

Rating: Buy
 S&P 500: 1235

Norsk Hydro

Raise Net Present Value to \$130 a Share

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 6/30/06 (US\$m)</i>	7,450
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	95.98	<i>Natural Gas and Oil Production/Ebitda (%)</i>	67
<i>Pricing Date</i>	8/1/05	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	3.9
<i>Market Capitalization (\$mm)</i>	24,100	<i>PV/Ebitda</i>	5.0
<i>Debt (\$mm)</i>	4,600	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	28,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.90
<i>Present Value (PV) (\$mm)</i>	37,300	<i>Present Value Proven Reserves(\$/boe)</i>	12.40
<i>Net Present Value (\$/share)</i>	130	<i>Present Value Proven Reserves(\$/mcf)</i>	2.10
<i>Debt/Present Value</i>	0.12	<i>Earnings Next Twelve Months (US\$/sh)</i>	12.04
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	3.2	<i>Indicated Annual Dividend (US\$/sh)</i>	3.11

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

We raise our estimated net present value of buy-recommended **Norsk Hydro (NHY)** to \$130 a share from \$110 on the basis of an expected long-term real price for oil of \$50 a barrel up from \$40 for Light Sweet Crude. We also raise our long-term real price for natural gas to \$10 a million BTU, up from \$8 for the Henry Hub location. We raise our estimated value for aluminum and other operations by a lesser 12%. The stock has 35% appreciation potential to net present value. Financial risk and political risk appear low.

Kurt H. Wulff, CFA

Norsk Hydro

Functional Cash Flow and Present Value

	<i>NTM Ebitda</i>	<i>Adjusted</i>	<i>PV/</i>	<i>Present</i>	
	<i>(US\$m)</i>	<i>R/P</i>	<i>Ebitda</i>	<i>Value</i>	
				<i>(US\$m)</i>	
Natural Gas	980	15.6	10.2	10,000	27%
Oil	3,980	5.3	3.6	14,200	38%
Aluminum	2,490	-	5.2	13,000	35%
	7,450	8.2	5.0	37,200	100%
Debt (US\$m)				4,600	
Net Present Value (US\$m)				32,600	
Shares (mm)				251	
Net Present Value (US\$/sh)				130	

Please see disclosures on the final page.

