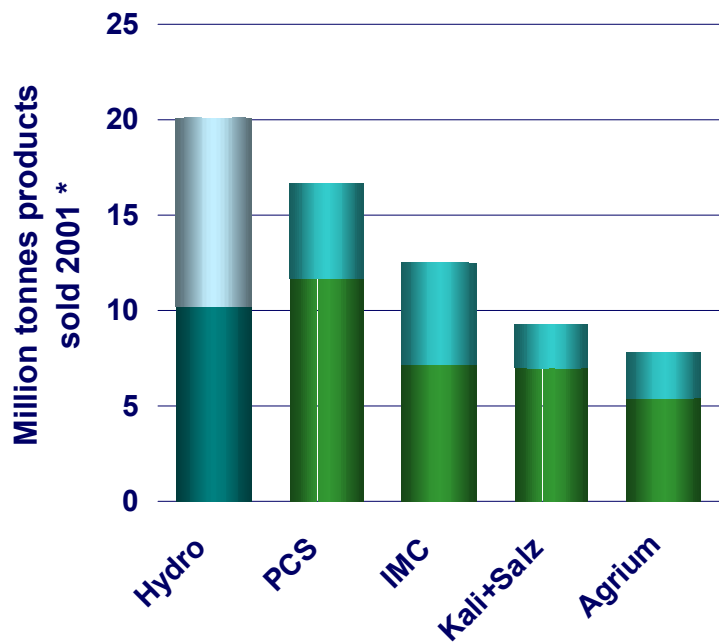
- **Total closures of 5 million tonnes of capacity (incl. IFI)**
  
- **Hydro Agri actions**
  - **Closed/sold 11 plants**
  - **Closed 12 sales offices**
  - **Sold around 25 businesses**

**Greatly simplified Hydro Agri business**



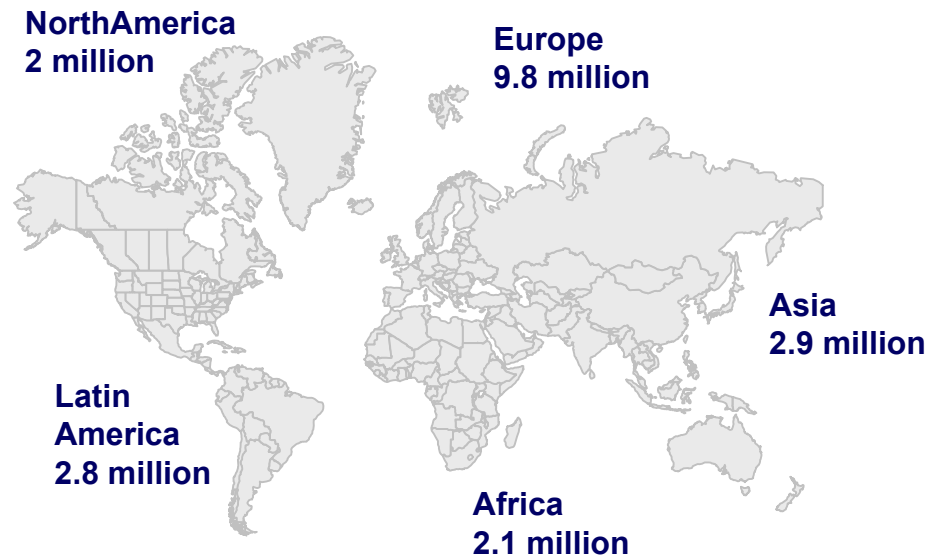
# Good regional balance and global presence

## All fertilizer products



- Hydro Overseas
- Hydro Europe
- Overseas
- Home market

## Agri sales tonnes



**Accumulated  
20 million**

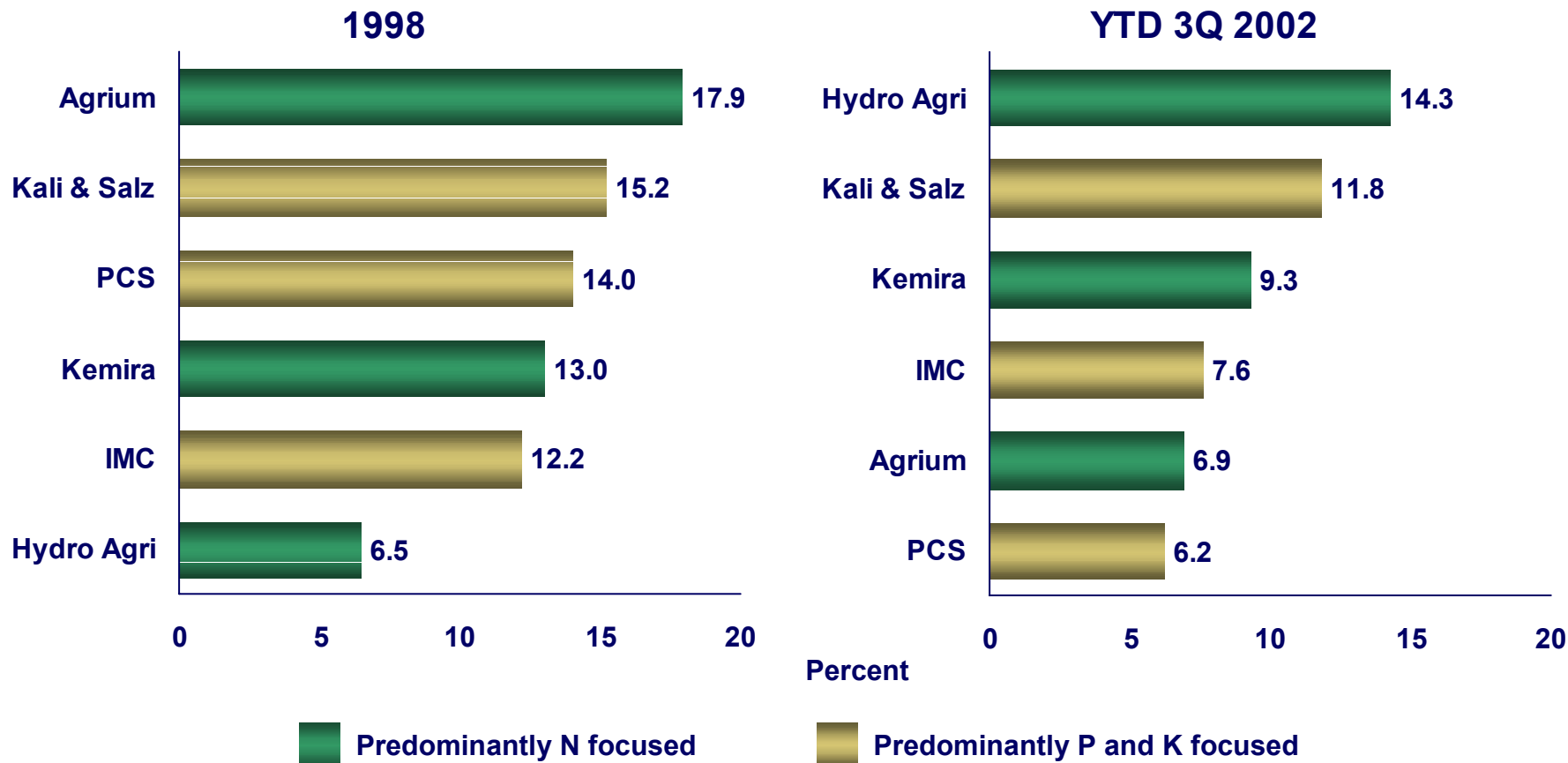
\* Kali & Salz figures based on year 2000



# Nitrogen attractiveness – Position more important than product



## Gross return on assets\*



\* Gross return on assets defined as EBITDA (excluding non recurring items) divided by total assets

Source: company quarterly reports



# Hydro Agri cyclicalicity mitigated

- **Plants are not cost based swing producers**
- **Global market presence and product flexibility provide hedging**
- **Growth overseas and in speciality/ industrial applications is less exposed**

**Target: NOK 3 billion EBITDA  
at bottom of business cycle**



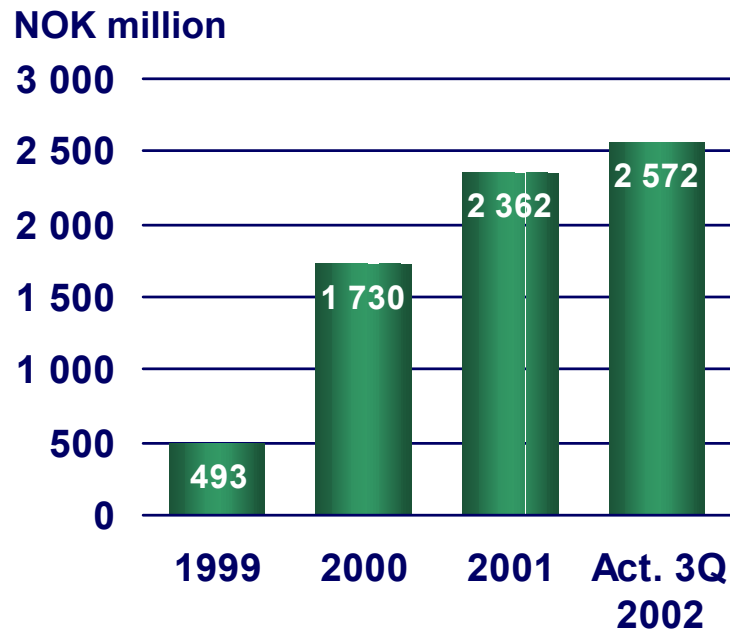
# Drivers of Hydro Agri value

	Drivers	Effect on
Income	<ul style="list-style-type: none"> <li>Gas price USA</li> <li>Ammonia price</li> <li>Grain prices</li> <li>European market balance</li> <li>Market segmentation</li> </ul>	<ul style="list-style-type: none"> <li>➔ Ammonia price</li> <li>➔ Urea price</li> <li>➔ Urea price</li> <li>➔ Nitrate margin</li> <li>➔ Value added margins</li> </ul>
Cost	<ul style="list-style-type: none"> <li>Oil price</li> <li>Production volume</li> <li>Productivity</li> <li>Scale</li> </ul>	<ul style="list-style-type: none"> <li>➔ Gas costs Europe</li> <li>➔ Unit cash cost</li> <li>➔ Fixed cost</li> <li>➔ Unit cost</li> </ul>
Growth	<ul style="list-style-type: none"> <li>Organic growth</li> <li>Expansion investment</li> </ul>	<ul style="list-style-type: none"> <li>➔ Enterprise value</li> </ul>

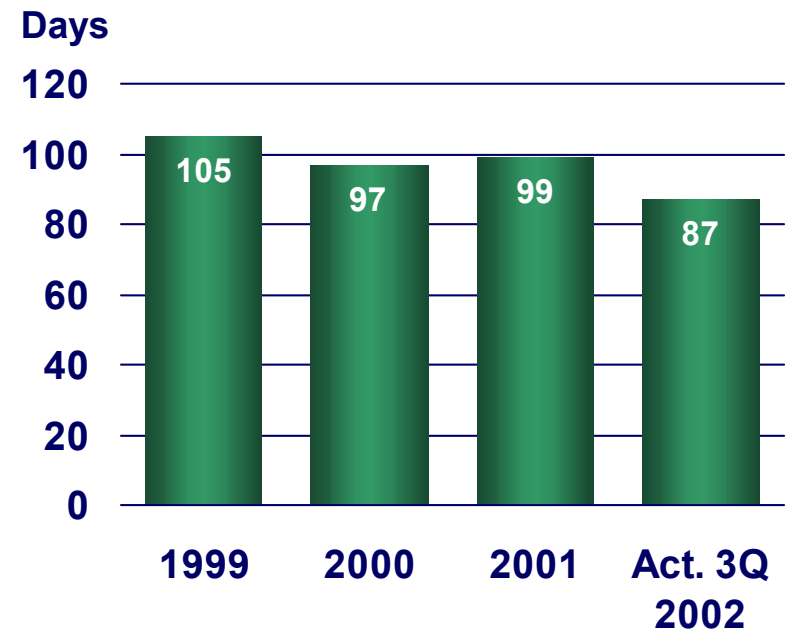


# Reduced fixed costs and working capital

Accumulated fixed cost reductions \*



Net working capital days\*\*



\* Total fixed cost reductions compared with 1998 level

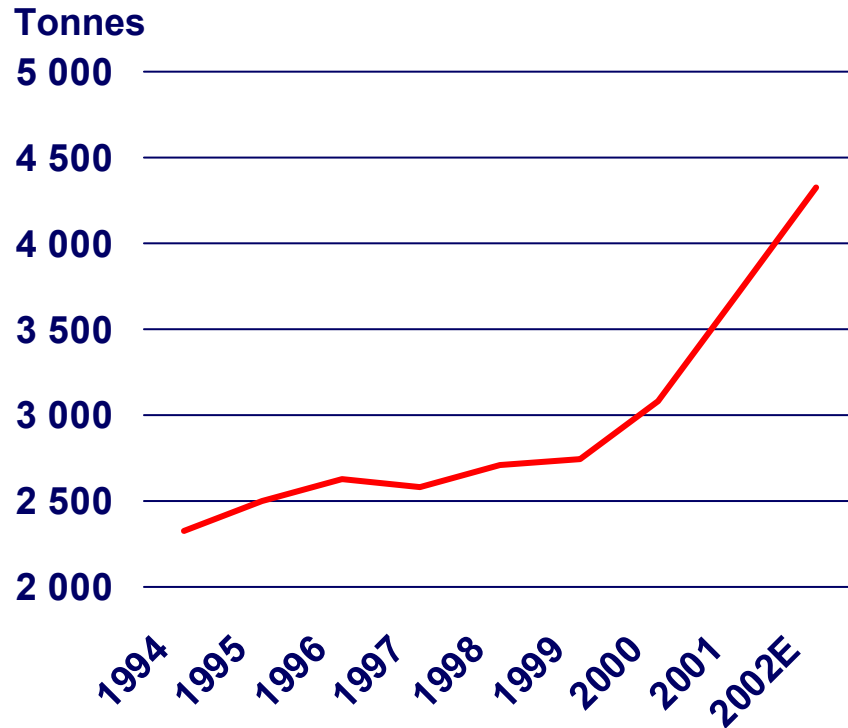
\*\* Average net working capital divided by gross operating revenue



