

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Fiscal Year Ended December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-9159

**NORSK HYDRO ASA**

(Exact name of Registrant as specified in its charter)

Kingdom of Norway

(Jurisdiction of incorporation or organization)

Bygdøy allé 2

N-0240 OSLO 2

Norway

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares	New York Stock Exchange
Ordinary Shares, par value NOK 20 per share	New York Stock Exchange*

\* Not for trading, but only in connection with the registration of the American Depositary Shares, pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: Ordinary Shares, par value NOK 20 per share.

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

259,986,070 Ordinary Shares, par value NOK 20 per share

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

## TABLE OF CONTENTS

ITEM	PAGE
<b>PART I</b>	
Exchange Rates	4
Item 1. Identity of Directors, Senior Management and Advisers	5
Item 2. Offer Statistics and Expected Timetable	5
Item 3. Key Information	5
A. Selected Consolidated Financial Data	5
B. Capitalization and Indebtedness	9
C. Reasons for the Offer and Use of Proceeds	9
D. Risk Factors	9
Item 4. Information on the Company	12
A. History and Development of the Company	12
B. Business Overview	13
C. Organizational Structure	67
D. Property, Plants and Equipment	67
Item 5. Operating and Financial Review and Prospects	68
Item 6. Directors, Senior Managers and Employees	80
A. Directors and Senior Management	80
B. Compensation	84
C. Board Practices	84
D. Employees	84
E. Share Ownership	85
Item 7. Major Shareholders and Related Party Transactions	86
A. Major Shareholders	86
B. Related Party Transactions	87
C. Interests of Experts and Counsel	87
Item 8. Financial Information	88
A. Consolidated Financial Statements and Other Financial Information	88
B. Significant Changes	88
Item 9. The Offer and Listing	89
A. Offer and Listing Details	89
B. Plan of Distribution	90

	C. Markets	90
	D. Selling Shareholders	90
	E. Dilution	90
	F. Expenses of the Issue	90
Item 10.	Additional Information	91
	A. Share Capital	91
	B. Articles of Association	91
	C. Material Contracts	104
	D. Exchange Controls	104
	E. Taxation	104
	F. Dividends and Paying Agents	108
	G. Statement by Experts	109
	H. Documents on Display	109
	I. Subsidiary Information	109
Item 11.	Quantitative and Qualitative Disclosure About Market Risk	109
Item 12.	Description of Securities Other Than Equity Securities	109
	<b>PART II</b>	
Item 13.	Defaults, Dividend Arrearages and Delinquencies	110
Item 14.	Material Modifications to the Rights of Security Holders and Use of Proceeds	110
	<b>PART III</b>	
Item 17.	Financial Statements	111
Item 18.	Financial Statements	111
Item 19.	Financial Statements and Exhibits	111

In this Annual Report on Form 20-F, references to the "Company" are to Norsk Hydro ASA. References to "Hydro" or the "Group" are to the Company and its consolidated subsidiaries. References to the "Kingdom" are to the Kingdom of Norway. See **Item 4.B. "Information on the Company - Business Overview - Exploration and Production - Oil and Gas Terms"** for the definitions of key oil and gas terms used in this Annual Report and the glossary at the end of this Annual Report for the definitions of certain other terms used throughout this Annual Report.

## EXCHANGE RATES

The Company publishes its consolidated financial statements in Norwegian kroner ("NOK"). In this Annual Report, references to "US dollar," "US dollars," "USD" or "\$" are to United States dollars. The following table sets forth, for the periods and the date indicated, certain information concerning the exchange rate of Norwegian kroner for USD 1.00, based on the noon buying rate in the City of New York for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the "Noon Buying Rate"):

Calendar Year Period	Average Noon Buying Rate <sup>(1)</sup>
1996	6.45
1997	7.10
1998	7.56
1999	7.84
2000	8.83

Calendar Monthly Period	Noon Buying Rate	
	High	Low
September 2000	9.4300	9.0725
October 2000	9.5890	9.1269
November 2000	9.5600	9.2020
December 2000	9.2475	8.8010
January 2001	8.9150	8.5940
February 2001	9.0970	8.7275

- (1) The average of the Noon Buying Rates on the last business day of each calendar month during the year indicated.

The Noon Buying Rate on 23 March, 2001 was NOK 9.06 = \$1.00.

Fluctuations in the exchange rate between the Norwegian kroner and the US dollar will affect the US dollar equivalent of the Norwegian kroner price of Hydro's ordinary shares on the Oslo Stock Exchange and, as a result, are likely to affect the market price of Hydro's ordinary shares represented by American depositary shares ("ADSs") in the United States. Such fluctuations could also affect the US dollar amounts received by holders of ADSs on conversion of cash dividends, paid by the Company in Norwegian kroner, on the ordinary shares represented by the ADSs. See **Item 3.A. "Selected Consolidated Financial Data"** and **Item 10.B. "Articles of Association - Description of American Depositary Receipts - Dividends and Other Distributions."**

## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 1 if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 2 if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

### **ITEM 3. KEY INFORMATION**

#### **ITEM 3.A. SELECTED CONSOLIDATED FINANCIAL DATA**

The following financial information with respect to the five years ended 31 December, 2000, and as of 31 December, 2000, 1999, 1998, 1997 and 1996, has been derived from Hydro's audited consolidated financial statements prepared in accordance with United States generally accepted accounting principles ("USGAAP"). The financial information for the three years ended 31 December, 2000, and as of 31 December, 2000 and 1999, should be read in conjunction with and is qualified in its entirety by reference to the consolidated financial statements and notes included in the Company's Annual Report to Shareholders for the year ended 31 December, 2000 (the "Consolidated Financial Statements"), incorporated by reference into this Annual Report on Form 20-F.

## Income Statement Data (1)

	Year ended 31 December,				
	2000	1999	1998	1997	1996
(in NOK million, except per share data)					
Operating revenues (2)	156,861	111,955	105,784	107,725	95,462
Operating costs and expenses excluding depreciation, impairment and restructuring charges (2)	115,722	93,094	92,446	90,197	78,084
Depreciation	12,538	10,494	7,508	6,826	6,725
Provision for impairment and losses	-	-	-	-	1,000
Restructuring charges	135	632	-	-	-
Operating income before financial and other items	28,466	7,735	5,830	10,702	9,653
Financial and other income (expense) (3)	5,580	3,193	2,230	1,360	2,232
Earnings before interest expense and taxes (EBIT)	34,046	10,928	8,060	12,062	11,885
Interest expense and foreign exchange gain (loss)	(3,905)	(3,055)	(2,229)	(1,717)	(1,608)
Income before taxes and minority interest	30,141	7,873	5,831	10,345	10,277
Provision for taxes	(16,178)	(4,337)	(1,979)	(5,092)	(4,053)
Minority interest	18	(90)	(98)	(48)	(20)
Income (loss) before cumulative effect of accounting changes	13,981	3,446	3,754	5,205	6,204
Cumulative effect of accounting change for:					
Start-up costs	-	(30)	-	-	-
Net income (loss)	13,981	3,416	3,754	5,205	6,204
Earnings (loss) per share:					
Before cumulative effect of accounting changes	53.40	13.90	16.40	22.70	27.10
Cumulative effect of accounting changes	-	(0.10)	-	-	-
Earnings (loss) per share:	53.40	13.80	16.40	22.70	27.10
Avg. number of outstanding ordinary shares	261,620,982	247,045,270	229,072,674	229,072,674	229,072,674
Cash dividends paid per share during period:					
NOK per share (4)	8.00	7.50	7.50	7.00	6.00
Translated into USD per share	0.90	0.94	0.99	0.96	0.93

(1) See Note 2 to the Consolidated Financial Statements for a discussion of significant business acquisitions and dispositions during the three-year period ended 31 December, 2000.

(2) Beginning in 2000, operating revenues for certain trading activities are presented on a gross basis in the income statement. Prior years' amounts have been restated to reflect the change. As a result, operating revenues and operating costs have increased by NOK 9,522 million in 1999, NOK 8,316 million in 1998, NOK 10,003 million in 1997 and NOK 9,726 million in 1996. Beginning in 1998, operating revenues and operating costs related to some of Hydro's aluminum remelt activity are presented on a gross basis in the income statement. In prior years, such revenues and costs were presented on a net basis and included in operating revenues. Prior years' amounts have been restated to reflect the change. As a result, operating revenues and operating costs increased by NOK 1,553 million in 1997 and NOK 896 million in 1996.

(3) "Equity in net income of non-consolidated investees" is included under "Financial and other income (expense)."

(4) Cash dividends paid during the period represent payments of dividends with respect to the previous year.

## Balance Sheet Data <sup>(1)</sup>

	As of 31 December,				
	2000	1999	1998	1997	1996
	(in NOK million)				
Cash, cash equivalents and other liquid assets	24,257	9,970	4,429	5,299	6,491
Total assets	196,354	177,419	124,023	115,336	105,464
Short-term debt	11,297	8,268	6,737	8,401	4,956
Long-term debt	40,174	42,228	24,105	17,412	17,330
Deferred tax liabilities	31,644	30,573	18,645	17,930	16,953
Ordinary shares and additional paid in capital	20,391	20,387	8,784	8,784	8,784
Total shareholders' equity	71,227	59,497	48,291	45,717	41,547

(1) See Note 2 to the Consolidated Financial Statements for a discussion of significant business acquisitions and dispositions during the three-year period ended 31 December, 2000.

## Segment Data

The following table indicates the Group's operating revenues, sales to unaffiliated customers and operating income (after eliminating intersegment sales) by business segment for each of the three fiscal years in the period ended 31 December, 2000.

Year ended 31, December	Operating Revenues			Sales to Unaffiliated Customers			Operating Income/(loss)		
	2000	1999	1998	2000	1999	1998	2000	1999	1998
<b>Business Segment (1)</b>									
Exploration and Production	35,494	17,406	10,637	9,436	6,996	3,612	20,108	5,840	2,565
Energy (2)	44,591	20,365	15,002	36,749	16,128	11,179	1,614	944	713
Oil Marketing (2)	4,094	2,652	2,249	4,088	2,648	2,247	55	169	(28)
Eliminations	(29,056)	(12,068)	(8,577)	-	-	-	27	9	10
<b>Hydro Oil and Energy</b>	<b>55,123</b>	<b>28,355</b>	<b>19,311</b>	<b>50,273</b>	<b>25,772</b>	<b>17,038</b>	<b>21,804</b>	<b>6,962</b>	<b>3,260</b>
Aluminium Metal Products	33,534	24,540	25,106	27,157	19,331	19,246	2,821	1,357	1,854
Aluminium Extrusion	15,881	12,081	12,088	15,763	11,974	11,944	691	649	536
Other Light Metals (3)	8,226	7,716	7,869	7,887	7,442	7,629	(143)	216	162
Eliminations	(6,511)	(4,857)	(5,865)	-	-	-	(33)	(43)	25
<b>Hydro Light Metals</b>	<b>51,130</b>	<b>39,480</b>	<b>39,198</b>	<b>50,807</b>	<b>38,747</b>	<b>38,819</b>	<b>3,336</b>	<b>2,179</b>	<b>2,577</b>
Plant Nutrition	33,744	26,799	27,997	31,187	24,776	26,493	990	(2,239)	(582)
Gas and Chemicals	4,776	4,718	4,716	4,569	4,521	4,457	313	349	261
A/S Korn- og Foderstof Kompagniet	10,638	9,756	10,143	10,412	9,558	9,877	(44)	233	375
Eliminations	(2,192)	(1,615)	(1,540)	-	-	-	44	(14)	4
<b>Hydro Agri</b>	<b>46,966</b>	<b>39,658</b>	<b>41,316</b>	<b>46,168</b>	<b>38,855</b>	<b>40,827</b>	<b>1,303</b>	<b>(1,671)</b>	<b>58</b>
Petrochemicals	6,270	5,346	6,028	6,211	5,221	5,851	265	113	229
Other Activities (4)	3,886	3,847	3,759	2,972	2,793	2,609	290	246	(52)
<b>Segments</b>	<b>163,375</b>	<b>116,686</b>	<b>109,612</b>	<b>156,431</b>	<b>111,388</b>	<b>105,144</b>	<b>26,998</b>	<b>7,829</b>	<b>6,072</b>
Corporate	5,158	3,959	4,346	430	567	640	1,478	(101)	(236)
Eliminations (5)	(11,672)	(8,690)	(8,174)	-	-	-	(10)	7	(6)
<b>Total</b>	<b>156,861</b>	<b>111,955</b>	<b>105,784</b>	<b>156,861</b>	<b>111,955</b>	<b>105,784</b>	<b>28,466</b>	<b>7,735</b>	<b>5,830</b>

- (1) See Note 2 to the Consolidated Financial Statements for a discussion of significant business acquisitions and dispositions during the three-year period ended 31 December, 2000.
- (2) As of 1 January 2000, responsibility for the refining and marketing of crude oil and natural gas liquids was transferred to Energy, leaving the marketing of refined oil products within Oil Marketing. Prior years' amounts have been restated to reflect this change.
- (3) "Other Light Metals" consists of Hydro Aluminium Rolled Products, Hydro Automotive Structures and Hydro Magnesium.
- (4) "Other Activities" consists of Pronova, Technology and Projects and Industrial Insurance.
- (5) In "Corporate," operating income includes the net effect of the overfunding of certain pension schemes by NOK 315 million, NOK 393 million and NOK 524 million in 2000, 1999 and 1998, respectively. In 2000, Hydro changed the way it allocates pension costs to its Norwegian operations. Costs are now charged based on pension benefits accruing evenly over employees' service periods. Previously, costs were determined based on the number of years of service, resulting in a concentration of the total costs towards the end of employees'

service periods. The change in the allocation of pension costs resulted in non-recurring charges to the segments with a corresponding credit of NOK 1,824 million reflected in Corporate. Part of these pension costs has been charged to external parties resulting in a positive effect to the Company's operating income and EBITDA of NOK 470 million. In 1999, Hydro began allocating a larger portion of corporate costs to the operating segments. In 1999, such amount was NOK 396 million.

### **ITEM 3.B. CAPITALIZATION AND INDEBTEDNESS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 3.B. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

### **ITEM 3.C. REASONS FOR THE OFFER AND USE OF PROCEEDS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 3.C. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

### **ITEM 3.D. RISK FACTORS**

In order to utilize the "safe harbor" provisions of the United States Private Securities Litigation Reform Act of 1995, Hydro is providing the following cautionary statement:

This Annual Report contains (and oral communications made by or on behalf of Hydro may contain) forecasts, projections, estimates, statements of management's plans, objectives and strategies for Hydro, such as planned expansions, investments or other projects, targeted production volumes, capacity or rate, start-up costs, cost reductions, profit objectives, and various expectations about future developments in Hydro's markets (particularly prices, supply and demand, and competition), results of operations, margins, risk management and so forth. These forward-looking statements are based on a number of assumptions and forecasts, including world economic growth and other economic indicators (including rates of inflation and industrial production), trends in Hydro's key markets, and global oil and gas, aluminum and fertilizer supply and demand conditions. By their nature, forward-looking statements involve risk and uncertainty and various factors could cause Hydro's actual results to differ materially from those projected in a forward-looking statement or affect the extent to which a particular projection is realized. The following paragraphs include important factors, although not exhaustive, that may cause actual results or developments to differ materially from those expressed or implied by the forward-looking statements.

#### ***Hydro's commodity-based businesses are subject to fluctuations in operating results.***

In the normal course of business, Hydro is exposed to fluctuations in supply and demand, which can have significant effects on commodity prices across essentially all of its core business areas and products – oil and gas, electricity, aluminum, magnesium and petrochemicals – and, in turn, the Company's operating results and profitability. Prices for oil and gas, for example, are subject to wide fluctuations in response to changes in the supply of and demand for oil and gas, market uncertainty and other factors that are beyond Hydro's control. These factors include:

- political conditions in oil producing regions, including the Middle East;
- the ability of the members of the Organization of Petroleum Exporting Countries (OPEC) to agree and maintain oil price and production controls;
- actions of governmental authorities;

- the level of consumer demand;
- the price, availability and acceptance of alternative fuels; and
- overall economic conditions.

In recent years, markets for some of Hydro's main products have been characterized by falling prices, unstable exchange rates, weaker global demand and rising inventories. In this type of environment, Hydro's ability to maintain historic levels of profitability may depend to a great degree on the Company's ability to reduce costs (including the costs of raw materials) and increase productivity levels, as well as reposition itself within higher value-added market segments.

***Hydro's oil and gas operations are subject to higher effective tax rates than its other business activities.***

In October 1999 Hydro's management announced the Company's intended strategic focus on its core business areas, including its oil and gas operations. Hydro derived approximately 77 percent, 90 percent and 56 percent of its overall operating income from its Oil and Energy business area in 2000, 1999 and 1998, respectively. Hydro's profits from domestic (that is, Norwegian) oil and gas production are subject to Norwegian income taxes at a marginal rate of 78 percent. Accordingly, to the extent Hydro's operating revenues and earnings from its domestic oil and gas activities represent a higher percentage of its overall operating revenues and earnings, the Company's effective tax rate will likely be higher.

***Hydro's future performance depends on the ability to develop additional oil and gas reserves that are economically recoverable.***

In general, production from oil and natural gas properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. Hydro's Oseberg and Gullfaks fields (both located on the Norwegian Continental Shelf), the two largest contributors to the Company's oil production, are both in the decline phase of their oil production. Unless Hydro successfully replaces the reserves that it produces, its reserves will decline, eventually resulting in a decrease in oil and natural gas production and lower revenues and cash flow from operations.

Historically, Hydro has succeeded in increasing reserves after taking production into account through exploration and development activities. Hydro has conducted such activities through our interests in existing oil and gas properties, as well as through interests in newly licensed properties. Hydro is continually identifying and evaluating opportunities to acquire interests in oil and gas properties, particularly in locations beyond the Norwegian Continental Shelf (such as in Angola, Canada and Russia). Evaluating properties for their recoverable reserves of oil and natural gas entails the assessment of geological, engineering and production data, some or all of which may prove to be unreliable. Accordingly, Hydro cannot assure you that it will be able to acquire interests in producing oil and gas properties that contain economically recoverable reserves or that any acquisition will be profitably integrated into Hydro's operations.

***Estimates of Hydro's oil and gas reserves are uncertain and may prove inaccurate.***

There are numerous uncertainties inherent in estimating quantities of proved reserves and their values, including many factors beyond the control of the producer. The reserve data included in this Annual Report represents only estimates. Reservoir engineering is a subjective and inexact process of estimating underground accumulations of oil and gas that cannot be measured in an exact manner. Estimates of economically recoverable oil and gas reserves depend on a number of variable factors, including historical production from the area compared with production from other producing areas, and assumptions concerning:

- the effects of regulations by governmental agencies;
- future oil and gas prices;
- future operating costs; and
- development costs.

Some or all of these assumptions may vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of oil and natural gas attributable to any particular group of properties, classifications of those reserves based on risk of recovery, and estimates of the future net cash flows from reserves prepared by different engineers or by the same engineers but at different times may vary substantially. Accordingly, reserve estimates may be subject to downward or upward adjustment. Actual production, revenues and expenditures with respect to Hydro's reserves will likely vary from estimates and those variances may be material.

***Hydro's exploration and production operations involve a high degree of business and financial risk.***

Exploration and development for oil and gas involves a high degree of risk that hydrocarbons will not be found or that they will not be found in commercial quantities. The 3-D seismic data and other appraisal technologies Hydro uses do not allow the Company to know conclusively prior to drilling a well that oil or gas are present or economically feasible. The cost of drilling, completing and operating a well is often uncertain, especially when drilling offshore, and cost factors can adversely affect the economics of a project. Drilling operations may be curtailed, delayed or canceled as a result of factors outside of the Company's control. Further, completion of a well does not guarantee that it will be profitable or even that it will result in recovery of drilling, completion and operating costs.

***Hydro's expansion of business activities in emerging geographic markets presents a higher degree of risk.***

Hydro is exposed to general financial, political, economic and business risks in connection with its worldwide operations. In recent years, Hydro has made investments and commenced activities in various emerging markets, including Angola and Brazil. While emerging markets offer strong growth potential, they also present a higher degree of risk than more developed markets. In addition to the business risks inherent in developing and servicing new markets, economic conditions may be more volatile, legal systems less developed and predictable, and the possibility of various types of adverse government action more pronounced.

***Governmental and environmental regulations could adversely affect Hydro's business.***

Hydro's business is subject to laws and regulations, in each of the countries in which the Company operates, governing the exploration for and development, production and marketing of oil and gas. Many laws and regulations require drilling permits and govern the spacing of wells, rates of production, prevention of waste, unitization and pooling of properties and other matters. These laws and regulations have increased the costs of planning, designing, drilling, installing, operating and abandoning Hydro's oil and gas wells and other facilities. In addition, these laws and regulations, and any others that are passed by the jurisdictions where Hydro has production, could limit the total number of wells drilled or the allowable production from successful wells, which could limit our revenues.

Hydro's operations are also subject to complex environmental laws and regulations adopted by the various jurisdictions in which the Company operates. Hydro could incur liability to governments or third parties for an unlawful discharge of oil, gas or other pollutants in to the air, soil or water, including responsibility for remedial

costs. In its petrochemicals business, Hydro is a major producer of polyvinyl choride (PVC). PVC has been the focus of environmental groups due to alleged negative health and environmental effects arising from the production, use and disposal of PVC. Because the requirements imposed by laws and regulations are frequently changed, Hydro cannot provide assurance that the laws and regulations enacted in the future, including changes to existing laws and regulations, will not adversely affect its business.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **ITEM 4.A. HISTORY AND DEVELOPMENT OF THE COMPANY**

Norsk Hydro ASA was organized under Norwegian law as a public company in 1905 to utilize Norway's large hydro-electric energy resources for the industrial production of nitrogen fertilizers. Energy, in the form of hydro-electric power, natural gas and petroleum, has been the basis for Hydro's growth and is the common link among its core business activities. Hydro's core business areas and the business segments within each area are as follows:

<u>Business Area</u>	<u>Segments</u>
Oil and Energy	Exploration and Production, Energy, and Oil Marketing
Light Metals	Aluminium Metal Products, Aluminium Extrusion and Other Light Metals
Agri	Plant Nutrition, Gas and Chemicals and A/S Korn-og Foderstof Kompagniet (KFK)

In addition, Hydro is in the petrochemicals business and is engaged in other activities more fully described in Item 4.B.

As a public company organized under Norwegian law, the Company is subject to the provisions of the Norwegian Act relating to Public Limited Liability Companies (the Norwegian Public Limited Companies Act). See the disclosure under **Item 10.B. "Additional Information - Articles of Association - Description of Ordinary Shares"** for a more complete discussion of the certain provisions of the Norwegian Public Limited Companies Act.

The Company's principal executive offices are located at Bygdøy allé 2, N-0240 Oslo 2, Norway; telephone number: 011-47-22-53-21-00. The Company's registered agent in the United States is Kendrick T. Wallace, Esq., whose address is c/o Norsk Hydro Americas, Inc., 100 North Tampa Street, Suite 3300, Tampa, Florida 33802; telephone number: (813) 222-5700.

Over the last three years, the Company's single most significant capital expenditure has been in connection with its acquisition of all of the outstanding ordinary shares Saga Petroleum ASA (Saga), an independent oil and gas exploration and production company (based in Norway), in mid-1999. Hydro's acquisition of Saga amounted to NOK 16.3 billion, effected through Hydro's issuance of 37.5 million ordinary shares and a cash payment of NOK 4,629 million. For information concerning the effects of the Saga acquisition, as well as additional information concerning Hydro's principal capital expenditures, see the discussions with respect to each of the business segments under Item 4.B of this Annual Report, as well as the information incorporated by reference to the "Financial Review" section (pages 44 to 64) of the Company's 2000 Annual Report to Shareholders, which has been filed as an exhibit to this Annual Report.

## **ITEM 4.B. BUSINESS OVERVIEW**

### **OIL AND ENERGY**

#### **Exploration and Production**

Exploration and Production is responsible for Hydro's world-wide oil and gas exploration, field development and operation of production and transportation facilities.

As is common in the oil and gas industry, Hydro participates in exploration and production activities with several co-venturers. Hydro's partners in these ventures include other oil and gas companies, state-owned oil and gas companies and other government entities. Contractual arrangements among partners are generally governed by an operating agreement, which provides for costs, entitlements to production and liabilities to be shared among the partners according to their respective percentage interests in the particular field or license area. One of the partners is normally appointed as the operator of the field activities and, as such, conducts operations under the overall supervision and control of an operating committee consisting of representatives from each participant in the field.

Operating agreements generally provide for liabilities to be borne by the partners according to their respective participating interests. Exploration and production licenses issued by the relevant government authorities enable the partners to initiate exploration and production activities. Such licenses generally provide that the partners are jointly and severally liable for their obligations to the government authorities under the applicable license.

Hydro has, as of 31 December, 2000, an interest in 108 licenses on the Norwegian Continental Shelf (NCS) and is an operator of 51 of these licenses. Hydro also has owner interests in four areas on the NCS, with a total of 12 additional optional licenses, five of them as operator. The options will be exercised if the partnerships agree upon exploration drilling. Each of the optional licenses may become a license under normal license conditions if the area partners, subsequent to a seismic evaluation, find the optional license sufficiently valuable enough to commit to an exploration well. In addition, Hydro is involved in exploration and production activities in several countries abroad, mainly in Angola, Canada, Libya and Russia, and is currently establishing a presence in Iran. Information about Hydro's interest, the field operator, the timing of production start-up, production and reserves, for its most important fields is presented in the tables located on pages 21 and 22.

In 2000, Hydro's oil production represented 78 percent of total oil and gas production, compared with 78 and 79 percent in 1999 and 1998, respectively.

#### **Strategy**

Hydro will focus its exploration and production strategy for the coming years on:

- growing Hydro's Norwegian and international exploration and production activities to what it perceives to be a critical size;
- balancing Hydro's portfolio of interests in oil and gas fields, both geographically (i.e., between the NCS and international locations) and in terms of cost of development; and
- effecting cost improvements to improve profitability.

### *Achieving Critical Size*

It is Hydro's view that size is important to ensure cost-efficient operations and to have necessary capacity, both in terms of competencies and financial strength, to exploit new areas successfully. Accordingly, an important element of Hydro's growth strategy is to concentrate its efforts and ensure that the new basins Hydro enters have sufficient production potential and can be pursued aggressively. The acquisition of Saga Petroleum in mid-1999 increased Hydro's proved reserves by 40 percent and resulted in an increase in production of approximately 25 percent in 1999. Saga's related production activities were included only in the second half of 1999. On a full-year basis, the increase in production would have been approximately 45 percent in 1999. The acquisition was an important step to realize synergies on the NCS and to build a stronger platform for international growth.

Hydro has announced a goal of achieving a production level of 800,000 barrels of oil equivalents per day by 2010. This is an ambitious goal, considering that Hydro anticipates average total oil and gas production of approximately 435,000 barrels of oil equivalents per day in 2001. Nonetheless, the goal is seen as within Hydro's reach based on Hydro's existing portfolio, including production from fields in production and under development, resources still to be developed and successful future exploration within Hydro's present exploration acreage.

### *Balancing the Portfolio*

Today, approximately 92 percent of Hydro's oil and gas production is on the NCS. Hydro's position on the NCS is strong and provides several exciting opportunities. Due to the anticipated restructuring of the Norwegian State's Direct Financial Interest (SDFI), Hydro will likely be invited to bid on interests in fields, most likely on Hydro-operated fields. In addition, Hydro believes the growth prospects for Norwegian gas into Europe are excellent and perceives the exploration opportunities in the less mature areas in the mid- and northern part of the NCS to be exciting. However, taking into account Hydro's current market share and the maturity of the southern part of the NCS, Hydro believes that its growth prospects are greater internationally than on the NCS. This belief is reflected in Hydro's exploration priorities in 2001, which anticipate higher exploration expenditures internationally than on the NCS.

Hydro's technological competence, applying leading-edge reservoir and development solutions as operator of 12 oil and gas producing fields in hostile environments offshore Norway, has provided a solid basis for international expansion. Hydro intends to focus its international exploration and production activities in four to six core areas, each with a potential to reach a minimum production level of 50,000 barrels of oil equivalents per day. Hydro aspires to build a portfolio which, in addition to deepwater, offshore activities, includes low cost, onshore activities, to ensure a balanced portfolio from a development cost standpoint.

To date, Angola and Canada's east coast have been the primary locations of Hydro's international exploration and production activities. Other areas of activity are Northwest Russia, Libya (as a result of the merger with Saga in 1999) and Western Iran, where Hydro anticipates it will dedicate approximately 20 percent of its international exploration budget in 2001. In addition, Hydro has farmed-in to a deep-water license offshore Trinidad and Tobago.

Hydro is currently actively reviewing opportunities to swap its interests in licenses on the NCS for interests in overseas basins. Portfolio optimization seems to be high on the agenda of several oil companies following extensive merger activities in recent years. Several companies have expressed an interest in increasing their positions on the NCS, providing opportunities to establish win-win situations.

### ***Cost Improvements***

In its effort to provide shareholders with a competitive return on investment over the long term, Hydro will continue to pursue cost improvements in its exploration and production activities. In 1999/2000, Hydro's main focus was on realizing synergies by integrating Saga into Hydro. The integration of the two companies resulted in an overall staff reduction of approximately 770 people, representing 20 percent of the employees in the oil and energy organizations of Hydro and Saga, on a pre-acquisition basis. In addition, synergies have been identified from the combined organization's increased purchasing power and alignment of procurement strategy.

Hydro's goal is to reduce the five-year average finding and development cost to below USD 5 per barrel of proved reserves added (from the current level of approximately USD 8 per barrel) through a combination of measures, including entering low cost areas, more focused exploration activities, shortening the time period between discovery and production, and more active portfolio management.

### **Competitive Strengths**

#### ***Position on the NCS***

Hydro currently operates 15 platforms and three subsea installations, which represent a production of approximately 1.1 million barrels of oil per day, over one-third of Norwegian oil production. In terms of equity production and reserves, Hydro is the third largest interest holder, following the SDFI and the Norwegian state-owned company, Statoil. Hydro intends to maintain a strong position on the NCS and has stated an interest in acquiring interests in fields on the NCS from the SDFI, provided that such interests can be acquired on acceptable commercial terms. Higher interests in fields operated by Hydro would enhance efforts being made to increase value and provide a better platform for portfolio optimization, including potential swap arrangements to pursue international ambitions. The Norwegian Parliament has not yet determined either the magnitude or the timing of the SDFI sale. A decision is expected in mid-April 2001, and the process of selling SDFI interests will most likely begin in the second or third quarter of 2001.

#### ***Promising International Positions***

##### ***Angola***

Angola, whose offshore oil production is expected to surpass one million barrels of oil per day in 2001, represents a core area for Hydro. Hydro has participated in Angola's oil and gas industry since 1991. Hydro intends to play a key role in the development of a national petroleum industry in Angola over the next 5-10 years. Training of Angolan nationals and transfer of management and technology competence from Hydro's activities on the NCS represent important elements of this strategy. Implementation will be carried out under a technical assistance agreement entered into with Sonangol, the Angolan state-owned oil company, which provides that Hydro will support and train Sonangol Pesquisa e Pruducão, S.A.R.L, the upstream operating organization in Sonangol, in its position as operator on the ultra-deep water Block 34.

##### ***Canada***

Hydro entered a strategic alliance with Petro-Canada in 1996 (a swap for certain Hydro interests in licenses on the NCS) to participate in oil production from proven fields and actively explore for further oil discoveries on the Grand Banks and the Scotian Shelf on Canada's east coast.

### *Russia*

Hydro's oil and gas business development in Russia, which has been ongoing for 11 years, has focused on the Northwest regions. The progress for the Khariaga and Shtokman fields now support Hydro's more cautiously optimistic view for further business development in the north west of Russia.

### *Libya*

In Libya, Hydro has interesting non-operator positions in one producing field (Mabruk) and three exploration licenses. Hydro's participation in Libya is under consideration, both with respect to geological potential and total risk assessment. It is too early to predict the date this assessment will be finalized.

### *Iran*

In Iran, Hydro entered into an exploration contract with the National Iranian Oil Company (NIOC) for the Anaran Block, containing the Changuleh discovery, in April 2000, the first such onshore contract entered into by the NIOC with a Western company. Hydro opened its Exploration & Production International office in Tehran in November 1999.

## Oil and Gas Terms

The following terms have the meanings indicated below unless the context indicates otherwise:

Term	Definition
"boe"	Barrels of oil equivalents.
"boed"	Barrels of oil equivalents per day.
"bcf"	Billions of cubic feet.
"cf"	Cubic feet.
"condensate"	Light hydrocarbon substances produced with natural gas which condense into liquid at normal temperatures and pressures associated with surface production equipment.
"LPG"	Liquefied petroleum gas.
"NGLs"	Oil and gas condensate and natural gas liquids.
"proved reserves"	The estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty (using a 90 percent probability threshold) to be recoverable in future years from known reservoirs under existing economic and operating conditions.
"proved developed reserves"	Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing natural forces and mechanisms or primary recovery are included as "proved developed reserves" only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.
"proved undeveloped reserves"	Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion, but does not include reserves attributable to any acreage for which an application of fluid injection or other improved recovery techniques is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation.
"Sm <sup>3</sup> "	Standard cubic meters. For purposes of converting quantities of natural gas cited in this Annual Report, 1 Sm <sup>3</sup> = 35.3147 cubic feet.

## **Reserve Information**

At the end of 2000, Hydro's share of proved developed reserves of oil and gas was estimated to be 1,231 million boe, of which gas reserves accounted for approximately 52 percent. These developed reserves consisted of 588 million boe of oil (including NGL and condensate) and 3,644 bcf of gas.

