

Rating: Buy
S&P 500: 1231

Norsk Hydro **Acquiring U.S. Producer for \$2.45 Billion**

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 9/30/06 (US\$m)</i>	7,050
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	114.77	<i>Natural Gas and Oil Production/Ebitda (%)</i>	64
<i>Pricing Date</i>	9/19/05	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	251	<i>EV/Ebitda</i>	4.7
<i>Market Capitalization (\$mm)</i>	28,800	<i>PV/Ebitda</i>	5.3
<i>Debt (\$mm)</i>	4,700	<i>Undeveloped Reserves (%)</i>	30
<i>Enterprise Value (EV) (\$mm)</i>	33,500	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	21.90
<i>Present Value (PV) (\$mm)</i>	37,300	<i>Present Value Proven Reserves(\$/boe)</i>	11.90
<i>Net Present Value (\$/share)</i>	130	<i>Present Value Proven Reserves(\$/mcfe)</i>	2.00
<i>Debt/Present Value</i>	0.13	<i>Earnings Next Twelve Months (US\$/sh)</i>	10.94
<i>McDep Ratio - EV/PV</i>	0.90	<i>Price/Earnings Next Twelve Months</i>	10
<i>Dividend Yield (%/year)</i>	2.7	<i>Indicated Annual Dividend (US\$/sh)</i>	3.14

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

The proposed acquisition of Spinnaker Exploration (SKE) by buy-recommended **Norsk Hydro (NHY)** appears strategically sound, reasonably priced and rationally financed. The target's deep water Gulf of Mexico expertise and oil and gas reserves complement NHY's predominant concentration offshore Norway. The price paid reflects confidence in expected resource value. After the all-cash deal NHY's debt would still be low at a ratio to present value of perhaps 0.18, up from 0.13. Also late last week, buy-recommended **Gazprom (OGZPF)** named Norsk Hydro as one of the five finalists in bidding to develop Shtokman, a super-giant Arctic natural gas field. NHY stock has 13% appreciation potential to net present value. Financial risk and political risk appear low.

Acquisition Premium Attracts Attention

Hydro offers \$65.50 a share for Spinnaker stock that closed at \$48.75 the last trading day before the deal was announced. The premium to latest price is 34%. That strong premium along with sharp commodity price increases appears to have contributed to stock price gains for most energy producers after the announcement.

From the buyers' point of view the premium may be justified on the basis that Spinnaker stock has not increased much in the past five years compared to peers. We covered Spinnaker in our research from 2001 through 2004 when the stock generally had a higher McDep Ratio than peers. In our conservative assessments we were reluctant to place much value on reserves that were not proven. Accustomed to making massive capital investment decisions offshore Norway on "expected" reserves, Norsk Hydro apparently had no difficulty investing in "expected" reserves in Spinnaker of 129 million barrels equivalent compared to proven reserves of 62 million.

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Management thinks the acquisition would be profitable with oil price in the \$30s. The simple ratio of price paid per barrel would be \$19. Because all barrels are not the same, it can be misleading to draw fine distinctions on that basis. We do not contemplate any change in our estimate of present value for NHY as a result of the pending acquisition.

Kurt H. Wulff, CFA

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

	<i>Symbol/ Rating</i>		<i>Price (\$/sh) 19-Sep 2005</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	96.20	123	11,840	20.00	0.76	1.93
Imperial Oil Limited (30%)	IMO	B	110.46	104	11,440	84.00	0.09	1.29
Marathon Oil Corporation	MRO	B	69.78	367	25,610	65.00	0.27	1.05
Petro-Canada	PCZ	B	43.29	526	22,770	42.00	0.19	1.02
Suncor Energy	SU	B	62.32	461	28,740	68.00	0.10	0.93
Norsk Hydro ASA	NHY	B	114.77	251	28,810	130.00	0.13	0.90
Lukoil Oil Company	LUKOY	B	52.05	830	43,000	65.00	0.02	0.80
ConocoPhillips	COP	B	70.82	1,419	100,500	100.00	0.15	0.75
PetroChina Company Ltd (10%)	PTR	B	81.38	176	14,310	120.00	0.01	0.68
Gazprom (50%)	OGZPF	B	59.20	1,022	60,500	90.00	0.03	0.67
	<i>Total or Median</i>				<i>348,000</i>		<i>0.11</i>	<i>0.91</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	890	15.6	11.2	10,000	27%
Oil	3,650	5.3	3.9	14,300	38%
Aluminum	2,510	-	5.2	13,000	35%
	7,050	8.2	5.3	37,300	100%
Debt (US\$mm)					4,700
Net Present Value (US\$mm)					32,600
Shares (mm)					251
Net Present Value (US\$/sh)					130