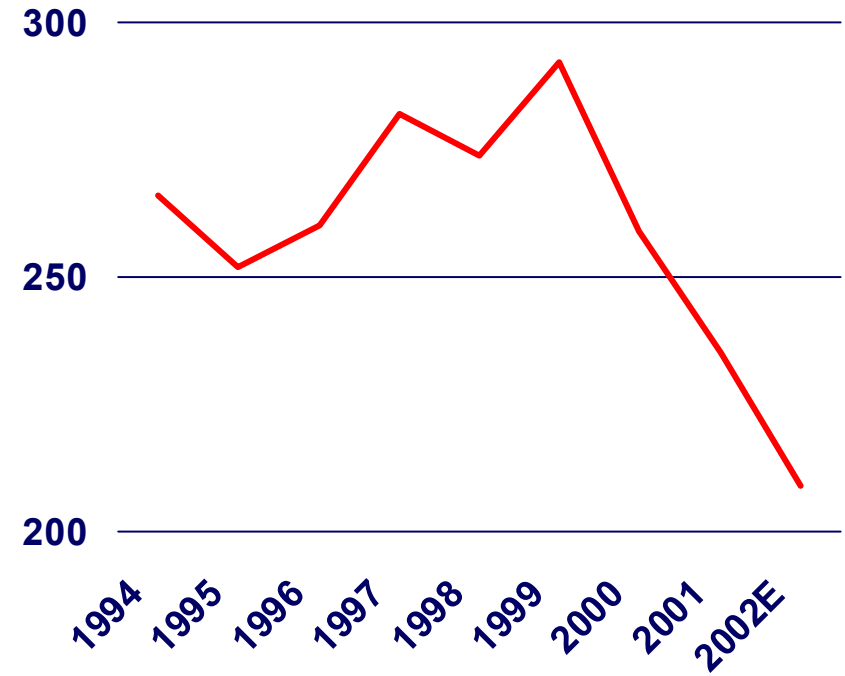
# Large productivity improvements

## European plants

### Production per employee

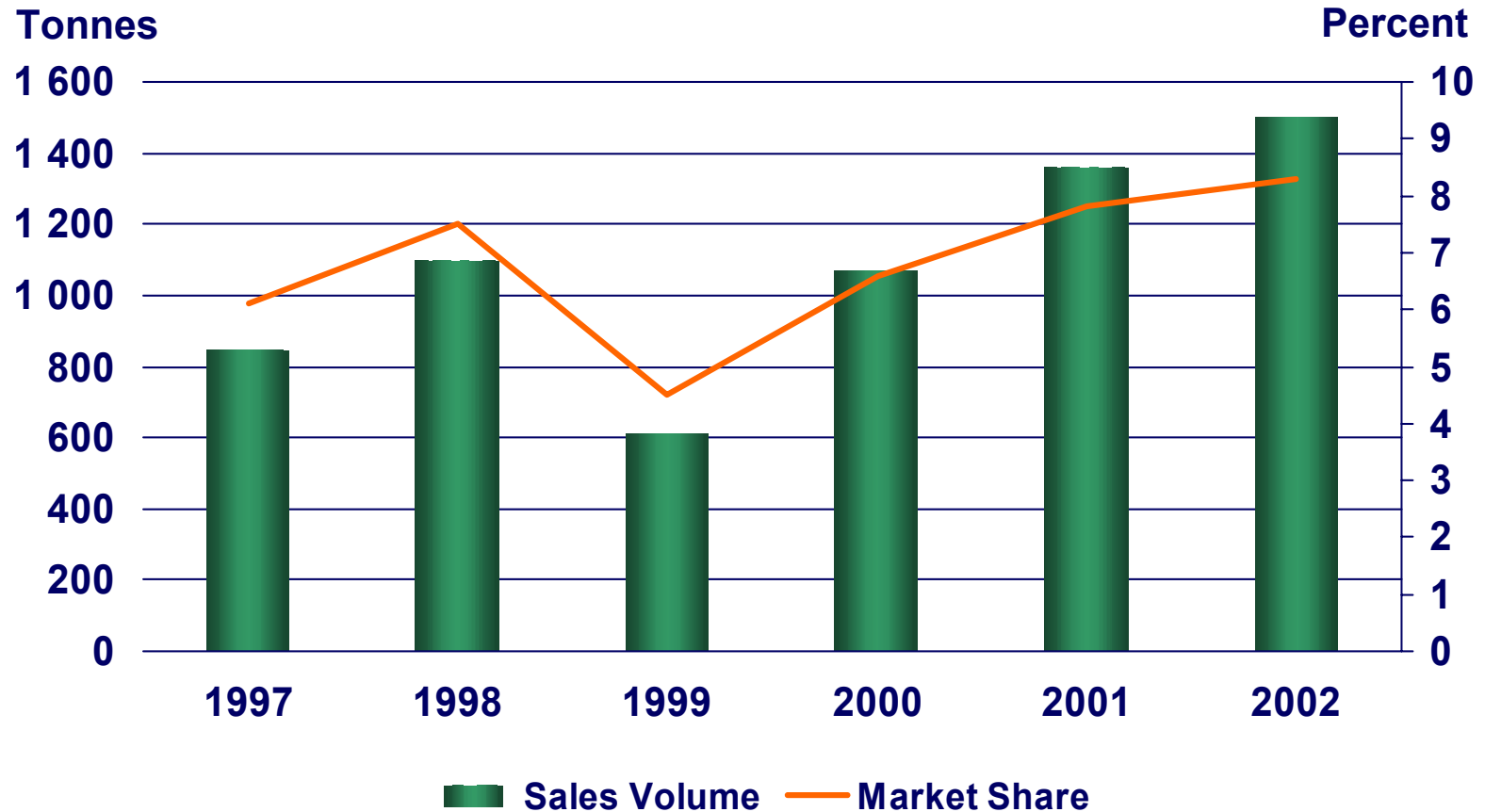


### Fixed cost per tonne \* (NOK)



\* Excluding non-recurring items

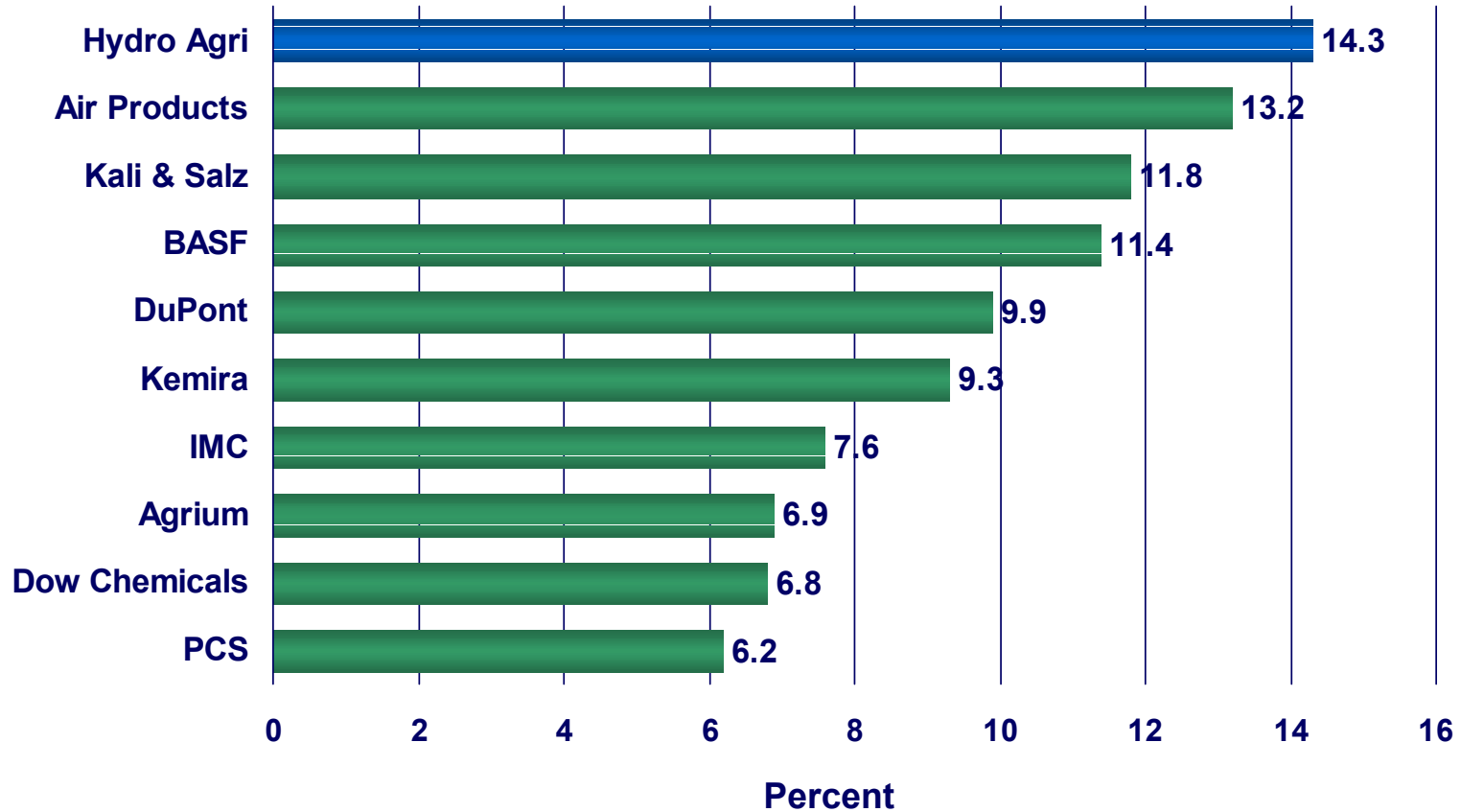
# Trevo (Brazil) takeover: From bankruptcy to healthy business





# Top performance

## Gross return on assets\* YTD 3Q 2002



\* Gross return on assets defined as EBITDA (excluding non recurring items) divided by total assets

Source: company quarterly reports



# **We have a unique fertilizer position**

- **The largest player**
- **The only truly global company**
- **Balanced product portfolio (N,P,K)**
- **Strong sourcing power**
- **Unique brands**





# Our six areas of global strength

**Ammonia**

- **Leading position**

**Nitrates**

- **Leading position**

**Balanced fertilization  
(NPK)**

- **Leading position (high value crops)**

**Speciality fertilizers**

- **Leading position with SQM (cash crops)**

**Selected industrial  
applications**

- **Leading West European position**

**Distribution and  
marketing**

- **Only global player**

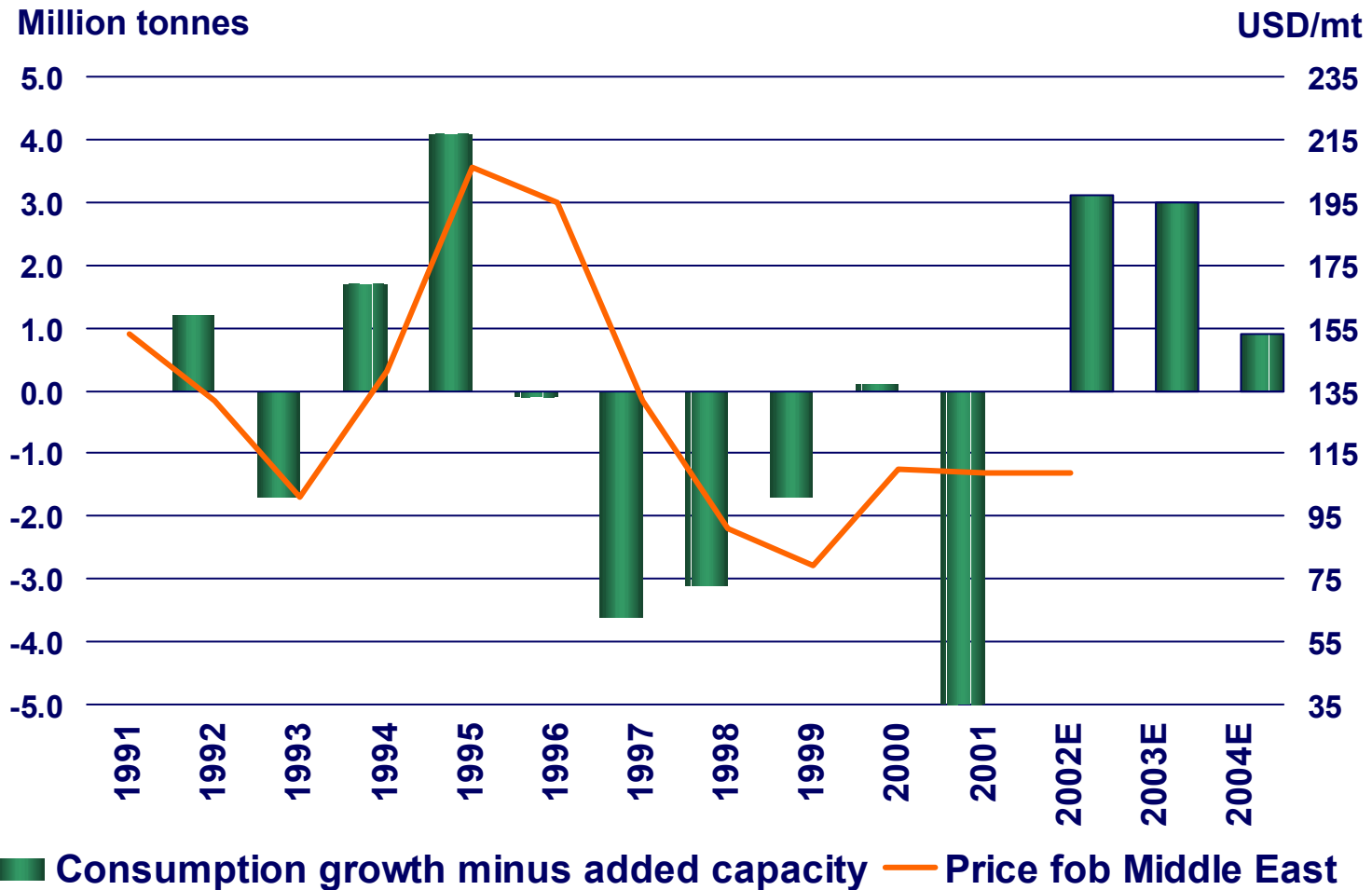


# Positive market outlook

- **Growth in fertilizer consumption**
  - Cereal stocks diminishing rapidly
  - Increasing grain prices last months
  - Historically, fertilizer prices correlate well with grain prices
  
- **Limited new capacity globally next 2-3 years**
  
- **Global supply/demand balance looks good**



# World urea supply/demand balance



Source: CRU, Fertecon, Hydro

36207\_5H - 12.2002 - \* 18 - Hydro Media



# Possible opportunities and threats

## Opportunities

- Increased exports to China and India
- Russian WTO membership expected to establish gas prices reflecting real costs
  - Reduce Government impact
  - Intermediate EU antidumping measures linked to gas price

## Threats

- Improved US cost position
- Imports into Europe



# Future growth opportunities

- **Organic growth**
  - Continued productivity improvements in our plants
  - Scale and synergy effects in our global logistics and marketing network
  
- **Potential opportunities**
  - North America (nitrogen)
  - Low cost ammonia capacity (Trinidad, Middle East...)
  - Distribution channels (China, Brazil...)
  - Global consolidation process



# Key messages

- **Market outlook positive**
- **Unique business position**
- **Global leadership in key strategic areas**
- **Industry leadership after Turnaround**
- **Strong platform for profitable growth**

# Additional Information





# Hydro Agri – indicative sensitivities

	EBITDA NOK million	CROGI % points
Urea + 10 USD/t	170	0.33
CAN + 10 USD/t *	500	0.97
Oil price + 1 USD/bbl	- 110	- 0.21
Currency + 0.1 NOK/USD	60	0.12

\* Reference price for nitrogen sales in Europe  
CAN prices are influenced by urea

