



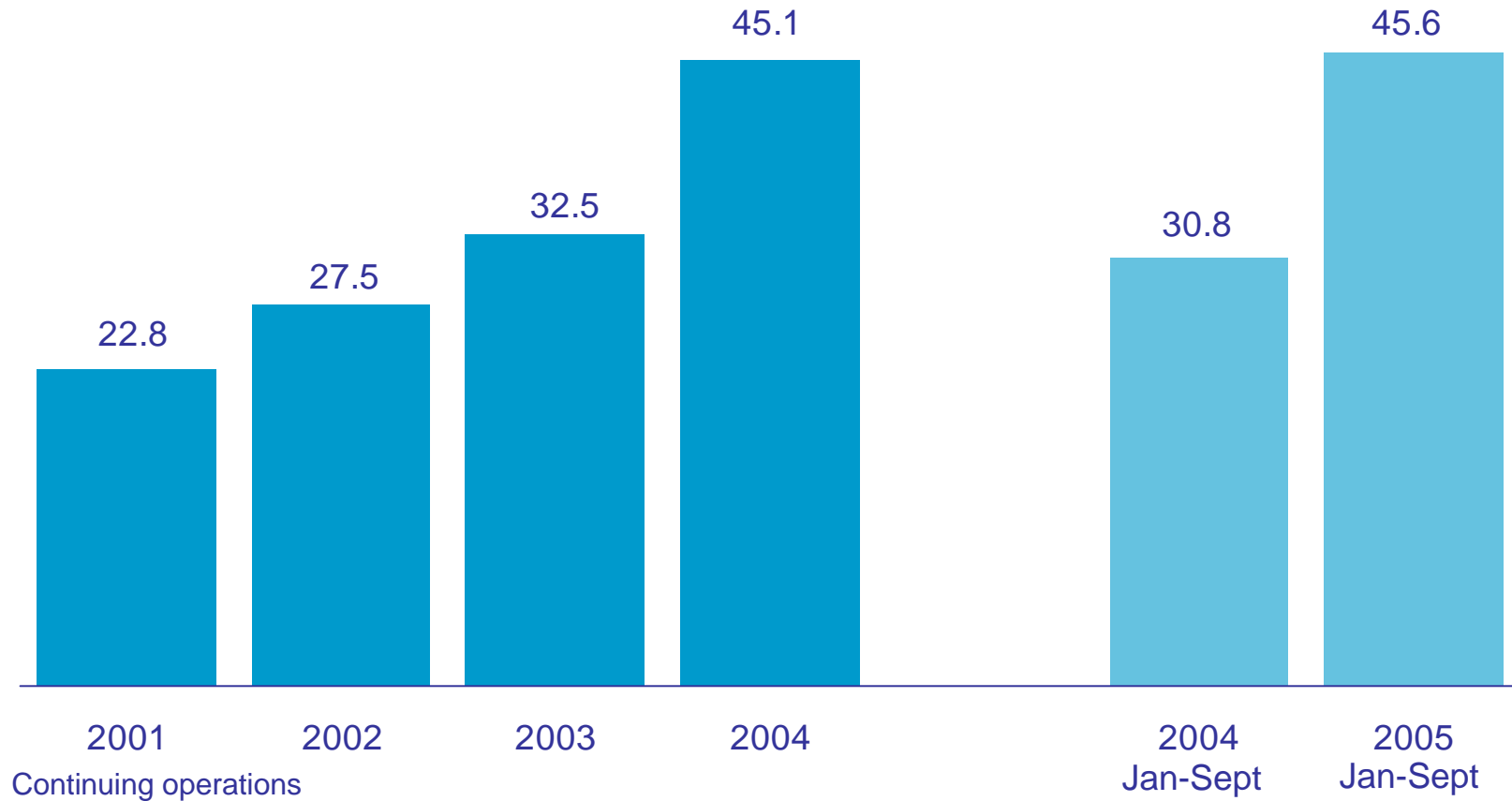
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## Performance focus and capital discipline