Hydro's share of proved undeveloped reserves accounted for an additional 809 million boe, of which gas reserves accounted for approximately 52 percent. Proved undeveloped reserves consisted of 388 million boe of oil and 2,360 bcf of gas.

The following tables set forth Hydro's net quantities of proved oil and gas reserves as of 31 December, 2000, 1999 and 1998, and Hydro's net production of oil (including oil and gas condensate and NGL) and gas for each of the three years in the period ended 31 December, 2000. Hydro's accounting records and operating data state quantities of oil in terms of millions of boe and gas in terms of bcf.

Reserve quantities reflect estimated quantities of crude oil, natural gas and NGLs that are demonstrated with reasonable certainty to be recoverable from known reservoirs under existing economic and operating conditions. Reserve quantities are revised as oil and gas are produced and additional data becomes available.

## Oil Reserves and Production

<i>In millions of boe</i>	2000			1999			1998		
	Norway	Int'l	Total	Norway	Int'l	Total	Norway	Int'l	Total
<b>Proved reserves, developed and undeveloped:</b> <sup>(1) (2)</sup>									
At beginning of year	837	153	990	546	92	638	587	93	680
Revisions of previous estimates <sup>(3)</sup>	49	(1)	48	22	1	23	33	-	33
Purchase (sale)/exchange of reserves in place <sup>(4)</sup>	12	(39)	(27)	229	56	285	-	-	-
Extensions and new discoveries <sup>(5)</sup>	32	52	84	131	10	141	3	-	3
Production	(110)	(9)	(119)	(91)	(6)	(97)	(77)	(1)	(78)
At end of year <sup>(6)</sup>	820	156	976	837	153	990	546	92	638
<b>Of which developed:</b>									
At beginning of year	500	74	574	358	17	375	356	19	375
At end of year	555	33	588	500	74	574	358	17	375

## Gas Reserves and Production

<i>In billions of cubic feet (bcf)</i>	2000			1999			1998		
	Norway	Int'l	Total	Norway	Int'l	Total	Norway	Int'l	Total
<b>Proved reserves, developed and undeveloped:</b> <sup>(1)</sup>									
At beginning of year	5,928	211	6,139	4,312	-	4,312	4,481	-	4,481
Revisions of previous estimates <sup>(3)</sup>	173	7	180	37	-	37	(55)	-	(55)
Purchase (sale)/exchange of reserves in place <sup>(7)</sup>	22	(203)	(181)	1,511	222	1,733	-	-	-
Extensions and new discoveries <sup>(8)</sup>	48	-	48	207	-	207	2	-	2
Production	(167)	(15)	(182)	(139)	(11)	(150)	(116)	-	(116)
At end of year	6,004	-	6,004	5,928	211	6,139	4,312	-	4,312
<b>Of which developed:</b>									
At beginning of year	2,444	211	2,655	2,015	-	2,015	2,143	-	2,143
At end of year	3,644	-	3,644	2,444	211	2,655	2,015	-	2,015

<sup>(1)</sup> For the definition of proved, developed and undeveloped reserves, see "Oil and Gas Terms" on page 17. For additional information on government rights and production restrictions, see "Government Regulation."

<sup>(2)</sup> Oil reserve estimates are before payment-in-kind royalty of approximately 3.8, 8.8 and 11 million boe for 2000, 1999 and 1998, respectively.

<sup>(3)</sup> The revision of previous estimates relates to new information from current year drilling operations and additional data which now is available. In 1998, Hydro increased its interest in Snorre from 8.265 percent to 8.926 percent, due to redetermination.

<sup>(4)</sup> In 2000, the decrease in oil reserves outside Norway was due to the sale of the U.K. portfolio. The increase in Norway was due to increased interest in the Grane field and purchase of reserves in the Tune field. In 1999, the increase in oil reserves was due to the inclusion of Saga's oil reserves. In 1998 oil reserves were neither purchased nor sold.

- <sup>(5)</sup> In 2000, extensions and new discoveries for oil related to the Fram and Glitne fields, the minor field, STUJ, and the Dalia field in Angola. In 1999, extensions and new discoveries for oil were related to the Grane and Borg fields, and the Khariaga field in Russia. In 1998, extensions and new discoveries related to the Sygna and Brage Sognefjord fields.
- <sup>(6)</sup> In 2000, reserve estimates included 156 million boe from outside the NCS, mainly in Canada, Angola, Russia and Libya. In 1999, reserve estimates included 153 million boe from outside the NCS, mainly in the U.K., Canada and Angola. Reserve estimates included 93 million boe outside the NCS, in Canada and Angola for 1998.
- <sup>(7)</sup> In 2000, the decrease in gas reserves outside Norway was due to the sale of the U.K. portfolio. The increase in Norway was due to purchase of reserves in the Tune field. In 1999, the increase in gas reserves was due to the inclusion and increase in ownership interest from the Saga acquisition. In 1998, gas reserves were neither purchased nor sold.
- <sup>(8)</sup> In 2000, extensions and new discoveries for gas related to the Fram and STUJ fields. In 1999, extensions and new discoveries for gas related to the Kvitebjørn and Tune fields. In 1998, extensions and new discoveries for gas related to the Brage Sognefjord field.

**Proved Reserves**  
as of 31 December, 2000

Field	Block	Operator	Hydro's % interest	Hydro's share			Production Start
				Total Millions of boe	Oil/NGL in millions of boe	Gas in billions of cubic feet	
Oseberg fields	30/6, 30/9	Hydro	19.60 - 32.02	293	139	846	1988
Gulfaks fields	34/10, 33/12	Statoil	9.00	62	35	148	1986
Ekofisk fields	2/4, 2/5, 2/7	Phillips Petroleum	5.81 - 6.65	106	85	115	1971
Snorre fields	34/4, 34/7, 33/9	Hydro	5.98 - 17.65	160	150	48	1992
Brage	31/4, 30/6, 31/7	Hydro	23.20 - 24.44	9	8	1	1993
Troll	31/2, 31/3, 31/5, 31/6	Hydro / Statoil	9.78	665	75	3,423	1995 1996
Sleipner fields	15/6, 15/9, 16/7	Statoil	8.85 - 10.00	74	18	305	1993
Njord	6407/7,10	Hydro	22.50	12	12	0	1997
Norne	6608/10, 6508/1	Statoil	8.10	31	26	29	1997
Visund	34/8, 34/7	Hydro	20.30	91	43	244	1999
Åsgard	6407/2, 6506/11,12, 6507/11	Statoil	9.60	150	64	487	1999
Varg	15/12	Hydro	35.00	1	1	-	1998
Grane	25/11	Hydro	24.40	127	127	-	2003
Tune	30/8, 30/5, 30/6	Hydro	30.00	24	5	106	2002
Kvitebjørn	34/11	Statoil	15.00	49	9	211	2004
Fram Vest	35/11	Hydro	25.00	23	19	22	2003
Vale	25/4	Hydro	28.53	6	4	16	2001
Other fields				1	0	3	
<b>Total Norway</b>				<b>1,884</b>	<b>820</b>	<b>6,004</b>	
Hibernia	Grand Banks, Canada	HMDC*	5.00	17	17	-	1997
Terra Nova	Grand Banks, Canada	Petro-Canada	15.00	32	32	-	2001
Girassol	Block 17, Angola	TotalFina Elf	10.00	38	38	-	2001
Dalia	Block 17, Angola	TotalFina Elf	10.00	34	34	-	2004
Khariaga	Timan Pechora, Russland	TotalFina Elf	40.00	26	26	-	1999
Mabruk	Sirte Basin, Libya	TotalFina Elf	25.00	9	9	-	1995
<b>Total International</b>				<b>156</b>	<b>156</b>		
<b>Total</b>				<b>2,040</b>	<b>976</b>	<b>6,004</b>	

\* HMDC: Hibernia Management Development Company

## 2000 Production of Oil and Gas

Field	Operator	Hydro's % interest	Hydro's share		
			Total millions of boe	Oil/NGL in millions of boe	Gas in billions of cubic feet
Oseberg fields	Hydro	19.60 - 32.02	31	29	11
Gullfaks fields	Statoil	9.00	10	9	5
Frigg fields	TotalFina Elf	6.05 - 19.99	2	-	8
Ekofisk fields	Phillips Petroleum	5.81 - 6.65	10	8	9
Brage	Hydro	23.20 - 24.44	4	4	2
Snorre fields	Hydro	5.98 - 17.65	20	19	4
Sleipner fields	Statoil	8.85 - 10.00	11	4	40
Troll	Hydro/Statoil	9.78	27	12	86
Njord	Hydro	22.50	6	6	-
Norne	Statoil	8.10	5	5	-
Visund	Hydro	20.30	3	3	-
Varg	Hydro	35.00	4	4	-
Yme	Statoil	25.00	2	2	-
Åsgard	Statoil	9.60	5	5	2
<b>Total Norway</b>			<b>140</b>	<b>110</b>	<b>167</b>
Hibernia	HMDC*	5.00	3	3	-
Khariaga	TotalFina Elf	40.00	1	1	-
Mabruk	TotalFina Elf	25.00	1	1	-
Alba	Chevron UK Ltd.	11.75	2	2	-
Britannia	Britannia Operation Ltd.	9.01	3	1	15
Gryphon	Kerr McGee North Sea (UK) Ltd.	25.00	1	1	-
Thistle fields	BP Amoco Exploration	18.28 - 41.67	-	-	-
<b>Total International</b>			<b>11</b>	<b>9</b>	<b>15</b>
<b>Total</b>			<b>151**</b>	<b>119</b>	<b>182</b>

\* HMDC: Hibernia Management Development Company

\*\* Total daily production in 2000 is 413,400 boe.

## Exploration

The following tables reflect the number of exploratory oil and gas wells drilled by Hydro as of 31 December, 2000. The first table represents all the exploratory wells drilled during the years indicated, and the second table represents the exploratory wells in the process of being drilled.

### Drilling Activity

	Norway			International			Total			
	2000	1999	1998	2000	1999	1998	2000	1999	1998	
Exploratory	productive <sup>(1)</sup>	6	5	5	6	5	2	12	10	7
	dry <sup>(2)</sup>	8	13	10	7	11	6	15	24	16

### Present Drilling Activities

As of 31 December, 2000		Norway		International		Total	
Exploratory	gross <sup>(3)</sup>		2		2		4
	net <sup>(4)</sup>		1		-		1

- 1) Productive well: an exploratory well that is not a dry well.
- 2) Dry well: an exploratory well found to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well.
- 3) Gross well: a well in which a working interest is owned.
- 4) Net well: sum of fractional ownership working interests in gross well which = 1.

### Norway

Hydro participated in 14 exploration and appraisal wells that were completed on the NCS during 2000. Nine discoveries were made, of which six were classified as commercial discoveries. In addition to these 14 wells, two exploration wells were still in the process of drilling at year-end 2000. One of these has been classified as non-commercial in 2001.

In the 16th licensing round on the NCS, the Norwegian governmental authorities awarded Hydro operatorship in three new licenses and a participating interest in two others. All these licenses are located in the Haltenbanken area in central Norway.

In the summer of 2000 the Norwegian governmental authorities announced the 2000 North Sea licensing round, and in March 2001 Hydro was awarded a participating interest in one area containing eight blocks.

The evaluation of the Ormen Lange gas field, at a water depth of 1,000 meters, continued throughout 2000. The Ormen Lange gas field covers production licenses 208, 209 and 250. Hydro will be the operator for the development phase of the field, while Norske Shell will be the operator in the production phase. The earliest date for a Plan for Development and Operation (PDO) will be late 2002. Production start-up is scheduled for late 2006. In processing and submitting the PDO in 2002, Hydro will have to consider the many variables that may affect its ability to sell Ormen Lange gas volumes at acceptable prices beginning in 2006.

## *International*

Hydro was involved in international exploration activities in eight countries in 2000: Angola, Canada, Russia, the U.K., Libya, Iran, Malaysia and the Faeroes. Hydro participated in the drilling of three appraisal and ten exploration wells that were completed during 2000. Three exploration discoveries were made, all expected to have a commercial potential pending further appraisal. Three successful appraisal wells were drilled, two in Angola and one in Canada.

In Angola, Hydro has a ten percent interest in Block 17, where the Girassol oil discovery was made in early 1996. Following the Girassol discovery, several discoveries have been made in Block 17. In 1997, substantial oil discoveries in the Dalia area were made with expected sanctioning in 2001. In 1998, the Rosa and Lirio discoveries were made. In 1999 and 2000, six additional discoveries were made by the exploration wells Tulipa-1, Orquidea-1, Cravo-1, Camelia-1, Jasmim-1 and Perpetua-1. The exploration period on Block 17 has been extended to the end of 2002, and, as a result, further exploration and appraisal activities are expected to continue. In 1998, Hydro signed a Production Sharing Agreement (PSA) with the Angolan authorities for a ten percent interest in Block 9. The first exploration well drilled in 2000 was dry. In 1999, Hydro signed a PSA for a 27.5 percent interest in Block 5. As a part of the Saga acquisition, Hydro obtained a 14 percent interest in the shallow water Block 1. Minor discoveries had been made in this block previously, but the two exploration wells drilled in 2000 were dry and the block has now been relinquished. Hydro is currently negotiating a PSA with respect to ultra-deep water Block 34. Hydro expects that a PSA will be executed in the spring of 2001 and provide Hydro with a 30 percent participating interest.

In Canada, Hydro entered into a strategic alliance and a swap agreement with Petro-Canada during late 1996 covering the Grand Banks area off the coast of Newfoundland. As part of this alliance, Hydro received 30 percent of Petro-Canada's interests in all significant discovery areas in the Jeanne d'Arc Basin and participating interest in the fields, Hibernia (5 percent), Terra Nova (15 percent), and Hebron (10.2 percent), in exchange for assets on the NCS. In 1998, four exploration licenses on the Grand Banks off the coast of Newfoundland were awarded with Hydro having a 25 percent participation share. In 1998, Hydro signed a farm-in agreement for four licenses with Pan Canadian on the Scotian Shelf. In the spring of 1999, Hydro was awarded two deep water licenses on the Scotian Shelf, with working interests of between 20 percent and 22.5 percent. In the fall of 1999 Hydro was awarded three licenses in the Flemish Pass Basin on the Grand Banks. Hydro has a working interest of 40 to 50 percent in these licenses. Major seismic 3D programs were acquired with respect to these blocks in the summer of 2000, and detailed seismic mapping is planned in 2001 to prepare for deep water drilling in 2002-2003. Hydro participated in drilling of two exploration wells and one appraisal well in Canada in 2000. The two exploration wells were both dry wells. The appraisal well was drilled on the Hebron/Ben Nevis discovery on the Grand Banks and verified the oil resources on the Ben Nevis level, as well as the existence of further resources in the deeper section.

In Russia, Hydro is involved in the early phases of several exploration projects. Future financial commitments with respect to these projects, if any, will be dependent on pending negotiations with the Russian governmental authorities and evaluation of the projects' risk. Hydro is participating in projects which aim to explore and develop oil reserves in the Pechora Sea and the onshore Timan Pechora area, located in Northwest Russia. Hydro is also part of a group that is engaged in the technical and commercial evaluation of the major Shtokman gas field in the Barents Sea. Russian governmental authorities approved Shtokman as a project for which a Production Sharing Agreement can be negotiated.

Through the purchase of Saga in 1999, Hydro acquired exploration interests in Libya and potential exploration projects in Iran. In Libya, Hydro has a 20 percent interest in the Murzuk exploration licenses, NC186 and NC187, which during 1999 were amended to include a larger area, Murzuk north. Extensive seismic interpretations were conducted in both 1999 and 2000 by the operator, Repsol, to prepare drillable prospects for drilling in

2000. The first exploration well drilled on the NC186 license in the fall of 2000 was successful, and the well-tested oil rate was 2,500 barrels per day. The discovery has resulted in plans for a more aggressive drilling program in 2001. During 2000, Hydro's position in Iran was developed further. The first exploration well on the exploration contract with respect to the Anaran block in Western Iran will be spudded in the autumn of 2001.

In addition, Hydro's "new venture" activity has resulted in a farm-in agreement with respect to Block 27 of a 19 percent participating interest in deep water Trinidad and Tobago, with the first well scheduled for the summer of 2001. The agreement is subject to approval by governmental authorities.

## Development

Field	Type of Field	Approved for Development <sup>4)</sup>	Production Scheduled to Commence	2000	
				Estimated Investment	Hydro's share
(In NOK billion)					
<i>Norway</i>					
Tune	Gas/Condensate	December 1999	Year 2002	2.7	0.9
Snorre Phase 2 <sup>2)</sup>	Oil/Gas	June 1998	July 2001	15.1	3.9
Gulfaks Satellites Phase 2	Gas	July 1998	October 2001	10.7	1.0
Kvitebjørn	Gas/Condensate	July 2000	October 2004	9.4	1.8
Grane	Oil/Gas	June 2000	October 2003	18.0	5.0
Vale	Gas/Condensate	March 2001	December 2001	0.9	0.3
Fram Vest	Oil/Gas	March 2001	October 2003	4.5	1.2
<i>International</i>					
Terra Nova <sup>1), 3)</sup>	Oil	January 1998	Autumn 2001	17.2	3.5
Girassol	Oil	July 1998	4th quarter 2001	23.1	2.6

<sup>1)</sup> Hydro's share is exclusive of Hydro's carrying obligation to Petro-Canada.

<sup>2)</sup> Snorre B Platform.

<sup>3)</sup> Located off the coast of St. John's, Newfoundland.

<sup>4)</sup> For the fields on the NCS a PDO is a document for approval for development and operation.

In 2000, Hydro invested NOK 7,926 million in the development of new and existing fields and transportation systems compared with NOK 8,433 million and NOK 6,167 million in 1999 and 1998, respectively, excluding acquisition costs. In addition, Hydro transferred exploration costs of NOK 336 million, NOK 235 million and NOK 333 million to fields being developed in 2000, 1999 and 1998, respectively. Snorre Phase 2, Oseberg South, Terra Nova and Åsgard were the four most important development projects in 2000.

A summary of the fields under development, the operator, and Hydro's shares of reserves is set forth in the preceding tables. For information about the developments of Oseberg South, Heimdal, and Åsgard fields, please refer to the "Production" section below.

## *Norway*

**Tune Field.** The Norwegian governmental authorities approved the PDO for the Tune gas/condensate field in December 1999. The field will be developed with a subsea frame and four wells which will be tied in to the Oseberg D platform for processing of the well stream. Production is planned to commence in 2002. The total investment is estimated to be approximately NOK 2.7 billion, of which Hydro's share is expected to be NOK 0.9 billion.

**Snorre Field.** The authorities approved the PDO for Phase 2 of the Snorre Field in June 1998. Production from the new Snorre B platform is scheduled to begin in July 2001, with a production capacity of 113,000 barrels of oil per day. Oil will be piped to Statfjord B for storage and transport, while gas will be injected in the reservoir or transported to Snorre A to the Statpipe system. The total investment is estimated to be approximately NOK 15.1 billion, of which Hydro's share is expected to be NOK 3.9 billion.

**Gullfaks Satellites Phase 2.** The authorities approved the PDO for the Phase 2 development of the Gullfaks Satellites in July 1998, covering production of gas commencing in October 2001. The total investment is estimated to be approximately NOK 10.7 billion, of which Hydro's share is expected to be NOK 1.0 billion.

**Kvitebjørn Field.** The authorities approved the PDO for development of the Kvitebjørn gas/condensate field in July 2000. The gas and condensate from Kvitebjørn will be piped to the Kollsnes gas terminal and the Mongstad terminal, respectively. The total investment is estimated to be approximately NOK 9.4 billion, of which Hydro's share is expected to be NOK 1.8 billion. Production is scheduled to commence in October 2004.

**Grane Field.** The authorities approved the PDO for the development of the Grane oil field in June 2000. Production is scheduled to begin in October 2003. The plan is to transport the oil from Grane through a pipeline to the Sture Terminal in Øygarden, Norway. Gas for injection in the field will be imported from the Heimdal Gas Center. In April 2000, the authorities approved the agreement under which Hydro purchased from Statoil an additional 2.5 percent share in license 169, providing Hydro with an increased interest of 2 percent in the Grane field. The total investment is estimated to be approximately NOK 18.0 billion, of which Hydro's share is expected to be NOK 5.0 billion.

**Vale Field.** A PDO for the development of the Vale gas/condensate field was approved by the authorities in March 2001. Production is expected to begin in December 2001. The field will be developed as a satellite to Heimdal. The total investment is estimated to be approximately NOK 0.9 billion, of which Hydro's share is expected to be NOK 0.3 billion.

**Fram Vest Field.** A PDO for the development of the Fram Vest oil field was approved by the authorities in March 2001. Production is expected to start in October 2003. Oil and associated gas will be piped to the Troll C platform for processing and the oil will be further transported to Mongstad. It is expected that gas will be reinjected for six years, and after this period transported to the Kollsnes gas terminal. The total investment is estimated to be approximately NOK 4.5 billion, of which Hydro's share is expected to be NOK 1.2 billion.

## *International*

**Terra Nova Field.** The Terra Nova field is located off the coast of St. John's, Newfoundland. The Canadian government authorities approved a plan for development in January 1998. Production is scheduled to begin in the autumn of 2001. The total investment is estimated to be approximately NOK 17.2 billion. Hydro's share of the investment, exclusive of its carry obligation to Petro-Canada is expected to be NOK 3.5 billion. In addition, Hydro has carried a part of Petro-Canada's investments in Terra Nova as part of the swap agreement entered into in 1996.

**Girassol Field.** The Girassol field on Block 17 in Angola was declared commercial in November 1997. The Angolan authorities sanctioned a plan for development in July 1998. Production of oil is scheduled to begin from a floating production unit in the fourth quarter of 2001. The total investment is estimated to be approximately NOK 23.1 billion, of which Hydro's share is expected to be NOK 2.6 billion.

**Dalia Field.** Concept selection for the Dalia field development on Block 17 in Angola was decided in 2000. The recommended concept is a subsea production system tied back to a FPSO (Floating Production and Storage Off loading unit) with a production capacity of 200,000 barrels of oil per day.

## **Production**

### **Productive Wells**

The following table shows the number of gross and net productive oil and gas wells in which Hydro had interests as of 31 December, 2000. A "gross" well is one in which a whole or fractional working interest is owned. The number of "net" wells is the sum of the whole or fractional working interests in gross wells. Productive wells are producing wells or those capable of production.

### **Number of productive crude oil and natural gas wells as of 31 December, 2000**

Type of well		Norway <sup>(1)</sup>	International	Total
Crude oil	gross	475.0	59.0	534.0
	net	58.5	13.2	71.7
Natural gas	gross	58.0	-	58.0
	net	6.7	-	6.7

<sup>1)</sup> 9 wells with multiple completions (more than one formation producing into the same well bore). If one of the multiple completions in a well is an oil completion, the well is classified as an oil well.

## Production of Oil and Gas

The following table sets forth Hydro's share of average daily production of oil and gas for each of the two years in the period ended 31 December, 2000.

<i>In thousands of boed</i>	<b>2000</b>	<b>1999</b>
<b>Field</b>	<b>Hydro's shares</b>	<b>Hydro's share</b>
<i>Norway</i>		
Oseberg fields	83.8	62.5
Troll	73.6	57.6
Snorre fields <sup>1)</sup>	55.1	47.6
Sleipner fields	31.4	31.2
Gullfaks fields	27.6	31.8
Ekofisk fields	26.7	23.0
Njord	15.2	13.6
Norne	14.5	11.6
Åsgard	14.1	6.1
Brage	12.0	17.1
Varg	10.5	5.6
Visund	7.9	2.2
Yme	4.9	3.4
Frigg	4.1	3.0
Heimdal <sup>2)</sup>	-	1.2
<b>Total Norway</b>	<b>381.4</b>	<b>317.5</b>
<i>International</i>		
Britannia <sup>3)</sup>	9.2	7.5
Hibernia	7.2	5.0
Alba <sup>3)</sup>	5.5	4.6
Khariaga	3.9	0.6
Gryphon <sup>3)</sup>	2.6	2.5
Mabruk	2.5	1.2
Thistle fields <sup>3)</sup>	1.1	1.0
<b>Total International</b>	<b>32.0</b>	<b>22.4</b>
<b>Total</b>	<b>413.4</b>	<b>339.9</b>

<sup>1)</sup> Includes Snorre, Tordis, Vigdis, Stattjord East, Sygna fields

<sup>2)</sup> Closed down temporarily October 1999

<sup>3)</sup> U.K. fields sold in August 2000

A summary of the largest producing fields, the field operator, Hydro's interest and Hydro's share of the 2000 production is set forth in the preceding tables.

## *Norway*

**Oseberg Fields.** The Oseberg fields are the largest contributors to the Group's oil production. Production started from Oseberg Field Center in December 1988, and from the Oseberg C platform in September 1991. Production from these installations reflects the decline phase of the Oseberg fields. Oseberg East went on stream in May 1999. The gas processing and export platform, Oseberg D, started operations in October 1999, and gas export commenced in October 2000. Production from the Omega North wells in Oseberg South started in February 2000, and from the Oseberg South Platform in September 2000. The total investment for Oseberg South is estimated to be approximately NOK 10.9 billion, of which Hydro's share is approximately NOK 4.7 billion. The oil from the area is brought ashore by pipeline from Oseberg to the Sture terminal in Norway. The average daily production from the Oseberg fields in 2000 was approximately 347,000 barrels per day, compared to 350,000 barrels per day in 1999. Hydro's share of production in 2000 was approximately 78,000 barrels per day. Daily average gas export in the fourth quarter of 2000 was 515 million cf per day.

**Troll Field.** Oil production started from the Troll B floating production unit in September 1995. The oil is transported to Mongstad through the Troll Oil Pipeline 1. The Troll C floating production unit started production in October 1999. A new pipeline, Troll Oil Pipeline 2, was constructed for transportation of oil from Troll C to Mongstad. Associated gas is routed to Troll A for further transport to the Kollsnes gas terminal in Norway. The total average daily oil production from Troll in 2000 was approximately 327,000 barrels per day in 2000, compared to 228,000 barrels per day in 1999. Hydro's share of oil production in 2000 was approximately 32,000 barrels per day.

Gas production from the Troll A platform commenced in October 1996. The gas is piped to treatment facilities at the Kollsnes gas terminal, where condensate is separated from the gas. The dry gas is exported to the European continent through the Zeepipe / Statpipe / Norpipe / Franpipe pipelines. The average daily gas production in 2000, including gas associated with oil production, was approximately 2,385 million cf per day, compared with 2,470 million cf per day in 1999. Hydro's share of gas production was 237 million cf per day. For more information, see "Transportation of Oil and Gas." The Troll-Oseberg subsea gas producing unit in the Troll field (TOGI), for which Hydro is operator, was in operation only in February and March of 2000, due to sufficient gas available for injection at Oseberg most of the year.

### **Snorre Fields**

The Snorre fields include Snorre, Tordis, Vigdis, Statfjord East, and Sygna fields.

**Snorre Field.** Production of oil and associated gas from the Snorre field commenced in August 1992. The oil and gas is piped to the Statfjord field for further processing and transportation. In 2000, oil production from the Snorre field averaged approximately 154,000 barrels per day, compared to 165,000 barrels per day in 1999. Hydro's share of the production in 2000 amounted to 29,000 barrels per day.

**Tordis Fields.** Production of oil and gas from the Tordis field commenced in June 1994. The oil is processed on Gullfaks C. Oil production from Tordis peaked in 1996 and started to decline in 1997, as expected, due to increased water production. However, tie-in of Tordis East in December 1998 and Borg in July 1999 have maintained the plateau level through the Tordis facility. The Tordis Extension 2 project, involving water injection wells, is expected to increase production on the Tordis fields. Injection from the first well started in the summer of 2000. In 2000, the average daily production from the Tordis fields was approximately 71,000 barrels per day, compared to 78,000 barrels per day in 1999. Hydro's share of the production in 2000 was about 9,000 barrels per day.

**Vigdis Field.** Production of oil and gas from the Vigdis field commenced in January 1997. The oil is processed on the Snorre platform and piped to Gullfaks A for storage and transportation. In 2000, the average daily production from the Vigdis field was approximately 79,000 barrels per day, compared to 85,000 barrels per day in 1999. Hydro's share of the production in 2000 was about 11,000 barrels per day.

**Statfjord East.** The Statfjord East field, which is tied back to the Statfjord C platform, started production in 1994. In 2000, average oil production was about 51,000 barrels per day, compared to 65,000 barrels per day in 1999. Hydro's share of the production in 2000 was about 3,000 barrels per day.

**Sygna Field.** Production started in August 2000 from the Statfjord C platform. The total investment is estimated to be approximately NOK 1.7 billion, of which Hydro's share is NOK 198 million. In 2000 the average daily production was 11,000 barrels per day, of which Hydro's share was 650 barrels per day.

**Sleipner Fields.** The Sleipner East field started gas and condensate production in October 1993. Production from the Gungne satellite began in April 1996, and from the Loke Trias satellite in the third quarter of 1999. The condensate and gas production from Sleipner West started in August 1996. In 2000, the average production from the Sleipner Fields was 114,000 barrels of condensate and 1,181 million cf of gas per day, compared to 132,000 barrels and 1,080 million cf per day in 1999. Hydro's share of the production in 2000 was around 110 barrels of condensate and around 110 million cf of gas per day. The operator has endeavored to resolve problems related to removal of CO<sub>2</sub> from the Sleipner West gas. However, the gas exports are not affected by the problem as the gas is mixed with gas from Sleipner East. All Sleipner East reserves and most of Sleipner West reserves will be sold under the Troll gas contracts. Transportation rights have been secured through existing transportation systems.

**Gullfaks Fields.** Gullfaks field started production in 1986 and is developed with three integrated platforms with concrete substructures. The fields, Gullfaks West, Gullveig, Rimfaks and Gullfaks South, have been developed as satellites. The oil is transported by oil tankers from the field. The gas is transported through the Statpipe pipeline to the Kårstø terminal. In 2000, average daily oil production was about 283,000 barrels per day, compared to 337,000 barrels per day in 1999. Hydro's share of the production in 2000 was about 25,000 barrels per day.

**Ekofisk Fields.** Production from the Ekofisk fields started in 1971. Subsidence of the seabed around the Ekofisk complex was initially observed in 1984, the result of gradually decreasing reservoir pressure. To prevent the subsidence from influencing production, several measures were undertaken: water injection to maintain pressures and the jacking up of platform decks (in 1987); and the construction of a protection wall around the concrete tank (in 1989). During 1998 the old processing platforms were shut down, and new facilities, Ekofisk II, started production in August 1998. The production still suffers from problems with Ekofisk II, specifically, with the gas compression equipment system. Accordingly, less gas production has been realised, whereas oil production has improved, gradually reaching 390,000 barrels per day in January 2000. In 2000, the average production of oil and gas from the Ekofisk area was approximately 331,000 barrels of oil and 380 million cf of gas per day, compared to 288,000 barrels of oil and 350 million cf of gas per day in 1999. Hydro's share of the production in 2000 was approximately 22,000 barrels of oil and 25 million cf of gas per day. Abandonment of the satellite platforms has started and alternatives are being discussed for extending the lifetime of the centrally located Ekofisk I and Eldfisk platforms so as to increase both well potential and production. Likewise, de-bottlenecking of the Ekofisk II facilities is ongoing. The gas output from Ekofisk up to 2011 has been contracted to be sold through long-term contracts to a group of gas distributors in Germany, the Netherlands, Belgium and France. Negotiations are ongoing regarding terms and conditions for gas export from 2011 through the end of license period in 2028.

**Njord Field.** Production commenced in October 1997. The field installation consists of a floating production unit and a tanker for storage and loading of oil. Gas produced is injected to maintain reservoir pressure. Average

daily production in 2000 was approximately 67,000 barrels of oil per day, compared to 61,000 barrels per day in 1999. Hydro's share of the production in 2000 amounted to approximately 15,000 barrels per day.

**Norne Field.** Production of oil started in November 1997. The field consists of a production and storage ship. In 2000 the average daily production was 179,000 barrels per day, compared to 143,000 barrels per day in 1999. Hydro's share of the production in 2000 was 15,000 barrels per day. Gas handling facilities and a gas transportation pipeline for the associated gas have been installed. Production into this pipeline, which is connected to Åsgard Transport, started in February 2001.

**Åsgard Unit.** Åsgard Unit covers the three fields, Midgard, Smørbukk and Smørbukk Sør. The Åsgard Unit owners are also responsible for capital expenditures associated with some of the extension and upgrading of the Kårstø gas treatment terminal. The total investment for the field developments, wells and terminal is estimated to be approximately NOK 56.9 billion. Hydro's share of the investment is expected to be NOK 7.4 billion. Oil production started from Åsgard in May 1999. In 2000, oil production was approximately 138,000 barrels of oil per day, compared to 67,000 barrels per day in 1999. Hydro's share of the production in 2000 was around 13,000 barrels per day. The floating production, storage and off loading unit has an oil processing capacity of approximately 200,000 barrels per day. Gas production started from the Åsgard B platform into the Åsgard Transport trunk line in October 2000. Since start up, average gas export has been considerably lower than delivery commitments due to technical problems. Consequently it has been necessary to enter into regularity arrangements with the Troll, Oseberg and Gullfaks owners during the fourth quarter of 2000 and the first quarter of 2001. The gas is planned to be redelivered during the second and third quarters of 2001. It is expected that Åsgard will produce as planned by the end of the third quarter of 2001.

