



Hydro Aluminium



FAFO introduction speech May 26, 2005

Hydro Aluminium Automotive VP Strategy & Business development Bjarne L. Bull-Berg

One year after EU expansion – Hydro experiences from operations in CEE – and plans going forward



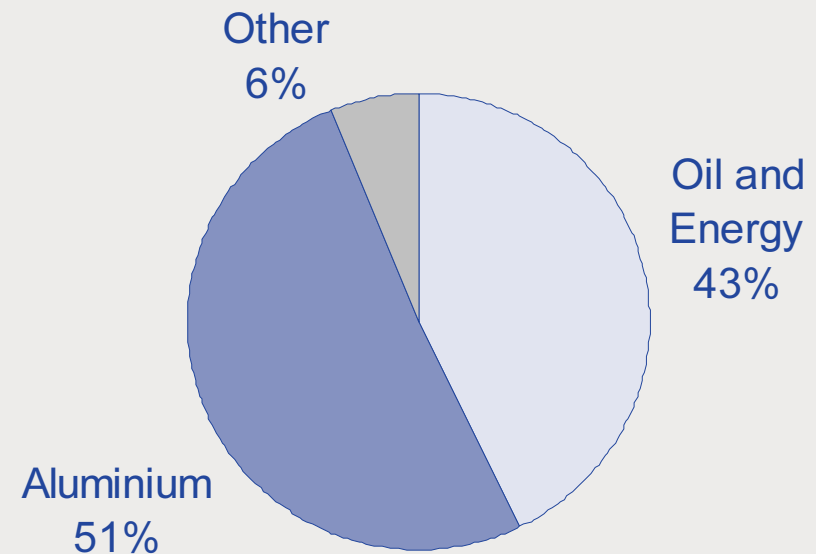
Hydro - a profitable Fortune 500 company 2004 operating revenues of NOK 155 billion

Oil & Energy



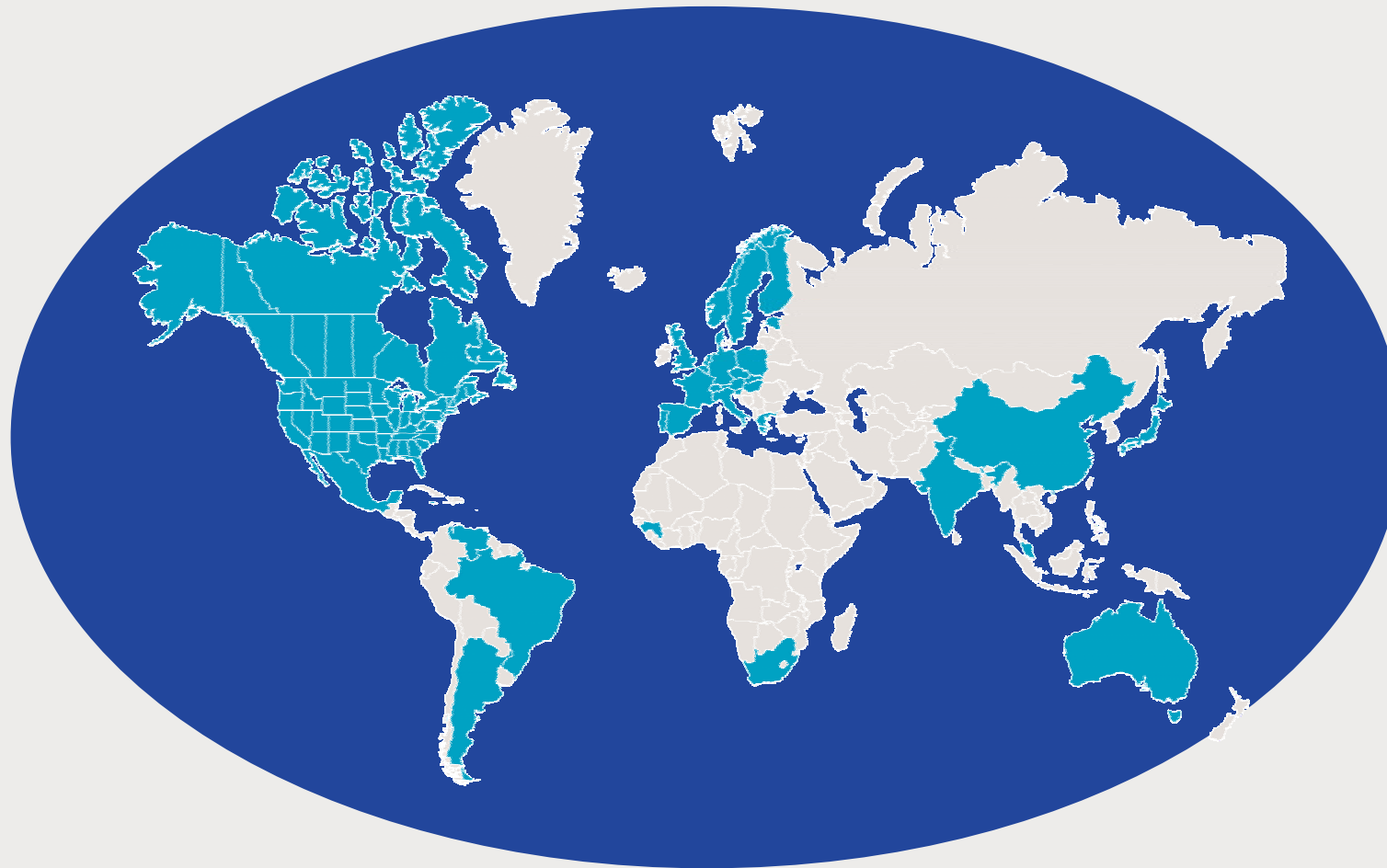
Aluminium

Revenue distribution



Hydro Aluminium

Worldwide production and sales



26.000

Employees

Germany	5589
Norway	5115
US	3769
France	1986
Italy	1261
UK	1015
Denmark	874
Austria	829
Spain	675
Hungary	658
Australia	571
Sweden	554
Portugal	535
China	459
Belgium	415

...