John Ove Ottestad  
Executive Vice President and CFO

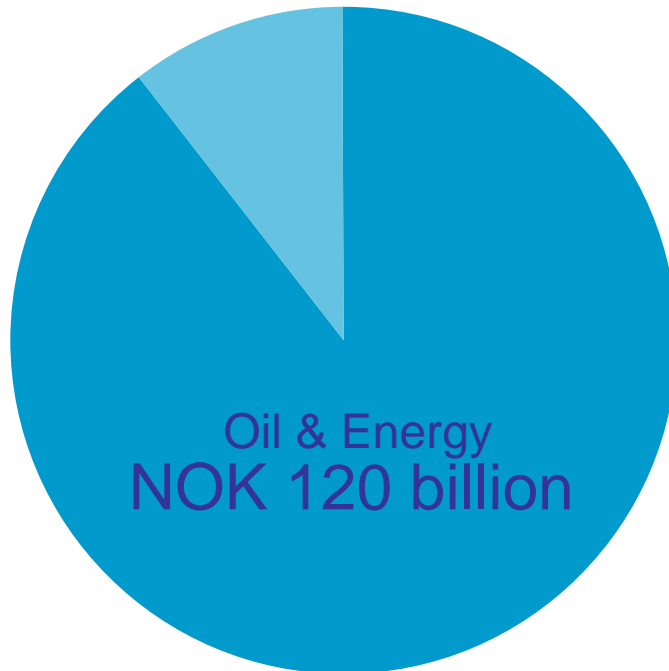
# Strong earnings

Earnings per share (EPS) in NOK

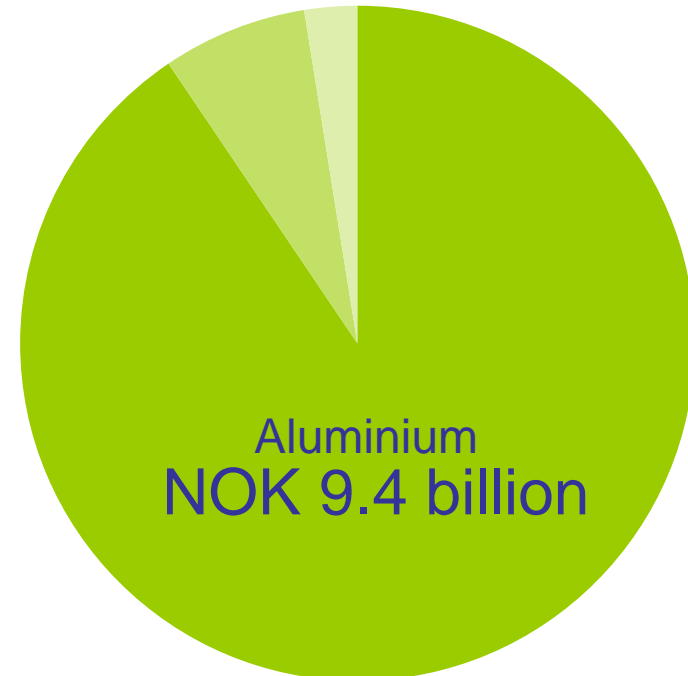


# Earnings generated upstream

Accumulated operating income 2001 - Q3 2005



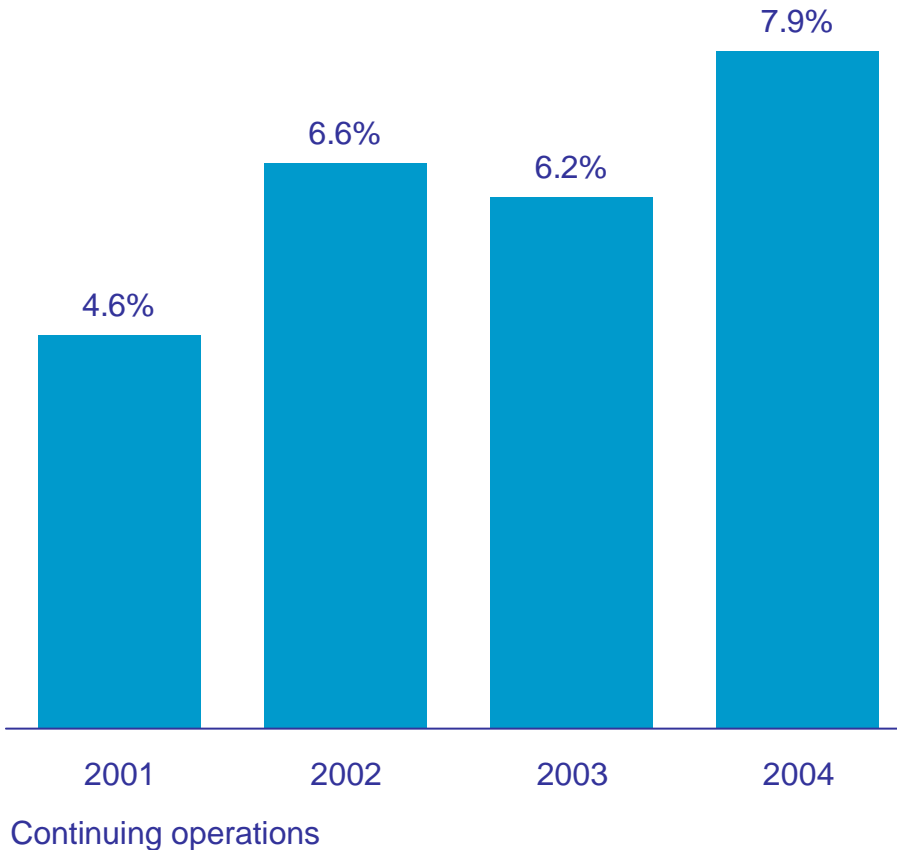
- Exploration & Production
- Energy & Oil Marketing



- Metals
- Rolled Products, Extrusion & Automotive
- Other

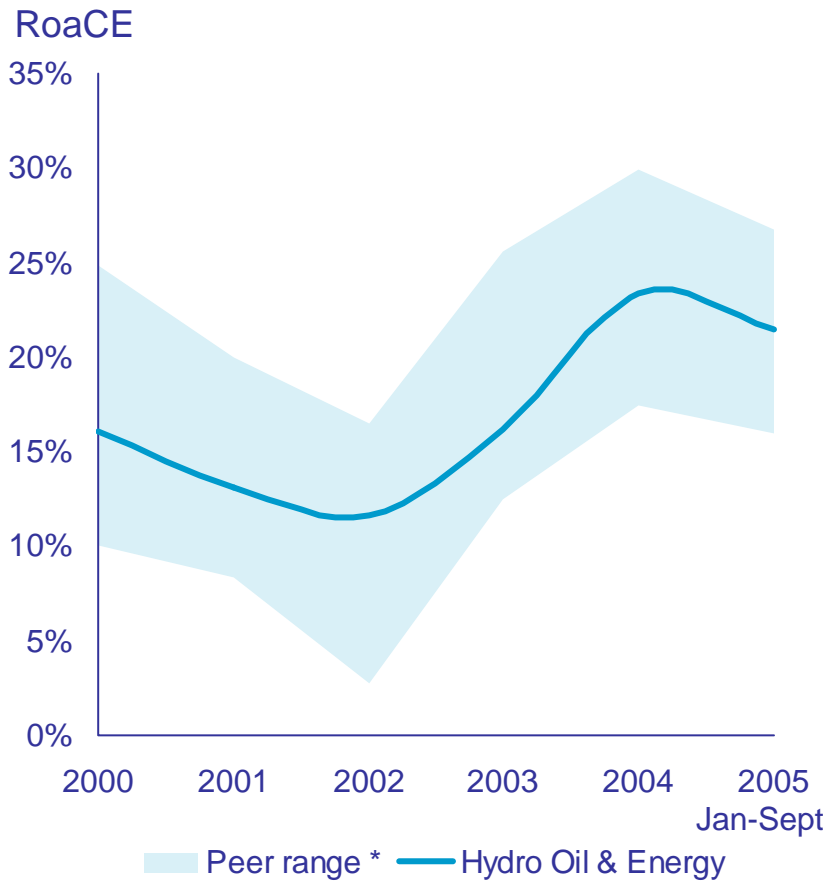
# Improved capital efficiency at constant prices

## Normalized RoaCE

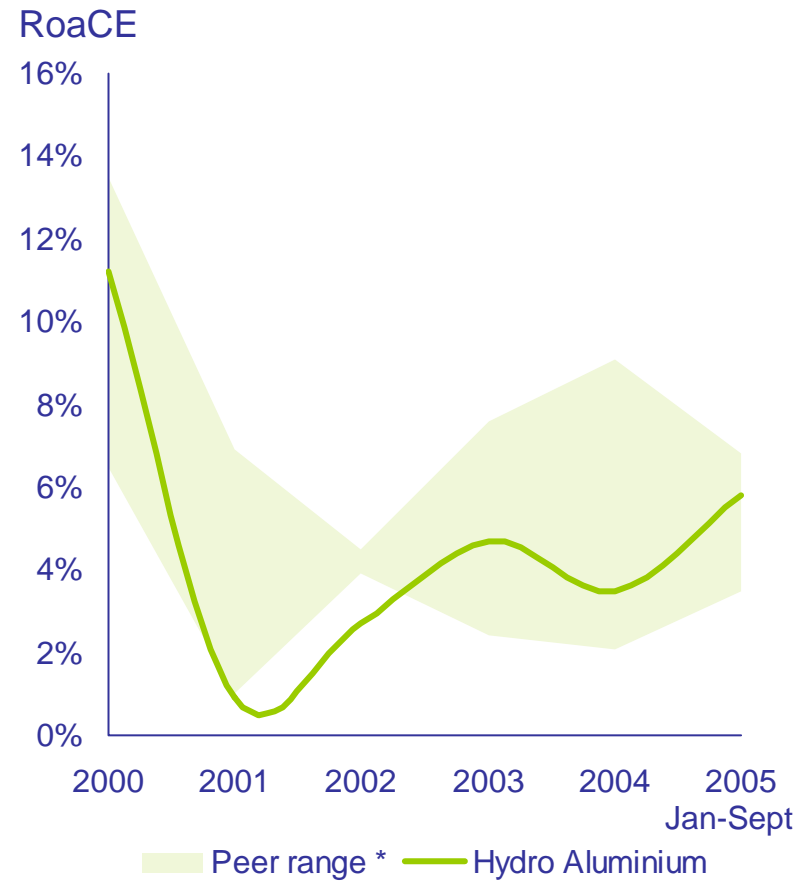


- Normalization assumptions
  - Oil: USD 25/bbl
  - Aluminium: USD 1 500/tonne
  - NOK/USD: 7.0
  - NOK/EUR: 8.0
  - Volumes and margins are not normalized
- Legacy assets will gradually be replaced by new assets with higher break-even price contributing to declining RoaCE
- Focusing on market-based assumptions for planning purposes

# Return on capital competitive with peers



\* BG Group, BP, Chevron, ENI, ExxonMobil, Shell, Statoil and Total



\* Alcoa and Alcan

Source: Company Filings / Goldman Sachs



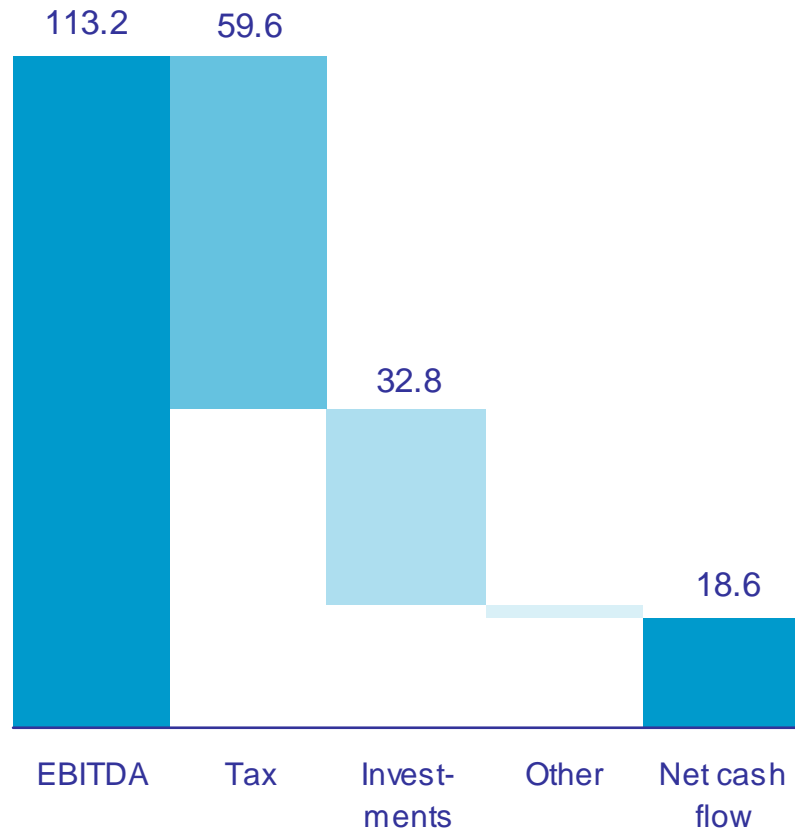
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## Capital allocation and investment criteria

