

# Capital Markets Day 2002

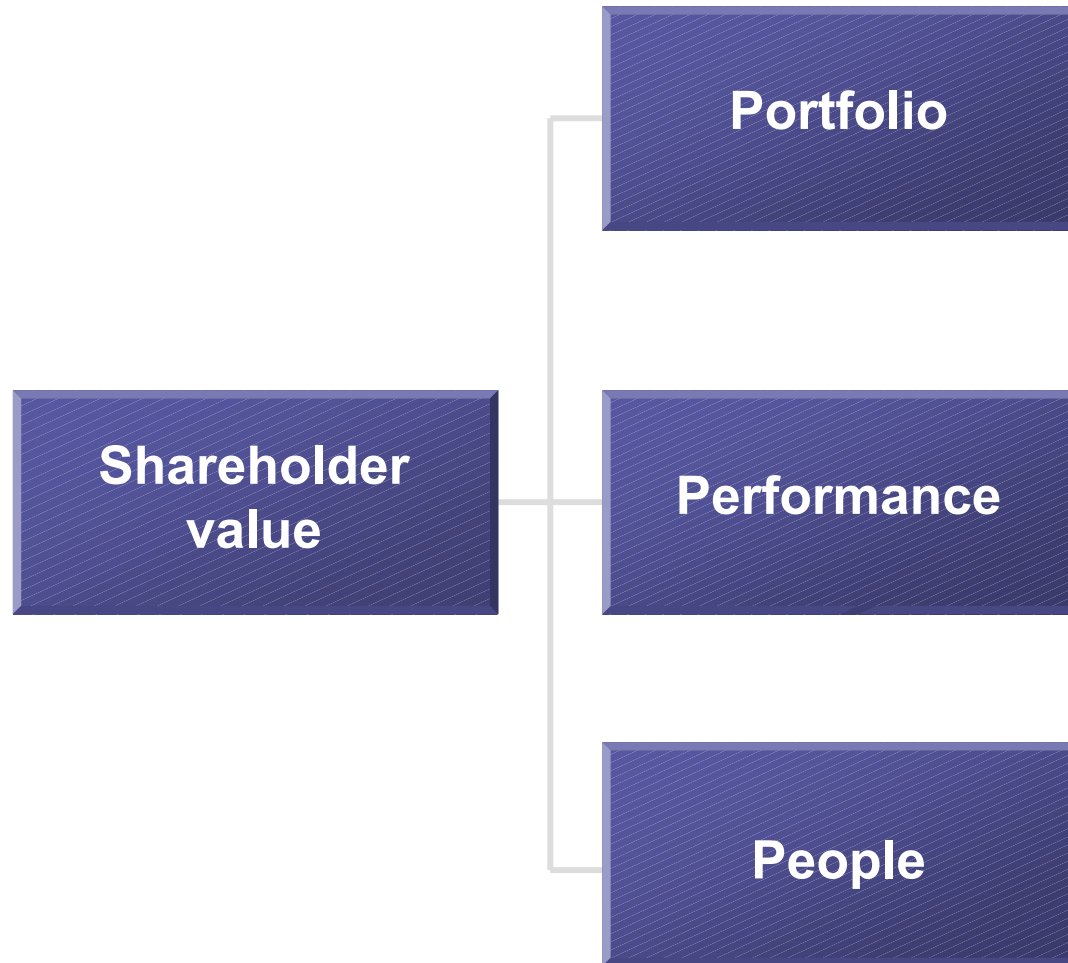
## Financial Issues

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





