



A viable society. A need. An idea. 36,000 professionals. Energy. Cooperation. Aluminium. Determination. Pushing boundaries. Respect. Nature. Courage. 100 years. Thinking ahead.

Aluminium

Jon-Harald Nilsen
Executive Vice President and Head of Aluminium



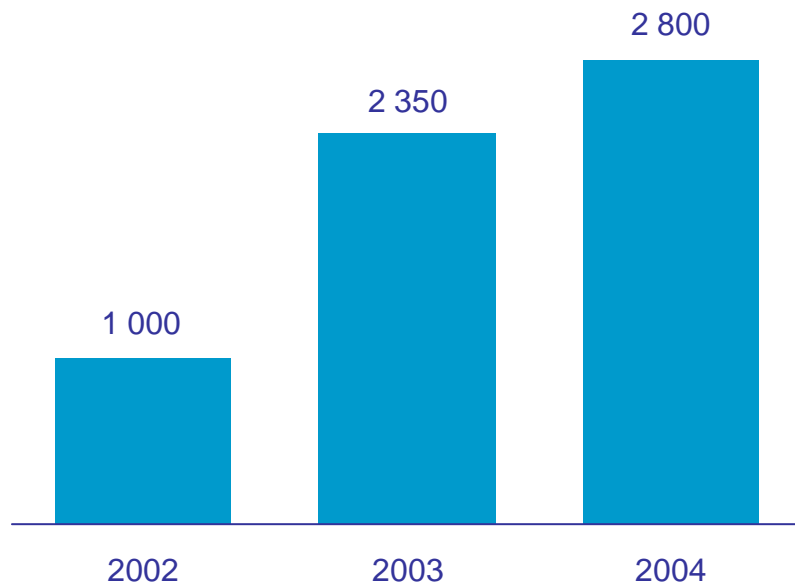
Agenda

- Significant internal improvements achieved
- Increased costs – an industry challenge
- Repositioning Aluminium – enhanced upstream focus
- Roadmap to return target
 - Strong measures to improve downstream performance

Continued cost improvement

Effects of reported cost-reduction programs*

Annual, NOK million



Additional improvement efforts

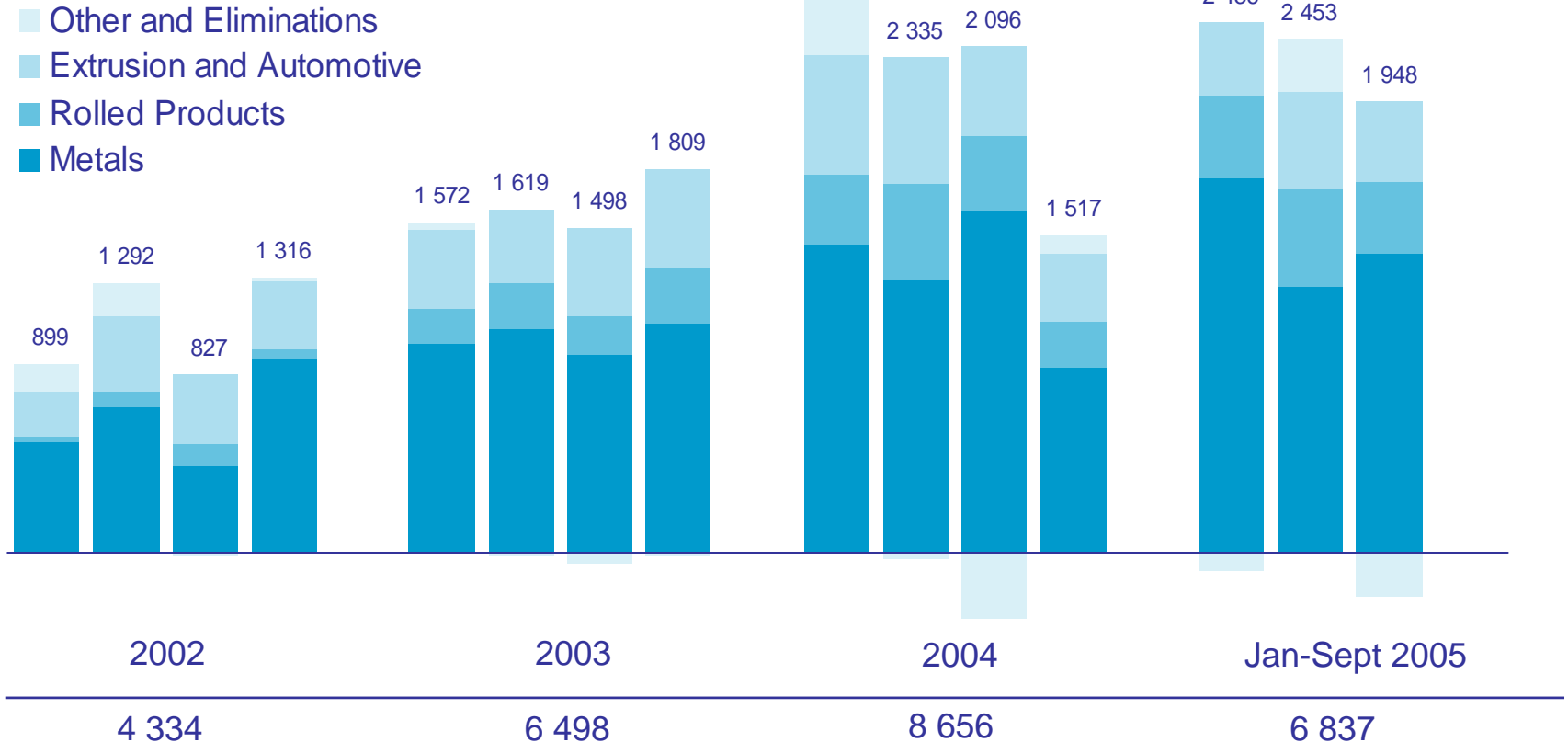
- Metals
 - Aluimprover 2004-2006
 - Neuss 2005-2006
 - Kurri-Kurri operational improvements
- Rolled Products
 - Improvement program 2002-2005
- Extrusion & Automotive
 - Capacity adjustments in Extrusion
 - Rationalization at Toulouse, Raeren, Holland and Adrian
- Closures and divestments
 - Söderberg lines (Norway), Hamburg and Stade
 - Leeds and Sanquhar
 - Puckett, Wuxi and Marine