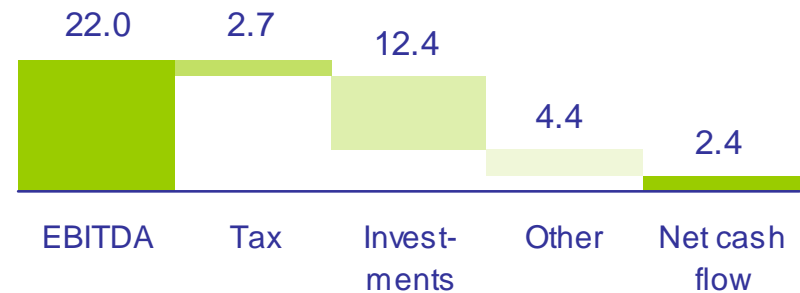
# Positive cash-flow generation

2003 - Q3 2005

Oil & Energy



Aluminium



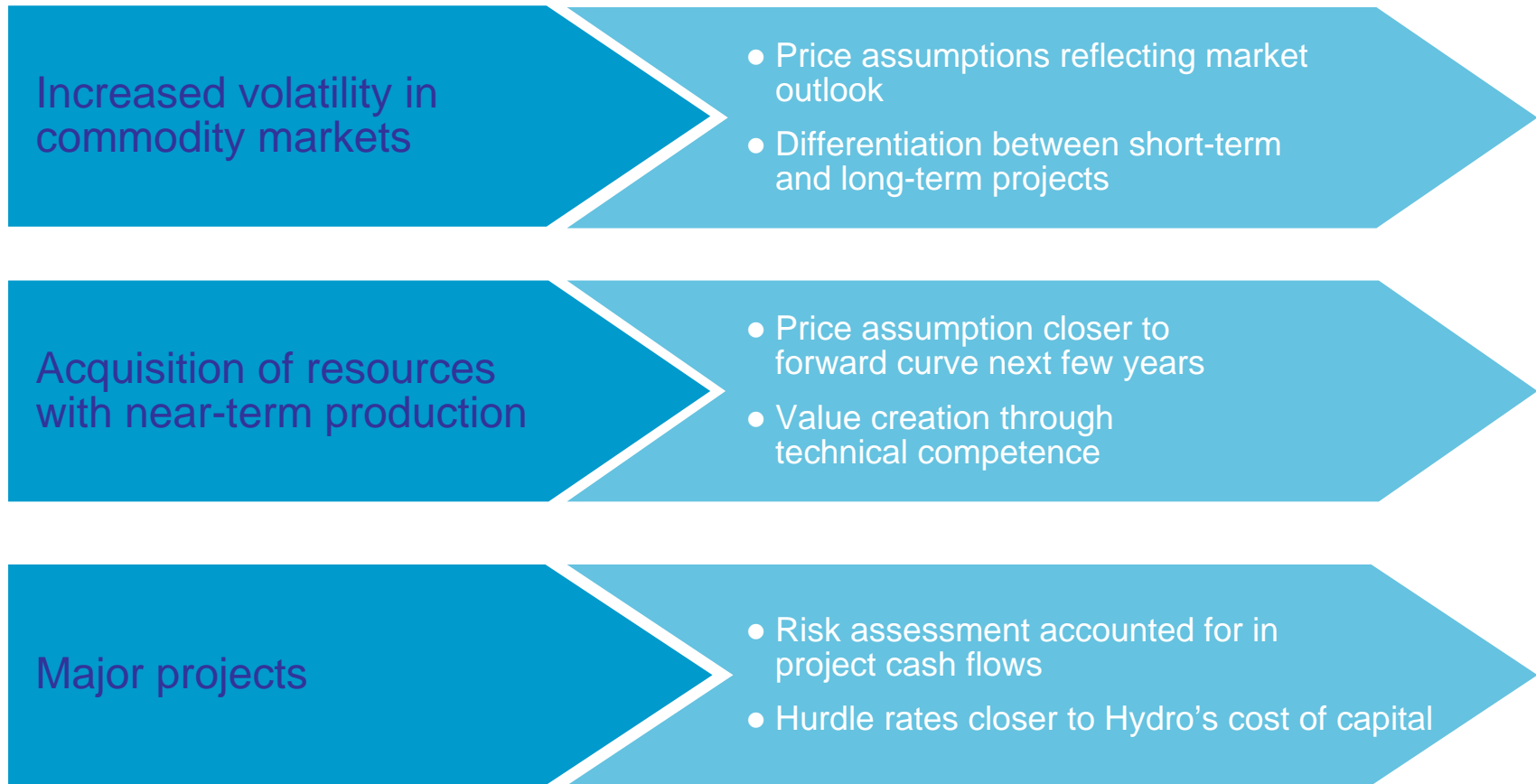


# Capital allocation

- Investments focused upstream
- Reduced engagement downstream Aluminium
  - Minimum investment level
  - Cash positive
- Business areas to demonstrate ability to fund capital projects with own cash flow



