

Rating: Buy
S&P 500: 1261
Intraday

Norsk Hydro Commodity Price Beneficiary

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 6/30/07 (US\$mm)</i>	8,540
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	27.29	<i>Natural Gas and Oil Production/Ebitda (%)</i>	61
<i>Pricing Date</i>	7/25/06	<i>Adjusted Reserves/Production NTM</i>	7.8
<i>Shares (mm)</i>	1247	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (\$mm)</i>	34,000	<i>PV/Ebitda</i>	5.3
<i>Debt (\$mm)</i>	6,500	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (\$mm)</i>	40,500	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.70
<i>Present Value (PV) (\$mm)</i>	45,100	<i>Present Value Proven Reserves(\$/boe)</i>	13.80
<i>Net Present Value (\$/share)</i>	31	<i>Present Value Proven Reserves(\$/mcf)</i>	2.30
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.86
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	2.6	<i>Indicated Annual Dividend (US\$/sh)</i>	0.70

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.

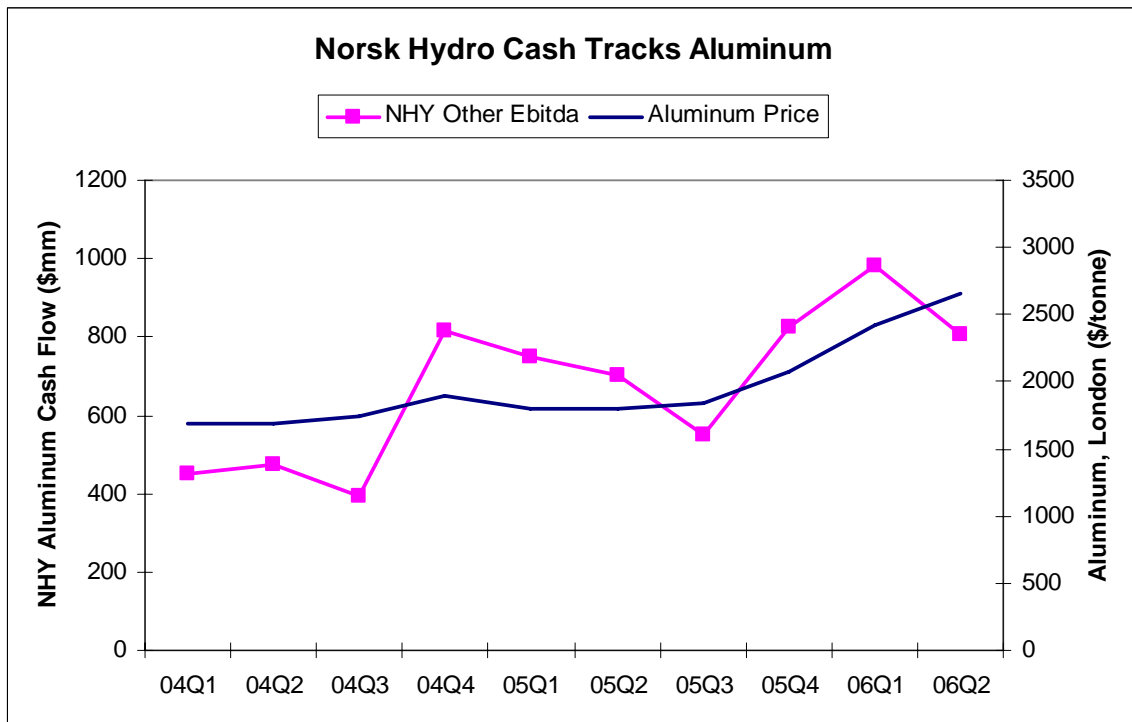
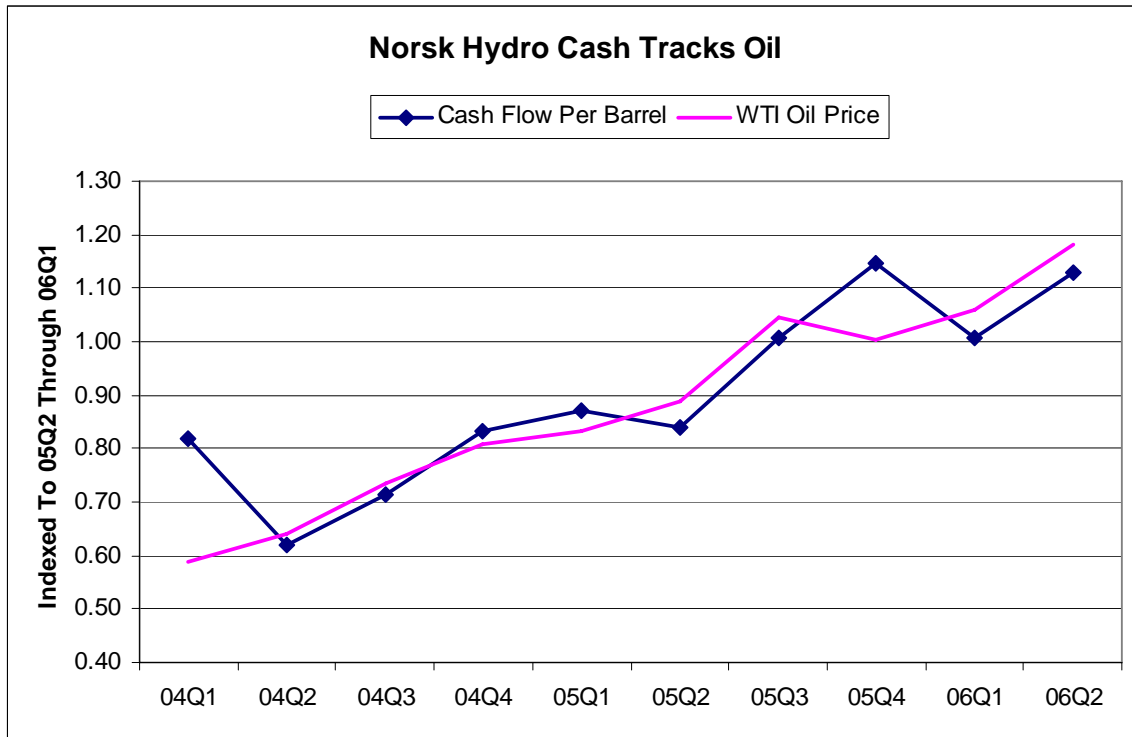
The Norwegian government owns 44% of the shares in Norsk Hydro.