Underlying assumptions: Oil USD 18, CAN 113 USD/t , NOK/USD 8.00  
Simplified tax rate: 30%

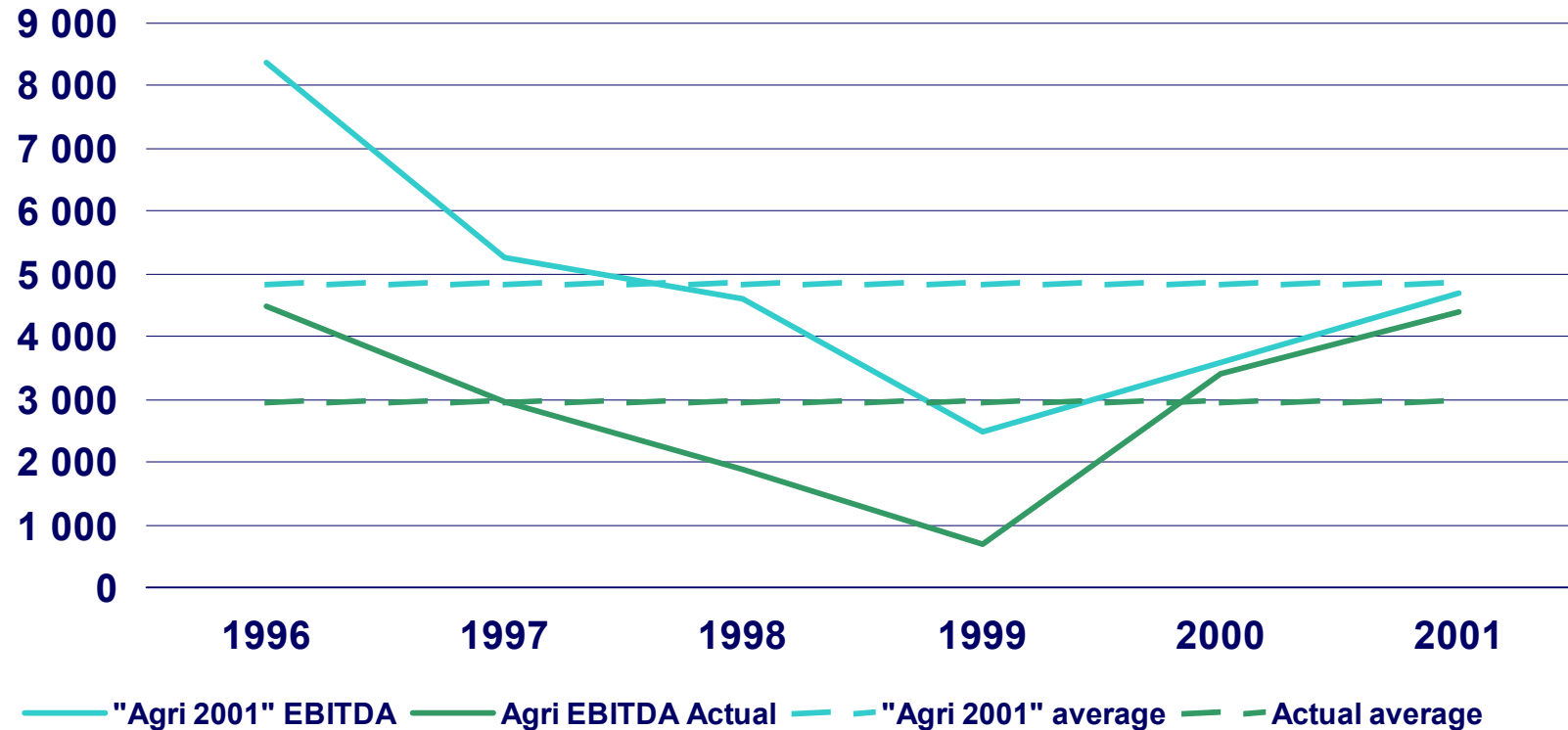


# Position and strength reduce the impact of cyclicality on results



## EBITDA Backcast, 2001 Base year

NOK million



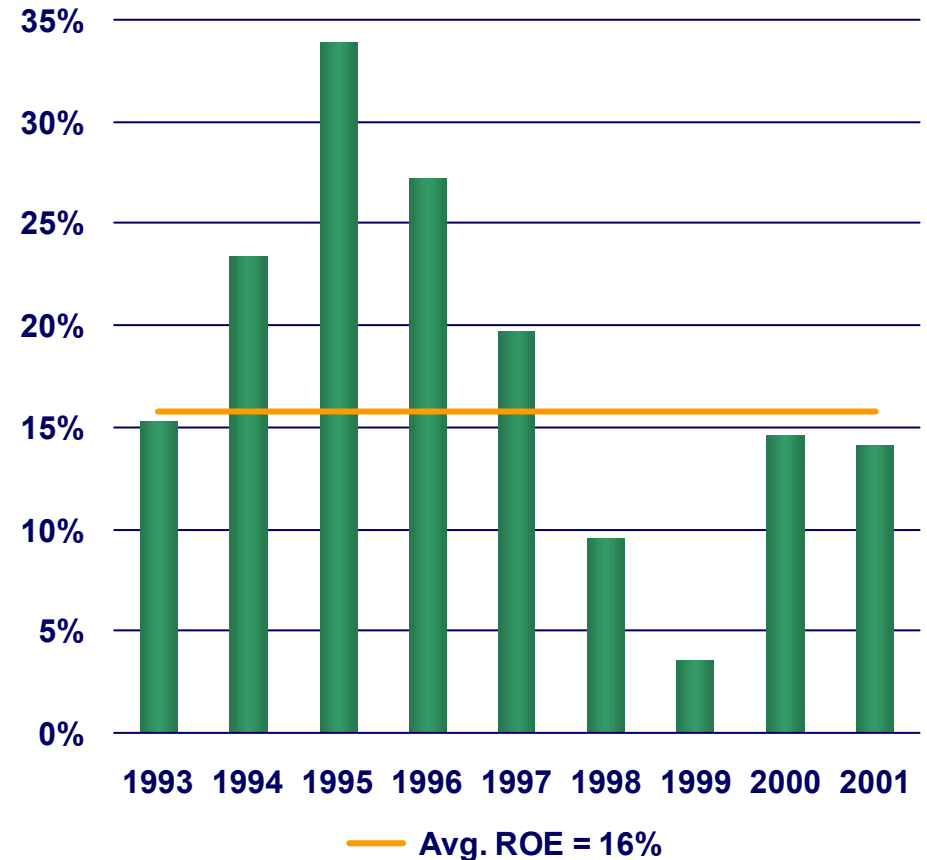
*Backcast is estimated performance of 2001 structure with historical trading conditions (prices and currency).  
2001 EBITDA corrected for 300 NOK million non-recurring items*

# Qafco – a successful ammonia/urea investment



- Qatar Fertilizer Company, one of the most cost efficient nitrogen plants in the world.
- Hydro ownership 25%
- Hydro marketing agreement of 0.6 million tonnes (1.4 million tonnes)\* urea p.a.

## Return on Equity (ROE)

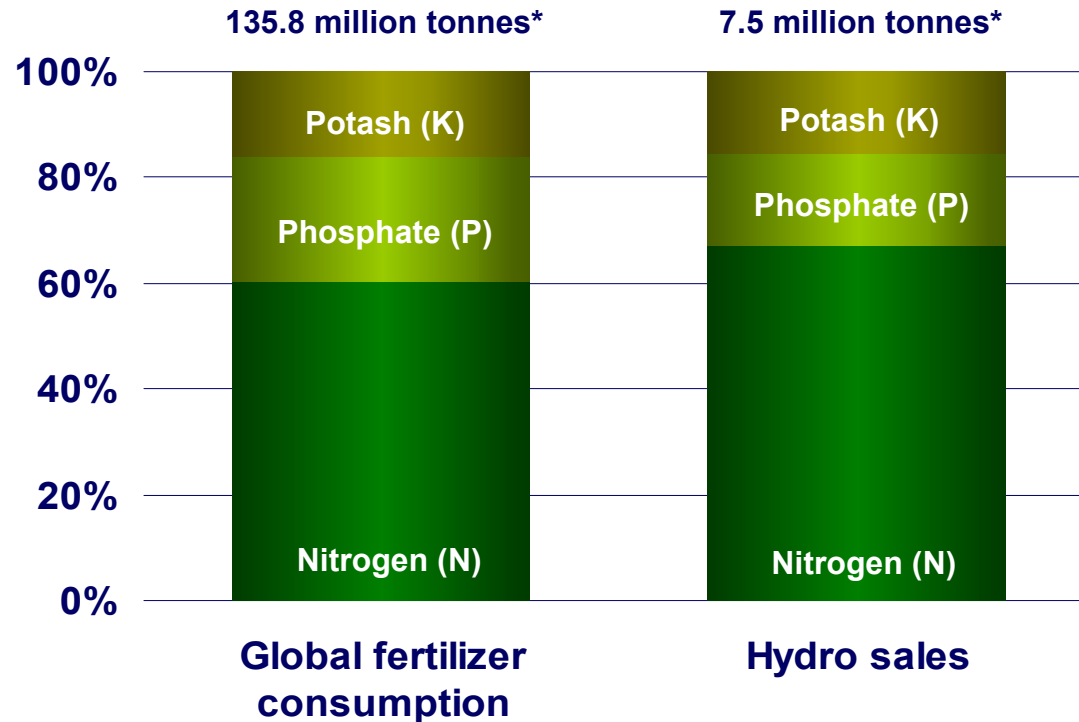


\* Volume after June 2004 (Qafco 4 expansion)



# Market leadership – and balanced sales

## 2001 sales



Average global Hydro market share ~ 6%

\* Nutrient tonnes

Hydro Agri sales calendar year 2001. IFA statistics season 2000/2001

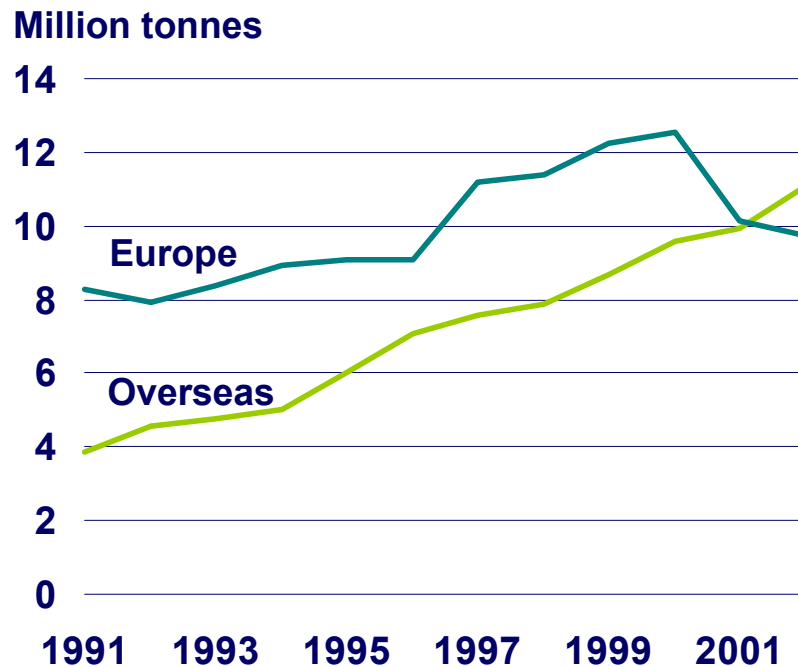
Source: IFA, Hydro

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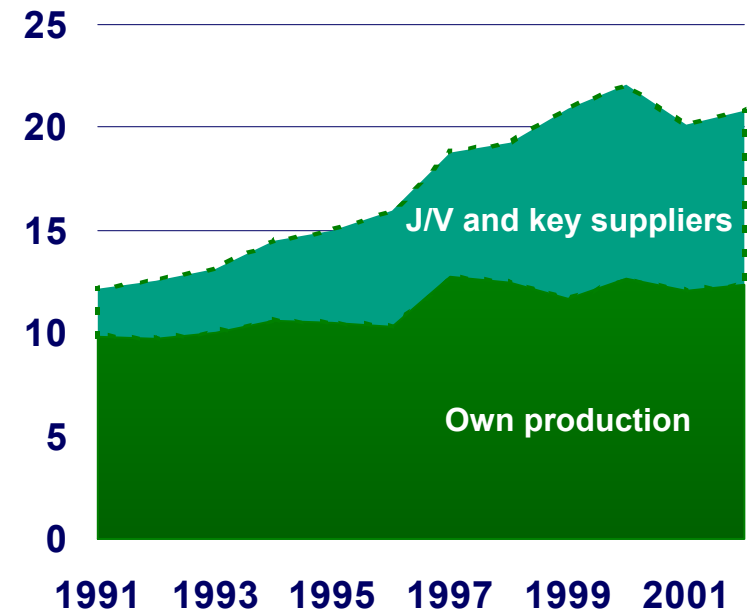