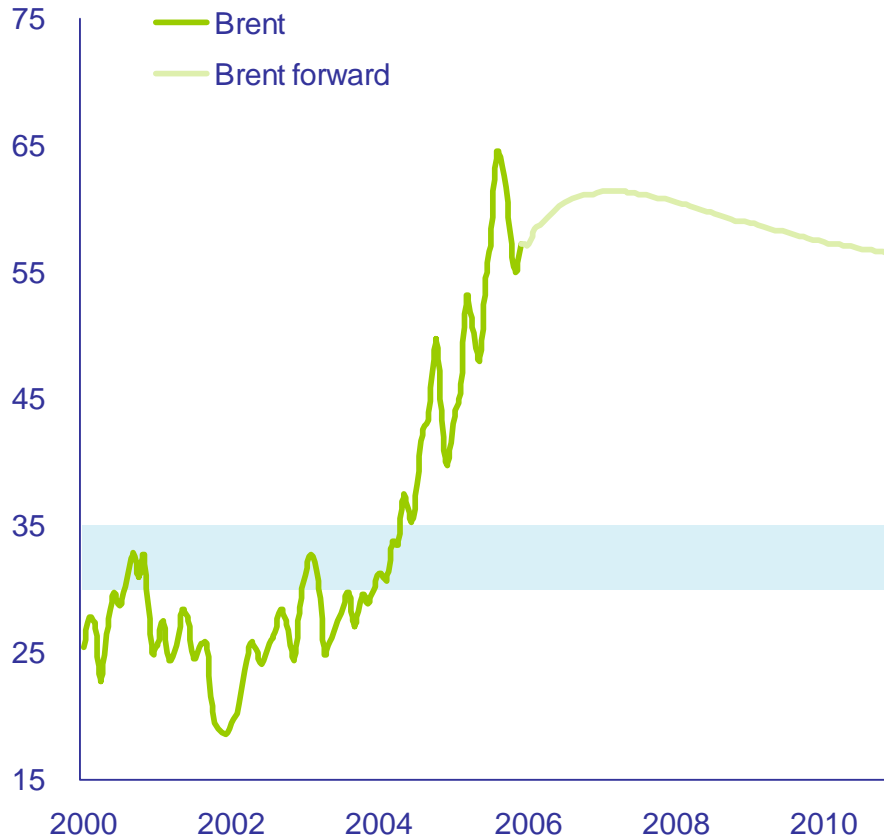
# Investment evaluation approach



# Investment criteria – Oil & Energy

## Maintaining capital discipline in volatile markets

Oil price in USD



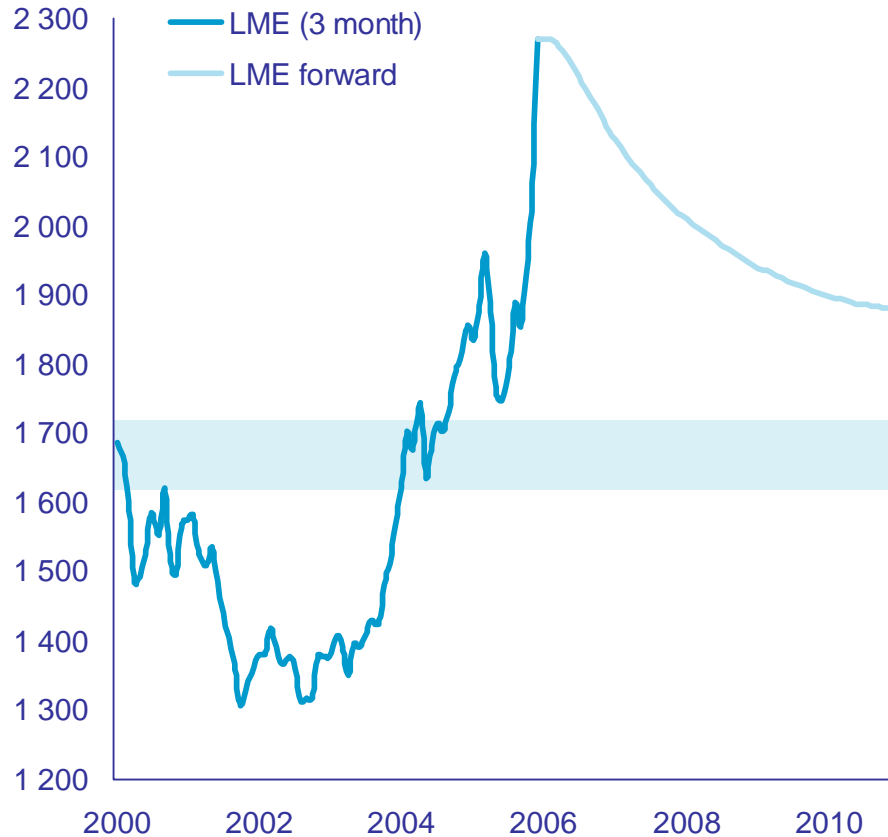
Source: Ecowin Brent FOB Dated NWE, Spot, Close (Nominal)

- Oil price
  - Long-term: USD 30-35 per barrel
- Currency
  - NOK/USD 6.5
  - NOK/EUR 8.0
- Hurdle rate
  - 10% IRR real after tax
  - IRR after tax above Hydro's cost of capital when risk is accounted for in cash flows

# Investment criteria – Aluminium

## Maintaining capital discipline in volatile markets

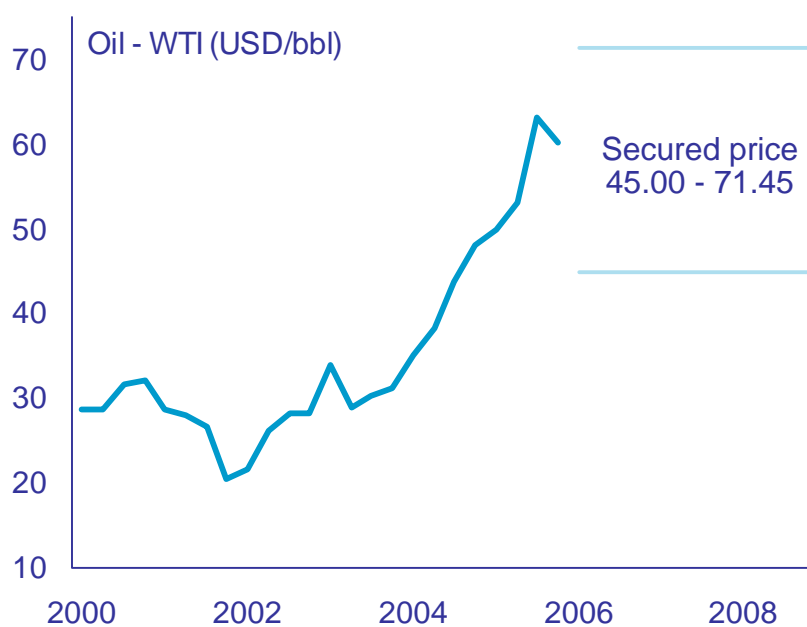
Aluminium price in USD



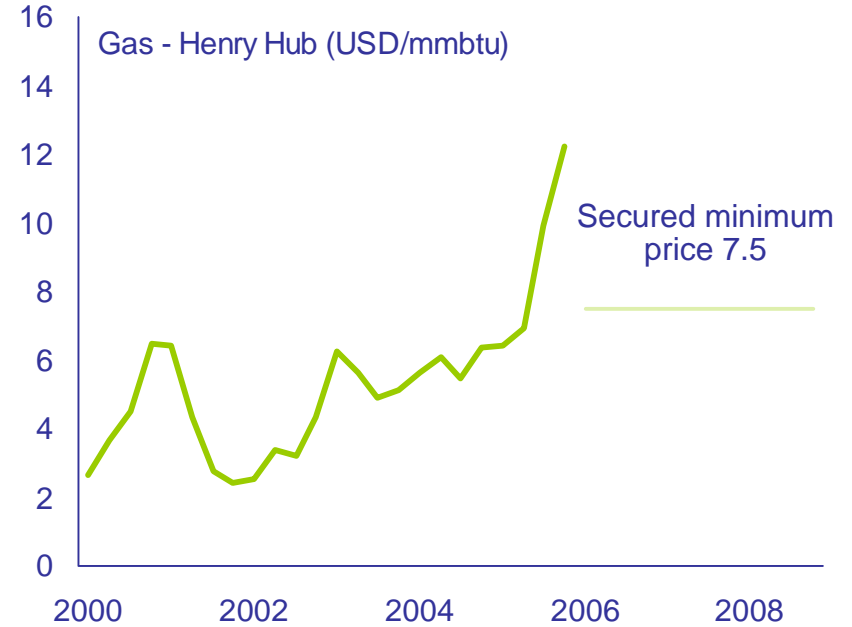
Source: Ecwin Aluminium, 3 Month Forward, LME, Close, (Nominal)

- Aluminium price
  - USD 1 600 - 1 700 per tonne
- Currency
  - NOK/USD 6.5
  - NOK/EUR 8.0
- Hurdle rate
  - 10% IRR real after tax
  - IRR after tax above Hydro's cost of capital when risk is accounted for in cash flows

# Secured prices for Spinnaker production



Source: Ecowin Oil, WTI Crude Oil, Spot, USD, (Nominal)

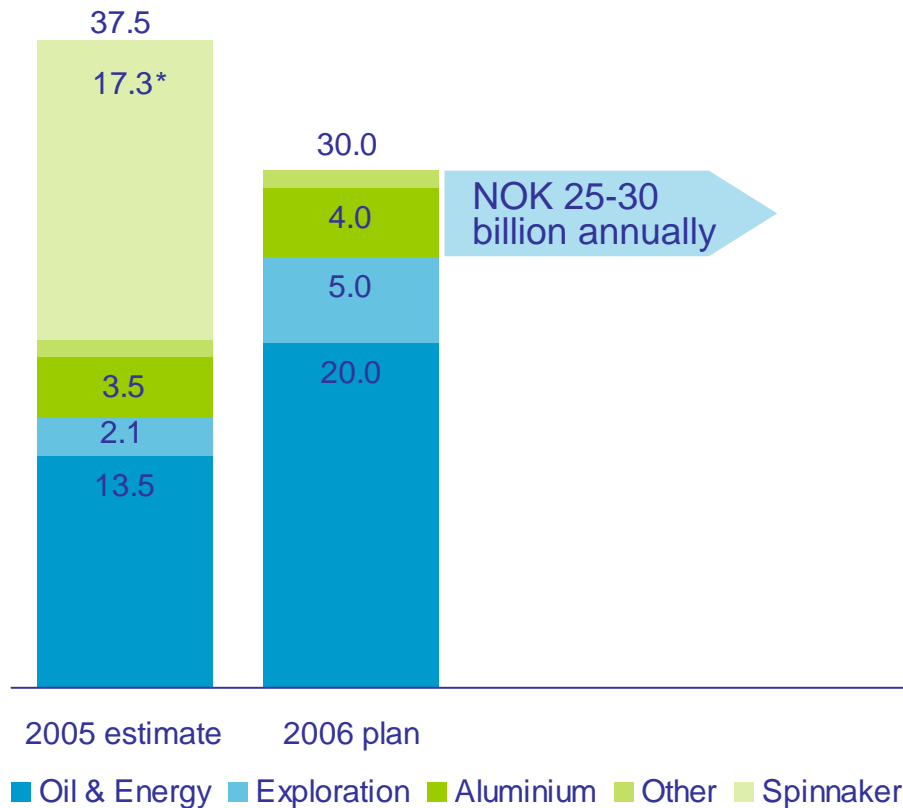


Source: Ecowin Natural Gas, Henry Hub, Spot, Close, USD, (Nominal)

