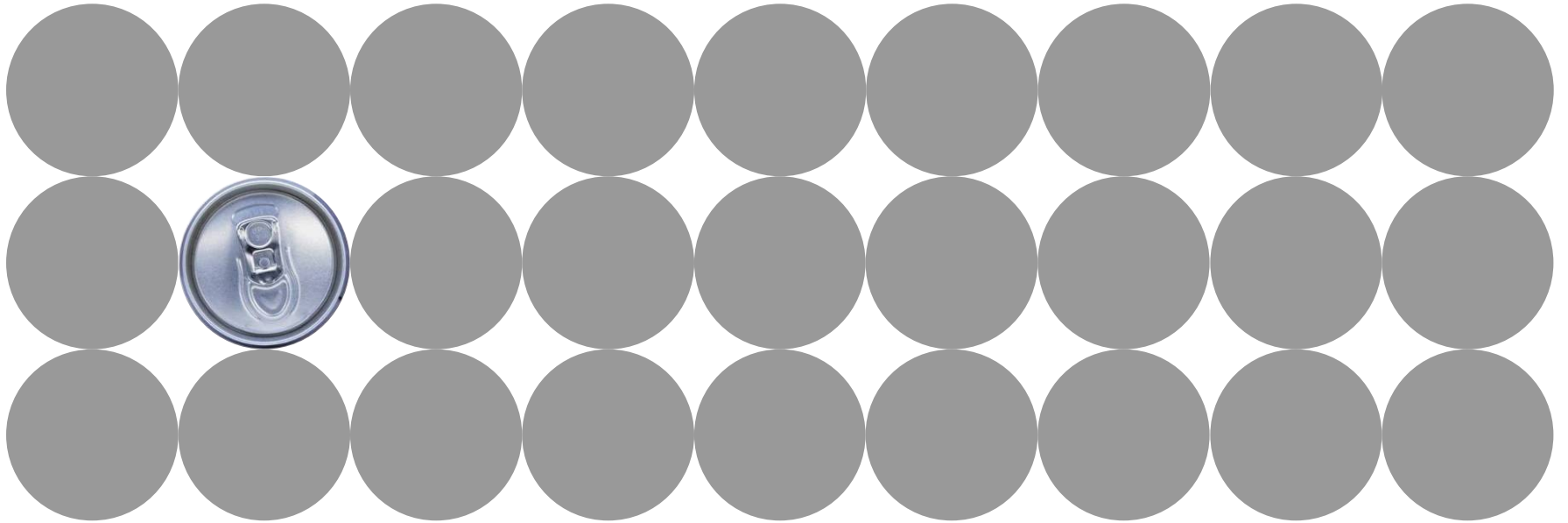


# Financial policy in a volatile environment



John O. Ottestad, Executive Vice President and CFO  
September 25, 2008

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# Financial priorities

- Solid financial position
- Shareholder returns
- World-class investment projects
- Managing volatility

1

# Financial policy

# Solid financial position

## Maintain investment-grade rating

- Currently: BBB (S&P), Baa1 (Moody's)
- Important for securing financing and other commercial transactions

## Financial ratios over the business cycle

- Funds from operations to net adjusted debt > 40%
- Net adjusted debt to equity < 0.55

## Flexibility to pursue business opportunities in an uncertain financial environment

NOK billion	December 31, 2007	June 30, 2008
Cash and cash equivalents	9.3	8.0
Short-term investments	2.7	2.1
Short-term bank loans and other interest-bearing debt	(1.0)	(1.1)
Long-term debt	(0.3)	(0.3)
<b>Net cash/(debt)</b>	<b>10.8</b>	<b>8.7</b>
Cash and short-term investments in captive insurance company	(2.0)	(1.7)
Net pension liability at fair value, net of expected tax benefit	(5.2)	(4.9)
Operating lease commitments, net of expected tax benefit	(1.5)	(1.5)
Net interest-bearing debt in equity accounted investments	(2.7)	(2.0)
Other financial obligations, net of expected tax benefit	(0.8)	(0.7)
<b>Net adjusted cash/(debt)</b>	<b>(1.3)</b>	<b>(2.1)</b>