* As reported Capital Markets Day 2004

Improvements in cash from operations

Adjusted EBITDA*

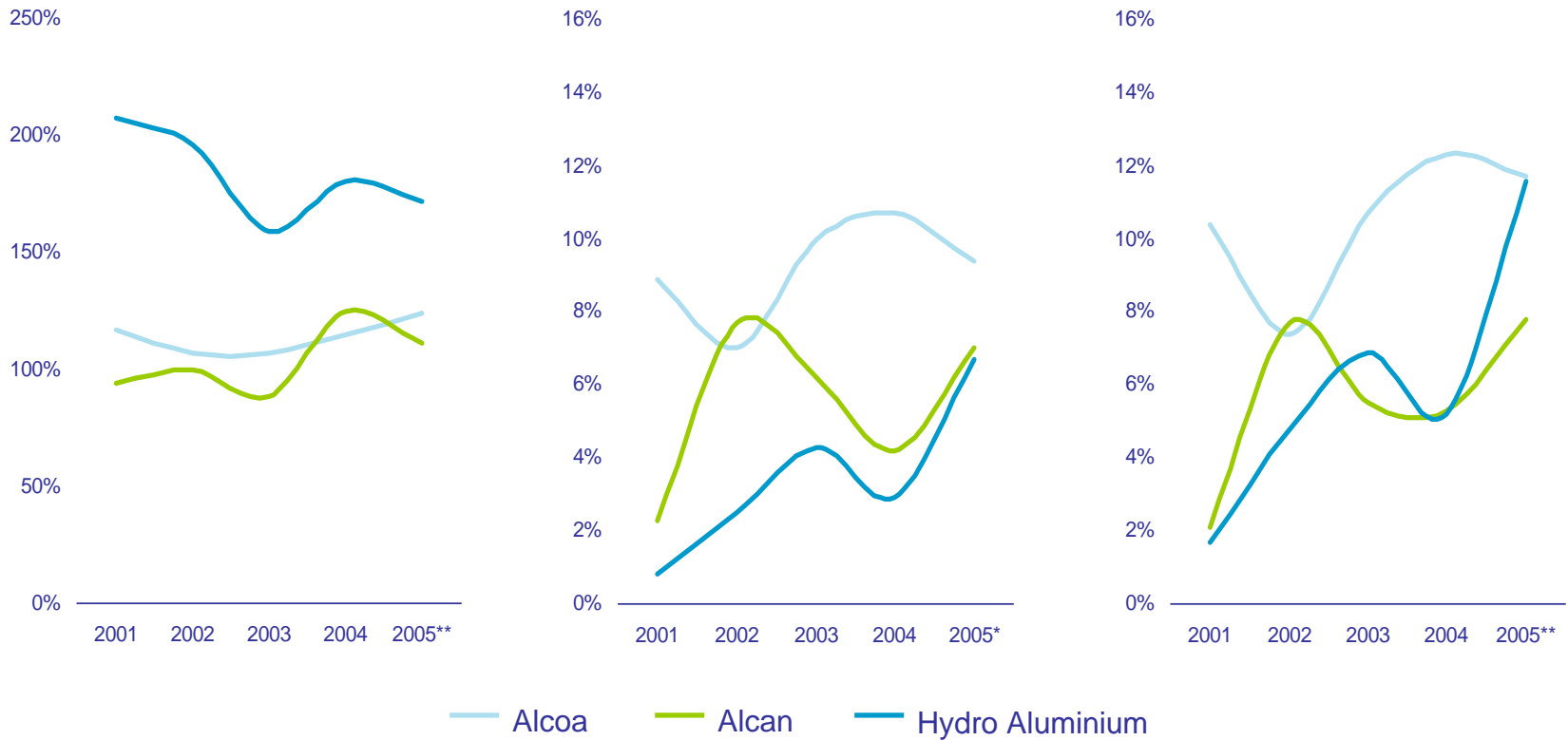
NOK million



* Income/(loss) before tax, interest expense, depreciation, amortization and write-downs