HYDRO

Hydro Aluminium

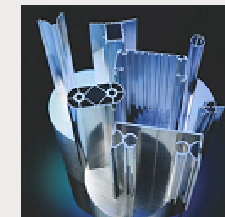
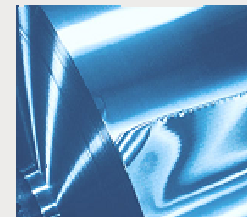
Competence throughout the value chain

Bauxite/
alumina



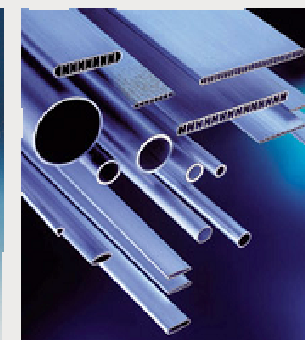
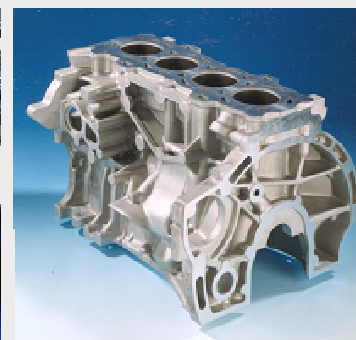
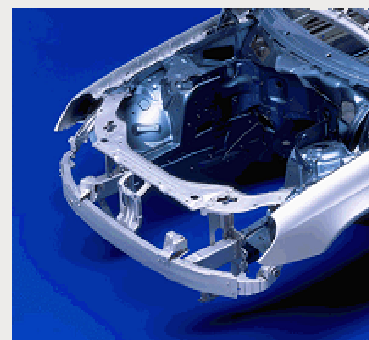
Electrolysis
metal

Casthouse
products



Rolling Extrusion

Fabrication
& Systems

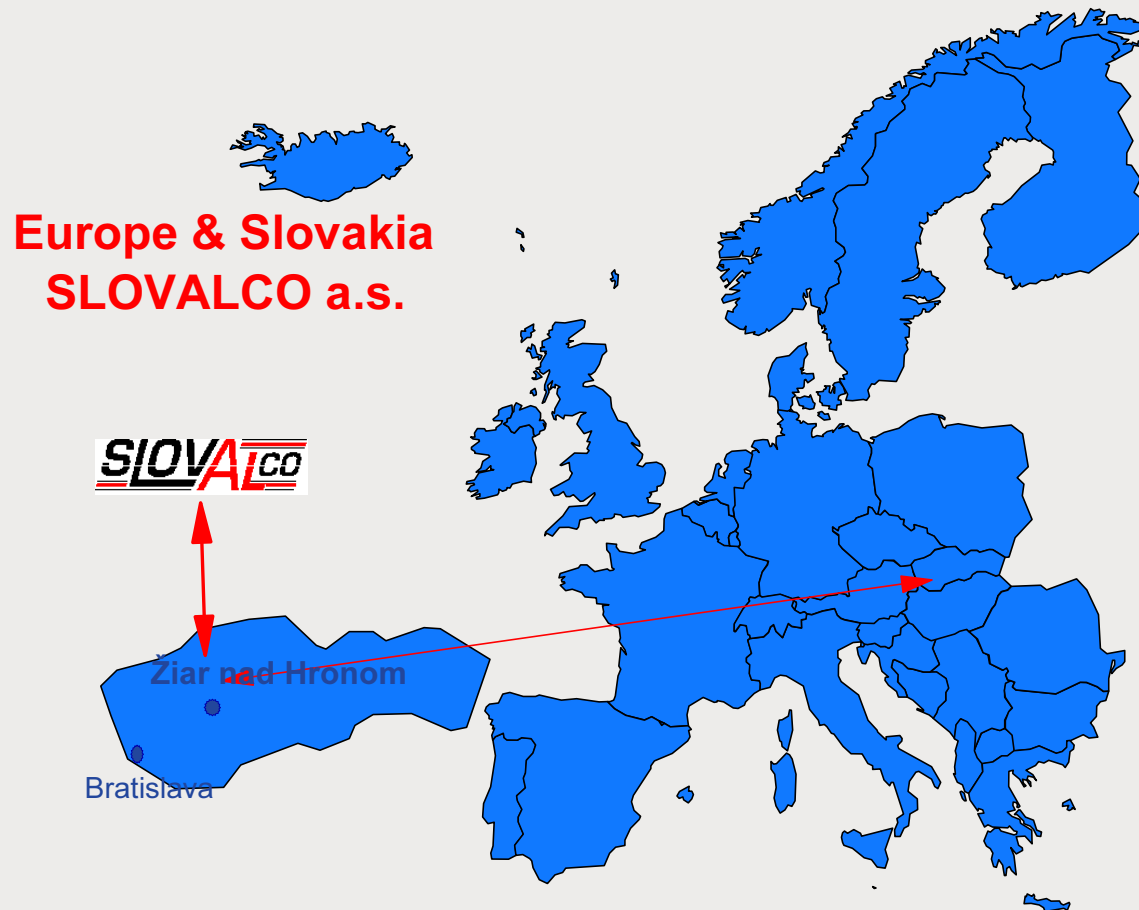


Automotive

Hydro Aluminium's engagements in new EU member countries

- **Slovalco** – primary aluminium smelter in Slovakia
 - Our history started with technology agreement 30 years ago
 - Local partner (ZSNP), EBRD and Hydro have invested USD 425 mill. since 1993
 - With the latest expansion the smelter has 160.000 ton p.a. capacity
 - This year Hydro will increase its equity share from 20% to 55%
- **Talum** – primary aluminium smelter in Slovenia
 - No Hydro equity participation
 - Set of agreements for raw material supply, casthouse technology, metal offtake and marketing – integrated part of Hydro Aluminium's European supply network
- **Chrzanów** – extrusion plant in Poland
 - Hydro established plant in 1996 in former military tank factory
 - Organic growth to become highly productive and Hydro's lowest cost extruder
- **Győr** – cylinder head foundry in Hungary
 - Established in 1996 by VAW, now Hydro
 - Organic growth to become Hydro's largest cylinder head foundry in Europe
- **Building Systems** – sales organisations in Poland, Czech Rep. & Hungary
 - Selling branded extrusion based building systems (Wicono & Domal)

Slovalco – partly owned primary aluminium smelter – rebuilt with Hydro technology



Slovalco – expansion to 160.000 tons p.a. completed in 2004



Hydro Aluminium Chrzanów – mainly serving local markets, however one third of sales to Western Europe

