PLAN

for

the demerger of

Norsk Hydro ASA

business register no. 914 778 271

as a part of the merger of

Norsk Hydro ASA's petroleum activities with

Statoil ASA

business register no.: 923 609 016

entered into by the boards of directors of Norsk Hydro ASA and Statoil ASA on 12 and 13 March 2007 respectively for subsequent approval by the companies' respective general meetings

This is a translation of the original official Norwegian document.

CONTENTS:

This plan for the demerger of Norsk Hydro ASA with Statoil ASA as the assignee company (the "Merger Plan") is entered into between the boards of directors of

(1) **NORSK HYDRO ASA,** business register no. 914 778 271, Drammensveien 264, 0283 Oslo, ("Hydro")

and

(2) **STATOIL ASA,** business register no. 923 609 016, Forusbeen 50, 4035 Stavanger, ("Statoil")

(hereinafter jointly referred to as the "Parties" and individually as a "Party"),

regarding the merger of Hydro's Petroleum Activities (as defined in clause 2.1. below) with Statoil (the "Merger").

1. MAIN ELEMENTS OF THE MERGER

1.1 Background

On 18 December 2006, Hydro and Statoil entered into an Integration Agreement regarding a merger of Hydro's Petroleum Activities with Statoil into one group (the "Merged Company"), based on the principle of a merger of equals.

The Merged Company will be a competitive global participant in the petroleum industry, and the world's largest operator for offshore projects in water depths of more than 100 meters. The Merged Company will have greater ability than each of the Parties separately to secure further growth in an environment with increasing competition for new resources and increasing technical complexity in available projects.

The purpose of the Integration Agreement was to form the basis for the development of this Merger Plan, which shall be based on and supplement the provisions in the Integration Agreement. The Integration Agreement shall be terminated and shall be replaced by the Merger Plan at the time when the Merger Plan is approved by the boards of directors of Statoil and Hydro.

1.2 The main feature of the Merger and general principles for completion

The activities in Hydro and its subsidiaries (the "Hydro Group") currently include the two core business areas Aluminium and Oil & Energy, together with Hydro Other Businesses and Hydro's "captive" insurance company Industriforsikring AS ("Industriforsikring"). Hydro Other Businesses comprises the activities of Hydro Polymers, Hydro IS Partner ("HISP"), Hydro Production Partner, Industry- and Business Parks and Shared Services.

The Parties agree on a merger of Hydro's Petroleum Activities with Statoil into one group, based on the principle of a merger between equals. Hydro's Petroleum Activities are mainly organised under the business area Oil & Energy, however certain related activities which shall be included in the Merger, are organised in other business areas.

The Merger presupposes a demerger of the parent company Hydro. As a part of the Merger, a transfer of the ownership interests in a number of companies to be included in the Merged Company's corporate structure will also take place, as well as a transfer of the ownership interests in certain other partly owned companies ("the Petroleum Companies" or "Petroleum Companies"). An overview of the Petroleum Companies is included in Annex 1.

The remaining part of the parent company Hydro and the ownership interests in the companies not included in the Merger (jointly "the Hydro Companies" or "Hydro Companies"), will be part of the Hydro Group's remaining activities ("Hydro's Remaining Activities").

1.3 Technical implementation

The Merger will be implemented by way of a demerger of Hydro's Petroleum Activities with Statoil as the assignee company pursuant to the rules set out in the act dated 13 June 1997 no. 45 regarding public limited companies (the "Public Limited Companies Act") chapter 14, whereupon Hydro's shareholders will receive consideration in the form of shares in the Merged Company. In this respect, this Merger Plan constitutes a demerger plan pursuant to the Public Limited Companies Act section 14-4.

Hydro's Petroleum Activities are mainly operated through subsidiaries. The most important of these subsidiaries, Norsk Hydro Produksjon AS, also conducts other activities of importance, while the rest of the subsidiaries included in Hydro's Petroleum Activities do not conduct other activities of importance.

As a part of the Merger, the following Related Transactions ("Related Transactions") shall be carried out prior to the time when the Merger is implemented by registration in the Register of Business Enterprises ("Implementation"):

(i) A demerger of Norsk Hydro Produksjon AS whereby assets, rights and obligations related to the Petroleum Activities are transferred to a newly established limited company wholly owned by Hydro (Norsk Hydro Petroleum AS).

(ii) Intra-group transfers of assets (including shares), rights and obligations to the extent necessary in order for Hydro's Petroleum Activities and Hydro's Remaining Activities respectively to be organised in companies which (a) only have assets, rights and obligations belonging either to the Petroleum Activities or Hydro's Remaining Activities, and (b) are included in uninterrupted chains of ownership consisting solely of companies included either in Hydro's Petroleum Activities or Hydro's Remaining Activities.

In cases where it is not possible to carry out one or more Related Transactions prior to the Implementation, Statoil's consent in writing is required for the completion of the Merger.. Such consent may not be unreasonably withheld. Statoil must also give written consent in case of significant changes in the informed transaction models and principles for the completion of Related Transactions.

Upon the completion of the Merger, all assets, rights and obligations included in Hydro's Petroleum Activities will be transferred to Statoil. This transfer takes place through a reduction of the share capital of Hydro by NOK 3,197,265,703.30 from NOK 4,567,522,433.30 to NOK 1,370,256,730 by reducing the par value of each share from NOK 3.66 to NOK 1.098, and by simultaneously increasing the share capital of Statoil by NOK 2,606,655,590 to NOK 7,971,617,757.50 by issuing 1,042,662,236 new shares, each with a par value of NOK 2.50, as consideration to Hydro's shareholders, resulting in that such shareholders receive 0.8622 shares in the Merged Company for each share owned in Hydro. Consideration in the form of shares shall not be issued for Hydro's treasury shares.

The relation between Hydro's nominal and paid-in share capital before and after the demerger corresponds to, in accordance with the provisions of the Norwegian Taxation Act regarding tax exempted demergers, the relation between the remaining net values in Hydro after the demerger and the net values to be transferred to the Merged Company in connection with the Merger (the "Proportion of Division").

1.4 Financial effective date

The financial effective date of the Merger shall be 1 January 2007 (the "Effective Date").

This principle implies that all assets, rights and obligations related to Hydro's Petroleum Activities which existed at the Effective Date, or which materialise later and have not ceased to exist at the Implementation, shall be allocated to the Petroleum Activities with effect for the Merger.

As a consequence, Hydro shall, as from 1 January 2007, continuously identify all rights and obligations which materialise or cease to exist for Hydro, and which are related to Hydro's Petroleum Activities. In this respect, as well as in the Merger Plan in general, rights and obligations imply rights and obligations towards other legal entities, as well as rights and obligations between the remaining part of Hydro or Norsk Hydro Produksjon AS on the one hand, and the part of Hydro or Norsk Hydro Produksjon AS that shall be transferred to the Merged Company on the other hand, based on intra-group transactions as if they were separate companies from the Effective Date.

1.5 Time schedule

The Merger Plan shall be submitted for approval to the general meetings of Statoil and Hydro as soon as possible, and no later than four months from the date hereof.

The completion of the Merger by registration in the Register of Business Enterprises shall take place on the first business day of the subsequent month after the expiry of the period for creditor's objections and all other necessary conditions for the Implementation in accordance with the Merger Plan have been fulfilled.

2. ASSETS, RIGHTS AND OBLIGATIONS TO BE TRANSFERRED TO THE MERGED COMPANY

2.1 Main principle

The merger involves a merger of Hydro's Petroleum Activities with Statoil into one group.

Hydro's Petroleum Activities (''Hydro's Petroleum Activities'' or the ''Petroleum Activities'') comprise all assets, rights and obligations which completely or primarily relate to the Hydro Group's activities in the areas of exploration, production, transport, processing, marketing and sale of, as well as research and development related to, oil and gas, including all shares and assets which Hydro owns in companies with such activities. Further, Hydro's activities within wind power and Hydro's interests in Naturkraft AS and HISP together with Hydro's ownership interests in Norsk Hydro Canada Inc. shall be included. On the other hand, the Hydro Group's activities within hydroelectric power and associated trading activities, solar energy, CO_2 quotas and Industrifor-sikring are not included.

If the transfer of assets, rights and obligations triggers a pre-emptive right or similar rights for third parties, any consideration which Hydro thereby may receive shall be included in the Petroleum Activities.

Except as otherwise stated in the Merger Plan, the Merger involves a transfer of all assets, rights and obligations included in the Petroleum Activities regardless of their nature, including assets, rights and obligations related to licenses, approvals, employment, claims, operating related debt, bond loans, intellectual property rights, disputes, sureties, guarantees, taxation, environmental matters, derivative contracts and other agreements, regardless of whether they are known or unknown, conditional or unconditional.

All cash and bank deposits which are not part of the Petroleum Companies, and syndicated credit facilities, shall be allocated to Hydro's Remaining Activities. On the other hand, all bond loans shall be allocated to the Petroleum Activities.

Up to the Implementation, Hydro shall provide Statoil with such continuous information as is necessary to enable Statoil to verify whether the distribution of assets, rights and obligations and Related Transactions are implemented in accordance with the provisions of the Merger Plan and as the Parties otherwise have agreed.

2.2 Further specification of the assets, rights and obligations to be transferred

2.2.1 Introduction

An overview of the most important assets, rights and obligations which will be transferred from Hydro to the Merged Company in connection with the Merger is included below.

2.2.2 Shares and interests in companies

The Merger involves a transfer to the Merged Company of the following shares and interests in companies owned directly by Hydro:

Country	Name	Ownership
Norway	Norsk Hydro Petroleum AS	100
	Hydro IS Partner AS	100
	Hydro Hydrogen Technologies AS	100
	AS Petronord	20
Russia	Norsk Hydro Russland AS	100

2.2.3 Bond loans

The Merger involves a transfer of the following bond loans from Hydro to the Merged Company:

(i) All bond loans outstanding under "Indenture" of 15 April 1992 with Norsk Hydro a.s. (now Norsk Hydro ASA) as issuer ("Issuer") and The Chase Manhattan Bank N.A. as trustee ("Trustee") (now The Bank of New York), including subsequent supplements and amendments, with a total principal sum as of the Effective Date of NOK 16,319,498,691 based on an exchange rate of NOK/USD 6.2726.

(ii) All bond loans outstanding under "Trust Deed" of 22 January 1999 with Norsk Hydro ASA as issuer ("Issuer") and The Chase Manhattan Bank N.A. as trustee ("Trustee") (now The Bank of New York) with subsequent supplements and amendments, with a total principal sum as of the Effective Date of NOK 2,491,394,874 based on an exchange rate of NOK/GBP 12.3087 and NOK/EUR 8.2628.

2.2.4 Guarantee liability

The Merger involves a transfer of a guarantee portfolio related to the Petroleum Activities consisting of parent company guarantees and rights and obligations related to bank guarantees granted to the benefit of the Petroleum Activities. At the Effective Date, this guarantee portfolio includes a guarantee liability of approximately NOK 20 billion. Within the limits of ordinary course of business, the guarantee portfolio will be subject to changes in the period from the Effective Date and up until Implementation both with regard to guarantee liability and premium liability.

2.3 Further on employment issues

The majority of the employees in the Norwegian part of Hydro's Petroleum Activities are employed by Hydro. All employees in Hydro who on the Effective Date have their primary relationship to the Petroleum Activities shall, as a part of the Merger, be transferred to the Merged Company. The employment of the affected employees will be transferred in accordance with the rules and regulations of the Working Environment Act and other relevant labour legislation.

The employees within the unit "Projects" are included in the Petroleum Activities except for the approximately 100 employees working within the unit "Light Metals & Energy" which are part of Hydro's Remaining Activities, and thus shall not be transferred to the Merged Company.

The employees of "Hydro Shared Services" who have their primary relationship to the Petroleum Activities, i.e. approximately 100 employees, shall be transferred to the Merged Company.

Some of the employees in corporate functions in Hydro have work tasks partly related to Hydro's Petroleum Activities and partly related to Hydro's Remaining Activities. Among these, approximately 120 employees in the Corporate Centre in Norway, including approximately 50 from "Facility Management", but not including the employees in Industriforsikring, shall be transferred to the Merged Company as a part of the Merger based on their functions and qualifications, and also taking into account the need for labour in the respective businesses. The same applies to the employees in corporate functions abroad, where a total of approximately 15 employees shall to be transferred to the Merged Company. The specific allocation of the employees shall take place after consultation with the involved employees and in accordance with relevant legislation.

The Parties shall, to the extent possible, also ensure that employments at a subsidiary level are transferred to the Merged Company insofar that employees in Hydro Companies up to the Effective Date have had their primary relationship to the Petroleum Activities. Correspondingly, employees in Petroleum Companies who up to the Effect Date have had their primary relationship to Hydro's Remaining Activities shall, to the extent possible, be transferred to Hydro.

The principle of merger of equals shall be reflected in connection with the assignments of positions and duties in the Merged Company. To the extent seniority is emphasised in relation to such assignments or any other situation, seniority in the Hydro Group and the Statoil group, respectively, shall count equally in the Merged Company.

Moreover, the Parties will emphasise providing information to and to consult with the employees and their representatives in connection with the completion of the Merger.

2.4 Further on pension issues

From the Effective Date, the Merged Company assumes responsibility for all pension issues, including both the company pension scheme of Norsk Hydro's Pension Fund and Hydro's various unfunded pensions schemes, related to the active employees being transferred to the Merged Company and related to all pensioners and previous employees who at the time when they ceased to be active employees in the Hydro Group had their primary relationship to the Petroleum Activities.

From the Effective Date, the Merged Company assumes responsibility for 36% of Hydro's unfunded pension liabilities towards pensioners and former employees who at the time when they ceased to be active employees in the Hydro Group having work tasks related to both the Petroleum Activities and Hydro's Remaining Activities.

Furthermore, the Merged Company shall from the Effective Date assume responsibility for a share equal to the Proportion of Division of Hydro's unfunded pension liabilities towards pensioners and former employees who at the time when they ceased to be active employees in the Hydro Group performed work related to previous activities which are no longer part of the Hydro Group, cf. clause 2.8.

Hydro shall transfer to the Merged Company all claims which Hydro has against license partners related to pension rights earned in the upstream operation of the Hydro Group in Norway prior to 1 January 2001. Simultaneously, the Merged Company shall assume responsibility for Hydro's obligations to pay premium to Norsk Hydro's Pension Fund (whether the premium payment is due to a legal obligation or due to Hydro's general practice without reflecting a legal obligation) and responsibility for pensions, which have not already been transferred in accordance with the provisions above, to the extent that premium and pension payments are included in the claims to be transferred according to the previous sentence.

Hydro's company pension scheme shall be divided in accordance with the regulations in the act dated 24 March 2000 no. 16 regarding company pension scheme section 14-2 (2), cf. (1) first sentence, cf. section 14-1. Funds shall to the extent possible be transferred in the form of assets from Norsk Hydro's Pension Fund to the pension scheme which assumes the pension obligations. The composition of the assets which are transferred shall to the extent possible reflect the current composition of assets in Norsk Hydro's Pension Fund. The Parties shall jointly establish a procedure for determining the specific allocation of the assets in the pension fund which protects their respective interests in a balanced manner.

2.5 Further on IT/IS

As a part of the Merger, HISP will be transferred to the Merged Company. The rights and obligations of HISP, including those related to employees and pensions together with existing contractual relations, will as a main rule remain unchanged after the transfer. HISP shall continue as Hydro's IT/IS supplier after the Merger based on the existing (with any adjustments that may be made) framework, delivery and project agreements between HISP and Hydro's Remaining Activities. These agreements, together with the provisions below, regulate in more detail the delivery obligations, the right to termination and the possibility to re-allocate resources to Hydro after the transfer. Any adjustments as stated above require Statoil's prior written consent. Such consent cannot be unreasonably withheld, and Statoil shall without undue delay make a decision as to whether such consent shall be given.

The Parties shall establish a working group for IT/IS activities consisting of representatives from Hydro and Statoil. The working group shall consider how the IT/IS activities in the Merged Company and Hydro's Remaining Activities shall be planned and executed in an appropriate manner after the Merger, and shall also take due consideration to the IT/IS requirements of Hydro's Remaining Activities. After the Merger, the working group shall consist of representatives from the Merged Company and Hydro's Remaining Activities.

Hydro has the right to acquire hardware, applications, software and other specified assets to be identified by the Parties in connection with the integration process, which currently are owned by HISP but which are essential to Hydro's Remaining Activities, at book value Such systems and assets will mainly be related to financial activities and systems for production of hydroelectric power and associated trading which are related to Hydro's Remaining Activities. In connection with such transfer of assets and systems, it may also be desirable to transfer employees from HISP to Hydro's Remaining Activities in accordance with the relevant labour legislation. Hydro's right to acquire assets according to this paragraph is contingent upon such transfer not having a substantial adverse effect on HISP's ability to deliver IT/IS services to the Petroleum Activities.

In connection with the integration process the Parties shall further identify which of the external agreements HISP has entered into that the Parties shall seek to transfer to Hydro.

Hydro undertakes, for a period of two years from the Implementation, not to recruit employees in HISP without the prior written consent of the Merged Company, except that Hydro shall be entitled to employ individuals employed in HISP insofar such employees apply for positions in Hydro on their own initiative and based on public advertisement of the positions.

2.6 Further on Herøya Research Centre

All assets, rights and obligations, including those associated with employee-and pension issues, related to the Oil & Energy Research Centre together with other activities at Herøya Research Centre which completely or primarily relate to the Petroleum Activities shall, as part of the Merger, be transferred to the Merged Company.

2.7 Further on corporate costs

Costs related to Hydro's corporate centre shall from the Effective Date to the Implementation be distributed between Hydro's Petroleum Activities and Hydro's Remaining Activities in accordance with Hydro's allocation principles for 2006. The share of the costs which according to the allocation principles is not charged to specific business areas (i.e. shareholders costs) shall be distributed in accordance with the Proportion of Division.

2.8 Further on assets, rights and obligations related to former activities

Any rights, assets and obligations related to former activities which are no longer part of the Hydro Group (including environmental- and pension obligations related to the former agri and magnesium activities), shall be distributed between the Petroleum Activities and Hydro's Remaining Activities in accordance with the Proportion of Division.

2.9 Further on existing financial debt between Hydro and the Petroleum Companies

The main principle for the distribution of assets, rights and obligations included in clause 2.1 implies that the Merged Company from the Effective Date undertakes all financial debt (including outstanding accounts with Corporate Finance, loan placements and derivative contracts) which exist between Hydro and the Petroleum Companies. In this respect, both the creditor and the debtor positions are deemed to belong to the Petroleum Activities, so that the transfer of the financial debt will not affect the distribution of net values on a consolidated level.

2.10 Inter-company balance between Hydro's Remaining Activities and Hydro's Petroleum Activities

For the purpose of the Merger Plan, an inter-company balance shall be deemed to exist between Hydro's Remaining Activities and Hydro's Petroleum Activities (the "Demerger Balance"). Depending on the underlying circumstances, this Demerger Balance may either imply a loan from Hydro's Remaining Activities to Hydro's Petroleum Activities or a claim which Hydro's Petroleum Activities have against Hydro's Remaining Activities.

As of the Effective Date, the Demerger Balance shall represent a loan or claim of such size that the net interest-bearing debt in the Petroleum Activities, adjusted for the Demerger Balance, is NOK 1 billion. In this respect, net interest-bearing debt shall be calculated on a consolidated basis in accordance with U.S. GAAP as follows:

	Bank loans and other interest-bearing short term debt
+	Long term debt including first year's instalments
–	Cash and bank deposits
–	Short term investments
=	Net Interest-Bearing Debt
+/–	Demerger Balance
=	NOK 1,000,000,000

3. ADJUSTMENT OF THE DEMERGER BALANCE AFTER THE EFFECTIVE DATE ETC.

3.1 Adjustment and settlement of the Demerger Balance

The Demerger Balance described in clause 2.10 shall be subject to continuous adjustment in order to reflect the cash flows in the Petroleum Activities, including cash flows in connection with Related Transactions, in the period between the Effective Date and the Implementation, as well as to reflect adjustments in connection with Related Transactions, taxation issues and other issues according to the provisions of the Merger Plan. Any amounts in other currency than NOK shall be converted to NOK based on the exchange rate on the day when the relevant adjustment of the Demerger Balance is made, unless otherwise stated in the provisions of the Merger Plan.

The Demerger Balance shall bear interest according to a rate corresponding to one month's NIBOR. The interest shall be calculated daily and capitalized in arrears on the last business day of each calendar month. One month's NIBOR is defined as the rate quoted at Reuters around 1200 hours two business days before the beginning of the following month.

Hydro shall, no later than three business days before the Implementation, notify Statoil in writing of its best estimate of the amount, including accrued interest, which the Demerger Balance will constitute at the Implementation. This amount shall be settled by cash payment at the Implementation.

Hydro shall, no later than two months after the Implementation, prepare an updated calculation of the amount, including accrued interest, which the Demerger Balance constituted at the Implementation.

Statoil and Statoil's advisors shall be given the right to verify the updated calculation, and Hydro shall in this respect produce and grant access to all such information which Statoil and Statoil's advisors reasonably request in order to carry out the verification.

Statoil must submit any claims for adjustments of Hydro's updated calculation of the Demerger Balance in writing to Hydro no later than three months after Statoil received the updated calculation from Hydro. Such claims for adjustments shall be substantiated. If no claims have been submitted within the said time limit, Hydro's updated calculation is final and binding.

Any disagreement which is not settled between the Parties within 14 days after a written claim for adjustments have been submitted shall be finally settled by an auditor jointly appointed by the Parties. If the Parties do not agree on an auditor within fourteen days after one of the Parties has requested such appointment, each of the Parties may require the auditor to be appointed by the managing director, or in his absence, the senior director of the Norwegian Institute of Public Accountants. If the disagreement concerns the interpretation of the Merger Plan, the dispute shall be settled according to clause 15.19.

When the calculation of the Demerger Balance has become final, any discrepancies from the finally determined Demerger Balance and the amount which according to the provision above was paid at the Implementation (including interest calculated in accordance with the provisions above from the Implementation to the time of payment), shall within three business days be settled by cash payment.

Any inter-company balances in accordance with the provisions of the Merger Plan which incur after the Implementation fall due for payment 15 business days after the Party who shall make a payment to the other Party has been duly informed.

3.2 Provisions regarding distributions etc.

If a Hydro Company, during the period between the Effective Date and the Implementation, makes a distribution to a Petroleum Company (in the form of dividend, group contribution or otherwise, including provisions for distributions in the 2006 accounts), the Demerger Balance shall be adjusted through a subsequent claim for Hydro's Remaining Activities against Hydro's Petroleum Activities of a corresponding amount, converted to NOK based on the exchange rate of the day when the relevant distribution was made. The claim shall be reduced by an amount corresponding to the reduction in payable tax in the relevant Hydro Company which has been achieved as a result of the distribution. Such reduction shall take effect from the time when the tax payment would have been made, however no later than at the Implementation. Corresponding principles shall be applied to distributions from Petroleum Companies to Hydro Companies.

3.3 Provisions regarding other intra-group transactions

In order to prevent other intra-group transactions which will be conducted before or at the Implementation from affecting the distribution of net values between the Parties on a consolidated level, the Demerger Balance shall be adjusted in accordance with the provisions below.

Related Transactions which are conducted in the form of sales shall take place on an ''as is'' basis against cash payment of a market-based consideration from the buying to the selling company. Simultaneously, a corresponding claim shall be established with the same amount between Hydro's Remaining Activities and Hydro's Petroleum Activities which and be included in the Demerger Balance stated in clause 3.1.

To the extent Petroleum Companies, during the period between the Effective Date and the Implementation, have loans from other Hydro Companies than Hydro with other interest terms than what applies to the Demerger Balance according to clause 3.1, the difference between the interest actually paid, and the interest which would have been paid if the principles in clause 3.1 had been applied, shall be calculated in arrears each month. The sum of all such discrepancies (plus interest calculated according to the principles stated in clause 3.1 from the expiry of the month to which the discrepancy applies and up until Implementation) represents a claim between Hydro's Remaining Activities and Hydro's Petroleum Activities which is included in the Demerger Balance set out in clause 3.1

To the extent Petroleum Companies, in the period between the Effective Date and the Implementation, have loans from other Hydro Companies than Hydro with a fixed rate of interest, the loans shall, before the Implementation, be converted to loans with a floating rate of interest equal to the one set out in clause 3.1. The difference between the present value of each such loan discounted with the market rate for similar loans and the nominal value of the loan shall be calculated at the time of the conversion and be settled between the relevant Petroleum Company and the relevant Hydro Company. The sum of all such differences (plus interest calculated in accordance the principles stated in clause 3.1 from the conversion to the Implementation) represents a claim between Hydro's Remaining Activities and Hydro's Petroleum Activities which is included in the Demerger Balance set out in clause 3.1.

Corresponding principles as stated in the two preceding paragraphs shall apply if Hydro Companies, in the period between the Effective Date and the Implementation, have loans from Petroleum Companies with other interest terms than what applies to the Demerger Balance set out in clause 3.1.

3.4 Provisions regarding fiscal issues

The main principle for distribution of assets, rights and obligations set out in clause 2.1 implies that the Merged Company assumes all historical and future rights and obligations related to the Petroleum Activities from the Effective Date. This also includes all historical and future rights and obligations related to fiscal issues related to Hydro's Petroleum Activities, and regardless of whether the matter is formally allocated to a Petroleum Company or a Hydro Company. Thus, any rights related to payments made and any liabilities for possible changes in taxation from previous years shall be allocated to the Merged Company if the basis for taxation is related to the Petroleum Activities. Correspondingly, rights and obligations related to fiscal issues related to Hydro's Remaining Activities shall be allocated to Hydro. This principle shall be completed and modified by way of the adjustment mechanisms described below.

If discrepancies from the tax return of a Petroleum Company for 2006 or changes in taxation of a Petroleum Company for previous years result in increased (or reduced) payment of tax for a Hydro Company, the Merged Company shall, after the tax payment has been made on demand, pay a corresponding amount to Hydro (or vice versa) converted to NOK based on the exchange rate on the day when the tax amount is paid. A corresponding principle shall apply if discrepancies from the tax return of a Hydro Company for 2006 or changes in taxation of a Hydro Company for previous years result in increased or reduced payment of tax for a company related to the Petroleum Activities.

In the event of discrepancies from the tax return for 2006 or changes in taxation for previous years related to internal pricing, including allocation of corporate costs, between Hydro's Petroleum Activities and Hydro's Remaining Activities, Hydro shall, if the change results in an increase in taxation of Hydro's Petroleum Activities, compensate the Merged Company with an amount corresponding to the reduction in taxation of Hydro's Remaining Activities, however limited to the increase in taxation of the Petroleum Activities, converted to NOK based on the exchange rate at the Implementation or at such later date when a claim for reimbursement is made. Correspondingly, the Merged Company shall compensate Hydro according to the same principles if the change results in an increase in taxation in Hydro's Remaining Activities.

In the event of discrepancies from the tax return for 2006 or changes in the taxation for previous years of Norsk Hydro Produksjon AS which result in a different distribution of financial items between Hydro's Petroleum Activities and Hydro's Remaining Activities, Hydro shall compensate the Merged Company for any reductions in the taxation of Hydro's Remaining Activities as a consequence of such changes, and the Merged Company shall compensate Hydro for any reductions in the taxation of Hydro's Petroleum Activities as a consequence of such changes, however limited to the corresponding increase of taxation of the other party, converted to NOK based on the exchange rate at the Implementation or at such later date when a claim for reimbursement is made.

In the tax jurisdictions in which it is possible, for the fiscal year 2007, to consolidate Hydro's Petroleum Activities and Hydro's Remaining Activities up until Implementation, such consolidation shall take place. Any transfers of values which in this respect take place between Hydro's Petroleum Activities and Hydro's Remaining Activities shall be assessed in accordance with clause 3.2.

If a Hydro Company becomes obliged to pay taxes or charges as a result of the Merger, including in connection with the completion of Related Transactions or other underlying transactions as a part of the Merger, the Merged Company shall, at the Implementation or possibly later when the amount is paid and a claim for refund is submitted to the Merged Company, pay a corresponding amount converted to NOK based on the exchange rate at the Implementation or at such later date when a claim for reimbursement is made.

Any payment obligations under the provisions above shall be adjusted for any taxation effects related to the actual payment of the above-mentioned adjustments.

4. DEMERGER CONSIDERATION

As compensation for the transfer of Hydro's Petroleum Activities, the shareholders of Hydro shall receive 0.8622 shares in the Merged Company for each share owned in Hydro. Consideration shares will not be issued for treasury shares owned by Hydro.

Fractions of shares will not be issued. Instead, such fractions will be gathered into whole shares which will be sold in the market. The net proceeds shall be distributed proportionately between those entitled to fractions.

The exchange ratio is based on the following financial conditions:

(i) Hydro's Petroleum Activities shall be allocated a net interest-bearing debt (as defined in clause 2.10 above) of NOK 1 billion as per 1 January 2007.

(ii) Statoil shall before the Implementation distribute an ordinary dividend of NOK 9.12 per share.

(iii) Hydro shall before the Implementation distribute an ordinary dividend of NOK 5.00 per share. This dividend shall be charged to the Petroleum Activities.

(iv) Neither Statoil nor Hydro shall, except as otherwise stated in (i) and (ii) above and clause 5 below, distribute any dividend on its shares before the Implementation.

5. CHANGES IN CAPITAL STRUCTURE BEFORE THE IMPLEMENTATION

In the course of the period between the approval of the Merger Plan by the general meetings and the Implementation, it is assumed that Hydro and Statoil will redeem 16,871,506 and 14,291,848 shares, respectively, belonging to the Norwegian government and cancel such number of treasury shares that the government's ownership percentage remains unchanged. The redemption and cancellation of shares shall be made in accordance with established practice and agreements regarding repurchase schemes for shares entered into with the government.

On this basis, a proposition will be made to the general meeting of Hydro to reduce the share capital before the Implementation by NOK 140,904,532 by way of cancellation of 21,627,000 treasury shares and a redemption of 16,871,506 shares belonging to the government, as represented by the Ministry of Trade and Industry, resulting in a share capital immediately before the Implementation of NOK 4,567,522,433.30 divided on 1,247,956,949 shares, each with a par value of NOK 3.66.

Correspondingly, a proposition will be made to the general meeting of Statoil to reduce the share capital before the Implementation by NOK 50,397,120 by way of cancellation of 5,867,000 treasury shares and redemption of 14,291,848 shares belonging to the government, as represented by the Ministry of Petroleum and Energy, resulting in a share capital immediately before the Implementation of NOK 5,364,962,167.50 divided on 2,145,984,867 shares, each with a par value of NOK 2.50.

Otherwise, none of the Parties shall, without the prior consent from the other Party, acquire or sell treasury shares or change its share capital prior to the Implementation, except for the Parties acquisition and sale of treasury shares as part of the implementation of a share savings scheme for the employees in accordance with established practice.

6. CHANGES IN CAPITAL STRUCTURE AS A RESULT OF THE MERGER

6.1 Reduction of the share capital in Hydro as a result of the Merger

As a part of the approval of the Merger Plan, the general meeting of Hydro shall pass the following resolution regarding the reduction of share capital:

"The share capital of Norsk Hydro ASA shall be reduced by NOK 3,197,256,703.30 from NOK 4,567,522,433.30 to NOK 1,370,256,730 by reduction of the par value of each share from NOK 3.66 to NOK 1.098. In executing the reduction, assets, rights and obligations shall be transferred to the Merged Company in connection with the demerger. That portion of the distributions which exceeds the capital reduction shall for accounting purposes be charged to the premium paid-in capital by an amount of NOK 6,727,420,000 which corresponds to 70% of the premium paid-in capital as of 1 January 2007, whereas any excess amounts are charged to other equity.

With effect from the registration of completion of the demerger with the Register of Business Enterprises, article 4 of the articles of association is amended to the following wording:

The share capital is NOK 1,370,256,730 divided on 1,247,956,949 shares with a par value of NOK 1.098. The shares shall be registered in the Norwegian Central Securities Depository. The board of directors may refuse transport and take other necessary measures in order to prevent the transfer of shares from taking place in defiance of the limitations set forth in Norwegian legislation.''

6.2 Increase of the share capital of Statoil as a result of the Merger

As a part of the approval of the Merger Plan, the general meeting of Statoil shall pass the following resolution regarding the increase of share capital:

''The share capital shall be increased by NOK 2,606,655,590 from NOK 5,364,962,167.50 to NOK 7,971,617,757.50 by issuing 1,042,662,236 shares, each with a par value of NOK 2.50, in connection with the demerger. The portion of the contribution which is not treated as share capital in the accounts shall, in accordance with the continuity principle, be treated in the accounts so that the sum of the paid in equity capital in the two companies remains unchanged after the Merger.

Subscription of the shares shall take place by way of approval of the Merger Plan by the general meeting of Hydro.

Payment for the shares shall take place by the transfer of assets, rights and obligations from Hydro according to the Merger Plan when completion of the demerger is registered with the Register of Business Enterprises.

The shareholders of Statoil waive the pre-emptive right to subscribe for shares as the shares are issued to the shareholders of Hydro as demerger consideration. Shares will not be issued to Hydro for treasury shares owned by the company. The new shares shall entitle the holders to distributions from the time they are issued.

The new shares shall be registered in Statoil's register of shareholders as soon as possible after the completion of the demerger is registered with the Register of Business Enterprises, and shall thereafter entitle the holder to full shareholder rights in Statoil.''

6.3 Further amendments to Statoil's articles of association as a result of the Merger

As a part of the approval of the Merger, the general meeting of Statoil shall pass a resolution regarding amendments to the company's articles of association so that they from the Implementation will be in accordance with what follows in Annex 6. Amendments compared to the current articles of association of Statoil follows from the mark-up included in Annex 7. Amendments beyond what is necessary for the Merger are minor technical and linguistic amendments.

7. FOUNDERS AND SUBSCRIPTION CERTIFICATES

Hydro has issued founders and subscription certificates which in case of an increase of the share capital, provided that this is permitted under applicable Norwegian legislation, give the holders a preferential right to subscribe at the terms of subscription determined by the company. The preferential right does not apply if the share capital increase is conducted to allot shares to third parties as consideration for contribution of assets to the company.

The holders of the founders and subscription certificates will maintain their rights in Hydro after the Implementation. In relation to the Merged Company, the rights of the holders of the founders and subscription certifications will be redeemed by the Merged Company paying a redemption consideration, upon the submission of a claim, based on the actual value of the certificates, cf. public limited companies act section 14-9. cf. section 13-19. Hydro shall be compensated by the Merged Company for any costs incurred by Hydro in this respect.

8. FURTHER ON THE MERGED COMPANY

8.1 Name and logo

From the Implementation, the Merged Company shall have a new name and a new logo.

The name of the Merged Company shall, from the Implementation, be StatoilHydro ASA. The board of directors of the Merged Company shall develop a new name and a new logo which shall symbolise the company's business strategy, values and vision, and which shall be different from the present companies' names. A proposal for a new name shall be presented at the first annual general meeting after the Implementation.

Change of name and logo shall not prevent the use of Statoil's present name and logo in connection with the Merged Company's activities within the business area "energy and retail" to the extent this is considered appropriate.

8.2 Registered office and location

The registered office of the Merged Company shall be in Stavanger. Corporate functions shall be located in both Oslo and Stavanger, and the CEO shall have offices in both locations.

8.3 The board of directors of the Merged Company

The board of directors of the Merged Company shall consist of ten members, of which three members shall be elected among the employees. The chairman of the board of the Merged Company shall be Eivind Reiten. The election committee of Hydro shall nominate two and the election committee of Statoil shall nominate four of the other members of the board.

The board of directors shall be elected for the period up until the annual general meeting of the Merged Company in the spring 2010.

8.4 The management of the Merged Company

The CEO of the Merged Company shall be Helge Lund.

The remaining senior management shall be composed as described in Annex 2.

The composition of the remaining senior management of the Merged Company will be determined by the current CEOs in accordance with the principle of merger of equals.

The management structure and management systems of the Merged Company will principally be based on Statoil's existing model.

8.5 Other corporate bodies

The Merged Company shall have a corporate assembly consisting of 18 members together with deputy members. Six members with deputy members shall be elected by and among the employees. The election committee of Hydro shall nominate five of the other members and two deputy members, while the election committee of Statoil shall nominate seven of the other members and two deputy members.

The Merged Company shall have an election committee consisting of four members. The election committee of Hydro and Statoil shall each nominate two of the members of the election committee.

The members of the corporate assembly and the election committee shall be elected for the period up until the annual general meeting of the Merged Company in the spring 2010.

8.6 Representatives of the employees in the board of directors and the corporate assembly

The Parties will arrange for the election of employee representatives for the Merged Company's corporate assembly and board of directors as soon as possible after the Implementation, with the aim of having employee representatives in these corporate bodies with experience from Hydro and Statoil reflecting the principle of merger of equals.

9. ACCOUNTING ISSUES

The financial effective date of the Merger, with regard to the company accounts, shall be 1 January 2007, i.e. transactions in Hydro's Petroleum Activities will from the said date, for accounting purposes, be regarded as having been conducted on the account of the Merged Company.

The Merger is expected to be carried out with continuity for accounting purposes.

The draft opening balance for the Merged Company is included as Annex 12.

10. FISCAL ISSUES

The Merger shall for tax purposes take effect from 1 January 2007.

The Merger shall be carried out with continuity for taxation purposes in Norway.

In accordance with the requirements of section 11-8 (1) of the Norwegian Taxation Act, the nominal and paid-in share capital is distributed in proportion to Hydro's net values, i.e. 30% for Hydro's Remaining Activities and 70% for the Petroleum Activities.

Continuity for taxation purposes implies, inter alia, that taxation positions related to assets, rights and obligations which are transferred from Hydro to the Merged Company upon the Merger will be transferred unaltered to the Merged Company, cf. inter alia sections 11-7 (1) and 11-8 (3) and (4) of the Taxation Act, and that the Merger will not have any immediate fiscal consequences for Hydro's shareholders in Norway, and, at the same time, the tax base in Hydro will remain unaltered, with an apportionment to shares in Hydro and shares in the Merged Company in the same ratio as the par value of the shares apportioned in connection with the Merger, cf. section 11-7 (2) of the Taxation Act.

11. CONDITIONS FOR THE COMPLETION OF THE MERGER

Each of the Parties' obligation to execute the Merger is contingent upon:

(i) Approval of the Merger Plan by the general meetings in Hydro and Statoil with the necessary majority.

(ii) No incidents, changes, occurrences or developments with regard to the other Party occurring prior to the approval of the Merger Plan by the respective general meetings which materially alter the basis for the Merger.

(iii) Adequate documentation of settlement of the estimated Demerger Balance described in clause 3.1 has been presented.

(iv) The Parties obtaining all necessary approvals from public authorities to execute the Merger, and that these approvals do not contain conditions which will have a material adverse effect for the Merged Company, unless the boards of directors of Hydro and Statoil find that the effect of any failure to obtain approvals or any conditions imposed upon the Merged Company in connection with such approvals will not have a material adverse effect for any of the Parties considering the compensation that may have been agreed upon in this respect.

(v) Possible third party approvals which may be necessary for the Implementation of the Merger having been given, unless the boards of directors of Hydro and Statoil find that the effect for the Merged Company will not have a material adverse effect for any of the Parties considering the compensation which might be agreed upon in this respect.

(vi) The deadline for objections from creditors pursuant to the Public Limited Companies Act section 14-7, cf. section 13-15, cf. section 13-16 shall have expired for both Parties and the position regarding any creditors who have raised objections shall have been settled, or the District Court shall have decided that the Merger may nevertheless be executed and registered with the Register of Business Enterprises.

(vii) All conditions for Statoil's continued listing on the Oslo Stock Exchange and the New York Stock Exchange respectively have been, or with a reasonable degree of certainty will be, fulfilled.

Statoil's obligation to execute the Merger is also contingent upon Statoil having received a written confirmation from Hydro stating that all necessary Related Transactions, including the demerger of Norsk Hydro Produksjon AS, have been executed in accordance with the Merger Plan and as the Parties have otherwise agreed.

12. COMPLETION OF THE MERGER

The Merger shall become effective upon registration of the notification from Statoil that the Merger shall enter into force is registered with the Register of Business Enterprises.

Such registration in the Register of Business Enterprises shall take place on the first business day of the subsequent month after the conditions stated in clause 11 have been satisfied. The Merger shall lapse if such registration has not taken place at the latest 12 months after the approval of the Merger Plan by the general meetings of Statoil and Hydro respectively, unless the boards of directors of Hydro and Statoil agree upon an extension of the deadline.

The Parties shall to the extent necessary exchange information and otherwise cooperate with the aim to fulfil the conditions for the completion of the Merger as soon as possible.

13. PLANNING OF THE INTEGRATION

The Parties have, in accordance with the Integration Agreement, established a project for the integration under the leadership of Hilde M. Aasheim in close cooperation with Anne Therese Hestenes, who, to the extent this will not be in conflict with competition laws, shall plan the integration of the involved activities. The integration project shall be executed based on the principle of merger of equals and other principles laid down in the Merger Plan.

14. RESTRICTIONS ON THE CONDUCT OF BUSINESS DURING THE TERMS OF THE MERGER PLAN

None of the Parties — nor any company controlled by any of the Parties — shall, from the time of entering into this Merger Plan, act in contradiction to the terms and conditions set forth herein. Neither Hydro's Petroleum Activities nor Statoil shall, without the prior written consent from the other Party, decide or undertake major investments, disposals (including shares or interests in companies) or changes to its business or capital structure, or perform other acts or omissions which are of material importance to the Merger or which fall outside the scope of ordinary course of business. The above does not preclude acts or omissions contemplated by this Merger Plan or which are necessary to execute the Merger.

Neither Statoil nor Hydro shall take any actions with the aim of an offer or proposal being put forward which will be detrimental to the completion of the Merger or will reduce the probability for the Merger being approved by their respective general meetings. Each of the Parties shall immediately inform the other Party of any inquiries they may receive regarding possible offers or proposals of such nature.

15. MISCELLANEOUS

15.1 Costs in connection with the Merger

All external costs incurred or to be incurred by the Hydro group in connection with the planning, negotiation and completion of the Merger and the related division of the Hydro group, including in connection with the completion of Related Transactions, shall be a part of the Petroleum Activities to be transferred in the Merger. This principle includes inter alia expenses related to advisors, expenses incurred in connection with the transfer of loans and other agreements, and any obligations to pay taxes and charges. The principle is limited to costs related to circumstances which Statoil has been informed of prior to the Implementation.

15.2 Settlement of balances between Hydro companies and Petroleum companies

All interest-bearing balances between Petroleum Companies and Hydro Companies shall be settled at the Implementation. All other balances which exist at the Implementation and which are not of a continuous commercial nature shall be settled within three months after the Implementation.

15.3 Any contracts which are formally allocated to another company than the operational contracting party

To the extent there are agreements in which other Hydro Companies than Hydro are parties, and which are mainly related to the Petroleum Activities, such agreements shall, unless the Parties agree otherwise, be transferred to the Merged Company or a company appointed by the Merged Company. A corresponding principle shall apply if Petroleum Companies are parties in agreements which are mainly related to Hydro's Remaining Activities. If such agreements have a positive or negative market value, a corresponding cash consideration shall be contributed between the assignor company and the assignee company. Simultaneously, a corresponding claim with the same amount is established between Hydro's Remaining Activities and Hydro's Petroleum Activities which shall be included in the Demerger Balance.

15.4 Liability exemption in relation to third parties

The Merged Company shall take all reasonable measures to relieve Hydro Companies from their responsibility towards third parties, including lenders and other contracting parties, related to the assets, rights and obligations included in the Petroleum Activities. Correspondingly, Hydro shall take all reasonable measures to relieve the Petroleum Activities from their responsibility towards third parties, including lenders and other contracting parties, related to the assets, rights and obligations that are comprised by Hydro's Remaining Activities.

15.5 Assets, rights and obligations which cannot be transferred

To the extent that the transfer of assets, rights or obligations related to the Petroleum Activities to the Merged Company is not obtainable as a result of necessary public authority approvals or third party approvals not having been given, and this does not prevent the completion of the Merger according to clause 11 above, the Parties shall, to the extent possible, enter into agreements between them which give the Merged Company similar rights and obligations towards Hydro Companies as if the asset, right or obligation had been transferred to the Merged Company. If it is not possible to transfer the relevant assets, rights or obligations by way of such agreements, Hydro shall compensate the Merged Company according to the value which the relevant asset, right or obligation represents.

The same applies if assets, rights and obligation related to Hydro's Remaining Activities cannot be transferred from Petroleum Companies.

15.6 Regarding guarantee liabilities

As a part of the Merger, a transfer to the Merged Company of guarantee liabilities related to Hydro's Petroleum Activities will take place. Statoil shall actively contribute to, including by offering to provide similar guarantees in relation to the relevant third parties, such guarantees being transferred to the Merged Company at the Implementation or as soon as possible thereafter. Hydro shall also actively contribute to such transfer.

To the extent that such guarantees have still not been transferred at the Implementation, the Parties shall enter into agreements between them which give the Merged Company the same rights and obligations towards the relevant Hydro Company as these Hydro Companies have towards the relevant third parties in relation to the guarantee. Such agreements shall terminate at the time when the Hydro Companies are relieved from their guarantee liabilities.

To the extent that Hydro Companies are still liable for guarantees related to the Petroleum Activities after the Implementation, the Merged Company shall award continuously compensate compensation to the relevant

Hydro Companies for any expenses, including bank charges, in connection with the maintenance of the guarantees.

Corresponding principles, including the activity requirements set out in the first paragraph, shall apply if Petroleum Companies, after the Implementation, are still liable for guarantees related to Hydro's Remaining Activities.

15.7 Interest on overdue payments

If any payments that in accordance with the provisions of the Merger Plan is due at the Implementation is made at a later date on account of the fact that more time is required to quantify the relevant amounts payable, or because the Parties cannot agree on the relevant amounts, then interest in accordance with the figures in clause 3.1 shall be payable from the Implementation and until payment is made. In cases where such payment is overdue although the size of the amount is finally determined through an agreement between the Parties or a legal decision, the interest rate shall be set 3 percentage points higher.

15.8 Handling of claims or lawsuits regarding assets, rights or obligations related to the other party

In the event that a Hydro Company is already handling or is notified of a possible claim or lawsuit in which the actual interest, directly or indirectly according to the provisions of the Merger Plan, or in agreements regulating Related Transactions, lies with a Petroleum Company or the Merged Company, the company handling or receiving the notice shall without undue delay notify the company which it believes has the actual interest of the matter. If the company receiving such notice declares in writing to be liable for the rights and obligations related to the possible claim or lawsuit, this company shall be entitled to be in charge of the further handling of the case in relation to the party submitting the claim. The same applies if a Petroleum Company or the Merged Company is already handling or is notified of a possible claim or lawsuit in which the actual interest, directly or indirectly according to the provisions of the Merger Plan or in agreements regulating Related Transactions, lies with a Hydro Company.

In the event that a Hydro Company is already pursuing or accepts to submit a possible claim or lawsuit against third parties, in which the actual interest, directly or indirectly according to the provisions of the Merger Plan or in agreements regulating Related Transactions, lies with a Petroleum Company or the Merged Company, the company having the actual interest shall be entitled to be in charge of the further consideration of the case, provided that such company declares in writing to be liable for rights and obligations related to the possible claim or lawsuit. The same applies if a Petroleum Company or the Merged Company is already pursuing or accepts to submit a possible claim or lawsuit against third parties in which the actual interest, directly or indirectly according to the provisions of the Merger Plan or in agreements regulating Related Transactions, lies with a Hydro Company. A company may only refuse to accept such pursuit or submission of a possible claim or lawsuit if significant reasons so require.

If both parties have an actual interest in the above-mentioned claims or lawsuits, the Parties shall clarify the further handling of the case in greater detail.

Under any circumstances, the handling of claims or lawsuits in all of the above-mentioned cases shall take place with due handling of the interests of the other company in relation to the claim or lawsuit.

15.9 Agreements between Hydro Companies and Petroleum Companies

A number of agreements has been, and will be, entered into between Hydro Companies and Petroleum Companies which continue established business relations between Hydro's Petroleum Activities and Hydro's Remaining Activities in a transitional period. Such agreements shall be based on common commercial terms. If such agreements fall outside the scope of the ordinary course of business or remain in force beyond 30 June 2008, entering into or changing such agreements is subject to Statoil's prior written consent. Such consent cannot be unreasonably withheld, and Statoil shall without undue delay make a decision as to whether such consent shall be given.

The above-mentioned provisions shall not be apply to agreements related to IT/IS activities, which are regulated in greater detail by clause 2.5.

15.10 The parent companies' liability for the obligations of subsidiaries

To the extent the Merger Plan or agreements regarding Related Transactions contain provisions which according to their content must be complied with by the Parties' respective subsidiaries, each Party is liable for implementing the legal and actual measures necessary in order to ensure that their respective subsidiaries act in accordance with the provisions in question.

Furthermore, each Party shall on a joint and several basis be liable for the obligations of its subsidiaries under the Merger Plan or agreements regarding Related Transactions.

15.11 Use of the name Hydro etc.

The Parties shall enter into a separate agreement regarding the Merged Company's use of the name, logo etc. of Hydro and its subsidiaries, including in relation with clause 8.1. Such agreement shall contain customary terms and conditions for use, including limitation of the duration of such use. The right to use the name, logo etc. is limited by any rights held by third parties.

15.12 Archive material

Hydro and the Merged Company shall grant each other access to copy all accounting records and other archive material to the extent that the party not having such material in its possession reasonably requests such copying for the purpose of its accounting, legal obligations or conduct of business.

15.13 Industriforsikring

The shares in Industriforsikring shall remain in Hydro after the Merger. However, after the Merger Industriforsikring shall demerge (a) all rights and obligations related to the insurance of the Petroleum Activities, including rights and obligations in connection with the membership in OIL, and (b) a proportionate share of Industriforsikring's assets. The Merged Company or any of its subsidiaries shall, after the demerger of Industriforsikring has been executed, acquire according to a special agreement the company which is demerged from Industriforsikring for a cash amount equal to this company's value adjusted equity.

15.14 Norsk Hydro Canada Inc.

In connection with the transfers of the ownership interests in Norsk Hydro Canada Inc. ("NHCI"), it is established, at the Effective Date, an interest-bearing claim against Hydro's Remaining Activities allocated to Hydro's Petroleum Activities corresponding to USD 35 million for coverage of cost related to the close down of NHCI. This claim shall not be included in the calculation of net interest-bearing debt as described in clause 2.10, but shall be included in the settlement according to clause 3.1. Moreover, Hydro shall compensate the Merged Company for any costs incurred related to close down which exceed USD 35 million. The Merged Company, on the other hand, shall compensate Hydro for 50% of the value of the final realized tax positions of NHCI.

15.15 Insurance

Hydro shall ensure that the Petroleum Activities keep the relevant insurances on corresponding terms up until Implementation.

15.16 Changes to the Merger Plan

The boards of directors of Hydro and Statoil may, on behalf of the general meetings, carry out minor changes to the Merger Plan, including changes to the time schedule as set out in clause 1.5, provided that the changes are not detrimental to the shareholders and do not have financial impact to the Merger.

To the extent that the technical implementation of the Merger results in an unforeseen situation with regard to obtaining approvals or endorsements from public authorities or third party consents, the boards of directors of Hydro and Statoil may adjust the technical implementation of the Merger as described in the Merger Plan, provided that such adjustments are not detrimental to the shareholders and do not have financial impact to the Merger.

15.17 Confidentiality and information

All information which has been, and will be, received from the other Party in connection with the process related to the Merger, and which is not publicly known, shall be treated as confidential and shall not be used for purposes other than the Merger. This does not prevent submission of such information required by law or regulations. In such cases the Party which is obliged to give such information shall, if possible, consult the other Party before such information is given.

Information to the public and the relevant stock exchanges related to the Merger shall be given jointly by the Parties.

15.18 Termination of the Merger Plan

The Demerger Plan shall terminate if it is terminated due to the conditions for the Merger not being possible to fulfil or due to material breach. The provisions of the Merger Plan shall not limit the Parties' right to declare themselves not bound by the Merger Plan according to general contract law.

The Parties shall cooperate on the information given about a possibly termination of the Merger Plan. When preparing and presenting information, the opinions and interests of both Parties shall be taken into consideration.

15.19 Disputes

The Parties shall endeavour to settle disagreements in connection with the Merger Plan amicably. Disputes shall, if the Parties do not agree otherwise, be settled by arbitration in Oslo. The arbitration proceedings and the award of the arbitration tribunal shall be subject to the provisions of clause 15.17.

* * * * *

This Merger Plan is signed in two copies, of which Hydro and Statoil shall retain one copy each.

Oslo, 12 and 13 March 2007

The board of directors of Norsk Hydro ASA	**The board of directors of Statoil ASA**
Jan Audun Reinås	Jannik Lindbæk
Elisabeth Grieg	Karin Cecilie Kullmann Five
Terje Friestad	Finn Arild Hvistendahl
Håkan Mogren	Knut Åm
Kurt Anker Nielsen	Grace Montgomery Reksten Skaugen
Geir Nilsen	Ingrid Beichmann Wiik
Sten Roar Martinsen	Marit Arnstad
Grete Faremo	Lill-Heidi Bakkerud
Lena Marie Olving Öhberg	Morten Svaan
	Claus Clausen

ANNEXES:

1. Overview of companies related to the Petroleum Activities
2. Overview of the group management of the Merged Company
3. The articles of association for Norsk Hydro ASA
4. Draft articles of association for Norsk Hydro ASA (at the Implementation)
5. The articles of association for Statoil ASA
6. Draft articles of association for the Merged Company (at the Implementation)
7. Changes in relation to the currently applicable articles of association for Statoil ASA and draft articles of association for the Merged Company (at the Implementation) with mark-ups
8. The board of directors' reports on the Merger
9. Expert statements on the Merger Plan
10. Norsk Hydro ASA's annual accounts, annual report by the Board and auditor's report for 2003, 2004, 2005 and 2006.
11. Statoil ASA's annual accounts, annual report by the Board and auditor's report for 2003, 2004, 2005 and 2006.
12. Draft opening balance for the Merged Company
13. Auditor's statement regarding the draft opening balance of the Merged Company
14. Auditor's statement stating that after the reduction of the share capital of Norsk Hydro ASA, there will be full coverage for the company's undistributable equity.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annex 1

Overview of companies related to the Petroleum Activities

Country	Name	Ownership
Angola	Norsk Hydro Angola AS	100
	Norsk Hydro Cinco AS	100
	Norsk Hydro Dezassete AS	100
	Norsk Hydro Quatro a.s	100
	Norsk Hydro Trinta e Quatro AS	100
	Norsk Hydro Vinte E Cinco AS	100
Belgium	Hydro Energy N.V.	100
	Hydro IS Partner Belgium SA/NV	100
Brazil	Hydro Brasil Oleo e Gas Ltda	100
BVI	Spinnaker Explorations Holdings (BVI) 256 Ltd	100
	Spinnaker Exploration (BVI) 256 Limited	100
	Spinnaker Holdings (BVI) 242 Ltd	100
	Spinnaker (BVI) 242 Limited	100
Canada	Norsk Hydro Canada Oil & Gas Inc.	100
	Norsk Hydro Crude Marketing Inc.	100
	Norsk Hydro Canada Inc.	100
Cuba	Hydro Oil & Gas Cuba AS	100
Denmark	Saga Petroleum Danmark AS	100
	Norsk Hydro Danmark AS	100
France	Sagim SA	37
	Hydro IS Partner France SAS	100
Germany	Hydro Energie Deutschland GmbH	100
	Norsea Gas GmbH	6.7
	Hydro IS Deutschland GmbH	100
	GHW mbH	50
	Netra GmbH	8.33
	Netra GmbH Transwersale & Co. KG	7.69
	Etzel Gas-Lager Management GmbH	3.6
	Etzel Gas-Lager GmbH & Co. KG	3.6
Iceland	Icelandic New Energy Ltd	16.33
India	Hydro Norinco Ltd	51
Iran	Hydro Zagros Oil and Gas AS	100
Libya	Saga Petroleum Mabruk AS	100
	Hydro Libya Murzuq AS	100
Mexico	Norsk Hydro Mexico AS	100
Mozambique	Hydro Oil & Gas Mozambique AS	100

Country	Name	Ownership
Netherlands	Hydro Oil & Energy International B.V.	100
	Norsk Hydro Energie Marketing B.V.	100
	Norsk Hydro Energy B.V.	100
	Reserve Petroleum Nederland B.V.	100
	Hydro IS Partner B.V.	100
	Hydro Oil & Energy Netherlands B.V.	100
	South Atlantic Holding B.V.	50
Nigeria	Spinnaker Exploration 256 Ltd	100
	Spinnaker Nigeria 242 Ltd	100
Norway	Norsk Hydro Petroleum AS	100
	Norsk Hydro Holding AS	100
	Norsk Hydro E&P Americas AS	100
	Norsk Hydro Investment Americas AS	100
	Hydro IS Partner AS	100
	Hydro Hydrogen Technologies AS	100
	Hydro International Holding AS	100
	Hydro Libya AS	100
	Hydro Oil & Gas Brazil AS	100
	Hydro R&M Holding AS	100
	Norsk Hydro Energie AS	100
	Norsk Hydro Majunga AS	100
	Norsk Hydro Morocco AS	100
	Norsk Hydro Murzuq AS	100
	Norsk Hydro Technology Ventures AS	100
	Navita Systems AS	22.8
	Ocean Power Delivery AS	16.28
	Magtech AS	30.41
	Spectraseis Technologies AG	19.01
	Superprotonic Inc	7.86
	Norsk Hydro Yemen AS	100
	Saga Petroleum Holding AS	100
	Saga Petroleum Transport and Trading AS	100
	Gasnor AS	20.98[1]
	Norsea Gas AS	3.58
	Arctic Wind AS	44
	AS Petronord	22.4
	Norpipe Oil AS	3.5
	Mongstad Eiendomsselskap AS	50
	Mongstad Vekst AS	30
	Naturkraft AS	50
	Ormen Lange Eiendom DA	18.073
	Etanor DA	12.22

1 Adjusted from 23,02%

Country	Name	Ownership
	Vestprosess DA	17
	Naturgass Grenland AS[2]	30
	Sarepta Energi AS[3]	50
Russia	HydroNefteGaz LLC	100
	Norsk Hydro Dolginskaya AS	100
	Norsk Hydro Russland AS	100
	Norsk Hydro Oil & Gas Russia AS	100
	Intershelf LLC[4]	99
Sweden	Norsk Hydro Sverige AB	100
	Norsk Hydro Olje AB	100
	Gävleborgs Petroleum, Å Lindahl AB	100
	Hydro Energi AB	100
	Norrköpings Depå AB	50
	Uno-X Svenska AB	100
Trinidad	Norsk Hydro Trinidad Oil & Gas Ltd	100
UAE	Norsk Hydro Middle East AS	100
UK	Norsk Hydro (UK) Ltd	100
	Scira Offshore Energy Ltd	50
	Norsea Pipeline Ltd	5.304
	Hydro IS Partner UK Ltd	100
	Norsk Hydro Oil & Gas Ltd	100
	Norsk Hydro Power UK Ltd	100
	Norpipe Petroleum (UK) Ltd	100
	HydroWingas Ltd	50
USA	Hydro Gulf of Mexico, LLC	100
	Hydro Gulf of Mexico, Inc	100
	Hydro Projects, Inc	100
	Norsk Hydro E&P Americas Investment, LLC	100
	Norsk Hydro E&P Americas, L.P	100
	Spinnaker FR Spar CO, LLC	100
	WP Spinnaker Holdings, Inc	100
	Norsk Hydro USA Oil & Gas, Inc	100
	Hydro Is Partner Americas, Inc	100
	Norsk Hydro Energie Marketing, LLC	100
	Comverge, Inc	3.01

2 Added after 13 March 2007

3 Added after 13 March 2007

4 Added after 13 March 2007

This is a translation of the original official Norwegian document.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annex 2

Overview of the Group Management of the Merged Company

Helge Lund (President and Chief Executive Officer)

Eldar Sætre (Chief Financial Officer)

Tore Torvund (Exploration and Production Norway)

Peter Mellbye (International Exploration and Production)

Morten Ruud (Projects)

Margareth Øvrum (Technology and New Energy)

Rune Bjørnson (Natural Gas)

Jon Arnt Jacobsen (Manufacturing and Marketing)

Hilde Merete Aasheim (Head of Group functions)

This is a translation of the original official Norwegian document.

The articles of association for Norsk Hydro ASA
(last amended May 8 2007)

§ 1

The name of the company is Norsk Hydro ASA.

§ 2

The objectives of the company are to engage in industry, commerce and transport, to utilize energy and raw material resources, and to engage in other activities connected with these objectives. Activities may also proceed through participation in or in co-operation with other enterprises.

§ 3

The company's registered office is in Oslo.

§ 4

The share capital is NOK 4,708,426,965.30 divided into 1,286,455,455 shares, each with a nominal value of NOK 3.66. The shares shall be registered in the Norwegian Central Securities Registry. The board of directors may refuse the transfer of shares and may take such other steps as may be necessary to prevent shares being transferred in contravention of the restrictions laid down in Norwegian law.

§ 4 A

If the share capital is increased, and provided that the Norwegian law in force at the time so permits, preferential subscription rights shall be reserved in connection with each such capital increase, on the conditions stipulated by the board of directors, for up to

a. 0.83% of the increase for holders of the 83 unredeemed founder certificates and up to

b. 2.79% of the increase for holders of the 4,343 unredeemed subscription certificates

These preferential rights shall not apply if the increase is made in order to allot shares to third parties as compensation for their transfer of assets to the company. The certificates may be negotiated independently of the shares.

§ 5

The company's board of directors shall be composed of nine members who are elected by the corporate assembly for periods of two years at a time. The corporate assembly elects the chair and the deputy chair of the board for the same period.

If the office of a board member comes to an end during the period for which he or she is elected, the corporate assembly may elect another board member to hold office for the remainder of the period in question.

§ 5 A

The nomination committee is made up of four members who shall be shareholders or representatives of shareholders. The members of the nomination committee, including its leader, are to be elected by the general meeting of shareholders. The leader of the nomination committee, and at least one member, shall be elected from among the shareholders representatives on the corporate assembly. The members of the nomination committee are elected for two years at a time.

The chair of the board and the chief executive officer shall be called in, without voting rights, to at least one meeting of the nomination committee before the committee submits its final recommendation.

The nomination committee submits its recommendation, regarding the shareholders' election of members and deputies to the corporate assembly and regarding the corporate assembly's members' fees, to the general meeting of shareholders.

The nomination committee submits its recommendation, regarding the election of shareholders' representatives to the board of directors and regarding the board members' fees, to the corporate assembly.

In accordance with the proposal from the shareholder-elected members of the board of directors, the shareholder-elected members of the corporate assembly adopt the procedural rules to apply for the nomination committee.

§ 6

The board of directors may authorize a board member, the chief executive officer or specifically designated employees to sign for the company, and also to designate procurators. The board of directors may decide that authorization to sign for the company may only be exercised by several persons jointly.

§ 7

The company's corporate assembly shall comprise 18 members, elected for a period of two years at a time. Twelve members and four deputies shall be elected by the general meeting of shareholders, while six members and their deputies shall be elected by and from among the company's employees. The corporate assembly elects its own leader and deputy for periods of two years at a time.

§ 8

The corporate assembly shall exercise supervision to ensure that the objects of the company are furthered in compliance with the law, the articles of association and the resolutions of the general meeting of shareholders and the corporate assembly itself. The corporate assembly may adopt recommendations on any matter whatsoever for submission to the board of directors.

At the proposal of the board of directors, the corporate assembly shall adopt resolutions in matters concerning investments that are substantial compared with the company's resources, or concerning such rationalization of, or changes in, operations as will entail a major change in or redeployment of the labour force.

§ 9

Members of the board and the corporate assembly shall retire in the year they reach the age of 70.

§ 10

The general meeting of shareholders shall be convened by the board of directors in accordance with the applicable legal requirements.

Shareholders or their representatives wishing to attend and vote at the general meeting of shareholders must inform the company of this five days prior to the meeting.

The general meeting of shareholders is presided over by the leader of the corporate assembly or, in his or her absence, by his or her deputy.

§ 11

The annual general meeting shall

a) approve the annual report and accounts, including the distribution of dividend,

b) elect the shareholders' members and deputy members to the corporate assembly,

c) deal with any other matters listed in the notice convening the meeting.

This is a translation of the original official Norwegian document.

ARTICLES OF ASSOCIATION FOR NORSK HYDRO ASA
Effective from the date of the implementation of the merger of Norsk Hydro ASA's petroleum activities with Statoil ASA

§ 1

The name of the company is Norsk Hydro ASA.

§ 2

The objectives of the company are to engage in industry, commerce and transport, to utilize energy and raw material resources, and to engage in other activities connected with these objectives. Activities may also proceed through participation in or in co-operation with other enterprises.

§ 3

The company's registered office is in Oslo.

§ 4

The share capital is NOK 1,370,256,730 divided into 1,247,956,949 shares, each with a nominal value of NOK 1.098. The shares shall be registered in the Norwegian Central Securities Registry. The board of directors may refuse the transfer of shares and may take such other steps as may be necessary to prevent shares being transferred in contravention of the restrictions laid down in Norwegian law.

§ 4 A

If the share capital is increased, and provided that the Norwegian law in force at the time so permits, preferential subscription rights shall be reserved in connection with each such capital increase, on the conditions stipulated by the board of directors, for up to

a. 0.83% of the increase for holders of the 83 unredeemed founder certificates and up to

b. 2.79% of the increase for holders of the 4,343 unredeemed subscription certificates.

These preferential rights shall not apply if the increase is made in order to allot shares to third parties as compensation for their transfer of assets to the company. The certificates may be negotiated independently of the shares.

§ 5

The company's board of directors shall be composed of nine members who are elected by the corporate assembly for periods of two years at a time. The corporate assembly elects the chair and the deputy chair of the board for the same period.

If the office of a board member comes to an end during the period for which he or she is elected, the corporate assembly may elect another board member to hold office for the remainder of the period in question.

§ 5 A

The nomination committee is made up of four members who shall be shareholders or representatives of shareholders. The members of the nomination committee, including its leader, are to be elected by the general meeting of shareholders. The leader of the nomination committee, and at least one member, shall be elected from among the shareholders representatives on the corporate assembly. The members of the nomination committee are elected for two years at a time.

The chair of the board and the chief executive officer shall be called in, without voting rights, to at least one meeting of the nomination committee before the committee submits its final recommendation.

The nomination committee submits its recommendation, regarding the shareholders' election of members and deputies to the corporate assembly and regarding the corporate assembly's members' fees, to the general meeting of shareholders.

The nomination committee submits its recommendation, regarding the election of shareholders' representatives to the board of directors and regarding the board members' fees, to the corporate assembly.

In accordance with the proposal from the shareholder-elected members of the board of directors, the shareholder-elected members of the corporate assembly adopt the procedural rules to apply for the nomination committee.

§ 6

The board of directors may authorize a board member, the chief executive officer or specifically designated employees to sign for the company, and also to designate procurators. The board of directors may decide that authorization to sign for the company may only be exercised by several persons jointly.

§ 7

The company's corporate assembly shall comprise 18 members, elected for a period of two years at a time. Twelve members and four deputies shall be elected by the general meeting of shareholders, while six members and their deputies shall be elected by and from among the company's employees. The corporate assembly elects its own leader and deputy for periods of two years at a time.

§ 8

The corporate assembly shall exercise supervision to ensure that the objects of the company are furthered in compliance with the law, the articles of association and the resolutions of the general meeting of shareholders and the corporate assembly itself. The corporate assembly may adopt recommendations on any matter whatsoever for submission to the board of directors. At the proposal of the board of directors, the corporate assembly shall adopt resolutions in matters concerning investments that are substantial compared with the company's resources, or concerning such rationalization of, or changes in, operations as will entail a major change in or redeployment of the labour force.

§ 9

Members of the board and the corporate assembly shall retire the year they reach the age of 70.

§ 10

The general meeting of shareholders shall be convened by the board of directors in accordance with the applicable legal requirements.

Shareholders or their representatives wishing to attend and vote at the general meeting of shareholders must inform the company of this five days prior to the general meeting.

The general meeting of shareholders is presided over by the leader of the corporate assembly or, in his or her absence, by his or her deputy.

§ 11

The annual general meeting shall:

a) approve the annual report and accounts, including the distribution of dividend,

b) elect the shareholders' members and deputy members to the corporate assembly,

c) deal with any other matters listed in the notice convening the meeting.

This is a translation of the original official Norwegian document.

ARTICLES OF ASSOCIATION

for

Statoil ASA

Effective from July 31st, 2006

Article 1

The name of the Company is Statoil ASA. The Company is a Public Limited Company and the Company's shares are recorded in the Norwegian Central Securities Depository (*Verdipapirsentralen*). The corporate object of Statoil ASA is, either by itself or through participation in or together with other companies, to carry out exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products, as well as other business.

Article 2

The Company shall be situated in Stavanger.

Article 3

The company's share capital is NOK 5,415,359,287.50 divided between 2,166,143,715 shares of NOK 2.50 each.

Article 4

The Board of Directors of the Company shall be composed of at least five and a maximum of 11 directors. The Board of Directors, including the chair and the deputy chair, shall be elected by the Corporate Assembly. Five deputy directors may be elected in respect of the directors elected by and among the employees, and these deputies shall be summoned in the order in which they are elected. Two deputy directors may be elected in respect of the other directors, one as first deputy and one as second deputy. The normal term of office for the directors is two years.

Article 5

Any two directors jointly may sign for the Company. The Board may grant power of procuration.

Article 6

The Board shall appoint the Company's chief executive officer and stipulate his/her salary.

Article 7

The Company shall have a Corporate Assembly consisting of 12 members. Members and deputies shall be elected for two years at a time. The Annual General Meeting shall elect eight members and three deputy members for these eight. Four members and deputies for these four shall be elected by and among the employees of the Company in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.

The Corporate Assembly shall elect a chair and deputy chair from and among its members.

The Corporate Assembly shall hold at least two meetings annually.

Article 8

The Annual General Meeting shall be held each year before the end of June. Annual General Meetings shall be held in Stavanger or in Oslo.

Article 9

The Annual General Meeting shall deal with and decide the following matters:

Adoption of the profit and loss account and the balance sheet.

Application of the annual profit or coverage of loss as shown in the adopted balance sheet, and the declaration of dividends.

Adoption of the consolidated profit and loss account and the consolidated balance sheet.

Any other matters which are referred to the Annual General Meeting by statute law or the Articles of Association.

Article 10

The company shall be responsible for the marketing and sale of the state's petroleum which is produced from the state's direct financial interest (SDFI) on the Norwegian continental shelf, as well as for the marketing and sale of petroleum paid as royalty in accordance with the Petroleum Act of 29 November 1996 No 72. The Annual General Meeting of the company may by simple majority decide on further instructions concerning the marketing and sale.

Article 11

The duties of the election committee are to submit a recommendation to the annual general meeting for the election and remuneration of shareholder-elected members and deputy members of the corporate assembly, and to submit a recommendation to the corporate assembly for the election and remuneration of shareholder-elected members and deputy members of the board of directors. The chair of the board and the president and CEO shall be invited, without voting rights, to attend at least one meeting of the election committee before it makes its final recommendation.

The election committee consists of four members who must be shareholders or representatives of shareholders and who shall be independent of the board of directors and the company's management. The members of the election committee, including the chair, shall be elected by the annual general meeting. The chair of the election committee and one other member shall be elected from among the shareholder-elected members of the corporate assembly. Members of the election committee are elected for two years at a time. The annual general meeting stipulates the remuneration to be paid to members of the election committee. The company will cover the costs of the election committee.

At the proposal of the board of directors' shareholder-elected members, the corporate assembly may adopt instructions for the election committee.

Article 12

The provisions of the Public Limited Companies Act shall be supplementary to these Articles of Association.

* * *

Adopted at the Annual General Meeting of 10 May 2006.

This is a translation of the original official Norwegian document.

Annex 6

ARTICLES OF ASSOCIATION

for

StatoilHydro ASA

Effective from the date of the implementation of the merger of Norsk Hydro ASA's petroleum activities with Statoil ASA

Article 1

The Company's name is StatoilHydro ASA. The Company is a Public Limited Company.

The object of StatoilHydro ASA is to engage in exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products, as well as other business. The activities may also be carried out through participation in or cooperation with other companies.

Article 2

The Company's registered office is located in the municipality of Stavanger.

Article 3

The share capital of the Company is NOK 7,971,617,757.50 divided into 3,188,647,103 shares of NOK 2.50 each.

Article 4

The Board of Directors of the Company shall consist of 10 members. The Board of Directors, including the chair and the deputy chair, shall be elected by the Corporate Assembly. Deputy Directors may be elected in respect of the directors elected by and among the employees in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.

Article 5

Any two directors jointly may sign for the Company. The Board may grant powers of procuration.

Article 6

The Board shall appoint the Company's Chief Executive Officer and stipulate his/her salary.

Article 7

The Company shall have a Corporate Assembly consisting of 18 members and deputy members. The Annual General Meeting shall elect 12 members and 4 deputy members for these 12 members. 6 members and deputies for these 6 members shall be elected by and among the employees of the Company in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.

The Corporate Assembly shall elect a chair and deputy chair from and among its members.

The Corporate Assembly shall hold at least 2 meetings annually.

Article 8

The Annual General Meeting shall be held each year by the end of June. Annual General Meetings shall be held in the municipality of Stavanger or Oslo.

Article 9

The Annual General Meeting shall address and decide the following matters:

Adoption of the annual report and accounts, including the declaration of dividends.

Any other matters which are referred to the Annual General Meeting by statute law or the articles of association.

Article 10

The Company shall be responsible for the marketing and sale of the state's petroleum which is produced from the state's direct financial interest (SDFI) on the Norwegian continental shelf, as well as for the marketing and sale of petroleum paid as royalty in accordance with the Petroleum Act of 29 November 1996 No 72. The Annual General Meeting of the Company may by simple majority decide on further instructions concerning the marketing and sale.

Article 11

The duties of the Election Committee are to submit a recommendation to the Annual General Meeting for the election and remuneration of shareholder-elected members and deputy members of the Corporate Assembly, and to submit a recommendation to the Corporate Assembly for the election and remuneration of shareholder-elected members of the Board of Directors. The chair of the Board of Directors and the President and Chief Executive Officer shall be invited, without having the right to vote, to attend at least one meeting of the Election Committee before it makes its final recommendation.

The Election Committee consists of four members who must be shareholders or representatives of shareholders and who shall be independent of the Board of Directors and the Company's management. The members of the Election Committee, including the chair, shall be elected by the Annual General Meeting. The chair of the Election Committee and one other member shall be elected from among the shareholder-elected members of the Corporate Assembly. The members of the Election Committee are elected for a term of 2 years.

The Annual General Meeting stipulates the remuneration to be paid to members of the Election Committee. The Company will cover the costs of the Election Committee.

At the proposal of the Board of Directors' shareholder-elected members, the Corporate Assembly may adopt instructions for the Election Committee.

Adopted at the Extraordinary General Meeting of [ ] 2007.

This is a translation of the original official Norwegian document.

Annex 7

ARTICLES OF ASSOCIATION

for

StatoilHydro ASA

Effective from the date of implementation of the merger of Norsk Hydro ASA's petroleum activities with Statoil ASA~~pr. July 31st, 2006~~

Article 1

The ~~name of the~~Company's name is StatoilHydro ASA. The Company is a Public Limited Company. ~~and the Company's shares are recorded in the Norwegian Central Securities Depository (*Verdipapirsentralen*).~~ The ~~corporate~~object of StatoilHydro ASA is to engage in~~, either by itself or through participation in or together with other companies, to carry out~~ exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products, as well as other business. The activities may also be carried out through participation in or cooperation with other companies.

Article 2

The Company's registered office is located~~shall be situated~~ in the municipality of Stavanger.

Article 3

The company's share capital is NOK 7,971,617,757.50~~5,415,359,287.50~~ divided into~~between~~ 3,188,647,103~~2,166,143,715~~ shares of NOK 2.50 each.

Article 4

The Board of Directors of the Company shall consist~~be composed of at least five and a maximum~~ of 10~~1~~ members~~directors~~. The Board of Directors, including the chair and the deputy chair, shall be elected by the Corporate Assembly. Deputy~~Five deputy~~ D~~d~~irectors may be elected in respect of the directors elected by and among the employees in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.~~, and these deputies shall be summoned in the order in which they are elected. Two deputy directors may be elected in respect of the other directors, one as first deputy and one as second deputy. The normal term of office for the directors is two years.~~

Article 5

Any two directors jointly may sign for the Company. The Board may grant power of procuration.

Article 6

The Board shall appoint the Company's C~~c~~hief E~~e~~xecutive O~~o~~fficer and stipulate his/her salary.

Article 7

The Company shall have a Corporate Assembly consisting of 18~~2~~ members and deputy members.~~Members and deputies shall be elected for two years at a time.~~ The Annual General Meeting shall elect 12~~eight~~ members and 4~~three~~ deputy members for these 12~~eight~~. 6~~Four~~ members and deputies for these 6~~four~~ members shall be elected by and among the employees of the Company in accordance with regulations pursuant to the Public Limited Companies Act concerning the rights of employees to be represented on the Board of Directors and in the Corporate Assembly of limited companies.

The Corporate Assembly shall elect a chair and deputy chair from and among its members.

The Corporate Assembly shall hold at least 2~~two~~ meetings annually.

Article 8

The Annual General Meeting shall be held each year before the end of June. Annual General Meetings shall be held in the municipality of Stavanger or~~in~~ Oslo.

Article 9

The Annual General Meeting shall address~~deal with~~ and decide the following matters:

Adoption of the annual report and accounts, including the declaration of dividends.~~profit and loss account and the balance sheet. Application of the annual profit or coverage of loss as shown in the adopted balance sheet, and the declaration of dividends. Adoption of the consolidated profit and loss account and the consolidated balance sheet.~~

Any other matters which are referred to the Annual General Meeting by statute law or the a~~A~~rticles of a~~A~~ssociation.

Article 10

The company shall be responsible for the marketing and sale of the state's petroleum which is produced from the state's direct financial interest (SDFI) on the Norwegian continental shelf, as well as for the marketing and sale of petroleum paid as royalty in accordance with the Petroleum Act of 29 November 1996 No 72. The Annual General Meeting of the C~~c~~ompany may by simple majority decide on further instructions concerning the marketing and sale.

Article 11

The duties of the E~~e~~lection C~~c~~ommittee are to submit a recommendation to the A~~a~~nnual G~~g~~eneral M~~m~~eeting for the election and remuneration of shareholder-elected members and deputy members of the C~~c~~orporate A~~a~~ssembly, and to submit a recommendation to the C~~c~~orporate A~~a~~ssembly for the election and remuneration of shareholder-elected members~~and deputy members~~ of the B~~b~~oard of D~~d~~irectors. The chair of the B~~b~~oard of Directors and the P~~p~~resident and Chief Executive Officer shall be invited, without having the right to vote~~voting rights~~, to attend at least one meeting of the E~~e~~lection C~~c~~ommittee before it makes its final recommendation.

The E~~e~~lection C~~c~~ommittee consists of four members who must be shareholders or representatives of shareholders and who shall be independent of the B~~b~~oard of D~~d~~irectors and the C~~c~~ompany's management. The members of the E~~e~~lection C~~c~~ommittee, including the chair, shall be elected by the A~~a~~nnual G~~g~~eneral M~~m~~eeting. The chair of the E~~e~~lection C~~c~~ommittee and one other member shall be elected from among the shareholder-elected members of the C~~c~~orporate A~~a~~ssembly. The m~~M~~embers of the E~~e~~lection C~~c~~ommittee are elected for a term of 2~~two~~ years.~~at a time.~~

The A~~a~~nnual G~~g~~eneral M~~m~~eeting stipulates the remuneration to be paid to members of the E~~e~~lection C~~c~~ommittee. The C~~c~~ompany will cover the costs of the E~~e~~lection C~~c~~ommittee.

At the proposal of the B~~b~~oard of D~~d~~irectors' shareholder-elected members, the C~~c~~orporate A~~a~~ssembly may adopt instructions for the E~~e~~lection C~~c~~ommittee.

~~Article 12~~

~~The provisions of the Public Limited Companies Act shall be supplementary to these Articles of Association.~~

* * *

Adopted at the Extraordinary~~Annual~~ General Meeting of [~~10~~] ~~May~~ 2007~~6~~.

This is a translation of the original official Norwegian document.

To the general meeting of Norsk Hydro ASA

REPORT

FROM

THE BOARD OF DIRECTORS OF NORSK HYDRO ASA

REGARDING THE MERGER OF

NORSK HYDRO ASA's PETROLEUM ACTIVITIES WITH STATOIL ASA

1. INTRODUCTION AND CONCLUSION

Norsk Hydro ASA ("*Hydro*") and Statoil ASA ("*Statoil*") have developed a plan (the "*Merger Plan*") for the merger of Hydro's Petroleum Activities with Statoil into one group (the "*Merged Company*") pursuant to the rules set out in chapter 14 of the Public Limited Companies Act (the "*Merger*"). The Merger Plan is based on the Integration Agreement which Hydro and Statoil entered into on 18 December 2006.

The board of directors hereby submits its report on the Merger, cf. the Public Limited Companies Act section 14-4 (3), cf. section 13-9. In this report, the board of directors of Hydro recommends that the shareholders of Hydro adopt the Merger Plan dated 12 and 13 March 2007.

2. THE ESSENCE OF AND REASON FOR THE SUGGESTED MERGER

The activities in Hydro and its subsidiaries (the "*Hydro Group*") currently include the two core business areas Aluminium and Oil & Energy, together with certain other activities. The core business area Oil & Energy includes both petroleum activities and other energy-related activities.

Through the Merger, Hydro's Petroleum Activities shall be separated from the Hydro Group and merged with Statoil. Hydro's Petroleum Activities ("*Hydro's Petroleum Activities*" or the "*Petroleum Activities*") mainly comprise all activities which completely or primarily relate to the Hydro Group's activities in the areas of exploration, production, transport, processing, marketing and sale of, together with research and development related to, oil and gas, including all shares and assets which Hydro owns in companies with such activities. Further, the Merger includes the Hydro Group's activities within wind power and Hydro's interests in Naturkraft AS and Hydro IS Partner together with Hydro's ownership interests in Norsk Hydro Canada Inc. On the other hand, the Merger does not include the Hydro Group's activities within hydroelectric power and associated trading activities, solar energy or CO2 quotas.

The remaining part of Hydro will be part of the Hydro Group's remaining operations ("*Hydro's Remaining Activities*").

The financial effective date of the Merger shall be 1 January 2007 (the "*Effective Date*"). This principle implies that all assets, rights and obligations related to Hydro's Petroleum Activities which existed at the Effective Date, or which materialise later and have not ceased to exist at the Implementation, shall be allocated to the Petroleum Activities with effect for the Merger.

The Merger is the result of a strategic review in Hydro's corporate bodies of the prospects of Hydro's two core business areas, including prospects for growth and international competitive position, as well as an evaluation of the advantages and disadvantages of keeping the two core business areas together in the Hydro Group.

In the board of directors' opinion, the Merger will, as a whole, be beneficial for the company and its shareholders. The board of directors' conclusions are particularly based on the following:

- The Merged Company will have greater ability than Statoil and Hydro individually to secure further growth in an environment with increasing competition for new resources internationally and increasing technical complexity in available projects. In Norway, the Merged Company will have a stronger position in solving challenges related to an increasingly mature Norwegian continental shelf, including achieving more efficient operations extending the economic viable production period of several of the oil fields while at the same time increase the ability to develop the continental shelf towards increasing water depths and more northern areas.

- The international competitiveness of the Merged Company will be strengthened by the Merged Company having greater financial strength than Statoil or Hydro individually with the ability to participate in even more and larger projects and thus be able to achieve greater geographical diversification in its production base and reduce the risk of exhausting its resource base.
- The Merged Company will better be able to utilise its human resources in an industry which is currently suffering from a shortage of skilled labour.
- The exploration and production licenses of Statoil and Hydro are largely complementary. In the Gulf of Mexico and Angola, the companies' joint portfolios will enable stronger growth than what the companies could have achieved individually.
- Both Statoil and Hydro have been pioneers in the development of offshore oil and gas technology, including in relation to pipeline transportation and advanced drilling. The combination of Statoil and Hydro's competence will confirm the Merged Company's technological position and result in a competitive advantage when the access to new resources shall be negotiated internationally.
- Furthermore, the Merged Company will be better equipped to contribute to a future-oriented development within both Co2 management and renewable energy sources.
- The board of directors has noted the positive response to the suggested transaction in the capital market.

3. LEGAL CONSEQUENCES OF THE MERGER

The Merger will be completed by a demerger of Hydro's Petroleum Activities with Statoil as the assignee company pursuant to the Public Limited Companies Act chapter 14. Upon the demerger, assets, rights and obligations of the Hydro Group will be divided resulting in the Petroleum Activities being continued as part of the Merged Company.

The Merger shall be completed by reducing the share capital of Hydro by NOK 3,197,265,703.30 from NOK 4,567,522,433.30 to NOK 1,370,256,730 in connection with all assets, rights and obligations related to Hydro's Petroleum Activities being transferred to the Merged Company. The reduction takes place by reducing the par value of each share from NOK 3.66 to NOK 1.098 and simultaneously increasing the share capital of Statoil by NOK 2,606,655,590 to NOK 7,971,617,757.50 by issuing 1,042,662,236 new shares, each with a par value of NOK 2.50, as consideration to Hydro's shareholders, resulting in the shareholders receiving 0.8622 shares in the Merged Company for each share owned in Hydro. Consideration in the form of shares shall not be issued for Hydro's treasury shares.

The new shares are eligible for distributions from the time they are issued, and the shareholders of Hydro receive full shareholders rights in the Merged Company as soon as the new shares are issued.

The Merger will be completed pertaining to company law by registration in the Norwegian Register of Business Enterprises (the "*Implementation*"). Such registration shall take place on the first business day of the subsequent month after the conditions stated in the Merger Plan have been fulfilled, including the time-limit for objections from creditors pursuant to the Public Limited Companies Act section 14-7, cf. section 13-15, having expired, and the position regarding any creditors who have raised objections having been settled, or the District Court having decided that the Merger may nevertheless be completed and registered with the Register of Business Enterprises. It is expected that the Merger will be completed in September/October 2007. In the board of directors' opinion, it is assumed that there are no legal issues which will prevent the completion of the Merger.

The corporate functions shall be divided between Oslo and Stavanger, and the CEO shall have offices in both locations. The most important business areas will be operated from Stavanger, Bergen, Oslo and Trondheim.

The Merger shall be carried out with continuity for accounting purposes with effect from 1 January 2007.

The Merger shall be carried out with continuity for taxation purposes in Norway with effect from 1 January 2007.

Continuity for taxation purposes implies, inter alia, that taxation positions related to assets, rights and obligations which are transferred from Hydro to the Merged Company upon the Merger will be transferred unaltered to the Merged Company.

The Merger is not expected to have any immediate fiscal consequences for Hydro's shareholders in Norway, and, at the same time, the cost price for tax purposes for Hydro shares will remain unaltered being distributed to shares in Hydro and shares in the Merged Company in the same ratio as the par value of the shares is distributed in connection with the Merger, cf. section 11-7 (2) of the Taxation Act.

The decision to complete the Merger is made by the Merger Plan being approved by the general meetings of Hydro and Statoil, respectively, by at least two thirds of the votes cast as well as the share capital represented at each of the general meetings.

4. DETERMINATION OF EXCHANGE RATIO AND DEMERGER CONSIDERATION

As described in item 3 above, the shareholders of Hydro will receive 0.8622 shares in the Merged Company, each with a par value of NOK 2.50, for each share owned in Hydro. Consideration in the form of shares shall not be issued for Hydro's treasury shares. Hydro's shareholders will receive a consideration which in total constitutes 32.7% of the Merged Company. The determination of the consideration is a result of negotiations between the parties, supported by value estimations made by Hydro's financial advisor in this transaction, Goldman Sachs.

Based on Statoil's stock value, the exchange ratio provides a value of Hydro's Petroleum Activities corresponding to approximately 70% of Hydro's total stock value. The valuation is congruent with estimations of value carried out by the board of directors of Hydro, in which the value of the Petroleum Activities appears as the relation between the cash flows from the Petroleum Activities, which constitute approximately 70%, and the cash flows from Hydro's Remaining Activities, which constitute approximately 30%, of the total cash flow of the Hydro Group. The cash flows are mainly estimated based on publicly available information from Hydro's annual report. The valuation is congruent with assessments made by independent analysts in the Norwegian market. Thus, it is the board of directors' opinion that Hydro's Petroleum Activities have a value corresponding to approximately 70% of Hydro's total worth upon the demerger of the company.

Thus, the board of directors has reached the conclusion that the consideration which the shareholders of Hydro will receive in exchange for their shares in Hydro is reasonable and thus satisfactory for the company's shareholders.

Determining the consideration has not been subject to any particular difficulties.

5. THE MERGER'S IMPACT ON THE EMPLOYEES

The majority of the employees in the Norwegian part of Hydro's Petroleum Activities are employed by Hydro, the parent company. All employees in Hydro who on the Effective Date have their primary relationship to the Petroleum Activities have, as a part of the Merger, the right to transfer their employment to the Merged Company. The employees who are transferred to the Merged Company will keep the rights and obligations related to their employment in accordance with the rules of the Working Environment Act chapter 16. In this respect, the Merger is regarded as a transfer of ownership of undertakings. The principle of merger of equals shall be reflected in connection with the assignments of positions and duties in the Merged Company. To the extent seniority is emphasised in relation to such assignments or any other situation, seniority in the Hydro Group and the Statoil group respectively shall count equally in the Merged Company.

The employment of most employees in subsidiaries will not be affected by the Merger. However, for some employees in subsidiaries, there is no concurrence between their duties and the subsidiary's relationship to Hydro's Petroleum Activities and Hydro's Remaining Activities, respectively, after the Merger. In such cases, the employments will, if possible, be transferred to other companies in order to have the employees after the Merger employed, to the extent possible, in a company in the group continuing the activities to which they had their primary relationship before the Merger.

With regard to the employees, the Merger will be carried out pursuant to the rules of the Working Environment Act and other relevant labour legislation and in accordance with applicable tariff agreements. The board of directors will ensure that the employees and their representatives are informed in accordance with the provisions of the relevant tariff agreements and the Working Environment Act sections 16-5 and 16-6. A statement from the corporate assembly will be included in the case documents in the further processing of the Merger Plan pursuant to the Public Limited Companies Act section 14-4, cf. section 13-11.

The Merged Company assumes responsibility for all pension issues, including both the company pension scheme of Norsk Hydro's Pension Fund and Hydro's various unfunded pensions schemes, related to the active employees to be transferred to the Merged Company and related to all pensioners and previous employees who at the time when they ceased to be active employees in the Hydro Group had their primary relationship to the Petroleum Activities. Further, the Merged Company assumes responsibility for 36% of Hydro's unfunded pension liabilities towards pensioners and former employees who at the time when they ceased to be active employees in the Hydro Group performed work related to both the Petroleum Activities and Hydro's Remaining Activities.

* * *

Oslo, 12 March 2007

The board of directors of Norsk Hydro ASA:

Jan Audun Reinås

Elisabeth Grieg	Terje Friestad
Sten Roar Martinsen	Håkan Mogren
Kurt Anker Nielsen	Geir Nilsen
Grete Faremo	Lena Marie Olving Öhberg

This is a translation of the original official Norwegian document.

STATOIL ASA

REPORT FROM THE BOARD OF DIRECTORS ON THE MERGER BETWEEN STATOIL ASA AND NORSK HYDRO ASA's PETROLEUM ACTIVITIES

1 REASONS FOR THE MERGER

The board of directors of Statoil ASA ("**Statoil**") recommends that the company's general meeting approves the demerger plan ("the Merger Plan") dated 12/13 March 2007 for the demerger of Norsk Hydro ASA ("**Hydro**"), whereby Hydro's petroleum activities are merged with Statoil ASA ("**the Merger**"). The plan is developed together by the Statoil and Hydro boards of directors and is based on the principle of merger between equals.

The Merger is reasoned by a common desire to create a competitive global participant in the petroleum industry and to become the worlds leading offshore operator. The merged company will have a better ability than the parties individually to achieve further growth in a situation of gradually increasing competition for new resources and growing technical complexity in available projects.

The Merger is a growth-oriented response to the challenges facing the oil and gas industry. Ensuring increased competitiveness internationally and long-term growth on the Norwegian Continental Shelf have been regarded as an important reason for the Merger by the board. The merged company will be in a better position in Norway to solve the challenges associated with an increasingly mature Norwegian Continental Shelf, including achieving more effective operations, thus increasing the economic lifetime of several oil fields. The Merger will also be the best guarantee for the ability to further develop the Norwegian Continental Shelf towards deeper waters and more northern areas in the years to come. Furthermore, the Merger will help consolidate Norwegian interests in the international competition for resources and increase the opportunities to use Norwegian experience and skills as an entry ticket through collaboration with national oil companies in resource-rich countries.

The merged company will be the world's largest operator for offshore projects in water depths of more than 100 meters. Furthermore, the company will have a combined technological competence and experience related to the implementation of large and complicated projects which in many areas are unique. The ability to manage risks and large projects in Norway and internationally will be increased. The company will have operations in almost 40 countries and have extensive exploration programmes and acreage. The company's effectiveness within the sale of oil, gas and products will be significantly increased. The Merger also means that the companies will be in a better position to deliver renewable energy and establish value chains for CO_2, than they would separately.

The board has also emphasized that there is reason to expect that the Merger will generate values through increased capacity and better utilization of resources, as the production and development portfolio both in Norway and internationally will be strengthened.

2 THE LEGAL CONSEQUENCES OF THE MERGER

2.1 Legal procedure and other aspects pertaining to company law

The Merger is implemented according to the rules of chapter 14 of the Public Limited Companies Act, as all assets, liabilities and obligations belonging to Hydro's petroleum activities ("**Hydro's Petroleum Activities**") are transferred to Statoil. The transfer will also include Hydro's activities within wind energy, Hydro's interest in Naturkraft AS and the company Hydro IS Partner AS (supplier of IS services), as well as Hydro's ownership interests in Norsk Hydro Canada Inc. All other assets and liabilities will be retained in Hydro. As a result of the transfer, Hydro's share capital will be reduced, at the same time as the share capital in Statoil will be increased by NOK 2 606 655 590 through the issuance of 1 042 662 236 shares at a par value of NOK 2.50 each, cf. below under item 3.1.

The Merger has to be approved by the general meetings in Hydro and Statoil by minimum two-third majority of both the number of votes cast and the share capital represented at the general meeting. Statements from the corporate assembly in Statoil will be obtained and enclosed with the Merger Plan in connection with the notice for the general meeting at which the Merger Plan is to be handled.

The Merger shall take effect, for accounting purposes, from 1 January 2007. In respect of company law the Merger will take effect by the elapse of the period for creditor's objections at the earliest, by the notice of the entry into force of the Merger being registered in the Register of Business Enterprises. A number of conditions must be met before the Merger can take effect, cf. item 11 of the Merger Plan, including obtaining the necessary consents from public authorities. According to the Merger Plan the Merger shall take effect from the first business day of the month after the relevant conditions have been met. The entry into force can therefore at the earliest take place on 1 September 2007, but may occur later. In the board's opinion, no legal aspects that may prevent the completion of the Merger are expected to exist.

The shares issued to Hydro shareholders as consideration in connection with the Merger will have the same rights as the other shares in Statoil from the demerger is registered as completed in the Register of Business Enterprises and will from such time carry equal rights with regard to dividend etc.

The merged company shall have a new name that will be decided at the general meeting in Statoil approving the Merger. The name of the merged company shall from the completion be StatoilHydro ASA. The board of directors of the merged company will develop a new name and a new logo which shall symbolise the company's business strategy, values and vision and which shall be different from the present companies' names. A proposal for a new name shall be presented at the first annual general meeting after the completion. The registered office of the merged company shall be in Stavanger. Corporate functions shall be located both in Oslo and Stavanger and the chief executive officer shall have offices in both locations. The most important business and activity areas will be run from Bergen, Oslo, Stavanger and Trondheim.

2.2 Tax and accounting law aspects

The financial effective date of the merger, for accounting purposes, shall be 1 January 2007, i.e. transactions in Hydro's Petroleum Activities will from the said date, for accounting purposes, be regarded as having been conducted on the account of the merged company.

The merger is expected to be carried out with continuity for accounting purposes.

The merger shall be carried out with continuity for taxation purposes for Hydro and Statoil in Norway, as well as for shareholders that are residents of Norway for tax purposes.

3 FIXING OF THE CONSIDERATION AND JUSTIFICATION OF THE EXCHANGE RATIO

3.1 Fixing of the consideration

The consideration is fixed in accordance with the rules of chapter 14 of the Public Limited Companies Act. The consideration for shares in Hydro is paid in the form of shares in Statoil.

As a result of the Merger the Hydro share capital will be reduced by NOK 3 197 265 703.30 from NOK 4 567 522 533.30 to 1 370 256 730, by reduction of the par value of each share from NOK 3.66 to NOK 1.098. At the same time the share capital in Statoil will be increased by NOK 2 606 655 590 by issuing 1 042 662 236 new shares at a par value of NOK 2.50 each as compensation to Hydro's shareholders, i.e. that for each share they own in Hydro they will receive 0.8622 shares in Statoil. Consideration shares will not be issued for treasury shares owned by Hydro. Reference is made to items 1.3 and 6 of the Merger Plan.

3.2 Justification of the exchange ratio

The exchange ratio is a result of negotiations between Statoil and Hydro.

Based on a number of operational and financial key figures for Statoil and Hydro's Petroleum Activities each party's relative contribution to the merged company was analysed. This analysis formed the basis for the determination of the exchange ratio. The exchange ratio is also based on certain financial assumptions, including assumptions about dividends in Statoil and Hydro, and the size of the net interest-bearing debt to be allocated to Hydro's Petroleum Activities, cf. item 4 of the Merger Plan. The determination of the consideration did not involve any particular problems.

Morgan Stanley has, as financial advisor to Statoil, presented a statement which concludes that the exchange ratio appears reasonable for Statoil's shareholders from a financial perspective.

Statoil's board of directors finds the exchange ratio reasonable and satisfactory for Statoil and the company's shareholders.

4 THE EFFECTS OF THE MERGER FOR THE EMPLOYEES

After the completion of the Merger the new company will consist of about 31,000 employees, of which about 5,000 will come from Hydro's Petroleum Activities (including personnel in different support functions). All Hydro employees who as of 1 January 2007 have their primary relationship to Hydro's Petroleum Activities will be transferred to Statoil, maintaining their salary conditions and rights.

The rights and obligations of the employees in Statoil and Hydro will be maintained after the merger. Reference in also made to item 2.3 of the Merger Plan. The board of directors sets forth that employees from both companies shall be secured representation in governing and controlling bodies in accordance with applicable practice and regulatory requirements. In order to ensure broad representation it is also proposed that the corporate assembly is extended from 12 to 18 members, which will allow the employees to elect two additional members for the corporate assembly in Statoil compared with the current corporate assembly.

In other respects, the growth ambitions, both in Norway and internationally, will create new possibilities for highly qualified employees in a tight labour market. Staff reductions in overlapping functions are therefore expected to be limited. Such problems will largely be solved through internal personal adjustments and natural attrition.

Stavanger, 13 March 2007

The board of directors of Statoil ASA

Jannik Lindbæk

Karin Cecilie Kullmann Five

Finn Arild Hvistendahl

Knut Åm

Grace Montgomery Reksten Skaugen

Ingrid Beichmann Wiik

Marit Arnstad

Lill Heidi Bakkerud

Morten Svaan

Claus Clausen

This is a translation of the original official Norwegian document.

[THIS PAGE INTENTIONALLY LEFT BLANK]

To the general meeting of Norsk Hydro ASA

Statement on the demerger of Norsk Hydro ASA to Statoil ASA

As commissioned by the board of directors of Norsk Hydro ASA, we hereby present, as independent expert, a statement on the demerger plan for Norsk Hydro ASA and Statoil ASA pursuant to the Public Limited Companies Act section 14-4, subsection 3, cf. section 13-10. The board of directors of each company is responsible for the information on which the opinions are based and the valuations made. Our responsibility is to prepare a statement on the demerger plan and to express our views on the consideration.

About the transaction

The board of directors in Norsk Hydro ASA and Statoil ASA have on 12 and 13 March 2007, respectively, signed a demerger plan in which the assets and obligations which appear from the merger plan are transferred to Statoil ASA. At the demerger, the share capital of Norsk Hydro ASA is reduced by NOK 3,197,265,703.30, and the shareholders shall receive 0.8622 shares in Statoil ASA for each share in Norsk Hydro ASA. Consideration in the form of shares shall not be issued for Hydro's treasury shares.

In the integration agreement dated 18 December 2006 signed by Helge Lund on behalf of Statoil ASA and Eivind Reiten on behalf of Norsk Hydro ASA, the parties agree to develop a merger plan in order to merge Hydro's petroleum activities with Statoil ASA. In practice, this takes place by way of a demerger of parts of Norsk Hydro Produksjon AS to a newly established company, Norsk Hydro Petroleum AS, owned by Norsk Hydro ASA. Subsequently, Norsk Hydro ASA's shares in Norsk Hydro Petroleum AS are demerged to Statoil ASA with consideration in Statoil shares. The assets which according to the suggestion shall be demerged to Statoil ASA comprise all assets, rights and obligations included in Hydro's Petroleum Activities in the areas of exploration, production, processing, marketing and sale of, as well as related research and development.

Description of assets, rights and obligations which shall be transferred to the merged company

Hydro's petroleum activities includes all assets, rights and obligations related to the Hydro Group's activities in the areas of exploration, production, processing, marketing and sale of, as well as research and development, related to, oil and gas, including all shares and interests owned by Hydro in companies with such activities. Further, the Hydro group's activities within wind power and Hydro's interests in Naturkraft AS and Hydro IS Partner shall be included. However, the Hydro Group's activities within hydroelectric power and associated trading activities, solar energy and CO_2 quotas are not included.

Further specification of the assets, rights and obligations to be transferred

In principle, the Merger implies a transfer of all assets, rights and obligations included in the Petroleum Activities regardless of their nature, including assets, rights and obligations related to licenses, approvals, employment, claims, operating related debt, bond loans, intellectual property rights, disputes, sureties, guarantees, taxation, environmental matters, derivative contracts and other agreements, regardless of whether they are known or unknown, conditional or unconditional.

All cash and bank deposits, as well as syndicated credit facilities, which are not part of the Petroleum Companies, shall be allocated to Hydro's remaining activities. All bond loans shall be allocated to the Petroleum Activities.

Hydro's petroleum activities include a significant number of assets, rights and obligations. In chapter 2 of the demerger plan, there is a further specification of the most important assets, rights and obligations which in connection with the merger will be transferred from Hydro to the merged company.

Principles and procedures adopted upon the determination of the consideration

The shareholders of Norsk Hydro ASA receive 0.8622 shares in Statoil ASA, each with a par value of NOK 2.50, for each share owned in Norsk Hydro ASA. Consideration in the form of shares shall not be issued for Hydro's treasury shares. Hydro's shareholders will receive a consideration which in total constitutes 32.7% of StatoilHydro ASA. The determination of the consideration is a result of negotiations between the parties, supported by value estimations made by Hydro's financial advisor in this transaction, Goldman Sachs.

Based on Statoil's stock value, the exchange ratio provides a value of Hydro's petroleum activities corresponding to approximately 70% of Hydro's total stock value. The valuation is congruent with estimations of value carried out by the board of directors of Hydro, in which the value of the petroleum activities appears as the relation between the cash flows from the petroleum activities, which constitute approximately 70%, and the cash flows from the remaining activities, which constitute approximately 30%, of the total cash flow of the Hydro Group. The cash flows are mainly estimated based on publicly available information from Hydro's annual report. The valuation is congruent with assessments made by independent analysts in the Norwegian market. Thus, it is the board of directors' opinion that Hydro's Petroleum Activities have a value corresponding to approximately 70% of Hydro's total worth upon the division of the company.

Determining the consideration has not been subject to any particular difficulties.

In our opinion, the consideration to the shareholders of Norsk Hydro ASA is reasonable and based on objective grounds.

Oslo, 14 May 2007
Kjelstrup & Wiggen AS

Paul Thomassen
State Authorized Public Accountant

This translation from Norwegian has been prepared for information purposes only.

To the General Meeting of
STATOIL ASA

STATEMENT ON THE MERGER PLAN BETWEEN STATOIL ASA AND NORSK HYDRO ASA's PETROLEUM ACTIVITIES

At the request of the Board of Directors of "Statoil ASA" we hereby submit, as independent experts in accordance with the provisions of §13-10 of the Public Limited Company's Act (Norway), the following statement on the Merger Plan between "Norsk Hydro ASA" and "Statoil ASA".

On 18 December 2006 the board of "Statoil ASA" and "Norsk Hydro ASA" agreed to propose a common Merger Plan for the companies with Statoil ASA as the transferee company. The Merger will be implemented by a demerger of Hydro's Petroleum Activities with Statoil as the assignee company, whereupon Hydro's shareholders will receive consideration in the form of shares in the Merged Company. In this respect, the Merger Plan is a Demerger Plan pursuant to the Public Limited Companies Act section 14-4.

Hydro's Petroleum Activities are mainly operated through subsidiaries. The most important of these subsidiaries, Norsk Hydro Produksjon AS, also conducts other activities of importance, while the rest of the subsidiaries included in Hydro's Petroleum Activities do not have other activities of importance.

As a part of the Merger, the following Related Transactions shall be carried out prior to the time when the Merger is implemented by registration in the Register of Business Enterprises:

(i) A demerger of Norsk Hydro Produksjon AS resulting in a transfer of all of this Company's assets, rights and obligations related to the Petroleum Activities to a newly established limited company wholly owned by Hydro (Norsk Hydro Petroleum AS).

(ii) Intra-group transfers of assets (including shares), rights and obligations to the extent necessary in order for Hydro's Petroleum Activities and Hydro's Other Activities, as defined in the Merger Plan, section 1.2, to respectively be organised in companies which

   (a) only have assets, rights and obligations belonging either to the Petroleum Activities or Hydro's Other Activities, and which

   (b) are included in uninterrupted chains of ownership consisting solely of companies included either in Hydro's Petroleum Activities or Hydro's Other Activities.

As compensation for the transfer of Hydro's Petroleum Activities, the shareholders of Hydro shall receive 0.8622 shares in the Merged Company for each share owned in Hydro. Shares as consideration will not be issued for shares owned by Hydro.

We have duly examined the Merger Plan and the Board of Directors report to the General Meeting in Statoil ASA to make a statement on the proposed consideration to the shareholders of Norsk Hydro ASA. The merger consideration is a result of negotiations between Statoil and Hydro. With basis in a number of operational and financial metrics for Statoil and Hydros Petroleum Activities, each company's contribution to the Merged Company was analysed. This analysis was the foundation for the conversion ratio. The conversion ratio is based on certain financial assumptions, including proposed dividends in Statoil and Hydro, and net interest bearing debt allocated to Hydros Petroleum Activities, according to the Demerger Plan, section 4. In our opinion the procedure for stipulating the consideration is appropriate.

No particular difficulties have been encountered in connection with stipulation of the consideration.

In our opinion the consideration for the shareholders of Norsk Hydro ASA is reasonable and objective.

For accounting purposes, the merger will be implemented according to the Pooling method. We confirm that the assets, rights and obligations to be transferred to Statoil ASA, may be recorded at a total net value that is at least equivalent to value of the consideration, including the face value of the shares issued in the amount of NOK 2 606 655 590 with addition of a premium of NOK 7 318 030 113 and other equity NOK 31 851 314 297.

Oslo, 15 May 2007
BDO Noraudit Oslo DA

Kjetil Rivelsrud	Trond-Morten Lindberg
State Authorized Public Accountant	State Authorized Public Accountant

This is a translation of the original official Norwegian document.

Board of Directors' Report 2006[1]

Record year with important news

Hydro achieved record-high results in 2006. A good operating performance and continued high oil and gas prices together with a significant increase in aluminium prices, contributed to Hydro's best financial result ever. And our strategic decision to merge Hydro's oil and gas activities with Statoil sent our share price to an all time high. The listing of our fertilizer activities in 2004 and the oil and gas merger plans, have in combination with record high financial results increased our shareholders' values by about NOK 160 billion or 150 percent since the beginning of 2004.

Our exploration performance was strong in 2006, achieving a success rate of 50 percent. But production interruptions and shortfalls meant that our average production for the year was below target. We celebrated a major milestone for the Ormen Lange project with the opening of the southern leg of the Langeled pipeline. We made good headway developing our aluminium businesses during the year. The restructuring of our aluminium products operations progressed well during the year and our efforts to significantly improve our smelter cost position are on track. 2006 brought encouraging results in important areas related to viability, including safety and environmental impact. The year also reflected that the restructuring processes continue to require significant attention.

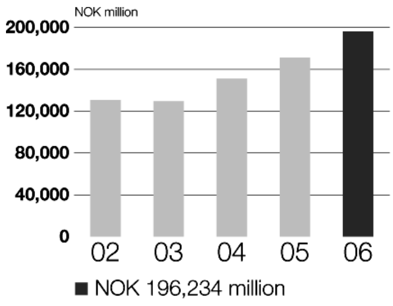
Hydro ended a successful year with an important decision. During 2006, Hydro's Board of Directors concluded a lengthy and thorough strategic review with the aim of securing strong platforms for growth for both of our main business areas: Oil & Energy and Aluminium. In December, the Board decided to prepare for approval by our shareholders a merger of Hydro's oil and gas activities with Statoil, the Norwegian-based oil and gas company. The merger has the potential of creating a leading offshore operator with a strengthened platform for future growth. The merged company will combine the best of both Hydro's oil and gas activities and Statoil into a highly competent and financially strong Norwegian-based energy champion ensuring long-term value creation for its shareholders. Hydro will go forward as a financially strong aluminium and power company pursuing profitable business opportunities on a global basis.

Overview

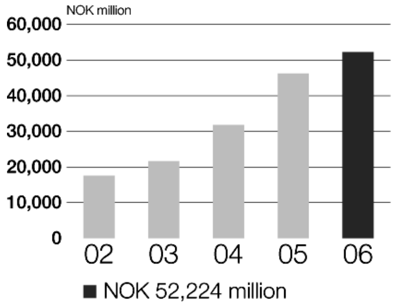
- Hydro is a leading energy and aluminium supplier headquartered in Norway, with 33,000 employees in nearly 40 countries.
- We develop, produce and supply oil, gas and hydropower, take an active role in developing new energy forms, and manage extensive energy trading and transport operations. We are the second largest operator on the Norwegian Continental Shelf. In 2006, we produced an average of 861,000 barrels of oil equivalents (boe) per day from our 11 operating fields. We have producing fields in Canada, Angola, Russia, Libya, and in the US Gulf of Mexico (GoM), and we continue to focus on developing our international oil and gas business. Hydro is also the second largest producer of electric power in Norway, with a normal annual production from hydroelectric facilities of approximately 9.0 terawatt hours.
- Hydro is the world's third largest integrated aluminium company. We are a major worldwide supplier of value-added casthouse products, including extrusion ingots, sheet ingots and foundry alloys. We produced approximately 1.8 million metric tons (mt) of primary metal in 2006 at plants located in Australia, Canada, Germany, Norway and Slovakia. In total, 3.28 million mt were delivered to the market, including 1.2 million mt of remelted and recycled metal. We are a significant supplier to the building industry, especially in Europe, and of rolled products to the packaging and graphics industries.
- Through Hydro Polymers we are a leading northern European producer of the plastics raw material polyvinyl chloride (PVC).

(1) Excerpt from Norsk Hydro's Annual Report for 2006.

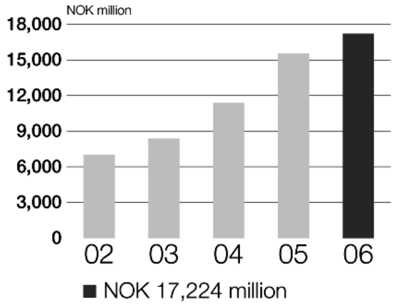
Operating revenues



Operating income



Net income from continuing operations



Hydro delivered record results for 2006. Results for the year reflected sustained high oil and gas prices together with substantially higher aluminium prices. However, production interruptions on partner operated fields on the NCS, together with shortfalls from fields in our international portfolio, caused average production to be lower than target for the year. Results for 2006 were also impacted by an impairment write-down of the Front Runner and nine other fields in our Gulf of Mexico (GoM) portfolio amounting to USD 836 million (NOK 5,240 million) before tax. We had an extensive exploration program in 2006, with a success rate of 50 percent of commercial discoveries for the year. We also achieved a major milestone for the Ormen Lange project with the opening of the southern leg of the Langeled pipeline. Ormen Lange is the largest industrial project ever undertaken in Norway.

Efforts to reposition our primary aluminium operations are progressing and are expected to significantly improve our smelter cost position. The Qatalum project (Hydro share 50 percent), a major element in our growth strategy, is on track and a final decision to construct the new plant is expected in 2007. The second expansion of the Alunorte alumina refinery in Brazil (Hydro share 34 percent) was completed during 2006 and a third expansion is underway. The expansion program at Alunorte has been a substantial achievement and the most important component of our strengthened alumina equity position. When completed in 2009, annual production capacity is expected to increase to 6.5 million mt from 1.5 million mt in 2000. Alunorte is the world's largest and is considered one of the most cost-efficient refineries.

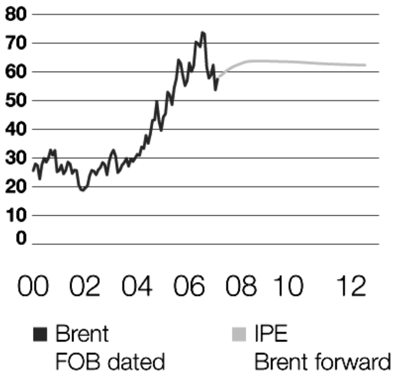
Operating results for our downstream aluminium operations were impacted by write-downs and losses relating to our ongoing restructuring and divestment efforts. We have taken steps to exit the automotive castings and structures businesses and have decided to close our primary magnesium plant in Becancour, Canada. When we complete the restructuring expected by the end of 2007, our aluminium products business portfolio will consist mainly of businesses that we believe are well positioned to deliver viable returns.

Hydro Polymers has delivered a strong performance for 2006. In December 2006, we announced that we are considering a divestment or public listing of this business. We believe it is an appropriate time to create new opportunities for Polymers by re-exploring options for new ownership.

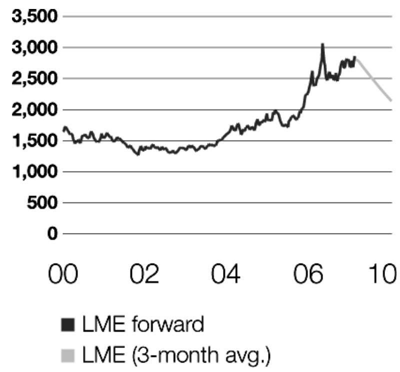
In December 2006, Hydro's Board of Directors decided to prepare for approval by our shareholders a demerger from Hydro and a merger with Statoil of our oil and gas operations. The merger has the potential of creating the world's largest offshore operator (in water depths of more than 100 meters) with a strengthened platform for future growth. The merged company will combine the best of both Hydro's oil and gas activities and Statoil into a highly competent and financially strong Norwegian-based energy champion, well positioned to ensure long-term value creation for its shareholders. Hydro will go forward as a financially strong aluminium and power company pursuing business opportunities on a global basis. We will be the world's third-largest listed aluminium company focused on growing profitably through targeted international business development, operational excellence, leading technology and innovative solutions. The proposed demerger and merger are expected to be completed in the third quarter of 2007 and are subject to shareholder and regulatory approvals.

Hydro's share price increased from NOK 138.60 at the end of 2005 to NOK 193.50 at the end of 2006. Including dividends of NOK 4.40 per share, the total return for 2006 was NOK 59.30 or 43 percent. Due to our strong operating results in 2006 the Board of Directors has proposed a dividend of NOK 5.00 per share for approval by the Annual General Meeting on 8 May 2007. During 2006 we repurchased 25,271,685 shares for NOK 3.9 billion, corresponding to approximately 2 percent of the shares outstanding. To further increase the liquidity of our shares, we executed a five for one share split effective 10 May 2006 for our ordinary shares and 25 May 2006 for our American Depositary Shares (ADSs).

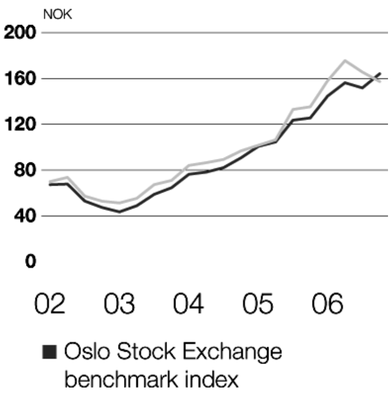
Oil price in USD/bbl



Aluminium price in USD/tonne



Share price in NOK



Financial results for 2006

Operating income for the full-year 2006 rose to NOK 52,224 million, up 13 percent compared with 2005. In addition to the writedowns relating to our assets in the GoM, operating income included NOK 890 million related to impairments and other costs resulting from the restructuring of our aluminium products operations. Operating income for 2005 increased 46 percent to NOK 46,237 million, compared with 2004. Operating income for 2005 included non-cash charges of approximately NOK 1.8 billion, including impairment losses of NOK 1.2 billion relating to our magnesium and rolled products businesses. In addition, 2005 operating income included approximately NOK 1.4 billion of unrealized losses on derivative contracts relating to a significant rise in the forward prices for aluminium, oil, gas, and power at the end of the year. In 2004, operating income included impairment losses of NOK 2 billion relating to our German primary aluminium plants in addition to manning reduction costs of NOK 500 million.

Operating income (loss)

NOK million	2006	2005	2004
Oil & Energy	**46,253**	43,451	31,144
Aluminium Metal	**6,362**	2,694	785
Aluminium Products	**(83)**	(370)	1,072
Other activities	**1,277**	(2)	312
Corporate and eliminations	**(1,584)**	464	(1,517)
Total	**52,224**	46,237	31,796

Oil & Energy

The need to discover significant new oil and gas resources continues to be the most important issue facing the oil and gas industry. In 2006. we completed 51 wells with a success rate of 50 percent of commercial discoveries. We drilled 13 wells on the NCS achieving six discoveries. Outside Norway we discovered hydrocarbons in 20 of the 38 wells that were drilled during 2006.

At the end of 2006, five wells were in the process of being drilled. Four of the wells were completed in January 2007 and proved dry. We intend to continue our high exploration level in 2007 with plans for drilling 60 wells. Our international drilling activity will be concentrated in Libya, the Gulf of Mexico and Angola.

Increased oil recovery and selective acquisitions are also key elements in our strategy to replace reserves. Hydro is focusing on improved oil recovery from existing fields in addition to finding viable solutions for developing smaller fields and making optimal use of present infrastructure. Outside of Norway, we increased our international resource portfolio through the acquisition of 50 percent of the Peregrino field (formerly called Chinook) located offshore Brazil.

In 2006, we opened the southern leg of the Langeled gas pipeline. This was a major milestone for the Ormen Lange/Langeled project. Ormen Lange/Langeled, which is expected to begin producing gas during 2007, will secure an important new strategic position in the European gas market. Our expanded pipeline infrastructure should enable a sustainable delivery of our gas reserves to the UK and continental Europe and enable us to position our gas in these relatively high priced markets.

We are currently present in seven of the top 21 oil producing countries globally, but more than 90 percent of our production is currently in OECD countries. As fields mature in more developed regions, reserve replacement opportunities are increasingly concentrated in areas characterized by emerging and transitioning markets. As a result, we are maneuvering in an increasingly complex and difficult landscape. Hydro has been involved with the giant Shtokman gas field project located in the Barents sea since 1989. In 2005, we were short listed as a possible partner for the development of the field. In October 2006, however, Gazprom publicly communicated that it would develop the field without awarding international oil and gas companies ownership interests in the field.

A substantial increase in exploration and development activities for the industry as a whole is driving a higher demand for drilling rig capacity and other services leading to increased costs. We have secured rig capacity on the NCS for our planned drilling activity through 2009. We have also secured rig capacity in the GoM until 2013. Our average daily production by 2010 is expected to reach 700,000 boe per day which is lower than the target we presented one year ago.

We produced an average of 573,000 boe per day during 2006. Our original target was 615,000 boe per day. About half of the shortfall related to production interruptions on partner operated fields on the NCS. Lower than expected production from fields in our international portfolio, mainly relating to the Terra Nova field in Canada and fields in the GoM, also contributed to the shortfall. We have targeted production of 605,000 boe per day for 2007. We believe our strong operational focus on Hydro operated fields and proactive follow-up of partner operated fields should enable us to meet this target. Ormen Lange is expected to contribute substantially to our production capacity. In Canada, Terra Nova has been upgraded to ensure higher up-time.

In October 2006 we announced an extensive review of the Front Runner field, in our GoM portfolio, based on a weaker than expected production performance. The review was completed in January 2007 and concluded that the reserves were lower than previously estimated. As a result, we wrote down the Front Runner field, and nine other GoM shelf assets, by a total amount of USD 836 million (NOK 5,240 million) before tax. The write-down relating to Front Runner amounted to USD 710 million, of which USD 58 million related to in-field prospect areas and was charged to exploration costs. The remaining amount of USD 652 million was charged to depreciation expense. The USD 126 million write-down relating to the nine other shelf assets was also charged to depreciation expense. Our proved reserves in the GoM were reduced by approximately 7.6 million boe for the year, which represents less than 0.4 percent of our total proved reserves as of December 31,2006, See ''Operating information — Field descriptions — International operating fields'' for further information on Front Runner.

We have a strong gas infrastructure position in Northwestern Europe, which is well linked with our upstream position. The ongoing liberalization process of the European gas market is leading to a more liquid market with contract prices influenced by short-term gas market developments. Liquidity within the UK market has increased, and the UK is considered a well functioning short-term market. While there is less liquidity on the European continent, it is increasing at several hubs. We intend to combine our role as a natural gas producer with that of a wholesaler and trader to increase our share in the European gas market.

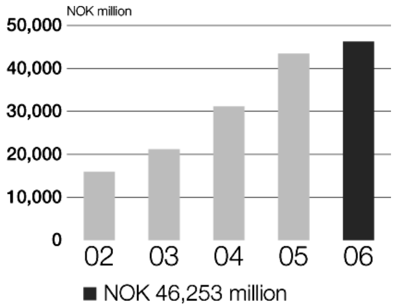
Climate change and security of supply are the main drivers for our new energy business activities. Market demand and government incentives are expected to result in fast growing markets for new energy solutions.