Closing performance gap

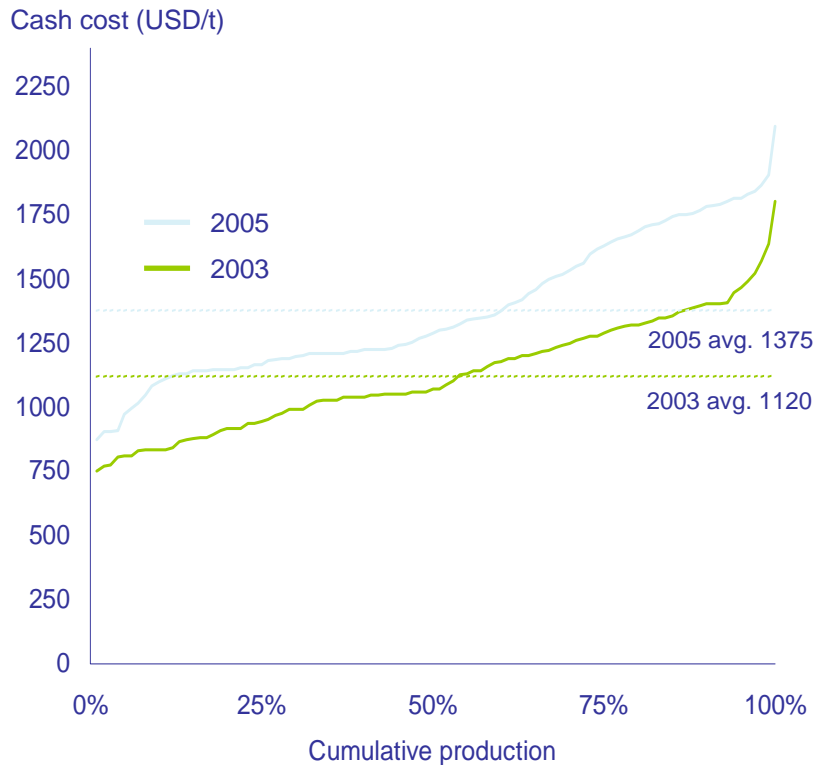
Revenues / capital employed X EBIT / revenues = EBIT / capital employed



Source: Company reports and Hydro estimates. Proxy figures where needed to obtain comparative figures
 * YTD Q3. ** YTD Q3 annualized

Increased costs – an industry challenge

Significant shift in industry cost curve*



- Energy
 - Oil and gas prices
 - Coal prices
 - CO₂ emission trading
 - Supply/demand for electricity
- Alumina
- Other raw materials
- Freight

* Source: CRU (Corporate Operating Cost definition)



Aluminium power supply

- 2006 primary smelter power requirement 27 TWh
 - Long-term contracts: 23 TWh
 - Short-term supply: 4 TWh
- 2006 estimated power cost increase of NOK 1.4 billion*
 - 2007-2010: only limited price changes expected on long-term contracts
- Price level on long-term contracts in line with global industry average

* Including upstream and downstream

Aluminium prices at higher levels

5-year forward prices, LME

USD/tonne



- Attractive supply/demand outlook
- Increased cost supports higher price
- 5-year price from 1 400 to 1 850 USD/t

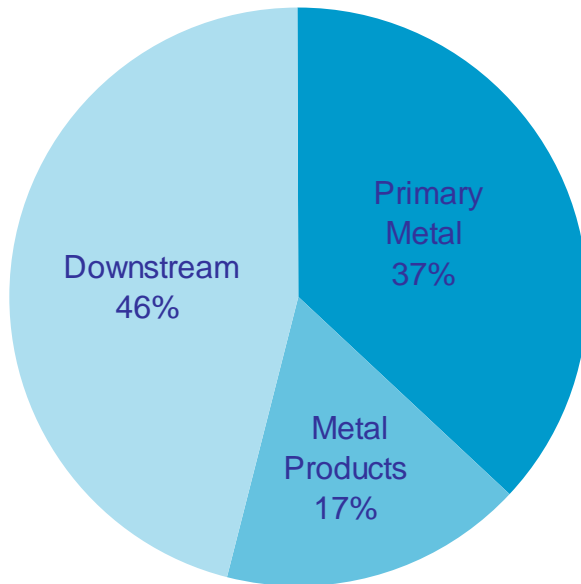


Strategic shift in Aluminium

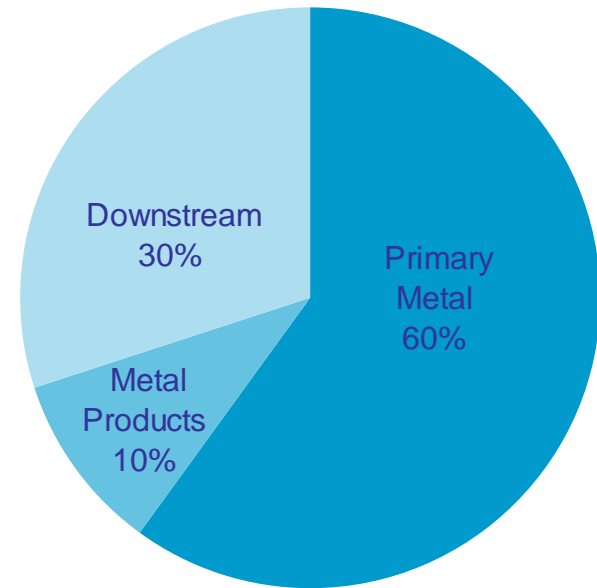
- Priority to upstream investments for repositioning and growth
- Improve profitability and cash generation downstream
- Enhance value through metal products positions