- Prices secured for 2006-2008 for 35.9 million boe
  - Oil: 15.4 million boe (zero cost collar options)
  - Gas: 121 tbtu (put option with strike price 7.5 USD/mmbtu and deferred premium of 0.78 USD/mmbtu)
- Hedge structure preserves significant part of upside
- Hedging instruments marked to market with changes in fair value reported in earnings

# Capital and exploration expenditure

NOK billion



## 2005

- Spinnaker acquisition
- Aluminium downscaled activity

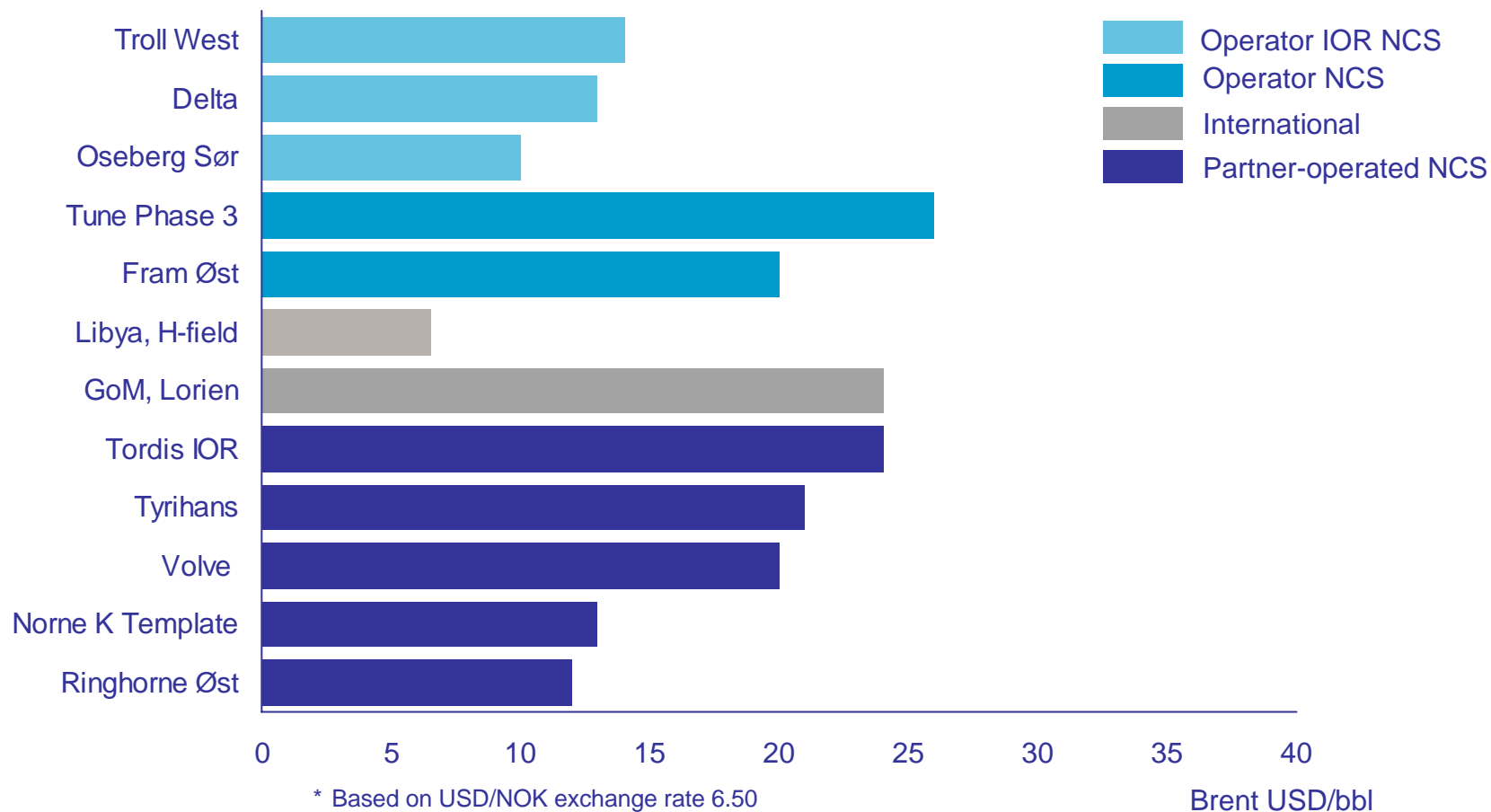
## 2006-2010

- Oil & Energy
  - Increased exploration
  - Increased international activity
- Aluminium
  - Scale down overall investment level
  - Major projects Qatalum and Alunorte

\* Excluding gross-up for accounting purposes of approximately NOK 5 billion

# Sanctioned projects in 2005 with robust profitability

Oil price gives 10% real rate of return post tax\*





## Financial priorities

- Capital discipline
- Realize value from recent acquisitions
- Strong performance focus
- Competitive shareholder returns



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Additional information



# Indicative price and currency sensitivities 2006

NOK million	Income before tax	Net income	Change
Oil price per barrel	1 100	325	1 USD
Aluminium price per tonne	950	665	100 USD

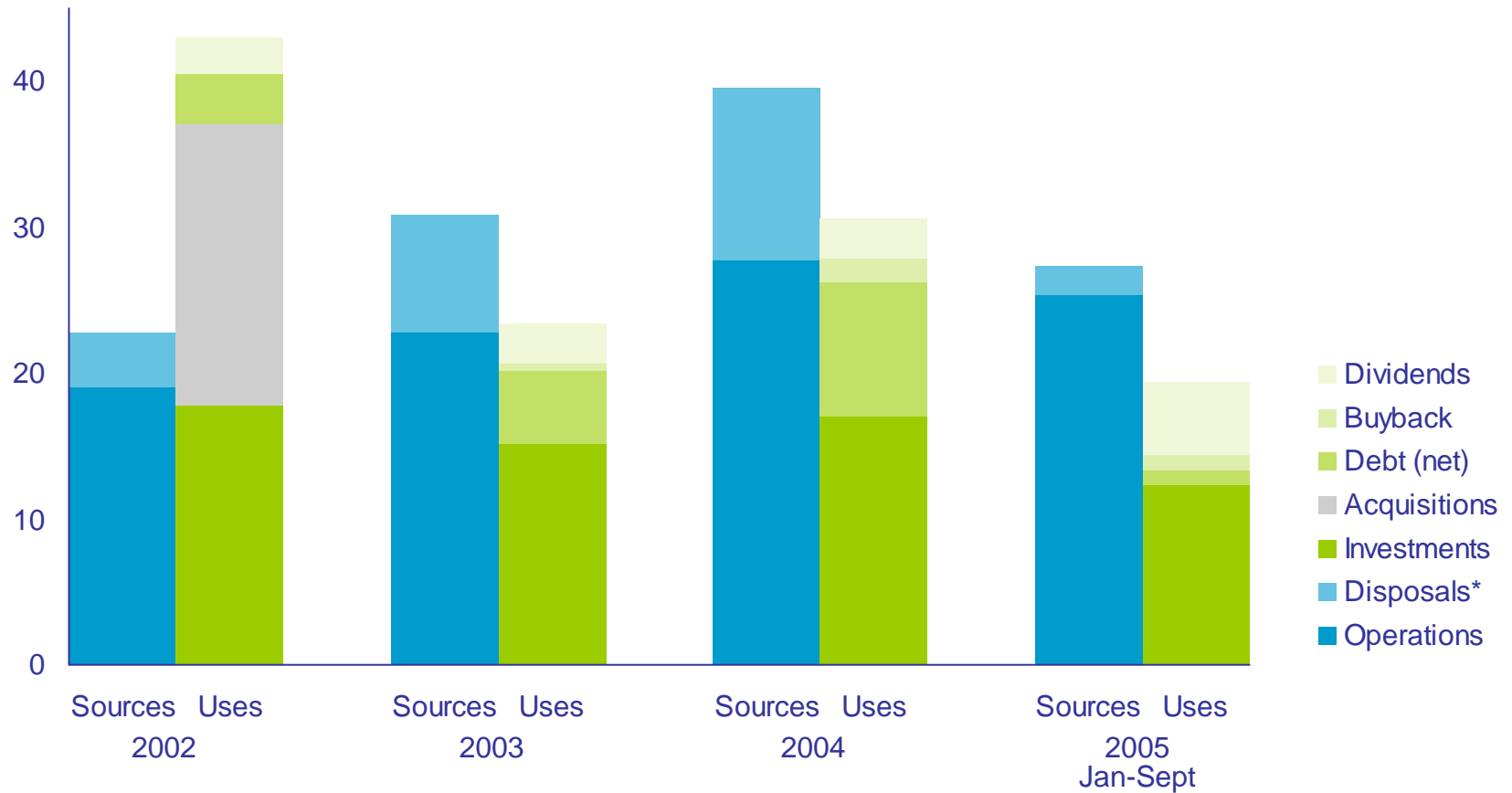
NOK million	Income before tax	Net income	Change
USD Oil & Energy	7 500	2 250	1 NOK
USD Aluminium	2 800	1 900	1 NOK
USD before financial items	10 300	4 150	1 NOK
USD financial items	(3 000)	(1 950)	1 NOK
USD Net income	7 300	2 200	1 NOK