# Growth in non-European markets

**Est. 2002 Agri sales overseas higher than sales in Europe**

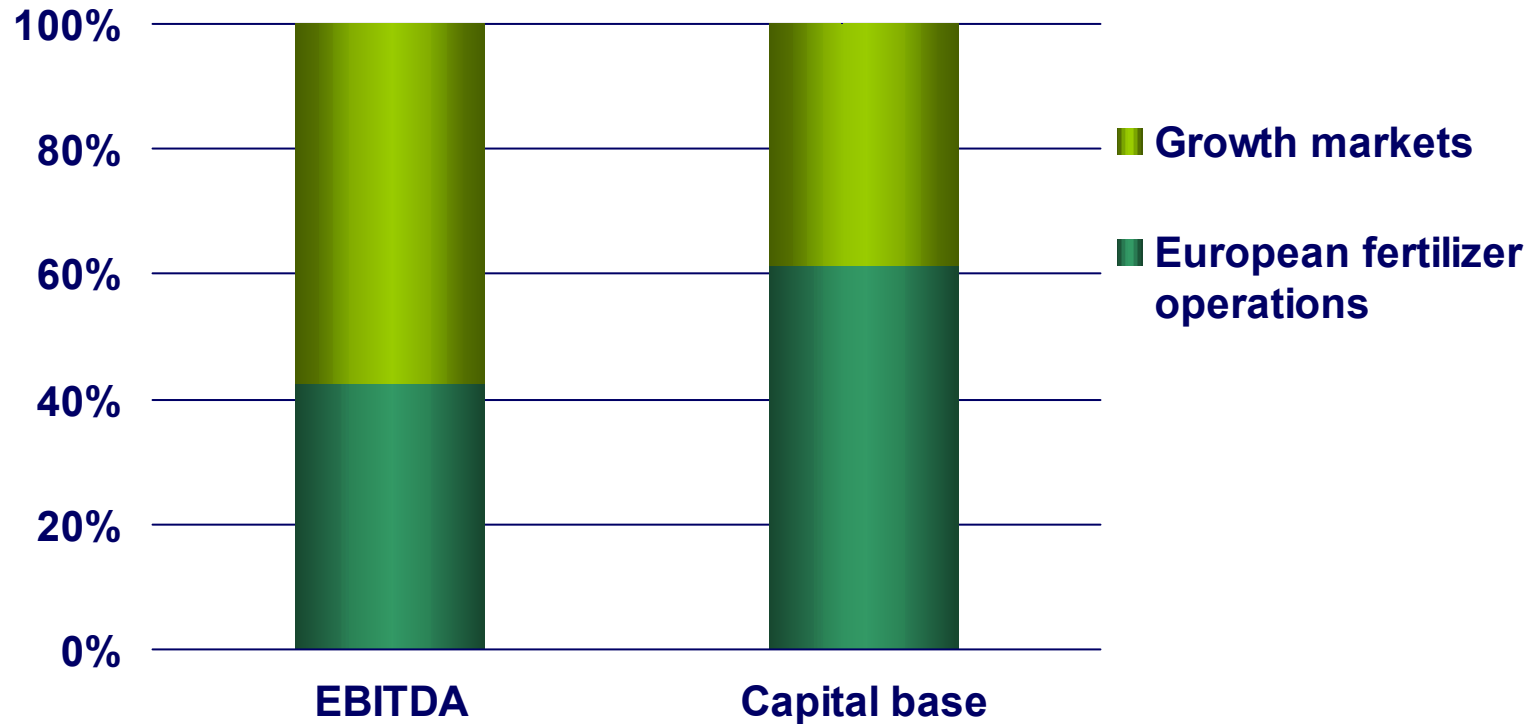


**Sourcing**





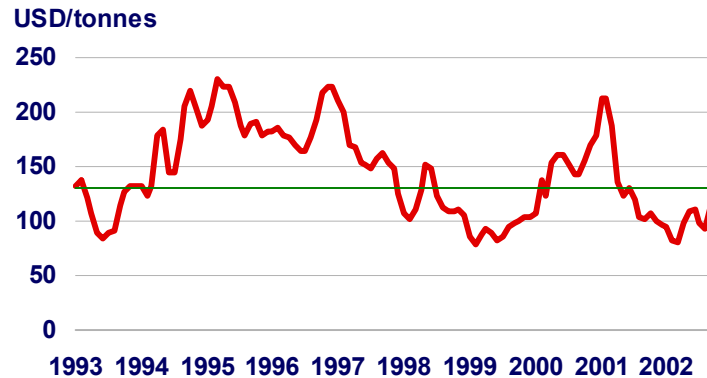
# Increased focus on growth markets



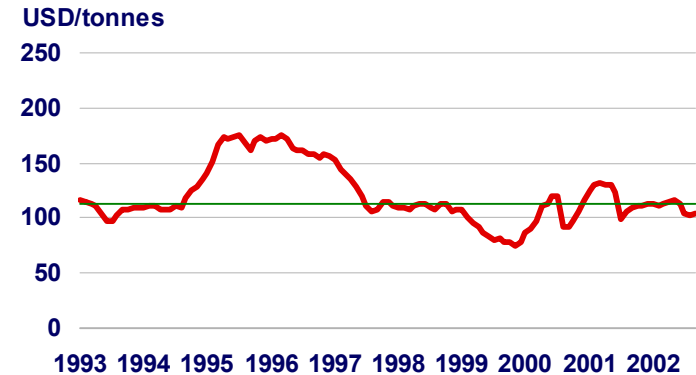


# Historical and average fertilizer prices

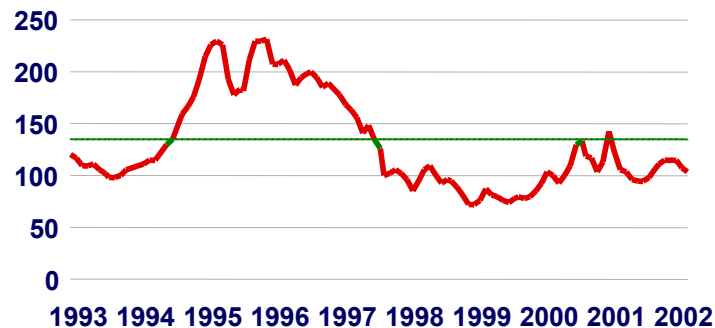
**Ammonia**  
Fob Caribbean



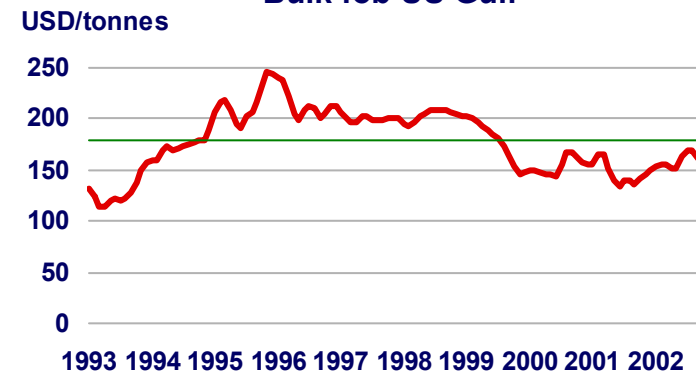
**CAN Germany**  
Bulk delivered warehouse