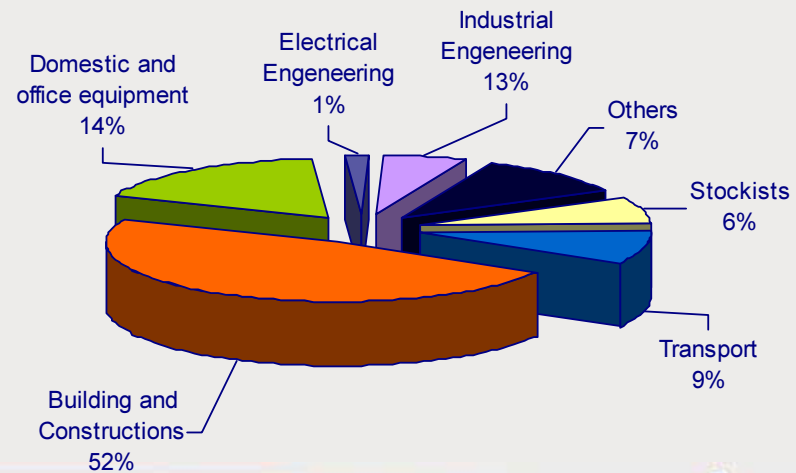
33% export to other EU



Hydro Aluminium Chrzanów – extrusion plant



- Established in 1996
- 105 employees, 5 shifts – 24/7
- 40 hours work week
- Labour turnover @ 2%
- Sick leave 2,4% vs. 4,3% in N
- Tons per man 19% > N
- Press productivity 11% > N
- Cost index less than half of N
- Running at full capacity
- New large press line in 2005



Hydro Aluminium Győr, Hungary

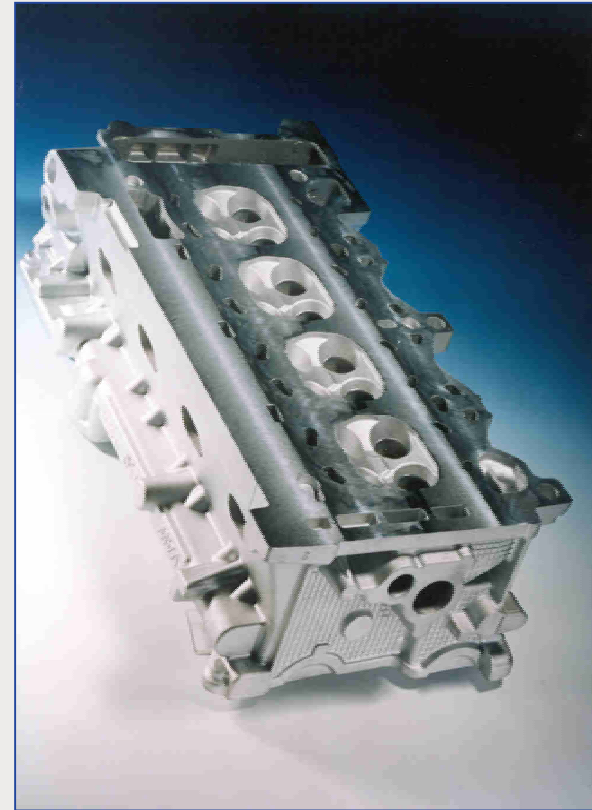


- Founded: 1993
- Personnel (FTE): 545
- Products: cylinder heads

- Customers: Audi, BMW, GM, Renault, Brilliance China, Holden Australia

HA Győr, Hungary

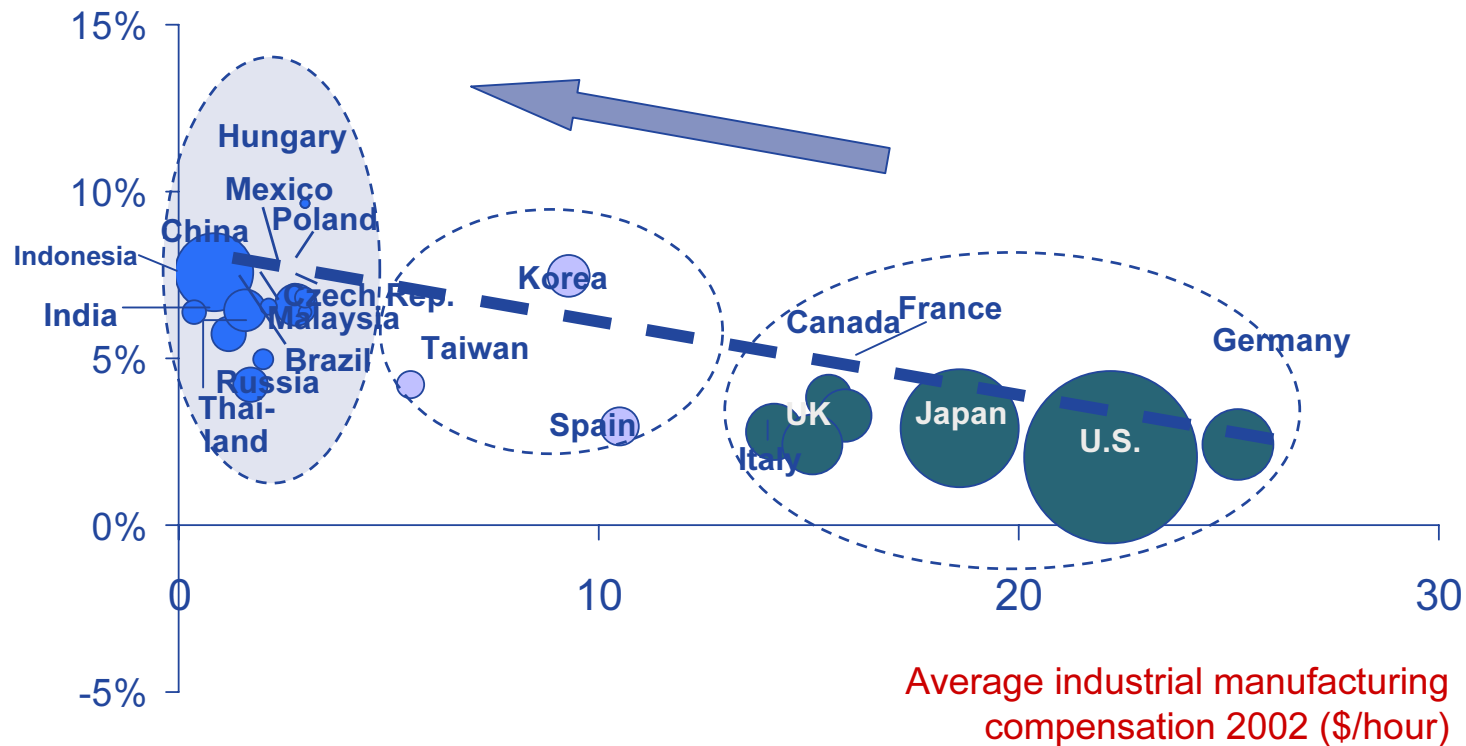
- Located 50 km from Austrian border – 1 hour from Vienna airport – 3 hours from HA Linz
- Low cost location for high tech products – very performance oriented
- Comparable productivity to Hydro's plant in Linz, Austria
- Low unemployment in area hence strong competition for talent
- Sick leave 4,7%, but labour turnover low
- Language is an issue for communication with global customers
- Foundry specific skills not readily available - hence training needed
- Plant is very competitive and will continue to grow