Capital allocation toward upstream

Capital employed
2004

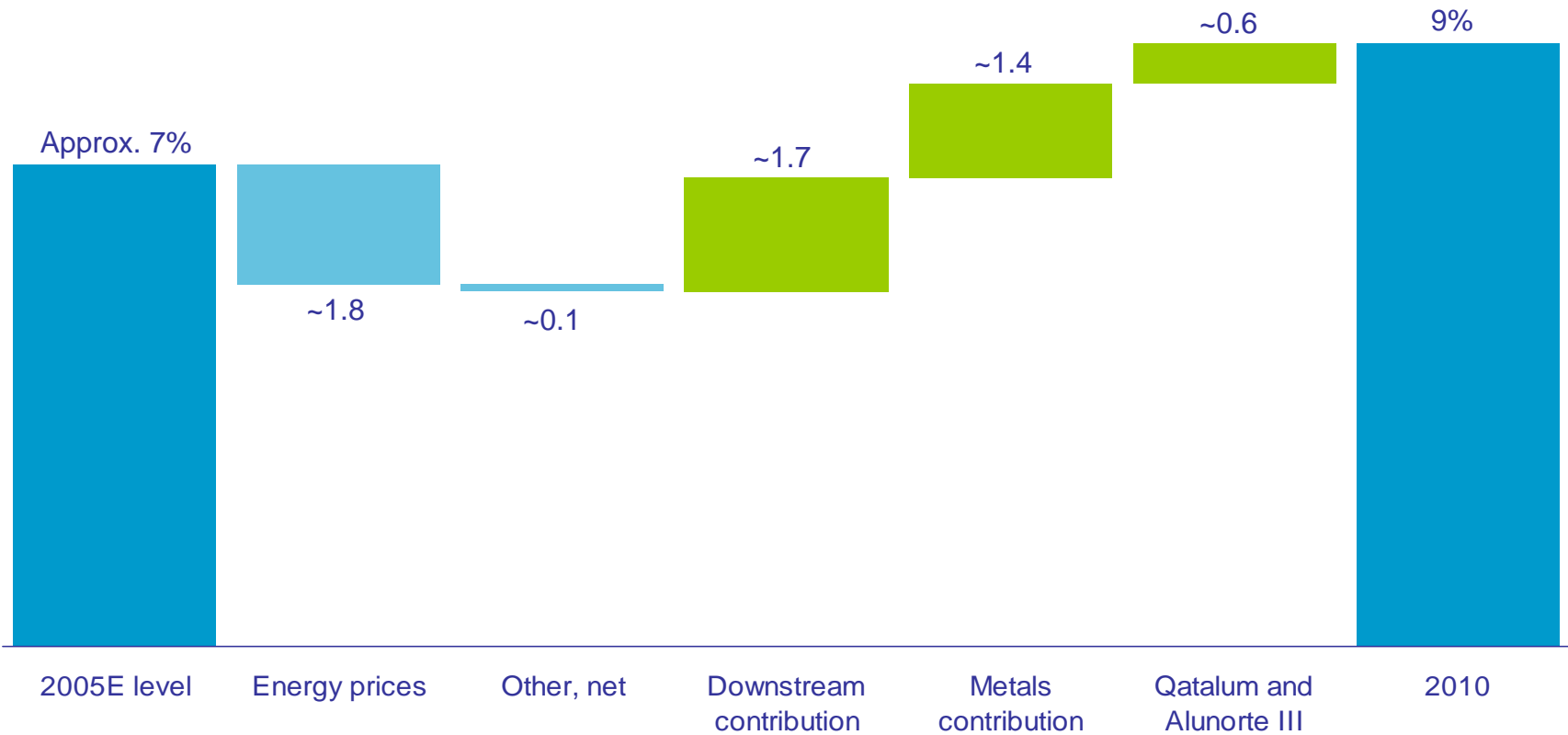


Capital expenditure
2006-2010E



Roadmap to return target

Return on average capital employed - RoaCE



Roadmap excludes price, market and one-time effects. Aluminium price and currencies at 2005 levels (1 850 USD/t and 6.50 NOK/USD)



Urgent measures downstream

- Reduce investments
- Cash contribution NOK 6-7 billion 2006-2010E
- Turn around, close or sell underperforming units



Leverage metal products positions

- Further develop performance in Europe
- Improve operations in North America and develop stronger presence in Asia
- Capitalize on Qatalum – new pillar in global marketing system
- Increase use of scrap in remelters

New projects strengthen primary production

Smelter project in Qatar

- Hydro to market all metal - 570 000 tonnes per year
- Attractive profitability
- Expected start-up Q4 2009