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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>Q3E</i>	<i>Next</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>9/30/06</i>	<i>Twelve</i>
											<i>Months</i>
											<i>9/30/06</i>
Volume											
Natural Gas (mmcf/d)	1,056	928	1,068	924	738	1,056	946	1,068	924	738	946
Oil (mbd)	415	417	406	385	380	422	398	422	422	380	411
Total gas & oil (mbd)	591	572	584	539	503	598	556	600	576	503	569
Price											
Natural gas (NOK/mcf)	34	31	42	37	37	42	40	42	42	42	42
Natural gas (NOK/Sm ³)	1.20	0.88	1.47	1.31	1.31	1.47	1.12	1.47	1.47	1.47	1.18
Oil											
WTI Cushing US\$/bbl)	48.31	41.44	49.65	53.05	62.34	65.26	57.58	66.54	66.81	66.49	66.27
Kroner/\$	6.32	6.74	6.29	6.39	6.37	6.37	6.35	6.37	6.37	6.37	6.37
WTI Cushing (NOK/bbl)	305	279	312	339	397	415	366	424	425	423	422
NHY (NOK/bbl)	264	251	292	318	372	390	343	397	399	397	396
Total gas & oil (NOK/bb)	246	233	279	291	336	348	313	353	359	361	355
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	2,827	14,416
Oil	10,072	38,291	10,659	11,260	13,008	15,123	50,049	15,084	15,483	13,874	59,563
Other	28,977	117,134	31,493	30,859	30,859	30,859	124,070	30,859	30,859	30,859	123,436
Total	39,049	155,425	42,152	42,119	46,386	50,028	180,685	49,945	49,882	47,560	197,415
Expense											
Production	7,395	26,815	8,657	8,850	9,192	11,741	38,439	11,683	11,639	10,013	45,076
Other	23,809	102,890	26,773	26,359	26,859	26,859	106,850	26,859	26,859	26,859	107,436
Total	31,203	129,705	35,430	35,209	36,051	38,600	145,289	38,542	38,498	36,872	152,512
Ebitda (NOKmm)											
Exploration and Production	5,980	22,001	6,005	5,565	6,336	7,428	25,333	7,403	7,384	6,688	28,903
Other	5,169	14,243	4,720	4,500	4,000	4,000	17,220	4,000	4,000	4,000	16,000
Total Ebitda	11,148	36,244	10,725	10,065	10,336	11,428	42,553	11,403	11,384	10,688	44,903
Exploration	518	1,264	308	240	400	400	1,348	400	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	3,800	15,200
Ebit	4,213	17,742	6,870	6,310	6,136	7,228	26,543	7,203	7,184	6,488	28,103
Interest	230	1,413	245	226	300	300	1,071	300	300	300	1,200
Foreign Exchange	(1,606)	(1,350)	951	561							
Ebt	5,589	17,679	5,674	5,523	5,836	6,928	23,960	6,903	6,884	6,188	26,903
Income Tax	1,956	6,188	1,986	1,933	2,042	2,425	8,386	2,416	2,410	2,166	9,416
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	3,793	4,503	15,574	4,487	4,475	4,022	17,487
Shares (millions)	252	254	251	251	251	251	251	251	251	251	251
Per share (NOK)	14.40	45.20	14.70	14.30	15.11	17.94	62.05	17.88	17.83	16.02	69.66
Ebitda Margin (E&P)	45%	45%	41%	39%	41%	39%	40%	39%	39%	40%	39%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%

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