During 2006, we divested our gasoline retail business HydroTexaco (Hydro share 50 percent) located in Norway and Denmark.

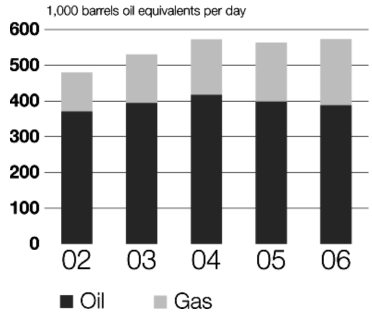
Operating income

Operating income increased by 6 percent to NOK 46.253 million in 2006 mainly due to the higher oil and gas prices. However, results for the year were heavily impacted by an impairment write-down of the Front Runner and nine shelf fields in the GoM, amounting to USD 836 million (NOK 5,240 million) before tax. Operating income increased 40 percent during 2005 compared to 2004 primarily driven by higher prices for oil and gas.

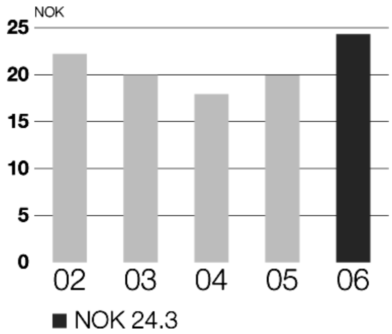
Operating income Oil & Energy



Oil and gas production



Production costs per barrel*



* Excluding gas injection costs

Operating income (loss)

NOK million	**2006**	**2005**	**2004**
Exploration and Production	**41,352**	40,594	28,363
Energy and Oil Marketing	**3,578**	3,575	2,650
Eliminations	**1,323**	(719)	132
Total	**46,253**	43,451	31,144

Operating statistics

	2006	**2005**	**2004**
Oil and gas production (thousands boe/d)	**573**	563	572
Oil production (thousands boe	**387**	398	417
Gas production (thousands boe/d)	**186**	165	155
Realized oil price (USD/bbl)	**63.10**	53.10	37.30
Realized gas price (NOK/Sm^3)	**1.93**	1.52	1.09

We realized average oil prices of USD 63.10 in 2006, up 19 percent from 2005. In 2005, our average realized oil price increased 42 percent in US dollars. Our average realized oil price measured in Norwegian kroner increase by 18 percent in 2006 compared with 2005 and by 36 percent in 2005, compared with 2004. Average realized gas prices in 2006 were NOK 1.93 per standard cubic meter, up 27 percent from 2005. The positive development compared to last year reflected increased reference prices (oil products) for long-term gas contracts and a strong spot market for gas for most of the year. Realized average gas prices increase approximately 39 percent during 2005, compared with 2004. Realized Nordic electricity prices increased by 66 percent in 2006 to NOK 391.40 per MWh, compared with 2005, mainly due to record low water reservoir levels in 2006, which returned to normal levels toward the end of the year. Realized Nordic electricity prices amounted to NOK 234.80 per MWh in 2005, compared with NOK 242.00 per MWh in 2004.

In 2006 we achieved an average daily production of 573,000 boe per day, up approximately 2 percent, compared with 2005 production. Average production declined by 2 percent in 2005 from a level of 572,000 boe per day in 2004.

Average production cost for Exploration and Production was NOK 32.2 per boe in 2006, an increase of 27 percent compared to NOK 25.3 per boe in 2005. The main reason for the increase was higher field-costs, including well maintenance costs and costs related to the Terra Nova shutdown. Gas for injection into the Grane field included in average production costs amounted to NOK 7.9 per boe in 2006, compared to NOK 5.4 per boe in 2005 and NOK 2.8 per boe in 2004.

Depreciation cost, excluding transportation systems on the NCS, averaged NOK 83 per boe in 2006, increasing from NOK 48 in 2005 and NOK 46 in 2004. Depreciation in 2006 included approximately NOK 7,948 million relating to our GoM portfolio, including NOK 4,877 million relating to the write-down of the Front Runner field and the other nine shelf assets.

Exploration activity levels were substantially higher in 2006 than in 2005. Total amounts spent on exploration activity amounted to NOK 5,948 million in 2006, compared to NOK 2,582 million in 2005 and NOK 1,412 million in 2004. About 80 percent of our exploration activity in 2006 related to areas outside the

NCS, significantly higher than the 66 percent share in 2005. Exploration costs charged to expense amounted to NOK 4,986 million, up from NOK 1,839 million in 2005. Costs expensed in 2006 included NOK 1,949 million relating to exploration activity in the GoM including USD 58 million (NOK 364 million) related to the write-down of the Front Runner field's prospects. Costs in 2006 also included NOK 525 million related to the acquisition of seismic data under licenses held by Spinnaker. In addition, costs related to a potential participation on the Shtokman field were expensed during 2006 following Gazprom's decision to develop the field alone.

Market conditions and prospects 2007

Economic indicators signal continued global growth in 2007, though at a slightly lower rate than experienced in recent years. Economic growth in the United States is expected to slow from the 2006 level. Development in the major Asian economies, including China, is expected to continue in line with 2006 growth rates. The European economy strengthened during 2006 and is expected to remain strong in 2007.

Oil demand is expected to be relatively strong in 2007, but an anticipated increase in oil production capacity from both non-OPEC and OPEC producers is expected to increase global spare capacity somewhat from 2006 levels.

Start-up of new gas infrastructure, as well as warmer-than-expected weather, have led to lower European gas prices this winter than during the winter of 2005-2006. British gas production is declining, but comfortable gas-storage levels and new supply sources coming on stream are expected to improve supplies to Europe in 2007. With more normal seasonal temperatures, demand should improve in the winter of 2007-2008. In addition, some of the LNG scheduled for delivery in the European market may be rerouted to either the US or Asia, which is expected to create a more balanced supply situation than during this winter season.

Norwegian water reservoir levels rose considerably during the last months of 2006. This resulted in a substantial drop in Nordic electricity prices. Mild weather and a decreasing CO_2 emission quota price have also contributed to lower electricity prices. Nordic electricity prices in 2007 are expected to be lower than the historically high average spot price of 391 NOK/MWh in 2006.

Aluminium Metal

Hydro's aluminium metal business achieved record high operating income for 2006 of NOK 6,362 million, mainly due to the significant increase in realized aluminium prices during the year combined with good cost control in a high cost environment. Increased raw material and energy costs negatively impacted the results, in addition to costs related to the closures of the Stade metal plant in Germany and the Søderberg production lines in the Norwegian plants in Høyanger and Årdal.

Efforts to reposition our upstream aluminium operations are on track. During 2005 and 2006, we closed down 110,000 mt of high-cost annual primary production capacity. This was partly replaced by new, low-cost capacity from the expansion of the Alouette smelter in Canada (Hydro share 20 percent) and incremental increases at other plants in our smelter system. We expect to complete the closure of an additional 70,000 mt of annual capacity during 2007. These measures aim to significantly improve our smelter cost position.

In order to deliver our strategy for repositioning and growth, we are evaluating a number of projects globally to expand our upstream aluminium metal business. New smelter projects are being explored in areas where energy can be secured on a long-term basis at competitive prices. We are also pursuing several new bauxite and alumina opportunities globally. A key priority is to further develop these opportunities into profitable bauxite, alumina and smelter projects.

Preparations for the Qatalum primary aluminium plant (Hydro share 50 percent) continued during 2006. The estimated total investment cost for the project is in the range of USD 4.5 billion (100 percent). A final cost estimate and a decision to proceed with the project are expected in 2007. The Qatalum project is a major element in our strategy for growth and repositioning our primary production aimed at increasing capacity in a location with long-term competitively priced energy and attractive logistics for primary metal.

Alumina and energy are key cost drivers for the primary aluminium industry. The significant increase in power costs in major aluminium producing regions such as Europe and the United States has been an important factor leading to higher aluminium prices. Power costs relating to our ongoing primary production increased by roughly NOK 1.4 billion during 2006, compared with 2005. The power cost increase for 2007 is expected to be in the magnitude of NOK 300 million for continuing operations, compared with 2006. Our long-term power contract portfolio is expected to ensure fairly stable cost levels for future years.

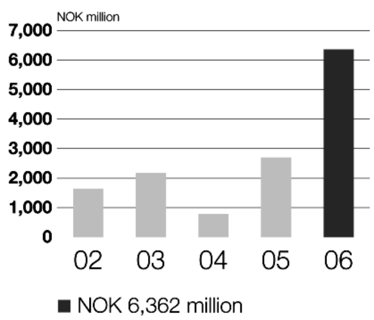
Increased alumina costs accounted for about two-thirds of the substantial upward shift in the industry cost curve between 2003 and 2006. Approximately 55 percent of our alumina requirements were met through equity production in 2006, the most important being our 34 percent interest in Alunorte in Brazil. During 2006, the second expansion of the Alunorte refinery was completed. A third expansion was started in 2006 with the aim to increase total annual production capacity up to 6.5 million mt by 2009, thereby increasing the amount of annual alumina coverage — including for Qatalum — expected to be provided from our equity alumina production to approximately 70-75 percent.

Developments in China continue to be a main driver of industry fundamentals. Relatively small changes in Chinese supply and demand can lead to substantial changes in the global metal balance. Strong increases in global alumina production capacities, particularly in China, have caused a sharp drop in alumina spot prices. A combination of low spot prices together with high aluminium prices are expected to lead to increased smelter capacity utilization, especially in China. At the same time, China's growth in consumption is expected to continue and is estimated to be 20 percent in 2007.

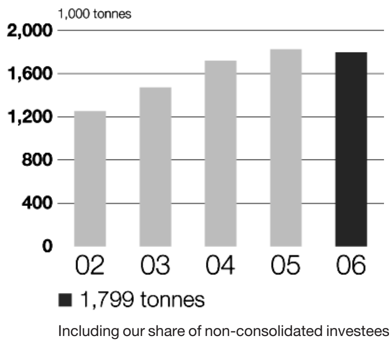
Operating income

Operating income amounted to NOK 6,362 million for the year, heavily influenced by a substantial increase in aluminium prices. However results for the year were negatively impacted by increased costs and charges described below. In addition, operating results for the year were influenced by realized and unrealized gains and losses relating to strategic and operational hedge programs.

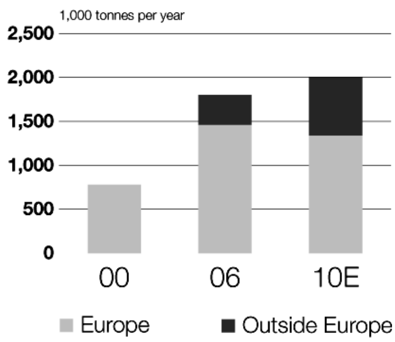
Operating income
Aluminium Metal



Production
of primary aluminium



Hydro smelter
geography



Operating income

NOK million	2006	2005	2004
Aluminium Metal	**6,362**	2,694	785

Operating statistics

	2006	2005	2004
Primary aluminium production (1,000 mt)[1]	**1,799**	1,826	1,720
Realized aluminium price LME (USD/mt)[2]	**2,352**	1,812	1,629

1) Includes Søral and HAW volumes [non-consolidated investees).

2) Includes the effect of strategic and operational LME hedges.

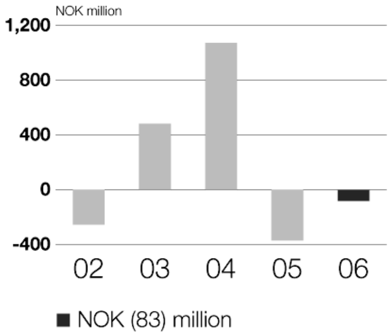
Realized prices measured in Norwegian kroner increased 30 percent for 2006, compared with 2005, contributing about NOK 6,200 million to operating income, and 4 percent in 2005 compared with 2004.

Raw material and energy costs related to primary production increased by approximately NOK 3.100 million for the year, compared with 2005. Our average cash cost of equity alumina production increased from USD 167 per mt in 2005 to approximately USD 195 per mt in 2006 due to high energy prices, currency effects and high bauxite prices resulting from the increased LME prices. Operating costs for 2005 were impacted by increased costs related to new capacity amounting to NOK 819 million and higher raw material and energy costs of NOK 1,717 million compared with 2004. In addition, costs relating to the closures of the Stade metal plant in Germany and the Søderberg production lines in the Norwegian plants in Ardal and Høyanger amounted to NOK 560 million for 2006, compared with NOK 200 million in 2005. Costs of about NOK 150 million related to the Qatalum project were expensed in 2006, while NOK 70 million was expensed over the years 2004 and 2005. Unrealized losses on power contracts amounting to NOK 290 million also impacted the result for 2006.

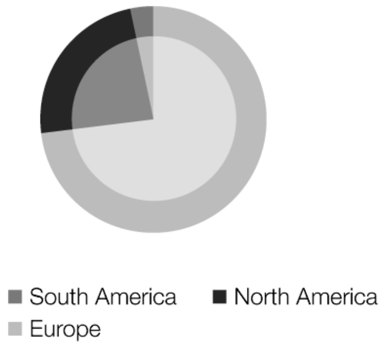
Primary aluminium production, including production from partly owned companies, decreased slightly to 1,799,000 mt in 2006 from 1,826,000 mt in 2005, due to closures of the Hamburger Aluminium Werk (HAW) smelter in Germany and the Søderberg production line at Høyanger. The reduced capacity was mostly offset by increased production from the expansion of the Alouette plant in Canada and record production levels for other plants in our smelter system. Primary aluminium production increased by 6 percent In 2005, compared with 2004.

Operating income for sourcing and trading operations amounted to NOK 157 million in 2006 compared with an operating income of NOK 575 million in 2005 and NOK 383 million in 2004. Unrealized effects on LME and currency contracts related to the sourcing and trading operations which are excluded from these amounts 1), amounted to a net negative effect of about NOK 437 million in 2006 compared with a positive effect of NOK 210 million in 2005 and NOK 285 million in 2004. Operating results relating to alumina sales Increased in 2006 compared with 2005, as well as 2004.

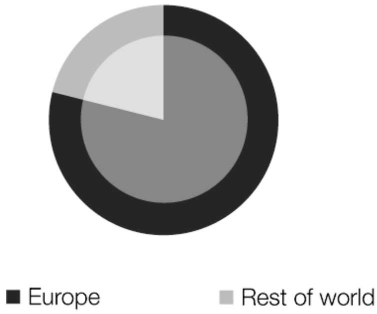
Operating income Aluminium Products



Hydro's Extrusion sales 2006



Hydro's flat rolled products sales 2006



Market conditions and prospects 2007

Production of primary aluminium in the western world is expected to increase about 4 percent in 2007 and globally about 8.5 percent. Global primary aluminium consumption, however, is expected to grow by less (about 7 percent) in 2007. Consumption growth in Europe is expected to slow down to about 2.5 percent in 2007, somewhat lower than the expected increase in industrial production. A minor decline of about 1 percent is expected for the US. China's growth in both production and consumption of primary aluminium is expected to continue at a high level in 2007, close to 20 percent. A moderate surplus is expected in the global metal balance in 2007 as a result of a decline in the consumption growth rate and increasing production. In addition, the behavior of financial investors continues to be an important factor affecting the development of primary aluminium prices on the LME.

Continued high aluminium prices and lower spot alumina prices could lead to restarts of shut-down capacity, particularly in China, where capacity utilization is expected to increase from about 76 percent in 2006 to about 85 percent in 2007. Based on this increase in capacity utilization, net primary aluminium exports from China could reach one million mt in 2007, depending on developments in domestic consumption and increases in net exports of semi fabricated aluminium products.

In 2005 and early 2006, there was a tight supply and demand balance for alumina, resulting in significant increases in spot alumina prices. However, during the second quarter 2006 the market changed dramatically and spot alumina prices fell on the basis of an expected alumina surplus in the market in 2006 and an even more significant surplus position in 2007. Lower prices in the spot market are also influencing the medium and long-term markets, a situation which is expected to continue. Driving this development was a substantial alumina production increase in China of more than 50 percent in 2006, combined with major brownfield expansions in other important alumina producing countries. Early in 2007, spot alumina prices have temporarily recovered due to delays in alumina projects and bauxite production disturbances.

Electricity prices in Europe, and in most of the United States, are expected to remain at high levels in 2007.

Volatility in the aluminium market is expected to continue and could result in substantial unrealized gains and losses related to our operational LME hedge program in future quarters.

Aluminium Products

Aluminium Products incurred an operating loss of NOK 83 million in 2006, compared with an operating loss of NOK 370 million in 2005 and an operating income of NOK 1,072 million in 2004. Our European extrusion and global building systems delivered a strong performance during 2006. However, the 2006 results were heavily influenced by write-downs and charges related to our ongoing restructuring and divestment program.

We plan to continue to restructure and improve the financial performance of our aluminium products portfolio during 2007. At the end of 2007, our portfolio should consist of businesses well positioned to deliver viable returns. Further divestments and plant rationalization efforts are planned, and we expect additional charges relating to plant rationalization costs in 2007. Results for our rolled products business improved during 2006 but the market remains challenging. However, we are generating good cash flow from this business and intend to improve and develop our operations and build on our role as a key player within this market sector.

As part of our drive to increase the profitability of our downstream operations, we decided to exit the automotive castings businesses. In November 2006, we announced the sale of our automotive castings business. The sale was finalized on 1 March 2007 resulting in a gain of about NOK 900 million. In December 2006, we announced the divestment of our 49 percent share in the magnesium automotive castings company, Meridian Technologies Inc. The sale was finalized on 2 March 2007 with a gain of approximately NOK 50 million. During the third quarter of 2006, we wrote down the value of our investment in Meridian by NOK 239 million. We are currently evaluating alternative opportunities relating to the divestment of our automotive structures business.

During 2006, the global magnesium market continued to weaken from an already poor level in 2005. Competition from Chinese magnesium producers resulted in an oversupply of magnesium on the world market, driving down prices. We see limited potential for improvement in this market. In October 2006, we decided to exit this business following the closure of our magnesium plant in Porsgrunn, Norway in 2002 and termination of remelting operations at Porsgrunn in 2006. Our plant in Becancour, Canada is expected to be closed by the end of first quarter 2007 and work is ongoing towards divesting our remaining remelting operations in Germany and China.

Rationalization programs have been initiated in several units in 2006, including our extrusion activities both in the UK and in the US, and our precision tubing activities in North America. These rationalization efforts are part of a comprehensive portfolio-restructuring program with the aim to lift our financial performance to a viable level for the long-term. Total rationalization and closure costs and fixed asset impairments amounted to NOK 890 million in 2006.

Operating income

Aluminium Products incurred an operating loss amounting to NOK 83 million for 2006, compared with an operating loss of NOK 370 million in 2005 and an operating profit of NOK 1,072 million in 2004. In December 2005, we announced plans to restructure our aluminium products business. Following a thorough review of the downstream portfolio, measures were taken to implement these plans, including divestments, closures and significant plant rationalizations. We made good progress in 2006 on the restructuring, but results were heavily impacted by the related impairments and rationalization costs amounting to about NOK 890 million for the year as well as a UK pension fund contribution of NOK 380 million. 2005 results included losses of about NOK 1,450 million related to impairments in our magnesium and rolled products operations and closure costs in our automotive castings operations in the UK.

Operating income (loss)

NOK million	**2006**	**2005**	**2004**
Rolled Products	**782**	754	626
Extrusion	**231**	275	606
Automotive	**(1,006)**	(1.579)	(400)
Other and eliminations	**(90)**	180	241
Total	**(83)**	(370)	1,072

During fourth quarter 2006 Hydro entered agreements to divest its castings business. As a result, the castings business was reclassified as an asset held for sale and reported as discontinued operations and is excluded from the operating results of Aluminium Products for the current and all prior periods in the report.

Overall market conditions for extrusion and rolled products improved during 2006 contributing to an improved underlying financial performance. However, the automotive business sector continued to suffer challenging market conditions and declining margins.

Market conditions and prospects 2007

Global growth in semi-finished aluminium products in the last 10 years has been led by China, and it is expected that China will continue to expand strongly over the medium term. The fastest growing sector over the past decade has been the transport sector, which is expected to maintain a robust expansion in the medium term, partly due to further increase in the use of aluminium in the motor vehicle sector. A continued gain in aluminium use is also expected in many other sectors. The other major driver of consumption of semi-finished products is the general economic growth which is expected to remain strong on a global basis.

The pace of the European economy at the beginning of 2007 remains solid and shipments to the European rolled products and extrusion markets are expected to remain strong, although with a certain pressure on margins remaining. Growth estimates for Western Europe are 2 percent and 1.4 percent, respectively, for flat rolled products and extrusions in 2007.

Electricity prices in Europe are expected to remain at high levels and are expected to cause higher costs for our European downstream operations in 2007, compared with 2006.

The US economy shows increasing signs of continued softening, especially visible in the adverse development of the housing market. Even so, overall consumption of all semi-finished aluminium products in North America and Mexico is expected to grow at a very moderate pace in 2007, and consumption of flat rolled products and extrusions in North America is expected to remain rather flat in 2007 compared to 2006. While the global light vehicle automotive market is expected to grow moderately during 2007, developments in the United States are expected to be flat.

Continued strong growth is expected in Argentina whereas a more moderate development is expected in Brazil.

Other activities

Other activities consist of Hydro Polymers and our service providers including IS partner, Production partner and Hydro's captive insurance company Industriforsikring. Other activities also included Biomar A/S until it was sold in December 2005.

Operating income (loss)

NOK million	2006	2005	2004
Polymers	**1,029**	69	254
Other	**248**	(71)	58
Total	**1,277**	(2)	312

Hydro Polymers

Operating income for Polymers amounted to NOK 1,029 million in 2006, compared with NOK 69 million in 2005 and NOK 254 million in 2004.

Operating income increased substantially for the year. Stable operations provided record production levels at all sites during 2006 and good market conditions contributed to higher prices and volumes, partly offset by increased raw materials costs as a result of high energy prices. Results for 2006 included NOK 380 million relating to unrealized gains on internal power derivative contracts. Effects relating to such contracts were included in Corporate activities and elimination in earlier years. The decline in operating income in 2005, compared with 2004 resulted from higher raw material costs due to increased oil prices and high costs related to external purchases of ethylene during a major planned maintenance shutdown of the Noretyl ethylene cracker (50 percent Hydra investee).

Adjusted EBITDA amounted to NOK 1, 542 million in 2006, compared with NOK 564 million in 2005 and NOK 774 million in 2004. Results from non-consolidated investees amounted to NOK 53 million in 2006, a decrease of NOK 84 million compared to 2005. The decrease was mainly due to weaker results In Qatar Vinyl

Company and to a write-down of the value of our 26.2 percent interest in CIRES, a PVC resin and compound manufacturer in Portugal, by NOK 43 million.

In 2006, we completed the conversion of the diaphragm chlorine plant located in Rafnes, Norway, to new membrane technology. The project was completed on time and below budget. Together with the new chlorine plant at Rafnes completed in 2005, this contributed to an increase in production of caustic soda of 100,000 mt in 2006, compared with 2005.

In December 2006, Hydro announced that a divestment or possible public listing of Hydro Polymers was under consideration. We believe it is an appropriate time to create new opportunities for Polymers by re-exploring options for new ownership.

Other

Other had operating income of NOK 248 million for the year, compared with an operating loss of NOK 71 million in 2005 and operating income of NOK 58 million in 2004. The operating loss for 2005 included insurance costs of approximately NOK 240 million, compared with costs of approximately NOK 230 million in 2004. 2005 also included approximately NOK 90 million of pension charges relating to Hydro's interest in Biomar.

Corporate activities and eliminations

Operating income for Corporate activities and eliminations amounted to a loss of NOK 1,584 million in 2006, compared with NOK 464 million in 2005 and losses of NOK 1,571 million in 2004. The result for 2006 included a charge relating to the elimination of unrealized gains on power purchase contracts amounting to NOK 686 million, compared with a credit of NOK 1,391 million in 2005 and a corresponding charge of NOK 235 million for 2004.

Net costs related to pensions and related social security included as part of corporate activities for the year amounted to NOK 527 million in 2006, compared to NOK 495 million in 2005 and NOK 1,001 million in 2004. The amount for 2006 included the reversal of costs relating to funding a deficit in a UK defined benefit pension plan of approximately NOK 380 million. The amount for 2005 included the reversal of a settlement loss of NOK 154 million charged to Automotive related to the plant closure in Leeds.

Earnings from non-consolidated investees

Earnings from non-consolidated investees amounted to NOK 962 million for 2006, compared with NOK 593 million in 2005 and NOK 597 million in 2004. The improvement in 2006 reflected increased production from Alunorte in Brazil, following the completion of the second major expansion of the plant in 2006. Earnings from non-consolidated investees in 2005 was mainly influenced by reduced earnings from Alunorte due to unrealized currency losses on US dollar loans, increased production costs and unrealized losses on operational hedge programs as a result of the increased aluminium market prices. Earnings from non-consolidated investees for 2004 included a charge of NOK 268 million relating to the write-down of the Hamburger Aluminium Werk (HAW) smelter in Germany.

Net financial expense

Net financial income for 2006 amounted to NOK 1,785 million, including a net foreign currency gain of NOK 1,058 million. The currency gain was mainly due to a weakening of the US dollar against the NOK resulting in gains on Hydro's US dollar denominated debt and currency contracts. Higher capitalized interest contributed to the lower net interest expense in 2006, compared with 2005.

Net financial expenses for 2005 amounted to NOK 1,889 million, including a net foreign currency loss of NOK 2,157 million. In 2005, the average US dollar rate was lower than in 2004 but ended the year substantially higher than the rate at the end of 2004 resulting in losses on Hydro's US dollar denominated debt. Net financial income for 2004 included net currency gains amounting to NOK 1,348. Net financial income for 2004 also included a charge of approximately NOK 860 million relating to the prepayment of bonds denominated in US dollars, Euro and British pounds totaling about NOK 5 billion in nominal value.

Other income

Other income (net) was NOK 53 million for the year, compared with NOK 990 million and NOK 169 million for 2005 and 2004, respectively. During 2006 we divested our gasoline retail business, Hydro

Texaco (Hydro share 50 percent) located in Norway and Denmark. Results for 2006 included a gain of NOK 53 million related to this sale. Other income in 2005 included a gain of NOK 693 million from the sale of our interest in Biomar Holding A/S and a gain of NOK 233 million from the sale of our remaining interest in Pronova Biocare. Other income in 2004 included NOK 110 million relating to the divestment of 80.1 percent of Pronova Biocare.

Income tax expense

The provision for current and deferred taxes for 2006 amounted to NOK 37,598 million, approximately 68 percent of income from continuing operations before tax. The provision for current taxes was NOK 42,101 million. The reduction in deferred taxes in 2006 amounted to NOK 4,503 million including a deferred tax effect of NOK 1,834 million from the write-down of our GoM portfolio.

The equivalent amount for 2005 amounted to NOK 30,271 million, approximately 66 percent of income from continuing operations before tax. The provision for current and deferred taxes for 2004 was NOK 21,181 million, approximately 65 percent of income from continuing operations before tax. In 2004, Hydro reversed deferred tax liabilities of approximately NOK 900 million as a result of changes in Norwegian tax regulations.

The high effective tax rate results from oil and gas activities in Norway, which accounts for a relatively large part of earnings and are charged a marginal tax rate of 78 percent.

Discontinued operations

Income from discontinued operations was NOK 167 million for 2006, compared with NOK 174 million for 2005 and NOK 1,166 million for 2004.

In November 2006, we announced the sale of our automotive castings business. The sale was finalized on 1 March 2007 resulting in a gain of about NOK 900 million. In December 2006, we announced the divestment of our 49 percent share in the magnesium automotive castings company, Meridian Technologies Inc. The sale was finalized on 2 March 2007 with no significant gain or loss. During the third quarter of 2006, we wrote down the value of our investment in Meridian by NOK 239 million. In the fourth quarter of 2006, the castings business was reclassified as an asset held for sale and is reported as discontinued operations for the current and all prior periods in this report.

The amounts for 2004 relate to activities transferred to Yara International ASA in the Agri demerger transaction completed 24 March 2004. All results directly connected to the demerged operations as well as the demerger transaction costs and gains are included in income from discontinued operations. The amounts include Yara's results for the periods up to its listing on the Oslo Stock Exchange and the direct costs of the demerger. The amount in 2004 also includes Hydro's gain from the sale of its 20 percent shareholding in Yara, amounting to NOK 385 million after tax. The effects of internal transactions, including interest and currency gains and losses, are excluded from income from discontinued operations. See note 2 — Business combinations dispositions and demerger to the Consolidated Financial Statements for additional information relating to discontinued operations and specification of related amounts.

Return on average Capital Employed (RoaCE)

RoaCE was 14.9 percent for 2006, compared with 16.6 percent for 2005 and 12.9 percent for 2004. Adjusted for the effects of special events RoaCE was 17.8 and 20.0 percent for 2006 and 2005, respectively. See also the following discussion in this section "Use of non-GAAP financial measures".

Cash flow operations and investments

In 2006, net cash provided by operating activities amounted to NOK 38.7 billion compared to NOK 27.0 billion in 2005. Positive effects of increased earnings due to sustained high oil and gas prices and improved aluminium prices were offset by increased working capital requirements and higher tax payments.

Investments in 2006 amounted to NOK 26,713 million, compared with NOK 41.1 billion in 2005. Investments in 2005 included NOK 21.9 billion relating to the Spinnaker acquisition. Investments in 2004 amounted to NOK 19,464 million.

Risk

Hydro faces many risks and uncertainties within the global marketplace in which we operate. Changes in competitive and market conditions including currency exchange rates may affect margin and volume developments, while exploration results determine the development of our reserves. Oil and gas reserves are only estimates and may prove to be inaccurate. Complex projects are challenging in terms of timing and cost control. The outcome of potential acquisitions, mergers or strategic alliances is uncertain and execution is demanding on management and the wider organization. Our aluminium operations are highly dependent on securing substantial amounts of energy and adequate supplies of alumina. Our repositioning and restructuring activities will be important in determining the viability of our future aluminium operations. Decisions taken by the authorities may result in unforeseen taxes and duties or more difficult operating conditions, or obstruct foreign currency transfers. Our business expansion is expected to take place increasingly in areas that are politically unstable, heightening the risk related to unforeseen changes in the overall operating framework. In addition, there may be a greater risk of being affected by economic sanctions than was the case previously.

Risk management deals with all aspects of value creation, including strategy, finance, commercial matters, organization, HSE, reputation, corporate responsibility, regulatory and legal matters. Hydro's Board of Directors regularly reviews and evaluates the overall risk management systems and environment within Hydro.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is therefore placed with the business areas and coordinated by staff units at the corporate level.

Policies and procedures have been established to manage risk.

Hydro's main risk management strategy for its upstream operations is to accept exposure to oil and aluminium price movements. Downstream and other margin-based operations are hedged to protect processing and manufacturing margins against raw material price fluctuations. This is particularly the case for aluminium, but also applies to a certain extent to the Company's gas business. Upstream oil and aluminium prices may be hedged in special circumstances — as was the case when the Spinnaker Exploration Company in the US was acquired in 2005. The main strategy for mitigating risk, however, is to maintain a solid financial position and strong credit-worthiness, as expressed by the Company's adjusted net debt/equity target ratio of 0.5. Most of Hydro's operating revenues are denominated in, or heavily influenced by, the US dollar. In order to mitigate the Company's exposure to US dollar currency fluctuations, most of the Company's debt is also US dollar-denominated. Hydro maintains guidelines for liquidity reserves and Its installment payment profile. The Company's financial position at the end of 2006 was well within the established guidelines.

Hydro's operating results are primarily affected by price developments of Hydro's main products, oil and aluminium, in addition to foreign currency fluctuation of the most significant currency, the US dollar, against the Norwegian krone.

Please also see note 23 to the Consolidated Financial Statements for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

Research and development

Hydro allocates an annual sum of NOK 726 million to R&D. Roughly half of this goes to our in-house research organization, while the other half supports work carried out at external institutions.

Our aluminium business, which has research centers in Årdal and Porsgrunn in Norway as well as smaller groups of researchers elsewhere in the world, spent a total of NOK 487 million. Our oil and energy operations, which run research centers in Porsgrunn and Bergen, Norway, expended NOK 212 million.

Our oil and gas research is concentrated on six main programs: breakthrough exploration, increased recovery, field development, operations in arctic areas, CO_2 handling and new energy. In addition, a basic program helps secure and renew strategically important competence for Hydro like health, safety and environment and material technology. Our technology forum allocates around NOK 60 million to new projects on an annual basis.

In our aluminium business we intend to make production more efficient and secure the necessary access to alumina and electrical power. Improvement efforts revolve around electrolysis technology and positioning new capacity in locations where there Is a surplus of power. In addition, efforts are underway to secure access to alumina.

Implementing and commercializing innovative product ideas and concepts is a core activity in our aluminium business. Innovation often takes place in joint projects with the customer, once his needs have been identified. In 2006 numerous new products were launched.

Health, security, safety and environment

Hydro shall be a leading company in the area of health and working environment. We work actively to ensure an environment characterized by trust, honesty, and mutual respect. In order to reduce work related illness and long-term sick leave, the objective is that all units shall carry out risk assessments and risk reducing measures.

Sick leave was 2.6 percent in 2006, down from 3.2 percent i 2005. In Norway, sick leave was 5.0 percent, up from 4.7 percent the previous year, but at the same level as in 2004. Men's sickleave remained stable at 4.5 percent, while women's sickleave increased from 5.7 percent in 2005 to 6.8 percent in 2006.

Our ambition is to avoid all accidents, and we work continuously to avoid work-related illness, damage to property, and toss of production. This applies to all our activities, irrespective of geographical location. The accident at the Birtley plant in the UK in November 2006, where a 38-year-old engineer was killed, was a grave reminder of the great responsibility we have to constantly strive for improvements. The total number of personal injuries per million hours worked (including injuries leading to absence, injuries resulting in alternative work, and injuries demanding medical attention) was reduced from 5.4 in 2005 to 4.0 in 2006. This corresponds to a 25 percent reduction. The goal of a 20 percent reduction in injuries was thereby reached. In a ten-year perspective, we have reduced the number of personal injuries per million hours worked from 18.3 in 1996 to 4.0 in 2006.

For several years we have been working to develop an indicator for technical safety. Pilot studies are being carried out in many of Hydro's sectors. The plan is to implement the indicator in all relevant plants and installations by the end of 2008.

Securing employees and Hydro's assets has always been important for the company. Increased presence in areas of risk, and increased threats generally, have intensified the effort to protect these.

In 2006 our oil and energy business in Norway renewed its energy-efficiency strategy, identifying possible measures to support these efforts. The measures will be updated as our knowledge increases and our technology is refined. We will consider setting individual targets for energy-efficiency work on each installation on the Norwegian continental shelf.

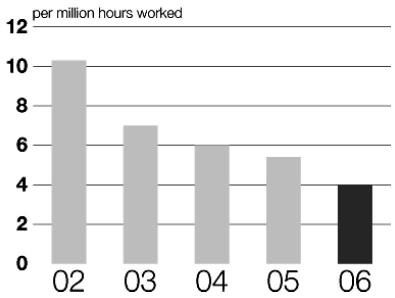
In 2005 our aluminium business developed an environmental indicator that focuses on resource utilization and the reduction of waste and emissions. The aim is to help the organization focus on important measures. The indicator was implemented in the metal production part of the aluminium organization in 2006.

We achieved our objectives for reduction of discharges to sea from our oil and gas installations in March 2006. The Norwegian Pollution Control Authority (SFT) reviewed our reports in 2006 and considered both the status and our further plans to be satisfactory.

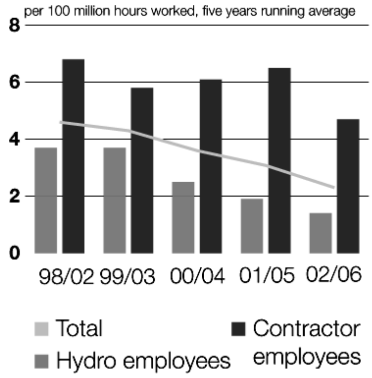
In 2006 we mapped our challenges with respect to biological diversity and water consumption. This mapping revealed that the challenges are primarily related to major development projects. These issues are therefore part of the environmental impact assessments carried out during the early phase of such projects.

The greenhouse gas emissions from Hydro-operated activities were 7.5 million tonnes CO_2 equivalents (CO2e) in 2006. Based on equity, emissions were 8.8 million tonnes CO2e, a reduction of roughly 35 percent compared with 1990 given the same ownership structure as in 2006. The decline comes as a result of closure of plants and process lines In our aluminium business, systematic operational improvements and the introduction of new technology, amongst others at our metal plants.

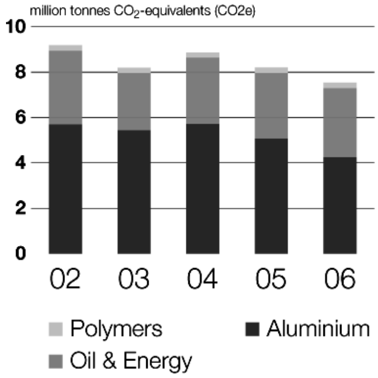
Total recordable Injuries



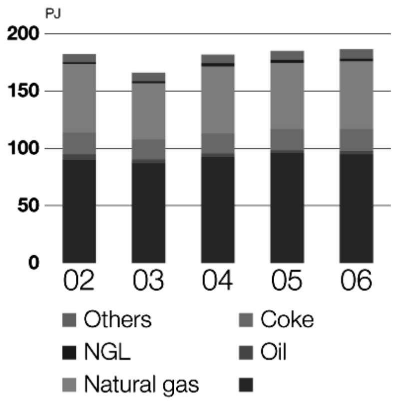
Fatal accidents



Total greenhouse gas emissions



Total energy consumption



Integrity and transparency

Corruption and human rights violations are a reality in several of the countries where Hydro operates. It is important for us to work systematically and to have a consistent approach in order to ensure and promote ethical conduct. Our position is zero tolerance of corruption and human rights violation. No negative incidents were discovered in these areas in our activities in 2006, but we know that it is necessary to continue our work aimed at preventing incidents.

Our work on Hydro's Integrity Program began in 2005, and has continued at full strength in 2006. About 2000 leaders and other personnel in senior positions have participated in training regarding the integrity program. This includes dilemma discussions — a method we employ to an increasing extent.

In the business plans for 2007, the business areas have included measures that contribute to making the integrity program and other topics within corporate responsibility ever more integrated with our business activities.

Integrity and corporate responsibility requirements towards suppliers were developed in 2005 and 2006, along with implementation plans and routines for following up the suppliers. The program was launched at the end of 2006.

Total payments (taxes, fees etc.) to host governments[1)]

NOK million	2006	2005
Oil & Energy		
Norway	**33,466**	27,579
US	**654**	21
Canada	**207**	132
Brazil	**1**	—
Angola	**1,957**	625
Libya	**458**	268
Russia	**335**	18
Iran	**—**	—
Cuba	**—**	—
Denmark	**—**	—
Mozambique	**6**	0.2
Morocco	**—**	—
Madagascar	**—**	—
Nigeria	**—**	—
Aluminium		
Brazil	**127**	25
Jamaica	**79**	56

1) Total payments to host governments connected to exploration and production of oil, gas, bauxite and alumina. Payments include benefit streams, profit tax, royalty, signature bonus, license fees, rental fees, entry fees etc. The reporting is based on the principles in Extractive Industries Transparency Initiative (EITI). Certain 2005 figures have been restated compared to the 2005 reporting. The table is included in the limited level of assurance review of Hydro's viability performance reporting 2006, but not in the financial audit.

We also comply with the Norwegian Code of Practice for Corporate Governance of November 2006. A detailed description of our compliance is presented at www.hydro.com/governance

Employees

Hydro had 33,605 employees at the end of 2006, an increase from 32,765 in 2005. This growth is partly due to the fact that Hydro's ownership stake in Slovalco has increased to 55 percent, making this a consolidated company.

Our aim is that every employee should have a yearly appraisal dialogue with his or her line manager and participate in organizational surveys at least once every two years.

Development of the top 200 managers is a strategic corporate responsibility. Initiatives include follow-up of HLDP, and annual conferences where the top 50 and the top 200 leaders, respectively, take part. In 2006 most top managers were also given training in Hydro's Integrity Program, and the HSE training — initiated in 2004 — was completed.

We emphasize diversity both when recruiting, and when forming management teams and other working groups. In 2006, the proportion of women in Corporate Management Board increased from 20 to 29 percent while the proportion of women among Hydro's 50 top managers was 19 percent, compared to 20 percent in 2005. The number of non-Norwegian leaders was 11 percent compared to nine percent the year before. Equivalent figures for the group of top 200 managers in 2006 were 20 and 19, respectively. The proportion of women in this group was somewhat reduced from the previous year, but at around the same level as in 2004. The ratio of non-Norwegians was significantly lower than in 2005 and slightly lower than in 2004. Deliberate recruitment of women is important in order to increase the proportion of women in the organization. In 2006, around 700 new employees were recruited to the Norwegian part of the organization. Of these, 26 percent were women, as compared to 22 percent in the Norwegian organization as a whole. Among the recruited graduates, the proportion of women recruits was approximately 30 percent.

The sector Rolled Products, with over 4000 employees, provides an example of working with diversity. In 2006, efforts continued here to increase the proportion of women at all levels in the organization, both on an overarching level, and by establishing local action plans at the plants in Germany, Italy, Malaysia, Norway, and Spain. Discussions also took place with the European Works Council. The sector is working on the project "Women — an opportunity for Hydro" in cooperation with Cologne University of Applied Sciences.

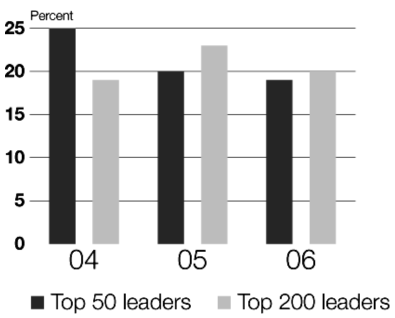
Number of women managers per business area

	2006	**2005**	**2004**
Oil & Energy	**19%**	17%	16%
Aluminium	**16%**	15%	14%
Other	**23%**	22%	22%

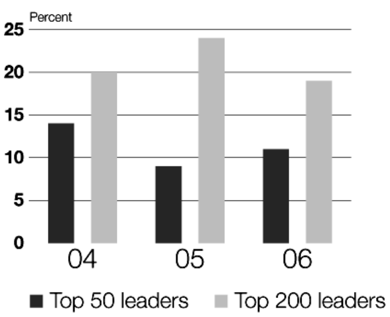
All employees shall be secured a total salary that is fair, competitive, and in accordance with the local industry standard. Only relevant qualifications such as education, experience, results and other professional criteria shall be taken into account when making appointments, or when giving training, remuneration and promotion. There are no significant gender pay differentials for employees earning tariff wages in Norway. Salary conditions for graduates in the Norwegian business are reviewed annually. Once again, no general differences were found in 2006 that could be related to gender.

Restructuring, extensive projects and cost-saving drives made great demands on the employees in 2006 as well. The Board of Directors monitors how organizational and management issues are dealt with as a result of greater impact of internationalization, competency, diversity and dynamics. We would like to extend our thanks to all employees who contribute to Hydro's progress with considerable efforts and cooperative spirit.

Share of women leaders



Share of non-Norwegian leaders



Board developments

Lena Olving and Grete Faremo were elected to the Board of Directors in 2006. They replaced Borger A. Lenth and Ingvild Myhre, who had been board members since 1998 and 2001, respectively. Elisabeth Grieg was elected new deputy chairperson, and Kurt Anker Nielsen was elected new chairperson of the Audit Committee, after Borger Lenth. The Board expresses its gratitude to Lenth and Myhre for their many years of service. During 2006 the Board held 20 meetings, the Board's Compensation Committee six meetings and the Audit Committee eight meetings. The Board has an annual plan for its work and undertook in 2006 a review of its way of working, competency, priorities and of the cooperation between the Board and the Company's management. Hydro's portfolio strategy was a major task for the Board in 2006 — to position both the oil and gas. and the aluminium businesses for further development. Competence development measures for the Board in 2006 included a dedicated day of competence development, outside ordinary Board meetings, and an introduction program for the new Board members. The Board regularly holds meetings outside the head offices, and in 2006 had a one week visit to Hydro's activities in Qatar and in Libya. Improvement of the corporate governance structure continued in 2006.

Net income and dividend — Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 20,506 million in 2006, compared with NOK 16,041 million in 2005 and NOK 9,557 million in 2004. Net income was NOK 20,248 million, compared with NOK 16,060 million in 2005 and NOK 10,285 million in 2004. The increase was mainly due to higher dividends from subsidiary companies. The Board proposes to the Annual General Meeting a dividend of NOK 5 per share for 2006, in total NOK 6,131 million. The balance, NOK 14,117 million, will be transferred to retained earnings.

According to Section 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on the assumption of a going concern.

Oslo 12 March 2007

Jan Reinås
Chairperson

Elisabeth Grieg
Deputy Chairperson

Grete Faremo
Board member

Håkan Mogren
Board member

Lena Olving
Board member

Geir Nilsen
Board member

Kurt Anker Nielsen
Board member

Sten Roar Martinsen
Board member

Terje Friestad
Board member

Elvind Reiten
President and CEO

Consolidated income statements US GAAP

Consolidated statements of comprehensive income

Year ended 31 December, Amounts in NOK million (except per share amounts)	Notes	2006	2005	2004
Operating revenues	5	196,234	171,231	151,026
Raw materials and energy costs		98,961	86,973	79,728
Payroll and related costs	4, 6, 19	19,404	17,681	18,155
Depreciation, depletion and amortization	5, 14, 15	16,937	14,265	14,400
Impairment losses	5, 14, 15	5,228	1,467	2,182
Other	6, 24	3,481	4,588	4,787
Restructuring costs (income)		—	—	(22)
Operating costs and expenses		144,010	124,994	119,229
Operating income	5	52,224	46,237	31,796
Equity in net income of non-consolidated investees	5, 12	962	593	597
Financial income (expense), net	7, 10, 23	1,785	(1,889)	121
Other income (expense), net	5, 8	53	990	169
Income from continuing operations before taxes and minority interest		55,024	45,932	32,682
Income tax expense	9	(37,598)	(30,271)	(21,181)
Minority interest		(202)	(118)	(106)
Income from continuing operations before cumulative effect of changes in accounting principles		17,224	15,542	11,394
Income from discontinued operations	2	167	174	1,166
Income before cumulative effect of changes in accounting principles		17,391	15,716	12,560
Cumulative effect of changes in accounting principles	1, 20	—	(78)	—
Net income	27	17,391	15,638	12,560
Basic and diluted earnings per share from continuing operations before cumulative effect of changes in accounting principles[1)]	3	13.90	12.40	9.00
Basic and diluted earnings per share from discontinued operations[1)]	3	0.10	0.10	0.9
Basic and diluted earnings per share before cumulative effect of changes in accounting principles[1)]	3	14.00	12.50	9.90
Basic and diluted earnings per share[1)]	3	14.00	12.50	9.90
Consolidated statements of comprehensive income[2)]				
Net income		17,391	15,638	12,560
Net unrealized loss on available-for-sale securities	3	—	(9)	(2)
Minimum pension liability adjustment	3	307	(510)	(132)
Net investment hedge	3	—	33	320
Cash flow hedges	3	(772)	(751)	(339)
Net foreign currency translation adjustments	3	(1,335)	711	(1,628)
Total other comprehensive income (loss), net of tax	3	(1,800)	(526)	(1,781)
Comprehensive income, net of tax		15,591	15,112	10,779

1) Previously reported earnings per share and total number of outstanding shares have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

2) Changes in shareholders' equity include net income together with other changes not related to investments by and distribution to shareholders. (See Note 3.)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets US GAAP

31 December, Amounts in NOK million	Notes	2006	2005
Assets			
Cash and cash equivalents		**6,760**	10,463
Short-term investments	10	**15,020**	3,865
Accounts receivable, less allowances of NOK 813 and NOK 784		**25,608**	23,333
Inventories	11	**16,497**	14,553
Prepaid expenses and other current assets	11	**14,025**	15,912
Current deferred tax assets	9	**3,099**	2,166
Current assets held for sale	2	**1,122**	—
Total current assets	5	**82,131**	70,293
Non-consolidated investees	12	**10,455**	10,814
Property, plant and equipment, less accumulated depreciation, depletion, amortization and impairment losses	14	**124,976**	128,191
Intangible assets	13, 15	**4,861**	5,153
Prepaid pension, investments and other non-current assets	13, 19	**7,763**	11,910
Deferred tax assets	9	**1,239**	833
Non-current assets held for sale	2	**2,569**	—
Total non-current assets	5	**151,862**	156,902
Total assets	5	**233,993**	227,195
Liabilities and shareholders' equity			
Bank loans and other interest-bearing short-term debt	16	**3,213**	4,658
Current portion of long-term debt	18	**441**	379
Other current liabilities	17	**55,550**	47,239
Current deferred tax liabilities	9	**1,134**	980
Current liabilities in disposal group	2	**738**	—
Total current liabilities		**61,076**	53,256
Long-term debt	18	**19,619**	21,387
Accrued pension liabilities	19	**12,391**	9,939
Other long-term liabilities	20	**16,126**	12,424
Deferred tax liabilities	9	**27,307**	33,713
Long-term liabilities in disposal group	2	**273**	—
Total long-term liabilities		**75,715**	77,462
Minority shareholders' interest in consolidated subsidiaries		**707**	981
Share capital	3	**4,708**	4,739
Additional paid-in capital	3	**9,736**	10,501
Retained earnings	3	**97,811**	85,927
Treasury shares at cost	3	**(6,624)**	(3,589)
Accumulated other comprehensive income (loss)	3	**(9,135)**	(2,083)
Shareholders' equity	3, 27	**96,496**	95,495
Total liabilities and shareholders' equity		**233,993**	227,195
Total number of outstanding shares[1)]		**1,226,175,885**	1,250,692,320
Nominal value per share[1)]		**3.66**	3.66

1) Previously reported nominal value per share and total number of outstanding shares have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

Consolidated statements of cash flows US GAAP and N GAAP[1)]

Year ended 31 December, Amounts in NOK million	Notes	2006	2005	2004
Operating activities:				
Net income		**17,391**	15,638	12,560
Adjustments to reconcile net income to net cash provided by operating activities:				
Income from discontinued operations	2	**(167)**	(174)	(1,166)
Depreciation, depletion, amortization and impairment losses	5	**22,164**	15,752	16,581
Restructuring costs (income)		**—**	—	(22)
Equity in net income of non-consolidated investees	5, 12	**(962)**	(593)	(597)
Dividends received from non-consolidated investees		**417**	323	326
Deferred taxes	9	**(4,503)**	(503)	(2,946)
Loss (gain) on sale of non-current assets		**493**	(905)	41
Loss (gain) on foreign currency transactions	7	**(1,058)**	2,157	(1,348)
Net sales (purchases) of trading securities		**29**	(49)	(177)
Other		**(201)**	783	779
Working capital changes that provided (used) cash:				
Receivables		**(2,900)**	(2,095)	(940)
Inventories		**(2,060)**	(1,903)	(1,042)
Prepaid expenses and other current assets		**3,723**	(7,847)	1,781
Other current liabilities		**6,361**	6,424	3,355
Net cash provided by continuing operating activities		**38,727**	27,008	27,185
Investing activities:				
Purchases of property, plant and equipment		**(18,580)**	(17,270)	(15,743)
Purchases of other long-term investments		**(4,060)**	(17,259)	(815)
Purchases of short-term investments		**(22,650)**	(15,162)	(9,166)
Proceeds from sales of property, plant and equipment		**481**	1,322[2)]	835
Proceeds from sales of other long-term investments		**1,532**	1,862	1,389
Proceeds from sales of short-term investments		**11,550**	22,445	12
Net cash used in continuing investing activities		**(31,727)**	(24,062)	(23,488)
Financing activities:				
Loan proceeds		**85**	1,844	143
Principal repayments	3	**(1,841)**	(2,102)	(9,271)
Ordinary shares purchased	3	**(3,949)**	(1,589)	(1,684)
Ordinary shares issued		**59**	71	44
Dividends paid	3	**(5,506)**	(5,021)	(2,811)
Net cash used in continuing financing activities		**(11,152)**	(6,797)	(13,579)
Foreign currency effects on cash		**315**	(172)	(264)
Discontinued operations:				
Net cash provided by operating activities	2	**349**	377	1,377
Net cash provided by (used in) investing activities	2	**(173)**	(256)	8,366
Net cash provided by (used in) financing activities	2	**4**	—	(109)
Foreign currency effects on cash	2	**1**	(1)	5
Net cash provided by discontinued operations		**181**	120	9,639
Net decrease in cash and cash equivalents		**(3,656)**	(3,903)	(507)
Cash and cash equivalents reclassified to assets held for sale		**(47)**	—	—
Cash and cash equivalents at beginning of year		**10,463**	14,366	14,873
Cash and cash equivalents at end of year		**6,760**	10,463	14,366
Cash disbursements (receipts) regarding:				
Interest (net of amount capitalized)[3)]		**(378)**	(48)	1,701
Income taxes		**37,057**	29,612	19,758

1) There are no material differences between consolidated statements of cash flows according to US GAAP and Norwegian accounting principles (N GAAP).

2) In January 2005, Hydro received approximately NOK 1.1 billion relating to the sale of its 10% ownership interest in Snøhvit in 2004, and that was reported as a short-term receivable within Other current assets as of 31 December 2004.

3) Includes cash disbursements relating to early repayment of long-term debt (‘‘breaking costs’’) of NOK 15 million, NOK 6 million, and NOK 938 million, for the years ended 2006, 2005, and 2004, respectively (Note 7).

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statements N GAAP

Year ended 31 December, Amounts in NOK million	Notes	2006	2005	2004
Operating revenues	5	195,108	171,032	150,247
Raw materials and energy costs		99,729	87,457	79,800
Change in inventories of own production		(1,009)	(448)	(214)
Payroll and related costs	4, 6, 19	19,404	17,681	18,155
Depreciation, depletion, amortization and impairment losses	5, 14, 15	22,836	16,018	16,764
Other		3,470	4,539	4,745
Restructuring costs (income)		—	—	(22)
Operating costs and expenses	6	144,429	125,247	119,229
Operating income	5	50,679	45,784	31,018
Equity in net income of non-consolidated investees	5, 12	1,095	552	556
Financial income (expense), net	7, 10, 23	1,785	(1,889)	121
Other income, net	5, 8	53	988	169
Income from continuing operations before taxes and minority interest		53,612	45,436	31,864
Income tax expense	9	(37,280)	(30,317)	(20,980)
Net income continuing operations		16,332	15,119	10,884
Net income discontinued operations	2	167	174	1,140
Net income		16,499	15,292	12,025
Minority interest		(246)	(118)	(80)
Net income after minority interest	27	16,253	15,174	11,944

Oslo 12 March 2007

Jan Reinås
Chairperson

Elisabeth Grieg
Deputy Chairperson

Grete Faremo
Board member

Håkan Mogren
Board member

Lena Olving
Board member

Geir Nilsen
Board member

Kurt Anker Nielsen
Board member

Sten Roar Martinsen
Board member

Terje Friestad
Board member

Eivind Reiten
President and CEO

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 27 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Consolidated balance sheets N GAAP

31 December, Amounts in NOK million	Notes	2006	2005
Assets			
Deferred tax assets	9	**1,426**	975
Other intangible assets	13, 15	**3,884**	4,596
Intangible assets		**5,309**	5,572
Property, plant and equipment	14	**124,682**	128,113
Non-consolidated investees	12	**10,637**	10,669
Prepaid pension, investments and other non-current assets	13, 19	**9,635**	8,943
Financial non-current assets		**20,272**	19,612
Asset held for sale	2	**3,691**	—
Inventories	11	**16,497**	14,653
Accounts receivable, less allowances of 813 and 784		**25,608**	23,333
Prepaid expenses and other current assets		**9,824**	12,186
Short-term investments	10	**15,020**	3,865
Cash and cash equivalents		**6,760**	10,463
Current assets		**73,709**	64,401
Total assets	5	**227,663**	217,697
Liabilities and shareholders' equity			
Share capital	3	**4,708**	4,739
— Treasury shares (nominal value)		**(221)**	(161)
Premium paid-in capital		**9,611**	10,432
Other paid-in capital		**125**	69
Total paid-in capital		**14,223**	15,078
Retained earnings incl. treasury stock	3	**86,818**	76,685
— Treasury shares		**(6,404)**	(3,428)
Total retained earnings		**80,414**	73,258
Minority shareholders' interest in consolidated subsidiaries		**751**	981
Shareholders' equity	3, 27	**95,389**	89,317
Accrued pension liabilities	19	**7,804**	9,939
Deferred tax liabilities	9	**27,845**	32,459
Other long-term liabilities	20	**14,327**	10,269
Long-term liabilities		**49,977**	52,667
Long-term debt	18	**19,619**	21,387
Liabilities in disposal groups	2	**1,011**	—
Bank loans and other interest-bearing short-term debt	16	**3,213**	4,658
Current portion of long-term debt	18	**441**	379
Dividends payable		**6,131**	5,503
Other current liabilities	17	**51,883**	43,786
Current liabilities		**61,669**	54,326
Total liabilities and shareholders' equity		**227,663**	217,697

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 27 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Notes to the consolidated financial statements

Note 1

Summary of significant accounting policies

Norsk Hydro ASA is an offshore producer of oil and gas. as well as an integrated aluminium supplier with operations in nearly 40 countries. The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages F1 to F3. The consolidated financial statements prepared in accordance with accounting principles generally accepted in Norway (N GAAP) are located on pages F3 to F5. Financial statement preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

The accompanying notes include disclosures required by US GAAP as well as disclosures in accordance with N GAAP (given in italics) and are an integral part of both sets of financial statements. The following description of accounting principles applies to both US GAAP and N GAAP unless otherwise specified.

See note 27 for a reconciliation and explanation of the differences between net income and shareholders' equity for US GAAP and N GAAP.

Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies. Hydro consolidates subsidiaries where Hydro controls directly or indirectly more than 50 percent of the voting interest. Hydro consolidates variable interest entities (VIEs) when Hydro is considered as the primary beneficiary based on contractual and risk-sharing arrangements. Variable Interest Entities (VIEs) are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. All significant intercompany transactions and balances have been eliminated.

Investments in companies (non-consolidated investees) in which Hydro exercises significant influence are accounted for using the equity method. The equity method involves showing the investment at Hydro's share of the equity in the investee, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Equity in net income from non-consolidated investees. Material unrealized profits resulting from transactions with an investee are eliminated.

Significant influence normally exists when Hydro has a substantial ownership interest of 20 to 50 percent of the voting shares. Hydro uses the equity method for a limited number of investees where Hydro owns less than 20 percent of the voting rights, based on an evaluation of the governance structure in each investee. In corporate joint ventures, special voting rights in some companies give each of the partners decision rights that exceed what normally would follow from the ownership share. This may be in the form of a specified number of board representatives, in the form of a right of refusal on important decisions, or by requiring a qualified majority for all or most of the important decisions. Participation in joint ventures is accounted for using the equity method, except for jointly controlled assets where the partners have an undivided interest. These and other participations in joint ventures in the upstream oil and gas business are accounted for using the pro-rata method.

Hydro reviews non-consolidated investees for impairment when indicators of a possible loss in value are identified. As Hydro's non-consolidated investees generally are not listed on a stock exchange or regularly traded, our impairment review for such investees can only in rare cases be based on market prices. Impairment indicators include such items as operating losses of adverse market conditions. The fair value of the investment is estimated based on valuation model techniques. If the estimated fair value of the investee is below Hydro's carrying value and the impairment is considered to be other than temporary, the investment is written down as impaired.

Business combinations

Business combinations are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value as of the time of the acquisition. Any excess of the purchase price over the fair value is recorded as goodwill. When the ownership interest in a subsidiary is less than 100 percent, the recorded amount of assets and liabilities acquired reflect only Hydro's relative share of excess values. For VIEs, the total fair value of assets and liabilities are recognized and any excess value attributable to non-controlling interests affects minority interests. See note 2 for a description of significant acquisitions and disposals during the past three years.

For N GAAP, consolidated assets and liabilities reflect 100 percent of the fair market value at the purchase date, except tor goodwill. (There are currently no acquisitions giving rise to such differences.) The relative portion of any excess value recorded relating to minority shareholders is reflected in the total Minority shareholders interest and is a component of Group equity.

Assets held for sale and discontinued operations

When an asset or a group of assets are decided to be sold, they are reported as Assets held for sale in accordance with FASB Statement of Accounting Standards No. 144 ‘‘Accounting for the Impairment or Disposal of Long-Lived Assets’’, provided that certain criteria are met, including that it is probable that the sale will be completed within one year. Assets meeting the criteria for presentation as an Asset held for sale are not reclassified as an Asset held for sale in prior period balance sheets, unless the classification is due to a spin-off to shareholders.

When a component of Hydro is sold or decided to be sold, it is reported as Discontinued operations, provided that certain criteria are met. A component can be a reportable segment or a smaller unit which can be clearly distinguished, and for which separate financial information is available. Cash flows, results of operations and any gain or loss from disposal are excluded from Continuing operations and reported separately.

Components to be disposed of through a spin-off to shareholders are reclassified to Discontinued operations as of the date of disposal. Prior period assets, liabilities, cash flows and results of operations are reclassified to be comparable.

Immaterial disposal groups are not classified as assets held for sale or discontinued operations.

Exit costs

Hydro recognizes a liability for costs associated with an exit or disposal activity when the liability is incurred, not at the commitment date of an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed as of the date of employee notification.

For N GAAP, costs related to restructuring or exit activities are required to be recognized upon formal commitment to an exit plan, and may therefore be recognized in an earlier period than for US GAAP.

Foreign currency translation

The financial statements, including any excess values, of foreign operations are translated using the exchange rate at year-end for the balance sheet, and average exchange rates for the income statement. Translation gains and losses, including the effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in other comprehensive income.

Foreign currency transactions

Realized and unrealized currency gains or losses on transactions are included in net income. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the functional currency not qualifying for hedge accounting treatment are also included in net income.

Revenue recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered. Certain contracts specify price determination in a later period. In these cases, the revenue is recognized in the period prices are determinable. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, only the net commission fee is recognized as revenue.

Revenues from the production of oil and gas are recognized on the basis of the company’s net working interest, regardless of whether the production is sold (entitlement method). The difference between Hydro’s share of produced volumes and sold volumes is not material.

Activities related to the trading of derivative commodity instruments, or related to the purchase or delivery of physical commodities on a widely recognized commodity exchange or delivery hub, as well as physical commodity swaps with a single counterparty, are presented on a net basis in the income statement, with the margin from trading recognized in operating revenues.

Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Short-term investments

Short-term investments include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recognized when earned.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Cost includes direct materials, direct labor and the appropriate portion of production overhead or the purchase price of the inventory. Abnormal amounts of Idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period.

Investments

Investments include Hydro's portfolio of long-term marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is considered available-for-sale securities and is measured at fair value. Unrealized holding gains and losses, net of applicable taxes, are credited or charged to Other Comprehensive Income. Other investment income is recognized when earned.

Investments where a market value is not readily observable are recognized at cost. Investments are reviewed for impairment if indications of a loss in value are identified. Fair value of the investment is estimated based on valuation model techniques for non-marketable securities. When the estimated fair value of the investee is below Hydro's carrying value and the impairment is considered to be other than temporary, the investment is written down as impaired.

For N GAAP, investments are valued at the lower of historical cost or market value. See note 27 for further information.

Exchanges of nonmonetary assets

Nonmonetary transactions that have commercial substance are accounted for at fair value and any resulting gain or loss on the exchange is recognized in the income statement. A nonmonetary exchange has commercial substance if Hydro's future cash flows are expected to change significantly as a result of the exchange. Hydro accounts for certain nonmonetary exchanges of oil and gas related assets at fair value and accounts for certain other nonmonetary exchanges of oil and gas producing assets where Hydro has substantial continuing involvement without recognizing a gain or loss on the exchange.

Property, plant and equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as described in FASB Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and disposition of the asset or group of assets working together to create identifiable, relatively independent cash flows. If the carrying amount is not recoverable, a write-down (impairment) to fair value is recorded. In the event of a subsequent increase in the fair value of the impaired asset or group of assets, previously recognized impairment write-downs are not reversed.

For N GAAP the impairment of long-lived assets is recognized when the recoverable amount determined as the higher of fair value or value in use of the asset or group of assets is less than the book value. The amount of the impairment is the difference between the carrying value and the higher of an asset's value in use and its net selling price. An impairment loss is reversed if the impairment situation is deemed to no longer exist.

Periodic maintenance Expenditures for periodic maintenance and repairs applicable to production facilities are accounted for on an accrual basis. Normal maintenance and repairs for all other properties are expensed as incurred. Major replacements and renewals that materially extend the life of properties are capitalized and any assets replaced are retired.

Capitalized interest Interest is capitalized as part of the historical cost of qualifying assets, and subsequently amortized over the estimated useful life of the asset.

Leased assets Leases which provide Hydro with substantially all the rights and obligations of ownership are accounted for as capital leases. Such leases are valued at the present value of the minimum lease payments or the fair value, if lower, and recorded as assets under Property, plant and equipment. The liability is included in Long-term debt. The capital leases are depreciated and the related liability reduced by the amount of the lease payment less the effective interest expense. All other leases are classified as operating leases and the lease payments are recognized as an expense over the term of the lease.

Exploration and development costs of oil and gas reserves Hydro uses the successful efforts method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the cost of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Cost relating to acquired exploration rights are allocated to the relevant areas and capitalized, pending the determination of the existence of proved reserves. The acquired exploration rights are charged to operating expense when a determination is made that proved reserves will not be found in the area. Each block or area is assessed separately. All development costs for wells, platforms, equipment and related interest are capitalized. Capitalized exploration and development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that Hydro uses future net cash flows to evaluate unproved properties for impairment, the improved reserves are risk adjusted before estimating future cash flows associated with those resources. Preproduction costs are expensed as incurred. See note 26 for additional information.

Depreciation, depletion and amortization Depreciation and depletion expense includes the accretion of discounted asset retirement obligations. Depreciation is determined using the straight-line method over the estimated useful life of the asset with the following rates:

Machinery and equipment	5 - 25 percent
Buildings	2 - 5 percent
Other	10 - 20 percent

Oil and gas producing properties are depreciated individually using the unit-of-production method as proved developed reserves are produced. Unit-of-production depreciation rates are reviewed and revised whenever there is an indication of the need for a change in the rates and at a minimum all producing fields are reviewed at least once a year. Any revisions in the rates are accounted for prospectively.

Asset retirement obligations

Hydro recognizes the estimated fair value of asset retirement obligations in the period in which it is incurred. Obligations for oil and gas installations are recognized when the assets are constructed and ready for production. Related asset retirement costs are capitalized as part of the carrying value of the long-lived asset and the liability is accreted for the change in its present value each reporting period. Labilities that are conditional on a future event (e.g. the timing or method of settlement), whether under the control of Hydro or not, are recognized if the fair value of the liability can be reasonably estimated. Asset retirement costs are depreciated over the useful life of the related long-lived asset.

Intangible assets

Intangible assets acquired individually or as a group are recorded at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Intangible assets with finite useful lives are amortized on a straight-line basis over their benefit period. Intangible assets determined to have an indefinite useful life are not amortized but are subject to impairment testing on an annual basis.

Goodwill When a business is acquired, the purchase price in excess of the identified fair value of assets and liabilities is accounted for as goodwill. Goodwill is not amortized, but is reviewed for impairment at a minimum on an annual basis and whenever indicators of possible impairment are observed. Goodwill is recorded at the reporting unit level, which is one level below the operating segments. (For Hydro this is the sector level in Aluminium Metal and Aluminium Products, and the sub-segment level in Oil & Energy; see note 5 for a description of segments). The impairment test requires that the fair value of the reporting unit be compared to the carrying value of the reporting unit. The fair value of the reporting unit is estimated using valuation techniques.

For N GAAP, goodwill is amortized over a period not exceeding 10 years. See note 27 for further information.

Emission rights Hydro accounts for Norwegian and EU government granted and purchased CO_2 emission allowances at nominal value (cost) as an intangible asset. The emission rights are not amortized as they are either settled on an annual basis before year-end (matched specifically against actual CO_2 emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO_2 emissions over the 95 percent level granted by the government are recognized as a liability at the point in time when emissions exceed the 95 percent level. Any sale of government granted CO_2 emission rights is recognized at the time of sale at the transaction price. See note 15 for additional information.

Contingencies and guarantees

Hydro recognizes a liability for the fair value of obligations it has undertaken in issuing guarantees, including Hydro's ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. Contingencies are recognized in the financial statements when probable of occurrence and can be estimated reliably.

Oil and gas royalty

Oil and gas revenue is recorded net of royalties payable in kind.

Shipping costs

Shipping and handling costs are included in Other operating expenses. Shipping and handling costs invoiced to customers are included in Operating revenues.

Research and development

Research and development costs are expensed as incurred. To the extent development costs are directly contributing to the construction of a fixed asset, the development costs are capitalized as part of the asset provided all criteria for capitalizing the cost are met.

For N GAAP development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise: and (b) the cost of the asset can be measured reliably. All expenditures on research are expensed as incurred. Development costs contributing to the exploration for oil and gas resources are accounted for under the specific guidance for exploration costs, and generally do not qualify for capitalization under the successful efforts method. See note 27 for additional information.

Other income (expense), net

Transactions resulting in income or expense which are material in nature and from sources other than normal production and sales operations are classified as Other income and expense.

Income taxes

Deferred income tax expense is calculated using the liability method in accordance with FASB Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS 109). Under this method, deferred tax assets and liabilities are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Deferred tax assets are reviewed for recoverability, and a valuation allowance is recorded against deferred tax assets to the extent that it is more likely than not that the deferred tax asset will not be realized. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for the deferred tax related to items charged directly to equity. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date. Deferred taxes are not provided on undistributed earnings of most subsidiaries, as such earnings are deemed to be indefinitely reinvested.

For N GAAP, Hydro follows the Norwegian Accounting Standards Board standard which, like SFAS 109, is based on the liability method. See note 27 for additional information.

Derivative instruments

Hydro applies FASB Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended, when accounting for derivatives, as well as when determining whether contracts are derivatives. Derivative financial instruments are marked-to-market with the resulting gain or loss reflected in net financial expense, except when the instruments meet the criteria for hedge accounting. Derivatives are classified as short-term if their final maturity date is within 12 months of the balance sheet date. If Hydro has master netting agreements, or the intention and ability to settle two or more derivatives net, they are presented net on the face of the balance sheet. Otherwise derivative contracts are presented gross at their fair value.

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in interest expense and foreign exchange gain (loss).

Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial income (expense), net. Swaption contracts are marked to their market value at each balance sheet date with the resulting unrealized gain or loss reflected in Financial income (expense), net.

Derivative commodity instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenue and/or operating cost, unless the instrument is designated as a hedge instrument and qualifies for hedge accounting.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of the qualifying hedging instruments are offset in part or in whole by the corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other Comprehensive Income (OCI) until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is not probable to occur, all the corresponding gains and losses deferred in OCI are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in current period's earnings. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of hedged item are recognized currently in earnings.

Energy contracts are accounted for according to EITF 02-3 Energy Contracts, and are recorded in the balance sheet at fair value unless those contracts qualify for the normal purchase or normal sale exemption. Energy contracts that do not meet the criteria of EITF 02-3 are treated as executory contracts with no gain or loss recognized prior to realization.

For N GAAP, commodity derivative instruments that are traded in a regulated, liquid market are marked-to-market with their fair market value recorded in the balance sheet as either assets or liabilities. Unrealized gains and losses for commodity derivative instruments that are not traded in a regulated, liquid market are netted and net unrealized gains are not recognized. The traded and not traded commodity contracts can be evaluated as one *portfolio (if applicable) and recognized at a zero market value or at a loss. Cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement under N GAAP, until the underlying hedged transactions actually occur. See note 27 for further information.*

Share-based compensation

Hydro accounts for share-based compensation in accordance with FASB Statement of Financial Accounting Standards No. 123 (R) ''Share-Based Payment'' (SFAS 123 (R)). At each reporting period, the fair value of any share-based compensation is measured using a Black-Scholes option-pricing model and compensation expense is accrued, pro-rata based on the fair value, over the service period. For additional information see note 4.

Pro-forma Information

In the year of adoption of SFAS 123 (R), the pro-forma disclosures required by the predecessor accounting standard (SFAS 123) are still required. The following table illustrates the effect on net income and earnings per share for 2004 and 2005 as if Hydro had applied the fair value recognition provisions of SFAS 123 (R) to our share appreciation rights in the prior periods.

In NOK million, except for earnings per share	**2005**	**2004**
Net income, as reported	15,638	12,560
Add: share-based employee compensation expense included in reported net income, net of related tax effects (66 442; 11 003)	48	8
Less: Total share-based compensation expense determined under the fair value method, net of tax	(29)	(11)
Pro-forma net income	15,657	12,557
Earnings per share:[1]		
Basic and diluted as reported	12.50	9.90
Basic and diluted, pro-forma	12.50	9.90

1) Previously reported earnings per share figures are adjusted to reflect the 5-for-1 stock spit effective 10 May 2006.

Employee retirement plans

Pension costs are calculated in accordance with FASB Statement of Accounting Standards No. 87 ''Employers' Accounting for Pensions'' and FASB Statement of Accounting Standards No. 88 ''Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits.'' Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants. The funded status of a pension plan is measured as of 31 December. Disclosures related to pension plans and other retirement benefits are in accordance with FASB Statement of Financial Accounting Standards No. 158 ''Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans'' (SFAS 158) and FASB Statement No. 132 (R) ''Employers' Disclosures about Pensions and Other Postretirement Benefits.'' Hydro recognizes the overfunded or underfunded status of defined benefit plans as an asset or liability in the statement of financial position, with changes in the funded status, net of tax recognized as Other comprehensive income.

For N GAAP, the same measurement principles have been applied, in accordance with the NRS 6 Pension Cost, and there is no difference in the net periodic pension cost or projected benefit obligation under N GAAP as compared to US GAAP. For N GAAP, the overfunded or underfunded status of defined benefit plans is not recognized in the balance sheet. See note 27 for additional information.

Changes in accounting principles

Recognition of over- or underfunded status of retirement plans

In September 2006 the FASB Issued Statement of Financial Accounting Standards No. 158 ''Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.'' This standard is an amendment of FASB Statements No. 87, 88, 106 and 132 (R). The standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position. Changes in the funded status are to be recognized through comprehensive income in the year in which changes occur. In accordance with SFAS 158 Hydro is initially applying the requirement to recognize the funded status of a benefit plan and the additional disclosure requirements as of 31 December 2006. The impact of this requirement on the statement of financial position is material, see note 19 for additional information.

SFAS 158 also mandates measurement of the funded status of a plan as of year-end, thus eliminating the previously allowed possibility for measurement within the last three months of the fiscal year. Adoption of a year-end measurement date is required by SFAS 158 for fiscal years ending after 15 December 2008, with early application encouraged. Hydro is adopting the year-end measurement date requirement as of 31 December 2006. The impact of adopting the measurement date provisions is nil, as Hydro's policy for the measurement date for funded employee retirement plans has always been as of 31 December.

For N GAAP, the overfunded or underfunded status of defined benefit plans is not recognized in the balance sheet.

Inventory counterparty purchases and sales

During 2005 the FASB ratified the consensus reached by the EITF on Issue No. 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty." The issue arose specifically related to buy/sell arrangements within the oil and gas industry. The EITF concluded that inventory purchase and sale transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying Opinion 29 (nonmonetary exchanges). The EITF also concluded that exchanges of inventory should be recognized at carryover basis except for exchanges of finished goods for either raw materials or work-in-process, which would be recognized at fair value. Effective 1 April 2006 Hydro implemented Issue No. 04-13 with no material impact. Issue No. 04-13 applies to any new arrangements entered into after the implementation date.

Accounting changes and error corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" (SFAS 154). The standard applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements that do not specify a certain transition method. It generally requires retrospective application to prior periods' financial statements for changes in accounting principles. Hydro adopted SFAS 154 as of 1 January 2006. Hydro did not have any accounting changes or error corrections within the scope of SFAS 154 during 2006.

The implementation of SFAS 154 eliminates a prior difference between US GAAP and N GAAP.

Altersteilzeit (atz) early retirement programs

In June 2005 the EITF reached a consensus on Issue No. 05-05 "Accounting for the Altersteilzeit Early Retirement Programs and Similar Type Arrangements." An Altersteilzeit Type II program is an early retirement program supported by the German government. This Issue addresses the accounting treatment of the annual bonus and additional pension contributions. The EITF consensus is that employee benefits provided under a Type II ATZ arrangement should be accounted for as a termination benefit under the FASB Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits." Recognition of the cost of the benefits begins at the time individual employees enroll in the ATZ arrangements (e.g., sign a contract). The German government provides a subsidy to an employer related to the early retirement benefit payments if the employer has hired replacement employees. The EITF concluded that subsidies received under the ATZ arrangements should be accounted for when the employer meets the criteria necessary to receive the subsidy. Hydro has adopted EITF No. 05-05 as of 1 January 2006 with no material effect.

Share-based payment

In December 2004 the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment." SFAS 123 (R) requires all share-based payment plans to be recognized in the financial statements at fair value. Hydro adopted SFAS 123 (R) as of 1 January 2006. The impact of adopting SFAS 123 (R) on Hydro's financial statements for 2006 is not material and the income statement cumulative effect of change in accounting principle is nil.

For N GAAP, Hydro adopted NRS 15A Share-Based Payment effective for 2005. The Norwegian standard is the same as international Financial Reporting Standards 2 Share-based Payment (IFRS 2). The standard requires all share-based payment plans to be recognized in the financial statements at fair value. Although differences *exist between the US GAAP and N GAAP accounting standards for share-based payments, as all stock options granted by Hydro are cash settled the accounting treatment is the same under US GAAP and N GAAP.*

Asset retirement obligations

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 ''Accounting for Conditional Asset Retirement Obligations.'' This Interpretation is a clarification of the term ''Conditional Asset Retirement Obligation'' as used in Statement of Financial Accounting Standards No. 143 ''Accounting for Asset Retirement Obligations'' and requires an entity to recognize a liability tor a legal obligation to perform asset retirement activities even though the retirement of the asset is conditional on a future event. Hydro adopted FIN 47 as of 31 December 2005. The cumulative effect of the change in accounting principle related to FIN 47 to an after-tax decrease in net income of NOK 78 million.

For N GAAP, the change in accounting principle was implemented on a retrospective basis, with the effect recorded to equity. Comparable figures are restated for N GAAP purposes; see note 27.

Inventory cost

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ''Inventory Cost, an amendment of ARB 43, Chapter 4'' (SFAS 151). The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current period charges rather than as a portion of the inventory cost. Hydro adopted SFAS 151 as of 1 July 2005. The impact of adopting SFAS 151 on Hydro's financial statements has not been material.

For N GAAP the adoption of SFAS No. 151 does not represent any difference in the measurement of inventory.

Exchanges of nonmonetary assets

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ''Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29'' (SFAS 153). The statement amends APB 29 ''Accounting for Nonmonetary Transactions'', FASB Statement of Financial Accounting Standards No. 19 ''Financial Accounting and Reporting by Oil and Gas Producing Companies'' and certain other standards. Hydro implemented the provisions of SFAS 153 for nonmonetary exchange transactions as of 1 January 2005 with no material effect.

For N GAAP the adoption of SFAS 153 has not represented differences in the measurement of nonmonetary exchange transactions.

Suspended well cost

Effective for reporting periods beginning after the issuance date of 4 April 2005, the FASB Staff Position No. FAS 19-1 ''Accounting for Suspended Well Costs'' provides guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Financial Accounting Standards Statement No. 19 ''Financial Accounting and Reporting by Oil and Gas Producing Companies'' (SFAS 19) requires the cost of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. FSP FAS 19-1 amended SFAS 19 to allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met and additional disclosures provided. Hydro has not recognized any changes to the amounts previously capitalized. See note 26 for additional information.

Consolidation of variable interest entities

Effective 1 January 2004, Hydro adopted FASB Interpretation 46 (revised December 2003) ''Consolidation of Variable Interest Entities'' (FIN 46 (R)), which is an interpretation of Accounting Research Bulletin No. 51 ''Consolidated Financial Statements'', relating to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. These entities are referred to as variable interest entities or VIEs. FIN 46 (R) provides guidance for determining which party retains the controlling financial interest in VIEs when such interest is achieved through arrangements other than voting rights. Implementation of the new requirements depended on when a company became involved with such entities. Because Hydro did not become involved with any new VIEs during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004.

Applying the guidance of FIN 46 (R), Hydro has consolidated one VIE (Slovalco) since the implementation date of FIN 46 (R) until August 2006. See note 2 for additional information.

Application of FIN 46 (R) may result In differences between US GAAP and N GAAP, depending on the relevant facts and circumstances for units required to be consolidated, or not consolidated, under FIN 46 (R). As of 31 December 2006 Hydro does not have any entities consolidated under FIN 46 (R).

Contractual mineral rights

The FASB Issued FSP FAS 142-2 ''Application of FASB Statement No. 142. Goodwill and Other Intangible Assets (SFAS 142), to Oil- and Gas-Producing Entities'' on 2 September 2004. This FSP is effective for the first reporting period beginning after the issuance date and clarifies that the costs for acquiring contractual mineral rights in oil and gas properties would continue to be recorded as those for tangible assets. It also addresses whether the scope exception within SFAS 142 for the accounting as prescribed in SFAS 19 extends to the balance sheet classification and disclosures for drilling and mineral rights of oil- and gas-producing entities. The FSP concluded that the scope exception in SFAS 142 extends to the balance sheet classification and disclosure provisions for such assets. The FSP confirms Hydro's current practice.

Intangible assets

Effective from 1 January 2004, NRS (F) Intangible assets was *revised to require that intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. The standard requires all expenditure on research to be recognized as an expense when incurred. This does not represent a difference between US GAAP and N GAAP at transition, however, for future periods the standard may represent differences for development activities compared to US GAAP.*

New pronouncements

Fair value option

In February 2007 the FASB issued Statement of Financial Accounting Standards No. 159. ''The Fair Value Option for Financial Assets and Financial Liabilities'' (SFAS 159). SFAS 159 is effective as of the beginning of an entity's first fiscal year beginning after 15 November 2007. SFAS 159 permits companies to choose to report eligible financial assets and liabilities at fair value, without having to apply complex hedge accounting provisions. The fair value option can be applied instrument by instrument and once chosen is irrevocable. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. Hydro currently has very few financial instruments that are in scope for the fair value option, and the expected impact of SFAS 159 is minimal. Hydro will implement SFAS 159 no later than 1 January 2008.

Fair value measurement

In September 2006 the FASB issued Statement of Financial Accounting Standards No. 157 ''Fair Value Measurements'' (SFAS 157). SFAS 157 is effective for fiscal years beginning after 15 November 2007 and interim periods within those fiscal years. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements, but applies under other accounting pronouncements that require or permit fair value measurements. Hydro is currently evaluating the accounting impact of SFAS 157 on the fair value measures that are recognized and/or disclosed in the financial statements. Hydro will implement SFAS 157 no later than 1 January 2008.

Major maintenance

On 8 September 2006 the FASB posted the Staff Position (FSP ''Accounting for Planned Major Maintenance Activities.'' The FSF amends certain provisions in the AICPA Industry Audit Guide, ''Audits of Airlines,'' and APB Opinion No. 28. ''Interim Financial Reporting.'' FSP AUG AIR-1 prohibits the use of the currently allowed accrue-in-advance method of accounting for planned major maintenance activities in the annual and interim financial statements. This guidance shall be applied retrospectively for all financial statements presented, unless impracticable to do so.

Hydro currently accounts for periodic maintenance and repairs applicable to production facilities on an accrual basis. Hydro will implement FSP AUG AIR-1 as of 1 January 2007 with application retrospectively applied for all comparable prior periods presented. The impact of implementing FSP AUG AIR-1 on the financial statements is expected to be material.

Uncertainty in income tax positions

In June 2006 the FASB issued Interpretation No. 48 "Accounting for Uncertainly in Income Tax Positions, an interpretation of FASB Statement No. 109" (FIN 48). This interpretation addresses the diversity in practice that has arisen, due to a lack of specific guidance in SFAS 109, related to the recognition, derecognition and measurement of income taxes. FIN 48 specifically clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold. Tax positions must meet a more-likely-than-not recognition threshold. The tax benefit is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Hydro will implement FIN 48 as of 1 January 2007. Hydro is currently evaluating the accounting impact but does not expect the adoption of FIN 48 to materially impact the results of operations or financial position.

Recognition of buy/sell arrangements

In February 2005, the SEC Issued guidance requiring companies to provide disclosures about their buy/sell arrangements. A buy/sell arrangement is one in which a company buys and sells a commodity with the same counterparty under a single contract or separate contracts entered into concurrently. The first issue, recently discussed by the EITF and now addressed by EITF 04-13, concerns whether such buy/sell arrangements should be considered non-monetary exchanges accounted for at historical cost in accordance with APB Opinion No. 29, and, if so, when, if at all, could such arrangements be accounted for at fair value. A second issue is whether buy/sell arrangements should be presented gross as revenue and expense in the income statement, or whether such arrangements should be presented net.

Hydro currently presents the trading of derivative commodity instruments and physical commodities where net settlement occurs on a net basis, with the margin included in operating revenues. Trading of physical commodities, which are not net settled, are generally presented on a gross basis in the income statement. Hydro has reviewed its presentation of certain buy/sell arrangements whereby commodities are sold and bought with the same counterparty. Hydro has concluded that net presentation on the income statement is a better representation of the underlying business purpose of certain contracts. As a result, effective 1 January 2005, these arrangements have been presented net in the income statement. These arrangements were previously presented gross in the income statement, and have been reclassified for comparison purposes. Total revenue under these contracts was NOK 1,534 million for 2004.

Note 2

Business combinations, dispositions and demerger

In December 2006 the board of directors of Hydro and Statoil recommend to their shareholders a merger of Hydro's oil and gas activities with the Norwegian oil and gas company Statoil. The merger presupposes a demerger of Norsk Hydro ASA, the parent company. As a part of the merger, a transfer will also take place of the ownership interests in a number of companies to be included in the merged company's corporate structure, as well as a transfer of the ownership interests in certain other partly owned companies. The financial effective date of the merger shall be 1 January 2007. The proposed transaction will be put forward for approval by the share holders in a general meeting, expected in June 2007. As the proposed transaction will be a spin-off to shareholders, the oil and gas activities are not considered assets held for sale or discontinued operations as of the end of 2006.

Subsequent to and during the three years ended 31 December 2006, Hydro entered into the following significant business combinations and dispositions.

2006 Acquisitions No major acquisition were agreed or completed during 2006.

2006 Dispositions In November 2006 Hydro's Board of Directors decided to sell the Company's Automotive Castings activities. Contracts to sell the 100 percent owned operations in Europe and Hydro's 50 percent interest in a joint venture company in Mexico for a total consideration of approximately NOK 3,700 million was entered into in late November. The transaction was completed on 28 February 2007 after receiving clearance from competition authorities, and resulted in a gain of approximately NOK 900 million. The Automotive Castings business is reported as Assets held for sale as of the same time. Liabilities in the companies to be sold are reported as Liabilities in disposal groups. Results from the units to be sold are reported as

Discontinued operations tor all prior periods. Further information about Assets held for sale and Discontinued operations is given below.

In July 2006 Hydro agreed to sell its 50 percent ownership share in Hydro Texaco for a total consideration of NOK 1,064 million. The transaction was completed in October after approval of the relevant authorities, and resulted in a gain of NOK 53 million. The Hydro Texaco investment was included as a non-consolidated investee in Oil & Energy.

2005 Acquisitions

In September 2005 Hydro issued an offer to acquire Spinnaker Exploration Company (Spinnaker), a US based public company. The acquisition substantially increased Hydro's presence and growth potential in the US Gulf of Mexico. The transaction was completed 13 December after approval of Spinnakers shareholders and US authorities, and is reflected in Hydro's consolidated results from that date. Spinnaker was engaged in exploration, development and production of oil and gas, mainly in the Gulf of Mexico. The consideration for all outstanding shares, including direct acquisition costs, amounted to NOK 16.534 million (USD 2,458 million).

Assets acquired and liabilities assumed have been recognized at estimated fair value. The majority of the fair values are allocated to developed and undeveloped oil and gas properties. Seismic database licenses controlled by Spinnaker, and rights to acquire such licenses by paying a change of control fee have been allocated a combined value of around NOK 500 million, of which NOK 320 million relates to database licenses that Hydro gained control of upon the acquisition. As Hydro uses the successful effort method of accounting for oil and gas exploration, this part of the purchase price was expensed as Exploration expense at acquisition. The remaining net value of NOK 180 million was expensed as the rights to acquire the seismic database licenses were exercised during 2006. The allocation of purchase price was provisional, and adjustments were made as further information about the acquired assets and liabilities assumed became known through remaining planned analyses of expected reserves in oil and gas properties and their estimated fair value. Property, plant and equipment, including proved and unproved properties were downward adjusted by approximately NOK 800 million corresponding to around 4 percent following detailed analyzes of the fair value of the acquired assets. The allocation resulted in recognition of goodwill. The main contributors to goodwill are the difference between nominal deferred tax and the present value of deferred tax, and certain seismic information not qualifying for separate recognition as intangible assets.

Allocation of purchase price

Amounts in NOK million	
Cash and cash equivalents	89
Other current assets	1,094
Property, plant and equipment	18,087
Goodwill	3,435
Short-term liabilities	(886)
Long-term liabilities	(5,284)
Estimated fair value of the net assets of Spinnaker	16,534

2005 Dispositions

In November 2005 Hydro agreed to sell its 68.8 percent ownership share in BioMar Holding A/S tor a total consideration of NOK 947 million. The transaction was completed in December after approval of the relevant authorities, and resulted in a gain of NOK 693 million. BioMar was included in Other activities.

2004 Acquisitions

No major acquisition were agreed or completed during 2004.

2004 Dispositions

In June 2004, Hydro sold its German based alumina activities consisting of the 50 percent stake in the non-consolidated investee Aluminium Oxid Stade GmbH, the related chemical grade alumina business and the dedicated bauxite supply source represented by Hydro's 10 percent share in Halco (Mining) Inc. The total consideration was NOK 677 million. The dispositions resulted in a total pretax gain of NOK 35 million. In

December 2003, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of NOK 110 million.

Variable interest entity

As of 31 December 2005, Hydro was deemed to have the majority of economic interests in Slovalco, such that for financial reporting purposes this entity was consolidated as a variable interest entity (VIE) under FIN 46R. In August 2006 Hydro exercised the option and acquired additional shares in Slovalco. Hydro now owns 55 percent of Slovalco's outstanding shares and Slovalco has been consolidated as a voting interest subsidiary, rather than a VIE. This change in classification has not resulted in any material changes in Hydro's consolidated accounts.

Assets held for sale, liabilities in disposal group and discontinued operations

The Automotive Castings business, decided to be sold in November 2006 as described above, was reported as assets held for sale and discontinued operations as of the end of November 2006. This involves separate reporting of results of operations in the businesses to be disposed of under the caption Discontinued operations for the current and all prior periods. No financial expenses related to loans are allocated to discontinued operations. Hydro's gain on the sales, after direct sales expenses and tax, will be reported as part of Discontinued operations when the transactions are completed, in the first quarter of 2007. Cash flows from discontinued operations are separately presented, and include cash flows from activities in the units to be disposed of. In the balance sheet, assets in the businesses to be disposed of and related liabilities are reported as asset groups held for sale and liabilities in disposal group as of 31 December 2006. Prior periods are not represented.

The discontinued activities were part of the Automotive sector in the Aluminium Products segment. The following table summarize financial information for the discontinued operations related to the Automotive castings business for the periods 2004 to 2006, and the balance sheet as of 31 December 2006.

Summary of financial data for Automotive Castings as included in discontinued operations

NOK million	2006	2005	2004
Operating revenues	**3,889**	2,970	2,865
Operating income	**224**	195	51
Non-consolidated investees	**9**	26	32
Financial income (expense), net	**—**	(1)	16
Income before taxes and minority interest	**233**	220	99
Income tax expense	**(66)**	(46)	(16)
Net Income from discontinued operations	**167**	174	83

NOK million	2006	2005
Current assets	**1,122**	—
Non-current assets	**2,569**	—
Total assets	**3,691**	—
Current liabilities	**738**	—
Long-term liabilities	**273**	—
Minority interest	**—**	—
Discontinued operations, net	**2,681**	—

NOK million	2006	2006	2004
Net cash provided by operating activities	**349**	377	539
Net cash used in investing activities	**(173)**	(256)	(474)
Net cash provided by financing activities	**4**	—	—
Foreign currency effects on cash flows	**1**	(1)	—
Net cash provided by discontinued operations	**181**	120	65

Demerger 2004

In November 2003, Hydro's Board of Directors concluded a plan to demerge the Company's Agri activities and transfer the operations to a newly formed company, Yara International ASA. The plan was approved by an Extraordinary General Meeting on 15 January 2004. The demerger was completed on 24 March 2004 and Yara was listed on the Oslo Stock Exchange with effect from 25 March 2004. Under the demerger plan, the demerger had financial effect from 1 October 2004. From this date, Yara International ASA assumed the risk of the agri activities. The demerger was reflected in the accounts as of the completion date, 24 March 2004. In the demerger process, substantial assets and liabilities, including subsidiaries and non-consolidated investees, were transferred to Yara. As a result of the demerger, Hydro's share capital was reduced by 8.5 percent, representing the estimated relative value of the transferred Agri activities compared to the business activity retained by Hydro. The total equity reduction amounted to NOK 7,614 million. In accordance with the demerger plan, adjustments to the equity reduction may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable. Revisions are possible through the end of 2009. Possible related adjustments are not expected to be material.

At the completion date, Hydro's shareholders received shares in Yara International ASA equal to 80 percent of the to total value of Yara, based on a valuation completed at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA were owned by Norsk Hydro ASA. The Company has subsequently sold its share holdings in Yara in connection with the demerger transaction. The demerger was reflected in the Company's accounts based on historical values of the transferred assets and liabilities. Hydro did not recognize any gain or loss, or receive any proceeds, as a result of the demerger transaction. Hydro received proceeds of NOK 2,619 million, and recognized a gain of NOK 533 million, from sale of Its 20 percent ownership in Yara in March 2004. The gain is included in ''Income from discontinued operations''.

Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger.

Income from discontinued operations

Income from discontinued operations related to Yara includes operating results from activities which, according to the demerger plan, have been transferred to Yara International ASA. Effects directly related to Yara activities, the demerger process and Hydro's sale of Yara shares are included. Results from Yara activities includes net income from subsidiaries transferred in the demerger. In addition income and expenses in Norsk Hydro ASA and certain holding companies abroad directly related to the Yara activities are included to the extent these activities are transferred to Yara or are terminated as a direct consequence of the demerger of Yara. Income from discontinued operations also includes financial expense related to loans in companies transferred to Yara. No financial expenses related to loans retained in Hydro are allocated to discontinued operations. External fees and similar expenses related to the waiving of Yara's Joint liabilities for certain of Hydro's loans, and expenses directly related to the demerger process and Hydro's sale of Yara shares are included. Hydro's gain on sale of its shares in Yara International ASA, after direct sales expenses and tax, amounted to NOK 385 million. Tax is allocated to the sales gain based on tax rules enacted at the time of sale.

For prior periods, assets and liabilities transferred to Yara in the demerger process are included in ''Assets of discontinued operations'' and ''Liabilities of discontinued operations'', respectively. This includes assets and liabilities in subsidiaries transferred to Yara, assets and liabilities in business units separated from Hydro's other activities for which separate accounts exists in addition to other identified assets transferred to Yara.

Cash flows from discontinued operations includes cash flows from activities transferred to Yara and expenses directly related to the demerger. In addition, cash flows include Hydro's sale of its shares in Yara immediately after the demerger in the amount of NOK 2,619 million, and Yara's repayment of debt to Hydro in the amount of NOK 7.1 billion.

The major part of discontinued activities relates to the Agri business area within Hydro's segment reporting. Minor amounts also relate to Pronova which is included within Other businesses. In addition, Corporate and eliminations reflect the transfer to Yara of certain activities previously reported as part of Corporate, and demerger costs included in Corporate for 2003.

The following table summarize financial information for the discontinued operations for the periods they are included in Hydro's financial statements.

Summary of financial data for Yara as included in discontinued operations

NOK million	2006	2005	2004
Operating revenues	—	—	10,036
Operating income	—	—	936
Non-consolidated investees	—	—	131
Financial income (expense), net	—	—	(88)
Income before taxes and minority interest	—	—	979
Income tax expense	—	—	(307)
Minority interest	—	—	26
Income before sale of shares	—	—	698
Gain from sale of shares	—	—	533
Tax on gain from sale of shares	—	—	(148)
Net income US GAAP	—	—	1,083
Adjustment N GAAP:			
Amortization goodwill	—	—	—
Minority interest	—	—	(26)
Net income N GAAP	—	—	1,057

NOK million	2006	2005
Current assets	—	—
Non-current assets	—	—
Total assets	—	—
Current liabilities	—	—
Long-term liabilities	—	—
Minority interest	—	—
Discontinued operations, net US GAAP	—	—
Adjustment N GAAP:		
Accumulated additional amortization goodwill	—	—
Minority interest	—	—
Discontinued operations, net N GAAP	—	—

NOK million	2006	2005	2004
Net cash provided by operating activities	—	—	838
Net cash provided by (used in) investing activities[1)]	—	—	8,840
Net cash used in financial activities	—	—	(109)
Foreign currency effects on cash flows	—	—	5
Net cash provided by discontinued operations	—	—	9,574

1) Includes proceeds from sale of Yara shares and loan repayments from Yara.

Note 3

Consolidated shareholders' equity

On 9 May 2006 the Annual General Meeting approved a share split whereby one old Hydro share was split into five new shares. The share split was effective on 10 May 2006. All references to number of shares and share prices have been adjusted to reflect the share split.

Norsk Hydro ASA had authorized and issued 1,286,455,455 ordinary shares as of 31 December 2006 and 1,294,772,140 ordinary shares as of 31 December 2005 and 2004 having a nominal value of NOK 3,66 per share. As of 31 December 2006, 60,279,570 shares were treasury shares resulting in 1,226,175,885 outstanding ordinary shares, and as of 31 December 2005, outstanding ordinary shares were 1,250,692,320. The amount for the treasury shares of NOK 6,624 million was comprised of NOK 221 million for share capital and

NOK 6,404 million for retained earnings. A total of 21,627,000 shares were bought back under the buyback authorization approved by the Annual General Meeting on 9 May 2006, see below. Remaining 38,652,570 treasury shares may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors.

The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 1,240,804,344 for the year 2006, 1,254,036,520 for 2005 and 1,272,057,165 for 2004.

The Annual General Meeting held on 9 May 2006 approved a new buyback authorization of 22,470,482 shares over a one-year period. The Norwegian State has agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Including the share redemption a total of 40,000,000 shares may be cancelled. Share repurchases can be made in the share price interval of NOK 50 to NOK 300 per share, and the shares acquired in accordance with the authorization shall be for no other purpose than cancellation by means of capital reduction. A final decision on cancelling any of the shares repurchased must be approved by a minimum of two-thirds of the shares represented at a General Meeting of shareholders.

In addition, the 9 May 2006 Annual General Meeting resolved to revoke the buyback authorization approved by the Extraordinary General Meeting held on 1 December 2004, allowing for a buyback of up to 28,088,105 shares in the share price interval of NOK 40 to NOK 140 per share. Under this authorization 4,672,000 were bought back in the open market at an average price of 130.21 per share from June to December 2005. The General Meeting decided to cancel the acquired shares. The Norwegian State agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Consequently, 3,644,685 shares were redeemed at a price of NOK 129.30 per share on 14 July 2006. A total of 8,316,685 shares at par value of NOK 3.66 per share were cancelled.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 14,044,050 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 10,955,950 shares owned by the Norwegian State. As compensation, the State received NOK 981 million. The cancellation and redemption were completed in February 2005.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 7,421,500 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 5,789,610 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004. In addition, the General Meeting approved the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30 (equal to a reduction from NOK 4.00 to NOK 3.66 after the 2006 share split). Each shareholder received one share in tile newly established Yara International ASA, with a nominal value of NOK 1.70 for each Hydro share. The demerger was completed on 24 March 2004.

In 2006, Hydro reissued 755,250 shares to employees at a 50 percent rebate of NOK 58 million and equity effect of NOK 117 million. See note 4.

Consolidated shareholders' equity

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued Norsk Hydro ASA Number[1]	Ordinary Shares issued Norsk Hydro ASA Amount	Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA Number[1]	Treasury Stock Norsk Hydro ASA Amount	Accumulated other comprehensive income	Total shareholders' equity[2]
Balance 31 December 2003	1,332,983	5,332	15,071	20,403	71,517	(49,423)	(3,524)	(316)	88,080
Net income 2004					12,560				12,560
Dividend declared and paid (NOK 2.20 per share)					(2,811)				(2,811)
Net unrealized gain on securities								(2)	(2)
Minimum pension liability								(132)	(132)
Hedge of net investment								320	320
Cash flow hedges								(339)	(339)
Purchase of treasury stock						(14,044)	(1,239)		(1,239)
Treasury stock reissued to employees			19	19		1,426	102		121
Cancellation treasury stock	(21,466)	(82)	(1,511)	(1,593)	2	21,466	1,591		
Redeemed shares, the Norwegian State	(16,746)	(63)	(1,363)	(1,426)					(1,426)
Demerger Yara International ASA		(449)	(1,749)	(2,198)	(5,957)			540	(7,615)
Foreign currency translation								(1,628)	(1,628)
Balance 31 December 2004	1,294,772	4,739	10,467	15,205	75,311	(40,576)	(3,070)	(1,557)	85,890
Net income 2005					15,638				15,638
Dividend declared and paid (NOK 4.00 per share)					(5,021)				(5,021)
Net unrealized gain on securities								(9)	(9)
Minimum pension liability								(510)	(510)
Hedge of net investment								33	33
Cash flow hedges								(751)	(751)
Purchase of treasury stock						(4,672)	(608)		(608)
Treasury stock reissued to employees			33	33		1,168	88		122
Foreign currency translation								711	711
Balance 31 December 2005	1,294,772	4,739	10,501	15,240	85,927	(44,080)	(3,589)	(2,083)	95,495
Net income 2006					17,391				17,391
Dividend declared and paid (NOK 4.40 per share)					(5,506)				(5,506)
Minimum pension liability								307	307
Incremental impact of recognizing funded status of defined benefit pension plans and postretirement benefits								(5,253)	(5,253)
Cash flow hedges								(772)	(772)
Purchase of treasury stock						(21,627)	(3,477)		(3,477)
Treasury stock reissued to employees			56	56		755	61		117
Cancellation treasury stock	(4,672)	(17)	(363)	(380)		4,672	380		—
Redeemed shares, the Norwegian State	(3,645)	(13)	(458)	(471)					(471)
Foreign currency translation								(1,335)	(1,335)
Balance 31 December 2006	1,286,455	4,708	9,736	14,444	97,811	(60,280)	(6,624)	(9,135)	96,496

1) Previously reported number of shares have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

2) See note 27 for a reconciliation to N GAAP equity.

Components of total accumulated other comprehensive income

Amounts in NOK million	Net unrealized gain on securities	Net unrealized gain (loss) investment hedge	Net gain (loss) cash flow hedge	Minimum pension liability adjustment	Funded status of defined benefit pension plans	Net foreign currency translation toss	Total accumulated other comprehensive income (loss)
Balance 31 December 2003 . .	11	(252)	1,149	(996)	—	(228)	(316)
Balance 31 December 2004 . .	9	102	810	(814)	—	(1,664)	(1,557)
Balance 31 December 2005 . .	—	135	59	(1,324)	—	(953)	(2,083)
Balance 31 December 2006	**—**	**135**	**(712)**	**—**	**(6,270)**	**(2,288)**	**(9,135)**

Changes in other comprehensive Income and related tax effects

	31 December 2006			31 December 2005			31 December 2004[1]		
Amounts in NOK million	Pretax	Tax	Net	Pretax	Tax	Net	Pretax	Tax	Net
Net unrealized gain on securities.	—	—	—	(12)	3	(9)	(3)	1	(2)
Net investment hedge	—	—	—	—	—	—	445	(125)	320
Companies sold	—	—	—	33	—	33	—	—	—
Net investment hedge	—	—	—	33	—	33	445	(125)	320
Cash flow hedge	**(1,548)**	**431**	**(1,117)**	(782)	219	(563)	(214)	60	(154)
Reclassification of hedging gain	**479**	**(134)**	**345**	(261)	73	(188)	(256)	71	(185)
Net cash flow hedge	**(1,069)**	**297**	**(772)**	(1,043)	292	(751)	(470)	131	(339)
Minimum pension liability adjustment	**437**	**(130)**	**307**	(744)	234	(510)	(189)	57	(132)
Foreign currency translation	**(1,366)**	**—**	**(1,366)**	1,081	—	1,081	(1,625)		(1,625)
Companies sold	**31**	**—**	**31**	(370)	—	(370)	(3)	—	(3)
Net foreign currency translation	**(1,335)**	**—**	**(1,335)**	711	—	711	(1,628)	—	(1,628)
Total change in other comprehensive income . . .	**(1,967)**	**167**	**(1,800)**	(1,055)	529	(526)	(1,845)	64	(1,781)

1) Effects of the Yara demerger, NOK 540 million, are not included in the changes specified.

Note 4

Remuneration and share-based compensation

Board of Directors' statement on Corporate Management Board remuneration

In accordance with the Norwegian Public Limited Companies Act. allmennaksjeloven § 6-16a, the Board of Directors will prepare a separate statement related to the determination of salary and other benefits for the Corporate Management Board (CMB). The salary and benefits earned during 2006 are given below. The following guidelines for Corporate Management Board salary and benefits for the coming fiscal year will be presented to the General Assembly for their recommendations at the May 2007 annual meeting.

The Hydro Corporate Management Board remuneration will, at all times, reflect the responsibilities placed on the board members related specifically to the management of Hydro, especially to Hydro's breadth of operations, growth and sustainability. The determination of the level of total compensation, as well as the composition of the different elements of the total compensation package is, first and foremost, to be competitive within the Norwegian labor market, while at the same time reflecting Hydro's increasingly international focus.

Remuneration to the CMB consists of both fixed and variable elements. The fixed components of their remuneration are the base salary and other remuneration. Other remuneration consists of telephone, car and other similar benefits. The variable portion of total compensation at present consists of an annual bonus and share-based compensation in the form of share appreciation rights and a share rebate purchase plan. Remuneration also includes a pension plan and for the president and CEO a termination agreement.

The annual bonus is determined based on the achievement of agreed financial targets and key performance indicators (KPIs) that are related to other targets and goals (non-financial in nature). The financial targets and KPIs are established each year as part of the annual business planning specifically for each business area. The CMB maximum bonus is set at 25 percent of annual salary (three month's salary). The president and CEO has a maximum bonus of 50 percent of annual salary (six month's salary). Bonus payments are not included when determining pension or vacation pay.

The president and CEO is entitled to retire at 60 years of age with a pension benefit representing around 65% of his base salary. In general, for all other members of the CMB, the retirement age is set at 65. Currently, two members of the CMB have a retirement age of 62 years of age. This is as a result of a previous agreement that was offered to about 50 executive managers, and is not specifically connected to their position on the CMB.

The president and CEO has a termination package of three year's salary and benefits. The president and CEO is the only member of the CMB that has such an agreement as part of his compensation package.

The Board of Directors undertakes a yearly evaluation of the remuneration plan. This review includes evaluating any needed changes to the plan, as well as the effectiveness and functionality of the existing plan. The overall objective is to ensure that Hydro has a competitive compensation system, taking into account applicable legislation and the Ministry of Trade and Industry's "Guidelines for Compensation in Companies with State Ownership" from December 2006, and which contributes to an increase in shareholder value and the future development of Hydro.

Board of Directors' remuneration

Remuneration to the Board of Directors consists of the payment of fees, and is based on the number of board meetings per year combined with the position of the board member and specific board committee appointments. Board fees for 2006 as well as any outstanding loans and share ownership as of 31 December 2006 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the board members during 2006.

Board member	Board fees[1]	Outstanding loans[1)2)]	Number of shares[3]
Jan Reinås	490	—	—
Borger A. Lenth[4]	161	—	720
Elisabeth Grieg	354	—	36,400
Håkan Mogren	255	—	—
Ingvild Myhre[4]	94	—	—
Kurt Anker Nielsen	351	—	—
Grete Faremo[5]	159	—	—
Lena Olving[5]	213	—	—
Geir Nisen[6]	239	233	465
Terje Friestad[6]	320	28	1,370
Sten Roar Martinsen[6]	239	—	75
Total board fees — 2006	2,875		

1) Amount in NOK thousands.

2) Geir Nilsen's loan is at an interest rate of 3.5-4.1 percent and has a repayment period of 3.5 years. Terje Friestad's loan is at an interest rate of 4.1 percent and has a repayment period of 1.5 years. Both loans are extended to the board members under an employee benefit scheme applicable to all employees in Norway. Since their election to the Board of Directors, there have been no modifications to the loan agreements. No additional credit has been extended after election to the Board of Directors. The payment plan schedule has remained the same, and all payments have been made in a timely fashion. The loans are not in default.

3) Number of shares includes any related party share holdings, in addition to shares held directly by the board member.

4) Board member until 18 May 2006.

5) Board member as of 19 May 2006.

6) Employee representative on the board elected by the employees in accordance with Norwegian company law. As such, these three individuals also are paid regular salary, remuneration in kind and pension benefits that are not included in the table above.

Corporate Management Board remuneration

Hydro has a compensation system for top management consisting of three elements, fixed salary, performance-related bonus and share-based compensation (share appreciation rights). The fixed salary, or base pay, reflects the continuous performance of management and is in line with Hydro's general policies for the determination of base pay. The annual bonus scheme is linked to the achievement of targets in the business plans for the various units. The intention of the share-based compensation plan is to provide management an incentive to focus on the long-term creation of shareholder value and, in addition, places importance on these executives having an ownership interest in Hydro.

The president and CEO is entitled to retire at 60 years of age with a pension benefit representing around 65% of his base salary. In the event that employment of Eivind Reiten terminates for reasons other than serious misconduct, he has the right to salary for a three-year period, but not to extend beyond 60 years of age. Hydro's obligation can be reduced by salary received or pension rights accrued from other sources. Out of the other members of the Corporate Management Board, two members have a retirement age of 62 years of age, and four members have a retirement age of 65 years of age.

An employee's bonus is limited to a maximum of one-twelfth of their annual salary. For approximately 100 managers with substantial responsibility for performance, their bonus is limited to a maximum of two-twelfths of their annual salary. For top management, approximately 35 managers, their bonus is limited to a maximum of one-fourth of their annual salary. For the president, the upper limit of the bonus is one-half of his annual salary. It is the actual improvements of Hydro's activities that is measured and rewarded.

Corporate management board salaries, exercise of SARs, remunition in kind, bonus for 2005 paid in 2006, and the estimated increase in the value of their pension benefits for 2006, as well as any loans outstanding as of 31 December 2006 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2006.

Corporate Management Board	Salary1)2)	Exercise of options1)3)	Remuneration in kind1)2)	Bonus1)4)	Estimated change in value of pension benefits5)	Outstanding loans1)6)
Eivind Reiten	4,888	4,407	252	1,500	6,182	—
John Ove Ottestad	2,677	3,532	227	520	3,154	—
Jon-Harald Nilsen7)	234	—	17	443	2,413	135
Tore Torvund	3,350	8,379	225	582	3,329	—
Hilde Aasheim8)	1,808	—	135	—	1,893	—
Svein Richard Brandtzæg9)	3,912	1,923	91	—	9,065	309
Torstein Dale Sjøtveit10)	1,892	1,932	119	—	5,912	427
Cecilie Ditlev-Simonsen11)	143	—	11	—	1,846	—

1) Amounts in NOK thousands.

2) Salary disclosed for Jon-Harald Nilsen, Svein Richard Brandtzæg, Torstein Dale Sjøtveit and Cecilie Ditlev-Simonsen is the actual amount paid during 2006 for the months served on the corporate management board. Remuneration in kind is pro-rata based on the actual number of months in 2006 they were on the corporate management board.

3) Disclosure is not given for corporate management board members who exercised options prior to their appointment to the corporate management board (Cecilie Ditlev-Simonsen), or after stepping down from the corporate management board (Jon-Harald Nilsen). Eivind Reiten exercised 40,000 options on 1 August 2006 at an exercise price of NOK 64.32. John Ove Ottestad exercised 32,620 options on 1 August 2006 at an exercise price of NOK 66.23. The average share price of the five trading days preceding 1 August 2006 was NOK 174.50. On 27 December 2006, Tore Torvund exercised 32,620 options at an exercise price of NOK 66.23 and 35,000 options at an exercise price of NOK 64.32. The average share price of the five trading days preceding 27 December 2006 was NOK 189.15. Svein Richard Brandtzæg exercised 17,500 options on 15 August 2006 at an exercise price of NOK 64.32. The average share price of the five trading days preceding 15 August 2006 was NOK 174.20. Torstein Dale Sjøtveit exercised 17,500 options on 2 August 2006 at an exercise price of NOK 64.32. The average share price of the five trading days preceding 2 August 2006 was NOK 174.70.

4) Bonus is the amount paid in 2006 for corporate management board services rendered during 2005, including any payments made to individuals after leaving the corporate management board. Any bonus paid prior to appointment to the corporate management board, for services rendered in 2005 while not on the corporate management board, are not disclosed.

5) The estimated change in the value of pension benefits reflects both the effect of earning an additional year's pension benefit and the adjustment to present value of previously earned pension rights. For all individuals listed in the table, this is the estimated change from 1 January 2006 to 31 December 2006. The estimated change in the value of the pension benefit is calculated as the increase in Projected Benefit Obligations (PBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefits.

6) The loans to Jon-Harald Nilsen, Svein Richard Brandtzæg and Torstein Dale Sjøtveit were extended under an employee benefit scheme applicable to all employees in Norway. The loan to Jon-Harald Nilsen was entered into prior to 30 July 2002. The loan has an interest rate of 3.5 percent and a repayment period of 6.5 years. The loan to Svein Richard Brandtzæg has an interest rate of 3.5-4.1 percent and a repayment period of 10 years. The loan to Torstein Dale Sjøtveit has an interest rate of 4.1 percent and a repayment period of 4 years. The loans to Svein Richard Brandtzæg and Torstein Dale Sjøtveit were extended to them prior to their appointment on the corporate management board. Related to the loans outstanding to Svein Richard Brandtzæg and Torstein Dale Sjøtveit, since their appointment to the corporate management board in 2006, there have been no modifications to their loan agreements. No additional credit has been

extended post appointment and the payment plan schedule has remained the same. Payments have been made in a timely fashion and the loans are not in default.

7) Jon-Harald Nilsen stepped down from the corporate management board 1 February 2006.

8) Hilde Merete Aasheim stepped down from the corporate management board 16 January 2007.

9) Svein Richard Brandtzæg was appointed as a member of the corporate management board 1 February 2006.

10) Torstein Dale Sjøtveit was appointed as a member of the corporate management board 1 April 2006.

11) Cecilie Ditlev-Simonsen was appointed as a member of the corporate management board 5 December 2006.

Executive management share-based compensation

Hydro has granted executive management share appreciation rights (SARs) during the years 2002-2006. The awards were granted to approximately 30 Hydro executives each year, including the president and CEO and members of the corporate management board.

In June 2006 the Board of Directors approved the 2006 Executive Stock Option Plan for corporate officers and certain key employees, authorizing 705,000 share appreciation rights. On 1 July 2006, 31 Hydro executives were granted a total of 705,000 SARs, with a vesting period of three years, an exercise period of three years and an exercise price of NOK 175.00 when the market price was NOK 165.00.

Upon exercise, the option holder receives a cash payment equal to the difference between the exercise price and the average market price of the Company's stock for the five trading days previous to exercise date (gross cash proceeds). All option holders are restricted from exercising options that will result in gross cash proceeds upon exercise per calendar year that exceed the option holder's annual base salary. This restriction applies to options granted in 2004 and later. All granted options that have not been exercised are forfeited if the option holder resigns from the company. Upon retirement or dismissal from the company as a result of redundancy or reorganization, all granted SARs immediately vest and are exercisable over the next twelve months, contingent on the salary restriction per calendar year as mentioned above.

In order to remain eligible to exercise vested SARs in the future and to receive new grants, plan participants are required to convert the net after-tax value of exercised SARs into an equivalent value of Hydro shares. All net proceeds from the exercise of the SARs must be converted into Hydro share ownership until, at a minimum, a share value holding of between 50 percent and 200 percent of their annual salary is achieved. The minimum share holding is established based on management position, with the president and CEO required to maintain 200 percent of base pay, members of the corporate management board required to maintain 100 percent of salary and all other plan participants required to maintain a investment value in Hydro shares equal to 50 percent of their salary.

The SAR vesting schedule for the 2003 plan was based on total shareholder return. If shareholder return was less than 12 percent between the grant date and vesting date, none of the granted options would be vested. If the shareholder return was between 12 percent and 20 percent over the vesting period, the corresponding percentage of options that vested would increase linearly between 20 percent and 100 percent. On 30 June 2006, the vesting date for the 2003 SARs, the total shareholder return target of 20 percent was met, and all 487,500 options outstanding were vested 100 percent. SARs granted in 2004-2006 do not have any performance related vesting requirement.

SAR activity during 2006, as well as SARs outstanding as of year-end and share ownership as of 31 December 2006 for the corporate management board is given in the table below.

Corporate Management Board	SARs 31.12.2005[1)]	SARs granted 01.07.2006	SARs vested in 2006	SARs forfeited[2)]	SARs exercised in 2006	SARs outstanding 31.12.2006	Weighted average exercise price of SARs outstanding as of 31.12.2006	Intrinsic value of outstanding options[3)]	Number of shares held 31.12.2006[4)]
Eivind Reiten	200,000	75,000	50,000	0	40,000	235,000	128.67	15,234,300	68,395
John Ove Ottestad	167,620	50,000	35,000	0	32,620	185,000	118.82	13,816,300	41,380
Jon-Harald Nilsen[5)]	167,620	17,500	35,000	0	32,620	152,500	106.84	13,215,050	6,540
Tore Torvund	167,620	50,000	35,000	0	67,620	150,000	131.53	9,295,000	38,580
Hilde Aasheim[6)]	0	50,000	0	0	0	50,000	175.00	925,000	75
Svein Richard Brandtzæg[7)]	52,500	50,000	17,500	0	17,500	85,000	148.15	3,854,500	8,790
Torstein Dale Sjøtveit[8)]	52,500	50,000	17,500	0	17,500	85,000	148.15	3,854,500	6,990
Cecilie Ditlev-Simonsen[9)]	35,000	12,500	10,000	0	10,000	37,500	131.53	2,323,750	4,085

1) Previously reported SAR amounts have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

2) No SARs were forfeited in 2006 as SARs granted in 2003 vesting in 2006 achieved the total shareholder return target.

3) Share price 31 December 2006 less exercise price multiplied by the number of SARs outstanding as of year-end.

4) Number of shares held includes related party share holdings as of 31 December 2006, in addition to the shares held directly by the corporate management board member.

5) Jon-Harald Nilsen stepped down from the corporate management board 1 February 2006.

6) Hilde Merete Aasheim joined Hydro as a member of the corporate management board on 1 October 2005 and stepped down from the corporate management board effective 16 January 2007.

7) Svein Richard Brandtzæg joined the corporate management board 1 February 2006.

8) Torstein Dale Sjøtveit joined the corporate management board 1 April 2006.

9) Cecilie Ditlev-Simonsen joined the corporate management board 5 December 2006.

SAR compensation expense is remeasured each reporting period at fair value using a Black-Scholes option valuation model, and accrued pro-rata over the vesting period. Pre-tax SAR compensation expense recognized in 2006 was NOK 98 million and as of 31 December 2006 the accrued liability for the SARs was NOK 109 million. Cash paid during the year upon exercise of options totaled NOK 55 million. Prior to the adoption of SFAS 123 (R) on 1 January 2006, the accrued expense related to the SARs was measured using the intrinsic method. The accrued liability as of 31 December 2005 and 2004 was NOK 66 million and NOK 11 million, respectively. Cash paid during 2005 upon exercise of options totaled NOK 22 million. No options were vested and exercisable during 2004. Pre-tax SAR compensation expense was NOK 77 million and NOK 11 million for 2005 and 2004, respectively. See also Note 1 for comparative pro-forma information.

The fair value at grant date is measured using a Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Hydro's SARs may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option. Information related to the measurement of the SAR fair value at grant date using the Black-Scholes model is given below, including the assumptions that were used to estimate the option fair value at grant date for the SARs granted in 2006, 2005 and 2004:

Fair value at grant date

	2006	**2005**	**2004**
Expected option life at grant date	**3.5**	3.5	3.3
Risk-free interest rate	**3.93%**	2,48%	3.05%
Expected volatility	**27.67%**	25.45%	26.26%
Expected dividend per share	**4.00**	4.00	4.00
Estimated weighted average fair value per option, NOK	**31.97**	18.64	11.72
Fair value of total options granted during fiscal year, NOK thousands	**22,536**	10,999	7,327

1) The disclosure of the fair value at grant date is for information purposes only, as Hydro's options are cash settled. Hydro accrues SAR expense based on the current fair value, pro-rata over the vesting period. Upon exercise, the total expense recognized over the life of the option is limited to the cash paid.

As of 31 December 2006, 1,987,500 SARs were outstanding, with a remaining average contractual life of 4.3 years and an aggregate intrinsic value of NOK 130 million. Of the total number of SARs outstanding at year-end, 175,000 are vested with a remaining life of 1.5 years and an intrinsic value as of 31 December 2006 of NOK 23 million. Information related to SAR activity during 2006, 2005, and 2004 is given in the table below.

Share appreciation rights[1)2)]	Options	Weighted average exercise price (NOK)	Exercise price at grant date	Market price at grant date[3)]	Vesting period	Exercise period
Outstanding 1 January 2004	1,362,500	69.20				
Granted 9 September 2004	625,000		95.20	89.30	09.09.2004 - 30.06.2007	01.07.2007 - 30.06.2010
Exercised	—					
Forfeited	(412,500)	78.08				
Expired						
Outstanding 31 December 2004	1,575,000	77.14				
Exercisable 31 December 2004	—					
Granted 1 July 2005	590,000		124.40	120.60	01.07.2005 - 30.06.2008	01.07.2008 - 30.06.2011
Exercised	(314,550)	66.23				
Forfeited[4)]	(48,950)	65.55				
Expired	—					
Outstanding 31 December 2005	1,801,500	94.83				
Exercisable 31 December 2005	116,500	66.23				
Granted 1 July 2006	705,000		175.00	165.00	01.07.2006 - 30.06.2009	01.07.2009 - 30.06.2012
Exercised[5)]	(436,500)	68.48				
Forfeited[6)]	(82,500)	114.17				
Expired						
Outstanding 31 December 2006	1,987,500	128.26				
Exercisable 31 December 2006	175,000	64.32				

1) All SARs granted and then cancelled or exercised related to the 2004 Yara de-merger are not included in this table.