**Brage Field.** Production from the Brage field began in September 1993. The oil is transported to the Sture terminal via Oseberg Field Center. In 2000, the average production was approximately 47,000 barrels of oil per day, compared to 67,000 barrels per day in 1999. Hydro's share of production in 2000 was approximately 11,000 barrels per day. The production from the main reservoir is in the decline phase.

**Varg Field.** The field is developed with an unmanned wellhead platform combined with a production and storage ship. The processed oil is exported by shuttle tankers. Gas which is not used to generate electricity is injected into the reservoir to improve oil recovery. The production ship was sold in the summer of 1999, and is now leased back to the license from the new owner. In 2000, average oil production was about 30,000 barrels per day, the same production level as in 1999. Hydro's share of the production in 2000 was about 10,000 barrels per day.

**Visund Field.** Visund contains both oil and gas reserves. In the first phase of production, which started in April 1999, only oil is being exported from the floating production unit with a design capacity of 100,000 barrels of oil per day. The oil is stored in and shipped from Gullfaks C. In 2000, the average daily production from Visund was approximately 39,000 barrels per day, compared to 11,000 barrels per day in 1999. Hydro's share of the production in 2000 was 8,000 barrels per day. An accelerated development of the northern reservoir with a subsea installation started in 2000.

**Yme Field.** The Yme field includes the Yme Gamma, Beta East and Beta West fields. The oil is stored in a storage tanker prior to shuttle transportation to the Mongstad refinery for final processing. The gas is reinjected into the reservoir. Production from the Yme field will be stopped in April 2001. In 2000, average oil production was about 20,000 barrels per day, compared to 27,000 barrels per day in 1999. Hydro's share of the production in 2000 was about 5,000 barrels per day.

**Frigg Fields.** The Frigg field straddles the border line between the Norwegian and the United Kingdom sectors of the North Sea. Gas production from the Frigg field, which started in 1977, has been in the decline phase of production for several years. East Frigg gas production stopped in December 1997, Lille-Frigg production

stopped in late March 1999 and Frøy production will be stopped in March 2001. It is currently anticipated that the reserves from Frigg will be fully depleted between 2002 and 2004. Future production will be insignificant. The full carrying value of Hydro's investment in the Frigg fields has been written down in prior years due to low remaining production and high operating costs. In 2000 the average production from the Frigg fields was approximately 5,000 barrels of oil/condensate and 133 million cf of gas per day, compared to 9,000 barrels and 81 million cf per day in 1999. Hydro's share of the production in 2000 was approximately 300 barrels of oil/condensate and 21 million cf of gas.

**Heimdal Field.** Hydro took over as operator from Elf on 1 January, 1998. Production from the Heimdal reservoir closed down temporarily in October 1999. The Heimdal partners have decided to use Heimdal as a gas centre to deliver third party processing services and act as a distribution point for gas transportation. Heimdal has been reconstructed to serve as a gas processing and distribution centre. The reconstruction included modifications to the existing platform and construction of a riser platform. Six users, Huldra, Vale, Skirne, Vesterled, Grane and Oseberg Gas Transport, have entered into agreements for tie-in and use of the Heimdal platform. Total development cost is estimated at NOK 1.8 billion. Hydro's share is estimated to be NOK 310 million. Heimdal Gas Center started processing gas from Oseberg in October 2000. On completion of the modifications, scheduled for second quarter 2001, the plan is to start up the production of the remaining Heimdal reserves.

### *International*

**Hibernia Field.** The Hibernia field is located in the Grand Banks area off the east coast of Newfoundland in Canada. Oil production came on stream in November 1997. In 2000 average daily production reached 144,000 barrels per day, compared to 100,000 barrels per day in 1999. Hydro's share of the production in 2000 amounted to 7,000 barrels per day.

**Khariaga Field.** The Khariaga field is located in Northwest Russia. The Russian authorities entered into a PSA under which production commenced in October 1999. Hydro's share in the PSA is 40 percent. However, Hydro has entered into a farm-out agreement with Lukoil which will reduce Hydro's share in the project to 30 percent. This farm-out is dependent on Russian Federation approval. In 2000, the average daily production reached 11,000 barrels per day. Hydro's share amounted to 4,000 barrels per day (net after the Russian government's take).

**Mabruk Field.** The Mabruk field is located in Libya. Production started in 1995. Hydro became owner of a 25 percent share in the license through the acquisition of Saga. Hydro's share is defined in the Development and Production Sharing Agreement entered into with the National Oil Company in Libya. Average daily production from the field in 2000 was 18,000 barrels per day, of which Hydro's share was approximately 2,500 barrels per day (net after the Libyan government's take).

**U.K. Fields.** Hydro completed the sale of its oil and gas interests on the United Kingdom Continental Shelf to Conoco (U.K.) Limited in August 2000 for a total consideration of USD 540 million excluding net operating capital. The portfolio included Hydro's interests in the Britannia, Alba and Gryphon fields, and several exploration licenses, acquired through Hydro's purchase of Saga Petroleum. Given Saga's position in the U.K., it was difficult to identify an aggressive exploration or acquisition strategy where Hydro would have had the necessary competitive advantage for sustained profitable growth. The transaction generated a pre-tax gain of NOK 387 million.

### **Marketing of Production**

Exploration and Production sells most of its oil and liquid gas production to Hydro Energy. In addition, Hydro Energy also markets dry gas for Exploration and Production on a commission basis.

## Transportation of Oil and Gas

Hydro has an interest in all major pipelines for the transportation of oil and gas from the NCS and in the corresponding land terminals, as set forth in the table below.

Pipeline	End Point	Length (km)	Hydro's interest (%)
Norsea Gas A/S (gas) <sup>(1)</sup>	Ekofisk - Emden (Germany)	440	4.63
Norpipe Oil A/S (oil) <sup>(1)</sup>	Ekofisk - Teesside (U.K.)	335	3.50
Statpipe (gas)	Statfjord - Ekofisk - Kårstø (Norway)	880	10.00
Oseberg Transport System (OTS) (oil) <sup>(2)</sup>	Osberg - Sture (Norway)	115	22.23
Zeepipe phases 1 & 2 (gas) <sup>(1)</sup>	Troll - Sleipner - Zeebrugge (Belgium)	1,300	8.00
Europipe (gas)	Troll - Sleipner - Emden (Germany)	600	8.00
Frostpipe (oil)	Frigg - Oseberg (Norway)	82	13.75
Sleipner East NGL pipeline (NGL)	Sleipner - Kårstø (Norway)	245	10.00
Troll Oil 1 & 2	Troll - Mongstad (Norway)	85	9.73
Franpipe (gas) <sup>(1)</sup>	Draupner (16/11 S/E) - Dunkerque (France)	840	11.65
Netra (gas)	Etzel (Germany) - Salzwedel (Germany)	292	6.20
Åsgard Transport (gas)	Åsgard - Kårstø (Norway)	730	9.60
Europipe 2 (gas)	Kårstø (Norway) - Dornum (Germany)	653	15.36
Oseberg Gas Transport (OGT) <sup>(2)</sup>	Oseberg - Heimdal (Norway)	108	22.23
Vesterled <sup>(2),(3)</sup>	Heimdal - St-Fergus (UK)	364	13.86
Norne Transport <sup>(3)</sup>	Norne- Åsgard (Norway)	128	8.01

(1) Hydro has a 4.63 percent interest in the terminals at Emden, a 5.3 percent interest in the Teesside oil and condensate terminal, a 32.87 percent interest in the St. Fergus gas terminal, a 5.39 percent interest in the gas terminal at Zeebrugge and a 7.57 percent interest in the Dunkerque gas terminal.

(2) Hydro is operator for the OTS, OGT and Vesterled.

(3) Pipeline is under construction.

In general, Hydro's transportation interests are approximately equal to Hydro's share in the oil and gas fields on which the transportation systems are based. The pipelines can also be used for transportation of oil and gas for companies that do not have an ownership interest in the pipelines, and this will become increasingly important as new fields are developed in the vicinity of existing infrastructure.

The carrying value of Hydro's share in transportation systems and associated terminal and processing facilities was NOK 12.1 billion at the end of 2000. Most transport agreements are based on a tariff per unit transported which covers the operating costs of the transport system plus a return on the capital invested. Tariffs must be approved by the Norwegian government.

The first phase of the Zeepipe gas pipeline, from the Sleipner field to Zeebrugge in Belgium, was completed in 1993. The Europipe gas pipeline to Emden in Germany was completed in 1995. Phases 2A and 2B of Zeepipe, to link the Zeepipe and Europipe pipelines to the Troll field, were completed in 1996 and 1997, respectively.

In 1998 the Franpipe pipeline from Sleipner to Dunkerque was completed. Further, a pipeline from the Kårstø terminal to Dornum in northern Germany, the Europipe 2 pipeline, started operations in the autumn of 1999.

In conjunction with the further development of the Ekofisk fields (Ekofisk II), the license periods for the oil pipeline to Teesside in the U.K. and for the gas pipeline to Emden in Germany were extended to the year 2028. As compensation for extending the license period, the Norwegian state and Statoil will increase their interest to 60 percent in the gas transport and terminal system in 2005 and to 70 percent in 2007. Hydro's share in the gas chain will therefore be reduced from 4.63 to 3.93 percent in 2005, and further reduced to 3.239 percent in 2007.

In 2000, approximately 442,000 barrels of oil were transported per day through the Oseberg Transport System (OTS).

The Sture Crude Upgrading Project (SCUP) facilities commenced operations in December 1999. The upgrade allows for further processing of Oseberg crude oil and production of a propane and butane mix (LPG). The SCUP facilities were built for and include three entities/owner groups: OTS, Hydro, as 100 percent owner of the LPG facilities, and Vestprosess DA.

Hydro owns 17 percent in Vestprosess DA (VP). VP is a transportation system for condensate and NGL from Kollsnes and Sture to Mongstad, and a new fractioning plant for refining of these products at the Mongstad plant. VP started operations in October 1999. VP transports and processes products "as produced" from the Troll facilities at Kollsnes, from OTS, the SCUP at Sture and from the Mongstad refinery.

The Åsgard Transport system was completed in 2000. Åsgard Transport transports gas from the Åsgard field to the Kårstø terminal for processing. A major expansion of the process capacity of the Kårstø terminal was completed in 2000. The total investment is expected to be NOK 8.2 billion. Hydro's share of the investment is expected to be approximately NOK 1.5 billion.

Hydro is operator of the Oseberg Gas Transport (OGT) system, which exports gas from the Oseberg field to Heimdal for further transportation through the Statpipe or Vesterled system. The OGT system was completed in October 2000.

Hydro is also operator of the Vesterled system, which will export gas from Heimdal to St. Fergus in the U.K. via a new connection to the existing Frigg Norwegian Pipeline. A Plan for Investment and Operations was approved by the authorities in October 2000. The pipeline is currently under construction, and is scheduled to be completed by October 2001. Vesterled will comprise the new 45 kilometer pipeline connection, Vesterled's share of the Heimdal Riser Platform and the Frigg Norwegian Pipeline, which will be merged into the Vesterled system. The total investments are estimated to be NOK 995 million. Hydro's share is expected to be approximately NOK 200 million.

Crude oil from Hibernia is transported from the field in two dedicated offshore loading tankers partly direct to market and partly via a transshipment terminal at Whiffen Head, Newfoundland. Hydro has a 14.9 percent interest in the long-term time charter for one of these tankers. A time charter for a third tanker, in which Hydro has a 12.7 percent interest, was entered into in 1998. The terminal is owned by Newfoundland Transshipment Ltd., in which Hydro has a 5 percent shareholder interest. Hydro has entered into a long-term arrangement for use of capacity at the terminal. The terminal will be expanded for Terra Nova. When Terra Nova starts production, the total tanker capacity will be operated in a pool as one regional transportation arrangement. Crude oil from the Khariaga field is shipped 3,000 kilometers through the Russian pipeline system to Ventspils.

## Government Regulation

Hydro's exploration and production activities are subject to government regulations of various kinds in different countries as are the exploration and production activities of other oil and gas companies. In Norway, the oil and gas industry is governed by laws defining the rights of the government and license holders. Licenses were for many years subject to a minimum state participation of 50 percent and to sliding scale provisions under which the Norwegian government could increase its share in any license varying with the planned production profile for that license. The sliding scale provisions have been abolished for licenses granted after 1 January, 1993. Furthermore the Norwegian government has decided that the sliding scale option will not be exercised for licenses for which development decisions have not yet been made. In addition, the Norwegian government's participation in new licenses is no longer fixed at 50 percent and may vary from license to license. In the 16th licensing round in 2000 the maximum government participation was 45 percent.

For licenses granted after 1 July, 1985, the authorities can delay development of a field indefinitely pursuant to the Norwegian Petroleum Act. Should development be delayed, licensees can apply for an automatic extension of the license term corresponding to the delay period. For licenses granted before 1 July, 1985, the conditions in the specific license apply.

Under the Norwegian Petroleum Act, the Norwegian government may, if vital national interests are at stake, direct the oil companies to reduce petroleum production. Due regard must be given to long-term gas supply agreements. The Norwegian Government exercised its right under the Act in the period from 1987 to 1990. In the period from 30 June, 1990 to 30 April, 1998, there were no limitations on petroleum production. From 1 May, 1998 until 1 July, 2000, the government imposed a production regulation requiring production to be roughly three percent lower than previously planned. Since 1 July, 2000, the government has not regulated production.

The Norwegian government can require that licensees participate in the removal of offshore oil and gas installations (platforms) when production ceases or at the expiration of the concessions, whichever occurs first. Under Norwegian law, dismantlement and removal costs are not tax deductible. The Norwegian government is, however, required to reimburse participants for a portion of these costs. Costs will be reimbursed in the same proportion as the accumulated petroleum taxes paid by each company over the life of the field in relation to the accumulated petroleum tax base for the same period. Hence, with the tax regime applicable to the petroleum industry, the Norwegian government would carry the larger part of such costs. The cost of any dismantlement and removal will vary depending on the type of installation and the decision of the authorities regarding the timing, type and degree of removal.

Licensees are responsible for closure of individual wells and all costs related to the decommissioning of installations on the NCS. These costs are treated as deductible expense for both ordinary tax and special petroleum tax purposes.

The Norwegian government has the option to take ownership of an installation at no cost to it at the end of the applicable concession period. In such case, the Norwegian government would assume total responsibility for any well closure and decommissioning costs after this time, and removal costs of the installation. As a basis for estimating Hydro's future participation in well closure, decommissioning and removal costs of the installation, management evaluates Norwegian and international laws, treaties and practices, and the estimated value of recoverable oil and gas reserves that are expected to exist at the end of the various concession periods.

Accruals for both estimated future well closure, decommissioning and removal costs are recorded using the unit-of-production method.

Hydro's share of the estimated total cost of well closure, decommissioning and removal of installations on fields in production is approximately NOK 3,706 million. As of 31 December, 2000, Hydro had accrued NOK 1,965 million using the unit-of-production method, and paid NOK 255 million during 1999 and 2000. Hydro's shares of future costs was NOK 1,486 million. In 2000, NOK 450 million was charged to expense. In 1999 and 1998 charges to expense were NOK 542 million and NOK 277 million, respectively. In 1999 and 1998 expense included additional accruals due to increased cost estimates for several fields and a shorter expected production period for the Frigg area.

## **Taxation in Norway**

**Ordinary Taxes.** Profits from domestic oil production are subject to Norwegian income taxes at the rate of 28 percent. The maximum depreciation rate for investments in oil and gas production facilities is 16 2/3 percent per year for tax purposes. Depreciation starts when expenditures are incurred. Deductions for exploration and other costs can be taken in the year such costs are incurred. Revenue for tax purposes is based on market norm prices (as determined on a quarterly basis by a government appointed board) for crude oil and on realized prices for gas and other primary products. A company's income and costs connected with all offshore petroleum projects are assessed on a consolidated basis.

**Special Petroleum Tax.** This tax is levied on net income from oil and gas activities on the NCS less an "uplift." The tax rate of the special petroleum tax is 50 percent (in addition to the corporate tax of 28 percent.) For capital expenditures incurred after 1 January, 1992, the "uplift" is equivalent to five percent per year of the original amount of the capital expenditure for a six year period starting when the expenditure occurs. Unused "uplift" can be carried forward indefinitely.

**Thin Capitalization Rules.** As of 1 January, 1994, thin capitalization rules were adopted for companies operating on the NCS. Under the thin capitalization rules, the portion of interest expense which is deductible for ordinary and special petroleum taxes will be reduced if debt to total capital exceeds 80 percent. Hydro is not presently affected by these rules.

**Carbon Dioxide Emissions Tax.** Beginning 1 January, 1991, the Norwegian government introduced a tax for carbon dioxide (CO<sub>2</sub>) emissions from platforms. From 1 January, 2001 the tax has been set at NOK 0.72 per standard cubic meter of gas. The CO<sub>2</sub> tax, which is treated as part of operating costs, is a deductible expense for both ordinary and special petroleum income taxes.

**Royalty.** A Norwegian government royalty varying from 10 percent to 16 percent of production was levied on fields approved for development prior to 1986. As of today, only four fields are subject to royalty payments, whereof Hydro participates in Oseberg and Gullfaks. The Norwegian government has decided that the royalty will be phased out. For Oseberg and Gullfaks, the royalty will be gradually reduced over six years commencing January 2000.

**Area Fee.** The area fee is a fee per square kilometer of license area. The rates increase over time, beginning with the award of the license. The rate structure was modified and the rate level reduced in 1998. As from 1 January, 1999, the area fee is not applied during the first years after the license is awarded. The rate then increases to a maximum of NOK 70,000 per square kilometer per year approximately 16 years after the award of the exploration license.

## **Taxation Outside Norway**

Hydro's international oil and gas exploration activities are covered by the tax legislation of the respective countries where it is involved, and is also to a large extent regulated by Production Sharing Agreements (PSA).

## **Energy**

Energy is responsible for Hydro's commercial operations in the oil, gas and power sectors. Energy's activities include the production and sale of electricity generated at hydro-electric power plants in Norway, primarily for use in Hydro's production facilities. Energy is also responsible for acquiring additional power to meet the needs of Hydro's production facilities in Norway. In addition, Energy is also responsible for refinery operations and the transport of dry gas by pipeline and the seaborne transport of crude oil, NGLs and petroleum products.

Since the liberalization of the Norwegian energy market in 1991, Energy has been in the process of developing trading and marketing activities, along with analysis, portfolio and risk management systems. Energy's Nordic electricity portfolio includes owned generation facilities, long-term supply contracts, internal and external sales contracts and short-term optimization contracts. Energy has more recently begun to build up a European continent electricity portfolio based upon arbitrage opportunities between the Nordic and European continental markets and optimization of supply to Hydro's larger consuming plants. Energy is providing to Nordic customers energy services ranging from physical power supply to advanced portfolio management, including market analysis, price forecasting and risk management trading.

As of 1 January 2000, Energy, as part of Hydro's internal restructuring process, took over the responsibilities for all of Hydro's oil and gas commercial activities, including the marketing of crude oil, natural gas liquids and refined oil products. The establishment of a separate division responsible for all energy (oil, gas and electricity) commercial activities is intended to enable Hydro to meet the challenges and seize the opportunities arising out of the deregulation of the European energy markets.

### **Strategy**

#### ***Integrated Energy Company***

Over the next several years, Energy's primary objective will be to grow and develop its position as an integrated energy company with a geographic focus on North Western Europe. Through integration, and a further development of its present positions, Energy will seek to capture the maximum value beyond the commodity margin from each individual energy source.

#### ***Strengthen Position as Natural Gas Company***

In Europe, the market share of natural gas in relation to other fuels is steadily increasing and Hydro expects this trend to continue into the next decade. Natural gas accounts for approximately 22 percent of the total energy consumption in Europe. The annual growth in demand is expected to be between three and four percent, led by a strong growth in demand for gas-fired power generation. In light of this expectation, Energy will aim to strengthen Hydro's position as a natural gas company by building a new gas business, extending from upstream gas production, to wholesale trading, to marketing of gas and related energy services to large end users.

#### ***Growth of the Electricity Portfolio***

Energy will pursue further growth and development of Hydro's electricity portfolio by targeting new customers within new markets and on a broader basis within existing markets, both in the Nordic and European continental areas.

### *Natural Gas for Power*

Energy believes the European electricity market will tighten due to lack of new power generation investments and continued consumption growth. Further, Energy believes that "gas for power" will be the most competitive way to generate power when new capacity is needed. Hydro, with a significant natural gas resource base, positions in both natural gas and electricity, and commercial market experience, is well-positioned to optimize current and future "gas for power" opportunities.

Energy intends to cultivate pan-European "gas for power" opportunities. In this regard, Hydro owns one-third of the shares in Naturkraft AS, which has obtained concessions to build two gas-fired power plants in Western Norway. Following the Norwegian Parliament's issuance of less restrictive emission standards for CO<sub>2</sub> and NO<sub>x</sub> in March 2000, Naturkraft is in a position to move forward with the next phase of the power plant projects: the further development and economic analysis of such projects. Naturkraft aims to make an investment decision as early as the spring of 2002. Energy is also working on other "gas for power" projects on the European continent, which are at an earlier stage of development.

### *Sustainable Energy*

To meet the power demands of future generations, Energy is putting emphasis on establishing itself as a significant player in hydrogen and renewable energy activities. In 1998, Hydro launched the idea of a hydrogen-fired power plant concept, producing low CO<sub>2</sub> emissions. The concept continues to be considered technically feasible, but further work is needed in order to improve the profitability of the concept.

## **Industry Trends**

### *Deregulation of the European Natural Gas Industry*

The European natural gas market is undergoing rapid liberalization. Effective August 2000, the European Union (EU) gas directive requires owners of gas pipelines to open up their transport systems, including systems within domestic markets, to third parties, such as distribution companies and large industrial customers, in order to bring greater competition (and lower end user prices) to the European gas market. The gas directive prescribes that a minimum of 20 percent of national markets be opened for competition by August 2000, increasing to 28 percent by 2003 and 33 percent by 2008.

Even though Norway is not a member of the EU, Norway must comply with the EU's directives as a signatory to the European Economic Area and the Norwegian government has stated that it will, in fact, comply with the gas directive. The liberalization of the European gas market may result in the eventual dismantling of the Norwegian Gas Negotiating Committee (GNC), consisting of the state-owned Statoil and Hydro, which has jointly negotiated the delivery of Norway's natural gas production, primarily under long-term contracts, to the European continent for roughly 25 years. These long-term contracts have been essential for large-scale investment in the gas fields on the NCS.

It is too early to predict the full effects of the EU gas directive. Hydro anticipates that there will be greater market participants, the development of a more integrated European gas market (rather than the current separate national markets), and a need to achieve greater operating efficiencies to be competitive in that market.

## Competitive Strengths

### *Integrated Energy Company*

In rapidly changing markets, Hydro believes that having Energy responsible for all of its oil, gas and electricity commercial activities will provide it with a competitive advantage through the leveraging of its combined commercial skills in each of the energy sectors. The restructuring of Energy should also translate into operational efficiencies.

### *Ability to Compete in a Deregulated European Natural Gas Market*

Hydro, as a producer and consumer of natural gas, believes it is well-positioned to compete in a deregulated market. As a producer, Hydro has an interest in all the major gas fields and pipelines on the NCS. From 2000 to 2003, Hydro's gas production is expected to increase from 5 to 8 billion cubic meters. Hydro has an interest in the German transport system, Netra, as well as capacity rights in the Interconnector, the gas pipeline between the U.K. and Belgium, opened in 1998. The interest in the Interconnector will provide the opportunity for Energy to maximize the value of its European continental gas contracts.

### *Modern Refinery*

With future planned investment in the refinery in Sweden, already one of the most modern in Europe, Energy believes that it is well-positioned to retain its competitiveness in this business area.

## Production - Electricity and European Commercial Activities

(in TWh)	2000	1999	1998
Power production	12	10	9
Acquired on long term contracts for production facilities	7	6	6

In 2000, about 11.5 TWh was produced by Hydro's own power plants or plants in which Hydro has an equity interest. This compares with 10.2 TWh in 1999 and 8.8 TWh in 1998. These supplies are fully integrated into the national electric power grid (inter-connection and power sharing) system, which further secures supplies and gives added flexibility. Hydro is, therefore, in a good position to purchase or sell surplus power from or to other producers and utilities.

Energy has clear title concessions (which do not revert to the Norwegian government) for power plants with a generating capacity of 2.9 TWh per year. This represents approximately 34 percent of Hydro's normal production capacity. The remaining production capacity will revert to the Norwegian government without compensation after the expiration of the concessions. This will take place in the period between 2018 and 2051.

Energy has responsibility for sourcing necessary electric power for Hydro's plants in Norway. To meet those needs, Energy has entered into long-term purchase contracts, the majority of which are with the state-owned power company, Statkraft. These long-term contracts provide assurance of the availability of a certain quantity of power to Hydro's power-intensive industries. The contracts are considered favorable to Hydro.

In 1997, Hydro entered into an agreement with Statkraft to purchase electricity from 2000 to 2020. This agreement covers the entire portfolio of previously existing contracts with Statkraft, providing for a total of 5.4 TWh per year. The agreement extended the term of these contracts, which were to expire between 2007 and 2010,

to 2020. An additional 1 TWh annually was secured from 2000 to 2020. The price for these deliveries under the new agreement is based on a price formula tied to market prices.

In May 1998, Hydro obtained a gas shipping license from Interconnector (U.K.) Ltd. providing Hydro with the right to trade and ship gas in the U.K. market. Specifically, Hydro acquired a transport right for 0.5 billion cubic meters of gas in the Interconnector between the U.K. and Belgium. Operations began in October 1998 with gas trading between the European continent and the U.K. With the liberalization of the European energy markets, Energy established an operating unit in Brussels. The primary function of the unit is to further develop Hydro's European commercial activities based on natural gas and the generation, marketing and trading of electricity, as well as to coordinate the sourcing of electricity and natural gas for other Hydro divisions. In view of these developments, Hydro has shifted its focus from electricity trading to gas trading due to the higher margins associated with the latter. (See **Item 11. "Quantitative and Qualitative Disclosures About Market Risk - Risk Management - Commodity Price Risk - Electricity"** for additional information.) Through its ownership in the German Netra pipeline, Energy ships gas from Emden to Salzwedel in Germany.

### Oil Trading and Refining

Trading (000's tonnes)	2000	1999	1998
Crude oil/NGL	16,307	11,927	11,453
Oil products	2,795	2,660	2,686

Refining (000's tonnes)	2000	1999	1998
Gasoline	956	969	856
Diesel fuels, gasoils, etc.	915	880	836
Heavy fuel oil	516	476	481
Other	59	59	49
Total refining	2,447	2,384	2,222

Hydro markets its own crude oil. A portion of the production is channeled to Hydro's affiliated Scanraff refinery. Hydro holds a 21.5 percent share in the Scanraff refinery and a 50 percent share in the adjacent catalytic cracker for upgrading of products (Scancracker). Scanraff is one of Europe's most modern refineries with a crude oil capacity of ten million tonnes per year, of which Hydro's share in 2000 corresponded to about 2.4 million tonnes of petroleum products. Hydro sells the remainder of its crude oil on a spot or short-term basis, generally at current world market prices, through its trading operations.

International trading activities include the sale of Hydro's crude oil, refined oil products and NGL production, as well as the supply of NGL feedstock, to several of Hydro's fertilizer and petrochemical plants. The volumes of these activities have increased proportionately to Hydro's oil and gas production over the past years.

### Marketing of Natural Gas Production

Natural gas produced from fields in which Hydro has an interest is mainly sold under long-term contracts. Pricing under such contracts is generally based on a market principle whereby the natural gas price is indexed to oil product prices in the end user market, mainly gas oil and low sulfur fuel oil.

Natural gas deliveries from the NCS amounted to 48.9 billion Sm<sup>3</sup> in 2000. Hydro's share of these deliveries was approximately 9.4 percent. Based upon all present contractual commitments, the total committed gas sales from the NCS will be around 70 billion Sm<sup>3</sup> annually by 2005. Since not all of the contract volumes have

been allocated to fields, Hydro's share of the future deliveries is uncertain. However, Hydro's share is expected to be between 11 and 12 percent of total deliveries.

As noted above, Norwegian natural gas export contracts are generally negotiated by the GNC on a non-field-specific basis. Hence, Hydro's options in selling natural gas on a company basis are limited. In 1993, a Gas Supply Committee (FU) consisting of both Norwegian and international companies was established to propose fields to be allocated deliveries for new gas sales contracts negotiated by the GNC. Norwegian government authorities determine the allocation of fields to contracts.

In the mid-1980's, contracts were entered into between the licensees of the Troll field and a group of continental European gas distributors for the sale of substantial volumes of the Troll gas. The contracts provide considerable flexibility, allowing for the supply of gas from other fields on the NCS.

Deliveries from the Sleipner East field started in 1993 and deliveries from the Troll and Sleipner West fields commenced in 1996 for delivery under contracts terminating in 2026. In 1995, the remaining purchase options were exercised by existing customers. Substantially all gas production from the first development phase of the Troll and Sleipner East fields will be sold through these contracts.

The Oseberg field started regular gas deliveries as of 1 October 2000 under the contract with Verbundnetz Gas (VNG) in Germany (6 million Sm<sup>3</sup>/day) and Transgas in the Czech Republic (2.7 million Sm<sup>3</sup>/day). In addition, the Oseberg Group entered into winter sales contracts with BP and AGL in the U.K. totaling 2.2 million Sm<sup>3</sup>/day from the same date, as well as short term sales to Ekofisk with deliveries of up to 5 million Sm<sup>3</sup>/Day. The gas export out of Oseberg has been up to 22 million Sm<sup>3</sup>/day after start up, and the accumulated production for the first 3 months of production has been about 1.4 billion Sm<sup>3</sup>. The gas out of Oseberg is transported through the Oseberg Gas Transportation system (OGT) which is tied to Heimdal and the Statpipe system. A link between Heimdal and the existing Frigg pipeline is under construction and is expected to be in operation by October 2001, making gas in the area available both for the European continental and the U.K. markets.

### **Electricity - Government regulations (Norway)**

In 1996, a tax law was enacted in Norway for hydro-electric power plants which came into effect as of 1 January, 1997. In addition to ordinary income tax, the major provisions of the law called for the introduction of a surtax. The existing production tax was abolished as of 1 January, 1998. The law also provides for an upward revision of the tax depreciation basis of assets. The higher basis will be deductible in future years in the form of increased tax depreciation both for ordinary income tax and surtax purposes. For additional information see **Item 5 - "Operating and Financial Review and Prospects - 2000 Compared with 1999 and 1999 Compared with 1998 - Taxes and net income."**

### **Electricity - Ordinary Taxes (Norway)**

Profits from hydro-electric power production are subject to ordinary Norwegian income taxation at a rate of 28 percent. Fixed assets are depreciated for tax purposes over 67 years or the concession period, if shorter (dams and tunnels); 40 years (machinery); and at a 2 percent declining balance (transmission and other electrical equipment). The depreciation base of fixed assets was revalued as of 1 January, 1997. The tax law described above requires the depreciation base to be revalued at the greater of replacement or historical cost, reduced by tax depreciation. Furthermore, immaterial assets and goodwill are also deductible through tax depreciation for assets that revert to the Norwegian government.

A company's ordinary income tax for hydro-electric power plants is assessed on an aggregated basis and may be tax consolidated with other activities in Norway.

## **Electricity - Surtax on hydro-electric power plants (Norway)**

The surtax rate is 27 percent. The surtax is assessed individually for each hydro-electric power plant (ring-fenced taxation). Unlike the ordinary income tax, finance costs are not deductible, but to compensate for this an uplift is deductible. Uplift is a special tax deduction computed as a percentage of the average tax basis of fixed assets (including immaterial assets and goodwill) for a given year. The percentage, which is determined annually by the authorities, essentially provides for a certain return on capital which is not subject to surtax. The percentage used to calculate the uplift for 2000 was 9.8 percent.

Revenue for surtax purposes is based on market spot prices with certain exceptions. Revenues from power supplies used for a company's own industrial production facilities and from sales under certain long-term contracts are not subject to market spot price adjustments. As most of Hydro's hydro-electric production is used for its own production or sold under qualifying contracts, only a minor portion of the production is subject to taxation based on spot prices at the time of production.

Losses can be carried forward indefinitely or until the plant reverts to the Norwegian government. Losses carried forward are adjusted for the uplift percentage each year.

Apart from the uplift deduction, the provisions for finance costs and the use of spot prices for revenue measurement, the elements of the ordinary tax and surtax base are identical.

A natural resource tax related to hydro-generated electricity became effective as of 1 January, 1997. The rate for 2000 is NOK 0.013kWh. The tax is fully deductible from the Group's ordinary income tax.

## **Oil Marketing**

Oil Marketing is responsible for Hydro's marketing and sales of refined petroleum products (gasoline, diesel and heating oil) and electricity to retail customers in Scandinavia and the Baltic countries. Hydro owns 100% of the operating unit in Sweden and 50% of Hydro Texaco in Norway, Denmark and the Baltic countries. Within the energy segment, Oil Marketing markets a range of complementary energy products in addition to refined petroleum products, including electricity, natural gas, biogas for cars and bioenergy for heating purposes.

### **Strategy**

Oil Marketing's strategy for the retail segment is to increase its return on investments already made, principally by achieving increased throughput per retail outlet, in part by closing certain gasoline stations. The major part of Oil Marketing's investments has been dedicated to the upgrading of stations and the introduction of new convenience store concepts. New investments will primarily be allocated to automatic stations, the fastest growing segment of the retail market.

### **Industry Trends**

#### *Decline of Heating Oil Market*

The heating oil market continues to decline. The demand for heating oil is strongly affected by the price of natural gas and electricity (including electricity available through district heating systems) compared with the price of heating oil. Consumption is also highly dependent on weather conditions during the winter period.

