

Rating: Buy
S&P 500: 1377

Norsk Hydro Lowest EV/Ebitda

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 9/30/07 (US\$m)</i>	8,200
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	22.64	<i>Natural Gas and Oil Production/Ebitda (%)</i>	59
<i>Pricing Date</i>	10/23/06	<i>Adjusted Reserves/Production NTM</i>	8.2
<i>Shares (mm)</i>	1236	<i>EV/Ebitda</i>	4.2
<i>Market Capitalization (\$mm)</i>	28,000	<i>PV/Ebitda</i>	5.4
<i>Debt (\$mm)</i>	6,100	<i>Undeveloped Reserves (%)</i>	27
<i>Enterprise Value (EV) (\$mm)</i>	34,100	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	23.10
<i>Present Value (PV) (\$mm)</i>	44,400	<i>Present Value Proven Reserves(\$/boe)</i>	13.10
<i>Net Present Value (\$/share)</i>	31	<i>Present Value Proven Reserves(\$/mcf)</i>	2.20
<i>Debt/Present Value</i>	0.14	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.55
<i>McDep Ratio - EV/PV</i>	0.77	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.9	<i>Indicated Annual Dividend (US\$/sh)</i>	0.66

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.

Estimated present value presumes a long-term price for oil of US\$60 a barrel and natural gas, \$10 a million btu.

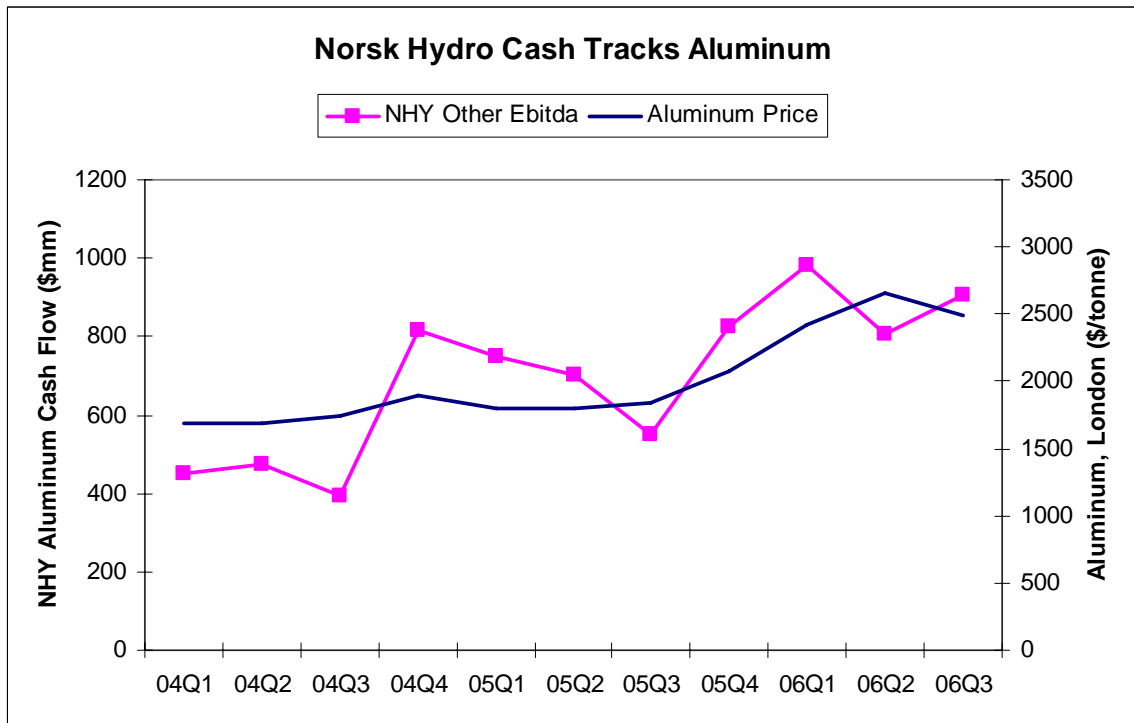
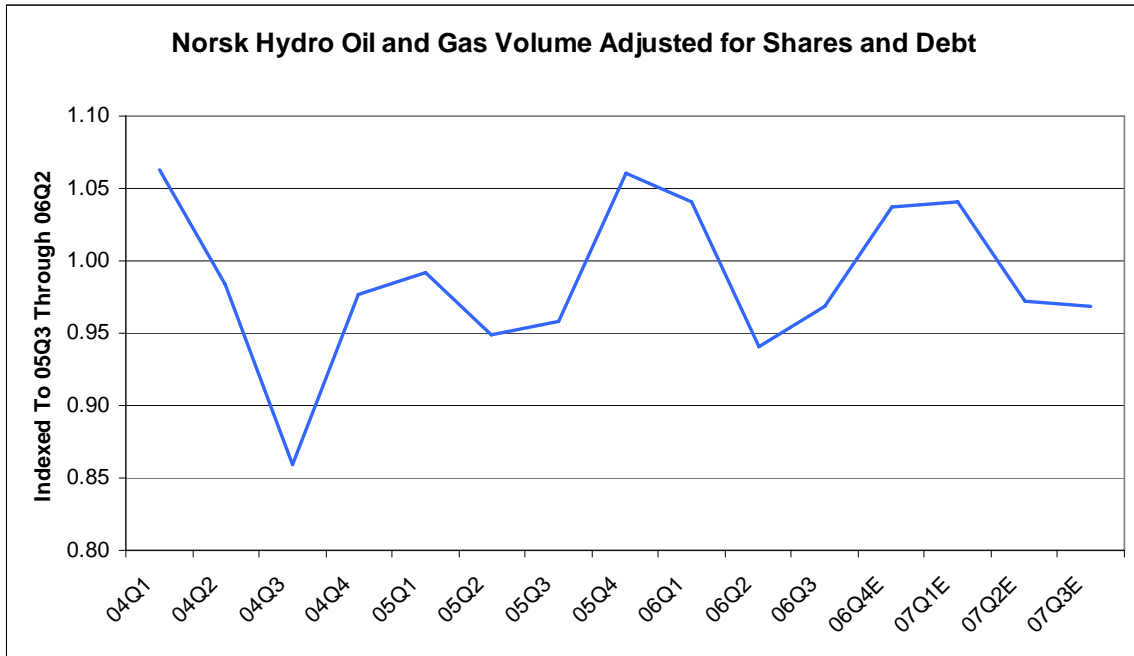
The Norwegian government owns 44% of the shares in Norsk Hydro.