# Shareholder policy

Hydro aims to give its shareholders competitive returns compared to alternative investments in peers

Dividend payout ratio<sup>1)</sup> will average 30% over the cycle

Buyback of shares and extraordinary dividends

- When earnings, liquidity position and capital structure allow
- Share buyback authorization ~NOK 4 billion

Dividend payout for 2007

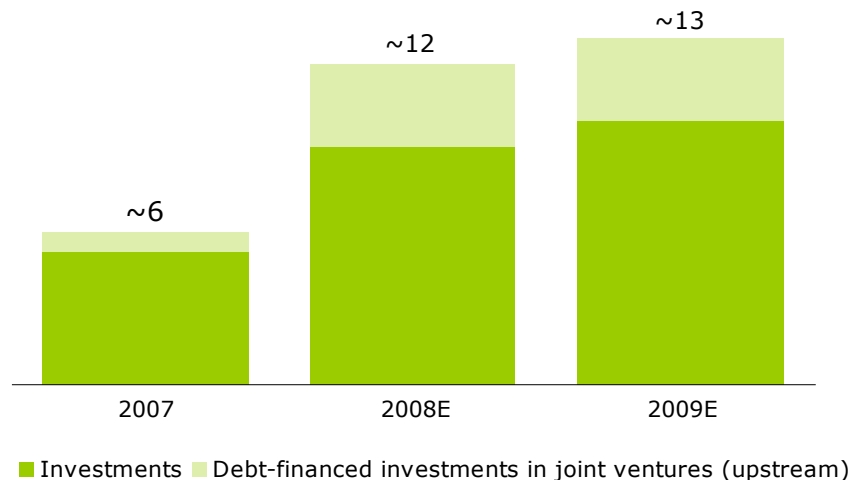
- Ordinary           NOK 1.50 per share
- Extraordinary    NOK 3.50 per share
- Total               NOK 5.00 per share

1) Dividend divided by net income



# World-class investment projects

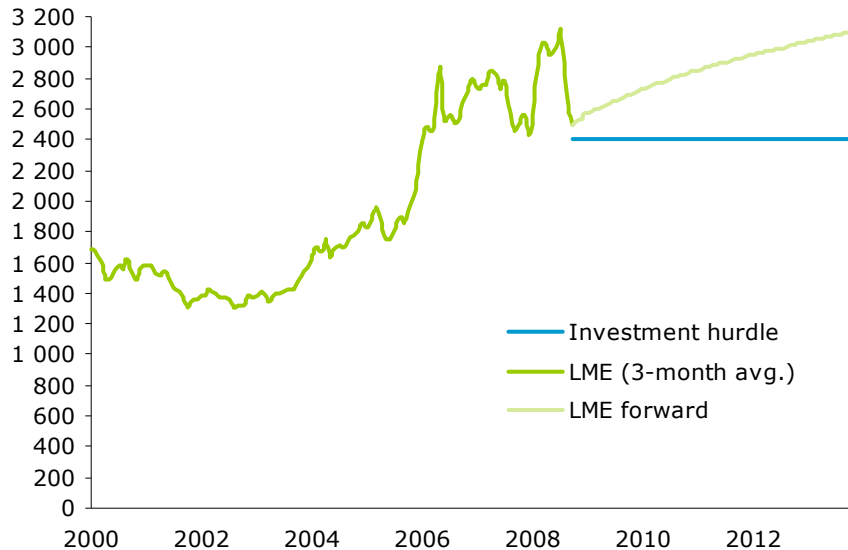
NOK billion



- ~75% of 2008-2009 investments upstream
- Aluminium Metal
  - Qatalum: USD 2.8 billion
  - Agreement with Vale for new alumina refinery
- Aluminium Products
  - Selective growth in Extrusion and Building Systems
- Energy
  - Solar growth
- Sustaining capex NOK 3 billion annually