Summary and Recommendation

Buy-recommended **Norsk Hydro (NHY)** offers 14% appreciation potential to our estimate of net present value of \$31 a share that presumes a long-term oil price of \$60 a barrel. The estimate was revised from \$26 a share on June 6 when we revised our oil price from \$50 a barrel. The current quote for six-year oil futures is \$73. Reported results in oil, natural gas and aluminum in the second quarter of 2006 released on July 25 confirm the simple expectation that cash flow and earnings should track commodity price. Though an extraordinarily high marginal tax rate of 78% on oil and gas production in Norway gives the government more than enough of incremental revenue, energy price gains still work out to be incrementally positive for NHY profits and stock price. Most of the remaining 37% of value in the company is in aluminum where cash flow has also been rising with aluminum price. The relationship is not as straight forward because high cost facilities that have turned unprofitable have been shut down.

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Norsk Hydro
Next Twelve Months Operating and Financial Estimates

	<i>Q2</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Next</i>
	<i>6/30/05</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>2006E</i>	<i>3/31/07</i>	<i>Twelve</i>
									<i>Months</i>
									<i>6/30/07</i>
Volume									
Natural gas (bcf)	85	361	112	93	88	114	407	126	432
Natural Gas (mmcf)	924	987	1,248	1,014	954	1,236	1,112	1,398	1,180
Days	92	366	90	92	92	92	366	90	366
Oil (mmb)	35	146	36	34	37	37	144	36	147
Oil (mbd)	385	399	402	368	402	402	393	402	402
Total gas & oil (mbd)	539	563	610	537	561	608	579	635	599
Price									
Natural gas (NOK/mcf)	37	43	61	51	51	61	57	61	59
Natural gas (NOK/Sm3)	1.31	1.22	2.17	1.79	1.79	2.17	1.61	2.17	1.68
Oil									
WTI Cushing US\$/bbl)	53.05	56.31	63.33	70.47	74.90	76.58	71.32	77.63	76.73
Kroner/\$	6.39	6.45	6.67	6.22	6.30	6.30	6.37	6.30	6.30
WTI Cushing (NOK/bbl)	339	363	422	438	472	482	454	489	483
NHY (NOK/bbl)	318	343	404	422	455	465	437	471	466
Total gas & oil (NOK/bb)	291	318	392	385	412	432	406	434	430
Aluminum (US\$/tonne)	1,796		2,423	2,654					
Revenue (NOKmm)									
Natural Gas	3,155	15,500	6,905	4,730	4,452	6,993	23,080	7,733	25,601
Oil	11,260	49,998	14,599	14,294	16,810	17,188	62,891	17,044	68,505
Other	30,859	124,203	40,817	37,141	37,141	37,141	152,240	37,141	148,564
Total	42,119	174,201	55,416	51,435	58,403	61,322	226,576	61,919	242,669
Expense									
Production	8,850	38,562	13,812	11,778	13,569	15,904	55,063	16,381	61,520
Other	26,359	105,950	34,275	32,135	31,841	31,841	130,091	31,841	127,364
Total	35,209	144,512	48,087	43,913	45,410	47,745	185,154	48,222	188,884
Ebitda (NOKmm)									
Exploration and Production	5,565	26,936	7,692	7,246	7,694	8,277	30,908	8,397	32,585
Other	4,500	18,253	6,542	5,006	5,300	5,300	22,149	5,300	21,200
Total Ebitda	10,065	45,189	14,234	12,252	12,994	13,577	53,057	13,697	53,785
Exploration	240	1,839	1,407	618	618	618	3,261	618	2,472
Deprec., Deplet., & Amort.	3,515	16,119	4,142	4,082	4,082	4,082	16,388	4,082	16,328
Ebit	6,310	27,231	8,685	7,552	8,294	8,877	33,408	8,997	34,985
Interest	226	878	172	116	116	116	520	116	464
Foreign Exchange	561	2,159	(529)	(813)			(1,342)		
Ebt	5,523	24,194	9,042	8,249	8,178	8,761	34,230	8,881	34,521
Income Tax	1,933	8,468	3,165	2,887	2,862	3,066	11,981	3,108	12,083
Net Income (NOKmm)									
Exploration and Production	9,447	43,451	14,126	13,168					
Other Operations	1,808	2,982	3,742	1,472					
Non operating deductions	(7,665)	(30,707)	(11,991)	(9,278)					
Total	3,590	15,726	5,877	5,362	5,315	5,695	22,250	5,772	22,439
Shares (millions)	1,255	1,254	1,251	1,247	1,247	1,247	1,248	1,247	1,247
Per share (NOK)	2.86	12.54	4.70	4.30	4.26	4.57	17.83	4.63	17.99
Ebitda Margin (E&P)	39%	41%	36%	38%	36%	34%	36%	34%	35%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

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Norsk Hydro
Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$mm)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$mm)</i>	
Natural Gas	1,400	13.2	8.2	11,500	25%
Oil	3,770	5.2	4.6	17,200	38%
Aluminum	3,370	-	4.9	16,500	37%
	8,540	7.8	5.3	45,200	100%
Debt (US\$mm)					6,500
Net Present Value (US\$mm)					38,700
Shares (mm)					1,247
Net Present Value - Standard Estimate (US\$/sh)					31
Net Present Value - Approximation by Correlation (US\$/sh)					32

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