BMW cylinder head NG4
1.8 & 2.0 L petrol engines

Ongoing migration of industrial activity from high-cost to low-cost countries

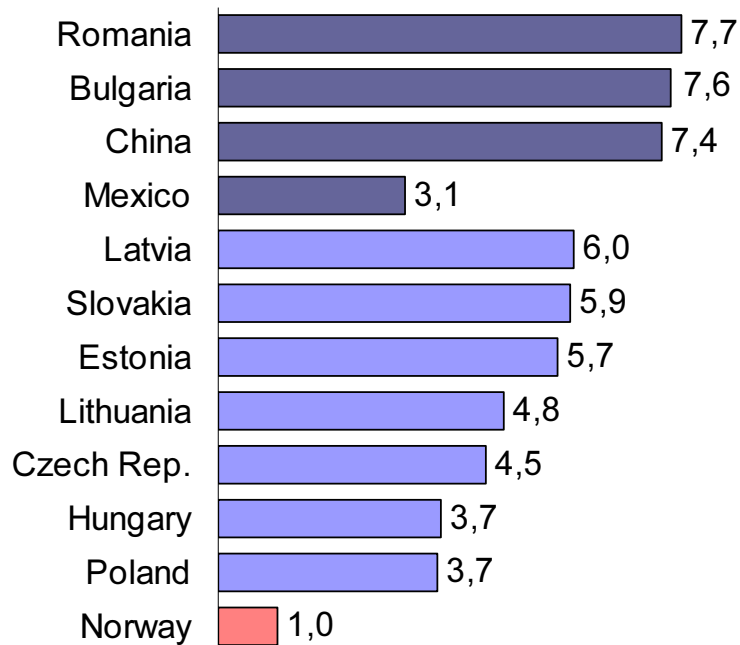
Annual growth of industrial⁽¹⁾
production '01-'05



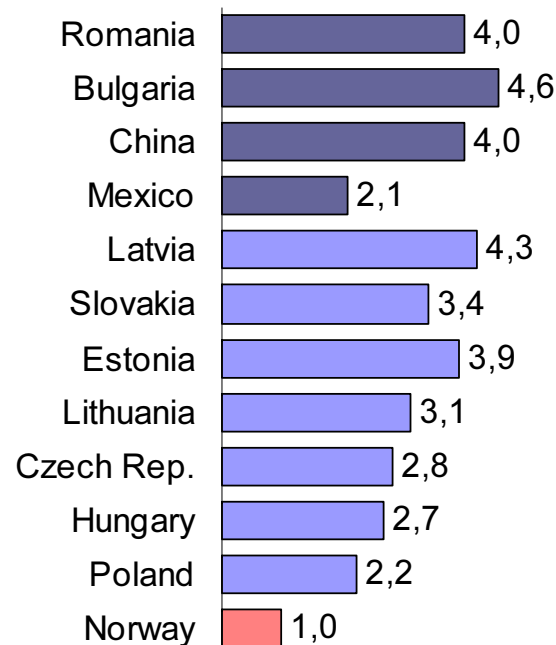
(1) GDP excluding agriculture and services
Source: S&P DRI; EIU; IMD; BCG analysis

Gross pay differentials 2004 relative to Norway (% differential)

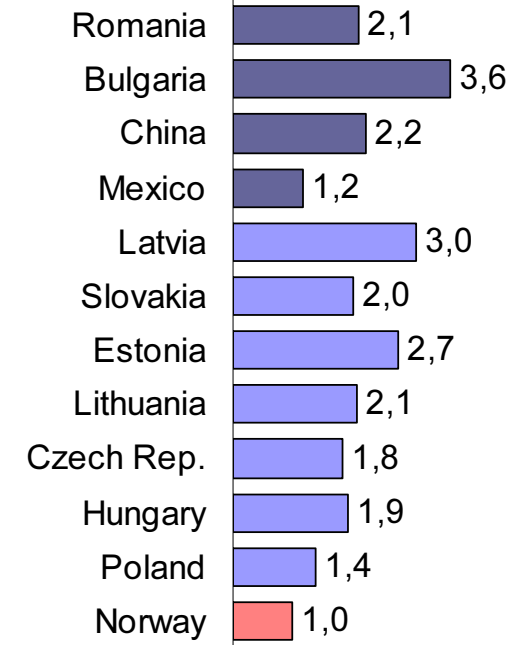
Skilled labourer



Senior professionals



Upper middle mgmt.