# Creating shareholder value





# CROGI – our key measure of return

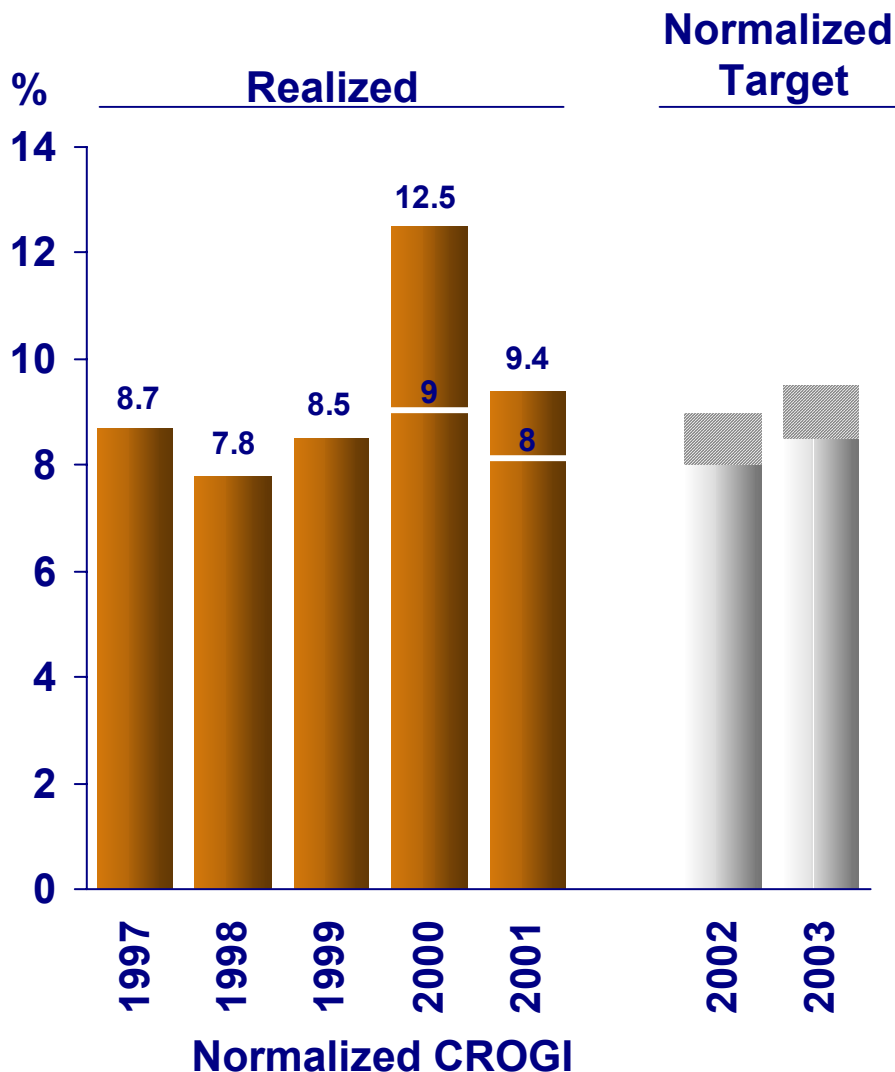
- CROGI – cash return on gross investment