### *Increased Competition in the Service Station Segment*

Competition is intensifying in the service station segment. Investments in convenience stores and fast food units are growing. The automate segment in the gasoline market will continue to grow.

#### **Competitive Strengths**

##### *Extensive Service/Automate Station Network*

In the retail segment, Hydro and Hydro Texaco operate both service stations and automate stations, which leads to great flexibility.

##### *Large Customer Base*

Hydro has brand name recognition and a strong position in the most profitable segments of the heating oil markets, both industrial and residential. Its large customer base offers a platform for the sale of electricity. Sales of electricity have, to date, been relatively modest compared to Hydro's sale of gasoline and gasoil.

#### **Sales and Distribution**

At the end of 2000, Hydro's retail network in Sweden comprised 577 gasoline stations and 120 Hydro Diesel service stations. In the Swedish gasoline market Hydro operates both Hydro and the Uno-X branded stations. Approximately 50% of the station network is Hydro branded.

Hydro Texaco operates 410 gasoline outlets and 49 diesel sites in Norway, 491 gasoline outlets and 110 diesel sites in Denmark, and 30 gasoline outlets and 8 diesel sites in the Baltic countries with Hydro Texaco or Uno-X brands.

In all markets gasoline is sold through service stations and unmanned, automated stations. Gasoils are sold through automated diesel stations and through direct deliveries from depots to end consumers.

Volumes (000's m3)*	2000	1999	1998
Gasoline	1,534	1,486	1,477
Gasoil	2,042	2,218	2,280

\* Includes 100% of Hydro Texaco

Hydro has gained market share in the Swedish gasoline market over the years and reached 12.3% in 2000. In the Swedish gasoil (heating oil and diesel) market, Hydro's market share increased to 14.0% in 2000.

In 2000, Hydro Texaco had a 19.5% market share of the gasoline market in Norway and 15.7% in Denmark. Hydro Texaco increased its market share in the gasoil market in Norway to 15.8%. In Denmark, Hydro Texaco had a gasoil market share of 19.9%.

Market share (%) (for 2000)	Sweden	Norway	Denmark
Gasoline	12.3	19.5	15.7
Gasoil	14.0	15.8	19.9

## **Capital Expenditures**

In 2000, Hydro's Oil Marketing segment had capital expenditures of NOK 109 million, related primarily to repairs and maintenance of depots and the existing retail network, and the construction of new outlets in Sweden. Hydro Texaco had capital expenditures of NOK 377 million in 2000, primarily related to repairs and maintenance and the construction of new outlets.

## **LIGHT METALS**

### **Aluminium Metal Products**

Aluminium Metal Products produces and sells primary aluminum products and processes scrap of various qualities into high quality, primary products. In 2000, Metal Products' total sales of aluminum, produced in its smelters, its remelters or provided through commercial arrangements (including physical trading of extrusion ingot) amounted to 2,153,000 tonnes.

#### **Strategy**

In 2000, Metal Products' business strategy focused on:

- leveraging the metal supplier concept, including increasing its remelt activities and entering into commercial alliances and agreements;
- continuing the planned modernization/upgrading and cost reduction programs for Hydro's smelter system;
- preparing for a globalized metal supply system; and
- securing an acceptable supply of alumina.

#### ***Metal Supplier Concept***

Beginning in the 1990s and continuing through today, Hydro has pursued a principle of multi-sourcing, what it refers to as the "metal supplier concept." In view of the limited expansion possibilities in Norway and high investment costs needed for new, green field smelters, Hydro's strategy has been to develop alternative metal sources. The results of this strategy are apparent. Virgin primary production in Norway today constitutes only about 35 percent of total sales volume, expected to drop further to about 30 percent by 2005.

#### ***Increased Remelt Activities***

As part of Hydro's metal supplier concept (and its desire to offer scrap remelt service to extend its product package to customers), Metal Products has significantly increased its remelt activities. Metal Products remelted and recycled 387,000 tonnes of aluminum scrap in 2000, compared with 300,000 tonnes in 1999.

In Europe, Hydro is establishing remelt plants for conversion of extrusion scrap into extrusion ingots in all major European markets. Total volume of cast house products produced on this basis in Europe in 2000 was 378,000 tonnes. Current facilities are located in Luxembourg, the U.K., Germany and France, as well as at the metal plants in Norway.

Specific actions taken in 2000 to enhance Hydro's remelt activities include:

- Plans were put in place to build a new extrusion ingot cast house and remelt plant for aluminum scrap in Spain, with production scheduled to begin in November of 2001. The plant will have an annual capacity of 60,000 tonnes. The plant will serve the growing market for extrusion ingots in Spain and Portugal.
- Hydro purchased Deeside Aluminium, an extrusion ingot remelt plant in Wales that utilizes aluminum scrap. Deeside has an annual capacity of 38,000 tonnes, but Hydro intends to make investments to enhance the plant's productivity and increase its capacity to 43,000 tonnes.

- In an effort to expand its remelt operations outside Europe, Hydro constructed a remelt plant in Henderson, Kentucky, the first of its kind in the U.S. It is based on Hydro technology and a concept which has proven successful in Europe, where Hydro has demonstrated its ability to produce primary quality billet from scrap. The Hydro Kentucky remelt plant has an initial capacity of 90,000 tonnes of billets per year.

### ***Commercial Alliances and Agreements***

In addition to Hydro's production of primary aluminum and remelting/recycling activities, Hydro has entered into several commercial alliances and agreements that further its strategy of developing and leveraging its metal supplier concept with limited asset investment. To illustrate:

- In 1999, Hydro entered into a 10-year metal purchase contract for approximately one million tonnes of primary aluminum ingot from the Albras metal plant in Northern Brazil. The aluminum will be marketed through Hydro's worldwide metal supply system.
- Hydro has a long-term commercial agreement with Slovalco. In 2000, Slovalco supplied an additional 94,000 tonnes of primary aluminum products in excess of the tonnage received through Hydro's ownership interest.
- Hydro has a long-term tolling agreement with Goldendale Aluminum Co., an American smelter, which provides 151,000 tonnes per year primarily designated for the U.S. and Japanese markets. Goldendale Aluminium decided to curtail production in 2001 from 160,000 tonnes to around 40,000 tonnes due to high power prices. Hydro will supply existing customers with metal from the Company's new remelt plant in Henderson, Kentucky and from other metal sources.
- Hydro also has a long-term collaboration agreement with Talum, a producer in Slovenia, which provides Hydro with an additional 40,000 tonnes of primary aluminum products per year.

Additional metal sources are provided through traditional commercial agreements.

### ***Modernization/Upgrading and Cost Reduction Programs in Hydro's Smelters***

Metal Products has implemented cost reduction programs, based on internal bench marking and the introduction of "best practices" work processes across units, that have made a significant contribution to stabilization in average cash costs, in nominal terms, at Hydro's smelters. Through relatively low capital investments, Metal Products has also achieved gradual production increases through amperage increase process improvements and incremental capacity add-ons.

Hydro announced in 2000 a major modernization and expansion of the aluminum smelter in Sunndal. Upon completion, scheduled in 2004, this plant will be the largest of its kind in Europe. The additional new capacity of 234,000 tonnes per year will increase the plant's total capacity to 321,000 tonnes of virgin metal per year. In view of the increasing need for aluminum in Europe and limited expansion possibilities, the timing for the Sunndal expansion is considered favorable.

During 2000, plans were also made for a 25 percent expansion of the Sørå smelter, where Hydro has an equity position of 49.9 percent. The expanded Sørå will have a total production capacity of 160,000 tonnes per year upon completion of the expansion, scheduled for July 2002.

### *Developing a Global Metal Supply System*

Hydro intends to capitalize on the European metal supplier concept in other important consumer regions with increasing metal deficit, like the U.S. and Asia.

In 2000 Hydro acquired a 33.3 percent interest in Pianmeca, which owns and operates a Venezuelan cast house. Pianmeca expects to produce 30,000 tonnes of extrusion ingots and 8,000 tonnes of wire rod in 2001 on the basis of supply of liquid metal from the Venalum smelter, and will serve as a metal source for Hydro's growing aluminum market in the U.S. Hydro plans to increase production through "de-bottlenecking" and plant improvements. Hydro's intention to concentrate on the American market is underscored by the setting up of a new aluminum research center in Michigan.

In May 2000, Hydro signed a Declaration with Iceland's Ministry of Industry and Commerce and the National Power Company of Iceland for the purpose of performing a study to assess the viability of a primary aluminum smelter in Reydarfjörður, located on the East Coast of Iceland. The project is a joint venture with Icelandic investors. A new smelter on Iceland, if constructed, may be a potential supplier to the U.S., in addition to Europe.

Hydro has started an evaluation process regarding Asian markets to ascertain which countries will be most suitable for market entry, and how access to appropriate metal sources should be arranged.

### *Securing Supply of Alumina*

Alumina (aluminum oxide) and energy are the major raw materials for primary aluminum production. Alumina is produced from bauxite through a chemical process. It takes 4-5 tonnes of bauxite to produce two tonnes of alumina. Aluminium is produced through the electrolytic reduction of alumina. Approximately two tonnes of alumina yield one tonne of aluminum.

Satisfactory and secure alumina supply for Hydro is important as a support strategy to allow Hydro to expand in primary aluminum. Hydro has secured a major part of its long term raw material supply through several equity investments covering approximately 67 percent of its alumina requirements for its wholly-owned primary metal production.

Hydro has a 35 percent equity interest in the Alpart alumina refinery in Jamaica that has an annual production capacity of 1.5 million tonnes. Alpart secures long-term supplies of bauxite from local sources. In 2000, the Alpart refinery provided Hydro with 520,000 tonnes of smelter-grade alumina.

Effective January 2000, Hydro acquired a 25.3 percent interest (since increased to 26.7%) in Alunorte, a Brazilian alumina refinery. This entitles Hydro to a corresponding part of Alunorte's production, approximately 380,000 tonnes per year. Alunorte has identified a project to expand its capacity from 1.5 million tonnes to approximately 2.325 million tonnes per year. As a part of the purchase agreement, Hydro will have a 50 percent interest in the expansion which has been started and is expected to be completed in 2003. This will increase Hydro's equity interest in Alunorte to approximately 34 per cent and Hydro's part of the production to approximately 800,000 tonnes per year. Alunorte processes bauxite from the Tombetas mine located in the Amazon region of Brazil. Hydro has a 5 percent interest in Mineracao Rio do Norte S.A. (MRN), a mining company that extracts bauxite from the Tombetas mine. To meet Alunorte's bauxite needs, Hydro and Aluvale, its partner in the Alunorte refinery, have secured Alunorte's present and future requirements from MRN.

Hydro, together with Alcan Aluminium Ltd. and the Indian Aluminium Company, Limited, as partners in Utkal Alumina International Ltd. (UAIL), continue to evaluate the possible construction of an alumina plant in

Orissa, India (the Utkal project). The project was put on hold in January 2001 because the present atmosphere at the site level was not seen as favorable for launch of a mega-industrial project. The estimated cost of the plant's construction is approximately USD 1 billion. The planned plant would have an initial annual alumina production capacity of 1.2 million tonnes. Hydro has a 45 percent interest in the Utkal project.

## **Industry Trends**

### ***Growth in Consumption***

During the last 50 years, the growth rate in the consumption of aluminum has been higher than any of the other competitive metals. Today more aluminum is produced than all other nonferrous metals combined. The estimated average long-term growth in total aluminum consumption in the Western world amounts to 2.7 percent per year, somewhat higher than the expected growth in GNP/ industrial production of 2.5 percent per year. The demand for virgin, primary metal is estimated to be increasing by about 2.5 percent per year, taking into consideration the long-term growth in total aluminum consumption and the estimated increase in recycling of old, used scrap of more than 4 percent.

The transportation sector is the primary source of the increased demand and this sector also shows the strongest growth. To illustrate the rate of growth, MIT, an industry analyst, has estimated that the average aluminum content per automobile will increase from its present 90 kilograms to 140 kilograms by 2010. This translates into approximately 4 million tonnes of growth in vehicles through 2010. Hydro also expects growth in other main user segments like construction, while packaging is struggling, mainly because of competition from plastics.

Given the expected growth in consumption, along with the historical rate of permanently idled production due to obsolete capacity (roughly 50,000 tonnes per year), industry analysts estimate that 6 million tonnes of new primary aluminum capacity will need to be added during this decade to meet the expected demand. In the short-term, the industry may be faced with some extra capacity shutdowns due to the power situation in the Pacific Northwest region of the U.S.

### ***Restructuring in the Industry***

Important structural changes are taking place within the aluminum industry. Ownership concentration, defined as the share of primary aluminum capacity held by the six major companies, has increased from 43 percent in 1995 to about 50 percent today, following the completion of the Alcan/Algroup (Alusuisse) merger and Alcoa's takeover of Reynolds Metals. At the same time, government-controlled production has dropped from 25 percent in 1995 to about 15 percent today. The structural changes are likely to continue. Alcoa is likely to remain the major supplier of alumina (the main raw material for the production of primary aluminum), even after divestment of the alumina plants acquired from Reynolds as mandated by U.S. and European Union antitrust authorities.

### ***Geographic Imbalance Between Sources of Supply and Demand***

There are three main user regions for aluminum today, North America, Europe and Asia. The major producing regions are North and South America, Russia and Australia. Hydro expects an increasing imbalance between the major consuming and producing regions. In Europe, Hydro expects the need for imported metal to increase from about 2 million tonnes in 1996 to almost 3 million tonnes in 2005. In the U.S. the same tendency can be observed. In Russia, the collapse of domestic consumption in the early 1990's created a flow of exports to the West. All major aluminium producing countries agreed upon a cut in domestic production in 1994 in order to avoid an economically and politically unacceptable market situation. The current capacity utilization in the Western world has still not returned to the early 1990's level. Further, in the Western world a gradual reduction

in net imports from the Eastern world is expected, due to continuing strong consumption increases in China and a gradual recovery in consumption in Russia.

## Competitive Strengths

### *Customer Service*

In light of the intensified competition brought about, in part, by the restructuring that has occurred in the aluminum industry, Hydro has strengthened its commitment to customer service and increasing the efficiency of its production systems. Metal Products' regional market teams have competencies within technical and commercial service, research and development, logistics, contract administration and scrap conversion. Market teams are organized in a manner such that each member of the team can communicate in the local language of the customers' respective professionals.

### *Remelt Know-How*

The remelting and recycling of aluminum is not only an environmental-political issue, but also an important part of Hydro's business strategy. Based on Hydro's metallurgical know-how and experience from casting operations, Hydro has developed a concept for its remelt facilities that ensures its customers supplies of top quality cast products produced from process scrap. Moreover, certain of Hydro's remelt facilities, including the new remelt facility in Henderson, Kentucky, are able to supply top quality aluminum products based on aluminum scrap.

### *Duty Advantages*

Aluminum produced within the European Economic Area and some other countries enjoys a duty advantage of formally 6 percent, effectively about 5 percent, of the metal price on sales to the EU.

## Production of Virgin Primary Aluminum

The process of separating the aluminum from the oxygen in alumina requires electrical energy. The smelting of one tonne of aluminum requires between 13 and 17-megawatt hours of electric energy. Hydro produces a significant part of the electricity required by its Norwegian primary aluminum smelters at its own hydroelectric generating plants, the basis for competitive aluminum production in Norway.

Hydro produces its virgin primary aluminum at its five wholly or partly owned primary aluminum smelters in Norway and at the Slovalco smelter located in Slovakia, in which Hydro has a 14.5 percent interest. Production at these smelters during the three most recent years is reflected in the table below:

Aluminum production (tonnes)	2000	1999	1998
<i>Primary Aluminum</i>			
Karmøy	270,000	267,000	267,000
Årdal	204,000	201,000	197,000
Sunnal	154,000	149,000	146,000
Høyanger	72,000	71,000	70,000
Sørå (Hydro's 49.9% share)	62,000	58,000	56,000
Total virgin primary aluminum production	762,000	746,000	736,000
<i>Remelting</i>	387,000	300,000	204,000
<i>Average price primary aluminum (USD/tonne per LME 3-mo. price)</i>	1,567	1,387	1,380

In 2000, as in 1999, the smelters listed in the table above operated at full capacity.

## **Sales and Trading**

Most of Hydro's own production of aluminum cast house products are sold in Western Europe, to semi-fabricating plants like extruders, rollers and wire mills, as well as foundries. The main consumer areas are transportation, construction and packaging. The major consuming countries are Germany, France, the U.K., Italy and Spain. The aluminum is sold in the form of value-added products, like extrusion ingot, sheet ingot and foundry alloys.

Hydro also engages in trading of aluminum and related raw materials activities. Aluminum trading activities consist of physical metal purchases and sales, as well as trading on the London Metal Exchange (LME). Hydro's raw material and metal traders sold 669,000 tonnes of primary aluminum products in 2000. The main trading product is standard aluminum ingot, which is also the global aluminum product on which price quotations on the LME and other metal exchanges are based. For additional information on derivative commodity instruments, see **Item 11. "Quantitative and Qualitative Disclosures about Market Risk."**

## **Capital Expenditures**

In 2000, capital expenditures for Metal Products were NOK 2,560 million, compared with NOK 983 million in 1999 and NOK 952 million in 1998. The purchase of shares in Alunorte and the building of a new remelt plant in Henderson, Kentucky were the largest investments in 2000.

## **Aluminium Extrusion**

Hydro Aluminium Extrusion is the world's second largest extruder of aluminum in terms of volume, and a market leader in aluminum extrusions in Europe. Through Extrusion's value-added extrusion and other value-added activities further downstream, Hydro is able to reduce its exposure to primary aluminum price swings on the London Metal Exchange (LME).

## **Strategy**

In 2000, Extrusion's business strategy focused on seeking to exploit its market positions in extrusions and selected downstream segments, expanding its extrusion plant system, particularly in the Americas and Asia, and positioning itself closer to end use customers. In addition, Extrusion realigned its portfolio to concentrate on core businesses.

### ***Exploiting Market Positions in Extrusions***

Extrusion is the leading extruder of general extrusions in Europe. In 2000 Extrusion became the fourth largest extruder of general extrusions in North America. In 2001, Extrusion intends to attain a similar position in South America. Extrusion's acquisition of the Argentinian extruder, Aldural, in January 2001, is a step in furtherance of this objective.

In 2000 Hydro Building Systems, which accounted for 16 percent of Extrusion's operating revenues in the year, strengthened its No. 2 position in aluminum building systems (doors, windows, facades, etc.) in Europe and further developed its presence in Brazil, India and South Africa as selected other markets.

Heat Transfer, which also accounted for 16 percent of Extrusion's operating revenues in 2000, is a global market leader in aluminum heat transfer tubing for the automotive industry and is on the forefront of developing

new products for this industry. Its plants in Europe, North and South America, and Asia enable it to compete in virtually every geographic market.

### ***Expanding the Extrusion Plant System***

In February 2000, Hydro acquired Wells Aluminum Corporation in the U.S., which has since been renamed Hydro Aluminium Wells. Wells is based in Baltimore, Maryland, and has seven plants with a total of 12 extrusion press lines supplying soft alloy extrusions and a wide range of fabricated and finished aluminum components.

In July 2000, Heat Transfer established a manufacturing foothold in Asia with the formation of Hydro Aluminium Wuxi, located close to Shanghai in China. The company is a joint venture in which Hydro has a 70% interest.

In January 2001, Hydro acquired an extrusion plant in Buenos Aires which, once the current expansion is completed, is expected to give Hydro a leading position and a market share of approximately nine percent in Argentina.

### ***Getting Closer to End Users***

Extrusion supplies custom-made general extrusions of soft alloy aluminum, surface treatments such as anodizing and powder coating, fabrication, components and finished products.

Building Systems has its own companies for the development, production and marketing of its three brands, WICONA®, DOMAL® and HYDRO MANUEL FERREIRA®, in Europe. Building Systems strengthened its market positions in 2000 by increasing the number of its distribution and service centers in the Southern European region and by further developing its selected non-European presence.

Heat Transfer has collaborated and continues to collaborate with car manufacturers and first tier automotive suppliers on projects to develop aluminum components for the automotive sector. To support expansion in this area, Extrusion created a specialized center for product, process and business development in Denmark, called Hydro Alunova. This center is supplemented by additional highly competent research and development facilities within Hydro's Extrusion and Metal Products business segments. In 2000 development of non-automotive heat transfer applications continued and the first commercial order for tubes for RCAC (residential/commercial air conditioning) was signed in the U.S.

## **Industry Trends**

### ***Growth in Global Aluminium Extrusion Consumption***

Global aluminium extrusion consumption increased in 2000 by around 3.5 percent (the same percentage as in 1999), although the principal consumption regions experienced different rates of growth compared to the prior year. The outlook for 2001 is for continuing growth, but at a lower level.

In Europe, the increase in aluminium extrusion consumption in 2000 was around 5.5 percent in 2000, compared to around 5 percent in 1999. Orders were boosted by the expanding export market along with strong demand from the building and other industrial sectors. Extrusion anticipates a growth rate in European extrusion consumption in 2001 of roughly 2.5 percent.

In the U.S., the increase in aluminium extrusion consumption in 2000 slowed to around 1 percent, compared to more than 7 percent in 1999. The reduction in growth was mainly due to the low U.S. consumption in the second half of 2000. This can be attributed, in part, to the downturn in the road transportation sector, a cyclical industry. A further decline in consumption, followed by stabilization, is expected for 2001.

In Japan, extrusion consumption continued to grow in 2000 by close to 5 percent from a slightly positive growth in 1999, after high negative growth figures in the years before. The growth in 2000 was attributable primarily to the growth in the transport sector. Further, demand for extrusions in the building sector, which had been stagnant for some time, showed some positive signs of turnaround.

The Asian economy (excluding Japan) showed mixed performances. Most of Asia has recovered from the crisis of two years ago and aluminum extrusion consumption rose to between 3 and 4 percent in 2000. In general, the still relatively poor demand for this developing region reflects the weakness of the building industry, although there are reports that this might now be changing.

Latin America had a negative growth rate of over 1 percent in 2000.

The building sector is still by far the biggest segment for extrusion consumption. There is, however, a downward trend in the building sector's percentage share of total extrusion demand in Europe. This could mean that demand will gradually become less sensitive to swings in building output.

## **Competitive Strengths**

### ***Integrated Aluminum Company***

Hydro is somewhat unique in that it is an integrated aluminum company with downstream activities consisting principally of extrusions (rather than the more typical rolled products). The integration with the primary aluminum production provides Extrusion the opportunity to optimize the interface between casting and extrusion technologies, enabling higher productivity in the extrusion process.

### ***Decentralized Operations***

Extrusion is managed in a regional, decentralized manner so as to facilitate staying closer to the end use customers. By combining what is, in essence, an entrepreneurial plant system with Hydro's global metal competence base (along with organization-wide process management best practices), Hydro is able to sell not only value-added products but also value-added service.

### ***Global Competence for Local Needs***

Extrusion has a network of close to 80 manufacturing plants (with an annual production capacity of in excess of 500,000 tonnes) spread over Europe, the Americas and Asia, not counting the distribution centers of Building Systems and the service centers of Nordisk Aviation Products, a world market leader in air freight containers. This worldwide network provides global competence for local needs.

## **Production and Products**

The conversion of aluminum billets into fabricated and finished products requires the application of a variety of intermediate processes. Roughly 70% of Extrusion's sales consists of extruded products primarily for the building, construction and transportation markets, such as automotive products. The balance of Extrusion's sales consists mainly of products for the mechanical, electrical, electronic and consumer goods industries.

The recycling advantages of aluminum, including low energy input for remelt material compared to primary aluminum, can significantly contribute to making aluminum the material of choice, especially in the automotive and building industries.

The production backlog of extruded products amounted to more than NOK 1,400 million at the end of 2000, compared to NOK 1,238 million at the end of 1999. The overall capacity utilization in 2000 was above 90%.

### **Sales and Distribution**

Each of Extrusion's business units has its own marketing and sales organization and geographical sales territory. For a few geographical sales territories located outside of the territories of the business units, there are sales offices connected to the business units. In addition, units of Building Systems and Nordisk Aviation Products have a number of distribution and/or service centers. Since most of Extrusion's products are custom-made, marketing and sales personnel address the customer directly in a business-to-business fashion.

### **Capital Expenditures**

In 2000, capital expenditures for Extrusion were NOK 1,962 million, compared with NOK 558 million in 1999 and NOK 591 million in 1998. Capital expenditures in 2000 primarily related to the acquisition of Wells Aluminum Corporation, the establishment of Hydro Aluminium Wuxi, and the addition of four new extrusion presses in France, Spain and Italy.

## **Other Light Metals**

**Hydro Aluminium Rolled Products (HARP)** serves the European market for rolled products with an emphasis on small and medium-sized end users. HARP's main markets include the packaging, transportation and building industries. The operation is primarily based on recycling and a distinct niche strategy within the market for transformer windings.

Rolled products production activity is primarily located in Norway. In 2000, the segment produced 135,000 tonnes of rolled products compared to 127,000 tonnes in 1999. The main raw material for the rolled products production process is recycled aluminum. HARP's needs are secured through the growing remelt activities of Hydro Aluminium Metal Products, as well as a 40 percent interest in ALKU-Metalle GmbH.

**Hydro Automotive Structures (HAST)** delivers aluminum extrusion-based applications within crash management, body structures and subframes to the automotive industry. In addition to this innovative extrusion-based platform, HAST has casting competence focusing on motor, transmission and chassis applications.

The automotive industry, which is the main market for HAST's products, is extremely demanding in terms of quality, know-how and cost competitiveness. Hydro's extensive metallurgical expertise and research capabilities provide a foundation for meeting these demands. Close cooperation with the major automotive companies in the development of product solutions like spaceframes - or body structures - has also enhanced the division's knowledge and experience in the industry. The division views its technological competence as a competitive strength which has enabled it to become a supplier of aluminum spaceframes to several OEMs.

The division has experienced strong growth in the automotive market, particularly in the area of crash management, where the division's bumper beams and crash box solutions are market leaders in Europe and are gaining ground in North America. The division also sees a significant potential in the aluminum subframe product area. In 2000, HAST set a single-year high with total order intake of NOK 950 million.

The division delivers products to major car manufacturers, including Audi/Volkswagen and BMW, as well as several Tier 1 and Tier 2 suppliers. HAST has approximately 2,000 employees at 10 production and development facilities spread throughout Europe and the United States. In order to sharpen its core business focus, the division disposed of Autoplastics, its plastic bumper business, in 2000.

**Hydro Magnesium.** Hydro is the world's largest producer of primary magnesium, with total annual production capacity of 113,000 tonnes of primary and recycled metal at its two plants in Canada and Norway. The industry in the Western World is comprised of fewer than 10 producers while there are numerous small plants in China and three in the CIS. Hydro also owns 49 percent of a Canadian company, Meridian Technologies Inc., the world's leading magnesium die caster. The remaining 51 percent is held by Teksid S.p.A., a subsidiary of Fiat S.p.A.

In Europe, price levels of primary magnesium are currently at historical lows in real terms. Anti-dumping duties against Chinese imports have been doubled. This may have some impact on the market, though circumvention activities remain a concern. The recent price levels suggest that the use of magnesium in motor vehicles may continue to grow at an average rate of 10-15 percent per year for the next several years.

Hydro Magnesium has a project in process in China to produce 10,000 tonnes per year of magnesium alloy ingot and 400 tonnes per year of magnesium anodes. The anode production will mainly be targeted for the Chinese domestic market, while the alloy ingot will be mainly exported.

Hydro Magnesium's combined production of primary and recycled magnesium was 119,000 tonnes in 2000, compared to 113,000 tonnes and 106,000 tonnes in 1999 and 1998, respectively.

## AGRI

### Plant Nutrition

Hydro is the world's leading fertilizer company measured in terms of sales of finished fertilizer products. Plant Nutrition produces and sells ammonia and fertilizer products, including nitrate fertilizer, complex fertilizer (NPK) and urea. Production facilities are located primarily in Europe, while sales and distribution of fertilizer products is approaching an even balance between European and non-European markets.

Through its 50%-owned Farmland Hydro venture, Plant Nutrition also produces and sells concentrated phosphates, specifically diammonium phosphate (DAP) and monammonium phosphate (MAP).

#### Strategy

In 2000, Plant Nutrition's business strategy consisted of restructuring its European fertilizer business while focusing on growth in emerging overseas markets where the use of fertilizer is still below the agronomic optimum. The acceleration of cost and productivity improvements, exploitation of marketing strengths supported by internal trading activity, and the capturing unique market opportunities are bringing new vitality and greatly improved operating results to the Agri business.

#### *Restructuring of European Fertilizer Business*

The Western European nitrate market has been characterized by production over-capacity (estimated to be between 2.5 and 3 million tonnes, roughly 20 percent of total nitrate capacity) for the past several years. For Hydro and other producers of nitrate fertilizer, this has meant low product prices and increasingly severe pressure on margins, as well as reduced capacity utilization at nitrate fertilizer production plants. In response to these unfavorable market conditions, Hydro announced in late 1999 its decision to reduce its nitrate fertilizer production capacity in Europe by approximately 1,000,000 tonnes. Other European producers of nitrate fertilizer made similar announcements. Plant closures in 2000 resulted in an overall reduction in production capacity of approximately 2.5 million tonnes. Additional (non-Hydro) capacity of 0.3 million tonnes is expected to be closed in 2001. The plant closures are expected to contribute to an improved balance between supply and demand in the European nitrate fertilizer market, an increase in capacity utilization rates and improved margins despite the anticipated flat demand for nitrate fertilizer in Europe.

In addition, Hydro decided in 2000 to cease production of NPK at three plants in France with a total production capacity of 500,000 tonnes. The decision was based on Hydro's estimation of the over-capacity of NPK in Europe, a significant part of which is in France. The production shut down occurred in the second half of 2000.

In recent years the market share of imports from Eastern Europe has been stable. West European fertilizer manufacturers are subject to pricing mechanisms for key raw materials and energy that are very different from those applied in parts of Eastern Europe. In order to ensure fair competition, anti-dumping measures have been applied by the European Commission in some cases.

#### *Focus on Growth Markets*

Traditionally, Hydro has concentrated on development of the European market. In recent years, Hydro has extended its business model to comprise sales of Hydro's own production to North America, Latin America, Asia and Africa. In the 1990's sourcing of products from joint ventures, third parties and local production increased

the scale of the overseas marketing system. This expansion has created a sound basis for further growth and utilization of critical mass.

To implement the above-articulated strategy, Hydro completed the acquisition of interests in Kynoch (in South Africa), which has a production capacity of 0.7 million tonnes, in December 1999, and Adubos Trevo S.A. (in Brazil), which has a production capacity of 1.7 million tonnes, in July 2000. Hydro foresees that a greater part of future investment funds will be made available for growth markets outside of Europe.

## **Industry Trends**

### ***Stable, but increasing global fertilizer consumption***

The population growth and national wealth development in the world has created and is expected to continue to create sustainable growth in fertilizer consumption in the foreseeable future. The International Fertilizer Association forecasts a global nitrogen fertilizer consumption growth rate of 2.2% per year until 2004. The main growth in nitrogen fertilizer consumption has been in Asia and Latin America. The growth in fertilizer consumption is expected to be higher for nitrogen than for phosphate fertilizers.

### ***High Energy Prices***

Raw material costs increased in 2000 compared to 1999. Natural gas is the most important raw material for the production of ammonia and nitrogen fertilizer. In 2000, average gas prices, stated in US dollars, increased by 60 percent compared to the prior year. The gas price in Europe is closely linked to the crude oil price, which remained at a historically high level throughout 2000.

Considerable amounts of phosphate and potassium are also used in the production of complex fertilizer. In 2000 prices for phosphate and potassium chloride remained basically at the same level as in 1999, while the price of potassium sulfate was roughly 10 percent lower.

## **Competitive Strengths**

Plant Nutrition's principal competitive advantages include the following:

### ***A World Leader in Ammonia***

Ammonia is the key raw material for all nitrogen fertilizers. Hydro's position as a world leader in ammonia is linked to scale factors in production, shipping and trade. In addition, future investment in existing plants will be low because of their high technological and environmental standards.

### ***Strong Position in Nitrates in Europe***

Plants are modern, efficient and well located, and Hydro expects improved capacity utilization as a result of the improved supply/demand balance following the recent capacity reductions in the European market.

### ***A World Leader in NPK***

Hydro is a world leader in deliveries of NPK, the fastest growing high volume fertilizer, and is particularly targeting customers in the fruit and vegetable (referred to in the industry as "cash crops") segment, which historically has offered the best margins.

### ***Strong Position in High Margin Markets***

Specialty products such as calcium nitrate and special grades of NPK provide a basis for growth in high margin markets.

### ***A Global Marketing Network***

Plant Nutrition has a marketing network and distribution system in approximately 20 countries in Europe and an international marketing network and distribution system with chartered gas tankers, bulk blending plants, sales offices, terminals and bagging operations in more than 35 countries outside of Europe.

### **Raw Materials and Production**

The three major nutrients required for plant growth are phosphorus, contained in phosphate rock (a key raw material for phosphate and complex fertilizers), potassium (a regulator of plants' physiological functions) and nitrogen (an essential element for most organic compounds in plants).

The most important raw material for Plant Nutrition's fertilizer operations is natural gas. Natural gas serves as a hydrogen source with which nitrogen is reacted to produce ammonia. Ammonia is used to produce a full line of upgraded fertilizer products, including urea and NPK. Plant Nutrition purchases most of its annual consumption of natural gas from external suppliers. Plant Nutrition's annual consumption of natural gas in Europe amounts to about 140 million MBTU.

