

Rating: Buy
S&P 500: 1272

Norsk Hydro Natural Gas Price Advance

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 12/31/06 (US\$m)</i>	7,900
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	111.05	<i>Natural Gas and Oil Production/Ebitda (%)</i>	66
<i>Pricing Date</i>	2/14/06	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	4.3
<i>Market Capitalization (\$mm)</i>	27,800	<i>PV/Ebitda</i>	4.9
<i>Debt (\$mm)</i>	5,900	<i>Undeveloped Reserves (%)</i>	29
<i>Enterprise Value (EV) (\$mm)</i>	33,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.30
<i>Present Value (PV) (\$mm)</i>	38,500	<i>Present Value Proven Reserves(\$/boe)</i>	12.30
<i>Net Present Value (\$/share)</i>	130	<i>Present Value Proven Reserves(\$/mcf)</i>	2.00
<i>Debt/Present Value</i>	0.15	<i>Earnings Next Twelve Months (US\$/sh)</i>	9.18
<i>McDep Ratio - EV/PV</i>	0.88	<i>Price/Earnings Next Twelve Months</i>	12
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	3.23

Note: Estimated cash flow and earnings tied to one-year futures prices for oil.

Reported results may vary widely from estimates. Estimated present value per share revised only infrequently.

The Norwegian government owns 44% of the shares in Norsk Hydro.

Summary and Recommendation

Buy-recommended **Norsk Hydro (NHY)** received a natural gas price of NOK1.85 a cubic meter in the fourth quarter last year, up from 1.36 in the third quarter. The Norwegian kroner price for the European supplier translates to almost \$8 a mmbtu, still less than \$8.50 for six-year futures in the U.S. and \$13 for the natural gas equivalent of six-year oil futures. NHY stock offers 17% appreciation potential to estimated net present value of \$130 a share. Short adjusted reserve life of 5.2 years for oil combines with long-life index of 14 years for natural gas to yield an average life index of 7.8 years. The overall short life is matched by unlevered cash flow multiple, EV/Ebitda, of 4.3 years that is lowest of peers. Present value of 30% for natural gas and 36% for oil leaves 34% for the remainder, mostly aluminum. Cash flow at high aluminum price appeared strong for the quarter just reported while income was nil after discretionary writeoffs and hedging loss.

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Rank by McDep Ratio: Market Cap and Debt to Present Value

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 14-Feb 2006</i>	<i>Shares (mm)</i>	<i>Market Cap (\$mm)</i>	<i>Net Present Value (\$/sh)</i>	<i>Debt/ Present Value</i>	<i>McDep Ratio</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	90.30	139	12,590	33.00	0.74	1.45
Imperial Oil Limited (30%)	IMO B	96.89	101	9,770	90.00	0.09	1.07
Petro-Canada	PCZ B	45.31	523	23,700	42.00	0.19	1.06
Suncor Energy	SU B	71.24	461	32,850	75.00	0.10	0.95
Marathon Oil Corporation	MRO B	66.16	368	24,340	75.00	0.25	0.91
Norsk Hydro ASA	NHY B	111.05	251	27,820	130.00	0.15	0.88
PetroChina Company Ltd (10%)	PTR B	96.96	176	17,050	120.00	0.01	0.81
Lukoil Oil Company	LUKOY B	77.10	830	64,000	100.00	0.01	0.77
Gazprom (50%)	OGZPF B	84.30	1,133	95,500	140.00	0.02	0.61
<i>Total or Median</i>				<i>308,000</i>		<i>0.10</i>	<i>0.91</i>

Rank by EV/Ebitda: Enterprise Value to Earnings Before Interest, Tax, Deprec.

	<i>Symbol/ Rating</i>	<i>Price (\$/sh) 14-Feb 2006</i>	<i>Adjstd Resrvs/ Prod NTM</i>	<i>PV/ Ebitda NTM</i>	<i>EV/ Ebitda NTM</i>	<i>P/E NTM</i>	<i>Divd or Distrib NTM (%)</i>
Producer/Refiners - Large Cap and Mid Cap							
Kinder Morgan, Inc.	KMI S2	90.30		8.2	11.9	18	3.9
Suncor Energy	SU B	71.24	17.7	8.1	7.7	15	0.3
Imperial Oil Limited (30%)	IMO B	96.89	10.7	6.9	7.4	12	0.9
Gazprom (50%)	OGZPF B	84.30	20.0	10.2	6.2	10	0.5
Petro-Canada	PCZ B	45.31	6.0	5.6	5.9	11	0.8
Lukoil Oil Company	LUKOY B	77.10	19.7	6.0	4.7	7	1.3
Marathon Oil Corporation	MRO B	66.16	6.5	4.8	4.4	7	2.0
PetroChina Company Ltd (10%)	PTR B	96.96	11.6	5.3	4.3	8	3.9
Norsk Hydro ASA	NHY B	111.05	7.8	4.9	4.3	12	2.9
<i>Median</i>			<i>11.1</i>	<i>6.0</i>	<i>5.9</i>	<i>11</i>	<i>1.3</i>