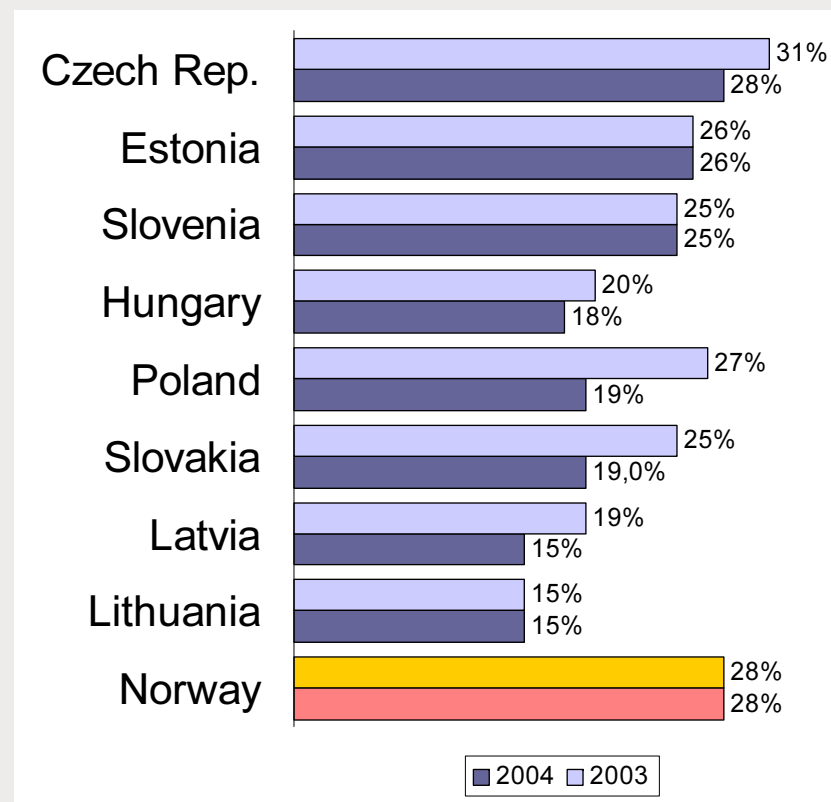


Source: Mercer 2005 – Report on international geographic salary differentials

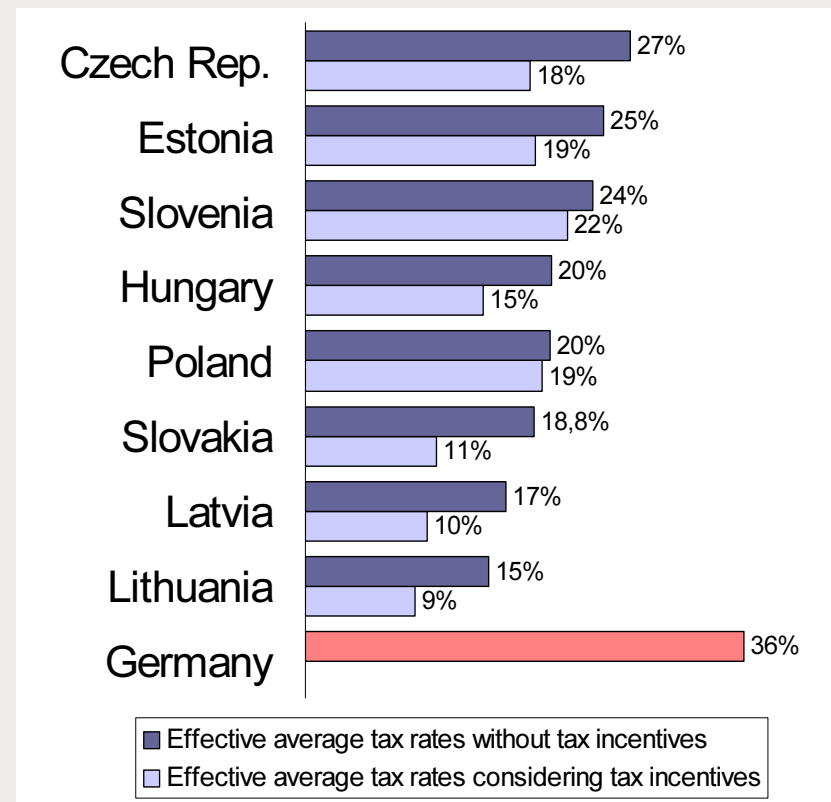
Cost of doing business

Tax rates in the new member states (2004)