**Urea**  
Bulk fob Middle East



**DAP**  
Bulk fob US Gulf



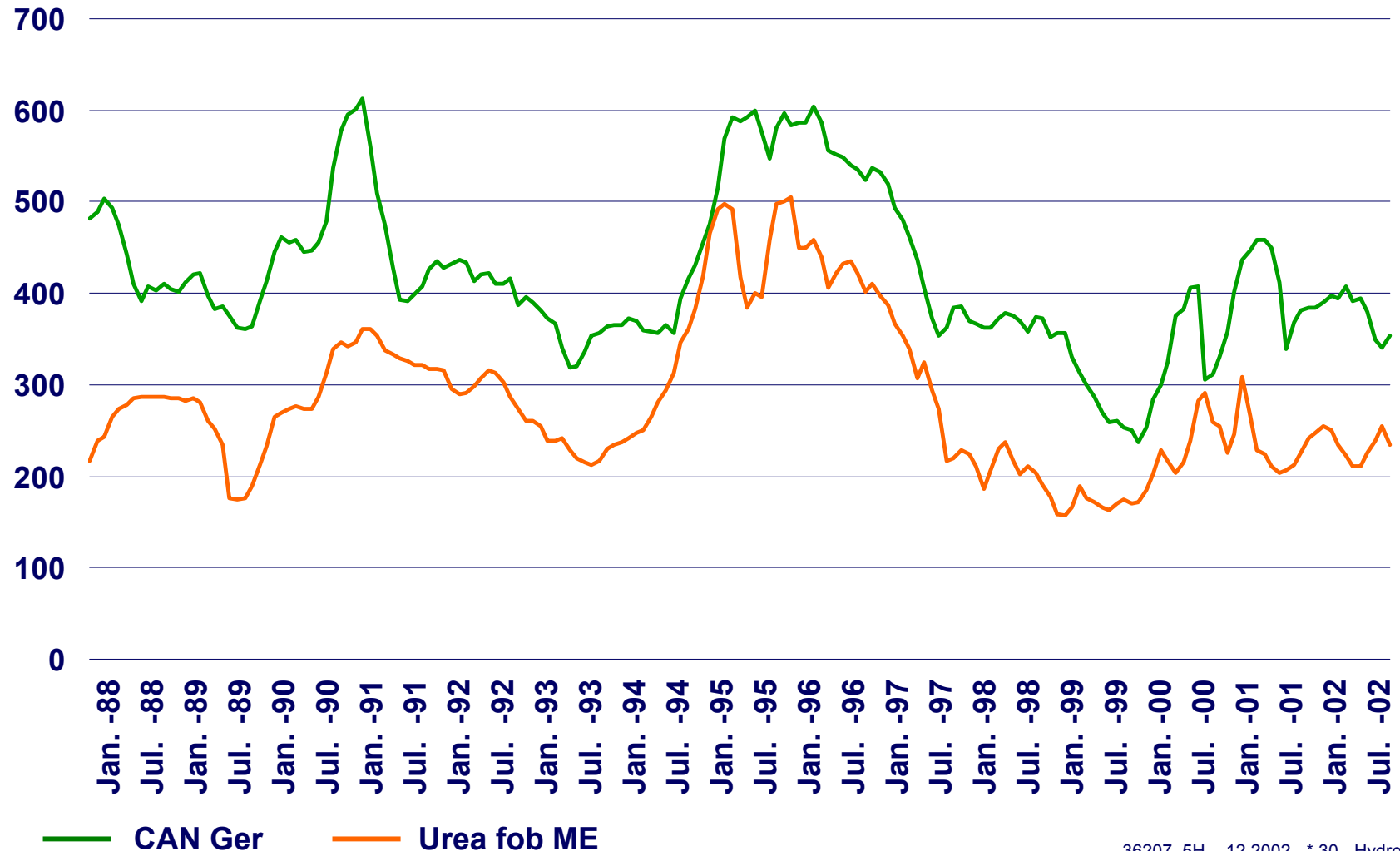
— Average prices 1993 - 2001

Source: Fertilizer Week, The Market for CAN

# European nitrate prices are strongly influenced by the global urea price

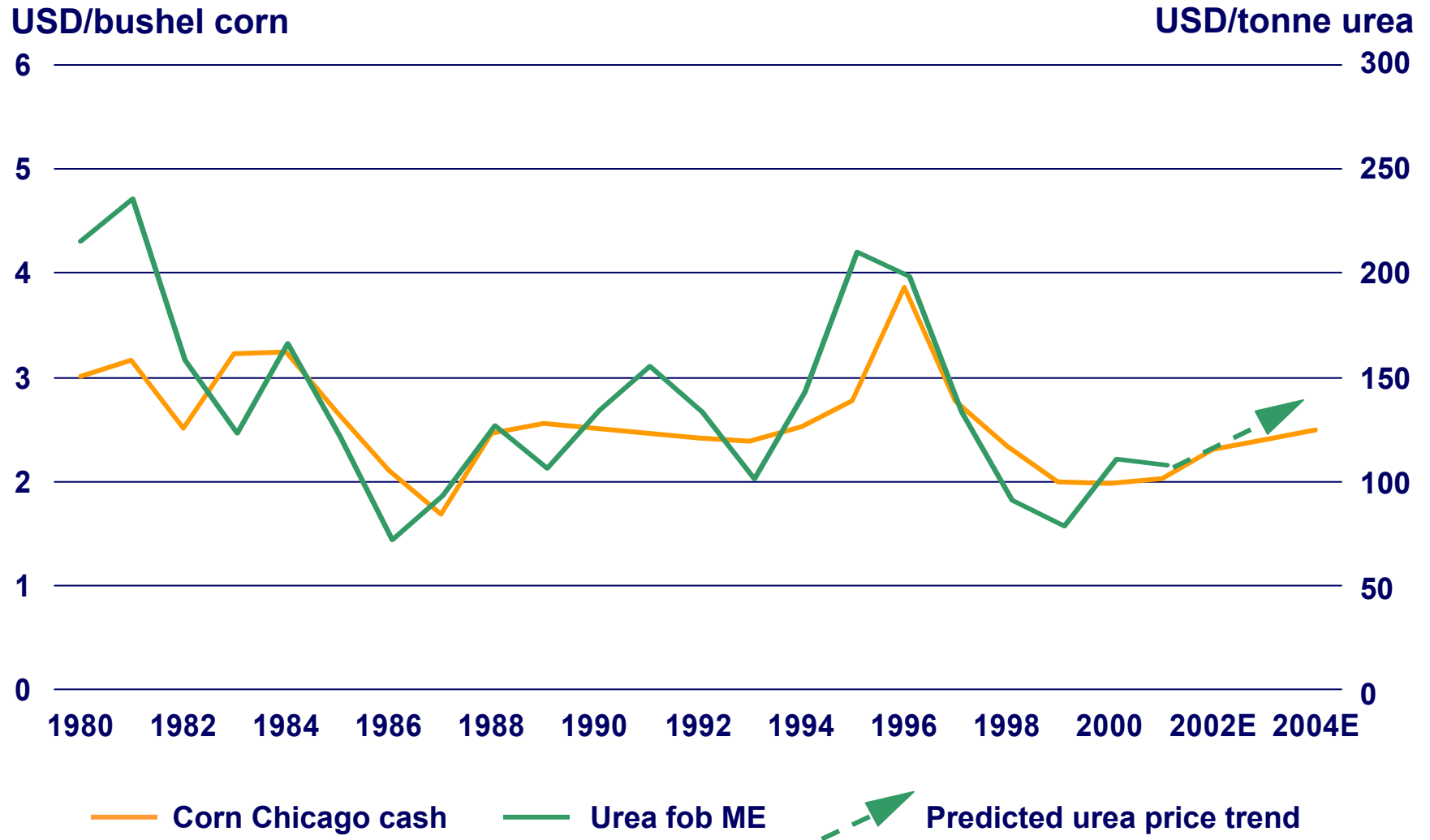


USD/mt N





# Fertilizer prices linked to grain prices -

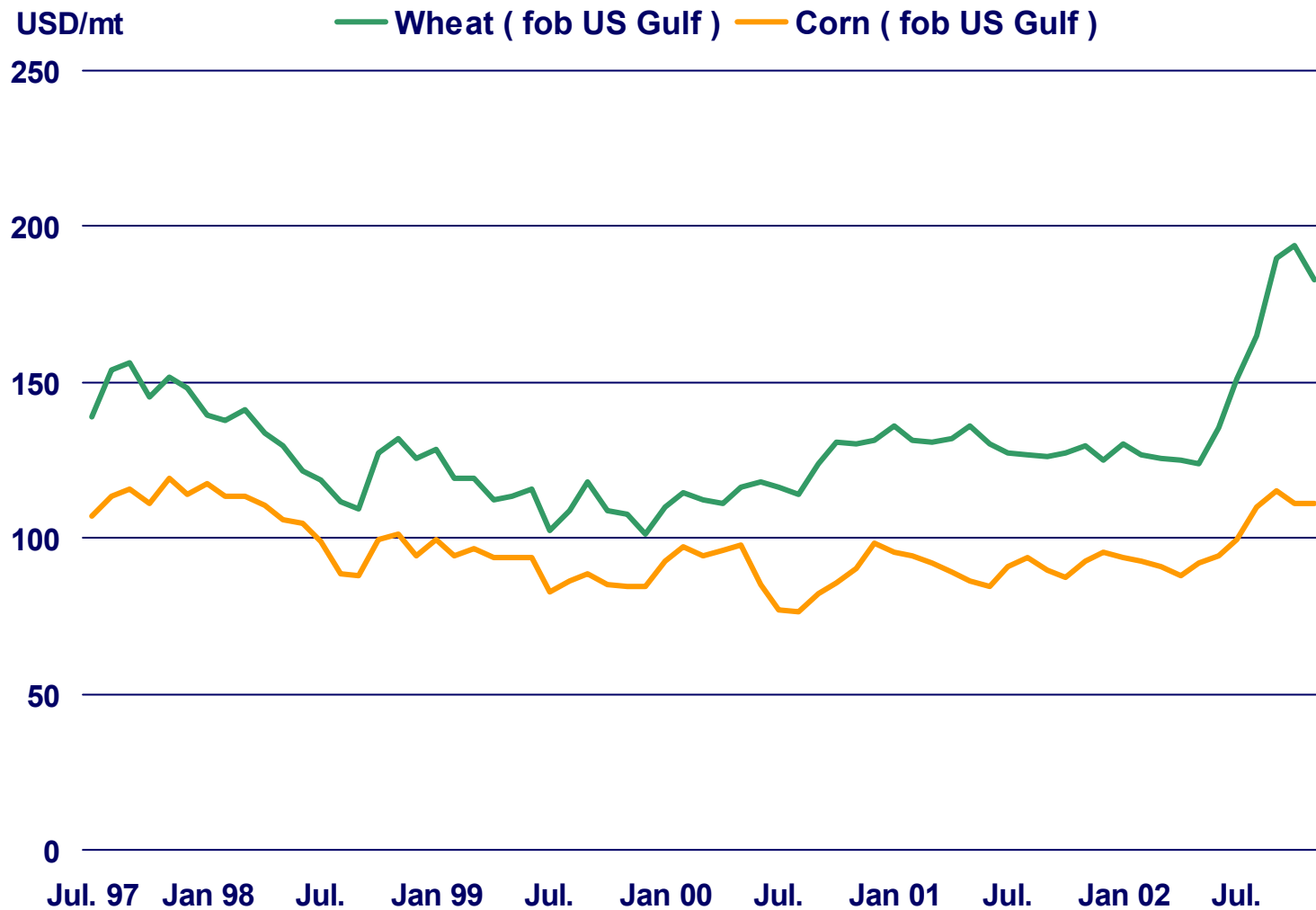


Source: Blue-Johnson, CBT





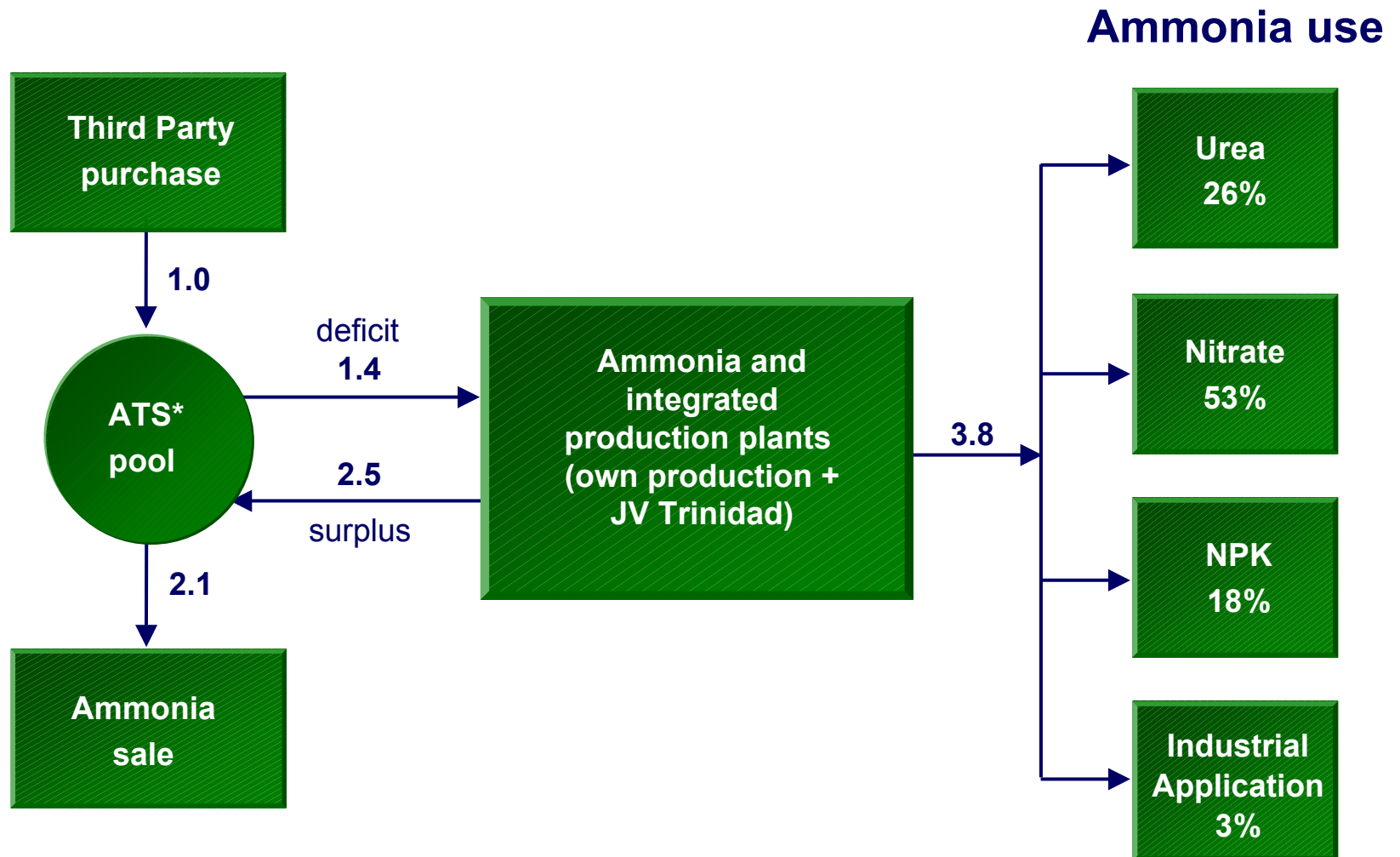
## - grain prices increasing



Source: International Grain Council



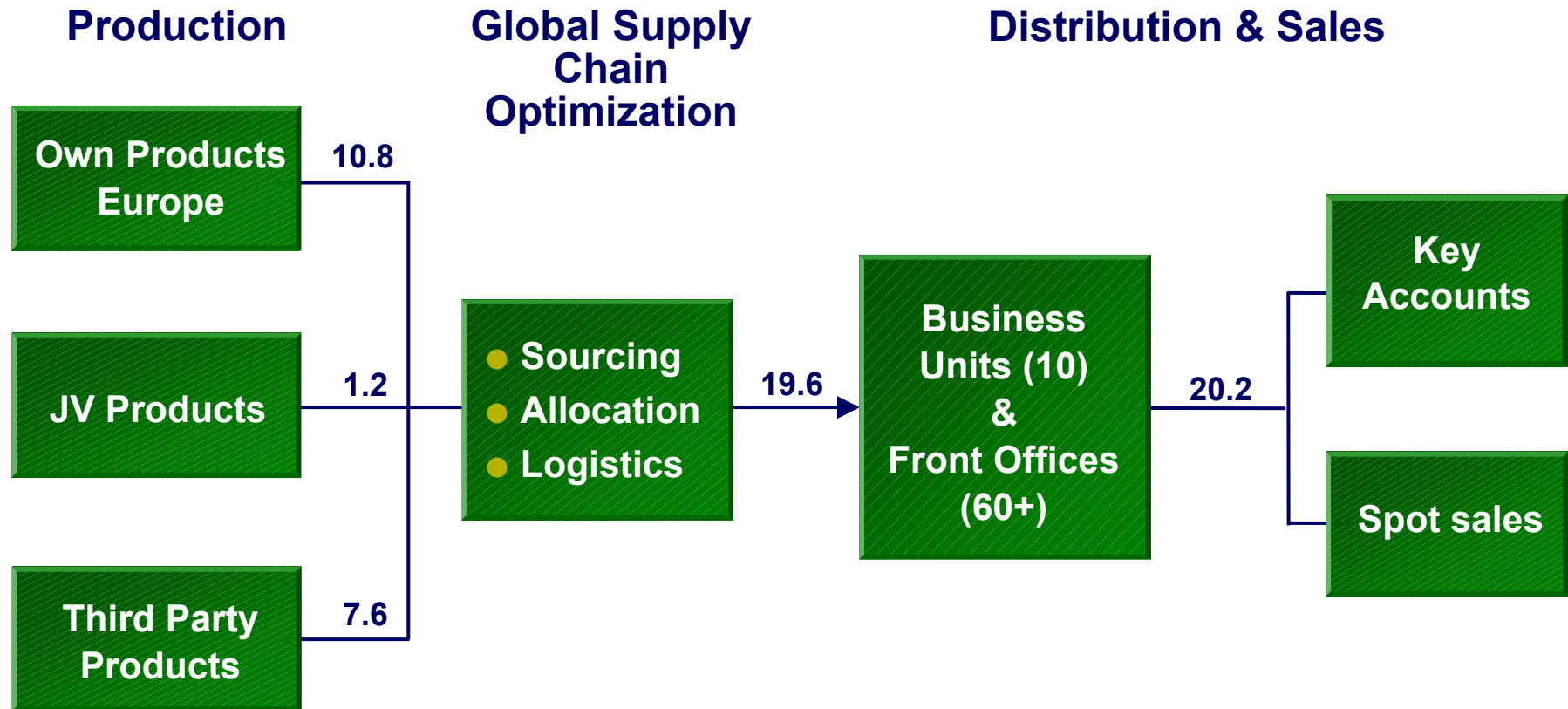
# Ammonia Value Chain (2001)



\* Ammonia Trade & Shipping



# Fertilizer Value Chain (2001)





# Product Value Chain

Raw materials	Intermediate products	Finished Products	
		Main	Other
Natural Gas/Air (N)	Ammonia/nitric acid	Urea	<ul style="list-style-type: none"> <li>● Nitrates</li> <li>● Compounds NPK</li> <li>● Straights</li> <li>● Blends</li> </ul>
Rock (P)	Phosphoric acid	DAP	
Salts (K)	-	MOP	

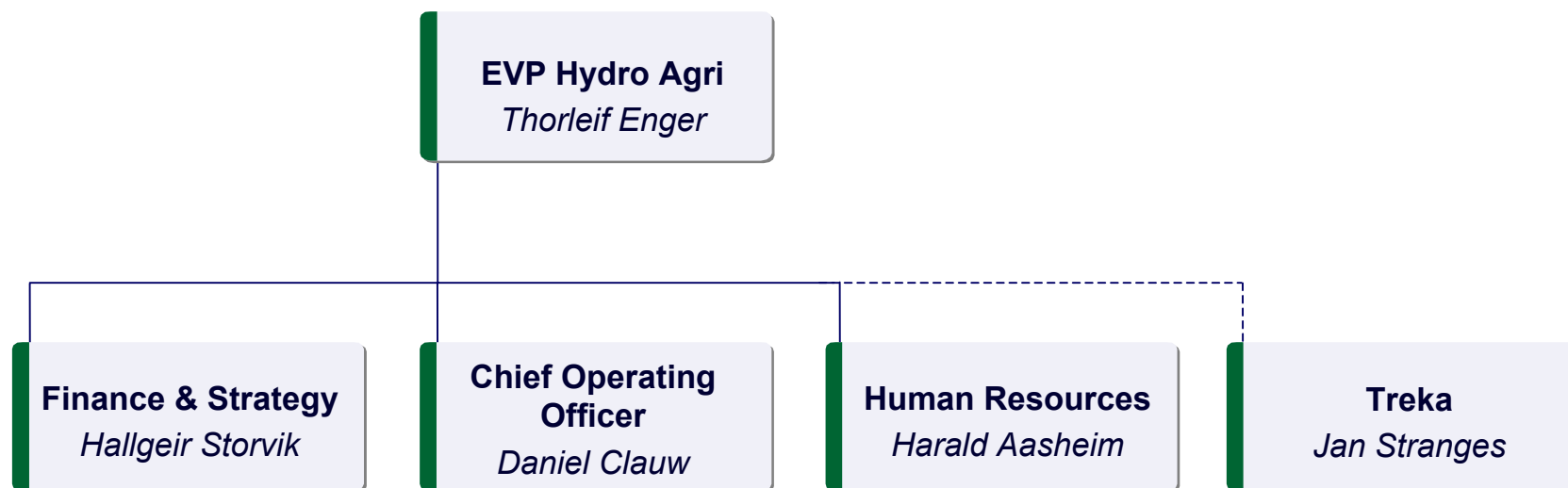
# References for analysis of fertilizer markets



- **News, price references and short term developments ( 1 - 2 months )**
  - **The Market** [www.decyfer.com](http://www.decyfer.com)
  - **Fertilizer Week** [www.britishsulphur.com](http://www.britishsulphur.com)
  - **Fertecon** [www.fertecon.com](http://www.fertecon.com)
  - **FMB** [www.fmb-group.co.uk](http://www.fmb-group.co.uk)
  - **Green Markets (USA)** <http://greenmarkets.pf.com>
- **Medium term ( 1 year ) supply/demand and price analysis**
  - **Outlook, from The Market. Monthly publications for ammonia, urea and DAP**
- **Longer term**
  - **Fertecon**
  - **British sulphur**
- **Grain supply/demand and price**
  - **International Grain Council** [www.igc.org.uk](http://www.igc.org.uk)
  - **Chicago Board of Trade** [www.cbot.com](http://www.cbot.com)