2) Previously reported number of options, exercise prices and market prices have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

3) Close of day share prices, adjusted for changes in group structure, as appropriate.

4) SARs granted in 2002 totaling 31 450 (6.8 percent of total number options granted) were forfeited as of 30 June 2005. SARs were forfeited as the total shareholder return target was not met during the vesting period.

5) Includes exercise of 2004 and 2005 granted SARs that vested upon retirement.

6) SARs granted in 2003 vested at 100 percent as the total shareholder return target of 20% over the vesting period was met. SARs forfeited in 2006 relate to option holders terminating their employment with Hydro.

United Kingdom employee share-based compensation

In 1988, Hydro established a stock option share purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time the options were granted. The last options were granted in July 2002 and the program will be operational until July 2012, when the last remaining options expire. The program consists of three different schemes following amendments to the original scheme rules.

Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from the grant date. The exercise price of the shares equals the share price at the time the options were granted. At year-end 2003, 999,485 options were outstanding and the trust kept a balance of 1,053,245 shares. During 2004, 520,600 options were exercised and 41,370 options expired. At year-end 2004 437,515 options were outstanding and the trust's balance of shares at 31 December 2004 was 614,580. During 2005, 257,965 options were exercised and 4,965 options expired. At year-end 2005, 174,585 options were outstanding and the trust's balance of shares at 31 December 2005 was 614,580. As of 31 December 2006

143,970 options were outstanding and the trust's balance of shares was 614,580. Activity during 2006 is given in the table below.

	Average number of shares	Strike price (NOK)[1]
Options outstanding as of 31 December 2005[2]	174,585	67.49
Options exercised during 2006	26,985	72.25
Options expired during 2006	3,630	78.07
Options outstanding as of 31 December 2006	143,970	70.66

1) Presentation in NOK is based on a translation from GBP using the 29 December 2006 exchange rate of 12.268 (unaudited).

2) Previously reported options outstanding and strike price have been adjusted to reflect the 5-for-l stock split effective 10 May 2006.

Employee share purchase plan

Hydro has established a subsidized share-purchase plans for employees in Norway. The plan payout is based on share price performance and is therefore share-based compensation. Under the plan, Hydro employees receive a NOK 1,500 share purchase rebate to purchase shares of Norsk Hydro ASA, which corresponds to a 20 percent discount from the market price. If shareholder return, as defined by the plan, meets or exceeds 12 percent in the period from 1 January to 31 December (the measurement period), employees receive an additional rebate of NOK 4,500, for a total rebate of NOK 6 000. The total rebate of NOK 6,000 corresponds to a 50 percent discount from the market price. Employees are eligible to receive an offer to purchase shares under this plan if they are 1) employed by Norsk Hydro ASA or a 90 percent or more owned Norwegian subsidiary, and 2) are employed as of 31 December through the date of the offer of the share purchase (typically late February or early March of the following year).

Details related to the employee share purchase plan are given in the table below. Shares related to the 1 January 2006 — 31 December 2006 performance period were offered to employees in March 2007 and distributed during the second quarter of 2007.

Performance measurement period	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004	01.01.2003 - 31.12.2003
Total shareholder return performance target achieved	≥12%	≥12%	≥12%	≥12%
Employee rebate, NOK	6,000	6,000	6,000	6,000
Employee rebate, percent	50%	50%	50%	50%
Award share price NOK[1]	—	77.77	52.05	42.45
Total number of shares issued to employees[1]	—	755,250	1,168,170	1,425,760
Compensation expense related to the award, NOK thousands	—	58,736	60,803	60,524

1) Previously reported award share price and total number of shares issued to employees have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

Note 5

Operating and geographic segment information

Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a strategic business area that offers different products and serves different markets. Hydro's operating segments are the three business areas Oil & Energy, Aluminium Metal and Aluminium Products. For reporting purposes, Oil & Energy is divided into sub-segments, each of which comprises a combination of sectors and business units. Sub-segments are not operating units, but their results are presented in order to illustrate the results of upstream and downstream activities within a value chain of Hydro's vertically integrated Oil & Energy activities.

Oil & Energy consists of Exploration and Production, and Energy and Oil Marketing. Exploration and Production is responsible for Hydro's oil and gas exploration, field development, and operation of production and transportation facilities. Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power markets, the operation of Hydro's power stations and Hydro's share of natural gas transportation systems as well as marketing and sale of refined petroleum products (gasoline, diesel and heating oil) to retail customers. Energy and Oil Marketing buys and/or markets almost all oil production from Exploration and Production, and sells the equity gas production on a commission basis.

Aluminium Metal activities include the production of primary aluminium, alumina, remelting of metal, and the international trading of aluminium, aluminium products and alumina.

Aluminium Products comprises the downstream activities, divided into the three sectors Rolled Products, Extrusion and Automotive. Late in 2006, the sectors were reorganized into smaller sectors within Extrusion and Automotive with more limited responsibilities. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion delivers custom-made general extrusion products, surface treatment, fabrication and components and finished products. The building systems unit supplies complete designs and solution packages to metal builders, including products such as facades, partion walls, doors and windows. Automotive comprises the precision tubing and structures units, and is involved in the manufacture and sale of extruded aluminium products and components for the automotive industry. The automotive castings business has been decided to be sold, and is reported as Discontinued operations, see note 2.

Other activities consist of Polymers, BioMar AS (sold in December 2005) and certain other activities. Polymers is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. BioMar's main activity was production and sale of fish feed.

Operating segment information

Hydro's segment reporting, presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and related Information, includes two measures of segment results, ''Operating Income'' and ''Adjusted EBITDA'' which both are regularly reviewed by senior management. ''Operating Income'' is defined in accordance with the Norwegian Accounting Act, and is consistent with the same measure for the Group. The segment measures are an integral part of Hydro's steering model. Hydro's management makes regular use of both these measures to evaluate performance in its operating segments, both in absolute terms and comparatively from period to period, and to allocate resources among its operating segments. Management views the combination of these measures, in combination with other reported measures, as providing a better understanding — for management and for investors — of the operating results of its business segments for the period under evaluation compared to relying on one of the measures.

Hydro defines ''Adjusted EBITDA'' as ''Income/(loss) before tax, interest expense, depreciation, amortization and write-downs''. Adjusted EBITDA is a measure that includes in addition to ''Operating Income'', ''Interest income and other financial income'', results from non-consolidated investees and gains and losses on sales of activities classified as ''Other income, net'' in the income statement. It excludes depreciation, write-downs and amortization, as well as amortization of excess values in non-consolidated investees. Hydro's definition of Adjusted EBITDA may differ from that of other companies. Specifically, Hydro has chosen to include interest income in Adjusted EBITDA.

Hydro manages long-term debt and taxes on a Group basis. Therefore, net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arms length prices as if sold or transferred to third parties. Transfers of businesses or assets within or between Hydro's segments are not considered to be intersegment sales, and are reported without recognizing gains or losses. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption ''Corporate and eliminations''. These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In addition, elimination of gains and losses related to transactions between the operating segments are included in Corporate and Eliminations.

The accounting policies of the operating segments reflect those described in the summary of significant accounting policies in Note 1 to Hydro's financial statements, with the following exceptions: Certain internal commodity contracts may meet the definition of a derivative under SFAS 133. However, Hydra considers these contracts as sourcing of raw materials or sale of own production even though contracts for various reasons include clauses that meets the definition of a derivative. Such internal contracts are accounted for as executory contracts. Also certain internal contracts may contain lease arrangements that qualify as capital leases. However, Hydro management has allocated the responsibility for assets to a segment, and this allocation is reflected in the segment reporting even though contract clauses may indicate that another segment leases the assets under a capital lease arrangement. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based on either a premium charged by the scheme (UK) or a charge based on estimated service cost (Norway and Germany). Any difference between these charges and pension expenses measured in accordance with GAAP is included in Corporate and Eliminations. Similarly, a pension liability or prepaid pension expense for these defined benefit plans is reported on an unallocated basis as part of Corporate and Elimination.

NOK million	External revenues 2006	External revenues 2005	External revenues 2004	Internal revenues 2006	Internal revenues 2005	Internal revenues 2004	Total operating revenues 2006	Total operating revenues 2005	Total operating revenues 2004
Exploration and Production	**21,006**	18,362	13,519	**55,942**	45,838	35,444	**76,948**	64,201	48,962
Energy and Oil Marketing	**73,744**	65,742	51,303	**7,329**	6,698	6,017	**81,073**	72,440	57,319
Eliminations[1]	**72**	—	—	**(57,350)**	(50,166)	(37,136)	**(57,278)**	(50,166)	(37,136)
Oil & Energy	**94,821**	84,104	64,821	**5,922**	2,371	4,325	**100,743**	86,475	69,146
Alumunium Metal[2]	**43,748**	35,642	33,572	**24,657**	18,937	18,385	**68,405**	54,579	51,957
Aluminium Products[2]	**49,587**	41,963	42,954	**257**	513	580	**49,844**	42,477	43,533
Other activities[4]	**8,077**	9,510	9,665	**3,137**	2,787	3,204	**11,214**	12,297	12,869
Corporate and eliminations[3) 5)]	**—**	11	14	**(33,972)**	(24,608)	(26,494)	**(33,972)**	(24,597)	(26,479)
Total	**196,234**	171,231	151,026	**—**	—	—	**196,234**	171,231	151,026

NOK million	Depreciation, depletion and amortization[6] 2006	2005	2004	Other operating expenses 2006	2005	2004	Operating income (loss) before fin. and other income 2006	2005	2004
Exploration and Production	**17,417**	9,961	9,752	**18,179**	13,645	10,848	**41,352**	40,594	28,363
Energy and Oil Marketing	**853**	651	640	**76,642**	68,214	54,030	**3,578**	3,575	2,650
Eliminations[1]	**—**	—	—	**(58,601)**	(49,447)	(37,267)	**1,323**	(719)	132
Oil & Energy	**18,270**	10,612	10,391	**36,220**	32,412	27,610	**46,253**	43,451	31,144
Alumunium Metal[2]	**1,728**	1,687	3,798	**60,315**	50,198	47,374	**6,362**	2,694	785
Aluminium Products[2]	**1,666**	2,913	1,848	**48,261**	39,934	40,613	**(83)**	(370)	1,072
Other activities[4]	**493**	517	532	**9,444**	11,782	12,025	**1,277**	(2)	312
Corporate and eliminations[3) 5)]	**7**	22	12	**(32,395)**	(25,084)	(24,975)	**(1,584)**	464	(1,517)
Total	**22,164**	15,752	16,581	**121,846**	109,242	102,648	**52,224**	46,237	31,796

NOK million	Equity in net income non-consolidated investees 2006	2005	2004	Other income (expense), net 2006	2005	2004	Adjusted EBITDA 2006	2005	2004
Exploration and Production	**7**	6	4	**—**	—	—	**58,804**	50,601	38,168
Energy and Oil Marketing	**218**	108	73	**53**	65	59	**4,827**	4,456	3,478
Eliminations[1]	**(2)**	(2)	(2)	**—**	—	—	**1,323**	(719)	132
Oil & Energy	**223**	112	75	**53**	65	59	**64,954**	54,339	41,777
Alumunium Metal[2]	**837**	272	281	**—**	—	—	**9,134**	4,821	5,297
Aluminium Products[2]	**(179)**	47	68	**—**	—	—	**1,715**	2,670	3,058
Other activities[4]	**72**	164	170	**—**	925	110	**2,094**	1,880	1,363
Corporate and eliminations[3) 5)]	**8**	(1)	3	**—**	—	—	**(678)**	1,223	(783)
Total	**962**	593	597	**53**	990	169	**77,219**	64,933	50,713

1) Eliminations Oil & Energy includes elimination of unrealized gains and losses on gas contracts with a gain of NOK 1,335 million in 2006, loss of NOK 739 million in 2005 and gain of NOK 144 million in 2004.

2) Effective 1 February 2006. Hydro decided to split the previous Aluminium Business Area into two business areas, Aluminium Metal and Aluminium Products. Aluminium Metal consists of the previous Metals sub segment. Aluminium Products consists of the previous Rolled Products and Extrusion and Automotive sub segments. Prior periods have been restated to be comparable.

3) Corporate and eliminations includes elimination of unrealized gains and losses on power contracts between Energy and other units in Hydro with a loss of NOK 686 million in 2006, a gain of NOK 1,391 million in 2005 and a loss of NOK 235 million in 2004. In addition, gains and losses on electricity contracts, NOK 13 million, NOK 21 million and NOK 13 million are eliminated within the Oil and Energy Area in 2006, 2005 and 2004, respectively.

4) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), the industrial insurance company Industriforsikring, and Hydro's internal services.

5) Corporate and elimination's operating income (loss) and Adjusted EBITDA includes a net periodic pension cost of NOK 527 million for 2006, NOK 495 million for 2005 and NOK 1,001 million for 2004.

6) Depreciation, depletion and amortization include impairment losses.

NOK million	Current Assets[1] 2006	Current Assets[1] 2005	Non-current Assets 2006	Non-current Assets 2005	Assets[1] 2006	Assets[1] 2005
Exploration and Production	**16,174**	14,939	**87,839**	87,536	**104,012**	102,475
Energy and Oil Marketing	**14,775**	17,723	**21,482**	21,934	**36,257**	39,657
Eliminations	**(5,042)**	(7,308)	**15**	(287)	**(5,027)**	(7,594)
Oil & Energy	**25,907**	25,354	**109,336**	109,183	**135,243**	134,537
Alumunium Metal[5]	**18,337**	16,491	**22,869**	22,749	**41,206**	39,240
Aluminium Products[5]	**17,455**	15,613	**13,025**	16,302	**30,480**	31,916
Other activities[6]	**5,208**	4,740	**5,646**	5,202	**10,854**	9,942
Corporate and eliminations	**14,102**	8,095	**(1,582)**	3,466	**12,520**	11,560
Total continued operations	**81,009**	70,293	**149,293**	156,902	**230,302**	227,195
Classified as held for sale	**1,122**	—	**2,569**	—	**3,691**	—
Total	**82,131**	70,293	**151,862**	156,902	**233,993**	227,195

NOK million	Non-consolidated investees[2] 2006	Non-consolidated investees[2] 2005	Segment debt[3] 2006	Segment debt[3] 2005	Investments[4] 2006	Investments[4] 2005[7]
Exploration and Production	**54**	52	**12,177**	10,090	**20,742**	33,846
Energy and Oil Marketing	**1,957**	2,528	**11,697**	15,117	**2,062**	2,333
Eliminations	**16**	18	**(5,780)**	(7,030)	**—**	—
Oil & Energy	**2,027**	2,598	**18,094**	18,177	**22,804**	36,179
Alumunium Metal	**4,830**	3,863	**10,443**	8,299	**1,979**	1,792
Aluminium Products	**1,900**	2,495	**9,135**	8,547	**1,250**	1,970
Other activities[6]	**1,135**	1,125	**2,391**	2,346	**647**	1,097
Corporate and eliminations	**563**	732	**(3,507)**	(3,973)	**35**	72
Total continued operations	**10,455**	10,814	**36,555**	33,396	**26,713**	41,110
Classified as held for sale	**279**	—	**720**	—	**168**	—
Total	**10,734**	10,814	**37,275**	33,396	**26,881**	41,110

1) Current assets and assets exclude internal cash accounts and accounts receivables related to group relief.

2) Non-consolidated investees comprises investments and advances, see note 12.

3) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.

4) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in non-consolidated investees.

5) Effective 1 February 2006, Hydro decided to split the previous Aluminium Business Area into two business areas, Aluminium Metal and Aluminium Products. Aluminium Metal consists of the previous Metals sub segment. Aluminium Products consists of the previous Rolled Products and Extrusion and Automotive sub segments. Prior periods have been restated to be comparable.

6) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), the industrial insurance company. Industriforsikring, and Hydro's internal services.

7) Includes non-cash increase in investment from effect of change in accounting principle (FIN 47), of NOK 186 million in Aluminium Metal and NOK 9 million in Aluminium Products.

Amounts in NOK million	Assets 2006	Assets 2005	Assets 2004	Long-lived asset 2006	Long-lived asset 2005	Long-lived asset 2004	Investments 2006	Investments 2005	Investments 2004
Norway	**146,504**	137,916	135,005	**92,069**	92,121	88,096	**15,307**	13,795	11,988
Germany	**14,785**	15,619	15,973	**6,575**	8,328	8,733	**438**	835	1,107
Sweden	**3,822**	4,299	4,453	**1,128**	1,085	1,163	**295**	198	187
Italy	**2,698**	2,284	2,037	**985**	876	704	**185**	291	160
Great Britain	**2,577**	2,669	2,724	**894**	1,093	1,056	**81**	171	136
France	**2,422**	2,340	2,483	**587**	627	690	**64**	60	99
The Netherlands	**1,306**	2,663	2,321	**750**	1,194	1,309	**—**	1	98
Denmark	**1,071**	1,330	3,664	**585**	944	1,781	**43**	136	152
Spain	**996**	962	1,191	**307**	321	530	**22**	18	38
Other	**3,875**	4,928	4,684	**1,779**	2,824	2,718	**158**	380	1,720
Total EU	**33,552**	37,094	39,530	**13,590**	17,292	18,685	**1,286**	2,090	3,696
Other Europe	**1,169**	1,391	1,597	**869**	1,134	1,327	**95**	49	169
Total Europe	**181,226**	176,401	176,132	**106,528**	110,547	108,107	**16,688**	15,934	15,854
USA	**20,641**	28,159	4,428	**13,630**	21,411	1,918	**3,213**	21,889	484
Other Americas	**8,434**	4,787	3,855	**7,685**	4,272	3,432	**3,177**	145	186
Africa	**7,137**	5,728	4,613	**5,914**	4,937	4,113	**2,154**	1,653	1,218
Canada	**6,827**	6,636	6,746	**5,377**	5,618	6,062	**905**	806	1,203
Australia and New Zealand	**3,148**	3,049	2,588	**2,237**	2,464	2,081	**125**	320	280
Asia	**2,890**	2,434	1,880	**1,822**	1,667	1,133	**283**	364	239
Total outside Europe	**49,076**	50,792	24,111	**36,665**	40,368	18,738	**9,857**	25,177	3,610
Total continued operations	**230,302**	227,195	200,243	**143,193**	150,915	126,846	**26,545**	41,110	19,464
Classified as held for sale	**3,691**	—	—	**2,449**	—	—	**168**	—	—
Total	**233,993**	227,195	200,243	**145,642**	150,915	126,846	**26,713**	41,110	19,464

NOK million	Operating revenues 2006	Operating revenues 2005	Operating revenues 2004
Norway	**18,138**	24,834	25,012
Great Britain	**31,505**	34,583	27,591
Germany	**27,369**	17,176	19,030
France	**10,617**	9,706	6,746
Italy	**10,046**	6,864	7,357
The Netherlands	**8,512**	6,694	5,114
Sweden	**8,222**	9,307	8,131
Spain	**5,925**	4,472	5,993
Denmark	**1,686**	1,220	1,201
Other	**20,807**	14,195	12,195
Total EU	**124,689**	104,218	93,359
Switzerland	**6,912**	6,631	5,603
Other Europe	**3,363**	2,349	1,658
Total Europe	**153,102**	138,032	125,631
USA	**21,179**	13,229	10,224
Other Americas	**8,956**	8,201	2,519
Asia	**7,760**	6,313	5,943
Canada	**3,035**	3,439	5,188
Africa	**1,144**	981	547
Australia and New Zealand	**1,058**	1,038	972
Total outside Europe	**43,132**	33,199	25,394
Total	**196,234**	171,231	151,026

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

Note 6

Operating costs and expenses

Operating costs include research and development, operating lease expense, bad debt, shipping and handling costs, and payroll and related costs as follows:

Amounts in NOK million	2006	2005	2004
Research and development expense	**727**	716	760
Bad debt	**115**	233	269
Shipping and handling costs	**3,563**	3,188	3,142
Operating lease expense:[1]			
Drilling rigs, ships, office space	**947**	867	675
Office space leased from Hydro's independent pension trust	**215**	233	225
Total	**1,161**	1,100	901
Payroll and related costs:			
Salaries	**14,321**	12,909	13,316
Social security costs	**2,200**	2,136	2,200
Social benefits	**646**	456	522
Net periodic pension cost (Note 19)[2]	**2,237**	2,180	2,116
Total	**19,404**	17,681	18,155

1) Total minimum future rentals of NOK 15,241 million are due under non-cancellable operating leases as follows (in NOK million): 2007 — 2,415; 2008 — 2,805; 2009 — 3,087; 2010 — 1,823; 2011 — 1,707; and thereafter — 3,404.

2) Net periodic pension cost from discontinued operations is excluded for 2006, 2005 and 2004.

Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December 2006, 2005 and 2004.

Note 7

Financial income and expense

Amounts in NOK million	2006	2005	2004
Interest income	**1,076**	895	927
Net gain on securities	**131**	168	72
Dividends received	**216**	170	164
Interest income and other financial income	**1,424**	1,233	1,163
Interest expense	**(1,870)**	(1,743)	(2,075)
Capitalized interest	**1,231**	867	648
Net foreign exchange gain (loss)	**1,058**	(2,157)	1,348
Other, net[1]	**(58)**	(89)	(963)
Interest expense and foreign exchange gain (loss)	**361**	(3,122)	(1,043)
Financial income (expense), net	**1,785**	(1,889)	121

1) Other, net includes premium paid for early retirement of long-term debt (breaking costs) of NOK 15 million for 2006, NOK 6 million for 2005 and NOK 938 million for 2004.

Note 8

Other income and expense

For 2006, other income was a gain of NOK 53 million from the sale of Hydro's 50 percent interest in the gasoline retail chain Hydro Texaco.

For 2005, other Income was NOK 990 million. Other income consisted of a gain of NOK 233 million on the sale of Hydro's remaining interest in Pronova Biocare, a gain of NOK 65 million related to the final settlement of the 2003 sale of Hydro's share in the Skandinaviska Raffinaderi AS, the Scanraff oil refinery, and a gain of NOK 693 million on the disposal of the 68.8 percent interest in Biomar.

For 2004, other income was NOK 169 million. Other income consisted of a gain on the divestment of 80.1 percent of Pronova Biocare of NOK 110 million and a gain of NOK 59 million related to an adjustment of the price for the 2003 sale of Hydro's share in Scanraff.

Note 9

Income taxes

Amounts in NOK million	2006	2005	2004
Income from continuing operations before taxes and minority interest:			
Norway	**55,635**	40,254	29,378
Other countries	**(611)**	5,678	3,304
Total	**55,024**	45,932	32,682
Current taxes:			
Norway	**40,056**	28,784	22,529
Other countries	**2,046**	1,990	1,599
Current income tax expense	**42,101**	30,774	24,128
Deferred taxes:			
Norway	**(929)**	(217)	(2,340)
Other countries	**(3,574)**	(286)	(607)
Deferred tax expense (benefit)	**(4,503)**	(503)	(2,946)
Total income tax expense	**37,598**	30,271	21,181

Components of deferred income tax expense

Amounts in NOK million	2006	2005	2004
Deferred tax expense (benefit), excluding items below	**(6,082)**	(1,512)	(2,299)
Benefits of tax loss carryforwards	**(42)**	(578)	156
Tax expense (benefit) from recognizing funded status of defined pension plans and postretirement benefits to OCI	**2,076**	—	—
Tax expense (benefit) allocated to OCI	**167**	529	64
Effect of tax law changes	**58**	5	(842)
Net change in valuation allowance	**(681)**	1,054	(26)
Deferred tax expense (benefit) — US GAAP	**(4,503)**	(503)	(2,946)
Adjustments to N GAAP:			
Tax effects of differences between US GAAP and N GAAP (Note 27)	***(318)***	*46*	*(202)*
Deferred tax expense (benefit) — N GAAP	***(4,827)***	*(457)*	*(3,148)*

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2006	2005	2004
Expected income taxes at statutory tax rate[1]	**15,407**	12,923	9,179
Petroleum surtax[2]	**25,553**	18,739	13,977
Uplift benefit[2]	**(1,321)**	(1,357)	(967)
Hydro-electric power surtax[3]	**120**	84	163
Tax law changes	**58**	5	(846)
Losses and other deductions with no tax benefit	**491**	1,067	139
Non-deductible expenses	**50**	105	119
Foreign tax rate differences	**(402)**	319	145
Tax free income	**(456)**	(683)	(473)
Dividend exclusion	**(25)**	(23)	(37)
Losses and other benefits not previously recognized	**(1,171)**	(579)	(146)
Other, net	**(639)**	(281)	(56)
Income tax expense	**37,665**	30,317	21,197
Reclassified to discontinued operations	**(66)**	(46)	(16)
Income tax expense — US GAAP	**37,598**	30,271	21,181
Effective tax rate — US GAAP	**68.3%**	65.9%	64.8%
Tax effect of differences between US GAAP and N GAAP (Note 27)	*(318)*	*46*	*(202)*
Income tax expense — N GAAP	*37,280*	*30,317*	*20,980*
Income before taxes — N GAAP	*53,672*	*45,436*	*31.864*
Effective tax rate — N GAAP	*69.5%*	*66.7%*	*65.8%*

1) Norwegian nominal statutory tax rate is 28 percent.

2) Income from oil and gas activities on the Norwegian Continental Shelf is taxed according to the Petroleum Tax Law. This stipulates a surtax of 50 percent after deducting uplift, a special deduction for surtax, in addition to normal corporate taxation of 28 percent.

3) A surtax of 27 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December. 2006 and 2005.

Amounts in NOK million	US GAAP Deferred Tax			
	Assets 2006	**Liabilities 2005**	**Assets 2006**	**Liabilities 2005**
Short-term:				
Marketable securities	**14**	**—**	4	—
Inventory valuation	**271**	**(887)**	435	(410)
Accrued expenses	**3,557**	**(1,183)**	1,174	(1,115)
Unrealized exchange (gains) losses	**602**	**(1,428)**	958	(852)
Uplift benefit	**1,090**	**—**	1,068	—
Other	**5**	**—**	5	—
Long-term:				
Unrealized exchange (gains) losses	**1,079**	**(1,591)**	736	(1,350)
Property, plant and equipment	**8,460**	**(41,155)**	6,325	(40,893)
Capitalized interest	**—**	**(3,631)**	—	(3,506)
Exploration drilling costs	**—**	**(2,496)**	—	(2,455)
Other non-current assets	**357**	**(482)**	544	(600)
Accrued expenses	**1,332**	**(982)**	1,179	(681)
Pensions	**4,047**	**(1,473)**	2,209	(1,430)
Deferred (gains) losses on sates	**140**	**(459)**	169	(575)
Uplift benefit	**1,668**	**—**	1,740	—
Abandonments and decommissioning accruals	**7,234**	**—**	4,866	—
Cash flow hedges	**306**	**(38)**	13	(42)
Other	**931**	**(490)**	788	(697)
Tax effect tax loss carryforwards	**3,244**	**—**	3,290	—
Subtotal	**34,337**	**(56,295)**	25,503	(54,606)
Total valuation allowance	**(2,144)**	**—**	(2,591)	—
Gross deferred tax assets and liabilities	**32,193**	**(56,295)**	22,912	(54,606)
Adjustments for N GAAP:				
(Note 27)				
Short and long-term:				
Differences between US GAAP/N GAAP	***(899)***	***(1,418)***	*—*	*210*
Gross deferred fax assets and liabilities, N GAAP	***31,294***	***(57,713)***	*22,912*	*(54,396)*
Net — N GAAP	***1,426***	***(27,845)***	*975*	*(32,459)*

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 21,558 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiary which can be remitted tax-free as dividends.

At the end of 2006, Hydro had tax loss carryforwards of NOK 9,220 million, primarily in United States, Malaysia, Jamaica, Brazil, Canada, Spain and Trinidad. Carry forward amounts expire as follows:

Amounts in NOK million	
2007	2
2008	56
2009	245
2010	175
2011	166
After 2011	6,231
Without expiration	2,343
Total tax loss carryforwards	9,220

Note 10

Short-term investments

Amounts in NOK million	2006	2005
Bank, time deposits	**12,950**	1,851
Marketable equity securities	**570**	517
Debt securities and other	**1,499**	1,498
Total short-term investment	**15,020**	3,865

The net change in unrealized gains on securities for the years ended 31 December 2006, 2005 and 2004 was a net gain of NOK 46 million, a net gain of NOK 90 million and a net gain of NOK 91 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,895 million and NOK 1,886 million as of 31 December 2006 and 2005, respectively.

Note 11

Inventories and other current assets

Amounts in NOK million	2006	2005
Finished goods	**7,500**	6,736
Work in progress	**2,807**	2,598
Raw materials	**6,190**	5,218
Total inventories	**16,497**	14,553
Prepaid expenses	**4,302**	6,171
Other current assets	**9,723**	9,742
Total prepaid expenses and other current assets	**14,025**	15,912

Note 12

Non-consolidated investees

Amounts in NOK million	Naturkraft	Hydro Texaco	Alunorf	Alunorte	Søral	Aluchemie	Meridian	QVC	Noretyl	Other	Total
Balance 1 January 2005	21	963	1,532	1,544	643	564	593	361	405	3,391	10,017
Investments (sale), net	300			180						(46)	435
Change in long-term advances, net									(70)	(400)	(470)
Transfers (to) from other investments										(20)	(20)
Hydro's share of net income (loss)[1]	(41)	30	29	279	196	6	60	88	50	53	750
Amortization and write-down[1]			(56)	(21)		(15)				(39)	(131)
Dividends and other payments received by Hydro		48)	(12)	(27)	(100)	(2)	(35)			(99)	(323)
Foreign currency translation and other		(51)	(63)	413	(19)	(18)	70	63		160	555
Balance 31 December 2005	280	895	1,430	2,368	721	537	688	612	385	3,000	10,814
Changes in 2006:											
Investments (sale), net	**400**	**(998)**		**628**						**(99)**	**(69)**
Change in long-term advances, net			**353**						**(8)**	**(524)**	**(178)**
Transfers (to) from other investments										**—**	**—**
Hydro's share of net income (loss)[1]	**(21)**	**99**	**52**	**630**	**223**	**12**	**48**	**13**	**59**	**251**	**1,365**
Amortization and write-down[1]			**(56)**	**(19)**		**(17)**	**(238)**			**(64)**	**(394)**
Dividends and other payments received by Hydro			**(16)**	**(55)**	**(249)**	**(3)**	**(31)**			**(64)**	**(417)**
Foreign currency translation and other[2]		**4**	**10**	**(155)**	**(72)**	**14**	**(35)**	**(17)**		**(137)**	**(387)**
Asset held for sale[3]										**(279)**	**(279)**
Balance 31 December 2006	**659**	**0**	**1,773**	**3,397**	**623**	**542**	**433**	**508**	**436**	**2,084**	**10,455**
Accumulated additional amortization N GAAP[4]			***66***		***91***		***—***			***26***	***182***
Balance 31 December 2006 N GAAP	***659***	***0***	***1,838***	***3,397***	***714***	***542***	***433***	***508***	***436***	***2,110***	***10,637***

1) Share of net income relating to Castech investment classified as held for sale amounted to NOK 12 million in 2006 and NOK 29 million in 2005. Amortizations amounted to NOK 3 million in 2006 and 2005.

2) Includes FAS 158 fair value adjustment regarding pension and postretirement benefits in non-consolidated investees of NOK 190 million in 2006.

3) Investment in Castech classified as held for sale In 2006.

4) Includes amortization N GAAP 2006 of NOK 2 million, lower impairment loss of goodwill in Meridian of NOK 135 million resulting from previous amortizations under N GAAP and add-back of FAS 158 fair, value adjustment regarding pensions, of NOK 190 million.

Specification of non-consolidated investees

Amounts NOK million, except ownership	Percentage owned by Hydro	Investments in and advances to investees		Hydro's current receivable (payable), net with investees	
	2006	2006	2005	2006	2005
Naturkraft	**50.0%**	**659**	280	**—**	—
Hydro Texaco	**50.0%**	**0**	895	**—**	43
Alunorf	**50.0%**	**1,773**	1,430	**262**	254
Alunorte	**34.0%**	**3,397**	2,368	**—**	—
Søral	**49.9%**	**623**	721	**(178)**	(165)
Aluchemie	**36.2%**	**542**	537	**(8)**	—
Meridian	**49.0%**	**433**	688	**—**	36
QVC	**29.7%**	**508**	512	**1**	1
Noretyl	**50.0%**	**436**	385	**52**	25
Others		**2,083**	3,000	**277**	(245)
Total		**10,455**	10,814	**406**	(51)

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follow:

Naturkraft AS, part of Energy and oil Marketing, Is a joint venture between Hydro and Statkraft (50 percent each). Naturkraft is currently constructing a gas power plant at Kårstø in Norway. It is expected that the power plant will be finalized during autumn 2007. Each of the partners will supply gas to the power plant for conversion to electricity on a tolling basis. The electricity will be sold in the market by each of the partners. Share of production will be based on the partner's ownership, unless other conditions are agreed upon.

Hydro Texaco as operates gasoline stations and diesel stations in Norway and Denmark. Hydro and Chevron Corp. each owned 50 percent In the joint venture. Hydro and Chervron sold their ownership in Hydro Texaco in October 2006. Hydro sold and purchased oil related products with the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 8 million, 417 million and NOK 347 million in 2006, 2005 and 2004, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 27 million, NOK 93 million and NOK 248 million in 2006. 2005 and 2004 respectively. Hydro Texaco was part of Energy and Oil Marketing.

Aluminium Nort GmbH (Alunort) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Novelis (50 percent each). Each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro based on this tolling arrangement amounted to NOK 1,433 million in 2006, NOK 1,317 million in 2005 and NOK 1.373 million in 2004. Hydro's revenues from sales to Alunorf were not material. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's owner share is 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 2.751 million. 1,314 million, and NOK 1.109 million in 2006, 2005 and 2004, respectively. Alunorte is part of Aluminium Metal.

Sør-Norge Aluminium AS (Søral), part of Aluminium Metal, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each ma]or owner at current market prices. The other 50 percent owner of Søral is Alcan. Sale of aluminium from Søral to Hydro amounted to NOK 1,531 million, NOK 1,047 million and NOK 1,115 million in 2006, 2005 and 2004, respectively. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 568 million. NOK 496 million and NOK 671 million in 2006, 2005 and 2004 respectively.

Aluminium & Chemie Rotterdam B.V (Aluchemie) is an anode producer located in the Netherlands. Hydro increased its shareholding in 2004 from 21.21 percent to 36.2 percent. Hydro purchased anodes from Aluchemie amounting to NOK 587 million, NOK 482 million and 591 million in 2006, 2005 and 2004, respectively. Sales from Hydro to Aluchemie amounted to NOK 111 million, NOK 84 million and NOK 12 million in 2006, 2005 and 2004 respectively. Aluchemie is part of Aluminium Metal.

Meridian Technologies Inc. (Meridian) is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidiary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro. Sales from Hydro to Meridian amounted to NOK 38 million, NOK 196 million and NOK 238 million in 2006, 2005 and 2004, respectively. A contract to sell Hydro's shares in Meridian was signed in December 2006. The transaction is expected to be completed in the first half of 2007 with no significant impact on Hydro's result. Meridian is part of Aluminium Products.

Hydro owns 29.7 percent of Qatar Vinyl Company Ltd (QVC). The other owners are three unaffiliated companies. QVC produces Caustic Soda. EDC and VCM. Hydro and the other partners deliver technical, marketing and support services to QVC.

Hydro and Boreall is each own 50 percent of Noretyl AS, a joint venture. Noretyl Is part of Polymers. Hydro paid processing fees to Noretyl for refining of NGL of NOK 267 million, NOK 277 million and NOK 242 million in 2006, 2005 and 2004, respectively.

Non-consolidated investees split by segment can be found in Note 5.

Non-consolidated investees — 100 percent basis

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, Is accounted for using the equity method.

Non-consolidated investees classified as discontinued operations are excluded from the income statement information for all periods. Non-consolidated investees are excluded from the balance sheet information for the periods when those investees are classified as held for sale.

Income statement data[1)]

Amounts in NOK million (unaudited)	2006	2005	2004
Operating revenues	**38,839**	34,349	30,570
Operating income	**7,283**	1,243	4,117
Income before taxes and minority interest	**6,498**	4,100	3,733
Net income	**4,614**	3,189	3,394
Hydro's share of net income	**1,354**	721	1,004

1) All periods 2004-2006 are excluding Castech investment classified as held for sale in 2006.

Balance sheet data

Amounts in NOK million (unaudited)	2006[1)]	2005	2004
Current assets	**14,370**	15,721	15,052
Non-current assets	**33,857**	34,009	29,759
Assets	**48,228**	49,730	44,811
Current liabilities	**8,102**	9,534	8,572
Non-current liabilities	**12,351**	13,877	13,275
Minority interest	**35**	30	19
Shareholders' equity	**27,739**	26,289	22,945
Liabilities and shareholders' equity	**48,228**	49,730	44,811
Hydro's investments and advances	**10,455**	10,814	10,017

1) Figures are excluding Castech investment in 2006.

Note 13

Intangible assets, prepaid pension, investments and non-current assets

Amounts in NOK minion	2006	2005
Goodwill for consolidated subsidiaries	**4,275**	4,100
Intangible assets, less accumulated amortization (Note 15, note 19)	**586**	1,053
Total intangible assets	**4,861**	5,153
Prepaid pension (Note 19)	**1,205**	4,659
Other investments at cost	**2,185**	2,046
Non-current assets	**4,372**	5,205
Prepaid pension, investments and other non-current assets — US GAAP	**7,763**	11,910
Adjustments[1]	***1,872***	*(2,967)*
Prepaid pension, investments and other non-current assets — N GAAP	***9,635***	*8,943*

1) The difference consists of fair value adjustment for cash flow hedge instruments, unrealized gain on freestanding derivatives and fair value adjustment of pensions.

Note 14

Property, plant and equipment

Amounts in NOK million	Land-based activities Land	Machinery and equipment	Buildings	Plant under construction	Oil and gas activities[1]	Total
Cost:						
Cost 31.12.2005	1,056	53,426	17,861	2,414	174,229	248,985
Additions at cost	1	1,220	151	1,857	21,211[6]	24,440
Retirements	(14)	(727)	(396)	(84)	(1,228)[7]	(2,448)
Transfers	—	2,185	290	(2,725)	250	—
Foreign currency translation	15	(104)	(57)	(36)	(3,427)	(3,609)
Reclassified to assets held for sale	(59)	(2,610)	(570)	(172)	—	(3,412)
Cost 31.12.2006	998	53,390	17,279	1,254	191,035	263,956
Depreciation:						
Accumulated depreciation 31.12.2005	(1)	(31,187)	(8,420)	—	(81,188)	(120,795)
Depreciation, depletion and amortization[2)3)]	(18)	(3,558)	(551)	—	(17,598)	(21,725)
Retirements	—	679	365	—	311	1,355
Foreign currency translation and transfers	1	218	8	—	678	904
Reclassified to assets held for sale	—	1,169	112	—	—	1,281
Accumulated depreciation 31.12.2006	(18)	(32,680)	(8,486)	—	(97,797)	(138,980)
Net book value 31.12.2005[4]	1,055	22,239	9,441	2,414	93,041	128,191
Net book value 31.12.2006[4]	980	20,710	8,793	1,254	93,238	124,976
N GAAP adjustments (note 27):						
Accumulated depreciation 31.12.2006 US GAAP	*(18)*	*(32,680)*	*(8,486)*	*—*	*(97,797)*	*(138,980)*
Adjusted impairment N GAAP[5]	*—*	*(365)*	*—*	*—*	*74*	*(291)*
Foreign currency translation	*—*	*(3)*	*—*	*—*	*—*	*(3)*
Accumulated depreciation 31.12.2006 N GAAP	*(18)*	*(33,047)*	*(8,486)*	*—*	*(97,723)*	*(139,274)*
Net book value 31.12.2005 N GAAP	*1,055*	*22,077*	*9,441*	*2,414*	*93,126*	*128,113*
Net book value 31.12.2006 N GAAP	*980*	*20,343*	*8,793*	*1,254*	*93,312*	*124,682*

1) Includes land-based oil and gas activities and transportation systems for Oil & Energy.

2) NOK 286 million hereof have been reclassified to income from discontinued operations.

3) Impairment losses for 2006, 2005 and 2004 were NOK 5,177 million, NOK 1,467 million and NOK 2,176 million, respectively.

4) Includes NOK 451 million and NOK 542 million related to capital leases for 2006 and 2005, respectively.

5) Under N GAAP Aluminium Metal had an additional impairment loss of NOK 67 million, Aluminium Products had an additional impairment loss of NOK 146 million and a reversal of impairment loss of NOK 10 million. Oil & Energy's sub-segment Exploration and Production had an impairment loss of NOK 11 million.

6) Includes purchase price adjustment related to the acquisition of Spinnaker Exploration Company in December 2005, see note 2.

7) Includes previously capitalized exploration costs, including acquisition costs, expensed in the current period, see note 26.

The fair value of the impaired assets is generally estimated by discounting the expected future cash flows of the individual asset or asset group. Impairment is generally indicated by adverse change in market prices, current period cash flow losses combined with a history of losses, or a significant change in the manner in which the asset is to be used.

Impairment losses in 2006 include a write-down related to the Front Runner field and nine shelf fields in the Gulf of Mexico. The impairment was indicated by production shortfalls in the fields. A review concluded that the geology of Front Runner is more complex and the reservoir communication weaker than expected at the time of acquisition. As a result, expected recoverable reserves from Front Runner have been reduced by 56 percent due to lower expected volumes of oil in place, reduced expected recovery rates and increased field development costs. The total amount of write-down relating to the Front Runner field and the nine shelf fields amounts to NOK 5,240 million, of which NOK 362 million is related to in-field prospects and is charged to exploration expense, and NOK 4,879 is included in impairment losses.

The impairment losses in 2006 also included additional NOK 24 million related to Exploration and Production, NOK 26 million related to Energy and Oil Marketing, NOK 10 million related to Aluminium Metal and NOK 237 million related to Aluminium Products, of which NOK 144 million was related to Extrusion and NOK 93 was related to Automotive.

Note 15

Goodwill and intangible assets

Intangible assets

Amounts in NOK million	Finite Useful Life	Indefinite Useful Life	Total
Cost 31.12.2005	3,073	5	3,077
Additions at cost	105	—	105
Disposals	(620)	—	(620)
Foreign currency translation and other	62	—	62
Accumulated amortization 31.12.2006	(1,992)	—	(1,992)
Reclassified to assets held for sale	(47)	—	(47)
Net book value 31.12.2006	581	5	586
Capitalized development cost N GAAP	*11*	*—*	*11*
Net book value 31.12.2006 N GAAP	*592*	*5*	*597*

Amortization of intangibles from continuing operations amounted to NOK 233 million and NOK 259 million for 2006 and 2005, respectively. Amortization from discontinued operations amounted to NOK 46 million and NOK 60 million in 2006 and 2005, respectively. In addition, 2006 figures includes impairment loss of NOK 51 million.

Estimated amortization expense, in million NOK for the next five years is 2007 — 173, 2008 — 130, 2009 — 61, 2010 — 31 and 2011 — 25.

Beginning in 2005 Hydro was required by law to participate in the Norwegian and EU emissions trading system. Quotas are granted on an ‘‘installation by installation’’ basis, and are not exchanged between Hydro entities. Quotas are received for 95 percent (for Norwegian installations) of estimated CO_2 emissions. Any emissions shortfall must be covered with quotas purchased in the open market. Both purchased and granted quotas not used in 2005 were available to roll over to 2006; similarly, purchased and granted quotas from 2006 can be rolled over to 2007. During 2006 some emission rights were rolled over from 2005. As of 31 December 2006 Hydro has retained all quotas granted by the Norwegian authorities for own use and all liability amounts related to CO_2 emission rights are immaterial.

Goodwill

Amounts in NOK million	Oil & Energy	Aluminium Metal	Aluminium Products	Total
Net book value 31.12.2005	3,005	275	819	4,100
Goodwill acquired	49	—	35	85
Currency translation effect	(229)	(16)	(19)	(263)
Purchase price adjustment[1]	444	—	—	444
Other	(21)	—	(2)	(23)
Reclassified to assets held for sale	—	—	(68)	(68)
Net book value 31.12.2006	3,249	260	766	4,275
Accumulated additional amortization N GAAP[2]	*(342)*	*(172)*	*(501)*	*(1,015)*
Foreign currency translation N GAAP	*8*	*8*	*11*	*27*
Net book value 31.12.2006 N GAAP	*2,915*	*96*	*276*	*3,287*

1) Purchase price adjustment related to Spinnaker acquisition in 2005.

2) Amortization N GAAP from continuing operations 2006 amounts to NOK 458 million.

Original cost of goodwill from continuing operations was NOK 4,603 million in 2006. Original cost of goodwill from assets reclassified as held for sale was NOK 73 million. Accumulated amortization of goodwill from continuing operations for N GAAP amounted to NOK 1,316 million. Accumulated amortization of goodwill from assets reclassified as held for sale was NOK 5 million.

Note 16

Bank loans and other interest-bearing short-term debt

Amounts in NOK million	Weighted average interest rates 2006	Weighted average interest rates 2005	2006	2005
Bank loans and overdraft facilities	5.0%	3.5%	**219**	586
Other	2.9%	2.6%	**2,994**	4,071
Total bank loans and other interest-bearing short-term debt			**3,213**	4,658

As of 31 December 2006, Norsk Hydro ASA had unused short-term credit facilities with various banks totaling approximately NOK 1,825 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

Note 17

Other current liabilities

Amounts in NOK million	2006	2005
Accounts payable	**15,788**	14,035
Income taxes payable	**18,995**	13,843
Payroll and value added taxes	**3,623**	2,956
Accrued liabilities	**12,303**	10,605
Other liabilities	**4,841**	5,799
Total other current liabilities — US GAAP	**55,550**	47,239
N GAAP adjustments		
Reversal of cash flow hedge and derivatives	***(3,667)***	*(3,453)*
Balance 31.12.2006 N GAAP	***51,883***	*43,786*

Note 18

Long-term debt

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

Long-term debt payable in various currencies

Amounts in million	Weighted average interest rates	Denominated amount 2006	Balance in NOK 2006	Balance in NOK 2005
USD	7.3%	**2,618**	**16,420**	17,708
NOK	—	**—**	**—**	174
GBP	6.5%	**1**	**13**	117
EUR	6.3%	**300**	**2,479**	2,401
Total unsecured debenture bonds			**18,912**	20,401
USD	5.0%	**48**	**298**	338
EUR	3.7%	**3**	**28**	39
Other	5.5%		**79**	84
Total unsecured bank loans			**405**	461
Capital lease obligations			**361**	517
Mortgage loans			**14**	23
Other long-term debt			**368**	364
Outstanding debt			**20,060**	21,766
Less: Current portion			**(441)**	(379)
Total long-term debt			**19,619**	21,387

As of 31 December 2006 the fair value of long-term debt, including the current portion, was NOK 23,001 million and the carrying value was NOK 20,060 million.

Foreign currency swaps are not reflected in the table above. (See Note 23).

Payments on long-term debt fall due as follows

Amounts in NOK million	Debentures	Bankloans	Capital lease and other	Total
2007	—	68	374	441
2008	—	68	64	132
2009	1,882	66	59	2,006
2010	2,479	64	30	2,573
2011	—	139	60	199
Thereafter	14,551	1	157	14,709
Total	18,912[1)]	405	743	20,060

1) Of which Norsk Hydro ASA (the parent company) is responsible for NOK 18,811 million.

In 2005 Norsk Hydro ASA entered into a syndicated long-term revolving credit facility with several international banks for a total amount of USD 2,000 million maturing in 2012. The commitment fee on the facility is 0.0525 percent per annum for the first five years, and 0.06 percent thereafter. Hydro also has a long-term loan facility of EUR 300 million with the European Investment Bank (EIB). There are no borrowings under either of these facilities as of 31 December 2006.

Note 19

Employee retirement plans

Pension benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans.

Net periodic pension cost and other amounts recognized in other comprehensive income

Amounts in NOK million	2006	2005	2004
Defined benefit plans:			
Benefits earned during the year, net of participants' contributions	**1,118**	830	813
Interest cost on prior period benefit obligation	**1,289**	1,292	1,355
Expected return on plan assets	**(1,080)**	(1,003)	(1,000)
Recognized loss	**439**	283	345
Amortization of prior service cost	**112**	107	111
Amortization of net transition (asset) obligation	**—**	—	3
Curtailment loss	**—**	1	59
Settlement (gain) loss	**—**	—	30
Net periodic pension cost	**1,877**	1,510	1,716
Defined contribution plans	**23**	45	32
Multiemployer plans	**19**	26	35
Termination benefits and other[1)]	**318**	604	338
Total net periodic pension cost	**2,237**	2,185	2,121
Changes in other comprehensive income that have not been recognized as components of net periodic pension cost:			
Additional minimum pension liability	**(435)**	724	189
Reversal of additional minimum pension liability	**(1,471)**	—	—
Net loss	**7,776**	—	—
Prior service cost	**819**	—	—
Total recognized in other comprehensive income	**6,689**	724	189
Total recognized in net periodic pension cost and other comprehensive income	**8,926**	2,909	2,310

1) For 2006 Termination benefits and other excludes pension cost from discontinued operations for 2006 of NOK 3 million. For 2004 and 2005 termination benefits and other include pension costs from discontinued operations of NOK 5 million and NOK 5 million, respectively.

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic pension cost in 2007 are NOK 326 million and NOK 95 million, respectively.

Change in projected benefit obligation (PBO)

Amounts in NOK million	2006	2005
Projected benefit obligation at beginning of year	**(31,560)**	(25,399)
Benefits earned during the year	**(1,139)**	(851)
Interest cost on prior period benefit obligation	**(1,289)**	(1,292)
Actuarial loss	**(629)**	(4,799)
Plan amendments	**(50)**	(20)
Benefits paid	**914**	875
Settlements	**(5)**	2
Special termination benefits	**(16)**	(80)
Divestments	**20**	6
Business combinations	**—**	(40)
Foreign currency translation	**(252)**	38
Projected benefit obligation at end of year	**(34,007)**	(31,560)

Change in pension plan assets

Amounts in NOK million	2006	2005
Fair value of plan assets at beginning of year	**19,277**	16,504
Actual return on plan assets	**2,966**	2,528
Company contributions	**1,568**	769
Plan participants' contributions	**22**	21
Benefits paid	**(613)**	(596)
Settlements	**1**	(2)
Divestments	**(12)**	(4)
Foreign currency translation	**123**	58
Fair value of plan assets at end of year	**23,332**	19,277

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2006	2005
Defined benefit plans:		
Funded status of the plans at end of year	**(10,674)**	(12,282)
Unrecognized net loss	**7,776**	9,498
Unrecognized prior service cost	**819**	883
Net accrued pension recognized	**(2,079)**	(1,902)
Termination benefits and other	**(1,076)**	(1,247)
Total net accrued pension recognized	**(3,155)**	(3,148)
Amounts recognized in the balance sheet consist of:		
Prepaid pension	**1,205**	4,659
Other current liabilities	**(564)**	—
Accrued pension liabilities	**(12,391)**	(9,939)
Intangible asset	**—**	225
Accumulated other comprehensive income:		
Net loss	**7,776**	—
Prior service cost	**819**	—
Additional minimum pension liability	**—**	1,907
Net amount recognized	**(3,155)**	(3,148)

The accumulated benefit obligation for all defined pension benefit retirement plans was NOK 27,722 million and NOK 26,163 million at 31 December, 2006 and 2005, respectively.

Plans in which the accumulated benefit obligation exceeds plan assets

Amounts in NOK million	2006	2005
Projected benefit obligation	**(13,595)**	(15,343)
Accumulated benefit obligation (ABO)	**(10,986)**	(12,755)
Plan assets	**2,350**	4,250

Weighted-average assumptions used to determine net periodic pension cost

	2006	2005	2004
Discount rate	**4.1%**	5.2%	5.8%
Expected return on plan assets	**5.5%**	6.2%	7.0%
Rate of compensation increase	**3.1%**	3.1%	3.5%

Weighted-average assumptions used to determine pension obligation at end of year

	2006	2005
Discount rate	**4.5%**	4.1%
Rate of compensation increase	**3.5%**	3.1%

Weighted-average investment profile plan assets at end of year

	Target allocation	2006	2005
Asset category			
Equity securities	25-42%	**40%**	40%
Debt securities	30-54%	**39%**	41%
Real estate	17%	**14%**	15%
Other	3-10%	**7%**	4%
Total		**100%**	100%

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be one to two percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

Social security tax imposed on pensions has been recognized and accrued for where applicable, together with social security tax imposed on other personnel benefits, and has not been treated as pensions.

Hydro expects to contribute approximately NOK 400 million to its pension plans in 2007. Total pension benefit payments expected to be paid to participants, which include payments funded from Hydro's assets as well as payments paid from the plans are as follows:

Expected pension benefit payments

Amounts in NOK million	
2007	1,060
2008	1,130
2009	1,216
2010	1,302
2011	1,404
2012-2016	8,505

Other retirement benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 14 million, NOK 13 million and NOK 19 million for 2006, 2005 and 2004, respectively. The post retirement liability as of 31 December, 2006 was NOK 175 million of which NOK 32 million has been recognized in the accumulated other comprehensive income. The post retirement liability was NOK 150 million as of 31 December, 2005.

Note 20

Contingencies and other long-term liabilities

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December 2006 and 2005, Hydro had accrued NOK 235 million and NOK 412 million, respectively, for corrective environmental measures. The corresponding expense was NOK 96 million in 2006 compared to NOK 89 million and NOK 44 million in 2005 and 2004, respectively. During 2006 Hydro reclassified an accrued environmental liability of NOK 184 million to an asset retirement obligation.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

As operator on the Norwegian Continental Shelf, Hydro makes charges to its partners for pension costs. Since 1 January 2001, pension costs have been charged to the partners on a current basis as a percentage of the salary costs. Prior to that date, costs of funded pensions were charged to the partners based upon pension premiums. Costs related to unfunded pensions were charged when pensions were paid to the recipients. As part of the transition to the current system, Hydro made a one-time charge to its partners related to prior periods. Certain of the partners did not accept the charge and have brought the case to arbitration. During the preparations for the arbitration proceedings the partners have acknowledged that Hydro is entitled to charge all relevant pension costs incurred as operator. In the third quarter of 2005, Hydro has repaid the one-time charge related to prior periods. These costs will instead be charged to the partners later in accordance with the principles in place prior to 1 January 2001. Final settlement of this issue could result in a range of possible outcomes, resulting in a gain or loss to Hydro.

Hydro has long-term gas sales contracts with several European gas distribution companies. According to the contracts, each party may request adjustment of the price provisions at regular intervals during the contract period. In case the parties fail to agree on an adjustment to the price provisions, the matter will be referred to an independent arbitration panel as provided for under the contracts. Certain of the price reviews have recently been resolved through arbitration, whereas others are ongoing.

Contingencies and other long-term liabilities

Amounts in NOK million	2006	2005
Insurance premiums and loss reserves	138	556
Asset retirement obligations	11,381	7,447
Postretirement benefits other than pensions	175	150
Derivatives	2,047	2,336
Other	2,385	1,935
Total US GAAP	16,126	12,424
Adjustment to N GAAP		
Fair value adjustment postretirement benefits (Note 27)	(32)	—
Cash flow hedge and derivatives (Note 27)	(1,766)	(2,155)
Total N GAAP	14,327	10,269

Hydro's asset retirement obligations covered by *SFAS 143 Accounting for Asset Retirement Obligations* are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway and other countries as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligation is recognized in the balance sheet in the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement. In 2006, the major part of the increase in estimates was attributable to significantly higher rates on floating rigs to be used in retirement activities.

Hydro implemented *FASB Interpretation No. 47 Accounting for Conditional Asset Retirement Obligations (FIN 47),* as of 31 December 2005. FIN 47 is an interpretation of SFAS 143, which refers to legal obligations to perform asset retirement activities. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation, if the fair value of the liability can be reasonably estimated, even if the timing and/or method of settlement is conditional on a future event that may not be within the control of the entity. The FIN 47 implementation of asset retirement obligations relates primarily to the activities within the Aluminium Metal segment.

Asset retirement obligations

Amounts in NOK million	2006	2005
Total asset retirement obligations 1.1	**7,694**	6,281
Incurred this year	**316**	761
Revision in estimates	**3,943**	326
FIN 47 implementation	**—**	223
Settlements	**(274)**	(356)
Accretion	**442**	404
Currency translation	**(61)**	56
Total asset retirement obligations 31.12	**12,060**	7,694
Of which:		
Short-term asset retirement obligations	**679**	247
Long-term asset retirement obligations	**11,381**	7,447

In accordance with FIN 47, previous years have not been restated. The following table reconciles the reported net income, reported earnings per share and asset retirement obligations to that which would have been reported for 2005 and 2004 under FIN 47.

Pro-forma information (unaudited)

Amounts in NOK million, except per share data[1]	2005	2004
Net income	15,638	12,560
Depreciation change (after tax)	(31)	(32)
Other operating cost (after tax)	28	29
Cumulative effect of changes in accounting principles	78	—
Pro-forma net income	15,713	12,557
Reported basic and diluted earnings per share from continuing operations[1]	12.40	9.00
Reported basic and diluted earnings per share from discontinued operations	0.10	0.90
Net adjustment changes in accounting principles earnings per share	0.10	—
Pro-forma basic and diluted earnings per share from continuing operations[1]	12.50	9.00
Pro-forma asset retirement obligations, 1 January	6,500	5,451

1) Previously reported earnings per share have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

Note 21

Secured debt and guarantees

Amounts in NOK million	2006	2005
Amount of secured debt	**14**	23
Assets used as security:		
Machinery and equipment	**29**	32
Buildings	**56**	57
Other	**3**	2
Total	**88**	91
Guarantees (off-balance sheet):		
Non-consolidated investee debt	**187**	89
Contingency for discounted bills	**56**	113
Tax guarantees	**—**	406
Sales guarantees	**7,694**	7,925
Commercial guarantees	**26,222**	15,191
Total	**34,159**	23,724

Hydro is contingently liable for guarantees made directly or on behalf of subsidiaries by the parent company, Norsk Hydro ASA, in the normal course of business. The amounts in the table above represents the

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

Hydro has entered into take-and-pay and long-term contracts providing for future payments to secure pipeline and transportation capacity, processing services, raw materials, electricity and steam. In addition, Hydro has entered into long-term sales commitments. This principally relates to obligations to deliver gas from fields on the Norwegian Continental Shelf and delivering of electricity. The delivery of gas from the Norwegian Continental Shelf amounts to NOK 267 billion. The delivery commitment of concession power is 30,7 TWh.

The non-cancelable future fixed and determinable obligation as of 31 December 2006 is as follows:

Take-and-pay and long-term contracts

Amounts in NOK million	Transport and other	Raw materials	Energy related	Sales commitments
2007	1,292	3,739	13,145	(40,312)
2008	962	1,588	17,072	(29,443)
2009	1,078	1,077	12,135	(25,081)
2010	1,002	1,126	5,796	(25,540)
2011	1,010	995	2,184	(16,565)
Thereafter	3,632	7,099	12,469	(160,700)
Total	8,974	15,625	62,801	(292,641)

Terms of certain of these agreements include additional charges covering variable operating expenses in addition to the fixed and determinable component shown above, including contracts to purchase 12 million tonnes of alumina over the next 24 years where the variable part of the prices are normally linked to the London Metal Exchange quoted prices.

Hydro has also entered into take-and-pay and other long-term contracts as part of shareholders agreement in non-consolidated investees, including contracts to purchase alumina according to ownership share and production, where Hydro's share is estimated to be 46 million tonnes of alumina over the next 19 years. These commitments are not included in the figures above.

The total purchases under the take-and-pay agreements and long-term contracts were as follows (in NOK million): 2006 — 10,348; 2005 — 7,438; 2004 — 4,736; 2003 — 2,670 and 2002 — 3,065.

Note 23

Market risk management and derivative instruments

Hydro is exposed to market risks from prices on commodities bought and sold, prices of other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create fluctuations in Hydro's results. To manage this exposure, Hydro's main strategy is to maintain a strong financial position to be able to meet fluctuations in results.

Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis. Natural hedging positions are established where possible and if economically viable. Hydro uses financial derivatives to some extent to manage financial and commercial risk exposures.

Some of Hydro's commodity contracts are deemed to be derivatives under US GAAP. Derivative instruments, whether physically or financially settled, are accounted for under FASB Statements of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities as amended (SFAS 133). All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair value of derivative instruments recognized in earnings, unless specific hedge criteria are met.

Commodity price risk exposure

Oil

Hydro produces and sells crude oil and gas liquids. Hydro's production of crude oil and gas liquids is, for the most part, sold in the spot market. Hydro utilizes futures, swaps and options to mitigate unwanted price exposures for a portion of its crude oil portfolio production. While engaging in economic hedging activities, as of the end of 2006 Hydro has no hedge accounting program in place for the purpose of protecting against the risk of low oil prices. The main portion of oil and gas related economic hedge activities, entered into in December 2005, are related to the acquisition of Spinnaker. There has been no material changes in economic hedges in 2006 relating to oil. See also economic hedges below.

Natural gas

Hydro is a producer, buyer, seller and to a limited extent consumer, of natural gas. The majority of Hydro's equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil products. Hydro utilizes instruments such as forwards, swaps and options to mitigate unwanted price exposures on the portion of the natural gas portfolio not sold on long-term contracts. The main portion of natural gas economic hedge activities were entered into in 2005 in connection with the acquisition of Spinnaker, see economic hedges below. Hydro is also participating in trading activities based on equity gas production and externally sourced gas volumes. In addition, Hydro engages in limited energy trading activity in derivatives as defined under EITF 02-3. The fair value of these traded financial instruments is determined by reference to various market prices or by use of other appropriate valuation methodologies. Commodity price, foreign exchange rate and credit exposures arising from energy trading have not been significant during 2006.

An increasing number of the Company's sales and purchase contracts related to natural gas are being classified as derivatives or deemed to contain embedded derivatives according to SFAS 133. These contracts are marked to their market value with changes in market value recognized in operating income. Gas contracts can be indexed to the oil price or quoted gas prices at recognized gas delivery points such as the National Balancing Point (NBP) in Great Britain, Zeebrugge Hub (ZB) in Belgium or the Dutch Title Transfer Facility (TTF). Only a portion of these derivative contracts are hedged with other natural gas derivatives. As such, Hydro expects to have certain open derivative positions at any one point in time, which can result in earnings fluctuations. The magnitude of the unrealized gains and losses on these contracts will be influenced by geographic price differentials and spreads on the above mentioned gas contract indices.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term commodity purchase contracts with other producers and suppliers to secure electricity for Hydro's own consumption and delivery commitments.

In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volumes, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange (Nord Pod). Hydro participates in limited speculative trading.

Hydro occasionally will financially settle obligations to physically deliver electric power in concession power agreements. These commitments are recognized at fair value.

Aluminium

Hydro produces primary aluminium and fabricated aluminium products. Hydro's sourcing and trading activities procure raw materials and primary aluminium for use in Hydro's smelters and cast-houses or in downstream operations. These materials are also sold to external customers. In addition, the trading activities contribute to optimize capacity utilization and to reduce logistical costs, as well as strengthening market positions by providing customers with flexibility in pricing and sourcing. Hydro has considerable activities relating to remelting and long-term commercial agreements to secure sourcing of casthouse products. All these activities are considered when evaluating the risk profile of Hydro's aluminium activities.

Hydro enters into future contracts with the London Metal Exchange (LME) mainly for the following purposes. The first is to achieve an average LME aluminium price on smelter production. Second, because the Company's downstream business and the sale of third party products are based on margins above the LME price, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding physical or derivative future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking external LME positions based upon net exposures within given limits. Aluminium price volatility can result in significant fluctuations in earnings as the derivative positions are marked to their market value with changes to market value recognized in operating income, while the underlying physical transactions normally are not marked-to-market, except for trading portfolios. See also economic hedges below.

In order to secure the margins for certain projects or related to special situations, Hydro has sold forward on a longer-term basis. In these situations, hedge accounting has occasionally been utilized. See the section on cash flow hedges below.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2006 and 31 December 2005. Contracts that are designated as hedging instruments in cash flow and fair value hedges are not included. The presentation of fair values for electricity and natural gas contracts shown in the table below include the fair value of derivative instruments such as futures, forwards and swaps, in conjunction with the fair values of physical contracts.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2006 and 2005:

Amounts in NOK million	2006	2005
Assets:		
Swaps and futures, crude oil	**34**	9
Electricity contracts	**1,920**	1,570
Natural gas contracts	**4,184**	4,275
Aluminium futures, forwards, swaps and options	**30**	—
Total	**6,168**	5,854
Liabilities:		
Electricity contracts	**(1,146)**	(391)
Natural gas contracts	**(2,276)**	(4,063)
Swaps and futures, crude oil	**(285)**	(175)
Aluminium futures, forwards, swaps and options	**(893)**	(902)
Total	**(4,600)**	(5,530)

Embedded derivatives

Some contracts contain pricing links that affect cash flows in a manner different than the underlying commodity or financial instrument in the contract. For accounting purposes, these embedded derivatives are in some circumstances separated from the host contract and recognized at fair value. In some cases, the entire contract, including the embedded derivative, is recognized at fair value. Hydro has separated and recognized at fair value embedded derivatives related to aluminium-, inflation-, Brent- and coal links, in addition to currency forwards, from the underlying contracts.

Foreign currency risk exposure

Prices of many of Hydro's most important products, mainly crude oil, aluminium and natural gas, are either denominated in US dollars or are influenced by movements in the value of other currencies against the US dollar. Further, the cost of raw materials, including natural gas, NGLs and alumina, are affected by the US dollar price of crude oil or the US dollar price of aluminium, and variations in the US dollar exchange rates against local currencies. Hydro's primary foreign currency risk is therefore linked to fluctuations in the value of the US dollar. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars. As of 31 December 2006, 85 percent of Hydro's long-term debt is denominated in US dollars. The majority of the remaining long-term debt is denominated in Euro, Danish kroner, and British pounds.

Hydro also employs foreign currency swaps and forward currency contracts to manage the currency exposures for Hydro's long-term debt portfolio. Forward currency contracts are entered into to safeguard cash flows for forecasted future transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

Hydro also incurs costs related to the production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian krone, US dollar, Canadian dollar, Australian dollar, British Pound and Swedish krone. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian krone for subsidiaries outside of Norway can influence the comparative results of operations.

Contractual arrangements for the majority of the purchase and sales activities within the European aluminium business are committed in Euro based on the prevailing exchanges rates between the US dollar and Euro at the time of entering into the contracts. This gives a Euro exposure in the operating income, from the time of entering into the contractual arrangements until settlement. This exposure is generally quite short term as the contracts are committed and settled within six months.

Hydro has previously designated a portion of its foreign-denominated long-term debt, including certain related balances in currencies arising from foreign currency swaps and forwards, as hedges of net foreign investments in subsidiary companies. As of 1 January 2005 Hydro no longer designated portions of its long-term debt and forward currency contracts as hedges of net investments in foreign subsidiaries.

The foreign currency effects of these former net investment hedges reflected in the cumulative translation section of shareholders' equity produced a NOK 320 million after-tax gain during the year ended 31 December 2004; offsetting a foreign currency translation loss of NOK 1,628 million in shareholders' equity for 2004. On 10 November 2005 Hydro agreed to sell the entire investment in Biomar Holding A/S. A net investment hedging loss of NOK 33 million was expensed to the income statement from equity relating to this transaction. During 2006 no former net investment hedges have been reclassified to equity.

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2006 and 31 December 2005. Currency contracts that are designated as hedging instruments in cash flow hedges are not included. Bifurcated embedded currency derivatives are included.

Amounts in NOK million	2006	2005
Assets:		
Currency forwards and swaps	**908**	310
Liabilities:		
Currency forwards and swaps	**(136)**	(297)

The currency contracts listed below were outstanding as of 31 December 2006. Bifurcated embedded currency derivatives are not included.

			Maturity by nominal amount in currency	
Currency Amount in million	**Nominal value in currency**	**Fair value in NOK**	**Within one year**	**Later**
Buying currency				
AUD	100	488	100	—
CAD	187	1,003	184	3
EUR	375	3,080	375	—
NOK	20,734	20,633	20,734	—
SEK	1,200	1,091	1,200	—
USD	63	315	—	63
Selling currency				
GBP	(55)	(673)	(55)	—
JPY	(5,242)	(261)	(300)	(4,942)
EUR	(110)	(903)	(110)	—
SEK	(1,200)	(1,094)	(1,200)	—
USD	(3,690)	(22,986)	(3,688)	(2)

Interest rate exposure

Hydro is exposed to changes in interest rates, primarily as a result of borrowing and investing activities used to maintain liquidity and fund business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its total interest bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure. The fair value of interest rate derivatives as of 31 December 2006 and 2005 are immaterial and not presented here.

Cash flow hedges

Hydro has over time entered into hedge programs to secure the price of aluminium ingot to be sold. Aluminium futures and options on the London Metal Exchange have been used for this purpose. Some of these hedge programs are accounted for as cash-flow hedges, where gains and losses on the hedge derivatives are recorded to Other comprehensive income (OGI) and will be reclassified into operating revenues (cost of goods sold) when the corresponding forecasted sale (purchase) of aluminium ingot is recognized. As the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar, no ineffectiveness was recognized in 2006, 2005 or 2004 in connection with these cash flow hedges.

The table below gives aggregated numbers related to the aluminium cash-flow hedges for the period 2004 to 2006:

	2007	2006	2005	2004
Aluminium sold forward with hedge accounting (1.000 mt)[1]		485	336	315
of which open at year-end (1.000 mt)[2]		410	312	287
Average prices achieved in hedges in USD (per mt)[3]		2,108	1,750	1,505
Expected to be reclassified to earnings (after tax) during the year[4] (NOK million)	(541)	(154)	197	261
Reclassified to earnings from OCI after tax[5] (NOK million)		(349)	185	201

1) Remaining volume sold Forward at inception of hedge programs. Hydro has sold forward in the period 2007 — 2008.

2) Including closed out positions / repurchases of hedge derivatives.

3) Weighted average of remaining volume sold forward at inception of hedge program.

4) In the period 2004 — 2007 part of the hedged ingot has also been hedged for currency risk at an exchange rate of 9.3-9.5 NOK to USD. For 2007 a currency gain after tax of NOK 370 million is expected to be reclassified into earnings, and is included in the negative NOK 541 million. Negative amounts indicate a loss.

5) Deviates from expected reclassifications due to changes in market prices throughout the year. Negative amounts indicate a loss.

At the end of 2006 the maximum horizon for existing cash-flow hedging instruments is 24 months.

Hydro hedged the foreign currency exposure between US and Canadian dollar in connection with a major expansion project at the Alouette plant in Canada over the period March 2003 to March 2006. No amount of ineffectiveness was recognized during the life of the hedge. An annual gain after tax of NOK 3 million was reclassified from OCI into earnings during the period ending 31 December 2006 and 31 December 2005. A gain after tax of NOK 3 million is expected to be reclassified from OCI into earnings during the period ending 31 December 2007.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2006 and 31 December 2005.

Amounts in NOK million	2006	2005
Assets:		
Cash How hedging instruments, currency	**380**	730
Total	**380**	730
Liabilities:		
Cash flow hedging instruments, aluminium	**(1,299)**	(844)
Total	**(1,299)**	(844)

Economic hedges

In certain cases, Hydro enters into derivative transactions which are not designated as hedges for accounting purposes, but provide an economic hedge of a particular transaction risk or a risk component of a transaction. Economic hedging instruments include aluminium future contracts on the LME, oil swaps and certain other derivative instruments. Gains and losses on economic hedges are recognized either as a part of operating revenues or as a part cost of goods sold.

In 2006 a gain of NOK 333 million relating to economic hedges was recognized as a part of operating revenues. A loss of NOK 515 million and a gain of NOK 210 million were recognized in operating revenues related to economic hedging activities in 2005 and 2004, respectively.

In 2006, a loss of NOK 1.129 million relating to economic hedges was recognized as cost of goods sold. A loss of NOK 195 million and a gain of NOK 90 million were similarly recognized as cost of goods sold in 2005 and 2004, respectively.

In connection with the acquisition of Spinnaker Inc., Hydro purchased put options on gas prices in the US and executed a collar (buying a put option in combination with selling a call option) on oil prices in the US. The purpose of the hedges was to protect the value of the investment against impairment related to lower oil and gas prices over a three-year period. The hedges relating to operations in the Gulf of Mexico are recognized at fair value with net realized and unrealized gains of NOK 194 million for 2006 in operating income and an unrealized loss of NOK 440 million for 2005.

In addition to the economic commodity hedges, Hydro also performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial income (expense), net, in the income statement.

Fair value of derivative instruments

The fair market value of derivative financial instruments such as currency forwards and swaps is based on quoted market prices. The fair market value of aluminium futures and option contracts is based on quoted market prices obtained from the London Metals Exchange. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with SFAS 133, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available.

See note 18 for fair value information on Hydro's long-term debt.

Credit risk management

Setting counterparty risk limits, requiring insurance, and establishing procedures for monitoring exposures and settlement of accounts limits Hydro's credit risk. Hydro's overall credit risk level is reduced through a diversified customer base representing various industries and geographic areas. Follow-up of timely payments of accounts receivables is given high priority.

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is substantially limited since most instruments are settled through commodity exchanges. Counterparty risk related to the use of derivative instruments and financial operations is regarded as minimal.

Note 24

External audit remuneration

Deloitte AS is the principal auditor of Norsk Hydro ASA. In 2006 Hydro completed a transition of auditors from Ernst & Young to Deloitte for some of it's subisidaries. The following table shows total audit and non-audit fees for the fiscal years 2006 and 2005.

2006 Amounts in NOK thousand	**Audit fees**	**Audit related fees**	**Other non-audit fees**	**Tax fees**	**Total**
Deloitte Norway[1]	51,412	664	1,729	125	53,930
Deloitte Abroad	54,929	451	186	6,224	61,789
Total Deloitte	106,341	1,115	1,915	6,349	115,719
Others	3,014	—	30	20	3,064
Total fees	109,355	1,115	1,945	6,369	118,783

2005 Amounts in NOK thousand	Audit fees	Audit related fees	Other non-audit fees	Tax fees	Total
Deloitte Norway[1)]	32,210	1,796	1,444	631	36,081
Deloitte Abroad	25,696	3,126	131	6,784	35,737
Total Deloitte	57,906	4,921	1,575	7,416	71,818
Ernst & Young	11,312	396	—	958	12,667
Others	3,041	403	1,244	1,149	5,636
Total fees	72,259	5,720	2,819	9,523	90,321

1) Reported amount for Deloitte Norway includes fee for audit of license related activities.

Note 25

Related parties

As of 31 December 2006, The Ministry of Trade and Industry of Norway owned, 563,773,605 ordinary shares. This represents 43.8 percent of the total number of ordinary shares authorized and issued and 46 percent of the total shares outstanding. As of 31 December 2006 The National Insurance Fund, ''Folketrygdfondet'' owned, 47,699,635 ordinary shares. This represents 3.7 percent of the total number of ordinary shares issued and 3.9 percent of the total shares outstanding. In total the Norwegian State owns 611,473,240 ordinary shares. This represents 47.5 percent of the total number of ordinary shares issued and 49.9 percent of the total shared outstanding. There are no preferential voting rights associated with the ordinary shares held by the State. In the discussion that follows, all previously reported share amounts or share prices have been adjusted to reflect the 5-for-1 stock split effective 10 May 2006.

The Annual General Meeting held on 9 May 2006 approved a new buyback authorization of 22,470,482 shares over a one-year period. The Norwegian State has agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Including the share redemption a total of 40,000,000 shares may be cancelled. Share repurchases can be made in the share price interval of NOK 50 to NOK 300 per share, and the shares acquired in accordance with the authorization shall be for no other purpose than cancellation by means of capital reduction. A final decision on canceling any of the shares repurchased must be approved by a minimum of two-thirds of the shares represented at a General Meeting of shareholders. In addition, the 9 May 2006 Annual General Meeting resolved to revoke the buyback authorization approved by the Extraordinary General Meeting held on 1 December 2004, allowing for a buyback of up to 28,068,105 shares in the share price interval of NOK 40 to NOK 140 per share. The General Meeting decided to cancel the acquired shares. The Norwegian State agreed to participate in the redemption of a proportional number of shares in order to leave its ownership interest unchanged. Consequently, 3,644,685 shares were redeemed at a price of NOK 129.30 per share on 14 July 2006. A total of 8,316,685 shares at par value of NOK 3.66 per share were cancelled. For the transactions, the state received compensation of 471 million.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 14,044,050 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 10,955,950 shares owned by the Norwegian State. As compensation, the Norwegian State received NOK 981 million. The cancellation and redemption were completed in February 2005.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 7,421,500 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 5,789,610 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004.

Transactions with non-consolidated investees are described in Note 12 Non-Consolidated Investees.

During 2006 the Corporate Assembly as a whole received remuneration of NOK 552,812, with the chairperson and deputy chairperson of the Corporate Assembly receiving NOK 120,000 and NOK 70,000, respectively. Corporate Assembly Member share ownership as of 31 December 2006 is given in the table below. Total Corporate Assembly shareholdings represent less than 1 percent of the total Hydro shares outstanding as of 31 December 2006.

Corporate Assembly members	Shares[1]
Svein Steen Thomassen (Chairperson)	500
Siri Teigum (Deputy Chairperson)	—
Sven Edin	1,195
Billy Fredagsvik	265
Anne-Margrethe Firing[2]	5,820
Aase Gudding Gresvig	—
Westye Høegh	64,000
Idar Kreutzer	—
Kjell Kvinge	685
Dag Harald Madsen	190
Roger Oterholt	75
Anne Merete Steensland	121,360
Rune Strande	80
Sten-Arthur Sælør	—
Lars Tronsgaard	—
Karen Helena Ulltveit-Moe	55,000
Terje Venold[2]	200
Svein Aaser	9,360
Deputy members	
Nils Roar Brevik	80
Tom Amund Fredriksen	645
Erik Garaas	—
Sónia F.T. Gjesdal	660
Line Melkild	140
Bjørn Nedreaas	270
Wolfgang Ruch	875
Unni Steinsmo	—
Gunvor Ulstein	—
Bjørn Øvstetun	75
Previous members	
Sigurd Støren[3]	—
Astrid Sylvi Lem[3]	—

1) Number of shares includes any related party shareholdings, in addition to the shares held directly by the corporate assembly member.

2) Members of the Corporate Assembly from 10 May 2006.

3) Members of the Corporate Assembly until 9 May 2006.

Note 26

Supplementary oil and gas information

Hydro uses the "successful efforts" method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Once the exploration drilling demonstrates that sufficient quantities of resources have been discovered, continued capitalization is dependent on project reviews, which take place periodically and no less frequently than every quarter, to ensure that satisfactory progress for the well or group of wells toward ultimate development of the reserves is being achieved. Evaluation of whether commercial quantities of hydrocarbons have been discovered is based on existing technology and price conditions, unless Hydro expects long-term price conditions to be less favorable.

Most of Hydro's exploration activities are performed in areas requiring major capital expenditures, such as platforms or sub-sea stations with related equipment. For complicated offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended on the balance sheet for several years while we perform appraisal work, evaluate the optimal development plans and timing, and secure final regulatory approvals for development. Appraisal work for each project normally includes an assessment process covering choice of the optimal technical and economical solution taking into consideration existing pipelines, platforms and processing facilities in the area, regulatory issues including environmental requirements and legal issues, and relationship to other joint ventures involved in the area and/or utilizing the same infrastructure. When the appraisal work is completed, the Plan for Development and Operation (PDO), which shall contain an account of economic aspects, resource aspects, technical, safety related, commercial and environmental aspects as well as information as to how a facility may be decommissioned and disposed of when petroleum activities ceases, can be prepared.

Discovered reserves are classified as ‘‘proved reserved’’ (as defined by SEC’s rules) when the PDO is submitted to the authorities for approval (Norway) or the project has matured to a similar level (outside Norway). At the same time, related costs are transferred to development cost. It normally takes more than one year to complete all of the activities that permit recognition of proved reserves under the current SEC guidelines.

Cost relating to acquired exploration rights are allocated to the relevant areas, pending the determination of the existence of proved reserves. The acquired exploration rights are charged to operating expense when a determination is made that proved reserves will not be found in the area. Each block or area is assessed separately, based on exploration experience. Capitalized exploration and development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that Hydro uses future net cash flows to evaluate unproved properties for impairment, the unproved reserves are risk adjusted before estimating future cash flows associated with those resources. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred.

Costs incurred on oil and gas properties

Capitalized exploration costs and costs related to property acquisition

	Norway			International			Total		
Amounts in NOK million	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Capitalized at beginning of year	**603**	583	633	**4,841**	662	390	**5,444**	1,245	1,023
Exploration well costs capitalized during the year	**344**	356	120	**1,407**	351	277	**1,751**	707	397
Exploration acquisition costs capitalized during the year[1)]	**—**	—	65	**2,719**	3,918	148	**2,719**	3,918	213
Capitalized exploration costs charged to expense	**(16)**	(45)	(110)	**(761)**	(4)	(138)	**(777)**	(49)	(248)
Transferred to development	**(65)**	(292)	(125)	**(1,936)**	(142)	5	**(2,001)**	(434)	(120)
Disposals	**(12)**	—	—	**(137)**	—	—	**(149)**	—	—
Foreign currency translation	**—**	—	—	**(384)**	56	(19)	**(384)**	56	(19)
Capitalized exploration well costs at end of year	**854**	538	518	**1,638**	791	504	**2,492**	1,329	1.022
Capitalized acquisition costs at end of year	**—**	65	65	**4,111**	4.050	159	**4,111**	4.115	224
Capitalized exploration costs at end of year	**854**	603	583	**5,749**	4,841	662	**6,603**	5.444	1.245
Wells in process of drilling at end of year	**—**	—	85	**173**	76	201	**173**	76	286
Wells in areas where the drilling program is uncompleted or completed during the year	**721**	456	231	**1,465**	715	301	**2,186**	1,171	532
Wells where drilling program is completed more than one year ago	**103**	56	182	**—**	—	—	**103**	56	182
Other cost including acquisition of unproved property	**30**	91	85	**4,111**	4.050	160	**4,141**	4,141	245
Capitalized exploration costs at end of year	**854**	603	583	**5,749**	4.841	662	**6,603**	5.444	1.245

1) The capitalized acquisition costs in 2006 is related to the purchase of licences in Brazil. Gulf of Mexico, Cuba and Mozambique. Hereof NOK 2,360 million was related to the acquisition of Peregrino. The capitalized acquisition costs in 2005 was related to the purchase of Spinnaker Exploration, and licenses in Morocco, Libya and Angola. In 2004, NOK 213 million was related to the purchase of license PL 248 in Norway and licenses in the Gulf of Mexico and Madagascar.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling program for the project was completed, and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling. A project is, in this context, defined as an area which is expected to be developed as one single development solution. A project may use existing infrastructure, including pipelines, processing facilities on existing platforms etc. There may be more than one development solution used for one reservoir or for one license if physical and/or legal and/or economic conditions make that viable.

Specification of age of category

	1 year	2 years	3 years	4 years	5 years	More than 5 years	Total
Amounts (NOK million)	—	44	—	—	—	12	56
Number of projects	—	1	—	—	—	1	2

The following is a description of projects that have been capitalized tor a period greater than one year following the completion of drilling, including a description of activities undertaken in the project and remaining activities to classify the associated resources as proved reserves.

Two year from end of drilling program:

The Idun project

The project consists of one discovery well drilled in 1998 in the Nordland II area, located north in the Norwegian Sea. The discovery consists primarily of gas. In 2004 an appraisal well were drilled, and evaluation of various possible development solutions for the discoveries in this area have been performed. It is decided to develop the Idun field as a joint development with the Skarv field (PL 212). The fields will be developed with sub-sea solutions connected to a production ship. Gas export will be through the Åsgard Transport System to the onshore Kårstø facility. PDO is planned for submittal to the Norwegian Government in the second half of 2007.

More than 5 years from end of drilling program:

The Grane Outside project

The project consists of one discovery well drilled in 1992 as part of the Grane drilling program which ended in 1998. The well has a total suspended cost of NOK 12 million. In connection with the Grane development, the licenses were unitized. The Grane Outside well was located outside the then established Grane unit, and therefore has a different ownership structure. Grane Outside is planned as a sub-sea development with tie-in to the producing Grane field installations. Grane Outside is expected to be developed and start production when Grane goes off plateau production, expected in 2009. The development of Grane Outside will require a separate PDO, and has not yet been included as proved reserves.

In addition, six wells were completed more than one year ago. These wells are kept suspended on the balance sheet awaiting the completion of ongoing or planned drilling activities in these areas.

Note 27

Summary of differences in accounting policies and reconciliation of US GAAP to N GAAP

The financial statements prepared in accordance with accounting principles generally accepted in Norway that are presented on pages F1-F3 differ in certain respects from the financial statements prepared in accordance with US accounting principles (US GAAP) that are presented on pages F3-F5. A reconciliation of net income and shareholders' equity from US GAAP to Norwegian accounting principles (N GAAP) and a description of these differences follow. The lines with a note reference indicate that a difference exists between the US GAAP reported amounts in that note and the N GAAP figures.

Reconciliation of US GAAP to N GAAP

Net income:

Amounts in NOK million	Notes	2006	2005	2004
Operating revenues US GAAP		**196,234**	171,231	151,026
Change in unrealized losses (gains) commodity derivative instruments		**(1,126)**	(199)	(779)
Operating revenues N GAAP		**195,108**	171,032	150,247
Operating costs and expenses US GAAP		**144,010**	124,994	119,229
Change in unrealized gains (losses) commodity derivative instruments		**(241)**	36	(141)
Capitalized development costs	15	**(11)**	—	—
Amortization and impairment loss on goodwill	15	**458**	147	137
Impairment loss (reversal of impairment loss) PP&E	14	**213**	75	—
Restatement of changes in accounting principles	20	**—**	7	4
Other adjustments		**—**	(11)	(1)
Operating income before financial and other income N GAAP		**50,679**	45,784	31,018
Equity in net income of non-consolidated investees US GAAP		**962**	593	597
Amortization and impairment loss goodwill non-consolidated investees	12	**133**	(41)	(40)
Equity in net income of non-consolidated investees N GAAP		**1,095**	552	556
Financial income, net		**1,785**	(1,889)	121
Other income, net		**53**	990	169
Adjustments for N GAAP gain on sale of subsidiary in Other income	8	**—**	(2)	—
Income before taxes and minority interest N GAAP		**53,612**	45,436	31,864
Income tax expense US GAAP		**(37,598)**	(30,271)	(21,181)
Adjustments for N GAAP	9	**318**	(46)	202
Net income from continuing operations N GAAP		**16,332**	15,119	10,884
Net income from discontinued operations US GAAP		**167**	174	1,166
Adjustments for N GAAP	2	**—**	—	(26)
Net income from discontinued operations N GAAP		**167**	174	1,140
Net income N GAAP		**16,499**	15,292	12,025
Minority interest US GAAP		**(202)**	(118)	(106)
Adjustments for N GAAP		**(44)**	—	26
Net income after minority interest N GAAP		**16,253**	15,174	11.944

Shareholders' equity:

Amounts in NOK million	Notes	2006	2005	2004
Shareholders' equity US GAAP		**96,496**	95,495	85.890
Unrealized gains commodity derivative instruments — current and long-term (a)		**(1,885)**	(997)	(771)
Cash flow hedge — current and long-term (a)	20	**981**	(88)	(1,128)
Unrealized gain on securities (b)	13	**—**	—	(12)
Capitalized development costs (c)	15	**11**	—	—
Accumulated amortization and impairment loss on goodwill (d)	12, 15	**(996)**	(702)	(469)
Impairment loss (reversal of impairment loss) PP&E (e)	14	**(294)**	(78)	—
Deferred tax assets and liabilities — current and long-term (f)	9	**(2,317)**	209	588
Changes in funded status of postretirement benefit plans (g)	12, 19	**8,818**	—	—
Dividends payable (h)		**(6,131)**	(5.503)	(5,017)
Minority interest (i)		**707**	981	1,571
Restatement of changes in accounting principles (j)	20	**—**	—	(109)
Shareholders' equity N GAAP		**95,389**	89,317	80.544

Explanation of the material differences between N GAAP and US GAAP

(a) Derivative commodity contracts: Under N GAAP, unrealized gains and losses for commodity derivative instruments that are not hedge designated, and that are not held tor trading and traded in a liquid, regulated market, are netted for each portfolio and net unrealized gains are not recognized. For US GAAP, unrealized gains and losses are recorded as a part of operating revenues or operating costs. The instruments are accounted for as assets or liabilities at fair value.

For N GAAP, cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement until the underlying hedged transactions actually occur. Under US GAAP, such instruments are accounted for as assets or liabilities as appropriate, at their fair value. Gains and losses on the hedging instruments are deferred in Other Comprehensive Income until the underlying transaction is recognized in earnings.

(b) Unrealized holding gain (loss) on securities: Under N GAAP, Hydro's long-term marketable equity and debt securities are carried at the lower of historical cost or fair value. Under US GAAP, these securities are classified as available-for-sale and carried at fair value. Unrealized holding gains or losses are included in other comprehensive income, net of tax effects.

(c) Capitalized development costs: For N GAAP development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. Research costs are expensed as incurred. Under US GAAP research and development costs are expensed as incurred.

(d) Amortization of goodwill: For N GAAP, goodwill is amortized over a period not exceeding 10 years. US GAAP does not allow amortization of goodwill, but requires that goodwill is reviewed at least annually for impairment.

(e) Impairment: Under N GAAP impairment is recognized when an asset's carrying amount exceeds the higher of the asset's value-in-use or fair value less costs to sell. Value-in-use is the discounted present value of the asset's expected future cash flows. Under US GAAP impairment is recorded when an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.

Under N GAAP an impairment loss is reversed for all assets other than goodwill, if the impairment situation is deemed to no longer exist, while under US GAAP reversal of impairment losses is prohibited.

(f) Deferred taxes: Under N GAAP, deferred taxes are recorded based upon the liability method similar to US GAAP. Differences occur primarily because items accounted for differently under US GAAP also have deferred tax effects. Under N GAAP. deferred tax assets and liabilities for each tax entity are netted and classified as a long-term liability or asset. A reconciliation of the current and long-term temporary differences giving rise to the N GAAP deferred tax asset and liability is provided in Note 9.

Classification between current and long-term deferred tax for US GAAP is determined by the classification of the related asset or liability giving rise to the temporary difference. For each tax entity, deferred tax assets and liabilities are offset within the respective current or long-term groups and presented as a single amount.

(g) Funded status of postretirement benefit plans: For US GAAP, SFAS 158 is implemented in 2006. This involves recognizing the overfunded or underfunded status of defined benefit plans as an asset or liability with changes in the funded status recognized as Other comprehensive income. For N GAAP the overfunded or underfunded status of defined benefit plans is not recognized in the balance sheet.

(h) Dividends payable: For N GAAP, dividends proposed at the end of the year, which will be declared and paid in the following year, are recorded as a reduction to equity and as a liability. For US GAAP, equity is not reduced until dividends are formally declared.

(i) Minority Interest: For N GAAP, shareholders' equity is presented including minority interest. For US GAAP, shareholders' equity is presented excluding minority interest.

For N GAAP, minority interest includes minority interest in both continuing and discontinued operations. For US GAAP, minority interest refers to continuing operations only.

(j) Changes in accounting principles: Hydro implemented FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations as of 31 December 2005. For N GAAP, previous periods are restated as if FIN 47 was implemented 31 December 2002. For US GAAP the total effect of the implementation is included in the 2005 financial statements.

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2006	2005
Operating revenues		**419**	643
Raw materials and energy costs		**82**	69
Payroll and related costs	2, 3	**1,211**	1.064
Depreciation, depletion and amortization	4	**15**	22
Other		**199**	351
Total operating costs and expenses		**1,507**	1.507
Operating income		**(1,089)**	(863)
Financial income, net	5	**21,595**	16.905
Income before taxes		**20,506**	16.041
Income taxes	6	**(258)**	19
Net income		**20,248**	16,060
Appropriation of net income and equity transfers:			
Dividend proposed		**(6,131)**	(5.503)
Retained earnings		**(14,117)**	(10,557)
Total appropriation		**(20,248)**	(16.060)

Statements of cash flows

	2006	2005
Net income	**20,248**	16.060
Depreciation, depletion and amortization	**15**	22
Write-down and loss (gain) on sale of non-current assets	**3,207**	(50)
Other adjustments	**(16,466)**	6.983
Net cash provided by operating activities	**7,004**	23,015
Investments in subsidiaries	**(2,443)**	(17.177)
Sales of subsidiaries	**38**	337
Net sales (purchases) of other investments	**(10,848)**	7.584
Net cash used in investing activities	**(13,253)**	(9,256)
Dividends paid	**(5,506)**	(5,021)
Other financing activities, net	**7,747**	(12.358)
Net cash provided by (used in) financing activities	**2,241**	(17.379)
Foreign currency effects on cash	**328**	(165)
Net decrease in cash and cash equivalents	**(3,680)**	(3.785)
Cash and cash equivalents 01.01	**9,357**	13.142
Cash and cash equivalents 31.12	**5,677**	9.357

The accompanying notes are an integral part of the financial statements.

Balance sheets

31 December **Amounts in NOK million**	**Notes**	**2006**	**2005**
Assets			
Intangible assets		**10**	8
Property, plant and equipment	4	**159**	179
Shares in subsidiaries	7	**46,863**	47.634
Intercompany receivables		**44,206**	29,795
Non-consolidated investees	8	**185**	457
Prepaid pension, investments and other non-current assets	2, 9	**5,407**	5.723
Total financial non-current assets		**96,661**	83.609
Accounts receivable		**34**	59
Intercompany receivables		**27,224**	34,212
Prepaid expenses and other current assets		**2.885**	2,245
Short-term investments		**12,950**	1,850
Cash and cash equivalents		**5,677**	9,357
Current assets		**48.771**	47.723
Total assets		**145,600**	131,520

Liabilities and shareholders' equity

Paid-in capital:			
Share capital 1,286,455,455 at NOK 3.66	11	**4,708**	4.739
Treasury shares 60,279,570 at NOK 3.66		**(221)**	(161)
Paid-in premium		**9,611**	10.432
Other paid-in capital		**125**	69
Retained earnings:			
Retained earnings		**48,921**	34,808
Treasury shares		**(6,404)**	(3,428)
Shareholders' equity	11	**56,741**	46.458
Deferred tax liabilities	6	**267**	298
Other long-term liabilities		**3,262**	3.133
Long-term liabilities		**3,529**	3.431
Intercompany payables		**225**	218
Other long-term interest-bearing debt		**18,811**	20.117
Long-term debt		**19,036**	20.336
Bank loans and other interest-bearing short-term debt	9	**2,638**	4.118
Dividends payable		**6,131**	5,503
Intercompany payables		**55,206**	49,344
Current portion of long-term debt		**—**	174
Other current liabilities		**2,319**	2.156
Current liabilities		**66,294**	61,295
Total liabilities and shareholders' equity		**145,600**	131,520

The accompanying notes are an integral part of the financial statements.

Note 1

Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with accounting principles generally accepted in Norway (N GAAP).

Hydro's general accounting policies are presented in Note 1 to the consolidated financial statements on pages xx-xx. See Note 27 to the consolidated financial statements for an additional clarification of the major differences in accordance with N GAAP compared with US GAAP.

Shares in subsidiaries and non-consolidated investees are presented according to the cost method in Norsk Hydro ASA's financial statements. Group relief received is included in dividends from subsidiaries.

For information about risk management in Norsk Hydro ASA see Note 23 in Notes to the consolidated financial statements and the Risk Management discussion in the Operating and Financial Review and Prospects section of this report. The information given in Note 18 in Notes to the consolidated financial statements on payments on long-term debt also applies to Norsk Hydro ASA.

Norsk Hydro ASA does not present sold or demerged business as discontinued operations. The 2004 transfer of the agri operations to Yara International ASA in a demerger, described in Note 2 to the consolidated financial statements, was reflected in the Company's accounts based on historical values of assets and liabilities.

Norsk Hydro ASA provides financing to most of the subsidiary companies in Norway as well as abroad. All employees working for Norsk Hydro Produksjon AS are employed by Norsk Hydro ASA.

Note 2

Employee retirement plans

Norsk Hydra ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 12,511 participants as of 31 December 2006 and 12,481 participants as of 31 December 2005.

Net periodic pension cost

Amounts in NOK million	2006	2005
Defined benefit plans:		
Benefits earned during the year	**636**	458
Interest cost on prior period benefit obligation	**606**	609
Expected return on plan assets	**(587)**	(557)
Recognized net loss	**267**	179
Amortization of prior service cost	**69**	62
Net periodic pension cost	**992**	751
Termination benefits and other	**111**	171
Total net periodic pension cost	**1,103**	923

Change in projected benefit obligation (PBO)

Amounts in NOK million	2006	2005
Projected benefit obligation at beginning of year	**(15,340)**	(11,813)
Benefits earned during the year	**(636)**	(458)
Interest cost on prior period benefit obligation	**(606)**	(609)
Actuarial loss	**(270)**	(2,776)
Plan amendments	**(37)**	(13)
Benefits paid	**376**	359
Settlements	**25**	3
Special termination benefits	**(13)**	(32)
Projected benefit obligation at end of year	**(16,501)**	(15,340)

Change in pension plan assets

Amounts in NOK million	2006	2005
Fair value of plan assets at beginning of year	**10,754**	9,129
Actual return on plan assets	**1,923**	1,585
Company contributions	**630**	360
Benefits paid	**(312)**	(308)
Settlements	**(7)**	(12)
Fair value of plan assets at end of year	**12,988**	10,754

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2006	2005
Defined benefit plans:		
Funded status of the plans at end of year	**(3,513)**	(4,586)
Unrecognized net loss	**4,071**	5,404
Unrecognized prior service cost	**465**	497
Net prepaid pension recognized	**1,023**	1,316
Termination benefits and other	**(329)**	(433)
Total net prepaid pension recognized	**694**	883
Amounts recognized in the balance sheet consist of:		
Prepaid pension	**3,697**	3,586
Other current liabilities	**(229)**	—
Accrued pension liabilities	**(2,774)**	(2,703)
Net amount recognized	**694**	883

Assumptions used to determine net periodic pension cost

	2006	2005
Discount rate	**4.00%**	5.25%
Expected return on plan assets	**5.50%**	6.25%
Expected salary increase	**3.50%**	3.50%
Expected pension increase	**3.00%**	3.00%

Assumptions used to determine pension obligation at end of year

	2006	2005
Discount rate	**4.50%**	4.00%
Expected salary increase	**4.00%**	3.50%
Expected pension increase	**3.50%**	3.00%

Investment profile plan assets at end of year

	2005	2004
Asset category:		
Equity securities	**38%**	36%
Debt securities	**38%**	42%
Real estate	**17%**	18%
Other	**7%**	4%
Total	**100%**	100%

See Note 19 in Notes to the consolidated financial statements for further information.

Note 3

Management remuneration, Employee costs and auditor fees

Refer to note 4 and note 25 to the consolidated financial statements for details of remuneration to the Board of Directors and Corporate Assembly, respectively.

Partners and employees of Hydro's appointed independent auditors, Deloitte AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2006 to Deloitte for the ordinary audit were NOK 23,424,000 for Norsk Hydro ASA and NOK 27,115,050 for the Norwegian subsidiaries. Fees for audit-related services were zero for Norsk Hydro ASA and NOK 1,144,000 for the Norwegian subsidiaries. Fees for tax services were zero for Norsk Hydro ASA and NOK 58,000 for the Norwegian subsidiaries. Fees for other services were NOK 1,652,000 for Norsk Hydro ASA and NOK 77,000 for the Norwegian subsidiaries.

In 2006, the average number of employees in the Group was 33,185 compared to 33,685 for 2005. The average number of employees in Norsk Hydro ASA was 6,037 in 2006 versus 5,991 in 2005.

A substantial number of employees in Norsk Hydro ASA are engaged in activities for other Group companies. The cost for these employees is accounted for on a net basis, reducing Payroll and related costs. Employee related payroll expenses, on a net basis, are given in the table below.

Amounts in NOK million	2006	2005
Payroll and related costs:		
Salaries	**4,201**	3,896
Social security costs	**672**	622
Social benefits	**20**	58
Net periodic pension cost (Note 2)	**1,103**	923
Internal invoicing of payroll related costs	**(4,785)**	(4,435)
Total	**1,211**	1,064

Total loans to the Company's employees as of 31 December 2006 were NOK 827 million. All loans were given in accordance with general market terms.

Note 4

Property, plant and equipment

Amounts in NOK million	Machinery, etc	Buildings	Plant under construction	Land	Total
Cost 31.12.2005	184	138	—	6	328
Additions at cost	5	—	33	—	38
Retirements	(69)	(1)	—	—	(70)
Transfers	20	—	(20)	—	—
Accumulated depreciation 31.12.2006	(85)	(52)	—	—	(137)
Net book value 31.12.2006	55	85	13	6	159
Depreciation in 2006	(8)	(5)	—	—	(13)

Note 5

Financial income and expense

Amounts in NOK million	2006	2005
Dividends from subsidiaries	**23,917**	18,410
Non-consolidated investees	**3**	10
Interest from group companies	**3,700**	2,977
Other interest income	**644**	581
Interest paid to group companies	**(1,824)**	(1,200)
Other interest expense	**(1,423)**	(1,455)
Write-down of shares	**(3,135)**	(12)
Other financial expense, net	**(287)**	(2,407)
Financial income, net	**21,595**	16,905

Note 6

Income taxes

The tax effect of temporary differences resulting in the deferred tax assets (liabilities) and the change in temporary differences are:

	Temporary differences			
	Tax effected		Change	
Amounts in NOK million	2006	2005	2006	2005
Short-term items	**(202)**	(71)	**(672)**	1,578
Write-down on shares	**—**	—	**—**	(38)
Prepaid pension	**(1,035)**	(1,004)	**(103)**	34
Pension liabilities	**841**	757	**353**	313
Other long-term	**129**	20	**552**	(1,821)
Deferred tax liabilities	**(267)**	(298)		
Change for year			**130**	66

Reconciliation of nominal statutory tax rate to effective tax rate

Amounts in NOK million	2006	2005
Income (loss) before taxes	**20,506**	16,041
Expected income taxes at statutory tax rate	**5,742**	4,492
Dividend exclusion	**(5,975)**	(4,956)
Losses and other deductions not previously recognized	**(439)**	—
Losses and other deductions with no tax benefit	**—**	439
Write-down of shares	**872**	—
Non-deductible expenses and other, net	**58**	7
Income taxes	**258**	(19)
Effective tax rate	**1.26%**	(0.12%)

See Note 9 in Notes to the consolidated financial statements for further information.

Note 7

Shares in subsidiaries

Company name:	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)		Book value 31.12.2006 (in NOK 1,000's)
Norsk Hydro Kraft OY	100	EUR	34	269
Hydro Hydrogen Technologies AS	100	NOK	4,000	4,300
Hydro Aluminium AS	100	NOK	7,236,126	22,004,268
Norsk Hydro Magnesiumgesellschaft GmbH[1)]	2	EUR	512	179
Securus Industrier AS	100	NOK	59,644	425,510
Industriforsikring AS	100	NOK	20,000	20,000
Grenland Industriutvikling AS	100	NOK	26,750	110,950
Polymers Holding AS	100	NOK	66,300	2,629,158
Hydro Production Partner Holding	100	NOK	80,000	95,010
AS Hydro IS Partner AS	100	NOK	712,000	712,000
Norsk Hydro Plastic Pipe AS	100	NOK	10,000	91,472
Norsk Hydro Danmark AS	100	DKK	1,002,000	1,840,000
Hydro Aluminium Deutschland GmbH[2)]	25	EUR	295,136	92,479
Norsk Hydros Handelsselskap AS	100	NOK	1,000	1,000
Norsk Hydro Produksjon AS	100	NOK	2,178,000	18,814,231
Norsk Hydro Russland AS	100	NOK	19,000	19,000
Hydro Kapitalforvaltning ASA	100	NOK	2,500	3,500
Total				46,863,326

The foreign currency designation indicates country of domicile.

Percentage of shares owned equals percentage of voting shares owned.

A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

1) The company is owned 98 percent by Hydro Aluminium Deutschland GmbH and 2 percent by Norsk Hydro ASA.

2) The company is owned 75 percent by Norsk Hydro Deutschland GmbH & CoKG., which is a subsidiary of Hydro Aluminium AS and 25 percent by Norsk Hydro ASA.

Note 8

Shares in non-consolidated investees

Investments in non-consolidated investees consists mainly of loans to such investees owned by subsidiaries.

The most significant investments in non-consolidated investees for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned (equals voting rights)	Country	Book value as of 31 December, 2006	Long-term advances	Total
Alumina Partners of Jamaica	35.0%	Jamaica	—	123	123
Suzhou Huasu Plastics Co. Ltd.	35.2%	China	—	36	36
Other			8	18	26
Total			**8**	**176**	**185**

Note 9

Specification of balance sheet items

Amounts in NOK million	2006	2005
Prepaid pension, investments and other non-current assets:		
Securities	**794**	815
Prepaid pension	**3,697**	3,586
Other non-current assets	**916**	1,322
Total	**5,407**	5,723
Bank bans and other short-term interest-bearing debt:		
Bank overdraft	**10**	489
Other interest-bearing debt	**2,628**	3,629
Total	**2,638**	4,118

Note 10

Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. Sales guarantees include liabilities relating to the demerger of Yara. Under the Norwegian Public Limited Companies Act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. See Note 21 in Notes to the consolidated financial statements for further information about guarantees.

Amounts in NOK million	2006	2005
Guarantees (off-balance sheet):		
Non-consolidated investee debt	**187**	89
Tax guarantees	**—**	406
Sales guarantees	**1,492**	1,487
Commercial guarantees	**26,090**	14,956
Total	**27,769**	16,938

Note 11

Number of shares outstanding, shareholders, equity reconciliation etc

The share capital of the company consists of NOK 4,708,426,965.30 consisting of 1,286,455,455 ordinary shares at NOK 3.66 per share, after the decision of the annual General Meeting 9 May 2006 to split the shares 1:5 and redeem and cancel shares. As of 31 December, 2006 the company had purchased 60,279,570 treasury shares at a cost of NOK 6.6 billion. For further information on these issues see Note 3 in Notes to the consolidated financial statements.

Shareholders holding one percent or more of the total 1,226.175,885 shares outstanding as of 31 December, 2006 are according to information in the Norwegian Central Securities Depository (Verdipapirsentralen):

Name	Number of shares
The Ministry of Trade and Industry of Norway	563,773,605
Morgan Guaranty Trust[1)]	65,978,114
State Street Bank and Trust[2)]	48,625,179
Folketrygdfondet	47,699,635
JP Morgan Chase Bank[2)]	22,657,683
Euroclear Bank[2)]	13,974,448
Vital Forsikring	13,193,640
Capital EuroPacifc Growth Fund	12,392,000

1) Representing American Depositary Shares.

2) Client accounts and similar.

Change in shareholders' equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total Shareholders' equity
Balance 31 December, 2005	15,078	31,360	46,458
Net income	—	20,248	20,248
Dividend proposed	—	(6,131)	(6,131)
Dividend paid in 2006 not accrued[3)]		(3)	(3)
Treasury shares	(384)	(2,976)	(3,360)
Redeemed shares, Ministry of Trade and Industry	(471)		(471)
Balance 31 December, 2006	**14,223**	**42,517**	**56,741**

3) Owners of shares sold from treasury shares in April 2006 received dividends for those shares in May 2006. However, this was not accrued in 2005.

The following management's annual report on internal control over financial reporting is taken from Hydro's Annual Report on Form 20-F for the year ended 31 December 2006. The Form 20-F was signed on Hydro's behalf by John Ove Ottestad. Executive Vice President and Chief Financial Officer, and filed with the U.S. Securities and Exchange Commission on 16 March 2007.

Management's annual report on Internal control over financial reporting

In accordance with the requirements of Section 404 of the US Sarbanes-Oxley Act of 2002, the following report is provided by management of Norsk Hydro ASA In respect of our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the US Securities Exchange Act of 1934):

- management is responsible for establishing and maintaining adequate internal control over financial reporting
- our internal control over financial reporting is designed to provide reasonable assurance to our management and the Board of Directors regarding the preparation and fair presentation of published financial statements
- because of its inherent limitations, Internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any

evaluation of effectiveness to future periods are subject to the risk that controls may become Inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline

- management has used the Committee of Sponsoring Organisations of the Treadway Commission (''COSO'') framework to evaluate the effectiveness of our internal control over financial reporting

- based on the evaluation under the COSO criteria, management has assessed the effectiveness of our internal control over financial reporting, as of 31 December 2006, and has concluded that such internal control over financial reporting is effective

- Deloitte AS, an independent registered public accounting firm, has issued an attestation report on management's assessment Of the effectiveness of our Internal control over financial reporting.

Report of independent registered public accounting firm for US GAAP financial statements

To the annual general meeting of Norsk Hydro ASA

We have audited the accompanying consolidated balance sheets of Norsk Hydro ASA and subsidiaries (the ''Company'') as of 31 December 2006 and 2005, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. We also have audited management's assessment, included In the accompanying Management's annual report on internal control over financial reporting, that the Company maintained effective internal control over financial reporting as of 31 December 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective Internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements In accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of 31 December 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended 31 December 2006, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of 31 December 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of 31 December 2006, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for the recognition of over/under funded status of retirement plans in 2006, contingent asset retirement obligations in 2005, and variable interest entities in 2004 to conform to newly adopted accounting principles.

Oslo, Norway, 12 March, 2007
/s/ Deloitte AS

Independent auditor's report for N GAAP financial statements 2006

To the Annual General Meeting of Norsk Hydro ASA

We have audited the annual financial statements of Norsk Hydro ASA as of 31 December 2006, showing a profit of NOK 20.248.000.000 for the parent company and a profit of NOK 16.499.000.000 for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The rules of the Norwegian Accounting Act and generally accepted accounting practice in Norway have been applied to prepare the financial statements. These financial statements are the responsibility of the Company's Board of Directors and President. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We have conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December 2006, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway

- the Company's management has fulfilled its duty to see to proper and well arranged recording and documentation of accounting information in accordance with law and generally accepted bookkeeping practice in Norway

- the information in the Board of Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 12 March 2007
Deloitte AS

/s/ Aase Aa. Lundgaard

Aase Aa. Lundgaard
State Authorised Public Accountant (Norway)

Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2006 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2006 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2006 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 12 March 2007
Svein Steen Thomassen

Supplementary oil and gas information

Exploration costs incurred during the year

NOK million	Norway 2006	Norway 2005	Norway 2004	International 2006	International 2005	International 2004	Total 2006	Total 2005	Total 2004
Exploration activity	**1,155**	890	478	**4,793**	1,692	934	**5,948**	2,582	1,412
Capitalized exploration costs	**344**	356	120	**1,407**	351	277	**1,751**	707	397
Capitalized exploration costs charged to expense	**(16)**	(45)	(110)	**(761)**	(4)	(138)	**(777)**	(49)	(248)
Other[1]	**(12)**	(9)	—	**—**	91	—	**(12)**	82	—
Exploration costs expensed during the year	**839**	587	468	**4,147**	1,254	796	**4,986**	1,839	1,264

1) In 2005, NOK 91 million was related to insurance refund in Iran due to an unsuccessful well drilled in 2004.

Costs related to development, transportation systems and other

Amounts inn NOK million	Norway 2006	Norway 2005	Norway 2004	International 2006	International 2005	International 2004	Total 2006	Total 2005	Total 2004
Net book value at beginning of year	**63,610**	61,401	62,672	**23,989**	7,461	7,540	**87,599**	68,862	70,212
Cost incurred during the year	**12,838**	10,258	9,093	**4,653**	2,596	1,585	**17,491**	12,854	10,678
Acquisition cost	**—**	21	297	**(732)**	15,069	—	**(732)**	15,090	297
Transferred from exploration cost	**65**	292	125	**1,936**	142	(5)	**2,001**	434	120
Amortization and impairment	**(8,923)**	(8,330)	(8,259)	**(8,675)**	(1,473)	(1,566)	**(17,598)**	(9,803)	(9,825)
Disposals	**(2)**	(32)	(2,527)	**—**	(211)	(3)	**(2)**	(243)	(2,530)
Foreign currency translation	**—**	—	—	**(2,124)**	404	(90)	**(2,124)**	404	(90)
Net book value at end of year	**67,588**	63,610	61,401	**19,047**	23,989	7,461	**86,635**	87,599	68,862

Cost incurred during 2006 Included NOK 1,837 million related to activities in Angola. NOK 1.757 million related to activities in the USA. NOK 505 million related to activities in Canada, NOK 234 million related to activities in Libya and NOK 91 million of development cost related to activities in Russia. NOK 3,089 million and NOK 842 million relates to accruals in Norway and international regarding asset retirement obligations under SFAS 143, mainly resulting changes in estimates.

Cost incurred during 2005 included NOK 1,269 million related to activities in Angola, NOK 615 million related to activities in the US. NOK 409 million related to activities in Canada, NOK 257 million related to activities In Libya and NOK 43 million of development cost related to activities in Russia. NOK 461 million and NOK 241 million relates to accruals in Norway and international regarding asset retirement obligations under SFAS 143, mainly resulting from new fields ready for production during the year and changes in estimates.

Cost incurred during 2004 included NOK 972 million, NOK 290 million and NOK 168 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 851 million and NOK 71 million relate to accruals in Norway and international regarding asset retirement obligations under SFAS 143. This is as a result of changes In estimates and new accruals In connection with fields ready for production during the year.

During 2006 NOK 732 million of acquisition cost for Spinnaker Exploration Company in the Gulf of Mexico, acquired late 2005, have been reallocated. In 2005, NOK 15,069 million was allocated to the properties acquired as part of Hydro’s acquisition of Spinnaker Exploration, see note 2 in the Consolidated Financial Statements for further information. In addition, NOK 21 million was related to the acquisition of Skinfaks in Norway.

Acquisitions In 2004 included NOK 297 million relating to the purchase of 2 percent of the Kristin field in Norway.

Results of operations for oil and gas producing activities

As required by SFAS 69. the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Hydro.

The ‘‘results of operations’’ should not be equated to net income since no deduction nor allocation is made for interest costs, general corporate overhead costs, and other costs. Income tax expense is a theoretical computation based on the statutory tax rates after giving effect to the effects of uplift and permanent differences only.

Results of operations for oil and gas producing activities

Amounts in NOK million	Norway 2006	Norway 2005	Norway 2004	International 2006	International 2005	International 2004	Total 2006	Total 2005	Total 2004
Sales to unaffiliated customers	**12,024**	10,528	6,817	**7,272**	6,700	5,039	**19,296**	17,228	11,856
Intercompany transfers[1]	**55,731**	45,344	35,164	**—**	—	—	**55,731**	45,344	35,164
Total revenues	**67,755**	55,872	41,981	**7,272**	6,700	5,039	**75,027**	62,572	47,020
Operating costs and expenses:									
Production costs	**5,800**	4,774	3,922	**958**	456	412	**6,758**	5,230	4,334
Exploration expenses	**838**	587	468	**4,147**	1,252	796	**4,986**	1,839	1,264
Depreciation, depletion and amortization	**8,590**	8,201	8,101	**8,719**	1,699	1,578	**17,309**	9,900	9,679
Transportation systems	**2,333**	1,691	1,647	**188**	140	118	**2,521**	1,831	1,765
Total expenses	**17,561**	16,253	14,138	**14,012**	3,547	2,904	**31,574**	18,800	17,042
Results of operations before taxes	**50,194**	40,619	27,843	**(6,740)**	3,153	2,135	**43,454**	43,772	29,978
Current and deferred income tax expense	**(38,287)**	(30,810)	(21,279)	**479**	(1,602)	(965)	**(37,808)**	(32,412)	(22,244)
Results of operations	**11,907**	9,809	6,564	**(6,261)**	1,551	1,170	**5,646**	11,360	7,734

1) The majority of intercompany transfers are resold from the Energy and Oil Marketing sub segment without further processing.

Proved reserves of oil and gas

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from undrilled production wells on exploration licenses.

Reserves are expected to be revised as oil and gas are produced and additional data become available. International reserves under PSA contracts (production sharing agreement) are shown net of Royalties in kind and Government's share of Profit Oil, based on prices at the balance sheet date. See ''Financial Review — Critical accounting policies — Proved oil and gas reserves''.

Proved developed and undeveloped reserves of oil and gas

	Norway				International				Total			
		Natural gas				Natural gas				Natural gas		
	Oil mmboe[1)]	billion sm^3 [2)]	billion cf [2)]	Oil and gas mmboe[3)]	Oil mmboe[1)]	billion Sm^3 [2)]	billion cf [2)]	Oil and gas mmboe[3)]	Oil mmboe[1)]	billion Sm^3 [2)]	billion cf [2)]	Oil and gas mmboe[3)]
As of 31 December, 2003	839	206.8	7,317	2,134	154	—	—	154	993	206.8	7,317	2,288
Revisions of previous estimates[4)]	43	(3.0)	(106)	25	14	—	—	14	57	(3.0)	(106)	39
Purchase (sale)/exchange of reserves in place	(6)	(9.1)	(324)	(65)	—	—	—	—	(6)	(9.1)	(324)	(65)
Extensions and new discoveries	5	1.4	51	14	9	—	—	9	14	14	51	23
Production for the year	(132)	(8.8)	(312)	(188)	(21)	—	—	(21)	(153)	(8.8)	(312)	(209)
As of 31 December, 2004	749	187.3	6,626	1,920	156	—	—	156	905	187.3	6,626	2,076
Revisions of previous estimates[4)]	33	4.8	170	63	1	—	—	1	34	4.8	171	64
Purchase (sale)/exchange of reserves in place	—	—	—	—	21	5.3	187	52	21	5.3	187	52
Extensions and new discoveries	36	3.1	109	56	3	0.1	3	3	39	3.2	112	59
Production for the year	(125)	(9.4)	(334)	(185)	(21)	—	(1)	(21)	(146)	(9.4)	(335)	(206)
As of 31 December, 2005	693	185.7	6,571	1,854	160	5.4	190	192	853	191.1	6,761	2,046
Revisions of previous estimates[4)]	**29**	**3.8**	**135**	**55**	**(11)**	**0.2**	**8**	**(10)**	**18**	**4.0**	**143**	**45**
Purchase (sale)/exchange of reserves in place	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Extensions and new discoveries	**10**	**2.2**	**77**	**25**	**8**	**0.2**	**9**	**9**	**18**	**2.4**	**86**	**34**
Production for the year	**(125)**	**(10.0)**	**(354)**	**(189)**	**(16)**	**(0.7)**	**(25)**	**(20)**	**(141)**	**(10.7)**	**(379)**	**(209)**
As of 31 December, 2006	**607**	**181.7**	**6,429**	**1,745**	**141**	**5.1**	**182**	**171**	**748**	**186.8**	**6,611**	**1,916**
Proved developed reserves:												
As of 31 December, 2003	690	124.8	4,415	1,470	88	—	—	88	778	124.8	4,415	1,558
As of 31 December, 2004	607	118.6	4,187	1,350	97	—	—	97	704	118.6	4,197	1,447
As of 31 December, 2005	576	128.6	4,551	1,380	93	1.7	58	103	669	130.3	4,609	1,483
As of 31 December, 2006	**474**	**119.9**	**4,244**	**1,224**	**94**	**1.7**	**61**	**105**	**568**	**121.7**	**4,305**	**1,329**

1) Includes crude oil, NGL and Condensate. 1 Sm^3 Oil/Condensate = 6.2998 boe. 1 tonne NGL = 11.9506 boe.

2) Sm^3 = Standard cubic meter at 15 degrees Celcius. cf= cubic feet at 60 degrees Fahrenheit. 1 Sm^3 gas at 15 degrees Celcius = 35.3826 cubic feet gas at 60 degrees Fahrenheit.

3) Includes crude oil, NGL Condensate and natural gas. When converting natural gas into barrels of oil equivalents adjustment for calorific value to an equivalent 40 MJ/Sm^3 volume is calculated, then 1000 Sm^3 @ 40 MJ/Sm^3 = 6.2898 boe.

4) The revision of previous estimates relates to new information from current year's drilling operations and additional data which is now available.

Purchase of reserves during 2005 was related to the acquisition of Spinnaker Exploration Company in the US Gulf of Mexico. In 2004 the purchase of reserves included the sale of the 10 percent share in the Snøhvit field in Norway to Statoil ASA and purchase of an additional 2 percent share in the Kristin field in Norway from Statoil ASA.

Extensions and new discoveries for oil in 2006 where related to the Gimle, Vega. Vigdis and Urd fields in Norway. Internationally there were extensions and new oil discoveries related to the Murzuq field in Libya and the Thunder Hawk field in the Gulf of Mexico. Extensions and new discoveries for gas were related to the Gimle, Vega and Vigdis fields in Norway and the Thunder Hawk field in the Gulf of Mexico.

Extensions and new discoveries for oil in 2005 related to the following fields on the NCS: Tyrihans, Oseberg Delta, Fram Øst. Volve, Urd and Ringhome Øst. Internationally, the Mabruk field in Libya and the Lorien field in the Gulf of Mexico contributed new oil reserves. Extensions and new discoveries for gas were related to the following fields on the NCS: Tyrihans, Oseberg Delta, Fram Øst, Oseberg Sør and Tune, and in addition the Lorien field in the Gulf of Mexico.

Extensions and new discoveries for oil in 2004 were related to the Gulltopp field in Norway, the Rosa field in Angola and the Hibernia field in Canada. Extensions and new discoveries for gas were related to the Njord field in Norway.

Reserve estimates at the end of the years 2006, 2005 and 2004 includes 171 million boe, 192 million boe and 156 million boe, respectively. For 2006, the reserves were situated mainly outside the Norwegian Continental Shelf, in Canada, Angola, Russia, Libya and Gulf of Mexico. For 2005, the reserves were mainly situated in Canada, the US Gulf of Mexico, Angola, Libya and Russia. For 2004, the reserves were mainly situated in Canada, Angola, Russia and Libya.

Reserve estimates in Norway are made before royalties of approximately 0.0, 0.0 and 0.3 million boe for 2006, 2005 and 2004. Reserve estimates on fields in Angola, Russia and Libya are made after deduction of royalty in kind and Government's share of profit oil of approximately 56, 62 and 40 million boe for 2006, 2005 and 2004, respectively.

