

Rating: Buy
S&P 500: 1456

Norsk Hydro

Raise Net Present Value to \$36 a Share

Numerical corrections made February 23, 2007

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	10,210
<i>Rating</i>	Buy	<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	32.13	<i>Natural Gas and Oil Production/Ebitda (%)</i>	56
<i>Pricing Date</i>	2/16/07	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	1229	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (\$mm)</i>	39,500	<i>PV/Ebitda</i>	5.4
<i>Debt (\$mm)</i>	11,300	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	50,800	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.40
<i>Present Value (PV) (\$mm)</i>	55,500	<i>Present Value Proven Reserves(\$/boe)</i>	16.10
<i>Net Present Value (\$/share)</i>	36	<i>Present Value Proven Reserves(\$/mcf)</i>	2.70
<i>Debt/Present Value</i>	0.20	<i>Earnings Next Twelve Months (US\$/sh)</i>	3.45
<i>McDep Ratio - EV/PV</i>	0.91	<i>Price/Earnings Next Twelve Months</i>	9
<i>Dividend Yield (%/year)</i>	2.5	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80

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.

For historical analysis of NHY since 2004 see www.mcdep.com/2nhy.htm

Summary and Recommendation

We raise estimated net present value (NPV) for buy-recommended **Norsk Hydro (NHY)** to \$36 a share from \$31 to take account of the resource value in 0.8622 shares of Statoil (STO) that each owner of NHY should receive before year end as a result of last year's announcement (see *Meter Reader*, [Happy Holideals!](#), December 19, 2006). NHY owners would have about a third of STO that after the deal would look like an attractive stock in our framework (see table [Statoil Valuation Pro Forma](#)). The new Hydro without oil and gas would have leveraged exposure to an improving aluminum business primarily (see table [New Hydro Valuation Pro Forma](#)). In latest quarterly results reported on February 19, oil and gas volumes were up from the previous quarter and cash flow was strong while earnings were affected by one-time accounting charges (see table [Next Twelve Months Operating and Financial Estimates](#)). We make the practical assumption in our projections for 2007 that current owners of NHY essentially benefit from the cash flow of one third of Statoil Pro Forma and all of New Hydro Pro Forma. After the deal closes, we would expect to rate STO as Buy and NHY as Hold depending on market conditions.

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Statoil Valuation Pro Forma

<i>Symbol</i>	STO	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	20,190
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	0
<i>Price (\$/sh)</i>	25.97	<i>Natural Gas and Oil Production/Ebitda (%)</i>	86
<i>Pricing Date</i>	2/16/07	<i>Adjusted Reserves/Production NTM</i>	8.5
<i>Shares (mm)</i>	3223	<i>EV/Ebitda</i>	4.8
<i>Market Capitalization (\$mm)</i>	83,700	<i>PV/Ebitda</i>	5.8
<i>Debt (\$mm)</i>	13,300	<i>Undeveloped Reserves (%)</i>	22
<i>Enterprise Value (EV) (\$mm)</i>	97,000	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	28.30
<i>Present Value (PV) (\$mm)</i>	116,400	<i>Present Value Proven Reserves(\$/boe)</i>	17.00
<i>Net Present Value (\$/share)</i>	32	<i>Present Value Proven Reserves(\$/mcf)</i>	2.80
<i>Debt/Present Value</i>	0.11	<i>Earnings Next Twelve Months (US\$/sh)</i>	2.46
<i>McDep Ratio - EV/PV</i>	0.83	<i>Price/Earnings Next Twelve Months</i>	11
<i>Dividend Yield (%/year)</i>	5.6	<i>Indicated Annual Dividend (US\$/sh)</i>	1.46

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 71% of the shares in Statoil

New Hydro Valuation Pro Forma

<i>Symbol</i>	NHY	<i>Ebitda Next Twelve Months ending 12/31/07 (US\$mm)</i>	3,530
<i>Rating</i>		<i>North American Natural Gas/Ebitda (%)</i>	
<i>Price (\$/sh)</i>	8.81	<i>Natural Gas and Oil Production/Ebitda (%)</i>	
<i>Pricing Date</i>	2/16/07	<i>Adjusted Reserves/Production NTM</i>	
<i>Shares (mm)</i>	1229	<i>EV/Ebitda</i>	5.0
<i>Market Capitalization (\$mm)</i>	10,800	<i>PV/Ebitda</i>	4.7
<i>Debt (\$mm)</i>	6,900	<i>Undeveloped Reserves (%)</i>	
<i>Enterprise Value (EV) (\$mm)</i>	17,700	<i>Natural Gas and Oil Ebitda (\$/boe)</i>	
<i>Present Value (PV) (\$mm)</i>	16,700	<i>Present Value Proven Reserves(\$/boe)</i>	
<i>Net Present Value (\$/share)</i>	8	<i>Present Value Proven Reserves(\$/mcf)</i>	
<i>Debt/Present Value</i>	0.41	<i>Earnings Next Twelve Months (US\$/sh)</i>	1.07
<i>McDep Ratio - EV/PV</i>	1.06	<i>Price/Earnings Next Twelve Months</i>	8
<i>Dividend Yield (%/year)</i>	9.1	<i>Indicated Annual Dividend (US\$/sh)</i>	0.80