Summary and Recommendation

Buy-recommended **Norsk Hydro (NHY)** at a McDep Ratio of 0.77 offers unlevered appreciation potential of 30% to estimated present value. Futures investors who price oil at \$66 a barrel for delivery over the next six years seem to validate estimated present value that presumes a long-term oil price of \$60 a barrel. Fundamental results for the third quarter reported on October 24 continue a stable trend with seasonal variation in volume adjusted for debt and shares (see chart). Aluminum cash flow tracks London Metals Exchange spot price (see chart). A long reserve life for natural gas contrasting with a short reserve life for oil points to a future shift toward the cleaner fuel (see table on page 4). The company's unlevered market cash flow multiple, EV/Ebitda, is practically the lowest of all stocks in our coverage. Stock price below the 200-day average confirms that NHY is currently out of favor with investors. On the contrary, we favor NHY as an attractive value concentrated on real assets that promise a high return providing clean energy to support global growth.

Kurt H. Wulff, CFA

Please see disclosures on the final page.



Please see disclosures on the final page.

Norsk Hydro
Next Twelve Months Operating and Financial Estimates

	<i>Q3</i>	<i>Q2</i>	<i>Q3</i>	<i>Q4E</i>	<i>Year</i>	<i>Q1E</i>	<i>Q2E</i>	<i>Q3E</i>	<i>Next Twelve Months</i>
	<i>9/30/05</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>6/30/07</i>	<i>9/30/07</i>	<i>9/30/07</i>
Volume									
Natural gas (bcf)	78	93	92	114	412	112	93	92	412
Natural Gas (mmcf)	852	1,014	1,002	1,236	1,124	1,248	1,014	1,002	1,124
Days	92	92	92	92	366	90	92	92	366
Oil (mmb)	37	34	35	35	140	34	35	35	139
Oil (mbd)	399	368	381	381	383	381	381	381	381
Total gas & oil (mbd)	541	537	548	587	570	589	550	548	568
Price									
Natural gas (NOK/mcf)	39	51	49	61	56	61	51	49	56
Natural gas (NOK/Sm ³)	1.36	1.79	1.73	2.17	1.59	2.17	1.79	1.73	1.59
Oil									
WTI Cushing US\$/bbl)	62.52	70.47	70.42	58.64	65.71	61.56	63.85	65.29	62.34
Kroner/\$	6.47	6.22	6.33	6.70	6.48	6.70	6.70	6.70	6.70
WTI Cushing (NOK/bbl)	405	438	446	393	426	412	428	437	418
NHY (NOK/bbl)	391	422	421	371	404	389	404	413	394
Total gas & oil (NOK/bb)	349	385	382	370	382	382	373	377	375
Aluminum (US\$/tonne)	1,838	2,654	2,486						
Revenue (NOKmm)									
Natural Gas	3,020	4,730	4,518	6,993	23,146	6,905	4,730	4,518	23,146
Oil	14,338	14,294	14,743	12,994	56,630	13,345	14,149	14,468	54,956
Other	30,274	37,141	36,218	36,218	150,395	36,218	36,218	36,218	144,873
Total	44,612	51,435	50,961	56,205	214,017	56,468	55,098	55,204	222,975
Expense									
Production	10,581	11,778	11,274	11,855	48,719	12,065	10,969	11,054	45,944
Other	26,724	32,135	30,478	30,735	127,623	29,676	31,212	30,478	122,100
Total	37,305	43,913	41,752	42,590	176,342	41,741	42,181	41,532	168,044
Ebitda (NOKmm)									
Exploration and Production	6,777	7,246	7,987	8,132	31,056	8,184	7,911	7,932	32,159
Other	3,550	5,006	5,740	5,483	22,772	6,542	5,006	5,740	22,772
Total Ebitda	10,327	12,252	13,727	13,615	53,828	14,727	12,917	13,672	54,931
Exploration	199	618	868	868	3,761	868	868	868	3,472
Deprec., Deplet., & Amort.	3,570	4,082	4,286	4,586	17,096	4,586	4,586	4,586	18,344
Ebit									