US GAAP standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows of Hydro's proved reserves of oil (including natural gas liquids and condensate) and gas is prepared in compliance with SFAS 69.

Future net cash flows are based on numerous assumptions which may or may not be realized. The Management of Hydro cautions against relying on the information presented because of the highly arbitrary nature of assumptions involved and susceptibility of estimates to change as new and more accurate data become available. The individual components of future net cash flows shown below were computed using prices, production costs, development costs, royalty levels, foreign exchange rates, statutory tax rates and estimated proved reserve quantities at the respective year ends.

Standardized measure of discounted future net cash flows

	Norway			International			Total		
Amounts in NOK million	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Future cash inflows	**524,100**	575,900	382,800	**51,100**	70,900	35,800	**575,200**	646,800	418,600
Future production costs	**(102,900)**	(105,200)	(91,500)	**(11,300)**	(17,500)	(10,600)	**(114,200)**	(122,700)	(102,100)
Future development costs	**(53,900)**	(42,500)	(38,500)	**(7,700)**	(7,100)	(5,600)	**(61,600)**	(49,600)	(44,100)
Future income tax expense	**(279,900)**	(324,700)	(189,800)	**(8,500)**	(13,100)	(5,200)	**(288,400)**	(337,800)	(195,000)
Future net cash flows	**87,400**	103,500	63,000	**23,600**	33,200	14,400	**111,000**	136,700	77,400
Less: 10% annual discount for estimated timing of cash flows	**(35,600)**	(40,100)	(26,400)	**(6,700)**	(8,800)	(4,700)	**(42,300)**	(48,900)	(31,100)
Standardized measure of discounted future net cash flows	**51,800**	63,400	36,600	**16,900**	24,400	9,700	**68,700**	87,800	46,300

Major sources of changes in the standardized measure of discounted future net cash flows

Amounts in NOK million	**2006**	**2005**	**2004**
Net changes in prices and production costs	**(3,800)**	127,800	33,200
Sales and transfers of oil and gas produced, net of production costs	**(65,800)**	(55,500)	(40,900)
Extensions, unitizations, discoveries and improved recovery, net of related costs	**5,000**	11,200	2,600
Purchase/exchange of interests in fields	**—**	13,200	800
Sale/exchange of interests in fields	**—**	—	(3,600)
Changes in estimated development costs	**(17,300)**	(11,300)	(900)
Development costs incurred during the year	**11,900**	9,800	8,400
Net change in income taxes	**36,300**	(72,200)	(8,500)
Accretion of discount	**6,800**	2,900	3,100
Revisions of previous reserve quantity estimates	**7,800**	16,300	5,500
Other	**—**	(700)	300
Total change in the standardized measure during the year	**(19,100)**	41,500	—

Development costs for the years 2007, 2008 and 2009 are estimated to NOK 11,500 million, NOK 8,400 million and NOK 7,300 million respectively.

Sales price and production cost per unit

The following table presents the average sales price (including transfers) net of reductions in respect of royalty payments, and production costs per unit of crude oil and natural gas.

	Norway			International			Total		
Amounts in NOK	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Average sales price[1]									
crude oil (per barrel)	**404.03**	342.54	251.43	**396.60**	340.53	250.40	**404.01**	342.22	251.27
natural gas (per Sm^3)	**1.95**	1.52	1.09	**1.62**	2.99	—	**1.93**	1.52	1.09
Average production cost (per boe)[2]	**30.80**	25.80	20.80	**46.70**	21.90	19.50	**32.20**	25.30	20.70

1) In the years 2006, 2005 and 2004 Hydro has not had any hedging gain or loss that has affected the realized oil and gas prices.

2) Includes the cost of purchased gas for injection with NOK 7.90 per barrel in 2006, NOK 5.40 per barrel in 2005 and NOK 2.80 per barrel in 2004.

Board of Directors' Report 2005[1]

Record year with challenges

As Hydro enters its second century, the Board of Directors is pleased to confirm that the Company's operations are running well and are favorably prepared for the future. The results for 2005 exceeded those of 2004, which was itself a record year. In addition, Hydro took some new, decisive strategic steps forward in the form of international acquisitions. Oil and aluminium prices are high and the outlook is good. The future will bring major new developments, demanding restructuring and further internationalization for Hydro.

Hydro delivered record results for 2005, Results for the year reflected sustained high oil and gas prices and improved aluminum prices, together with continued strong operational performance.

The year 2005 represented an international breakthrough for Hydro's oil and gas business, In December 2005, the acquisition of Spinnaker Exploration Company was completed, Spinnaker is mainly engaged in exploration, development and production of oil and gas in the US Gulf of Mexico (GoM). Spinnaker's portfolio includes interesting exploration acreage, comprising deepwater and shelf prospects, as well as an extensive seismic database covering most of the GoM, Exploration efforts also produced good results in 2005, Hydro participated in 22 wells and made 14 discoveries, half of them on the Norwegian continental shelf (NCS).

Hydro was shortlisted as one of five foreign companies under consideration to partner the Russian company Gazprom in developing the Shtokman field in the Barents Sea, which is the largest known undeveloped gas field in the world, The project shares many similarities with Hydro's current development of Ormen Lange in the Norwegian Sea, a large and extremely complex installation, At year end Ormen Lange and the Langeled gas pipeline, the largest project ever undertaken in Norway, was 60 percent complete, in line with plan and budget forecasts.

These developments took place in line with the strategy drawn up for the Company's oil and gas activities following the 2004 spin-off of the fertilizer operations, with the objective of concentrating activities around the two core areas, Oil & Energy and Aluminium, Hydro is aiming for an average annual growth of 6 percent in oil and gas production during the period 2005 to 2010, with the Company's own production amounting to 615,000 barrels of oil equivalents per day (boed) in 2006, an increase of 9 percent from 2005.

On the other hand, high energy prices are squeezing margins for Hydro's aluminium operations, despite high market prices for the metal, In addition, rising imports of cheaply priced aluminium products from China and Russia threaten parts of the Company's aluminium operations in the US and Europe, All aspects of the aluminium downstream operations will be thoroughly reviewed in 2006 with a view to increasing profitability, Underperforming units will be turned around, sold or closed down, At the same time investments will be limited to a minimum and the operations will be focused on cash generation, These measures, together with the strategic repositioning of Hydro's upstream operations to regions with a competitive energy and raw material supply, represent important steps to deliver improved profitability for Hydro's aluminium operations.

The Board of Directors continuously monitors the development of the business areas and adjusts the strategy when necessary, This year we paid a record high dividend per share of NOK 20 for 2004, Due to the good results in 2005 the Board of Directors proposes a dividend of NOK 22 per share for 2005, to be approved by the Annual General Meeting.

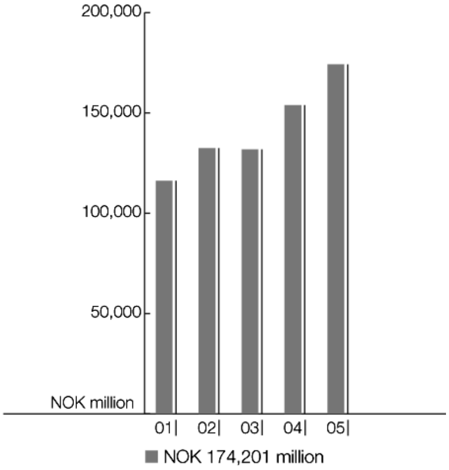
The last three years Hydro has completed several buyback programs for its own shares, Under these programs Hydro bought back and redeemed 5.5 million shares during 2003 and 2004, corresponding to approximately 2 percent of the shares outstanding, In 2005 we bought and redeemed an additional 3.1 million shares corresponding to approximately 1 percent of the shares outstanding.

Hydro supports the principles of the UN's Global Compact, Human rights, international labor standards, working against corruption and environmental considerations are fundamental in the Company's approach to corporate responsibility.

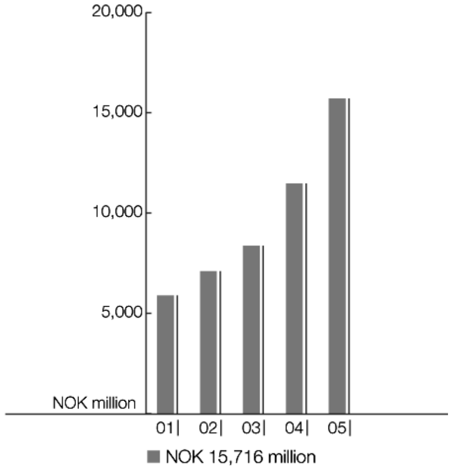
(1) Excerpt from Norsk Hydro's Annual Report for 2005.

Financial results for 2005*

Operating revenues



Income from continuing operations



Operating income (loss) — Hydro

NOK million	2005	2004	2003
Oil & Energy	**43,451**	31,144	21,143
Aluminium	**2,511**	1,805	2,456
Other activities	**(2)**	312	(404)
Corporate and eliminations	**472**	(1,414)	(1,569)
Total	**46,432**	31,847	21,625

* Comments in the discussion of the results for the year are made on the basis of the Company's US GAAP financial statements. Differences between US GAAP and Norwegian accounting standards are not significant.

Operating income for the year increased 46 percent to NOK 46,432 million, Operating income for 2005 carried a non-cash charge of approximately NOK 1.8 billion including impairment losses in Hydro's aluminium business of NOK 1.2 billion, In addition, 2005 operating income included approximately NOK 1.4 billion of unrealized losses on derivative contracts relating to hedges due to a significant rise in the forward prices for aluminium, oil, gas, and power at the end of the year. Operating income for 2004 included impairment losses and rationalization costs totaling approximately NOK 2.6 billion.

Oil & Energy

Highlights of 2005

- Acquisition of Spinnaker Exploration Company gave Hydro a strong position in the Gulf of Mexico
- Agreement to acquire 50 percent of the Chinook field off Brazil opens up new opportunities
- 14 oil discoveries in Norway and internationally
- Record financial results
- Development of the huge and complex Ormen Lange gas field and the world's longest subsea pipeline, Langeled, proceeded as planned and budgeted
- Awarded exploration block operatorship in Murzuq basin, Libya
- Construction of gas-fired power plant, managed by Naturkraft (50 percent owned by Hydro), started at Kårstø, Norway
- Total recordable injuries (TRI) per million hours worked was 2.5 compared with 1.7 in 2004. One contractor worker was killed when he was hit by equipment under high pressure while working at the Ormen Lange project at Aukra, Norway
- We achieved our target of zero discharges, as previously agreed on by the authorities and the industry, in March 2006

Hydro's Oil & Energy results in 2005 were an all-time high, primarily driven by continued high oil and gas prices but also well-run operations. Weak growth in non-OPEC production combined with low OPEC spare capacity and a strained refinery balance was aggravated by outages resulting from hurricane damage in the Gulf of Mexico (GoM).

Hydro delivered successful exploration results in 2005, but this does not change the fact that replacing existing reserves is becoming increasingly demanding. Hydro participated in 22 wells and made 14 discoveries, half of them on the Norwegian continental shelf (NCS). Prior to the acquisition by Hydro, Spinnaker participated in nine wells in 2005 that resulted in seven discoveries. The oil industry is experiencing smaller discoveries, reduced access to new and attractive areas, and higher costs. The need to discover significant new oil and gas resources continues to be the most important issue facing Hydro's oil and energy business. In 2006, Hydro plans to increase its exploration level to around NOK 5 billion from NOK 2.6 billion in 2005. In 2006, Hydro expects to participate in the spudding of approximately 60 exploration wells including extensions of production wells. Around 20-25 of the wells are planned for the NCS, with the remaining wells relating to Hydro's international interests, mainly in the GoM and in Libya.

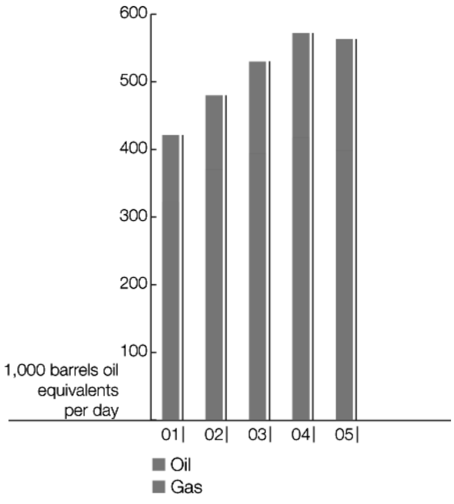
Increased oil recovery and acquisitions are also key elements in Hydro's strategy to replace reserves. Hydro is focusing on improved oil recovery from existing fields in addition to finding viable solutions for developing smaller fields, including satellite fields enabled by the optimal use of existing infrastructure.

A substantial increase in exploration and development activities for the oil industry is driving higher demand for rig capacity and increased costs. However, Hydro, as operator, has secured rig capacity on the NCS for its planned drilling activity during the next three years, and for part of its planned drilling activity in 2009. Hydro has also secured rig slots for the majority of its operated international wells in 2006.

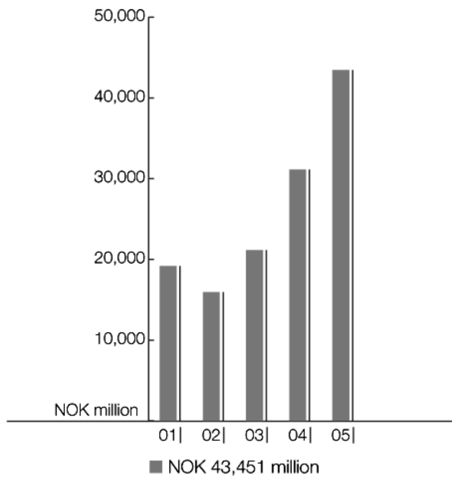
Acquiring technical resources is increasingly expensive, but Hydro will continue to evaluate and make acquisitions when its competencies and expertise can add value to assets traded in the marketplace. Hydro has increased its long-term price assumptions for oil and gas investment decisions from USD 25 per barrel of oil equivalents (boe) to USD 30-35 per boe.

Hydro also plans to continue its focus on new sources of energy, such as wind power and hydrogen. Environmental concerns, rising energy demands, and the security of existing energy supply present opportunities for developing new energy sources, and Hydro expects consumption of energy from renewable sources to grow.

Oil and gas production



Operating income oil & energy



Operating income (loss) — oil & energy

NOK million	2005	2004	2003
Exploration and Production	**40,594**	28,363	18,500
Energy and Oil Marketing	**3,575**	2,650	2,668
Eliminations	**(719)**	131	(25)
Total	**43,451**	31,144	21,143

Operating income increased by 40 percent to NOK 43,451 million for the year. Hydro realized average oil prices of USD 53.10* per boe in 2005, up 42 percent from USD 37.30 in 2004. Expressed in NOK, average oil prices increased by 36 percent in 2005. Average realized gas prices in 2005 were NOK 1.52 per standard cubic meter, up 39 percent from NOK 1.09 per standard cubic meter in 2004. The increase primarily reflected higher prices of oil products and a strong spot market for gas. Nordic electricity prices have been slightly lower in 2005 than in 2004.

During 2005, average oil and gas production declined by approximately 2 percent, from 572,000 boed in 2004 to 563,000 boed. Production in 2005 was below target for the year, mainly as a result of production shortages from the partner-operated Snorre field following a shut-down at the end of 2004. Hydro's average production cost was NOK 25.30 per boe in 2005, an increase of 22 percent compared with NOK 20.70 per boe in 2004. The main reason for the increase was higher gas prices leading to increased costs for purchased gas injected into the Grane field. Average production costs excluding gas for injection increased 11 percent to NOK 19.90 per boe, compared with NOK 17.90 per boe in 2004. Average depreciation cost increased by 4 percent to NOK 46 per boe including a charge for previously capitalized development costs relating to the Telemark field in GoM amounting to NOK 210 million. Depreciation in 2005 included approximately NOK 100 million relating to Spinnaker, which was acquired in December.

Hydro is targeting an average compound annual growth rate for production of about 6 per cent for the 2005-2010 period based on its current portfolio of fields in production, fields under development, and fields considered for development. In 2006, the target is an average production of 615,000 boe per day, an increase of about 9 percent from 2005. Production outside Norway will be increasingly important in meeting these targets. Hydro's proved reserves of oil and gas amounted to 2,046 million boe at the end of 2005, compared with 2,076 million boe at the end of 2004.

Exploration activity levels were substantially higher in 2005 than in 2004. Expenditures relating to exploration activity in 2005 were NOK 2,582 million, compared with NOK 1,412 million in 2004. Roughly 66 percent of the exploration activity related to areas outside the NCS, the same level as in 2004. A total of NOK 1,839 million of exploration costs was expensed in 2005, approximately 45 percent higher than in 2004. Cost expensed in 2005 included NOK 320 million relating to the value allocated to seismic databases acquired as part of the Spinnaker acquisition. Increased power production, increased transportation volumes and good results in oil trading had a positive effect on operating income in 2005. Operating income in 2005 included unrealized losses on oil and gas hedging contracts entered into in connection with the Spinnaker acquisition amounting to NOK 440 million.

Our position

Hydro is the second-largest operator on the Norwegian continental shelf and a world leader in deep waters. The Company is operator on 15 oil and gas installations in Norway, which produced approximately 904,000 boe per day in 2005. In addition, we have operatorships in the Gulf of Mexico. Our own daily production, including partner-operated and international activities, amounted to 563,000 boe per day. Hydro's production of renewable energy from Norwegian hydroelectric and wind power plants was 10.8 TWh.

Norway is the main base for Hydro's oil activities. The Company also produces oil and gas in Angola, Canada, Libya, Russia and in the Gulf of Mexico, and is planning new international developments, for example in Brazil.

Market conditions and prospects for 2006

Economic indicators signal continued global growth in 2006. Economic development in the United States is expected to slow slightly from the 2005 level, while conditions in Europe are expected to improve moderately. Development in the major Asian economies, including China, is expected to continue in line with 2005 growth rates.

The oil market is expected to remain tight in 2006. Continued economic growth is expected to increase global oil demand in 2006. However, more production capacity, both non-OPEC and OPEC, is expected to come on stream. In the beginning of 2006, increased tensions in Nigeria and Iran have raised geopolitical concerns that have been an important price driver.

---

* Realized oil price for the sub-segment Exploration and Production

High European forward gas prices for 2006 are reflecting the high oil and energy price levels in Europe. Forward prices for gas delivered to the UK in the winter of 2006/2007 are at a high level, reflecting expectations of a tight gas supply situation in the UK, even though new pipeline capacity is planned to come on stream.

Norwegian water reservoir levels were slightly above average at the end of 2005 for Hydro-owned power plants and slightly below average for the Nordic market area in general. The electricity price is expected to stay at a high level for the whole of 2006, as result of a tight Nordic power balance.

Volatility in the oil, gas and power markets is expected to continue and could result in substantial unrealized gains and losses on derivative contracts in future quarters.

Strategic direction

Hydro aims to grow by means of extensive exploration in established areas abroad and in Norway, and through acquisitions, portfolio optimization and the development of existing oil and gas fields.

Given the strengths of the Company in exploration, development and operations, we plan to increase oil and gas production from 2005 onward by an average of 6 percent annually until 2010. By then, we plan to produce 750,000 barrels of oil and gas each day. We intend to fully exploit Hydro's advanced well technology in major international development projects.

In 2006 we are substantially stepping up exploration activities in Norway and abroad. From a 2005 level of NOK 2.6 billion, exploration is expected to rise to a level of NOK 5 billion in 2006. We are planning to drill roughly 60 wells — more than twice as many as in 2005 — 20-25 of which will be on the Norwegian continental shelf.

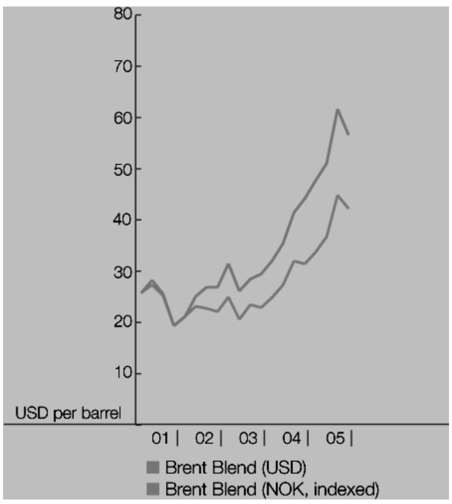
Internationally, we will pursue the opportunities provided by the acquisition of the Spinnaker Exploration Company, with its considerable Gulf of Mexico presence, and our 50 percent license in the Chinook field off Brazil. We will continue to develop Block 17 in Angola, as well as the Mabruk field and Murzuk region in Libya. We will continue to bring the Hebron field in Canada, Gimboa in Angola and Anaran in Iran closer to the development stage.

By employing advanced techniques that include gas injection and horizontal drilling, we continue to increase the recovery rate of existing fields, while further boosting our efforts with research and development.

Hydro has proven gas reserves on the Norwegian continental shelf equivalent to 20 years' production at current levels. We produce over 9 billion cubic meters of gas annually, but sell more than 13 billion cubic meters. This gives us strong commercial positions in the market. The Company intends to develop its position as a centrally placed gas supplier and owner in the extensive and flexible transport system, Gassled, which can deliver gas to some of the most important landfall sites in Europe. Our proximity to the UK and the European continent gives us access to a market with increasing demand for gas. Ormen Lange will be able to cover 20 percent of UK gas demand.

In renewable energy, we are concentrating on new energy forms such as wind power and hydrogen, in addition to our substantial hydroelectric operations in Norway.

Oil price



Aluminium

Highlights of 2005

- Growth in primary aluminium production-downstream restructuring continues
- Restructuring of aluminium production in Norway and Germany intensified
- Upgrade of casthouse at Kurri Kurri plant in Australia
- Large-scale expansion of the alumina refinery Alunorte in Brazil decided
- Expansion of Alouette, partly-owned smelter in Canada, completed — on schedule and below budget
- Total recordable injuries (TRI) per million hours worked was 6.0 an improvement from 7.0 in 2004. A sales representative was killed in a traffic accident in the Czech Republic
- We achieved our target of a 55 percent reduction in greenhouse gas emissions from 1990 to 2005

Hydro's aluminium results for 2005 increased due to higher volumes from primary aluminium production together with higher realized aluminium prices. However, the high energy prices underlying Hydro's record oil and energy results also had a substantial impact on its aluminium business.

The significant increase in power costs in Europe and the United States was an important factor contributing to the strengthened aluminium prices. In 2005, Hydro decided to close two primary aluminium plants located in Germany as a result of the increasing power prices. Increased energy cost is also the reason why new smelter capacity is being built in energy-rich areas with competitive energy prices. Together with Qatar Petroleum, Hydro is preparing for the potential construction of a new smelter with a power plant in Qatar. This is a major step to further increase the competitiveness of Hydro's total primary aluminium system.

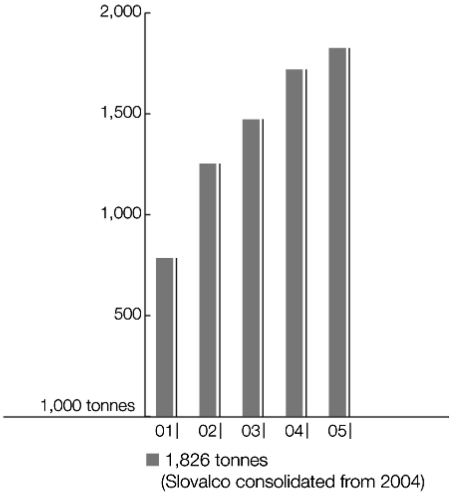
China's energy situation, together with high alumina prices, have led to measures from the Chinese government to curb exports of primary metal. China has increased its import of scrap for recycling and appears to be focusing more on downstream manufacturing activities than primary metal for export.

Average aluminium market prices for 2005 increased by about 10 percent, compared with 2004 (London Metal Exchange, LME, three-month average, expressed in US dollars). Measured in Norwegian kroner, the decline in the US dollars offset almost half of the price increase. The LME price increased significantly in the latter part of 2005, ending the year at USD 2,277 per tonne. This resulted in unrealized losses on LME contracts for Hydro amounting to NOK 1,021 million for the year. Early in 2006, primary aluminium was trading at around USD 2,500 per tonne. Trading by financial investors on the LME also increased significantly in 2005 and there is a risk of a substantial correction if market sentiment changes. Given the cost expectations for new primary metal capacity, Hydro has adjusted the long-term price assumption for aluminium investments up from USD 1,500 to USD 1,600-1,700 per tonne.

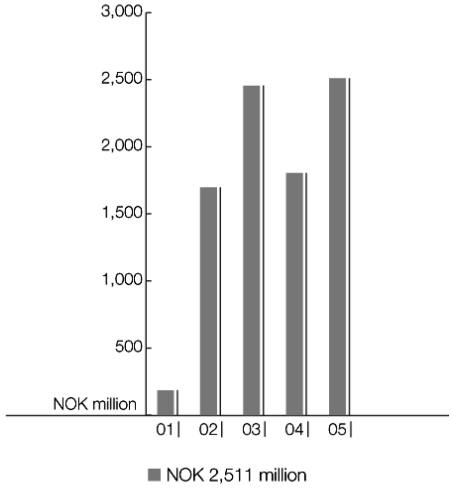
Hydro's downstream operations in Europe faced continued challenging market conditions in 2005. Market developments resulted in lower volumes, while margins were under continuous pressure, particularly for the more standardized products. The US markets continued to expand, but at a slower pace than in 2004. The strengthening of the Euro to the US dollar has weakened the competitive position of European producers. In addition, margins measured in Norwegian kroner declined due to the stronger NOK/Euro exchange rate in 2005.

Hydro has decided to prioritize future investment within its aluminium business toward upstream activities to reposition its upstream portfolio. Mostly primary production is being closed down and replaced by competitive new capacity. In its downstream aluminium business, Hydro plans further measures to improve the financial performance and cash generation, including turnaround, divestment or closure of underperforming units. In January 2006, Hydro reorganized its upstream and downstream aluminium operations into two separate business areas, "Aluminium Metal" and "Aluminium Products," to focus management's attention on the different challenges the two business areas are facing.

Production of primary aluminium



Operating income aluminium



Operating income (loss) — aluminium

NOK million	2005	2004	2003
Metals	**3,898**	860	2,080
Rolled Products	**754**	626	132
Extrusion and Automotive	**(1,100)**	248	310
Other and eliminations	**(1,041)**	72	(67)
Total	**2,511**	1,805	2,456

Operating income amounted to NOK 2,511 million for the year, compared with NOK 1,805 in 2004. Increased primary aluminium production, together with higher realized aluminium prices, had a positive influence on operating income for Hydro's aluminium business in 2005. Operating income for the year was also impacted by impairment losses of NOK 1 238 million relating to Hydro's magnesium business and one rolling mill. In 2004, operating income included impairment losses of NOK 2,042 million relating to Hydro's German primary aluminium plants in addition to manning reduction costs of approximately NOK 500 million. In addition, operating income for 2005 included unrealized losses on LME contracts amounting to NOK 1,021 million, compared with unrealized gains of NOK 175 million in 2004.

Hydro's realized aluminium price strengthened to USD 1,812 per tonne in 2005, compared with USD 1,629 per tonne in 2004, an increase of 11 percent. Measured in Norwegian kroner, the realized aluminium price increased by approximately 5 percent in 2005. The realized NOK-USD exchange rate was NOK 6.57 for 2005, compared with NOK 6.98 in 2004. Realized prices and currencies include the effect of hedges.

Hydro's primary metal volumes increased 6 percent to 1,826,000 tonnes in 2005, up from 1,720,000 tonnes in 2004. The increase new capacity relating to the Sunndal plant in Norway and the Alouette plant in Canada. During 2005, Hydro supplied about 3.8 million tonnes of casthouse products to internal and external customers, an increase of roughly 5 percent from 2004. Approximately 95 percent of the volume was comprised of value-added products with the remainder consisting of standard ingot. About 48 percent of the tonnage supplied originated from Hydro's own primary metal (on an equity basis), while approximately 46 percent consisted of re-melted or recycled material and 6 percent was provided from commercial agreements.

It was a difficult year for European producers of rolled products, particularly for standard products. Weak economic development, together with customer inventory reductions and fierce competition, put severe pressure on margins for standard rolled products. Operating income for Hydro's rolled products business improved in 2005 as a result of increased shipments, further optimization of product mix and reduced fixed costs. The increase was offset somewhat by a reduction in realized product margins. In 2005 Hydro recognized an impairment loss relating to the rolling mill in Spain amounting to NOK 154 million as a result of the difficult market conditions.

Operating income for 2005 also included an impairment loss of NOK 1,084 million relating to Hydro's magnesium operations included in Hydro's automotive operating sector. The write-down resulted from adverse trading conditions caused by low-priced magnesium exports from China. Costs relating to the closure of the automotive plant in Leeds in the UK amounted to NOK 211 million in 2005 and NOK 146 million in 2004.

Operating income for Hydro's automotive business reflected challenge j market conditions. The market for building systems developed positively, and the financial performance is improving.

Following the write-down of German primary metal plants in 2004, Hydro has not been able to renew or replace the electricity contracts at sustainable terms and conditions, and has therefore decided to close the Stade smelter and, together with its co-owners, the Hamburg smelter. The Hamburg production was shut down at the end of 2005, while production at the Stade smelter is expected to be phased out by the end of 2006. Hydro will close the Søderberg production lines in Norway at its Høyanger and Årdal smelters. The Søderberg line in Høyanger was closed during the first quarter of 2006. The timing of closing the line at the Årdal smelter will be decided by the end of the first quarter of 2006. The remaining costs related to these four closures are expected to be approximately NOK 800 million.

Our position

Hydro is one of the world's largest integrated aluminium suppliers, with activities in almost 30 countries. The Company is at the forefront in a number of markets and product areas, in particular as a supplier to the transport, building, packaging and lithographic industries.

Hydro produced approximately 1.8 million tonnes of primary metal in 2005 and supplied a total of 3.8 million tonnes of aluminium to the market. Of this, some 1.8 million tonnes were remelted and partly recycled metal.

Market conditions and prospects for 2006

Hydro expects global consumption of primary metal to grow by about 6 percent, corresponding to approximately 1.8 million tonnes, while global production is expected to increase by about 4 percent, highly dependent on developments in China. Announced capacity closures in Europe and the United States may be delayed due to continued high aluminium prices.

In 2005 there was a tight supply/demand balance for alumina that resulted in increased spot alumina prices, compared with 2004. The high spot prices have also put pressure on the long- and medium-term contracts. Prices are expected to remain high during 2006.

Shipments to the European rolled products and extrusion markets are expected to improve moderately during 2006. However, pressure on margins is expected to continue and US consumption of semi-finished aluminium products is expected to continue to grow in 2006. The global light vehicle automotive market is expected to grow moderately during 2006.

Electricity prices in Europe, and in most of the United States, are expected to remain at high levels. Power costs for Hydro's aluminium business are expected to increase by roughly NOK 1.4 billion for 2006 compared with the total cost of power in 2005. Approximately NOK 1.1 billion of the increase relates to primary metal production, with a large part relating to operations in Germany. Hydro has sold forward 460,000 tonnes of aluminium on the LME to secure acceptable operating margins for some of its primary metal production in 2006, 2007 and 2008, and to mitigate the effects of higher energy costs, especially in Germany. Energy supplies for the smelter in Neuss have been secured at market terms for 2006-2008.

Volatility in the aluminium and power markets is expected to continue and could result in substantial unrealized gains and losses on derivative contracts in future quarters.

Strategic direction

Hydro is boosting its competitiveness by improving its global cost position in alumina and primary production. Between 2005 and 2010 we are aiming to increase primary aluminium production by 10 percent, while further improving our cost position by transferring more production to countries with more competitive energy prices.

Our plan to build a major new plant in Qatar in cooperation with Qatar Petroleum is one of the measures to achieve this goal. If the project is realized, it will be the first metal plant built in a single phase with an annual capacity of 570,000 tonnes. the plant is scheduled to come on stream in 2009. The plan also allows for a subsequent doubling of capacity to 1.2 million tonnes.

The upgrading of existing plants to increase efficiency is part of this strategy. At the same time, the operation of plants with high energy and running costs will be considered on a continuous basis. It has been decided, based on environmental considerations, to close down production at our remaining Søderberg lines in Norway.

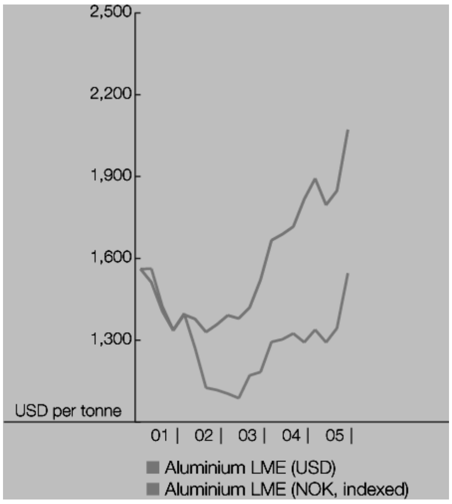
The Høyanger line was taken out of production in the first quarter 2006, with Årdal and Karmøy to follow in ensuing years. In Germany, the aluminium plant in Hamburg, partly owned by us, was closed at the turn of the year. A decision has been taken to close down the plant in Stade during 2006, while our third German plant in Neuss will be made more efficient for continued operation.

Downstream activities, which include extruded and cast products for buildings and cars, as well as standard rolled products, will in coming years be reviewed and restructured with a view to improving profitability by reaping the returns of established positions. Divestment or closures of businesses are likely here.

We are making systematic efforts to ensure that all production units meet their profitability targets. Only through determined improvement measures in currently under-performing units can the Company release maximum growth potential, in financial and management terms, and develop fully its competitive advantages.

The outlook for the aluminium market is favorable, and Hydro's position is strong. The expansions currently underway coupled with an intensified improvement drive, will produce greater effect in 2006 and the following years.

Aluminium price



Other Businesses

Other Businesses comprises Hydro's activities outside of the core areas Oil & Energy and Aluminium. The area, which counts 3,000 employees following divestment of the Danish fish feed company Biomar in 2005, encompasses production, service and support functions.

Hydro Polymers produces the plastics raw material polyvinyl chloride (PVC) in Norway, Sweden and the UK, and is integrated from the raw material input stage. Hydro also has interests in petrochemical companies in Portugal, Qatar and China. PVC is a versatile material that is used widely in the construction industry for drainpipes, floor coverings and other applications requiring durability.

IS Partner supplies information technology services internally and externally, working with its customers to reduce their costs and boost competitiveness.

Production Partner supplies services including maintenance and mechanical engineering services, maintenance consultancy and projects/modifications to in-house and external customers.

Support services and business parks support Hydro's operations in areas such as procurement, accounting, communication and human resources, as well as administering the industrial and business parks in Norway.

Highlights of 2005

- Sale of fish feed company Bi mar
- New chlorine plant completed at Rafnes

  — ahead of schedule and on budget
- Total recordable injuries (TRI) per million hours worked was 5.6, an improvement from 6.0 in 2004

Hydro Polymers

Operating income for Polymers amounted to NOK 69 million in 2005, compared with NOK 254 million in 2004, The decline primarily resulted from higher raw materials costs due to increased oil prices and high costs related to external purchases of ethylene during a major planned maintenance shutdown of the Noretyl ethylene cracker (50 percent Hydro investee), During 2005, two major investments were completed: the Noretyl expansion and the new chlorine plant at Rafnes, The expansion at Noretyl increased Hydro Polymers' ethylene capacity by 50,000 tonnes per year, The new chlorine plant increased total annual chlorine capacity by 130,000 tonnes and eliminated dependence on external supplies of chlorine and ethylene dichloride. The conversion of the older diaphragm chlorine plant at Rafnes to membrane technology is progressing according to plan and is expected to be completed during the second half 2006, These investments will make the Polymers business more competitive.

Other activities

Other activities incurred an operating loss of NOK 71 million for the year, compared with operating income of NOK 58 million in 2004, The operating loss for 2005 included insurance loss provisions of NOK 240 million, compared with provisions of NOK 230 million in 2004, Pension charges totaling NOK 90 million related to Hydro's interest in Biomar were also recorded in 2005, Hydro sold its interest in Biomar in December 2005.

Corporate activities and eliminations

Operating income for Corporate activities and eliminations amounted to NOK 472 million for the year, compared with operating losses of NOK 1,414 million in 2004, The result for 2005 includes NOK 1,391 million relating to the elimination of unrealized losses on internal power sales contracts, compared with an elimination of a corresponding gain of NOK 235 million in 2004.

Net costs related to pensions and social security included as part of corporate activities for the year amounted to NOK 495 million in 2005, compared with NOK 1,001 million in 2004, The amount for 2005 included the reversal of a settlement loss of NOK 1,745 million charged to Extrusion and Automotive related to the plant closure in Leeds in the UK.

Earnings from non-consolidated investees

Results for non-consolidated investees declined for 2005 mainly as a result of reduced earnings from Alunorte in Brazil due to unrealized currency losses on US dollar loans, increased production costs and losses on operational hedge programs as a result of the increased aluminium market prices.

Net financial expense

Net financial expenses for 2005 amounted to NOK 1,890 million, including a net foreign currency loss of NOK 2,159 million. In 2005 the average USD rate was lower than in 2004 but ended the year substantially higher than the rate at the end of 2004 resulting in losses on Hydro's USD denominated debt. Interest expense amounted to NOK 1,745 million and NOK 2,077 million for 2005 and 2004 respectively. The decline in net interest expense for 2005 compared with 2004 resulted primarily from the repayment of debt.

Other income

Other income was NOK 990 million for the year, compared with NOK 169 million for 2004. In December 2005, Hydro sold its interest in Biomar Holding A/S recognizing a gain of NOK 693 million. In April 2005 Hydro sold its remaining interest in Pronova Biocare for NOK 275 million, recognizing a gain on the sale amounting to NOK 233 million.

Income tax expense

The provision for current and deferred taxes for 2005 amounted to NOK 30,317 million, approximately 66 percent of income from continuing operations before tax. All of the amount consisted of current taxes. The equivalent amount for 2004 was NOK 21,197 million, approximately 65 percent of income from continuing operations before tax. In 2004, Hydro reversed deferred tax liabilities of approximately NOK 900 million as a result of changes in Norwegian tax regulations. The high effective tax; rate results from oil and gas activities in Norway, which account for a relatively large part of earnings and are charged a marginal tax rate of 78 percent.

Discontinued operations

Income from discontinued operations was zero for 2005, compared with NOK 1,083 million for 2004. The amounts relate to activities transferred to Yara International ASA in the Agri demerger transaction completed 24 March 2004.

Return on average Capital Employed (RoaCE)

RoaCE was 16.8 percent for 2005 compared with 13.0 percent for 2004. Adjusted for the effects of certain events* RoaCE was 19.9 and 13.6 percent for 2005 and 2004, respectively. See also the discussion included in the section ''Use of non-GAAP financial measures'' in the supplement to this report.

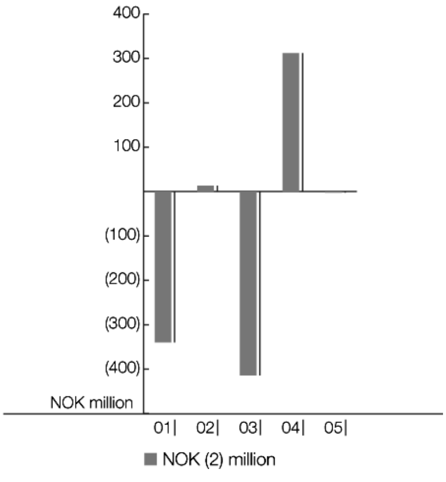
Normalized RoaCE for 2005 adjusted for the effects of certain events* was 9.2 percent, compared with 8.2 percent in 2004. In December 2004 Hydro announced a target for normalized RoaCE of 7.5-8.5 percent for 2006, which did not take into consideration any of the events described below. Hydro has reached its targeted level for both years 2004 and 2005.

Cash flow from operations and investments

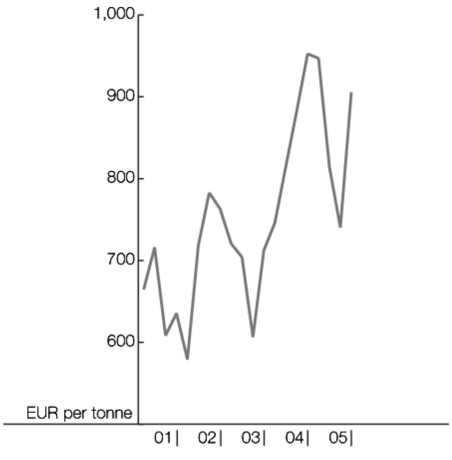
Cash flow from operations for 2005 amounted to NOK 27.4 billion, compared with NOK 27.7 billion in 2004. Positive effects of increased earnings were offset by increased working capital requirements and tax payments amounting to approximately NOK 2 billion.

Investments amounted to NOK 41.1 billion for 2005. Roughly 88 percent of the amount invested related to oil and gas operations including NOK 21.9 billion relating to the Spinnaker acquisition.

Operating income (loss) other businesses



S-PVC price



Financial risk

Hydro's operating results are primarily affected by price developments relating to its main products, oil and aluminium. They are also affected by fluctuations in the US dollar — in particular against the Norwegian krone — but also against other currencies, including the Euro.

---

* 2005: The acquisition of Spinnaker in December and the impairment loss within Hydro's aluminium business.

2004: Impairment losses within Hydro's aluminium business, together with the effect of a change in Norwegian tax legislation

Changes in competitive and market conditions may affect margin and volume development, while exploration results affect the development of petroleum reserves. Decisions taken by the authorities may in turn result in unforeseen taxes and duties, different operating conditions or obstruct foreign currency transfers. Hydro's expansion is expected to take place increasingly in areas that are politically unstable, heightening the risk related to unforeseen changes in the overall operating framework. In addition, there may be a greater risk of being affected by economic sanctions than was the case previously.

Overall and aggregated risk positions are assessed at all levels. These include risks related to business strategy and management, financial condition and development, as well as health, safety and environmental matters. The Board of Directors monitors overall developments in a systematic way, intervening in special cases when appropriate.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activity. The main responsibility for risk management is therefore placed with the business areas. Policies and procedures have been established to manage risk. Hydro's main risk management strategy for its upstream operations is to accept exposure to oil and aluminium price movements. Downstream and other margin-based operations are hedged to protect processing and manufacturing margins against raw material fluctuations. This is particularly the case for aluminium, but also applies to a certain extent to the Company's gas business. Upstream oil and aluminium prices may be hedged in special circumstances — as was the case when the Spinnaker Exploration Company in the US was acquired in 2005. The main strategy for mitigating risk, however, is to maintain a solid financial position and strong credit-worthiness, as expressed by the Company's adjusted net debt/equity target ratio of 0.5. Most of Hydro's operating revenues are denominated in, or heavily influenced by, the US dollar. In order to mitigate the Company's exposure to US dollar currency fluctuations, most of the Company's debt is also US dollar-denominated. Hydro maintains guidelines for liquidity reserves and its installment payment profile. The Company's financial position at the end of 2005 was well within the established guidelines.

See also note 24 in notes to the consolidated financial statements included in the supplement to this report for a detailed description of Hydro's commercial and financial risk exposures and hedging activities related to such exposures.

Research and development

Hydro spent about NOK 716 million on research and development in 2005, compared with NOK 760 million in 2004. Innovation is, however, more than pure research and development activities. In order to create more focus on innovation and stimulate increased efforts, the Company established an internal innovation award in 2005. Read more about research and innovation on page 48.

Research and development in Oil & Energy is organized in six main programs: exploration, increased recovery, development of small fields, new energy, the CO_2 chain, and health, safety and environment technology. It is important to secure the best possible utilization of all fields. NOK 226 million was spent on research and development in 2005. In Aluminium, continuous improvement is necessary to be a competitive producer and seller. We continually work to improve products and processes. Research and development is business-driven — new concepts in marketing, together with new knowledge and technology, are quickly put into operation in cooperation with our customers. NOK 456 million was spent on research and development in 2005.

Health, safety and environment

The long-lasting trend of improving safety results continued with a 10 percent decline in the total number of recordable injuries per million hours worked (TRI) in 2005. The Company did not, however, achieve the target of a 20 percent decline, Two persons lost their lives in accidents at work. The total number of lost-time injuries occurring at Hydro's contractors was 2.4 in 2005, and at the same level as in 2004 and 2003.

We maintained sound reporting practices relating to serious near-misses, further refining our reporting system in 2005. More incidents than previously are now categorized as serious. Hydro utilizes such systematic reporting as a vital element in its accident prevention work.

During 2005 routine emergency drills were carried out involving Hydro's corporate emergency team, the business areas and the business sectors. An extensive training program, initiated in 2004 to improve Hydro senior managers' knowledge and understanding of HSE work, was further implemented.

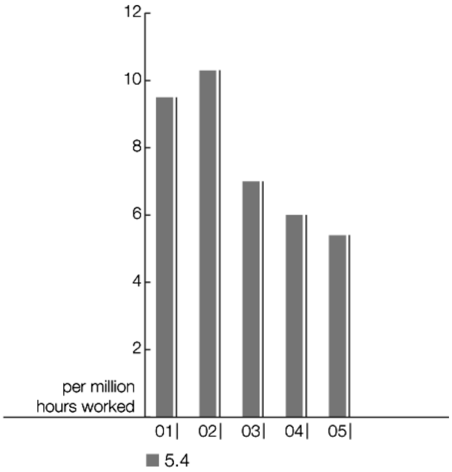
Sick leave was 3.2 percent in 2005, approximately at the same level as the last two years. Sick leave in Norway was 4.7 percent, an improvement from 5.0 percent in 2004. The entire change can be contributed to reduced sick leave for women, down from 6.6 percent in 2004 to 5.7 percent in 2005. Sick leave for men remained stable at 4.5 percent.

Hydro has established standards that describe activities and measures that are to be followed in order to handle chemicals safely in all parts of the value chain. An annual training program for employees has been launched in most of Hydro's operations to secure that employees deal with chemicals safely.

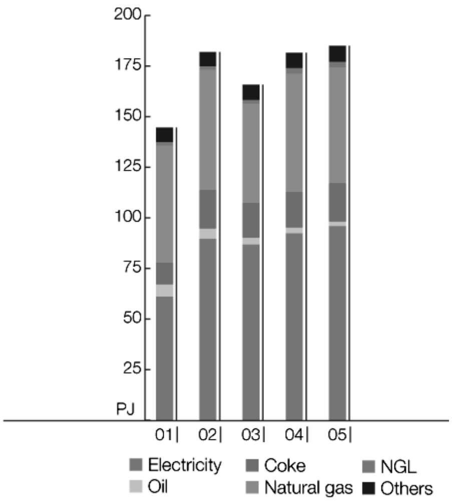
Efforts to reduce emissions have diminished the concentration of oil in produced water from the Norwegian continental shelf, and emissions of harmful chemicals have been significantly reduced. The risk of a negative environmental impact as a result of emissions to the sea has per March 2006 been reduced by about 80 percent compared with 2002. Hydro's greenhouse gas emissions during 2005, calculated based on ownership, was 8.17 million tonnes CO_2 equivalents (CO2e), Calculated based on ownership interest, the emissions were 9.29 million tonnes CO2e, a decline of 32 percent compared with 1990 assuming a constant ownership structure. The decline is a result of systematic improvements in operations and introduction of new technology.

In 2005 an environmental indicator was established in the Aluminium sectors, Primary Metal and Metal Products, to focus on resource utilization, waste and emissions, and will assist the organization in implementing efficient environmental measures. Efforts to optimize production have resulted in less use in relative terms of raw materials and energy, reduced emissions and less waste. Hydro works towards reducing waste from its own production and facilitates increased recovery and recycling of light metals. Read more about HSE on page 41.

Total recordable injuries



Total energy consumption



Integrity and transparency

Hydro's Integrity Program was launched in 2005 to reduce the risk of corruption and violations of human rights. A handbook containing guidelines for the organization was published and distributed. Implementation continues in 2006.

No occurrences of corruption or violations of human rights were discovered in 2005. For the first time Hydro, is reporting payments made to authorities in connection with exploration, development and extraction of oil, gas and bauxite, as well as production of alumina. This is in accordance with the Extractive Industries Transparency Initiative (EITI). See page 57.

Employees

Hydro had 32,765 employees at the end of 2005, down from 34,648 in 2004. The reduction was mainly due to the sale of Biomar and measures aimed at improving efficiency in Aluminium that will continue in 2006.

Our objective is for all employees to take part in performance and appraisal dialogues with their manager annually, and to participate in regular organizational assessments. The Board of Directors emphasizes the importance of cooperation in the organization, and that all employees should be met with respect, especially during restructuring. One of the means is planning and development of sound leadership to secure an efficient execution of the Company's strategic goals. The development of the Company's top 200 managers is a strategic corporate responsibility. Hydro also stipulates common minimum standards for working conditions in the company worldwide.

The Board of Directors takes part in an annual review of organization and leadership development initiatives. The internationalization of Hydro makes it important to promote leaders with a broad international background. In addition, it is important for us to utilize the best talent irrespective of gender. In 2005 the proportion of women among the top 200 managers increased from 19 to 23 percent, while the number of non-Norwegians in this group increased from 20 to 24 percent. On the other hand, the proportion of women among the Company's top 50 leaders decreased to 20 percent, from 25 percent in 2004. Non-Norwegian managers comprise 9 percent of this group, a decline from 14 percent in 2004. Hydro is concerned about equal opportunities at all levels of the organization. As a result, Hydro has investigated wage differentials between women and men in the Norwegian part of the organization. The investigation did not identify any significant gender-related differences.

Restructuring, workforce reductions, extensive projects and cost-saving drives made great demands on the employees in 2005 as well. The Board of Directors monitors how organizational and management issues are dealt with as a result of greater impact of internationalization, competency, diversity and dynamics, and extends its thanks to all employees who contribute to Hydro's progress with considerable efforts and cooperative spirit.

Diversity

Women leaders are well represented in staff functions in most parts of the organization. Metal Products, for example, has worked to increase the number of women in operational positions. To date, seven casthouse managers are women.

Rolled Products held a conference in 2005 in Cologne, Germany, where woman leaders could exchange experiences and propose new methods to create career opportunities for women. Hydro regards this conference as a pilot project for the rest of the Company.

In Norway, Hydro has participated in the Confederation of Norwegian Business and Industry's program Female Future, which aims to increase the proportion of women in management and board positions. In 2005, the Company also sponsored a follow-up project. Hydro is a member of the Centre for Corporate Diversity, which fosters understanding of the positive effects of diversity in management.

Women employees in Norway

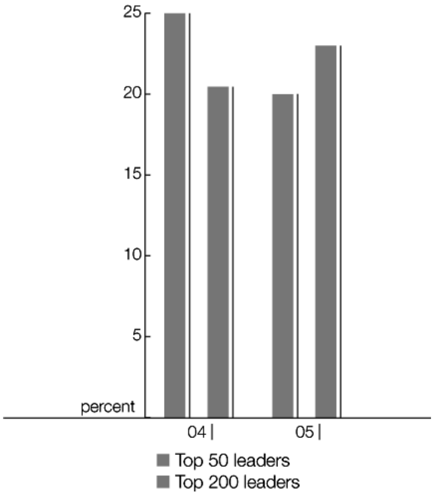
	2005	2004	2003
Managers		18%	17%
Salaried employees*		43%	43%
Hourly paid	14%	14%	16%
Total	22%	21%	22%

Women recruited in Norway

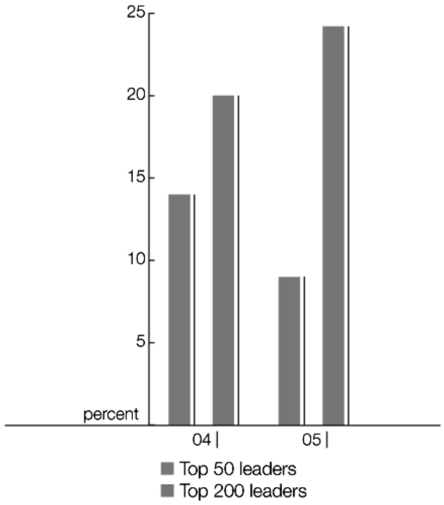
	2005	2004
Managers	32%	21%
Salaried employees*	35%	38%
Hourly paid	16%	13%
Total	27%	30%

* The group "Salaried employees" largely consists of younger persons with higher educational qualifications. They constitute an important group with respect to managerial recruitment.

Share of women leaders



Share of non-Norwegian leaders



Compensation

All employees should be secured a total salary that is fair, competitive and in accordance with good industry standards locally. Only relevant qualifications such as education, experience, results and other professional criteria are considered when evaluating employment, training, remuneration and promotion.

For employees covered by collective wage agreements, no significant gender-related differences have been identified. Hydro investigates annually wage differentials between employees in Norway holding a university degree. The review in 2005 did not reveal noticeable differentials between men's and women's salaries.

Career, personal development and a flexible workplace are all important components in our compensation system. In the Norwegian part of the Company we have a bonus system that covers most of the employees. In other countries the bonus system has been implemented at the management level, and in some places also at other levels in the organization. The bonus system is, among other things, tied to performance in relation to the business plan. Managers are also measured based on performance on health, safety and environment as well as organizational development. The goal is to promote a performance-oriented culture, improve results and reward good efforts.

Part-time employees

Employees in Hydro normally work full time. The possibility to work part time is considered a benefit, which it is possible to apply for. During 2005, 17 percent of the women employed in Norway worked part time, compared with 18 percent the year before, while 1.2 percent of the men worked part time, down from 1.3 percent in 2004.

Read more about Hydro's organization on page 40.

Board developments

Sten Roar Martinsen was elected to the Board of Directors in 2005 as an employee representative. He replaced Odd Semstrøm, who had been a board member since 1997. The Board expresses its gratitude to Semstrøm for his many years' service. In the course of the year the Board of Directors held 12 meetings, the Board's Compensation Committee three meetings, and its Audit Committee seven meetings. The Board has drawn up an annual plan for its work and in 2005 undertook a review of its way of working, competency, priorities, and of the cooperation between the Board and the Company's management. Measures designed to develop the corporate governance structure continued in 2005.

Net income and dividend — Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 16,041 million in 2005, compared with NOK 9,557 million in 2004. Net income was NOK 16,060 million, compared with NOK 10,285 million in 2004. The increase is mainly due to higher dividends from subsidiary companies. The Board proposes to the Annual General Meeting a dividend of NOK 22 per share for 2005, in total NOK 5,503 million. The balance, NOK 10,557 million, will be transferred to retained earnings.

According to Section 3-3 of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on the assumption of a going concern.

Oslo 7 March 2006

Jan Reinås Chair	Borger A. Lenth Deputy Chair	Terje Friestad Board member
Elisabeth Grieg Board member	Sten Roajfwlartinsen Board member	Håkan Mcjgren Board member
Ingvild Myhre Board member	Kurt Anker Nielsen Board member	Geir Nilsen Board member
	Eivind Reiten President and CEO	

Hydro's year of celebration

Hydro celebrated its 100th anniversary in 2005, The centennial celebrations, which included a number of events, left their mark in different ways throughout the year. Viability was the theme for the celebrations — in line with the Company's mission of creating a more viable society. One common feature was that Hydro's neighbors were invited to join the celebrations.

Several festivals were held. In Oslo, 120,000 people attended a free outdoor concert with the Norwegian pop group a-ha topping the bill.

The Company's official centennial history was published in three volumes. Research began in 1994, and the Company's archives were made available for historians from the University of Oslo and the Norwegian School of Management. During the 11-year period, a number of students submitted theses on Hydro. The historians had access to the Board of Directors, corporate management, employees and former employees. Aversion was published in English, Norwegian and German as a gift to employees.

Hydro contributed NOK 100 million toward established a national scientific center in Bergen, Norway, and NOK 30 million to the charities Norwegian People's Aid, Save the Children and the Red Cross.

Consolidated income statements US GAAP

Consolidated statements of comprehensive income

Year ended 31 December Amounts in million (except per share amounts)	Notes	2005 NOK	2005 EUR[1]	2004 NOK	2003 NOK
Operating revenues	5	174,201	21,795	153,891	131,778
Raw materials and energy costs		88,665	11,093	81,477	72,459
Payroll and related costs	7, 20	18,366	2,298	18,830	18,569
Depreciation, depletion and amortization	5, 15, 16	16,086	2,013	16,898	13,947
Other	7, 25	4,652	582	4,861	5,177
Restructuring costs (income)	6	—	—	(22)	—
Operating costs and expenses		127,768	15,986	122,044	110,153
Operating income	5	46,432	5,809	31,847	21,625
Equity in net income of non-consolidated investees	5, 13	619	78	629	620
Financial income (expense), net	8, 11, 24	(1,890)	(236)	137	155
Other income (expense), net	5, 9	990	124	169	(1,253)
Income from continuing operations before taxes and minority interest		46,152	5,774	32,781	21,146
Income tax expense	10	(30,317)	(3,793)	(21,197)	(12,923)
Minority interest		(118)	(15)	(106)	151
Income from continuing operations before cumulative effects of changes in accounting principles		15,716	1,966	11,477	8,375
Income from discontinued operations	2	—	—	1,083	2,312
Income before cumulative effects of changes in accounting principles		15,716	1,966	12,560	10,687
Cumulative effects of changes in accounting principles	1, 21	(78)	(10)	—	281
Net income	28	15,638	1,957	12,560	10,968
Basic and diluted earnings per share from continuing operations before cumulative effect of changes in accounting principles	3	62.70	7.84	45.10	32.50
Basic and diluted earnings per share from discontinued operations	3	—	—	4.20	9.00
Basic and diluted earnings per share before cumulative effects of changes in accounting principles	3	62.70	7.84	49.40	41.50
Basic and diluted earnings per share	3	62.40	7.80	49.40	42.60
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME[2]					
Net income		15,638	1,957	12,560	10,968
Net unrealized loss on securities available-for-sale	3	(9)	(1)	(2)	—
Minimum pension liability adjustment	3	(510)	(64)	(132)	(113)
Net investment hegde	3	33	4	320	(333)
Cash flow hedges	3	(751)	(94)	(339)	35
Net foreign currency translation adjustments	3	711	89	(1,628)	4,856
Total other comprehensive income (loss), net of tax	3	(526)	(66)	(1,781)	4,445
Comprehensive income, net of tax		15,112	1,891	10,779	15,413

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2005, which was 7.9927 (unaudited).

2) Changes in shareholders' equity include net income together with other changes not related to investments by and distribution to shareholders (see Note 3).

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets US GAAP

31 December Amounts in million	Notes	2005 NOK	2005 EUR[1]	2004 NOK
ASSETS				
Cash and cash equivalents		10,463	1,309	14,366
Short-term investments	11	3,865	484	10,970
Accounts receivable, less allowances of NOK 784 and NOK 891		23,333	2,919	20,671
Inventories	12	14,553	1,821	12,851
Prepaid expenses and other current assets	12	15,912	1,991	10,478
Current deferred tax assets	10	2,166	271	1,070
Total current assets	5	70,293	8,795	70,406
Non-consolidated investees	13	10,814	1,353	10,017
Property, plant and equipment, less accumulated depreciation, depletion and amortization	15	128,191	16,038	106,117
Intangible assets	14, 16	5,153	645	2,325
Prepaid pension, investments and other non-current assets	14, 20	11,910	1,490	10,713
Deferred tax assets	10	833	104	664
Total non-current assets	5	156,902	19,631	129,836
Total assets	5	227,195	28,425	200,243
LIABILITIES AND SHAREHOLDERS' EQUITY				
Bank loans and other interest-bearing short-term debt	17	4,658	583	3,785
Current portion of long-term debt	19	379	47	568
Other current liabilities	18	47,239	5,910	41,340
Current deferred tax liabilities	10	980	123	384
Total current liabilities		53,256	6,663	46,077
Long-term debt	19	21,387	2,676	19,487
Accrued pension liabilities	20	9,939	1,244	8,569
Other long-term liabilities	21	12,424	1,554	9,134
Deferred tax liabilities	10	33,713	4,218	29,515
Total long-term liabilities		77,462	9,692	66,705
Minority shareholders' interest in consolidated subsidiaries		981	123	1,571
Share capital	3	4,739	593	4,739
Additional paid-in capital	3	10,501	1,314	10,468
Retained earnings	3	85,927	10,751	75,310
— Treasury shares at cost	3	(3,589)	(449)	(3,069)
Accumulated other comprehensive income (loss)	3	(2,083)	(261)	(1,557)
Shareholders' equity	3, 28	95,495	11,948	85,890
Total liabilities and shareholders' equity		227,195	28,425	200,243
Total number of outstanding shares		250,138,464	250,138,464	250,839,230
Nominal value per share		18.30	2.29	18.30

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2005, which was 7.9927 (unaudited).

The accompanying notes are an integral part of the consolidated financial statements.

US GAAP and N GAAP[1)]

Consolidated statements of cash flows

Year ended 31 December Amounts in million	Notes	2005 NOK	2005 EUR*)	2004 NOK	2003 NOK
Operating activities:					
Net income		15,638	1,957	12,560	10,968
Adjustments to reconcile net income to net cash provided by operating activities:					
Income from discontinued operations	2	—	—	(1,083)	(2,312)
Depreciation, depletion and amortization	5	16,086	2,013	16,898	13,947
Restructuring income	6	—	—	(22)	—
Equity in net income of non-consolidated investees	5, 13	(619)	(77)	(628)	(620)
Dividends received from non-consolidated investees		323	40	326	258
Deferred taxes	10	(519)	(65)	(2,945)	(1,585)
Loss (gain) on sale of non-current assets		(937)	017)	39	(726)
Loss (gain) on foreign currency transactions	8	2,159	270	(1,350)	(1,035)
Net sales (purchases) of trading securities		(49)	(6)	(177)	245
Other		782	98	779	2,150[4)]
Working capital changes that provided (used) cash:					
Receivables		(2,156)	(270)	(1,117)	(576)
Inventories		(1,940)	(243)	(1,040)	453
Prepaid expenses and other current assets		(7,951)	(995)	1,798	2,251
Other current liabilities		6,568	822	3,686	(645)
Net cash provided by continuing operating activities		27,385	3,426	27,724	22,773
Investing activities:					
Purchases of property, plant and equipment		(17,562)	(2,197)	(16,187)	(14,537)
Purchases of other long-term investments		(17,263)	(2,160)	(858)	(684)
Purchases of short-term investments		(15,162)	(1,897)	(9,166)	(702)
Proceeds from sales of property, plant and equipment		1,362[2)]	170	837	647
Proceeds from sales of other long-term investments		1,862	233	1,400	6,384
Proceeds from sales of short-term investments		22,445	2,808	12	1,838
Net cash used in continuing investing activities		(24,318)	(3,043)	(23,962)	(7,054)
Financing activities:					
Loan proceeds		1,844	231	143	264
Principal repayments		(2,102)	(263)	(9,271)	(5,167)
Ordinary shares purchased	3	(1,589)	(199)	(1,684)	(555)
Ordinary shares issued		71	9	44	77
Dividends paid	3	(5,021)	(628)	(2,811)	(2,711)
Net cash used in continuing financing activities		(6,797)	(850)	(13,579)	(8,092)
Foreign currency effects on cash		(173)	(22)	(264)	702
Discontinued operations:					
Net cash provided by operating activities	2	—	—	838	1,805
Net cash provided by (used in) investing activities	2	—	—	8,840	(744)
Net cash used in financing activities	2	—	—	(109)	(141)
Foreign currency effects on cash	2	—	—	5	77
Net cash provided by discontinued operations		—	—	9,574	997
Net increase (decrease) in cash and cash equivalents		(3,903)	(488)	(507)	9,326
Cash and cash equivalents at beginning of year		14,366	1,797	14,873	5,547
Cash and cash equivalents at end of year		10,463	1,309	14,366	14,873
Cash disbursements (receipts) regarding:					
Interest (net of amount capitalized)[3)]		(48)	(6)	1,701	1,190
Income taxes		29,612	3,705	19,758	16,011

*) Presentation in euro is a convenience translation based on the exchange rate at 31 December, 2005, which was 7.9927 (unaudited).

1) There are no material differences between consolidated statements of cash flows according to US GAAP and Norwegian accounting principles (N GAAP).

2) In January 2005, Hydro received approximately NOK 1.1 billion relating to the sale of its 10% ownership interest in Snøhvit in 2004, and that was reported as a short term receivable within Other current assets as of 31 December, 2004.

3) Includes cash disbursements relating to early repayment of long term debt (''breaking costs'') of NOK 6 million in 2005 and NOK 938 million in 2004 (Note 8).

4) Includes non-cash charge relating to an expected state grant pertaining to an asset retirement obligation of NOK 2,207 million.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statement N GAAP

Year ended 31 December Amounts in NOK million	Notes	2005	2004	2003
Operating revenues	5	174,001	153,112	131,778
Raw materials and energy costs		89,183	81,535	72,394
Change in inventories of own production		(482)	(200)	251
Payroll and related costs	7, 20	18,366	18,830	18,569
Depreciation, depletion and amortization	5, 15, 16	16,352	17,080	14,117
Other		4,603	4,819	5,136
Restructuring costs (income)	6	—	(22)	—
Operating costs and expenses	7	128,022	122,043	110,467
Operating income	5	45,979	31,069	21,311
Equity in net income of non-consolidated investees	5, 13	578	589	581
Financial income (expense), net	8, 11, 24	(1,890)	137	155
Other income, net	5,9	988	169	(1,253)
Income from continuing operations before taxes and minority interest		45,656	31,963	20,793
Income tax expense	10	(30,364)	(20,995)	(12,863)
Net income continuing operations		15,292	10,968	7,931
Net income discontinued operations	2		1,057	2,314
Net income		15,292	12,025	10,245
Minority interest		(118)	(80)	148
Net income after minority interest	28	15,174	11,944	10,394

Oslo 7 March, 2006

Jan Reinås
Chair

Borger A. Lenth
Deputy Chair

Terje Friestad
Board member

Elisabeth Grieg
Board member

Sten Roajfwlartinsen
Board member

Håkan Mcjgren
Board member

Ingvild Myhre
Board member

Kurt Anker Nielsen
Board member

Geir Nilsen
Board member

Eivind Reiten
President and CEO

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Consolidated balance sheets N GAAP

31 December Amounts in NOK million	Notes	2005	2004
ASSETS			
Deferred tax assets	10	975	662
Other intangible assets	14, 16	4,596	1,944
Intangible assets		5,572	2,607
Property, plant and equipment	15	128,113	106,227
Non-consolidated investees	13	10,669	9,930
Prepaid pension, investments and other non-current assets	14, 20	8,943	8,528
Financial non-current assets		19,612	18,458
Inventories	12	14,553	12,851
Accounts receivable, less allowances of 784 and 891		23,333	20,671
Prepaid expenses and other current assets		12,186	9,141
Short-term investments	11	3,865	10,970
Cash and cash equivalents		10,463	14,366
Current assets		64,401	67,999
Total assets	5	217,697	195,290
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital	3	4,739	4,739
— Treasury shares (nominal value)		(161)	(149)
Premium paid-in capital		10,432	10,432
Other paid-in capital		69	36
Total paid-in capita		15,078	15,058
Retained earnings incl. treasury stock	3	76,685	66,835
— Treasury shares		(3,428)	(2,921)
Total retained earnings		73,258	63,915
Minority shareholders' interest in consolidated subsidiaries		981	1,571
Shareholders' equity	3, 28	89,317	80,544
Accrued pension liabilities	20	9,939	8,569
Deferred tax liabilities	10	32,459	28,238
Other long-term liabilities	21	10,269	8,702
Long-term liabilities		52,667	45,510
Long-term debt	19	21,387	19,487
Bank loans and other interest-bearing short-term debt	17	4,658	3,785
Current portion of long-term debt	19	379	568
Dividends payable		5,503	5,017
Other current liabilities	18	43,786	40,380
Current liabilities		54,326	49,750
Total liabilities and shareholders' equity		217,697	195,290

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Notes to the consolidated financial statements

Note 1

Summary of Significant Accounting Policies

Norsk Hydro ASA is an offshore producer of oil and gas and an integrated aluminium supplier with operations in nearly 40 countries. The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages F3 to F5. The consolidated financial statements prepared in accordance with accounting principles generally accepted in Norway (N GAAP) are located on pages F5 to F7. Financial statement preparation requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

The accompanying notes include disclosures required by US GAAP as well as disclosures in accordance with N GAAP and are an integral part of both sets of financial statements. The following description of accounting principles applies to both US GAAP and N GAAP unless otherwise specified.

Note 28 provides a reconciliation and explanation of the differences between net income and shareholders' equity for US GAAP and N GAAP.

Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies. The majority of Hydro's consolidated subsidiaries are companies where Hydro controls directly or indirectly more than 50 percent of the voting interests. In certain circumstances, Hydro may control an entity through contractual arrangements or other means. Variable Interest Entities (VIEs) are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Entities for which Hydro is determined to be the primary beneficiary, are consolidated. Hydro currently consolidates one company based on the Variable Interest Model. All significant intercompany transactions and balances have been eliminated.

Investments in companies (non-consolidated investees) in which Hydro exercises significant influence are accounted for using the equity method. The equity method involves showing the investment at Hydro's share of the equity in the investee, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Equity in net income from non-consolidated investees. Material unrealized profits resulting from transactions with an investee are eliminated.

Significant influence normally exists when Hydro has a substantial ownership interest of 20 to 50 percent of the voting shares. Hydro uses the equity method for a limited number of investees where Hydro owns less than 20 percent of the voting rights, based on an evaluation of the governance structure in each investee. In corporate joint ventures, special voting rights in some companies give each of the partners decision rights that exceed what normally would follow from the ownership share. This may be in the form of a specified number of board representatives, in the form of a right of refusal on important decisions, or by requiring a qualified majority for all or most of the important decisions. Participation in joint ventures is accounted for using the equity method, except for jointly controlled assets where the partners have an undivided interest. These and other participations in joint ventures in the upstream oil and gas business are accounted for using the pro-rata method.

Hydro reviews non-consolidated investees for impairment when indicators of a possible loss in value are identified. As Hydro's non-consolidated investees generally are not listed on a stock exchange or regularly traded, our impairment review for such investees can only in rare cases be based on market prices. Impairment indicators include such items as operating losses or adverse market conditions. The fair value of the investment is estimated based on valuation model techniques. If the estimated fair value of the investee is below Hydro's carrying value and the impairment is considered to be other than temporary, the investment is written down as impaired.

Business Combinations

All business combinations are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value as of the time of the acquisition. Any excess of the purchase price over the fair value is recorded as goodwill. When the ownership interest in a subsidiary is less than 100 percent, the recorded amount of assets and liabilities acquired reflect only Hydro's relative share of excess values. However, for VIEs, the total fair value of assets and liabilities are recognized and any excess value attributable to non-controlling interests affects minority interests. See note 2 for a description of significant acquisitions and disposals during the past three years.

For N GAAP, consolidated assets and liabilities reflect 100 percent of the fair market value at the purchase date, except for goodwill (There are currently no acquisitions giving rise to such differences). The relative portion of any excess value recorded relating to minority shareholders is reflected in the total Minority shareholders interest and is a component of Group equity.

Foreign Currency Translation

The financial statements, including any excess values, of foreign operations are translated using the exchange rate at year-end for the balance sheet, and average exchange rates for the income statement. Translation gains and losses, including the effects of exchange rate changes on transactions designate as hedges of net foreign investments, are included in other comprehensive income.

Foreign Currency Transactions

Realized and unrealized currency gains or losses on transactions are included in net income. Similarly, unrealized currency gains or losses on assets and liabilities denominated in a currency other than the functional currency not qualifying for hedge accounting treatment are also included in net income.

Revenue Recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered. Certain contracts specify price determination in a later period. In these cases, the revenue is recognized in the period prices are determinable. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, only the net commission fee is recognized as revenue.

Revenues from the production of oil and gas are recognized on the basis of the Company's net working interest, regardless of whether the production is sold (entitlement method). The difference between Hydro's share of produced volumes and sold volumes is not material.

Activities related to the trading of derivative commodity instruments, or related to the purchase or delivery of physical commodities on a widely recognized commodity exchange or delivery hub, as well as physical commodity swaps with a single counterparty, are presented on a net basis in the income statement, with the margin from trading recognized in operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents includes cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Short-term Investments

Short-term investments include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recognized when earned.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Cost includes direct materials, direct labor and the appropriate portion of production overhead or the purchase price of the inventory. Abnormal amounts of idle facility expense, freight, handling costs, and wasted materials are recognized as expense in the current period.

Investments

Investments include Hydro's portfolio of long-term marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is considered available-for-sale securities and is measured at fair value. The resulting unrealized holding gains and losses, net of applicable taxes, are credited or charged to Other Comprehensive Income. Other investment income is recognized when earned.

Investments where a market value is not readily observable are recognized at cost. Investments are reviewed for impairment if indications of a loss in value are identified. Fair value of the investment is estimated based on valuation model techniques for non-marketable securities. When the estimated fair value of the investee is below Hydro's carrying value and the impairment is considered to be other than temporary, the investment is written down as impaired.

For N GAAP, investments are valued at the lower of historical cost or market value. See note 28 for further information.

Exchanges of Nonmonetary Assets

As of 1 January 2005 Hydro adopted SFAS No. 153 ''Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29''. Nonmonetary transactions that have commercial substance are accounted for at fair value and any resulting gain or loss on the exchange is recognized in the income statement. A nonmonetary exchange has commercial substance if Hydro's future cash flows are expected to change significantly as a result of the exchange. Hydro accounts for certain non-monetary exchanges of assets at fair value and accounts for certain other nonmonetary exchanges of assets where Hydro has substantial continuing involvement without recognizing a gain or loss on the exchange.

Property, Plant and Equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as described in FASB Statement of Financial Accounting Standards No. 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets''. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and disposition of the asset or group of assets working together to create identifiable, relatively independent cash flows. If the carrying amount is not recoverable, a write-down (impairment) to fair value is recorded.

For N GAAP the impairment of long-lived assets is the difference between the carrying value and the higher of an asset's value in use and its net selling price.

Periodic maintenance and repairs applicable to production facilities are accounted for on an accrual basis. Normal maintenance and repairs for all other properties are expensed as incurred. Major replacements and renewals that materially extend the life of properties are capitalized and any assets replaced are retired.

Capitalized Interest Interest is capitalized as part of the historical cost of qualifying assets, which is amortized over the estimated useful life of the asset.

Leased Assets Leases which provide Hydro with substantially all the rights and obligations of ownership are accounted for as capital leases. Such leases are valued at the present value of the minimum lease payments or the fair value, if lower, and recorded as assets under Property, plant and equipment. The liability is included in Long-term debt. The capital leases are depreciated and the related liability reduced by the amount of the lease payment less the effective interest expense. All other leases are classified as operating leases and the lease payments are recognized as an expense over the term of the lease.

Exploration and Development Costs of Oil and Gas Reserves Hydro uses the successful efforts method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the cost of exploratory wells and acquired explication rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Cost relating to acquired exploration rights are allocated to the relevant areas and capitalized, pending the determination of the existence of proved reserves. The acquired exploration rights are charged to operating expense when a determination is made that proved reserves will not be found in the area. Each block or area is assessed separately. All development costs for wells, platforms, equipment and related interest are capitalized. Capitalized exploration and development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that Hydro uses future net cash flows to evaluate unproved properties for impairment, the improved reserves are risk adjusted before estimating future cash flows associated with those resources. Preproduction costs are expensed as incurred. For further information see note 27.

Depreciation, Depletion and Amortization Depreciation is determined using the straight-line method with the following rates:

Machinery and equipment	5-25 percent
Buildings	2-5 percent
Other	10-20 percent

Oil and gas producing properties are depreciated individually using the unit-of-production method as proved developed reserves are produced. Unit-of-production depreciation rates are reviewed and revised whenever there is an indication of the need for a change in the rates and at a minimum all producing fields are reviewed at least once a year. Any revisions in the rates are accounted for prospectively.

Depreciation and depletion expense includes the accretion of discounted asset retirement obligations.

Asset Retirement Obligations

Hydro recognizes the estimated fair value of asset retirement obligations in the period in which it is incurred. Obligations for oil and gas installations are recognized when the assets are constructed and ready for production. Related asset retirement costs are capitalized as part of the carrying value of the long-lived asset and the liability is accreted for the change in its present value each reporting period. Liabilities that are conditional on a future event (e.g. the timing or method of settlement), whether under the control of Hydro or not, are recognized if the fair value of the liability can be reasonably estimated. Asset retirement costs are depreciated over the useful life of the related long-lived asset.

Intangible Assets

Intangible assets acquired individually or as a group are recorded at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Intangible assets with finite useful lives are amortized on a straight-line basis over their benefit period. Intangible assets determined to have an indefinite useful life are not amortized but are subject to impairment testing on an annual basis.

Goodwill

When a business is acquired, the purchase price in excess of the identified fair value of assets and liabilities is accounted for as goodwill. Goodwill is not amortized, but is reviewed for impairment at a minimum on an annual basis and whenever indicators of possible impairment are observed. Goodwill is recorded at the reporting unit level, which is one level below the operating segments. For Hydro this is the sector level in Aluminium, and the Exploration & Production sub-segment level in Oil & Energy; see note 5 for a description of segments. The impairment test requires that the fair value of the reporting unit be compared to the carrying value of the reporting unit. For this purpose, the fair value of the reporting unit is estimated by management using valuation techniques.

For N GAAP, goodwill is amortized over a period not exceeding 10 years. See note 28 for further information.

Contingencies and Guarantees

Hydro recognizes a liability for the the fair value of obligations it has undertaken in issuing guarantees, including Hydro's ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. Contingencies are recognized in the financial statements when probable of occurrence and can be estimated reliably.

Oil and Gas Royalty

Oil and gas revenue is recorded net of royalties payable in kind.

Shipping costs

Shipping and handling costs are included in Other operating expenses.

Shipping and handling costs invoiced to customers are included in Operating revenues.

Research and Development

Research and development costs are expensed as incurred.

For N GAAP development costs are capitalized as an intangible asset at cost if, and only if, (a) it is probable that the future economic benefit that is attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. All expenditures on research are expensed as incurred. See note 28 for further information.

Emission Rights

Hydro accounts for government granted and purchased CO_2 emission allowances at nominal value (cost) as an intangible asset. The emission rights are not amortized as they are either settled on an annual basis before year-end (matched specifically against actual CO_2 emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO_2 emissions over the 95 percent level granted by the government are recognized as a liability at the point in time when emissions exceed the 95 percent level. Any sale of government granted CO_2 emission rights is recognized at the time of sale at the transaction price. See note 16 for additional information.

Other Income (Expense), net

Transactions resulting in income or expense which are material in nature and from sources other than normal production and sales operations are classified as Other income and expense.

Income Taxes

Deferred income tax expense is calculated using the liability method in accordance with SFAS 109. Under this method, deferred tax assets and liabilities are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Deferred tax assets are reviewed for recoverability, and a valuation allowance is recorded against deferred tax assets to the extent that it is more likely than not that the deferred tax asset will not be realized. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for the deferred tax related to items charged directly to equity. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date. Deferred taxes are not provided on undistributed earnings of most subsidiaries, as such earnings are deemed to be indefinitely reinvested.

For N GAAP, Hydro follows the Norwegian Accounting Standards Board standard which, like SFAS 109, is based on the liability method. See note 28 for additional information.

Derivative Instruments

Hydro applies FASB Statement of Financial Accounting Standards No. 133 ''Accounting for Derivative Instruments and Hedging Activities, as amended'', when accounting for derivatives, as well as when determining whether contracts are derivatives. Derivative financial instruments are marked-to-market with the resulting gain or loss reflected in net financial expense, except when the instruments meet the criteria for hedge accounting. Derivatives are classified as short-term if their final maturity date is within 12 months of the balance sheet date. If Hydro has master netting agreements, or the intention and ability to settle two or more derivatives net, they are presented net on the face of the balance sheet. Otherwise derivative contracts are presented gross at their fair value.

Forward currency contracts and currency options are recognized in the financial statements and measured at fair value at each balance sheet date with the resulting unrealized gain or loss recorded in interest expense and foreign exchange gain (loss).

Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial income (expense), net. Swaption contracts are marked to their market value at each balance sheet date with the resulting unrealized gain or loss reflected in Financial income (expense), net.

Derivative commodity instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenue and/or operating cost, unless the instrument is designated as a hedge instrument and qualifies for hedge accounting.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of the qualifying hedging instruments are offset in part or in whole by the corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other Comprehensive Income (OCI) until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is not probable to occur, all the corresponding gains and losses deferred in OCI are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in current period's earnings. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of the hedged item are recognized currently in earnings.

Energy contracts are accounted for according to EITF 02-3 "Issues involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities", and are recorded in the balance sheet at fair value unless those contracts qualify for the normal purchase or normal sale exemption. Energy contracts that do not meet the criteria of EFTF 02-3 are treated as executory contracts with no gain or loss recognized prior to realization.

For N GAAP, commodity derivative instruments that are traded in a regulated, liquid market are marked-to-market with their fair market value recorded in the balance sheet as either assets or liabilities. Unrealized gains and losses for commodity derivative instruments that are not traded in a regulated, liquid market are netted and net unrealized gains are not recognized. The traded and not traded commodity contracts can be evaluated as one portfolio (if applicable) and recognized at a zero market value or at a loss. Cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement under N GAAP, until the underlying hedged transactions actually occur. See note 28 for further information.

Share-Based Compensation

Hydro accounts for share-based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28, and provides disclosures as required under the FASB Statement of Financial Accounting Standards No. 123 "Share-Based Payments". For variable stock option awards and awards settled in cash, compensation cost is measured at the end of each period using the intrinsic method. For variable and cash settled awards where vesting depends on achieving a specified target share price increase, compensation cost is recognized when it is probable the performance criteria will be met. Compensation is charged to expense pro-rata over the vesting period.

Hydro offers treasury shares to employees at discounted prices to encourage share ownership. Issuance of treasury shares at a discount to employees results in a charge to compensation expense based on the difference between the market value of the share at the date of issuance and the price paid by employees. For further information see note 4.

For N GAAP in 2005 the Norwegian accounting standard is adopted requiring expense recognition of all share-based compensation at fair value. The difference in expense recognition between the intrinsic method used in 2005 for US GAAP and N GAAP is not material.

Pro Forma Information

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS 123 to share appreciation rights.

In NOK millions, except for earnings per share	2005	2004	2003
Net income, as reported	15,638	12,560	10,968
Add: share-based employee compensation expense included in reported net income, net of tax	48	8	—
Less: Total share-based compensation expense determined under the fair value method, net of tax	29	11	3
Pro-forma net income	15,657	12,557	10,965
Earnings per share:			
Basic and diluted as reported	62.40	49.40	42.60
Basic and diluted, pro-forma	62.50	49.40	42.60

Employee Retirement Plans

Pension costs are calculated in accordance with FASB Statement of Accounting Standards No. 87 ''Employers' Accounting for Pensions'' and FASB Statement of Accounting Standards No. 88 ''Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits''. Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

For N GAAP, the same principles have been applied, in accordance with the NRS 6 Pension Cost.

Discontinued operations

When an asset or a group of assets are decided to be sold, they are reported as Assets held for sale in accordance with FASB Statement of Accounting Standards No. 144 ''Accounting for the Impairment or Disposal of Long-Lived Assets'', provided that certain criteria are met, including that it is probable that the sale will be completed within one year. When a component of the entity is sold or decided to be sold, it is reported as a Discontinued operation, provided that certain criteria are met. A component of the entity can be a reportable segment or a smaller unit which can be clearly distinguished, and for which separate financial information is available. Assets, liabilities, cash flows, results of operations and any gain or loss from disposal are excluded from Continuing operations and reported separately. Components to be disposed of other than by sale are reclassified to Discontinued operations as of the date of disposal. Prior period's assets, liabilities, cash flows and results of operations are reclassified to be comparable. Immaterial disposal groups are not classified as discontinued operations.

As a result of rounding adjustments, the figures in columns included in the financial statements may not add up to the total for that column.

Changes in Accounting Principles

Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation (FIN) No. 47 ''Accounting for Conditional Asset Retirement Obligations''. This Interpretation is a clarification of the term ''Conditional Asset Retirement Obligation'' as used in Statement of Financial Accounting Standards No. 143 ''Accounting for Asset Retirement Obligations'' and requires an entity to recognize a liability for a legal obligation to perform asset retirement activities even though the retirement of the asset is conditional on a future event. Hydro has adopted FIN 47 as of 31 December 2005. The cumulative effect of the change in accounting principle related to FIN 47 is an after-tax decrease in net income of NOK 78 million.

Effective 1 January 2003, Hydro adopted FASB Statement of Accounting Standards No. 143 ''Accounting for Asset Retirement Obligations''. As a result of the new accounting standard, a positive after-tax effect of NOK 310 million was recorded as the cumulative effect of change in accounting principle in the Company's 2003 results of 2003. For further information see note 21.

For N GAAP, the changes in accounting principle were implemented on a retrospective basis, with the effect recorded to equity. Comparable figures are restated for N GAAP purposes.

Inventory Cost

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 "Inventory Cost, an amendment of ARB 43, Chapter 4". The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be recognized as current period charges rather than as a portion of the inventory cost. Hydro adopted the standard effective as of 1 July 2005. The impact of adopting SFAS 151 on Hydro's financial statements has not been material.

For N GAAP the adoption of SFAS No. 151 does not represent any difference in the measurement of inventory.

Exchanges of Nonmonetary Assets

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29". The statement amends APB 29 "Accounting for Nonmonetary Transactions", FASB Statement of Financial Accounting Standards No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" and certain other standards. Hydro has implemented the provisions of SFAS 153 for nonmonetary exchange transactions as of 1 January 2005 with no material effect.

For N GAAP the adoption of SFAS 153 has not represented differences in the measurement of nonmonetary exchange transactions.

Suspended well cost

Effective for reporting periods beginning after the issuance date of 4 April 2005, the FASB Staff Position No. FAS 19-1 "Accounting for Suspended Well Costs" provides guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Financial Accounting Standards Statement No. 19 "Financial Accounting and Reporting by Oil and Gas Producing Companies" (SFAS 19) requires the cost of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. FSP FAS 19-1 amended SFAS 19 to allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met and additional disclosures provided. Hydro has not recognized any changes to the amounts previously capitalized. For further information see note 27.

Share-Based Compensation

For N GAAP, Hydro adopted NRS 15A Share-Based Payment effective for 2005. The Norwegian standard is the same as International Financial Reporting Standards 2 Share-based Payment (IFRS 2). The standard requires all share-based payment plans to be recognized in the financial statements at fair value. All stock options granted by Hydro are cash settled; the fair value of the liability is measured using the Black-Scholes option-pricing model. Prior to adopting NRS 15A Hydro used the intrinsic method to measure the stock option liability. The measurement difference between the intrinsic method and the Black-Scholes method for stock options granted as of 31 December 2005 is not material.

Consolidation of Variable Interest Entities

Effective 1 January 2004, Hydro adopted FASB Interpretation 46 (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46R), which is an interpretation of Accounting Research Bulletin No. 51 "Consolidated Financial Statements", relating to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. These entities are referred to as variable interest entities or VIEs. FIN 46R provides guidance for determining which party retains the controlling financial interest in VIEs when such interest is achieved through arrangements other than voting rights. Implementation of the new requirements depended on when a company became involved with such entities. Because Hydro did not become involved with any new VIEs during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004. See note 26 for additional information.

This Interpretation may result in differences between US GAAP and N GAAP, depending on the relevant facts and circumstances for units required to be consolidated, or not to be consolidated, under FIN 46R. As of 31 December 2005 there are no differences between US GAAP and N GAAP related to Hydro's consolidation of VIEs under FIN 46R.

Contractual Mineral Rights

The FASB issued FSP FAS 142-2 "Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities" on 2 September 2004. This FSP is effective for the first reporting period beginning after the issuance date and clarifies that the costs for acquiring contractual mineral rights in oil and gas properties would continue to be recorded as those for tangible assets. It also addresses whether the scope exception within SFAS 142 for the accounting as prescribed in SFAS 19 extends to the balance sheet classification and disclosures for drilling and mineral rights of oil- and gas-producing entities. The FSP concluded that the scope exception in SFAS 142 extends to the balance sheet classification and disclosure provisions for such assets. The FSP confirms Hydro's current practice.

Intangible assets

Effective from 1 January 2004, NRS (F) Intangible assets was revised to require that intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. The standard requires all expenditure on research to be recognized as an expense when incurred. This does not represent a difference between US GAAP and N GAAP at transition, however, for future periods the standard may represent differences for development activities compared to US GAAP.

Energy contracts

Effective 1 January 2003, Hydro adopted EITF 02-3 "Issues involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities". This standard requires only energy contracts that meet the definition of a derivative according to FASB Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" and are held for trading, be recorded in the balance sheet at fair value. Other energy contracts are recorded at the lower of historical cost and fair market value. This change applies to contracts entered into before 25 October 2002. For contracts entered after 25 October 2002, the regulation applied from initial recognition. As a result of the new regulation, a negative after-tax effect of NOK 29 million was recorded as a cumulative effect of a change in accounting principle in the Company's 2003 result.

Implementation of EITF 02-3 did not result in a change in accounting principle for N GAAP.

Exit costs

Effective 1 January 2003 Hydro adopted FASB Financial Accounting Standards No. 146 "Accounting for Costs Associated with Exit or Disposal Activities". The standard supersedes EITF Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and changed accounting for costs related to closing and restructuring an activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed as of the date of employee notification.

For N GAAP, costs related to restructuring or exit activities are required to be recognized upon formal commitment to an exit plan, and may therefore be recognized in an earlier period than for US GAAP.

Impairment of assets

For N GAAP, Hydro adopted the revised NRS (F) Impairment of Assets, effective 1 January 2003. Impairment tests for property, plant and equipment, goodwill and intangible assets are required to measure impairment as the difference between carrying value and recoverable amount of the asset, either as net selling price or value in use, estimated as discounted future cash flows. An impairment loss should be reversed if the impairment situation no longer exists. This represents a difference between US GAAP and N GAAP.

New Pronouncements

Share-Based payment

In December 2004 the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) "Share-Based Payment". The revised standard requires all share-based payment plans to be recognized in the financial statements at fair value. Hydro will adopt SFAS 123(R) as of 1 January 2006. The impact of the revised standard is not expected to be material for Hydro's current share-based payment plans.

For N GAAP recognition of all share-based payment plans at fair value is required as of 31 December 2005.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3". The standard applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements which do not specify a certain transition method. It generally requires retrospective application to prior periods' financial statements for changes in accounting principles. The Standard is effective for accounting changes and error corrections occurring in periods beginning after 15 December 2005.

The change eliminates a prior difference between US GAAP and N GAAP.

Inventory Counterparty Purchases and Sales

During 2005 the FASB ratified the consensus reached by the EITF on Issue No. 04-13 "Accounting for Purchases and Sales of Inventory with the Same Counterparty". The EITF concluded that inventory purchase and sale transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying Opinion 29 (nonmonetary exchanges). The EITF also concluded that exchanges of inventory should be recognized at carryover basis except for exchanges of finished goods for either raw materials or work-in-process, which would be recognized at fair value. Issue No. 04-13 is effective for new arrangements entered into in the first interim period beginning after March 15, 2006. Hydro will implement EITF 04-13 no later than second quarter of 2006 with no material impact expected.

Altersteilzeit (ATZ) Early Retirement Programs

In June 2005 the EITF reached a consensus on Issue No. 05-05 "Accounting for the Altersteilzeit Early Retirement Programs and Similar Type Arrangements". An Altersteilzeit Type II program is an early retirement program supported by the German government. This Issue addresses the accounting treatment of the annual bonus and additional pension contributions. The EITF consensus is that employee benefits provided in a Type II ATZ arrangement should be accounted for as a termination benefit under the FASB Statement of Financial Accounting Standards No. 112 "Employers' Accounting for Postemployment Benefits". Recognition of the cost of the benefits begins at the time individual employees enroll in the ATZ arrangements (e.g., sign a contract). The German government provides a subsidy to an employer related to the early retirement benefit payments if the employer has hired replacement employees. The EITF concluded that subsidies received under the ATZ arrangements should be accounted for when the employer meets the criteria necessary to receive the subsidy. The consensus is effective for plans within its scope in the first fiscal year that begins after 15 December 2005. Hydro has operations in Germany and is currently evaluating the accounting impact but does not expect the adoption of EITF 05-05 to materially impact the results of operations or financial position.

Recognition of buy/sell arrangements

In February 2005, the SEC issued guidance requiring companies to provide disclosures about their buy/sell arrangements. A buy/sell arrangement is one in which a company buys and sells a commodity with the same counterparty under a single contract or separate contracts entered into concurrently. The first issue, recently discussed by the EITF and now addressed by EITF 04-13, concerns whether such buy/sell arrangements should be considered non-monetary exchanges accounted for at historical cost in accordance with APB Opinion No. 29, and, if so, when, if at all, could such arrangements be accounted for at fair value. A second issue is whether buy/sell arrangements should be presented gross as revenue and expense in the income statement, or whether such arrangements should be presented net.

Hydro currently presents the trading of derivative commodity instruments and physical commodities where net settlement occurs on a net basis, with the margin included in operating revenues. Trading of physical commodities, which are not net settled, are generally presented on a gross basis in the income statement. Hydro has reviewed its presentation of certain buy/sell arrangements whereby commodities are sold and bought with the same counterparty. Hydro has concluded that net presentation on the income statement is a better representation of the underlying business purpose of certain contracts. As a result, effective 1 January 2005, these arrangements have been presented net in the income statement. These arrangements were previously presented gross in the income statement, and have been reclassified for comparison purposes. Total revenue under these contracts was NOK 1,534 million for 2004 and NOK 1,983 for 2003.

Note 2

Business combinations, dispositions and demerger

During the three years ended 31 December 2005, Hydro entered into the following significant business combinations and dispositions.

2005 Acquisitions

In September 2005 Hydro issued an offer to acquire Spinnaker Exploration Company (Spinnaker), a US based public company. The acquisition substantially increased Hydro's presence and growth potential in the US Golf of Mexico. The transaction was completed 13 December after approval of Spinnakers shareholders and US authorities, and is reflected in Hydro's consolidated results from that date. Spinnaker was engaged in exploration, development and production of oil and gas, mainly in the Gulf of Mexico. The consideration for all outstanding shares, including direct acquisition costs, amounted to NOK 16,534 million (USD 2,458 million).

Assets acquired and liabilities assumed have been recognized at estimated fair value. The majority of the fair values are allocated to developed and undeveloped oil and gas properties. Seismic database licenses controlled by Spinnaker, and rights to acquire such licenses by paying a change of control fee have been allocated a combined value of around NOK 500 million, of which NOK 320 million relates to database licenses that Hydro gained control of upon the acquisition. As Hydro uses the successful effort method of accounting for oil and gas exploration, this part of the purchase price was expensed as Exploration expense at acquisition. The remaining net value of NOK 180 million will be expensed as the rights to acquire the seismic database licenses are exercised or expire during 2006. The allocation results in recognition of goodwill. The main contributors to goodwill are the difference between nominal deferred tax and the present value of deferred tax, and certain seismic information not qualifying for separate recognition as intangible assets. The allocation of purchase price is provisional, and may be changed as further information about the acquired assets and liabilities assumed becomes known through remaining planned analyses of expected reserves in oil and gas properties and intangible assets.

PRELIMINARY ALLOCATION OF PURCHASE PRICE:

Amounts in NOK million	
Cash and cash equivalents	89
Other current assets	1,094
Property, plant and equipment	18,869
Goodwill	2,991
Short-term liabilities	(886)
Long-term liabilities	(5,622)
Estimated fair value of the net assets of Spinnaker	16,534

2005 Dispositions

In November 2005 Hydro agreed to sell its 68.8 percent ownership share in BioMar Holding A/S for a total consideration of NOK 947 million. The transaction was completed in December after approval of the relevant authorities, and resulted in a gain of NOK 693 million. BioMar was included in Other activities.

2004 Acquisitions

No major acquisition were agreed or completed during 2004.

2004 Dispositions

In June 2004, Hydro sold its German based alumina activities consisting of the 50 percent stake in the non-consolidated investee Aluminium Oxid Stade GmbH, the related chemical grade alumina business and the dedicated bauxite supply source represented by Hydro's 10 percent share in Halco (Mining) Inc. The total consideration was NOK 677 million. The dispositions resulted in a total gain of NOK 35 million. In December 2003, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of NOK 110 million.

2003 Acquisitions

No major acquisition were agreed or completed during 2003.

2003 Dispositions

During 2003, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 7.0 billion. The dispositions resulted in a total gain of NOK 995 million. In September 2002, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Swedish feed and grain activities for approximately NOK 450 million. The sale was completed in January 2003 after approval from competition authorities. In December 2002, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003, and did not result in any significant gain or loss. In June, Hydro transferred its interest in Sundsfjord Kraft ANS in exchange for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million. In July, Hydro entered into an agreement for the sale of Carmeda AB, for approximately NOK 180 million, resulting in a gain of NOK 139 million. In September, Hydro entered into an agreement to sell its stake in Skandinaviska Raffinaderi AB (Scanraff) for approximately NOK 1.3 billion. The sale was completed in December, resulting in a gain of NOK 490 million. The agreement included the possibility of a price adjustment depending on the development in refinery margins during 2004 and 2005. High refinery margins during 2004 and 2005 have resulted in additional gain of NOK 59 million recognized in 2004 and NOK 65 million recognized in 2005.

Pro forma Information (Unaudited)

The following unaudited pro forma information has been prepared assuming Spinnaker Exploration Company was acquired as of the beginning of the periods presented.

Amounts in NOK million	**2005**	**2004**
Operating revenue	176,357	155,726
Operating income	45,121	29,621
Income before cumulative effect of change in accounting principles	14,589	10,832
Net income	14,511	10,832
Earnings per share	57,90	42,60

The pro forma information has been prepared for comparability purposes only, and does not purport to be indicative of what the results of operations would have been had the transaction occurred on the dates described above. The pro forma information is based on Hydro's reported results for 2005 and 2004. For Spinnaker, the pro forma information is based on their financial statements for 2004, and management accounts for 2005. Spinnaker's results have been adjusted for the major effects of differences between full cost accounting and successful effort accounting for exploration for oil and gas.

Spinnaker's results have been translated into Norwegian kroner at average exchange rates for the periods. Pro forma adjustments are made for depreciation of fair value adjustments, mainly related to producing oil and gas fields which are depreciated according to the unit-of-production method based on proved reserves. Such depreciations are high as the acquisition took place during a period with substantially higher oil and gas prices than prices experienced in the period covered by the pro forma information. In addition, finance cost for the acquisition cost and deferred tax related to the above is included.

The effect of the remaining acquisitions and dispositions for 2005 and 2004 is not significant.

Demerger 2004

In November 2003, Hydro's Board of Directors concluded a plan to demerge the Company's Agri activities and transfer the operations to a newly formed company, Yara International ASA. The plan was approved by the an Extraordinary General Meeting on 15 January 2004. The demerger was completed on 24 March 2004 and Yara was listed on the Oslo Stock Exchange with effect from 25 March 2004. Under the demerger plan, the demerger had financial effect from 1 October 2004. From this date, Yara International ASA assumed the risk of the agri activities. The demerger was reflected in the accounts as of the completion date, 24 March 2004. In the demerger process, substantial assets and liabilities, including subsidiaries and non-consolidated investees, were transferred to Yara. As a result of the demerger, Hydro's share capital was reduced by 8.5 percent, representing the estimated relative value of the transferred Agri activities compared to the business activity retained by Hydro. The total equity reduction amounted to NOK 7,614 million. In accordance with the demerger plan, adjustments to the equity reduction may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable. Revisions are possible through the end of 2009. Possible related adjustments are not expected to be material.

At the completion date, Hydro's shareholders received shares in Yara International ASA equal to 80 percent of the to total value of Yara, based on a valuation completed at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA were owned by Norsk Hydro ASA. The Company has subsequently sold its share holdings in Yara in connection with the demerger transaction. The demerger was reflected in the Company's accounts based on historical values of the transferred assets and liabilities. Hydro did not recognize any gain or loss, or received any proceeds, as a result of the demerger transaction. Hydro received proceeds of NOK 2,619 million, and recognized a gain of NOK 533 million, from sale of its 20 percent ownership in Yara in March 2004. The gain is included in ''Income from discontinued operations''.

Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger.

Income from discontinued operations

Income from discontinued operations includes operating results from activities which, according to the demerger plan, have been transferred to Yara International ASA. Effects directly related to Yara activities, the demerger process and Hydro's sale of Yara shares are included. Results from Yara activities includes net income from subsidiaries transferred in the demerger. In addition income and expenses in Norsk Hydro ASA and certain holding companies abroad directly related to the Yara activities are included to the extent these activities are transferred to Yara or are terminated as a direct consequence of the demerger of Yara. Income from discontinued operations also includes financial expense related to loans in companies transferred to Yara. No financial expenses related to loans retained in Hydro are allocated to discontinued operations. External fees and similar expenses related to the waiving of Yara's joint liabilities for certain of Hydro's loans, and expenses directly related to the demerger process and Hydro's sale of Yara shares are included. Hydro's gain on sale of its shares in Yara International ASA, after direct sales expenses and tax, amounted to NOK 385 million. Tax is allocated to the sales gain based on tax rules enacted at the time of sale.

For prior periods, assets and liabilities transferred to Yara in the demerger process are included in ''Assets of discontinued operations'' and ''Liabilities of discontinued operations'', respectively. This includes assets and liabilities in subsidiaries transferred to Yara, assets and liabilities in business units separated from Hydro's other activities for which separate accounts exists in addition to other identified assets transferred to Yara.

Cash flows from discontinued operations includes cash flows from activities transferred to Yara and expenses directly related to the demerger. In addition, cash flows include Hydro's sale of its shares in Yara immediately after the demerger in the amount of NOK 2,619 million, and Yara's repayment of debt to Hydro in the amount of NOK 7.1 billion.

The major part of discontinued activities relates to the Agri business area within Hydro's segment reporting. Minor amounts also relate to Pronova which is included within Other businesses. In addition, Corporate and eliminations reflect the transfer to Yara of certain activities previously reported as part of Corporate, and demerger costs included in Corporate for 2003.

Prior periods are restated to be presented on a comparable basis. The following table summarize financial information for the discontinued operations for the periods they are included in Hydro's financial statements.

SUMMARY OF FINANCIAL DATA FOR DISCONTINUED OPERATIONS

NOK million	2005	2004	2003
Operating revenues	—	10,036	38,334
Operating income	—	936	2,633
Non-consolidated investees	—	131	610
Financial income (expense), net	—	(88)	47
Other income, net	—	—	40
Income before taxes and minority interest	—	979	3,330
Income tax expense	—	(307)	(1,015)
Minority interest	—	26	(3)
Income before sale of shares	—	698	2,312
Gain from sale of shares	—	533	—
Tax on gain from sale of shares	—	(148)	—
Net income US GAAP	—	1,083	2,312
Adjustment N GAAP:			
Amortization goodwill	—	—	*(1)*
Minority interest	—	*(26)*	*3*
Net income N GAAP	—	*1,057*	*2,314*

31 December NOK million	2005	2004
Current assets	—	—
Non-current assets	—	—
Total assets	—	—
Current liabilities	—	—
Long-term liabilities	—	—
Minority interest	—	—
Discontinued operations, net US GAAP	—	—
Adjustment N GAAP:		
Accumulated additional amortization goodwill	—	—
Minority interest	—	—
Discontinued operations, net N GAAP	—	—

NOK million	2005	2004
Net cash provided by operating activities	—	838
Net cash provided by (used in) investing activities[1)]	—	8,840
Net cash used in financing activities	—	(109)
Foreign currency effects on cash flows	—	5
Net cash provided by discontinued operations	—	9,574

1) Includes proceeds from sale of Yara shares and loan repayments from Yara.

Note 3

Consolidated shareholders' equity

Norsk Hydro ASA had authorized and issued 258,954,428 ordinary shares having a nominal value of NOK 18.30 per share as of 31 December 2005 and 2004. As of 31 December 2003 Norsk Hydro ASA had authorized and issued 266,596,650 ordinary shares having a nominal value of NOK 20 per share. As of 31 December 2005, 8,815,964 shares were treasury stock resulting in 250,138,464 outstanding ordinary shares, and as of 31 December 2004, outstanding ordinary shares were 250,839,230. For N GAAP, the amount for the treasury stock of NOK 3,589 million was comprised of NOK 161 million for share capital and NOK 3,428 million for retained earnings. Remaining treasury stock may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 250,807,304 for the year 2005, 254,411,433 for 2004 and 257,528,511 for 2003.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 2,808,810 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 2,191,190 shares owned by the Norwegian State. As compensation, the State received NOK 981 million. The cancellation and redemption were completed in February 2005. In addition, the General Meeting authorized a new buyback program limited to 5,617,621 shares. As part of this program, a total of 10 million shares may be cancelled, including shares owned by the Norwegian State. A decision to cancel any of the shares repurchased requires approval by a minimum of two-thirds of the shares represented at a future General Meeting.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 1,484,300 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 1,157,922 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004. In addition, the General Meeting approved the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30. Each shareholder received one share in the newly established Yara International ASA, with a nominal value of 1.70 for each Hydro share. The demerger was completed on 24 March 2004.

In 2005, Hydro sold 233,634 shares of its treasury stock to employees for a price of NOK 122 million.

CONSOLIDATED SHAREHOLDERS' EQUITY

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued Norsk Hydro ASA Number	Ordinary Shares issued Norsk Hydro ASA Amount	Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA Number	Treasury Stock Norsk Hydro ASA Amount	Accumulated other comprehensive income	Total shareholders' equity[1)]
Balance 31 December 2002	266,597	5,332	15,088	20,420	63,260	(8,636)	(3,052)	(4,761)	75,867
Net income 2003					10,968				10,968
Dividend declared and paid (NOK 10.50 per share)					(2,711)				(2,711)
Minimum pension liability								(113)	(113)
Hedge of net investment								(333)	(333)
Cash flow hedges								35	35
Purchase of treasury stock						(1,484)	(555)		(555)
Treasury stock reissued to employees			(17)	(17)		235	83		66
Foreign currency translation								4,856	4,856
Balance 31 December 2003	266,597	5,332	15,071	20,403	71,517	(9,885)	(3,524)	(316)	88,080
Net income 2004					12,560				12,560
Dividend declared and paid (NOK 11.00 per share)					(2,811)				(2,811)
Net unrealized gain on securities								(2)	(2)
Minimum pension liability								(132)	(132)
Hedge of net investment								320	320
Cash flow hedges								(339)	(339)
Purchase of treasury stock						(2,809)	(1,239)		(1,239)
Treasury stock reissued to employees			19	19		285	102		121
Cancellation treasury stock	(4,294)	(82)	(1,511)	(1,593)	2	4,294	1,591		—
Redeemed shares, the Norwegian State	(3,349)	(63)	(1,363)	(1,426)					(1,426)
Demerger Yara International ASA		(448)	(1,749)	(2,197)	(5,957)			540	(7,614)
Foreign currency translation								(1,628)	(1,628)
Balance 31 December 2004	258,954	4,739	10,467	15,206	75,311	(8,115)	(3,070)	(1,557)	85,890

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued Norsk Hydro ASA Number	Ordinary Shares issued Norsk Hydro ASA Amount	Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA Number	Treasury Stock Norsk Hydro ASA Amount	Accumulated other comprehensive income	Total shareholders' equity[1]
Net income 2005					15,638				15,638
Dividend declared and paid (NOK 20.00 per share)					(5,021)				(5,021)
Net unrealized gain on securities								(9)	(9)
Minimum pension liability								(510)	(510)
Hedge of net investment								33	33
Cash flow hedges								(751)	(751)
Purchase of treasury stock						(934)	(608)		(608)
Treasury stock reissued to employees			33	33		234	88		122
Foreign currency translation								711	711
Balance 31 December 2005	258,954	4,739	10,500	15,239	85,928	(8,816)	(3,590)	(2,083)	95,495

1) See note 28 for a reconciliation to N GAAP equity.

COMPONENTS OF TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME

Amounts in NOK million	Net unrealized gain on securities	Net unrealized gain (loss) investment hedge	Net gain cash flow hedge	Minimum pension liability adjustment	Net foreign currency translation loss	Total accumulated other comprehensive income (loss)
Balance 31 December 2002	11	81	1,114	(883)	(5,084)	(4,761)
Balance 31 December 2003	11	(252)	1,149	(996)	(228)	(316)
Balance 31 December 2004	9	102	810	(814)	(1,664)	(1,557)
Balance 31 December 2005	—	135	59	(1,324)	(953)	(2,083)

CHANGES IN OTHER COMPREHENSIVE INCOME AND RELATED TAX EFFECTS

	31 December 2005			31 December 2004[1]			31 December 2003		
Amounts in NOK million	Pretax	Tax	Net	Pretax	Tax	Net	Pretax	Tax	Net
Net unrealized gain on securities	(12)	3	(9)	(3)	1	(3)	—	—	—
Net investment hedge	—	—	—	445	(125)	320	(462)	129	(333)
Companies sold	33	—	33	—	—	—	—	—	—
Net investment hedge	33	—	33	445	(125)	320	(462)	129	(333)
Cash flow hedge	(782)	219	(563)	(214)	60	(154)	385	(112)	272
Less: Reclassification of hedging gain	(261)	73	(188)	(256)	71	(185)	(331)	94	(237)
Net cash flow hedge	(1,043)	292	(751)	(470)	131	(339)	54	(18)	35
Minimum pension liability adjustment	(744)	234	(510)	(189)	57	(132)	(182)	69	(113)
Foreign currency translation	1,081	—	1,081	(1,625)	—	(1,625)	4,650	—	4,650
Companies sold	(370)	—	(370)	(3)	—	(3)	206	—	206
Net foreign currency translation	711	—	711	(1,628)	—	(1,628)	4,856	—	4,856
Total change in other comprehensive income	(1,055)	529	(526)	(1,845)	64	(1,781)	4,266	180	4,445

1) Effects of the Yara demerger, NOK 540 million, are not included in the changes specified.

Note 4

Remuneration and Share-Based Compensation

Members of the board of directors are elected for two-year terms. Remuneration to the Board of Directors consists of the payment of fees, and is based on the position of the board member and specific board committee appointments. Board fees for 2005 as well as any outstanding loans and share ownership as of 31 December 2005 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the board members during 2005.

Board Member	Board Fees[1]	Outstanding Loans[1)2)]	Number of Shares[3]
Jan Reinås	470	—	—
Borger A. Lenth	420	—	144
Elisabeth Grieg	280	—	6,080
Håkan Mogren	245	—	—
Ingvild Myhre	245	—	—
Kurt Anker Nielsen	280	—	—
Geir Nilsen[4]	230	300	78
Terje Friestad[4]	280	50	259
Odd Semstrøm[4)5)]	84	—	152
Sten Roar Martinsen[4)6)]	146	—	—
Total Board fees — 2005	2,680		

1) Amounts in NOK thousands.

2) Mr. Nilsen's loan is at an interest rate of 3.0-3.6 percent and has a repayment period of 4.5 years. Mr. Friestad's loan is at an interest rate of 3.0 percent and has a repayment period of 2.5 years. Both loans are extended to the board members under an employee benefit scheme applicable to all employees in Norway.

3) Number of shares includes related party share holdings as of 31 December 2005, in addition to the shares held directly by the board member.

4) Employee representative on the board elected by the employees in accordance with Norwegian company law. As such, these individuals are also paid regular salary, remuneration in kind and pension benefits that are not included in the table above.

5) Employee board representative until 12 May 2005.

6) Employee board representative from 12 May 2005.

Corporate Management Board Remuneration

Hydro has a compensation system for top management consisting of three elements, fixed salary, performance-related bonus and share-based compensation (share appreciation rights). The fixed salary, or base pay, reflects the continuous performance of management and is in line with Hydro's general policies for the determination of base pay. The annual bonus scheme is linked to the achievement of targets in the business plans for the various units. The intention of the stock option plan is to place management focus on the long-term creation of shareholder value.

The president is entitled to retire at 60 years of age with a pension benefit representing around 65 percent of his base salary. In the event that employment of Mr. Reiten terminates for reasons other than serious misconduct, he has the right to salary for a three-year period, but not to extend beyond 60 years of age. Hydro's obligation can be reduced by salary received or pension rights accrued from other sources. Out of the other members of the Corporate Management Board, three members have a retirement age of 62 years of age, and one member has a retirement age of 65 years of age.

Bonus is limited to a maximum of one-twelfth of their annual salary for employees. For approximately 100 managers with substantial responsibility for performance, the bonus is limited to a maximum of two-twelfths of their annual salary. For top management, approximately 30 managers, the bonus is limited to a maximum of one-fourth of their annual salary. For the president, the upper limit of the bonus is one-half of his annual salary. It is the actual improvements of Hydro's activities that is measured and rewarded.

Corporate management board salaries, bonus for 2004 paid in 2005, and the increase in the estimated value of pension benefits for 2005, as well as any loans outstanding as of 31 December 2005 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2005.

Corporate Management Board	Salary[1]	Exercise of Options[1)2)]	Remuneration in kind[1]	Bonus[1]	Estimated Change in Value of Pension Benefits[3]	Outstanding Loans[1)4)]
E. Reiten	4,741	3,141	227	1,500	5,061	—
J.O. Ottestad	2,502	—	169	374	3,109	—
J.H. Nilsen[4]	2,924	—	210	453	2,134	155
T. Torvund[4]	3,165	—	220	419	2,144	944
H. Aasheim[5]	457	—	31	—	329	—
A.B. Gjørv[6]	567	—	50	257	203	—

1) Amounts in NOK thousands.

2) Mr. Reiten exercised 9,320 options on 10 November 2005 at an exercise price of NOK 331.14; the average of the five preceding trading days share price was NOK 668.20.

3) Estimated change in value of pension benefit is calculated as the increase in Projected Benefit Obligations (PBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefits.

4) The loan to Mr. Nilsen was entered into prior to 30 July 2002. The loan has an interest rate of 3 percent and a repayment period of 7.5 years. The beginning balance of the loan to Mr. Torvund was entered into prior to 30 July 2002. During 2005, new loans of NOK 575,000 were entered into. Mr. Torvund's total loans are in the process of being repaid and will be finalized in March 2006. The loans to Mr. Torvund have an interest rate between 3.0-3.6 percent. The loans to Mr. Nilsen and Mr. Torvund are issued under an employee benefit scheme applicable to all employees in Norway.

5) Ms. Aasheim joined Hydro as a member of the corporate management board on 1 October 2005.

6) Ms. Bech Gjørv stepped down from the corporate management board on 1 May 2005.

Executive Management Share-Based Compensation

Hydro has an Executive Stock Option Plan for each of the years 2002, 2003, 2004 and 2005. The Executive Stock Option Plan awards are granted each year to approximately 30 Hydro executives, including the president and CEO and the corporate management board. All of the plans are in the form of Stock Appreciation Rights (SARs), as the plans are cash settled upon exercise of the options. Compensation expense related to these plans is recognized using the intrinsic method. See note 1 for further information.

In June 2005 the Board of Directors approved the 2005 Executive Stock Option Plan for corporate officers and certain key employees, authorizing 118,000 stock options (SARs). On 1 July 2005, 28 Hydro executives were granted a total of 118,000 SARs, with a vesting period of 3 years, an exercise period of 3 years and an exercise price of NOK 622 when the market price was NOK 603. As of 31 December 2005, 118,000 SARs were outstanding, with a remaining contractual life of five and one-half years, none of which were vested and therefore not exercisable.

For all four plans, in order to remain eligible to exercise vested SARs in the future and to receive new grants, plan participants are required to convert the net after-tax value of exercised SARs into an equivalent value of Hydro shares. All net proceeds from the exercise of the SARs must be converted into Hydro share ownership until, at a minimum, a share value holding of between 50 percent and 200 percent of their annual salary is achieved. The minimum share holding is established based on management position, with the president and CEO required to maintain 200 percent of base pay, members of the corporate management board required to maintain 100 percent of salary and all other plan participants required to maintain a investment value in Hydro shares equal to 50 percent of their salary.

Corporate management board SAR activity during 2005, as well as year-end SARs outstanding and year-end share ownership are given in the table below.

Corporate Management Board	SARs 31.12.2004	SARs Granted 01.07.2005	SARs Vested in 2005	SARs Forfeited[1]	SARs Exercised in 2005	SARs Outstanding 31.12.2005	Weighted Average Exercise Price of SARs Outstanding as of 31.12.2005	Intrinsic Value of Outstanding Options (NOK Thousands)[2]	Number of Shares Held 31.12.2005[3]
Eivind Reiten	35,000	15,000	9,320	680	9,320	40,000	492.16	8,034	13,664
John O. Ottestad	24,000	10,000	6,524	476	—	33,524	459.12	9,111	8,261
Jon-Harald Nilsen	24,000	10,000	6,524	476	—	33,524	459.12	9,111	293
Tore Torvund	24,000	10,000	6,524	476	—	33,524	459.12	9,111	3,686
Hilde Aasheim[4]	—	—	—	—	—	—	—	—	—
Alexandra Bech Gjørv[5]	21,000	—	6,524	476	6,524	14,000	398.81	4,119	2,203

1) SARs amounting to 6,8 percent of total number granted were forfeited as the total shareholder return target was not achieved during the vesting period.

2) Share price 31 December 2005 less exercise price multiplied by the number of SARs outstanding as of year-end.

3) Number of shares held includes related party share holdings as of 31 December 2005, in addition to the shares held directly by the corporate management board member.

4) Ms. Aasheim joined Hydro as a member of the corporate management board on 1 October 2005.

5) Ms. Bech Gjørv stepped down from the corporate management board on 1 May 2005.

For all four plans, upon exercise the option holder receives a cash payment equal to the difference between the exercise price and the average market price of the Company's stock for the five trading days previous to exercise date. Similar to the 2005 SAR plan, the 2004 plan has a 3-year vesting period and an exercise period of 3 years. The 2003 and 2002 plans have a vesting period of 3 years and an exercise period of 2 years. In addition, the option vesting schedules for the 2003 and 2002 plans are based on total shareholder return, as defined in the 2002 and 2003 plans. If shareholder return is less than 12 percent between the grant date and vesting date, none of the granted options vest. If shareholder return is between 12 percent and 20 percent over the vesting period, the corresponding percentage of options that vest increases linearly between 20 percent and 100 percent. On 30 June 2005, the vesting date for the 2002 SARs, the total shareholder return target of 20 percent was not met, and only 93,2 percent of the total of 92 500 granted options were vested. Vesting of the 2003 SARs is dependent on the total shareholder return between 1 July 2003 and 30 June 2006. The 2004 and 2005 plans do not contain a vesting requirement based on total shareholder return.

The fair value at grant date is measured using a Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Hydro's stock options may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option. The following estimates were used to estimate the option fair value at grant date for 2005, 2004 and 2003:

	2005	2004	2003
Expected option life at grant date	4.0	4.0	4.0
Risk-free interest rate	2.78%	3.35%	3.87%
Expected volatility	25.32%	25.79%	26.79%
Expected Dividend per share, NOK	20.00	12.00	11.50
Estimated weighted average fair value per option, NOK	95.65	69.95	47.87
Fair value of total options granted during fiscal year, NOK thousands	11,287	8,743	4,667

Share Appreciation Rights[1]	Options	Weighted Average Exercise Price (NOK)	Exercise Price at Grant Date	Weighted Average Market Price at Grant Date[2]	Vesting Period	Exercise Period
Outstanding 1 January 2003	175,000	374.80				
Granted 8 August — 15 September 2003	97,500		321.62	341.03	Grant Date – 30.06.2006	01.07.2006 – 30.06.2008
Exercised	—					
Forfeited	—					
Expired	—					
Outstanding 31 December 2003	272,500	345.98				
Exercisable 31 December 2003	—					
Granted 9 September 2004	125,000		476.00	446.50	09.09.2004 – 30.06.2007	01.07.2007 – 30.06.2010
Exercised	—					
Forfeited	(82,500)	390.40				
Expired	—					
Outstanding 31 December 2004	315,000	385.68				
Exercisable 31 December 2004	—					
Granted 1 July 2005	118,000		622.00	603.00	01.07.2005 – 30.06.2008	01.07.2008 – 30.06.2011
Exercised	(62,910)	331.14				
Forfeited[3)4)]	(9,790)	327.74				
Expired	—					
Outstanding 31 December 2005	360,300	474.17				
Exercisable 31 December 2005	23,300	331.14				

1) All options granted and then canceled or exercised related to the 2004 Yara de-merger are excluded from this table.

2) Close of day share prices, adjusted for changes in group structure, as appropriate.

3) Stock options granted in 2002 totaling 6,290 (6.8 percent of total number options granted) forfeited as of 30 June 2005. Options were forfeited as the total shareholder return target was not met during the vesting period.

4) Includes options totaling 3,500 that were forfeited upon resignation from the Company.

United Kingdom Employee Share-Based Compensation

In 1988, Hydro established a stock option share purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time the options were granted. The last options were granted in July 2002 and the program will be operational until July 2012, when the last remaining options expire. The program consists of three different schemes following amendments to the original scheme rules.

Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from the grant date. The exercise price of the shares equals the share price at the time the options were granted. During 2003, 34,867 options were exercised and a total of 3,653 options expired. At year-end 2003, 199,897 options were outstanding and the trust kept a balance of 210,649 shares. During 2004, 104,120 options were exercised and 8,274 options expired. At year-end 2004 87,503 options were outstanding and the trust's balance of shares at 31 December 2004 was 122,916. During 2005, 51,593 options were exercised and 970 options expired. At year-end 2005 34,917 options were outstanding and the trust's balance of shares at 31 December 2005 was 122,916. Activity during 2005 is given in the table below.

	Average Number of Shares	Strike Price (NOK)[1]
Options outstanding as of 31 December 2004	87,503	345.98
Options Exercised during 2005	51,593	352.82
Options Expired during 2005	993	342.34
Options Outstanding as of 31 December 2005	34,917	337.44

1) Presentation in NOK is based on a translation from GBP using the 31 December 2005 exchange rate of 11,652.

Employee Share Purchase Plan

Hydro has established a subsidized share-purchase plan for employees in Norway. The Norwegian plan payout is based on share price performance and is therefore share-based compensation. Under the plan, Hydro employees receive a NOK 1,500 share-purchase rebate to purchase shares of Norsk Hydro, which corresponds to a 20 percent discount from the market price. If shareholder return, as defined by the plan, meets or exceeds 12 percent in the period from 1 January to 31 December (the measurement period), employees receive an additional rebate of NOK 4,500, for a total rebate of NOK 6,000. The total rebate of NOK 6,000 corresponds to a 50 percent discount from the market price. The award share price is the employee's actual cost per share based on the market price less rebate at the award date. Employees are eligible to receive an offer to purchase shares under this plan if they are 1) employed by Norsk Hydro ASA or a 90 percent or more owned Norwegian subsidiary, and *2)* are employed as of 31 December through the date of the offer of the share-purchase (typically late February or early March of the following year).