Norsk Hydro
Next Twelve Months Operating and Financial Estimates

	<i>Q4</i>	<i>Year</i>	<i>Q1</i>	<i>Q2</i>	<i>Q3E</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Next Twelve Months</i>
	<i>12/31/04</i>	<i>2004</i>	<i>3/31/05</i>	<i>6/30/05</i>	<i>9/30/05</i>	<i>12/31/05</i>	<i>2005E</i>	<i>3/31/06</i>	<i>6/30/06</i>	<i>6/30/06</i>
Volume										
Natural Gas (mmcf)	1,056	928	1,068	924	738	1,056	946	1,068	924	946
Oil (mbd)	415	417	406	385	380	422	398	422	422	411
Total gas & oil (mbd)	591	572	584	539	503	598	556	600	576	569
Price										
Natural gas (NOK/mcf)	34	31	42	37	37	42	40	42	42	41
Natural gas (NOK/Sm3)	1.20	0.88	1.47	1.31	1.31	1.47	1.12	1.47	1.47	1.15
Oil										
WTI Cushing US\$/bbl)	48.31	41.44	49.65	53.05	60.62	63.32	56.66	64.52	63.88	63.09
Kroner/\$	6.32	6.74	6.29	6.39	6.44	6.44	6.39	6.44	6.44	6.44
WTI Cushing (NOK/bbl)	305	279	312	339	390	408	362	416	411	406
NHY (NOK/bbl)	264	251	292	318	366	382	340	390	386	381
Total gas & oil (NOK/bbl)	246	233	279	291	331	343	311	348	349	343
Aluminum (US\$/tonne)	1,889	1,751	1,793	1,796						
Revenue (NOKmm)										
Natural Gas	3,303	10,524	4,003	3,155	2,520	4,046	13,723	4,003	3,540	14,108
Oil	10,072	38,291	10,659	11,260	12,799	14,845	49,563	14,799	14,978	57,421
Other	28,977	117,134	31,493	30,859	30,859	30,859	124,070	30,859	25,859	118,436
Total	39,049	155,425	42,152	42,119	46,178	49,750	180,198	49,661	44,377	189,965
Expense										
Production	7,395	26,815	8,657	8,850	9,128	10,192	36,826	10,168	10,091	39,579
Other	23,809	102,890	26,773	26,359	26,859	26,859	106,850	26,859	21,859	102,436
Total	31,203	129,705	35,430	35,209	35,987	37,051	143,676	37,027	31,950	142,015
Ebitda (NOKmm)										
Exploration and Production	5,980	22,001	6,005	5,565	6,191	8,699	26,459	8,634	8,427	31,950
Other	5,169	14,243	4,720	4,500	4,000	4,000	17,220	4,000	4,000	16,000
Total Ebitda	11,148	36,244	10,725	10,065	10,191	12,699	43,679	12,634	12,427	47,950
Exploration	518	1,264	308	240	400	400	1,348	400	400	1,600
Deprec., Deplet., & Amort.	6,417	17,238	3,547	3,515	3,800	3,800	14,662	3,800	3,800	15,200
Ebit										
Interest	230	1,413	245	226	300	300	1,071	300	300	1,200
Foreign Exchange	(1,606)	(1,350)	951	561						
Ebt	5,589	17,679	5,674	5,523	5,691	8,199	25,086	8,134	7,927	29,950
Income Tax	1,956	6,188	1,986	1,933	1,992	2,870	8,780	2,847	2,774	10,483
Net Income (NOKmm)										
Exploration and Production	8,621	30,408	9,842	9,447						
Other Operations	(2,387)	1,139	1,912	1,808						
Non operating deductions	(2,601)	(20,055)	(8,066)	(7,665)						
Total	3,633	11,492	3,688	3,590	3,699	5,329	16,306	5,287	5,152	19,468
Shares (millions)										
Per share (NOK)	14.40	45.20	14.70	14.30	14.74	21.23	64.97	21.06	20.53	77.55
Ebitda Margin (E&P)	45%	45%	41%	39%	40%	46%	42%	46%	46%	45%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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

	<i>Symbol/</i>		<i>Price</i>		<i>Market</i>	<i>Net</i>		
	<i>Rating</i>		<i>(\$/sh)</i>	<i>Shares</i>	<i>Cap</i>	<i>Present</i>	<i>Debt/</i>	<i>McDep</i>
			<i>1-Aug</i>	<i>(mm)</i>	<i>(\$mm)</i>	<i>Value</i>	<i>Present</i>	<i>Ratio</i>
			<i>2005</i>			<i>(\$/sh)</i>	<i>Value</i>	
Producer/Refiners - Large Cap and Mid Cap								
Kinder Morgan, Inc.	KMI	S2	88.61	123	10,910	20.00	0.76	1.83
Imperial Oil Limited (30%)	IMO	B	86.93	104	9,000	84.00	0.09	1.03
Marathon Oil Corporation	MRO	B	59.67	367	21,900	65.00	0.27	0.94
Petro-Canada	PCZ	B	73.30	263	19,280	84.00	0.18	0.90
PetroChina Company Ltd (10%)	PTR	B	92.67	176	16,290	120.00	0.04	0.78
Suncor Energy	SU	B	50.43	461	23,250	68.00	0.10	0.77
Norsk Hydro ASA	NHY	B	95.98	251	24,090	130.00	0.12	0.77
ConocoPhillips	COP	B	63.00	1,419	89,400	100.00	0.15	0.69
Lukoil Oil Company	LUKOY	B	41.75	830	35,000	65.00	0.02	0.65
	<i>Total or Median</i>				<i>249,000</i>		<i>0.12</i>	<i>0.78</i>

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