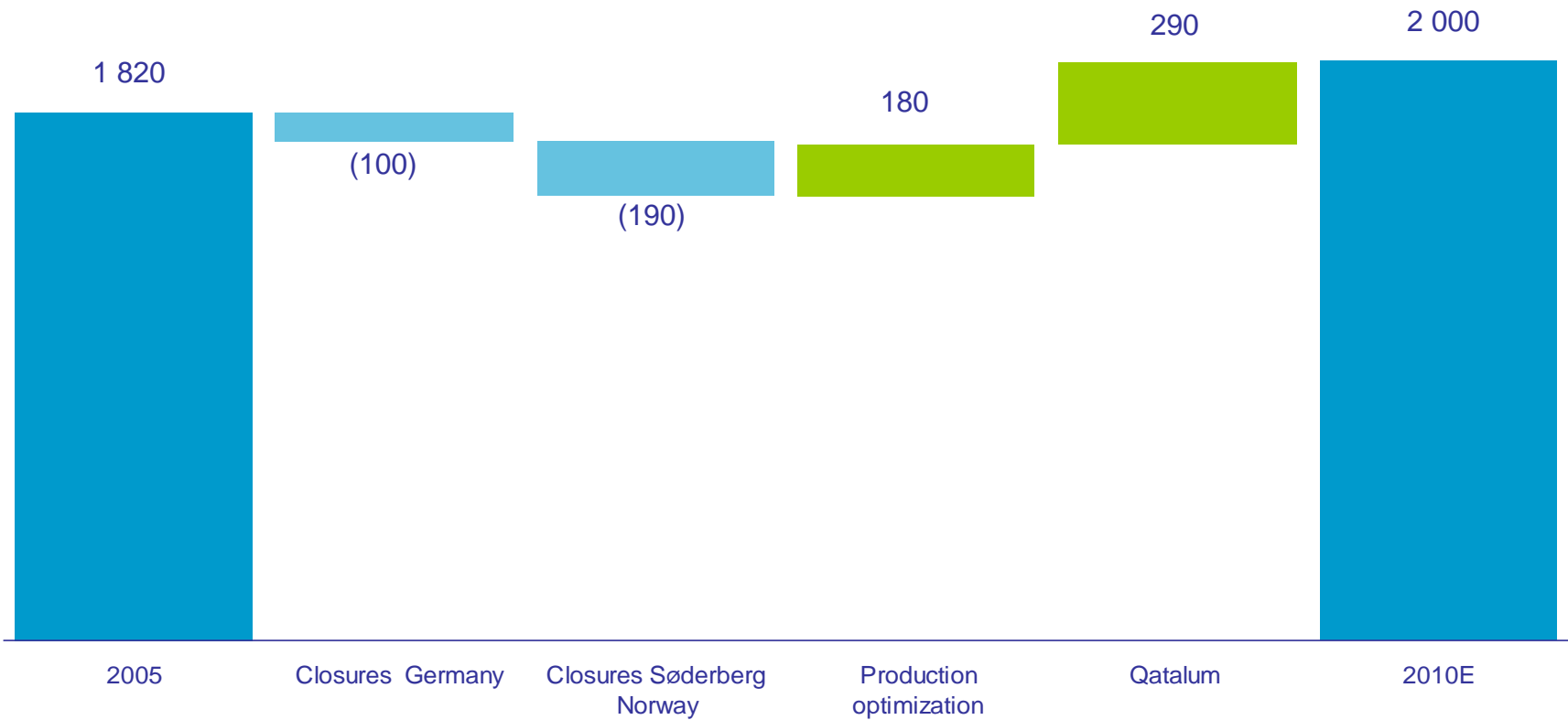
Expansion 3 of Alunorte alumina refinery

- Expansion of 1.9 million tonnes to 6.5 million tonnes
- Among the most competitive conversion costs in the industry
- Expected project completion Q4 2008