Details related to the employee share-purchase plan are given in the table below.

Performance Measurement Period	31.01.05-31.12.05	01.01.04-31.12.04	01.01.03-31.12.03	01.01.02-31.12.02
Total shareholder return performance target achieved	≥12%	≥12%	≥12%	<12
Employee rebate, NOK	6,000	6,000	6,000	1,500
Employee rebate, percent	50%	50%	50%	20%
Award share price, NOK	—	260.25	212.25	223.92
Total number of shares issued to employees	—	233,634	285,152	235,768
Compensation expense related to the award, NOK thousands	—	60,803	60,524	13,198

Note 5

Operating and geographic segment information

Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a strategic business area that offers different products and serves different markets. Hydro's operating segments are the two business areas Oil & Energy and Aluminium. For reporting purposes, the business areas are divided into sub-segments, each of which comprises one or more sectors or a combination of sectors and business units. Sub-segments are not operating units, but their results are presented in order to illustrate the results of upstream and downstream activities within a value chain of Hydro's vertically integrated activities.

Oil & Energy consists of Exploration and Production, and Energy and Oil Marketing. Exploration and Production is responsible for Hydro's oil and gas exploration, field development, and operation of production and transportation facilities. Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power markets, the operation of Hydro's power stations and Hydro's share of natural gas transportation systems as well as marketing and sale of refined petroleum products (gasoline, diesel and heating oil) to retail customers. Energy and Oil Marketing buys and/or markets almost all oil production from Exploration and Production, and sells the equity gas production on a commission basis.

Aluminium consists of the sub segments Metals, Rolled Products and Extrusion and Automotive. The Aluminium activities are organized in sectors representing various businesses, with separate management. The sector results are reviewed by the business area management. Metals' activities include the production of primary aluminium, alumina, remelting of metal, and the international trading of aluminium, aluminium products and alumina. The sub segment comprises the sectors Primary Metal and Metal Products. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion and Automotive is involved in the manufacture and sale of extruded and cast aluminium products and components as well as production of primary magnesium for the automotive industry. The sub segment comprises the sectors Extrusion and Automotive. Effective 1 February 2006, Hydro has decided to split Aluminium into two business areas, Aluminium Metal and Aluminium Products. Aluminium Metal consists of the previous Metals sub segment. Aluminium Products consists of the previous Rolled Products and Extrusion and Automotive sub segments.

Other activities consist of Polymers, BioMar AS (sold in December 2005), VAW Flexible Packaging (sold April 2003) and certain other activities. Polymers is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. BioMar's main activity is production and sale of fish feed.

Operating Segment Information

Hydro's segment reporting, presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and related Information, includes two measures of segment results, "Operating Income" and "Adjusted EBITDA" which both are regularly reviewed by senior management. "Operating Income" is defined in accordance with the Norwegian Accounting Act, and is consistent with the same measure for the Group. The segment measures are an integral part of Hydro's steering model. Hydro's management makes regular use of both these measures to evaluate performance in its operating segments, both in absolute terms and comparatively from period to period, and to allocate resources among its operating segments. Management views the combination of these measures, in combination with other reported measures, as providing a better understanding — for management and for investors — of the operating results of its business segments for the period under evaluation compared to relying on one of the measures.

Hydro defines "Adjusted EBITDA" as "Income/(loss) before tax, interest expense, depreciation, amortization and write-downs". Adjusted EBITDA is a measure that includes in addition to "Operating income", "Interest income and other financial income", results from non-consolidated investees and gains and losses on sales of activities classified as "Other income, net" in the income statement. It excludes depreciation, write-downs and amortization, as well as amortization of excess values in non-consolidated investees. Hydro's definition of Adjusted EBITDA may differ from that of other companies. Specifically, Hydro has chosen to include interest income in Adjusted EBITDA.

Hydro manages long-term debt and taxes on a Group basis. Therefore, net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arms length prices as if sold or transferred to third parties. Transfers of businesses or assets within or between Hydro's segments are not considered to be intersegment sales, and are reported without recognizing gains or losses. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption "Corporate and eliminations". These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In addition, elimination of gains and losses related to transactions between the operating segments are included in Corporate and Eliminations.

The accounting policies of the operating segments reflect those described in the summary of significant accounting policies in Note 1 to Hydro's financial statements, with the following exceptions: Certain internal commodity contracts may meet the definition of a derivative under SFAS 133. However, Hydro considers these contracts as sourcing of raw materials or sale of own production even though contracts for various reasons include clauses that meets the definition of a derivative. Such internal contracts are accounted for as executory contracts. Also certain internal contracts may contain lease arrangements that qualify as capital leases. However, Hydro management has allocated the responsibility for assets to a segment, and this allocation is reflected in the segment reporting even though contract clauses may indicate that another segment leases the assets under a capital lease arrangement. Costs related to certain pension schemes covering more than one segment are allocated to the operating segments based on either a premium charged by the scheme (UK) or a charge based on estimated service cost (Norway and Germany). Any difference between these charges and pension expenses measured in accordance with GAAP is included in Corporate and Eliminations. Similarly, a pension liability or prepaid pension expense for these defined benefit plans is reported on an unallocated basis as part of Corporate and Elimination.

NOK million	External revenues 2005	External revenues 2004	External revenues 2003	Internal revenues 2005	Internal revenues 2004	Internal revenues 2003	Total operating revenues 2005	Total operating revenues 2004	Total operating revenues 2003
Exploration and Production	18,362	13,519	12,099	45,838	35,444	25,805	64,201	48,962	37,904
Energy and Oil Marketing[1]	65,742	51,303	41,438	10,771	8,037	6,779	76,513	59,339	48,216
Eliminations[1)2)6)]	—	—	—	(49,224)	(37,033)	(27,315)	(49,224)	(37,033)	(27,315)
Hydro Oil & Energy	84,104	64,821	53,536	7,386	6,448	5,269	91,490	71,269	58,805
Metals[7]	36,024	33,525	25,729	18,937	18,385	13,411	54,961	51,910	39,140
Rolled Products	18,949	18,729	17,825	541	1,559	552	19,490	20,288	18,377
Extrusion and Automotive[7]	26,040	27,086	24,424	35	51	60	26,075	27,137	24,483
Other and eliminations[3]	(437)	50	190	(19,252)	(19,797)	(13,867)	(19,689)	(19747)	(13,677)
Hydro Aluminium	80,575	79,391	68,167	261	198	156	80,836	79,589	68,323
Other activities[2)4)]	9,510	9,665	10,013	2,787	3,204	3,745	12,297	12,869	13,759
Corporate and eliminations[1)2)]	11	14	61	(10,434)	(9,850)	(9,170)	(10,422)	(9,836)	(9,109)
Total	174,201	153,891	131,778	—	—	—	174,201	153,891	131,778

1) Certain internal revenues, including the effect of marked-to-market valuation of internal derivative contracts, were previously included in external revenues. These revenues, and the elimination thereof, are now reported as internal revenues. Prior periods have been reclassified for comparative purposes.

2) Corporate and eliminations includes elimination of unrealized gain/loss on power contracts between Energy and other units in Hydro with a gain of NOK 1,391 million in 2005, loss of NOK 235 million in 2004 and a loss of NOK 141 million in 2003. In addition, gains and losses on electricity contracts, NOK 101 million, NOK 13 million and NOK 21 million are eliminated within the Oil and Energy Area in 2005, 2004 and 2003, respectively.

3) Other and eliminations includes unrealized gains and losses related to LME contracts with a loss of NOK 1,021 million in 2005, a gain of NOK 175 million in 2004 and a loss of NOK 49 million in 2003.

4) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro's internal services.

5) Corporate and elimination's operating income (loss) and Adjusted EBITDA includes a net periodic pension cost of NOK 495 million for 2005, NOK 1,001 million for 2004 and NOK 1,111 million for 2003.

6) Eliminations Oil & Energy includes elimination of unrealized gains on gas contracts with NOK 713 million in 2005 and NOK 144 million in 2004.

7) During 2005 Hydro's magnesium operations were transferred from Metals sub segment to Extrusion and Automotive sub segment because the automotive industry is the dominant customer segment for this business. In addition, the remelt operations in North America were transferred from Extrusion and Automotive and included in Metals, in order to combine the results from these activities with the Company's worldwide primary and remelt metal results. Prior period amounts are reclassified accordingly.

NOK million	Depreciation, depletion and amortization 2005	Depreciation, depletion and amortization 2004	Depreciation, depletion and amortization 2003	Other operating expenses 2005	Other operating expenses 2004	Other operating expenses 2003	Operating income (loss) before fin. and other income 2005	Operating income (loss) before fin. and other income 2004	Operating income (loss) before fin. and other income 2003
Exploration and Production	9,961	9,752	9,052	13,645	10,848	10,352	40,594	28,363	18,500
Energy and Oil Marketing	651	640	592	72,287	56,050	44,956	3,575	2,650	2,668
Eliminations[2)6)]	—	—	—	(48,505)	(37,164)	(27,290)	(719)	132	(25)
Hydro Oil & Energy	10,612	10,391	9,643	37,427	29,733	28,018	43,451	31,144	21,143
Metals[7]	1,687	3,798	1,451	49,376	47,253	35,609	3,898	860	2,080
Rolled Products	773	687	650	17,962	18,975	17,595	754	626	132
Extrusion and Automotive[7]	2,473	1,477	1,314	24,702	25,413	22,859	(1,100)	248	310
Other and eliminations[3]	—	—	—	(18,649)	(19,818)	(13,610)	(1,041)	72	(67)
Hydro Aluminium	4,934	5,962	3,414	73,391	71,822	62,453	2,511	1,805	2,456
Other activities[4]	517	532	878	11,782	12,025	13,285	(2)	312	(404)
Corporate and eliminations[2)5)]	22	12	11	(10,917)	(8,434)	(7,551)	472	(1,414)	(1,569)
Total	16,086	16,898	13,947	111,683	105,146	96,205	46,432	31,847	21,625

NOK million	Equity in net income non-consolidated investees			Other income (expense), net			Adjusted EBITDA		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Exploration and Production	6	4	29	—	—	—	50,601	38,168	27,624
Energy and Oil Marketing	108	73	81	65	59	815	4,456	3,478	4,226
Eliminations[2)6)]	(2)	(2)	(4)	—	—	—	(719)	132	(25)
Hydro Oil & Energy	112	75	107	65	59	815	54,339	41,777	31,826
Metals[7)]	272	281	379	—	—	—	6,025	5,372	4,019
Rolled Products	(27)	(13)	(14)	—	—	—	1,565	1,361	835
Extrusion and Automotive[7)]	100	113	67	—	—	—	1,495	1,850	1,710
Other and eliminations[3)]	—	—	—	—	—	—	(1,041)	72	(67)
Hydro Aluminium	345	381	433	—	—	—	8,044	8,655	6,498
Other activities[4)]	164	170	83	925	110	139	1,880	1,363	1,113
Corporate and eliminations[2)5)]	(1)	3	(3)	—	—	(2,207)	1,231	(680)	(809)
Total	619	629	620	990	169	(1,253)	5,493	51,116	38,627

NOK million	Current Assets[1)]		Non-current Assets		Assets[1)]	
	2005	2004	2005	2004	2005	2004
Exploration and Production	14,939	9,072	87,536	61,262	102,475	70,334
Energy and Oil Marketing	17,723	9,683	21,934	18,896	39,657	28,579
Eliminations	(7,308)	(2,892)	(287)	18	(7,594)	(2,873)
Hydro Oil & Energy	25,354	15,863	109,183	80,176	134,537	96,039
Metals[8)]	15,402	12,469	22,473	21,147	37,875	33,616
Rolled Products	6,930	6,405	6,245	6,782	13,175	13,187
Extrusion and Automotive[8)]	8,139	8,283	9,947	10,827	18,086	19,109
Other and eliminations	(2,811)	(2,323)	(280)	(297)	(3,091)	(2,621)
Hydro Aluminium	27,660	24,833	38,385	38,459	66,045	63,292
Other activities[5)]	4,740	6,034	5,202	5,393	9,942	11427
Corporate and eliminations	12,539	23,676	4,132	5,809	16,671	29,484
Total	70,293	70,406	156,902	129,836	227,195	200,243

NOK million	Non-consolidated investees[2)]		Segment debt[3)]		Investments[4)]	
	2005	2004	2005	2004	2005	2004
Exploration and Production	52	18	10,090	5,411	33,846	10,606
Energy and Oil Marketing	2,528	2,310	15,117	8,137	2,333	1,460
Eliminations	18	19	(7,030)	(3,027)	—	—
Hydro Oil & Energy	2,598	2,347	18,177	10,520	36,179	12,067
Metals[8)]	3,863	3,066	6,232	7,603	1,7926)	4,2447)
Rolled Products	1,430	1,532	3,115	3,339	5456)	553
Extrusion and Automotive[8)]	1,065	859	5,208	5,332	1,425	1,398
Other and eliminations	—	—	(2,022)	(2,478)	—	—
Hydro Aluminium	6,358	5,457	12,532	13,796	3,762	6,194
Other activities[5)]	1,125	1,095	2,346	3,068	1,097	1,058
Corporate and eliminations	732	1,118	342	1,535	72	145
Total	10,814	10,017	33,396	28,919	41,110	19,464

1) Current assets and assets exclude internal cash accounts and accounts receivables related to group relief.

2) Non-consolidated investees comprises investments and advances, see note 13.

3) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.

4) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in non-consolidated investees.

5) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro's internal services.

6) Includes non-cash increase in investment from effect of change in accounting principle (FIN 47), of NOK 186 million in Metals and NOK 9 million in Rolled Products.

7) Includes non-cash increase in investment from effect of change in accounting principle (FIN 46R), of NOK 1,275 million.

8) During 2005 Hydro's magnesium operations were transferred from Metals sub segment to Extrusion and Automotive sub segment because the automotive industry is the dominant customer segment for this business. In addition, the remelt operations in North America were transferred from Extrusion and Automotive and included in Metals, in order to combine the results from these activities with the Company's worldwide primary and remelt metal results. Prior period amounts are reclassified accordingly.

	Assets			Long-lived assets			Investments		
Amounts in NOK million	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Norway	137,916	135,005	124,923	92,121	88,096	88,687	13,795	11,988	12,514
Germany	15,619	15,973	19,099	8,328	8,733	11,895	835	1,107	780
Sweden	4,299	4,453	4,633	1,085	1,163	1,417	198	187	267
Great Britain	2,669	2,724	2,628	1,093	1,056	1,088	171	136	128
France	2,340	2,483	2,713	627	690	729	60	99	155
Italy	2,284	2,037	1,967	876	704	646	291	160	89
The Netherlands	2,663	2,321	3,707	1,194	1,309	485	1	98	372
Denmark	1,330	3,664	4,189	944	1,781	1,941	136	152	338
Spain	962	1,191	1,301	321	530	608	18	38	28
Other	4,928	4,684	2,809	2,824	2,718	1,518	380	1,720	191
Total EU	37,094	39,530	43,046	17,292	18,685	20,328	2,090	3,696	2,345
Other Europe	1,391	1,597	1,728	1,134	1,327	1,559	49	169	258
Total Europe	176,401	176,132	169,697	110,547	108,107	110,573	15,934	15,854	15,117
USA	28,159	4,428	4,340	21,411	1,918	1,983	21,889	484	378
Canada	6,636	6,746	6,980	5,618	6,062	6,121	806	1,203	850
Other Americas	4,787	3,855	3,597	4,272	3,432	3,156	145	186	215
Africa	5,728	4,613	4,248	4,937	4,113	3,464	1,653	1,218	782
Australia and New Zealand	3,049	2,588	2,578	2,464	2,081	2,127	320	280	285
Asia	2,434	1,880	1,623	1,667	1,133	942	364	239	85
Total outside Europe	50,793	24,111	23,367	40,368	18,738	17,792	25,177	3,610	2,595
Total continued operations	227,195	200,243	193,064	150,915	126,846	128,365	41,110	19,464	17,712
Discontinued operations	—	—	25,566	—	—	10,801	—	—	1,188
Total	227,195	200,243	218,629	150,915	126,846	139,166	41,110	19,464	18,900

NOK million	Operating revenues 2005	2004	2003
Norway	24,835	23,477	13,522
Great Britain	35,567	28,579	20,178
Germany	17,702	19,350	17,909
France	9,710	6,859	11,661
Sweden	9,543	8,400	9,828
Italy	6,868	7,360	6,517
The Netherlands	6,694	6,649	4,530
Spain	4,824	6,168	4,697
Denmark	1,220	1,201	2,031
Other	14,791	12,994	12,937
Total EU	106,920	97,561	90,287
Switzerland	6,631	5,603	4,659
Other Europe	2,349	1,658	1,727
Total Europe	140,735	128,299	110,195
USA	13,394	10,357	10,466
Canada	3,439	5,188	2,690
Other Americas	8,211	2,526	1,879
Asia	6,366	6,000	5,567
Australia and New Zealand	1,076	972	715
Africa	981	548	266
Total outside Europe	33,466	25,592	21,583
Total	174,201	153,891	131,778

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

Note 6

Restructuring costs

In October of 2001 Hydro discontinued production of primary magnesium in Norway. As a result, Hydro closed the Porsgrunn magnesium production facilities in March of 2002, and started the clean up and dismantling work. Dismantling and clean-up work was finalized in December 2004. Restructuring costs resulted in a credit of NOK 22 million in the income statement for 2004, representing the difference between the accrual relating to the restructuring and the final cost of the program, which ended in 2004.

Note 7

Operating costs and expenses

Operating costs include research and development, operating lease expense, bad debt, shipping and handling costs, and payroll and related costs as follows:

Amounts in NOK million	2005	2004	2003
Research and development expense	716	760	722
Bad debt	233	269	638
Shipping and handling costs	3,205	3,151	2,966
Operating lease expense:[1]			
Drilling rigs, ships, office space	880	689	685
Office space leased from Hydro's independent pension trust	233	225	199
Total	1,112	914	884
Payroll and related costs:			
Salaries	13,461	13,847	13,574
Social security costs	2,256	2,319	2,280
Social benefits	463	543	642
Net periodic pension cost (Note 20)	2,185	2,121	2,073
Total	18,366	18,830	18,569

1) Total minimum future rentals of NOK 7,529 million are due under non-cancelable operating leases as follows (in NOK million): 2006 — 1,427; 2007 — 2,317; 2008 — 1,784; 2009 — 1,109; 2010 — 357; and thereafter — 535.

Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December 2005, 2004 and 2003.

Note 8

Financial income and expense

Amounts in NOK million	2005	2004	2003
Interest income	897	927	971
Net gain on securities	168	72	182
Dividends received	170	164	136
Interest income and other financial income	1,235	1,163	1,291
Interest expense	(1,745)	(2,077)	(2,782)
Capitalized interest	867	664	715
Net foreign exchange gain (loss)	(2,159)	1,350	1,034
Other, net[1]	(89)	(964)	(104)
Interest expense and foreign exchange gain (loss)	(3,125)	(1,027)	(1,136)
Financial income (expense), net	(1,890)	137	155

1) Other, net includes premium paid for early retirement of long-term debt (breaking costs) of NOK 6 million for 2005 and NOK 938 million for 2004.

Note 9

Other income and expense

For the year 2005, other income was NOK 990 million. Other income consisted of a gain of NOK 233 million on the sale of Hydro's remaining interest in Pronova Biocare, a gain of NOK 65 million related to the final settlement of the 2003 sale of Hydro's share in the Skandinaviska Raffinaderi AB, the Scanraff oil refinery, and a gain of NOK 693 million on the disposal of the 68.8 percent interest in Biomar.

For 2004, other income was NOK 169 million. Other income consisted of a gain on the divestment of 80.1 percent of Pronova Biocare of NOK 110 million and a gain of NOK 59 million related to an adjustment of the price for the 2003 sale of Hydro's share in Scanraff.

For the year 2003, other income and expense resulted in a loss of NOK 1,253 million. The loss included a charge of NOK 2,207 million resulting from new Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian Continental Shelf. In accordance with earlier regulations, removal costs could not be deducted when calculating taxable income. Instead, the Norwegian state assumed a portion of the removal costs by means of a special removal grant. The new rules permit removal costs to be deducted from taxable income. The amendment resulted in a charge in the second quarter representing the estimated value of expected grants. At the same time a deferred tax asset representing the value of the new tax deductions was included as a reduction to the tax provision for the second quarter in the amount of NOK 2,380 million. Further, other income consisted of a gain on the sale of Hydro's share in Scanraff of NOK 490 million. The remaining NOK 464 million consisted of a gain from the transfer of Hydro's interest in the Sundsfjord power plant (NOK 326 million) and a gain on the disposal of Carmeda AB (NOK 138 million).

Note 10

Income taxes

Amounts in NOK million	2005	2004	2003
Income from continuing operations before taxes and minority interest:			
Norway	40,254	29,378	19,657
Other countries	5,898	3,403	1,489
Total	46,152	32,781	21,146
Current taxes:			
Norway	28,784	22,537	13,696
Other countries	2,053	1,605	812
Current income tax expense	30,837	24,142	14,508
Deferred taxes:			
Norway	(217)	(2,340)	(1,487)
Other countries	(302)	(606)	(98)
Deferred tax expense (benefit)	(519)	(2,945)	(1,585)
Total income tax expense	30,317	21,197	12,923

COMPONENTS OF DEFERRED INCOME TAX EXPENSE

Amounts in NOK million	2005	2004	2003
Deferred tax expense (benefit), excluding items below	(1,532)	(2,295)	734
Benefits of tax loss carryforwards	(575)	157	(79)
Tax expense (benefit) allocated to other comprehensive income	529	64	188
Effect of tax law changes	5	(846)	(70)
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations	—	—	(2,380)
Net change in valuation allowance	1,054	(25)	22
Deferred tax expense (benefit) — US GAAP	(519)	(2,945)	(1,585)
Adjustments to N GAAP:			
Tax effects of differences between US GAAP and N GAAP (Note 28)	*46*	*(202)*	*(60)*
Deferred tax expense (benefit) — N GAAP	*(473)*	*(3,147)*	*(1,645)*

RECONCILIATION OF NORWEGIAN NOMINAL STATUTORY TAX RATE TO EFFECTIVE TAX RATE

Amounts in NOK million	2005	2004	2003
Expected income taxes at statutory tax rate[1]	12,923	9,179	5,921
Petroleum surtax[2]	18,739	13,977	9,980
Uplift benefit[2]	(1,357)	(967)	(990)
Hydro-electric power surtax[3]	84	163	152
Tax law changes	5	(846)	(70)
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations	—	—	(2,380)
Losses and other deductions with no tax benefit	1,067	139	216
Non-deductible expenses	105	119	43
Foreign tax rate differences	319	145	170
Tax free income	(683)	(473)	(619)
Dividend exclusion	(23)	(37)	(12)
Losses and other benefits not previously recognized	(579)	(146)	(100)
Other, net	(281)	(56)	611
Income tax expense — US GAAP	30,317	21,197	12,923
Effective tax rate — US GAAP	65.7%	64.7%	61.1%
Tax effect of differences between US GAAP and N GAAP (Note 28)	*46*	*(202)*	*(60)*
income tax expense — N GAAP	*30,364*	*20,995*	*12,863*
income before taxes — N GAAP	*45,656*	*31,963*	*20,793*
Effective tax rate — N GAAP	*66.5%*	*65.7%*	*61.9%*

1) Norwegian nominal statutory tax rate is 28 percent.

2) Income from oil and gas activities on the Norwegian Continental Shelf is taxed according to the Petroleum Tax Law. This stipulates a surtax of 50 percent after deducting uplift, a special deduction for surtax, in addition to normal corporate taxation of 28 percent.

3) A surtax of 27 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December, 2005 and 2004.

	US GAAP Deferred Tax			
Amounts in NOK million	**Assets 2005**	**Liabilities 2005**	**Assets 2004**	**Liabilities 2004**
Short-term:				
Marketable securities	4	—	—	(4)
Inventory valuation	435	(410)	178	(295)
Accrued expenses	1,174	(1,115)	899	(558)
Unrealized exchange (gains) losses	958	(852)	354	(725)
Uplift benefit	1,068	—	766	—
Other	5	—	162	—
Long-term:				
Unrealized exchange (gains) losses	736	(1,350)	695	(223)
Property, plant and equipment	6,325	(40,893)	5,617	(34,862)
Capitalized interest	—	(3,506)	—	(3,379)
Exploration drilling costs	—	(2,455)	—	(2,323)
Other non-current assets	544	(600)	338	(629)
Accrued expenses	1,179	(681)	1,005	(473)
Pensions	2,209	(1,430)	1,574	(1,390)
Deferred (gains) losses on sales	169	(575)	204	(974)
Uplift benefit	1,740	—	1,613	—
Abandonments and decommissioning accruals	4,866	—	4,395	—
Cash Flow Hedges	13	(42)	—	(320)
Other	788	(697)	842	(1,156)
Tax effect of tax loss carryforwards	3,290	—	1,471	—
Subtotal	25,503	(54,606)	20,113	(47,311)
Total valuation allowance	(2,591)	—	(967)	—
Gross deferred tax assets and liabilities	22,912	(54,606)	19,146	(47,311)
Adjustments for N GAAP:				
(Note 28)				
Short and long-term:				
Differences between US GAAP/N GAAP	*—*	*270*	*—*	*589*
Gross deferred tax assets and liabilities, N GAAP	*22,972*	*(54,396)*	*19,146*	*(46,722)*
Net — N GAAP	*975*	*(32,459)*	*662*	*(28,238)*

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 28,207 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiaries which can be remitted tax-free as dividends.

At the end of 2005, Hydro had tax loss carryforwards of NOK 10,118 million, primarily in United States, Norway, Canada, Jamaica, Malaysia, Spain and Trinidad. Carry forward amounts expire as follows:

Amounts in NOK million	
2006	46
2007	12
2008	65
2009	30
2010	79
After 2010	6,007
Without expiration	3,880
Total tax loss carryforwards	10,118

Note 11

Short-term investments

Amounts in NOK million	2005	2004
Bank, time deposits	1,851	9,151
Marketable equity securities	517	416
Debt securities and other	1,498	1,404
Total short-term investment	3,865	10,970

The net change in unrealized gains on securities for the years ended 31 December 2005, 2004 and 2003 was a net gain of NOK 90 million, a net gain of NOK 91 million and a net gain of NOK 284 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,886 million and NOK 1,781 million as of 31 December 2005 and 2004, respectively.

Note 12

Inventories and other current assets

Amounts in NOK million	2005	2004
Finished goods	6,736	6,096
Work in progress	2,598	2,211
Raw materials	5,218	4,543
Total inventories	14,553	12,851
Prepaid expenses	6,171	3,653
Other current assets	9,742	6,825
Total prepaid expenses and other current assets	15,912	10,478

Note 13

Non-consolidated Investees

Amounts in NOK million	Naturkraft	Hydro Texaco	Alunorf	Alunorte	Søral	Aluchemie	Meridian	QVC	Noretyl	Other	Total
Balance 01.01.2004	4	1,057	1,576	902	568	460	586	310	437	4,262	10,162
Investments (sale), net	43	8		284		524				(327)	532
Change in long-term advances, net						(430)		(54)	(85)	(96)	(665)
Transfers (to) from other investments										(64)	(64)
Hydro's share of net income (loss)	(26)	39	45	375	175	7	68	111	53	192	1,039
Amortization and write-down		(8)	(59)	(18)		(10)				(315)	(410)
Dividends and other payments received by Hydro		(126)			(100)		(26)			(75)	(327)
Foreign currency translation and other		(7)	(30)	1		13	(35)	(6)		(186)	(250)
Balance 31.12.2004	21	963	1,532	1,544	643	564	593	361	405	3,391	10,017
Changes in 2005:											
Investments (sale), net	300			180						(46)	435
Change in long-term advances, net advances, net									(70)	(400)	(470)
Transfers (to) from other investments										(20)	(20)
Hydro's share of net income (loss)	(41)	30	29	279	196	6	60	88	50	53	750
Amortization and write-down			(56)	(21)		(15)				(39)	(131)
Dividends and other payments received by Hydro		(48)	(12)	(27)	(100)	(2)	(35)			(99)	(323)
Foreign currency translation and other		(51)	(63)	413	(19)	(18)	70	63		160	555
Balance 31.12.2005	280	895	1,430	2,368	721	537	688	512	385	3,000	10,814
Accumulated additional amortization N GAAP[1)]							*(139)*			*(6)*	*(145)*
Balance 31.12.2005 N GAAP	*280*	*895*	*1,430*	*2,368*	*721*	*537*	*550*	*512*	*385*	*2,994*	*10,669*

1) Amortization N GAAP 2005 amounts to NOK 41 million

SPECIFICATION OF NON-CONSOLIDATED INVESTEES

Amounts NOK million, except ownership	Percentage owned by Hydro 2005	Investments in and advances to investees 2005	Investments in and advances to investees 2004	Hydro's current receivable (payable), net with investees 2005	Hydro's current receivable (payable), net with investees 2004
Naturkraft	50.0%	280	21	—	—
Hydro Texaco	50.0%	895	963	43	25
Alunorf	50.0%	1,430	1,532	254	(274)
Alunorte	34.0%	2,368	1,544	—	(81)
Søral	49.9%	721	643	(165)	(110)
Aluchemie	36.2%	537	564	—	(6)
Meridian	49.0%	688	593	36	(26)
QVC	29.7%	512	361	1	2
Noretyl	50.0%	385	405	25	39
Others		3,000	3,391	(245)	184
Total		10,814	10,017	(51)	(247)

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follow:

Naturkraft AS, part of Energy and Oil Marketing, is a joint venture between Hydro and Statkraft (50 percent each). Naturkraft is currently constructing a gas power plant. It is expected that the power plant will be finalized during autumn 2007. Each of the partners will supply gas to the power plant for conversion to electricity on a tolling basis. The electricity will be sold in the market by each of the partners. Share of production will be based on the partner's owner ship, unless other conditions are agreed upon.

Hydro Texaco a.s operates 827 gasoline stations and 149 diesel stations in Norway, Denmark and the Baltics. Hydro and ChevronTexaco Corp. each own 50 percent in the joint venture. Hydro sells and purchases oil related products with the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 417 million, 347 million and NOK 428 million in 2005, 2004 and 2003, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 93 million, NOK 248 million and NOK 1,003 million in 2005, 2004 and 2003, respectively. Hydro Texaco is part of Energy and Oil Marketing.

Aluminium Norf GmbH (Alunorf) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Novelis (50 percent each). Each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro based on this tolling arrangement amounted to NOK 1,317 million in 2005, NOK 1,373 million in 2004 and NOK 1,301 million in 2003. Hydro's revenues from sales to Alunorf were not material. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's owner share is 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 1,314 million, 1,109 million, and NOK 907 million in 2005, 2004 and 2003, respectively. Alunorte is part of Metals.

Sør-Norge Aluminium AS (Søral), part of Metals, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each major owner at current market prices. The other 50 percent owner of Søral is an unaffiliated company. Sale of aluminium from Søral to Hydro amounted to NOK 1,047 million, NOK 1,115 million and NOK 949 million in 2005, 2004 and 2003, respectively. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 496 million, NOK 671 million and NOK 356 million in 2005, 2004 and 2003 respectively.

Aluminium & Chemie Rotterdam B.V(Aluchemie) is an anode producer located in the Netherlands. Hydro increased its shareholding in 2004 from 21.21 percent to 36.2 percent. Hydro purchased anodes from Aluchemie amounting to NOK 482 million, NOK 591 million and 285 million in 2005, 2004 and 2003, respectively. Sales from Hydro to Aluchemie amounted to NOK 84 million, NOK 12 million and NOK 50 million in 2005, 2004 and 2003 respectively. Aluchemie is part of Metals.

Meridian Technologies Inc. (Meridian), part of Extrusion and Automotive, is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidiary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro.

Sales from Hydro to Meridian amounted to NOK 196 million, NOK 238 million and NOK 198 million in 2005, 2004 and 2003, respectively.

Hydro owns 29,7 percent of Qatar Vinyl Company Ltd (QVC). The other owners are three unaffiliated companies. QVC produces Caustic Soda, EDC and VCM. Hydro and the other partners deliver technical, marketing and support services to QVC.

Hydro and Borealis own Noretyl AS a joint venture (50-50 percent). Noretyl is part of Hydro Polymers. Hydro paid processing fees to Noretyl for refining of NGL of NOK 277 million, NOK 242 million and NOK 245 million in 2005, 2004 and 2003, respectively.

Non-consolidated investees split by segment can be found in Note 5.

Non-consolidated investees — 100 percent basis

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, is accounted for using the equity method.

INCOME STATEMENT DATA

Amounts in NOK million (unaudited)	2005	2004	2003
Operating revenues	35,513	31,454	24,254
Operating income	4,341	4,212	3,154
Income before taxes and minority interest	4,179	3,816	3,248
Net income	3,248	3,465	2,670
Hydro's share of net income	750	1,039	811

BALANCE SHEET DATA

Amounts in NOK million (unaudited)	2005	2004	2003
Current assets	15,721	15,052	13,504
Non-current assets	34,009	29,759	30,503
Assets	49,730	44,811	44,007
Current liabilities	9,534	8,572	8,083
Non-current liabilities	13,877	13,275	14,049
Minority interest	30	19	—
Shareholders' equity	26,289	22,945	21,875
Liabilities and shareholders' equity	49,730	44,811	44,007
Hydro's investments and advances	10,814	10,017	10,162

Note 14

Intangible assets, prepaid pension, investments and non-current assets

Amounts in NOK million	2005	2004
Goodwill for consolidated subsidiaries	4,100	1,028
Intangible assets, less accumulated amortization (Note 16, note 20)	1,053	1,297
Total intangible assets	5,153	2,325
Prepaid pension (Note 20)	4,659	4,636
Available-for-sale securities at fair value[1)]	—	16
Other investments at cost	2,046	2,065
Non-current assets	5,205	3,996
Prepaid pension, investments and other non-current assets — US GAAP	11,910	10,713
Adjustments[2)]	*(2,967)*	*(2,185)*
Prepaid pension, investments and other non-current assets — N GAAP	*8,943*	*8,528*

1) As of 31 December 2004, available-for-sale securities at cost amounted to NOK 4 million and unrealized holding gain amounted to NOK 12 million.

2) The difference consists of fair value adjustment for cash flow hedge instruments, unrealized gain on available for sale securities, and unrealized gain on freestanding derivatives.

Note 15

Property, plant and equipment

Amounts in NOK million	Land-based activities: Land	Land-based activities: Machinery and equipment	Land-based activities: Buildings	Land-based activities: Plant under construction	Oil and Gas activities[1]	Total
Cost:						
Cost 31.12.2004	1,032	49,337	17,280	4,146	141,142	212,937
Additions at cost	12	1,281	229	3,012	32,576	37,109
Retirements	(7)	(1,911)	(645)	(204)	(552)	(3,320)
Transfers	26	3,859	788	(4,672)	—	—
Foreign currency translation	(8)	675	202	132	1,063	2,063
Implementation effect of *FIN No. 47 Accounting for Conditional Asset Retirement Obligations*	—	186	9	—	—	195
Cost 31.12.2005	1,056	53,426	17,861	2,414	174,229	248,985
Depreciation:						
Accumulated depreciation 31.12.2004	(1)	(28,064)	(7,719)	—	(71,036)	106,820)
Depreciation, depletion and amortization[2]	—	(4,462)	(890)	—	(10,011)	(15,363)
Retirements	—	1,533	313	—	463	2,309
Foreign currency translation and transfers	—	(109)	(122)	—	(604)	(835)
Implementation effect of *FIN No. 47 Accounting for Conditional Asset Retirement Obligations*	—	(85)	(2)	—	—	(87)
Accumulated depreciation 31.12.2005	(1)	(31,187)	(8,420)		(81,188)	(120,795)
Net book value 31.12.2004[3]	1,032	21,273	9561	4146	70,106	106,117
Net book value 31.12.2005[3]	1,055	22,239	9,441	2,414	93,041	128,191
N GAAP adjustments (note 28):						
Accumulated depreciation 31.12.2005 US GAAP	*(1)*	*(31,187)*	*(8,420)*	*—*	*(81,188)*	*(120,795)*
Adjusted impairment N GAAP[4]	*—*	*(159)*	*—*	*—*	*84*	*(75)*
Foreign currency translation	*—*	*(3)*	*—*	*—*	*—*	*(3)*
Accumulated depreciation 31.12.2005 N GAAP	*(1)*	*(31,349)*	*(8,420)*	*—*	*(81,103)*	*(120,872)*
Net book value 31.12.2004 N GAAP[5]	*1,032*	*21,374*	*9,569*	*4,146*	*70,106*	*106,227*
Net book value 31.12.2005 N GAAP	*1,055*	*22,077*	*9,441*	*2,414*	*93,126*	*128,113*

1) Includes land-based Oil and Gas activities and transportation systems for Hydro Oil & Energy.

2) Impairment losses for 2005, 2004 and 2003 were NOK 1,467 million, NOK 2,176 million and NOK 88 million, respectively.

The fair value of the impaired assets was generally estimated by discounting the expected future cash flows of the individual assets. Impairment was indicated by adverse changes in market prices, current period cash flow losses combined with a history of losses, or a significant change in the manner in which the asset is to be used. Impairment losses in 2005 included a write-down of NOK 1,084 million related to the magnesium business in Hydro Aluminium's sub-segment Extrusion & Automotive. The write-down was caused by a significant weakening of the magnesium market during the fourth quarter of 2005. Impairment losses in 2005 did also include NOK 154 million related to Hydro Aluminium's sub-segment Rolled Products and NOK 208 million related to the Telemark field in the Gulf of Mexico in Hydro Oil & Energy's sub-segment Exploration and Production.

3) Includes NOK 542 million and NOK 153 million related to capital leases for 2005 and 2004, respectively.

4) Under N GAAP Hydro Aluminium's sub-segment Rolled Products had an additional impairment loss of NOK 159 million while Hydro Oil & Energy's sub-segment Exploration and Production had a reversal of impairment loss of NOK 84 million.

5) N GAAP cost and accumulated depreciation for 31.12.2004 has been restated to include the implementation of *FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations.*

Note 16

Goodwill and intangibles

INTANGIBLE ASSETS

Amounts in NOK million	Finite Useful Life	Indefinite Useful Life	Total
Cost 31.12.2004	3,205	5	3,210
Additions at cost	106	—	106
Disposals	(184)	—	(184)
Foreign currency translation and other	(54)	—	(54)
Accumulated amortization 31.12.2005	(2,249)	—	(2,249)
Net book value 31.12.2005	823	5	828

Amortization of intangibles of NOK 319 million and NOK 393 million were recorded for 2005 and 2004, respectively. In addition, 2004 figures includes impairment loss of NOK 8 million.

Estimated amortization expense, in million NOK for the next five years is 2006 — 267, 2007 — 200, 2008 — 94, 2009 — 53 and 2010 — 41.

Beginning in 2005 Hydro is required by law to participate in the EU emissions trading system. Quotas are granted on an "installation by installation" basis, and are not exchanged between Hydro entities. Quotas are received for 95 percent (for Norwegian installations) of estimated CO_2 emissions; any emissions shortfall must be covered with quotas purchased in the open market. Both purchased and granted quotas not used in 2005 (2006) can be rolled over to 2006 (2007). As of 31 December 2005 Hydro has retained all government granted quotas for own use and all liability amounts related to CO_2 emission rights are immaterial.

GOODWILL

Amounts in NOK million	Oil & Energy	Aluminium	Total
Balance at December 31, 2004	—	1,028	1,028
Goodwill acquired	2,991	—	2,991
Currency translation effect	15	70	85
Other	—	(4)	(4)
Balance at December 31, 2005	3,005	1,094	4,100
Accumulated additional amortization N GAAP[1)]	*(14)*	*(509)*	*(523)*
Foreign currency translation N GAAP	*(1)*	*(33)*	*(34)*
Balance at December 31, 2005 N GAAP	*2,991*	*552*	*3,543*

1) Amortization N GAAP 2005 amounts to NOK 147 million.

Original cost of goodwill for 2005 was NOK 4,398 million. Accumulated amortization of goodwill for N GAAP amounted to NOK 855 million.

Hydro incurred in 2003 a NOK 166 million goodwill impairment charge in "Other Activities" related to Treka (now named BioMar).

Note 17

Bank loans and other interest-bearing short-term debt

	Weighted average interest rates			
Amounts in NOK million	2005	2004	2005	2004
Bank loans and overdraft facilities	3.5%	2.9%	586	482
Commercial paper	8.5%	8.5%	2	3
Other	2.6%	1.6%	4,069	3,300
Total bank loans and other interest-bearing short-term debt			4,658	3,785

As of 31 December 2005, Norsk Hydro ASA had unused short-term credit facilities with various banks totalling approximately NOK 2,594 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

Note 18

Other current liabilities

Amounts in NOK million	2005	2004
Accounts payable	14,035	13,352
Income taxes payable	13,843	12,421
Payroll and value added taxes	2,956	3,142
Accrued liabilities	10,605	9,534
Other liabilities	5,799	2,891
Total other current liabilities — US GAAP	47,239	41,340
N GAAP adjustments		
Reversal of Cash Flow hedge and derivatives	*(3,453)*	*(960)*
Balance 31.12.2005 N GAAP	*43,786*	*40,380*

Note 19

Long-term debt

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

LONG-TERM DEBT PAYABLE IN VARIOUS CURRENCIES

Amounts in million	Weighted average interest rates	Denominated amount 2005	Balance in NOK 2005	Balance in NOK 2004
USD	7.3%	2,618	17,708	15,802
NOK	5.8%	174	174	527
GBP	6.5%	10	117	182
EUR	6.3%	300	2,401	2,473
Total unsecured debenture bonds			20,401	18,984
USD	5.0%	50	338	164
EUR	4.0%	5	39	123
Other	5.3%		84	114
Total unsecured bank loans			461	401
Capital lease obligations			517	103
Mortgage loans			23	33
Other long-term debt			364	534
Outstanding debt			21,766	20,055
Less: Current portion			(379)	(568)
Total long-term debt			21,387	19,487

As of 31 December 2005 the fair value of long-term debt, including the current portion, was NOK 25,905 million and the carrying value was NOK 21,766 million.

Foreign currency swaps are not reflected in the table above. (See Note 24).

PAYMENTS ON LONG-TERM DEBT FALL DUE AS FOLLOWS

Amounts in NOK million	Debentures	Bank loans	Capital lease and other	Total
2006	174	25	180	379
2007	—	80	283	363
2008	—	76	67	143
2009	2,029	76	66	2,171
2010	2,401	154	36	2,591
Thereafter	15,795	51	273	16,119
Total	20,401[1)]	461	904	21,766

1) Of which Norsk Hydro ASA (the parent company) is responsible for NOK 20,292 million.

Norsk Hydro ASA has entered into a syndicated long-term revolving credit facility with several international banks for a total amount of USD 2,000 million maturing in 2012. The commitment fee on the facility is 0.0525 percent per annum for the first five years, 0.06 percent thereafter. Hydro has also entered into a long-term loan facility of EUR 300 million with European Investment Bank (EIB). There are no borrowings under these facilities as of 31 December 2005.

Note 20

Employee retirement plans

Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans. Hydro uses a December 31 measurement date for the majority of its defined pension benefit retirement plans.

NET PERIODIC PENSION COST

Amounts in NOK million	2005	2004	2003
Defined benefit plans:			
Benefits earned during the year, net of participants' contributions	830	813	637
Interest cost on prior period benefit obligation	1,292	1,355	1,259
Expected return on plan assets	(1,003)	(1,000)	(892)
Recognized loss	283	345	290
Amortization of prior service cost	107	111	115
Amortization of net transition (asset) obligation	—	3	(6)
Curtailment loss	1	59	20
Settlement loss	—	30	199
Net periodic pension cost	1,510	1,716	1,622
Defined contribution plans	45	32	28
Multiemployer plans	26	35	13
Termination benefits and other	604	338	410
Total net periodic pension cost	2,185	2,121	2,073
Change in the additional minimum pension liability included within other comprehensive income	724	189	216

CHANGE IN PROJECTED BENEFIT OBLIGATION (PBO)

Amounts in NOK million	2005	2004
Projected benefit obligation at beginning of year	(25,399)	(23,456)
Benefits earned during the year	(851)	(840)
Interest cost on prior period benefit obligation	(1292)	(1355)
Actuarial loss	(4,799)	(864)
Plan amendments	(20)	(23)
Benefits paid	875	870
Curtailment loss	—	(8)
Settlements	2	85
Special termination benefits	(80)	(52)
Divestments	6	54
Business combinations	(40)	—
Foreign currency translation	38	190
Projected benefit obligation at end of year	(31,560)	(25,399)

CHANGE IN PENSION PLAN ASSETS

Amounts in NOK million	2005	2004
Fair value of plan assets at beginning of year	16,504	14,669
Actual return on plan assets	2,528	1,699
Company contributions	769	924
Plan participants' contributions	21	26
Benefits paid	(596)	(605)
Settlements	(2)	(88)
Divestments	(4)	(33)
Foreign currency translation	58	(88)
Fair value of plan assets at end of year	19,277	16,504

STATUS OF PENSION PLANS RECONCILED TO BALANCE SHEET

Amounts in NOK million	2005	2004
Defined benefit plans:		
Funded status of the plans at end of year	(12,282)	(8,895)
Unrecognized net loss	9,498	6,557
Unrecognized prior service cost	883	967
Net accrued pension recognized	(1,902)	(1,371)
Termination benefits and other	(1,247)	(1,161)
Total net accrued pension recognized	(3,148)	(2,532)
Amounts recognized in the balance sheet consist of:		
Prepaid pension	4,659	4,636
Accrued pension liabilities	(9,939)	(8,569)
Intangible asset	225	219
Accumulated other comprehensive income	1,907	1,183
Net amount recognized	(3,148)	(2,532)

The accumulated benefit obligation for all defined pension benefit retirement plans was NOK 26,163 million and NOK 21,460 million at December 31, 2005 and 2004, respectively.

PLANS IN WHICH THE ACCUMULATED BENEFIT OBLIGATION EXCEEDS PLAN ASSETS

Amounts in NOK million	2005	2004
Projected benefit obligation	(15,343)	(12,581)
Accumulated benefit obligation (ABO)	(12,755)	(10,582)
Plan assets	4,250	3,477

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC PENSION COST

	2005	2004	2003
Discount rate	5.2%	5.8%	6.7%
Expected return on plan assets	6.2%	7.0%	7.9%
Rate of compensation increase	3.1%	3.5%	3.5%

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE PENSION OBLIGATION AT END OF YEAR

	2005	2004
Discount rate	4.1%	5.2%
Rate of compensation increase	3.1%	3.1%

WEIGHTED-AVERAGE INVESTMENT PROFILE PLAN ASSETS AT END OF YEAR

	Target Allocation	2005	2004
Asset category			
Equity securities	25-42%	40%	36%
Debt securities	30-54%	41%	36%
Real estate	17%	15%	17%
Other	3-10%	4%	11%
Total		100%	100%

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be one to two percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

In 2003, Hydro incurred a settlement loss of NOK 199 million. The charge included a settlement loss resulting from an agreement between Hydro and an external party, to transfer Hydro's operatorship of certain licenses on the Norwegian continental shelf to the external party, including the transfer of employment for 535 employees, as of 1 January, 2003.

Hydro expects to contribute approximately NOK 1,500 million to its pension plans in 2006. Total pension benefit payments expected to be paid to participants, which include payments funded from Hydro's assets as well as payments paid from the plans are as follows:

EXPECTED PENSION BENEFIT PAYMENTS

Amounts in NOK million	
2006	956
2007	1,027
2008	1,074
2009	1,153
2010	1,231
2011-2015	7,375

Other Retirement Benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 13 million, NOK 19 million and NOK 2 million for 2005, 2004 and 2003, respectively. The post retirement liability was NOK 150 million and NOK 136 million as of 31 December, 2005 and 2004, respectively.

Note 21

Contingencies and other long-term liabilities

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December 2005 and 2004, Hydro had accrued NOK 412 million and NOK 351 million, respectively, for corrective environmental measures. The corresponding expense was NOK 89 million in 2005 compared to NOK 44 million and NOK 31 million in 2004 and 2003, respectively.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

On 30 June 2004 the EFTA Surveillance Authority (ESA) decided that exemptions for certain Norwegian businesses from the electricity tax for the period between 6 February and 31 December 2003 constituted illegal State aid under the EEA Agreement. The decision requires the Norwegian government to make recoveries from those businesses. On 21 July 2005 an application for annulment of the decision launched by the Norwegian Government and the Federation of the Norwegian Processing Industry (PIL) was dismissed by the EFTA court. The total amount which the Norwegian government must recover from Hydro is dependant upon the government's interpretation of ESA's decision. The amount will not be material to Hydro.

At the end of 2004, a dispute arose in connection with a claim against TadAZ, an aluminium company owned by the state of Tajikistan, for non-delivery of approximately 80,000 tonnes of aluminium under a barter contract. The value of the claim is approximately US dollar 145 million. Risks related to non-performance have been mitigated by designated security arrangements. In an award by an arbitration court of 8 November 2005 the court ruled in favor of Hydro and the barter contract was held valid and enforceable. TadAZ has appealed the award to the High Court of London, challenging the arbitration court's jurisdiction. Hydro is confident that the award of the arbitration court will be upheld.

As operator on the Norwegian Continental Shelf Hydro make charges to its partners for pension costs. Since 1 January 2001 pension costs have been charged to the partners on a current basis as a percentage of the salary costs. Prior to that date, costs of funded pensions were charged to the partners based upon pension premiums. Costs related to unfunded pensions were charged when pensions were paid to the recipients. As part of the transition to the current system, Hydro made a one-time charge to its partners related to prior periods. Certain of the partners did not accept the charge and have brought the case to arbitration. During the preparations for the arbitration proceedings the partners have acknowledged that Hydro is entitled to charge all relevant pensions costs incurred as operator. In the third quarter of 2005, Hydro has repaid the one-time charge related to prior periods. These costs will instead be charged to the partners later in accordance with the principles in place prior to 1 January 2001. Final settlement of this issue could result in a range of possible outcomes, resulting in a gain or loss to Hydro.

Hydro has long-term gas sales contracts with E.ON Ruhrgas. Deliveries under the contracts amount to approximately 1.6 bcm per year. According to the contracts, each party may request adjustment of the price provisions at regular intervals during the contract period. Each of Hydro and E.ON Ruhrgas has requested adjustments of the price provisions of the gas sales contracts with effect from 1 January 2005. Failing agreement, E.ON Ruhrgas has, as of 18 October 2005, referred the matter to an independent arbitration panel as provided for under the contracts. Hydro filed its answer and a claim for a price increase on 24 November 2005.

CONTINGENCIES AND OTHER LONG-TERM LIABILITIES

Amounts in NOK million	**2005**	**2004**
Insurance premiums and loss reserves	556	121
Asset retirement obligations	7,447	6,244
Postretirement benefits other than pensions	150	136
Derivatives	2,336	759
Other	1,935	1,875
Total US GAAP	12,424	9,134
Adjustment to N GAAP		
Restating asset retirement obligations (Note 28)	*—*	*219*
Cash Flow hedge and derivatives (Note 28)	*(2,155)*	*(651)*
Total N GAAP	*10,269*	*8,702*

Hydro's asset retirement obligations covered by SFAS 143 are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway and other countries as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligations is recognized in the balance sheet in the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement.

Hydro implemented FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations, beginning 31 December 2005. FIN 47 is an interpretation of SFAS 143 Accounting for Asset Retirement Obligations, which refers to legal obligations to perform asset retirement activities. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation, if the fair value of the liability can be reasonably estimated, even if timing and/or method of settlement is conditional on a future event that may not be within the control of the entity. FIN 47 implementation mainly relates to brick-lining used in primary aluminium production within Metals.

ASSET RETIREMENT OBLIGATIONS

Amounts in NOK million	**2005**	**2004**
Total asset retirement obligations 1.1	6,281	5,235
Incurred this year	761	106
Revisions in estimates	326	818
FIN 47 implementation	223	—
Settlements	(356)	(219)
Accretions	404	352
Currency translation	56	(11)
Total asset retirement obligations 31.12	7,694	6,281
Of which:		
Short term asset retirement obligations	247	37
Long term asset retirement obligations	7,447	6,244

According to FIN 47, previous years should not be restated. The following table reconciles the reported net income, reported earnings per share and asset retirement obligations to that which would have resulted for the earlier years assuming FIN 47 were adopted 1 January 2003.

PRO FORMA INFORMATION (UNAUDITED)

Amounts in NOK million, except per share data	2005	2004	2003
Net income	15,638	12,560	10,968
Depreciation change (after tax)	(31)	(32)	(32)
Other operating cost (after tax)	28	29	29
Cumulative effects of changes in accounting principles	78	—	—
Pro forma net income	15,713	12,557	10,966
Reported basic and diluted earnings per share	62.40	49.40	42.60
Net adjustment changes in accounting principles earnings per share	0.30	—	—
Pro forma basic and diluted earnings per share	62.70	49.40	42.60
Pro forma Asset Retirement Obligation, 1 January	6,500	5,451	4,748

Note 22

Secured debt and guarantees

Amounts in NOK million	2005	2004
Amount of secured debt	23	33
Assets used as security:		
Machinery and equipment	32	41
Buildings	57	62
Other	2	2
Total	91	105
Guarantees (off-balance sheet):		
Non-consolidated investee debt	89	86
Contingency for discounted bills	113	92
Tax guarantees	406	1,354
Sales guarantees	7,925	8,200
Commercial guarantees	15,702	9,390
Total	24,235	19,122

Hydro is contingently liable for guarantees made directly or on behalf of subsidiaries by the parent company, Norsk Hydro ASA, in the normal course of business. The amounts in the table above represents the maximum amount of potential future payments related to such guarantees. None of the contingent amounts described above are recorded on the balance sheet as of 31 December 2005.

Guarantees of non-consolidated investee debt relates to guarantees covering credit facilities with external banks. Tax guarantees includes guarantees to tax authorities regarding the non-taxable treatment on gains on internal sales of assets. Gains on such sales could become taxable if certain assets were sold outside the group. Hydro controls whether such assets are offered for sale outside the group. Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. The amount indicated includes liabilities relating to the demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. In addition, Hydro has certain guarantees relating to sales of companies that are unspecified in amount and unlimited in time. No amounts relating to such guarantees are included in the table above. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote. Historically, Hydro has not made any significant indemnification payments under such guarantees and no amount has been accrued in the consolidated financial statements. Hydro estimates that the fair value of guarantees related to sale of companies is immaterial.

In addition to guarantees relating to the sale or divestment of companies, Hydro has guaranteed certain recoverable reserves of crude oil in the Veslefrikk field on the NCS as part of an asset exchange between Hydro and Petro Canada. Under the guarantee, Hydro is obligated to deliver indemnity reserves to Petro Canada in the event that recoverable reserves are evaluated to be lower than a specified amount. An evaluation of the recoverable reserves was completed in 2002 in accordance with the agreement which resulted in compensation by Hydro to Petro Canada. The agreement with Petro Canada was renegotiated in 2002 with the possibility of making a new evaluation of the reserves in 2008, 2014 and the end of the field's productive lifetime. The agreement includes the possibility of recovery by Hydro of earlier compensation if new evaluations indicate improvements in the estimated recoverability. The guarantee is not applicable in cases of force majeure, the failure of the field operator to comply with appropriate field practices and other instances. As of 31 December 2005, the remaining volume covered under the guarantee was 0,88 million Sm^3 of crude oil, equivalent to approximately NOK 2,208 million calculated at current market prices. As of 31 December 2004, the remaining volume covered under the guarantee was 1.02 million Sm^3 of crude oil, equivalent to approximately NOK 1,569 million.

Commercial guarantees consist of advance payment guarantees, bid bonds, stand-by letters of credit, performance guarantees and payment guarantees. While most commercial guarantees are issued directly by the parent company, certain guarantees are obtained from external banks and covered by Hydro by a counter indemnity to such banks. Hydro's contingent liability relating to commercial guarantees is linked to the performance of its subsidiaries under various contracts. Because the payment of commercial guarantees is related to events directly or indirectly controlled by Hydro, the risk related to such instruments is considered to be limited. However, a certain portion of the guarantees are payable on demand. Therefore, there is a certain amount of litigation risk in the event of unfair calls relating to such guarantees.

Note 23

Contractual and other commitments for future investments and operations

As of 31 December 2005: Amounts in NOK million	Investments		
	2006	Thereafter	Total
Contract commitments for investments in property, plant and equipment:			
Land based	1,043	51	1,094
Oil and gas fields and transport systems	9,840	9,207	19,047
Total	10,883	9,257	20,140
Additional authorized future investments in property, plant and equipment:			
Land based	851	602	1,453
Oil and gas fields and transport systems	659	32	691
Total	1,510	634	2,144
Contract commitments for other future investments:	34	117	151

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

Hydro has entered into take-and-pay and long-term contracts providing for future payments to secure pipeline and transportation capacity, processing services, raw materials and electricity and steam. In addition, Hydro has entered into long-term sales commitments to deliver goods. This principally relates to obligations to deliver gas from fields on the Norwegian Continental Shelf for a total amount of NOK 232 billion.

The non-cancelable future fixed and determinable obligation as of 31 December 2005 is as follows:

TAKE-AND-PAY AND LONG-TERM CONTRACTS

Amounts in NOK million	Transport and Other	Raw materials	Energy related	Sales commitments
2006	1,352	1,784	7,224	(20,606)
2007	944	1,374	10,797	(22,723)
2008	797	1,058	4,552	(16,618)
2009	838	1,057	3,765	(14,077)
2010	812	1,059	2,221	(13,810)
Thereafter	4,846	7,172	14,217	(152,190)
Total	9,588	13,505	42,774	(240,024)

Terms of certain of these agreements include additional charges covering variable operating expenses in addition to the fixed and determinable component shown above, including contracts to purchase 19 million tonnes of alumina over the next 25 years where the variable part of the prices are normally linked to the London Metal Exchange quoted prices.

Hydro has also entered into take-and-pay and other long-term contracts as part of shareholders agreement in non-consolidated investees, including contracts to purchase 37 million tonnes of alumina over the next 17 years. These commitments are not included in the figures above.

The total purchases under the take-and-pay agreements and long-term contracts were as follows (in NOK million): 2005 — 7,438; 2004 — 4,736; 2003 — 2,670 and 2002 — 3,065.

Note 24

Market risk management and derivative instruments

Hydro is exposed to market risks from prices on commodities bought and sold, prices on other raw materials, currency exchange rates and interest rates. Depending on the degree of price volatility, such fluctuations in market prices may create fluctuations in Hydro's results. To manage this exposure, Hydro's main strategy is to maintain a strong financial position to be able to meet fluctuations in results.

Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis. Natural hedging positions are established where possible and if economically viable. Hydro uses financial derivatives to some extent to manage financial and commercial risk exposures.

Some of Hydro's commodity contracts are deemed to be derivatives under US GAAP. Derivative instruments, whether physically or financially settled, are accounted for under FASB Statements of Financial Accounting Standards No. 133 *Accounting for Derivative Instruments and Hedging Activities* as amended. All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair value of derivative instruments recognized in earnings, unless specific hedge criteria are met.

Commodity Price Risk Exposure

Oil

Hydro produces and sells crude oil and gas liquids. Hydro's production of crude oil and gas liquids is, for the most part, sold in the spot market. Hydro utilizes futures, swaps and options to mitigate unwanted price exposures for a portion of its crude oil portfolio production. While engaging in economic hedging activities, as of the end of 2005 Hydro has no hedge accounting program in place for the purpose of protecting against the risk of low oil prices. The main portion of economic hedge activities entered into in 2005 relates to the acquisition of Spinnaker, see economic hedges below.

Natural gas

Hydro is a producer, buyer, seller and to a limited extent consumer, of natural gas. The majority of Hydro's equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil products. Hydro utilizes instruments such as forwards, swaps and options to mitigate unwanted price exposures on the portion of the natural gas portfolio not sold on long-term contracts. The main portion of economic hedge activities entered into in 2005 related to the acquisition of Spinnaker, see economic hedges below. Hydro is also participating in trading activities based on partly own gas production and partly externally sourced gas volumes. In addition, Hydro engages in limited energy trading activity in derivatives as defined under EITF 02-3. The fair value of these traded financial instruments is determined by reference to various market prices or by use of other appropriate valuation methodologies. Commodity price, foreign exchange rate and credit exposures arising from energy trading have not been significant.

An increasing number of the Company's sales and purchase contracts related to natural gas are being classified as derivatives or deemed to contain embedded derivatives according to SFAS 133. These contracts are marked to their market value with changes to market value recognized in operating income. Gas contracts can be indexed to oil prices or quoted gas prices at recognized gas delivery points such as the National Balancing Point (NBP) in Great Britain, Zeebrugge Hub (ZB) in Belgium or the Dutch Title Transfer Facility (TTF). Only a portion of these derivative contracts are hedged with other natural gas derivatives. As such Hydro expects to have certain open derivative positions at any one point in time, which can result in earnings fluctuations. The magnitude of the unrealized gains and losses on these contracts will be influenced by geographical price differentials and spreads on the above mentioned gas contract indices.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term commodity purchase contracts with other producers and suppliers to secure electricity for Hydro's own consumption and delivery commitments.

In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volumes, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange (Nord Pool). Hydro participates in limited speculative trading.

Aluminium

Hydro produces primary aluminium and fabricated aluminium products. Hydro's sourcing and trading activities procure raw materials and primary aluminium for use in Hydro's smelters or in downstream operations. These materials are also sold to external customers. In addition, the trading activities contribute to optimize capacity utilization and to reduce logistical costs, as well as strengthening market positions by providing customers with flexibility in pricing and sourcing. Hydro has considerable activities relating to remelting and long-term commercial agreements to secure sourcing of casthouse products. All these activities are considered when evaluating the risk profile of Hydro's aluminium activities.

Hydro enters into future contracts with the London Metal Exchange (LME) mainly for the following purposes. The first is to achieve an average LME aluminium price on smelter production. Secondly, because the Company's downstream business and the sale of third party products are margin businesses, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking LME positions based upon net exposures. Aluminium price volatility can result in significant fluctuations in earnings as these positions are marked to their market value with changes to market value recognized in operating income. See also economic hedges below.

From time to time Hydro sells forward on a longer term to secure the margins for certain projects or related to special situations. In these situations, hedge accounting is often utilized. See the section on cash flow hedges below.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2005 and 31 December 2004. Contracts that are designated as hedging instruments in cash flow and fair value hedges are not included. The presentation of fair values for electricity and natural gas contracts shown in the table below include the fair value of derivative instruments such as futures, forwards and swaps in conjunction with the fair values of physical contracts.

Amounts in NOK million	2005	2004
Assets:		
Swaps and futures, crude oil	9	55
Electricity contracts	1,570	391
Natural gas contracts	4,275	1,525
Aluminium futures, swaps and options	—	177
Total	5,854	2,147
Liabilities:		
Electricity contracts	(391)	(197)
Natural gas contracts	(4,063)	(988)
Swaps and futures, crude oil	(175)	(62)
Aluminium futures, swaps and options	(902)	—
Total	(5,530)	(1,247)

Foreign Currency Risk Exposure

Prices of many of Hydro's most important products, mainly crude oil, aluminium and natural gas, are either denominated in US dollar or are influenced by movements in the value of other currencies against the US dollar. Further, the cost of raw materials, including natural gas, NGLs and alumina, are affected by the US dollar price of crude oil or the US dollar price of aluminium, and variations in the US dollar exchange rates against local currencies. Hydro's primary foreign currency risk is therefore linked to fluctuations in the value of the US dollar. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars. As of 31 December 2005, 85 percent of Hydro's long-term debt is denominated in US dollars. The majority of the remaining long-term debt is denominated in Euro, Norwegian kroner and British pounds.

Hydro also employs foreign currency swaps and forward currency contracts to manage the currency exposures for Hydro's long-term debt portfolio. Forward currency contracts are entered into to safeguard cash flows for forecasted transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

Hydro also incurs costs related to the production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian krone, US dollar, Canadian dollar, Australian dollar, British Pounds and Swedish krone. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian krone for subsidiaries outside of Norway can influence the comparative results of operations.

Hydro has previously designated a portion of its foreign-denominated long-term debt, including certain related balances in currencies arising from foreign currency swaps and forwards, as hedges of net foreign investments in subsidiary companies. As of 1 January 2005 Hydro no longer designated portions of its long-term debt and forward currency contracts as hedges of net investments in foreign subsidiaries.

The foreign currency effects of these former net investment hedges reflected in the cumulative translation section of shareholders' equity produced a NOK 320 million after-tax gain during the year ended 31 December 2004; offsetting a foreign currency translation loss of NOK 1,628 million in shareholders' equity for 2004. On 10 November 2005 Hydro agreed to sell the entire investment in Biomar Holding A/S. A net investment hedging loss of NOK 33 million was expensed to the income statement from equity relating to this transaction.

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2005 and 31 December 2004. Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

Amounts in NOK million	2005	2004
Assets:		
Currency forwards and swaps	310	757
Liabilities:		
Currency forwards and swaps	(297)	(23)

The currency contracts listed below were outstanding as of 31 December 2005.

Currency Amount in million	Nominal value in currency	Fair value in NOK	Maturity by nominal amount in currency: Within one year	Later
Buying currency				
AUD	10	49	10	—
CAD	83	461	41	42
EUR	730	5,814	730	—
GBP	174	2,004	174	
NOK	14,294	14,258	14,294	—
USD	63	326	—	63
Selling currency				
DKK	(385)	(413)	(385)	—
JPY	(5,142)	(280)	(200)	(4,942)
SEK	(2,775)	(2,362)	(2,775)	—
USD	(2,953)	(19,847)	(2,926)	(27)

Interest Rate Exposure

Hydro is exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund its business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its total interest bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure. The fair value of interest rate derivatives at 31 December 2005 and 2004 are immaterial and not presented here.

Cash Flow Hedges

The expansion project at the Sunndal metal plant increased Hydro's exposure to commodity prices and foreign currency exchange rates. Accordingly, Hydro entered into short positions using aluminium futures traded on London Metal Exchange and US dollar forward contracts to secure an average aluminium price of approximately NOK 14,000 per tonne of a portion of the forecasted sales of primary metal production per year for the period 2003 to 2007. As of 31 December 2005, Hydro had sold forward about 206,000 tonnes (315,000 tonnes in 2004) of primary aluminium at an average price of approximately US dollar 1,500 per tonne. In addition Hydro has secured the exchange rate against the US dollar at approximately NOK 9.4 per US dollar for the same tonnage. Gains and losses on these derivatives are recorded to OCI and will be reclassified into operating revenues when the corresponding forecasted sale of aluminium is recognized. No amount of ineffectiveness was recognized in 2005 and 2004 since the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar. A gain after tax of NOK 198 million is expected to be classified from OCI into earnings during the period ending 31 December 2006. A gain after tax of NOK 185 million was reclassified from OCI into earnings during 2005. A gain after tax of NOK 201 million and NOK 185 million was reclassified from OCI into earnings during 2004 and 2003, respectively. As of 31 December 2005 the maximum length of time over which the Company is hedging its exposure to the variability in cash flows is two years.

In 2003, a major expansion project at the Alouette plant in Canada increased Hydro's exposure to foreign currency exchange rates. Hydro's investment in the plant is in US dollar while approximately 78 percent of the expected payments for the expansion project in Canada were denominated in Canadian dollar (CAD). Hydro entered into currency forward contracts to sell US dollar and buy Canadian dollar as part of a cash flow hedge of forecasted CAD payments for the period March 2003 -March 2006. The notional amount of the contracts was approximately CAD 39,6 million at 31 December 2004 (CAD 206 million at the inception of the project in 2003) at an average rate of 1.56 CAD per USD. Gains and losses on these derivatives that were recorded in OCI will be reclassified into earnings in the same period during which the hedged forecasted transactions affect earnings (that is, in the same time period depreciation is recognized. No amount of ineffectiveness was recognized in 2005, 2004 or 2003 since the critical terms of the derivatives and the forecasted payments are substantially similar. The plant construction was completed in November 2005, and all hedging instruments were reclassified to freestanding derivatives with changes in fair value recorded directly to earnings from this date. A gain after tax of NOK 3 million was reclassified from OCI into earnings during the period ending 31 December 2005. A gain after tax of NOK 4 million is expected to be classified from OCI into earnings during the period ending 31 December 2006.

At the end of 2005 Hydro sold forward about 130,000 tonnes of primary aluminium, equally spread over the time period, from April to December 2006, in order to secure acceptable operating margins for a portion of its primary metal production for 2006, and to mitige the effects of higher energy costs, especially in Germany. The average forward price for the period is US dollar 2,140 per tonne. The forward sale is accounted for as a cash-flow hedge from December 2005 with a loss of NOK 44 million after tax recorded to OCI. No amount of ineffectiveness was recognized in 2005 since the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar. The entire amount is expected to be reclassified from OCI to operating revenues when the corresponding forecasted sale of aluminium is recognized during 2006.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2005 and 31 December 2004.

Amounts in NOK million	2005	2004
Assets:		
Cash flow hedging instruments, currency	730	1,396
Total	730	1,396
Liabilities:		
Cash flow hedging instruments, aluminium	(844)	(497)
Total	(844)	(497)

Economic Hedges

In certain cases, Hydro enters into derivative transactions which are not designated as hedges for accounting purposes, but provide an economic hedge of a particular transaction risk or a risk component of a transaction. Hedging instruments include aluminium future contracts on the LME, oil swaps and certain other derivative instruments. Gains and losses on economic hedges are booked either as part of operating revenues or as part of goods sold.

For 2005 a loss of NOK 515 million relating to economic hedges is recognized as part of operating revenues. A gain of NOK 210 million and a gain of NOK 292 million were recognized in operating revenues on economic hedges in 2004 and 2003, respectively.

In 2005, a loss of NOK 195 million relating to economic hedges is recognized as part of goods sold. A gain of NOK 90 million and a loss of NOK 495 million were similarly recognized as cost of goods sold in 2004 and 2003, respectively.

In connection with the acquisition of Spinnaker Inc., Hydro purchased put options on gas prices in the US and executed a collar (buying a put option in combination with selling a call option) on oil prices in the US. These derivative transactions hedge the value of expected oil and gas production volumes associated with the ex-Spinnaker enterprise, covering a period of three years. Overall, the economic hedges relating to Spinnaker are recognized in operating revenues with an unrealized loss of NOK 440 million for 2005.

In addition to the economic commodity hedges, Hydro also performs trading operations to reduce currency exposures on commodity positions. The effect of such operations is recognized as a part of Financial income (expense), net, in the income statement.

Fair Value of Derivative Instruments

The fair market value of derivative financial instruments such as currency forwards and swaps is based on quoted market prices. The fair market value of aluminium futures and option contracts is based on quoted market prices obtained from the London Metals Exchange. The fair value of other commodity over-the-counter contracts and swaps is based on quoted market prices, estimates obtained from brokers and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recognized at fair value in accordance with SFAS 133, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available.

See note 19 for fair value information of Hydro's long-term debt.

Credit Risk Management

Setting counterparty risk limits, requiring insurance, and establishing procedures for monitoring exposures and settlement of accounts limits Hydro's credit risk. Hydro's overall credit risk level is reduced through a diversified customer base representing various industries and geographic areas. Follow-up of timely payments of accounts receivables is given high priority.

Credit risk arising from the inability of a counter party to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is substantially limited since most instruments are settled through commodity exchanges. Counterparty risk related to the use of derivative instruments and financial operations is regarded as minimal.

Note 25

External audit remuneration

Deloitte statsautoriserte revisorer AS (Deloitte) is the principal auditor of Norsk Hydro ASA. Certain portions of audits are performed by Ernst & Young and other firms. The following table shows audit and non-audit fees for the fiscal years 2005 and 2004. The figures include fees related to 2004 discontinued operations.

2005 **Amounts in NOK thousands**	**Audit fees**	**Audit related fees**	**Other non-audit fees**	**Tax fees**	**Total**
Deloitte Norway[1]	32,210	1,796	1,444	631	36,081
Deloitte Abroad	25,696	3,126	131	6,784	35,737
Total Deloitte	57,906	4,921	1,575	7,416	71,818
Ernst & Young[2]	11,312	396	—	958	12,667
Others	3,041	403	1,244	1,149	5,836
Total fees	72,259	5,720	2,819	9,523	90,321

2004 **Amounts in NOK thousands**	**Audit fees**	**Audit related fees**	**Other non-audit fees**	**Tax fees**	**Total**
Deloitte Norway	24,691	2,018	1,337	17	28,063
Deloitte Abroad	23,399	4,899	427	7,445	36,170
Total Deloitte	48,090	6,917	1,764	7,462	64,233
Ernst & Young[2]	11,095	929	—	2,200	14,224
Others	3,660	1,314	1,215	1,774	7,963
Total fees	62,845	9,159	2,979	11,436	86,420

1) From 2005 the audit fees from Deloitte Norway include the audit of the oil and gas licences operated by Hydro. The cost for 2005 was NOK 2,4 million.
The corresponding amount for 2004 was NOK 2,3 million, not included in this table.

2) Amounts for Ernst & Young relate to Hydro subsidiaries under Ernst & Young's audit.
Ernst & Young provides non-audit services to subsidiaries that it does not audit; such fees are not included in this table.

Note 26

Related parties and Variable Interest Entities

Related Parties

The Norwegian State owned as of 31 December 2005, 113,483,658 ordinary shares representing 43.8 percent of the total number of ordinary shares issued, representing 45.4 percent of the shares outstanding as of the same date. There are no different voting rights associated with the ordinary shares held by the State.

A buy back program covering up to 5,617,621 shares was authorized at the extraordinary General Meeting in December 2004. As of 31 December 2005, 934,400 shares were bought back under this program. An agreement with the Norwegian State allows redemption of a proportional share of the State's shares. A total of 10 million shares may be cancelled under the program, including shares owned by the Norwegian State, or the equivalent of approximately four percent of the Company's outstanding shares. A final decision on canceling any of the shares repurchased must be approved by a minimum of two-thirds of the shares represented at a General Meeting of shareholders.

The extraordinary General Meetings in January 2004 and December 2004 authorized the cancellation of 1,484,300 and 2,808,810 repurchased shares respectively. Based on an agreement with the Norwegian State, Hydro's largest shareholder, a proportional share of the State's shares of 1,157,922 and 2,191,190 respectively, was redeemed. As compensation, the State received an amount equal to the market price paid by Hydro, plus interest of NIBOR plus one percent, for the period between the share purchases and the payment to the State. For the transactions, the State received compensation of NOK 445 million in 2004 and 981 million in February 2005.

Transactions with non-consolidated investees are described in Note 13 Non-Consolidated Investees.

Members, observers and deputy members of the corporate assembly owning ordinary shares as of 31 December 2005 are:

	Number of shares
Nils Roar Brevik	1
Sven Edin	224
Anne-Margrethe Firing	1,164
Billy Fredagsvik	38
Tore Amund Fredriksen	24
Sónia F.T. Gjesdal	117
Westye Høegh	16,200
Kjell Kvinge	222
Astri Sylvi Lem	150
Dag Harald Madsen	23
Line Melkild	23
Bjørn Nedreaas	39
Wolfgang Ruch	25
Anne Merete Steensland	24,272
Rune Strande	1
Svein Steen Thomassen	100
Svein Aaser	1,872

Variable Interest Entities

Hydro has one arrangement that meets the requirements of FIN 46R to be classified as a VIE. Hydro has an equity interest in Slovalco, an aluminium smelter with an annual capacity of 175 thousand tonnes in Slovakia. Hydro also has an agreement to supply Slovalco with alumina and a right and obligation to purchase approximately 60 percent of Slovalco's total aluminium production at market based prices. Hydro owns 20 percent of the shares of Slovalco representing 40 percent of the voting rights. In 2001, Hydro entered into a put and call option arrangement with another shareholder that could increase Hydro's interest up to 65 percent. This arrangement, which expires every year at 31 December and has been renewed through 31 December 2006, is the primary reason requiring Hydro to consolidate Slovalco in accordance with the VIE regulations.

Hydro has consolidated Slovalco in accordance with the requirements effective from 1 January 2004. Related assets, liabilities and the 80 percent non-controlling interests have been measured based on their fair values at the time the option arrangement was entered into in 2001 and recorded based on such values carried forward to 1 January 2004. As of 1 January 2004, total assets, liabilities and non-controlling interests were NOK 2,182 million, NOK 725 million and NOK 1,165 million respectively. At the end of 2003, the difference between Hydro's interest in Slovalco consolidated based on the requirements in FIN 46R compared to the equity method was immaterial. At the end of 2005 total assets, liabilities and non-controlling interests were NOK 2,084 million, NOK 675 million and NOK 903 million. The lenders to Slovalco have no recourse to Hydro.

Note 27

Supplementary oil and gas information

Hydro uses the ''successful efforts'' method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Once the exploration drilling demonstrates that sufficient quantities of resources have been discovered, continued capitalization is dependent on project reviews, which take place periodically and no less frequently than every quarter, to ensure that satisfactory progress for the well or group of wells toward ultimate development of the reserves is being achieved. Evaluation of whether commercial quantities of hydrocarbons have been discovered is based on existing technology and price conditions, unless Hydro expects long-term price conditions to be less favorable.

Most of Hydro's exploration activities are performed in areas requiring major capital expenditures, such as platforms or sub-sea stations with related equipment. For complicated offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended on the balance sheet for several years while we perform appraisal work, evaluate the optimal development plans and timing, and secure final regulatory approvals for development. Appraisal work for each project normally includes an assessment process covering choice of the optimal technical and economical solution taking into consideration existing pipelines, platforms and processing facilities in the area, regulatory issues including environmental requirements and legal issues, and relationship to other joint ventures involved in the area and/or utilizing the same infrastructure. When the appraisal work is completed, the Plan for Development and Operation (PDO), which shall contain an account of economic aspects, resource aspects, technical, safety related, commercial and environmental aspects as well as information as to how a facility may be decommissioned and disposed of when petroleum activities ceases, can be prepared.

Discovered reserves are classified as ''proved reserved'' (as defined by SEC's rules) when the PDO is submitted to the authorities for approval (Norway) or the project has matured to a similar level (outside Norway). At the same time, related costs are transferred to development cost. It normally takes more than one year to complete all of the activities that permit recognition of proved reserves under the current SEC guidelines.

Cost relating to acquired exploration rights are allocated to the relevant areas, pending the determination of the existence of proved reserves. The acquired exploration rights are charged to operating expense when a determination is made that proved reserves will not be found in the area. Each block or area is assessed separately, based on exploration experience. Capitalized exploration and development costs are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that Hydro uses future net cash flows to evaluate unproved properties for impairment, the unproved reserves are risk adjusted before estimating future cash flows associated with those resources. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred.

Costs Incurred on Oil and Gas Properties

CAPITALIZED EXPLORATION COSTS AND COSTS RELATED TO PROPERTY ACQUISITION

	Norway			International			Total		
Amounts in NOK million	2005	2004	2003	2005	2004	2003	2005	2004	2003
Capitalized at beginning of year	583	633	837	662	390	442	1,245	1,023	1,279
Exploration well costs capitalized during the year	356	120	36	351	277	168	707	397	204
Exploration acquisition costs capitalized during the year[1)]	—	65	—	3,918	148	—	3,918	213	—
Capitalized exploration costs charged to expense	(45)	(110)	(35)	(4)	(138)	(136)	(49)	(248)	(171)
Transferred to development	(292)	(125)	(185)	(142)	5	(26)	(434)	(120)	(211)
Disposals	—	—	(19)	—	—	(78)	—	—	(97)
Foreign currency translation	—	—	—	56	(19)	20	56	(19)	20
Capitalized exploration well costs at end of year	538	518	633	791	504	365	1,329	1,022	998
Capitalized acquisition costs at end of year	65	65	—	4,050	159	25	4,115	224	25
Capitalized exploration costs at end of year	603	583	633	4,841	662	390	5,444	1,245	1,023
Wells in process of drilling at end of year	—	85	6	76	201	4	76	286	10
Wells in areas where the drilling program is uncompleted or completed during the year	456	231	341	715	301	346	1,171	532	687
Wells where drilling program is completed more than one year ago	56	182	266	—	—	—	56	182	266
Other cost including acquisition of unproved property	91	85	20	4,050	160	40	4,141	245	60
Capitalized exploration costs at end of year	603	583	633	4,841	662	390	5,444	1,245	1,023

1) The capitalized acquisition costs in 2005 is related to the purchase of Spinnaker Exploration, and licences in Morocco, Libya and Angola. In 2004, NOK 213 million was related to the purchase of license PL 248 in Norway and licenses in the Gulf of Mexico and Madagascar.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling program for the project was completed, and the number of projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling. A project is, in this context, defined as an area which is expected to be developed as one single development solution. A project may use existing infrastructure, including pipelines, processing facilities on existing platforms etc. There may be more than one development solution used for one reservoir or for one license if physical and/or legal and/or economic conditions make that viable.

SPECIFICATION OF AGE OF CATEGORY

	1 year	2 years	3 years	4 years	5 years	More than 5 years	Total
Amounts (NOK million)	44	—	—	—	—	12	56
Number of projects	1	—	—	—	—	1	2

The following is a description of projects that have been capitalized for a period greater than one year following the completion of drilling, including a description of activities undertaken in the project and remaining activities to classify the associated resources as proved reserves.

One year from end of drilling program:

The Idun project

The project consists of one discovery well drilled in 1998 in the Nordland II area, located north in the Norwegian Sea. The discovery consists primarily of gas. In 2004 an appraisal well were drilled, and evaluation of various possible development solutions for the discoveries in this area have been performed. It is decided to develop the Idun field as a joint development with the Skarv field (PL 212). The fields will be developed with sub-sea solutions connected to a production ship. Gas export will be through the Åsgard Transport System to the onshore Kårstø facility. PDO is planned for submittal to the Norwegian Government in 2006 or 2007.

More than 5 years from end of drilling program:

The Grane Outside project

The project consists of one discovery well drilled in 1992 as part of the Grane drilling program which ended in 1998. The well has a total suspended cost of NOK 12 million. In connection with the Grane development, the licenses were unitized. The Grane Outside well was located outside the then established Grane unit, and therefore has a different ownership structure. Grane Outside is planned as a sub-sea development with tie-in to the producing Grane Field installations. Grane Outside is expected to be developed and start production when Grane goes off plateau production, expected in 2008-2010. The development of Grane Outside will require a separate PDO, and has not yet been included as proved reserves.

In addition, four wells were completed more than one year ago. These wells are kept suspended on the balance sheet awaiting the completion of ongoing or planned drilling activities in these areas.

EXPLORATION COSTS INCURRED DURING THE YEAR (UNAUDITED)

	Norway			International			Total		
Amounts in NOK million	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Exploration activity	890	478	437	1,692	934	1,172	2,582	1,412	1,609
Capitalized exploration costs	356	120	36	351	277	168	707	397	204
Capitalized exploration costs charged to expense	(45)	(110)	(35)	(4)	(138)	(136)	(49)	(248)	(171)
Other[1)]	(9)	—	—	91	—	—	82	—	—
Exploration costs expensed during the year	587	468	437	1,254	796	1,140	1,839	1,264	1,577

1) In 2005, NOK 91 million was related to insurance refund in Iran due to an unsuccessful well drilled in 2004.

COSTS RELATED TO DEVELOPMENT, TRANSPORTATION SYSTEMS AND OTHER (UNAUDITED)

	Norway			International			Total		
Amounts in NOK million	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Net book value at beginning of year	61,401	62,672	61,822	7,461	7,540	7,162	68,862	70,212	68,984
Implementation SFAS 143 Asset Retirement Obligation	—	—	1,021	—	—	68	—	—	1,089
Cost incurred during the year	10,258	9,093	7,288	2,596	1,585	1,199	12,854	10,678	8,487
Acquisition cost	21	297	—	15,069	—	—	15,090	297	
Transferred from exploration cost	292	125	185	142	(5)	26	434	120	211
Amortization	(8,330)	(8,259)	(7,525)	(1,473)	(1,566)	(1,589)	(9,803)	(9,825)	(9,114)
Disposals	(32)	(2,527)	(119)	(211)	(3)	(4)	(243)	(2,530)	(123)
Foreign currency translation	—	—	—	404	(90)	678	404	(90)	678
Net book value at end of year	63,610	61,401	62,672	23,989	7,461	7,540	87,599	68,862	70,212

Cost incurred during 2005 included NOK 1,269 million related to activities in Angola, NOK 615 million related to activities in the US, NOK 409 million related to activities in Canada, NOK 257 million related to activities in Libya and NOK 43 million of development cost related to activities in Russia. NOK 461 million and NOK 241 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS 143, mainly resulting from new fields ready for production during the year and changes in estimates.

Cost incurred during 2004 included NOK 972 million, NOK 290 million and NOK 168 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 851 million and NOK 71 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS 143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Cost incurred during 2003 included NOK 686 million, NOK 281 million and NOK 239 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 236 million and NOK 61 million relates to accruals in Norway and International regarding asset retirement obligations under

SFAS 143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Acquisitions in 2005 included NOK 15,069 million related to the purchase of Spinnaker Exploration Company in the Gulf of Mexico, see note 2 for further information. In addition, NOK 21 million was related to the acquisition of Skinfaks in Norway.

Acquisitions in 2004 included NOK 297 million relating to the purchase of 2 percent of the Kristin field in Norway.

Results of Operations for Oil and Gas Producing Activities (unaudited)

As required by SFAS 69, the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Hydro.

The ''results of operations'' should not be equated to net income since no deduction nor allocation is made for interest costs, general corporate overhead costs, and other costs. Income tax expense is a theoretical computation based on the statutory tax rates after giving effect to the effects of uplift and permanent differences only.

RESULTS OF OPERATIONS FOR OIL AND GAS PRODUCING ACTIVITIES

	Norway			International			Total		
Amounts in NOK million	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Sales to unaffiliated customers	10,528	6,817	6,672	6,700	5,039	4,061	17,228	11,856	10,733
Intercompany transfers[1]	45,344	35,164	25,531	—	—	—	45,344	35,164	25,531
Total revenues	55,872	41,981	32,203	6,700	5,039	4,061	62,572	47,020	36,264
Operating costs and expenses:									
Production costs	4774	3,922	3,591	456	412	425	5,230	4,334	4,016
Exploration expenses	587	468	437	1,252	796	1,140	1,839	1,264	1,577
Depreciation, depletion and amortization	8,201	8,101	7,378	1,699	1,578	1,597	9,900	9,679	8,975
Transportation systems	1,691	1,647	1,257	140	118	125	1,831	1,765	1,382
Total expenses	15,253	14,138	12,663	3,547	2,904	3,287	18,800	17,042	15,950
Results of operations before taxes	40,619	27,843	19,540	3,153	2,135	774	43,772	29,978	20,314
Current and deferred income tax expense	(30,810)	(21,279)	(14,802)	(1,602)	(965)	(414)	(32,412)	(22,244)	(15,216)
Results of operations	9,809	6,564	4,738	1,551	1,170	360	11,360	7,734	5,098

1) The majority of intercompany transfers are resold from the Energy and Oil Marketing sub segment without further processing.

Proved Reserves of Oil and Gas (unaudited)

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from undrilled production wells on exploration licenses. Reserves are expected to be revised as oil and gas are produced and additional data become available. International reserves under PSA contracts (production sharing agreement) are shown net of Royalties in kind and Government's share of Profit Oil, based on prices at the balance sheet date.

Adjustments of quantities of oil and gas under PSA contracts following the increased oil and gas prices in 2005 was a reduction of 21 million barrels of oil equivalents (mmboe).

PROVED DEVELOPED AND UNDEVELOPED RESERVES OF OIL AND GAS

	Norway	Norway Natural gas		Norway	International	International Natural gas		International	Total	Total Natural gas		Total
	Oil mmboe[1)]	billion Sm^3 [2)]	billion cf[2)]	Oil and gas mmboe[3)]	Oil mmboe[1)]	billion[2)] Sm^3 [2)]	billion cf[2)]	Oil and gas mmboe[3)]	Oil mmboe[1)]	billion[2)] Sm^3 [2)]	billion cf[2)]	Oil and gas mmboe[3)]
As of 31 December, 2002	883	187.4	6,629	2,053	172	—	—	172	1,055	187.4	6,629	2,225
Revisions of previous estimates[4)]	59	(8.9)	(315)	8	(14)	—	—	(14)	45	(8.9)	(315)	(6)
Purchase (sale)/exchange of reserves in place	(2)	—	—	(2)	—	—	—	—	(2)	—	—	(2)
Extensions and new discoveries	22	36.1	1,278	248	17	—	—	17	39	36.1	1,278	265
Production for the year	(123)	(7.8)	(275)	(173)	(21)	—	—	(21)	(144)	(7.8)	(275)	(194)
As of 31 December, 2003	839	206.8	7,317	2,134	154	—	—	154	993	206.8	7,317	2,288
Revisions of previous estimates[4)]	43	(3.0)	(106)	25	14	—	—	14	57	(3.0)	(106)	39
Purchase (sale)/exchange of reserves in place	(6)	(9.1)	(324)	(65)	—	—	—	—	(6)	(9.1)	(324)	(65)
Extensions and new discoveries	5	1.4	51	14	9	—	—	9	14	1.4	51	23
Production for the year	(132)	(8.8)	(312)	(188)	(21)	—	—	(21)	(153)	(8.8)	(312)	(209)
As of 31 December, 2004	749	187.3	6,626	1,920	156	—	—	156	905	187.3	6,626	2,076
Revisions of previous estimates[4)]	33	4.8	170	63	1	—	—	1	34	4.8	171	64
Purchase (sale)/exchange of reserves in place	—	—	—	—	21	5.3	187	52	21	5.3	187	52
Extensions and new discoveries	36	3.1	109	56	3	0.1	3	3	39	3.2	112	59
Production for the year	(125)	(9.4)	(334)	(185)	(21)	—	(1)	(21)	(146)	(9.4)	(335)	(206)
As of 31 December, 2005	693	185.7	6,571	1,854	160	5.4	190	192	853	191.1	6,761	2,046
Proved developed reserves:												
As of 31 December, 2002	559	124.8	4,416	1,339	93	—	—	93	652	124.8	4,416	1,432
As of 31 December, 2003	690	124.8	4,415	1,470	88	—	—	88	778	124.8	4,415	1,558
As of 31 December, 2004	607	118.6	4,197	1,350	97	—	—	97	704	118.6	4,197	1,447
As of 31 December, 2005	576	128.6	4,551	1,380	93	1.7	58	103	669	130.3	4,609	1,483

1) Includes crude oil, NGL and Condensate. 1 Sm^3 Oil/Condensate = 6.2898 boe. 1 tonne NGL = 11.9506 boe.

2) Sm^3 = Standard cubic meter at 15 degrees Celsius. cf = cubic feet at 60 degrees Fahrenheit. 1 Sm^3 gas at 15 degrees Celsius = 35.3826 cubic feet gas at 60 degrees Fahrenheit.

3) Includes crude oil, NGL, Condensate and natural gas. When converting natural gas into barrels of oil equivalents adjustment for calorific value to an equivalent 40 MJ/Sm^3 volume is calculated, then 1000 Sm^3 @ 40 MJ/Sm^3 = 6.2898 boe.

4) The revision of previous estimates relates to new information from current year's drilling operations and additional data which is now available.

Purchase of reserves during 2005 was related to the acquisition of Spinnaker Exploration Company in the US Gulf of Mexico. In 2004 the purchase of reserves included the sale of the 10 percent share in the Snøhvit field in Norway to Statoil ASA and purchase of an additional 2 percent share in the Kristin field in Norway from Statoil ASA. In 2003 the decrease in reserves was due to sale of shares in the Brage and Njord fields in Norway to Offshore Engineering Resources AS.

Extensions and new discoveries for oil in 2005 related to the following fields on the NCS: Tyrihans, Oseberg Delta, Fram Øst, Volve, Urd and Ringhorne Øst. Internationally, the Mabruk field in Libya and the Lorien field in the Gulf of Mexico contributed new oil reserves. Extensions and new discoveries for gas were related to the following fields on the NCS: Tyrihans, Oseberg Delta, Fram Øst, Oseberg Sør and Tune, and in addition the Lorien field in the Gulf of Mexico.

Extensions and new discoveries for oil in 2004 were related to the Gulltopp field in Norway, the Rosa field in Angola and the Hibernia field in Canada. Extensions and new discoveries for gas were related to the Njord field in Norway.

In 2003, extensions and new discoveries for oil were related to the Oseberg Vestflanken and Oseberg Sør fields in Norway, the Dalia field in Angola and the Mabruk and Murzuq fields in Libya. Extensions and new discoveries for gas were related to the Ormen Lange, Oseberg Vestflanken and Oseberg Sør fields in Norway.

Reserve estimates at the end of the years 2005, 2004 and 2003 includes 192 million boe, 156 million boe and 154 million boe, respectively outside the Norwegian Continental Shelf. For 2005, the reserves were mainly situated in Canada, the US Gulf of Mexico, Angola, Libya and Russia. For the two prior years, the reserves were mainly situated in Canada, Angola, Russia and Libya.

Reserve estimates in Norway are made before royalties of approximately 0.0, 0.3 and 0.8 million barrels of oil equivalents (boe) for 2005, 2004 and 2003, respectively. Reserve estimates on fields in Angola, Russia and Libya are made after deduction of royalty in kind and Government's share of profit oil of approximately 62, 40 and 31 million boe for 2005, 2004 and 2003, respectively.

US GAAP Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves (unaudited)

The standardized measure of discounted future net cash flows of Hydro's proved reserves of oil (including natural gas liquids and condensate) and gas is prepared in compliance with SFAS 69.

Future net cash flows are based on numerous assumptions which may or may not be realized. The Management of Hydro cautions against relying on the information presented because of the highly arbitrary nature of assumptions involved and susceptibility of estimates to change as new and more accurate data become available. The individual components of future net cash flows shown below were computed using prices, production costs, development costs, royalty levels, foreign exchange rates, statutory tax rates and estimated proved reserve quantities at the respective year ends.

STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

	Norway			International			Total		
Amounts in NOK million	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Future cash inflows	575,900	382,800	372,800	70,900	35,800	28,900	646,800	418,600	401,700
Future production costs	(105,200)	(91,500)	(92,600)	(17,500)	(10,600)	(7,000)	(122,700)	(102,100)	(99,600)
Future development costs	(42,500)	(38,500)	(46,000)	(7,100)	(5,600)	(5,300)	(49,600)	(44,100)	(51,300)
Future income tax expense	(324,700)	(189,800)	(169,100)	(13,100)	(5,200)	(3,200)	(337,800)	(195,000)	(172,300)
Future net cash flows	103,500	63,000	65,100	33,200	14,400	13,400	136,700	77,400	78,500
Less: 10% annual discount for estimated timing of cash flows	(40,100)	(26,400)	(28,000)	(8,800)	(4,700)	(4,200)	(48,900)	(31,100)	(32,200)
Standardized measure of discounted future net cash flows	63,400	36,600	37,100	24,400	9,700	9,200	87,800	46,300	46,300

MAJOR SOURCES OF CHANGES IN THE STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS

Amounts in NOK million	2005	2004	2003
Net changes in prices and production costs	127,800	33,200	—
Sales and transfers of oil and gas produced, net of production costs	(55,500)	(40,900)	(30,900)
Extensions, unitizations, discoveries and improved recovery, net of related costs	11,200	2,600	17,700
Purchase/Exchange of interests in fields	13,200	800	—
Sale/Exchange of interests in fields	—	(3,600)	(100)
Changes in estimated development costs	(11,300)	(900)	(14,300)
Development costs incurred during the year	9,800	8,400	7,400
Net change in income taxes	(72,200)	(8,500)	7,900
Accretion of discount	2,900	3,100	4,500
Revisions of previous reserve quantity estimates	16,300	5,500	3,300
Other	(700)	300	300
Total change in the standardized measure during the year	41,500	—	(4,200)

Development costs for the years 2006, 2007 and 2008 are estimated to NOK 11,500 million, NOK 7,900 million and NOK 4,200 million respectively.

Sales Price and Production Cost per Unit (unaudited)

The following table presents the average sales price (including transfers) net of reductions in respect of royalty payments and production costs per unit of crude oil and natural gas.

	Norway			International			Total		
Amounts in NOK	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Average Sales Price[1] crude oil (per barrel)	342.54	251.43	204.01	340.53	250.40	197.08	342.22	251.27	202.90
natural gas (per Sm[3])	1.52	1.09	1.03	2.99	—	—	1.52	1.09	1.03
Average production cost (per boe)	25.80	20.80	20.80	21.90	19.50	20.20	25.30[2]	20.70[2]	20.70[2]

1) In the years 2005, 2004 and 2003, Hydro has not had any hedging gain or loss that has affected the realized oil and gas prices. Average sales price crude oil is realized by Oil & Energy's sub-segment Exploration and Production.

2) Includes the cost of purchased gas for injection with NOK 5.40 per barrel in 2005, NOK 2.80 per barrel in 2004 and NOK 0.70 per barrel in 2003.

Note 28

Summary of differences in accounting policies and reconciliation of US GAAP to N GAAP

The financial statements prepared in accordance with accounting principles generally accepted in Norway that are presented on pages F5-F7 differ in certain respects from the financial statements prepared in accordance with US accounting principles (US GAAP) that are presented on pages F3-F5. A reconciliation of net income and shareholders' equity from US GAAP to Norwegian accounting principles (N GAAP) and a description of these differences follow. The lines with a note reference indicate that a difference exists between the US GAAP reported amounts in that note and the N GAAP figures.

RECONCILIATION OF US GAAP TO N GAAP

Net income: **Amounts in NOK million**	**Notes**	**2005**	**2004**	**2003**
Operating revenues US GAAP		174,201	153,891	131,778
Change in unrealized losses (gains) commodity derivative instruments		(199)	(779)	—
Operating revenues N GAAP		174,001	153,112	131,778
Operating costs and expenses US GAAP		127,768	122,044	110,153
Change in unrealized gains (losses) commodity derivative instruments		36	(141)	187
Amortization goodwill	16	147	137	126
Impairment loss and (reversal) of impairment loss PP&E	15	75	—	—
Restatement of changes in accounting principles	21	7	4	4
Other adjustments		(11)	(1)	(1)
Operating income before financial and other income N GAAP		45,979	31,069	21,311
Equity in net income of non-consolidated investees US GAAP		619	629	620
Amortization goodwill non-consolidated investees	13	(41)	(40)	(39)
Equity in net income of non-consolidated investees N GAAP		578	589	581
Financial income, net		(1,890)	137	155
Other income, net		990	169	(1,253)
Adjustments for N GAAP gain on sale of subsidiary in Other income	9	(2)	—	—
Income before taxes and minority interest N GAAP		45,656	31,963	20,793
Income tax expense US GAAP		(30,317)	(21,197)	(12,923)
Adjustments for N GAAP	10	(46)	202	60
Net income from continuing operations N GAAP		15,292	10,968	7,931
Net income from discontinued operations US GAAP		—	1,083	2,312
Adjustments for N GAAP	2	—	(26)	2
Net income from discontinued operations N GAAP		—	1,057	2,314
Net income N GAAP		15,292	12,025	10,245
Minority interest US GAAP		(118)	(106)	151
Adjustments for N GAAP		—	26	(3)
Net income after minority interest N GAAP		15,174	11,944	10,394

Shareholders' equity: **Amounts in NOK million**	**Notes**	**2005**	**2004**	**2003**
Shareholders' equity US GAAP		95,495	85,890	88,080
Unrealized gains commodity derivative instruments — current and long-term (a)		(997)	(771)	(147)
Cash Flow hedge — current and long-term (a)	21	(88)	(1,128)	(1,600)
Unrealized gain on securities (b)	14	—	(12)	(15)
Accumulated amortization goodwill (c)	13, 16	(702)	(468)	(319)
Impairment loss and (reversal) of impairment loss PP&E (d)	15	(78)	—	—
Deferred tax assets and liabilities — current and long-term (e)	10	209	588	523
Dividends payable (f)		(5,503)	(5,017)	(2,811)
Minority interest (g)		981	1,571	660
Restatement of changes in accounting principles (h)	21	—	(109)	(105)
Shareholders' equity N GAAP		89,317	80,544	84,266

Explanation of the material differences between N GAAP and US GAAP

(a) **Derivative commodity contracts:** Under N GAAP, unrealized gains and losses for commodity derivative instruments that are not hedge designated, and that are not held for trading and traded on a liquid, regulated market, are netted for each portfolio and net unrealized gains are not recognized. For US GAAP, unrealized gains and losses are recorded as a part of operating revenues or operating costs. The instruments are accounted for as assets or liabilities at fair value.

For N GAAP, cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement until the underlying hedged transactions actually occur. Under US GAAP, such instruments are accounted for as assets or liabilities as appropriate, at their fair value. Gains and losses on the hedging instruments are deferred in Other Comprehensive Income until the underlying transaction is recognized in earnings.

(b) **Unrealized holding gain (loss) on securities:** Under N GAAP, Hydro's long-term marketable equity and debt securities are carried at the lower of historical cost or fair value. Under US GAAP, these securities are classified as available-for-sale and carried at fair value. Unrealized holding gains or losses are included in other comprehensive income, net of tax effects.

(c) **Amortization of goodwill:** Goodwill is amortized under N GAAP. US GAAP does not allow amortization of goodwill, but requires that goodwill is reviewed at least annually for impairment.

(d) **Impairment:** Under N GAAP impairment is recognized when an asset's carrying amount exceeds the higher of the asset's value-in-use or fair value less costs to sell. Value-in-use is the discounted present value of the asset's expected future cash flows. Under US GAAP impairment is recorded when an asset's carrying amount exceeds the expected future cash flows to be derived from the asset on an undiscounted basis.

Under N GAAP subsequent reversal of an impairment loss is required for all assets, other than goodwill, if certain criteria are met, while under US GAAP subsequent reversal of impairment losses is prohibited.

(e) **Deferred taxes:** Under N GAAP, deferred taxes are recorded based upon the liability method similar to US GAAP. Differences occur primarily because items accounted for differently under US GAAP also have deferred tax effects. Under N GAAP, deferred tax assets and liabilities for each tax entity are netted and classified as a long-term liability or asset. A reconciliation of the current and long-term temporary differences giving rise to the N GAAP deferred tax asset and liability is provided in Note 10.

Classification between current and long-term for US GAAP is determined by the classification of the related asset or liability giving rise to the temporary difference. For each tax entity, deferred tax assets and liabilities are offset within the respective current or long-term groups and presented as a single amount.

(f) **Dividends payable:** For N GAAP, dividends proposed at the end of the year, which will be declared and paid in the following year, are recorded as a reduction to equity and as a liability. For US GAAP, equity is not reduced until dividends are formally declared.

(g) **Minority Interest:** For N GAAP, shareholders' equity is presented including minority interest. For US GAAP, shareholders' equity is presented excluding minority interest.

For N GAAP, minority interest includes minority interest in both continuing and discontinued operations. For US GAAP, minority interest refers to continuing operations only.

(h) **Changes in accounting principles:** Hydro implemented *FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations* as of 31 December 2005. For N GAAP, previous periods are restated as if FIN 47 was implemented 31 December 2002. For US GAAP, the total effect of the implementation is included in the 2005 financial statements.

(i) **Share-Based Compensation:** Under US GAAP Hydro accounts for share-based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28. Compensation cost is measured at the end of each period using the intrinsic method. For N GAAP in 2005 the Norwegian accounting standard NRS 15 A is adopted requiring expense recognition of all share-based compensation at fair value. The difference in expense recognition between the intrinsic method used in 2005 for US GAAP and N GAAP is not material.

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2005	2004
Operating revenues		643	1,125
Raw materials and energy costs		69	144
Payroll and related costs	2, 3	1,064	1,719
Depreciation, depletion and amortization	4	22	25
Other		351	580
Total operating costs and expenses		1,507	2,468
Operating income		(863)	(1,343)
Financial income, net	5	16,905	10,103
Other income	5	—	796
Income before taxes		16,041	9,557
Income taxes	6	19	729
Net income		16,060	10,285
Appropriation of net income and equity transfers:			
Dividend proposed		(5,503)	(5,017)
Retained earnings		(10,557)	(5,268)
Total appropriation		(16,060)	(10,285)

Statements of cash flows

Amounts in NOK million	Notes	2005	2004
Net income		16,060	10,285
Depreciation, depletion and amortization		22	25
Gain on sale of non-current assets		(50)	(812)
Other adjustments		6,983	(2,611)
Net cash provided by operating activities		23,015	6,887
Investments in subsidiaries		(17,177)	(707)
Sales of subsidiaries[1)]		337	9,629
Net sales (purchases) of other investments		7,584	(9,035)
Net cash used in investing activities		(9,256)	(113)
Dividends paid		(5,021)	(2,811)
Other financing activities, net		(12,358)	(3,681)
Net cash used in financing activities		(17,379)	(6,492)
Foreign currency effects on cash		(165)	110
Net increase (decrease) in cash and cash equivalents		(3,785)	392
Cash and cash equivalents 01.01		13,142	12,750
Cash and cash equivalents 31.12		9,357	13,142

1) Sales of subsidiaries in 2004 includes demerger

The accompanying notes are an integral part of the financial statements.

Balance sheets

Amounts in NOK million	Notes	31 December 2005	2004
ASSETS			
Intangible assets		8	2
Property, plant and equipment	4	179	187
Shares in subsidiaries	7	47,634	30,750
Intercompany receivables		29,795	34,279
Non-consolidated investees	8	457	734
Prepaid pension, investments and other non-current assets	2, 9	5,723	5,276
Total financial non-current assets		83,609	71,037
Accounts receivable		59	55
Intercompany receivables		34,212	21,390
Prepaid expenses and other current assets		2,245	826
Short-term investments		1,850	9,150
Cash and cash equivalents		9,357	13,142
Current assets		47,723	44,563
Total assets		131,520	115,789
LIABILITIES AND SHAREHOLDERS' EQUITY			
Paid-in capital:			
Share capital 258,954,428 at NOK 18.30	11	4,739	4,739
Treasury shares 8,815,964 at NOK 18.30		(161)	(149)
Paid-in premium		10,432	10,432
Other paid-in capital		69	36
Retained earnings:			
Retained earnings		34,808	24,256
Treasury shares		(3,428)	(2,921)
Shareholders' equity	11	46,458	36,393
Deferred tax liabilities	6	298	332
Other long-term liabilities		3,133	2,745
Long-term liabilities		3,431	3,077
Intercompany payables		218	555
Other long-term interest-bearing debt		20,117	18,534
Long-term debt		20,336	19,089
Bank loans and other interest-bearing short-term debt	9	4,118	2,019
Dividends payable		5,503	5,017
Intercompany payables		49,344	47,316
Current portion of long-term debt		174	353
Other current liabilities		2,156	2,527
Current liabilities		61,295	57,231
Total liabilities and shareholders' equity		131,520	115,789

The accompanying notes are an integral part of the financial statements.

Note 1

Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with accounting principles generally accepted in Norway (N GAAP).

Hydro's general accounting policies are presented in Note 1 to the consolidated financial statements on pages F6-F14. See Note 28 to the consolidated financial statements for an additional clarification of the major differences in accordance with N GAAP compared with US GAAP.

Shares in subsidiaries and non-consolidated investees are presented according to the cost method in Norsk Hydro ASA's financial statements. Group relief received is included in dividends from subsidiaries.

For information about risk management in Norsk Hydro ASA see Note 24 in Notes to the consolidated financial statements and the Risk Management discussion in the Operating and Financial Review and Prospects section of this report. The information given in Note 19 in Notes to the consolidated financial statements on payments on long-term debt also applies to Norsk Hydro ASA.

Norsk Hydro ASA does not present sold or demerged business as discontinued operations. The 2004 transfer of the agri operations to Yara International ASA in a demerger, described in Note 2 to the consolidated financial statements, was reflected in the Company's accounts based on historical values of assets and liabilities.

Norsk Hydro ASA provides financing to most of the subsidiary companies in Norway as well as abroad. All employees working for Norsk Hydro Produksjon AS are employed by Norsk Hydro ASA.

Note 2

Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 12,481 participants as of 31 December 2005 and 12,564 participants as of 31 December 2004.

NET PERIODIC PENSION COST

Amounts in NOK million	2005	2004
Defined benefit plans:		
Benefits earned during the year	458	461
Interest cost on prior period benefit obligation	609	658
Expected return on plan assets	(557)	(544)
Recognized net loss	179	236
Amortization of prior service cost	62	61
Amortization of net transition obligation	—	2
Settlement loss	—	218
Net periodic pension cost	751	1093
Termination benefits and other	171	121
Total net periodic pension cost	923	1,214

CHANGE IN PROJECTED BENEFIT OBLIGATION (PBO)

Amounts in NOK million	2005	2004
Projected benefit obligation at beginning of year	(11,813)	(11,961)
Benefits earned during the year	(458)	(461)
Interest cost on prior period benefit obligation	(609)	(658)
Actuarial loss	(2,776)	(291)
Plan amendments	(13)	(10)
Benefits paid	359	343
Settlements	3	564
Special termination benefits	(32)	(26)
Demerger	—	687
Projected benefit obligation at end of year	(15,340)	(11,813)

CHANGE IN PENSION PLAN ASSETS

Amounts in NOK million	2005	2004
Fair value of plan assets at beginning of year	9,129	8,384
Actual return on plan assets	1,585	1,148
Company contributions	360	495
Benefits paid	(308)	(301)
Settlements	(12)	(332)
Demerger	—	(266)
Fair value of plan assets at end of year	10,754	9,129

STATUS OF PENSION PLANS RECONCILED TO BALANCE SHEET

Amounts in NOK million	2005	2004
Defined benefit plans:		
Funded status of the plans at end of year	(4,586)	(2,684)
Unrecognized net loss	5,404	3,835
Unrecognized prior service cost	497	546
Net prepaid pension recognized	1,316	1,697
Termination benefits and other	(433)	(458)
Total net prepaid pension recognized	883	1,239
Amounts recognized in the balance sheet consist of:		
Prepaid pension	3,586	3,606
Accrued pension liabilities	(2,703)	(2,367)
Net amount recognized	883	1,239

ASSUMPTIONS USED TO DETERMINE NET PERIODIC PENSION COST

	2005	2004
Discount rate	5.25%	6.00%
Expected return on plan assets	6.25%	7.00%
Expected salary increase	3.50%	4.00%
Expected pension increase	3.00%	3.50%

ASSUMPTIONS USED TO DETERMINE PENSION OBLIGATION AT END OF YEAR

	2005	2004
Discount rate	4.00%	5.25%
Expected salary increase	3.50%	3.50%
Expected pension increase	3.00%	3.00%

INVESTMENT PROFILE PLAN ASSETS AT END OF YEAR

	2005	2004
Asset category		
Equity securities	36%	31%
Debt securities	42%	36%
Real estate	18%	20%
Other	4%	13%
Total	100%	100%

See Note 20 in Notes to the consolidated financial statements for further information.

Note 3

Remunerations and other

Remuneration of the members of the corporate assembly was NOK 576,653.

Refer to note 4 to the consolidated financial statements for details of remuneration of the members of the corporate assembly and the board of directors.

Partners and employees of Hydro's appointed independent auditors, Deloitte Statsautoriserte Revisorer AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2005 to Deloitte for ordinary audit were NOK 16,810,000 for Norsk Hydro ASA and NOK 15,400,000 for the Norwegian subsidiaries. Fees for audit-related services were NOK 294,000 for Norsk Hydro ASA and NOK 1,502,000 for the Norwegian subsidiaries. Fees for tax services were NOK 311,000 for Norsk Hydro ASA and NOK 320,000 for the Norwegian subsidiaries. Fees for other services were NOK 1,122,000 for Norsk Hydro ASA and NOK 322,000 for the Norwegian subsidiaries. Deloitte Consulting AS, an affiliate company of Deloitte in Norway, has not provided services to Hydro in 2005.

For 2005, the estimated adjustment to the tax basis (RISK) of shares for shareholders in Norsk Hydro ASA is a negative amount of NOK 21.51 per share.

In 2005, the average number of employees in the Group was 33,685 compared to 38,780 for 2004. The reduction in manning is to a large part attributable to the demerger in 2004 where approximately 7,500 employees where transferred to Yara. The average number of employees in Norsk Hydro ASA was 5,991 in 2005 versus 6,469 in 2004.

A substantial part of the employees in Norsk Hydro ASA are engaged in activities for other Group companies. The costs for these employees are accounted for on a net basis reducing Payroll and related costs.

Amounts in NOK million	2005	2004
Payroll and related costs:		
Salaries	3,896	3,917
Social security costs	622	639
Social benefits	58	101
Net periodic pension cost (Note 2)	923	1,214
Internal invoicing of payroll related costs	(4,435)	(4,152)
Total	1,064	1,719

Total loans to the company's employees as of 31 December 2005 were NOK 742 million. All loans were given in accordance with general market terms.

Note 4

Property, plant and equipment

Amounts in NOK million	Machinery, etc	Buildings	Plant under construction	Land	Total
Cost 31.12.2004	187	117	27	4	334
Additions at cost	24	1	—	2	28
Retirements	(27)	(7)	—	—	(34)
Transfers		27	(27)	—	—
Accumulated depreciation 31.12.2005	(102)	(47)	—	—	(149)
Net book value 31.12.2005	82	91	—	6	179
Depreciation in 2005	(17)	(5)	—	—	(22)

Note 5

Financial income and expense and other income

Amounts in NOK million	2005	2004
Dividends from subsidiaries	18,410	9,758
Non-consolidated investees	10	14
Interest from group companies	2,977	2,393
Other interest income	581	496
Interest paid to group companies	(1,200)	(823)
Other interest expense	(1,455)	(1,857)
Other financial income, net	(2,420)	122
Financial income, net	16,905	10,103

For 2005 there was no other income. For the year 2004, other income was NOK 796 million. Other income consisted of a gain of NOK 263 million on the sale of 10 percent of the shares in Qatar Fertilizer Company (S.A.Q.) to Fertilizer Holding AS before the demerger of Yara and a gain of NOK 533 million related to the sale of 20 percent of the shares in Yara International ASA in the demerger.

Note 6

Income taxes

The tax effect of temporary differences resulting in the deferred tax assets (liabilities) and the change in temporary differences are:

	Temporary differences			
	Tax effected		Change	
Amounts in NOK million	2005	2004	2005	2004
Short-term items	(71)	(297)	1,578	(297)
Write-down on shares	—	—	(38)	(821)
Prepaid pension	(1,004)	(1,010)	34	176
Pension liabilities	757	663	313	336
Other long-term	20	312	(1,821)	(9)
Deferred tax liabilities	(298)	(332)		
Change for year			66	(615)

Reconciliation of nominal statutory tax rate to effective tax rate

Amounts in NOK million	2005	2004
Income (loss) before taxes	16,041	9,557
Expected income taxes at statutory tax rate	4,492	2,676
Tax free income	—	(151)
Dividend exclusion	(4,956)	(2,473)
Tax law changes	—	(656)
Losses and other deductions with no tax benefit	439	—
Non-deductible expenses and other, net	7	(125)
Income taxes	(19)	(729)
Effective tax rate	(0.12%)	(7.62%)

See Note 10 in Notes to the consolidated financial statements for further information

Note 7

Shares in subsidiaries

Company name:	Percentage of shares owned by Norsk Hydro ASA	Total share capital of the company (1,000's)		Book value 31.12.2005 (in NOK 1,000's)
Norsk Hydro Kraft OY	100	EUR	34	269
Norsk Hydro Electrolysers AS	100	NOK	4,000	4,300
Hydro Aluminium AS	100	NOK	7,167,001	21,866,019
Norsk Hydro Magnesiumgesellschaft mbH[1]	2	EUR	512	179
Hydro Aluminium Aero[2]	22.5	BRL	46,453	50,391
Securus Industrier AS	100	NOK	59,644	846,634
Industriforsikring AS	100	NOK	20,000	20,000
Retroplast AS	100	NOK	100	18,876
Grenland Industriutvikling AS	100	NOK	26,750	110,950
Polymers Holding AS	100	NOK	100	115
Hydro Production Partner Holding AS	100	NOK	50,000	95,010
Hydro IS Partner AS	100	NOK	712,000	712,000
Norsk Hydro Plastic Pipe AS	100	NOK	10,000	91,472
Norsk Hydro Danmark AS	100	DKK	1,002,000	4,515,523
Hydro Aluminium Deutschland GmbH[3]	25	EUR	56,242	92,479
Norsk Hydros Handelsselskap AS	100	NOK	1,000	1,000
Norsk Hydro Produksjon AS	100	NOK	2,200,000	19,004,274
Norsk Hydro Russland AS	100	NOK	19,000	19,000
Hydro Aluminium Holding Re. Ltd. Total	100	SGD	46,920	185,532
Total				47,634,023

1) The company is owned 98 percent by Hydro Aluminium Deutschland GmbH and 2 percent by Norsk Hydro ASA.

2) The company is owned 70.3 percent by Norsk Hydro Brasil Ltda., 7.2 percent of a subsidiary of Hydro Aluminium AS and 22.5 percent by Norsk Hydro ASA.

3) The company is owned 75 percent by Norsk Hydro Deutschland GmbH & CoKG., which is a subsidiary of Hydro Aluminium AS and 25 percent by Norsk Hydro ASA.

The foreign currency designation indicates country of domicile. Percentage of shares owned equals percentage of voting shares owned. A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

Note 8

Shares in non-consolidated investees

The most significant investments in non-consolidated investees for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned (equals voting rights)	Country	Book value as of 31 December, 2005	Long-term advances[1]	Total
Companhia Industrial de Resinas Sinteticas — CIRES SA	26.2%	Portugal	100	—	100
Suzhou Huasu Plastics Co. Ltd.	35.2%	China	76	38	114
Other			32	212	244
Total			208	250	457

1) Including advances to associated companies indirectly owned by Norsk hydro ASA.

Note 9

Specification of balance sheet items

Amounts in NOK million	2005	2004
Prepaid pension, investments and other non-current assets:		
Securities	815	816
Prepaid pension	3,586	3,606
Other non-current assets	1,322	854
Total	5,723	5,276
Bank loans and other short-term interest-bearing debt:		
Bank overdraft	489	552
Other interest-bearing debt	3,629	1,466
Total	4,118	2,019

Note 10

Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, performance bonds and various payment or financial guarantees. Sales guarantees include liabilities relating to 3 demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. See Note 22 in Notes to the consolidated financial statements for further information about guarantees.

Amounts in NOK million	2005	2004
Guarantees (off-balance sheet):		
Non-consolidated investee debt	89	86
Tax guarantees	406	1,354
Sales guarantees	1,487	1,463
Commercial guarantees	14,956	8,453
Total	16,938	11,356

Note 11

Number of shares outstanding, shareholders, equity reconciliation etc

The share capital of the company is NOK 4,738,866,032.40. It consists of 258,954,428 ordinary shares at NOK 18.30 per share. As of 31 December, 2005 the company had purchased 8,815,964 treasury stocks at a cost of NOK 3.6 billion. For further information on these issues see Note 3 in Notes to the consolidated financial statements.

Shareholders holding one percent or more of the total 250,138,464 shares outstanding as of 31 December, 2005 are according to information in the Norwegian securities' registry system (Verdipapirsentralen):

Name	Number of shares
Norwegian State	113,483,658
State Street Bank[2)]	11,998,731
Morgan Guaranty Trust Co.[1)]	10,023,942
Folketrygdfondet	9,355,327
JP Morgan Chase Bank[2)]	5,324,911
Euroclear Bank[2)]	3,255,937
Euro Pacific Growth Fund[2)]	3,175,000

1) Representing American Depositary Shares.

2) Client accounts and similar.

CHANGE IN SHAREHOLDERS' EQUITY

Amounts in NOK million	Paid-in capital	Retained earnings	Total Shareholders' equity
Balance 31 December, 2004	15,058	21,335	36,393
Net income	—	16,060	16,060
Dividend proposed	—	(5,503)	(5,503)
Dividend paid in 2005 not accrued[3)]	—	(4)	(4)
Treasury shares	20	(507)	(487)
Balance 31 December, 2005	15,078	31,380	46,458

3) Owners of shares sold from treasury shares in April 2005 received dividends for those shares in May 2005. However, this was not accrued in 2004.

Auditors' report

To the annual general meeting of Norsk Hydro ASA

Independent auditor's report for N GAAP financial statements 2005

We have audited the annual financial statements of Norsk Hydro ASA as of 31 December 2005, showing a profit of NOK 16,060 million for the parent company and a profit of NOK 15,292 million for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The annual financial statements comprise the parent company's financial statements and the group accounts. The parent company's financial statements comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The group accounts comprise the balance sheet, the statements of income and cash flows, and the accompanying notes. The rules of the Norwegian accounting act and generally accepted accounting practice in Norway have been applied to prepare the financial statements. These financial statements are the responsibility of the Company's Board of Directors and President. Our responsibility is to express an opinion on these financial statements and on the other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing practice in Norway, including standards on auditing adopted by Den norske Revisorforening. These auditing standard require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing practice an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company and of the Group as of 31 December, and the results of its operations and its cash flows for the year then ended, in accordance with generally accepted accounting practice in Norway
- the Company's management has fulfilled its duty to maintain the Company's accounting records and documentation in a proper and well-arranged manner in accordance with the law and generally accepted bookkeeping practice in Norway
- the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Oslo, Norway, 7 March 2006
Deloitte

Aase Aa. Lundgaard (signed)
State Authorised Public Accountant (Norway)

To the annual general meeting of Norsk Hydro ASA

Report of independent registered public accounting firm for US GAAP financial statements

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of 31 December, 2005 and 2004, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended 31 December, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Norsk Hydro ASA and subsidiaries as of 31 December, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended 31 December, 2005 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for contingent asset retirement obligations in 2005, variable interest entities in 2004 and asset retirement obligations in 2003 to conform to newly adopted accounting principles.

Oslo, Norway, 7 March 2006
Deloitte Statsautoriserte Revisorer AS

The content on this page has been partly restated since the printing of this report, including this PDF edition. An updated version of this page can be found in the web version of this report at www.hydro.com

Corporate assembly

The Corporate Assembly currently consists of the following members:

Svein Steen Thomassen (Chairperson)
Siri Teigum (Deputy Chairperson)
Sven Edin
Billy Fredagsvik
Aase Gudding Gresvig
Westye Høegh
Idar Kreutzer
Kjell Kvinge
Astrid Sylvi Lem
Dag Harald Madsen
Roger Oterholt
Anne Merete Steensland
Rune Strande
Sigurd Støren
Sten-Arthur Sælør
Lars Tronsgaard
Karen Helene Ulltveit-Moe
Svein Aaser

Deputy members:

Nils Roar Brevik
Anne-Margrethe Firing
Tore Amund Fredriksen
Erik Garaas
Sónia F. T. Gjesdal
Line Melkild
Bjørn Nedreaas
Wolfgang Ruch
Terje Venold
Bjørn Øvstetun

Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2005 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2005 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2005 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 7 March 2006
Svein Steen Thomassen

Board of Directors' Report 2004[1]

The demerger in 2004 that transferred Hydro's agri business to a separate listed company, Yara, provided a solid platform for creating greater value for shareholders, employees and society at large. Hydro is now concentrating its resources on developing the core areas of Oil & Energy and Aluminium.