# Investment hurdles

USD per tonne



Source: Reuters Ecowin / Bloomberg, forward curve as of September 19, 2008

- LME 2 400 USD/tonne
- NOK/USD 6.0
- NOK/EUR 8.0
- Market prices for evaluations of potential short-term cash flows
- 8-10% IRR real after tax
  - IRR after tax above Hydro's cost of capital when risk is accounted for in cash flows

2

## Managing volatility



# Hedging policy

Hydro to remain exposed to LME prices

- Partly natural hedge through alumina contracts and power contracts

Operational LME hedging

- Three months forward
- Managing customers' pricing
- Marked-to-market valuations of positions result in unrealized gain/losses

Currency exposure, mainly USD

- Policy of maintaining long-term debt in USD
- Use of currency forwards and swaps

No plan to hedge Qatalum



# Revenue impact of aluminum price

## Bauxite & Alumina

### Alumina price to Primary Aluminium

- ~13% of 3-month LME price per tonne alumina
- ~One month lag
- Alunorte results impacted by LME hedging through 2008



## Primary Aluminium

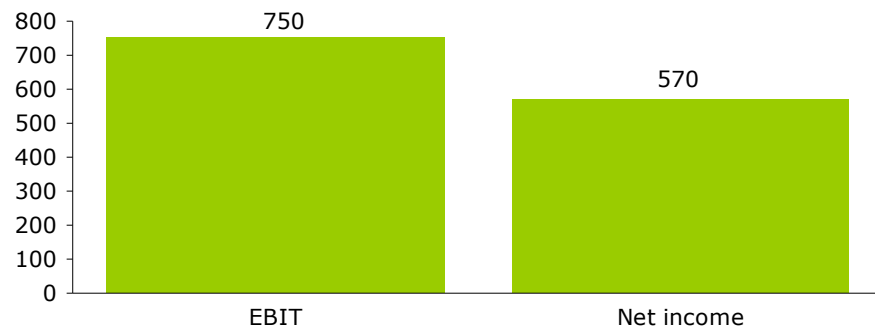
### Operational LME hedging

- Realized price lags 3-month LME price by ~3-4 months
- Strategic hedging
  - 2008: 187 000 tonnes at USD 2 230 per tonne
  - 2009: limited impact