- Based on approximate average 2005 prices and expected business volumes for 2006:
  - Oil 50 USD/bbl
  - Aluminium 1 900 USD/tonne
  - NOK/USD 6.5
- USD sensitivity for Oil & Energy and Aluminium includes both USD revenues and USD costs
- Total USD sensitivity of financial positions is NOK 4 000 million negative and consists of assets and liabilities in various financial instruments. Positive net working capital of USD 1 000 million reduces the total sensitivity to 3 000 million.

# Financial solidity – calculation

Amounts in NOK million		31 December 2001	31 December 2002	31 December 2003	31 December 2004	30 September 2005
[A]	Cash and cash equivalents	27 148	5 965	15 249	14 366	16 607
[B]	Short-term investments	2 421	2 647	1 581	10 970	16 760
[C]	Bank loans and other interest-bearing short-term debt	(8 458)	(7 306)	(5 569)	(3 785)	(4 324)
[D]	Current portion of long-term debt	(1 966)	(1 958)	(1 242)	(568)	(397)
[E]	Long-term debt	(37 853)	(30 902)	(28 568)	(19 487)	(20 456)
[F]=[A]+[B] +[C]+[D]+[E]	Net interest-bearing debt	(18 708)	(31 554)	(18 549)	1 496	8 190
[G]	Net pension liabilities at fair value	(2 133)	(10 107)	(11 973)	(10 056)	(10 879)
[H]	Expected income tax benefit 30%	640	3 032	3 592	3 017	3 264
[I]=[G]+[H]	Net pension liabilities tax adjusted	(1 493)	(7 075)	(8 381)	(7 039)	(7 615)
[J]	Operating lease commitments discounted at 4.8% (2004: 10%)	(5 072)	(4 924)	(4 916)	(3 500)	(4 062)
[K]=[F]+[I]+[J]	Adjusted net interest-bearing debt	(25 272)	(43 552)	(31 846)	(9 043)	(3 487)
[L]	Net pension liabilities not recognized without equity effect	(2 767)	(6 994)	(7 862)	(6 341)	(6 340)
[M]	Expected income tax benefit 30%	830	2 098	2 358	1 902	1 902
[N]=[L]+[M]	Equity adjustment off-balance sheet pension liabilities	(1 937)	(4 896)	(5 504)	(4 439)	(4 438)
[O]	Minority interest	1 051	1 143	660	(1 571)	(1 357)
[P]	Shareholders' equity	74 793	75 867	88 080	(85 890)	(91 606)
[Q]=[N]+[O]+[P]	Adjusted shareholders' equity and minority	73 907	72 114	83 236	(83 022)	(88 525)
[R]=[K] / [Q]	Adjusted debt / equity ratio	0.34	0.60	0.38	0.11	0.04