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

- 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

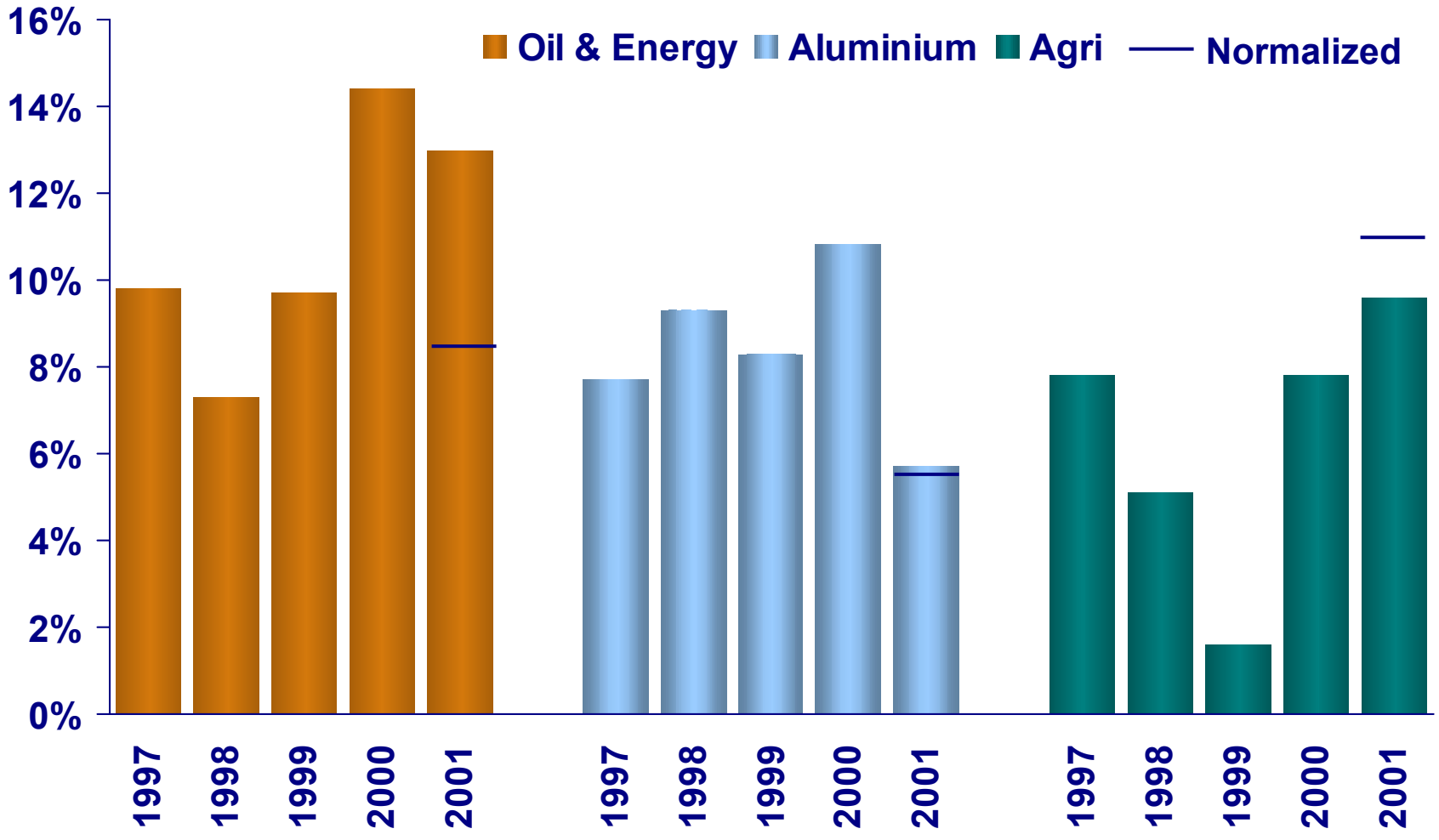
- **Volumes and margins are not normalized**