Plant Nutrition's major large scale fertilizer production facilities after the restructuring include two plants in Norway and in Germany, three plants in France and in Italy, one plant in Sweden and one plant in the Netherlands. The bulk of the production equipment was put into operation during the 1980's and 1990's. At the end of 2000, Plant Nutrition's total production capacity was approximately 11 million tonnes per year. Plant Nutrition achieved production records in several of its plants in 2000 for both ammonia and fertilizer.

Plant Nutrition has a 49 percent interest in Trinidad Nitrogen Co. Ltd. (Tringen) in Trinidad and Tobago. Hydro operates and manages the two plants owned by Tringen (and a third plant in which Hydro is the sole owner) which have a combined annual ammonia capacity of approximately 990,000 tonnes, of which Plant Nutrition is committed to purchase approximately 700,000 tonnes per year until the end of 2003. The location of these plants is advantageous from the standpoint of access to long-term supplies of natural gas. In addition, Trinidad serves as an excellent strategic location for exports to the United States.

Plant Nutrition owns 25 percent of Qatar Fertilizer S.A.Q. (Qafco) in Qatar. Plant Nutrition provides marketing support and technical assistance to Qafco. In 1994, Hydro entered into a ten-year marketing agreement to sell ammonia and urea produced by Qafco on a commission basis. This provides the segment with additional products for markets outside Europe. In 1997, Qafco's urea capacity was nearly doubled by the start-up of Qafco III, a new plant having a capacity of 730,000 tonnes of urea and 550,000 tonnes of ammonia.

### **Seasonality**

The fertilizer industry is characterized by strong seasonal fluctuations. Generally in Europe about 80 percent of annual fertilizer use occurs in a six-to-eight week season. In contrast, production takes place evenly throughout the year. Approximately 65-70 percent of the annual sales of Plant Nutrition's European production of fertilizers occurs in the period from September to March. In order to assure that product is available at agricultural cooperatives and wholesalers in the peak period and to fully utilize the storage capacity of the total distribution system, Plant Nutrition seeks to sell products more evenly throughout the year. The combination of Plant

Nutrition's distribution network in Europe and overseas helps to smoothen seasonal demands for deliveries and allows for better capacity utilization in the distribution as well as the production system.

### **Capital Expenditures**

In 2000, capital expenditures were about NOK 1,093 million compared to NOK 1,267 million in 1999 and NOK 1,960 million in 1998. A significant proportion of the investment in 2000 was related to the acquisition of Trevo. A greater proportion of investments in 1999 was related to maintenance of existing plants and upgrading of the ammonia plants in Le Havre and Porsgrunn.

### **Government Regulation**

In 1992 the members of the European Union agreed upon the implementation of the Common Agriculture Policy (CAP) reform which, among other things, resulted in a percentage-based reduction of acreage for arable crops. The set-aside percentage for the past three fertilizer seasons has been 10 percent and is expected to remain at this level for the foreseeable future.

## **Gas and Chemicals**

Gas and Chemicals markets numerous products mainly originating from Hydro's ammonia and fertilizer production. The main business areas within Gas and Chemicals are Hydrogas, Hydro Chemicals and Hydro Oleochemicals.

Hydrogas supplies major industrial gas products, including carbon dioxide, nitrogen, oxygen and argon, in bulk volumes and cylinders. Carbon dioxide is used in the production of soft drinks and beer, as well as for refrigerating, freezing and packaging of foods. Nitrogen functions as a refrigerant and freezing agent, and as an inert gas. Among its many applications, oxygen is used for medical purposes and in combustion processes. Argon is used in an assortment of industrial processes and in welding.

Hydro Chemicals' most important products are nitrates for civil explosives, urea for glue production, Nutriox (TM) for the treatment of municipal and industrial waste water, and Reduktan for the removal of nitrogen oxide (NOx) from the emission gases of power plants, waste incinerators and ferries.

Hydro Oleochemicals supplies fatty acids and esters.

### **Strategy**

Gas and Chemicals' strategy is to develop niche markets where existing assets and skill base provide Hydro with a competitive advantage. Hydro aims to optimize the use of the production infrastructure shared with Plant Nutrition by providing sophisticated product applications to industrial customers. Increased environmental awareness presents an opportunity for further development of environmental process applications, including treatment of waste water and gaseous emissions.

Several non-core businesses not either drawing upon Hydro's main strengths or creating synergy with other Agri activities were divested or terminated during 2000 in order to streamline the business. This included production of grain refiners, wax activities, sulfate production in Germany and a 50 percent stake in Hydrogas-Messer, Sweden.

The closure of the Immingham fertilizer plant in the U.K. resulted in reduced activities within nitrogen chemicals in that market.

## **Industry Trends**

### ***Consolidation within Industrial Gas Industry***

The consolidation that has occurred within the global industrial gas industry in recent years now seems to be complete. The industry consolidation has not had any significant impact on the industrial gas business of Gas and Chemicals.

### ***Increased Environmental Awareness***

Increased environmental awareness continues to have a positive effect on sales of Nutriox for water treatment and Reduktan for removal of NOx emissions.

### ***Increased Technical Nitrates Capacity***

Markets for technical nitrates for civil explosives are stable in Europe and growing overseas. New production capacity in these growth areas is making imported material less competitive and has also resulted in supply/demand imbalance and pressure on pricing and, as a result, margins.

## **Competitive Strengths**

Gas and Chemicals competes with large international chemical and industrial gas companies. Competition is generally based on product and application development, technical support, cost-efficient production and logistical considerations. Most products are sold to industrial customers and are, therefore, sensitive to business cycles. Gas and Chemicals has a strong competitive position based on its market approach and skill base, the optimization of production infrastructure shared with Plant Nutrition, and sophisticated product applications.

### ***Strong customer focus***

Gas and Chemicals has a strong customer focus, working closely with its customers to develop new products and applications and guaranteeing just-in-time deliveries. Application development is mainly based on the product knowledge within the organization, but also through drawing upon Hydro's research and development competencies. In addition, Gas and Chemicals offers its customers assistance in addressing their health, environment and safety-related issues.

### ***Shared production infrastructure***

Gas and Chemicals has access to products from several production plants within Plant Nutrition. This improves logistics and provides back-up possibilities if production problems occur. The shared infrastructure also gives access to raw materials and facilities for mixing/diluting products and enables co-shipments with fertilizers.

### ***Sophisticated product applications***

Gas and Chemicals has developed several dosing control systems for installation at customer sites. The benefits obtained are optimized product consumption as well as reduced risk of unwanted effluent and emissions. Strict product quality control is very important for Gas and Chemicals since several of its products are used within the food segment. This is achieved through the implementation of Hazard Analysis Critical Control Points (HACCP), a quality control approach established by the World Health Organization now being adopted by the European Commission, which is expected to implement several new directives in this field.

## **Raw Materials and Production**

In addition to the shared European production facilities, Gas and Chemicals has manufacturing plants in Sri Lanka, India, Thailand and Malaysia. Also, civil explosives are supplied to the mining industry through joint ventures established in Colombia, the Czech Republic and Russia.

Hydro Agri production facilities in Sluiskil and Porsgrunn have a production capacity of 600,000 tonnes of liquid carbon dioxide per year. In addition, Hydro has a long-term contract to purchase carbon dioxide from Terra in the U.K., as well as contracts with other external suppliers. Total production capacity of technical grade ammonium nitrate amounts to 330,000 tonnes. Most of Gas and Chemicals' other products are intermediates in the production of fertilizers without any firm capacity restrictions.

## **Sales and Distribution**

Gas and Chemicals' distribution system for liquid carbon dioxide includes specially designed vessels, as well as terminals in the U.K., Sweden and Poland. In addition, Hydro acquired from ICI the right to sell carbon dioxide to end users in the U.K. in order to strengthen Hydro's position in that market.

The division has a distribution system that covers a major part of Europe, including both owned storage and terminals and customer installations. Due to good product and application knowledge in the division, health, environmental and safety issues are addressed throughout the distribution and delivery process.

## **Capital Expenditures**

Capital expenditures in 2000 totaled NOK 240 million, compared with NOK 259 million and NOK 415 million in 1999 and 1998, respectively. Expenditures have related principally to customer installations and smaller modifications of existing assets.

## **KFK**

A/S Korn og Foderstof Kompagniet (KFK) is a publicly-held Danish company, in which Hydro holds a 62 percent interest, that is engaged in the production and sale of animal feed, as well as the trading of grain, feed stuffs, fertilizer and other agricultural related products. KFK operates in the Swedish market through a majority position in Svenska Foder AB. In addition, KFK produces and sells fish feed in the European market through ownership of the Biomar Group.

## **Strategy**

### ***Expansion of Fish Feed Operations***

In recent years, KFK has focused on expanding its fish feed operations. The fish feed business is characterized by a few large companies covering approximately three quarters of the market. The market is divided into feed for salmon and feed for trout and other fish species. The market for salmon is the biggest and fastest growing market. KFK is currently the third largest fish feed supplier in the global market. New capacity was added in 1999 and 2000 partly to compensate for a loss of capacity due to a fire at the Myre plant in 1998. Focus on this business area will continue with the expectation for market growth, as well as new capacity development in Greece. KFK is also evaluating a joint venture for fish feed production in Chile.

### ***Cost and Productivity Improvements***

KFK operates in a highly competitive environment characterized at present by over-capacity in the grain and feed stuff business in Denmark. KFK will further rationalize its operations for purposes of achieving cost and productivity improvements. To increase the capacity utilization of its production facilities, KFK closed two feed blending units in Denmark during 1999. These units represented approximately 15 percent of total capacity. In 2000, KFK decided to reduce its capacity further by closing two additional units, to occur in 2001. The remaining blending units will be made part of a centrally optimized system. In addition, KFK will seek to strengthen its competitive position by consolidating its sales and distribution network through the closure of approximately 30 minor outlets in Denmark.

### **Industry Trends**

#### ***Consolidation***

A substantial consolidation of agricultural activity is taking place within KFK's principal markets. Grain and feed stuff suppliers have not kept pace with the changes in the agricultural sector, though a number of acquisitions and mergers among such suppliers occurred in 1999 and 2000. KFK participated in this consolidation process by purchasing four privately-owned feed and grain operations, including Sjølund Mølle A/S, one of the largest private grain and feed stuff companies in Denmark.

Consolidation is also occurring, in Europe and globally, in both the salmon farming and the fish feed businesses.

### **Competitive Strengths**

KFK is the second largest feed and grain business in Denmark, operating an extensive network of modern feed plants and points of sale covering, at present, 30% of the Danish market. KFK has a strong position among the non-coop based farmers.

KFK's fish feed business, through its size and location, is well-positioned to be a competitive supplier to the main fish producing regions in Europe, both for salmon in the Northern areas and for other fish in the Southern areas.

### **Raw Materials and Production**

After implementation of the planned rationalization program, KFK will produce feed stuff by combining locally purchased grain and other imported ingredients at 19 modern blending units across Denmark and Sweden. Grain trading is an integral part of the feed operations since grain is the most important input into feed blends. Locally purchased grain is also traded internationally. In addition, KFK is engaged in grain handling and drying. KFK also operates blending units for fish feed in Denmark, Norway, France and the U.K.

### **Sales and Distribution**

KFK currently has a network of approximately 100 distribution points in Denmark selling directly to farmers and supplying approximately 30 percent of the Danish market with its products. The distribution network will be reduced upon implementation of the planned closure of the 30 outlets in Denmark.

## **Capital Expenditures**

In 2000 capital expenditures for KFK were NOK 548 million compared to NOK 428 million and NOK 248 million in 1999 and 1998, respectively. Capital expenditures in 2000 related primarily to the construction of fish feed plants and acquisitions of feed businesses.

## **PETROCHEMICALS AND OTHER ACTIVITIES**

Hydro has announced its intention to concentrate on the three core areas of its business, Oil and Energy, Light Metals and Agri.

As far as future ownership of Hydro's petrochemicals business, Hydro announced in February 2001 that current market conditions were not conducive to a reduction in Hydro's ownership interest in the business. Accordingly, Hydro will operate its petrochemicals business to secure its industrial potential until a structural solution is found that will provide sufficient value for Hydro and its shareholders.

With respect to Hydro's "Other Activities," in November 2000 Hydro completed the sale of Hydro Seafood (other than the U.K. operations of Hydro Seafood GSP Ltd.) to Nutreco Holding. Responsibility for remaining non-core activities will be consolidated within Pronova with the aim of creating optimum value.

### **Petrochemicals**

Hydro's Petrochemicals segment is involved in all stages of production of the plastic raw material, polyvinyl chloride (PVC), which is also known as vinyl, and its intermediate products. Petrochemicals is the largest PVC supplier in the Nordic countries measured in terms of market share. Main production facilities are located in Norway, Sweden and the U.K. In addition, Petrochemicals has minority interests in alliances in the South East Asia (Singapore), the Middle East (Qatar) and China.

### **Strategy**

For the last few years, Petrochemicals has focused on reducing costs and increasing asset productivity through de-bottlenecking increases in capacity. Since 1996, Petrochemicals has reduced staffing by approximately 35 percent (including activities sold), and reduced recurring fixed costs. The cost and productivity improvements have improved Petrochemicals' underlying competitive position.

### **Industry Trends**

#### ***Restructuring of European Petrochemicals Industry***

The petrochemicals industry in Europe developed on a national, rather than a European, basis. Accordingly, the European market historically has been fragmented with numerous companies operating in a limited geographical area. Plants in Germany, France, the Netherlands, the U.K. and Italy account for about 70% of European capacity. Germany has had advantages of central location and good infrastructure, while port access for feedstocks and exports has benefited France, the U.K. and the Netherlands.

Compared with the United States, Asia and the Middle East, Europe has had cost disadvantages and inefficient capacity (e.g., older, smaller plants). Limited profitability has hindered new large scale construction. In the second half of 2000, this situation changed somewhat as high gas prices, particularly in the U.S., increased the cost base relatively more for U.S. petrochemicals producers.

European producers' main challenge has been to rationalize operations in the face of a more global market. Producers in the U.S. and the Middle East have capacity to import into Europe. However, the attractiveness of such imports varies depending upon the US dollar exchange rate, energy prices and demand in Asia. Competitive pressure has led to some alliances, restructuring and mergers within Europe. Industry experts see potential for further restructuring as there are still numerous players with aging plants within Europe.

### ***Market for PVC: demand follows economic growth***

The main market for PVC is within the building and construction industry. PVC-based products are used for various types of pipes, floors, roofing materials, window profiles and cable insulation. PVC is also utilized in packaging and automotive applications, as well as several other uses. Demand for products is closely tied to economic growth and is affected by global economic changes. Global and European demand for PVC is expected to increase in 2001 by 3 percent and 1.8 percent, respectively. In general, growth tends to follow changes in GDP.

PVC has been the focus of environmental groups due to potential health and environment hazards arising from the production, use and disposal of PVC. To date, the total demand for PVC does not appear to have been significantly altered as a result of this focus.

## **Competitive Strengths**

### ***Nordic Market Share Leader***

Hydro's Petrochemicals segment is the largest PVC supplier in the Nordic countries with a market share of approximately 60 percent. In the United Kingdom, the segment ranks first with approximately 32 percent of the market. Hydro has an advantage in having close proximity to these markets and long term strategic relationships with customers.

### ***Integrated Producer***

Ethylene and chlorine are basic raw materials for vinyl chloride monomer (VCM) the main intermediate material for PVC. Hydro operates and has an ownership interest in a fully integrated ethylene cracker (50%, through Hydro's joint venture interest in Noretyl AS), chlorine (100%) and VCM (100%) production complex located at Rafnes in Norway. The production efficiencies inherent in an integrated production process contribute to higher margins compared to margins of competitors that rely on purchased VCM. Petrochemicals has a secure supply for most of its remaining ethylene and chlorine needs through long-term supply contracts. Petrochemicals' competitive position in vinyl is enhanced by a well-balanced product chain, geographical concentration and a strong customer focus.

At present, Petrochemicals transports raw materials and intermediates between its plants in Rafnes, Sweden and the U.K. Increased efficiency and lower transportation cost could be achieved by an even higher level of balance between input (raw materials) and output (final product) streams at the individual plants. An option to increase the balance at Rafnes by increasing chlorine production is under development. In 2000, Hydro received the necessary permits from Norwegian authorities which would allow for increased production and modernization of both its chlorine and VCM plants at Rafnes. Realization of these projects will be dependent on the merits of the projects and approval from Hydro's Board of Directors.

## Raw Materials and Production

### *Plant locations*

Hydro manufactures PVC at the following plants: Hydro Polymers AS (Porsgrunn, Norway), Hydro Polymers AB ( Stenungsund, Sweden), and Hydro Polymers Ltd. (U.K.). The Nordic sites produce S-PVC and P-PVC, while the U.K. site produces S-PVC for external sale and mixing with additives to generate PVC compounds in a variety of grades to meet customer specifications. VCM is produced at Hydro's Rafnes and Stenungsund plants.

### Petrochemicals production

( tonnes)	2000	1999	1998	1997
<i>Base Products</i>				
VCM	536,000	539,000	512,000	537,000
Caustic Soda	271,000	272,000	270,000	276,000
<i>Polymers</i>				
S-PVC	445,000	451,000	403,000	352,000
P-PVC	76,000	68,000	68,000	65,000
Total Polymers	521,000	519,000	471,000	417,000
PVC Compounds	154,000	161,000	139,000	131,000

### Average market quoted prices North West Europe

	2000	1999	1998	1997
Ethylene - DEM/tonne delivered	1301	829	845	993
VCM - Spot export FOB USD/tonne	562	418	315	445
S-PVC - DEM/kg delivered	1.68	1.22	1.21	1.35

Source: ICIS/LOR and Harriman

### *Value chain*

Natural gas liquids and salt are used to produce the basic products ethylene, chlorine and a by-product, caustic soda. Ethylene and chlorine are used to produce the intermediate product, VCM. VCM is the basic ingredient in PVC production. Caustic soda is a key chemical used in a variety of industrial applications including the Nordic pulp and paper industry.

Feed stocks for the Rafnes facility are primarily supplied by long-term contracts for natural gas liquids (NGL) from a number of North Sea fields. Price formulas are linked to naphtha or oil prices. As such, oil prices are an important driver of ethylene costs. Petrochemicals' share of ethylene produced at Rafnes in 2000 was 181,000 tonnes. A new cracker furnace in the ethylene plant went into operation in the summer of 2000. This will provide Hydro with approximately 24,000 tonnes of additional ethylene per year. The total production of chlorine in 2000 was approximately 241,000 tonnes. Ethylene and chlorine, along with certain intermediates provided from the Sweden plant, are combined to produce VCM (part of which is transported to Hydro's plants in the U.K. and Sweden) and then PVC is produced.

The ethylene plant has a maintenance turnover period of 4 years, whereas the chlorine and the VCM plants at Rafnes shut down for maintenance every second year. A major maintenance shut down at Rafnes in May 2000 resulted in a reduction of the production of ethylene, VCM and chlorine.

The Stenungsund plant purchases ethylene and chlorine for its intermediate products, VCM and PVC production.

The combined ethylene requirements in excess of production capacity for 2000 were purchased through long-term agreements (approximately 51,000 tonnes) and spot purchases (approximately 23,000 tonnes). Remaining chlorine requirements are obtained through long term contracts.

### *Alliances and other activities*

Alliances have provided Petrochemicals with market positions in South East Asia (Singapore), the Middle East (Qatar) and, most recently, in China, where investments in new capacity amounting to 100,000 tonnes of PVC will support a move into a new market for plastic foil productions.

Hydro owns a 60 percent interest in Singapore Polymer Corporation (SPC), a PVC and non-PVC compounding producer. The company is the largest single-site compounder in South East Asia with a capacity of 50,000 tonnes per year. Hydro also owns a 51 percent interest in a relatively small compounding company in India.

Hydro also has a 26.2 percent interest in a PVC resin and compound manufacturer in Portugal (CIRES), and a 31.8 percent interest in Suzhou Huasu Plastics Co. Ltd., near Shanghai in China. Suzhou Huasu Plastics produces PVC film and has a S-PVC capacity of 100,000 tonnes per year.

Hydro has a 29.7 percent interest in a joint venture project in Qatar for the production of ethylene-dichloride designated for external sale (capacity of 175,000 tonnes), VCM (capacity of 230,000 tonnes) and caustic soda (capacity of 290,000 tonnes). Construction of the new plant started in 1999 and is expected to be completed in 2001. Total development costs are estimated to be NOK 4.5 billion.

### **Sales and Distribution**

Caustic soda, a by-product of chlorine production, is sold to customers in Europe and North America through Hydro's own sales organization. Distribution is by vessel, rail or truck. In addition to its own production, Hydro trades moderate quantities of caustic soda in the same markets.

PVC and PVC compounds are mainly sold by Hydro's own sales organization. Distribution is mainly by truck. Suspension PVC (S-PVC) pipe grade is considered to be a commodity product, while there is considerable product and price differentiation in other S-PVC applications. Paste PVC (P-PVC) accounts for about 10 percent of the total PVC market. This product is traditionally considered to be a specialty product influenced only to a limited extent by the S-PVC price development.

### **Capital Expenditures**

Capital expenditures in 2000 were NOK 540 million compared to NOK 555 million in 1999 and NOK 526 million in 1998. Of the total amount invested in year 2000, approximately 145 million related to health, environmental, safety or maintenance investments at the major units. The major projects were the Qatar joint venture project (NOK 207 million) and the ethylene furnace at Rafnes (NOK 28 million). Remaining investments related to minor capacity increases and improvements.

## Government Regulation

PVC has been the subject of environmental debate for a number of years. Hydro, along with other European petrochemicals companies, has been actively involved in the development of voluntary measures to improve the manufacture, use of additives and waste management of PVC. The EU has completed a consultation process and is expected to issue a green paper on PVC in 2001. The paper may include suggestions to adopt voluntary or other legislative measures related to PVC. While the exact nature of these measures is not known, Hydro anticipates that it will be positioned to respond to the measures.

## Other Activities

**Hydro Seafood** was sold to a Dutch company, Nutreco Holding N.V. in November 2000. The sale of Hydro Seafood's U.K. operations, Hydro Seafood GSP Ltd., was blocked by the U.K. Department of Trade and Industry as a result of competition concerns. Hydro has begun the process of selling the U.K. operations to a third party.

**Pronova** is Hydro's "incubator" for projects and activities at the periphery of the Company's core business areas. Its main objective is to develop businesses and realize their long-term potential as part of Hydro or outside of the Company.

Pronova is comprised of several activities including the production of Omega-3 fatty acids, formates for use as animal feed, de-icing agents and drilling fluid, packaging systems for transport of bulk goods, carbon dioxide based heat pumps and electrolyzers for the production of hydrogen.

Pronova has developed a highly concentrated Omega-3 drug, Omacor™, for treatment of hypertriglyceridemia (increased blood lipids). The drug was approved for medical use by six EU countries in March 2001. Together with the Norwegian Institute of Technology, Hydro has developed a CO<sub>2</sub> heat pump system which operates under super critical pressure conditions. The system can provide an alternative to environmentally damaging gases currently used in refrigeration and air conditioning plants. Pronova signed a working agreement with Denso of Japan for the application of this technology to water heating. The system is expected to be launched in the Japanese market in the spring of 2001.

**Technology and Projects (HTP)** provides project and engineering services to Hydro's operating segments.

**Industrial Insurance.** Industriforsikring a.s is a wholly owned subsidiary which provides property, casualty and marine insurance for companies in the Group.

#### ITEM 4.C. ORGANIZATIONAL STRUCTURE

The following “significant subsidiaries,” as that term is defined by applicable rules of the Securities and Exchange Commission, are included in the consolidated financial statements of the Group:

Company Name	Country of Incorporation	Proportion of ownership Interest*
Norsk Hydro Produksjon AS	Norway	100 percent
Hydro Aluminium AS	Norway	100 percent
Saga Holding AS	Norway	100 percent
Norsk Hydro Danmark AS	Denmark	100 percent

\* Ownership percentage reflects proportion of voting power.

#### ITEM 4.D. PROPERTY, PLANTS AND EQUIPMENT

The Group's rights to oil and gas located on the Norwegian Continental Shelf, mainly in the North Sea, are among its most important assets. See **Item 4.B. “Information on the Company - Business Overview - Oil and Energy - Exploration, Development and Production”** for information with regard to reserves and sources of oil and gas and **Item 4.B. “Information on the Company - Business Overview - Oil and Energy - Government Regulation”** with regard to the Norwegian government's authority to increase its participation in the development of certain oil and gas fields and other regulatory matters.

The Group's major production plants in Norway are located at Porsgrunn (fertilizers, magnesium and PVC), Rafnes (petrochemicals), Karmøy, Årdal, Sunndalsøra, Holmestrand and Høyanger (aluminum) and Glomfjord (fertilizers). The Group owns clear title to hydro-electric power stations with a generating capacity of 2.9 TWh per year. Generating capacity of approximately 8.9 TWh is operated under concessions from the Norwegian government which will expire without compensation in the period between 2018 and 2049. Hydro's principal Agri and Light Metals production facilities abroad are located in Austria, Belgium, Canada, China, Denmark, France, Germany, Italy, the Ivory Coast, Luxembourg, the Netherlands, Poland, Portugal, South Africa, Spain, Sri Lanka, Sweden, Trinidad and Tobago, the United Kingdom and the United States. Hydro has an interest in an oil refinery in Sweden, a retail gasoline and fuel oil marketing network through an affiliated company in Denmark and Norway and wholly owned operations in Sweden. Hydro also participates in a fertilizer complex in Qatar and alumina refineries in Jamaica and Brazil.

Virtually all of the Group's properties are owned by the Company's subsidiaries, except certain facilities in the oil and gas, hydro-electric and petrochemicals businesses which are jointly owned with other companies. All major facilities of the Group are insured in line with customary industry practices.

Hydro is subject to changing environmental laws and regulations that in the future may require the Company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. See note 21 to the consolidated financial statements for a description of expenses and accruals relating to corrective environmental measures for the current and preceding fiscal years. There were no environmental measures, implemented voluntarily or required by law, that had a significant effect on the utilization of the Company's main production facilities in 2000.

## **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

### **ITEMS 5.A. - D. OPERATING RESULTS; LIQUIDITY AND CAPITAL RESOURCES; RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES; TREND INFORMATION**

#### **2000 Compared with 1999**

The comparative discussion of Hydro's financial condition and results of operations as of and for the years ended 31 December, 2000 and 1999, as well as information regarding Hydro's material commitments for capital expenditures as of year-end 2000 and Hydro's research and development policies for the three-year period ended 31 December, 2000, is incorporated by reference to the "Financial Review" section (pages 44 through 64) of the Company's 2000 Annual Report to Shareholders. Such discussion, together with the Company's consolidated financial statements as of and for the year ended 31 December, 2000 and the related notes, included in the 2000 Annual Report to Shareholders, has been filed as an exhibit to this Annual Report on Form 20-F in accordance with applicable rules under the Exchange Act.

#### **1999 Compared with 1998**

Group operating revenues of NOK 102,433 million in 1999 were 5 percent higher than in 1998. Operating revenues of Saga included in the consolidated accounts were NOK 3,880 million. Operating income increased by 33 percent compared to the previous year. Earnings in 1999 were favorably influenced by a significantly higher crude oil price, while low prices for fertilizer and lower realized prices of aluminum negatively impacted 1999 earnings.

#### **Financial and other**

The results for non-consolidated investees decreased compared to the previous year. The decline was mainly due to reduced performance from Hydro's fertilizer affiliates, while earnings improved for Dyno ASA and Hydro Texaco. In 1998, earnings from Dyno included provisions related to a legal settlement in the U.S. which reduced Hydro's earnings by NOK 198 million.

Net financial expense was NOK 1,551 million, compared with NOK 409 million in 1998. In 1998, net financial items were affected by a pre-tax gain of NOK 1.1 billion related to the sale of Hydro's shares in Saga. Capitalized interest in 1999 was NOK 839 million, compared to NOK 614 million in the previous year. Net interest expense increased by NOK 102 million in 1999 due to higher net interest bearing debt.

The US dollar exchange rate rose in 1999 from NOK 7.61 per dollar at the beginning of the year to NOK 8.01 at the end of the year. The net foreign exchange loss in 1999 decreased to NOK 304 million from NOK 361 million in 1998. During 1998, the dollar strengthened from NOK 7.33 at the beginning of the year to NOK 7.61 at year-end.

In 1999, other income of NOK 1,350 million consisted of a gain of NOK 149 million on the sale of the plastic pipe systems of Mabo, a gain of NOK 1,025 million on the sale of Pronova Biopolymer, a gain of NOK 234 million on the sale of Hydro Coatings and a loss of NOK 58 million related to the transfer of the plastic bumper system activities.

## **Taxes and net income**

Income before taxes and minority interest increased 35 percent from 1998. The provision for current and deferred taxes was equivalent to 55 percent of pre-tax income in 1999, compared to 34 percent in 1998. The higher relative proportion of income attributable to offshore oil and gas activities on the Norwegian Continental Shelf increased the effective tax rate. In addition, the 1998 tax rate was positively influenced by a settlement on tax consolidation in the Netherlands related to parts of Hydro's agriculture activities. Current tax represented 82 percent of total taxes in 1999, compared to 70 percent in 1998.

Net income was NOK 3,416 million (NOK 13.80 per share) in 1999, compared to NOK 3,754 million (NOK 16.40 per share) in 1998.

The balance sheet of Hydro as of 31 December 1999 is significantly influenced by the Saga acquisition. Total assets and total liabilities increased by NOK 46.1 billion and NOK 38.2 billion, respectively, as a result of the acquisition of Saga.

Short-term bank loans and the current portion of long-term debt increased to NOK 8,268 million at the end of 1999 from NOK 6,737 million at the end of 1998.

Hydro's long-term interest bearing debt at the end of 1999 was NOK 42,228 million, compared to NOK 24,105 million at the end of 1998.

Net interest bearing debt (short- and long-term interest bearing debt, including the current portion of long-term debt, less cash and cash equivalents) at the end of 1999 was NOK 43.1 billion, compared to NOK 28.9 billion at the end of 1998. The increase in net interest bearing debt resulted from the issuance of new debt in 1999 and the debt acquired via the Saga acquisition, which at year-end was NOK 5.2 billion. At the date of acquisition, net-interest bearing debt in Saga was NOK 14.7 billion. Norsk Hydro ASA issued long-term debt in January 1999 in the aggregate principal amount of NOK 7.1 billion in the U.S. and the U.K. The U.S. issue and the U.K. issue totaled USD 575 million and GBP 225 million, respectively. In addition, Hydro issued Euro bonds of EUR 300 million at 6.25 percent in October 1999.

Minority interest increased by 5 percent to NOK 1,323 million in 1999.

Shareholders' equity was NOK 59,497 million at the end of 1999, an increase of 23 percent compared to 1998. The share capital increase related to the Saga acquisition led to an increase in shareholders' equity in 1999 of NOK 11,603 million.

## **OIL AND ENERGY**

Hydro Oil and Energy, which in 1999 consisted of the segments Exploration and Production, Refining and Marketing and Energy, had operating income of NOK 6,962 million in 1999. This was an increase of NOK 3,702 million or 114 percent compared to 1998.

With effect from 1 January, 2000, oil and gas trading, refining activities and sale of dry gas were transferred to Energy. The remaining oil marketing activities in Sweden, including Hydro's joint venture, Hydro Texaco, were to be reported, as of 1 January, 2000, under a separate segment named "Oil Marketing."

## **EXPLORATION AND PRODUCTION**

Internal sales, mainly to Energy, amounted to NOK 10,410 million in 1999 compared to NOK 7,025 million in 1998. Saga Petroleum's activities were consolidated in Hydro's accounts with effect from 1 July, 1999.

### **Revenues and market conditions**

Operating revenues increased by 64 percent due to higher oil prices and volume. Most of the oil produced by Exploration and Production was sold through Refining and Marketing. In 1999, these sales increased by 49 percent compared to 1998. Internal sales to Refining and Marketing represented 59 percent of Exploration and Production's total operating revenues in 1999, compared to 65 percent in 1998. The remaining 41 percent of 1999 operating revenues was comprised mainly of sales of gas and transportation tariffs, in addition to external oil sales, mainly by Saga. Total external sales by Saga represented 22 percent of total operating revenues.

In 1999, Hydro realized an average crude oil price of USD 18.50 per barrel compared to USD 12.40 per barrel in 1998. The realized oil price in Norwegian kroner was NOK 145 per barrel in 1999 compared to NOK 94 per barrel in 1998. Saga's price hedging program for crude oil negatively affected 1999 operating income by NOK 367 million and financial expense by NOK 377 million. Due to the time lag in the price-setting mechanism for gas relative to crude oil, average prices for gas were lower in 1999 than the previous year.

Hydro's total production of oil and gas in 1999 was 340,000 barrels of oil equivalents per day (boed) compared to 270,000 boed in 1998. The increase was mainly due to production from Saga of 130,000 boed in the second half of 1999, which on an annualized basis, represented a contribution of 65,000 boed. Oil production accounted for 78 percent of the total production in 1999 compared to 79 percent in 1998. Gas production rose to 11.7 million standard cubic meters per day in 1999 compared to 9.0 million standard cubic meters in 1998. Included in the increase was Saga's total gas production of 621 million standard cubic meters in the second half of 1999 or 1.7 million standard cubic meters per day on an annualized basis.

Oil production from fields put into operation in 1999 was lower than expected, mainly due to delayed start-up and the resulting lower production from the fields, Visund, Åsgard, Oseberg East and Khariaga. Oil production was lower from the existing fields, Oseberg and Brage, which are in the decline phase of oil production, while Njord increased its production. Gas production from the major field, Troll, increased in 1999. As a result of the acquisition of Saga, Hydro gained access to production from Saga's existing fields in Norway. Hydro's production outside of Norway also increased due to production from Saga's fields in the United Kingdom and Libya.