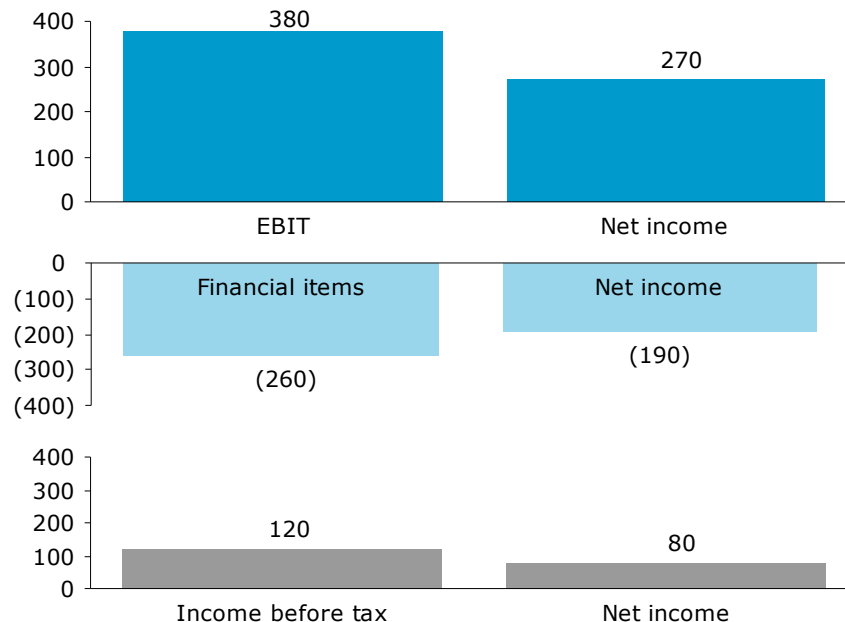
# Price and currency sensitivities

Aluminium price sensitivity +/- 100 USD per tonne



- Annual sensitivities
- Aluminium price sensitivity is net of aluminium price indexed costs
- NOK/USD sensitivity includes USD revenues and costs
- Financial items sensitivity is mainly currency derivatives

NOK/USD sensitivity +/- 0.1 NOK

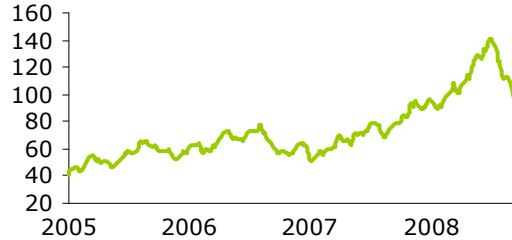


# Focus on underlying earnings

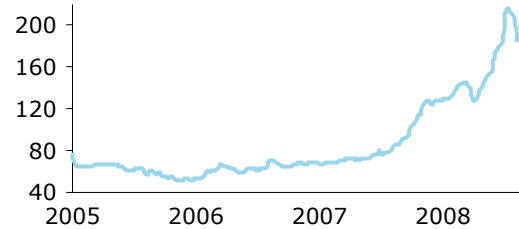
NOK million	Year 2006	Year 2007	First half 2008
<b>Reported EBIT</b>	<b>7 200</b>	<b>9 025</b>	<b>1 887</b>
Unrealized effects power contracts	1 605	928	3 287
Unrealized LME and other derivative effects	81	(229)	(1 000)
Metal effect, Rolled Products	(261)	235	(133)
Significant rationalization charges and closure costs	1 023	224	-
Impairment charges	728	144	-
(Gains)/losses on divestments and other	(211)	(397)	(389)
<b>Underlying EBIT</b>	<b>10 165</b>	<b>9 930</b>	<b>3 651</b>

# Volatile commodity prices impact costs

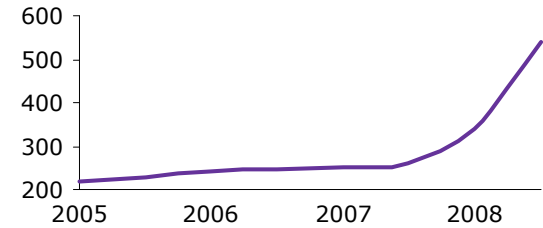
Crude oil – Brent (USD/bbl)



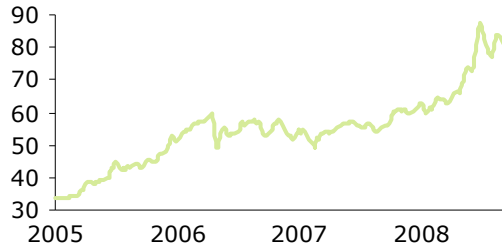
Coal – CIF ARA (USD/mt)



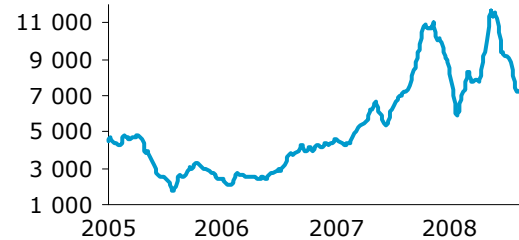
Petroleum coke FOB USG (USD/tonne)