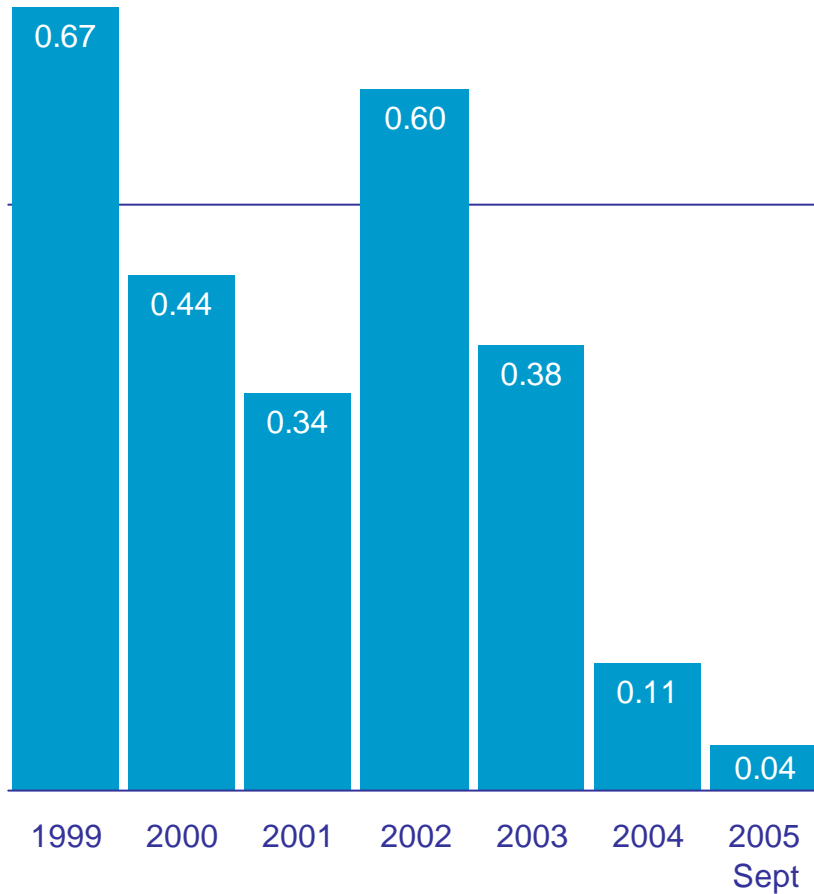
# Sources and uses of cash



\* Net cash from discontinued operations (Yara) included

# Strong financial position

## Adjusted net debt/equity ratio

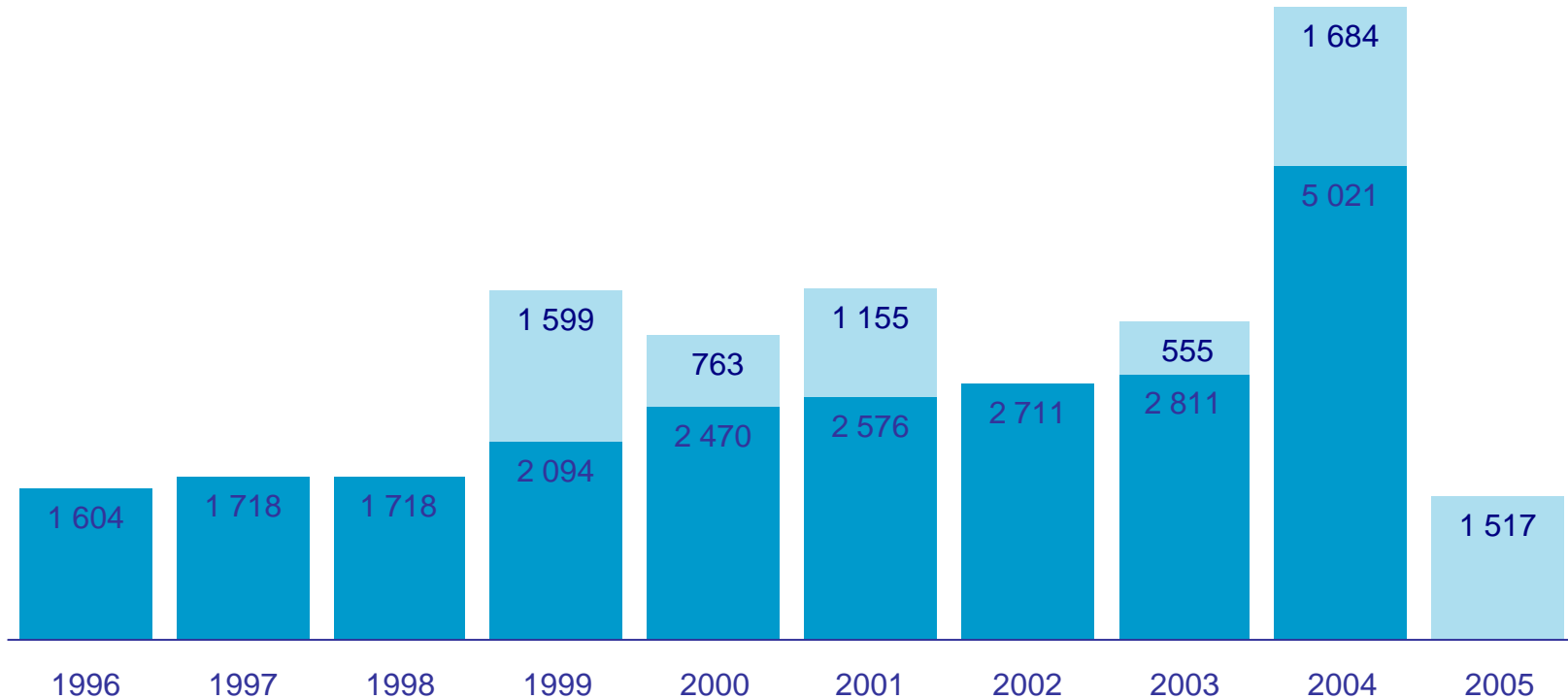


- Positioned to seize strategic opportunities
- Strong balance sheet allows for exposure to commodity prices
- Single A credit rating target maintained. Present rating:
  - Standard & Poor's: A
  - Moody's: A1
- Target debt/equity ratio 0.5

# Increasing payout to shareholders

NOK million

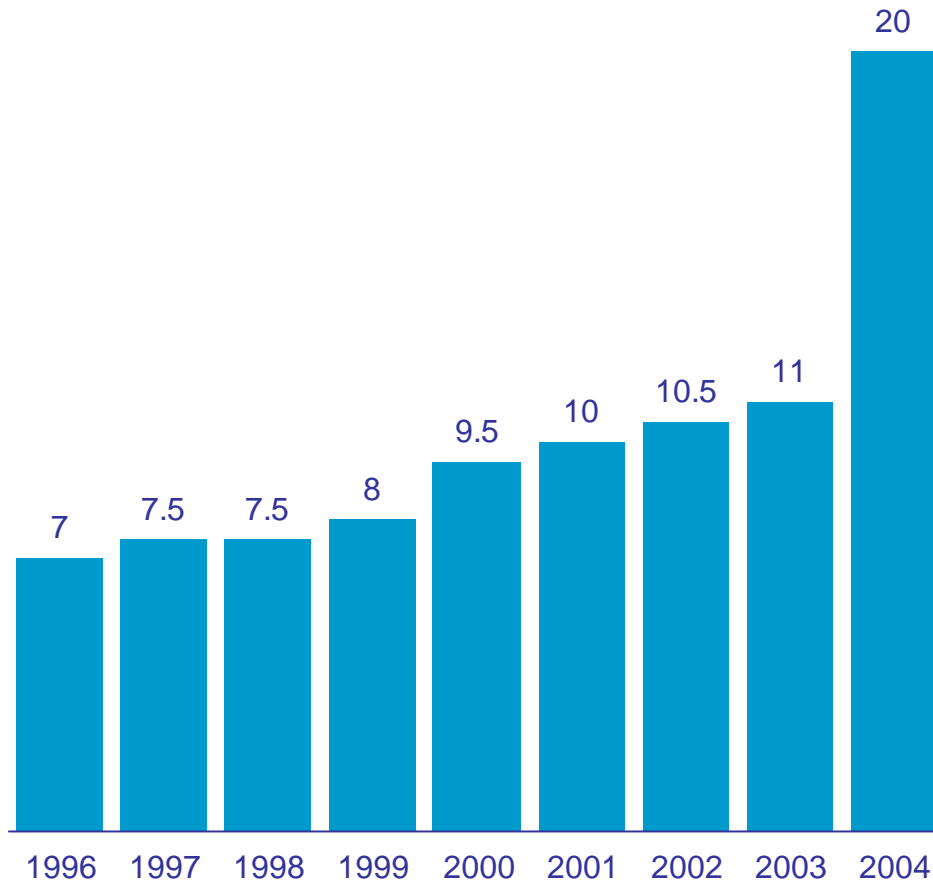
■ Dividend ■ Buyback



Dividend allocated to the year for which the dividend was paid. Buyback allocated to the year when the buyback transactions were executed.

# 2005 dividend in line with 2004 level

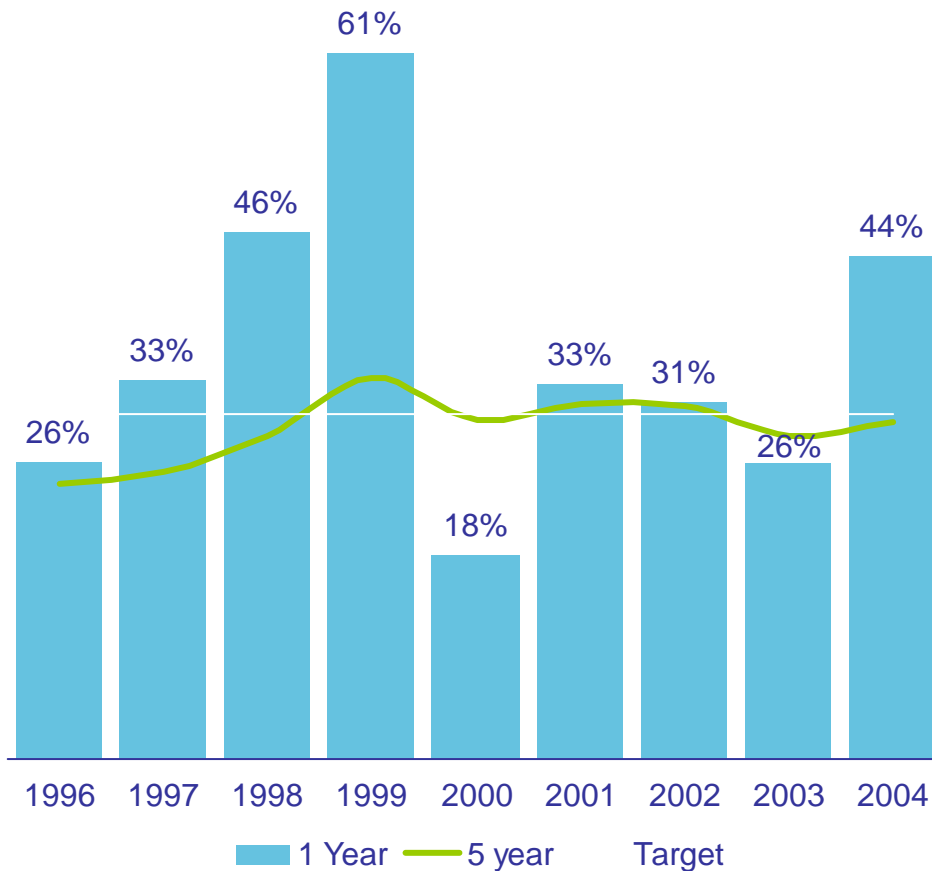
Dividend per share in NOK



- Delivering increased dividend as earnings have grown
- 2005 net income expected to exceed 2004