# Hydro Agri structure



# Capital Markets Day 2002

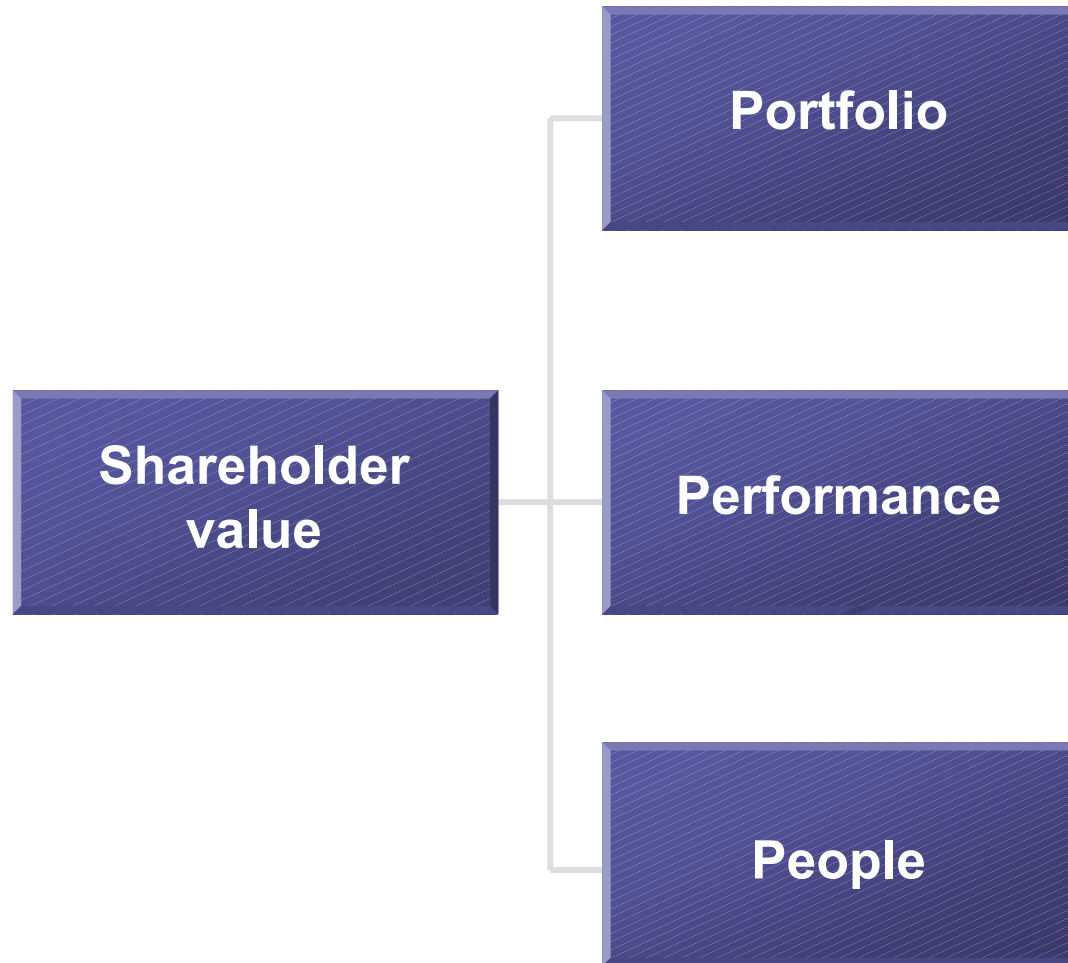
## Financial Issues

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





# Creating shareholder value







# CROGI – our key measure of return

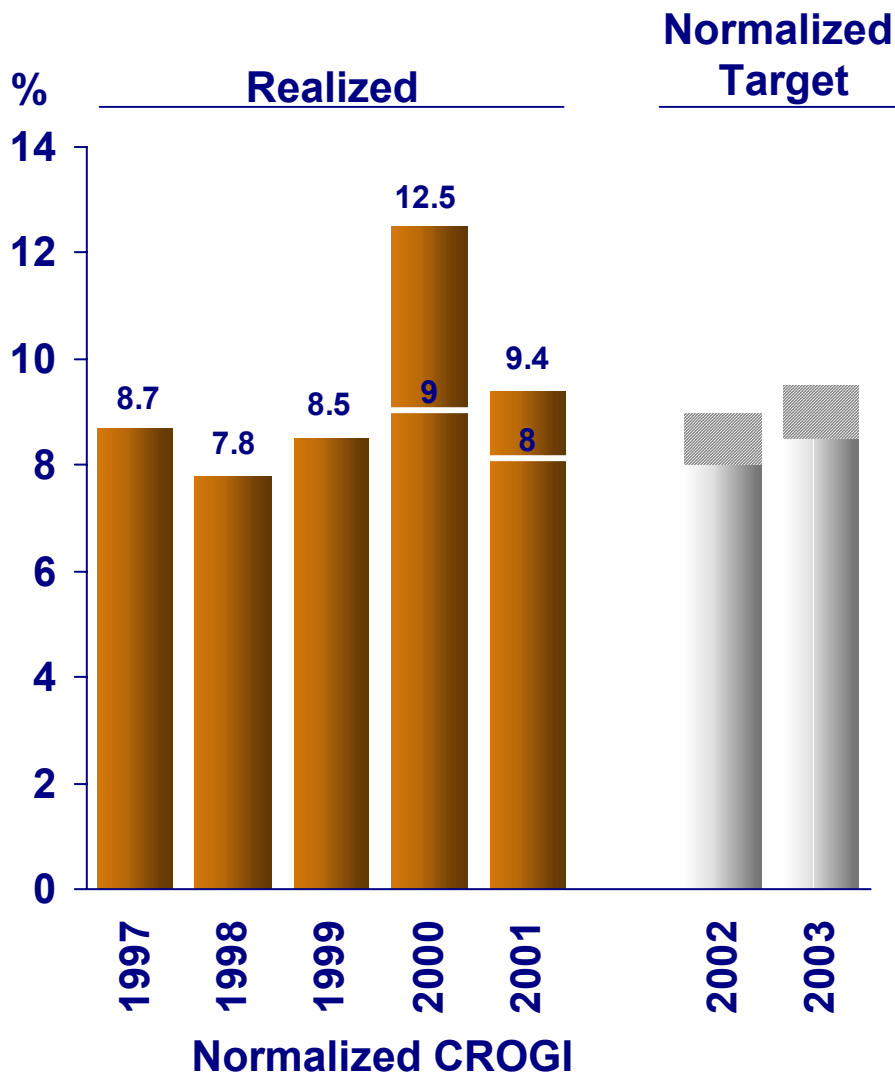
- CROGI – cash return on gross investment

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

- 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

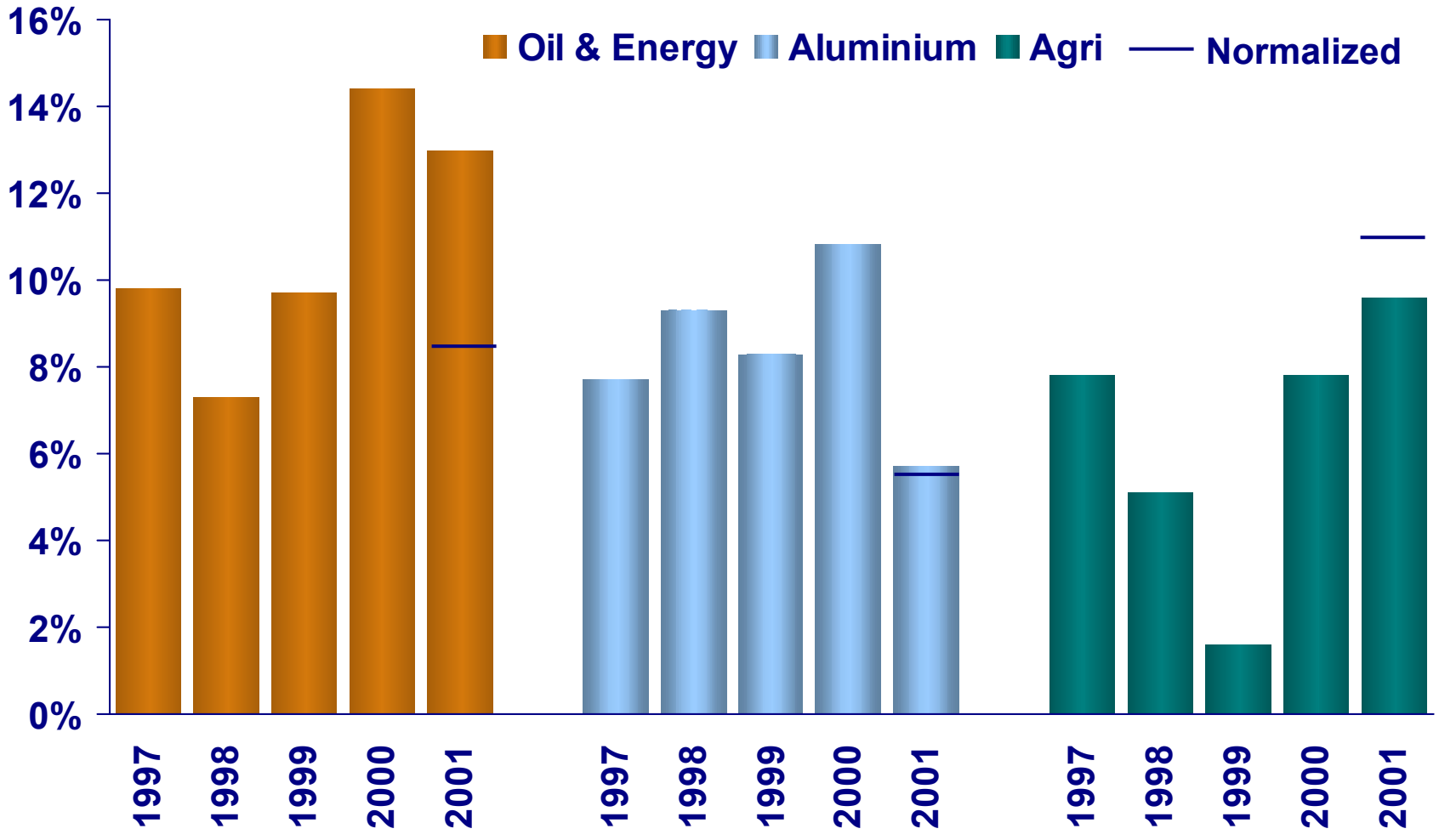
- Restructuring charges and gain/loss on divestments excluded in normalized CROGI

- **Volumes and margins are not normalized**



# CROGI per business area

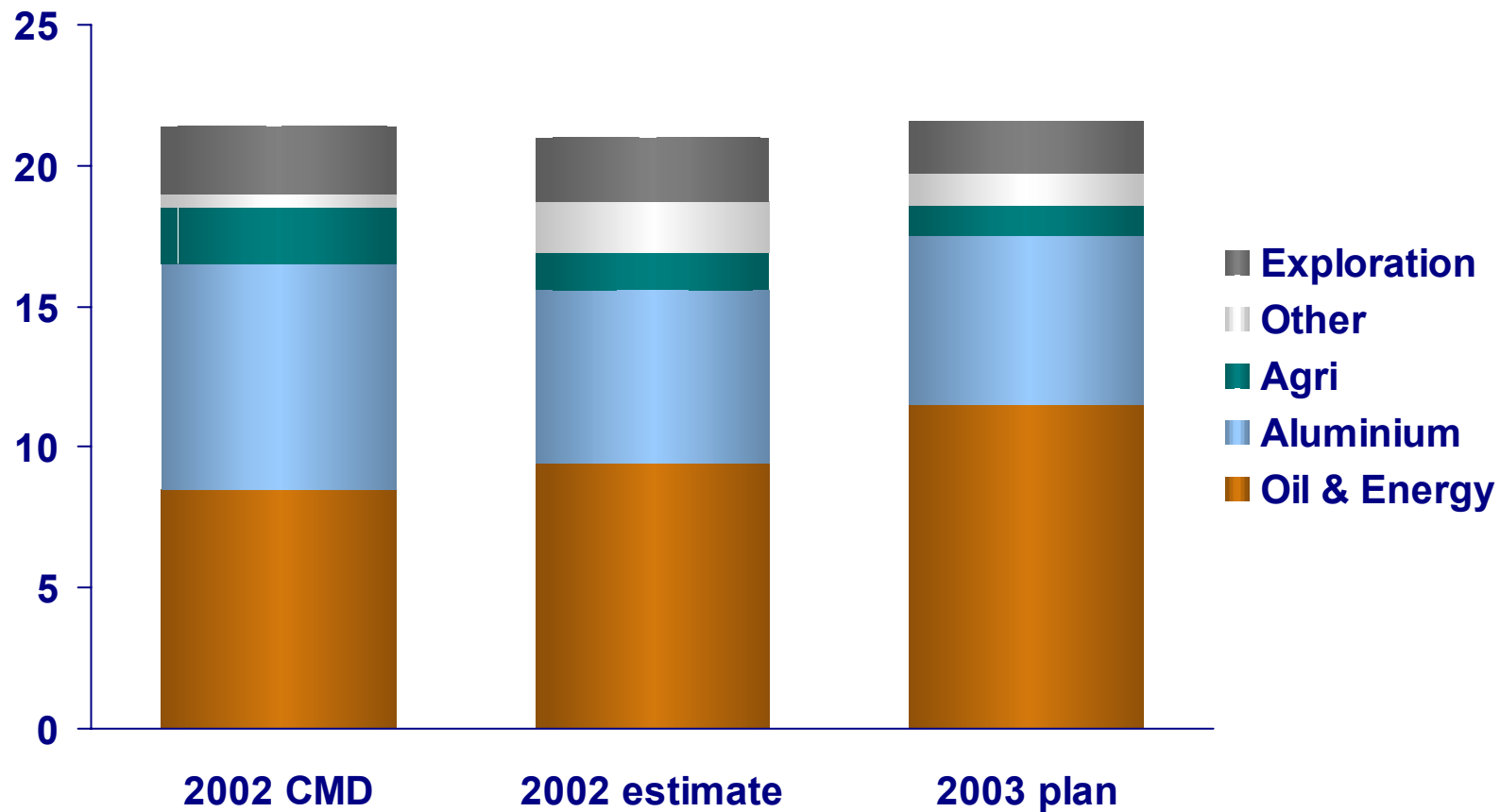
## Actual and normalized prices





# Capital expenditures

NOK billion



2002: VAW and SDFI acquisitions not included



# Acquisitions 2002

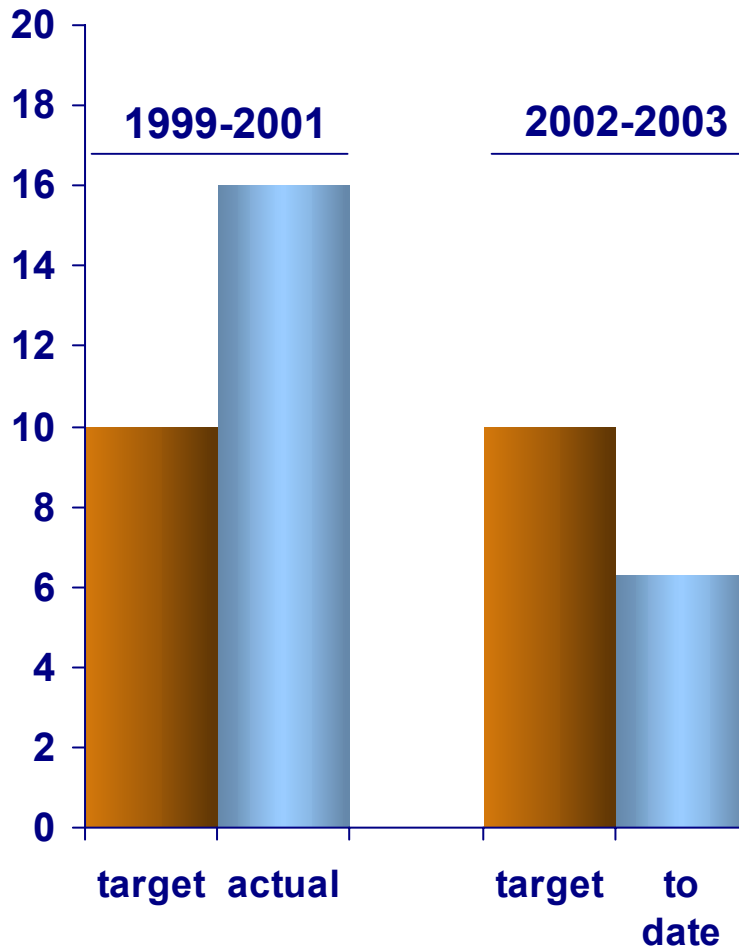
- **VAW Aluminium – a transforming transaction**
  - Cash and debt: NOK 20.4 billion
  - Pension liabilities: NOK 3.2 billion
  
- **SDFI – strengthening position in core areas**
  - Cash: NOK 3.5 billion
  
- **Technal – creating world leader in building systems**
  - Cash and debt: NOK 870 million
  