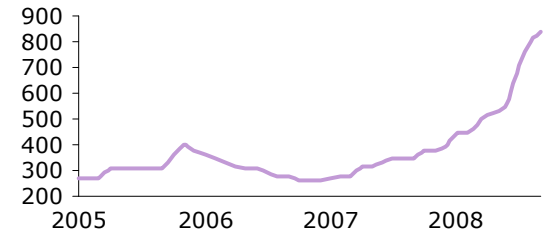
Power – EEX Germany (EUR/MWh)



Freight – Baltic Dry Index



Caustic soda (USD/tonne)

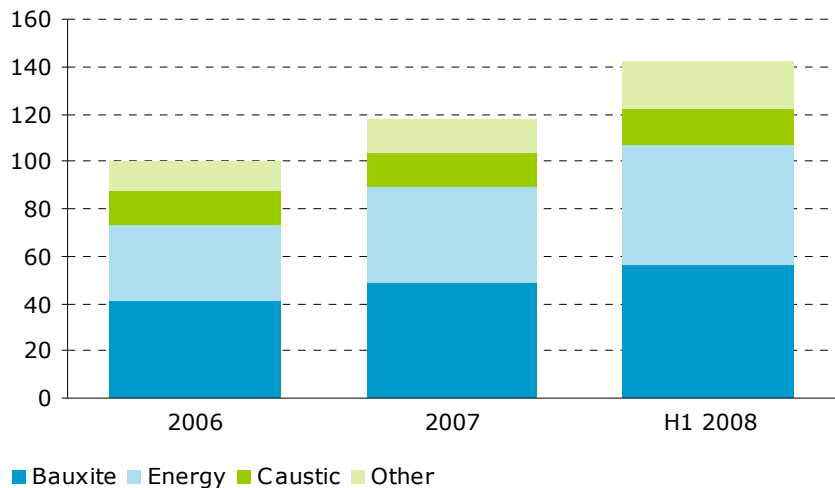


Source: Reuters Ecowin/PACE/CMAI

# Commodity prices impact Hydro's costs

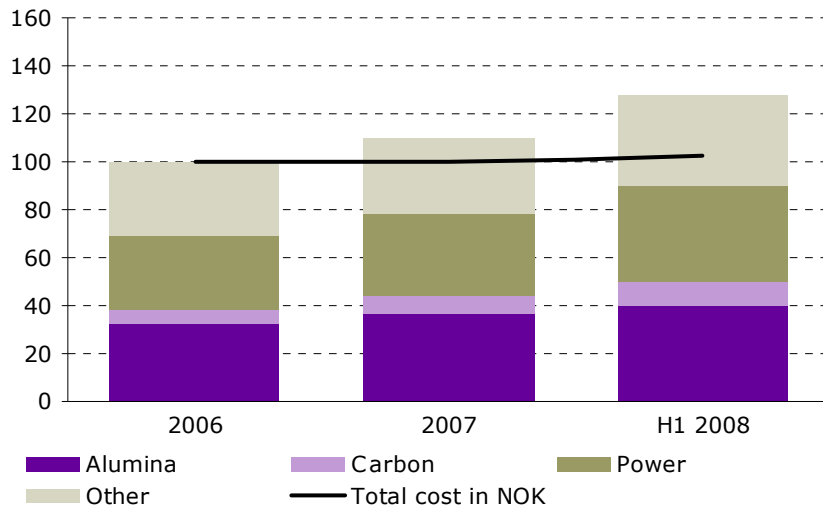
## Alumina production cost

Costs in USD per tonne indexed, 2006=100



## Smelting production cost\*

Costs in USD per tonne indexed, 2006=100



\*Including only 100% owned smelters

# Bauxite & Alumina input commodities

## Bauxite

- ~2.25 tonnes bauxite per tonne alumina
- Coverage
  - ~40% captive for 2008
  - ~60% on long-term evergreen contracts with price partly indexed to LME

## Caustic soda

- ~0.12 tonnes per tonne alumina

## Energy

- ~0.07 tonnes coal per tonne alumina
- ~0.17 tonnes heavy fuel oil per tonne alumina
- Increased use of coal as energy source in Alunorte