Global oil production decreased to approximately 74 million barrels per day in 1999 from an average of 75.5 million barrels per day in 1998. OPEC production declined by 1.4 million barrels per day, while the decrease in production outside of OPEC was approximately 0.2 million barrels in 1999.

At the beginning of 1999, the Brent Blend oil price was around USD 11 per barrel. Prices started to increase around March, after OPEC decided to cut their oil production further by 1.7 million barrels per day. From March 1999 through year-end 1999 the prices increased steadily, and at year-end the price of Brent Blend was approximately USD 25 per barrel. This increase in price, primarily caused by OPEC production cuts, was also due to a reduction in production outside of OPEC, an increase in demand as a result of better economic conditions in Asia, as well as colder weather conditions in the OECD area.

Gas consumption in Western Europe, the most important market for Norwegian gas, increased by approximately 4.7 percent from 1998 to 1999. Increase in demand for gas used for generation of electrical power was the primary reason for this growth. Natural gas exports from the Norwegian Continental Shelf grew by 6.3 percent to 45.8 billion standard cubic meters, of which Hydro's share was approximately 9.1 percent.

## **Operating costs**

Average production cost (cost of operating field and transportation facilities including CO<sub>2</sub> emission tax, insurance, and gas purchased for injection, excluding transportation tariffs and depreciation) was NOK 22 per boe in 1999 compared with NOK 21 per boe in 1998. Hydro's total expenditure for exploration of oil and gas and appraisal of discoveries amounted to NOK 1,513 million in 1999 compared to NOK 1,368 million in 1998. Saga accounted for NOK 301 million of the increase in exploration expenditures in 1999. Increased exploration activities in Angola and Canada resulted in an increase in Hydro's international exploration activities, while exploration activities in Norway were reduced by 13 percent compared to 1998. Of the total exploration expenditures, NOK 1,202 million was expensed in 1999 compared to NOK 1,221 million in 1998. Accruals for well closure, decommissioning and removal costs totaled NOK 542 million in 1999.

Depreciation, including provisions for abandonment and well closure cost, averaged NOK 49 per boe in 1999, compared to NOK 35 per boe the previous year. This increase was related to more production from fields with higher depreciation cost per boe, and also to increased accruals related to decommissioning and well closure. Depreciation related to the excess value over book value of assets acquired from Saga amounted to NOK 8 per boe on an annualized basis.

A total number of approximately 710 employees accepted severance payments and early retirement packages offered as part of the reorganization process following Hydro's acquisition of Saga. Approximately 650 employees accepted before year-end 1999 and the remaining 60 employees in the first part of year 2000.

## **ENERGY**

### **Revenues and market conditions**

In 1999, operating revenues for Energy were NOK 18102 million, an increase of 34 percent compared to 1998. The increase was primarily due to an increase in operating revenues from European gas trading activities and significantly higher oil prices. The average Brent Blend crude oil price increased 41 percent in 1999 compared to the prior year. Selling prices of refined products increased correspondingly, but at a slower rate. Electricity trading revenues decreased by 7 percent due to lower electricity prices.

Gross margins on electricity sales increased in 1999 by NOK 120 million due to increased electricity production. Higher than normal inflow into reservoirs in 1999 allowed for higher net sales of electricity in the spot market. Average spot prices fell from 11.6 øre/KWh in 1998 to 11.2 øre/KWh in 1999. Energy's European gas trading activity margins increased to NOK 35 million compared to NOK 2 million in 1998, the figure for 1999 representing a full year of trading activity versus one month in 1998. Hydro's earnings from refining increased by 133 percent compared to 1998. The improvement was mainly caused by better margins on sales from inventories acquired at lower historical costs and the prior year being impacted by a six-week maintenance shutdown of Scanraff. However, measured on a daily basis, Hydro's refining margins weakened during 1999 as a result of the rapid increase in crude oil prices.

Energy's total marketed electricity volume increased to 29.7 TWh in 1999 from 24.0 TWh in 1998. Electricity production for Hydro-operated plants totaled 10.4 TWh in 1999, an increase of 16 percent compared to 1998.

Net energy exports from Norway amounted to 2.1 TWh in 1999, compared to net imports of 3.6 TWh in 1998. Income from the international trade of crude oil, liquefied natural gas and refined oil products increased by 85 percent compared with 1998, reflecting favorable positioning in relation to market price movements.

### **Operating costs**

Total operating costs, consisting mainly of raw materials and product variable costs of crude oil and refined oil product purchases, increased by 41 percent compared with 1998 primarily due to increased oil prices. Refining costs per barrel, comprised of both fixed and variable processing costs, were at the same level as the previous year.

In 1999, Energy incurred a non-recurring cost when it closed down and sold its Peat business in the Republic of Ireland, which negatively impacted operating income by NOK 100 million. Of this amount, NOK 87 million represented the write-down of assets and NOK 13 million represented related operating costs incurred in 1999.

Power plant operating costs totaled NOK 560 million, compared to NOK 545 million in 1998, an increase of 3 percent. Business and project costs of NOK 60 million decreased by NOK 15 million, or 20 percent from the previous year. Other operating costs remained virtually unchanged from 1998.

Operating costs of NOK 34 million, related to the growing European gas trading activities, increased by NOK 6 million or 21 percent from the prior year.

Energy's share of net income of its non-consolidated investees produced a net loss of NOK 9 million in 1999, compared with a net loss of NOK 75 million in 1998. The postponement of the Naturkraft AS project contributed to the reduction in the net loss in 1999.

## **OIL MARKETING**

### **Revenues and market conditions**

Operating revenues increased by 18 percent in 1999 compared with 1998, primarily because of significantly higher oil prices.

In Sweden, marketing activities showed significantly improved results in 1999, primarily due to better realized retail and wholesale margins. In the Swedish retail fuel market, the demand for gasoline was virtually unchanged from 1998, whereas diesel consumption increased by 1 percent. Consumption of heating oil declined by 3 percent. Hydro slightly improved its market share in the Swedish market in 1999.

Hydro's share of net income in non-consolidated investees, which almost solely consists of Hydro Texaco, more than doubled from 1998. The improvement was primarily caused by increased oil prices and better margins in the Norwegian and Danish retail gasoline market.

### **Operating costs**

Total operating costs, comprised mainly of product variable costs, increased from the prior year primarily due to the increase in international oil prices.

## **LIGHT METALS**

Light Metals consists of the segments Aluminium Metal Products, Aluminium Extrusion and Other Light Metals. Other Light Metals consists of Hydro Aluminium Rolled Products, Hydro Automotive Structures and Hydro Magnesium. In 1999, the operating income for Hydro Light Metals was NOK 2,179 million, which was a decrease of 15 percent compared to 1998.

## **ALUMINIUM METAL PRODUCTS**

In 1999, operating revenues for Aluminium Metal Products were NOK 17,281 million, a decrease of 5 percent compared to 1998. Internal sales to other segments in Hydro amounted to NOK 5,209 million compared to NOK 5,860 in 1998, a decrease of 11 percent. These sales were mainly to Aluminium Extrusion.

Share of net income from affiliated companies decreased by 42 percent compared with 1998, mainly due to decreased margins at Søral and project costs from Utkal Alumina International Limited.

### **Revenues and market conditions**

Operating revenues from the sale of own primary aluminum production were 3 percent below the previous year. The increase in sales volume of primary aluminum production by 1 percent was more than offset by reduced realized prices. Operating revenues from other activities were 9 percent below the previous year.

The average three-month price for primary aluminum on the London Metal Exchange (LME) was USD 1,387 per tonne in 1999, virtually unchanged from the average price of USD 1,380 per tonne in 1998. The three month price on the LME increased from USD 1,403 per tonne at 30 June, 1999 to USD 1,655 per tonne at 31 December, 1999. At 31 December, 1998, the corresponding price was USD 1,239 per tonne. Due to time lags in contract prices, Hydro realized average prices in Norwegian kroner that were 7 percent below 1998. Hydro recognized gains of NOK 229 million on its price hedging program in 1999, compared to NOK 191 million in 1998.

Shipments in the Western world increased by approximately 5 percent during 1999 compared with 1998. Registered inventories were stable during the year. Thus, stock level relative to consumption was reduced. The market situation in Europe was affected by the downturn in Asian economies during the first half year of 1999, leading to pressure on product premiums above the standard LME price. However, the situation gradually improved during the year, and by year-end Hydro was fully utilizing its cast house product capacity at reasonable product premiums.

### **Operating costs**

Total operating costs per tonne of primary aluminum were in line with the previous year. Raw material cost per tonne produced decreased by 6 percent compared to 1998, mainly due to reduced alumina prices. Fixed costs increased by 4 percent compared to 1998.

Alumina and electricity are the most important raw materials for the production of primary aluminum. In 1999, Hydro sourced approximately 36 percent of the alumina requirements for its primary metal production from an affiliated refinery in Jamaica. The remaining part of Hydro's alumina requirements was secured through long-term contracts linked to primary aluminum prices. Electricity prices were slightly higher in 1999 compared to 1998.

Operating income for aluminum trading activities was in line with the previous year.

## **ALUMINIUM EXTRUSION**

### **Revenues and market conditions**

Hydro Aluminium Extrusion's operating revenues calculated in local currencies showed growth in all business units in 1999, whereas growth measured in NOK was flat. The Extrusion Europe unit accounted for 57 percent of operating revenues; sales of Building Systems, 17 percent; sales of Heat Transfer tubing and components to the automotive market, 18 percent. The remaining 8 percent was split among Extrusion International, sales of general extrusions outside Europe, and Light Metal Wheels.

Sold volume of general extruded profiles increased by 5 percent in 1999. Global shipments of heat transfer products increased in 1999 by 11 percent over the previous year, while shipments within the Building Systems unit increased by 9 percent.

A strong European economy, southern Europe contributing more than northern, and continued strong growth in the U.S. economy resulted in increased extrusion consumption, which in Europe amounted to approximately 4 percent. This is a result of the increasing demand for aluminum extrusions, particularly in the building sector in southern Europe and in the machine and electronic industries in northern Europe. In addition, market penetration of air conditioning systems for cars in Europe is increasing the demand for Heat Transfer tubing.

### **Operating costs**

The high volume increased capacity utilization at Hydro's extrusion plants. Capacity was added mainly through minor investments in Germany, Italy and Brazil. Productivity in manufacturing processes was improved in line with the segment's continuous improvement program. Fixed costs increased slightly in 1999.

## **OTHER LIGHT METALS**

Hydro Aluminium Rolled Products' operating revenues decreased in 1999 compared to 1998 due to the closing of Hydro Slug AS. Operating income increased in 1999 due to higher volumes and better margins.

Hydro Automotive Structures' operating revenues and operating income in 1999 were lower than in 1998, because with effect as of the 2nd quarter of 1999, Hydro and Granges (now Sapa AB) of Sweden agreed to merge their plastic bumper system operations. Hydro's shares in three subsidiaries were exchanged for 40 percent of the shares in a newly merged company, Gränges Autoplastics AB. The shares were exchanged at fair value, resulting in a loss of NOK 58 million in 1999. In March, 2000, Hydro entered into an agreement to sell the shares in Autoplastics back to Gränges.

Hydro Magnesium's operating revenues increased by 7 percent in 1999, while operating income decreased by approximately 12 percent. Improved production together with almost unchanged average prices contributed positively, while a write-down of capitalized project costs resulted in an overall net decrease.

## **AGRI**

Agri, which consists of the segments, Plant Nutrition, Gas and Chemicals and A/S Korn- og Foderstof Kompagniet (KFK), had an operating loss of NOK 1,671 million. This was a decrease of NOK 1,729 million compared to 1998.

## **PLANT NUTRITION**

Of Plant Nutrition's total operating revenues, 8 percent were internal revenues, mainly from sales to Gas and Chemicals. The corresponding amount for 1998 was 5 percent.

Share of net income from non-consolidated investees was reduced by 45 percent, mostly due to reduced earnings in Qafco (reduced urea prices) and Farmland, (reduced DAP prices).

### **Revenues and market conditions**

Operating revenues decreased by 4 percent in 1999 compared to 1998. An increase in volume did not offset reduced fertilizer prices, which continued their downward movement, particularly in Europe.

The international market for urea was fairly stable throughout 1999, but with lower prices than in 1998. The average Middle East urea price declined by 16 percent from 1998 to 1999. The import demand was negatively influenced by import restrictions in China and heavily subsidized fertilizer production in India. Also in 1999 additional production capacity outstripped consumption growth, worsening the global supply/demand balance.

Developments in the international nitrogen fertilizer markets, combined with the surplus capacity of nitrates, put downward pressure on prices for nitrogen fertilizers in Western Europe in 1999. Average nitrogen fertilizer prices in Western Europe dropped by 15 percent during 1999. Reduction in complex fertilizer (NPK) prices was smaller.

The average DAP price (US Gulf) dropped by 13 percent from 1998 to 1999. New production capacity in India, Pakistan and Australia, combined with low consumption in the U.S., resulted in excess capacity. Capacity closures towards the end of the year, permanent and temporary, have contributed to a leveling out of prices. At the end of 1999, the DAP price was USD 147/mt (fob) compared to an average 1998 price of USD 203/mt.

Sales of fertilizers produced in Western Europe by Hydro amounted to 11.7 million tonnes, compared to 11.3 million tonnes in 1998. Total sales, including third party products, totaled 19.2 million tonnes, an increase of 4 percent compared to 1998.

For the 1999 calendar year, total fertilizer deliveries to the most important markets in Western Europe were slightly higher than in 1998. Fertilizer deliveries in Western Europe during the first half of the 1999/2000 fertilizer season (July through December 1999) increased slightly from the corresponding period of the previous year.

According to the European Fertilizer Manufacturers Association, West European nitrogen consumption increased by approximately 1 percent from 97/98 to 98/99. Consumption increased in Germany, Ireland and Spain. Phosphate consumption declined by approximately 1 percent and potash consumption declined by 4 percent.

The ammonia price (North West Europe) has declined further and fell on average by 18 percent from 1998 to 1999. Traded ammonia volume was slightly lower than in 1998, mainly due to reduced production in Trinidad.

### **Operating costs**

Raw material costs were reduced in 1999 compared to 1998. Natural gas is the most important raw material for the production of ammonia and nitrogen fertilizer. In 1999 average gas prices stated in US dollars

decreased by almost 20 percent compared to 1998 despite the crude oil price increase towards the end of the year. Considerable amounts of phosphate and potassium are also used in the production of complex fertilizer. Prices for these raw materials were basically at the same level as in 1998.

Fixed operating costs decreased during 1999. Costs relating to the development of an integrated information system amounted to approximately NOK 150 million, compared to NOK 400 million in 1998. The implementation of the system in the European part of the organization was finalized in the first half of 1999.

Hydro decided to close down capacity of approximately 1,000,000 tonnes of nitrate capacity given Hydro's estimation of an over capacity of 2.5-3.0 million tonnes in the European nitrate industry combined with the perception that the European nitrate market had limited growth potential in the foreseeable future. The plants affected by the capacity reduction were Landskrona in Sweden, Immingham in Great Britain and Montoir in France. The plants were expected to stop production permanently during the second quarter of 2000. The decision to reduce capacity was announced in December 1999, and the names of the factories involved in the restructuring program were announced in March 2000. Total restructuring provisions of NOK 632 million were taken in 1999, of which NOK 444 million was for write-downs and NOK 188 million was for the expected costs to dismantle the plant facilities and to terminate agreements with customers and suppliers.

In 1999 operating income for the fertilizer business was charged with non-recurring items of NOK 849 million, the main items being discussed below, in addition to the restructuring charge.

Operating loss included a charge of NOK 75 million associated with the shutdown of the Vlaardingen phosphoric acid plant in the Netherlands, in addition to the NOK 120 million charged in 1998. The plant ceased operation in November 1999. Capacity utilization for Hydro's fertilizer plants was slightly lower than in 1998. Due to high inventory volumes, the production was reduced at some sites. Hydro's ammonia plant in Porsgrunn started production late in July after having been closed for almost a year due to a major revamp. The ammonia/urea plant in Le Havre was out of production for 11 weeks in the autumn, also due to revamp.

In March 1999, a Hydro Agri improvement program was launched. The original target was a cost reduction of approximately NOK 1,000 million (compared to 1998) to be achieved by the end of 2001. This target was subsequently revised upward to approximately NOK 1,350 million in fixed costs and NOK 400 million in variable costs. By the end of 1999 the reduction in full-time equivalents in the fertilizer business was 600 persons. In the accounts of 1999 approximately NOK 330 million was provided for to cover the redundancy costs related to the staff reductions of approximately 800 people. This included NOK 62 million related to the closure of the Vlaardingen phosphoric acid plant.

The financial situation of the farming industry in Central Europe has been difficult the last couple of years. As a consequence, Hydro made provisions of NOK 86 million for estimated losses on accounts receivable in this region.

The operating loss included an expense of NOK 229 million related to long term contracts for purchase of ammonia from Tringen. Of the expense in 1999, NOK 128 million represented accruals for estimated losses for future purchases.

## **GAS AND CHEMICALS**

### **Revenues and market conditions**

The increase in operating revenues in Hydrogas and HydroCare in 1999 was offset by slightly lower operating revenues in Hydro Chemicals, the largest business unit, and in Hydro Oleochemicals, leaving the segment's total operating revenues virtually unchanged from the prior year.

Hydro Chemicals' operating revenues decreased by 2 percent due to lower international market prices of nitrogen-based products, while improved margins contributed to an increase in operating income. Contribution from new products and applications continued to improve overall performance for Hydro Chemicals in 1999.

The four percent increase in operating revenues for Hydrogas was due to sales growth in established operations in Western Europe and new carbon dioxide sales in Asia.

HydroCare increased its operating revenues due to new projects outside Scandinavia.

### **Operating costs**

Raw material costs were reduced from 1998 to 1999. Ammonia, the main raw material for Hydro Chemicals, experienced a 21 percent reduction in price from 1998. The price of urea for technical applications was reduced by 22 percent compared to 1998. Both urea and ammonia are mainly sourced from other Hydro units.

Hydrogas' sourcing and logistical costs increased due to a major revamp of Hydro's ammonia plant in Porsgrunn, which created a stoppage in carbon dioxide supply from this source during the first seven months of 1999.

Fixed costs increased during 1999 by one percent. The underlying increase was mainly related to geographical expansion and business development for Hydrogas. Fixed costs in 1999 were charged with a provision for staff reductions of about NOK 30 million.

Non-recurring costs in 1999 consisted of a charge of NOK 66 million related to write-downs of a rare earth production facility in Norway and a hydrochloride acid recycling plant in Germany. The 1998 operating costs were charged NOK 60 million for the implementation of a new administrative system and NOK 42 million for the write-down of the rare earth production facility in Norway.

## **A/S KORN- OG FODERSTOF KOMPAGNIET - KFK**

### **Revenues and market conditions**

In 1999, operating revenues from the grain and feed-stuff business fell 4 percent, and from fish feed activities, 6 percent, compared to the prior year, both due solely to a decline in prices.

The Danish and Swedish markets for grain and feed-stuff remained highly competitive, and grain products experienced lower margins than in 1998. This was partly offset by a higher sale of compounds.

Operating revenues from the Norwegian fish feed market were influenced by a fire in the fish feed factory in Myre in 1998, which reduced production capacity in the short-term. Therefore, sales volumes in Norway were nine percent lower than in 1998, although the total Norwegian market showed a volume increase. The margins in all markets were considerably higher than in 1998 primarily due to lower raw material costs.

## **Operating costs**

Raw material costs, which constitute the largest part of total operating costs, were at a lower level in 1999 compared to 1998. The grain and feedstuff activities had a decline in raw material costs of nine percent, and fish feed activities had a decline in raw material costs of over 20 percent.

Depreciation increased by NOK 212 million in 1999. A change in accounting principle in 1998 created a favorable one-time effect of NOK 238 million in 1998. The operating costs in 1998 were also positively affected by an insurance settlement of NOK 68 million related to a fire in the fish feed factory in Myre, Norway.

## **PETROCHEMICALS**

### **Revenues and Market Conditions**

In 1999, operating revenues for Petrochemicals were 11 percent lower than in 1998, due to disposals of the plastic pipe systems activity of Mabo and Hydro Coatings, and lower average product prices. Petrochemicals' operating income decreased by 51 percent because of the factors which contributed to the reduction in operating revenues and higher feed-stock costs in the ethylene plant. However, at year-end significantly higher product prices were being realized.

Disposals of assets in Singapore Polymer Corporation in connection with a relocation increased operating income with NOK 52 million.

Global demand for PVC was approximately four percent above demand in 1998, and about equal to the demand in 1997. The total Western European consumption of PVC increased by three percent in 1999 versus 1998; in North America, by two percent; and in Asia, by six percent. The sale of PVC from the U.S. to Asia was low due to weak margins combined with high domestic demand and, therefore, relatively higher margins in the U.S. market. Because of increased need for VCM in Hydro's production of PVC, and also weak prices, Hydro's sale of VCM to Asia was low.

Hydro's average realized price for S-PVC (CIF) was 5 percent lower in 1999 than in 1998. However, realized price for S-PVC increased dramatically at the end of the year, and the average price for the second half versus the first half of 1999 was 39 percent higher. This price increase was mainly due to increased raw material prices (oil), in combination with higher demand in Europe for PVC.

Hydro's total production of S-PVC increased to 451,000 tonnes, a 12 percent increase over 1998.

Caustic prices deteriorated throughout 1999. On average, realized FOB prices for caustic soda were NOK 1,294 per tonne in 1999, compared with NOK 1,579 per tonne in 1998.

On 1 March, 1999, Hydro announced the sale of the activity in Mabo AS to Pipelife (a joint venture between Wienerberger of Austria and Solvay of Belgium). The net gain before tax from this sale was NOK 149 million. On 7 September, 1999, Hydro announced the sale of its coil coating business, the Hydro Coatings Group, to BASF with a net gain before tax of NOK 234 million. In 1998, operating revenues for Mabo and Hydro Coatings were NOK 1,207 million.

## **Operating Costs**

Total raw material costs for Petrochemicals was approximately 6 percent below 1998. This was mainly due to the sales of Mabo and Hydro Coatings, partly offset by increased prices for natural gas liquids (NGL) and higher PVC volumes produced.

Total fixed cost were reduced compared to 1998. This was mainly attributable to the sales of Mabo and Hydro Coatings, lower development costs for a new administrative system in 1999 than in 1998 and reduced manning.

## **OTHER ACTIVITIES**

Hydro Seafood's operating revenues and operating income increased in 1999 compared to 1998. In 1998, the outbreak of the fish disease, Infectious Salmon Anemia (ISA), in Scotland required the slaughter of salmon, which led to significant losses.

In March 2000 Hydro entered into final and exclusive negotiations with the Dutch company, Nutreco Holding N.V. to sell its salmon production and sales activities operating as Hydro Seafood AS.

Pronova's operating revenues and operating income decreased in 1999 compared with 1998. During 1999, Pronova divested its subsidiary, Pronova Biopolymer (alginates), to FMC Corporation with a pre-tax profit of NOK 1,025 million. The major part of the remaining Pronova consists of the Omega-3 fatty acids where particularly the lipid-lowering drug Omacor was expected to have a high potential.

Hydro Technology and Projects' operating revenues decreased in 1999 from 1998. Operating income was slightly reduced in 1999 compared to 1998.

Hydro's insurance activities' operating income was higher compared to 1998. In 1999, insurance activities had gross premium revenues of NOK 515 million, while total assets at year end amounted to NOK 3,810 million.

## **ITEM 6. DIRECTORS, SENIOR MANAGERS AND EMPLOYEES**

### **ITEM 6.A. DIRECTORS AND SENIOR MANAGEMENT**

#### **Corporate Assembly**

In accordance with Norwegian law, the Company has established a Corporate Assembly which has a duty to exercise supervision over the Company to ensure that the objects of the Company are furthered in compliance with the law, the Company's articles of association, the resolutions of the shareholders adopted at annual general meetings and the resolutions of the Corporate Assembly itself. One of the principal functions of the Corporate Assembly is to elect and remove members of the Board of Directors. In addition, the Corporate Assembly must authorize major investments, changes in operations and major changes in the number or deployment of employees, all upon the recommendation of the Board of Directors. There is no set amount for an investment or expenditure to constitute a "major investment." Instead, that determination depends on the Company's resources and activities at the time of such investment. Currently, authorization of the Board of Directors is sought for investments of more than NOK 500 million. Accordingly, the authorization of the Corporate Assembly would be sought for investments of a greater magnitude.

The Corporate Assembly consists of 21 members. Holders of the Company's ordinary shares (including shares represented by ADSs) elect 14 members, plus four deputy members, at the annual general meeting of shareholders. The Group's Norwegian employees elect seven members, three observers and seven deputy members from among themselves. A deputy member attends a meeting of the Corporate Assembly in the event a member is unable to do so, but serves no other function. Each member of the Corporate Assembly is elected to serve for a period of two years. The terms of the 14 members elected by the Company's shareholders all begin in one year and the terms of the seven members elected by the employees all begin in the following year.

In 2000, each member or deputy member and observer of the Corporate Assembly was paid NOK 3,000 per meeting attended. The Chairman of the Corporate Assembly was paid NOK 55,000; the Vice-Chairman, NOK 27,500.

## Board of Directors

The overall control of policy and management of Hydro is vested in the Board of Directors. The Board of Directors currently consists of nine members who are nominated and elected by the Corporate Assembly. Six Board members are elected by the shareholder representatives in the Corporate Assembly and three Board members are elected by the employee representatives in the Corporate Assembly.

For each member of the Board of Directors, there follows information regarding the period during which the Board member has served as such and information regarding his or her business experience outside of the Company (including directorships in other companies).

Name of Director	Business Experience
Einar Kloster Director since 1991	Chairman of the Board of the Board of Directors. Mr. Kloster earlier served as the President and CEO of Philips Lighting B.V., a subsidiary of Royal Philips Electronics. He is also a director of Leif Høegh & Co. and Schibsted ASA.
Anne Cathrine Høeg Rasmussen Director since 1988	Ms. Høeg Rasmussen is a partner in the Norwegian law firm of Schjodt AS. She is also a director of K.A. Rasmussen as, Azco Nobel Car Finishes AS, Coflexip Stena Offshore AS, Technip Geoproduction Norge AS and Organon AS.
Borger A. Lenth Director since 1990	Mr. Lenth is a partner in the Norwegian law firm of Hjort DA. Mr. Lenth was previously Chief Executive Officer of Christiania Bank and Kreditkasse. He is also Chairman of the Board of Directors of Eksportfinans ASA.
Egil Myklebust Director since 1992	See the biographical information under "Senior Management" below.
Gudmund Per Olsen Director since 1999	Mr. Olsen is employed by the Company as a principal engineer in the Exploration and Production segment.
Benedicte Berg Schilbred Director since 1990	Ms. Schilbred is the managing director of Odd Berg Group. She is also a director of Egersund Seafood AS, Norsildmel AL and Norway Pelagic Group.
Odd Semstrøm Director since 1997	Mr. Semstrøm is employed as an operator at the Company's aluminum plant in Årdal.
Tom Wachtmeister Director since 1994	Mr. Wachtmeister is the Vice-Chairman of Atlas Copco AB. He is also a director of North Atlantic Natural Resources AB.
Per Wold Director since 1990	Mr. Wold represents the employee's union and is located at the industrial plant at Herøya.

## Senior Management

The following table reflects Hydro's senior management, as of 23 March, 2001, the capacity in which they serve Hydro, and brief background information regarding their business experience.

Name and Position	Business Experience
<p>Egil Myklebust* President and Chief Executive Officer</p>	<p>Mr. Myklebust has been the President and Chief Executive Officer of the Company since 1991. Prior to assuming these positions, he held positions within the Company's legal department in both Norway and in the United States, including a period as Head of Corporate Secretariat. From 1982-1987, he served as Senior Vice President, Personnel and Organization, for Hydro. From 1987 to 1991, Mr. Myklebust held the position of Director General for both the Federal of Norwegian Employers and the Confederation of Norwegian Business and Industry (CNBI). Mr. Myklebust earned a Bachelor of Law degree at the University of Oslo.</p>
<p>Thorleif Enger Executive Vice President</p>	<p>Thorleif Enger has served as Executive Vice President for Hydro's Agri business area since 1997. Prior to that, he served as President of Hydro's Exploration &amp; Production business segment from 1987 to 1996. Prior to that, he served as Project Director of the Oseberg Field for four years (1982 to 1986). Prior to that, Mr. Enger held various positions with Hydro's Engineering and Exploration &amp; Production Divisions beginning in 1973. This followed several years as a senior research engineer for the Shell Development Company in the United States. Mr. Enger was educated at the University of Colorado in the United States, receiving Bachelors, Masters and Doctorate degrees in the areas of engineering and structural mechanics.</p>
<p>Leiv Lea Nergaard Executive Vice President and Chief Financial Officer</p>	<p>Leiv Lea Nergaard has served as Executive Vice President and Chief Financial Officer for Norsk Hydro since 1988. Prior to that, he served as Vice President for Corporate Strategy and Control from 1987 to 1988 and as Vice President for Financial Planning and Control, Corporate Staff, from 1984 to 1987. This followed four years experience as General Manager at the Company's fertilizer factory in Notodden, Norway (1980 to 1984) and eleven years experience with Hydro's Aluminium Division from 1969 to 1980. Mr. Nergaard was educated at the Norwegian School of Economics and Business Administration.</p>

Name and Position	Business Experience
<p>Eivind Reiten* Executive Vice President</p>	<p>Eivind Reiten has served as Executive Vice President for Hydro's Light Metals business area since 1999. Prior to that, he held the position of President of Hydro Aluminium Metal Products from 1996 to 1998 following four years as President of Hydro's Refining and Marketing Division (1992 to 1996). From 1991 to 1992, Mr. Reiten held the position of Senior Vice President, Special Projects, after a period as Minister of Petroleum and Energy for the Norwegian government from 1990 to 1991. Mr. Reiten held the position of President of the Energy Division from 1988 to 1990 following a two year period as manager and later Vice President for Hydro Agri. During the seven year period from 1979 to 1986, Mr. Reiten held several governmental posts including Junior Executive Officer, Ministry of Fisheries, and Secretary to the Center Party's Parliamentary Group, State Secretary, Ministry of Finance and Minister of Fisheries. Mr. Reiten graduated from the University of Oslo with a degree in Economics in 1978.</p>
<p>Tore Torvund Executive Vice President</p>	<p>Tore Torvund has served as Executive Vice President for Hydro's Oil and Energy business since 1997. Prior to that he held the position of Senior Vice President, Operations, in Hydro's Exploration and Production (E&amp;P) Division from 1992 to 1996. During the period from 1982 to 1992, Mr. Torvund held several management positions within the E&amp;P Division relating to drilling operations, field development and technology projects. From 1977 to 1982, Mr. Torvund worked with Elf Aquitaine on the Petronord study in France and the FRIGG development project in Norway. Prior to that he worked as a reservoir engineer for the E&amp;P Division in Norway. Mr. Torvund graduated with a degree in Petroleum Technology from the Norwegian Institute of Technology.</p>

\* In December 2000, Hydro announced the appointment of Eivind Reiten to succeed Egil Myklebust as President and Chief Executive Officer. Effective 2 May, 2001, Mr. Myklebust will step down from those positions after 10 years. Jon Harald Nilsen joined the corporate management group assuming responsibility for the Light Metals business area, effective 15 February, 2001. Mr. Nilsen has worked for Hydro since 1977, the last two years as head of Aluminum Metal Products.

### Family Relationships

No member of the Board of Directors or senior management has any family relationship with any other director or member of senior management.

## **ITEM 6.B. COMPENSATION**

### **Director Compensation Arrangements**

#### *Compensation for Employee Directors*

Directors who are also employees of the Company (or any subsidiary of the Company) received NOK 125,000 additional compensation for serving on the Board in addition to their normal salaries.

#### *General Compensation Rules for Non-Employee Directors*

Directors who are not employees of the Company or any subsidiary of the Company (“non-employee directors”) receive NOK 125,000 in compensation; the Chairman receives NOK 250,000 and the Deputy Chairman, NOK 190,000.

### **Compensation of Chief Executive Officer**

Egil Myklebust received salary and other benefits, inclusive of remuneration as a member of the Board, of NOK 4,093,000 in 2000.

### **Grants of Stock Options in Last Fiscal Year**

There were no stock options granted to the Company's management for the fiscal year ended 31 December, 2000.

In March 2001, the Board approved a new stock option plan for corporate officers and certain key employees. The plan will cover approximately 30 people in the Company's top management and will be linked to shareholder returns over a three year period. The distribution for 2001 will consist of options to acquire 10,000 ordinary shares for the President and CEO, options to acquire 7,000 ordinary shares for other members of the corporate management board and options to acquire between 2,000 - 3,500 ordinary shares for other participants.

## **ITEM 6.C. BOARD PRACTICES**

See table above under **Item 6A. “Directors and Senior Management - Board of Directors”** for the period during which each Board member has served as such. Board members are elected for a two year period.

Non-employee directors have no other service contractual agreements with the Company outside of the agreement governing their responsibilities as Board member. Employee directors have no other service contractual agreements with the Company outside of their employee contracts and the agreement governing their responsibilities as a Board member.

## **ITEM 6.D. EMPLOYEES**

As of 31 December, 2000, the Group employed approximately 38,200 people, compared with approximately 37,900 people in 1999 and 39,600 people in 1998. Approximately 22,000 of the Group's employees were located outside Norway as of 31 December, 2000, compared to approximately 20,200 at the end of 1999 and 21,600 at the end of 1998.