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

For historical analysis of NHY since 2004 see www.mcdep.com/2nhy.htm

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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>12/31/05</i>	<i>9/30/06</i>	<i>12/31/06</i>	<i>2006</i>	<i>3/31/07</i>	<i>6/30/07</i>	<i>9/30/07</i>	<i>12/31/07</i>	<i>12/31/07</i>
Volume									
Natural gas (bcf)	102	92	109	407	124	107	106	112	449
Natural Gas (mmcf)	1,104	1,002	1,182	1,111	1,376	1,160	1,156	1,216	1,226
Days	92	92	92	366	90	92	92	92	366
Oil (mmb)	37	35	37	142	31	32	32	32	128
Oil (mbd)	405	381	398	387	348	348	348	348	348
Total gas & oil (mbd)	589	548	595	572	578	542	541	551	553
Price									
Natural gas (NOK/mcf)	52	49	56	55	57	51	52	57	54
Natural gas (NOK/Sm ³)	1.85	1.73	1.97	1.55	2.01	1.79	1.82	2.01	1.53
Oil									
WTI Cushing US\$/bbl)	60.02	70.42	59.99	66.05	57.22	60.47	61.96	62.97	60.65
Kroner/\$	6.63	6.33	6.39	6.40	6.25	6.25	6.25	6.25	6.25
WTI Cushing (NOK/bbl)	398	446	383	423	358	378	387	394	379
NHY (NOK/bbl)	369	421	369	403	354	374	383	389	375
Total gas & oil (NOK/bb)	352	382	358	379	349	349	357	372	357
Aluminum (US\$/tonne)	2,078	2,486	2,725	2,572					
Revenue (NOKmm)									
Natural Gas	5,323	4,518	6,069	22,222	7,052	5,413	5,485	6,369	24,318
Oil	13,741	14,743	13,519	57,154	11,095	11,986	12,281	12,481	47,842
Other	31,577	36,218	32,196	146,373	58,817	58,817	58,817	58,817	235,269
Total	45,318	50,961	45,715	203,527	76,964	76,216	76,583	77,667	307,430
Expense									
Production	10,474	11,274	11,011	47,875	9,190	8,442	8,809	9,893	36,334
Other	26,094	30,478	27,396	124,284	50,793	52,329	51,595	52,536	207,253
Total	36,568	41,752	38,407	172,158	59,983	60,772	60,404	62,429	243,588
Ebitda (NOKmm)									
Exploration and Production	8,590	7,987	8,577	31,501	8,956	8,956	8,956	8,956	35,826
Other	5,483	5,740	4,800	22,089	8,024	6,488	7,222	6,282	28,016
Total Ebitda	14,073	13,727	13,377	53,590	16,981	15,445	16,178	15,238	63,842
Exploration	1,092	868	2,093	4,986	1,128	1,128	1,128	1,128	4,510
Deprec., Deplet., & Amort.	5,487	4,286	9,899	22,409	4,225	4,225	4,225	4,586	17,262
Ebit									
Interest	303	158	208	654	333	333	333	333	1,331
Foreign Exchange	601	999	(714)	(1,057)					
Ebt									
Income Tax	6,590	7,416	1,891	26,598	11,295	9,759	10,493	9,192	40,738
Net Income (NOKmm)									
Exploration and Production	11,537	13,311	5,647	46,252					
Other Operations	(1,086)	1,977	(1,073)	6,118					
Non operating deductions	(6,167)	(10,468)	(3,345)	(35,081)					
Total	4,284	4,820	1,229	17,289	7,342	6,343	6,820	5,975	26,480
Shares (millions)									
Per share (NOK)	1,253	1,236	1,229	1,244	1,229	1,229	1,229	1,229	1,229
Ebitda Margin (E&P)	3.42	3.90	1.00	13.90	5.97	5.16	5.55	4.86	21.55
Ebitda Margin (E&P)	45%	41%	44%	40%	49%	51%	50%	48%	50%
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	2,008	13.2	6.8	13,653	25%
Oil	3,763	5.7	5.4	20,446	37%
Other	4,446		4.8	21,162	38%
	10,210	8.5	5.4	55,500	100%
Debt (US\$mm)					11,300
Net Present Value (US\$mm)					44,200
Shares (mm)					1,229
Net Present Value - Standard Estimate (US\$/sh)					36
Net Present Value - Approximation by Correlation (US\$/sh)					43

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