The major strategic shift that Hydro concluded in 2004, with the listing of Yara and an increased concentration on the core business areas of Oil & Energy and Aluminium, was well received by all stakeholders.

Over the past six years, Hydro has pursued vital strategic initiatives that have doubled the Company's production of oil, gas and primary aluminium. The Board of Directors is very satisfied with these results. The Board is also pleased to report that the growth derives from a financially sound and robust business portfolio. Moreover, the company has benefited from favorable market conditions in the form of rising oil and gas prices, and improvements in the aluminium market. The financial markets have shown their appreciation of these positive trends. Overall returns to Hydro's shareholders that have increased 194 percent in US dollar terms during the period from 1999 to 2004.

The Company delivered record-high results for 2004, with solid production growth assisted by favorable prices for its main products, even though a weaker US dollar countered the positive developments. Return on average Capital Employed (RoaCE) was 13 percent in 2004 compared with 8.4 percent in the previous year. Assuming normalized prices and exchange rates, RoaCE was in line with the established goals for the year: 7.9 percent in 2004, up from 6.2 percent in 2003.

The Company's financial position was further strengthened in 2004. Hydro ended the year with a debt/equity ratio of 0.11 — well within the Board's target of 0.5. This provides a solid basis for continued profitable growth.

It also enables the Board's proposal to the General Meeting of a dividend of NOK 20 per share for 2004, compared with NOK 11 per share in 2003. The Board is particularly satisfied to be able to propose this unusually high dividend in Hydro's Centennial year.

As a result of strong cash generation, the Annual General Meeting of shareholders approved programs for the repurchase of shares in 2003 and 2004 as a supplement to dividend payments. Roughly 7.6 million shares were purchased and cancelled in 2003 and 2004 related to these programs, the equivalent of 3 percent of the Company's share capital. In December 2004 an Extraordinary General Meeting of shareholders authorized the buyback and cancellation of a further 10 million shares.

Following the demerger discussed earlier in this report, Hydro's strategic focus is on the best possible development of its remaining two core business areas on the basis of its financial and organizational capacity. The main future challenges facing these core areas are the need to discover more oil and gas and to improve the profitability of the aluminium business.

The Board concluded its 2004 strategic review with the intention that Oil & Energy will concentrate further on exploring new areas as well as on developing existing fields. At the same time, Hydro will endeavor to consolidate its international oil and gas positions.

Interesting projects in the Gulf of Mexico and Angola provide examples of how Hydro is exploiting its technological and commercial expertise to create value abroad. The company is favorably positioned to initiate bold measures aimed at increasing its potential for long-term value creation.

Hydro also intends to strengthen its position in the European energy market on the basis of its energy portfolio. The Board also sees interesting prospects for further developments in the renewable energy field.

The company's strategy of concentrating on its technical and commercial strength also underlies the development of products and processes aimed at further increasing the efficiency and profitability of its aluminium operations. In evaluating a new, modern aluminium plant in Qatar, Hydro is aiming at consolidating its position as one of the world's leading aluminium companies. The potential project brings together important prerequisites for success, including a favorable location near major gas reservoirs and the opportunity to utilize Hydro's core competencies. In the Company's aluminium operations, extensive rationalization processes have been carried out to adjust operations to changing competitive conditions. In addition, rising power prices in Germany and the weakness of the US dollar against the Euro resulted in a write-down of NOK 1.5 billion (after tax) relating to Hydro's German metal plants.

---

(1) Excerpt from Norsk Annual Report for 2004.

Hydro will continue to concentrate on global growth for selected products and solutions for building, automotive and packaging applications. Upgrades of existing plants and the construction of new plants were decided in 2004. This will strengthen the Company's leading market position in Europe — and enable for growth in other regions.

Hydro's non-core operations have also delivered substantial improvements.

Favorable PVC market developments contributed to a good result for Hydro Polymers in 2004.

The Company enjoyed record-high production in 2004, producing 572,000 barrels oil equivalents per day on average and 1.7 million tonnes of primary aluminium during the year. The Board notes with approval that this was achieved under good cost discipline and with improved results in the areas of safety and the environment.

The company also completed major projects in 2004 on, or ahead of, schedule and budget. The Board is pleased to report that this applies to all major Hydro-operated projects. In 2004, Hydro began work on what is the biggest industrial project in Norway today — the development of the Ormen Lange gas field in the Norwegian Sea. The upgrade and expansion of the aluminium plant in Sunndal, Norway, the largest primary aluminium plant in Europe with a capacity of 360,000 tonnes per year, came fully on stream in 2004. The new Tyin power plant was completed and began production during the year. The Board approved Hydro's continued cooperation with Statkraft to plan construction of a 400 MW gas power plant at Kårstø, Norway. A final investment decision will be made in 2005.

In 2004 the Company completed the sale of several assets in its ongoing optimization of its business portfolio. Hydro divested its 50 percent interest in the AOS chemical grade alumina refinery in Stade, Germany. Hydro decided in 2003 to sell its 10 percent stake in the Snøhvit gas field; this divestment was completed in 2004. With the sale of Snøhvit, Hydro acquired a 2 percent interest in the Kristin field from Statoil.

Along with developing Hydro's new business portfolio strategy, much effort has been put into defining the Company's identity and values through The Hydro Way. Also, a new human resources strategy was developed in 2004 to exploit the advantages of a more concentrated Hydro. The goal is to improve performance by developing the potential of employees in every location where the company operates.

Board developments in 2004

Jan Reinås was appointed chairperson in March 2004 following an announcement by Egil Myklebust in November 2003 that he did not wish to continue in the role. The Board thanks Myklebust for his expertise and commitment to the Board over a 12-year period, the last three as Chairperson. The Board also thanks Anne Cathrine Høeg Rasmussen for her many years of service, and Steinar Skarstein who stepped down after the Yara demerger. In 2004 Kurt Anker Nielsen was elected to the Board by the shareholders, while Terje Friestad was elected by the company's employees.

The Board held 12 meetings in the course of the year, the Compensation Committee seven, and the Audit Committee eight meetings. In October, the Board visited Hydro's operations in Canada. The Board undertook in 2004 an evaluation of working methods, priorities and the way the Board and management work together. Efforts to develop and enhance the Company's system of corporate governance continued in 2004, described more fully on pages 172 to 175.

Financial results for 2004

Comments in the discussion below on the results for the year are made on the basis of the Company's US GAAP financial statements. Differences between US GAAP and Norwegian accounting standards are not significant.

Hydro's income from continuing operations in 2004 was NOK 11,477 million (NOK 45.10 per share), compared with NOK 8,375 million (NOK 32.50 per share) for 2003, excluding the effect of a change in accounting principles. The result related to Hydro's business transferred to Yara in the demerger completed 24 March 2004 is reported under "Income from discontinued operations." Including this, net income was NOK 12,560 million, compared with NOK 10,968 million in 2003. The following discussion refers to income from continuing operations.

Strong operating results reflected exceptionally high oil prices on top of an 8 percent increase in oil and gas production for 2004. Volume increases made possible by expanded aluminium production capacity together with stronger metal prices also contributed to the results. However, the substantial decline in the US dollar weakened the competitiveness of the Company's European aluminium operations. Higher energy prices, combined with the decline of the US dollar, led to a considerable writedown of Hydro's primary metal plants in Germany.

Operating income of NOK 31,847 million increased 47 percent compared with 2003. The improvement resulted from favorable market conditions for oil and gas, stronger aluminium prices combined with higher production and strict cost discipline. The write-down of the German metal plants had a negative impact on results of NOK 2,042 million.

Earnings from non-consolidated investees were NOK 628 million, about the same as in 2003. The results for 2004 mainly reflected good performance of associated companies, particularly in Metal Products and in Polymers. However, the results were affected by the write-down of the Company's German metals operations amounting to NOK 268 million. Also, the Brazilian alumina plant Alunorte generated unrealized foreign exchange gains of NOK 63 million in 2004, compared with NOK 218 million in 2003.

Other income (loss), net, of NOK 169 million comprises gains related to the sale of subsidiaries. For 2003, other income (loss), net, was a net loss of NOK 1,253 million, comprising gains on sale in subsidiaries of NOK 954 million and a negative effect of the change of Norwegian legislation for removal and abandonment of installations on the Norwegian Continental Shelf (NCS) of NOK 2,207 million. This effect was offset by a related positive tax effect of NOK 2,380 million.

Net financial income in 2004 amounted to NOK 136 million, compared with NOK 154 million in 2003. Foreign exchange gains had a substantial influence on the result. In 2004, net foreign exchange gains amounted to NOK 1,350 million, compared with NOK 1,035 million in 2003, mainly due to the effect of the weak US dollar on the Company's US dollar-denominated loans.

Early repayment of debt resulted in charges to net financial income of NOK 938 million.

The provision for current and deferred taxes amounted to NOK 21,197 million for 2004, approximately 65 percent of income from continuing operations before tax. The tax provision has been affected by Norwegian tax legislation related to gains on sale of shares. The change has resulted in reversing of deferred tax liabilities of approximately NOK 900 million resulting from new tax rules relating to share sales. This reduced the tax rate by around 2.5 percentage points. Tax provisions in 2003 amounted to 61 percent of pre-tax income. The percentage for 2003 was influenced by changes in Norwegian tax regulations relating to the removal of oil and gas installations from the Norwegian Continental Shelf, which reduced the tax level by roughly five percentage points. The high effective tax rate reflects the marginal tax rate of 78 percent on results from Norwegian oil and gas operations.

Cash flow from operations in 2004 was NOK 27.7 billion, an increase of 22 percent compared with 2003. Total investments in 2004 amounted to NOK 19.5 billion, including a nonrecurring amount of NOK 1.3 billion relating to the consolidation of the partly-owned company Slovalco.

According to Section 3-3 of the Norwegian Accounting Act, the Board confirms that the accounts are prepared on the assumption of a going concern.

For a more detailed description of the Company's operations, please refer to the descriptions of the business areas in this report.

Comments on the Business Areas

Oil & Energy

Operating income in NOK million	2004	2003	2002
Exploration and Production	**28,363**	18,500	13,137
Energy and Oil Marketing	**2,650**	2,668	2,784
Eliminations	**131**	(25)	26
Oil & Energy	**31,144**	21,143	15,947

Operating income for Oil & Energy in 2004 was NOK 31,144 million, an increase of 47 percent compared with 2003. Adjusted EBITDA was NOK 41,778 millions, an increase of 31 percent. Hydro's average production of oil and gas increased by 42,000 barrels of oil equivalents per day in 2004. The roughly 8 percent increase is attributable to new fields coming on stream on the Norwegian Continental Shelf and elsewhere, good production regularity and increased sales of gas to continental European customers. Unscheduled shutdowns of three partner-operated fields near the end of the year, along with intermittent production problems on the Grane, during the year, reduced annual production growth somewhat. The average realized oil price was a record-high USD 37.30 per barrel, an increase of 30 percent compared with 2003. Measured in Norwegian kroner, oil prices were roughly 24 percent higher for the year. Average realized gas prices for 2004 increased about 6 percent compared to 2003. Production cost per barrel was NOK 20.70, the same level as in 2003, and well within the annual target.

Production of electrical power was 8.1 TWh, 8 percent higher than the low level of 2003. Prices were relatively even throughout the year, though somewhat lower than in 2003.

Gas trading activity experienced considerable volatility in price movements and operating results throughout the year, although overall results were relatively unchanged from 2003.

Exploration activity was slightly lower than in 2003 and related costs amounted to NOK 1,264 million. In 2004, 17 exploration wells were completed, resulting in 11 discoveries. The development of the Ormen Lange gas field was roughly 20 percent complete at the end of the year and is on time and budget. Shares in the Snøhvit and Gjøa fields on the NCS were sold in accordance with agreements signed in 2003. Hydro acquired a 57.5 percent share in a Gulf of Mexico field, Telemark (formerly Champlain), and was approved as operator in January 2005.

Hydro's remaining proved oil and gas reserves were 2,076 million barrels of oil equivalents (mboe) at the end of 2004. The increase in Hydro's reserves for fields in production and under development were offset by the sale of field shares. Hydro's production in 2004 therefore was not replaced by new reserves.

Aluminium

Operating income in NOK million	2004	2003	2002
Metals	**830**	2,293	1,690
Rolled Products	**626**	132	(295)
Extrusion and Automotive	**277**	98	14
Other and eliminations	**72**	(67)	289
Aluminium	**1,805**	2,456	1,698

Operating income for Aluminium was NOK 1,805 million in 2004, a reduction of NOK 651 million due to the NOK 2,042 million write-down of German metal plants. Adjusted EBITDA was NOK 8,656 million, an increase of NOK 2,158 million. Increased production of primary aluminium and increased prices had a positive impact on the result. Realized aluminium prices, measured in NOK, were 9 percent higher than in 2003. New production capacity coming on stream, including the major expansion of the Sunndal plant and improved capacity utilization of downstream operations contributed positively. However, because many of the production plants are located in Europe, with Euro- and Norwegian kroner-based costs, while product prices are mainly fixed in US dollars, the continued weakening of the dollar against the European currencies had a negative effect on the result.

Aluminium continued to focus on cost improvements throughout 2004. The Aluimprover program, initiated in May 2004, was an important element in this process. The program aims to reduce annual costs of the Norwegian metal plants by NOK 350 million — 400 million and is expected to result in a reduction of some 800 employees. The total cost of the program is expected to be about NOK 600 million, NOK 200 million less than originally estimated. All cost reduction initiatives related to the project are expected to be concluded by the ned of the first quarter of 2005. In addition, continuous improvement programs have been implemented in all downstream sectors. The closure of the Motorcast plant in Leeds, UK, resulted in a charge of NOK 147 million to operating income. Estimated remaining charges relating to the closure of NOK 135 million are expected to be recorded in 2005.

Other Businesses — Polymers

Operating income for Polymers was NOK 254 million, compared with an operating loss of NOK 8 million in 2003. Adjusted EBITDA was NOK 774 million, an improvement of NOK 373 million compared with 2003. The positive developments were largely due to substantially improved market conditions in the second half of the year, which more than offset the effect of higher raw material costs. The development project at the chlorine plant at Rafnes, Norway, begun in 2003, proceeded according to plan. Start-up is expected to take place during the summer 2005, slightly earlier than planned. An NOK 700 million upgrade of the existing chlorine plant at Rafnes has also been approved.

Risk Management

Hydro's operating results are primarily affected by price developments relating to Hydro's main products, oil and aluminium, in addition to fluctuations in the US dollar — in particular to the Norwegian krone — but also to other currencies, including the Euro. An indication of the possible effects on results before and after tax relating to changes in oil and aluminium prices and changes in the US dollar exchange rate, is included on page 86 of the annual report.

In addition, a number of strategic and operational factors can have an impact in the short or long term. For example, changes in competitive and market conditions may affect margin and volume development, while exploration results affect the development of petroleum reserves. Decisions taken by the authorities may in turn result in unforeseen taxes and duties, or hinder foreign currency transfers.

Risk management in Hydro is based on the principle that risk evaluation is an integral part of all business activities. The main responsibility for risk management is therefore placed with the business areas. Policies and procedures have been established to manage risk. Overall and aggregated risk positions are also assessed at the Company level, including risks relating to business strategy and management, financial condition and development, as well as health, safety and environment matters.

Hydro's main risk management strategy for its upstream operations is to accept exposure to oil and aluminium price movements, while hedging its downstream and other margin-based operations to protect processing and manufacturing margins against raw material price fluctuations. This is particularly the case for downstream aluminium operations, but it also applies to a certain extent the Company's gas business. Hedging of upstream oil and aluminium prices may be utilized in special circumstances. However, Hydro's main strategy for mitigating risk is to maintain a solid financial position and strong creditworthiness, as expressed by the Company's adjusted net debt/equity target ratio of 0.5.

Most of Hydro's operating revenues are denominated in or heavily influenced by the US dollar. In order to mitigate the Company's exposure to US dollar currency fluctuations, most of the Company's debt is also dollar-denominated. Also, to reduce refinancing risk, Hydro maintains guidelines for liquidity reserves and its installment payment profile. The Company's financial position at the end of 2004 was well within the established guidelines.

In addition, internal rules establish requirements for monitoring risk exposure, and are intended to limit credit risk by stipulating credit limits for contract parties. Also, the Company's customer base is distributed across several industries and geographical areas, further reducing the risk of potential default.

Market conditions and prospects for 2005

The strong growth in the global economy in 2004 is expected to slow down somewhat in 2005. The growth brought about high oil and gas prices in 2004, and the buoyant demand coupled with little spare production capacity is expected to last into 2005. Aluminium prices increased throughout 2004 as a result of an improved market balance, which is expected to remain favorable in 2005. Continued moderate volume growth is expected in European downstream aluminium markets.

Health, safety and environment (HSE)

Hydro's safety results continued to improve in 2004. Nevertheless, three fatal accidents occurred, all of them in the first quarter and all in Agri, prior to the demerger of Yara. One of the incidents was related to a Hydro employee in Sri Lanka, while the other two were related to contractors in Qatar and Brazil.

Documentation governing Hydro's HSE policies and practices was substantially revised and improved in 2004. An extensive training program was also initiated for key managers, to help further their understanding and knowledge of the Company's HSE requirements and to support the improvement initiatives.

Total recordable injuries per million hours worked (TRI) is the Company's main indicator for monitoring safety. The TRI rate improved by 20 percent in 2004, which was within the target for the year. The target for 2005 is an additional 20 percent improvement.

For the first time in several years, the number of lost-time injuries occurring at Hydro's contractors increased. Even though results were still relatively good, the Company is intensifying its efforts to reduce the number of injuries.

Reporting procedures for near misses continued to be effective in 2004 and Hydro uses such systematic reporting as an important tool in its preventive work.

Emergency preparedness plans were revised in 2004. Emergency drills were carried out on a routine basis involving the Company's corporate crisis team and the business areas.

There continued to be considerable variations in sick leave frequency among different units and geographical regions, the latter partly due to different national regulations. Hydro is continuously engaged in reducing the causes of sickness, in particular work-related illness. A wide range of activities are being pursued at the operating unit level to promote attendance and reduce absence, including the systematic identification of opportunities for improving the working environment.

Hydro is continuing its efforts to eliminate the use of harmful chemicals in production. Efforts to reduce emissions, and accidental discharges in particular, continue and are producing positive results.

Hydro's environmental policy aims to restrict climate gas emissions in a cost-efficient way, and the company intends to play an active role in national and international forums addressing this issue. The Company has also drawn up a policy on biological diversity in order to help meet this global environmental challenge. More information concerning Hydro's HSE activities can be found on pages 45 to 47 and 162 to 163.

Employees

Hydro had 34,648 employees at the end of 2004, compared with 42,911 in 2003. The reduction was mainly due to the Yara demerger, in addition to measures aimed at improving efficiency that will continue in 2005.

Hydro's human resources strategy was revised in 2004. It places even greater emphasis on employee development. A plan has been developed to ensure that all employees have annual target and development dialogues with their line manager and will participate in annual employee surveys. Development of the company's top 200 managers is a strategic corporate responsibility. Inaddition, Hydro stipulates a common minimum level for working conditions for the company as a whole.

It is of crucial importance for Hydro to promote and benefit from diversity in the organization. The Company believes that diversity leads to better decision-making and boosts innovative ability. The aim is that teams at all levels should represent diversity in terms of experience, age, gender and background.

In 2004 the proportion of women among the Company's top 50 or so leaders increased to 25 percent, compared with 23 percent in 2003. Non-Norwegian managers comprise 14 percent of this group, where a total of seven nationalities are represented. Of the top 200 managers, 19 percent are women and 20 percent non-Norwegians. A majority of women managers are in staff functions. One goal of the Company's management development process is to develop more women for line management positions.

Hydro is concerned about equal opportunities at all levels in the organization. As a result, the Company has investigated wage differentials between women and men in the Norwegian part of the organization. For employees covered by collective wage agreements, no significant gender-related differences have been identified. A thorough review of the salaries of employees holding university degrees did not reveal noticeable differentials between men and women's salaries.

In Norway, Hydro participates in the Confederation of Norwegian Business and Industry's program Female Future, which aims to increase the proportion of women in management and board membership. More information about Hydro's efforts to promote diversity and equality can be found on pages 43 to 45 and 161 of this report.

Restructuring, workforce reductions, extensive projects and cost saving drives made great demands on the employees' cooperation and flexibility in 2004. The Board of Directors would like to thank all the employees who are contributing to Hydro's progress with their considerable efforts and cooperative spirit.

Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 9,556 million in 2004, compared with NOK 1,692 million in 2003. Net income was NOK 10,285 million, compared with NOK 1,686 million in 2003. The increase is due mainly to higher dividends and group contributions from subsidiary companies.

Dividend

The Board of Directors proposes a dividend of NOK 20.00 per share, making a total payment of NOK 5,017 million. Transfer to retained earnings will be NOK 5,268 million.

Jan Reinås Chair	**Borger A. Lenth** Deputy Chair	**Terje Friestad** Board member
Elisabeth Grieg Board member	**Håkan Mogren** Board member	**Ingvild Myhre** Board member
Kurt Anker Nielsen Board member	**Geir Nilsen** Board member	**Odd Semstrøm** Board member
	Eivind Reiten President and CEO	

Norsk Hydro ASA and subsidiaries

Consolidated income statements US GAAP

Year ended 31 December Amounts in million (except per share amounts)	Notes	2004 NOK	2004 EUR[1]	2003 NOK	2002 NOK
Operating revenues	5	**155,425**	**18,883**	133,761	134,093
Raw materials and energy costs		**83,011**	**10,086**	74,442	80,868
Payroll and related costs	7, 20	**18,830**	**2,288**	18,569	17,412
Depreciation, depletion and amortization	5, 15, 16	**16,898**	**2,053**	13,947	12,729
Other	7, 25	**4,861**	**591**	5,178	5,427
Restructuring costs	6	**(22)**	**(3)**	—	(10)
Operating costs and expenses		**123,578**	**15,015**	112,136	116,426
Operating income	5	**31,847**	**3,868**	21,625	17,667
Equity in net income of non-consolidated investees	5, 13	**628**	**76**	620	(24)
Financial income (expense), net	8, 11, 24	**136**	**17**	154	1,806
Other income, net	5, 9	**169**	**21**	(1,253)	77
Income from continuing operations before taxes and minority interest		**32,780**	**3,982**	21,146	19,526
Income tax expense	10	**(21,197)**	**(2,575)**	(12,922)	(12,452)
Minority interest		**(106)**	**(13)**	151	26
Income from continuing operations before cumulative effect of change in accounting principle		**11,477**	**1,394**	8,375	7,100
Income from discontinued operations	2	**1,083**	**132**	2,312	1,665
Income before cumulative effect of change in accounting principle		**12,560**	**1,526**	10,687	8,765
Cumulative effect of change in accounting principle		**—**	**—**	281	—
Net income	28	**12,560**	**1,526**	10,968	8,765
Basic and diluted earnings per share from continuing operations before cumulative effect of change in accounting principle	3	**45.10**	**5.48**	32.50	27.50
Basic and diluted earnings per share from discontinued operations	3	**4.20**	**0.51**	9.00	6.50
Basic and diluted earnings per share before cumulative effect of change in accounting principle	3	**49.40**	**6.00**	41.50	34.00
Basic and diluted earnings per share	3	**49.40**	**6.00**	42.60	34.00
Consolidated statements of comprehensive income[2]					
Net income		**12,560**	**1,526**	10,968	8,765
Net unrealized gain (loss on securities available-for-sale	3	**(2)**	**—**	—	(31)
Minimum pension liability adjustment	3	**(132)**	**(16)**	(113)	(323)
Net investment hegde	3	**320**	**39**	(333)	1,333
Cash flow hedges	3	**(339)**	**(41)**	35	979
Net foreign currency translation adjustments	3	**(1,628)**	**(198)**	4,856	(7,207)
Total other comprehensive income (loss), net of tax	3	**(1,781)**	**(216)**	4,445	(5,249)
Comprehensive income, net of tax		**10,779**	**1,310**	15,413	3,516

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2004, which was 8.2307 (unaudited)

2) Comprehensive income includes net income together with other changes not related to investments by and distribution to shareholders. (See Note 3)

The accompanying notes are an integral part of these consolidated financial statements.

Norsk Hydro ASA and subsidiaries
Consolidated balance sheets US GAAP

31 December Amounts in million	Notes	2004 NOK	2004 EUR[1]	2003 NOK
Assets				
Cash and cash equivalents		**14,366**	**1,745**	14,873
Other liquid assets	11	**10,970**	**1,333**	1,553
Accounts receivable, less allowances of 891 and 922		**20,671**	**2,512**	20,550
Inventories	12	**12,851**	**1,561**	12,024
Prepaid expenses and other current assets	12	**10,478**	**1,273**	11,797
Current deferred tax assets	10	**1,070**	**130**	1,097
Current assets discontinued operations	2	**—**	**—**	13,789
Current assets	5	**70,406**	**8,554**	75,683
Non-consolidated investees	13	**10,017**	**1,217**	10,162
Property, plant and equipment, less accumulated depreciation, depletion and amortization	15	**106,117**	**12,893**	107,779
Prepaid pension, investments and other non-current assets	14, 16, 20	**13,039**	**1,584**	13,114
Deferred tax assets	10	**664**	**81**	114
Non-current assets discontinued operations	2	**—**	**—**	11,777
Non-current assets	5	**129,837**	**15,775**	142,946
Total assets	5	**200,243**	**24,329**	218,629
Liabilities and shareholders' equity				
Bank loans and other interest-bearing short-term debt	17	**3,785**	**460**	5,273
Current portion of long-term debt	19	**568**	**69**	1,212
Other current liabilities	18	**41,340**	**5,022**	37,198
Current deferred tax liabilities	10	**384**	**47**	527
Current liabilities discontinued operations	2	**—**	**—**	6,129
Current liabilities		**46,077**	**5,598**	50,339
Long-term debt	19	**19,487**	**2,368**	28,403
Accrued pension liabilities	20	**8,569**	**1,041**	7,774
Other long-term liabilities	21	**9,134**	**1,110**	7,513
Deferred tax liabilities	10	**29,515**	**3,586**	32,796
Long-term liabilities discontinued operations	2	**—**	**—**	3,064
Long-term liabilities		**66,705**	**8,105**	79,550
Minority interest		**1,571**	**191**	564
Minority interest discontinued operations	2	**—**	**—**	96
Minority shareholders' interest in consolidated subsidiaries		**1,571**	**191**	660
Share capital	3	**4,739**	**576**	5,332
Additional paid-in capital	3	**10,467**	**1,272**	15,071
Retained earnings	3	**75,310**	**9,149**	71,516
— Treasury stock	3	**(3,069)**	**(373)**	(3,523)
Accumulated other comprehensive income (loss)	3	**(1,557)**	**(189)**	(316)
Shareholders' equity	3, 28	**85,890**	**10,435**	88,080
Total liabilities and shareholders' equity		**200,243**	**24,329**	218,629
Total number of outstanding shares		**250,839,230**	**250,839,230**	256,712,000
Nominal value per share		**18.30**	**2.22**	20.00

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2004, which was 8.2307 (unaudited)

The accompanying notes are an integral part of the consolidated financial statements.

Norsk Hydro ASA and subsidiaries

US GAAP and N GAAP[1)]
Consolidated statements of cash flows

Year ended 31 December Amounts in NOK million	Notes	2004 NOK	2004 EUR[*)]	2003 NOK	2002 NOK
Operating activities:					
Net income		**12,560**	**1,526**	10,968	8,765
Adjustments to reconcile net income to net cash provided by operating activities:					
Income from discontinued operations	2	**(1,083)**	**(132)**	(2,312)	(1,665)
Depreciation, depletion and amortization	5	**16,898**	**2,053**	13,947	12,729
Restructuring costs	6	**(22)**	**(3)**	—	(10)
Equity in net income of non-consolidated investees	5, 13	**(628)**	**(76)**	(620)	24
Dividends received from non-consolidated investees		**326**	**40**	258	208
Deferred taxes	10	**(2,945)**	**(358)**	(1,585)	(616)
Loss (gain) on sale of non-current assets		**39**	**5**	(726)	1,117
Gain on foreign currency transactions	8	**(1,350)**	**(164)**	(1,035)	(3,262)
Net sales (purchases) of trading securities		**(177)**	**(22)**	245	616
Other		**779**	**95**	2,150[4)]	394
Working capital changes that provided (used) cash:					
Receivables		**(1,117)**	**(136)**	(576)	(1,088)
Inventories		**(1,040)**	**(126)**	453	1,448
Prepaid expenses and other current assets		**1,798**	**218**	2,251	(1,530)
Other current liabilities		**3,686**	**448**	(645)	1,950
Net cash provided by operating activities		**27,724**	**3,368**	22,773	19,080
Investing activities:					
Purchases of property, plant and equipment		**(16,187)**	**(1,967)**	(14,537)	(18,439)
Purchases of other long-term investments		**(858)**	**(104)**	(684)	(17,575)
Purchases of short-term investments		**(9,166)**	**(1,113)**	(702)	(1,691)
Proceeds from sales of property, plant and equipment		**837**[2)]	**102**	647	684
Proceeds from sales of other long-term investments		**1,400**	**170**	6,384	971
Proceeds from sales of short-term investments		**12**	**1**	1,838	558
Net cash used in investing activities		**(23,962)**	**(2,911)**	(7,054)	(35,492)
Financing activities:					
Loan proceeds		**143**	**18**	264	592
Principal repayments		**(9,271)**	**(1,126)**	(5,167)	(4,012)
Ordinary shares purchased	3	**(1,684)**	**(205)**	(555)	—
Ordinary shares issued		**44**	**5**	77	70
Dividends paid	3	**(2,811)**	**(342)**	(2,711)	(2,576)
Net cash used in financing activities		**(13,579)**	**(1,650)**	(8,092)	(5,926)
Foreign currency effects on cash		**(264)**	**(32)**	702	(421)
Net cash provided by discontinued operations	2	**9,574**	**1,163**	997	2,018
Net increase (decrease) in cash and cash equivalents		**(507)**	**(62)**	9,326	(20,741)
Cash and cash equivalents at beginning of year		**14,873**	**1,807**	5,547	26,288
Cash and cash equivalents at end of year		**14,366**	**1,745**	14,873	5,547
Cash disbursements were made for:					
Interest (net of amount capitalized)		**1,701**[3)]	**207**	1,190	1,464
Income taxes		**19,758**	**2,401**	16,011	13,758

*) Presentation in euro is a convenience translation based on the exchange rate at 31 December 2004, which was 8.2307 (unaudited).

1) There are no material difference between consolidated statements of cash flows according to US GAAP and Norwegian accounting principles (N GAAP)

2) In January 2005, Hydro received approximately NOK 1.1 billion relating to the sale of its 10% ownership interest in Snøhvit in 2004, and that was reported as a shorterm receivable within Other current assets as of 31 December 2004.

3) Includes cash disbursements relating to early repayment of long term debt (“breaking costs”) of NOK 938 million.

4) Includes non-cash charge relating to an expected state grant pertaining to an asset retirement obligation of NOK 2,207 million.

The accompanying notes are an integral part of the consolidated financial statements.

Norsk Hydro ASA and subsidiaries

Consolidated income statement N GAAP

Year ended 31 December **Amounts in NOK million**	**Notes**	**2004**	**2003**	**2002**
Operating revenues	5	**154,646**	133,761	134,102
Raw materials and energy costs		**83,211**	74,191	82,519
Change in inventories of own production		**(200)**	251	(1,651)
Payroll and related costs	7, 20	**18,830**	18,569	17,412
Depreciation, depletion and amortization	5, 15, 16	**17,035**	14,071	13,080
Other		**4,719**	5,363	5,115
Restructuring costs	6	**(22)**	—	(10)
Operating costs and expenses	7	**123,573**	112,445	116,465
Operating income	5	**31,073**	21,316	17,637
Equity in net income of non-consolidated investees	5, 13	**588**	582	(34)
Financial income (expense), net	8, 11, 24	**136**	154	1,806
Other income, net	5, 9	**169**	(1,253)	77
Income from continuing operations before taxes and minority interest		**31,966**	20,799	19,486
Income tax expense	10	**(20,996)**	(12,864)	(12,551)
Net income continuing operations		**10,970**	7,935	6,935
Net income discontinued operations	2	**1,057**	2,314	1,676
Net income		**12,027**	10,249	8,611
Minority interest		**(80)**	148	15
Net income after minority interest	28	**11,947**	10,397	8,626

Oslo 2 March 2005

Jan Reinås, Chair

Borger A. Lenth, Deputy Chair

Elisabeth Grieg

Kurt Anker Nielsen

Håkan Mogren

Ingvild Myhre

Geir Nilsen

Odd Semstrøm

Terje Friestad

Eivind Reiten, President and CEO

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Norsk Hydro ASA and subsidiaries

Consolidated balance sheets N GAAP

31 December Amounts in NOK million	Notes	2004	2003
Assets			
Deferred tax assets	10	**662**	326
Other intangible assets	14, 16	**1,944**	2,420
Intangible assets		**2,606**	2,746
Property, plant and equipment	15	**106,117**	107,779
Non-consolidated investees	13	**9,930**	10,112
Prepaid pension, investments and other non-current assets	14, 16, 20	**8,528**	9,268
Financial non-current assets		**18,458**	19,380
Net assets discontinued operations	2	**—**	16,372
Inventories	12	**12,851**	12,024
Accounts receivable, less allowances of 891 and 922		**20,671**	20,550
Prepaid expenses and other current assets		**9,141**	11,141
Other liquid assets	11	**10,970**	1,553
Cash and cash equivalents		**14,366**	14,873
Current assets		**67,999**	60,141
Total assets	5	**195,180**	206,418
Liabilities and shareholders' equity			
Share capital	3	**4,739**	5,332
— Treasury stock		**(148)**	(198)
Premium paid-in capital		**10,432**	15,055
Other paid-in capital		**35**	16
Total paid-in capital		**15,058**	20,205
Retained earnings incl. treasury stock	3	**66,910**	66,796
— Treasury stock		**(2,921)**	(3,325)
Total retained earnings		**63,989**	63,471
Minority shareholders' interest in consolidated subsidiaries		**1,571**	660
Shareholders' equity	3, 28	**80,618**	84,336
Accrued pension liabilities	20	**8,569**	7,774
Deferred tax liabilities	10	**28,273**	31,948
Other long-term liabilities	21	**8,483**	7,505
Long-term liabilities		**45,325**	47,227
Long-term debt	19	**19,487**	28,403
Bank loans and other interest-bearing short-term debt	17	**3,785**	5,273
Current portion of long-term debt	19	**568**	1,212
Dividends payable		**5,017**	2,811
Other current liabilities	18	**40,380**	37,156
Current liabilities		**49,750**	46,452
Total liabilities and shareholders' equity		**195,180**	206,418

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 or a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Norsk Hydro ASA and subsidiaries

Notes to the consolidated financial statements

1. Summary of Significant Accounting Policies

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages 91 to 93. The consolidated financial statements prepared in accordance with accounting principles generally accepted in Norway (N GAAP) are located on pages 93 to 95. Financial statement preparation requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

The accompanying notes include disclosures required by US GAAP as well as disclosures in accordance with N GAAP and are an integral part of both sets of financial statements. The following description of accounting principles applies to both US GAAP and N GAAP unless otherwise specified.

Note 28 provides a reconciliation and explanation of the differences between net income and shareholders' equity for US GAAP and N GAAP.

Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies. The majority of Hydro's consolidated subsidiaries are companies where Hydro controls directly or indirectly more than 50 percent of the voting interests. In certain circumstances, Hydro may control an entity through contractual arrangements or other means. Variable Interest Entities are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Entities for which Hydro is determined to retain the controlling financial interest when such interest is achieved through arrangements other than voting rights, are consolidated. Hydro currently consolidates one company based on the Variable Interest Model. All significant intercompany transactions and balances have been eliminated.

Investments in companies (non-consolidated investees) in which Hydro exercises significant influence are accounted for using the equity method. The equity method involves showing the investment at Hydro's share of the equity in the investee, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Equity in net income from non-consolidated investees. Material unrealized profits resulting from transactions with an investee is eliminated.

Significant influence normally exists when Hydro has a substantial ownership interest of 20 to 50 percent of voting shares. Hydro uses the equity method for a limited number of investees where Hydro owns less than 20 percent of the voting rights, based on an evaluation of the governance structure in each investee. In corporate joint ventures, special voting rights in some companies give each of the partners decision rights that exceeds what normally follows from the ownership share. This may be in form of a specific number of board representatives, in the form of right of refusal for important decisions, or by requiring a qualified majority for all or most of the important decisions. Participation in joint ventures are accounted for using the equity method, except for jointly controlled assets where the partners have an undivided interest. These and other participation in joint ventures in the upstream oil and gas business are accounted for using the pro rata method.

Hydro reviews non-consolidated investees for impairment if indications of loss in value is identified. As Hydro's non-consolidated investees generally are not listed on a stock exchange or regularly traded, our impairment review for such investees can only in rare cases be based on market prices. Impairment indications may be operating losses, or adverse market conditions. Fair value of the investment is estimated based on valuation model techniques. If the estimated fair value of the investee is below Hydro's carrying value, the investment is written down as impaired.

Business Combinations

Terms and conditions underlying most previous acquisitions have resulted in purchase accounting treatment (vs. pooling). See note 2 for a description of significant acquisitions and disposals during the past three years. All business combinations initiated after 30 June 2001 are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value at the time of acquisition. Any excess of purchase price over fair value is recorded as goodwill. When the ownership interest in a subsidiary is less than 100 percent, the recorded amount of assets and liabilities acquired reflect only

Hydro's relative share of excess values. However, for VIEs, the total fair value of assets and liabilities are recognized, and any excess value attributable to non-controlling interests affects minority interests.

For N GAAP, consolidated assets and liabilities reflect 100 percent of the fair market value at the purchase date, except for goodwill (There are currently no acquisitions giving rise to such differences). The relative portion of any excess value recorded relating to minority shareholders is reflected in the total Minority shareholders interest which is a component of the Group's equity.

Foreign Currency Translation

The financial statements, including any excess values, of foreign operations are translated using exchange rate at year end for the balance sheet, and average exchange rates for the income statement. Translation gains and losses, including effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in Other comprehensive income.

Foreign Currency Transactions

Realized and unrealized gains or losses on transactions, assets and liabilities denominated in a currency other than the functional currency which do not qualify for hedge accounting treatment are included in net income.

Revenue Recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered. Certain contracts specify price determination in a later period. In these cases, the revenue is recognized in the period prices are determinable. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, only the net commission fee is recognized as revenue.

Revenues from the production of oil and gas are recognized on the basis of the company's net working interest, regardless of whether the production is sold (entitlement method). The difference between Hydro's share of produced volumes and sold volumes is not material.

Trading of physical commodities which are not net settled is presented on a gross basis in the income statement. Activities related to the trading of derivative commodity instruments and physical commodities where net settlement occurs, are reported on a net basis, with the margin included in operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Other Liquid Assets

Other liquid assets include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recorded when earned.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), and net realizable value. Cost includes direct materials, direct labor and the appropriate portion of production overhead or the price to purchase inventory.

Investments

Investments include Hydro's portfolio of long-term marketable equity securities that are not consolidated or accounted for using the equity method. The portfolio is considered available-for-sale securities and is valued at fair value. The resulting unrealized holding gains and losses, net of applicable taxes, are credited or charged to Other Comprehensive Income and accordingly do not affect net income. Other investment income is recorded when earned.

Investments where a market value is not readily observable are earned at cost. Investments are reviewed for impairment if indications of loss in value as identified. Fair value of the investment is estimated based on valuation model techniques for non-marketable securities if the estimated fair value of the investee is below Hydro's carrying value, the investment is written down as impaired.

For N GAAP, investments are valued at the lower of historical cost and market value. [Note 28].

Property, Plant and Equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as described in Statement of Financial Accounting Standards (SFAS) 144. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and disposition of the asset or group of assets working together to create identifiable, relatively independent cash flows. If the carrying amount is not recoverable, a write-down (impairment) to fair value is recorded.

For N GAAP, NRS(F) Impairment of Assets, revised in 2002, requires impairment of long-lived assets to be measured as the difference between carrying value and the higher of an asset's value in use and its net selling price.

Periodic maintenance and repairs applicable to production facilities are accounted for on an accrual basis. Normal maintenance and repairs for all other properties are expensed as incurred. Major replacements and renewals that materially extend the life of properties are capitalized and any assets replaced are retired.

Capitalized Interest Interest is capitalized as part of the historical cost of major assets constructed.

Leased Assets Leases which provide Hydro with substantially all the rights and obligations of ownership are accounted for as capital leases. Such leases are valued at the present value of minimum lease payments or fair value if lower, and recorded as assets under property, plant and equipment. The liability is included in long-term debt. The assets are subsequently depreciated and the related liabilities are reduced by the amount of the lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognized as an expense over the lease term.

Environmental Expenditures Environmental expenditures which increase the life, capacity, or result in improved safety or efficiency of a facility are capitalized. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when environmental assessments or clean-ups are probable and the cost can be reasonably estimated.

Exploration and Development Costs of Oil and Gas Reserves Hydro uses the "successful efforts" method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Cost relating to acquired exploration rights are allocated to the relevant areas and capitalized pending the determination of the existence of proved reserves. If reserves are not found, the acquisition costs are charged to operating expense upon determination that proved reserved will not be found in the area. Each block or area is assessed separately. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred. For further information see note 27.

Depreciation, Depletion and Amortization Depreciation is determined using the straight line method with the following rates:

Machinery and equipment	5 - 25 percent
Buildings	2 - 5 percent
Other	10 - 20 percent

Producing oil and gas properties are depreciated as proved developed reserves are produced using the unit-of-production method calculated by individual field. Unit-of-production depreciation rates are revised whenever there is an indication of the need for revision, and at least once a year. Any revisions in the rates are accounted for prospectively.

Depreciation and depletion expense includes accretion of discounted asset retirement obligations.

Intangible Assets

Intangible assets acquired individually or as a group are recorded at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Intangible assets with finite useful lives are amortized on a straight line basis over their benefit period. Intangible assets determined to have indefinite useful lives are not amortized until a finite life can be determined. These intangible assets are subject to impairment testing on an annual basis.

Goodwill

When a business is acquired, purchase price in excess of the identified fair value of assets and liabilities is accounted for as goodwill. Goodwill is reviewed at least annually for impairment. Goodwill is recorded at the reporting unit level (for Hydro this is the sector level. See note 5 for a description of sectors). The impairment test requires fair value of the sector to be compared to the carrying value of the sector. For this purpose fair value of the sector is estimated by management using valuation techniques.

For N GAAP, goodwill is amortized over a period not exceeding 10 years. [Note 28]

Oil and Gas Royalty

Oil and gas revenue is recorded net of royalties payable in kind.

Shipping costs

Shipping and handling costs are included in Other operating expenses. Shipping and handling costs invoiced to customers are included in Operating revenues.

Research and Development

Research and development costs are expensed as incurred.

For N GAAP intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. All expenditure on research to be recognized as an expense when incurred. [Note 28]

Other Income (Expense), net

Transactions resulting in income or expense which are material in nature and from sources other than normal production and sales operations are classified as other income and expense.

Income Taxes

Deferred income tax expense is calculated using the liability method in accordance with SFAS 109. Under this method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred tax assets are reviewed for recoverability, and a valuation allowance is recorded against deferred tax assets to the extent that it is more likely than not that the asset will not be realized. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for deferred tax related to items charged directly to equity. Changes resulting from enacted amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date. Deferred taxes are not provided on undistributed earnings of most subsidiaries, as such earnings are deemed to be indefinitely reinvested.

For N GAAP, Hydro follows the NRS' (The Norwegian Accounting Standards Board) standard which, like SFAS 109, is based on the liability method. [Note 28].

Derivative Instruments

Derivative financial instruments are marked to their market value with the resulting gain or loss reflected in net financial expense, except when the instruments meet the criteria for hedge accounting. See Note 24 for the balance sheet classification of these instruments.

Forward currency contracts and currency options are marked to their market value at each balance sheet date with the resulting unrealized gain or loss recorded in financial income (expense), net.

Interest rate and foreign currency swaps Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial income (expense), net.

Swaption contracts are marked to their market value at each balance sheet date with the resulting unrealized gain or loss reflected in Financial income (expense), net.

Derivative Commodity Instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenues and/or operating costs, unless the instrument is designated as a hedge instrument, and qualifies for hedge accounting.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other Comprehensive Income (OCI) until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is not probable to occur, all the corresponding gains and losses deferred in OCI are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in current period's earnings. For fair value hedges, both changes in the fair value of designated derivative instrument and changes in the fair value of hedged item are recognized currently in earnings.

Energy contracts are accounted for according to EITF 02-3 "Issues involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities". This standard requires energy contracts that meet the definition of a derivative according to SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" be recorded in the balance sheet at fair value, unless those contracts qualify for normal purchase or normal sale exemption as described in the standard. Changes in fair value are recorded to earnings for each period unless specific hedge criteria are met. Fair values are based on quoted market prices. Energy contracts that do not meet the criteria of EITF 02-3 are recorded at the lower of historical cost and fair market value. Prior to 2003, energy contracts were measured at fair value in accordance with EITF 98-10 "Accounting for Contracts Involved in Energy Trading and Risk Management Activities".

For N GAAP, commodity derivative instruments that are traded in a regulated, liquid market are marked-to-market with their fair market value recorded in the balance sheet as either assets or liabilities. Unrealized gains and losses for commodity derivative instruments that are not traded in a regulated, liquid market are netted for each portfolio and net unrealized gains are not recognized. Cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement under N GAAP, until the underlying hedged transactions actually occur. [Note 28].

Certain derivative commodity instruments require daily cash settlements, principally London Metal Exchange (LME) futures and options, and oil futures. LME options also involve an initial receipt or payment of a premium and give rise to delivery of an agreed amount of cash if the option is exercised. Most other financial and commodity instruments have cash effects at settlement date, which are included in the Statements of Cash Flows under operating activities when incurred.

Stock-based Compensation

Hydro accounts for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28, and provides disclosures required under SFAS 123. For variable awards and awards settled in cash, compensation cost is measured at the end of each period as the amounts by which the market price of the Company's shares exceeds the price of the options. For variable and cash settled awards where vesting depends on achieving a specified improvement in Hydro's share price, compensation cost is measured when it is probable the performance criteria will be met. Compensation is charged to expense over the periods the employee performs the related services.

Hydro also offers treasury shares to employees at discounted prices to encourage share ownership. Issuance of treasury shares at a discount to employees results in a charge to compensation expense based on the difference between the market value of the share at the date of issuance and the price paid by employees.

Pro Forma Information

No stock-based employee compensation cost is reflected in net income, as all options grated under the United Kingdom stock option plan had an exercise price equal to the market value of the underlying stock on the date of the grant as described in note 4. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

In NOK millions, except for earnings per share	2004	2003	2002
Net income, as reported	**12,560**	10,968	8,765
Total stock-based compensation expense determined under fair value method net of tax	**2**	4	4
Pro forma net income	**12,558**	10,964	8,761
Earnings per share:			
Basic and diluted as reported	**49.40**	42.60	34.00
Basic and diluted pro forma	**49.40**	42.60	34.00

Hydro uses a valuation model based on the Black-Scholes option-pricing model. The assumptions used in the model for the plans are: expected life of 10 years from grant date, expected volatility of 30 percent, a risk-free interest between 3.7 - 4.8 percent and a dividend yield of about 2.5 percent.

Employee Retirement Plans

Pension costs are calculated in accordance with SFAS 87 and SFAS 88. Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

For N GAAP, the same principle has been applied which is in accordance with the NRS 6 Pension Cost.

Discontinued Operations

When a component of the entity is sold or decided to be sold, it is reported as a Discontinued operation in accordance with SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets, provided that certain criteria are met, including that it is probable that the sale will be completed within one year. A component of the entity can be a reportable segment or a smaller unit which can be clearly distinguished and for which separate financial information is available. Assets, liabilities, cash flows, results of operations and any gain or loss from disposal are excluded from Continuing operations and reported separately. Components to be disposed of other than by sale are reclassified to Discontinued operations as of the date of disposal. Prior periods asset, liabilities, cash flows and results of operations are reclassified to be comparable. Immaterial disposal groups are not classified as discontinued operations.

Changes in Accounting Principles

Consolidation of Variable Interest Entities

Effective 1 January 2004, Hydro adopted FASB Interpretation 46 "Consolidation of Variable Interest Entities" (FIN 46R) which clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, relating to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support (variable interest entities or VIEs). The Interpretation provides guidance for determining which party retains the controlling financial interest in VIEs when such interest is achieved through arrangements other than voting rights. Implementation of the new requirements depended on when a company became involved with such entities. Because Hydro did not become involved with any new VIEs during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004.

Hydro has identified one pre-existing arrangement that meets the requirements of FIN 46R to be classified as a VIE. Hydro has an equity interest in Slovalco, an aluminium smelter in Slovakia. Hydro also has an agreement to supply Slovalco with alumina and a right and obligation to purchase approximately 60 percent of Slovalco's total aluminium production at market based prices. Hydro owns 20 percent of the shares of Slovalco representing 40 percent of the voting rights. In 2001, Hydro entered into a put and call option arrangement with another shareholder that could increase Hydro's interest up to 65 percent. This arrangement, which expires in the period 2005 to 2006, is the primary reason requiring Hydro to consolidate Slovalco in accordance with the new VIE regulations.

Hydro has consolidated Slovalco in accordance with the new requirements effective from 1 January 2004. Related assets, liabilities and the 80 percent non-controlling interests have been measured based on their fair values at the time the option arrangement was entered into in 2001 and recorded based on such values carried forward to 1 January 2004. As of 1 January 2004, total assets, liabilities and non-controlling interests were NOK 2,182 million, NOK 725 million and NOK 1,165 million respectively. At the end of 2003, the difference between Hydro's interest in Slovalco consolidated based on the new requirements compared to the equity method was immaterial.

This Interpretation (FIN 46R) may result in differences between US GAAP and N GAAP, dependent on the relevant facts and circumstances for units required to be consolidated, or not to be consolidated, under FIN 46R. However, there are currently no differences between US GAAP and N GAAP for Hydro's activities attributable to FIN 46R.

FSP FAS 142-2, Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities

FASB issued FSP FAS 142-2 on 2 September 2004 addressing whether the scope exception within the SFAS 142 for the accounting as prescribed in SFAS 19 extends to the balance sheet classification and disclosures for drilling and mineral rights of oil- and gas-producing entities. The FSP concluded that the scope exception in SFAS 142 extends to the balance sheet classification and disclosure provisions for such assets. The FSP confirms Hydro's current practice, and does not imply any changes to Hydro's classification or disclosures.

Intangible assets

Effective from 1 January 2004, NRS(F) Intangible assets was revised to require that intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. The standard requires all expenditure on research to be recognized as an expense when incurred. This does not represent a difference between US GAAP and N GAAP at transition, however, for future periods the standard may result in differences for development activities compared to US GAAP.

Asset Retirement Obligations

Effective 1 January 2003, Hydro adopted "Financial Accounting Standards No 143 Accounting for Asset Retirement Obligations" (SFAS 143). This Statement requires that the estimated fair value of an asset retirement obligation be recorded in the Company's balance sheet in the period in which it is incurred; accordingly, obligations for oil and gas installations are recognized when the assets are constructed and ready for production. Related asset retirement costs are capitalized as part of the carrying value of the long-lived asset, while the liability is accreted for the change in its present value each reporting period, and the associated asset retirement costs are depreciated over the useful life of the related long-lived asset. As a result of the new accounting standard, a positive aftertax effect of NOK 310 million was recorded as "cumulative effect of change in accounting principles" in the Company's results of 2003. For further information see note 21.

For N GAAP, the change in accounting principle was implemented on a retrospective basis, with the effect recorded to equity. Comparable figures are restated for N GAAP purposes.

Energy contracts

Effective 1 January 2003, Hydro adopted EITF 02-3 "Recognition and Reporting of Gains and Losses on Energy Contracts". This standard requires only energy contracts that meet the definition of a derivative according to SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and are held for trading, be recorded in the balance sheet at fair value. Other energy contracts are recorded at the lower of historical cost and fair market value. This change applies to contracts entered into before 25 October 2002. For contracts entered into after 25 October 2002, the regulation applied from initial recognition. As a result of the new regulation, a negative after-tax effect of NOK 29 million was recorded as "cumulative effect of change in accounting principles" in the Company's results of 2003.

Implementation of EITF 02-3 does not result in a change in accounting principle for N GAAP.

Exit costs

Effective 1 January 2003, Hydro adopted Financial Accounting Standards No 146 "Accounting for Costs Associated with Exit or Disposal Activities". The standard supersedes EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", and changed accounting for costs related to closing and restructuring an activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed at communication to the employees.

For N GAAP, certain costs are required to be recognized at commitment to an exit plan, and may be recognized in an earlier period than for US GAAP.

Impairment of assets

For N GAAP, Hydro adopted the revised NRS(F) Impairment of Assets, effective 1 January 2003. Impairment tests for property, plant and equipment, goodwill and intangible assets are required to measure impairment as the difference between carrying value and recoverable amount of the asset, either as net selling price or value in use, estimated as discounted future cash flows. An impairment loss should be reversed if the impairment situation no longer exists. This represents a difference between US GAAP and N GAAP.

Guarantees

In November 2002, FASB issued Interpretation (FIN) 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". This Interpretation clarifies certain elements related to measurement and disclosure of guarantees, including product warranties. The interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The recognition and measurement provisions are applicable to guarantees issued or modified after 31 December 2002. The adoption of FIN 45 has not materially impacted Hydro's results of operations and financial position.

Reclassifications

Certain amounts in previously issued consolidated financial statements were reclassified to conform with the 2004 presentation. Specifically, for prior periods, assets and liabilities related to assets held for sale, sold or demerged business reported as discontinued operations are included in "Assets of discontinued operations" and "Liabilities of discontinued operations", respectively. Similarly, results and cash flows related to these activities are included in "Income (loss) from discontinued operations" and "Cash flows from discontinued operations". Notes to the financial statements are amended to refer to items included in continuing operations, where relevant.

New Pronouncements

Share-Based payment

In December 2004, FASB issued its revised Statement of Financial Accounting Standards (SFAS) No. 123 on Share-Based payment. The amended standard requires all share-based payment plans to be accounted for on a fair value basis. The intrinsic value method currently applied by Hydro will not be allowed for interim periods after the second quarter of 2005. For Hydro's current share-based payment plans, the impact of the revised standard is not expected to be material.

The change is not expected to represent differences in measurement of compensation compared to N GAAP.

Exchanges of Nonmonetary Assets

In December 2004, FASB issued SFAS No. 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. The statement amends APB 29 Accounting for Nonmonetary Transactions, SFAS 19 Financial

Accounting and Reporting by Oil and Gas Producing Companies, and certain other standards. The change eliminates exceptions from fair value measurement of certain nonmonetary exchanges, and replaces it with an exception for exchanges that do not have commercial substance. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Statement also requires certain nonmonetary exchanges of oil and gas related assets previously accounted for without recognizing gain or loss to be accounted for at fair value. However, certain other nonmonetary exchanges of oil and gas producing assets will continue to be accounted for without recognizing gain or loss. The Standard is effective for exchanges occurring in periods starting after 15 June 2005, with earlier application permitted. Hydro has decided to implement the provisions of SFAS 153 for exchanges occurring from 1 January 2005.

The change is not expected to represent differences in measurement of transactions compared to N GAAP.

Inventory cost

In November 2004, the FASB issued SFAS No 151 Inventory Cost, an amendment of ARB 43, Chapter 4. The standard clarifies that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials should be recognized as current-period charges. The Standard is effective for periods starting after 15 June 2005. The impact of the revised standard is not expected to be material for Hydro.

The change is not expected to represent differences in measurement of inventory compared to N GAAP.

Suspended well cost

In February 2005, the FASB issued a Proposed FASB Staff Position No FAS 19-a, to provide guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Statement No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (SFAS 19), requires costs of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. Questions have arisen in practice about the application of this guidance due to changes in oil- and gas-exploration processes and lifecycles. The issue is whether there are circumstances that would permit the continued capitalization of exploratory well costs if reserves cannot be classified as proved within one year following the completion of drilling other than when additional exploration wells are necessary to justify major capital expenditures and those wells are underway or firmly planned for the near future. The FSP would amend SFAS 19 and allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met, and certain disclosures are provided. Should the FSP be issued as proposed, Hydro does not expect any changes to the capitalized amounts.

Recognition of buy/sell arrangements

In February 2005, the SEC issued guidance requiring companies to provide disclosures about their buy/sell arrangements. A buy/sell arrangement is one in which a company buys and sells a commodity with the same counterparty under a single contract or separate contracts concurrently entered into. The first issue, recently discussed by the Emerging Issues Task Force (EITF), concerns whether such buy/sell arrangements should be considered non-monetary exchanges accounted for at historical cost in accordance with APB Opinion No. 29, and, if so, when, if at all, could such arrangements be accounted for at fair value. A second issue is whether buy/sell arrangements should be presented gross as revenues and costs in the income statements, or whether such arrangements should be presented net.

Hydro currently presents the trading of derivative commodity instruments and physical commodities where net settlement occurs on a net basis, with the margin included in operating revenues. Trading of physical commodities, which are not net settled, are generally presented on a gross basis in the income statement. Hydro has two such arrangements involving the sale and repurchase of natural gas at different locations with the same counterparty, which were entered into in 2003. Both of these arrangements have been presented gross in the income statement, based on an assessment that the company takes title to the product and that net settlement is not possible for the contracts. Total revenues under these two contracts were NOK 1,449 million and NOK 1,154 million for the years 2004 and 2003 respectively. All quantities delivered under these arrangements have been delivered to customers. Hydro also has some buy and sell arrangements presented gross in the income statements involving the same counterparty in the metal business. Such arrangements involve transactions in standard aluminium qualities. Total revenues under such contracts were NOK 85 million, NOK 829 million and NOK 1,616 million for the years 2004, 2003 and 2002, respectively.

2. Demerger, business combinations and dispositions

Discontinued Operations

In November 2003, Hydro's Board of Directors concluded a plan to demerge the Company's Agri activities and transfer the operations to a newly formed company, Yara International ASA. The plan was approved by an Extraordinary General Meeting on 15 January 2004. The demerger was completed on 24 March 2004 and Yara was listed on the Oslo Stock Exchange with effect from 25 March 2004. Under the demerger plan, the demerger had financial effect from 1 October 2003. From this date, Yara International ASA assumed the risk of the agri activities. The demerger was reflected in the accounts as of the completion date, 24 March 2004. In the demerger process, substantial assets and liabilities, including subsidiaries and non-consolidated investees, were transferred to Yara. As a result of the demerger, Hydro's share capital was reduced by 8.5 percent, representing the estimated relative value of the transferred Agri activities compared to the business activity retained by Hydro. The total equity reduction amounted to NOK 7,614 million. In accordance with the demerger plan, adjustments to the equity reduction may occur relating to the allocation of certain costs and liabilities where amounts are not fully determinable. Revisions are possible through the end of 2009. Possible related adjustments are not expected to be material.

At the completion date, Hydro's shareholders received shares in Yara International ASA equal to 80 percent of the to total value of Yara, based on a valuation completed at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA were owned by Norsk Hydro ASA. The Company has subsequently sold its share holdings in Yara in connection with the demerger transaction. The demerger was reflected in the Company's accounts based on historical values of the transferred assets and liabilities. Hydro did not recognize any gain or loss, or receive any proceeds, as a result of the demerger transaction. Hydro received proceeds of NOK 2,619 million, and recognized a pre-tax gain of NOK 533 million, from sale of its 20 percent ownership in Yara in March 2004. The gain is included in ''Income from discontinued operations''.

Under the Norwegian public limited companies act section 14- 11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger.

Income from discontinued operations

Income from discontinued operations includes operating results from activities which, according to the demerger plan, have been transferred to Yara International ASA. Effects directly related to Yara activities, the demerger process and Hydro's sale of Yara shares are included. Results from Yara activities includes net income from subsidiaries transferred in the demerger. In addition income and expenses in Norsk Hydro ASA and certain holding companies abroad directly related to the Yara activities are included to the extent these activities are transferred to Yara or are terminated as a direct consequence of the demerger of Yara. Income from discontinued operations also includes financial expense related to loans in companies transferred to Yara. No financial expenses related to loans retained in Hydro are allocated to discontinued operations. External fees and similar expenses related to the waiving of Yara's joint liabilities for certain of Hydro's loans, and expenses directly related to the demerger process and Hydro's sale of Yara shares are included. Hydro's gain on sale of its shares in Yara International ASA, after direct sales expenses and tax, amounted to NOK 385 million. Tax is allocated to the sales gain based on tax rules enacted at the time of sale.

For prior periods, assets and liabilities transferred to Yara in the demerger process are included in ''Assets of discontinued operations'' and ''Liabilities of discontinued operations'', respectively. This includes assets and liabilities in subsidiaries transferred to Yara, assets and liabilities in business units separated from Hydro's other activities for which separate accounts exists in addition to other identified assets transferred to Yara.

Cash flows from discontinued operations includes cash flows from activities transferred to Yara and expenses directly related to the demerger. In addition, cash flows include Hydro's sale of its shares in Yara immediately after the demerger in the amount of NOK 2,619 million, and Yara's repayment of debt to Hydro in the amount of NOK 7.1 billion.

The major part of discontinued activities relates to the Agri business area within Hydro's segment reporting. Minor amounts also relate to Pronova which is included within Other businesses. In addition, Corporate and eliminations reflect the transfer to Yara of certain activities previously reported as part of Corporate, and demerger costs included in Corporate for 2003.

Prior periods are restated to be presented on a comparable basis. The following table summarizes financial information for the discontinued operations for the periods they are included in Hydro's financial statements.

Summary of financial data for Discontinued Operations

NOK million	2004	2003	2002
Operating revenues	**10,036**	38,334	33,477
Operating income	**936**	2,633	2,173
Non-consolidated investees	**131**	610	57
Financial income (expense), net	**(88)**	47	130
Other income, net	**—**	40	142
Income before taxes and minority interest	**979**	3,330	2,502
Income tax expense	**(307)**	(1,015)	(826)
Minority interest	**26**	(3)	(11)
Income before sale of shares	**698**	2,312	1,665
Gain from sale of shares	**533**	—	—
Tax on gain from sale of shares	**(148)**	—	—
Net income US GAAP	**1,083**	2,312	1,665
Adjustment N GAAP:			
Amortization goodwill	***0***	*(1)*	0
Minority interest	***(26)***	*3*	11
Net income N GAAP	***1,057***	*2,314*	1,676

NOK million	31 December 2004	31 December 2003
Current assets	**—**	13,789
Non-current assets	**—**	11,777
Total assets	**—**	25,566
Current liabilities	**—**	(6,129)
Long-term liabilities	**—**	(3,064)
Minority interest	**—**	(96)
Discontinued operations, net US GAAP	**—**	16,277
Adjustment N GAAP:		
Accumulated additional amortization goodwill	**—**	*(1)*
Minority interest		*96*
Discontinued operations, net N GAAP	**—**	*16,372*

NOK million	2004	2003
Net cash provided by operating activities	**838**	1,805
Net cash provided by (used in) investing activities[1)]	**8,840**	(744)
Net cash used in financing activities	**(109)**	(141)
Foreign currency effects on cash flows	**5**	77
Net cash provided by discontinued operations	**9,574**	997

1) Includes proceeds from sale of Yara shares and loan repayments from Yara.

Subsequent to and during the three years ended 31 December 2004, Hydro entered into the following significant business combinations and dispositions.

2004 Acquisitions

No major acquisitions were agreed or completed during 2004.

2004 Dispositions

In June 2004, Hydro sold its German based alumina activities consisting of the 50 percent stake in the non-consolidated investee Aluminium Oxid Stade GmbH, the related chemical grade alumina business and the dedicated bauxite supply source represented by Hydro's 10 percent share in Halco (Mining) Inc. The total consideration was NOK 677 million. The dispositions resulted in a total pretax gain of NOK 35 million. In December 2003, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of approximately NOK 110 million.

2003 Acquisitions

No major acquisition were agreed or completed during 2003.

2003 Dispositions

During 2003, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 7.0 billion. The dispositions resulted in a total pretax gain of NOK 995 million. In September 2002, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Swedish feed and grain activities for approximately NOK 450 million. The sale was completed in January 2003 after approval from competition authorities. In December 2002, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3.0 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003, and did not result in any significant gain or loss. In June, Hydro transferred its interest in Sundsfjord Kraft ANS in exchange for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million. In July, Hydro entered into an agreement for the sale of Carmeda AB, for approximately NOK 180 million, resulting in a gain of NOK 139 million. In September, Hydro entered into an agreement to sell its stake in Skandinaviska Raffinaderi AB (Scanraff) for approximately NOK 1.3 billion. The sale was completed in December, resulting in a gain of NOK 490 million. The agreement included the possibility of a price adjustment depending on the development in refinery margins during 2004 and 2005. High refinery margins during 2004 have resulted in additional gain of NOK 59 million recognized in 2004. In December, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare which is discussed above.

2002 Acquisitions

On 19 March 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of 10 May 2002. The agreement was effective from 1 January 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

In January 2002, Hydro entered into an agreement to purchase all the outstanding shares of the German group VAW aluminium AG, a leading aluminium company in Europe. The acquisition was completed on 15 March 2002. VAW had operations in more than 20 countries. The major part of these activities were located in the EU in addition to important operations located in North America and the Pacific region.

The consideration for all outstanding shares, including direct acquisition costs amounted to EUR 1,911 million (NOK 14.9 billion). In addition, interest-bearing debt of EUR 703 million (NOK 5.5 billion) and pension commitments of approximately EUR 410 million (NOK 3.2 billion) were assumed. The acquisition was financed by Hydro's cash holdings.

Assets acquired and liabilities assumed in the VAW acquisition have been recorded at estimated fair value. Excess values are for the most part allocated to tangible fixed assets. The allocation did not indicate material goodwill in the transaction. Because VAW's inventories have been recorded at estimated fair values as of the time of the acquisition, cost of goods sold was unusually high in the period after acquisition. The effect was approximately NOK 200 million.

Amounts in NOK million

Allocation of purchase price	
Cash and cash equivalents	410
Other current assets	11,597
Property, plant and equipment	16,592
Other non-current assets	6,140
Short-term liabilities	(9,517)
Long-term liabilities	(10,022)
Minority interests	(356)
Estimated fair value of net assets of VAW	14,844

In November 2001, an agreement was signed to purchase the French building systems group Technal for a price of EUR 73 million (NOK 580 million) and the assumption of approximately NOK 307 million in debt. The acquisition was completed 25 January 2002.

2002 Dispositions

During 2002, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 2.9 billion. The dispositions resulted in a total pretax gain of NOK 219 million. In September, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Danish feed and grain activities for a total consideration of approximately NOK 2 billion, and its Swedish feed and grain activities for approximately NOK 450 million. The agreements resulted in impairment charges of approximately NOK 150 million. The sale of the Danish activities was completed in December, while the sale of the Swedish was completed in January 2003 after approval from competition authorities. In December, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and was part of Other activities. The transaction was completed in April 2003.

The effect of acquisitions and dispositions for 2004 and 2003 is not significant.

3. Consolidated shareholders' equity

Norsk Hydro ASA had authorized and issued 258,954,428 ordinary shares having a par value of NOK 18.30 per share as of 31 December 2004. For the years ended 31 December 2003, and 2002, Norsk Hydro ASA had authorized and issued 266,596,650 ordinary shares having a par value of NOK 20 per share. As of 31 December 2004, 8,115,198 shares were treasury stock resulting in 250,839,230 outstanding ordinary shares (for 2003 256,712,000 outstanding ordinary shares). For N GAAP, the amount for the treasury stock of NOK 3,069 million comprised NOK 148 million for share capital and NOK 2,921 million for retained earnings. Remaining treasury stock may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors. The weighted average number of outstanding shares for the year ended 31 December 2004 was 254,411,433.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 2,808,810 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 2,191,190 shares owned by the Norwegian State. As compensation, the State received NOK 981 million. The cancellation and redemption were completed in February 2005. In addition, the General Meeting authorized a new buyback program limited to 5,617,621 shares. As part of this program, a total of 10 million shares may be cancelled, including shares owned by the Norwegian State. A decision to cancel any of the shares repurchased requires approval by a minimum of two-thirds of the shares represented at a future General Meeting. No shares have been repurchased under this program.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 1,484,300 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 1,157,922 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004. In addition the General Meeting approved the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30. Each shareholder received one share in the newly established Yara International ASA, with a par value of 1.70 for each Hydro share. The demerger was completed on 24 March 2004.

In 2004, Hydro sold 285,152 shares of its treasury stock to employees for a fair value of NOK 121 million.

Consolidated shareholders' equity

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued Norsk Hydro ASA		Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA		Accumulated other comprehensive income	Total shareholders' equity[1]
	Number	Amount				Number	Amount		
Balance 31 December 2001	266,597	5,332	15,070	20,402	57,070	(8,962)	(3,167)	488	74,793
Net income 2002					8,765				8,765
Dividend declared and paid (NOK 10.00 per share)					(2,576)				(2,576)
Net unrealized gain on securities								(31)	(31)
Minimum pension liability								(323)	(323)
Hedge of net investment								1,333	1,333
Cash flow hedges								979	979
Treasury stock reissued to employees			18	18		326	116		134
Foreign currency translation					1		(1)	(7,207)	(7,207)
Balance 31 December 2002	266,597	5,332	15,088	20,420	63,260	(8,636)	(3,052)	(4,761)	75,867
Net income 2003					10,968				10,968
Dividend declared and paid (NOK 10.50 per share)					(2,711)				(2,711)
Net unrealized gain on securities								—	—
Minimum pension liability								(113)	(113)
Hedge of net investment								(333)	(333)
Cash flow hedges								35	35
Purchase of treasury stock						(1,484)	(555)		(555)
Treasury stock reissued to employees			(17)	(17)		235	83		66
Foreign currency translation					(1)		1	4,856	4,856
Balance 31 December 2003	266,597	5,332	15,071	20,403	71,516	(9,885)	(3,523)	(316)	88,080
Net income 2004					**12,560**				**12,560**
Dividend declared and paid (NOK 11.00 per share)					**(2,811)**				**(2,811)**
Net unrealized gain on securities								**(2)**	**(2)**
Minimum pension liability								**(132)**	**(132)**
Hedge of net investment								**320**	**320**
Cash flow hedges								**(339)**	**(339)**
Purchase of treasury stock						**(2,809)**	**(1,239)**		**(1,239)**
Treasury stock reissued to employees			**19**	**19**		**285**	**102**		**121**
Cancellation treasury stock	**(4,294)**	**(82)**	**(1,511)**	**(1,593)**	**2**	**4,294**	**1,591**		**(0)**
Redeemed shares, Norwegian State	**(3,349)**	**(63)**	**(1,363)**	**(1,426)**					**(1,426)**
Demerger Yara International ASA		**(448)**	**(1,749)**	**(2,197)**	**(5,957)**			**540**	**(7,614)**
Foreign currency translation								**(1,628)**	**(1,628)**
Balance 31 December 2004	**258,954**	**4,739**	**10,467**	**15,206**	**75,310**	**(8,115)**	**(3,069)**	**(1,557)**	**85,890**

1) See note 28 for a reconciliation to N GAAP equity.

Components of Total Accumulated Other Comprehensive Income

	Net unrealized gain (loss) on securities	Net unrealized gain (loss) investment hedge	Net gain (loss) cash flow hedge	Minimum pension liability adjustment	Net foreign currency translation gain (loss)	Total accumulated other comprehensive income (loss)
Balance 31 December 2001	42	(1,252)	135	(560)	2,123	488
Balance 31 December 2002	11	81	1,114	(883)	(5,084)	(4,761)
Balance 31 December 2003	11	(252)	1,149	(996)	(228)	(316)
Balance 31 December 2004	**9**	**102**	**810**	**(814)**	**(1,664)**	**(1,557)**

__Changes in Other Comprehensive Income and Related Tax Effects__

	31 December 2004[1]			31 December 2003			31 December 2002		
Amounts in NOK million	**Pretax**	**Tax**	**Net**	**Pretax**	**Tax**	**Net**	**Pretax**	**Tax**	**Net**
Net unrealized gain (loss) on securities	**(3)**	**1**	**(2)**	—	—	—	(43)	12	(31)
Net investment hedge	**445**	**(125)**	**320**	(462)	129	(333)	1,851	(518)	1,333
Cash flow hedge gain (loss)	**(214)**	**60**	**(154)**	385	(112)	272	1,441	(405)	1,036
Less: Reclassification of hedging gain	**(256)**	**71**	**(185)**	(331)	94	(237)	(79)	22	(57)
Net cash flow hedge	**(470)**	**131**	**(339)**	54	(18)	35	1,362	(383)	979
Minimum pension liability adjustment	**(189)**	**57**	**(132)**	(182)	69	(113)	(472)	149	(323)
Foreign currency translation	**(1,625)**	**—**	**(1,625)**	4,650	—	4,650	(7,215)	—	(7,215)
Loss (gain) on companies sold	**(3)**	**—**	**(3)**	206	—	206	8	—	8
Net foreign currency translation	**(1,628)**	**—**	**(1,628)**	4,856	—	4,856	(7,207)	—	(7,207)
Total change in other comprehensive income	**(1,845)**	**64**	**(1,781)**	4,266	180	4,445	(4,509)	(740)	(5,249)

1) Effects of the Yara demerger, NOK 540 million, are not included in the changes specified

4. Stock-based Compensation

Hydro has five main stock-based compensation plans, the Executive Share Option Plan established in 2002, the Executive Share Option Plan established in 2003, the Executive Share Option Plan established in 2004, all of which requires cash settlement, a stock option purchase program for employees in the United Kingdom and a subsidized share purchase plan for permanent employees in the parent company and Norwegian subsidiaries owned more than 90 percent by Hydro. In addition minor share purchase plans for employees in Germany and Switzerland exist.

The Executive Share Option Plans are granted to approximately 30 persons in Hydro's top management including the president and CEO, persons in the corporate management board and others. During 2004, 125,000 options were granted. Options issued under the 2004 plan may be exercised within a six-year period, but not before 1 July 2007, which represents the end of the vesting period. If the Hydro share price is above NOK 476 between 1 July 2007 and 30 June 2010, all the options are exercisable. The option holder will receive in cash the difference between the market price at the time of exercise and the exercise price. The exercise of the options is conditional on a commitment to a long-term investment in shareholding in the company for the received amount. The maximum commitment to invest in shareholding is two times yearly salary for the president and CEO, one time yearly salary for members of the corporate board and 50 percent of yearly salary for the others.

During 2003, 99,500 options were granted. The options are vesting over a three-year performance period beginning July 2003. During 2002, 111,000 options were granted. The options are vesting over a three-year performance period beginning July 2002. The options vesting schedules for the 2003 and 2002 plans are based on shareholder return, as defined in the Plan. If shareholder return is less than 12 percent, none of the options vest. If the shareholder return achieved is between 12 percent and 20 percent the corresponding percentage of options that vest increases linearly between 20 percent and 100 percent. The options are exercisable for two years following the three-year performance period. If exercised, the option holder will receive a cash amount equal to the difference between the market price of the shares, and the exercise price. All the options authorized for the three plans have been granted. During 1999, 165,000 options were granted under the 1999 Plan at an exercise price of NOK 367.50. This plan expired at the end of 2002. During 2002, a total of 3,300 options were exercised, and 158,200 options expired. During 2003, no options were exercised, and no options expired.

__Activity for 2004 is as follows:__

Options outstanding	**Number of shares**	**Average Strike price**
		(in NOK)
31 December 2003[1]	272,500	345.98
Granted	125,000	476.00
Expired	82,500	—
31 December 2004	315,000	385.68

1) Six individuals who were transferred to Yara in the 2004 demerger, had a total of 30,000 options. Of these, 16,028 options with an average gain of NOK 365.25 was exersised in connection with the demerger, while 13,972 options expired.

As of 31 December 2004, 125,000 options related to the Executive Share Option plan 2004, with an exercise price of NOK 476 were outstanding with a remaining contractual life of 5.5 years, none of which were exercisable. In addition, 97,500 options related to the Executive Share Option Plan 2003, with an exercise price of NOK 321.62 were outstanding with a remaining contractual life of 3.5 years, none of which were exercisable. 92,500 options, related to the Executive Share Option Plan 2002, with an exercise price of NOK 331.14 were outstanding with a remaining contractual life of 2.5 years, none of which were exercisable.

In 1988, Hydro established a stock option purchase program for employees in the United Kingdom. The stock option purchase program is organized in an independent trust. The trust acquired shares in the market at the time options were granted. The last options were granted in July 2002 and the program will be operational until July 2012 when the last remaining options expire. The program consists of three different schemes following amendments to the original scheme rules. Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from grant date. The exercise price of the shares equals the share price at the time the options were granted. During 2002, 46,009 options were granted, 29,310 options were exercised and a total of 3,846 options expired. At year-end 2002, a total of 238,417 options were outstanding, while the trust had a balance of 210,649 shares. During 2003, 34,867 options were exercised and a total of 3,653 options expired. At year-end 2003, 199,897 options were outstanding and the trust kept a balance of 210,649 shares. The trust's balance of shares at 31 December 2004 was 122,916.

Activity for 2004 is as follows:

Options outstanding	**Number of shares**	**Average Strike price (in NOK)[1]**
31 December 2003	199,897	328.55
Exercised	104,120	316.07
Expired	8,274	—
31 December 2004	87,503	345.98

1) Presentation in NOK is based using translation from GBP on the exchange rate at 31 December 2004, which was 11,6322 (unaudited).

Hydro has established subsidized share-purchase plans for employees in Norway, Germany and Switzerland. Under the Norwegian plan Hydro's employees receive a NOK 1,500 share-purchase rebate to purchase shares of Norsk Hydro, which corresponds to a 20 percent discount from the market price. If shareholder return, as defined by the plan, meets or exceeds 12 percent in the period from 1 January to 31 December (the measurement period), employees receive an additional rebate of NOK 4,500 for a total of NOK 6,000, which corresponds to a 50 percent discount from the market price.

At 31 December 2004, the 12 percent performance target was met for the 1 January 2004 to 31 December 2004 measurement period, consequently the rebate for this award will be NOK 6,000 or 50 percent. Shares were offered to the employees under this plan in February 2005.

The performance target was met for the 1 January 2003 to 31 December 2003 measurement period, consequently the rebate for this award was NOK 6,000 or 50 percent. In May 2004, 285.152 shares were awarded to employees at a share price of NOK 212.25. Compensation expense recognized related to this award amounted to NOK 61 million.

The performance target was not met for the 1 January 2002 to 31 December 2002 measurement period, consequently the rebate for this award was NOK 1,500 or 20 percent. In April 2003, 235,768 shares were awarded to employees at a share price of NOK 223.92. Compensation expense recognized related to this award amounted to NOK 13 million.

In 2002, Hydro modified the measurement period for the share-purchase plan for Norwegian employees so that the period would run from 1 January 2002 to 31 December 2002. 2002 was a transitional year, with the old scheme running from 1 June 2001 to 31 May 2002 and the new scheme running from 1 January 2002 to 31 December 2002.

The performance criteria was met for the 1 June 2001 to 31 May 2002 measurement period. In July 2002, 323,060 shares were awarded to employees at a share price of NOK 205.15. Compensation expense recognized in 2002 related to this award amounted to NOK 73 million.

Under two different share-purchase plans Hydro employees in Germany and Switzerland have been offered to purchase shares of Norsk Hydro at a rebated price. Compensation expenses recognized related to these plans amounted to less than NOK 1 million for the years 2004, 2003 and 2002.

5. Operating and geographic segment information

Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a strategic business area that offers different products and serves different markets. Hydro's operating segments are the two business areas Oil & Energy and Aluminium. The operating units reporting directly to the business areas are called sectors. Sectors represent various businesses within each of the business areas, and their results are reviewed by the business area management. For reporting purposes, the business areas are divided into sub-segments, each of which comprises one or more sectors. Sub-segments are not operating units, but their results are presented in order to illustrate the results of upstream and downstream activities within a value chain of Hydro's vertically integrated activities.

Oil & Energy consists of Exploration and Production, and Energy and Oil Marketing. Exploration and Production is responsible for Hydro's oil and gas exploration, field development, and operation of production and transportation facilities. Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power sectors, the operation of Hydro's power stations and Hydro's share of natural gas transportation systems as well as marketing and sale of refined petroleum products (gasoline, diesel and heating oil) to retail customers. Energy and Oil Marketing buys and/or markets almost all oil production from Exploration and Production, and sells the equity gas production on a commission basis. Aluminium consists of Metals, Rolled Products and Extrusion and Automotive. Metals' activities include the production of primary aluminium and primary magnesium, aluminium oxide, remelting of metal, and the international trading of aluminium, aluminium products and aluminium oxide. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion and Automotive is involved in the manufacture and sale of extruded aluminium products and components for the automotive industry. Hydro's aluminium activities in North America, including trading activities, is included in Extrusion and Automotive. Other activities consists of Polymers, BioMar AS (previously Treka AS), VAW Flexible Packaging (sold April 2003) and certain other activities. Polymers is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. BioMar's main activity is production and sale of fish feed, after disposing of activities related to agricultural products in November 2002 and January 2003.

Operating Segment Information

Hydro's segment reporting, presented in accordance with SFAS 131, Disclosures about Segments of an Enterprise and related Information, includes two measures of segment results, "Operating Income" and "Adjusted EBITDA" which both are regularly reviewed by senior management. "Operating Income" is presented in accordance with the Norwegian Accounting Act, and is consistent with the same measure for the Group. The segment measure "Adjusted EBITDA", is an integral part of Hydro's steering model, Value Based Management. Hydro's management makes regular use of this measure to evaluate performance in its operating segments, both in absolute terms and comparatively from period to period, and to allocate resources among its operating segments. Management views this measure in combination with other reported measures as providing a better understanding — for management and for investors — of the operating results of its business segments for the period under evaluation.

Hydro defines "Adjusted EBITDA" as "Income/(loss) before tax, interest expense, depreciation, amortization and write-downs". Adjusted EBITDA is a measure that includes in addition to "Operating income", "Interest income and other financial income", results from non-consolidated investees and gains and losses on sales of activities classified as "Other income, net" in the income statement. It excludes depreciation, write-downs and amortization, as well as amortization of excess values in non-consolidated investees. Hydro's definition of Adjusted EBITDA may differ from that of other companies. Specifically, Hydro has chosen to include interest income in Adjusted EBITDA.

Hydro manages long-term debt and taxes on a Group basis. Therefore, net income is presented only for the Group as a whole.

Intersegment sales and transfers reflect arms length prices as if sold or transferred to third parties. Reorganization of Hydro's segment structure is not considered intersegment sales, and is reported without recognizing gains or losses. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption "Corporate and eliminations". These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In addition, elimination of gains and losses related to transactions between the Segments is included. The accounting policies of the operating segments reflect those described in the summary of significant accounting policies in Note 1, with the following exceptions: Certain internal commodity contracts may meet the definition of a derivative under SFAS 133. However, Hydro considers these contracts as sourcing of raw materials or sale of own production even though contracts for various reasons include clauses that meet the definition of a derivative. Such internal contracts are accounted for as executory contracts. Also certain internal contracts may qualify as containing lease arrangements that qualify as capital leases. However, Hydro management has allocated the responsibility for assets to a segment, and this allocation is reflected in the segment reporting even though contract clauses may indicate that another segment leases the assets under a capital lease arrangement.

	External revenues			Internal revenues			Total operating revenues		
NOK million	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Exploration and Production[1]	**13,519**	12,099	10,136	**35,443**	25,805	22,834	**48,962**	37,904	32,970
Energy and Oil Marketing[1]	**54,629**	44,308	41,929	**6,159**	5,062	3,986	**60,788**	49,370	45,915
Eliminations[2)6)]	**(1,643)**	(1,576)	(965)	**(35,389)**	(25,739)	(22,075)	**(37,032)**	(27,315)	(23,040)
Hydro Oil & Energy	**66,505**	54,831	51,100	**6,213**	5,128	4,745	**72,718**	59,959	55,845
Metals	**33,048**	26,509	26,025	**16,111**	13,414	13,621	**49,159**	39,923	39,646
Rolled Products	**18,814**	17,825	14,135	**1,559**	552	655	**20,373**	18,377	14,790
Extrusion and Automotive	**27,563**	24,472	24,186	**37**	57	59	**27,600**	24,529	24,245
Other and eliminations[3]	**51**	190	162	**(17,509)**	(13,867)	(13,792)	**(17,458)**	(13,677)	(13,630)
Hydro Aluminium	**79,476**	68,996	64,508	**198**	156	543	**79,674**	69,152	65,051
Other activities[4]	**9,665**	10,013	17,859	**3,204**	3,746	3,698	**12,869**	13,759	21,557
Corporate and eliminations[2]	**(221)**	(79)	626	**(9,615)**	(9,030)	(8,986)	**(9,836)**	(9,109)	(8,360)
Total	**155,425**	133,761	134,093	**—**	—	—	**155,425**	133,761	134,093

1) From 2003, Hydro's gas transportation activities are reported as part of Energy and Oil Marketing. Prior periods have been reclassified for comparative purposes.

2) Corporate and eliminations includes elimination of unrealized gain/loss on power contracts between Energy and other units in Hydro with a loss of NOK 235 million in 2004, a loss of NOK 141 million in 2003 and a loss of NOK 588 million in 2002. In addition, NOK 13 million, NOK 21 million and NOK 26 million is eliminated within the Oil and Energy Area in 2004, 2003 and 2002, respectively.

3) Other and eliminations includes unrealized gains and losses related to LME contracts with a gain of NOK 175 million in 2004, a loss of NOK 49 million in 2003, and a gain of NOK 266 million in 2002.

	Depreciation, depletion and amortization			Other operating expenses			Operating income (loss) before fin. and other income		
NOK million	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Exploration and Production[1]	**9,751**	9,052	8,242	**10,848**	10,352	11,591	**28,363**	18,500	13,137
Energy and Oil Marketing[1]	**640**	591	764	**57,498**	46,111	42,367	**2,650**	2,668	2,784
Eliminations[2)6)]	**—**	—	—	**(37,163)**	(27,290)	(23,066)	**131**	(25)	26
Hydro Oil & Energy	**10,391**	9,643	9,006	**31,183**	29,173	30,892	**31,144**	21,143	15,947
Metals	**3,852**	1,517	1,117	**44,477**	36,113	36,839	**830**	2,293	1,690
Rolled Products	**687**	650	496	**19,060**	17,595	14,589	**626**	132	(295)
Extrusion and Automotive	**1,423**	1,247	1,010	**25,900**	23,184	23,221	**277**	98	14
Other and eliminations[3]	**—**	—	—	**(17,530)**	(13,610)	(13,919)	**72**	(67)	289
Hydro Aluminium	**5,962**	3,414	2,623	**71,907**	63,282	60,730	**1,805**	2,456	1,698
Other activities[4]	**532**	879	1,081	**12,025**	13,284	20,428	**312**	(404)	48
Corporate and eliminations[2)5)]	**13**	11	19	**(8,435)**	(7,550)	(8,353)	**(1,414)**	(1,570)	(26)
Total	**16,898**	13,947	12,729	**106,680**	98,189	103,697	**31,847**	21,625	17,667

NOK million	Equity in net income non-consolidated investees			Other income (expense), net			Adjusted EBITDA		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Exploration and Production[1]	**4**	29	31	**—**	—	77	**38,168**	27,624	21,593
Energy and Oil Marketing[1]	**73**	81	148	**59**	816	—	**3,478**	4,226	3,721
Eliminations[2)6)]	**(2)**	(3)	—	**—**	—	—	**132**	(24)	26
Hydro Oil & Energy	**75**	107	179	**59**	816	77	**41,778**	31,826	25,340
Metals	**281**	379	(275)	**—**	—	—	**5,396**	4,298	2,703
Rolled Products	**(13)**	(14)	7	**—**	—	—	**1,361**	835	258
Extrusion and Automotive	**113**	68	49	**—**	—	—	**1,827**	1,432	1,084
Other and eliminations[3]	**—**	—	—	**—**	—	—	**72**	(67)	289
Hydro Aluminium	**381**	433	(219)	**—**	—	—	**8,656**	6,498	4,334
Other activities[4]	**170**	83	12	**110**	139	—	**1,363**	1,113	1,061
Corporate and eliminations[2)5)]	**2**	(3)	4	**—**	(2,208)	—	**(680)**	(809)	1,014
Total	**628**	620	(24)	**169**	(1,253)	77	**51,117**	38,628	31,749

4) Other activities consist of the following: Polymers, BioMar AS (previously Treka AS), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro Business Partner.

5) Corporate and elimination's operating income (loss) and Adjusted EBITDA includes a net periodic pension cost of NOK 1,001 million for 2004, NOK 1,111 million for 2003, and NOK 314 million for 2002.

6) Eliminations Oil & Energy includes elimination of unrealized gain on gas contracts with NOK 144 million.

NOK million	Current Assets[1]		Non-current Assets		Assets[1]	
	2004	2003	2004	2003	2004	2003
Exploration and Production	**9,072**	9,036	**61,262**	65,191	**70,334**	74,227
Energy and Oil Marketing	**9,577**	10,398	**18,896**	15,558	**28,473**	25,956
Eliminations	**(2,871)**	(2,964)	**18**	21	**(2,853)**	(2,943)
Hydro Oil & Energy	**15,778**	16,470	**80,176**	80,770	**95,954**	97,240
Metals	**12,335**	10,698	**21,574**	22,333	**33,909**	33,031
Rolled Products	**6,405**	6,524	**6,782**	12,115	**13,187**	18,639
Extrusion and Automotive	**8,381**	7,858	**10,400**	10,715	**18,781**	18,573
Other and eliminations	**(2,288)**	(1,796)	**(297)**	3	**(2,585)**	(1,793)
Hydro Aluminium	**24,833**	23,284	**38,459**	45,166	**63,292**	68,450
Other activities[4]	**6,035**	6,015	**5,393**	4,955	**11,428**	10,970
Corporate and eliminations	**23,760**	16,125	**5,809**	278	**29,569**	16,403
Total continued operations	**70,406**	61,894	**129,837**	131,169	**200,243**	193,063
Discontinued operations	**—**	13,789	**—**	11,777	**—**	25,566
Total	**70,406**	75,683	**129,837**	142,946	**200,243**	218,629

NOK million	Non-consolidated investees, investments and advances 2004	2003	Segment debt[2)] 2004	2003	Investments[3)] 2004[5)]	2003[6)]
Exploration and Production	**18**	414	**5,410**	6,032	**10,607**	10,270
Energy and Oil Marketing	**2,310**	1,971	**8,137**	8,217	**1,460**	989
Eliminations	**19**	21	**(3,026)**	(2,965)	**—**	—
Hydro Oil & Energy	**2,347**	2,406	**10,521**	11,284	**12,067**	11,259
Metals	**3,066**	3,384	**7,484**	5,596	**4,199**	3,572
Rolled Products	**1,532**	1,576	**3,338**	2,769	**553**	466
Extrusion and Automotive	**859**	827	**5,419**	4,975	**1,442**	1,543
Other and eliminations	**—**	—	**(2,444)**	(1,914)	**—**	—
Hydro Aluminium	**5,457**	5,787	**13,797**	11,426	**6,194**	5,581
Other activities[4)]	**1,095**	957	**3,067**	2,710	**1,058**	791
Corporate and eliminations	**1,118**	1,012	**1,534**	3,782	**145**	81
Total	**10,017**	10,162	**28,919**	29,202	**19,464**	17,712

1) Current assets and assets excludes internal cash accounts and accounts receivables related to group relief.

2) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.

3) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in non-consolidated investees.

4) Other activities consist of the following: Polymers, BioMar AS (previously Treka AS), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro Business Partner.

5) Includes non-cash increase in investment from effect of change in accounting principle (FIN 46R), of NOK 1,275 million.

6) Includes non-cash increase in investment from effect of change in accounting principle (SFAS 143), of NOK 1,918 million.

Amounts in NOK million	Assets 2004	2003	2002	Long-lived assets 2004	2003	2002	Investments 2004	2003	2002
Norway	**135,005**	124,923	113,597	**88,095**	88,687	86,180	**11,988**	12,514	17,198
Germany	**15,974**	19,099	22,724	**8,733**	11,895	12,568	**1,107**	780	14,673
France	**2,483**	2,712	2,602	**689**	729	604	**99**	155	806
The Netherlands	**2,321**	3,708	1,640	**1,308**	485	293	**98**	372	183
Sweden	**4,454**	4,633	6,174	**1,163**	1,416	1,761	**187**	267	438
Denmark	**3,664**	4,189	6,272	**1,781**	1,940	2,030	**152**	337	422
Great Britain	**2,723**	2,628	2,812	**1,057**	1,088	1,078	**136**	128	159
Italy	**2,036**	1,967	1,805	**703**	646	550	**160**	88	414
Spain	**1,191**	1,302	1,141	**530**	608	562	**38**	27	379
Other	**4,684**	2,808	2,551	**2,720**	1,520	1,392	**1,720**	191	949
Total EU	**39,530**	43,046	47,721	**18,684**	20,327	20,838	**3,697**	2,345	18,423
Other Europe	**1,597**	1,728	1,478	**1,329**	1,559	1,298	**169**	259	555
Total Europe	**176,132**	169,697	162,796	**108,108**	110,573	108,316	**15,854**	15,118	36,176
USA	**4,429**	4,340	4,671	**1,919**	1,983	2,138	**484**	378	1,301
Asia	**1,880**	1,624	1,787	**1,133**	942	1,267	**239**	85	800
Other Americas	**3,854**	3,598	3,075	**3,432**	3,156	2,732	**186**	215	907
Africa	**4,614**	4,248	3,894	**4,113**	3,464	3,258	**1,218**	782	603
Canada	**6,745**	6,979	6,650	**6,061**	6,120	5,873	**1,203**	850	1,794
Australia and New Zealand	**2,589**	2,577	2,444	**2,081**	2,127	2,114	**280**	284	2,585
Total outside Europe	**24,111**	23,366	22,521	**18,739**	17,792	17,382	**3,610**	2,594	7,990
Total continued operations	**200,243**	193,063	185,317	**126,847**	128,365	125,698	**19,464**	17,712	44,166
Discontinued operations	**—**	25,566	21,894	**—**	10,801	10,041	**—**	1,188	1,550
Total	**200,243**	218,629	207,211	**126,847**	139,166	135,739	**19,464**	18,900	45,716

NOK million	Operating revenues 2004	2003	2002
Norway	**25,012**	15,505	17,251
Great Britain	**28,579**	20,178	16,233
Germany	**19,350**	17,909	17,050
Sweden	**8,400**	9,828	9,610
Italy	**7,360**	6,517	5,797
France	**6,859**	11,661	11,126
The Netherlands	**6,649**	4,530	4,389
Spain	**6,168**	4,697	3,562
Denmark	**1,201**	2,031	5,743
Other	**12,995**	12,936	13,621
Total EU	**97,561**	90,287	87,131
Switzerland	**5,603**	4,659	6,451
Other Europe	**1,658**	1,726	1,943
Total Europe	**129,834**	112,177	112,776
USA	**10,357**	10,467	11,552
Asia	**6,000**	5,567	4,813
Other Americas	**2,526**	1,879	1,481
Africa	**548**	266	283
Canada	**5,188**	2,690	2,742
Australia and New Zealand	**972**	715	446
Total outside Europe	**25,591**	21,584	21,317
Total	**155,425**	133,761	134,093

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

6. Restructuring Costs

In October of 2001 Hydro discontinued production of primary magnesium in Norway. As a result, Hydro closed the Porsgrunn magnesium production facilities in March of 2002, and started the clean up and dismantling work. Dismantling and clean-up work was finalized in December 2004. As part of the closure of the magnesium plant facilities, restructuring costs totaling NOK 921 million were recognized at the end of 2001; of this amount, NOK 261 million was charged as an impairment loss on the plant facilities, the remaining NOK 660 million of restructuring costs included termination costs for customer and supplier agreements, work-force reduction costs, and dismantling and clean-up costs. At the same time NOK 40 million related to write down of inventories due to obsolences was expensed. Hydro recorded additional restructuring costs of NOK 59 million related to work-force reduction in 2002. The initial restructuring accrual was reduced by NOK 69 million during 2002, due to the reversal of certain accruals relating to contract termination costs that were lower than originally anticipated. Restructuring costs resulted in a credit of NOK 22 million in the income statement for 2004, representing the difference between the accrual relating to the restructuring and the final cost of the program, which ended in 2004.

The following table summarizes the types and amounts recognized as accrued expenses for the restructuring together with changes in the accrual for the years 2002, 2003 and 2004.

Amounts in NOK million	Demolition cost	Workforce severance	Shutdown cost of operation	Contracts termination	Total
31 December 2001	316	130	98	116	660
Additions/(deductions)[1]	—	59	—	(69)	(10)
Payment	(41)	(171)	(98)	(47)	(357)
31 December 2002	275	18	—	—	293
Payment	(131)	(18)	—	—	(149)
31 December 2003	144	—	—	—	144
Payment	(122)				(122)
Additions/(deductions)[1]	(22)	—	—	—	(22)
31 December 2004	—	—	—	—	—

1) Charged to the income statement.

7. Operating costs and expenses

Operating costs include research and development, operating lease expense, bad debt, shipping and handling cost, and payroll and related costs as follows:

Amounts in NOK million	2004	2003	2002
Research and development expense	**760**	722	639
Bad debt	**269**	638	217
Shipping and handling costs	**3,151**	2,966	3,104
Operating lease expense:[1]			
Drilling rigs, ships, office space	**689**	685	1,029
Office space leased from Hydro's independent pension trust	**225**	199	196
Total	**914**	884	1,225
Payroll and related costs:			
Salaries	**13,847**	13,574	13,308
Social security costs	**2,319**	2,280	2,072
Social benefits	**543**	642	710
Net periodic pension cost (Note 20)	**2,121**	2,073	1,322
Total	**18,830**	18,569	17,412

1) Total minimum future rentals of NOK 4,736 million are due under non-cancelable operating leases as follows (in NOK million): 2005 — 1,171; 2006 — 879; 2007 — 682; 2008 — 548; 2009 — 463; and thereafter — 993.

Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December 2004, 2003 and 2002.

8. Financial income and expense

Amounts in NOK million	2004	2003	2002
Interest income	**927**	972	1,308
Net gain (loss) on securities	**72**	182	(270)
Dividends received	**164**	137	135
Interest income and other financial income	**1,163**	1,291	1,173
Interest expense	**(2,077)**	(2,783)	(3,073)
Capitalized interest	**664**	715	607
Net foreign exchange gain (loss)	**1,350**	1,035	3,262
Other, net[1]	**(964)**	(104)	(163)
Interest expense and foreign exchange gain (loss)	**(1,027)**	(1,137)	633
Net financial expense	**136**	154	1,806

1) Other, net includes "breaking costs" for early repayment of long term debt of NOK 938 million for 2004.

9. Other income and expense

For the year 2004, Other income was NOK 169 million. Other income consisted of a gain on the divestment of 80.1 percent of Pronova Biocare of NOK 110 million and a gain of NOK 59 million related to an adjustment of the price for the 2003 sale of Hydro's share in Skandinaviska Raffinaderi AS, the Scanraff oil refinery.

For the year 2003, other income and expense resulted in a loss of NOK 1,253 million. The loss included a charge of NOK 2,207 million resulting from new Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian Continental Shelf. In accordance with earlier regulations, removal costs could not be deducted when calculating taxable income. Instead, the Norwegian state assumed a portion of the removal costs by means of a special removal grant. The new rules permit removal costs to be deducted from taxable income. The amendment resulted in a charge in the second quarter representing the estimated value of expected grants. At the same time, a deferred tax asset representing the value of the new tax deductions, was included as a reduction to the tax provision for the second quarter in the amount of NOK 2,380 million. Further other income consisted of a gain on the sale of Hydro's share in Skandinaviska Raffinaderi AB, the Scanraff oil refinery of NOK 490 million. The remaining NOK 464 million consisted of a gain from the transfer of the Company's interest in the Sundsfjord power plant (NOK 326 million) and a gain on the disposal of Carmeda AB (NOK 138 million).

Other income in 2002 consisted of a gain on the sale of Hydro's interest in the oil company Pelican AS of NOK 77 million.

10. Income taxes

Amounts in NOK million	2004	2003	2002
Income from continuing operations before taxes and minority interest:			
Norway	**29,377**	19,657	17,827
Other countries	**3,403**	1,489	1,699
Total	**32,780**	21,146	19,526
Current taxes:			
Norway	**22,537**	13,696	12,556
Other countries	**1,605**	812	512
Current income tax expense	**24,142**	14,508	13,068
Deferred taxes:			
Norway	**(2,339)**	(1,487)	(415)
Other countries	**(606)**	(99)	(201)
Deferred tax expense (benefit)	**(2,945)**	(1,586)	(616)
Total income tax expense	**21,197**	12,922	12,452

Components of deferred income tax expense

Amounts in NOK million	2004	2003	2002
Deferred tax expense (benefit), excluding items below	**(2,295)**	733	766
Benefits of tax loss carryforwards	**157**	(79)	(499)
Tax expense (benefit) allocated to other comprehensive income	**64**	188	(848)
Effect of tax law changes	**(846)**	(70)	128
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations	**—**	(2,380)	—
Net change in valuation allowance	**(25)**	22	(163)
Deferred tax expense (benefit) — US GAAP	**(2,945)**	(1,586)	(616)
Adjustments to N GAAP:			
Tax effects of differences between US GAAP and N GAAP (Note 28)	***(201)***	*(58)*	*99*
Deferred tax expense (benefit) — N GAAP	***(3,146)***	*(1,644)*	*(517)*

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2004	2003	2002
Expected income taxes at statutory tax rate1)	**9,179**	5,921	5,467
Petroleum surtax2)	**13,977**	9,980	8,665
Uplift benefit2)	**(967)**	(990)	(1,034)
Hydro-electric power surtax3)	**163**	152	217
Tax law changes	**(846)**	(70)	128
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations	**—**	(2,380)	—
Losses and other deductions with no tax benefit	**139**	216	129
Non-deductible expenses	**119**	43	48
Foreign tax rate differences	**145**	170	275
Tax free income	**(473)**	(619)	(310)
Dividend exclusion	**(37)**	(12)	(33)
Losses and other benefits not previously recognized	**(146)**	(100)	(407)
Other, net	**(56)**	611	(693)
Income tax expense — US GAAP	**21,197**	12,922	12,452
Effective tax rate — US GAAP	**64.7%**	61.1%	63.8%
Tax effect of differences between US GAAP and N GAAP (Note 28)	***(201)***	*(58)*	*99*
Income tax expense — N GAAP	***20,996***	*12,864*	*12,551*
Income before taxes — N GAAP	***31,966***	*20,799*	*19,486*
Effective tax rate — N GAAP	***65.7%***	*61.8%*	*64.4%*

1) Norwegian nominal statutory tax rate is 28 percent.

2) Income from oil and gas activities on the Norwegian Continental Shelf is taxed according to the Petroleum Tax Law. This stipulates a surtax of 50 percent after deducting uplift, a special deduction for surtax, in addition to normal corporate taxation of 28 percent.

3) A surtax of 27 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December, 2004 and 2003.

Amounts in NOK million	US GAAP Deferred Tax Assets 2004	Liabilities 2004	Assets 2003	Liabilities 2003
Short-term:				
Marketable securities	**—**	**(4)**	14	—
Inventory valuation	**178**	**(295)**	95	(238)
Accrued expenses	**899**	**(558)**	1,425	(1,154)
Unrealized exchange (gains) losses	**354**	**(923)**	119	(282)
Uplift benefit	**766**	**—**	795	—
Other	**162**	**—**	2	(198)
Long-term:				
Unrealized exchange (gains) losses	**695**	**(25)**	344	(1,023)
Property, plant and equipment	**5,617**	**(34,862)**	5,332	(35,077)
Capitalized interest	**—**	**(3,379)**	—	(3,545)
Exploration drilling costs	**—**	**(2,323)**	—	(2,440)
Other non-current assets	**338**	**(629)**	319	(693)
Accrued expenses	**1,005**	**(473)**	1,216	(749)
Pensions	**1,574**	**(1,390)**	1,363	(1,435)
Deferred (gains) losses on sales	**204**	**(974)**	178	(1,521)
Uplift benefit	**1,613**	**—**	1,573	—
Abandonments and decommissioning accruals	**4,395**	**—**	3,598	—
Cash Flow Hedges	**—**	**(320)**	—	(452)
Other	**842**	**(1,156)**	530	(925)
Total tax loss carryforwards	**1,471**	**—**	1,764	—
Subtotal	**20,113**	**(47,311)**	18,667	(49,732)
Total valuation allowance	**(967)**	**—**	(1,047)	—
Gross deferred tax assets and liabilities	**19,146**	**(47,311)**	17,620	(49,732)
Adjustments for N GAAP:				
(Note 28) Short and long-term:				
Unrealized gains	***—***	***553***	*—*	*491*
Gross deferred tax assets and liabilities, N GAAP	***19,146***	***(46,758)***	*17,620*	*(49,241)*
Net — N GAAP	***662***	***(28,274)***	*326*	*(31,947)*

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 14,709 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiary which can be remitted tax-free as dividends.

At the end of 2004, Hydro had tax loss carryforwards of NOK 4,606 million, primarily in Canada, Jamaica, Norway, United Kingdom, Malaysia, Spain and Denmark. Carry forward amounts expire as follows:

Amounts in NOK million	
2005	3
2006	136
2007	24
2008	57
2009	78
After 2009	2,230
Without expiration	2,078
Total tax loss carryforwards	4,606

11. Other liquid assets

Amounts in NOK million	2004	2003
Bank time deposits	**9,150**	4
Marketable equity securities	**416**	550
Debt securities and other	**1,404**	999
Total other liquid assets	**10,970**	1,553

The net change in unrealized gains on securities for the years ended 31 December 2004, 2003 and 2002 was a net gain of NOK 91 million, a net gain of NOK 283 million and a net loss of NOK 259 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,781 million and NOK 1,601 million as of 31 December 2004 and 2003, respectively.

12. Inventories and other current assets

Amounts in NOK million	2004	2003
Finished goods	**6,097**	5,756
Work in progress	**2,211**	2,332
Raw materials	**4,543**	3,936
Total inventories	**12,851**	12,024
Prepaid expenses	**3,653**	3,852
Other current assets	**6,825**	7,945
Total prepaid expenses and other current assets	**10,478**	11,797

13. Non-Consolidated investees

Amounts in NOK million	Hydro Texaco	Scanraff	Alunorf	Alunorte	Søral	Alu-chemie	Meridian	QVC	Noretyl	Other	Total
Balance 01.01.2003	919	488	1,428	536	575	135	495	352	584	3,898	9,410
Investments (sale), net	66	(343)		58						315	96
Change in long-term advances, net		(330)				323			500	(74)	419
Transfers (to) from other investments										(4)	(4)
Hydro's share of net income (loss)	116		41	305	92		51	21	62	123	811
Amortization and write-down	(66)		(55)	(20)						(50)	(191)
Dividends and other payments received by Hydro	(54)		(6)		(99)	(3)	(9)		(709)	(84)	(964)
Foreign currency translation and other	76	185	168	23		5	49	(63)		142	585
Balance 31.12.2003	**1,057**	**—**	**1,576**	**902**	**568**	**460**	**586**	**310**	**437**	**4,266**	**10,162**
Changes in 2004:											
Investments (sale), net	8			284		524				(284)	532
Change in long-term advances, net						(430)		(54)	(85)	(96)	(665)
Transfers (to) from other investments										(64)	(64)
Hydro's share of net income (loss)	39		45	375	175	7	68	111	53	166	1,039
Amortization and write-down	(8)		(59)	(18)	(100)	(10)	—		—	(216)	(411)
Dividends and other payments received by Hydro	(126)						(26)			(174)	(326)
Foreign currency translation and other	(7)		(30)	1		13	(35)	(6)	—	(186)	(250)
Balance 31.12.2004	**963**	**—**	**1,532**	**1,544**	**643**	**564**	**593**	**361**	**405**	**3,412**	**10,017**
Accumulated additional amortization N GAAP[1)]							*(83)*			*(4)*	*(87)*
Balance 31.12.2004 N GAAP	***963***	***—***	***1,532***	***1,544***	***643***	***564***	***510***	***361***	***405***	***3,408***	***9,930***

1) Amortization N GAAP 2004 amounts to NOK 40 million.

Specification of Non-consolidated Investees

Amounts NOK million, except ownership	Percentage owned by Hydro 2004	Investments in and advances to investees 2004	Investments in and advances to investees 2003	Hydro's current receivable (payable), net with investees 2004	Hydro's current receivable (payable), net with investees 2003
Hydro Texaco	**50.0%**	**963**	1,057	**25**	(61)
Alunorf	**50.0%**	**1,532**	1,576	**(274)**	27
Alunorte	**34.0%**	**1,544**	902	**(81)**	(116)
Søral	**49.9%**	**643**	568	**(110)**	(137)
Aluchemie	**36.2%**	**564**	460	**(6)**	—
Meridian	**49.0%**	**593**	586	**(26)**	8
QVC	**29.7%**	**361**	310	**2**	2
Noretyl	**50.0%**	**405**	437	**39**	47
Others		**3,412**	4,266	**184**	(331)
Total		**10,017**	10,162	**(247)**	(561)

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follows:

Hydro Texaco a.s operates 862 gasoline stations and 158 diesel stations in Norway, Denmark and the Baltics. Hydro and ChevronTexaco Corp. each own 50 percent in the joint venture. Hydro sells and purchases oil related products to and from the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 347 million, 428 million and NOK 510 million in 2004, 2003 and 2002, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 248 million, NOK 1,003 million and NOK 674 million in 2004, 2003 and 2002, respectively. Hydro Texaco is part of Energy and Oil Marketing.

Aluminium Norf GmbH (Alunorf) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Novelis — part of Alcan, Inc — (50 percent each). Each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro based on this tolling arrangement amounted to NOK 1,373 million in 2004, NOK 1,301 million in 2003 and NOK 1,941 million in 2002. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's ownership share is 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 1,109 million, NOK 907 million and NOK 433 million in 2004, 2003 and 2002, respectively. Alunorte is part of Metals.

Sør-Norge Aluminium AS (Søral), part of Metals, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each major owner at current market prices. The other 50 percent owner of Søral is an unaffiliated company. Sale of aluminium from Søral to Hydro amounted to NOK 1,115 million, NOK 949 million and NOK 847 million in 2004, 2003 and 2002, respectively. Sale of alumina, cold metal and carbon from Hydro to Søral amounted to NOK 671 million, NOK 356 million and NOK 363 million in 2004, 2003 and 2002, respectively.

Aluminium & Chemie Rotterdam B.V (Aluchemie) is an anode producer located in the Netherlands. Hydro increased its shareholding in 2004 from 21.21 percent to 36.2 percent. Hydro purchased anodes from Aluchemie amounting to NOK 591 million in 2004, 285 million in 2003 and NOK 263 million in 2002. Sales from Hydro to Aluchemie amounted to NOK 12 million in 2004, NOK 50 million in 2003 and NOK 47 million in 2002. Aluchemie is part of Metals.

Meridian Technologies Inc. (Meridian), part of Extrusion and Automotive, is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidiary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro. Sales from Hydro to Meridian amounted to NOK 238 million, NOK 198 million and NOK 249 million in 2004, 2003 and 2002, respectively.

Hydro owns 29.7 percent of Qatar Vinyl Company Ltd (QVC). The other owners are three unaffiliated companies. QVC produces Caustic Soda, EDC and VCM. Hydro and the other partners deliver technical, marketing and support services to QVC.

Hydro and Borealis own Noretyl AS a joint venture (50-50 percent). Noretyl is part of Hydro Polymers. Hydro paid processing fees to Noretyl for refining of NGL of NOK 242 million, NOK 245 million and NOK 242 million in 2004, 2003 and 2002, respectively.

Non-consolidated investees split by segment can be found in Note 5.

Non-consolidated investees — 100 percent basis

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, is accounted for using the equity method.

Income Statement Data

Amounts in NOK million (unaudited)	**2004**	**2003**	**2002**
Operating revenues	**31,454**	24,254	24,902
Operating income	**4,212**	3,154	2,792
Income before taxes and minority interest	**3,816**	3,248	932
Net income	**3,465**	2,670	515
Hydro's share of net income	**1,039**	811	104

Balance Sheet Data

Amounts in NOK million (unaudited)	**2004**	**2003**	**2002**
Current assets	**15,052**	13,504	10,434
Non-current assets	**29,759**	30,503	31,472
Assets	**44,811**	44,007	41,906
Current liabilities	**8,572**	8,083	7,300
Non-current liabilities	**13,275**	14,049	14,265
Minority interest	**19**	—	—
Shareholders' equity	**22,945**	21,875	20,341
Liabilities and shareholders' equity	**44,811**	44,007	41,906
Hydro's investments and advances	**10,017**	10,162	9,410

14. Prepaid pension, investments and non-current assets

Amounts in NOK million	**2004**	**2003**
Goodwill for consolidated subsidiaries, less accumulated amortization	**1,028**	1,093
Intangible assets, less accumulated amortization (Note 16, note 20)	**1,297**	1,597
Total intangible assets — US GAAP	**2,325**	2,690
Prepaid pension (Note 20)	**4,636**	4,541
Available-for-sale securities at fair value[1)]	**16**	19
Other investments at cost	**2,065**	2,435
Non-current assets	**3,997**	3,429
Subtotal	**10,714**	10,424
Total prepaid pension, investments and non-current assents — US GAAP	**13039**	13,114
Total prepaid pension, investments and non-current assets	***10,714***	*10,424*
Adjustments[2)]	***(2,186)***	*(1,156)*
Total prepaid pension, investments and non-current assets — N GAAP	***8,528***	*9268*

1) As of 31 December, 2004 and 2003, available-for-sale securities at cost amounted to NOK 4 million. Unrealized holding gain as of 31 December, 2004 and 2003, was NOK 12 million and NOK 15 million respectively.

2) The difference consists of fair value adjustment for cash flow hedge instruments, unrealized gain on available for sale securities, and unrealized gain on freestanding derivatives.

15. Property, plant and equipment

Amounts in NOK million	Land	Machinery and Equipment	Buildings	Plant under construction	Oil and Gas activities[1]	Total
	Land-based Activities					
Cost:						
Cost 31.12.2003[2]	1,063	46,993	15,828	5,675	135,201	204,760
Additions at cost	3	1,305	188	4,093	11,587	17,176
Retirements	(7)	(1,270)	(140)	(84)	(5,414)	(6,915)
Transfers	2	3,589	1,773	(5,364)	—	—
Foreign currency translation	(29)	(1,280)	(369)	(174)	(232)	(2,084)
Balance 31.12.2004	**1,032**	**49,337**	**17,280**	**4,146**	**141,142**	**212,937**
Depreciation:						
Accumulated depreciation 31.12.2003[2]	—	(24,594)	(6,749)	—	(63,966)	(95,309)
Depreciation, depletion and amortization[3]	(1)	(5,198)	(1,121)	—	(9,825)	(16,145)
Retirements	—	1,043	101	—	2,634	3,778
Foreign currency translation and transfers	—	685	50	—	121	856
Balance 31.12.2004	**(1)**	**(28,064)**	**(7,719)**	**—**	**(71,036)**	**(106,820)**
Net Book Value:						
Balance 31.12.2003	1,063	22,399	9,079	5,675	71,235	109,451[2)4)]
Balance 31.12.2004	**1,031**	**21,273**	**9,561**	**4,146**	**70,106**	**106,117[4)]**

1) Includes land-based Oil and Gas activities and transportation systems for Oil & Energy.

2) Includes the effect of consolidating the Variable Interest Entity (VIE) Slovalco according to FIN 46R. See note 1. Total cost amounts to NOK 2,193 million and total accumulated depreciation amounts to NOK 521 million.

3) Impairment losses for 2004, 2003 and 2002 were NOK 2,176 million, NOK 88 million and NOK 351 million, respectively. The fair value of the impaired asset was generally estimated by discounting the expected future cash flows of the individual assets. Impairment was indicated by adverse change in market prices, current period cash flow losses combined with a history of losses, or a significant change in the manner in which the asset is to be used. Impairment losses in 2004 included a write-down of NOK 2,042 million related to German primary aluminium plants in Hydro Aluminium's sub-segment Metals. The write-down was caused by increasing energy costs and the strengthened Euro versus US dollar.

4) Includes NOK 153 million and NOK 192 million related to capital leases for 2004 and 2003, respectively.

16. Goodwill and intangibles

Intangible Assets

Amounts in NOK million	Finite Useful Life	Indefinite Useful Life	Total
Cost 31.12.2003	3,193	5	3,198
Additions at cost	143	—	143
Disposals	(113)	—	(113)
Foreign currency translation and other	(19)	—	(19)
Accumulated amortization 31.12.2004	(2,131)	—	(2,131)
Net book value 31.12.2004	**1,073**	**5**	**1,078**

Amortization of intangibles of NOK 393 million and NOK 409 million were recorded for 2004 and 2003, respectively. In addition, figures include impairment losses of NOK 8 million in 2004 and NOK 43 million in 2003.

Estimated amortization expense, in million NOK for the next five years is 2005 — 379, 2006 — 314, 2007 — 94, 2008 — 54 and 2009 — 44.

Goodwill

Amounts in NOK million	Extrusion and Automotive	Other	Total
Balance at 31 December 2003	1,056	37	1,093
Goodwill acquired	3	—	3
Currency translation effect	(64)	(1)	(65)
Other	(2)	(1)	(3)
Balance at 31 December 2004	**993**	**35**	**1,028**
Accumulated additional amortization N GAAP[1)]	*(387)*	*(18)*	*(405)*
Foreign currency translation N GAAP	*24*	*—*	*24*
Balance at 31 December 2004 N GAAP	***630***	***17***	***647***

1) Amortization N GAAP 2004 amounts to NOK 137 million.

Original cost of goodwill for 2004 was NOK 1,531 million. Accumulated amortization of goodwill for N GAAP amounted to NOK 884 million.

Hydro incurred in 2003 a NOK 166 million goodwill impairment charge in "Other Activities" related to Treka (now named BioMar).

17. Bank loans and other interest bearing short-term debt

Amounts in NOK million	Weighted Average Interest Rates 2004	2003	2004	2003
Bank loans and overdraft facilities	**2.9%**	2.7%	**482**	1,571
Commercial paper	**8.5%**	8.5%	**3**	2
Other	**1.6%**	2.0%	**3,300**	3,700
Total bank loans and other interest-bearing short-term debt			**3,785**	5,273

As of 31 December 2004, Norsk Hydro ASA had unused short-term credit facilities with various banks totalling approximately NOK 2,611 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

18. Other current liabilities

Amounts in NOK million	2004	2003
Accounts payable	**13,352**	13,794
Income taxes payable	**12,421**	7,996
Payroll and value added taxes	**3,142**	3,163
Accrued liabilities	**9,534**	10,139
Other liabilities	**2,891**	2,106
Total other current liabilities — US GAAP	**41,340**	37,198
Reversal of Cash Flow hedge and derivatives	***(960)***	*(42)*
Balance 31.12.2004 N GAAP	***40,380***	*37,156*

19. Long-term debt

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

Long-term debt payable in various currencies

Amounts in million	Weighted Average Interest Rates	Denominated Amount 2004	Balance in NOK 2004	Balance in NOK 2003
USD	7.3%	**2,618**	**15,802**	19,558
NOK	5.8%	**527**	**527**	1,580
GBP	6.5%	**16**	**182**	2,672
EUR	6.3%	**300**	**2,473**	3,362
Total unsecured debenture bonds			**18,984**	27,172
USD	4.2%	**27**	**164**	10
EUR	5.4%	**15**	**123**	585
Other			**114**	1,057
Total unsecured bank loans			**401**	1,652
Capital lease obligations			**103**	146
Mortgage loans			**33**	42
Other long-term debt			**534**	603
Outstanding debt			**20,055**	29,615
Less: Current portion			**(568)**	(1,212)
Total long-term debt			**19,487**	28,403

During 2004, a total of NOK 6,714 million of long-term debt was prepaid.

As of 31 December 2004 the fair value of long-term debt, including the current portion, was NOK 23,570 million and the carrying value was NOK 20,055 million.

Foreign currency swaps are not reflected in the table above. (See Note 24).

Payments on long-term debt fall due as follows

Amounts in NOK million	Debentures	Bank loans	Capital lease and other	Total
2005	353	17	198	568
2006	174	222	176	572
2007	—	62	193	255
2008	—	25	24	49
2009	1,811	9	7	1,827
Thereafter	16,646	66	72	16,784
Total	18,984[1)]	401	670	20,055

1) Of which Norsk Hydro ASA is responsible for NOK 18,887 million.

Norsk Hydro ASA has entered into long-term committed stand-by credit facility agreements with several international banks for a total amount of USD 2,025 million. Of this amount, USD 350 million expires in 2007, USD 1,450 million in 2009 and the remainder in 2010. Average commitment fee on these facilities is 0.15 percent. Hydro has also entered into a long-term loan facility of EUR 300 million with European Investment Bank (EIB).

There are no borrowings under these facilities as of 31 December 2004.

20. Employee retirement plans

Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans. Hydro uses a 31 December measurement date for the majority of its defined pension benefit retirement plans.