The approximate number of people employed in each segment as of 31 December, 2000 was as follows:

<b>Business Segment</b>	<b>Number of Employees</b>
Exploration & Production	2,600
Energy	400
Oil Marketing	200
Aluminum Metal Products	3,600
Aluminum Extrusion	9,500
Other Light Metals	3,700
Plant Nutrition	8,000
Gas and Chemicals	1,100
KFK	2,100
Other	7,000

Production workers and certain staff categories in Norway are generally organized on a national basis with annual or bi-annual contract negotiations held between employee organizations and the national employers' association. Norwegian employees are represented in Hydro's Corporate Assembly and Board of Directors. The Company considers its relationship with the Norwegian employee organizations to be good. Outside Norway, the degree of worker organizations and the form of negotiations with such organizations varies from one country to another. Generally, Hydro seeks to achieve terms of employment comparable to that negotiated with the Norwegian employee organizations.

#### **ITEM 6.E. SHARE OWNERSHIP**

The following table sets forth the beneficial ownership of ordinary shares as of 23 March, 2001 by (i) each director and member of senior management, and (ii) all directors and members of senior management of the Company as a group.

<b>Name of Beneficial Owner</b>	<b>Shares Beneficially Owned</b>
Einar Kloster	28,000
Anne Cathrine Høeg Rasmussen	1,000
Borger A. Lenth	144
Egil Myklebust	3,715
Gudmund Per Olsen	732
Benedicte Berg Schilbred	40,504
Odd Semstrøm	16
Tom Wachtmeister	3,500
Per Wold	799
Thorleif Enger	17,759
Leiv Lea Nergaard	12,649
Eivind Reiten	1,439
Tore Torvund	425
All directors and members of senior management as a group (consisting of 13 persons)	110,682

The total number of issued and outstanding ordinary shares of the Company as of 31 December, 2000 was 259,986,070.

### Option Ownership

The following table sets forth the beneficial ownership of options to acquire ordinary shares as of 23 March, 2001 by (i) each director and member of senior management, and (ii) all directors and members of senior management of the Company as a group.

Name	Number of Ordinary Shares Underlying Options Granted (#)	Exercise Or Base Price (NOK/Sh)	Expiration Date
Egil Myklebust	10,000	367.50	31 December 2002
Thorleif Enger	7,000	367.50	31 December 2002
Leiv Lea Nergaard	7,000	367.50	31 December 2002
Eivind Reiten	7,000	367.50	31 December 2002
Tore Torvund	7,000	367.50	31 December 2002
All directors and members of senior management as a group (consisting of 13 persons) *	38,000		

\* No other members of the Board had any options outstanding as of 23 March, 2001. The options reflected in the above table were granted in 1999.

## ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

### ITEM 7.A. MAJOR SHAREHOLDERS

The Kingdom of Norway is the only person or entity known to the Company to own beneficially, directly or indirectly, more than 5% of the Company's ordinary shares. As of 23 March, 2001, the Kingdom owned 116,832,770 ordinary shares, representing 44% of the total number of ordinary shares issued and outstanding as of such date. There are no different voting rights associated with the ordinary shares held by the Kingdom.

The Kingdom acquired most of its interest in the Company in 1945. From that time and until 1 July, 1999, the Kingdom owned 51% of the total number of ordinary shares issued and outstanding. Ordinary shares issued in connection with the acquisition of Saga Petroleum in July 1999 increased the total number of shares issued and outstanding with a corresponding decrease in the Kingdom's percentage ownership interest. See **Item 18. "Financial Statements, note 2 Business combinations and dispositions."**

Since 1945, the Kingdom has not disposed of any of the Company's ordinary shares owned by it. However, there can be no assurance that the Kingdom will not do so in the future. The Norwegian Ministry of Trade and Industry represents the Norwegian government in exercising the Kingdom's voting rights. Acting through the Norwegian government, the Kingdom, in its capacity as a shareholder of the Company, has never taken an active role in the day-to-day management of Hydro.

As of 23 March, 2001, Morgan Guaranty Trust Company of New York, as depository of the ADSs, through its nominee company, Morgan Guaranty Nominees Limited, held interests in 16,319,592 ordinary shares (approximately 6.3 percent of the issued and outstanding ordinary shares as of such date) on behalf of approximately 671 registered holders of American depository receipts ("ADRs"), evidencing ADSs. There were 268 holders of ordinary shares with addresses in the United States (not including the Depository) as of the same date.

These shareholders held 17,313,121 ordinary shares, equal to approximately 6.7 percent of the issued and outstanding ordinary shares.

## ITEM 7.B. RELATED PARTY TRANSACTIONS

### Loans to Related Parties

The following table sets forth information regarding loans extended by the Company to members of the Board of Directors and the Company's senior management including (i) the largest amount outstanding since 31 December, 2000, (ii) the nature of the loan, and (iii) the interest rate on the loan:

Name of Loan Recipient	Largest Amount Outstanding since December 31, 2000 in thousands of NOK	Nature of Loan	Interest Rate
Gudmund Per Olsen	78	General purpose*	7.0%
Odd Senstrøm	24	General purpose	6.5-7.0%
Per Wold	7	General purpose*	-
Egil Myklebust	4,653	Mortgage and general purpose	6.0-6.5%
Torleif Enger	817	General purpose	6.5%
Leiv L. Nergaard	555	General purpose	6.5-7.0%
Eivind Reiten	8	General purpose*	-
Tore Torvund	390	General purpose	6.5%

\* Includes NOK 7,000 interest-free for the purchase of the Company's ordinary shares.

## ITEM 7.C. INTERESTS OF EXPERTS AND COUNSEL

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 7.C. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## ITEM 8. FINANCIAL INFORMATION

### ITEM 8.A. CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

The Company's consolidated financial statements as of and for the year ended 31 December, 2000 and the related notes thereto are incorporated by reference to pages 68 through 70 and 73 through 101 of the Company's 2000 Annual Report to Shareholders. Such financial statements, including the notes thereto, have been filed as an exhibit to this Annual Report on Form 20-F in accordance with applicable rules under the Exchange Act.

Reference is made to **Item 19. "Financial Statements and Exhibits"** for a list of all financial statements incorporated herein by reference.

#### Export Sales

See **Item 18. "Financial Statements," note 5 "Industry and geographic segment information"** and the table under the caption "Operating revenues by country of customer" for export sales information.

#### Legal Proceedings

On July 23, 1999 and February 4, 2000, Dolphin AS presented claims to Hydro for higher day rates associated with a drilling rig which has been leased for a period of seven years. The claims are based on a general upgrading of the drilling rig and total NOK 1,941 million. Hydro will utilize the drilling rig in its activities associated with the Snorre Unit and Production License 089, in which Hydro has ownership interests of 17.66 percent and 13.28 percent, respectively. As such, any additional net rental cost to Hydro is expected to be substantially less than the amount claimed by Dolphin AS. The parties have agreed to arbitration to settle the case. Hearings are expected to take place in December 2001 and January 2002.

Hydro is involved in or threatened with various other legal, tax and environmental matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

#### Dividend Policy

The Board of Directors believes that the long-term return to shareholders should reflect the added value created by the Group. This is expressed partly by dividends paid and partly by the long-term increase in the price of the ordinary shares. The Board's policy is that dividends paid should increase steadily in line with the growth of Hydro's profits. In determining the dividend, the need to maintain financial strength and flexibility is also considered, as well the possibilities for growth through new investments. Over time, the total return to shareholders should accrue to a greater extent from the increase in the price of the ordinary shares than from dividends received. The Board of Directors considers it appropriate that the dividend over several years should average around 30 percent of the Group's net income. Future dividends will be dependent on Hydro's future earnings, financial condition and cash flow, as well as other factors affecting Hydro.

### ITEM 8.B. SIGNIFICANT CHANGES

There have been no significant changes in Hydro's results of operations, financial condition or business prospects since 31 December, 2000.

## ITEM 9. THE OFFER AND LISTING

### ITEM 9.A. OFFER AND LISTING DETAILS

The following table gives, for the periods indicated, adjusted high and low prices for the Company's ordinary shares on the Oslo Stock Exchange and the ADSs on the New York Stock Exchange - Composite Tape.

**Five Most Recent Fiscal Years**

Year	Oslo Stock Exchange		New York Stock Exchange	
	High (in NOK)	Low (in NOK)	High (in U.S. Dollars)	Low (in U.S. Dollars)
1996	347.00	262.00	53 5/8	40 1/2
1997	440.00	315.00	61 1/4	45 5/8
1998	391.00	227.00	51 3/4	30 1/2
1999	371.00	245.00	46 5/8	32 3/4
2000	415.00	296.50	45 3/8	35 1/2

### Quarterly Data for Two Most Recent Fiscal Years

Quarterly Period	Oslo Stock Exchange		New York Stock Exchange	
	High (in NOK)	Low (in NOK)	High (in U.S. Dollars)	Low (in U.S. Dollars)
First quarter 1999	316.50	248.00	44 1/4	33
Second quarter 1999	359.00	288.50	46 1/8	36 7/8
Third quarter 1999	366.00	295.50	46 3/8	38 1/4
Fourth quarter 1999	336.00	303.50	43 7/8	38 1/4
First quarter 2000	367.00	296.50	45 3/8	35 1/2
Second quarter 2000	366.00	308.00	42 1/4	35 5/8
Third quarter 2000	415.00	340.00	44 1/2	38 7/8
Fourth quarter 2000	404.00	343.00	43 1/4	38 3/8

### Most Recent Six Months

Month	Oslo Stock Exchange		New York Stock Exchange	
	High (in NOK)	Low (in NOK)	High (in U.S. Dollars)	Low (in U.S. Dollars)
September 2000	415.00	375.00	44 1/2	41 1/2
October 2000	404.00	360.00	43 1/4	38 3/8
November 2000	386.00	360.00	41 1/4	38 7/8
December 2000	384.00	343.00	42 1/2	38 1/2
January 2001	391.00	362.00	44 1/4	41 1/2
February 2001	400.00	364.00	44 7/8	40 3/8

There were 268 holders of Hydro's ordinary shares with addresses in the United States (not including the Depositary) as of 23 March, 2001. These shareholders held 17,313,121 ordinary shares, equal to approximately 6.7 percent of the outstanding ordinary shares. As of 23 March 2000, a total of 16,319,592 ADSs (representing approximately 6.3 percent of the total ordinary shares outstanding) were held by approximately 671 registered holders of ADSs.

## **ITEM 9.B. PLAN OF DISTRIBUTION**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 9.B if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## **ITEM 9.C. MARKETS**

The Company's ordinary shares are listed on the stock exchanges in Oslo, Amsterdam, Basel, Düsseldorf, Frankfurt, Geneva, Hamburg, London, Paris, Stockholm and, Zürich and London. The ADSs are listed on the New York Stock Exchange.

## **ITEM 9.D. SELLING SHAREHOLDERS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 9.D. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## **ITEM 9.E. DILUTION**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 9.E. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## **ITEM 9.F. EXPENSES OF THE ISSUE**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 9.F. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## **ITEM 10. ADDITIONAL INFORMATION**

### **ITEM 10.A. SHARE CAPITAL**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 10.A. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

### **ITEM 10.B. ARTICLES OF ASSOCIATION**

Norsk Hydro ASA is a public limited company organized under the laws of Norway. Its registration number in the Norwegian Register of Business Enterprises is 914 778 271. Norsk Hydro ASA was incorporated on 2nd December, 1905 and registered with the Norwegian Register of Business Enterprises in 1906.

Section 2 of the Company's articles of association provides that the Company's objects or purposes are to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with the above-mentioned objects. The Company's operations may be conducted through participation in or in cooperation with other enterprises.

#### **Board of Directors**

Section 5 of the Company's articles of association provide that the Board of Directors shall be composed of nine members who are elected by the Corporate Assembly to serve for a term of two years, such term to expire at the conclusion of the annual general meeting of shareholders in the year in which the period of service ends. The Corporate Assembly also elects the Chairman and the Vice-Chairman of the Board. In the event a director retires, is removed or is disqualified as a result of personal bankruptcy prior to end of his or her period of service and there is no alternate Board member, the rest of the Board of Directors must arrange for the election by the Corporate Assembly of a new member of the Board of Directors for the remainder of the period of service.

There are no requirements for a Board member's being qualified to serve in such capacity other than a requirement under Norwegian law that at least half of the members of the Board of Directors must reside in the Kingdom of Norway or another country that is a member of the European Economic Community (absent the grant of an exemption by the King of Norway in an individual case). Section 9 of the Company's articles of association requires a director to retire the year he or she reaches the age of 70.

Under Norwegian law, a member of the Board of Directors may not participate in the discussion or in the decision on any matter in which the Board member (or any person affiliated with such Board member) has a major personal or financial interest. In addition, no member of the Board may participate in any matter concerning a loan or other credit to such Board member or with respect to the pledge of security for such member's debt to the Company.

Under Norwegian law, the Company's directors have no power to vote compensation to themselves or any member of their body. Instead, the Corporate Assembly fixes the remuneration to be received by members of the Board of Directors, alternate members and observers. Norwegian law also stipulates that members of the Board of Directors are not to receive any remuneration from parties other than the Company in connection with their services for the Company. However, a Board member who does not participate in the day-to-day management of the Company is not precluded from acting as an agent on behalf of a business carried on by the Board member and receiving a standard agency fee in such capacity, provided that such member does not also represent the Company in the transaction.

The members of the Board of Directors and the members of the Corporate Assembly owe a fiduciary duty to the Company and its shareholders. Their principal obligation is to safeguard the interests of the shareholders. In addition, they may also have duties to other third parties, such as employees and creditors. The Company's directors and members of the Corporate Assembly can be held liable for any damage they negligently or intentionally cause the Company. Norwegian law permits shareholders to exempt any such persons from liability, but the exemption is not binding if substantially correct and complete information was not provided to the shareholders at the general meeting at which such action was taken. In addition, if shareholders have exempted such persons from liability or decided not to hold such persons liable for a certain matter, shareholders representing at least ten percent of the share capital or (if there are at least 100 shareholders) more than ten percent of the total number of shareholders can raise the claim on the Company's behalf and in its name. The cost of any such action is not the Company's responsibility, but can be recovered from any proceeds the Company receives as a result of the action. If the decision not to hold such persons liable was adopted by the same majority as required to amend the Company's articles of association, that decision is binding on the minority shareholders.

Neither Norwegian law nor the Company's articles of association contain any provision concerning indemnification by the Company of the members of the Board of Directors.

### **Description of Ordinary Shares**

The following is a summary of material information relating to the share capital and the ordinary shares of Norsk Hydro ASA, including summaries of certain provisions of the articles of association of the Company and applicable Norwegian law (including the Norwegian Public Limited Companies Act) in effect as of the date of this annual report.

#### ***General***

The authorized share capital of the Company consists of one class of shares: 266,596,650 ordinary shares, nominal value NOK 20 per share, of which 259,986,070 ordinary shares were outstanding as of 31, December, 2000. All outstanding ordinary shares are validly issued, fully paid and nonassessable.

#### ***The VPS System***

The ordinary shares are registered in the Norwegian *Verdipapirsentralen* (the Norwegian Registry of Securities), referred to as the VPS. The VPS, established in 1986, is a certificate-less securities registry system created by an act of the Norwegian Parliament. In general terms, the VPS is a computerized bookkeeping system operated by an independent institution in which the ownership of, and all transactions related to, Norwegian-listed equity securities must be recorded. The Company's share register has been transferred to the VPS, and the Company's ordinary shares are registered in the VPS in accordance with Section 4 of the Company's articles of association.

All transactions related to securities registered with the VPS are handled through computerized book entries. The VPS confirms each entry by sending a transcript to the registered shareholder regardless of beneficial ownership. In order to effect such entries, the individual security holder must establish a securities account or accounts with one or more Norwegian account agents. Norwegian banks, the Bank of Norway, authorized securities brokers in Norway, bond issuing mortgage companies, unit trust managing companies, and Norwegian branches of credit institutions established within the European Economic Area are allowed to act as account agents. If a security holder does not establish such an account, an account agent will be appointed on the security holder's behalf by the issuer of the security in question.

The entry of a transaction in the VPS will generally be decisive in determining the legal rights of parties as against the issuing company or a third party claiming an interest in a security.

The VPS is strictly liable for any loss suffered as a result of faulty registration or the amending or deletion of rights in respect of registered securities except in the event of contributory negligence on the part of the aggrieved party, in which case compensation owed by the VPS may be reduced.

A transferee or assignee of shares may not exercise the rights of a shareholder with respect to such shares unless the transferee or assignee has registered its shareholding or has reported and shown evidence of the share acquisition and the share acquisition is not prohibited by applicable Norwegian law or the Company's articles of association.

### ***Shareholder Meetings***

Under Norwegian law, the Company is required to hold its annual general meeting of shareholders within six months following the end of the fiscal year. In accordance with Norwegian law and Section 11 of the Company's articles of association, the following business must be transacted at the annual general meeting:

- approving the annual accounts and annual report for the prior fiscal year;
- deciding upon the allocation of the net income for such year;
- electing the shareholders' members and deputy members to the Corporate Assembly; and
- dealing with any other matters listed in the notice convening the annual general meeting.

In addition to the annual general meeting, extraordinary general meetings of shareholders may be held if deemed necessary by the Board of Directors, the Corporate Assembly or the Chairman of the Corporate Assembly. An extraordinary general meeting must also be convened for the consideration of specific matters at the written demand of the Company's auditors or shareholders representing five percent or more of the share capital of the Company.

The Board of Directors is to convene a general meeting of shareholders, including any extraordinary general meeting. A general meeting must be convened by written notice to all shareholders. The notice must state the business to be transacted at the general meeting. Section 10 of the Company's articles of association provides that in addition to such notice, a general meeting shall be convened by means of an announcement in *Afterposten* and *Arbeiderbladet* and in any other newspaper determined by the Board of Directors. The notice convening a general meeting must state the business to be transacted at the general meeting and must be sent at least 14 days in advance of the meeting date. Concurrent with the announcement of the annual general meeting, the Company's annual report and accounts, together with the auditor's report and statement of the Corporate Assembly, are to be made available for inspection at the Company's headquarters in Oslo.

Neither Norwegian law nor the Company's articles of association provide for any quorum requirement (i.e., a minimum level of voting power to be present, either in person or by proxy, in order to conduct business at any general meeting).

Shareholders have the right to have an issue discussed at a general meeting. In order to exercise this right, shareholders must deliver written notice to the Board of Directors in sufficient time so that the issue can be included in the notice convening the general meeting. If the Company's notice of the general meeting has already been sent, a new notice as to the convening of the general meeting must be sent if at least two weeks remain before the general meeting is to be held.

Under Norwegian law, shareholders are entitled to attend and vote at a general meeting, either in person or by a proxy appointed at their own discretion. The right to attend a general meeting cannot be restricted in the Company's articles of association. Under Section 10 of the Company's articles of association, shareholders or

their proxies are entitled to attend and to vote at a general meeting provided: (1) their acquisition of the Company's ordinary shares has been listed in the VPS at least three days prior to the date of the general meeting; and (2) they have contacted the Company's office and obtained an admission card for the meeting.

### ***Voting Rights***

Holders of the Company's ordinary shares (other than the Company itself or any of its subsidiaries) are entitled to one vote per share.

Generally, all matters to be voted on by shareholders must be approved by a majority of the votes cast by all ordinary shares that are present in person or represented by proxy at the general meeting at which such matters are considered. In the case of elections (for example, of members of the Corporate Assembly), the persons who receive the most votes cast are deemed elected.

Certain actions, including resolutions to:

- amend the Company's articles of association
- approve a merger or demerger
- increase or reduce the Company's share capital
- waive preemptive rights in connection with an increase in share capital

must be approved by at least two-thirds of the votes cast at the general meeting at which such amendment is considered and at least two-thirds of the share capital represented at such meeting.

Any resolution which has the effect of reducing shareholders' rights to a dividend or to the assets of the Company requires the approval of shareholders representing more than 90 percent of the share capital represented at the general meeting at which such action is considered as well as at least two-thirds of the votes cast at that meeting.

Under Norwegian law, certain matters require the unanimous approval of the Company's shareholders, including the taking of any action that would:

- increase shareholders' obligations to the Company;
- restrict the right to transfer, acquire or own shares in the Company;
- subject the shares to compulsory redemption; or
- change the legal relationship among previously equal shares.

If any such action would affect less than all shareholders, such action would require the unanimous approval of all affected shareholders as well as at least two-thirds of the votes cast and at least two-thirds of the share capital represented at the general meeting at which such action is considered.

Under Norwegian law, shareholders may not take action by written consent.

The beneficial owners of shares which are registered in the name of a nominee are generally not entitled to vote under Norwegian law, nor are any persons who are designated in the share register as holding such shares as nominees.

## ***Dividends***

Under Norwegian law, any proposal to pay dividends must be made by the Board of Directors and approved by the shareholders at the annual general meeting of shareholders. The dividend cannot exceed the amount proposed or consented to by the Board of Directors. Dividends in respect of a fiscal year are normally determined at the annual general meeting held in the following year. Any dividend approved at a general meeting accrues to those shareholders who are shareholders at the time of shareholder approval, unless otherwise stated in the resolution with respect to such dividend distribution.

Under Norwegian law, the amount of any dividend distribution with respect to any fiscal year is limited to the profit for that year (determined in accordance with the approved profit and loss account for that year) and other equity, after deduction of:

- uncovered losses (i.e., losses from a prior year or years that could not be covered because of insufficient distributable equity);
- the capitalized costs of research and development, goodwill and the net deferred tax benefits reflected in the balance sheet for that year; and
- that part of the profit for the year which, by law or in accordance with the Company's articles of association, must be allocated to undistributable reserve or cannot be distributed as a dividend.

With respect to any license or entity in which the Company has an investment valued using proportionate consolidation or the equity method, the difference between the Company's share of the earnings of the license or entity recognized and the dividend received from such license or entity is allocated to the reserve for valuation variances. The reserve for valuation variances constitutes undistributable equity, and may not be distributed either as a dividend or as a distribution in connection with a reduction in capital.

Norwegian law does not permit the payment of dividends based on interim results of operations.

In accordance with Norwegian law, the Company cannot distribute any dividend if the equity, according to the balance sheet, amounts to less than 10 percent of the Company's total assets without following a creditor notice procedure for a reduction of the share capital. Further, no dividend may be distributed in any circumstance which exceeds an amount that is compatible with prudent and sound business practice and with due consideration of any loss that may have been incurred, or is expected to be incurred, after the balance sheet date.

Dividends have usually been mailed by the Company to shareholders entitled to such dividends approximately five to six weeks after they have been approved at the annual general meeting.

Because the Company pays dividends in Norwegian kroner, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs upon the conversion of cash dividends into US dollars by the Depository.

## ***Limitations on the Right to Own Ordinary Shares***

There are no restrictions affecting the right of non-Norwegian residents or citizens to own or exercise voting rights with respect to the Company's ordinary shares. However, based on a 1917 law as amended in 1994, which applies to Norwegian companies engaged in hydropower, mining and real estate, no person or entity may acquire more than 20 percent (or the right to vote more than 20 percent) of the share capital of the Company, and no group of two or more persons may, whether by mutual agreement or by family relationship, jointly or separately acquire an aggregate of more than 20 percent of the share capital of the Company or 20 percent of its

voting rights unless such person or persons obtain the consent of the Norwegian government. The Depository and The Depository Trust Company have been granted a concession from the Norwegian government to hold up to 25 percent of the Company's ordinary shares in their respective capacities as depositaries.

Effective 1 January, 1995, legislation harmonizing laws in Norway with EU requirements eliminated restrictions on foreign ownership in Norwegian companies. Persons or entities, regardless of nationality, are required to notify the Ministry of Industry and Energy of the acquisition of shares, other ownership interests or voting rights in a Norwegian company (if that has company more than 50 employees, gross sales of more than NOK 50 million per year, or has received public funding for a project in excess of NOK 5 million) if such acquisition results in the acquirer's ownership interest or voting rights in the company exceeding one-third, one-half or two-thirds of the total ownership interest or voting rights in that company. In such event, the Ministry may review the acquisition and may refuse to approve the acquisition if it has significant negative implications for the company, the relevant industry or society in general, or the Ministry may approve it subject to certain conditions.

### ***Restrictions on Transfer***

Except in certain circumstances, no acquirer of ordinary shares is entitled to any of the rights of a shareholder unless and until he has registered the transfer in the Company's share registry in the VPS. Under Norwegian law, the transferor must ensure that the VPS is notified of any change of ownership immediately after it has taken place.

The Company's articles of association do not contain any provisions restricting the transferability of ordinary shares other than that the Board of Directors may refuse to consent to the transfer of ordinary shares and may take such other steps as may be necessary to prevent ordinary shares from being transferred if in contravention of the restrictions, if any, then provided by applicable Norwegian law. If the Board of Directors refuses to consent to a transfer of ordinary shares, the Board must, without delay, notify the transferee of the decision as well as the reasons for such refusal and what is required in order to remedy the matter. If the transferee has not been notified of a refusal to grant consent within two months of the date of the VPS's receipt of notice of the acquisition, the Board's consent shall be regarded as having been granted. If the Board refuses to grant its consent to the acquisition of the ordinary shares, the transferee may (i) rescind the purchase agreement with the transferor (unless otherwise provided in such agreement), (ii) dispose of the shares, or (iii) bring a legal action against the Company with respect to the refusal to grant consent. Any of the foregoing actions must be taken within two months from when the transferee received notice of the Board's refusal of consent to the transfer. If the transferee fails to act in a timely manner, the Board of Directors may demand that the shares be sold.

### ***Additional Issuances and Preemptive Rights***

All issuances of ordinary shares by the Company, including bonus issues (share dividends), require an amendment of the Company's articles of association (which specifies the Company's share capital) and, thus, shareholder approval.

Holders of the Company's ordinary shares have preemptive rights to acquire or subscribe for additional ordinary shares to be issued for cash. Such rights may be waived by a resolution at a general meeting by the same vote as required to approve an amendment to the Company's articles of association. Shareholders, by the same majority as required for an amendment to the Company's articles of association, may also grant the Board of Directors a power of attorney to increase the share capital by a new subscription for shares, such power of attorney to specify, among other things, the amount by which the share capital may be increased, the term of the power of attorney, and whether or not shareholders are to have preemptive rights with respect to such share capital increase.

Shareholders' preemptive rights, if any, are *pro rata* in accordance with their relative holdings in the Company's ordinary shares at the time of such issuance. If not all shareholders exercise their preemptive rights

(or not all shareholders exercise such rights in full), shareholders who have exercised their preemptive rights and want to acquire additional shares may subscribe for those shares which have not been subscribed for, generally on a *pro rata* basis based on the number of shares for which preemptive rights have been exercised. Under Norwegian law, preemptive rights cannot be set aside in the Company's articles of association.

The Company's articles of association provide that if the share capital is increased, and provided the Norwegian law then in effect so permits, preferential subscription rights shall be reserved in connection with each such capital increase, on the conditions stipulated by the Board of Directors, for up to:

- 0.83% of the increase for holders of the 83 unredeemed founder certificates, and
- 2.79% of the increase for holders of the 4,343 unredeemed subscription certificates.

These preferential rights shall not apply if the increase is made in order to allot shares to third parties as compensation for their transfer of assets to the Company.

Under Norwegian law, bonus issues (share dividends) of the Company's ordinary shares may be distributed, subject to shareholder approval, from amounts which (i) could otherwise be distributed as dividends, or (ii) may be created by transferring funds from the Company's share premium reserve or from retained earnings available for dividends. Such bonus issues (share dividends) may be effected either by issuing new ordinary shares, allotted to the Company's shareholders on a *pro rata* basis, or by increasing the nominal value of the ordinary shares outstanding.

### ***Redemption of the Ordinary Shares***

The Company's articles of association do not currently contain any provisions regarding the redemption of the Company's ordinary shares. Under Norwegian law, a company may, upon a motion by its board of directors and subject to obtaining shareholder approval, reduce its share capital to:

- cover a loss which cannot be covered in any other way;
- effect a distribution to shareholders;
- effect a stock repurchase plan by the company;
- allocate amounts from share capital to reserves to be used in accordance with the resolution adopted by the shareholders.

The reduction in share capital may be implemented by a redemption of ordinary shares or by a reduction in the nominal value of the shares.

### ***Rights Upon Dissolution and Winding Up***

Any decision by a Norwegian company to dissolve generally requires the approval of two-thirds of the votes cast by its shareholders, as well as two-thirds of the share capital represented at the general meeting called to vote on the issue. If any conditions have occurred which, in accordance with a company's articles of association, must result in the dissolution of the company, or if the company must be dissolved as a result of a statutory provision, the shareholder proposal with respect to the company's dissolution requires approval of the majority of votes cast at the general meeting called to vote on the proposal. In the event of a dissolution, liquidation or winding up of the Company, the holders of ordinary shares are entitled to share ratably in all assets remaining after payment of all liabilities of the Company.

### *Obligations upon Acquiring Certain Percentages of the Company's Shares*

Norwegian law requires any person, entity or group acting in concert that acquires more than 40 percent of the voting rights of a Norwegian company listed on the Oslo Stock Exchange (OSE) to make an unconditional general offer to acquire the whole of the outstanding share capital of that company. The offer is subject to approval by the OSE before submission of the offer to the shareholders. The offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered. The offering price per share must be at least as high as the highest price paid by the offeror in the six-month period prior to the date the 40 percent threshold was exceeded, but equal to the market price if the market price was higher when the 40 percent threshold was exceeded. A shareholder who fails to make the required offer must within four weeks dispose of sufficient shares so that the obligation ceases to apply. Otherwise, the OSE may cause the shares exceeding the 40 percent limit to be sold by public auction. A shareholder who fails to make such offer cannot, as long as the mandatory offer requirement remains in force, vote its shares or exercise any rights of share ownership unless a majority of the remaining shareholders approve, other than the right to receive dividends and preferential rights in the event of an increase in share capital. In addition, the OSE may impose a daily fine upon a shareholder who fails to make the required offer.

If a shareholder, directly or via subsidiaries, acquires shares representing more than 90 percent of the total number of issued shares as well as more than 90 percent of the total voting rights attached to those shares, then the majority shareholder has the right (and each remaining minority shareholder of that company has the right to require the majority shareholder) to effect a compulsory acquisition for cash of any shares not already owned by the majority shareholder. Upon effecting the compulsory acquisition, the majority shareholder must offer the minority shareholders a specific price per share. The determination of the price per share would be at the discretion of the majority shareholder. If any minority shareholder does not accept the offered price, such minority shareholder may, within a specified period of not less than two months, request that the price be set by the Norwegian courts. The cost of the court procedure would normally be charged to the account of the majority shareholder, and the courts would have full discretion in determining the consideration due the minority shareholder as a result of the compulsory acquisition.

## **Description of American Depositary Receipts**

The following is a summary of certain provisions of the Amended and Restated Deposit Agreement, dated as of October 1, 1987, as amended by Amendment No. 1 thereto, dated May 27, 1999 (the Amended and Restated Deposit Agreement, as so amended, being referred to as the “Deposit Agreement”), among the Company, Morgan Guaranty Trust Company of New York, as depositary (the “Depositary”) and holders from time to time of the American depositary receipts (“ADRs”) issued by the Depositary thereunder. An ADR is the physical certificate that evidences any number of American depositary shares (“ADSs”). Subject to the terms of the Deposit Agreement, each ADS represents rights attributable to one ordinary share of the Company.

The summary does not purport to be complete and is qualified in its entirety by reference to the Deposit Agreement. Copies of the Deposit Agreement are available for inspection at the Depositary's office located at 60 Wall Street, New York, New York 10260 (the “Depositary’s Office”) and at the principal Oslo office of Den norske Bank (the “Custodian”) or any successor or additional custodian.

The Deposit Agreement and the ADRs are governed by New York law.

### ***Deposit of Ordinary Shares***

A person or entity may register ordinary shares of the Company in the VPS System in the name of the Depositary (as a nominee of such person or entity and not as a beneficial owner of such shares). Ordinary shares (or evidence of rights to receive ordinary shares) may be deposited through:

- (1) electronic transfer of such shares to the account of the Depositary in the Company’s share registry on the VPS System, or
- (2) evidence satisfactory to the Custodian of irrevocable instructions to cause the ordinary shares to be transferred to the Depositary’s account, together with related documentation specified in the Deposit Agreement.

Subject to the terms and conditions of the Deposit Agreement, upon each deposit of ordinary shares, receipt of related delivery documentation and compliance with the other provisions of the Deposit Agreement, including the payment of the fees and charges of the Depositary and any taxes or other fees or charges owing, the Depositary will issue an ADR or ADRs in the name of the person or entity entitled thereto evidencing the number of ADSs to which such person or entity is entitled. Certificated ADRs will be delivered at the Depositary’s Office.

The Depositary may issue ADRs prior to the deposit of ordinary shares (or rights to receive ordinary shares), referred to in the Deposit Agreement as a “pre-release,” only if: (i) the ADRs are fully collateralized (marked to market daily) with cash or U.S. government securities until the ordinary shares are deposited in the Depositary’s name; (ii) the applicant for the ADRs represents in writing that it owns the ordinary shares, has assigned all beneficial right, title and interest in such ordinary shares to the Depositary, and will not dispose of such ordinary shares other than in satisfaction of the pre-release; and (iii) all such ADRs represent not more than 20 percent of all ADSs (excluding those evidenced by pre-released ADRs). The collateral shall be held for the benefit of the ADR holders. The Depositary may retain for its own account any compensation for the issuance of ADRs in connection with a pre-release, including any earnings on the collateral held in connection therewith.