# CROGI per business area

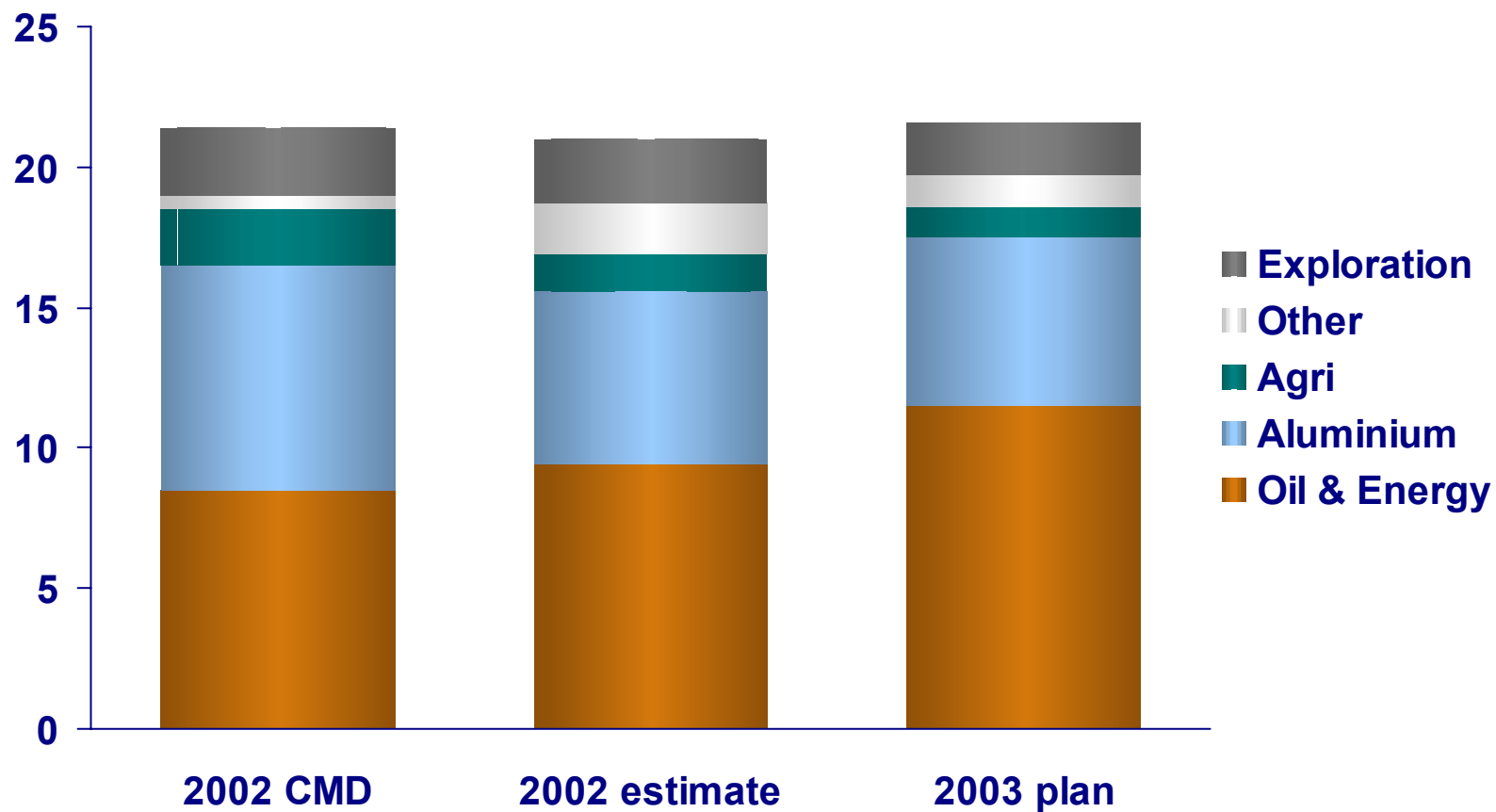
## Actual and normalized prices





# Capital expenditures

NOK billion



2002: VAW and SDFI acquisitions not included



# Acquisitions 2002

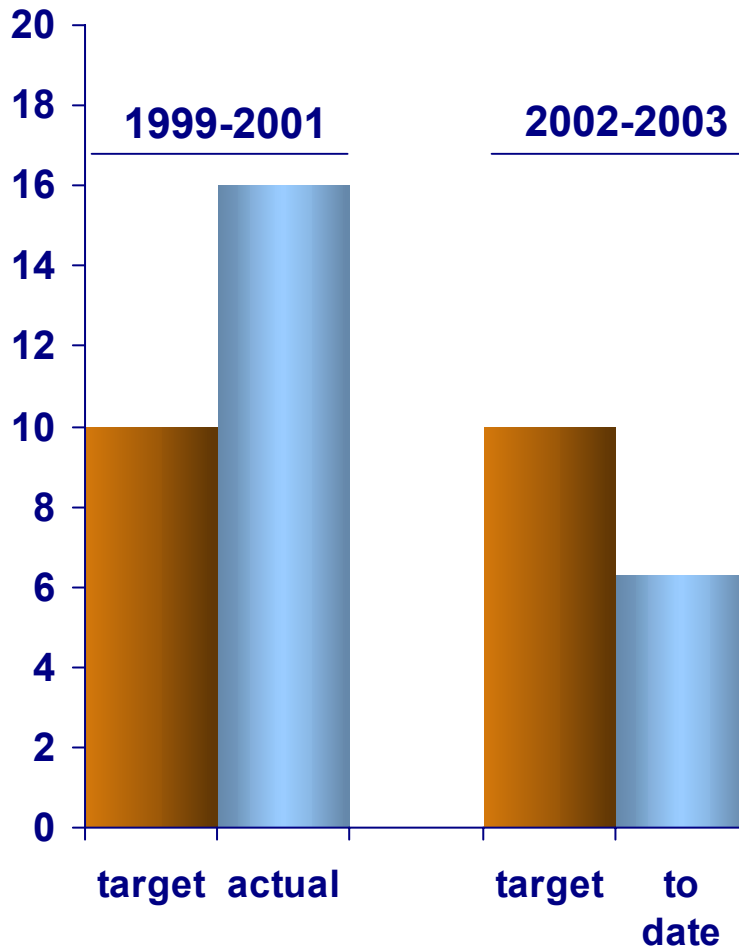
- **VAW Aluminium – a transforming transaction**
  - Cash and debt: NOK 20.4 billion
  - Pension liabilities: NOK 3.2 billion
  