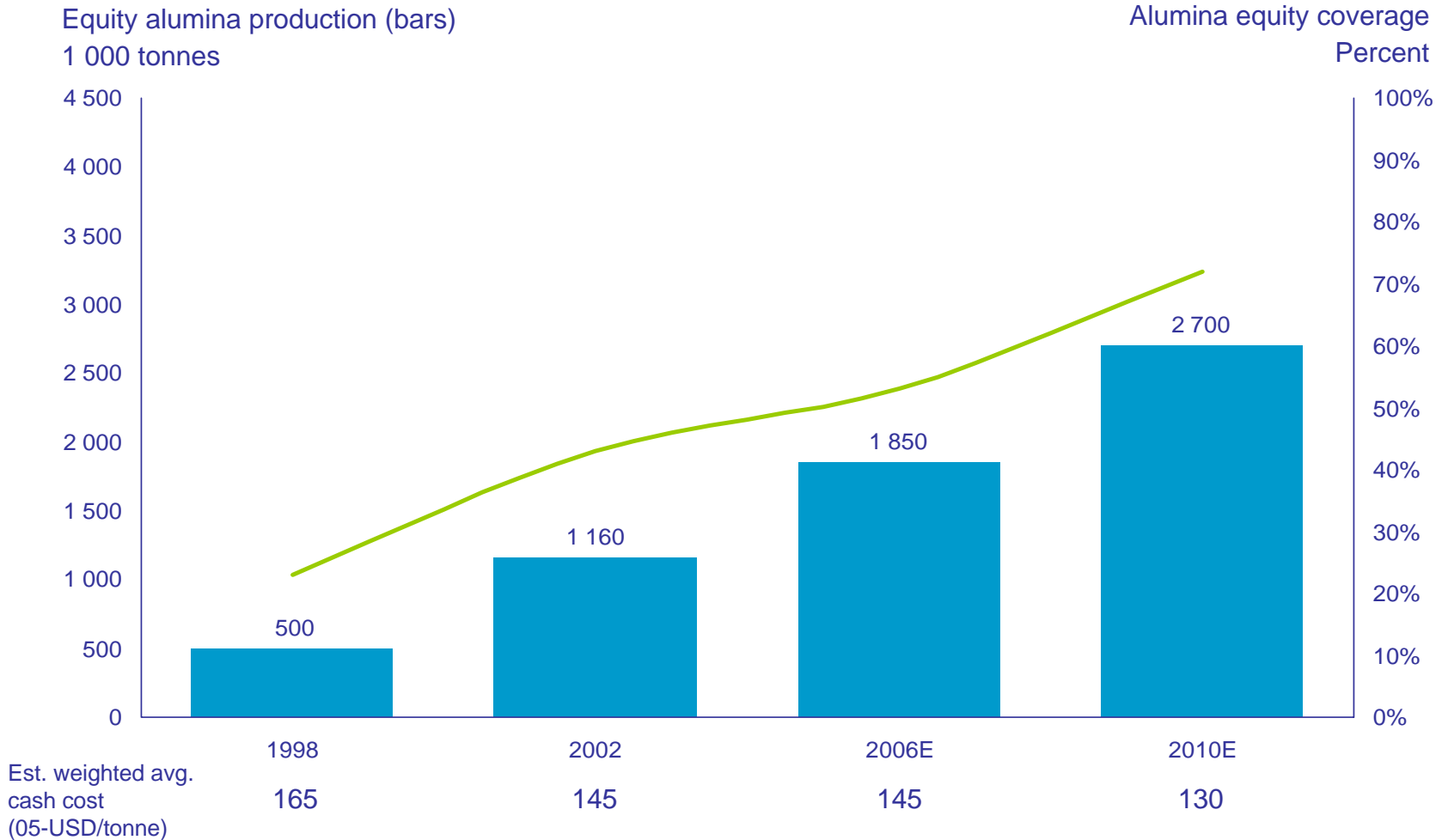


More competitive smelter portfolio

Primary production, 1 000 tonnes



Increased alumina equity coverage at lower cost





Priorities

- Execute in line with roadmap
- Implement urgent measures downstream
- Reposition and grow upstream
- Enhance value through metal products positions