Statutory tax rates on corporate profits

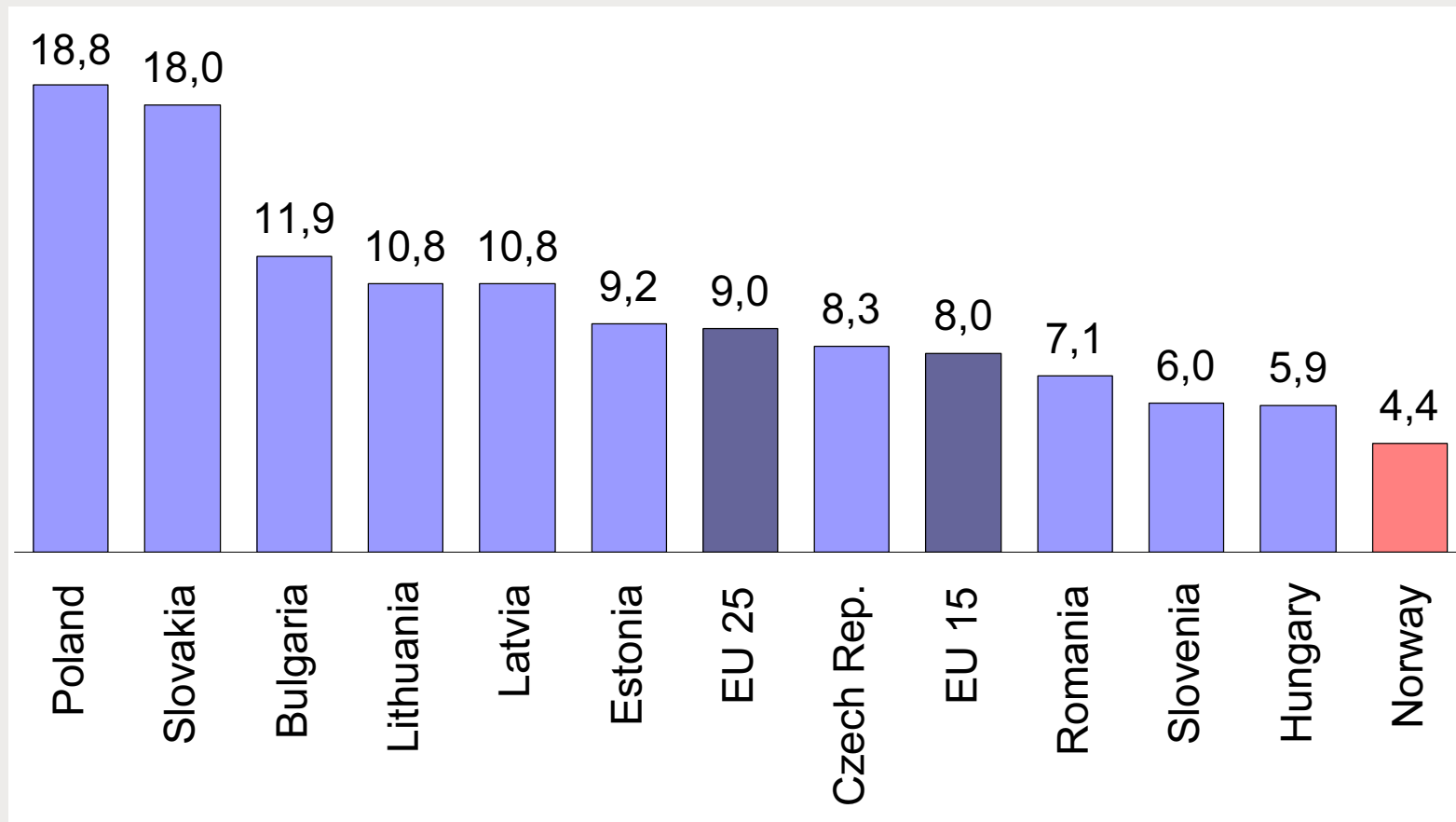


Effective average tax rates and impact of Tax Incentives



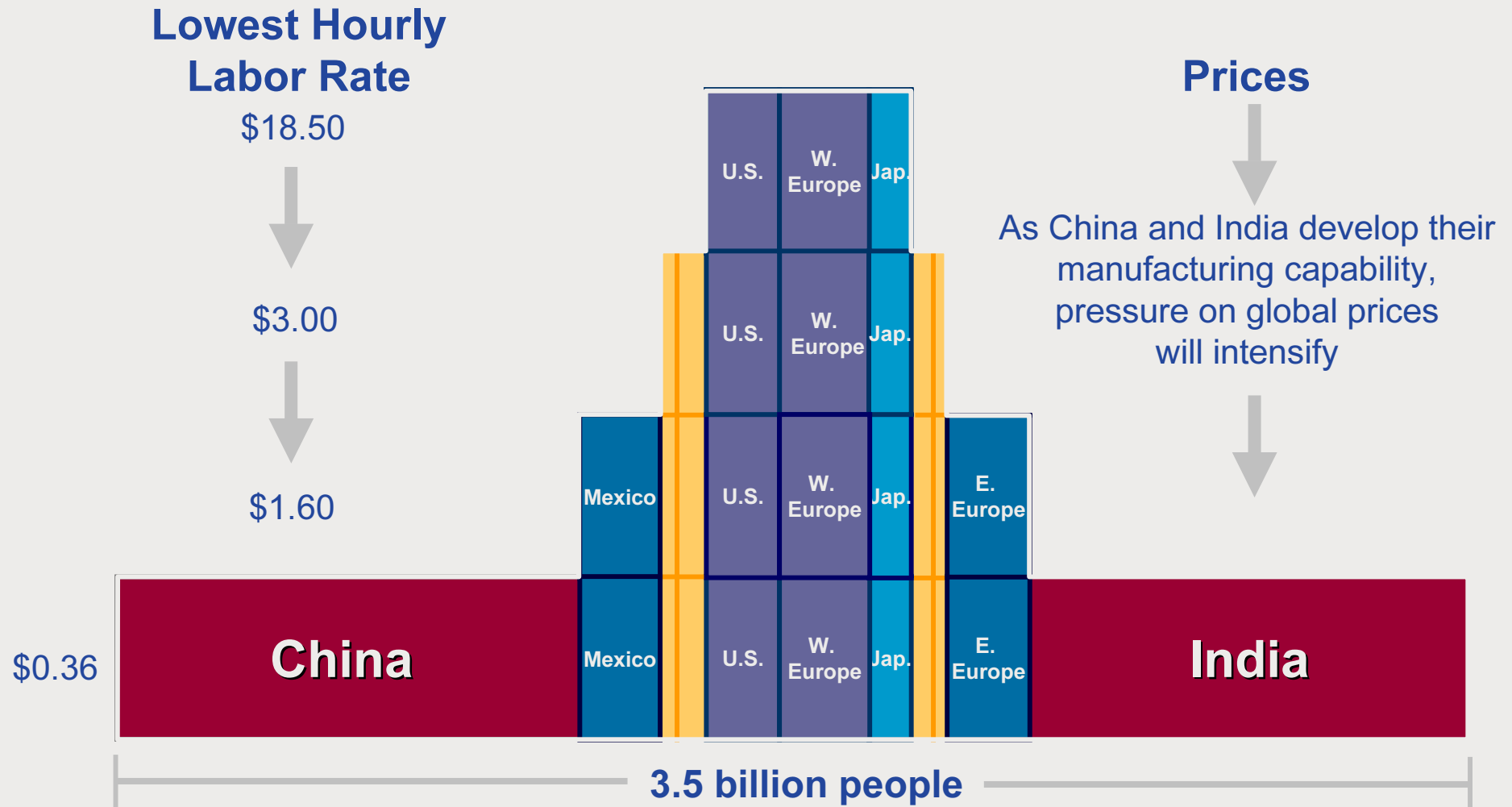
Source: Ernst & Young, Centre for European Economic Research (ZEW)

Unemployment levels in new member countries and in candidate countries year end 2004



Source: Eurostat

The Global Work Force Now Larger and Lower Cost Than Ever



Source: Asimco, 2004-01

Above All, They are Hungry to Grow Some More



2,3 million Chinese bought passenger cars in 2004 and less than 2% of the population own cars. With 7,5% ownership in 2020 this would mean 80 million more cars than today's Chinese passenger car population of 15 million.