Net periodic pension cost

Amounts in NOK million	2004	2003	2002
Defined benefit plans:			
Benefits earned during the year, net of participants' contributions	**813**	637	526
Interest cost on prior period benefit obligation	**1,355**	1,259	1,065
Expected return on plan assets	**(1,000)**	(892)	(1,049)
Recognized loss	**345**	290	47
Amortization of prior service cost	**111**	115	112
Amortization of net transition (asset) obligation	**3**	(6)	(41)
Curtailment loss	**59**	20	118
Settlement (gain) loss	**30**	199	(4)
Net periodic pension cost	**1,716**	1,622	774
Defined contribution plans	**32**	28	47
Multiemployer plans	**35**	13	(3)
Termination benefits and other	**338**	410	504
Total net periodic pension cost	**2,121**	2,073	1,322
Change in the additional minimum pension liability included within other comprehensive income	**189**	216	131

Change in projected benefit obligation (PBO)

Amounts in NOK million	2004	2003
Projected benefit obligation at beginning of year	**(23,456)**	(19,422)
Benefits earned during the year	**(840)**	(646)
Interest cost on prior period benefit obligation	**(1,355)**	(1,259)
Actuarial loss	**(864)**	(1,460)
Plan amendments	**(23)**	(15)
Benefits paid	**870**	784
Curtailment loss	**(8)**	(16)
Settlements	**85**	441
Special termination benefits	**(52)**	(73)
Divestments	**54**	303
Inclusion of plans reported in line item "Termination benefits and other" in prior year	**—**	(1,519)
Foreign currency translation	**190**	(574)
Projected benefit obligation at end of year	**(25,399)**	(23,456)

Change in pension plan assets

Amounts in NOK million	2004	2003
Fair value of plan assets at beginning of year	**14,669**	12,116
Actual return on plan assets	**1,699**	1,545
Company contributions	**924**	946
Plan participants' contributions	**26**	9
Benefits paid	**(605)**	(524)
Settlements	**(88)**	(445)
Divestments	**(33)**	—
Inclusion of plans reported in line item "Termination benefits and other" in prior year	**—**	977
Foreign currency translation	**(88)**	45
Fair value of plan assets at end of year	**16,504**	14,669

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2004	2003
Defined benefit plans:		
Funded status of the plans at end of year	**(8,895)**	(8,787)
Unrecognized net loss	**6,557**	6,825
Unrecognized prior service cost	**967**	1,111
Unrecognized net transition asset	**—**	(1)
Net accrued pension recognized	**(1,371)**	(852)
Termination benefits and other	**(1,161)**	(1,184)
Total net accrued pension recognized	**(2,532)**	(2,036)

Amounts recognized in the balance sheet consist of:

Prepaid pension	**4,636**	4,541
Accrued pension liabilities	**(8,569)**	(7,774)
Intangible asset	**219**	202
Accumulated other comprehensive income	**1,182**	995
Net amount recognized	**(2,532)**	(2,036)

The accumulated benefit obligation for all defined pension benefit retirement plans was NOK 21,460 million and NOK 19,290 million at 31 December 2004 and 2003, respectively.

Plans in which the accumulated benefit obligation exceeds plan assets

Amounts in NOK million	2004	2003
Projected benefit obligation	**(12,581)**	(10,966)
Accumulated benefit obligation (ABO)	**(10,582)**	(9,300)
Plan assets	**3,477**	2,804

Weighted-average assumptions used to determine net periodic pension cost

	2004	2003	2002
Discount rate	**5.8%**	6.7%	7.1%
Expected return on plan assets	**7.0%**	7.9%	8.4%
Rate of compensation increase	**3.5%**	3.5%	2.5%

Weighted-average assumptions used to determine pension obligation at end of year

	2004	2003
Discount rate	**5.2%**	5.9%
Rate of compensation increase	**3.1%**	3.5%

Weighted-average investment profile plan assets at end of year

	2004	2003	Target Allocation
Asset category			
Equity securities	**36%**	32%	26-44%
Debt securities	**36%**	36%	32-55%
Real estate	**17%**	18%	18%
Other	**11%**	14%	2-7%
Total	**100%**	100%	

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be approximately one percentage point above the yield on a portfolio of long-term corporate bonds that receive one of the two highest ratings given by a recognized rating agency.

In 2003, Hydro performed SFAS 87 valuations for certain defined benefit plans that were reported in line item "Termination benefits and other" in prior year. The immediate impact of applying SFAS 87 provisions on these plans resulted in an increased projected benefit obligation (PBO) of NOK 1,519 million, and increased pension plan assets of NOK 977 million. The difference between the plans' funded status according to SFAS 87 and what was recognized in the balance sheet, has been offset as unrecognized net loss and unrecognized prior service cost with NOK 552 million and NOK 65 million, respectively. Prior year financial statements have not been restated.

In 2003, Hydro incurred a settlement loss of NOK 199 million, and in 2002, Hydro incurred a curtailment loss of NOK 118 million. These charges include settlement and curtailment losses resulting from an agreement between Hydro and an external party, to transfer Hydro's operatorship of certain licenses on the Norwegian continental shelf to the external party, including the transfer of employment for 535 employees, as of 1 January 2003.

Hydro expects to contribute approximately NOK 900 million to its pension plans in 2005. Total pension benefit payments expected to be paid to participants, which include payments funded from Hydro's assets as well as payments paid from the plans are as follows:

Expected pension benefit payments

Amounts in NOK million	
2005	873
2006	924
2007	973
2008	1,036
2009	1,107
2010-2014	6,620

Other Retirement Benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 19 million, NOK 2 million and NOK 14 million for 2004, 2003 and 2002, respectively. The post retirement liability was NOK 136 million and NOK 144 million as of 31 December 2004 and 2003, respectively.

21. Contingencies and other long-term liabilities

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December 2004 and 2003, Hydro had accrued NOK million 351 and NOK 341 million, respectively, for corrective environmental measures. The corresponding expense was NOK 44 million in 2004 compared to NOK 31 million and NOK 90 million in 2003 and 2002, respectively.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various other legal, tax and environmental matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

Total, the operator for the Kharyaga field, has received from the Ministry of Taxes and Revenues of the Russian Federation, a claim for tax and the state's share of the revenues from oil extracted under the Petroleum Sharing Agreement for the field for 2001 and 2002. Hydros share of the claim is approximately 30 million US dollars. Both Hydro and Total are considering the claim unjustified, and have taken legal actions to get this confirmed as well as to avoid collection of the claim. No additional claims were received during 2004 and no accruals have been recorded relating to earlier claims.

Hydro has outstanding indebtedness against commercial counterparties in many countries with varying legal systems. Occasionally problems occur in connection with Hydro's ability to pursue its legal rights against such parties. At the end of 2004, a dispute arose in connection with a sizable claim against a supplier of aluminum and as a result, arbitration proceedings have been commenced by Hydro to protect its interests. Hydro's best estimate of the probable loss related to this dispute have been accrued in the 2004 accounts.

The EFTA (European Free Trade Association) Surveillance Authority (ESA) completed a formal investigation procedure against the Norwegian State to determine if the former zero-rate electricity tax applicable to Norwegian industry was in accordance with State aid rules included in the European Economic Area Agreement (the EEA Agreement). ESA issued a decision on 30 June 2004, reflecting its determination that the exemption of certain Norwegian businesses from the electricity tax constituted illegal State aid under the EEA Agreement. The decision to order recovery of electricity tax from the industry has been appealed to the EFTA Court by the Norwegian government, the Federation of the Norwegian Processing Industry (Prosessindustriens landsforening, PIL) and several individual member companies of PIL, including Hydro. The exact amount the Norwegian government is to recover from Hydro according to ESA's illegal State aid ruling depends on an interpretation of the decision. This interpretation issue is part of the dispute submitted to the EFTA Court, but is also part of a discussion between the Norwegian Government and ESA as regards how the recovery shall be implemented. Hydro estimates that the amount will not be material for Hydro.

Contingencies and other long-term liabilities

Amounts in NOK million	2004	2003
Insurance premiums and loss reserves	**121**	109
Asset retirement obligations	**6,244**	5,148
Postretirement benefits other than pensions	**135**	144
Derivatives	**759**	335
Other	**1,875**	1,777
Total US GAAP	**9,134**	7,513
Adjustment to N GAAP		
Cash Flow hedge and derivatives (Note 28)	***(651)***	*(8)*
Total N GAAP	***8,483***	*7,505*

Effective 1 January 2003, Hydro adopted SFAS 143 "Accounting for Asset Retirement Obligations". Hydro's asset retirement obligations covered by FAS 143 are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligations is recognized in the balance sheet in the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement.

Asset Retirement Obligations

Amounts in NOK million	2004	2003
Total asset retirement obligations 1.1	**5,235**	4,538
Incurred this year	**106**	463
Revisions in estimates	**818**	22
Disposals	**—**	(30)
Settlements	**(219)**	(83)
Accretions	**352**	306
Currency translation	**(11)**	19
Total asset retirement obligations 31.12	**6,281**	5,235
Of which:		
Short term asset retirement obligations	**37**	87
Long term asset retirement obligations	**6,244**	5,148

According to the standard, previous years should not be restated. The following table reconciles the reported net income, reported earnings per share and asset retirement obligations to that which would have resulted for the earlier years assuming SFAS 143 were adopted 1 January 2002.

Pro Forma information (Unaudited)

Amounts in NOK million, except per share data	2004	2003	2002
Net income	**12,560**	10,968	8,765
Depreciation change (after tax)	**—**	—	(56)
Pro forma net income	**12,560**	10,968	8,709
Reported basic and diluted earnings per share	**49.40**	42.60	34.00
Depreciation change earnings per share	**—**	—	(0.20)
Pro forma basic and diluted earnings per share	**49.40**	42.60	33.80
Pro forma Asset Retirement Obligation, 1 January	**—**	4,549	4,268

22. Secured debt and guarantees

Amounts in NOK million	2004	2003
Amount of secured debt	**33**	41
Assets used as security:		
Machinery and equipment	**41**	41
Buildings	**62**	54
Other	**2**	2
Total	**105**	97
Guarantees (off-balance sheet):		
Non-consolidated investee debt	**86**	45
Contingency for discounted bills	**92**	67
Tax guarantees	**1,354**	1,352
Sales guarantees	**8,200**	7,900
Commercial guarantees	**9,390**	8,375
Total	**19,122**	17,739

The amounts in the table above represents the maximum potential amount of future payments related to the guarantees. Guarantees of non-consolidated investee debt relates to guarantees covering credit facilities with external banks. Tax guarantees includes guarantees to tax authorities regarding the non-taxable treatment on gains on internal sales of assets. Gains on such sales could become taxable if certain assets were sold outside the group. Hydro controls whether such assets are offered for sale outside the group.

Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. Sales guarantees also include liabilities relating to the demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. Hydro has, in addition to what is included in the table above, certain guarantees relating to sales of companies that are unlimited in amount and in time. Hydros estimate of the fair value of the guarantees related to sale of companies is not material.

In addition to the sales guarantees discussed above, Hydro has, following the asset exchange between Hydro and Petro-Canada in 1996, guaranteed that the total recoverable reserves attributable to Petro-Canada's working interest in the Veslefrikk field shall not be less than a certain quantified amount of crude oil. If less, Hydro has an obligation to deliver indemnity volumes to Petro-Canada. During 2002 there was a new evaluation of reserves in accordance with the agreement which resulted in compensation to Petro-Canada. The agreement was renegotiated in 2002 and is open for the possibility of re-evaluating the reserves in 2008, 2014 and at the end of the field's lifetime. The guarantee does not apply in cases of force majeure, the failure of the operator to comply with good oil field practices, etc. As of 31 December 2004, the remaining guaranteed volume was 1.02 million Sm^3 of crude oil, equivalent to approximately NOK 1,569 million. As of 31 December 2003, the remaining guaranteed volume was 1.2 million Sm^3 of crude oil, equivalent to approximately NOK 1,465 million.

Commercial guarantees consist of advance payment guarantees, bid bonds, stand-by letters of credit, performance guarantees and payment guarantees. Guarantees are issued in the normal course of business. Commercial guarantees are issued mainly by Norsk Hydro ASA on behalf of its subsidiaries. Certain commercial guarantees are obtained from external banks and covered by Norsk Hydro ASA by a counter indemnity guarantee to the external banks. A certain portion of these guarantees are payable on demand while the remainder is dependant upon performance by the guaranteed entity (i.e delivery of goods or services by a vendor). In addition, Hydro would also have recourse in the case of payment made on demand in connection with non performance by a guaranteed entity.

23. Contractual and other commitments for future investments and operations

As of 31 December 2004: Amounts in NOK million	Investments 2005	Thereafter	Total
Contract commitments for investments in property, plant and equipment:			
Land based	944	42	986
Oil and gas fields and transport systems	7,310	12,203	19,513
Total	8,254	12,245	20,499
Additional authorized future investments in property, plant and equipment:			
Land based	976	330	1,306
Oil and gas fields and transport systems	267	59	326
Total	1,243	389	1,632
Contract commitments for other future investments:	325	17	342

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

Hydro has entered into take-and-pay and long-term contracts providing for future payments to secure pipeline and transportation capacity, processing services, raw materials and electricity and steam. In addition, Hydro has entered into long-term sales commitments to deliver goods. This principally relates to obligations to deliver gas from fields on the Norwegian Continental Shelf for a total amount of NOK 155 billion.

The non-cancelable future fixed and determinable obligations as of 31 December 2004 are as follows:

Take-and-pay and Long-term contracts

Amounts in NOK million	Transport and Other	Raw materials	Energy related	Sales commitments
2005	603	2,341	2,327	(13,652)
2006	549	1,406	2,041	(11,738)
2007	764	1,163	2,039	(11,641)
2008	550	754	1,826	(11,163)
2009	496	640	1,893	(11,065)
Thereafter	5,043	6,376	16,712	(113,186)
Total	8,005	12,680	26,838	(172,445)

Terms of certain of these agreements include additional charges covering variable operating expenses in addition to the fixed and determinable component shown above, including contracts to purchase 24 million tonnes of alumina over the next 26 years where the variable part of the prices are normally linked to the London Metal Exchange quoted prices.

Hydro has also entered take-and-pay and other long terms contracts as part of shareholders agreement in non-consolidated investees, including contracts to purchase 22 million tonnes of alumina over the next 11 years. These commitments are not included in the figures above.

The total purchases under the take-and-pay agreements and long-term contracts were as follows (in NOK million): 2004 — 4,736; 2003 — 2,670; 2002 — 3,065 and 2001 — 1,924

24. Derivative instruments and risk management

Hydro is exposed to market risks from commodity pricing, currency exchange rates and interest rates. Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis. Mitigating financial and commercial risk exposures through the use of derivative instruments is done only to a limited extent. Certain of Hydro's commodity contracts are deemed to be derivatives under US GAAP. Derivative instruments, whether physically or financially settled, are accounted for under SFAS No. 133, ''Accounting for Derivative Instruments and Hedging Activities'', as amended. All derivative instruments are accounted for on the balance sheet at fair value with changes in the fair values of derivative instruments recognized in earnings unless specific hedge criteria are met.

Commodity Price Risk Exposure

A substantial portion of Hydro's revenue is derived from the sale of commodities such as crude oil and aluminium. Hydro also produces, purchases and sells natural gas, electricity and petrochemical products. The prices of these commodities can be volatile, creating fluctuations in Hydro's earnings. The Company's main strategy to manage this exposure relates to maintaining a strong financial position to be able to meet fluctuations in prices and earnings. Natural hedging positions are established to the extent possible and economically viable. Derivatives are used in special situations to mitigate price movements and to participate in limited speculative trading within strict guidelines defined by management. The following highlights Hydro's main commodity price risks.

Oil

Hydro produces and sells crude oil and gas liquids. Hydro's production of crude oil and gas liquids is for the most part sold in the spot market. Hydro utilizes futures and swaps to mitigate unwanted price exposure for a portion of its crude oil portfolio production. From time to time financial options are used for the same purpose. At the end of 2003 Hydro has no hedging program in place for the purpose of protecting against the risk of low oil prices.

Natural gas

Hydro is a producer, consumer, buyer and seller of natural gas. The majority of Hydro's equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil prices. Hydro utilizes on a limited basis instruments such as forwards and swaps to mitigate unwanted price exposures on the portion of the natural gas portfolio not sold on long-term contracts. Hydro is also participating in trading activities based on partly own gas production and partly externally sourced gas volumes. In addition, Hydro engages in limited energy trading activity in derivatives as defined under EITF 02-3. Hydro maintains a system of controls over the authorization and monitoring of this speculative trading activity. The fair value of these traded financial instruments is determined by reference to various market prices or by use of other appropriate valuation methodologies. Commodity price, foreign exchange rate and credit exposures arising from energy trading have not been significant.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term purchase contracts with other producers and suppliers to secure electricity in the market for Hydro's own consumption and delivery commitments.

In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volume, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange, ''Nord Pool''. Hydro is also offering power portfolio management services to third party clients and participates in limited speculative trading.

Aluminium

Hydro is a producer of primary aluminium and fabricated aluminium products. Hydro enters into future contracts with the London Metal Exchange (LME) mainly for two purposes. The first is to achieve an average LME price on smelter production. Secondly, because the Company's downstream business and the sale of third party products are margin businesses, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking LME positions based upon net exposures. Aluminium price volatility can result in significant fluctuations in earnings as these LME positions are marked to their market value with changes to market value recognized in operating income.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December 2004 and 2003. Contracts that are designated as hedging instruments in cash flow and fair value hedges are not included.

Amounts in NOK million	2004	2003
Assets:		
Swaps and futures, crude oil	**21**	2
Electricity contracts	**391**	1,171
Natural gas contracts	**1,525**	218
Agri futures, swaps and options	**—**	10
Aluminium futures, swaps and options	**177**	286
Total	**2,114**	1,687
Liabilities:		
Electricity contracts	**(197)**	(620)
Natural gas contracts	**(988)**	(201)
Swaps and futures, crude oil	**(62)**	(2)
Aluminium futures, swaps and options	**0**	(172)
Total	**(1,247)**	(995)

The presentation of fair values for electricity and natural gas contracts shown in the table above includes that fair value of derivative instruments such as futures, forwards and swaps in conjunction with fair values of physical contracts.

Foreign Currency Risk Exposure

Prices of many of Hydro's most important products, mainly crude oil, aluminium and natural gas, are either denominated in US dollars or are influenced by movements in the value of other currencies against the US dollar. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars (as of 31 December 2004, 82 percent of Hydro's long-term debt is denominated in US dollars). The majority of the remaining long-term debt is denominated in Norwegian kroner, Euro, and British pounds.

Hydro employs foreign currency swaps and forward currency contracts to modify the currency exposures for Hydro's long-term debt portfolio. Forward currency contracts are entered into to safeguard cash flows for forecasted future transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

Hydro also incurs costs related to production, distribution and marketing of products in a number of different currencies, mainly Euro, Norwegian krone, US dollar, Canadian dollar, Australian dollar, British Pounds and Swedish krone. Consequently, the effects of changes in currency rates on the translation of local currencies into Norwegian krone for subsidiaries outside of Norway can influence comparative results of operations.

Hydro has designated a portion of its foreign-denominated long-term debt, including certain related balances in currencies arising from foreign currency swaps and forwards, as hedges of net foreign investments in subsidiary companies. The foreign currency effects of these hedges reflected in the cumulative translation section of shareholders' equity produced a NOK 320 million after-tax gain during the year ended 31 December 2004 and NOK 333 million after-tax loss during the year ended 31 December 2003; offsetting a foreign currency translation loss of NOK 1,628 million and a foreign currency translation gain of NOK 4,856 million in shareholders' equity for 2004 and 2003 respectively. As of 1 January 2005 Hydro no longer designates portions of its long-term debt and forward currency contracts as hedges of net investments in foreign subsidiary companies. Changes to the Company's long-term debt portfolio and to the Company's structure during the recent years has rendered these accounting hedges less material to Shareholder's equity.

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December 2004 and 2003.

Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

Amounts in NOK million	2004	2003
Assets:		
Currency forwards and swaps	**757**	980
Liabilities:		
Currency forwards and swaps	**(23)**	(123)

The currency contracts listed below were outstanding as of 31 December 2004.

Currency	Nominal value in currency	Fair value in NOK	Maturity by nominal amount in currency	
Amount in million			Within one year	Later
Buying currency				
AUD	85	395	10	75
CAD	119	565	—	119
DKK	16	18	16	—
EUR	426	3,499	370	56
GBP	20	232	20	—
NOK	6,540	6,528	5,754	786
USD	76	361	12	63
Selling currency				
CAD	(30)	(150)	(30)	—
DKK	(930)	(1,028)	(930)	—
GBP	(15)	(174)	(15)	—
JPY	(5,642)	(313)	(700)	(4,942)
SEK	(2,737)	(2,490)	(2,737)	—
USD	(1,106)	(6,632)	(858)	(248)
Other	—	(77)	—	—

Interest Rate Exposure

Hydro is exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund its business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its total interest bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure. Fair values of interest rate derivatives at 31 December 2004 and 2003 were immaterial.

Cash Flow Hedges

The expansion project at the Sunndal metal plant increased Hydro's exposure to commodity prices and foreign currency exchange rates. Accordingly, Hydro has entered into short positions using LME future contracts and US dollar forward contracts to secure an average aluminium price of approximately NOK 14,000 per tonne of a portion of the forecasted sales of primary metal production per year for the period 2003 to 2007. As of 31 December 2004, Hydro had sold forward about 315,000 tonnes (426,000 tonnes in 2003) of primary aluminium at an average price of approximately US dollar 1,500 per tonne. In addition Hydro has secured the exchange rate against the US dollar at about NOK 9.3 per US dollar for the same tonnage. Gains and losses on these derivatives are recorded to OCI and are to be reclassified into operating revenues when the corresponding forecasted sale of aluminium is recognized. No amount of ineffectiveness was recognized in 2004 and 2003 since the critical terms of the commodity derivatives and the forecasted aluminium sales are substantially similar. A gain after tax of NOK 274 million is expected to be classified from OCI into earnings during the period ending 31 December 2005. A gain after tax of NOK 257 million was reclassified from OCI into earnings during 2004. A gain after tax of NOK 172 million was reclassified from OCI into earnings during 2003. As of 31 December, 2004 the maximum length of time over which the Company is hedging its exposure to the variability in cash flows is three years.

In 2003, a major expansion project at the Alouette plant in Canada increased Hydro's exposure to foreign currency exchange rates. Hydro's investment in the plant is in US dollar however approximately 78 percent of the expected payments for the expansion project in Canada is nominated in Canadian dollar (CAD). Hydro has entered into currency forward contracts to sell US dollar and buy Canadian dollar as part of a cash flow hedge of forecasted CAD payments for the period 2003-2006. The notional amount of the contracts is approximately CAD 39.6 million at year end (CAD 206 million at inception of project in 2003) at an average rate of 1.56 CAD per USD. Gains and losses on these derivatives are recorded in OCI and are to be reclassified into earnings in the same periods during which the hedged forecasted transactions affects earning (that is, when the plant is to be depreciated). No amount of ineffectiveness was recognized in 2004 and 2003 since the critical terms of the derivatives and the forecasted payments are substantially similar. A gain after tax of NOK 2 million is expected to be reclassified from OCI into earnings during the period ending 31 December 2005. As of 31 December 2004, Hydro is hedging its exposure to the variability in cash flows until March 2006.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December 2004 and 2003.

Amounts in NOK million	2004	2003
Assets:		
Cash flow hedging instruments, currency	**1,396**	1,518
Liabilities:		
Cash flow hedging instruments, aluminium	**(497)**	(48)

Fair Value of Derivative Instruments

Fair market values of derivative financial instruments such as currency forwards and swaps are based on quoted market prices. Fair market value of aluminium futures and option contracts are based on quoted market prices obtained from the London Metals Exchange. The fair values of other commodity over-the-counter contracts and swaps are based on quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recorded at fair value under the requirements of FAS133, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available.

See Note 19 for fair value information of long-term debt.

Credit Risk Management

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. Pre-approval of exposure limits is required for financial institutions relating to current accounts, deposits and other obligations. Credit risk related to derivative commodity instruments is substantially limited since most instruments are settled through commodity exchanges. Therefore, counter party risk related to use of derivative instruments and financial operations is regarded as limited.

Setting counterparty risk limits, requiring insurance, and establishing procedures for monitoring exposures and settlement of accounts limits Hydro's credit risk. The Company's overall credit risk level is also reduced through a diversified customer base representing various industries and geographic areas. Follow-up of timely payments of accounts receivables is given high priority in the Company.

25. External audit remuneration

Deloitte statsautoriserte revisorer AS (Deloitte) is the principal auditor of Norsk Hydro ASA. Certain portions of audits are performed by Ernst & Young and other firms. The following table shows total audit and non-audit fees for the fiscal years 2004 and 2003. The figures include fees related to discontinued operations.

2004 Amounts in NOK thousands	Audit fees	Audit related fees	Other non-audit fees	Tax fees	Total
Deloitte Norway	24,691	2,018	1,337	17	28,063
Deloitte Abroad	23,399	4,899	427	7,445	36,170
Total Deloitte	48,090	6,917	1,764	7,462	64,233
Ernst & Young	11,095	929	—	2,200	14,224
Others	3,660	1,314	1,215	1,774	7,963
Total fees	62,845	9,160	2,979	11,436	86,420

2003 Amounts in NOK thousands	Audit fees	Audit related fees	Other non-audit fees	Tax fees	Total
Deloitte Norway	26,257	1,839	8,069	400	36,565
Deloitte Abroad	32,728	2,911	1,863	3,828	41,330
Total Deloitte	58,985	4,750	9,932	4,228	77,895
Ernst & Young[1)]	16,998	1,486	1,076	4,768	24,328
Others	11,096	2,941	1,296	2,677	18,010
Total fees	87,079	9,177	12,304	11,673	120,233

1) Amounts for Ernst & Young relate to Hydro subsidiaries under Ernst & Young's audit. Ernst & Young provides non-audit services to subsidiaries that it does not audit; such fees are not included in this table.

26. Related parties

The Norwegian State owned as of 31 December 2004, 113,483,658 ordinary shares representing 43.8 percent of the total number of ordinary shares issued, representing 45.2 percent of the shares outstanding as of the same date. There are no different voting rights associated with the ordinary shares held by the State.

Transactions with related parties

The extraordinary General Meetings in January 2004 and December 2004 authorized the cancellation of 1,484,300 and 2,808,810 repurchased shares respectively. Based on an agreement with the Norwegian State, Hydro's largest shareholder, a proportional share of the State's shares of 1,157,922 and 2,191,190 respectively, was redeemed. As compensation, the State received an amount equal to the market price paid by Hydro, plus interest of NIBOR plus one percent, for the period between the share purchases and the payment to the State. For the transactions, the State received compensation of NOK 445 million in 2004 and 981 million in February 2005.

A new buy back program covering up to 5,617,621 shares was authorized at the same extraordinary General Meeting in December 2004. An agreement with the Norwegian State allows redemption of a proportional share of the State's shares. A total of 10 million shares may be cancelled under the new program, including shares owned by the Norwegian State, or the equivalent of approximately four percent of the Company's outstanding shares. A final decision on canceling any of the shares repurchased must be approved by a minimum of two-thirds of the shares represented at a General Meeting of shareholders.

On 19 March 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of 10 May 2002. The agreement was effective from 1 January 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

Transactions with non-consolidated investees are described in Note 13 Non-Consolidated Investees.

Members of the board of directors are elected for two year terms. Their rights and obligations as board members are solely and specifically provided for in the company's articles of association and Norwegian law. The company has no significant contracts in which a board member has a material interest.

Loans given to members of the Board and their number of shares owned as of 31 December, 2004 are:

	Loans outstanding[1)2)]	Number of shares
Jan Reinås	—	—
Borger A. Lenth	—	144
Elisabeth Grieg	—	6,080
Håkan Mogren	—	—
Ingvild Myhre	—	—
Geir Nilsen	76	55
Kurt Anker Nielsen	—	—
Odd Semstrøm	37	129
Terje Friestad	71	236
Egil Myklebust[4)]	4,514[3)]	4,272

1) Amounts in NOK thousands.

2) All loans to directors appointed by shareholders were entered into prior to 30 July 2002. The Company has not materially modified or renewed any of the loans extended to or for its directors or executive officers since that date.

Mr. Terje Friestad, who in May 2004 joined the Board elected by the employees in accordance with Norwegian company law, was extended a loan in the amount of NOK 75.000 in July under an employee benefit scheme applicable to all employees in Norway.

3) In October 2000, an interest-only loan of NOK 2,200,000 was given. The interest rate as of 31 December 2004 was 2.9 percent. In addition, there is a loan with 25.5 years remaining and with an outstanding amount of NOK 2.063.779 as of 31 December 2004. Other loans of NOK 250,000 carry interest of 3.25 percent. All loans are secured.

4) Egil Myklebust resigned as Chairperson of the Board 31 March 2004.

Members, observers and deputy members of the corporate assembly owning ordinary shares as of 31 December 2004 are:

	Number of shares
Erna Flattum Berg	135
Sven Edin	201
Anne-Margrethe Firing	1,162
Odd Arne Fodnes	22
Billy Fredagsvik	15
Solveig Alne Frøynes	89
Sónia F. T. Gjesdal	194
Oddny Grebstad	125
Westye Høegh	16,300
Kjell Kvinge	199
Astri Sylvi Lem	150
Stig Lima	87
Jon-Arne Mo	230
Bjørn Nedreaas	116
John-Arne Nilsen	28
Wolfgang Ruch	175
Anne Merete Steensland	29,772
Rune Strande	1
Svein Steen Thomassen	100
Ingar Aas-Haug	2
Svein Aaser	1872

Loans to senior management as of 31 December 2004 and their ownership of shares and options (see Note 4) are:

	Loans Outstanding[1)2)]	Number of shares	Options
Eivind Reiten	—	11,641	35,000
Alexandra Bech Gjørv	—	900	21,000
John O. Ottestad	—	8,238	24,000
Jon-Harald Nilsen	174	270	24,000
Tore Torvund	368	3,640	24,000

Outstanding loan particulars:[2)]	Interest	Loans Repayment	Amount[1)]
Jon-Harald Nilsen	3.25%	8 years	174
Tore Torvund	3.25-4.00%	3-12 years	368

1) Amounts in NOK thousands

2) All loans to executive officers (members of the corporate management board) were entered into prior to 30 July 2002. The Company has not materially modified or renewed any of the loans extended to or for its directors or executive officers since that date.

27. Supplementary oil and gas information (Unaudited)

Hydro uses the ''successful efforts'' method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense.

Once the exploration drilling demonstrates that sufficient quantities of resources have been discovered, continued capitalization is dependent on project reviews, which take place periodically and no less frequently than every quarter, to ensure that satisfactory progress for the well or group of wells toward ultimate development of the reserves is being achieved. Evaluation of whether commercial quantities of hydrocarbons have been discovered is based on existing technology and price conditions, unless Hydro expects long-term price conditions to be less favorable.

Most of Hydro's exploration activities are performed in areas requiring major capital expenditures. Such expenditures may include different types of production platforms, sub-sea stations, risers and flow lines, pipelines and, if existing infrastructure is utilized, modifications of existing production facilities to allow tie-in or tie-back solutions. For complicated offshore exploratory discoveries, it is not unusual to have exploratory well costs remain suspended on the balance sheet for more than one year while we perform appraisal work, evaluate the optimal development plans and timing, and secure final regulatory approvals for development. Appraisal work for each project normally includes an assessment process covering choice of the optimal technical and economical solution taking into consideration existing pipelines, platforms and processing facilities in the area, regulatory issues including environmental requirements and legal issues, and relationship to other joint ventures involved in the area and/or utilizing the same infrastructure. When the appraisal work is completed, the Plan for Development and Operation (PDO), which shall contain an account of economic aspects, resource aspects, technical, safety related, commercial and environmental aspects as well as information as to how a facility may be decommissioned and disposed of when petroleum activities cease, can be prepared.

Discovered reserves are classified as ''proved reserved'' (as defined by the SEC's rules) when the PDO is submitted to the authorities for approval (Norway) or the project has matured to a similar level (outside Norway). At the same time, related costs are transferred to development cost. It normally takes more than one year to complete all of the activities that permit recognition of proved reserves under the current SEC guidelines.

Costs relating to acquired exploration rights are allocated to the relevant areas, and charged to operating expense upon determination that proved reserves will not be found in the area. Each block or area is assessed separately, based on exploration experience. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred.

Costs Incurred on Oil and Gas Properties

Exploration costs and costs related to property acquisition

Amounts in NOK million	Norway			International			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Capitalized at beginning of year	**633**	837	977	**390**	442	1,749	**1,023**	1,279	2,726
Costs incurred during the year	**478**	437	662	**934**	1,172	1,714	**1,412**	1,609	2,376
Acquisition cost[1)]	**65**	—	—	**148**	—	35	**213**	—	35
Capitalized exploration costs charged to expense	**(468)**	(437)	(649)	**(796)**	(1,140)	(2,909)	**(1,264)**	(1,577)	(3,558)
Transfer to development	**(125)**	(185)	(78)	**5**	(26)	(25)	**(120)**	(211)	(103)
Disposals	**—**	(19)	(75)	**—**	(78)	(9)	—	(97)	(84)
Foreign currency translation	**—**	—	—	**(19)**	20	(113)	**(19)**	20	(113)
Capitalized at end of year	**583**	633	837	**662**	390	442	**1,245**	1,023	1,279
Wells in process of drilling at end of year	**85**	6	1	**201**	4	37	**286**	10	38
Wells in areas requiring major capital expenditures where futher wells are under way or firmly planned or where drilling program was completed during the year	**231**	341	592	**301**	346	277	**532**	687	869
Wells in areas requiring major capital expenditures where drilling program was completed more than one year ago	**182**	266	184	**—**	—	—	**182**	266	184
Other cost including acquisition of unproved property	**85**	20	60	**160**	40	128	**245**	60	188
Net book value	**583**	633	837	**662**	390	442	**1,245**	1,023	1,279

1) In 2004, NOK 213 million was related to the purchase of license PL 248 in Norway and licenses in Gulf of Mexico and Madagascar.

The following table provides an aging of capitalized exploratory well costs based on the date the drilling program for the project was completed, and the number of wells and projects for which exploratory well costs have been capitalized for a period greater than one year since the completion of drilling. A project is, in this context, defined as an area which is expected to be developed as one single development solution. A project may use existing infrastructure, including pipelines, processing facilities on existing platforms etc. There may be more than one development solution used for one reservoir or for one license if physical and/or legal and/or economic conditions make that viable.

Specification of age of category

	1 year	2 years	3 years	4 years	5 years	More than 5 years	Total
Amounts (NOK million)	12	23	68	—	—	79	182
Number of wells	1	1	2	—	—	5	9
Number of projects	1	1	1	—	—	3	6

The following projects have been capitalized for a period greater than one year following the completion of drilling, including a description of activities undertaken in the project and remaining activities to classify the associated resources as proved reserves.

One year from end of drilling program:

The Ringhorne East project:

The project consists of one discovery well drilled in the third quarter of 2003. The well was assessed for commerciality, and it was concluded early in 2004 that the well had encountered sufficient quantities of hydrocarbons. Appraisal work is ongoing to evaluate the most viable development concept. The license is working on a plan for a sub sea solution with tie-in to the Ringhorne Field (100 pecent owned and operated by Exxon Mobil). An unitisation agreement between the two licenses as well as commercial agreements are needed for this solution. The PDO is planned for submittal to the Norwegian Government in 2005/2006.

Two years from end of drilling program:

The Tyrihans project:

The project consists of one discovery well drilled in 2002. Concept selection and negotiations with other licenses have been undertaken in the period since the find was made. The license has agreed on a sub-sea development with a tie-in to the Kristin field and gas injection from the Åsgard field. An unitisation process between the two licenses is ongoing. PDO is dependent on the finalized unitization, and is planned for submittal to the Norwegian Government in 2005/2006.

Three years from end of drilling program

The Oseberg Delta project:

The project consists of one discovery well drilled in 1998. Drilling program continued with the discovery of Oseberg Vestflanken in 2001. The initial concept selection phase concluded that the Oseberg Vestflanken should be developed separately, and the project was split. Oseberg Vesflanken was transferred to development in 2003. Appraisal work on Delta has been ongoing to evaluate different types of development concepts. The expected development solution involves using existing processing facilities on the Oseberg platform. The time plan for the project has been adjusted to match production and processing plans for the Oseberg Field, which has not had available processing capacity until recently. PDO for Oseberg Delta is planned for submittal to the Norwegian Government in the second quarter of 2005.

More than 5 years from end of drilling program:

The Volve project

The project consists of one discovery well drilled in 1997. The well has a total suspended cost of NOK 14 million. Volve has been reviewed for development in connection with the other licenses in the Sleipner area. Concept studies have been ongoing to determine the optimal development solution. The license has agreed to develop Volve as a stand-alone development with a jack up production platform and an oil storage tanker. PDO was submitted to the Norwegian Government in February 2005.

The Fram East project

The project consists of three discovery wells drilled from 1990-1997. The wells have a total suspended cost of NOK 53 million. The evaluation period for the area has been lengthy as the field is situated in an area with several other operating fields, where tie-in could be possible. The initial development plan was a combined development of the Fram discoveries, later divided into Fram East and Fram West. In 2000, the license partners decided on a separate sub-sea development with tie-in to the Troll C platform, one of three platforms currently producing from the Troll field. Having determined to use Troll C as a processing facility, the Fram fields were divided into two phases, West and East, to ensure that Troll C will have sufficient processing capacity available. Fram West commenced production in 2003. Studies of other possible development concepts for Fram East, including stand-alone development, were undertaken during 2003 and 2004. During the summer of 2004, the license decided the development concept. PDO was submitted to the Norwegian Government in February 2005.

The Grane Outside project

The project consists of one discovery well drilled in 1992 as part of the Grane drilling program which ended in 1998. The well has a total suspended cost of NOK 12 million. In connection with the Grane development, the licenses were unitized. The Grane Outside well was located outside the then established Grane unit, and therefore has a different ownership structure. Grane Outside is planned as a sub-sea development with tie-in to the producing Grane Field installations. Grane Outside is expected to be developed and start production when Grane goes off plateau production, expected in 2008-2010. The development of Grane Outside will require a separate PDO, and can thus not be classified as proved reserves.

Costs related to Development, Transportation Systems and Other

Amounts in NOK million	Norway			International			Total		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
Net book value at beginning of year	**62,672**	61,822	56,711	**7,540**	7,162	8,117	**70,212**	68,984	64,828
Implementation SFAS 143 Asset Retirement Obligation	**—**	1,021	—	**—**	68	—	**—**	1,089	—
Cost incurred during the year	**9,093**	7,288	6,923	**1,585**	1,199	1,299	**10,678**	8,487	8,222
Acquisition cost	**297**	—	5,460	**—**	—	—	**297**	—	5,460
Transferred from exploration cost	**125**	185	78	**(5)**	26	25	**120**	211	103
Amortization	**(8,259)**	(7,525)	(7,278)	**(1,566)**	(1,589)	(1,275)	**(9,825)**	(9,114)	(8,553)
Disposals	**(2,527)**	(119)	(72)	**(3)**	(4)	(2)	**(2,530)**	(123)	(74)
Foreign currency translation	**—**	—	—	**(90)**	678	(1,002)	**(90)**	678	(1,002)
Net book value at end of year	**61,401**	62,672	61,822	**7,461**	7,540	7,162	**68,862**	70,212	68,984

Cost incurred during 2004 included NOK 972 million, NOK 290 million and NOK 168 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 851 million and NOK 71 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS 143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Cost incurred during 2003 included NOK 686 million, NOK 281 million and NOK 239 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 236 million and NOK 61 million relates to accruals in Norway and International regarding asset retirement obligations under SFAS 143. This is as a result of changes in estimates and new accruals in connection with fields ready for production during the year.

Cost incurred during 2002 included NOK 508 million, NOK 254 million and NOK 501 million of development cost related to activities in Angola, Canada and Russia respectively.

Acquisitions in 2004 included NOK 297 million it is related to the purchase of 2 percent of Kristin. In 2002, NOK 5,460 million relates to the acquisition of shares in SDFI on the NCS.

Results of Operations for Oil and Gas Producing Activities

As required by SFAS 69, the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Hydro.

The ''results of operations'' should not be equated to net income since no deduction nor allocation is made for interest costs, general corporate overhead costs, and other costs. Income tax expense is a theoretical computation based on the statutory tax rates after giving effect to the effects of uplift and permanent differences only.

Amounts in NOK million	Norway 2004	Norway 2003	Norway 2002	International 2004	International 2003	International 2002	Total 2004	Total 2003	Total 2002
Sales to unaffiliated customers	**6,817**	6,672	6,693	**5,039**	4,061	3,520	**11,856**	10,733	10,213
Intercompany transfers[1]	**35,164**	25,531	21,532	**—**	—	—	**35,164**	25,531	21,532
Total revenues	**41,981**	32,203	28,225	**5,039**	4,061	3,520	**47,020**	36,264	31,745
Operating costs and expenses:									
Production costs	**3,922**	3,591	3,554	**412**	425	406	**4,334**	4,016	3,960
Exploration expenses	**468**	437	649	**796**	1,140	2,909	**1,264**	1,577	3,558
Depreciation, depletion and amortization	**8,101**	7,378	6,826	**1,578**	1,597	1,315	**9,679**	8,975	8,141
Transportation systems	**1,647**	1,257	1,629	**118**	125	139	**1,765**	1,382	1,768
Total expenses	**14,138**	12,663	12,658	**2,904**	3,287	4,769	**17,042**	15,950	17,427
Results of operations before taxes	**27,843**	19,540	15,567	**2,135**	774	(1,249)	**29,978**	20,314	14,318
Current and deferred income tax expense	**(21,279)**	(14,802)	(11,733)	**(965)**	(414)	374	**(22,244)**	(15,216)	(11,359)
Results of operations	**6,564**	4,738	3,834	**1,170**	360	(875)	**7,734**	5,098	2,959

1) The majority of intercompany transfers are resold from the Energy and Oil Marketing sub segment without further processing.

Proved Reserves of Oil and Gas

Proved reserves are the estimated quantities of crude oil, natural gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from undrilled production wells on exploration licenses. Reserves are expected to be revised as oil and gas are produced and additional data become available. International reserves under PSA contracts (production sharing agreement) are shown net of Royalties in kind and Government's share of profit oil, based on prices at the balance sheet date.

Proved Developed and Undeveloped Reserves of Oil and Gas

	Norway				International			Total			
	Oil	Natural gas		Oil and gas	Oil	Natural gas		Oil	Natural gas		Oil and gas
	mmboe[1]	billion[2] Sm³	billion cf[2]	mmboe[3]	mmboe[1]	billion[2] Sm³	billion cf[2]	mmboe[1]	billion[2] Sm³	billion cf[2]	mmboe[3]
As of 31 December 2001[5]	825	169.2	5,986	1,880	193	—	—	1,018	169.2	5,986	2,073
Revisions of previous estimates[4]	46	(0.2)	(7)	42	(19)	—	—	27	(0.2)	(7)	23
Purchase (sale)/exchange of reserves in place	109	12.1	428	186	—	—	—	109	12.1	428	186
Extensions and new discoveries	20	12.7	449	102	16	—	—	36	12.7	449	118
Production for the year	(117)	(6.4)	(227)	(157)	(18)	—	—	(135)	(6.4)	(227)	(175)
As of 31 December 2002[5]	883	187.4	6,629	2,053	172	—	—	1,055	187.4	6,629	2,225
Revisions of previous estimates[4]	59	(8.9)	(315)	8	(14)	—	—	45	(8.9)	(315)	(6)
Purchase (sale)/exchange of reserves in place	(2)	—	—	(2)	—	—	—	(2)	—	—	(2)
Extensions and new discoveries	22	36.1	1,278	248	17	—	—	39	36.1	1,278	265
Production for the year	(123)	(7.8)	(275)	(173)	(21)	—	—	(144)	(7.8)	(275)	(194)
As of 31 December 2003[5]	839	206.8	7,317	2,134	154	—	—	993	206.8	7,317	2,288
Revisions of previous estimates[4]	**43**	**(3.0)**	**(106)**	**25**	**14**	**—**	**—**	**57**	**(3.0)**	**(106)**	**39**
Purchase (sale)/exchange of reserves in place	**(6)**	**(9.1)**	**(324)**	**(65)**	**—**	**—**	**—**	**(6)**	**(9.1)**	**(324)**	**(65)**
Extensions and new discoveries	**5**	**1.4**	**51**	**14**	**9**	**—**	**—**	**14**	**1.4**	**51**	**23**
Production for the year	**(132)**	**(8.8)**	**(312)**	**(188)**	**(21)**	**—**	**—**	**(153)**	**(8.8)**	**(312)**	**(209)**
As of 31 December 2004[5]	**749**	**187.3**	**6,626**	**1,920**	**156**	**—**	**—**	**905**	**187.3**	**6,626**	**2,076**
Proved developed reserves:											
As of 31 December 2001	564	103.7	3,669	1,214	62	—	—	626	103.7	3,669	1,276
As of 31 December 2002	559	124.8	4,416	1,339	93	—	—	652	124.8	4,416	1,432
As of 31 December 2003	690	124.8	4,415	1,470	88	—	—	778	124.8	4,415	1,558
As of 31 December 2004	**607**	**118.6**	**4,197**	**1,350**	**97**	**—**	**—**	**704**	**118.6**	**4,197**	**1,447**

1) Includes crude oil, NGL and Condensate. 1 Sm^3 Oil/Condensate = 6.2898 boe. 1 tonne NGL = 11.9506 boe.

2) Sm^3 = Standard cubic meter at 15 degrees Celcius. cf = cubic feet at 60 degrees Fahrenheit. 1 Sm^3 gas at 15 degrees Celcius = 35.3826 cubic feet gas at 60 degrees Fahrenheit.

3) Includes crude oil, NGL, Condensate and natural gas. When converting natural gas into barrels of oil equivalents adjustment for calorific value to an equivalent 40 MJ/Sm^3 volumes calculated, then 1000 Sm^3 @ 40 MJ/Sm^3 = 6.2898 boe.

4) The revision of previous estimates relates to new information from current year's drilling operations and additional data which is now available.

5) Reserve estimates in Norway are made before royalties of approximately 0.3, 0.8 and 1.6 million barrels of oil equivalents (boe) for 2004, 2003 and 2002, respectively.

Purchase and sale of reserves during 2004 included sale of the 10 percent share in the Snøhvit field in Norway to Statoil ASA and purchase of an additional 2 percent share in the Kristin field in Norway from Statoil ASA. In 2003 the decrease in reserves was due to sale of shares in the Brage and Njord fields in Norway to Offshore Engineering Resources AS. In 2002 the change in reserves was due to acquisition of SDFI assets and sale of the small field Varg in Norway.

Extensions and new discoveries for oil in 2004 were related to the Gulltopp field in Norway, the Rosa field in Angola and the Hibernia field in Canada. Extensions and new discoveries for gas were related to the Njord field in Norway. In 2003, extensions and new discoveries for oil were related to the Oseberg Vestflanken and Oseberg Sør fields in Norway, the Dalia field in Angola and the Mabruk and Murzuq fields in Libya. Extensions and new discoveries for gas were related to the Ormen Lange, Oseberg Vestflanken and Oseberg Sør fields in Norway. In 2002, extensions and new discoveries for oil were related to the Snøhvit and Vigdis fields in Norway, the Hibernia and Terra Nova fields in Canada, the Murzuq field in Libya and the Jasmim field in Angola. Extensions and new discoveries for gas were related to the Snøhvit, Vigdis, Byggve and Skirne fields in Norway.

Reserve estimates at the end of the year 2004, 2003 and 2002 includes 156 million boe, 154 million boe and 172 million boe, respectively outside the Norwegian Continental Shelf. For all three years, the reserves were mainly situated in Canada, Angola, Russia and Libya.

Reserve estimates on fields in Angola, Russia and Libya are made after deduction of royalty in kind and Government's share of profit oil of approximately 40, 31 and 35 million boe for 2004, 2003 and 2002, respectively.

US GAAP Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows of Hydro's proved reserves of oil (including natural gas liquids and condensate) and gas is prepared in compliance with SFAS 69.

Future net cash flows are based on numerous assumptions which may or may not be realized. The management of Hydro cautions against relying on the information presented because of the highly arbitrary nature of assumptions involved and susceptibility of estimates to change as new and more accurate data become available. The individual components of future net cash flows shown below were computed using prices, production costs, development costs, royalty levels, foreign exchange rates, statutory tax rates and estimated proved reserve quantities at the respective year ends.

Standardized Measure of Discounted Future Net Cash Flows

	Norway			International			Total		
Amounts in NOK million	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**	**2004**	**2003**	**2002**
Future cash inflows	**382,800**	372,800	351,200	**35,800**	28,900	34,800	**418,600**	401,700	386,000
Future production costs	**(91,500)**	(92,600)	(86,500)	**(10,600)**	(7,000)	(6,400)	**(102,100)**	(99,600)	(92,900)
Future development costs	**(38,500)**	(46,000)	(27,300)	**(5,600)**	(5,300)	(6,300)	**(44,100)**	(51,300)	(33,600)
Future income tax expense	**(189,800)**	(169,100)	**(171,300)**	**(5,200)**	(3,200)	(6,800)	**(195,000)**	(172,300)	(178,100)
Future net cash flows	**63,000**	65,100	66,100	**14,400**	13,400	15,300	**77,400**	78,500	81,400
Less: 10% annual discount for estimated timing of cash flows	**(26,400)**	(28,000)	(26,000)	**(4,700)**	(4,200)	(4,900)	**(31,100)**	(32,200)	(30,900)
Standardized measure of discounted future net cash flows	**36,600**	37,100	40,100	**9,700**	9,200	10,400	**46,300**	46,300	50,500

Major Sources of Changes in the Standardized Measure of Discounted Future Net Cash Flows

Amounts in NOK million	**2004**	**2003**	**2002**
Net changes in prices and production costs	**33,200**	—	20,400
Sales and transfers of oil and gas produced, net of production costs	**(40,900)**	(30,900)	(26,200)
Extensions, unitizations, discoveries and improved recovery, net of related costs	**2,600**	17,700	5,500
Purchase/Exchange of interests in fields	**800**	—	15,900
Sale/Exchange of interests in fields	**(3,600)**	(100)	(300)
Changes in estimated development costs	**(900)**	(14,300)	(8,300)
Development costs incurred during the year	**8,400**	7,400	7,600
Net change in income taxes	**(8,500)**	7,900	(8,600)
Accretion of discount	**3,100**	4,500	3,700
Revisions of previous reserve quantity estimates	**5,500**	3,300	1,900
Other	**300**	300	(100)
Total change in the standardized measure during the year	**—**	(4,200)	11,500

Development costs for the years 2005, 2006 and 2007 are estimated to NOK 9,800 million, NOK 7,200 million and NOK 4,400 million respectively.

Average Sales Price and Production Cost per Unit

The following table presents the average sales price (including transfers) net of reductions in respect of royalty payments, and production costs per unit of crude oil and natural gas.

	Norway			International			Total		
Amounts in NOK	2004	2003	2002	2004	2003	2002	2004	2003	2002
Average Sales Price[1]									
crude oil (per barrel)	**251.43**	204.01	194.33	**250.40**	197.08	193.74	**251.27**	202.90	194.24
natural gas (per Sm^3)	**1.09**	1.03	0.95	**—**	—	—	**1.09**	1.03	0.95
Average production cost (per boe)	**20.80**	20.80	22.50	**19.50**	20.20	23.10	**20.70**	20.70	22.60

1) In the years 2004, 2003 and 2002, Hydro has not had any hedging gain or loss that has affected the realized oil and gas prices.

28. Summary of differences in accounting policies and reconciliation of US GAAP to N GAAP

The financial statements prepared in accordance with accounting principles generally accepted in Norway presented on pages 93-95, differ in certain respects from US GAAP. A reconciliation of net income and shareholders' equity from US GAAP to Norwegian accounting principles (N GAAP) and a description of these differences follow. The lines with a note reference reflect the variance between the US GAAP balance in that note and the N GAAP balance.

Reconciliation of US GAAP to N GAAP

Net income:

Amounts in NOK million	Notes	2004	2003	2002
Operating revenues US GAAP		**155,425**	133,761	134,093
Change in unrealized losses (gains) commodity derivative instruments		**(779)**	—	9
Operating revenues N GAAP		**154,646**	133,761	134,102
Operating costs and expenses US GAAP		**123,578**	112,136	116,426
Change in unrealized gains (losses) commodity derivative instruments		**(141)**	187	(129)
Amortization goodwill	16	**137**	124	161
Restatement of change in accounting principle	21	**—**	—	7
Other adjustments		**(1)**	(2)	—
Operating income before financial and other income N GAAP		**31,073**	21,316	17,637
Equity in net income of non-consolidated investees US GAAP		**628**	620	(24)
Amortization goodwill non-consolidated investees	13	**(40)**	(38)	(10)
Equity in net income of non-consolidated investees N GAAP		**588**	582	(34)
Financial income, net		**136**	154	1,806
Other income, net		**169**	(1,253)	77
Income before taxes and minority interest N GAAP		**31,966**	20,799	19,486
Income tax expense US GAAP		**(21,197)**	(12,922)	(12,452)
Adjustments for N GAAP	10	**201**	58	(99)
Net income from continuing operations N GAAP		**10,970**	7,935	6,935
Net income from discontinued operations US GAAP		**1,083**	2,312	1,665
Adjustments for N GAAP	2	**(26)**	2	11
Net income from discontinued operations N GAAP		**1,057**	2,314	1,676
Net income N GAAP		**12,027**	10,249	8,611
Minority interest US GAAP		**(106)**	151	26
Adjustments for N GAAP		**26**	(3)	(11)
Net income after minority interest N GAAP		**11,947**	10,397	8,626

Shareholders' equity:

Amounts in NOK million	Notes	2004	2003	2002
Shareholders' equity US GAAP		**85,890**	88,080	75,867
Unrealized gains commodity derivative instruments — current and long-term (a)		**(771)**	(147)	36
Cash Flow hedge — current and long-term (a)	21	**(1,128)**	(1,600)	(1,548)
Unrealized gain on securities (b)	14	**(12)**	(15)	(15)
Accumulated amortization goodwill (c)	13, 16	**(468)**	(322)	(154)
Deferred tax assets and liabilities — current and long-term (d)	10	**553**	491	(51)
Dividends payable (e)		**(5,017)**	(2,811)	(2,709)
Minority Interest (f)		**1,571**	660	1,143
Restatement of change in accounting principle (g)	21	**—**	—	775
Shareholders' equity N GAAP		**80,618**	84,336	73,344

Explanation of major differences between N GAAP and US GAAP

(a) Derivative commodity contracts: Under N GAAP, unrealized gains and losses for commodity derivative instruments that are not hedge designated, and that are not held for trading and traded on a liquid, regulated market, are netted for each portfolio and net unrealized gains are not recognized. For US GAAP, unrealized gains and losses are recorded to operating revenue or operating cost. The instruments are accounted for as assets or liabilities at fair value.

For N GAAP, cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement, until the underlying hedged transactions actually occur. Under US GAAP, such instruments are accounted for as assets or liabilities as appropriate, at their fair value. Gains and losses on the hedging instruments are deferred in Other Comprehensive Income until the underlying transaction is recognized in earnings.

(b) Unrealized holding gain (loss) on securities: Under N GAAP, Hydro's long-term marketable equity and debt securities are carried at the lower of historical cost or market value. Under US GAAP, securities are carried at fair value (market) and unrealized holding gains or losses are included in other comprehensive income, net of tax effects, for available-for-sale securities.

(c) Amortization of goodwill: Goodwill is amortized under N GAAP. US GAAP does not allow amortization of goodwill, but requires that goodwill must be reviewed at least annually for impairment.

(d) Deferred taxes: Under N GAAP, deferred taxes are recorded based upon the liability method similar to US GAAP. Differences occur primarily because items accounted for differently under US GAAP also have deferred tax effects. Under N GAAP, deferred tax assets and liabilities for each tax entity are netted and classified as a long-term liability or asset. A reconciliation of the current and long-term temporary differences giving rise to the N GAAP deferred tax asset and liability is provided in Note 10.

Classification between current and long-term for US GAAP is determined by the classification of the related asset or liability giving rise to the temporary difference. For each tax entity, deferred tax assets and liabilities are offset within the respective current or long-term groups and presented as a single amount.

(e) Dividends payable: For N GAAP, dividends proposed at the end of the year which will be declared and paid in the following year are recorded as a reduction to equity and as debt. For US GAAP, equity is reduced when dividends are declared.

(f) Minority Interest: For N GAAP, shareholders' equity is presented including minority interest. In US GAAP shareholders' equity is presented excluding minority interest.

For N GAAP, minority interest includes minority interest in both continuing and discontinued operations. For US GAAP, minority interest refers to continuing operations only.

(g) Change in accounting principle: Hydro implemented SFAS 143, Asset Retirement Obligations, 1 January 2003. For N GAAP, previous periods are restated as if SFAS 143 was implemented 1 January 2001. For US GAAP, the total effect of the implementation is included in the 2003 financial statements.

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2004	2003
Operating revenues		**1,125**	1,695
Raw materials and energy costs		**144**	143
Change in inventories of own production		**—**	8
Payroll and related costs	2, 3	**1,719**	2,264
Depreciation, depletion and amortization	4	**25**	41
Other		**580**	1,842
Total operating costs and expenses		**2,468**	4,298
Operating income		**(1,343)**	(2,603)
Financial income, net	5	**10,103**	4,295
Other income	5	**796**	—
Income before taxes		**9,556**	1,692
Income tax expense	6	**729**	(6)
Net income		**10,285**	1,686
Appropriation of net income and equity transfers:			
Dividend proposed		**(5,017)**	(2,811)
Retained earnings		**(5,268)**	1,125
Total appropriation		**(10,285)**	(1,686)

Statements of cash flows

	2004	2003
Net income	**10,285**	1,686
Depreciation, depletion and amortization	**25**	41
Loss (gain) on sale of non-current assets	**(812)**	719
Other adjustments	**(2,611)**	(4,850)
Net cash provided by (used in) operating activities	**6,887**	(2,404)
Investments in subsidiaries	**(707)**	(2,737)
Sale of subsidiaries[1)]	**9,629**	1,139
Net sale (purchases) of other investments	**(9,035)**	1,406
Net cash used in investing activities	**(113)**	(192)
Dividends paid	**(2,811)**	(2,711)
Other financing activities, net	**(3,681)**	14,789
Net cash provided by (used in) financing activities	**(6,492)**	12,078
Foreign currency effects on cash flow	**110**	471
Net increase in cash and cash equivalents	**392**	9,953
Cash and cash equivalents 01.01	**12,750**	2,797
Cash and cash equivalents 31.12	**13,142**	12,750

1) Sale of subsidiaries in 2004 includes demerger

The accompanying notes are an integral part of the financial statements.

Balance sheets

Amounts in NOK million	Notes	31 December 2004	2003
Assets			
Intangible assets		**2**	2
Property, plant and equipment	4	**187**	245
Shares in subsidiaries	7	**30,750**	35,475
Intercompany receivables		**34,278**	42,417
Non-consolidated investees	8	**734**	623
Prepaid pension, investments and other non-current assets	2, 9	**5,275**	5,620
Total financial non-current assets		**71,037**	84,135
Inventories	9	**—**	19
Accounts receivable		**55**	62
Intercompany receivables		**21,390**	33,536
Prepaid expenses and other current assets		**826**	1,911
Other liquid assets		**9,150**	—
Cash and cash equivalents		**13,142**	12,750
Current assets		**44,563**	48,278
Total assets		**115,789**	132,660
Liabilities and shareholders' equity			
Paid-in capital:			
Share capital 258,954,428 at NOK 18.30		**4,739**	5,332
Treasury stock 8,115,198 at NOK 18.30		**(148)**	(198)
Paid-in premium		**10,432**	15,055
Other paid-in capital		**35**	16
Retained earnings:			
Retained earnings		**24,256**	23,986
Treasury stock		**(2,921)**	(3,325)
Shareholders' equity	11	**36,393**	40,866
Deferred tax liabilities	6	**332**	868
Other long-term liabilities		**2,744**	2,702
Long-term liabilities		**3,076**	3,570
Intercompany payables		**555**	771
Other long-term interest-bearing debt		**18,534**	27,414
Long-term debt		**19,089**	28,185
Bank loans and other interest-bearing short-term debt	9	**2,019**	3,354
Dividends payable		**5,017**	2,811
Intercompany payables		**47,316**	49,158
Current portion of long-term debt		**353**	1,004
Other current liabilities		**2,526**	3,712
Current liabilities		**57,231**	60,039
Total liabilities and shareholders' equity		**115,789**	132,660

1. Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with accounting principles generally accepted in Norway (N GAAP).

Hydro's general accounting policies are presented in Note 1 to the consolidated financial statements on pages 96-102. See Note 28 to the consolidated financial statements for an additional clarification of the major differences in accordance with N GAAP compared with US GAAP.

Shares in subsidiaries and non-consolidated investees are in Norsk Hydro ASA's financial statements presented according to the cost method. Group relief received is included in dividends from subsidiaries.

For information about risk management in Norsk Hydro ASA see Note 24 in Notes to the consolidated financial statements and the Risk Management discussion in the Operating and Financial Review and Prospects section of this report. The information given in Note 19 in Notes to the consolidated financial statements on payments on long-term debt also applies to Norsk Hydro ASA.

Norsk Hydro ASA does not present sold or demerged business as discontinued operations. The 2004 transfer of the agri operations to Yara International ASA in a demerger, described in Note 2 to the consolidated financial statements, was reflected in the Company's accounts based on historical values of assets and liabilities.

Norsk Hydro ASA provides financing to most of the subsidiary companies in Norway as well as abroad. All employees working for Norsk Hydro Produksjon AS are employed by Norsk Hydro ASA.

2. Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 12,564 participants as of 31 December 2004 and 12,953 participants as of 31 December, 2003.

Net periodic pension cost

Amounts in NOK million	2004	2003
Defined benefit plans:		
Benefits earned during the year	**461**	421
Interest cost on prior period benefit obligation	**658**	697
Expected return on plan assets	**(544)**	(532)
Recognized net loss	**236**	256
Amortization of prior service cost	**61**	68
Amortization of net transition (asset) obligation	**2**	(6)
Curtailment loss	**—**	69
Settlement loss	**218**	341
Net periodic pension cost	**1,092**	1,314
Termination benefits and other	**121**	209
Total net periodic pension cost	**1,213**	1,523

Change in projected benefit obligation (PBO)

Amounts in NOK million	2004	2003
Projected benefit obligation at beginning of year	**(11,961)**	(11,046)
Benefits earned during the year	**(461)**	(421)
Interest cost on prior period benefit obligation	**(658)**	(697)
Actuarial loss	**(291)**	(797)
Plan amendments	**(10)**	(12)
Benefits paid	**343**	342
Curtailment loss	**—**	(19)
Settlements	**564**	732
Special termination benefits	**(26)**	(43)
Demerger	**687**	—
Projected benefit obligation at end of year	**(11,813)**	(11,961)

Change in pension plan assets

Amounts in NOK million	2004	2003
Fair value of plan assets at beginning of year	**8,384**	7,651
Actual return on plan assets	**1,148**	954
Company contributions	**495**	700
Benefits paid	**(301)**	(300)
Settlements	**(331)**	(621)
Demerger	**(266)**	—
Fair value of plan assets at end of year	**9,129**	8,384

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2004	2003
Defined benefit plans:		
Funded status of the plans at end of year	**(2,684)**	(3,577)
Unrecognized net loss	**3,835**	4,879
Unrecognized prior service cost	**546**	630
Unrecognized net transition obligation	**—**	2
Net prepaid pension recognized	**1,697**	1,934
Termination benefits and other	**(458)**	(631)
Total net prepaid pension recognized	**1,239**	1,303
Amounts recognized in the balance sheet consist of:		
Prepaid pension	**3,606**	3,707
Accrued pension liabilities	**(2,367)**	(2,404)
Net amount recognized	**1,239**	1,303

Assumptions used to determine net periodic pension cost

	2004	2003
Discount rate	**6.00%**	7.00%
Expected return on plan assets	**7.00%**	8.00%
Expected salary increase	**4.00%**	4.00%
Expected pension increase	**3.50%**	3.50%

Assumptions used to determine pension obligation at end of year

	2004	2003
Discount rate	**5.25%**	6.00%
Expected salary increase	**3.50%**	4.00%
Expected pension increase	**3.00%**	3.50%

Investment profile plan assets at end of year

	2004	2003
Asset category		
Equity securities	**31%**	27%
Debt securities	**36%**	36%
Real estate	**20%**	21%
Other	**13%**	16%
Total	**100%**	100%

See Note 20 in Notes to the consolidated financial statements for further information.

3. Remunerations and other

Remuneration of the members of the corporate assembly and the board of directors was NOK 393,500 and NOK 2,362,000, respectively. The salary and other benefits, excluding bonuses, for the President and CEO Eivind Reiten, totaled NOK 8,695,000 in 2004 and NOK 4,493,000 in 2003. The amount for 2004 incorporates the one-time payment of NOK 4,000,000 as described below. The total salary and benefits, excluding bonuses, for the rest of the Corporate Management Board was NOK 10,445,000 in 2004.

On 17 June 2004, the Board approved a new employment contract for Mr. Reiten. Mr. Reiten's right to work in the company in a different capacity after retirement as president has been discontinued. To compensate for this, the Board has decided to change the retirement age from 62 to 60 for Mr. Reiten and to make a one-time payment of NOK 4 million to Mr. Reiten toward the purchase of Hydro shares for the net amount 1 October 2004. Mr. Reiten is bound to long-term ownership of these shares. The pension benefit remains at around 65 percent of his pensionable salary. In the event that employment of Mr. Reiten terminates for other reasons than serious misconduct, he has the right to salary and the accrual of pension rights for a three year period, however not beyond 60 years of age. The company's obligation can be reduced by salary received or pension rights accrued from other sources.

Out of the other members of the Corporate Management Board, three members have a retirement age of 62 years of age, and one member has a retirement age of 65 years of age.

Egil Myklebust retired as president in May 2001. He continued to be employed by the company in accordance with his employment contract from 1991. Total salary and other benefits, exclusive of remuneration as Board Chair until 24 March 2004, amounted to NOK 3,483,000 for 2004 and NOK 3,362,000 for 2003. In addition he has pension rights in accordance with Hydro's normal pension scheme with a 65 year retirement age and a pension based on 65 percent of basis salary.

In September 2004, the Board approved a new stock option plan for corporate officers and certain key employees. Refer to note 4 in Notes to the consolidated financial statements for a description of stock based compensation.

In addition, the compensation system includes an element of performance rewards in Hydro's compensation system: a bonus linked to achieving performance goals in the business plans for various units in Hydro. The bonus is limited to a maximum of one month's salary per year for employees. For approximately 100 managers with substantial responsibility for performance, the bonus is limited to a maximum of two months salary. For top management — around 30 persons — the bonus is limited to a maximum of three months salary. For the president the upper limit of the bonus is six months salary. It is the actual improvements of Hydro's activities that will be measured and rewarded.

Bonus to the Corporate Management Board for 2003 paid in 2004

Amount in NOK	
Eivind Reiten	1,190,000
Tore Torvund	490,000
Jon-Harald Nilsen	351,000
Thorleif Enger[1)]	269,000
John O.Ottestad	556,000
Alexandra Bech Gjørv	166,000

1) Thorleif Enger was a member of the Corporate Management Board until August 2003. Related to the demerger of Yara International ASA in 2004, Thorleif Enger recieved an extraordinary appreciation equivalent to approximately two years salary to recognize exceptional value creation. At the same time, Thorleif Enger excersized 6,734 options with an average excersize price of NOK 367.85, while the market price of the shares was 490.70.

Partners and employees of Hydro's appointed independent auditors, Deloitte Statsautoriserte Revisorer AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2004 to Deloitte for ordinary audit were NOK 11,324,000 for Norsk Hydro ASA and NOK 13,367,000 for the Norwegian subsidiaries. Fees for audit-related services were NOK 1,328,000 for Norsk Hydro ASA and NOK 690,000 for the Norwegian subsidiaries. Fees for other services were NOK 986,000 for Norsk Hydro ASA and NOK 368,000 for the Norwegian subsidiaries. Deloitte Consulting AS, an affiliate company of Deloitte in Norway, has not provided services to Hydro in 2004.

For 2004, the estimated adjustment to the tax basis (RISK) of shares for shareholders in Norsk Hydro ASA is a negative amount of NOK 18.90 per share.

In 2004, the average number of employees in the Group was 38,780, compared to 46,312 for 2003. The reduction in manning is to a large part attributable to the demerger in 2004 where approximately 7,500 employees where transferred to Yara. In addition the number of employees in Hydro Aluminum was reduced by approximately 800 employees due to restructuring activities. The average number of employees in Norsk Hydro ASA was 6,469 in 2004 versus 6,984 in 2003.

A substantial part of the employees in Norsk Hydro ASA are engaged in activities for other Group companies. The costs for these employees are accounted for on a net basis reducing Payroll and related costs.

Amounts in NOK million	2004	2003
Payroll and related costs:		
Salaries	**3,917**	4,393
Social security costs	**639**	716
Social benefits	**101**	87
Net periodic pension cost (Note 2)	**1,214**	1,523
Internal invoicing of payroll related costs	**(4,152)**	(4,455)
Total	**1,719**	2,264

Total loans to the company's employees as of 31 December 2004 were NOK 756 million. All loans were given in accordance with general market terms.

4. Property, plant and equipment

Amounts in NOK million	Machinery, etc	Buildings	Plant under construction	Other	Total
Cost 31.12.2003	213	121	65	18	417
Additions at cost	18	—	7	—	25
Demerger	(39)	(1)	—	(14)	(54)
Retirements	(20)	(7)	(26)	—	(53)
Transfers	15	4	(19)	—	—
Accumulated depreciation 31.12.2004	(101)	(47)	—	—	(148)
Net book value 31.12.2004	86	70	27	4	187
Depreciation in 2004	(20)	(5)	—	—	(25)

5. Financial income and expense and other income

Amounts in NOK million	2004	2003
Dividends from subsidiaries	**9,758**	3,625
Non-consolidated investees	**14**	(83)
Interest from group companies	**2,393**	3,614
Other interest income	**496**	384
Interest paid to group companies	**(823)**	(1,131)
Other interest expense	**(1,857)**	(2,184)
Other financial income, net	**122**	70
Financial income, net	**10,103**	4,295

For the year 2004, other income was NOK 796 million. Other income consisted of a gain of NOK 263 million on the sale of 10 percent of the shares in Qatar Fertilizer Company (S.A.Q.) to Fertilizer Holding AS before the demerger of Yara and a gain of NOK 533 million related to the sale of 20 percent of the shares in Yara International ASA in the demerger. For the year 2003, there was no "Other income".

6. Income taxes

The tax effect of temporary differences resulting in the deferred tax assets (liabilities) and the change in temporary differences are:

	Temporary differences			
	Tax effected		Change	
Amounts in NOK million	2004	2003	2004	2003
Short-term items	**(495)**	(183)	**(1,003)**	(695)
Write-down on shares	**—**	(624)	**(821)**	31
Prepaid pension	**(1,010)**	(1,038)	**176**	185
Pension liabilities	**663**	673	**336**	418
Other long-term	**510**	304	**697**	377
Deferred tax liabilities	**(332)**	(868)		
Change for year			**(615)**	316

Reconciliation of nominal statutory tax rate to effective tax rate

Amounts in NOK million	2004	2003
Income (loss) before taxes	**9,556**	1,692
Expected income taxes at statutory tax rate	**2,676**	474
Tax free income	**(151)**	(10)
Dividend exclusion	**(2,473)**	(724)
Tax law changes	**(656)**	—
Non-deductible expenses and other, net	**(125)**	266
Income tax expense	**(729)**	6
Effective tax rate	**(7.62%)**	0.35%

See Note 10 in Notes to the consolidated financial statements for further information.

7. Shares in subsidiaries

Company name:	Percentage of shares owned by Norsk Hydro	Total share capital of the company (1,000's)		Book value 31.12.2004 (in NOK 1,000's)
Norsk Hydro Kraft OY	100	EUR	34	269
Norsk Hydro Technology Ventures AS	100	NOK	6,000	70,150
Norsk Hydro Electrolysers AS	100	NOK	4,000	4,300
Hydro Aluminium AS	100	NOK	2,167,001	4,866,019
Norsk Hydro Magnesiumgesellschaft mbH[1)]	2	EUR	512	179
Hydro Aluminium Acro[2)]	24.3	BRL	64,179	50,391
Securus Industrier AS	100	NOK	59,644	846,634
Industriforsikring AS	100	NOK	20,000	20,000
Retroplast AS	100	NOK	100	18,876
Grenland Industriutvikling AS	100	NOK	26,750	110,950
Hydro Porsgrunn Eiendomsforvaltning AS	100	NOK	2,500	5,500
Hydro IS Partner AS	100	NOK	712,000	712,000
Norsk Hydro Plastic Pipe AS	100	NOK	10,000	91,472
Norsk Hydro Brasil Ltda.	100	BRL	46,976	135,544
Norsk Hydro Danmark AS	100	DKK	1,002,000	4,515,523
Hydro Aluminium Deutschland GmbH[3)]	23.2	EUR	56,242	10,143
Norsk Hydros Handelsselskap AS	100	NOK	1,000	1,000
Norsk Hydro Produksjon AS	100	NOK	200,000	19,004,274
Norsk Hydro Russland AS	100	NOK	19,000	19,000
Norsk Hydro North America, Inc.	100	USD	29,000	81,960
Hydro Aluminium Holding Pte. Ltd.	100	SGD	46,920	185,532
Total				30,749,716

1) The company is owned 98 percent by Hydro Aluminium Deutschland GmbH and 2 percent by Norsk Hydro ASA.

2) The company is owned 68.3 percent by Norsk Hydro Brasil Ltda., 7.4 percent of a subsidiary of Norsk Hydro Produksjon AS and 24.3 percent by Norsk Hydro ASA.

3) The company is owned 76.8 percent by Norsk Hydro Deutschland GmbH & CoKG., which is a subsidiary of Norsk Hydro Produksjon AS and 23.2 percent by Norsk Hydro ASA.

The foreign currency designation indicates country of domicile. Percentage of shares owned equals percentage of voting shares owned. A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

8. Shares in non-consolidated investees

The most significant investments in non-consolidated investees for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned (equals voting rights)	Country	Book value as of 31 December, 2004	Long-term advances[1]	Total
Companhia Industrial de Resinas Sinteticas — CIRES SA	26.2%	Portugal	100	—	100
Suzhou Huasu Plastics Co. Ltd.	31.8%	China	67	38	105
Pronova Biocare AS	19.9%	Norge	—	227	227
Other			53	249	302
Total			**220**	**514**	**734**

1) Including advances to associated companies indirectly owned by Norsk Hydro ASA.

9. Specification of balance sheet items

Amounts in NOK million	2004	2003
Prepaid pension, investments and other non-current assets:		
Securities	**815**	967
Prepaid pension	**3,606**	3,707
Other non-current assets	**854**	946
Total	**5,275**	5,620
Inventories:		
Raw materials	**—**	3
Finished goods	**—**	16
Total	**—**	19
Bank loans and other short-term interest-bearing debt:		
Bank overdraft	**552**	1,075
Other interest-bearing debt	**1,467**	2,279
Total	**2,019**	3,354

10. Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, letters of credit, performance bonds and various payment or financial guarantees. Sales guarantees include liabilities relating to the demerger of Yara. Under the Norwegian public limited companies act section 14-11, Hydro and Yara are jointly liable for liabilities accrued before the demerger date. This statutory liability is unlimited in time, but is limited in amount to the net value allocated to the non-defaulting party in the demerger. See Note 22 in Notes to the consolidated financial statements for further information about guarantees.

Amounts in NOK million	2004	2003
Guarantees (off-balance sheet):		
Non-consolidated investee debt	**86**	54
Tax guarantees	**1,354**	1,352
Sales guarantees	**1,463**	1,176
Commercial guarantees	**8,805**	11,627
Total	**11,708**	14,209

11. Number of shares outstanding, shareholders, equity reconciliation etc

Due to decision in an extraordinary General Meeting 1 December 2004 regarding cancellation of shares, the share capital of the company is NOK 4,738,866,032.40. It consists of 258,954,428 ordinary shares at NOK 18.30 per share. The cancellation of the shares was registered at the Register of Business Enterprises on 8 February 2005. As of 31 December 2004 the company had purchased 8,115,198 treasury stocks at a cost of NOK 3.1 billion. For further information on these issues see Note 3 in Notes to the consolidated financial statements.

Shareholders holding one percent or more of the total 250,839,230 shares outstanding as of 31 December 2004 are according to information in the Norwegian securities' registry system (Verdipapirsentralen):

Name	Number of shares
Ministry of Trade and Industry[3]	113,483,658
State Street Bank & Trust[2]	10,498,151
Folketrygdfondet	9,694,615
Morgan Guaranty Trust Co. of NY[1]	8,485,177
JP Morgan Chase Bank[2]	5,298,367
EuroPacific Growth Fund	5,055,000
New Perspective Fund, Inc	4,164,000
Euroclear Bank[2]	3,055,497
Mellon Bank[2]	2,769,710

1) Representing American Depositary Shares.

2) Client accounts and similar.

3) Excluding redeemed shares according to decision in extraordinary General Meeting 1 December 2004

Change in Shareholders' equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total Shareholders' equity
Balance 31 December 2003	20,205	20,661	40,866
Net income	—	10,285	10,285
Dividend proposed	—	(5,017)	(5,017)
Treasury stock	(1,524)	406	(1,118)
Redeemed shares, the Norwegian State	(1,426)		(1,426)
Demerger Yara International ASA	(2,197)	(5,000)	(7,197)
Balance 31 December 2004	15,058	21,335	36,393

Auditors’ report

To the annual general meeting of Norsk Hydro ASA

Independent auditors’ report for N GAAP financial statements for 2004

We have audited the annual financial statements of Norsk Hydro ASA and subsidiaries as of 31 December 2004, showing a profit of NOK 10,285 million for the parent company and a profit of NOK 12,027 million for the group. We have also audited the information in the Board of Directors’ report concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income. Financial statements comprise the balance sheet, the statement of income and cash flows, the accompanying notes and the group accounts. These financial statements, which are presented in accordance with generally accepted accounting principles in Norway, are the responsibility of the Company’s Board of Directors and the Company’s President. Our responsibility is to express an opinion on these financial statements and on certain other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and generally accepted auditing standards in Norway. Generally accepted auditing standards in Norway require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and generally accepted auditing standards in Norway, an audit also comprises a review of the management of the Company’s financial affairs and the accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements, as shown on page 93-95 and page 139, are prepared in accordance with the law and regulations and present fairly, in material respects, the financial position of the Company as of 31 December 2004 and the results of its operations and its cash flows for the period ended 31 December 2004, in accordance with generally accepted accounting principles in Norway;
- the Company’s management has fulfilled its duty to maintain the Company’s accounting process in such a proper and well-arranged manner that the accounting process is in accordance with the law and generally accepted accounting practices in Norway; and
- the information in the Board of Directors’ report, as shown on page 10-17, concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income is consistent with the financial statements and complies with the law and regulations.

Oslo, Norway, 2 March 2005
Deloitte Statsautoriserte Revisorer AS

Aase Aa. Lundgaard — State Authorized Public Accountant, (Norway)

To the annual general meeting of Norsk Hydro ASA

Report of independent registered public accounting firm for US GAAP financial statement

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of 31 December, 2004 and 2003, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended 31 December, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements on pages 91-93 present fairly, in all material respects, the financial position of Norsk Hydro ASA and subsidiaries as of 31 December, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended 31 December, 2004 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for variable interest entities in 2004 and asset retirement obligations in 2003 to conform to newly adopted accounting principles.

Oslo, Norway, 2 March 2005
Deloitte Statsautoriserte Revisorer AS

Aase Aa. Lundgaard — State Authorized Public Accountant, (Norway)

Corporate assembly

The Corporate Assembly currently consists the following members:

Svein Steen Thomassen (Chairperson)
Siri Teigum (Deputy Chairperson)
Solveig Alne Frøynes
Aase Gudding Gresvig
Westye Høegh
Idar Kreutzer
Kjell Kvinge
Astrid Sylvi Lem
Karen Helene Midelfart
Jon-Arne Mo
John-Arne Nilsen
Anne Merete Steensland
Rune Strande
Sigurd Støren
Sten-Arthur Sælør
Lars Tronsgaard
Ingar Aas-Haug
Svein Aaser

Observers:

Sven Edin
Billy Fredagsvik
Sónia F. T. Gjesdal

Deputy members:

Erna Flattum Berg
Anne-Margrethe Firing
Odd Arne Fodnes
Erik Garaas
Oddny Grebstad
Stig Lima
Line Melkild
Bjørn Nedreaas
Wolfgang Ruch
Terje Venold

Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2004 and the Auditors' report have been submitted to the corporate assembly.

The corporate assembly recommends that the directors' proposal regarding the financial statements for 2004 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2004 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 2 March 2005
Svein Steen Thomassen

Board of Directors' Report 2003(1)

Annual report

The Board of Directors' strategy process reached a major milestone in June 2003 with the decision to spin off Agri and prepare for its establishment as a separate listed company. Hydro will in future concentrate on developing its strengths with Oil & Energy and Aluminium as its core areas.

A comprehensive review of the company's business portfolio was completed in June 2003. The Board concluded that Hydro and the company's shareholders would be best served by establishing Agri as an independent listed company, Yara. This will enable Hydro to concentrate all its financial and management resources on the major development potential inherent in its core areas, Oil & Energy and Aluminium.

It will equally enable Yara's management to focus exclusively on the further development of the global fertilizer company. Following the successful implementation of Agri's improvement program, Yara has a sound platform for profitable growth as a leading global company in the industry. As an independent company, Yara will enjoy direct access to capital markets and be more favorably positioned to add value through organic growth or participation in the restructuring of the global fertilizer industry.

In developing a plan for the demerger, the Board has emphasized the importance of ensuring that Hydro's shareholders obtain a share of the value that Yara represents. Hydro's Board of Directors has proposed allocating the major part of the company directly to shareholders by means of a demerger in which each Hydro shareholder will receive one Yara share for every Hydro share held. 80 percent of Yara shares will be allocated directly to Hydro shareholders. The remaining 20 percent will be sold with the aim of creating a natural shareholder structure and smoothly functioning market for the Yara share following its introduction on the Oslo stock exchange. Hydro's General Meeting approved the demerger on 15 January 2004 and the stock exchange listing of Yara is expected to take place on 25 March 2004.

In the course of its 2003 strategic review the Board completed an assessment of Oil & Energy's international activities. A greater share of future international growth will come from the purchase of proved resources enabling Hydro to utilize its technological expertise to create added value. Exploration projects carrying a lower risk will be given priority. At the same time, the company will continue to work to strengthen its position in the downstream European energy market. Oil & Energy will also work to exploit the potential of wind and hydrogen power.

Hydro continues to enhance its position as one of the three globally leading integrated aluminium companies, taking determined steps in selected markets and product and technology areas. The Board is closely monitoring Aluminium's ability to add value through operational improvement, strategic positioning and active portfolio management.

Profitability in 2003 developed satisfactorily and CROGI, (Cash Return On Gross Investments) based on normalized prices and exchange rates, was nine percent, which is well within the target of 8.5 to 9.5 percent. CROGI, measured in realized prices, was 9.8 percent, an improvement from 8.5 percent in the previous year. Hydro will henceforth replace CROGI by RoaCE (Return on average Capital Employed) as its profitability measure. The company will also emphasize operating income, earnings per share and cash flow as important profitability indicators.

Hydro's financial position was further strengthened in 2003. At the end of the year, the debt/equity ratio was 0.38, well within the Board's target of 0.5.

Hydro's oil and gas production nearly doubled from 1998, reaching 530,000 barrels of oil equivalents per day in 2003. The 2003 goal was 510,000 barrels of oil equivalents. Of the company's total production, 57,700 barrels per day come from its international operations in Angola, Canada, Libya and Russia.

The Hydro-operated Grane and Fram Vest fields came on stream in 2003 following successful developments. The Board is pleased that the company continues to demonstrate an ability to carry out demanding development projects on or ahead of schedule, and on or below budget.

As operator for the Ormen Lange development, Hydro is responsible for the biggest gas development in Norway, which has been budgeted at NOK 66 billion. The plan for development and operation was submitted in 2003. On completion in 2007, the field will produce around 20 percent of the gas exported by Norway.

---

(1) Excerpt from Norsk Hydro's Annual Report for 2003.

In Angola, one of the core areas for the company's international oil activity, the Board has approved participation in the development of the Dalia and Rosa fields on Block 17. Hydro holds a ten percent interest in these fields. Production from the Jasmin field on the same block started up in 2003.

Through its acquisition of the sales and marketing unit of the Dutch gas company Duke Energy, and the establishment of a joint venture with Wingas in the UK, Hydro enhanced its position in the downstream energy market in Europe.

After completing an earlier expansion of the Alunorte alumina refinery in Brazil, the Board resolved that Hydro should participate in a further extension project that will provide access to more than 1.4 million tonnes of alumina per year from the refinery. Full production is expected in the second quarter of 2006. In addition, Hydro entered into a agreement in 2003 with Comalco of Australia, for the supply of 300,000 tonnes of alumina per year from 2005 onwards, rising to 500,000 tonnes in the period 2006 to 2030. These developments are in line with Hydro's strategy of securing long-term contracts to cover its metal plants' alumina requirements in excess of the equity interest in alumina production.

The Board resolved to build a new chlorine plant at Rafnes, in Norway, which will double production capacity to 260,000 tonnes. The investment, though necessitated by environmental considerations, is expected to make the petrochemicals operation more competitive, thereby securing the basis for future petrochemical activity in the Grenland region, regardless of ownership considerations.

The company sold, as part of its portfolio optimization process, several of its wholly and partly owned businesses in 2003. Divestments include license interests on the Norwegian Continental Shelf, an interest in the Scanraff refinery in Sweden, the Swedish company Carmeda AB and VAW Flexible Packaging. In addition, Treka A/S of Denmark — in which Hydro owns 68.8 percent — sold the Swedish company Svenska Foder AB. All in all, Hydro disposed of businesses for a total of NOK 9.8 billion in 2002 and 2003.

In addition, the company approved the sale of its 10 percent share in the Snøhvit field, due to be finalized in 2004.

"The Hydro Way" will give Hydro a more distinct identity. The Board of Directors is determined to ensure that the company and its employees, in all their activities, live up to the values and the standards reflected in "The Hydro Way." The company's new identity is captured in the form of a dynamic new logo.

The Board continually strives to align its governance with sound international practice and regulations in countries where Hydro shares are listed. It has focused in particular on ensuring that its governance standards meet the requirements for non-American companies listed in the USA as stipulated in the Sarbanes-Oxley Act.

In 2003, the company revised several of its steering documents and the Board focused especially on laying down new guidelines for all Hydro's employees and board members worldwide. The main objective is to ensure that all of those representing Hydro carry out their work in an ethically responsible manner in line with the company's standards.

Board developments in 2003

Chairperson Egil Myklebust announced in November 2003 that he would not stand for re-election when his current period of office expires in spring 2004. Myklebust stated that he has been a member of Hydro's Board of Directors for 12 consecutive years — the last three as chairperson — and that the time is now right for a change. The electoral committee has put forward Jan Reinås as the new chairperson. Reinås, an economist by training, was CEO of Norske Skog from 1993 to 2004. He was previously CEO of Scandinavian Airlines System (SAS).

Per Wold and Gudmund Per Olsen also stepped down from Hydro's Board of Directors in 2003. The Board thanks both of them for their many years' of valuable and committed work. Geir Nilsen and Steinar Skarstein were elected to the Board by the company's employees.

The Board held 13 meetings in 2003, while the Board's compensation and audit committees held six and nine meetings respectively. The Board continued its process of refining the corporate governance structure. It has closely monitored developments in the securities legislation and standards for listed companies, particularly with a view to ensuring responsible and open management control structures. The Board believes such structures are a prerequisite for trust. The status of the development of the company's governance structure is described in more detail on pages 42–44 of this annual report. In 2003, the Board of Directors also reviewed its own working methods, priorities and cooperation with corporate management.

Financial results

Hydro's net income in 2003, prior to the effect of a change in accounting principles, amounted to NOK 10,687 million (NOK 41.50 per share), compared with NOK 8,765 million (NOK 34.00 per share) in 2002. 2003 was a very good year for Hydro, with the company's core business areas posting improved results compared with 2002. The most substantial improvement came from a significant increase in oil and gas production together with somewhat higher oil and gas prices. The fertilizer business also improved its results due to higher product prices and productivity gains. The improvement programs carried out by Aluminium generated considerable savings for the year, although the weaker US dollar had a negative influence on earnings for Aluminium and the other business areas.

Hydro's return on invested capital was in line with the target set for the year. The company's financial position is strong, reflecting a high cash flow from operations and the sale of businesses. Hydro's debt/equity ratio, defined as net interest bearing debt divided by equity plus minority interest, and including net unfunded pension obligations, after tax, and the present value of operational leasing obligations, improved from 0.60 at the end of 2002, to 0.38 at the end of 2003. This is well within the target of 0.50.

Operating income of NOK 24,258 million was 22 percent higher than in 2002. Earnings before interest, tax depreciation and amortization (EBITDA) increased by 21 percent. The improvement was due to good market conditions for many products and also the efficient implementation of improvement programs.

Results from affiliated companies increased by NOK 1,196 million to NOK 1,229 million. The 2002 result included unrealized currency losses of NOK 461 million in alumina activities in Brazil, compared with currency gains of NOK 218 million in 2003. Adjusted for this, the improvement was NOK 517 million, which is largely due to the improved results for affiliated Agri companies, as a result of high prices for ammonia and urea.

Net financial income in 2003 was NOK 201 million, compared with NOK 1,935 million in 2002. Currency effects influenced net financial income considerably. Net currency gains in 2003 amounted to NOK 1,035 million compared with NOK 3,262 million in 2002. The currency gains mainly reflect the weakness of the US dollar, which has over the past two years provided substantial currency gains on the company's dollar-denominated debt.

The provision for current and deferred taxes in 2003 was NOK 13,937 million, approximately 57 percent of pre-tax income. The tax percentage was strongly influenced by the effect of changes in the Norwegian tax regulations relating to the costs of removing oil and gas installations from the Norwegian continental shelf. In addition, the tax percentage included a positive non-recurring effect of NOK 139 million resulting from a tax settlement in Norway. Adjusted for these effects, the tax percentage amounted to 62 percent of pre-tax income in 2003, compared with a 60 percent in 2002. The high tax percentage in both 2003 and 2002 is due to the substantial share of earnings deriving from oil and gas activities on the Norwegian continental shelf which are subject to a marginal tax rate of 78 percent.

Cash provided by operations amounted to NOK 24.6 billion, an increase of 13 percent compared with 2002. Total investments in 2003 amounted to NOK 18.9 billion, including the non-recurring effect of an accounting amendment relating to installation removal obligations. Adjusted for this, investments amounted to NOK 17 billion, somewhat lower than expected, partly attributable to savings achieved in development projects. Following the acquisition of VAW in 2002, Hydro established a goal to dispose of non-core business assets totaling NOK 10 billion. At the end of 2003, disposals had been completed or agreed for approximately NOK 9.8 billion.

According to Section 3-3 of the Norwegian Accounting Act, we confirm that the accounts are prepared on the assumption of a going concern.

For a more detailed description of the company's operations and their locations, please refer to the core business sections of this report.

Oil & Energy

Operating Income in NOK million	2003	2002	2001
Exploration and Production	**18,500**	13,137	16,910
Energy and Oil Marketing	**2,668**	2,784	2,267
Eliminations	**(25)**	26	—
Hydro Oil & Energy	**21,143**	15,947	19,177

Operating income for Oil & Energy was NOK 21,143 million, an increase of NOK 33 percent compared with 2002. Hydro's production of oil and gas in 2003 averaged 530,000 barrels of oil equivalents per day (boepd), an increase of 50,000 boepd compared with 2002. The more than 10 percent increase resulted from new fields coming on stream on both the Norwegian continental shelf and internationally, good production regularity and greater volumes sold to customers in continental Europe. The oil price in US dollar terms was USD 28.70 per barrel, a 16 percent increase compared to 2002. Measured in Norwegian kroner, the oil price was roughly four percent higher than in 2002. The price of gas for 2003 was about seven percent higher than in 2002.

Production of electrical power was 7.5 TWh, 27 percent lower than in 2002, and about 12 percent lower than normal. Prices were slightly higher than in 2002, following a steep fall from the very high price level experienced at the beginning of the year.

Exploration activities were considerably lower than in 2002. related costs here amounted to NOK 1,557 million, about 2 billion less than in 2002. In 2003, 13 exploration wells were completed, with three of them resulting in discoveries. Hydro was awarded nine licenses in the North Sea, six of them as operator, in the "Awards in Predefined Areas" programs in 2003. Hydro also signed an agreement to sell its share of the Snøhvit and Gjøa fields on the Norwegian continental shelf. Both of these transactions will be recorded after the agreement has been approved by the Norwegian authorities.

Hydro's remaining proved oil and gas reserves were 2,449 million barrels of oil equivalents (mboe) at the end of 2003. The reserve replacement ratio for 2003 was 216 percent and 141 percent for the three-year average. The increase in reserves resulted from the reclassification of technical resources to proved reserves in Norway, in particular Ormen Lange (336 mboe) and Oseberg Vestflanken, as well as revisions of reserves relating to producing fields.

Aluminium

Operating Income in NOK million	2003	2002	2001
Metals	**2,293**	1,690	372
Rolled Products	**132**	(295)	58
Extrusion and Automotive	**98**	14	(228)
Other and eliminations	**(67)**	289	(17)
Hydro Aluminium	**2,456**	1,698	185

Aluminium's operating income was NOK 2,456 million, an increase of NOK 758 million. The results for both 2003 and 2002 were influenced by non-recurring items, and as well as the impact of the VAW acquisition in March 2002. Adjusted for this, the result was about NOK 143 million lower than in 2002. Margins, excluding the effect of hedge programs, were approximately NOK 560 million lower than in 2002. Margins for Rolled Products and Extrusion improved, but were lower for Metals and Automotive. The aluminium price expressed in Norwegian kroner was seven percent lower than in 2002, resulting in substantially lower margins in Metals. The negative effect was offset by hedge programs and better trading results. The start-up of new production capacity, primarily the expansion of the Sunndalsøra plant and extensions to auto component production plants, impacted positively. Since most of the production plants are located in Europe, with costs denominated in Norwegian kroner and Euros, while product prices are largely settled in US dollars, the weakness of the dollar compared with other European currencies had a negative effect on the result.

Aluminium carried out programs in 2001 and 2002 aimed at improving operating income by reducing annual costs by NOK 2.5 billion compared with the combined cost level for VAW and Hydro Aluminium in 2001. This goal has now been achieved and the effect for the whole of 2004 is expected to be in line with the target of NOK 2.5 billion. Total program-related costs were NOK 1,166 million, about NOK 400 million lower than the original cost estimate.

Agri

Operating Income in NOK million	2003	2002	2001
Hydro Agri	**2,800**	2,207	2,114

Operating income for 2003 was NOK 2,800 million, NOK 593 million higher than in the previous year.

Prices for nitrogen fertilizer increased strongly compared with 2002. The average price for urea in US dollars climbed 36 percent compared with 2002 to USD 148 per tonne. The ammonia price increased

85 percent compared with 2002, when measured in US dollar terms, while the positive nitrogen price trend also influenced European nitrate prices. Compared with 2002, the price of complex fertilizer (NPK) in Europe was about 20 percent higher in US dollars, while the increase measured in Euro was about two percent. Higher prices in US dollars increased operating income by about NOK 2,600 million. The strength of the Norwegian kroner and Euro against the US dollar had a negative impact of some NOK 750 million on operating income. Higher oil and gas prices resulted in higher costs of about NOK 1,200 million, compared with 2002, for Agri's production plants in Europe.

Agri's total sales volume was largely unchanged from 2002. Sales of own produced products from Europe increased by seven percent. Total sales in Europe increased by roughly four percent, while sales in other markets were somewhat lower as a result of the sale in 2002 of Farmland Hydro, which operated mainly in the low margin phosphate fertilizer market.

Other Activities

Petrochemicals

Petrochemicals incurred an operating loss of NOK 8 million, compared with an operating loss of NOK 35 million in 2002. EBITDA was positive at NOK 401 million, representing an improvement of NOK 81 million compared with 2002. The improvement mainly resulted from higher volumes and somewhat better product prices in Norwegian kroner for S-PVC and caustic soda, partly offset by higher raw material costs. Results from non-consolidated investees were approximately NOK 60 million higher than in 2002, mainly due to product prices in Asia, which is the main market for the affiliated Qatar Vinyl Company.

In March 2003, the Board of Directors resolved to build a new chlorine plant at Rafnes at an estimated investment cost of NOK 1 billion. The expansion project commenced in May and is proceeding according to schedule. Start-up is scheduled for autumn 2005.

Treka

Treka's activities now consist of the fish feed producer Biomar. Difficult conditions in the fish farming industry in 2003 resulted in losses on bad debt, as well as write-downs of goodwill and intangible assets, of about NOK 570 million.

Market conditions and prospects for 2004

The general world economic situation is expected to improve in 2004, especially in the US, and somewhat less so in Europe. Oil and gas prices in 2003 were high and are expected to remain at a relatively high level in 2004 as well, due to OPEC. Prices for mineral fertilizers increased in 2003, while aluminium prices were fairly stable before starting to increase towards the end of the year and during early 2004. Downstream aluminium markets were weak. An improved aluminium supply and demand balance is expected in 2004, although prospects are uncertain for the downstream market.

Health, safety and environment

Hydro continued and improved its systematic work in the area of health, security, safety and environment (HSE) in 2003 as well. The improvements achieved are the result of long term and continuous efforts throughout the organization. There were, however, four fatal accidents during the year, involving two of our own employees and two contractual employees.

Steering documents are revised and regular audits and assessments are undertaken of our units' HSE efforts. Results and problem areas are reported on a monthly basis, and experiences are shared systematically throughout the company. Health, safety and environment is one of the main elements in Hydro's leadership development programs.

Hydro's main indicator for monitoring safety is the rate for total recordable injuries per million hours worked (TRI). The improvement in 2003 was more than 30 percent, which far exceeds the target of 20 percent. It was also important to see that units previously belonging to VAW and Technal reported the greatest improvements, even though they still lag somewhat behind in the overall statistics. Our intention in 2004 is a further 20 percent reduction in total injuries. The number of lost-time injuries affecting the company's contractors was also reduced in 2003.

The number of serious accidents decreased further in 2003, although the figure is still too high. A greater focus given to the reporting of near misses has delivered results in terms of accident prevention.

Sick leave increased slightly to about three percent. There were, however, major differences between different locations. In Norway, a number of the group's companies have signed agreements aimed at making the labor market more inclusive. Our efforts to reduce sick leave will continue and we will direct particular attention to occupational illness.

Emissions and discharges from production were mostly within the concession limits. There were, however, some accidental emissions, and efforts aimed at avoiding them will continue to be given special attention.

Environmental measures in an international company such as Hydro must address global, regional and local problems. The challenges range from global climate changes and regional water resources to biological diversity and local pollution problems. Hydro continues to improve its production processes in order to optimize the use of material and energy resources, and reduce emissions and waste.

As a major user of chemicals, we closely monitor our consumption of them. Continuous efforts are made in our production processes to replace chemicals that carry higher risk. Systematic and dedicated measures are implemented in order to reduce climate gas emissions by developing new production process technology. The company is widely involved in work at national and international levels aimed at finding cost-efficient solutions. New Hydro's guidelines for preserving biological diversity will be completed in 2004.

For a more in-depth discussion of environmental issues, please refer to pages 37–39 of this report and our website www.hydro.com.

Employees

At the end of 2003, Hydro had 42,911 employees compared to 49,712 the year before. Most of the reduction was due to the sale of businesses, including Flexible Packaging with 4,400 employees. In addition, efficiency improvement measures were implemented throughout the company. Some 7,600 employees will be transferred to Yara following the demerger of Agri.

Hydro operates in accordance with internationally acknowledged methods of organizational development. This means that particular attention is given to the systematic development of individual employees to prepare them and the organization for new demands. Working conditions in the company are also subject to certain requirements.

To attract the best people Hydro is determined to develop and leverage its organizational diversity, which the company regards as an important source of innovation and sound decision-making. Emphasis is therefore given to ensuring that groups at all levels represent diversity in terms of experience, age, gender and background.

The proportion of women managers in the Norwegian part of the organization is 17 percent, while the proportion of women in the company as a whole is 22 percent. Nine different nationalities are represented in the company's most senior management ranks. In leading management positions women feature most prominently in staffs, while the proportion of women in operative management positions is still low. More in-depth information regarding the company's challenges in connection with diversity and equality is given on pages 32–36 of this report.

There has been a positive and constructive cooperation between management and the employees regarding the strategic adjustments completed or begun during 2003. This applies to both the acquisition and divestment of businesses, efficiency measures and, not least, in connection with the Agri demerger. The Board of Directors thanks all the employees for their efforts and contributions during the past year.

Norsk Hydro ASA

Norsk Hydro ASA (the parent company) had a profit before tax of NOK 1,692 million in 2003, compared with NOK 6,088 million in 2002. Net income was NOK 1,686 million, compared with NOK 6,282 million in 2002.

Dividend

The Board proposes a dividend of NOK 11.00 per share, totaling a payment of NOK 2,811 million. This involves the application of NOK 1,125 million from retained earnings. Distributable equity as of 31 December 2003 was NOK 20,475 million, after declared dividend.

Oslo, 2 March, 2004

Egil Myklebust
Chairperson

Borger A. Lenth
Vice chairperson

Elisabeth Grieg
Board member

Håkan Mogren
Board member

Ingvild Myhre
Board member

Geir Nilsen
Board member

Anne Cathrine Høeg Rasmussen
Board member

Odd Semstrøm
Board member

Steinar Skarstein
Board member

Eivind Reiten
President and CEO

Consolidated income statements US GAAP

Norsk Hydro ASA and subsidiaries

Year ended 31 December, Amounts in million (except per share amounts)	Notes	2003 NOK	2003 EUR*)	2002 NOK	2001 NOK
Operating revenues	5	**171,782**	**20,468**	167,040	152,999
Raw materials and energy costs		**101,320**	**12,072**	103,711	94,741
Payroll and related costs	7, 20	**21,785**	**2,596**	20,333	17,237
Depreciation, depletion and amortization	5, 15, 16	**15,093**	**1,798**	13,912	12,273
Other	7, 25	**9,326**	**1,111**	9,253	6,744
Restructuring costs	6	**—**	**—**	(10)	921
Operating costs and expenses		**147,524**	**17,577**	147,199	131,916
Operating income	5	**24,258**	**2,891**	19,841	21,083
Equity in net income of non-consolidated investees	5, 13	**1,229**	**146**	33	566
Financial income (expense), net	8, 11, 24	**201**	**24**	1,935	(762)
Other income (expense), net	5, 9	**(1,212)**	**(145)**	219	578
Income before taxes and minority interest		**24,476**	**2,916**	22,028	21,465
Income tax expense	10	**(13,937)**	**(1,661)**	(13,278)	(13,750)
Minority interest		**148**	**18**	15	177
Income before cumulative effect of change in accounting principle		**10,687**	**1,273**	8,765	7,892
Cumulative effect of change in accounting principle		**281**	**34**	—	—
Net income	28	**10,968**	**1,307**	8,765	7,892
Earnings per share before change in accounting principle	3	**41.50**	**4.94**	34.00	30.50
Earnings per share	3	**42.60**	**5.08**	34.00	30.50
Consolidated statements of comprehensive income**)					
Net income		**10,968**	**1,307**	8,765	7,892
Net unrealized gain (loss) on securities available-for-sale	3	**—**	**—**	(31)	41
Minimum pension liability adjustment	3	**(113)**	**(13)**	(323)	(397)
Net investment hedge	3	**(333)**	**(40)**	1,333	89
Cash flow hedges	3	**35**	**4**	979	136
Net foreign currency translation adjustments	3	**4,856**	**579**	(7,207)	(794)
Total other comprehensive income (loss), net of tax	3	**4,445**	**530**	(5,249)	(925)
Comprehensive income, net of tax		**15,413**	**1,837**	3,516	6,967

*) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2003, which was 8.3928 (unaudited).

**) Changes in shareholders' equity include net income together with other changes not related to investments by and distribution to shareholders. (See Note 3).

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated balance sheets US GAAP

Norsk Hydro ASA and subsidiaries

31 December, Amounts in million	Notes	2003 NOK	2003 EUR*)	2002 NOK
Assets				
Cash and cash equivalents		**15,249**	**1,817**	5,965
Other liquid assets	11	**1,581**	**188**	2,647
Accounts receivable, less allowances of 1,484 and 1,102		**27,271**	**3,249**	25,280
Inventories	12	**17,350**	**2,068**	17,232
Prepaid expenses and other current assets		**12,965**	**1,545**	13,055
Current deferred tax assets	10	**1,267**	**151**	2,218
Current assets	5	**75,683**	**9,018**	66,397
Non-consolidated investees	13	**12,711**	**1,515**	11,499
Property, plant and equipment, less accumulated depreciation, depletion and amortization	15	**114,998**	**13,702**	112,342
Prepaid pension, investments and other non-current assets	14, 16, 20	**14,387**	**1,714**	15,081
Deferred tax assets	10	**850**	**101**	1,892
Non-current assets	5	**142,946**	**17,032**	140,814
Total assets	5	**218,629**	**26,050**	207,211
Liabilities and shareholders' equity				
Bank loans and other interest-bearing short-term debt	17	**5,569**	**664**	7,306
Current portion of long-term debt	19	**1,242**	**148**	1,958
Other current liabilities	18	**42,890**	**5,110**	38,331
Current deferred tax liabilities	10	**638**	**76**	262
Current liabilities		**50,339**	**5,998**	47,857
Long-term debt	19	**28,568**	**3,404**	30,902
Accrued pension liabilities	20	**9,533**	**1,136**	8,385
Other long-term liabilities	21	**8,004**	**954**	6,248
Deferred tax liabilities	10	**33,445**	**3,984**	36,809
Long-term liabilities		**79,550**	**9,478**	82,344
Minority shareholders' interest in consolidated subsidiaries		**660**	**79**	1,143
Share capital	3	**5,332**	**635**	5,332
Additional paid-in capital	3	**15,071**	**1,796**	15,088
Retained earnings	3	**71,516**	**8,522**	63,260
— Treasury stock	3	**(3,523)**	**(420)**	(3,052)
Accumulated other comprehensive income (loss)	3	**(316)**	**(38)**	(4,761)
Shareholders' equity	3, 28	**88,080**	**10,495**	75,867
Total liabilities and shareholders' equity		**218,629**	**26,050**	207,211

*) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2003, which was 8.3928 (unaudited).

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated statements of cash flows

US GAAP and N GAAP[1)]

Year ended 31 December, Amounts in million	Notes	2003 NOK	2003 EUR[*)]	2002 NOK	2001 NOK
Operating activities:					
Net income		**10,968**	**1,307**	8,765	7,892
Adjustments to reconcile net income to net cash provided by operating activities:					
Depreciation, depletion and amortization	5	**15,093**	**1,798**	13,912	12,273
Restructuring costs	6	**—**	**—**	(10)	921
Equity in net income of non-consolidated investees	5, 13	**(1,229)**	**(146)**	(33)	(566)
Dividends received from non-consolidated investees		**594**	**71**	414	472
Deferred taxes	10	**(1,618)**	**(193)**	(619)	(313)
Loss (gain) on sale of non-current assets		**(835)**	**(99)**	823	(937)
Loss (gain) on foreign currency transactions	8	**(1,035)**	**(123)**	(3,262)	416
Net sales (purchases) of trading securities		**245**	**29**	616	(112)
Other		**2,222**[2)]	**265**	450	773
Working capital changes that provided (used) cash:					
Receivables		**(1,216)**	**(145)**	(1,959)	3,627
Inventories		**(111)**	**(13)**	1,758	1,894
Prepaid expenses and other current assets		**1,758**	**209**	(1,777)	(355)
Other current liabilities		**(258)**	**(31)**	2,707	187
Net cash provided by operating activities		**24,578**	**2,928**	21,785	26,172
Investing activities:					
Purchases of property, plant and equipment		**(15,467)**	**(1,843)**	(19,573)	(14,348)
Purchases of other long-term investments		**(1,017)**	**(121)**	(18,104)	(1,663)
Net sales (purchases) of short-term investments		**1,142**	**136**	(1,154)	42
Proceeds from sales of property, plant and equipment		**941**	**112**	908	629
Proceeds from sales of other long-term investments		**6,561**	**782**	1,477	659
Net cash used in investing activities		**(7,840)**	**(934)**	(36,446)	(14,681)
Financing activities:					
Loan proceeds		**298**	**35**	707	408
Principal repayments		**(5,342)**	**(636)**	(4,196)	(2,865)
Ordinary shares purchased	3	**(555)**	**(66)**	—	(1,155)
Ordinary shares issued		**77**	**9**	70	92
Dividends paid	3	**(2,711)**	**(323)**	(2,576)	(2,470)
Net cash used in financing activities		**(8,233)**	**(981)**	(5,995)	(5,990)
Foreign currency effects on cash flows		**779**	**93**	(527)	(119)
Net increase (decrease) in cash and cash equivalents		**9,284**	**1,106**	(21,183)	5,382
Cash and cash equivalents at beginning of year		**5,965**	**711**	27,148	21,766
Cash and cash equivalents at end of year		**15,249**	**1,817**	5,965	27,148
Cash disbursements were made for:					
Interest (net of amount capitalized)		**1,135**	**135**	1,363	357
Income taxes		**16,211**	**1,932**	13,935	14,006

*) Presentation in euro is a convenience translation based on the exchange rate at 31 December 2003, which was 8.3928 (unaudited).

1) There are no material differences between consolidated statements of cash flows according to US GAAP and Norwegian accounting principles (N GAAP).

2) Includes non-cash charge relating to an expected state grant pertaining to an asset removal obligation of NOK 2,207 million.

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated income statements N GAAP

Norsk Hydro ASA and subsidiaries

Year ended 31 December, Amounts NOK million	Notes	2003	2002	2001
Operating revenues	5	**171,782**	167,049	153,133
Raw materials and energy costs		**101,085**	105,438	94,194
Change in inventories of own production		**235**	(1,727)	547
Payroll and related costs	7, 20	**21,785**	20,333	17,237
Depreciation, depletion and amortization	5, 15, 16	**15,219**	14,263	12,257
Other		**9,510**	8,941	6,767
Restructuring costs	6	**—**	(10)	921
Operating costs and expenses	7	**147,834**	147,238	131,923
Operating income	5	**23,948**	19,811	21,210
Equity in net income of non-consolidated investees	5, 13	**1,191**	23	566
Financial income (expense), net	8, 11, 24	**201**	1,935	(762)
Other income (expense), net	5, 9	**(1,212)**	219	578
Income before taxes and minority interest		**24,128**	21,988	21,592
Income tax expense	10	**(13,879)**	(13,377)	(13,859)
Net income		**10,249**	8,611	7,733
Minority interest		**148**	15	177
Net income after minority interest	28	**10,397**	8,626	7,910

Oslo 2 March, 2004

Egil Myklebust, Chair

Borger A. Lenth, Deputy Chair

Elisabeth Grieg

Anne Cathrine Høeg Rasmussen

Håkan Mogren

Ingvild Myhre

Geir Nilsen

Odd Semstrøm

Steinar Skarstein

Eivind Reiten, President and CEO

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Consolidated balance sheets N GAAP

Norsk Hydro ASA and subsidiaries

31 December Amounts in NOK million	Notes	2003	2002
Assets			
Deferred tax assets	10	**1,110**	2,184
Other intangible assets	14, 16	**2,660**	3,038
Intangible assets		**3,770**	5,222
Property, plant and equipment	15	**114,998**	113,443
Non-consolidated investees	13	**12,661**	11,490
Prepaid pension, investments and other non-current assets	14, 16, 20	**10,299**	13,686
Financial non-current assets		**22,960**	25,176
Inventories	12	**17,350**	17,232
Accounts receivable, less allowances of 1,484 and 1,102		**27,271**	25,280
Prepaid expenses and other current assets		**12,309**	12,932
Other liquid assets	11	**1,581**	2,647
Cash and cash equivalents		**15,249**	5,965
Current assets		**73,760**	64,056
Total assets	5	**215,488**	207,897
Liabilities and shareholders' equity			
Share capital	3	**5,332**	5,332
— Treasury stock		**(198)**	(173)
Premium paid-in capital		**15,055**	15,055
Other paid-in capital		**16**	33
Total paid-in capital		**20,205**	20,247
Retained earnings incl. treasury stock	3	**66,796**	54,833
— Treasury stock		**(3,325)**	(2,879)
Total retained earnings		**63,471**	51,954
Minority shareholders' interest in consolidated subsidiaries		**660**	1,143
Shareholders' equity	3, 28	**84,336**	73,344
Accrued pension liabilities	20	**9,533**	8,385
Deferred tax liabilities	10	**32,585**	35,196
Other long-term liabilities	21	**7,996**	9,766
Long-term liabilities		**50,114**	53,347
Long-term debt	19	**28,568**	30,902
Bank loans and other interest-bearing short-term debt	17	**5,569**	7,306
Current portion of long-term debt	19	**1,242**	1,958
Dividends payable		**2,811**	2,709
Other current liabilities	18	**42,848**	38,331
Current liabilities		**52,470**	50,304
Total liabilities and shareholders' equity		**215,488**	207,897

The accompanying notes are an integral part of the consolidated financial statements in accordance with Norwegian accounting principles (N GAAP). See Note 28 for a reconciliation and explanation of differences in accounting principles between US GAAP and N GAAP.

Notes to the consolidated financial statements

Norsk Hydro ASA and subsidiaries

1. Summary of Significant Accounting Policies

The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages 88 to 90. The consolidated financial statements prepared in accordance with accounting principles generally accepted in Norway (N GAAP) are located on pages 90 to 92. Financial statement preparation requires estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

The accompanying notes include disclosures required by US GAAP as well as disclosures in accordance with N GAAP and are an integral part of both sets of financial statements. The following description of accounting principles applies to both US GAAP and N GAAP unless otherwise specified.

Note 28 provides a reconciliation and explanation of the differences between net income and shareholders' equity for US GAAP and N GAAP.

Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies where Hydro controls directly or indirectly more than 50 percent of the voting interests. In certain circumstances, Hydro may control an entity through contractual arrangements or other means. Currently, Hydro does not have any consolidated subsidiaries based on means other than majority of voting rights. All significant intercompany transactions and balances have been eliminated.

Investments in companies (non-consolidated investees) in which Hydro exercises significant influence are accounted for using the equity method. The equity method involves showing the investment at Hydro's share of the equity in the investee, including any excess values or goodwill. Hydro's share of net income, including depreciation and amortization of excess values, is included in Equity in net income of non-consolidated investees. Material unrealized profits resulting from transactions with an investee is eliminated.

Significant influence normally exists when Hydro has a substantial ownership interest of 20 to 50 percent of voting shares. Hydro uses the equity method for a limited number of investees where Hydro owns less than 20 percent of the voting rights, based on an evaluation of the governance structure in each investee. In corporate joint ventures, special voting rights in some companies give each of the partners decision rights that exceeds what normally follows from the ownership share. This may be in form of a specific number of board representatives, in the form of right of refusal for important decisions, or by requiring a qualified majority for all or most of the important decisions. Participation in joint ventures are accounted for using the equity method, except for jointly controlled assets where the partners have an undivided interest. These and other participation in joint ventures in the upstream oil-and gas business are accounted for using the pro rata method.

Hydro reviews non-consolidated investees for impairment if indications of loss in value is identified. As Hydro's non-consolidated investees generally are not listed on a stock exchange or regularly traded, our impairment review for such investees can only in rare cases be based on market prices. Impairment indications may be operating losses, or adverse market conditions. Fair value of the investment is estimated based on valuation model techniques. If it is considered probable that the fair value of the investee is below Hydro's carrying value, the investment is written down as impaired.

Business Combinations

Acquisitions are accounted for using the purchase method. See note 2 for a description of significant acquisitions and disposals during the past three years. All business combinations are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value at the time of acquisition. Any excess of purchase price over fair value is recorded as goodwill. When the ownership interest in a subsidiary is less than 100 percent, the recorded amount of assets and liabilities acquired reflect only Hydro's relative share of excess values.

For N GAAP, consolidated assets and liabilities reflect 100 percent of the fair market value at the purchase date, except for goodwill. (There are currently no acquisitions giving rise to such differences). The relative portion of any excess value recorded relating to minority shareholders is reflected in the total Minority shareholders interest which is a component of the Group's equity.

Foreign Currency Translation

The financial statements, including any excess values, of foreign operations are translated using exchange rates at year end for the balance sheet, and average exchange rates for the income statement. Translation gains and losses, including effects of exchange rate changes on transactions designated as hedges of net foreign investments, are included in Other comprehensive income.

Foreign Currency Transactions

Realized and unrealized gains or losses on transactions, assets and liabilities denominated in a currency other than the functional currency which do not qualify for hedge accounting treatment are included in net income.

Revenue Recognition

Revenue from sales of products, including products sold in international commodity markets, is recognized when ownership passes to the customer. Generally, this is when products are delivered or shipped. Certain contracts specify price determination in a later period. In these cases, the revenue is recognized in the period prices are determinable. Rebates and incentive allowances are deferred and recognized in income upon the realization or at the closing of the rebate period. In arrangements where Hydro acts as an agent, such as commission sales, only the net commission fee is recognized as revenue.

Revenues from the production of oil and gas are recognized on the basis of the company's net working interest, regardless of whether the production is sold (entitlement method). The difference between Hydro's share of produced volumes and sold volumes is not material.

Trading of physical commodities which are not net settled is presented on a gross basis in the income statement. Activities related to the trading of derivative commodity instruments and physical commodities where net settlement occurs, are reported on a net basis, with the margin included in operating revenues.

Cash and Cash Equivalents

Cash and cash equivalents include cash, bank deposits and all other monetary instruments with a maturity of less than three months at the date of purchase.

Other Liquid Assets

Other liquid assets include bank deposits and all other monetary instruments with a maturity between three and twelve months at the date of purchase and Hydro's current portfolio of marketable equity and debt securities. The securities in this portfolio are considered trading securities and are valued at fair value. The resulting unrealized holding gains and losses are included in financial income and expense. Investment income is recorded when earned.

Inventories

Inventories are valued at the lower of cost, using the first-in, first-out method (FIFO), or net realizable value. Cost includes direct materials, direct labor and the appropriate portion of production overhead or the price to purchase inventory.

Investments

Investments include Hydro's portfolio of long-term marketable equity securities in which there is less than 20 percent ownership. The portfolio is considered available-for-sale securities and is valued at fair value. The resulting unrealized holding gains and losses, net of applicable taxes, are credited or charged to Other Comprehensive Income and accordingly do not affect net income. Other investment income is recorded when earned.

For N GAAP, investments are valued at the lower of historical cost or market value. [Note 28].

Property, Plant and Equipment

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If necessary, a write-down (impairment) to fair value is recorded based upon the criteria in Statement of Financial Accounting Standards (SFAS) 144.

For N GAAP, NRS(F) Impairment of Assets, revised in 2002, requires impairment of long-lived assets to be to measured as the difference between carrying value and recoverable amount for the asset. Recoverable amount is defined as the higher of an asset's value in use estimated as discounted cash flows, and its net selling price.

Periodic maintenance and repairs applicable to production facilities are accounted for on an accrual basis. Normal maintenance and repairs for all other properties are expensed as incurred. Major replacements and renewals that materially extend the life of properties are capitalized and any assets replaced are retired.

Capitalized Interest Interest is capitalized as part of the historical cost of major assets constructed.

Leased Assets Leases which provide Hydro with substantially all the rights and obligations of ownership are accounted for as capital leases. Such leases are valued at the present value of minimum lease payments or fair value if lower, and recorded as assets under property, plant and equipment. The liability is included in long-term debt. The assets are subsequently depreciated and the related liabilities are reduced by the amount of the lease payments less the effective interest expense. Other leases are accounted for as operating leases with lease payments recognized as an expense over the lease term.

Environmental Expenditures Environmental expenditures which increase the life, capacity, or result in improved safety or efficiency of a facility are capitalized. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when environmental assessments or clean-ups are probable and the cost can be reasonably estimated.

Exploration and Development Costs of Oil and Gas Reserves Hydro uses the ''successful efforts'' method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the costs of exploratory wells and acquired exploration rights, are charged to expense as incurred. Drilling costs for exploratory wells are capitalized pending the determination of the existence of proved reserves. If reserves are not found, the drilling costs are charged to operating expense. Cost relating to acquired exploration rights are allocated to the relevant areas, and charged to operating expense upon determination that proved reserves will not be found in the area. Each block or area is assessed separately, based on exploration experience and management's judgment. All development costs for wells, platforms, equipment and related interest are capitalized. Preproduction costs are expensed as incurred.

Depreciation, Depletion and Amortization Depreciation is determined using the straight line method with the following rates:

Machinery and equipment	5 – 25 percent
Buildings	2 – 5 percent
Other	10 – 20 percent

Producing oil and gas properties are depreciated as proved developed reserves are produced using the unit-of-production method calculated by individual field.

Depreciation and depletion expense includes accretion of discounted asset retirement obligations.

Intangible Assets

Intangible assets acquired individually or as a group are recorded at fair value when acquired. Intangible assets acquired in a business combination are recognized at fair value separately from goodwill when they arise from contractual or legal rights or can be separated from the acquired entity and sold or transferred. Intangible assets with finite useful lives are amortized on a straight line basis over their benefit period. Intangible assets determined to have indefinite useful lives are not amortized until a finite life can be determined. These intangible assets are subject to impairment testing on an annual basis.

Goodwill

When a business is acquired, purchase price in excess of the identified fair value of assets and liabilities is accounted for as goodwill. Under SFAS 142, goodwill is no longer systematically amortized, but reviewed at least annually for impairment. Goodwill is recorded at the reporting unit level (for Hydro this is the sector level. See note 5 for a description of sectors). The impairment test requires fair value of the sector to be compared to the carrying value of the sector.

For N GAAP, goodwill is amortized over a period not exceeding 10 years. [Note 28]

Oil and Gas Royalty

Oil and gas revenue is recorded net of royalties payable.

Shipping costs

Shipping and handling costs are included in Other operating expenses. Shipping and handling cost invoiced to customers are included in Operating revenues.

Research and Development

Research and development costs are expensed as incurred.

Other Income (Expense), net

Transactions resulting in income or expense which are material in nature and from sources other than normal production and sales operations are classified as other income and expense.

Income Taxes

Deferred income tax expense is calculated using the liability method in accordance with SFAS 109. Under this method, deferred tax assets and liabilities are measured based on the differences between the carrying values of assets and liabilities for financial reporting and their tax basis which are considered temporary in nature. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for deferred tax related to items charged directly to equity. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

Hydro recognizes the effect of uplift, a special deduction for petroleum surtax in Norway, at the investment date. Deferred taxes are not provided on undistributed earnings of most subsidiaries, as such earnings are deemed to be indefinitely reinvested.

For N GAAP, Hydro follows the NRS' (The Norwegian Accounting Standards Board) standard which, like SFAS 109, is based on the liability method. [Note 28].

Derivative Instruments

Derivative financial instruments are marked to their market value with the resulting gain or loss reflected in net financial expense, except when the instruments meet the criteria for hedge accounting. See Note 24 for the balance sheet classification of these instruments.

Forward currency contracts and currency options are marked to their market value at each balance sheet date with the resulting unrealized gain or loss recorded in Financial income (expense), net.

Interest rate and foreign currency swaps Interest income and expense relating to swaps are netted and recognized as income or expense over the life of the contract. Foreign currency swaps are translated into Norwegian kroner at applicable exchange rates as of the balance sheet date with the resulting unrealized exchange gain or loss recorded in Financial income (expense), net.

Derivative Commodity Instruments Instruments are marked-to-market with their fair value recorded in the balance sheet as either assets or liabilities. Adjustments for changes in the fair value of the instruments are reflected in the current period's revenues and/or operating costs, unless the instrument is designated as a hedging instrument, and qualifies for hedge accounting.