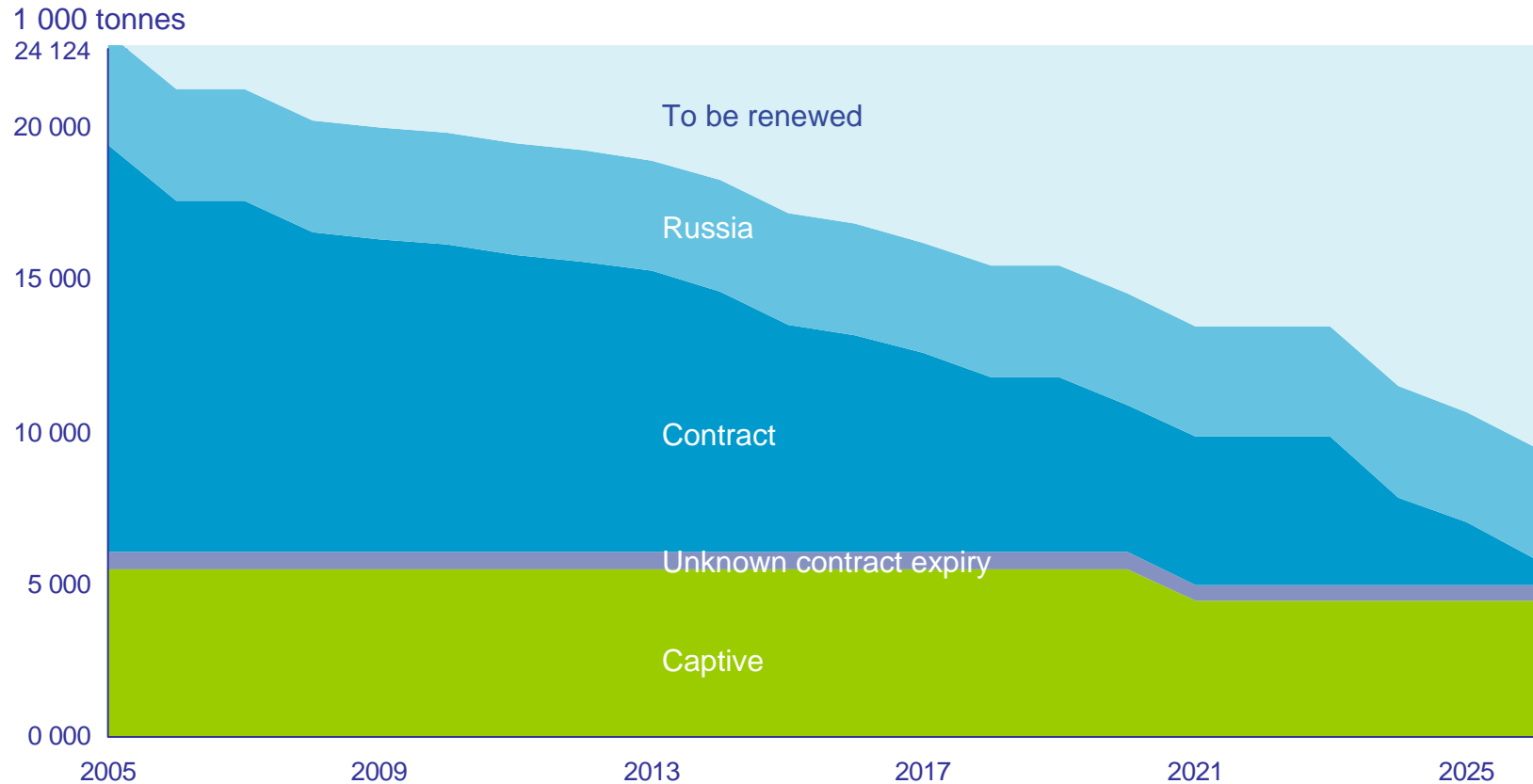


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Additional information

Industry increasingly exposed to market power prices

Aluminium production* – power sourcing

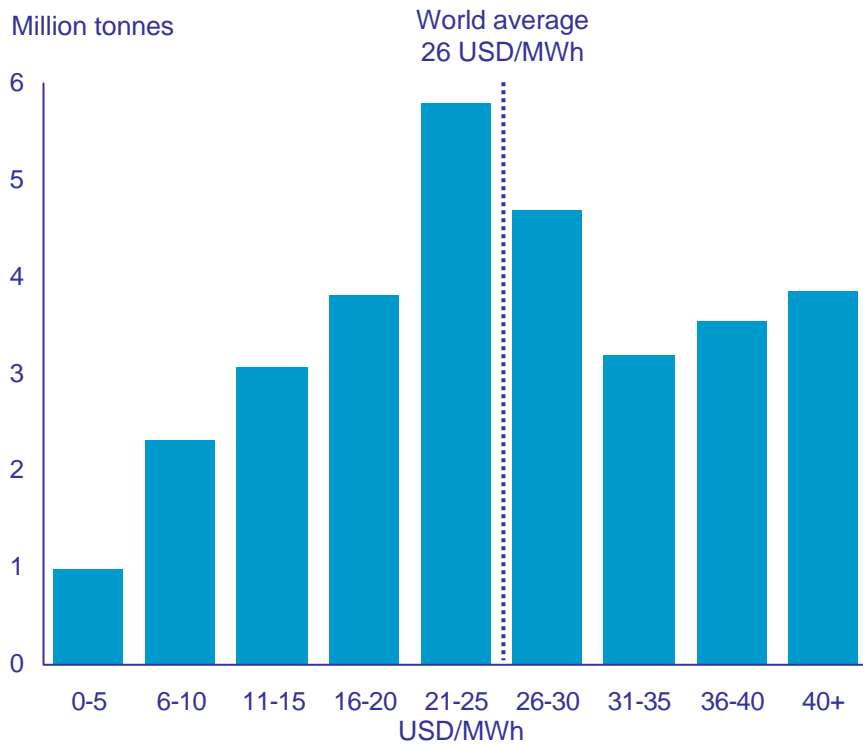


* Excluding China
Source: CRU / Hydro

Hydro power costs on world average

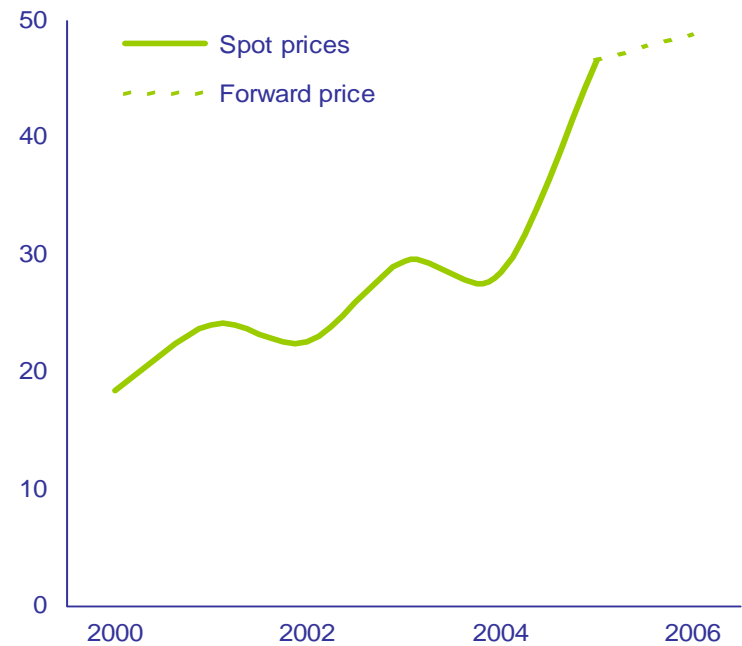
German prices not competitive

Power prices
World smelter production 2005



Source: CRU 2005

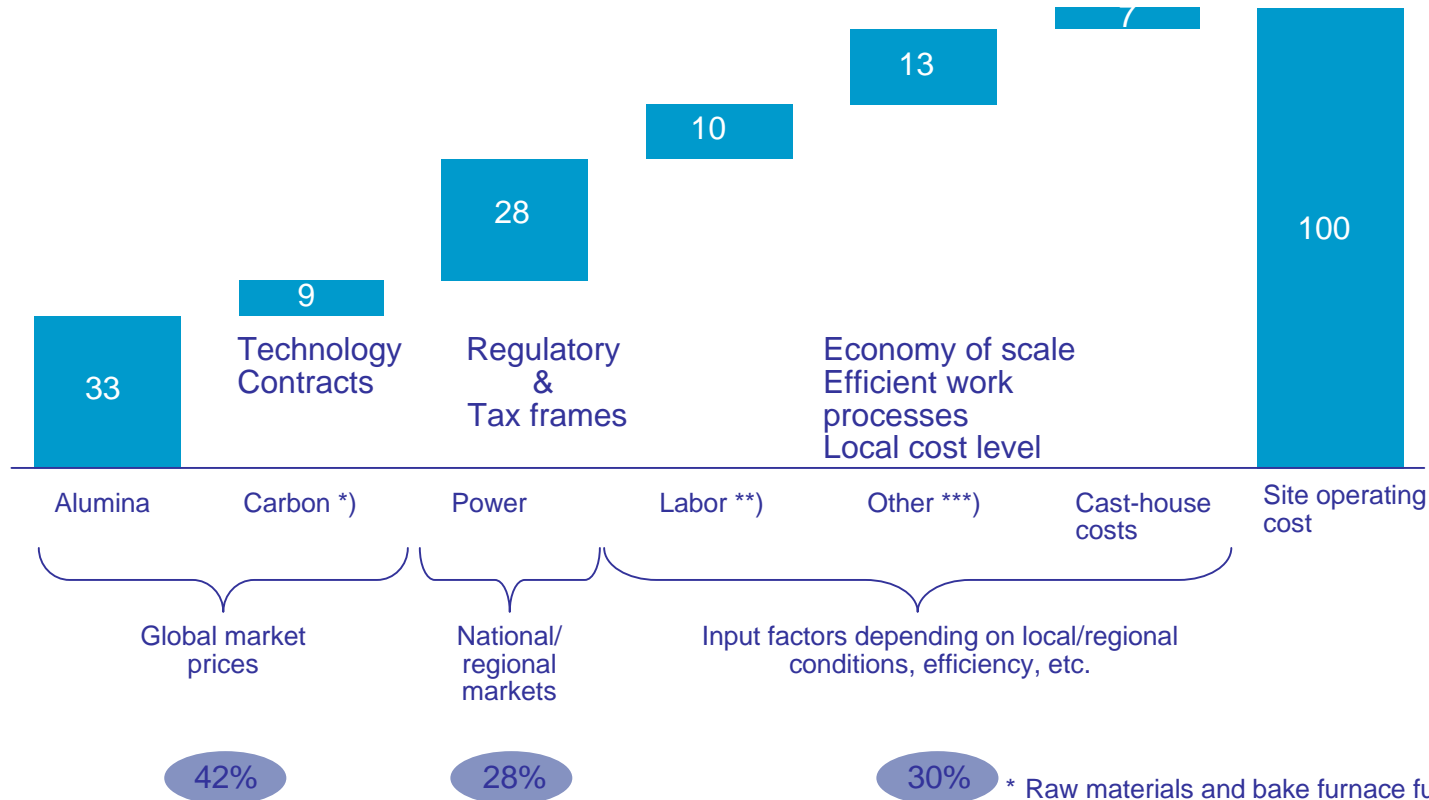
German electricity prices
€/MWh



Source: EEX. Price delivered site approx.