# 30% payout ratio over time

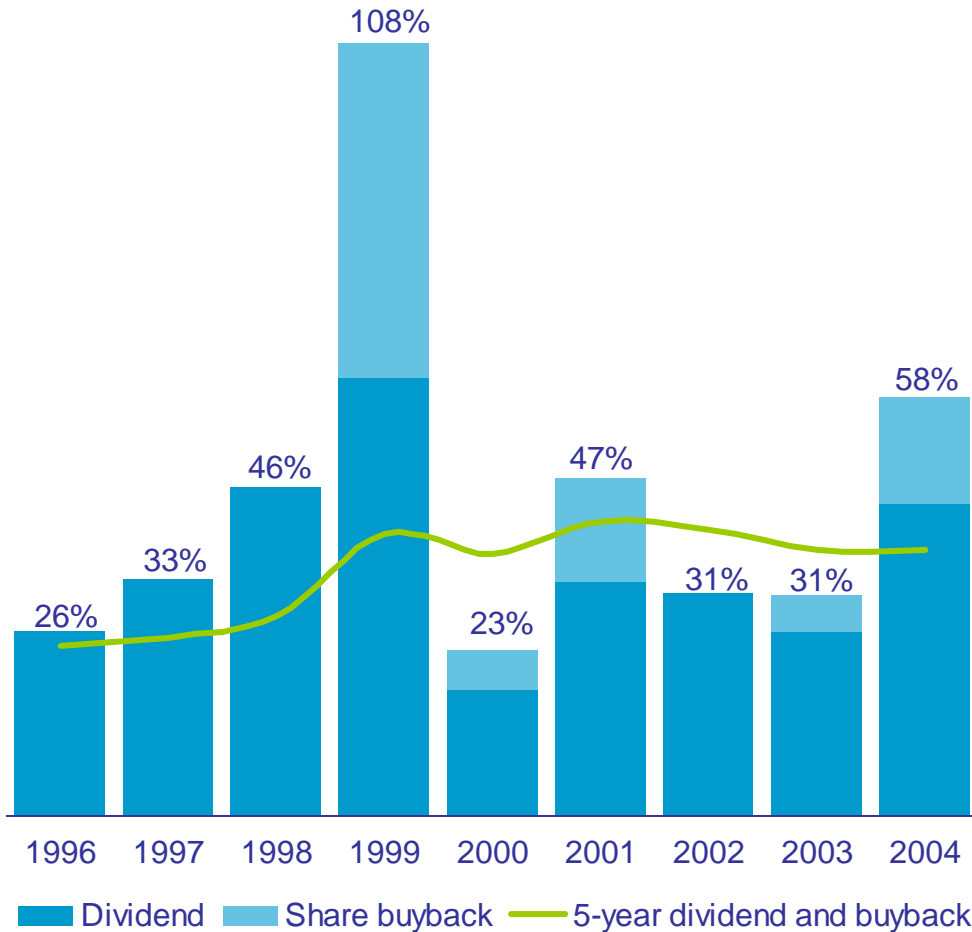
## Payout ratio



- Dividend policy maintained
- Planned payout per share in 2005 is in line with policy
- Continued high commodity prices support current payout per share level
- Challenging to maintain a stable increase in dividend with volatile commodity prices

# Share buyback lifts payout ratio

## Payout ratio with dividend and buyback

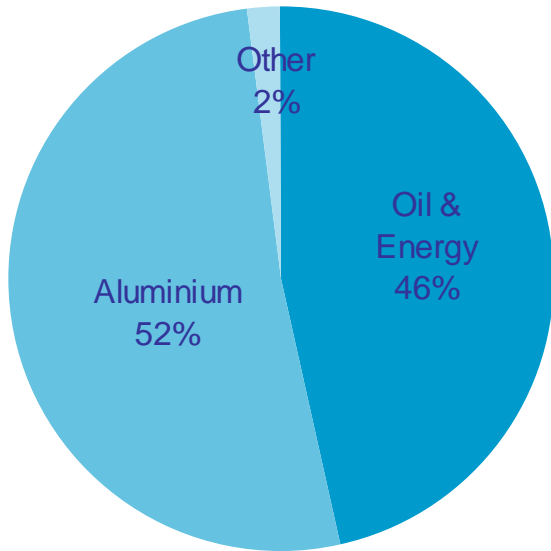


- Supplement to dividend in periods with high earnings
- 2005 buyback activity
  - 2 191 190 shares acquired from the Norwegian state
  - 830 000 shares acquired in the market
  - Total NOK 1 517 million

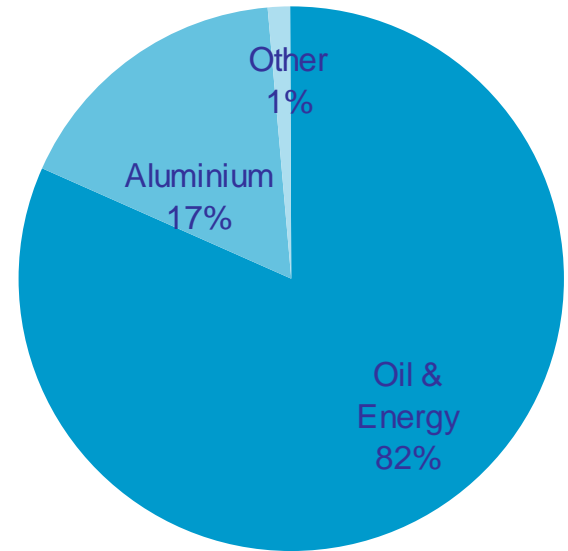


# Financial overview 2004

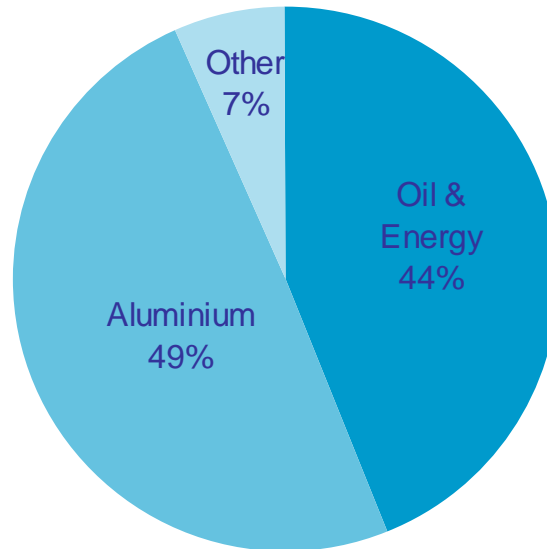
Operating revenues – NOK 154 billion



Adjusted EBITDA – NOK 51 billion

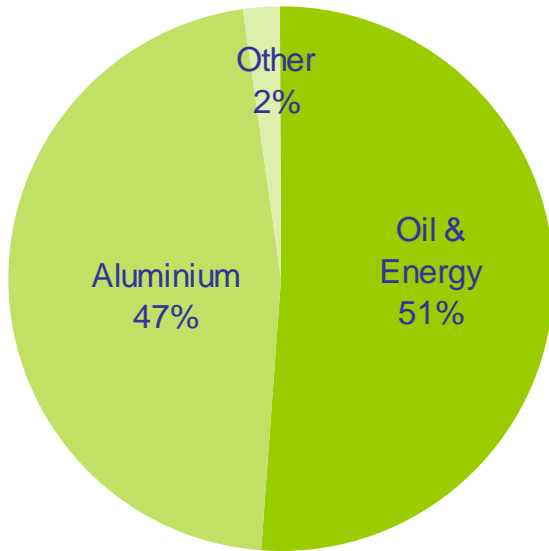


Capital employed – NOK 86 billion

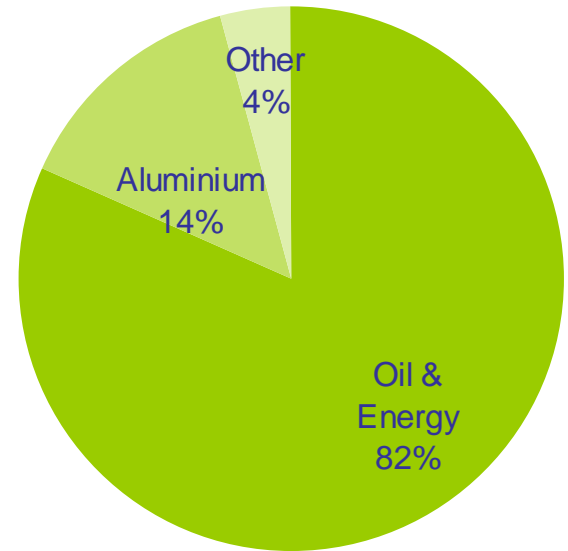


# Financial overview 2005 Q1 – Q3

Operating revenues – NOK 129 billion



Adjusted EBITDA – NOK 48 billion



Capital employed – NOK 85 billion