- **All three acquisitions accretive to 2002 earnings**

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



# Divestments

NOK billion

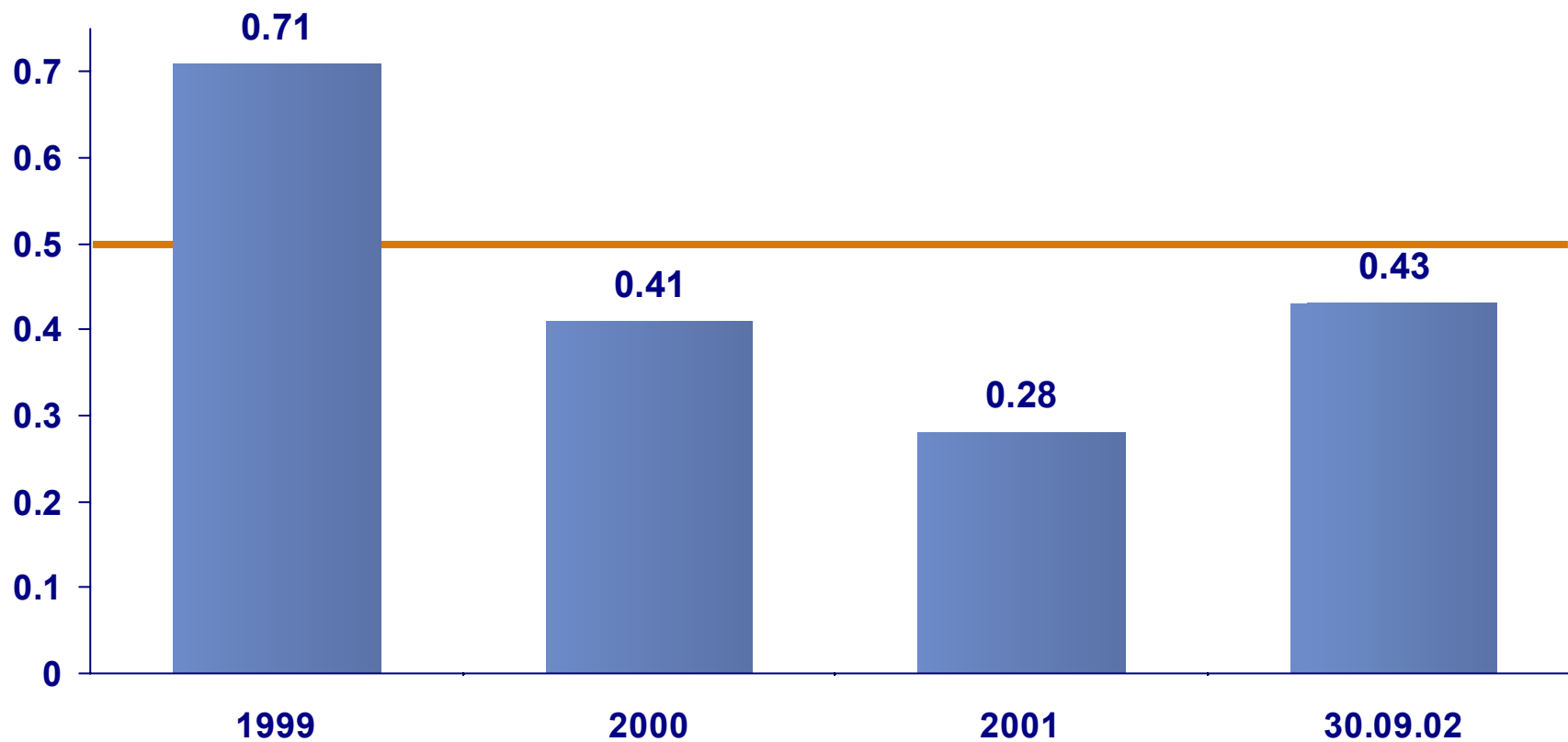


- On track to reach divestment target of NOK 10 billion by end of 2003
- Signed deals in 2002
  - KFK grain and feedstuff
  - Flexible Packaging
  - Other
- 2001 EBITDA for divested assets approximately NOK 600 million (pro forma)



# 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

<b>Price sensitivity</b>	<b>Pre tax</b>	<b>After tax</b>	
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
<b>USD sensitivity *</b>			
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

# Norsk Hydro ASA Capital Markets Day 2002

President and CEO  
Eivind Reiten  
Oslo, December 9, 2002





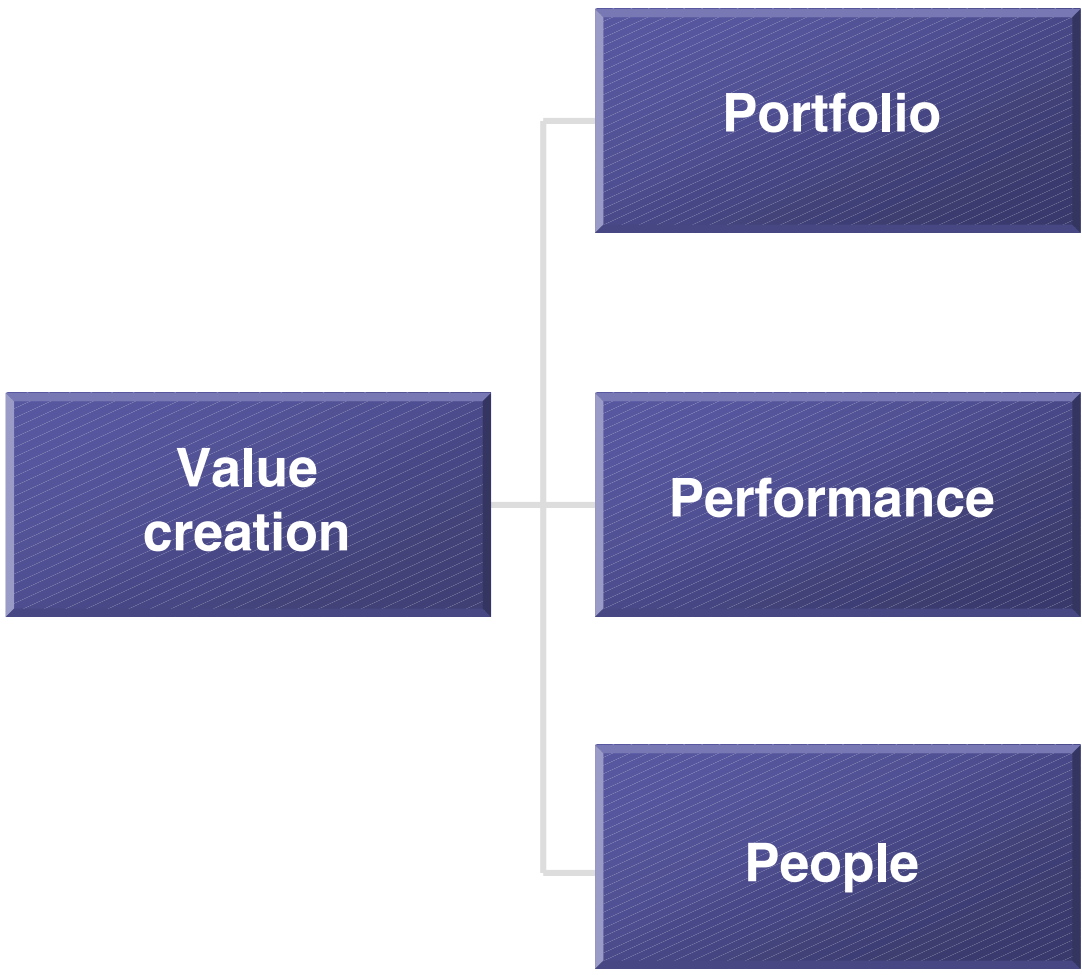


# Today's main messages

- **We deliver on our commitments**
- **2003 plans show performance improvements under unchanged market conditions**
- **Active portfolio management to continue**
- **Attractive potential in all three Business Areas**



# Key levers for value creation



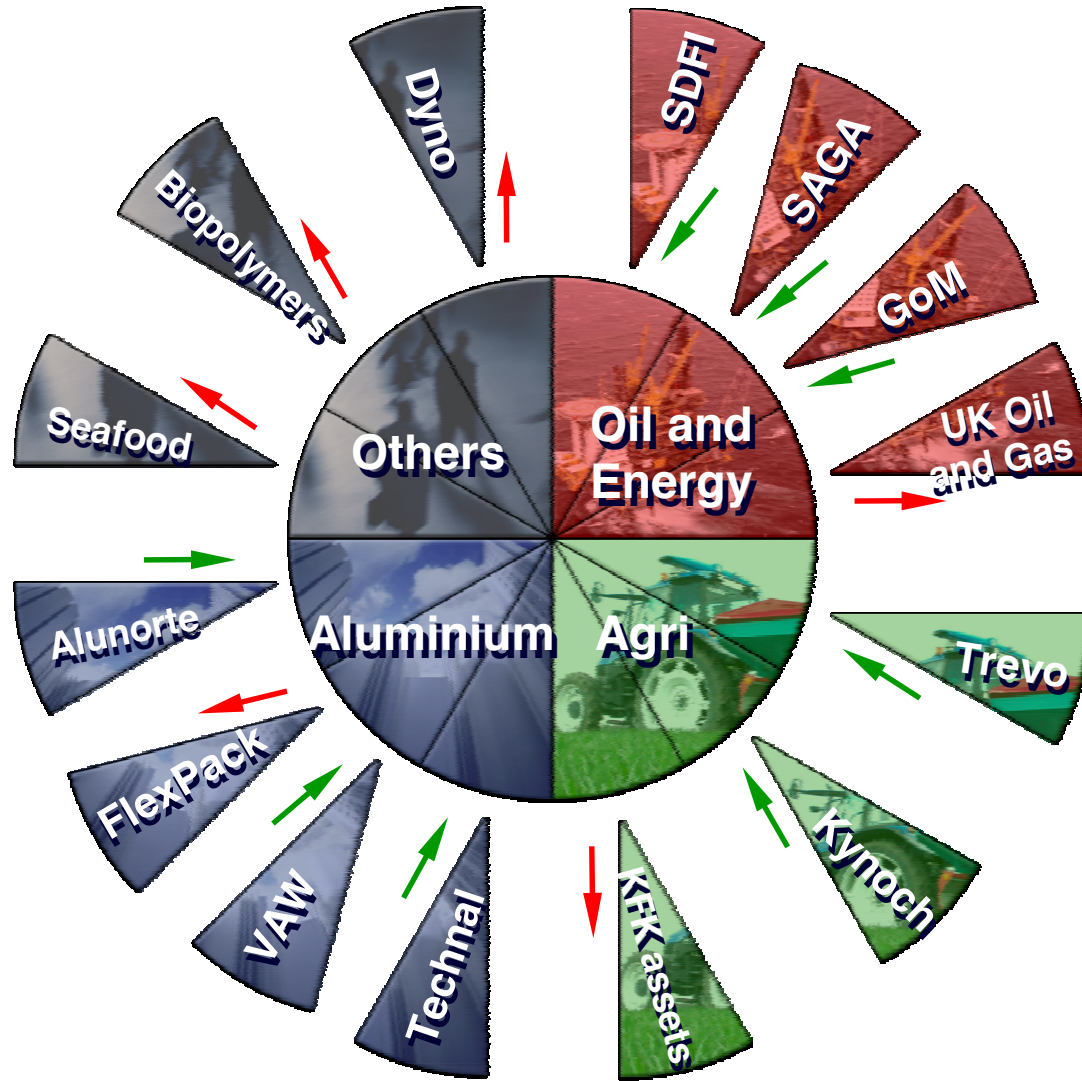


# We deliver: Active portfolio management

- **Strategic acquisitions**
  - VAW Aluminium
  - Technal
  - SDFI
  
- **Divestments – more than NOK 6 billion**
  - KFK assets
  - Flexible Packaging
  - Oil and gas assets
  