5-6 €/MWh higher (grid tariff & tax)

Smelter site operating cost position

Weighted average, percent

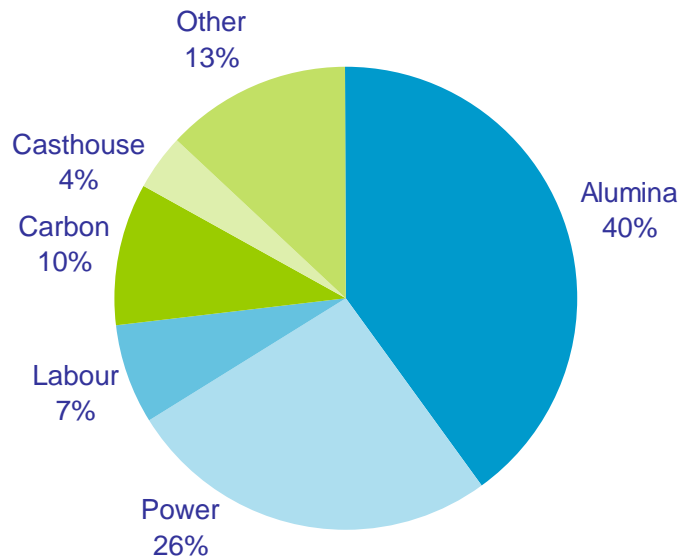


Source: 2005 CRU industry cost model's figures for Hydro

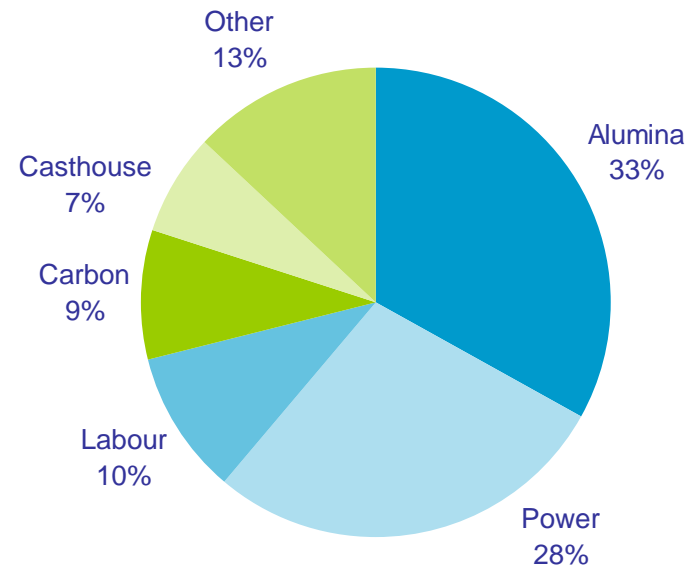
* Raw materials and bake furnace fuel costs
 ** Includes carbon plant, potroom and maintenance labor costs
 *** Relining cost, capital replacement cost and administrative cost

Alumina and power main smelter cost elements

World average cost structure*



Hydro average cost structure*



* CRU 2005, Site Operating Cost definition