# Primary Aluminium input commodities

## Alumina

- ~2 tonnes per tonne aluminium
- ~13% of 3-month LME price per tonne alumina
- ~2-3 months lag

## Alumina freight

- ~2.7 million tonnes alumina in transatlantic seaborne freight

## Carbon (petroleum coke and pitch)

- ~0.45 tonnes per tonne aluminium

## Power

- 14.2 MWh per tonne aluminium
- New contracts in Germany and annual indexations







# Financial priorities

- Solid financial position
- Shareholder returns
- World-class investment projects
- Managing volatility

# Net adjusted debt calculation

NOK million	December 31, 2007	March 31, 2008	June 30, 2008
Cash and cash equivalents	9 330	11 735	7 985
Short-term investments	2 742	2 444	2 112
Short-term bank loans and other interest-bearing debt	(974)	(1 095)	(1 093)
Long-term debt	(334)	(300)	(274)
<b>Net cash/(debt)</b>	<b>10 764</b>	<b>12 784</b>	<b>8 729</b>
Cash and short-term investments in captive insurance company <sup>1)</sup>	(2 013)	(1 949)	(1 656)
Net pension liability at fair value, net of expected tax benefit <sup>2)</sup>	(5 154)	(5 182)	(4 926)
Operating lease commitments, net of expected tax benefit <sup>2)</sup>	(1 498)	(1 498)	(1 498)
Net interest-bearing debt in equity accounted investments <sup>3)</sup>	(2 658)	(2 082)	(2 040)
Other financial obligations, net of expected tax benefit <sup>4)</sup>	(787)	(756)	(718)
<b>Net adjusted cash/(debt)</b>	<b>(1 346)</b>	<b>1 317</b>	<b>(2 108)</b>

1. Cash and short-term investments in the consolidated captive insurance company Industriforsikring AS

2. December 31, 2007

3. Not adjusted for cash amounts exceeding the interest-bearing debt amounts in each equity accounted investments

4. Includes financial obligations related to asset retirement, environmental clean-up, exit and disposal activities and financial guarantees

# Price and currency sensitivities

NOK million	Income before tax	Net income	Change
Aluminium price per tonne	750	570	100 USD

NOK million	Income before tax	Net income	Change
USD before financial items	380	270	0.1 NOK
USD financial items <sup>1</sup>	(260)	(190)	0.1 NOK
USD Net income	120	80	0.1 NOK

- Based on expected business volumes for 2009 and the following prices:
  - Aluminium 2 700 USD/tonne
  - NOK/USD 5.50
- LME sensitivity excludes unrealized effects related to operational hedging
- USD sensitivity on financial items is based on financial positions 30 June 2008
- Total USD sensitivity for financial items is based on actual financial positions June 30, 2008

<sup>1</sup>Mainly USD derivatives positions according to current currency risk mitigation policy

# Pensions

NOK million	December 31, 2007	December 31, 2006
Projected benefit obligation	(20 584)	(23 695)
Fair value of plan assets	15 579	16 843
Termination benefits and other	(780)	(881)
<b>Net pension liability</b>	<b>(5 785)</b>	<b>(7 734)</b>
Unrecognized amount	(1 890)	(453)
<b>Net pension liability recognized in the balance sheet</b>	<b>(7 675)</b>	<b>(8 185)</b>

NOK million	2007	2006
Benefits earned	560	541
Interest cost	945	837
Expected return on assets	(872)	(721)
Amortizations	33	32
Curtailements and Settlements	(8)	(83)
Contribution plans	25	25
Termination benefits and other	218	248
<b>Net periodic pension cost</b>	<b>900</b>	<b>879</b>

Weighted average assumptions used to determine obligation at end of year	December 31, 2007	December 31, 2006
Discount rate	5.0%	4.5%
Rate of compensation increase	3.7%	3.4%

- All funded plans well funded
- Net periodic pension cost included in EBIT



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