Source: Automotive Resources Asia, 2004-01

Questions to Hydro and our response

- Opportunities related to production in the new EU member countries?
 - Aluminium production will not expand due to increasing energy costs and unfavourable logistics related to raw alumina and carbon
 - Aluminium fabrication will grow from existing plants to serve increasing demand in local and global markets
- Barriers related to production in the new EU member countries ?
 - New EU members are welcoming industrial activity and investments – particularly from responsible companies with track record of good corporate conduct
- How about operating costs and productivity ?
 - All our CEE operations are "best in class" relative to our global network of plants wrt productivity, costs and quality

Questions to Hydro and our response

- How does Hydro manage work related cultural differences ?
 - We bring in Hydro experts from other countries to coach local management to apply Hydro values and management principles
 - We install our management and reporting systems and promote best practice sharing with other plants in same industry
- How important is access to relevant people skills and labour in the new member countries for Hydro ?
 - We must train our new colleagues in aluminium specific manufacturing skills
 - Availability of people with good basic vocational training is required
 - We need access to engineers within the fields of metallurgy, process, automation and manufacturing

Questions to Hydro and our response

- What does migration of production to lower cost countries mean for the domestic (Norwegian) base ?
 - When our customers move to lower cost countries they expect us to follow them to provide competitive service and prices – if we don't they shift to local suppliers
 - As customers and competition migrate eastwards we must improve our productivity and reduce our costs at home to stay competitive and profitable
 - The Norwegian base must innovate and renew itself to stay competitive
 - Also Norway must provide a competitive framework for industrial activity – otherwise de-industrialisation will continue

Questions to Hydro and our response

- What are the objectives and strategies of Hydro relative to the above ?
 - We develop and apply best practices to enhance competitiveness also at home
 - Hydro's objective is to create value for its stakeholders
 - We invest to improve our competitiveness where this is value enhancing
 - In the future more of Hydro's production will be in low cost countries
 - We will capitalise on the strengths embedded in our Western European base
 - More innovation and engineering content coupled with high productivity will be key for sustained activity in high cost countries
 - More of our Norwegian colleagues will travel and support operations abroad
 - Only protection for our Norwegian plants is being proactive, innovative and competitive



Hydro Aluminium



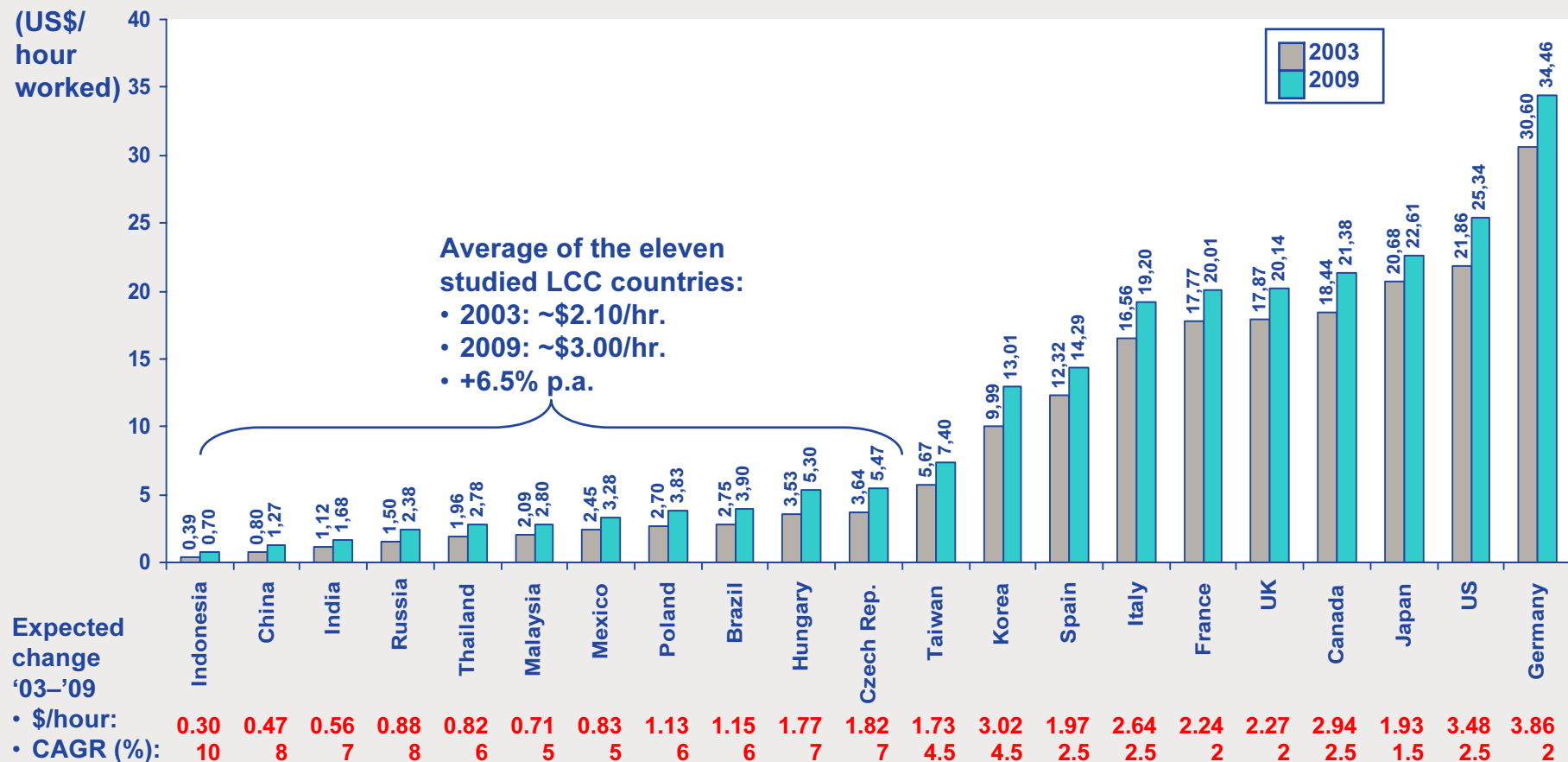
Back up slides May 26, 2005

One year after EU expansion – Hydro experiences from operations in CEE – and plans going forward



Low Cost Countries' labour cost advantage is expected to be significant also in a longer time frame – gap not closing