- **SDFI – strengthening position in core areas**
  - Cash: NOK 3.5 billion
  
- **Technal – creating world leader in building systems**
  - Cash and debt: NOK 870 million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

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



# Divestments

NOK billion



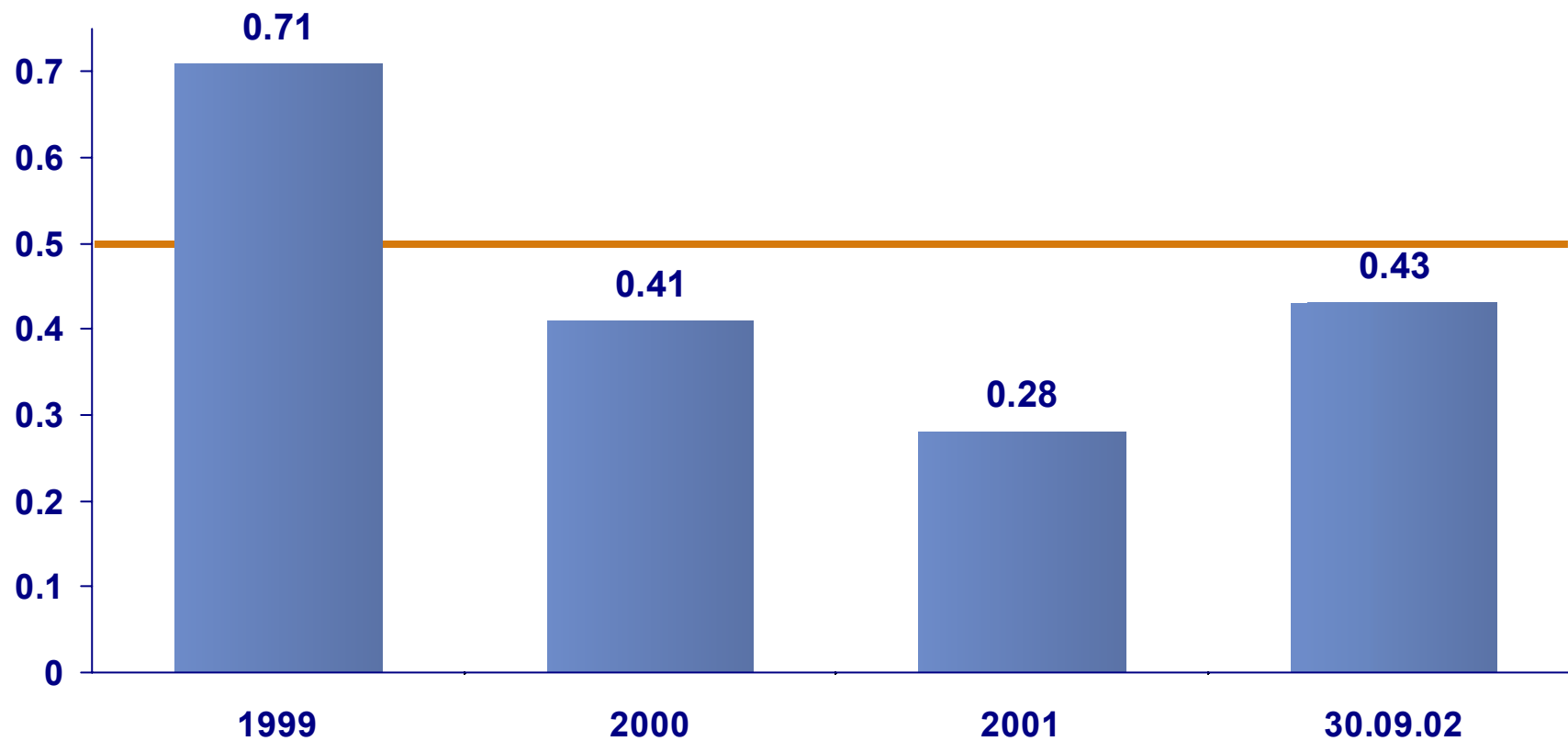
- On track to reach divestment target of NOK 10 billion by end of 2003
- Signed deals in 2002
  - KFK grain and feedstuff
  - Flexible Packaging
  - Other
- 2001 EBITDA for divested assets approximately NOK 600 million (pro forma)





# 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   |