### ***Transfer of ADRs***

The ADRs are transferable on the books of the Depositary; provided, however, that the Depositary may close the transfer books at any time or from time to time when deemed expedient by it in its reasonable judgment in connection with the performance of its duties. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any ADR or transfer and withdrawal of ordinary shares, the Depositary or the Custodian may require payment from the presenter of the ADR or the depositor of the ordinary shares of a sum sufficient to reimburse it for any taxes or other governmental charges and any stock transfer or registration fees with respect thereto and payment of any applicable fees payable by the holders of ADRs. The Depositary may refuse to deliver ADRs, register the transfer of any ADR or make any distribution of, or related to, ordinary shares until it or the Custodian has received such proof of citizenship, residence, exchange control approval, legal or beneficial ownership or other information as it may deem necessary or proper or as the Company may require by written request to the Depositary or the Custodian. The delivery, transfer and surrender of ADRs generally may be suspended during any period when the transfer books of the Depositary are closed, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement, or any for any other reason.

### ***Surrender of ADRs for purposes of Receiving Ordinary Shares and Other Deposited Securities***

An ADR holder may surrender its ADRs at the Depositary's Office for the purpose of withdrawal of the ordinary shares represented thereby, together with all securities, property and cash received by the Depositary or the Custodian in respect of or in lieu of such ordinary shares (collectively, the "Deposited Securities"). Upon such surrender, the payment of applicable fees, charges and taxes, and delivery of proper instructions, the holder is entitled to have the ordinary shares relating to the surrendered ADRs registered in the name of the holder (or such other name as the holder may request) in the VPS System. The holder is also entitled to delivery, at the Depositary's Office or at the office of the Custodian, of a certificate or certificates for, or other documents of title to, the Deposited Securities, if any, not registered in the VPS System that are then represented by the surrendered ADRs. At the Depositary's discretion, the Depositary may make delivery of any cash, dividends, distributions or rights with respect to the amount of the Deposited Securities evidenced by the surrendered ADRs, or any proceeds of sale of such cash, dividends, distributions or rights held by the Depositary.

Under the terms of the Deposit Agreement, the Depositary may refuse or suspend the surrender of outstanding ADRs only in connection with:

- temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of ordinary shares in connection with voting at a shareholders' meeting, or the payment of dividends;
- the payment of fees, taxes and similar charges; or
- compliance with any laws or governmental regulations relating to the ADRs or to the withdrawal of Deposited Securities.

### ***Dividends and Other Distributions***

The Company may make various types of distributions with respect to its ordinary shares. Under the terms of the Deposit Agreement, the Depositary has agreed to pay ADR holders the cash dividends and other distributions received by the Custodian on any Deposited Securities. ADR holders shall receive these distributions, in proportion to the number of ADSs held by them, in the following manner:

### Cash Distributions

Whenever the Depositary receives any cash dividend or other cash distribution by the Company on any Deposited Securities, the Depositary is to convert such dividend or distribution in US dollars and remit the amount received, net of applicable taxes and governmental charges, to the ADR holders, net of any amounts required to be withheld by the Company, the Custodian or the Depositary on account of taxes or other governmental charges and reasonable and customary expenses incurred by the Depositary, if any, in the conversion of currency.

The Depositary will distribute only such amount of the net cash dividend or other cash distribution as can be distributed without attributing to any ADR holder a fraction of one cent. Any balance not distributable on that basis will be held by the Depositary (without liability for interest thereon) and added to the next sum received by the Depositary for distribution to holders of then outstanding ADRs.

If the Depositary receives any currency other than US dollars, the Depositary is required, to the extent that in its judgment it can convert such currency on a reasonable basis into US dollars and transfer the resulting US dollars to the United States, to convert all cash dividends and other cash distributions which it receives in respect of the Deposited Securities into US dollars. If the Depositary determines, in its judgment, that such other currency received by it cannot be so converted or transferred (or if any approval or license of a governmental authority or agency of the United States required for such conversion is denied or is not obtainable or is not obtained within a reasonable period as determined by the Depositary), the Depositary may distribute such other currency (or documentation evidencing the right to receive the same) or, in its discretion, hold such currency for the respective accounts of the ADR holders entitled to receive the same. If any conversion of currency, in whole or in part, cannot be effected for distribution in US dollars to some of the ADR holders, the Depositary may, in its discretion, convert the currency into US dollars and distribute the same to ADR holders for whom such conversion and distribution is practicable and distribute the balance of such currency to, or hold such balance for, the accounts of the ADR holders for whom such conversion and distribution is not practicable.

### Distributions of Ordinary Shares

If a distribution by the Company consists of a dividend in, or distribution of, ordinary shares, the Depositary may, with the Company's approval, and shall, if the Company so requests, distribute to the ADR holders additional ADRs for an aggregate number of ADSs representing the number of ordinary shares received as such dividend or distribution. In lieu of delivering ADRs for fractional ADSs, the Depositary may sell the amount of ordinary shares represented by the aggregate of such fractions and distribute the net proceeds in the manner described with respect to cash distributions. If additional ADRs are not so distributed (other than with respect to fractional ADSs), each ADS will then represent the additional ordinary shares distributed upon the Deposited Securities represented thereby.

### Distributions other than Cash or Ordinary Shares

If the Depositary receives any distribution upon the Deposited Securities in a form other than cash or the Company's ordinary shares (e.g., other securities or property), the Depositary is to distribute the same in any manner that the Depositary deems equitable and practicable. If, in the opinion of the Depositary, it cannot distribute such distribution (for example, because of its determination that such distribution in the United States would be unlawful) or cannot do so proportionately among the ADR holders, the Depositary may, with the Company's approval, adopt such method as it deems equitable and practicable to effect the distribution, including the sale (at public or private sale) of the securities or other property distributed, or any part thereof, and then distribute the net proceeds of any such sale in the manner described with respect to cash distributions.

### ***Subscription Rights***

In the event that the Company offers (or causes to be offered) to the holders of any Deposited Securities any rights to subscribe for additional ordinary shares or any rights of any other nature, the Depositary, after consultation with the Company, has discretion to (i) follow a procedure to make such rights available to the ADR holders, or (ii) dispose of such rights and make the net proceeds available in US dollars to such holders. However, if requested by the Company, the Depositary is to either:

(a) if lawful and feasible at the time of the rights offering, make such rights available to ADR holders by means of warrants or other instruments, or employ another method deemed feasible to facilitate the exercise, sale or transfer of the rights by the ADR holders; or

(b) if not then lawful and feasible by means of warrants or other instruments (or if the rights represented by such warrants or other instruments are not exercised and appear to be about to lapse), sell such rights or such warrants or other instruments at public or private sale on terms the Depositary deems proper, and allocate the proceeds of any such sale for the accounts of the ADR holders, upon an averaged or other practicable basis without regard to distinctions among ADR holders because of the application of exchange restrictions applicable to any particular ADR holder(s), the date of delivery of ADRs or otherwise.

### ***Record Dates***

Whenever any cash dividend or other cash distribution, if any, shall become payable or any distribution other than cash shall be made, or rights shall be issued, with respect to the Deposited Securities, or whenever the Depositary shall receive notice of any meeting of holders of ordinary shares or other Deposited Securities, the Depositary will, after consultation with the Company, if the Company so requests, fix a record date for the determination of the ADR holders who will be entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, to give instructions for the exercise of voting rights at any such meeting.

### ***Voting of the Underlying Ordinary Shares***

Upon receipt of notice of any meeting of holders of ordinary shares or other Deposited Securities, the Depositary is obligated, as soon as practicable thereafter, to mail to ADR holders (i) a notice containing a summary of such information as is contained in such notice of meeting and a statement that ADR holders at the close of business on a specified record date will be entitled, subject to applicable Norwegian law and the Company's articles of association, to instruct the Depositary as to the exercise voting rights, if any, pertaining to the ordinary shares or other Deposited Securities underlying their ADSs, and (ii) a statement as to the manner in which such instructions may be given, including an express indication that instructions may be given to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an ADR holder on such record date, received on or before the date established by the Depositary for such purpose, the Depositary will endeavor insofar as practicable to vote or cause to be voted the ordinary shares or other Deposited Securities under the ADSs evidenced the holder's ADRs in accordance with any non-discretionary instructions set forth in such request. Under the Company's articles of association, notice of shareholders' meeting must be given at least 14 days in advance of the meeting. Unless notification of a meeting is given in sufficient time to permit the Depositary to notify ADR holders of the proposed meeting and to allow holders to take the steps described above, ADR holders will not be able to exercise voting rights with respect to the ordinary shares underlying their ADRs.

The Depositary will not, under any circumstances, exercise any discretion as to voting. Further, the Depositary will not vote the ordinary shares or other Deposited Securities represented by ADRs other than in accordance with the written instructions from ADR holders.

### ***Reports and Notices***

The Depositary will make available for inspection by ADR holders at the Depositary's Office any reports and communications received from the Company which are both (a) received by the Depositary or its nominee or nominees as the holder of the Deposited Securities, and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary will mail to ADR holders copies of notices furnished by the Company to the Custodian of shareholder meetings (or adjournments thereof), the taking of any action in respect of cash or other distributions, or any rights offering.

### ***Amendment and Termination of the Deposit Agreement***

The form of the ADRs and the Deposit Agreement may at any time be amended by agreement between the Company and the Depositary. Any amendment which imposes or increases any fees or charges (other than stock transfer or other taxes and other governmental charges, transfer or registration fees, cable, telex or facsimile transmission costs, delivery costs, and expenses of the Depositary in connection with conversion of any currency into US dollars) or which otherwise prejudices any substantial existing right of ADR holders, will not take effect as to outstanding ADRs until the expiration of three months after the Depositary has given notice of such amendment to the ADR holders. Every ADR holder at the time such amendment becomes effective will be deemed, by continuing to hold such ADR(s), to consent and agree to such amendment and to bound by the Deposit Agreement as amended thereby. In no event may any amendment impair the rights of any ADR holder to surrender its ADRs and receive the Deposited Securities represented thereby.

Whenever so directed by the Company, the Depositary has agreed to terminate the Deposit Agreement by mailing notice of such termination to the ADR holders then outstanding at least 60 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement at any time 60 days after the Depositary shall have delivered to the Company a notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. If any ADRs remain outstanding after the date of termination, the Depositary thereafter will discontinue the registration of transfer of ADRs, will suspend the distribution of dividends to the holders thereof and will not give any further notices or perform any further acts under the Deposit Agreement, except the Depositary will continue to collect dividends and other distributions pertaining to the Deposited Securities, sell rights as provided in the Deposit Agreement, deliver ordinary shares and other property represented by ADRs and the net proceeds of the sale of any rights or other property, in exchange for surrendered ADRs. At any time after the expiration of two years from the date of termination, the Depositary may sell the Deposited Securities and hold the net proceeds, together with any other cash then held, without liability for interest, for the pro rata benefit of the holders of ADRs which have not theretofore been surrendered.

### ***Charges of Depositary***

The Depositary will charge the party to whom ADRs are delivered against deposits, and the party surrendering ADRs for delivery of ordinary shares or other deposited securities, property and cash, \$5.00 for each 100 ADRs (or fraction thereof) represented by the ADRs issued or surrendered. The Company will pay all other charges of the Depositary and those of any registrar or co-registrar under the Deposit Agreement, except for taxes and other governmental charges, any applicable share transfer or registration fees on deposits or withdrawals of ordinary shares, certain cable, telex, facsimile transmission and delivery charges and such expenses as are incurred by the Depositary in the conversion of foreign currency into US dollars. The Company will pay all charges and expenses of the Depositary in connection with the initial issuance of ADRs payable as a dividend or distribution to shareholders and in connection with any rights offering to shareholders. The charges and expenses of the Custodian are for the sole account of the Depositary.

### ***Limitations on Obligations and Liability to ADR Holders***

Neither the Depositary nor the Company will be liable to the holders of ADRs if prevented or delayed by law, governmental authority, any provision of the Company's articles of association or any circumstances beyond its control in performing their obligations under the Deposit Agreement or if obliged to do or perform any act or thing inconsistent with the provisions of the Deposit Agreement. The obligations of the Company and the Depositary under the Deposit Agreement are expressly limited to using their best judgment and good faith in performing their respective duties specified therein.

Neither the Depositary nor the Company has any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or the ADRs which, in its opinion, may involve it in expense or liability, unless indemnity satisfactory to it against all expense (including fees and disbursements of counsel) and liability is furnished as often as may be required.

The Depositary will not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any vote is cast or the effect of any such vote, provided that any such action or failure to act is in good faith.

The Depositary, subject to the laws of Norway, the Company's articles of association and the terms of the Deposit Agreement, may own and deal in any class of the Company's securities and in ADRs.

### **ITEM 10.C. MATERIAL CONTRACTS**

Item 10.C. of Form 20-F requires a summary of each material contract, other than contracts entered into in the ordinary course of business, to which the Company or any member of the Group is a party, for the two years immediately preceding publication of the Form 20-F. Hydro is of the view that all material contracts entered into by the Company or any member of the Group during this time period have been entered into in the ordinary course of business.

### **ITEM 10.D. EXCHANGE CONTROLS**

Under Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval except for the physical transfer of payments in currency, which is restricted to licensed banks. Thus, non-Norwegian resident shareholders may receive dividend payments without a Norwegian exchange control consent, but such payments must be made through a licensed bank.

### **ITEM 10.E. TAXATION**

The following summary outlines certain United States federal income tax consequences in connection with the acquisition, ownership and disposition of the Company's ordinary shares or ADSs. It applies to holders of ordinary shares or ADSs that hold the same as capital assets for tax purposes. This section does not apply to certain holders subject to special rules, such as dealers in securities, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, tax-exempt organizations, life insurance companies, persons liable for alternative minimum tax, persons that hold ordinary shares or ADSs through a partnership or other pass-through entity, persons that hold shares or ADSs as part of a straddle or a hedging or conversion transaction or persons whose functional currency is not the US dollar.

This section is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations, published rulings and court decisions, and the Convention between the United States and the Kingdom of Norway for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with

Respect to Taxes on Income and Property (the “Treaty”). These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

A holder of ordinary shares or ADSs is a “U.S. holder” if he is a beneficial owner of such shares or ADSs and is (i) a citizen or resident of the United States, (ii) a corporation created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate whose income is subject to United States federal income tax regardless of its source, or (iv) a trust, if a United States court can exercise primary supervision over the trust’s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

A “non-U.S. holder” is a beneficial owner of ordinary shares or ADSs that is not a United States person for United States federal income tax purposes.

You should consult your own tax advisor regarding the United States federal, state, local and other tax consequences of acquiring, owning and disposing of ordinary shares and ADSs in your particular circumstances.

Taking into account the above assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you generally will be treated as the owner of the ordinary shares represented by those ADSs. Exchanges of ordinary shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

### ***Taxation of Dividends***

Dividends distributed are subject to taxation in Norway as general income at a flat rate, currently 28 percent. Non-Norwegian shareholders are subject to a withholding tax at a rate of 25 percent on dividends distributed by Norwegian companies, unless the shareholder is carrying on business activities in Norway and such shares are effectively connected to such activities. The withholding tax of 25 percent is normally lower according to tax treaties between Norway and the country in which the shareholder is resident. The Treaty rate is 15 percent. The 15 percent withholding rate under the Treaty will apply to dividends paid on shares held directly by U.S. holders.

Dividends paid to the Depositary for redistribution to U.S. holders will generally be subject to a withholding tax of 15 percent. If you are a U.S. holder, you must generally include in your gross income for United States federal income tax purposes the gross amount of any dividend paid by the Company out of its current or accumulated earnings and profits (as determined for United States federal income tax purposes). You must include any Norwegian tax withheld from the dividend payment in this gross amount even though you do not, in fact, receive the amount withheld as tax. The dividend is ordinary income that you must include when you (in the case of shares) or the Depositary (in the case of ADSs) receive the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations.

The amount of the dividend distribution that you must include in your income as a U.S. holder will be the US dollar value of the gross amount of the Norwegian kroner dividend, determined at the spot Norwegian kroner -- US dollar exchange rate on the date the dividend distribution is included in your income, regardless of whether the payment is, in fact, converted into US dollars. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a nontaxable return of capital to the extent of your tax basis in the ordinary shares or ADSs and, to the extent in excess of your tax basis, will be treated as capital gain.

Subject to certain limitations, the 15 percent Norwegian tax withheld in accordance with the treaty and paid over to Norway will be creditable against your United States federal income tax liability.

Dividends will be income from sources outside the United States, but generally will be “passive income” or “financial services income” which is treated separately from other types of income for purposes of computing the foreign tax credit allowable to you. Alternatively, you may elect to claim a U.S. tax deduction, instead of a foreign tax credit, for such Norwegian tax, but only for a year in which you elect to do so with respect to all foreign income taxes.

Any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into US dollars generally will be treated as ordinary income or loss. Such gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes.

If you are a non-U.S. holder, dividends paid to you in respect of ordinary shares or ADSs will not be subject to United States federal income tax unless the dividends are “effectively connected” with the conduct of a trade or business within the United States and attributable to a permanent establishment or fixed base that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis. In such cases, you will generally be taxed in the same manner as a U.S. holder. If you are a corporate non-U.S. holder, “effectively connected” dividends may, under certain circumstances, be subject to an additional “branch profits tax” as a 30 percent rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

### ***Taxation of Capital Gains***

If you are a U.S. holder and you sell or otherwise dispose of your ordinary shares or ADSs, you will generally recognize capital gain or loss for United States federal income tax purposes equal to the difference between the US dollar value of the amount that you realize and your tax basis, determined in US dollars, in your ordinary shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at a maximum rate of 20 percent where the property has been held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. If you receive any foreign currency on the sale of ordinary shares or ADSs, you may recognize U.S.-source ordinary income or loss as a result of currency fluctuations between the date of the sale of the ordinary shares or ADSs and the date the sales proceeds are converted into US dollars.

If you are a non-U.S. holder, you will not be subject to United States federal income tax on gain recognized on the sale or other disposition of your ordinary shares or ADSs unless: (i) the gain is “effectively connected” with a trade or business in the United States, and the gain is attributable to a permanent establishment or fixed base that you maintain in the United States if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis, or (ii) you are an individual, you are present in the United States for at least 183 days in the taxable year of the sale, and certain other conditions exist. If you are a corporate non-U.S. holder, “effectively connected” gains that you recognize may also, under certain circumstances, be subject to an additional “branch profits tax” at a rate of 30 percent or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

### ***Passive Foreign Investment Company (PFIC) Rules***

The Company believes that its ordinary shares and ADSs should not be treated as stock of a passive foreign investment company, or PFIC, for United States federal income tax purposes. However, this conclusion is a factual determination that is made annually and may, therefore, be subject to change.

In general, if you are a U.S. holder, the Company will be a PFIC with respect to you if for any taxable year in which you hold the Company's ordinary shares or ADSs: (i) at least 75 percent of the Company's gross income for the taxable year is passive income, or (ii) at least 50 percent of the value, determined on the basis of a quarterly average, of the Company's assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties derived from the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns at least 25 percent by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation's income.

If the Company is treated as a PFIC, and you are a U.S. holder that did not make a QEF election or a mark-to-market election, as described below, you will be subject to special rules with respect to: (i) any gain you realize on the sale or other disposition of your ordinary shares or ADSs and (ii) any excess distribution that the Company makes to you (generally, any distributions to you during a single taxable year that are greater than 125 percent of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the ordinary shares or ADSs).

Under these rules, the gain or excess distribution will be allocated ratably over your holding period for the ordinary shares or ADSs, the amount allocated to the taxable year in which you realized gain or excess distribution will be taxed as ordinary income, the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC or, in certain cases, QEF inclusions.

The special PFIC tax rules described above will not apply to you if you have made or make a mark-to-market election. In that case, you will generally include as ordinary income each year the excess, if any, of the fair market value of your ordinary shares or ADSs at the end of the taxable year over your adjusted basis in your ordinary shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your ordinary shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the ordinary shares or ADSs will be adjusted to reflect any such income or loss amounts.

The special PFIC tax rules will also not apply if you elect to have the Company treated as a qualified electing fund, or QEF, and the Company provides certain required information to you. The Company has made no determination, if it were to become a PFIC, whether it would provide U.S. holders with the information that is required to make a QEF election effective. If you are a U.S. holder that makes an effective QEF election, you will be currently taxable on your pro rata share of the Company's ordinary earnings and net capital gain, at ordinary income and capital gain rates, respectively, for each of the Company's taxable years regardless of whether or not you receive distributions. Your basis in the ordinary shares or ADSs will be increased to reflect taxed but undistributed income. Distributions of income that had been taxed previously will result in a corresponding reduction of basis in your ordinary shares or ADSs and will not be taxed again as a distribution to you.

If you are a U.S. holder and you own shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form 8621.

### ***Backup Withholding and Information Reporting***

Dividend payments, or other taxable distributions, made within the United States to you generally will be subject to information reporting requirements and backup withholding tax at a rate of 31 percent if you are a non-corporate United States person and you (i) fail to provide an accurate taxpayer identification number, (ii) are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns, or (iii) in certain circumstances, fail to comply with applicable certification requirements.

Persons that are not United States persons may be required to establish their exemption from information reporting and backup withholding by certifying their status on Internal Revenue Service Form W-8.

If you sell your ordinary shares or ADSs to or through a United States office of a broker, the payment of the proceeds is subject to both United States backup withholding and information reporting unless you certify that you are a non-U.S. person, under penalties of perjury, or you otherwise establish an exemption. If you sell your ordinary shares or ADSs outside the United States through a non-U.S. office of a non-U.S. broker, and the sale proceeds are paid to you outside the United States, then United States backup withholding and information reporting requirements generally will not apply to that payment. However, United States information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside of the United States, if you sell your ordinary shares or ADSs through a non-U.S. office of a broker that:

- is a United States person,
- derives 50 percent or more of its gross income for a specified three-year period from the conduct of a trade or business in the United States,
- is a “controlled foreign corporation” as to the United States, or
- with respect to payments made after December 31, 2000, is a foreign partnership, if at any time during its tax year: (i) one or more of its partners are U.S. persons, as defined in U.S. Treasury regulations, who in the aggregate hold more than 50 percent of the income or capital interest in the partnership, or (ii) at any time during its tax year the foreign partnership is engaged in a United States trade or business,

unless the broker has documentary evidence in its records that you are a non-United States person and does not have actual knowledge that you are a U.S. person or you otherwise establish an exemption.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

### **ITEM 10.F. DIVIDENDS AND PAYING AGENTS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 10.F. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

#### **ITEM 10.G. STATEMENT BY EXPERTS**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 10.G. if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

#### **ITEM 10.H. DOCUMENTS ON DISPLAY**

The English translation of the Company's articles of association has been filed as an exhibit to this Annual Report. See the Index to Exhibits.

#### **ITEM 10.I. SUBSIDIARY INFORMATION**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by Item 10.I. if, as is the case in this instance, the Form 20-F is being filed in the United States.

#### **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and qualitative information about market risk as of 31 December, 2000 is incorporated by reference to the "Financial Review - Risk Management" section (pages 64 through 67) of the Company's 2000 Annual Report to Shareholders. This section of the Annual Report to Shareholders has been filed as an exhibit to this Annual Report on Form 20-F in accordance with applicable rules under the Exchange Act. All statements other than historical information incorporated in this Item 11 are forward-looking statements. The actual impact of future market changes could differ materially due to, among other things, the risk factors discussed in the Annual Report.

#### **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

In accordance with the instructions to Form 20-F, the Company does not need to provide the information called for by item 12 if, as is the case in this instance, the Form 20-F is being filed as an annual report under the Exchange Act.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Item 13 of Form 20-F requires information with respect to (i) any material default in the payment of principal, interest, a sinking or purchase fund installement, or any other material default not cured within 30 days, relating to indebtedness of the Company or any of its significant subsidiaries, (ii) the payment of dividends if in arrears, (iii) any other material delinquency not cured within 30 days, relating to any class of preferred stock. There is nothing to report by the Company within the scope of this Item requirement.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

None.

## PART III

### ITEM 17. FINANCIAL STATEMENTS

Not applicable.

### ITEM 18. FINANCIAL STATEMENTS

The Company's consolidated financial statements as of and for the year ended 31 December, 2000, and the related notes thereto, which are made a part of this Annual Report (by virtue of being incorporated by reference to pages 68 through 70 and 73 through 101 of the Company's 2000 Annual Report to Shareholders), as well as the schedule to the consolidated financial statements listed in Item 19(a), have been audited by Deloitte & Touche AS, independent public accountants, as indicated in their report. Reference is made to Item 19 for a list of all financial statements incorporated herein by reference or filed herewith.

### ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

#### a. Financial Statements

**The following are filed as part of this Annual Report on Form 20-F:**

Independent Auditors' Report

Schedules to the Consolidated Financial Statements for the Years Ended 31 December, 2000, 1999 and 1998:

Schedule VIII - Valuation and qualifying accounts and reserves

See pages 113 and 114.

**The following financial statements are incorporated by reference to pages 68 through 70 and 73 through 101 of the Company's 2000 Annual Report to Shareholders:**

	<u>Pages*</u>
Consolidated income statements for the years ended 31 December, 2000, 1999 and 1998	68
Consolidated statements of comprehensive income for the years ended 31 December, 2000, 1999 and 1998	68
Consolidated balance sheets at 31 December, 2000 and 1999	69
Consolidated statements of cash flows for the years ended 31 December, 2000, 1999 and 1998	70
Notes to the consolidated financial statement	73-101

\* Page references are to the Company's 2000 Annual Report to Shareholders.

**b. Exhibits**

1. The Company's articles of association (as amended and currently in effect).
8. Significant Subsidiaries of the Registrant
10. Pages 44 through 67, 68 through 70, and 73 through 101 of the Company's 2000 Annual Report to Shareholders. See the Index to Exhibits on page 117 of this Annual Report

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and shareholders of Norsk Hydro ASA  
Oslo, Norway

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of December 31, 2000 and 1999, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the schedule to the consolidated financial statements included at Item 19(a). As described in Note 1 to the consolidated financial statements, these financial statements and the financial statement schedule have been prepared on the basis of accounting principles generally accepted in the United States of America. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Norsk Hydro ASA and subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

**DELOITTE & TOUCHE AS**

Oslo, Norway  
March 21, 2001

Norsk Hydro ASA and subsidiaries  
 Schedule VIII - Valuation and qualifying accounts and reserves

(Amount in NOK million)

Description	Balance at beginning of period	Additions		Deductions (Note 2)	Balance at end of period
		Charged to costs and expenses	Charged to other accounts (Note 1)		
Year-end 31 December, 2000					
Allowance for doubtful accounts	792	254	94	170	970
Restructuring allowance	191	135	4	213	117
Environment accruals	2 246	496	(357)	157	2 228
Year-end 31 December, 1999					
Allowance for doubtful accounts	650	302	(21)	139	792
Restructuring allowance	-	188	3	-	191
Environment accruals	1 378	532	591	255	2 246
Year-end 31 December, 1998					
Allowance for doubtful accounts	520	243	30	143	650
Restructuring allowance	-	-	-	-	-
Environment accruals	1 094	320	17	53	1 378

Note 1: Includes amounts recognized in business combinations and foreign currency translation adjustments.

Note 2: Deductions primarily represent uncollectible accounts charged against the allowance for doubtful accounts and expenditures related to and reductions of restructuring allowances and environmental accruals.

## Glossary

### Terms Relating to the Group's Businesses and Operations

Term	Definition
"ADR"	American Depositary Receipt, evidencing a specified number of ADSs
"ADS"	American Depositary Share, representing one deposited ordinary share
"Company"	Norsk Hydro ASA, a Norwegian public company limited by shares
"CO <sub>2</sub> "	Carbon Dioxide
"Hydro/The Group"	The Company and its consolidated subsidiaries
"DAP"	Diammonium phosphate fertilizer
"Deposit Agreement"	Deposit Agreement, dated as of 3 January, 1986, as amended and restated as of 1 October, 1987, and as further amended by Amendment No. 1 thereto, dated May 27, 1999, among the Company, the Depositary and the holders from time to time of the ADRs
"Depositary"	Morgan Guaranty Trust Company of New York, as depositary of the ADSs
"kWh"	Kilowatt hour
"MAP"	Monammonium phosphate fertilizer
"NPK"	Complex fertilizers
"ordinary share"	ordinary share, par value NOK 20 per share, of the Company
"PVC"	Polyvinyl chloride, a plastic raw material
"tonne"	One metric tonne (approximately 1,000 kilograms or 2,205 pounds)
"TWh"	Terawatt hour (one billion kilowatt hours)
"VCM"	Vinyl chloride monomer, the main raw material for PVC
"VPS" or "VPS System"	The Norwegian Verdipapirsentralen.

## SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

NORSK HYDRO ASA

Date: 30 March, 2001

/s/ Leiv Lea Nergaard  
Leiv Lea Nergaard  
Executive Vice President and  
Chief Financial Officer

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Exhibit</u>
1	Articles of association, as amended and currently in effect.
8	Significant Subsidiaries of the Registrant.
10	Pages 44 through 67, 68 through 70, and 73 through 101 of the Company's 2000 Annual Report to Shareholders.

# **EXHIBIT 1**

## **§1**

The name of the company is Norsk Hydro ASA. The company is a public company limited by shares.

## **§2**

The objects of the company are to engage in industry, commerce and transport, to utilize energy resources and raw materials, and to engage in other activities connected with the above-mentioned objects. Activities may also proceed through participation in or in co-operation with other enterprises.

## **§3**

The company's registered office is in Oslo.

## **§4**

The share capital is NOK 5,331,933,000, divided into 266,596,650 shares, each with a nominal value of NOK 20. The shares shall be registered in Verdipapirsentralen (the Norwegian Registry of Securities).

The Board of Directors may refuse transfer of shares and may take such other steps as may be necessary to prevent shares being transferred in contravention of the restrictions laid down in Norwegian law.

## **§4A**

If the shares capital is increased, and provided the Norwegian law in force at the time so permits, preferential subscription rights shall be reserved in connection with each such capital increase, on the conditions stipulated by the Board of Directors, for up to

- a) 0.83% of the increase for holders of the 83 unredeemed founder certificates and
- b) 2.79% of the increase for holders of the 4,343 unredeemed subscription certificates.

These preferential rights shall not apply if the increase is made in order to allot shares to third parties as compensation for their transfer of assets to the Company. The certificates may be negotiated independently of the shares.

## **§5**

The Company's Board of Directors shall be composed of 9 members who are elected by the Corporate Assembly for periods of two years at a time.

The Corporate Assembly elects the Chairman and the Vice-Chairman of the Board for the same period.

If the office of a director comes to an end during the period for which he is elected, the Corporate Assembly may elect another director to hold office for the remainder of the period.

## **§6**

The Board of Directors may authorize a director, the present or specifically designated employees to sign for the company, and also to designate procurators. The Board of Directors may decide that authorization to sign for the company may only be exercised by two or more persons jointly.

## §7

The Corporate Assembly shall comprise 21 members elected for a period of two years at a time. 14 of the members and 4 deputy members shall be elected by the Annual General Meeting, while 7 members with deputies shall be elected by and from among the Company's employees.

The Corporate Assembly shall elect its own Chairman and Vice-Chairman for periods of two years at a time.

## §8

The Corporate Assembly shall exercise supervision to ensure that the objects of the Company are furthered in compliance with the law, the Articles of Association and the resolutions of the Annual General Meeting and the Corporate Assembly itself. The Corporate Assembly may adopt recommendations on any matter whatsoever for submission to the Board of Directors.

At the proposal of the Board of Directors, the Corporate Assembly shall adopt resolutions in matters concerning investments that are substantial compared with the Company's resources, or concerning such rationalization of or changes in operations as will entail a major change in or redevelopment of the labor force.

## §9

Directors and members of the Corporate Assembly shall retire the year they reach the age of 70.

## §10

General Meetings shall be convened by the Board of Directors by means of an announcement in one or more national daily newspapers as decided by the Board of Directors. Notice of an Ordinary General Meeting shall be given at least 14 days in advance. An extraordinary General Meeting shall be convened by giving the notice stipulated in the Norwegian Companies Act.

At the same time as the announcement of the Ordinary General Meeting, the Annual Report and Accounts, together with the Auditor's Report and statement of the Corporate Assembly shall be made available for inspection at the Company's office in Oslo.

Shareholders or their proxies are entitled to attend General Meetings provided their acquisition of the shares has been listed in the Company's shares register at least three days prior to the General Meeting, and if by the same date they have contacted the Company's office and obtained an admission card for the meeting.

The General Meeting is presided over by the Chairman of the Corporate Assembly or, in his or her absence, by the Vice-Chairman.

## §11

The Ordinary General Meeting shall

- a) deal with the Board of Director's Annual Report and Accounts for the year just ended and the Auditor's Report and shall approve the Annual Report and Accounts,
- b) decide on the allocation of the net income for the year
- c) elect the shareholders' members and deputy members to the Corporate Assembly,
- d) deal with any other matters listed in the notice convening the meeting.

# **EXHIBIT 8**

The following are the Company's "significant subsidiaries," as that term is defined by applicable rules of the Securities and Exchange Commission.

<b>Company Name</b>	<b>Country of Incorporation</b>	<b>Proportion of ownership Interest*</b>
Norsk Hydro Produksjon AS	Norway	100 percent
Hydro Aluminium AS	Norway	100 percent
Saga Holding AS	Norway	100 percent
Norsk Hydro Danmark AS	Denmark	100 percent

\* Ownership percentage reflects proportion of voting power.

# **EXHIBIT 10**

**(Pages of the Annual Report to Shareholders to be attached)**