Ebit	6,558	7,552	8,573	8,161	32,971	9,273	7,463	8,218	33,115
Interest	104	116	158	158	604	158	158	158	632
Foreign Exchange	46	(813)	999		(343)				
Ebt									
Ebt	6,408	8,249	7,416	8,003	32,710	9,115	7,305	8,060	32,483
Income Tax	2,243	2,887	2,596	2,801	11,449	3,190	2,557	2,821	11,369
Net Income (NOKmm)									
Exploration and Production	12,625	13,168	13,311						
Other Operations	348	1,472	1,977						
Non operating deductions	(8,808)	(9,278)	(10,468)						
Total	4,165	5,362	4,820	5,202	21,262	5,925	4,748	5,239	21,114
Shares (millions)									
Shares (millions)	1,255	1,247	1,236	1,236	1,243	1,236	1,236	1,236	1,236
Per share (NOK)	3.32	4.30	3.90	4.21	17.11	4.79	3.84	4.24	17.08
Ebitda Margin (E&P)	39%	38%	41%	41%	39%	40%	42%	42%	41%
Tax Rate	35%	35%	35%	35%	35%	35%	35%	35%	35%

Please see disclosures on the final page.

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	1,420	13.8	8.1	11,500	26%
Oil	3,380	5.5	4.9	16,400	37%
Aluminum	3,400	-	4.9	16,500	37%
	8,200	8.2	5.4	44,400	100%
Debt (US\$mm)					6,100
Net Present Value (US\$mm)					38,300
Shares (mm)					1,236
Net Present Value - Standard Estimate (US\$/sh)					31
Net Present Value - Approximation by Correlation (US\$/sh)					36

Disclaimer: This analysis was prepared by Kurt Wulff doing business as McDep Associates. The firm used sources and data believed to be reliable, but makes no representation as to their accuracy or completeness. This analysis is intended for informational purposes and is not a solicitation to buy or sell a security. Past performance is no guarantee of future results.

McDep does no investment banking business. McDep is not paid by covered companies including revenue from advertising, trading, consulting, subscriptions or research service. McDep shall not own more than 1% of outstanding stock in a covered company. No one at McDep is on the Board of Directors at a covered company nor is anyone at a covered company on the Board of Directors of McDep.

McDep or its employees may take positions in stocks the firm covers for research purposes. No trades in a subject stock shall be made within a week before or after a change in recommendation.

Certification: I, Kurt H. Wulff, certify that the views expressed in this research analysis accurately reflect my personal views about the subject securities and issuers. No part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this research analysis.

Research Methodology/Ratings Description: McDep Associates is an independent research originator focused on oil and gas stocks exclusively. The firm applies the thirty years of experience of its analyst to estimate a present value of the oil and gas resources and other businesses of covered companies. That value is compared with a company's stock market capitalization and debt. Stocks with low market cap and debt relative to present value tend to outperform stocks with high market cap and debt relative to present value. Buy recommendations are expected to deliver a total return better than 7% per year above inflation. Hold recommendations assume the attributes of the underlying business are reflected in the current price of the stock. Sell recommendations are expected to deliver a total return less than inflation.

Please see disclosures on the final page.