- **Major investment projects on track**
  - Grane, Sunndal, Alunorte, Qafco



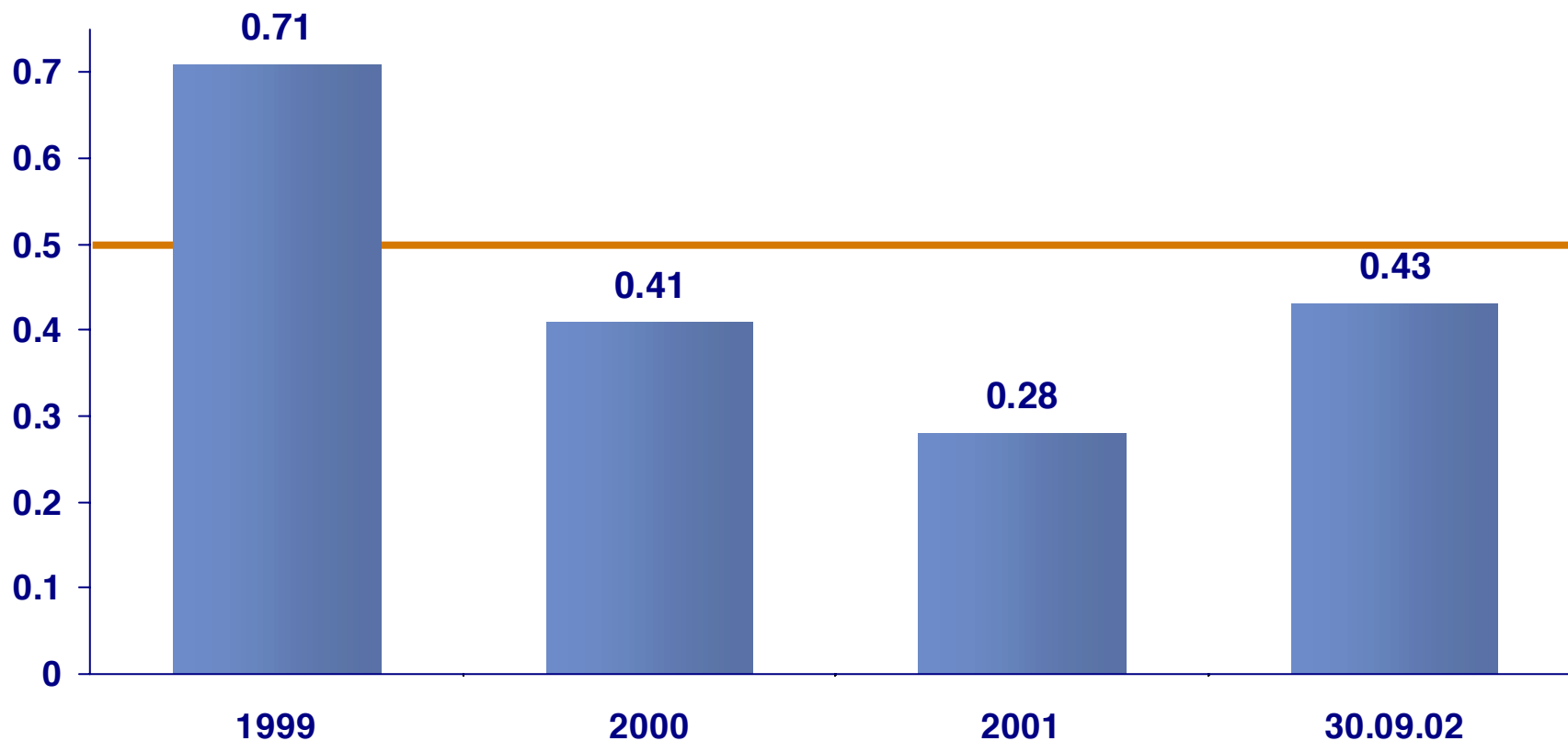
# Strengthening the core businesses





# We deliver: Maintained financial strength

Ratio

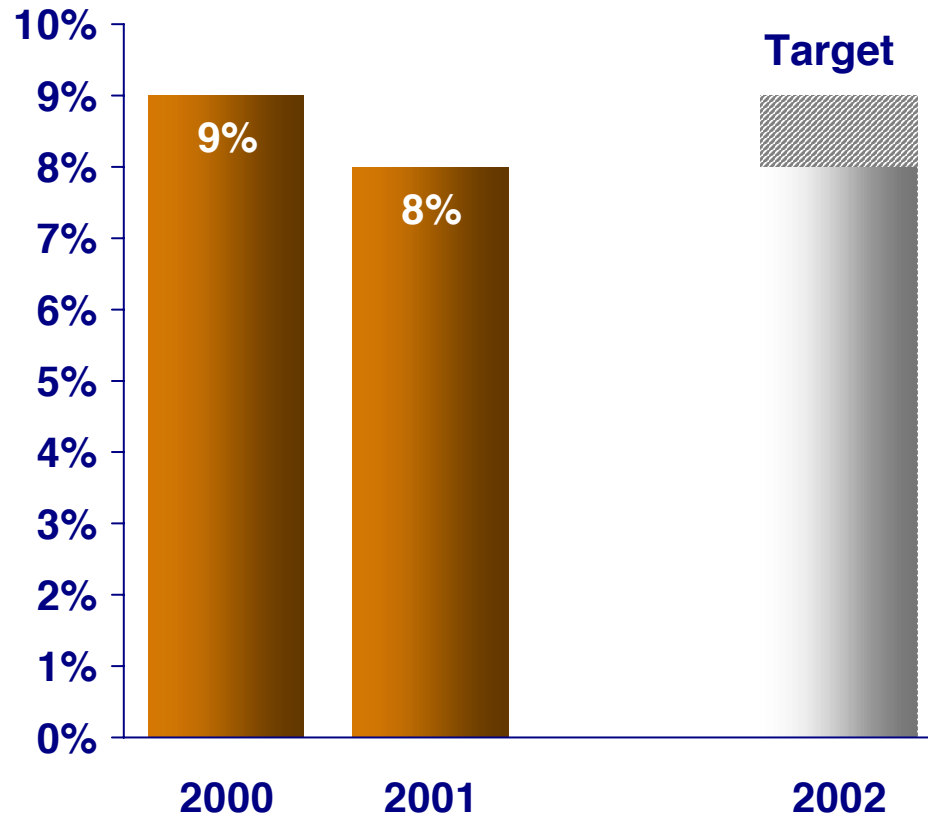


Net interest-bearing debt divided by shareholders' equity plus minority interest



# We deliver: 2002 CROGI target

## Normalized CROGI



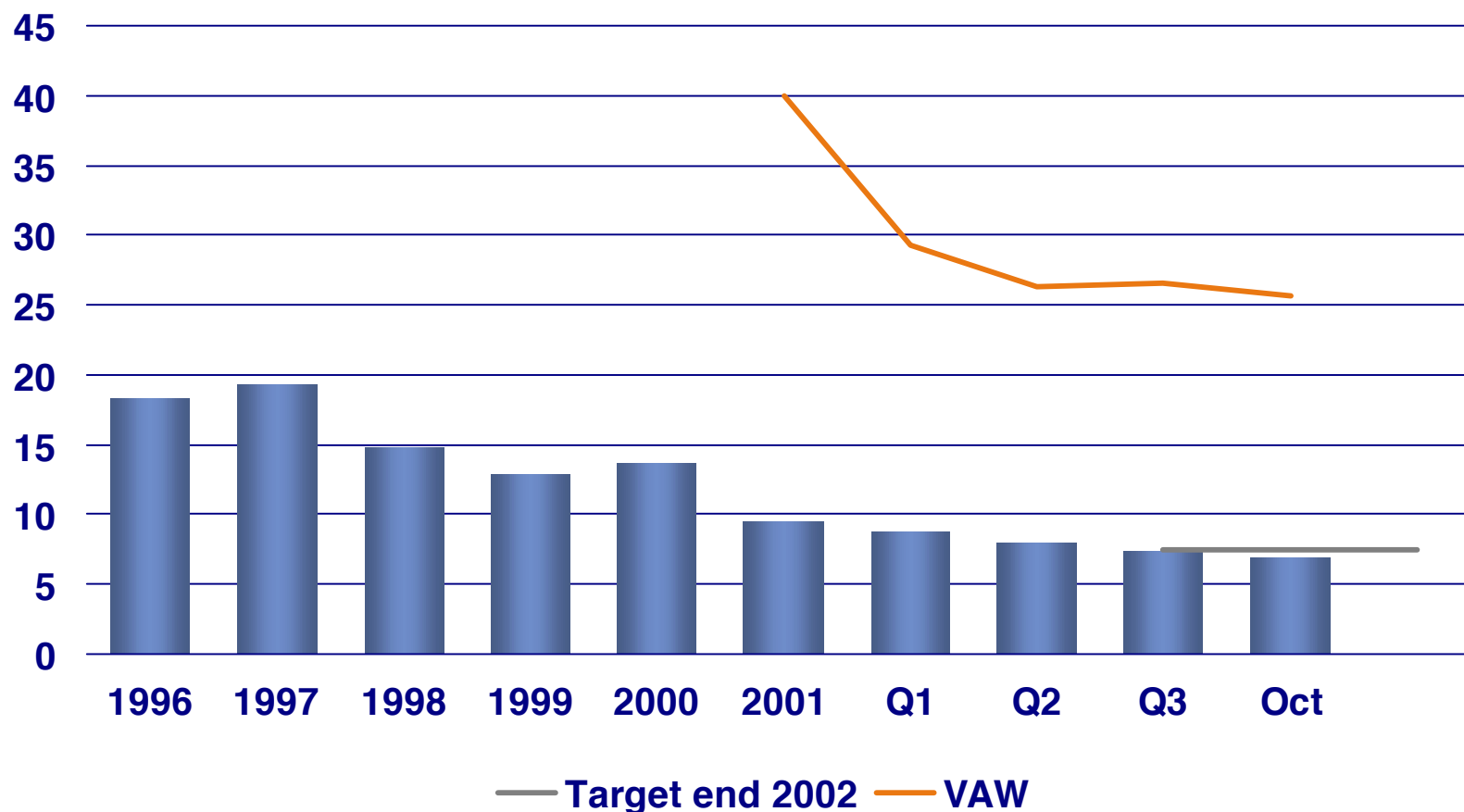
**Normalized to reflect long-term commodity prices and a stable exchange rate – not normalized for volumes and margins**

\* Cash Return on Gross Investments



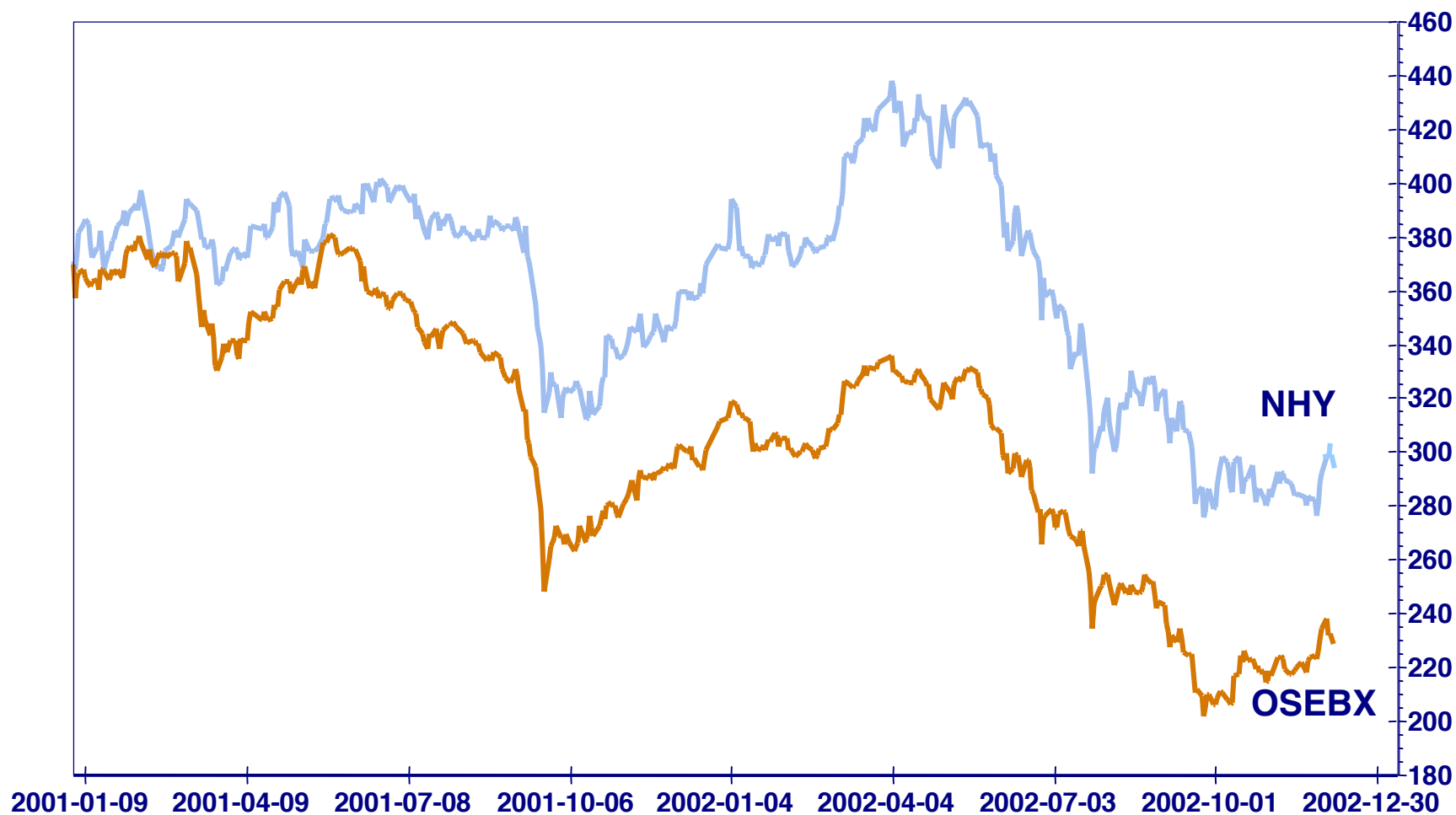
# We deliver: Safety performance

## Reported injuries per million hours, Hydro employees





# Share price performance



Source: Reuters





# Challenging market environment

- **Delayed global economic recovery**
  - Europe weak – particularly Germany
  - US recovery with doubtful strength
  - Political uncertainty may slow down recovery further
- **High, but volatile oil prices, weak aluminium market, fertilizer prices below long-term trend**
- **Significant impact for Hydro of NOK/USD rate changes**
- **Hydro's 2003 plans not based on improvements in general market situation**

# Oil and Energy: Strong production growth



- **2002 production target being met;  
new target for 2003 is 510 000 barrels per day**
- **Target of 8% average annual growth confirmed  
and extended one more year to 2006**
- **On track to meet F&D cost target of 5 dollars  
per barrel in 2003**
- **Rigorous examination of international exploration  
strategy during 2003**

# Aluminium: Value creation through better performance

- **Creating a world class company by successfully integrating two strong organizations**
- **Extensive improvement efforts lead to higher cost reduction targets**
  - **End 2003 target up from EUR 200 to 250 million**
- **Major investment projects on track**
- **Gaining market share in mid- and downstream segments under challenging market conditions**

# Agri: The industry leader

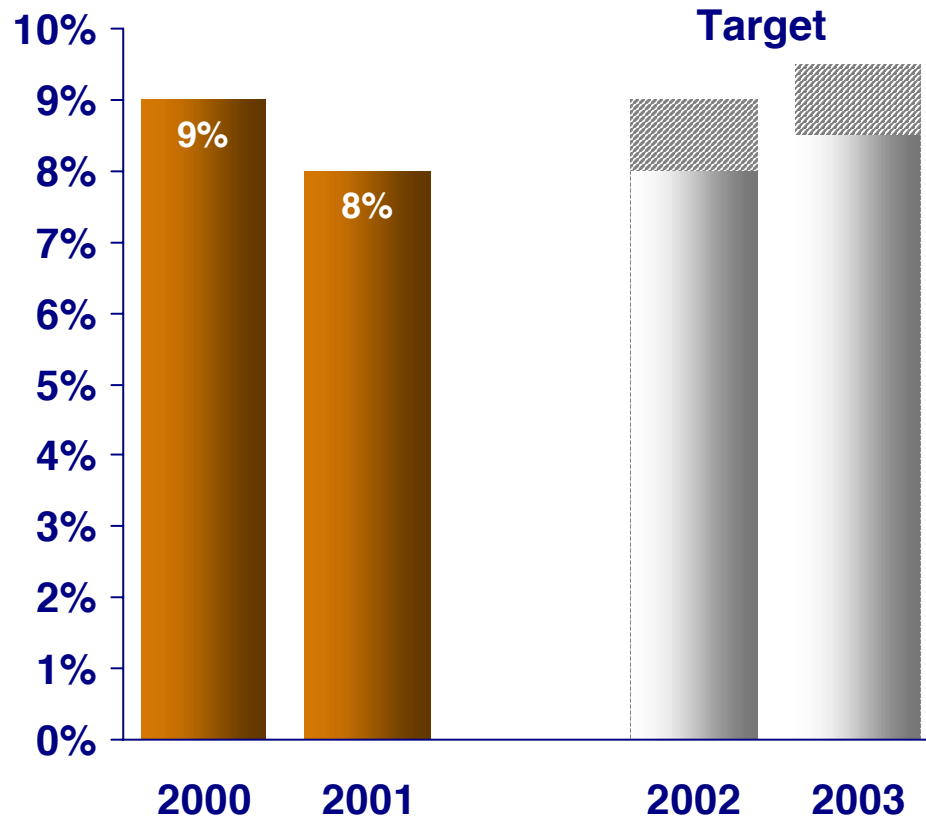


- **Building on position as global leader in selected industry segments**
- **Continue productivity improvements**
- **Remain alert to opportunities created by industry consolidation**



# CROGI target for 2003

## Normalized CROGI



- Higher oil and gas production
- Aluminium improvement programme
- Agri leveraging strong market positions
- Divestment of under-performing assets

\* Cash Return on Gross Investments



## Moving forward

- **Delivering on 2002 return target; higher target set for 2003**
- **Significant potential in all three Business Areas**
  - **Oil and Energy: Several years of high production growth**
  - **Aluminium: Improved performance as world class player**
  - **Agri: Leveraging strong market positions**
- **Continued evaluation of attractive strategic options; retaining flexibility of timing**
- **Maintaining financial strength provides a basis for strategic moves**