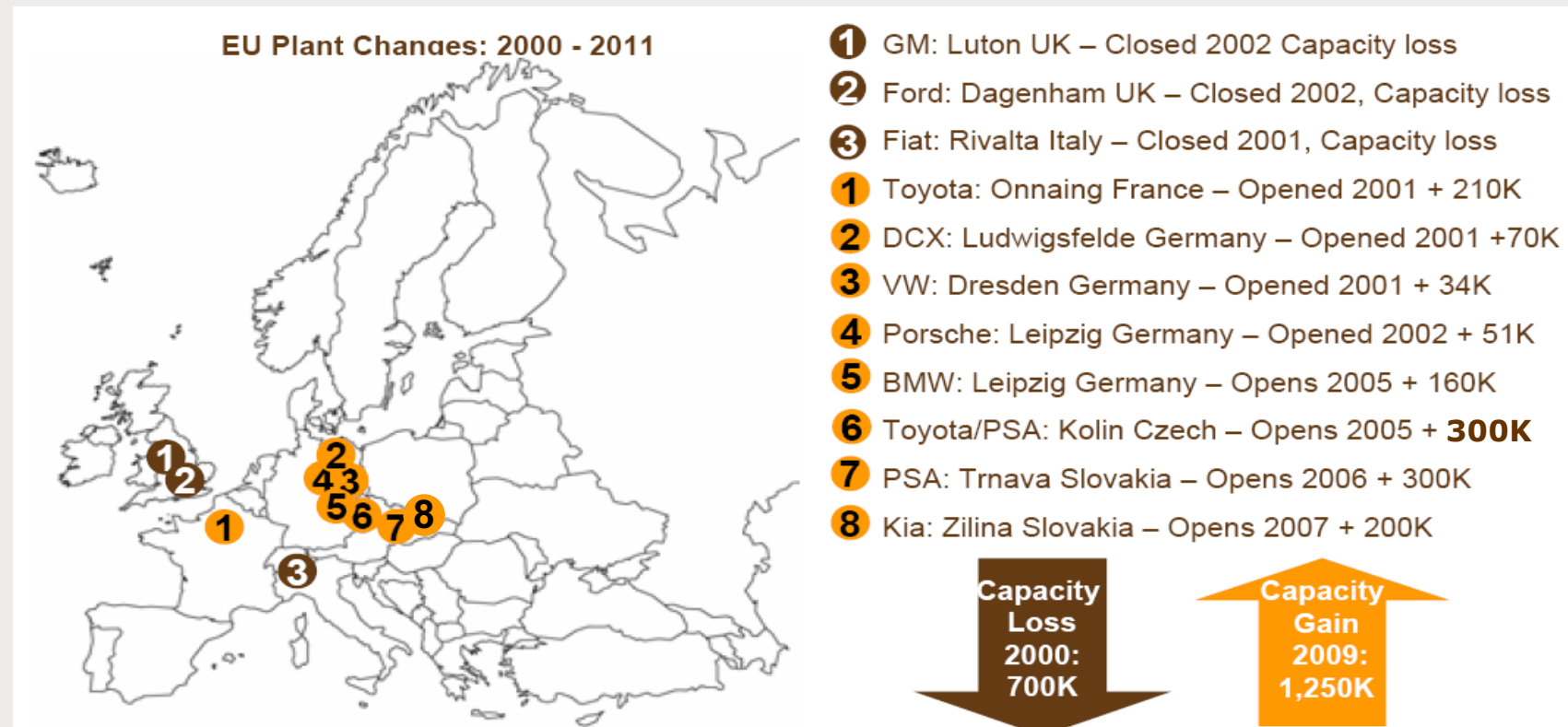
Average hourly compensation of production workers, including benefits (2003 vs. 2009 estimates)



Source: EIU; Euromonitor; S&P DRI; U.S. Department of Labor; BCG analysis

EU Vehicle Assembly Capacity Movements

Clear movement East although less extreme than you might think

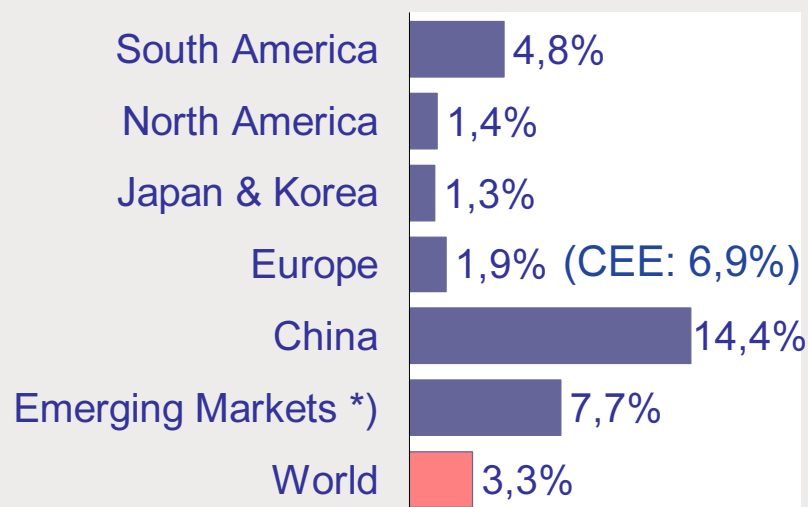


- However, capacity not necessarily moving from West to East as these developments will create a net capacity gain of 640K units.

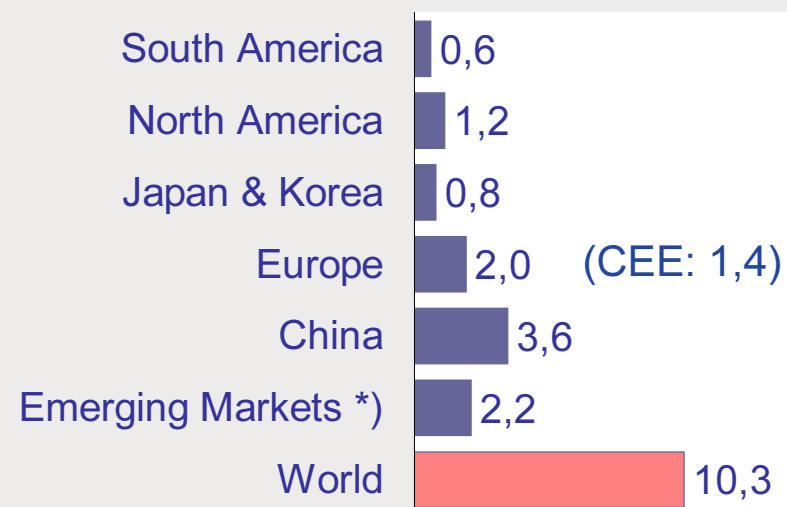
Source: PWC 2004-Q3, Hydro

Light vehicle production growth to 2009 > 70% to occur in Emerging markets and CEE

Regional CAGR 2004-09



Total growth 2004-09 (mill. units)



2004 global production: 59,5 mill. units forecast to be 69,9 mill. units in 2009

Emerging Markets: India, Indonesia, Iran, Malaysia, Philippines, South Africa, Taiwan, Thailand, Australia ;
*) excl. China

Source: CSM 2004-Q4