Norsk Hydro

Functional Cash Flow and Present Value

	<i>NTM Ebitda (US\$mm)</i>	<i>Adjusted R/P</i>	<i>PV/ Ebitda</i>	<i>Present Value (US\$mm)</i>	
Natural Gas	1,160	14.0	9.9	11,500	30%
Oil	4,060	5.2	3.4	14,000	36%
Aluminum	2,680	-	4.9	13,000	34%
	7,900	7.8	4.9	38,500	100%
Debt (US\$mm)					5,900
Net Present Value (US\$mm)					32,600
Shares (mm)					251
Net Present Value (US\$/sh)					130
Over (-)/ Under (+) Correlation (US\$/sh)					18

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Norsk Hydro
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Q3</i>	<i>Q4</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>12/31/06</i>
Volume									
Natural Gas (mmcf)	1,056	852	1,104	987	1,196	1,035	954	1,236	1,105
Oil (mbd)	415	399	405	399	431	431	431	431	431
Total gas & oil (mbd)	591	541	589	563	630	603	590	637	615
Price									
Natural gas (NOK/mcf)	34	39	52	43	45	45	45	45	45
Natural gas (NOK/Sm3)	1.20	1.36	1.85	1.22	1.60	1.60	1.60	1.60	1.28
Oil									
WTI Cushing US\$/bbl)	48.31	62.52	60.02	56.31	63.02	63.13	64.83	65.68	64.17
Kroner/\$	6.32	6.47	6.63	6.45	6.81	6.81	6.81	6.81	6.81
WTI Cushing (NOK/bbl)	305	405	398	363	429	430	441	447	437
NHY (NOK/bbl)	264	391	369	343	398	398	409	414	405
Total gas & oil (NOK/bb)	246	349	352	318	358	362	372	368	365
Aluminum (US\$/tonne)	1,889	1,838	2,078						
Revenue (NOKmm)									
Natural Gas	3,303	3,020	5,323	15,500	4,880	4,315	3,979	5,156	18,330
Oil	10,072	14,338	13,741	49,998	15,423	15,794	16,218	16,433	63,868
Other	28,977	30,274	31,577	124,203	31,577	31,577	31,577	31,577	126,306
Total	39,049	44,612	45,318	174,201	51,879	51,686	51,774	53,165	208,504
Expense									
Production	7,395	10,581	10,474	38,562	11,465	11,310	11,381	12,494	46,649
Other	23,809	26,724	26,094	105,950	27,013	27,013	27,013	27,013	108,053
Total	31,203	37,305	36,568	144,512	38,478	38,323	38,394	39,507	154,702
Ebitda (NOKmm)									
Exploration and Production	5,980	6,777	8,590	26,936	8,838	8,799	8,817	9,095	35,549
Other	5,169	3,550	5,483	18,253	4,563	4,563	4,563	4,563	18,253
Total Ebitda	11,148	10,327	14,073	45,189	13,401	13,362	13,380	13,658	53,802
Exploration	518	199	1,092	1,839	1,092	1,092	1,092	1,092	4,368
Deprec., Deplet., & Amort.	6,417	3,570	5,487	16,119	6,187	6,187	6,187	6,187	24,748
Ebit									
Interest	230	104	303	878	150	150	150	150	600
Foreign Exchange	(1,606)	46	601	2,159					
Ebt									
Income Tax	1,956	2,243	2,307	8,468	2,090	2,077	2,083	2,180	8,430
Net Income (NOKmm)									
Exploration and Production	8,621	12,625	11,537	43,451					
Other Operations	(2,387)	348	(1,086)	2,982					
Non operating deductions	(2,601)	(8,808)	(6,167)	(30,707)					
Total	3,633	4,165	4,284	15,726	3,882	3,857	3,868	4,049	15,656
Shares (millions)									
Per share (NOK)	14.40	16.60	17.10	62.70	15.50	15.40	15.44	16.16	62.50
Ebitda Margin (E&P)	45%	39%	45%	41%	44%	44%	44%	42%	43%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Home Country and Business Segments

Producer/Refiners - Large Cap and Mid Cap	Symbol/ Rating	Non- U.S. Domicile	North		Oil Prod'n (%)	Down- stream (%)	Total Present Value (US\$mm)
			Amer. Natural Gas (%)	Rest of World Natural Gas (%)			
Gazprom	OGZPF B	Russia		100			325,000
PetroChina Company Ltd.	PTR B	China	-	9	71	20	213,000
Lukoil Oil Company	LUKOY B	Russia	-	-	75	25	83,600
Norsk Hydro ASA	NHY B	Norway	-	30	36	34	38,500
Suncor Energy	SU B	Canada	4	-	89	7	38,200
Marathon Oil Corporation	MRO B		13	7	40	41	36,600
Imperial Oil Limited	IMO B	Canada	12	-	64	24	33,300
Petro-Canada	PCZ B	Canada	23	4	53	20	27,100
	<i>Median</i>		<i>4</i>	<i>5</i>	<i>64</i>	<i>24</i>	<i>795,000</i>

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