Hedge accounting is applied when specific hedge criteria are met. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value or cash flows of the underlying exposures being hedged. For cash flow hedges, gains and losses on the hedging instruments are deferred in Other Comprehensive Income (OCI) until the underlying transaction is recognized in earnings. When it is determined that a forecasted hedged transaction is not probable to occur, all the corresponding gains and losses deferred in OCI are immediately recognized in earnings. Any amounts resulting from hedge ineffectiveness for both fair value and cash flow hedges are recognized in current period's earnings. For fair value hedges, both the changes in the fair value of the designated derivative instrument and the changes in the fair value of hedged item are recognized currently in earnings.

Energy contracts are accounted for according to EITF 02-3 Energy Contracts. This standard requires energy contracts that meet the definition of a derivative according to SFAS 133 ''Accounting for Derivative Instruments and Hedging Activities'' and are held for trading, be recorded in the balance sheet at fair value. Changes in the fair value are recorded to earnings for each period unless specific hedge criteria are met. Fair values are based on quoted market prices. Energy contracts that do not meet the criteria of EITF 02-3 are recorded at the lower of historical cost and fair market value. Prior to 2003, energy contracts were measured at fair value in accordance EITF 98-10 ''Accounting for Contracts Involved in Energy Trading and Risk Management Activities''.

For N GAAP, commodity derivative instruments that are traded in a regulated, liquid market are marked-to-market with their fair market value recorded in the balance sheet as either assets or liabilities. Unrealized gains and losses for commodity derivative instruments that are not traded in a regulated, liquid market are netted for each portfolio and net unrealized gains are not recognized. Cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement under N GAAP, until the underlying hedged transactions actually occur. [Note 28].

Certain derivative commodity instruments require daily cash settlements, principally London Metal Exchange (LME) futures and options, and oil futures. LME options also involve an initial receipt or payment of a premium and give rise to delivery of an agreed amount of cash if the option is exercised. Most other financial and commodity instruments have a cash effect at settlement date, which are included in the Statements of Cash Flows under operating activities when incurred.

Stock-based Compensation

Hydro accounts for stock based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28 and provides disclosures required under SFAS 123. For variable awards and awards settled in cash, compensation cost is measured at the end of each period as the amount by which the market price of the Company's shares exceeds the price of the options. For variable and cash settled awards where vesting depends on achieving a specified improvement in Hydro's share price, compensation cost is measured when it is probable the performance criteria will be met. Compensation is charged to expense over the periods the employee performs the related services.

Hydro also offers treasury shares to employees at discounted prices to encourage share ownership. Issuance of treasury shares at a discount to employees results in a charge to compensation expense based on the difference between the market value of the share at the date of issuance and the price paid by employees.

Employee Retirement Plans

Pension costs are calculated in accordance with SFAS 87 and SFAS 88. Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

For N GAAP, the same principle has been applied which is in accordance with the NRS 6 Pension Cost.

Change in Accounting Principles

Asset Retirement Obligations Effective 1 January 2003, Hydro adopted ''Financial Accounting Standards No 143 Accounting for Asset Retirement Obligations'' (SFAS 143). This Statement requires that the estimated fair value of asset retirement obligations be recorded in the Company's balance sheet in the period in which it is incurred; accordingly, obligations for oil and gas installations are recognized at the start of production. Related asset retirement costs are capitalized as part of the carrying value of the long-lived asset, while the liability is accreted for the change in its present value each reporting period, and the associated asset retirement costs are depreciated over the useful life of the related long-lived asset. As a result of the new accounting standard, a positive after-tax effect of NOK 310 million was recorded as ''cumulative effect of change in accounting principles'' in the Company's results of 2003. For further information see note 21.

For N GAAP, the change in accounting principle was implemented on a retrospective basis, with the effect recorded to equity. Comparable figures are restated for N GAAP purposes.

Energy contracts Effective 1 January 2003, Hydro adopted EITF 02-3 ''Recognition and Reporting of Gains and Losses on Energy Contracts''. This standard requires only energy contracts that meet the definition of a derivative according to SFAS 133 ''Accounting for Derivative Instruments and Hedging Activities'' and are held for trading, be recorded in the balance sheet at fair value. Other energy contracts are recorded at the lower of historical cost and fair market value. This change applies to contracts entered into before 25 October, 2002. For contracts entered after 25 October, 2002, the regulation applied from initial recognition. As a result of the new regulation, a negative after-tax effect of NOK 29 million was recorded as ''cumulative effect of change in accounting principles'' in the Company's results of 2003.

Implementation of EITF 02-3 does not result in a change in accounting principle for N GAAP.

Exit costs Effective 1 January 2003, Hydro adopted Financial Accounting Standards No 146 ''Accounting for Costs Associated with Exit or Disposal Activities''. The standard supersedes EITF Issue No. 94-3, ''Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)'', and changed accounting for costs related to closing and restructuring an activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed at communication to the employees.

For N GAAP, certain costs are required to be recognized at commitment to an exit plan, and may be recognized in an earlier period than for US GAAP.

Guarantees In November 2002, FASB issued Interpretation (FIN) 45 ''Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others''. This Interpretation clarifies certain elements related to measurement and disclosure of guarantees, including product warranties. The interpretation clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the obligations it has undertaken in issuing the guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that the specified triggering events or conditions occur. The recognition and measurement provisions are applicable to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 has not materially impacted Hydro's results of operations and financial position.

Impairment of assets *For N GAAP, Hydro adopted the revised NRS(F) Impairment of Assets, effective 1 January 2002. Impairment tests for property, plant and equipment, goodwill and intangible assets are required to measure impairment as the difference between carrying value and recoverable amount of the asset, either as net selling price or value in use, estimated as discounted future cash flows. An impairment loss should be reversed if the impairment situation no longer exists. This represents a difference between US GAAP and N GAAP.*

Effective 1 January, 2002, Hydro adopted the Financial Accounting Standards No 141 ''Business Combinations'' (SFAS 141), and Statement No 142, ''Goodwill and Other Intangible Assets'' (SFAS 142). Under SFAS 142, goodwill is no longer systematically amortized but reviewed at least annually for impairment. Goodwill is allocated to reporting units (for Hydro this is the sector level. See note 5 for a description of sectors). At transition, impairment tests comparing the fair value of sectors with goodwill to the carrying value of the net assets of the respective sectors were performed. SFAS 142 continues the requirement to amortize intangible assets over their estimated useful life. However, if the useful life is determined to be indefinite, no amortization is recognized and the value of the intangible asset is assessed for impairment similar to goodwill. See Note 16 for further information.

For N GAAP the previous regulation regarding accounting for business combinations, intangible assets and goodwill is continued. The implementation of SFAS 141 and 142 results in differences between US GAAP and N GAAP.

Effective 1 January, 2002, Hydro also adopted the Financial Accounting Standards No 144 ''Accounting for Impairment or Disposal of Long-Lived Assets''. This standard supercedes SFAS 121 ''Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of''. SFAS 144 applies to all long-lived assets, including discontinued operations. In addition, it expands the scope for the presentation of discontinued operations to include all components of an entity with operations that are distinguishable and will be eliminated in a disposal transaction.

The change is not expected to represent differences in measurement of transactions compared to N GAAP.

Effective 1 January, 2001, Hydro adopted the Financial Accounting Standard No. 133, ''Accounting for Derivative Instruments and Hedging Activities'' (SFAS 133), as amended by SFAF 138. See further discussion in Note 24.

For N GAAP there is no change in accounting principles related to SFAS 133. As result of a change in the Norwegian Accounting Act, quoted commodity instruments are marked to their market value as from 2001. Changes in fair market value is recorded in income. There were no implementation effects from this change.

Reclassifications

Certain amounts in previously issued consolidated financial statements were reclassified to conform with the 2002 presentation.

New Pronouncements

Issued in January 2003 and revised in December 2003, FASB Interpretation 46 ''Consolidation of Variable Interest Entities'' (FIN 46R) clarifies the application of Accounting Research Bulletin No. 51, ''Consolidated Final Statements'', to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support (variable interest entities or VIE's). The Interpretation provides guidance for determining which party retains the controlling financial interest when the controlling financial interest is achieved through arrangements other that voting interests. As Hydro does not have an controlling interest in so called Special Purpose Entities, or VIE's created since January 31, 2003, application of the Interpretation is required in its financial statement ending March 31, 2004. Hydro is currently in the process of evaluating existing arrangements that are not Special Purpose Entities to determine if they are variable interest entities.

Preliminary evaluation of the effects of this Interpretation does not indicate material differences between US GAAP and N GAAP for Hydro's activities.

For N GAAP, NRS(F) Intangible assets was revised in 2003.

Effective from 1 January 2004, it requires that intangible assets are recognized at cost if, and only if, (a) it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and (b) the cost of the asset can be measured reliably. The standard requires all expenditure on research to be recognized as an expense when incurred. The change may represent differences for development activities compared to US GAAP.

2. Demerger, business combinations and dispositions

In November 2003, the board of directors of Hydro entered into a demerger plan, implying that the agri activities will be transferred to a newly formed company, Yara International ASA, which will be listed at the Oslo Stock Exchange. The demerger plan was approved in the extraordinary general meeting in Hydro on 15 January 2004, and will be completed at the earliest 24 March 2004, and no later than 30 June 2004. The company bases its preparation on planned completion during March 2004. The demerger will have financial effect from 1 October 2003. From this date, Yara International ASA have assumed the risk of the agri activities, contingent on completion of the demerger. In the demerger, substantial assets and liabilities, including subsidiaries and non-consolidated investees, will be transferred to Yara. As a result of the demerger, Hydro's share capital will be reduced by 8.5 percent , equal to the estimated relative value of the transferred agri activities compared to the retained activity in Hydro.

Hydro's shareholders at the demerger completion date will receive shares in Yara International ASA equal to 80 percent of the to total value of Yara, based on valuation at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA will be owned by Norsk Hydro ASA. Hydro plans to sell a minimum of half, and up to the total of its share holdings in Yara at the time of demerger. The demerger will be accounted for with continuity in carrying values. Hydro will not recognize any gain, or receive any proceeds, from the demerger. Hydro will receive proceeds, and recognize gain or loss, from sale of Hydro's 20 percent ownership in Yara based on the Hydro's cost, NOK 2,048 million, from establishing the company.

The table below illustrates how assets and liabilities are distributed between Hydro and Yara as of 31 December 2003:

Amounts in NOK million	Hydro	Adjustments	Yara after demerger	Hydro after demerger
Current assets	75,683	8,173	14,161	69,695
Non-current assets	142,946	2,048	11,778	133,216
Total assets	218,629	10,221	25,939	202,911
Current liabilities	50,339	8,173	13,929	44,583
Long-term liabilities	79,550	—	3,065	76,485
Minority interests	660	—	96	564
Shareholders' equity	88,080	2,048	8,849	81,279
Total liabilities and shareholders' equity	218,629	10,221	25,939	202,911

Hydro's net interest bearing debt as of 31 December war NOK 18.5 billion. Based on distribution of assets and liabilities between Hydro and Yara illustrated above, Hydro's and Yara's net interest bearing debt after demerger would have been NOK 10.9 billion and NOK 7.6 billion, respectively.

The following pro forma information illustrates Hydro as if the demerger had been completed at the beginning of 2002.

Amounts in NOK million	2003	2002
Operating revenues	**136,279**	136,114
Operating income	**21,499**	17,667
Income before tax and minority interests[1)]	**20,890**	19,410
Income tax expense	**12,851**	12,420
Net income	**8,471**	7,016
Earnings per share	**32.90**	27.20

1) Income before tax and minority interests for 2003 includes a negative non-recurring item of NOK 2,207 million, and income tax expense for 2003 includes a positive non-recurring item of NOK 2,380 million, both related to changes in the tax regulation for future costs for removal of oil and gas installations on the Norwegian continental shelf after completed production.

The pro forma information is based on the following adjustments Results, assets and liabilities related to activities which, according to the demerger plan are to be transferred to Yara are excluded from the pro forma information for Hydro above. The activities to be transferred is not identical with the activities reported as the business area Hydro Agri in Hydro's segment reporting. Pro forma information is based on regulations from the US Securities and Exchange Commission (SEC). Adjustments are made for changes that are directly attributable to the transaction, are factually supportable, and have a ongoing effect. Hydro's general and overhead costs, jointly use of assets and similar previously charged to Hydro Agri, are excluded from the pro forma information only to the extent such costs will be reduced as a direct consequence of the demerger. Similarly, interest expense is reduced only to the extent they are related to external loans which will be transferred to Yara in the demerger. Following the demerger, Hydro will acquire a receivable of NOK 8.1 billion as of the demerger effective date (1 October, 2003), which falls due at the demerger completion. This receivable is included in the balance sheet information above. No pro forma adjustments for interest income related to this receivable has been included, as no decision has been made with regard to Hydro's use of the proceeds. Hydro's tax expense exclusive of demerged activities have been calculated to indicate the tax expenses related to remaining activities. All significant effects of tax consolidation with Yara have been eliminated. Generally, there is a higher degree of uncertainty for pro forma financial information than for historical financial information. The pro forma information does not necessarily reflect what the results of operations would have been had the demerger been completed at an earlier date.

Subsequent to and during the three years ended 31 December, 2003, Hydro entered into the following significant business combinations and dispositions.

2003 Acquisitions No major acquisition were agreed or completed during 2003.

2003 Dispositions During 2003, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 7.0 billion. The dispositions resulted in a total pretax gain of NOK 995 million. In September 2002, KFK entered into agreements to sell its Swedish feed and grain activities for approximately

NOK 450 million. The sale was completed in January 2003 after approval from competition authorities. In December 2002, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003, and did not result in any significant gain or loss. In June, Hydro transferred its interest in Sundsfjord Kraft ANS in exchange for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million. In July, Hydro entered into an agreement for the sale of Carmeda AB, for approximately NOK 180 million, resulting in a gain of NOK 139 million. In September, Hydro entered into an agreement to sell its stake in Skandinaviska Raffinaderi AB (Scanraff) for approximately NOK 1.3 billion. The sale was completed in December, resulting in a gain of NOK 490 million. In December, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of approximately NOK 100 million.

2002 Acquisitions On March 19, 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of May 10, 2002. The agreement was effective from January 1, 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

In January, 2002, Hydro entered into an agreement to purchase all the outstanding shares of the German group VAW aluminium AG, a leading aluminium company in Europe. The acquisition was completed on March 15, 2002. VAW had operations in more than 20 countries. The major part of these activities were located in the EU in addition to important operations located in North America and the Pacific region.

The consideration for all outstanding shares, including direct acquisition costs amounted to EUR 1,911 million (NOK 14,9 billion). In addition, interest bearing debt of EUR 703 million (NOK 5,5 billion) and pension commitments of approximately EUR 410 million (NOK 3.2 billion) was assumed. The acquisition was financed by Hydro's cash holdings.

Assets acquired and liabilities assumed in the VAW acquisition have been recorded at estimated fair value. Excess values are for the most part allocated to tangible fixed assets. The allocation did not indicate material goodwill in the transaction. Because VAW's inventories have been recorded at estimated fair values as of the time of the acquisition, cost of goods sold was unusually high in the period after acquisition. The effect was approximately NOK 200 million.

Amounts in NOK million

Preliminary allocation of purchase price	
Cash and cash equivalents	410
Other current assets	11,597
Property, plant and equipment	16,592
Other non-current assets	6,140
Short-term liabilities	(9,517)
Long-term liabilities	(10,022)
Minority interests	(356)
Estimated fair value of net assets of VAW	14,844

In November 2001, an agreement was signed to purchase the French building systems group Technal for a price of EUR 73 million (NOK 580 million) and the assumption of approximately NOK 307 million in debt. The acquisition was completed 25 January, 2002.

2002 Dispositions During 2002, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 2.9 billion. The dispositions resulted in a total pretax gain of NOK 219 million. In September, KFK entered into agreements to sell its Danish feed and grain activities for a total consideration of approximately NOK 2 billion, and its Swedish feed and grain activities for approximately NOK 450 million. The agreements resulted in impairment charges of approximately NOK 150 million. The sale of the Danish activities was completed in December, while the sale of the Swedish was completed in January 2003 after approval from competition authorities. In December, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003.

2001 Dispositions Hydro concluded the sale of Hydro Seafood's activities based in UK, Hydro Seafood GSP Ltd. The sale resulted in a pretax gain of NOK 418 million. Hydro sold the remainder of its electric power grid in Norway, resulting in a pretax gain of NOK 179 million.

Pro Forma Information (Unaudited)

The following unaudited pro forma information has been prepared assuming VAW was acquired as of the beginning of 2002.

Amounts in NOK million	2002
Assets	207,211
Operating revenues	174,630
Operating income	20,554
EBITDA	36,878
Net income	9,125
Earnings per share in NOK	35.30

This pro forma information has been prepared for comparative purposes only and does not purport to be indicative of what would have occurred had the transaction occurred on the date described above. The pro forma information is based on Hydro's results for 2002. For the period 1 January 2002 to Hydro's acquisition on 15 March 2002, this pro forma information is based on internal management reports for VAW. For the period previous to Hydro's acquisition, some accounting principles differ from Hydro's normal application. For example, VAW used the LIFO (last in, first out) method for inventory valuation. In general, uncertainty related to pro forma information is higher than for historic accounts.

VAW's results have been translated into Norwegian kroner at average exchange rates. Pro forma adjustments are made for fair value adjustments for assets and liabilities, depreciation and amortization of these adjustments, finance cost of the acquisition price, and deferred tax related to the above mentioned adjustments. However, no adjustment has been made for the fair valuation of inventories. Significant sales and receivables between the companies are eliminated.

The effect of the remaining acquisitions and dispositions for 2003 and 2002 is not significant.

3. Consolidated shareholders' equity

Components of Accumulated Other Comprehensive Income and Related Tax Effects

	31 December, 2003			31 December, 2002			31 December, 2001		
Amounts in NOK million	Pretax	Tax	Net	Pretax	Tax	Net	Pretax	Tax	Net
Unrealized gain (loss) on securities	**—**	**—**	**—**	(43)	12	(31)	58	(17)	41
Less: Reclassification adjustment	**—**	**—**	**—**	—	—	—	—	—	—
Net unrealized gain (loss) on securities	**—**	**—**	**—**	(43)	12	(31)	58	(17)	41
Net investment hedge	**(462)**	**129**	**(333)**	1,851	(518)	1,333	124	(35)	89
Cash flow hedge	**385**	**(112)**	**272**	1,441	(405)	1,036	188	(52)	136
Less: Reclassification of hedging gain	**(331)**	**94**	**(237)**	(79)	22	(57)	—	—	—
Net cash flow hedge	**54**	**(18)**	**35**	1,362	(383)	979	188	(52)	136
Minimum pension liability adjustment	**(182)**	**69**	**(113)**	(472)	149	(323)	(553)	156	(397)
Foreign currency translation	**4,650**	**—**	**4,650**	(7,215)	—	(7,215)	(671)	—	(671)
Loss (gain) on companies sold	**206**	**—**	**206**	8	—	8	(123)	—	(123)
Net foreign currency translation	**4,856**	**—**	**4,856**	(7,207)	—	(7,207)	(794)	—	(794)
Total accumulated other comprehensive income	**4,266**	**180**	**4,445**	(4,509)	(740)	(5,249)	(977)	52	(925)

Consolidated shareholders' equity

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued Norsk Hydro ASA Number	Ordinary Shares issued Norsk Hydro ASA Amount	Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA Number	Treasury Stock Norsk Hydro ASA Amount	Accumulated other comprehensive income	Total shareholders' equity[1]
Balance 31 December, 2000	266,597	5,332	15,059	20,391	51,647	(6,610)	(2,224)	1,413	71,227
Net income 2001					7,892				7,892
Dividend declared and paid (NOK 9.50 per share)					(2,470)				(2,470)
Net unrealized gain on securities								41	41
Minimum pension liability								(397)	(397)
Hedge of net investment								89	89
Cash flow hedges								136	136
Purchase of treasury stock						(2,959)	(1,155)		(1,155)
Treasury stock reissued to employees			16	16		351	122		138
Treasury stock reissued for acquisition of shares in Hydro Asia Pacific			(5)	(5)		256	90		85
Foreign currency translation					1			(794)	(793)
Balance 31 December, 2001	266,597	5,332	15,070	20,402	57,070	(8,962)	(3,167)	488	74,793
Net income 2002					8,765				8,765
Dividend declared and paid (NOK 10.00 per share)					(2,576)				(2,576)
Net unrealized gain on securities								(31)	(31)
Minimum pension liability								(323)	(323)
Hedge of net investment								1,333	1,333
Cash flow hedges								979	979
Treasury stock reissued to employees			18	18		326	116		134
Foreign currency translation					1		(1)	(7,207)	(7,207)
Balance 31 December, 2002	266,597	5,332	15,088	20,420	63,260	(8,636)	(3,052)	(4,761)	75,867
Net income 2003					**10,968**				**10,968**
Dividend declared and paid (NOK 10.50 per share)					**(2,711)**				**(2,711)**
Net unrealized gain on securities									**—**
Minimum pension liability								**(113)**	**(113)**
Hedge of net investment								**(333)**	**(333)**
Cash flow hedges								**35**	**35**
Purchase of treasury stock						**(1,484)**	**(555)**		**(555)**
Treasury stock reissued to employees			**(17)**	**(17)**		**235**	**83**		**66**
Foreign currency translation					**(1)**		**1**	**4,856**	**4,856**
Balance 31 December, 2003	**266,597**	**5,332**	**15,071**	**20,403**	**71,516**	**(9,885)**	**(3,523)**	**(316)**	**88,080**

1) See note 28 for a reconciliation to N GAAP equity.

Norsk Hydro ASA had authorized and issued 266,596,650 ordinary shares having a par value of NOK 20 per share for the years ended 31 December, 2003, 2002, and 2001. As of 31 December, 2003, 9,884,650 shares were treasury stock resulting in 256,712,000 outstanding ordinary shares (for 2002 257,960,532 outstanding ordinary shares). For N GAAP, the amount for the treasury stock of NOK 3,523 million was comprised of NOK 198 million for share capital and NOK 3,325 million for retained earnings. In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 1,484,300 treasury shares acquired in 2003 as part of a buyback program approved by the 2003 Annual General Meeting. These shares were acquired for a market price of NOK 555 million. The General Meeting also authorized the redemption of 1,157,922 shares owned by the Norwegian State. In addition the general meeting authorized the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30. Each shareholder will receive one share in the newly established Yara International ASA, with a par value of 1.70 for each Hydro share. All of these decisions are subject to creditors notice, and can be completed no earlier than 16 March, 2004. Remaining treasury stock may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors. In 2003, Hydro sold 235,768 shares of its treasury stock to employees for a price of NOK 66 million. The weighted average number of outstanding shares for the year ended 31 December, 2003 was 257,528,511.

4. Stock-based Compensation

Hydro has four stock-based compensation plans, the Executive Share Option Plan established in 2001, the Executive Share Option Plan established in 2002, the Executive Share Option Plan established in 2003, all of which requires cash settlement, and a subsidized share purchase plan for permanent employees in the parent company and Norwegian subsidiaries owned more than 90 percent by Hydro.

The Executive Share Option Plans are variable plans that relates to options granted to approximately 30 persons in Hydro's top management including the president and CEO, persons in the corporate management board and others. During 2003, 99,500 options were granted. The options are vesting over a three-year performance period beginning in July 2003. During 2002, 111,000 options were granted. The options are vesting over a three-year performance period beginning in July 2002. During 2001, 92,000 options were granted. The options are vesting over a three-year performance period beginning in May 2001. The options vesting schedule is based on shareholder return, as defined in the Plan. If shareholder return is less than 12 percent, none of the options vest. If the shareholder return achieved is between 12 percent and 20 percent the corresponding percentage of options that vest increases linearly between 20 percent and 100 percent. The options are exercisable for two years following the three-year performance period. If exercised, the option holder will receive a cash bonus equal to the the difference between the market price of the shares, and the exercise price. All the options authorized for the three plans have been granted.

During 1999, 165,000 options were granted under the 1999 Plan at an exercise price of NOK 367.50. This plan expired at the end of 2002. During 2001, in addition to the Executive Share Option Plan 2001, 3,500 options were exercised under the 1999 plan. During 2002, a total of 3,300 options were exercised, and 158,200 options expired. Activity for 2003 is as follows:

Options outstanding	**Number of shares**	**Average Strike price (in NOK)**
31 December, 2002	203,000	374.80
Granted	99,500	351.50
Exercised	—	—
Expired	—	—
31 December, 2003	302,500	367.14
Options exercisable:		
31 December, 2002	—	—
31 December, 2003	—	—

As of 31 December, 2003, 99,500 options related to the Executive Share Option plan 2003, with an exercise price of NOK 351.50 were outstanding with a remaining contractual life of 4.5 years, none of which were exercisable. In addition, 111,000 options related to the Executive Share Option Plan 2002, with an exercise price of NOK 361.90 were outstanding with a remaining contractual life of 3.5 years, none of which were exercisable. 92,000 options, related to the Executive Share Option Plan 2001, with an exercise price of NOK 390.40 were outstanding with a remaining contractual life of 2.3 years, none of which were exercisable.

Hydro also has a subsidized share-purchase plan for employees in Norway. Under this plan Hydro's employees in Norway receive a NOK 1,500 share-purchase rebate to purchase shares of Norsk Hydro, which corresponds to a 20% discount from the market price. If shareholder return, as defined by the plan, meets or exceeds 12 percent in the period from 1 January to 31 December (the measurement period), employees receive an additional rebate of NOK 4,500 for a total of NOK 6,000, which corresponds to a 50 percent discount from the market price.

At 31 December 2003, the 12 percent performance target was met for the 1 January 2003 to 31 December 2003 measurement period, consequently the rebate for this award will be NOK 6,000 or 50 percent. Shares will be offered to the employees under this plan after completion of the demerger of Norsk Hydro ASA, expected in March 2004.

In 2002, Hydro modified the measurement period for the share-purchase plan for Norwegian employees so that the period would run from 1 January 2002 to 31 December 2002. 2002 was a transitional year, with the old scheme running from 1 June 2001 to 31 May 2002 and the new scheme running from 1 January 2002 to 31 December 2002. The performance target was not met for the 1 January 2002 to 31 December 2002 measurement period, consequently the rebate for this award was NOK 1,500 or 20 percent. In April 2003, 235,768 shares were awarded to employees at a per share price of NOK 223.92. Compensation expense recognized related to this award amounted to NOK 13 million. The performance criteria was met for the 1 June 2001 to 31 May 2002 measurement period. In July 2002, 323,060 shares were awarded to employees at a per share price of NOK 205.15. Compensation expense recognized in 2002 related to this award amounted to NOK 73 million.

The performance criteria was met for the 2000-2001 measurement period. In June 2001, 347,474 shares were awarded to employees at a per share price of NOK 196.90. Compensation expense recognized in 2001 related to this award was approximately NOK 68 million.

For six individuals who will be transferred to Yara in the 2004 demerger, the vesting period for their 30,000 options ends at completion of the demerger. The options may be exercised at completion date, or over a six months period from the demerger completion, provided that the plan performance target is met at exercise date or, if earlier, when the ordinary performance period expires. If exercised after the completion date, the options' strike price will be adjusted to 91.5 percent of the original price, corresponding to the demerger ratio.

5. Operating and geographic segment information

Operating segments are components of a business that are evaluated regularly by dedicated senior management utilizing financial and operational information prepared specifically for the segment for the purpose of assessing performance and allocating resources. Generally, financial information is required to be disclosed on the same basis that is used internally enabling investors to see the company through the eyes of management.

Hydro's operating segments are managed separately and each operating segment represents a strategic business area that offers different products and serves different markets. Hydro's operating segments are the three business areas Oil & Energy, Aluminium and Agri. The operating units reporting directly to the business areas are called sectors. Sectors represent various businesses within each of the business areas, and their results are reviewed by the business area management. For reporting purposes, the business areas are divided into sub-segments, each of which comprises one or more sectors. Sub-segments are not operating units, but their results are presented in order to illustrate the results of upstream and downstream activities within a value chain of Hydro's vertically integrated activities.

Oil & Energy consists of Exploration and Production, and Energy and Oil Marketing. Exploration and Production is responsible for Hydro's oil and gas exploration, field development, and operation of production and transportation facilities. Energy and Oil Marketing includes Hydro's commercial operations in the oil, natural gas and power sectors, the operation of Hydro's power stations as well as marketing and sale of refined petroleum products (gasoline, diesel and heating oil) to retail customers. Energy and Oil Marketing buys and/or markets almost all oil production from Exploration and Production, and sells the equity gas production on a commission basis. From 2003, Hydro's gas transportation activities (as an owner of interests in the major gas transportation systems on the Norwegian Continental Shelf) are reported as part of Energy and Oil Marketing. Prior periods figures have been reclassified for comparative purposes.

Aluminium consists of Metals, Rolled Products and Extrusion and Automotive. Metals' activities include the production of primary aluminium and primary magnesium, aluminium oxide, remelting of metal, and the international trading of aluminium, aluminium products and aluminium oxide. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion and Automotive is involved in the manufacture and sale of extruded aluminium products and components for the automotive industry. Hydro's aluminium activities in North America, including trading activities, is included in Extrusion and Automotive.

Agri's main activities are the production and sale of ammonia and fertilizer products, including nitrate fertilizer, complex fertilizer and urea. Most of the production takes place in Europe while trading is done worldwide. In addition, Agri markets numerous products for industrial use which mainly have their origin in Hydro's ammonia and fertilizer production. Other activities consists of Petrochemicals, Treka AS (previously A/S Korn og Foderstof Kompagniet), VAW Flexible Packaging (sold April 2003) and certain other activities. Petrochemicals is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. Treka's main activity is production and sale of fish feed, after disposing of activities related to trading of grain, feedstuffs, fertilizers and other agricultural related products in November 2002 and January 2003.

Operating Segment Information

Hydro's steering model referred to as value-based management, reflects management's focus on cash flow-based performance indicators, before and after taxes. EBITDA[1] (defined as income/loss before tax, interest expense, depreciation, amortization, write-downs and certain other financial items) is an approximation of cash flow from operations before taxes. EBITDA is considered an important measure of performance for the company's operational areas and operating segments. EBITDA, in addition to operating income includes financial

1) EBITDA: Earnings before Interest, Tax, Depreciation and Amortization.

income, results from non-consolidated investee companies as well as gains and losses on sales of activities classified as "Other Income, net" in the income statement. It excludes depreciation, write-downs and amortization, as well as amortization of excess values in non-consolidated investee companies.

Hydro also uses cash return on gross investment (CROGI) as a measure of annual rate of return on assets employed. CROGI is defined as gross cash flow after taxes, divided by average gross investment[2], while gross cash flow is defined as EBITDA less total tax expense, gross investment is defined as total assets plus accumulated depreciation, amortization and write-downs, minus short-term interest-free debt[3]. Hydro manages long-term funding and taxes on a group basis. Therefore, segment debt is defined as short-term interest free liabilities excluding corporate income taxes payable and short-term deferred tax liabilities.

Certain segment information such as EBITDA and Gross Investment are non-GAAP measures. Therefore there is no directly corresponding figure in the financial statements. A reconciliation to GAAP measures is included at page 141–145.

Intersegment sales and transfers reflect arms length prices as if sold or transferred to third parties. Results of activities considered incidental to Hydro's main operations as well as unallocated revenues, expenses, liabilities and assets are reported separately under the caption "Corporate and eliminations". These amounts principally include interest income and expenses, realized and unrealized foreign exchange gains and losses and the net effect of pension schemes. In additions, elimination of gains and losses related to transactions between the Areas. The accounting policies of the operating segments reflect those described in the summary of significant accounting policies. See Note 1.

	External revenues			Internal revenues			Total operating revenues		
Amounts in NOK million	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Exploration and Production[1]	**12,099**	10,136	6,992	**25,805**	22,834	25,434	**37,904**	32,970	32,426
Energy and Oil Marketing[1]	**44,308**	41,929	41,315	**5,062**	3,986	4,509	**49,370**	45,915	45,824
Eliminations[2]	**(1,576)**	(965)	(846)	**(25,739)**	(22,075)	(25,225)	**(27,315)**	(23,040)	(26,070)
Hydro Oil & Energy	**54,831**	51,100	47,461	**5,128**	4,745	4,719	**59,959**	55,845	52,180
Metals	**26,509**	26,025	24,961	**13,414**	13,621	6,514	**39,923**	39,646	31,475
Rolled Products	**17,825**	14,135	4,126	**552**	655	102	**18,377**	14,790	4,228
Extrusion and Automotive	**24,472**	24,186	21,854	**57**	59	633	**24,529**	24,245	22,487
Other and eliminations[3]	**190**	162	1	**(13,867)**	(13,792)	(7,108)	**(13,677)**	(13,630)	(7,107)
Hydro Aluminium	**68,996**	64,508	50,942	**156**	543	141	**69,152**	65,051	51,083
Hydro Agri	**37,828**	32,818	36,809	**346**	530	598	**38,174**	33,348	37,407
Other activities[4]	**10,206**	17,988	17,714	**3,807**	3,781	4,647	**14,013**	21,769	22,361
Corporate and Eliminations[2]	**(79)**	626	73	**(9,437)**	(9,599)	(10,105)	**(9,516)**	(8,973)	(10,032)
Total	**171,782**	167,040	152,999	**—**	—	—	**171,782**	167,040	152,999

2) Deferred tax assets are not included in gross investment.

3) Deferred tax liabilities are not deducted from gross investment.

Amounts in NOK million	Depreciation, depletion and amortization 2003	2002	2001	Other operating expenses 2003	2002	2001	Operating income (loss) before fin. and other income 2003	2002	2001
Exploration and Production[1]	9,052	8,242	7,240	10,352	11,591	8,276	18,500	13,137	16,910
Energy and Oil Marketing[1]	591	764	780	46,111	42,367	42,777	2,668	2,784	2,267
Eliminations[2]	—	—	—	(27,290)	(23,066)	(26,070)	(25)	26	—
Hydro Oil & Energy	9,643	9,006	8,020	29,173	30,892	24,983	21,143	15,947	19,177
Metals	1,517	1,117	751	36,113	36,839	30,352	2,293	1,690	372
Rolled Products	650	496	104	17,595	14,589	4,066	132	(295)	58
Extrusion and Automotive	1,247	1,010	895	23,184	23,221	21,820	98	14	(228)
Other and eliminations[3]	—	—	—	(13,610)	(13,919)	(7,090)	(67)	289	(17)
Hydro Aluminium	3,414	2,623	1,750	63,282	60,730	49,148	2,456	1,698	185
Hydro Agri	1,133	1,172	1,571	34,241	29,969	33,722	2,800	2,207	2,114
Other activities[4]	892	1,100	911	13,535	20,656	21,790	(414)	13	(340)
Corporate and Eliminations[2)5)]	11	11	21	(7,800)	(8,960)	(10,000)	(1,727)	(24)	(53)
Total	15,093	13,912	12,273	132,431	133,287	119,643	24,258	19,841	21,083

Amounts in NOK million	Equity in net income non-consolidated investees 2003	2002	2001	Other income (expense), net 2003	2002	2001	EBITDA 2003	2002	2001
Exploration and Production[1]	29	31	35	—	77	—	27,624	21,593	24,312
Energy and Oil Marketing[1]	81	148	32	816	—	179	4,226	3,721	3,292
Eliminations[2]	(3)	—	(2)	—	—	—	(24)	26	—
Hydro Oil & Energy	107	179	65	816	77	179	31,826	25,340	27,604
Metals	379	(275)	196	—	—	—	4,298	2,703	1,766
Rolled Products	(14)	7	—	—	—	—	835	258	162
Extrusion and Automotive	68	49	(78)	—	—	(25)	1,432	1,084	632
Other and eliminations[3]	—	—	—	—	—	—	(67)	289	(17)
Hydro Aluminium	433	(219)	118	—	—	(25)	6,498	4,334	2,543
Hydro Agri	610	57	330	—	166	(53)	4,748	3,945	4,402
Other activities[4]	83	12	51	162	—	477	1,140	1,044	1,215
Corporate and Eliminations[2)5)]	(4)	4	2	(2,190)	(24)	—	(959)	995	1,993
Total	1,229	33	566	(1,212)	219	578	43,253	35,658	37,757

Amounts in NOK million	Gross Cash Flow after Tax 2003	2002	2001	Gross Investment 2003	2002	2001	CROGI[6] 2003	2002	2001
Exploration and Production[1]	16,504	13,610	14,097	124,655	115,938	106,382	13.7	12.2	13.7
Energy and Oil Marketing[1]	2,436	2,598	2,305	25,734	24,128	22,366	9.8	11.2	10.6
Eliminations[2]	(25)	18	—	28	53	(43)	—	—	—
Hydro Oil & Energy	18,915	16,226	16,402	150,417	140,119	128,705	13.0	12.1	13.2
Metals	3,617	2,188	1,651	38,896	34,905	26,330	9.8	7.1	6.0
Rolled Products	792	258	144	12,645	11,937	2,626	6.4	3.5	5.8
Extrusion and Automotive	1,398	1,077	632	18,737	16,846	14,011	7.9	7.0	4.5
Other and eliminations[3]	(46)	289	58	79	145	(148)	—	—	—
Hydro Aluminium	5,761	3,812	2,485	70,357	63,833	42,819	8.6	7.1	5.7
Hydro Agri	3,853	3,174	3,669	35,049	30,739	36,513	11.7	9.4	9.6
Other activities[4]	1,096	1,045	1,147	15,828	21,873	22,529	5.8	4.7	4.9
Corporate and Eliminations[2]	(2,516)	(1,877)	304	15,937	8,832	28,273	—	—	—
Total	27,109	22,380	24,007	287,588	265,396	258,839	9.8	8.5	9.4

1) From 2003, Hydro's gas transportation activities are reported as part of Energy and Oil Marketing. Prior periods have been reclassified for comparative purposes.

2) Corporate and eliminations includes elimination of unrealised loss on power contracts between Energy and other units in Hydro with NOK 447 million in 2003 and NOK 588 million in 2002. In addition, NOK 21 million and NOK 26 million is eliminated within the Oil and Energy Area in 2003 and 2002, respectively.

3) Other and eliminations includes unrealized gains and losses related to LME contracts with a loss of NOK 49 million in 2003, a gain of NOK 266 million in 2002, and a loss of NOK 50 million in 2001.

4) Other activities consist of the following: Petrochemicals, Treka AS (previously A/S Korn- og Foderstof Kompagniet), Flexible Packaging (sold in April 2003), Pronova, the industrial insurance company, Industriforsikring, and Hydro Business Partner.

5) Corporate and Elimination's operating income (loss) and EBITDA includes a net periodic pension cost of NOK 1,146 million for 2003, NOK 312 million for 2002, and a credit of NOK 421 million in 2001.

6) CROGI: Cash Return on Gross Investment, is defined as Gross Cash Flow after Tax divided by Gross Investment. CROGI is measured in percent.

	Current Assets[1]		Non-current Assets		Assets[1]	
Amounts in NOK million	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Exploration and Production[4]	**9,036**	8,397	**65,191**	64,933	**74,227**	73,330
Energy and Oil Marketing[4]	**10,398**	15,614	**15,558**	14,456	**25,956**	30,070
Eliminations	**(2,964)**	(2,459)	**21**	25	**(2,943)**	(2,434)
Hydro Oil & Energy	**16,470**	21,552	**80,770**	79,414	**97,240**	100,966
Metals	**10,698**	9,517	**22,333**	19,979	**33,031**	29,496
Rolled Products	**6,524**	6,451	**12,115**	4,464	**18,639**	10,915
Extrusion and Automotive	**7,858**	7,852	**10,715**	9,926	**18,573**	17,778
Other and eliminations	**(1,796)**	(1,506)	**3**	22	**(1,793)**	(1,484)
Hydro Aluminium	**23,284**	22,314	**45,166**	34,391	**68,450**	56,705
Hydro Agri	**13,860**	11,473	**11,762**	11,248	**25,622**	22,721
Other activities[5]	**6,015**	10,286	**4,955**	7,508	**10,970**	17,794
Corporate and Eliminations	**16,054**	772	**293**	8,253	**16,347**	9,025
Total	**75,683**	66,397	**142,946**	140,814	**218,629**	207,211

	Non-consolidated investees, investments and advances		Segment debt[2]		Investments[3]	
Amounts in NOK million	**2003**	**2002**	**2003**	**2002**	**2003[6]**	**2002**
Exploration and Production[4]	**414**	566	**6,032**	5,046	**10,270**	14,073
Energy and Oil Marketing[4]	**1,971**	1,400	**8,217**	13,268	**989**	622
Eliminations	**21**	25	**(2,965)**	(2,485)	**—**	—
Hydro Oil & Energy	**2,406**	1,991	**11,284**	15,829	**11,259**	14,696
Metals	**3,384**	2,632	**5,596**	4,405	**3,572**	12,728
Rolled Products	**1,576**	1,428	**2,769**	1,602	**466**	7,437
Extrusion and Automotive	**827**	842	**4,975**	4,758	**1,543**	5,153
Other and eliminations	**—**	—	**(1,914)**	(1,648)	**—**	—
Hydro Aluminium	**5,787**	4,902	**11,426**	9,117	**5,581**	25,318
Hydro Agri	**2,498**	2,089	**6,674**	5,948	**1,127**	1,543
Other activities[5]	**957**	1,127	**2,710**	3,221	**852**	3,115
Corporate and Eliminations	**1,063**	1,390	**2,641**	(4,430)	**81**	1,044
Total	**12,711**	11,499	**34,735**	29,685	**18,900**	45,716

1) Current assets and assets excludes internal cash accounts and accounts receivable related to group relief.

2) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.

3) Additions to property, plant and equipment plus long-term securities, intangible assets, long term advances and investments in non-consolidated investees.

4) From 2003, Hydro's gas transportation activities are reported as part of Energy and Oil Marketing. Prior periods have been reclassified for comparative purposes.

5) Other activities consists of the following: Petrochemicals, Treka AS (previously A/S Korn- og Foderstof Kompagniet), Flexible Packaging (sold in April 2003), Pronova, the industrial insurance company, Industriforsikring, and Hydro Business Partner.

6) Includes non-cash increase in investment from effect of change in accounting principle (SFAS 143), of NOK 1,932 million.

Amount in NOK million	Assets			Long-lived assets			Investments		
	2003	2002	2001	2003	2002	2001	2003[6)]	2002	2001
Norway	**128,925**	116,872	115,838	**91,133**	88,558	80,871	**12,734**	17,294	8,630
Germany	**20,975**	24,402	3,028	**12,569**	13,146	1,260	**903**	14,752	141
France	**5,685**	5,094	6,221	**1,832**	1,617	1,531	**334**	922	272
The Netherlands	**5,612**	3,241	6,396	**1,745**	1,448	1,126	**650**	410	439
Sweden	**5,488**	6,919	7,394	**1,748**	2,079	1,949	**296**	512	477
Denmark	**4,412**	6,460	8,516	**2,113**	2,182	3,428	**355**	438	1,000
Great Britain	**4,095**	4,142	6,563	**1,546**	1,552	1,826	**145**	272	200
Italy	**3,759**	3,279	3,153	**1,222**	1,036	749	**124**	499	50
Spain	**1,749**	1,429	920	**658**	590	300	**47**	381	197
Other	**2,825**	2,208	4,567	**928**	819	551	**158**	483	110
Total EU	**54,600**	57,174	46,758	**24,361**	24,469	12,720	**3,012**	18,669	2,886
Other Europe	**1,313**	1,278	848	**946**	908	210	**55**	642	28
Total Europe	**184,838**	175,324	163,444	**116,440**	113,935	93,801	**15,801**	36,605	11,544
USA	**5,748**	5,894	7,681	**2,255**	2,457	2,102	**390**	1,399	312
Asia	**5,749**	5,465	5,012	**3,727**	3,621	2,891	**360**	1,373	805
Other Americas	**5,934**	5,099	6,584	**4,342**	3,792	4,286	**366**	1,290	770
Africa	**6,087**	5,771	6,126	**3,659**	3,506	4,176	**831**	670	1,874
Canada	**7,492**	7,057	8,908	**6,443**	6,173	7,149	**868**	1,794	987
Australia and New Zeland	**2,781**	2,601	167	**2,300**	2,255	144	**284**	2,585	36
Total outside Europe	**33,791**	31,887	34,478	**22,726**	21,804	20,748	**3,099**	9,111	4,784
Total	**218,629**	207,211	197,922	**139,166**	135,739	114,549	**18,900**	45,716	16,328

Amounts in NOK million	Operating revenue		
	2003	2002	2001
Norway	**17,086**	18,888	12,758
Great Britain	**22,531**	18,435	20,787
Germany	**20,357**	19,348	18,942
France	**15,385**	14,509	12,155
Sweden	**10,828**	10,375	11,425
Italy	**8,854**	7,895	6,801
Spain	**6,336**	4,798	3,757
The Netherlands	**5,313**	5,113	3,291
Denmark	**2,529**	6,002	7,262
Other	**9,821**	10,347	9,088
Total EU	**101,954**	96,822	93,508
Switzerland	**5,306**	6,529	6,063
Other Europe	**6,581**	6,799	5,529
Total Europe	**130,927**	129,038	117,858
USA	**15,490**	14,931	16,584
Asia	**9,836**	8,978	6,479
Other Americas	**7,069**	6,198	6,035
Africa	**4,200**	4,088	4,156
Canada	**3,302**	3,193	1,419
Australia and New Zeland	**958**	614	467
Total outside Europe	**40,855**	38,002	35,141
Total	**171,782**	167,040	152,999

The identification of assets, long-lived assets and investments is based upon location of operation. Included in long-lived assets are investments in non-consolidated investees; property, plant and equipment (net of accumulated depreciation) and non-current financial assets.

Operating revenues are identified by customer location.

6. Restructuring Costs

In October of 2001 Hydro discontinued production of primary magnesium in Norway. As a result, Hydro closed the Porsgrunn magnesium production facilities in March of 2002, and started the clean up and dismantling work. Dismantling and clean-up work is expected to be finalized in 2004. As part of the closure of the magnesium plant facilities, restructuring costs totaling NOK 921 million were recognized at the end of 2001; of this amount, NOK 261 million was charged as an impairment loss on the plant facilities, the remaining NOK 660 million of restructuring costs included termination costs for customer and supplier agreements, work-force reduction costs, and dismantling and clean-up costs. At the same time NOK 40 million related to write down of inventories due to obsolences was expensed. Hydro recorded additional restructuring costs of NOK 59 million related to work-force reduction in 2002. The initial restructuring accrual was reduced by NOK 69 million during 2002 due to the reversal of certain accruals relating to contract termination costs that were lower than originally anticipated.

The following table summarizes the types and amounts recognized as accrued expenses for the restructuring together with changes in the accrual for the twelve-month period ended 31 December 2002, and the period ended 31 December, 2003.

Amounts in NOK million	Demolition cost	Workforce severance	Shutdown cost of operation	Contracts termination	Total
31 December, 2001	316	130	98	116	660
Additions (deductions)[1]	—	59	—	(69)	(10)
Payments	(41)	(171)	(98)	(47)	(357)
31 December, 2002	275	18	—	—	293
Payments	(131)	(18)	—	—	(149)
31 December, 2003	144	—	—	—	144

1) Charged to restructuring costs in the income statement.

7. Operating costs and expenses

Operating costs include research and development, operating lease expense and payroll and related costs as follows:

Amounts in NOK million	2003	2002	2001
Research and development expense	850	815	796
Operating lease expense:[1]			
Drilling rigs, ships, office space	1,323	1,715	1,489
Office space leased from Hydro's independent pension trust	210	206	211
Total	1,533	1,921	1,700
Payroll and related costs:			
Salaries	15,921	15,561	13,306
Social security costs	2,697	2,398	1,927
Social benefits	687	788	503
Net periodic pension cost (Note 20)	2,480	1,586	1,501
Total	21,785	20,333	17,237

1) Total minimum future rentals of NOK 7,257 million are due under non-cancelable operating leases as follows (in NOK million): 2004 — 1,188; 2005 — 1,059; 2006 — 921; 2007 — 873; 2008 — 700; and thereafter — 2,516.

Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December, 2003, 2002, 2001. See also financial review page 82.

8. Financial income and expense

Amounts in NOK million	2003	2002	2001
Interest income	**1,147**	1,515	2,762
Net gain (loss) on securities	**183**	(269)	(113)
Dividends received	**137**	172	198
Interest income and other financial income	**1,467**	1,418	2,847
Interest expense	**(2,912)**	(3,189)	(3,721)
Capitalized interest	**715**	607	685
Net foreign exchange gain (loss)	**1,035**	3,262	(416)
Other, net	**(104)**	(163)	(157)
Interest expense and foreign exchange gain (loss)	**(1,266)**	517	(3,609)
Net financial income (expense), net	**201**	1,935	(762)

9. Other income and expense

For the year 2003, other items resulted in a loss of NOK 1,212 million. The loss included a charge of NOK 2,207 million resulting from new Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian continental shelf. In accordance with earlier regulations, removal costs could not be deducted when calculating taxable income. Instead, the Norwegian state assumed a portion of the removal costs by means of a special removal grant. The new rules permit removal costs to be deducted from taxable income. The amendment resulted in a charge in the second quarter representing the estimated value of existing grants. At the same time, a deferred tax asset representing the value of the new tax deductions, was included as a reduction to the tax provision for the second quarter in the amount of NOK 2,380 million. Further other income consisted of a gain on the sale of Hydro's share in Skandinaviska Raffinaderi AB, the Scanraff oil refinery of NOK 490 million. The remaining NOK 505 million consisted of a non cash gain from the transfer of the Company's interest in the Sundsfjord power plant (NOK 326 million), gain on the disposal of Carmeda AB (NOK 139 million) and sale of the Formats activity (NOK 40 million).

Other income of NOK 219 million in 2002 consisted of a gain on the sale of Hydro's interest in the oil company Pelican AS with NOK 77 million, the remaining NOK 142 million related primarily to earnings from the divestment of the following activities in the Agri area: KA Rasmussen, parts of the formate activity and the reorganizing of the Vlaardingen operations in the Netherlands into a new joint venture company.

In 2001, other income and expense of NOK 578 million consisted of: Gain on sale of Hydro Seafood UK of NOK 418 million, gain on sale of transmission grid assets of NOK 179 million, gain on sale of Singapore Polymer Corporation of NOK 59 million, loss on sale of Oleochemicals of NOK 53 million and charges of NOK 25 million relating to the sale of Fundo a.s. in 2000.

10. Income taxes

Amounts in NOK million	2003	2002	2001
Income before taxes and minority interest:			
Norway	**20,043**	17,876	18,763
Other countries	**4,433**	4,152	2,702
Total	**24,476**	22,028	21,465
Current taxes:			
Norway	**13,853**	12,766	13,631
Other countries	**1,702**	1,131	432
Current income tax expense	**15,555**	13,897	14,063
Deferred taxes:			
Norway	**(1,568)**	(510)	(576)
Other countries	**(50)**	(109)	263
Deferred tax expense (benefit)	**(1,618)**	(619)	(313)
Total income tax expense	**13,937**	13,278	13,750

Components of deferred income tax expense

Amounts in NOK million	2003	2002	2001
Deferred tax expense (benefit), excluding items below	**534**	654	(230)
Benefits of tax loss carryforwards	**57**	(495)	2
Tax expense (benefit) allocated to other comprehensive income	**180**	(740)	52
Effect of tax law changes	**(16)**	125	78
Non-recurring effect of tax law changes relating to the removal cost for oil and gas installations	**(2,380)**	—	—
Net change in valuation allowance	**7**	(163)	(215)
Deferred tax expense (benefit) — US GAAP	**(1,618)**	(619)	(313)
Adjustments to N GAAP:			
Tax effects of differences between US GAAP and N GAAP (Note 28)	***(58)***	*99*	*109*
Deferred tax expense (benefit) — N GAAP	***(1,676)***	*(520)*	*(204)*

Reconciliation of Norwegian nominal statutory tax rate to effective tax rate

Amounts in NOK million	2003	2002	2001
Expected income taxes at statutory tax rate[1)]	**6,853**	6,168	6,010
Petroleum surtax[2)]	**9,980**	8,665	9,138
Uplift benefit[2)]	**(990)**	(1,034)	(800)
Hydro-electric power surtax[3)]	**152**	217	190
Tax law changes	**(16)**	125	78
Non-recurring effect of tax law changes relating to the removal cost for oil and gas installations	**(2,380)**	—	—
Losses and other deductions with no tax benefit	**296**	517	549
Non-deductible expenses	**59**	79	28
Foreign tax rate differences	**249**	127	62
Tax free income	**(734)**	(363)	(395)
Dividend exclusion	**(7)**	(60)	(22)
Losses and other benefits not previously recognized	**(180)**	(581)	(637)
Other, net	**655**	(582)	(451)
Income tax expense — US GAAP	**13,937**	13,278	13,750
Effective tax rate — US GAAP	**56.9%**	60.3%	64.1%
Tax effect of differences between US GAAP and N GAAP (Note 28)	***(58)***	*99*	*109*
Income tax expense — N GAAP	***13,879***	*13,377*	*13,859*
Income before taxes — N GAAP	***24,128***	*21,988*	*21,592*
Effective tax rate — N GAAP	***57.5%***	*60.8%*	*64.2%*

1) Norwegian nominal statutory tax rate is 28 percent.

2) Income from oil and gas activities on the Norwegian Continental Shelf is taxed according to the Petroleum Tax Law. This stipulates a surtax of 50 percent after deducting uplift, a special deduction for surtax, in addition to normal corporate taxation of 28 percent.

3) A surtax of 27 percent is applied to taxable income, with certain adjustments, for Norwegian hydro-electric power plants. The surtax comes in addition to the normal corporate taxation. Tax depreciation, including that from the upward revision of basis under the new law, is deductible for both corporate tax and surtax purposes.

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December, 2003 and 2002.

	US GAAP Deferred Tax			
Amounts in NOK million	**Assets 2003**	**Liabilities 2003**	**Assets 2002**	**Liabilities 2002**
Short-term:				
Marketable securities	**14**	**—**	93	(11)
Inventory valuation	**154**	**(350)**	121	(273)
Accrued expenses	**2,059**	**(1,551)**	2,700	(1,127)
Unrealized exchange (gains) losses	**119**	**(282)**	80	(80)
Uplift benefit	**795**	**—**	844	—
Other	**2**	**(207)**	41	(298)
Long-term:				
Unrealized exchange (gains) losses	**339**	**(1,016)**	156	(1,435)
Property, plant and equipment	**7,253**	**(37,067)**	4,007	(31,962)
Capitalized interest	**—**	**(3,575)**	—	(3,665)
Exploration drilling costs	**—**	**(2,440)**	—	(2,661)
Other non-current assets	**371**	**(713)**	147	(630)
Accrued expenses	**1,358**	**(859)**	703	(1,047)
Pensions	**1,606**	**(1,535)**	1,543	(1,486)
Deferred (gains) losses on sales	**229**	**(1,734)**	161	(1,632)
Uplift benefit	**1,573**	**—**	1,545	—
Abandonments and decommissioning accruals	**3,598**	**—**	871	—
Cash Flow Hedges	**—**	**(452)**	—	(425)
Other	**648**	**(1,230)**	554	(622)
Total tax loss carryforwards	**2,609**	**—**	2,727	—
Subtotal	**22,727**	**(53,011)**	16,293	(47,354)
Total valuation allowance	**(1,682)**	**—**	(1,900)	—
Gross deferred tax assets and liabilities	**21,045**	**(53,011)**	14,393	(47,354)
Adjustments for N GAAP:				
(Note 28)				
Short and long-term:				
Unrealized gains	***—***	***491***	*—*	*(51)*
Gross deferred tax assets and liabilities, N GAAP	***21,045***	***(52,520)***	*14,393*	*(47,405)*
Net — N GAAP	***1,110***	***(32,585)***	*2,184*	*(35,196)*

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 16,838 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiary which can be remitted tax-free as dividends.

At the end of 2003, Hydro had tax loss carryforwards of NOK 8,181 million, primarily in Norway, Germany, Canada, Italy, Jamaica, United Kingdom and Malaysia. Carry forward amounts expire as follows:

Amounts in NOK million	
2004	333
2005	173
2006	474
2007	256
2008	135
After 2008	2,921
Without expiration	3,889
Total tax loss carryforwards	8,181

11. Other liquid assets

Amounts in NOK million	2003	2002
Bank time deposits	32	1,161
Marketable equity securities	550	551
Debt securities and other	999	935
Total other liquid assets	1,581	2,647

The net change in unrealized gains on securities for the years ended 31 December 2003, 2002 and 2001 was a net gain of NOK 283 million, a net loss of NOK 259 million and a net loss of NOK 22 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,601 million and NOK 1,822 million as of 31 December, 2003 and 2002, respectively.

12. Inventories

Amounts in NOK million	2003	2002
Finished goods	9,055	8,804
Work in progress	2,626	2,734
Raw materials	5,669	5,694
Total inventories	17,350	17,232

13. Non-Consolidated investees

Amounts in NOK million	Hydro Texaco	Scanraff	Alunorf	Alunorte	Søral	Aluchemie	Meridian	Qafco	Noretyl	Other	Total
Balance 01.01.2002	854	297	—	1,170	600	29	628	1,266	512	4,331	9,687
Investments (sale), net		159	1,468	137			(5)			1,207	2,966
Change in long-term advances, net		145				107				857	1,109
Transfers (to) from other investments										(109)	(109)
Hydro's share of net income (loss)	115		47	(291)	75	2	19	121	72	109	269
Amortization and write-down			(40)	(21)						(174)	(235)
Dividends and other payments received by Hydro	(1)	(23)			(100)	(3)	(5)	(95)		(187)	(414)
Foreign currency translation and other	(49)	(90)	(47)	(459)			(142)	(290)		(697)	(1,774)
Balance 31.12.2002	**919**	**488**	**1,428**	**536**	**575**	**135**	**495**	**1,002**	**584**	**5,337**	**11,499**
Changes in 2003:											
Investments (sale), net	66	(343)		58						496	277
Change in long-term advances, net		(330)				323			500	(74)	419
Transfers (to) from other investments										(7)	(7)
Hydro's share of net income (loss)	116		41	305	92		51	290	62	484	1,441
Amortization and write-down	(66)		(55)	(20)					—	(71)	(212)
Dividends and other payments received by Hydro	(54)		(6)		(99)	(3)	(9)	(121)	(709)	(298)	(1,299)
Foreign currency translation and other	76	185	168	23		5	49	(50)	—	137	593
Balance 31.12.2003	**1,057**	**—**	**1,576**	**902**	**568**	**460**	**586**	**1,121**	**437**	**6,004**	**12,711**
Accumulated additional amortization N GAAP[1)]							*(48)*			*(2)*	*(50)*
Balance 31.12.2003 N GAAP	***1,057***	***—***	***1,576***	***902***	***568***	***460***	***538***	***1,121***	***437***	***6,002***	***12,661***

1) Amortization N GAAP 2003 amounts to NOK 38 million.

Specification of Non-consolidated Investees

Amounts NOK million, except ownership	Percentage owned by Hydro 2003	Investments in and advances to investees 2003	2002	Hydro's current receivable (payable), net with investees 2003	2002
Hydro Texaco	50.0%	1,057	919	(61)	(61)
Scanraff	—	—	488	—	12
Alunorte	34.0%	902	536	(116)	(47)
Søral	49.9%	568	575	(137)	(103)
Aluchemie	21.2%	460	135	—	(4)
Meridian	49.0%	586	495	8	62
Qafco	25.0%	1,121	1,002	(378)	(142)
Alunorf	50.0%	1,576	1,428	27	(115)
Noretyl	50.0%	437	584	47	(179)
Others		6,004	5,337	(186)	(127)
Total		12,711	11,499	(796)	(704)

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follow:

Hydro Texaco a.s operates 893 gasoline stations and 162 diesel stations in Norway, Denmark and the Baltics. Hydro and ChevronTexaco Corp. each own 50 percent in the joint venture. Hydro sells and purchases oil related products with the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 428 million, NOK 510 million and NOK 558 million in 2003, 2002 and 2001, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 1,003 million, NOK 674 million and NOK 1,194 million in 2003, 2002 and 2001, respectively. Hydro Texaco is part of Energy and Oil Marketing.

In December 2003, Hydro sold its 25 percent share and its accompanying petroleum stocks at Skandinaviska Raffinaderi AB (Scanraff) in Sweden to the Swedish oil company Preem Petroleum AB. The net result from the transaction was NOK 490 million. After the sale Hydro will meet its requirements for refined products to its Swedish retail marketing by means of a long-term supply agreement at market prices with Preem Petroleum AB.

Aluminium Norf GmbH (Alunorf) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Alcan (50 percent each). Hydro's shares in Alunorf were part of the VAW acquisition in 2002. Each partner supplies Alunorf with ingots, which are transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro amounted to NOK 1,301 million in 2003 and NOK 1,941 million in 2002. Hydro sells alloys to Alunorf, operating revenues from sales to Alunorf were not material to Hydro Aluminium. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's owner share is at present 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 907 million, NOK 433 million and NOK 734 million in 2003, 2002 and 2001, respectively. Alunorte is part of Metals.

Sør-Norge Aluminium AS (Søral), part of Metals, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each major owner at current market prices. The other 50 percent owner of Søral is an unaffiliated company. Sale of aluminium from Søral to Hydro amounted to NOK 949 million, NOK 847 million and NOK 1,018 million in 2003, 2002 and 2001, respectively. Sales from Hydro to Søral amounted to NOK 356 million, NOK 363 million and NOK 350 million in 2003, 2002 and 2001, respectively.

Aluminium & Chemie Rotterdam B.V (Aluchemie) is an anode producer located in the Netherlands. Hydro's share is at present 21.21 percent. Hydro purchased anodes from Aluchemie amounting to NOK 285 million in 2003 and NOK 263 million in 2002. Sales from Hydro to Aluchemie amounted to NOK 50 million in 2003 and NOK 47 million in 2002. Aluchemie is part of Metals.

Meridian Technologies Inc. (Meridian), part of Extrusion and Automotive, is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro. Sales from Hydro to Meridian amounted to NOK 198 million, NOK 249 million and NOK 152 million in 2003, 2002 and 2001, respectively.

Qatar Fertiliser Company S.A.Q. (Qafco) owns and operates a fertilizer complex for which Hydro provides marketing support and technical assistance. Hydro has a 25 percent ownership in Qafco, the remaining 75 percent of Qafco is owned by Qatar Petroleum, which is owned by the State of Qatar. Qafco operates three separate lines for production of ammonia and urea, a fourth is currently under construction. The expansion is scheduled for completion in June 2004. Hydro purchased urea from Qafco amounting to NOK 1,524 million, NOK 944 million, NOK 876 million in 2003, 2002 and 2001, respectively.

Hydro and Borealis own Noretyl AS as a joint venture (50-50 percent). Noretyl is part of Petrochemicals. Hydro paid processing fees to Noretyl for refining NGL of NOK 245 million, NOK 242 million and NOK 250 million in 2003, 2002 and 2001 respectively.

Non-consolidated investees split by segment can be found in Note 5.

Non-consolidated investees — 100 percent basis

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, is accounted for using the equity method.

Income Statement Data (unaudited)

Amounts in NOK million	2003	2002	2001
Operating revenues	**33,868**	35,204	36,772
Operating income	**5,763**	4,534	6,507
Income before taxes and minority interest	**5,538**	1,772	3,475
Net income	**4,677**	1,240	2,771
Hydro's share of net income	**1,441**	269	714

Balance Sheet Data (unaudited)

Amounts in NOK million	2003	2002	2001
Current assets	**19,647**	14,805	17,205
Non-current assets	**39,714**	38,218	40,066
Assets	**59,361**	53,023	57,271
Current liabilities	**10,850**	9,548	11,589
Non-current liabilities	**17,396**	16,600	15,321
Minority interest	**658**	6	27
Shareholders' equity	**30,457**	26,869	30,334
Liabilities and shareholders' equity	**59,361**	53,023	57,271
Hydro's investments and advances	**12,711**	11,499	9,687

14. Prepaid pension, investments and non-current assets

Amounts in NOK million	2003	2002
Goodwill for consolidated subsidiaries, less accumulated amortization	**1,133**	1,217
Intangible assets, less accumulated amortization	**1,799**	1,967
Total intangible assets	**2,932**	3,184
Prepaid pension (Note 20)	**5,080**	4,989
Available-for-sale securities at fair value[1)]	**19**	19
Other investments at cost	**2,484**	2,948
Non-current assets	**3,872**	3,941
Total prepaid pension, investments and non-current assets	**11,455**	11,897
Total — US GAAP[1)]	**14,387**	15,081
Total prepaid pension, investments and non-current assets	***11,455***	*11,897*
Adjustments[2)] (Note 28)	***(1,156)***	*(303)*
Total prepaid pension, investments and non-current assets — N GAAP	***10,299***	*11,594*

1) As of 31 December, 2003 and 2002, available-for-sale securities at cost amounted to NOK 4 million. Unrealized holding gain as of 31 December, 2003 and 2002, was NOK 15 million.

2) The difference consists of fair value adjustment for cash flow hedge instruments, unrealized gain on available for sale securities, and unrealized gain on freestanding derivatives.

15. Property, plant and equipment

Amounts in NOK million	Land-based Activities						Total
	Land	Machinery and Equipment	Buildings	Plant under construction	Other	E&P[1]	
Cost:							
Cost 31.12.2002	1,580	59,169	17,017	6,721	774	126,299	211,560
Implementation effect SFAS 143, Asset Retirement Obligations[4]	—	14	—	—	—	1,918	1,932
Cost 1.1.2003 including SFAS 143 implementation	1,580	59,183	17,017	6,721	774	128,217	213,492
Additions at cost	15	1,877	258	5,180	—	8,638	15,968
Retirements	(324)	(3,959)	(940)	(210)	—	(2,692)	(8,125)
Transfers	9	4,703	1,164	(5,878)	—	2	—
Foreign currency translation	174	3,524	736	128	—	1,036	5,598
Balance 31.12.2003	**1,454**	**65,328**	**18,235**	**5,941**	**774**	**135,201**	**226,933**
Depreciation:							
Balance 31.12.2002	—	(34,935)	(8,064)	—	(302)	(55,917)	(99,218)
Implementation effect SFAS 143, Asset Retirement Obligations[4]	—	(2)	—	—	—	(829)	(831)
Accumulated depreciation 1.1.2003 including SFAS 143 implementation	—	(34,937)	(8,064)	—	(302)	(56,746)	(100,049)
Depreciation, depletion and amortization[2]	(21)	(4,323)	(655)	—	(37)	(9,113)	(14,149)
Retirements	—	2,186	431	—	—	2,237	4,854
Foreign currency translation and transfers		(1,956)	(291)	—	—	(344)	(2,591)
Balance 31.12.2003	**(21)**	**(39,030)**	**(8,579)**	**—**	**(339)**	**(63,966)**	**(111,935)**
Net Book Value:							
Balance US GAAP 31.12.2002	1,580	24,234	8,953	6,721	472	70,382	112,342[3]
Balance N GAAP 31.12.2002[4]	*1,580*	*24,246*	*8,953*	*6,721*	*472*	*71,471*	*113,443[3]*
Balance 31.12.2003	**1,433**	**26,298**	**9,656**	**5,941**	**435**	**71,235**	**114,998[3]**

1) Includes land-based activities and transportation systems for Exploration and Production (E&P).

2) Impairment losses for 2003, 2002 and 2001 were NOK 115 million, NOK 398 million and NOK 396 million, respectively. In 2001, additional impairment losses of NOK 261 million was recorded as restructuring cost. The fair value of the impaired asset was generally estimated by discounting the expected future cash flows of the individual assets. During the three years ended 31 December 2003, impairment was generally indicated as the result of current period cash flow losses, combined with a history of losses, or a significant change in the manner in which the asset is to be used.

3) Includes NOK 218 million and NOK 173 million related to capital leases for 2003 and 2002 respectively.

4) N GAAP balance for 31.12.2002 has been restated to include the implementation of FAS 143 Asset Retirement Obligations

16. Goodwill and intangibles

Intangible Assets

Amounts in NOK million	Finite Useful Life	Indefinite Useful Life	Total
Cost:			
Cost 31.12.2002	3,284	5	3,289
Additions at cost	111	—	111
Disposals	(175)	—	(175)
Foreign currency translation and transfers	269	—	269
Accumulated amortization 31.12.2003	(2,038)	—	(2,038)
Net book value 31.12.2003	**1,451**	**5**	**1,456**

Amortization of intangibles of NOK 429 million and NOK 397 million were recorded for 2003 and 2002, respectively. In addition, 2003 figures includes impairment loss of NOK 43 million.

Estimated amortization expense, in million NOK for the next five years is 2004 — 403, 2005 — 315, 2006 — 271, 2007 — 169 and 2008 — 50.

Pro Forma information

The following table reconciles the reported Earnings Before Interest Expenses and Taxes (EBIT), reported net income, and reported earnings per share to that which would have resulted for the year ended December 31, 2001 assuming SFAS 142 were adopted on January 1, 2001.

Amounts in NOK million, except per share data	2003	2002	2001
Reported earnings before interest expenses and taxes (EBIT)	**25,742**	21,511	25,074
Goodwill amortization	**—**	—	178
Pro forma EBIT	**25,742**	21,511	25,252
Net income	**10,968**	8,765	7,892
Goodwill amortization (after tax)	**—**	—	178
Pro forma net income	**10,968**	8,765	8,070
Reported earnings per share	**42.60**	34.00	30.50
Goodwill amortization per share	**—**	—	0.70
Pro forma earnings per share	**42.60**	34.00	31.20

Goodwill

Amounts in NOK million	Extrusion and Automotive	Other	Total
Balance at December 31, 2002	1,018	199	1,217
Adjustments:			
Goodwill acquired	26	43	69
Impairment loss	—	(166)	(166)
Currency translation effect	12	24	36
Other	—	(23)	(23)
Balance at December 31, 2003	**1,056**	**77**	**1,133**
Accumulated additional amortization N GAAP[1)]	*(259)*	*(13)*	*(272)*
Foreign currency translation N GAAP	*2*	*(2)*	*—*
Balance at December 31, 2003 N GAAP	**799**	**62**	**861**

1) Amortization N GAAP 2003 amounts to NOK 125 million.

Original cost of goodwill for 2003 was NOK 1 809 million. Accumulated amortization of goodwill for N GAAP amounted to NOK 948 million. Hydro incurred in 2003 a NOK 166 million goodwill impairment charge in "Other Activities" related to Treka.

17. Bank loans and other interest bearing short-term debt

Amounts in NOK million	Weighted Average Interest Rates 2003	Weighted Average Interest Rates 2002	2003	2002
Bank loans and overdraft facilities	**3.2%**	4.7%	**1,735**	3,011
Commercial paper	**8.5%**	3.5%	**2**	20
Other	**2.2%**	4.3%	**3,832**	4,275
Total bank loans and other interest-bearing short-term debt			**5,569**	7,306

As of 31 December, 2003, Norsk Hydro ASA had unused shortterm credit facilities with various banks totalling approximately NOK 3,173 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

18. Other current liabilities

Amounts in NOK million	2003	2002
Accounts payable	**17,871**	14,732
Income taxes payable	**8,155**	8,646
Payroll and value added taxes	**3,703**	3,106
Accrued liabilities	**10,811**	8,839
Other liabilities	**2,350**	3,008
Total other current liabilities	**42,890**	38,331

19. Long-term debt

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

Long-term debt payable in various currencies

Amounts in million	Weighted Average Interest Rates	Denominated Amount 2003	Balance in NOK 2003	Balance in NOK 2002
USD	7.4%	**2,935**	**19,558**	20,390
NOK	6.0%	**1,580**	**1,580**	2,180
GBP	6.5%	**225**	**2,672**	3,641
EUR	6.3%	**400**	**3,362**	2,915
Other			**21**	17
Total unsecured debenture bonds:			**27,193**	29,143
USD	4.5%	**2**	**10**	81
SEK	5.5%	**1,000**	**926**	795
EUR	2.5%	**69**	**585**	479
Other			**215**	142
Total unsecured bank loans			**1,736**	1,497
Capital lease obligations			**152**	122
Mortgage loans			**42**	1,400
Other long-term debt			**687**	698
Outstanding debt			**29,810**	32,860
Less: Current portion			**(1,242)**	(1,958)
Total long-term debt			**28,568**	30,902

As of 31 December, 2003 the fair value of long-term debt, including the current portion, was NOK 34,896 million and the carrying value was NOK 29,810 million.

Foreign currency swaps are not reflected in the table above. (See Note 24).

Payments on long-term debt fall due as follows

Amounts in NOK million	Debentures	Bank loans	Capital lease and other	Total
2004	1,007	53	181	1,241
2005	505	512	332	1,349
2006	505	94	182	781
2007	5	505	72	582
2008	5	487	33	525
Thereafter	25,166	85	81	25,332
Total	27,193[1]	1,736[2]	881	29,810

1) Of which Norsk Hydro ASA is responsible for NOK 27,061 million.

2) Of which Norsk Hydro ASA is responsible for NOK 1,356 million.

Norsk Hydro ASA has entered into long-term committed stand-by credit facility agreements with several international banks for a total amount of USD 2,025 million. Of this amount, USD 350 million expires in 2007, USD 1,450 million in 2009 and the remainder in 2010. There are no borrowings under these facilities as of 31 December, 2003. Average commitment fee on these facilities is 0.15 percent.

20. Employee retirement plans

Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans.

Net periodic pension cost

Amounts in NOK million	2003	2002	2001
Defined benefit plans:			
Benefits earned during the year, net of participants' contributions	**747**	610	543
Interest cost on prior period benefit obligation	**1,526**	1,314	1,087
Expected return on plan assets	**(1,087)**	(1,265)	(1,373)
Recognized loss (gain)	**326**	58	(11)
Amortization of prior service cost	**148**	145	151
Amortization of net transition asset	**(5)**	(58)	(57)
Curtailment loss	**20**	119	117
Settlement loss (gain)	**199**	(4)	1
Net periodic pension cost	**1,874**	919	458
Defined contribution plans	**36**	48	57
Multiemployer plans	**39**	21	8
Termination benefits and other	**531**	598	978
Total net periodic pension cost	**2,480**	1,586	1,501
Change in the additional minimum pension liability included within other comprehensive income	**182**	472	553

Change in projected benefit obligation (PBO)

Amounts in NOK million	2003	2002
Projected benefit obligation at beginning of year	**(23,714)**	(17,620)
Benefits earned during the year	**(766)**	(627)
Interest cost on prior period benefit obligation	**(1,526)**	(1,314)
Actuarial loss	**(1,776)**	(2,722)
Plan amendments	**(18)**	49
Benefits paid	**1,001**	912
Curtailment loss	**(16)**	(39)
Settlements	**445**	8
Special termination benefits	**(73)**	(187)
Business combinations	**—**	(2,993)
Divestments	**303**	6
Inclusion of plans reported in line item "Termination benefits and other" in prior year	**(2,131)**	—
Foreign currency translation	**(962)**	813
Projected benefit obligation at end of year	**(29,233)**	(23,714)

Change in pension plan assets

Amounts in NOK million	2003	2002
Fair value of plan assets at beginning of year	**15,122**	16,876
Actual return on plan assets	**1,880**	(1,119)
Company contributions	**1,070**	648
Plan participants' contributions	**20**	17
Benefits paid	**(704)**	(686)
Settlements	**(445)**	(8)
Divestments	**—**	(9)
Inclusion of plans reported in line item "Termination benefits and other" in prior year	**1,457**	—
Foreign currency translation	**319**	(597)
Fair value of plan assets at end of year	**18,719**	15,122

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2003	2002
Defined benefit plans:		
Funded status of the plans at end of year	**(10,514)**	(8,592)
Unrecognized net loss	**7,953**	6,854
Unrecognized prior service cost	**1,344**	1,398
Unrecognized net transition asset	**—**	(6)
Net prepaid (accrued) pension recognized	**(1,217)**	(346)
Termination benefits and other	**(1,460)**	(1,516)
Total net prepaid (accrued) pension recognized	**(2,677)**	(1,862)
Amounts recognized in the balance sheet consist of:		
Prepaid pension	**5,080**	4,989
Accrued pension liabilities	**(9,533)**	(8,385)
Intangible asset	**343**	283
Accumulated other comprehensive income	**1,433**	1,251
Net amount recognized	**(2,677)**	(1,862)

Plans in which the accumulated benefit obligation exceeds plan assets:

Amounts in NOK million	2003	2002
Projected benefit obligation	**15,876**	11,075
Accumulated benefit obligation (ABO)	**13,658**	9,693
Plan assets	**6,082**	3,380

Weighted-average assumptions used to determine net periodic pension cost

	2003	2002	2001
Discount rate	**6.5%**	6.7%	7.1%
Expected return on plan assets	**7.6%**	8.0%	8.0%
Rate of compensation increase	**3.4%**	2.9%	3.0%

Weighted-average assumptions used to determine pension obligation at end of year

	2003	2002
Discount rate	**5.8%**	6.6%
Rate of compensation increase	**3.4%**	3.4%

Investment profile plan assets

	2003	2002
Asset category		
Equity securities	**34%**	30%
Debt securities	**39%**	39%
Real estate	**15%**	19%
Other	**12%**	12%
Total	**100%**	100%

Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be approximately one percentage point above the yield on a portfolio of long-term corporate bonds that receive one of the two highest ratings given by a recognized rating agency.

Hydro expects to contribute NOK 800 million to its pension plans in 2004.

In 2003, Hydro performed SFAS 87 valuations for certain defined benefit plans that were reported in line item "Termination benefits and other" in prior year. The immediate impact of applying SFAS 87 provisions on these plans resulted in an increased projected benefit obligation (PBO) of NOK 2,131 million, and increased pension plan assets of NOK 1,457 million. The difference between the plans' funded status according to SFAS 87 and what was recognized in the balance sheet, has been offset as unrecognized net loss and unrecognized prior service cost with NOK 537 million and NOK 65 million, respectively. Prior year financial statements have not been restated.

In 2003, Hydro incurred a settlement loss of NOK 199 million, and in 2002, Hydro incurred a curtailment loss of NOK 119 million. These charges include settlement and curtailment losses resulting from an agreement between Hydro and an external party, to transfer Hydro's operatorship of certain licenses on the Norwegian continental shelf to the external party, including the transfer of employment for 535 employees, as of 1 January, 2003.

In 2001, Hydro's Norwegian activities incurred termination benefit costs of NOK 654 million and a curtailment loss of NOK 116 million. These charges included costs to improve competitiveness for certain Norwegian operations, and curtailment loss resulting from the termination of primary production of magnesium in Norway.

Effective 1 January, 2000, certain Norwegian plans amended their plan benefit formulas as to provide for indexation of pension benefits. The resulting prior service cost of NOK 1,654 million is being amortized on a straight-line basis over the employees' average remaining service period.

Other Retirement Benefits

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. In 2003, the net periodic post retirement income was NOK 12 million. In 2002 and 2001, the net periodic post retirement cost was NOK 19 million and NOK 46 million, respectively. The post retirement liability was NOK 204 million and NOK 226 million as of 31 December, 2003 and 2002, respectively.

21. Contingencies and other long-term liabilities

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December, 2003 and 2002, Hydro had accrued NOK million 461 and NOK 795 million, respectively, for corrective environmental measures. The corresponding expense was NOK 53 million in 2003 compared to NOK 115 million and NOK 58 million in 2002 and 2001, respectively.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various other legal, tax and environmental matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position. Total, the operator for the Kharyaga field, has received from the Ministry of Taxes and Revenues of the Russian Federation, a claim for tax and the state's share of the revenues from oil extracted under the Petroleum Sharing Agreement for the field. Hydros share of the claim is approximately 30 million US dollar. Both Hydro and Total are considering the claim unjustified, and have taken legal actions to get this confirmed as well as to avoid collection of the claim.

The EFTA Surveillance Authority (''ESA'') has opened a formal investigation procedure against Norway to establish whether or not the former zero-rate electricity tax applicable to Norwegian industry is compatible with the state aid rules of the European Economic Area Agreement (the ''EEA Agreement''). From 1 January 2004 the zero-rate is extended to all Norwegian business. ESA advised the Norwegian government that the government may be required to recover asserted state aid from the recipients should ESA find a measure to be incompatible with the EEA Agreement. The Norwegian government has claimed that the electricity fee system is of a general nature and not covered by the EEA state aid rules. Should ESA decide to order the Norwegian government to recover the the value of the zero rate tax for the relevant years, the decision may be appealed to the EFTA Court. We will vigorously oppose, and believe that the Norwegian government will also oppose, any unfavorable decision related to the past. We intend to make use of all remedies available, both at the EFTA and the national level. Although no assurances can be provided as to the ultimate outcome of this matter, our management does not believe that the resolution of this matter will have a material adverse effect on our results of operations or financial position.

Other long-term liabilities

Amounts in NOK million	2003	2002
Insurance premiums and loss reserves	**109**	842
Accruals abandonment costs and decommissioning costs offshore	**—**	2,131
Asset retirement obligations (SFAS 143)	**5,162**	—
Postretirement benefits other than pensions	**204**	226
Derivatives	**335**	336
Other	**2,194**	2,713
Total US GAAP	**8,004**	6,248
Adjustment to N GAAP		
Cash Flow hedge (Note 28)	***(8)***	*1,100*
Restating asset retirement obligations (Note 28)	***—***	*2,418*
Total N GAAP	***7,996***	*9,766*

Effective 1 January, 2003, Hydro adopted SFAS 143 ''Accounting for Asset Retirement Obligations''. Hydro's asset retirement obligations covered by FAS 143 are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligations is recognized in the balance sheet in

the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement.

Asset Retirement Obligations

Amounts in NOK million	
Implementation FAS 143 1.1.2003	4,549
Incurred this year	463
Revisions in estimates	22
Disposals	(30)
Settlements	(83)
Accretions	306
Currency translation	22
Total asset retirement obligations 31.12.2003	5,249
Of which:	
Short term asset retirement obligations 31.12.2003	87
Long term asset retirement obligations 31.12.2003	5,162

Pro Forma information

According to the standard, previous years have not been restated. The following table reconciles the reported net income, reported earnings per share and asset retirement obligations to that which would have resulted for the earlier years assuming SFAS 143 were adopted 1 January 2001.

Amounts in NOK million, except per share data	2003	2002	2001
Net income	**10,968**	8,765	7,892
Depreciation change (after tax)	**—**	(56)	47
Pro forma net income	**10,968**	8,709	7,939
Reported earnings per share	**42.60**	34.00	30.50
Depreciation change earnings per share	**—**	(0.20)	0.20
Pro forma earnings per share	**42.60**	33.80	30.70
Pro forma Asset Retirement Obligation, 1 January	**4,549**	4,268	4,028

22. Secured debt and guarantees

Amounts in NOK million	2003	2002
Amount of secured debt	**42**	65
Assets used as security:		
Plant and equipment, etc.	**57**	134
Buildings	**54**	280
Other	**2**	13
Total	**113**	427
Guarantees (off-balance sheet):		
Non-consolidated investee debt	**54**	96
Contingency for discounted bills	**85**	160
Tax guarantees	**1,352**	936
Sales guarantees	**7,900**	3,900
Commercial guarantees	**10,545**	6,563
Total	**19,936**	11,655

The amounts in the table above represents the maximum potential amount of future payments related to the guarantees. Guarantees of non-consolidated investee debt relates to guarantees covering credit facilities with external banks. Tax guarantees includes guarantees to tax authorities regarding the non-taxable treatment on gains on internal sales of assets. Gains on such sales could become taxable if certain assets were sold outside the group.

Guarantees in connection with the sale of companies, referred to as sales guarantees in the table above, reflect the maximum contractual amount that Hydro could be liable for in the event of certain defaults or the realization of specific uncertainties. Hydro has, in addition to what is included in the table above, certain guarantees relating to sales of companies that are unlimited in amount. Hydro believes that the likelihood of any material liability arising from guarantees relating to sales of companies is remote.

In addition to the sales guarantees discussed above, Hydro has, following the asset exchange between Hydro and Petro-Canada in 1996, guaranteed that the total recoverable reserves attributable to Petro-Canada's working interest in the Veslefrikk field shall not be less than a certain quantified amount of crude oil. If less, Hydro has an obligation to deliver indemnity volumes to Petro-Canada. During 2002 there was a new evaluation of reserves in accordance with the agreement which resulted in compensation to Petro-Canada. The agreement was renegotiated in 2002 and is open for the possibility of re-evaluating the reserves in 2008, 2014 and at the end of the field's lifetime. The guarantee does not apply in cases of force majeure, the failure of the operator to comply with good oil field practices, etc. As of 31 December, 2003, the remaining guaranteed volume was 1.2 million Sm3 of crude oil, equivalent to approximately NOK 1,465 million. As of 31 December, 2002, the remaining guaranteed volume was 1.3 million Sm3 of crude oil, equivalent to approximately NOK 1,760 million.

Commercial guarantees consist of advance payment guarantees, bid bonds, stand-by letters of credit and payment guarantees. Guarantees are issued in the normal course of business.

Commercial guarantees are issued mainly by Norsk Hydro ASA on behalf of its subsidiaries. Certain commercial guarantees are obtained from external banks and covered by Norsk Hydro ASA by a counter indemnity guarantee to the external banks. A certain portion of these guarantees are payable on demand while the remainder is dependant upon performance by the guaranteed entity (i.e delivery of goods or services by a vendor). In addition, Hydro would also have recourse in the case of payment made on demand in connection with non performance by a guaranteed entity.

23. Contractual and other commitments for future investments and operations

As of 31 December, 2003: Amounts in NOK million	2004	Investments Thereafter	Total
Contract commitments for investments in property, plant and equipment:			
Land based	2,596	160	2,756
Oil and gas fields and transport systems	4,927	8,628	13,555
Total	7,523	8,788	16,311
Additional authorized future investments in property, plant and equipment:			
Land based	1,283	625	1,908
Oil and gas fields and transport systems	754	11,699	12,453
Total	2,037	12,324	14,361
Contract commitments for other future investments:	589	840	1,429

Additional authorized future investments include projects formally approved for development by the Board of Directors or management given the authority to approve such investments. General investment budgets are excluded from these amounts.

Hydro has entered into take-and-pay and long-term contracts providing for future payments to secure pipeline and transportation capacity, processing services, raw materials and electricity and steam. In addition, Hydro has entered into long-term sales commitments to deliver goods. This principally relates to obligations to deliver gas from fields on the Norwegian Continental Shelf for a total amount of NOK 155.6 billion.

The non-cancelable future fixed and determinable obligation as of 31 December, 2003 is as follows

Take-and-pay and Long-term contracts

Amounts in NOK million	Transport and Other	Raw materials	Energy related	Sale com-mitments
2004	626	4,222	2,462	(10,601)
2005	402	2,973	2,348	(10,236)
2006	739	2,275	2,082	(10,919)
2007	667	1,223	2,335	(11,022)
2008	613	877	2,185	(10,838)
Thereafter	5,141	5,641	18,906	(120,978)
Total	8,188	17,211	30,318	(174,594)

Terms of certain of these agreements include additional charges covering variable operating expenses in addition to the fixed and determinable component shown above, including contracts to purchase 23.5 million tonnes of alumina over the next 26 years where the variable part of the prices are normally linked to the London Metal Exchange quoted prices.

In addition, Hydro has entered into a contract to purchase 15 million tonnes of ammonia over the next 20 years following commercial production with variable prices referenced to fertilizer publications.

Hydro has also entered ‘‘take-and-pay’’ and other long terms contracts as part of shareholders agreement in non-consolidated investees, including contracts to purchase 17 million tonnes of alumina over the next 8 years. These commitments are not included in the figures above.

The total purchases under the take-and-pay agreements and long-term contracts were as follows (in NOK million): 2003 — 5,410; 2002 — 4,511; 2001 — 2,687 and 2000 — 2,523

24. Derivative instruments and risk management

Hydro is exposed to market risks from commodity pricing, currency exchange rates and interest rates. Market risk exposures are evaluated based on a portfolio view in order to take advantage of offsetting positions and to manage risk on a net exposure basis.

Mitigating financial and commercial risk exposures through the use of derivative instruments is done only to a limited extent. Such derivative transactions are accounted for under SFAS No. 133, ‘‘Accounting for Derivative Instruments and Hedging Activities’’, as amended. All derivative instruments are reported on the balance sheet at fair value with changes in the fair values of derivative instruments recorded to earnings unless specific hedge criteria are met.

Commodity Price Risk Exposure

A substantial portion of Hydro’s revenue is derived from the sale of commodities such as crude oil, aluminium, and fertilizers. Hydro also produces, purchases and sells natural gas, electricity and petrochemical products. The prices of these commodities can be volatile, creating fluctuations in Hydro’s earnings. The Company’s main strategy to manage this exposure relates to maintaining a strong financial position to be able to meet fluctuations in prices and earnings. Natural hedging positions are established to the extent possible and economically viable. Derivatives are used in special situations to mitigate price movements and to participate in limited speculative trading within strict guidelines defined by management. The following highlights Hydro’s main commodity price risks.

Oil

Hydro produces and sells crude oil and gas liquids. Hydro utilizes futures and swaps to mitigate unwanted price exposure for a portion of its crude oil portfolio production. From time to time financial options are used for the same purpose. At the end of 2003 Hydro has no hedging program in place for the purpose of protecting against the risk of low oil prices.

Natural gas

Hydro is a producer, consumer, buyer and seller of natural gas. The majority of Hydro’s equity gas production is sold to European counterparties based on long-term gas supply contracts. Contract prices are mainly indexed to oil prices. In order to reduce the risk in the natural gas portfolio against unfavorable fluctuations in gas and oil prices, Hydro utilizes instruments such as forwards and swaps to mitigate unwanted price exposures for a portion of its natural gas portfolio. Hydro is also participating in limited speculative trading.

Electricity

Hydro is a producer and consumer of electricity. Hydro's consumption of electricity exceeds its production both in Norway and in Continental Europe. The deficit is principally covered through long-term purchase contracts with other producers and suppliers to secure electricity in the market for Hydro's own consumption and delivery commitments.

In order to manage and hedge the risks of unfavorable fluctuations in electricity prices and production volume, Hydro utilizes both physical contracts and financial derivative instruments such as futures, forwards and options. These are traded either bilaterally or over electricity exchanges such as the Nordic power exchange, "Nord Pool". Hydro also engages in third party trading by offering power portfolio management services and participating in limited speculative trading.

Aluminium

Hydro is a producer of primary aluminium and fabricated aluminium products. Hydro enters future contracts with the London Metal Exchange (LME)mainly for two purposes. The first is to achieve an average LME price on smelter production. Secondly, because the Company's downstream business and the sale of third party products are margin businesses, Hydro hedges metal prices when entering into customer and supplier contracts with corresponding future contracts at fixed prices (back-to-back hedging). The majority of these contracts mature within one year. Hydro manages these hedging activities on a portfolio basis, taking LME positions based upon net exposures. Accordingly, it is difficult to meet certain hedge accounting criteria. As a result, aluminium price volatility can result in significant fluctuations in the marked-to-market adjustments for LME positions recorded to operating income.

The following types of commodity derivatives were recorded at fair value on the balance sheet as of 31 December, 2003 and 2002. Contracts that are designated as hedging instruments in cash flow and fair value hedges are not included.

Amount in NOK million	2003	2002
Assets:		
Put options, crude oil	**—**	1
Swaps and futures, crude oil	**2**	44
Electricity contracts	**1,171**	1,935
Natural gas contracts	**218**	457
Futures, swaps and options, Aluminium	**286**	543
Forwards, urea	**10**	—
Total Commodity Derivative Assets	**1,687**	2,980
Liabilities:		
Swaps and futures, crude oil	**2**	32
Electricity contracts	**620**	1,123
Natural gas contracts	**201**	440
Futures, swaps and options, Aluminium	**172**	214
Total Commodity Derivative Liabilities	**995**	1,809

The presentation of fair values for electricity and natural gas contracts shown in the table above includes the fair value of derivative instruments such as futures, forwards and swaps in conjunction with fair values of physical contracts.

Foreign Currency Risk Exposure

Prices of many of Hydro's most important products, mainly crude oil, aluminium, natural gas, fertilizer and magnesium, are either denominated in US dollars or are influenced by movements in the value of other currencies against the US dollar. To reduce the long-term effects of fluctuations in the US dollar exchange rates, Hydro has issued most of its debt in US dollars (as of 31 December, 2003, approximately two thirds of Hydro's long-term debt is denominated in US dollars). The remaining long-term debt is denominated in Norwegian kroner, Euro, Swedish kroner, and British pounds.

Hydro employs foreign currency swaps and forward currency contracts to modify the currency exposures for Hydro's long-term debt portfolio. Foreign currency swaps allow Hydro to raise long-term borrowings in one currency and swap them into another with lower funding costs rather than borrowing directly in the second currency. Forward currency contracts are entered into to safeguard cash flows for forecasted future transactions or to cover short-term liquidity needs in one currency through excess liquidity available in another currency.

Hydro also incurs cost related to production, distribution and marketing of products in a number of different currencies related to the countries of operation. As a result, the effects of changes in currency rates on the translation of local currencies into Norwegian kroner for subsidiaries outside of Norway can influence comparative results of operations.

In order to further mitigate its exposure to foreign currency risk, Hydro has designated a portion of its foreign-denominated long-term debt, including certain related balances in currencies arising from foreign currency swaps and forwards, as hedges of net foreign investments in subsidiary companies. The foreign currency effects of these hedges reflected in the cumulative translation section of shareholders' equity produced a NOK 333 million after-tax loss during the year ended 31 December, 2003 and NOK 1,333 million after-tax gain during the year ended 31 December, 2002; partly offsetting a foreign currency translation gain of NOK 4,856 million and a loss of NOK 7,207 million in shareholders' equity for 2003 and 2002 respectively.

The following types of financial derivatives were recorded at fair value on the balance sheet as of 31 December, 2003 and 2002. Currency contracts that are designated as hedging instruments in cash flow hedges are not included.

Amount in NOK million	**2003**	**2002**
Assets:		
Currency forwards and swaps	**980**	691
Liabilities:		
Currency forwards and swaps	**123**	1 88

The currency contracts listed below were outstanding as of 31 December, 2003.

Currency	**Nominal value in currency**	**Fair value in NOK**	**Maturity by nominal amount in currency**	
Amount in million			**Within one year**	**Later**
Buying currency				
AUD	239	1,154	164	75
CAD	156	752	38	118
EUR	251	2,083	195	56
NOK	5,622	5,607	5,622	—
USD	138	793	74	64
Other	—	75	—	—
Selling currency				
CAD	(150)	(770)	(150)	—
DKK	(1,070)	(1,203)	(1,070)	—
GBP	(45)	(532)	(45)	—
JPY	(6,692)	(390)	(5,642)	(1,050)
NOK	(978)	(977)	(978)	—
SEK	(1,700)	(1,566)	(1,700)	—
USD	(544)	(3,568)	(381)	(163)
Other	—	(601)	—	—

Interest Rate Exposure

Hydro is exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund its business operations in different currencies. Hydro maintains a high ratio of long-term, fixed-rate debt, as a proportion of its total interest bearing debt, with an even debt repayment schedule. Hydro uses foreign exchange and interest rate swaps from time to time and other derivatives to optimize currency and interest rate exposure. Fair values of interest rate derivatives at 31 December, 2003 and 2002 were immaterial.

Cash Flow Hedges

The expansion project at the Sunndal metal plant increased Hydro's exposure to commodity prices and foreign currency exchange rates. Accordingly, Hydro has entered into short positions using LME future contracts and US dollar forward contracts to secure an average aluminium price of approximately NOK 14,000 per tonne of a portion of the forecasted sales of primary metal production per year for the period 2003 to 2007. As of 31 December, 2003, Hydro had sold forward about 426,000 tonnes (480,000 tonnes in 2002) of primary aluminium at an average price of approximately US dollar 1,500 per tonne. In addition Hydro has secured the exchange rate against the US dollar at about NOK 9.3 per US dollar for the same tonnage. Gains and losses on these derivatives are recorded to OCI and are to be reclassified into operating revenues when the corresponding forecasted sale of aluminium is recognized. No amount of ineffectiveness was recognized in 2003 and 2002 since the critical terms of the derivatives and the forecasted aluminium sales are substantially similar. A gain after tax of NOK 261 million is expected to be reclassified from OCI into earnings during the period ending 31 December, 2004. A gain after tax of NOK 172 million was reclassified from OCI into earnings during 2003. No amount was reclassified from OCI to earnings during 2002. As of 31 December, 2003 the maximum length of time over which the Company is hedging its exposure to the variability in cash flows is four years.

In 2003, a major aluminium expansion project at the Alouette plant in Canada increased Hydro's exposure to Canadian dollar. Hydro's investment in the plant is in US dollar however approximately 78 percent of the expected payments for the expansion project in Canada is committed in Canadian dollar. Hydro has entered into currency forward contracts to sell US dollar and buy Canadian dollar as part of a cash flow hedge of forecasted CAD payments for the period 2003-2006. The notional amount of the contracts is approximately CAD 158 million at year end (CAD 206 million at inception of project in 2003) at an average rate of 1.56 CAD per USD. Gains and losses on these derivatives are recorded in OCI and are to be reclassified into earnings in the same periods during which the hedged forecasted transaction affects earnings (that is, when the plant is to be depreciated). No amount of ineffectiveness was recognized in 2003 since the critical terms of the derivatives and the forecasted payments are substantially similar. No amount is expected to be reclassified from OCI into earnings during the period ending 31 December, 2004. As of 31 December, 2003, Hydro is hedging its exposure to the variability in cash flows until March 2006.

In 2001, Hydro terminated a hedging program that included LME future contracts designated as cash flow hedges of primary aluminium sales for 2001-2003. At 31 December, 2001, the after tax gains on the LME futures of NOK 98 million (USD 13 million) were deferred in OCI. During 2002 a gain after tax of NOK 57 million (USD 7 million) was reclassified from OCI to Operating revenues. During 2003 a gain after tax of NOK 41 million (USD 6 million) was reclassified from OCI to Operating revenues.

Fair Value Hedges

Hydro also has a 10-year commitment with Aluvale to purchase a fixed tonnage of remelt ingot per year. At the end of 2002, Hydro entered into short positions using LME futures to hedge against the fluctuations in the fair value of the purchase commitment due to changes in the LME price of aluminium over the period of 2003 — 2006. Gains and losses on these futures contracts are recognized in Operating costs and expenses offsetting the gain and loss recorded for the firm commitment in the same period. The critical terms of the LME futures and the related purchase commitments are essentially the same; as a result no hedge ineffectiveness was reflected in earnings in 2003 and 2002.

The following fair values were recorded on the balance sheet for hedging instruments as of 31 December, 2003 and 2002.

Amounts in NOK million	2003	2002
Assets:		
Fair value hedging instruments, aluminium	2	15
Cash flow hedging instruments, aluminium	—	380
Cash flow hedging instruments, currency	1,518	1,102
Total	1,520	1,497
Liabilities:		
Cash flow hedging instruments, aluminium	48	—
Total	48	—

Fair Value of Derivative Instruments

Fair market values of derivative financial instruments such as currency forwards and swaps are based on quoted market prices. Fair market value of aluminium futures and option contracts are based on quoted market prices obtained from the London Metals Exchange. The fair values other commodity over-the-counter contracts and swaps are based on quoted market prices, estimates obtained from brokers, and other appropriate valuation techniques. Where long-term physical delivery commodity contracts are recorded at fair value under the requirements of FAS133, such fair market values are based on quoted forward prices in the market and assumptions of forward prices and margins where market prices are not available.

See Note 19 for fair value information of long-term debt.

Credit Risk Management

Credit risk arising from the inability of a counterparty to meet the terms of derivative financial instrument contracts is generally limited to amounts by which the counterparty's obligations exceed the obligations of Hydro. It is Hydro's policy to enter into derivative financial instruments only with banks with pre-approved exposure limits. Hydro's policy also requires pre-approved exposure limits for financial institutions relating to current accounts, deposits and other obligations. Therefore, counter party risk related to use of derivative financial instruments and financial operations is regarded as limited.

Hydro also has exposure to credit risk related to derivative commodity instruments. However, this risk is substantially limited since most instruments are settled through commodity exchanges. Hydro limits credit risks relating to derivative commodity contracts that are not traded on exchanges by setting policies for credit ratings and limits for counterparties.

Concentration of credit risk is not considered significant since Hydro's customers represents various industries and geographic areas.

25. External audit remuneration

Deloitte Statsautoriserte Revisorer AS (Deloitte) is the principal auditor of Norsk Hydro ASA and the Norwegian subsidiaries. Certain portions of audits are performed by Ernst & Young and other firms. The following table shows total audit and non-audit fees for the fiscal years 2003 and 2002.

2003 Amounts in NOK thousand	Audit fees	Audit related fees	Other non-audit fees	Tax fees	Total
Deloitte Norway[1]	26,257	1,839	8,069	400	36,565
Deloitte Abroad	32,728	2,911	1,863	3,828	41,330
Total Deloitte	58,985	4,750	9,932	4,228	77,895
Ernst & Young	16,998	1,797	7,808	5,198	31,801
Others	11,096	2,941	1,296	2,677	18,010
Total fees	87,079	9,488	19,036	12,103	127,706

2002 Amounts in NOK thousand	Audit fees	Audit related fees	Other non-audit fees	Tax fees	Total
Deloitte Norway	19,336	5,092	10,157	485	35,100
Deloitte Abroad	27,588	9,505	14,419	8,915	60,427
Total Deloitte	46,954	14,597	24,576	9,400	95,527
Ernst & Young	15,682	405	4,213	842	21,142
Others	3,735	6,812	554	200	11,301
Total fees	66,371	21,814	29,343	10,442	127,970

1) Approximately NOK 4 million is related to Agri-demerger

26. Related parties

The Norwegian State owned as of 31 December, 2003 116,832,770 ordinary shares, representing 43.8 percent of the total number of ordinary shares issued, representing 45.5 percent of the shares outstanding as of the same date. There are no different voting rights associated with the ordinary shares held by the State.

Transactions with related parties

On March 19, 2002, Hydro entered into an agreement with the Norwegian State to purchase interests in eight oil and gas licenses on the Norwegian continental shelf. This transaction increased Hydro's interests in the Oseberg, Tune and Grane fields, where Hydro is operator, to 34, 40 and 38 percent, respectively. The transaction was completed and is reflected in Hydro's operating results from the acquisition date of May 10, 2002. The agreement was effective from January 1, 2002. However, net cash flows relating to these operations prior to the acquisition date have been allocated as a reduction of the purchase price. Hydro has agreed to pay NOK 3.45 billion for the license interests.

Transactions with non-consolidated investees are described in Note 13 Non-Consolidated Investees.

Members of the board of directors are elected for two year terms. Their rights and obligations as board members are solely and specifically provided for in the company's articles of association and Norwegian law. The company has no significant contracts in which a board member has a material interest.

Loans given to members of the Board and their number of shares owned as of 31 December, 2003 are:

	Loans outstanding[1)2)]	Number of shares
Egil Myklebust	4,565[3)]	4,244
Elisabeth Grieg	—	5,460
Borger A. Lenth	—	144
Geir Nilsen	118	27
Anne Cath. Høeg Rasmussen	—	1,014
Odd Semstrøm	45	101
Steinar Skarstein	—	172

1) Amounts in NOK thousands

2) All loans to directors and executive officers (members of the corporate management board) were entered into prior to 30 July 2002. Hydro has not materially modified or renewed any of the loans extended to or for its directors or executive officers since that date.

3) In October 2000, an interest-only loan of NOK 2,200,000 was given. The interest rate as of 31 December 2003 was 3.75 percent. In addition, there is a loan with 26.5 years remaining and with an outstanding amount of NOK 2,115,000 as of 31 December 2003. Other loans of NOK 250,000 carries interest of 4.25 percent. All loans are secured.

Members, observers and deputy members of the corporate assembly owning ordinary shares as of 31 December, 2003 are:

	Number of shares
Frank Andersen	99
Frank A. Bakke	884
Erna Flattum Berg	107
Sven Edin	223
Anne-Margrethe Firing	167
Odd Arne Fodnes	144
Billy Fredagsvik	37
Solveig Alne Frøynes	81
Oddny Grebstad	97
Sónia F.T. Gjesdal	166
Westye Høegh	19,000
Kjell Kvinge	171
Sylvi A. Lem	152
Stig Lima	59
Jon-Arne Mo	23
Bjørn Nedreaas	88
Anne Merete Steensland	2,272

	Number of shares
Wolfgang Ruch	175
Sven B. Ullring	100
Morten Ødegård	5
Ingar Aas-Haug	26
Kjell Aamot	30
Svein Aaser	1,872

Loans to senior management as of 31 December, 2003 and their ownership of shares and options (see Note 4, page 102) are:

	Loans outstanding[1)2)]	Number of shares	Options
Eivind Reiten	—	7,813	30,000
Alexandra Bech Gjørv	—	872	16,000
John O. Ottestad	591	8,210	16,000
Jon-Harald Nilsen	195	242	21,000
Tore Torvund	414	3,584	21,000

Outstanding loan particulars:[2)]	Interest	Loans Repayment	Amount[1)]
John O. Ottestad	4.25-5.00%	3-13 years	591
Jon-Harald Nilsen	4.25%	8 years	195
Tore Torvund	4.25-5.00%	4-13 years	414

27. Supplementary oil and gas information (Unaudited)

Costs Incurred on Oil and Gas Properties

Exploration costs and costs related to property acquisition

	Norway			International			Total		
Amounts in NOK million	2003	2002	2001	2003	2002	2001	2003	2002	2001
Capitalized at beginning of year	**837**	977	874	**442**	1,749	309	**1,279**	2,726	1,183
Costs incurred during the year	**437**	662	928	**1,172**	1,714	1,090	**1,609**	2,376	2,018
Acquisition cost[1)]	**—**	—	—	**—**	35	1,234	**—**	35	1,234
Expensed	**(437)**	(649)	(770)	**(1,140)**	(2,909)	(630)	**(1,577)**	(3,558)	(1,400)
Transferred to development	**(185)**	(78)	(52)	**(26)**	(25)	(125)	**(211)**	(103)	(177)
Disposals	**(19)**	(75)	(3)	**(78)**	(9)	(124)	**(97)**	(84)	(127)
Foreign currency translation	**—**	—	—	**20**	(113)	(5)	**20**	(113)	(5)
Capitalized at end of year	**633**	837	977	**390**	442	1,749	**1,023**	1,279	2,726

1) 2001 mainly related to Africa and USA.

Costs related to Development, Transportation Systems and Other

	Norway			International			Total		
Amounts in NOK million	2003	2002	2001	2003	2002	2001	2003	2002	2001
Net book value at beginning of year	**61,822**	56,711	58,472	**7,162**	8,117	6,360	**68,984**	64,828	64,832
Implementation SFAS 143 Assets Retirement Obligation	**1,021**	—	—	**68**	—	—	**1,089**	—	—
Cost incurred during the year[1)]	**7,288**	6,923	5,591	**1,199**	1,299	2,172	**8,487**	8,222	7,763
Acquisition cost[2)]	**—**	5,460	—	**—**	—	—	**—**	5,460	—
Transferred from exploration cost	**185**	78	52	**26**	25	125	**211**	103	177
Amortization	**(7,525)**	(7,278)	(7,098)	**(1,589)**	(1,275)	(326)	**(9,114)**	(8,553)	(7,424)
Disposals	**(119)**	(72)	(306)	**(4)**	(2)	1	**(123)**	(74)	(305)
Foreign currency translation	**—**	—	—	**678**	(1,002)	(215)	**678**	(1,002)	(215)
Net book value at end of year	**62,672**	61,822	56,711	**7,540**	7,162	8,117	**70,212**	68,984	64,828

1) In 2003, NOK 686 million, NOK 281 million and NOK 239 million of development cost related to activities in Angola, Canada and Russia respectively. NOK 236 million and NOK 61 million relates to accruals in Norway and International regarding assets retirement obligations (SFAS 143). This is a result of changes in estimates and new accruals in connection with fields set in production during the

year. In 2002, NOK 508 million, NOK 254 million and NOK 501 million of development cost related to activities in Angola, Canada and Russia respectively. In 2001, NOK 903 million, NOK 742 million and NOK 441 million of development costs related to activities in Angola, Canada and Russia respectively.

2) In 2002, NOK 5,460 million relates to the acquisition of shares in SDFI.

Results of Operations for Oil and Gas Producing Activities

As required by SFAS 69, the revenues and expenses included in the following table reflect only those relating to the oil and gas producing operations of Hydro.

The ''results of operations'' should not be equated to net income since no deduction nor allocation is made for interest costs, general corporate overhead costs, and other costs. Income tax expense is a theoretical computation based on the statutory tax rates after giving effect to the effects of uplift and permanent differences only.

	Norway			International			Total		
Amounts in NOK million	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Sales to unaffiliated customers	6,672	6,693	5,486	4,061	3,520	1,133	10,733	10,213	6,619
Intercompany transfers	25,531	21,532	24,915	—	—	—	25,531	21,532	24,915
Total revenues	32,203	28,225	30,401	4,061	3,520	1,133	36,264	31,745	31,534
Operating costs and expenses:									
Production costs	3,591	3,554	3,494	425	406	206	4,016	3,960	3,700
Exploration expenses	437	649	770	1,140	2,909	630	1,577	3,558	1,400
Depreciation, depletion and amortization	7,378	6,826	6,738	1,597	1,315	360	8,975	8,141	7,098
Transportation systems	1,257	1,629	1,379	125	139	125	1,382	1,768	1,504
Total expenses	12,663	12,658	12,381	3,287	4,769	1,321	15,950	17,427	13,702
Results of operations before taxes	19,540	15,567	18,020	774	(1,249)	(188)	20,314	14,318	17,832
Current and deferred income tax expense	(14,802)	(11,733)	(13,916)	(414)	374	(21)	(15,216)	(11,359)	(13,937)
Results of operations	4,738	3,834	4,104	360	(875)	(209)	5,098	2,959	3,895

Proved Reserves of Oil and Gas

Proved reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Proved developed reserves can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from undrilled production wells on exploration licenses. Reserves are expected to be revised as oil and gas are produced and additional data become available. International reserves under PSA contracts (production sharing agreement) are shown net of Royalties and Government's share of Profit Oil.

Proved Developed and Undeveloped Reserves of Oil and Gas

	Norway			International			Total		
	Oil	Natural gas		Oil	Natural gas		Oil	Natural gas	
	mmboe[1)]	billion Sm³[3)2)]	billion cf[2)]	mmboe[1)]	billion Sm³[3)2)]	billion cf[2)]	mmboe[1)]	billion Sm³[3)2)]	billion cf[2)]
As of 31 December, 2000[6)]	820	169.7	6,004	156	—	—	976	169.7	6,004
Revisions of previous estimates[3)] ..	87	0.3	11	16	—	—	103	0.3	11
Purchase (sale)/exchange of reserves in place[4)]	(1)	—	—	—	—	—	(1)	—	—
Extensions and new discoveries[5)] ..	33	4.6	162	27	—	—	60	4.6	162
Production for the year	(114)	(5.4)	(191)	(6)	—	—	(120)	(5.4)	(191)
As of 31 December, 2001[6)7)]	825	169.2	5,986	193	—	—	1,018	169.2	5,986
Revisions of previous estimates[3)] ..	46	(0.2)	(7)	(19)	—	—	27	(0.2)	(7)
Purchase (sale)/exchange of reserves in place[4)]	109	12.1	428	—	—	—	109	12.1	428
Extensions and new discoveries[5)] ..	20	12.7	449	16	—	—	36	12.7	449
Production for the year	(117)	(6.4)	(227)	(18)	—	—	(135)	(6.4)	(227)
As of 31 December, 2002[6)7)]	883	187.4	6,629	172	—	—	1,055	187.4	6,629
Revisions of previous estimates[3)] ..	**64**	**(6.2)**	**(218)**	**11**	**—**	**—**	**75**	**(6.2)**	**(218)**
Purchase (sale)/exchange of reserves in place[4)]	**(2)**	**—**	**—**	**—**	**—**	**—**	**(2)**	**—**	**—**
Extensions and new discoveries[5)] ..	**30**	**51.8**	**1,833**	**24**	**—**	**—**	**54**	**51.8**	**1,833**
Production for the year	**(123)**	**(7.8)**	**(275)**	**(21)**	**—**	**—**	**(144)**	**(7.8)**	**(275)**
As of 31 December, 2003[6)7)]	**852**	**225.2**	**7,969**	**186**	**—**	**—**	**1,038**	**225.2**	**7,969**
Proved developed reserves:									
As of 31 December, 2000	555	103.0	3,644	33	—	—	588	103.0	3,644
As of 31 December, 2001	564	103.7	3,669	62	—	—	626	103.7	3,669
As of 31 December, 2002	559	124.8	4,416	93	—	—	652	124.8	4,416
As of 31 December, 2003	**690**	**124.8**	**4,415**	**88**	**—**	**—**	**778**	**124.8**	**4,415**

1) Includes crude oil and NGL/Condensate. 1 Sm^3 Oil/Condensate = 6.2898 boe. 1 tonne NGL = 11.9506 boe.

2) Sm^3 = Standard cubic meter at 15 degrees Celcius. cf = cubic feet at 60 degrees Fahrenheit. 1 Sm^3 gas at 15 degrees Celcius = 35.3826 cubic feet gas at 60 degrees Fahrenheit.

3) The revision of previous estimates relates to new information from current year's drilling operations and additional data which is now available.

4) In 2003 the decrease in reserves was due to sale of shares in the Brage and Njord fields in Norway to Offshore Engineering Resources AS. In 2002 the change in reserves was due to aquisition of SDFI assets and sale of the small field Varg in Norway. In 2001 the decrease was due to the sale of Glitne in Norway.

5) In 2003, extensions and new discoveries for oil were related to the Oseberg Vestflanken and Oseberg Sør fields in Norway, the Dalia and Rosa/Lirio fields in Angola and the Mabruk and Murzuq fields in Libya. Extensions and new discoveries for gas were related to the Ormen Lange, Oseberg Vestflanken and Oseberg Sør fields in Norway. In 2002, extensions and new discoveries for oil were related to the Snøhvit and Vigdis fields in Norway, the Hibernia and Terra Nova fields in Canada, the Murzuq field in Libya and the Jasmim field in Angola. Extensions and new discoveries for gas were related to the Snøhvit, Vigdis, Byggve and Skirne fields in Norway. In 2001, extensions and new discoveries for oil were related to the Kristin, Mikkel and Sigyn fields in Norway, Rosa/Lirio and Jasmim fields in Angola. Extensions and new discoveries for gas were also related to the Kristin, Mikkel and Sigyn fields in Norway.

6) Reserve estimates in Norway are made before royalties of approximately 0.8, 1.6 and 2.1 million barrels of oil equivalents for 2003, 2002 and 2001, respectively.

7) In 2003, reserve estimates includes 186 million barrels of oil equivalents (boe) outside the Norwegian Continental Shelf, in Canada, Angola, Russia and Libya. In 2002, reserve estimates included 172 million barrels of oil equivalents (boe) outside the Norwegian Continental Shelf, in Canada, Angola, Russia and Libya. In 2001, reserve estimates included 193 million barrels of oil equivalents (boe) outside the Norwegian Continental Shelf, in Canada, Angola, Russia and Libya. The increase in 2003 is dominated by the new reserves in the Dalia field in Angola.

US GAAP Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves

The standardized measure of discounted future net cash flows of Hydro's proved reserves of oil (including natural gas liquids and condensate) and gas is prepared in compliance with SFAS 69.

Future net cash flows are based on numerous assumptions which may or may not be realized. The Management of Hydro cautions against relying on the information presented because of the highly arbitrary nature of assumptions involved and susceptibility of estimates to change as new and more accurate data become available. The individual components of future net cash flows shown below were computed using prices, production costs, development costs, royalty levels, foreign exchange rates, statutory tax rates and estimated proved reserve quantities at the respective year ends.

Standardized Measure of Discounted Future Net Cash Flows

	Norway			International			Total		
Amounts in NOK million	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Future cash inflows	**392,700**	351,200	308,600	**35,200**	34,800	31,200	**427,900**	386,000	339,800
Future production costs	**(91,600)**	(81,000)	(59,600)	**(7,800)**	(6,400)	(9,400)	**(99,400)**	(87,400)	(69,000)
Future development costs	**(45,900)**	(27,200)	(22,800)	**(7,100)**	(6,300)	(7,700)	**(53,000)**	(33,500)	(30,500)
Future income tax expense	**(185,400)**	(175,600)	(166,100)	**(4,400)**	(6,800)	(3,200)	**(189,800)**	(182,400)	(169,300)
Future net cash flows	**69,800**	67,400	60,100	**15,900**	15,300	10,900	**85,700**	82,700	71,000
Less: 10% annual discount for estimated timing of cash flows	**(30,900)**	(26,400)	(27,300)	**(5,800)**	(4,900)	(4,700)	**(36,700)**	(31,300)	(32,000)
Standardized measure of discounted future net cash flows	**38,900**	41,000	32,800	**10,100**	10,400	6,200	**49,000**	51,400	39,000

Major Sources of Changes in the Standardized Measure of Discounted Future Net Cash Flows

Amounts in NOK million	**2003**	**2002**	**2001**
Net changes in prices and production costs	**(800)**	23,700	(29,900)
Sales and transfers of oil and gas produced, net of production costs	**(30,900)**	(26,200)	(27,300)
Extensions, unitizations, discoveries and improved recovery, net of related costs	**21,500**	5,500	5,700
Purchase/Exchange of interests in fields	**—**	15,900	—
Sale/Exchange of interests in fields	**(100)**	(300)	(200)
Changes in estimated development costs	**(15,700)**	(8,300)	(7,900)
Development costs incurred during the year	**7,400**	7,600	7,500
Net change in income taxes	**5,000**	(11,100)	28,900
Accretion of discount	**4,300**	3,700	4,700
Revisions of previous reserve quantity estimates	**6,700**	1,900	7,000
Other	**200**	—	200
Total change in the standardized measure during the year	**(2,400)**	12,400	(11,300)

Development costs for the years 2004, 2005 and 2006 are estimated to NOK 9,500 million, NOK 10,700 million and NOK 8,500 million respectively.

Average Sales Price and Production Cost per Unit

The following table presents the average sales price (including transfers) and production costs per unit of crude oil and natural gas, net of reductions in respect of royalty payments:

	Norway			International			Total		
Amounts in NOK	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**	**2003**	**2002**	**2001**
Average Sales Price crude oil (per barrel)	**204.01**	194.33	217.32	**197.08**	193.74	215.03	**202.90**	194.24	217.20
natural gas (per Sm^3)	**1.03**	0.95	1.21	**—**	—	—	**1.03**	0.95	1.21
Average production cost (per boe)	**20.80**	22.50	23.60	**20.20**	23.10	38.00	**20.70**	22.60	24.10

28. Summary of differences in accounting policies and reconciliation of US GAAP to N GAAP

The financial statements prepared in accordance with accounting principles generally accepted in Norway presented on pages 90-92, differ in certain respects from US GAAP. Currently the differences are immaterial for Norsk Hydro. A reconciliation of net income and shareholders' equity from US GAAP to Norwegian principles (N GAAP) and a description of these differences follow. The lines with a note reference reflect the variance between the US GAAP balance in that note and the N GAAP balance.

Reconciliation of US GAAP to N GAAP

Net income:

Amounts in NOK million	Notes	2003	2002	2001
Operating revenues US GAAP		**171,782**	167,040	152,999
Adjustments for N GAAP:				
Change in unrealized losses (gains) commodity derivative instruments		**—**	9	134
Operating revenues N GAAP		**171,782**	167,049	153,133
Operating costs and expenses US GAAP		**147,524**	147,199	131,916
Adjustments for N GAAP:				
Change in unrealized gains (losses) commodity derivative instruments		**187**	(129)	180
Amortization goodwill	16	**125**	161	—
Restatement of change in accounting principle	15, 21	**—**	7	(173)
Other adjustments		**(2)**	—	—
Operating income before financial and other income — N GAAP		**23,948**	19,811	21,210
Equity in net income of non-consolidated investees -US GAAP		**1,229**	33	566
Adjustments for N GAAP:				
Amortization goodwill non-consolidated investees:		**(38)**	(10)	—
Financial income (expense), net		**201**	1,935	(762)
Other income, net		**(1,212)**	219	578
Income before taxes and minority interest — N GAAP		**24,128**	21,988	21,592
Income tax expense US GAAP		**(13,937)**	(13,278)	(13,750)
Adjustments for N GAAP:	10	**58**	(99)	(109)
Net income — N GAAP		**10,249**	8,611	7,733
Minority interest		**148**	15	177
Net income after minority interest — N GAAP		**10,397**	8,626	7,910

Shareholders' equity:

Amounts in NOK million	Notes	2003	2002	2001
Shareholders' equity US GAAP		**88,080**	75,867	74,793
Unrealized gains commodity derivative instruments — current and long-term (a)		**(147)**	36	(106)
Cash Flow hedge — current and long-term (a)		**(1,600)**	(1,548)	(188)
Unrealized gain on securities (b)	13	**(15)**	(15)	(58)
Accumulated amortization goodwill (c)	13, 16	**(322)**	(154)	—
Deferred tax assets and liabilities — current and long-term (d)	10	**491**	(51)	96
Dividends payable (e)		**(2,811)**	(2,709)	(2,576)
Minority Interest (f)		**660**	1,143	1,051
Restatement of change in accounting principle (g)	15, 21	**—**	775	366
Shareholders' equity N GAAP		**84,336**	73,344	73,378

Explanation of major differences between N GAAP and US GAAP

(a) Derivative commodity contracts: Under N GAAP, unrealized gains and losses for commodity derivative instruments that are not hedge designated, and that are not traded on a liquid, regulated market, are netted for each portfolio and net unrealized gains are not recognized. For US GAAP, unrealized gains and losses are recorded to operating revenue for sales contracts or operating cost for purchase contracts. The instruments are accounted for as assets or liabilities at fair value.

For N GAAP, cash flow hedges with derivative instruments are not recognized on the balance sheet or income statement, until the underlying hedged transactions actually occur. Under US GAAP, such instruments are accounted for as assets or liabilities as appropriate, at their fair value. Gains and losses on the hedging instruments are deferred in Other Comprehensive Income until the underlying transaction is recognized in earnings

(b) Unrealized holding gain (loss) on securities: Under N GAAP, Hydro's long-term marketable equity and debt securities are carried at the lower of historical cost or market value. Under US GAAP, securities are carried at fair value (market) and unrealized holding gains or losses are included in other comprehensive income, net of tax effects, for available-for-sale securities.

(c) Amortization of goodwill: Goodwill is amortized under N GAAP. Beginning 1 January, 2002, US GAAP does not allow amortization of goodwill, but requires that goodwill must be reviewed at least annually for impairment.

(d) Deferred taxes: Under N GAAP, deferred taxes are recorded based upon the liability method similar to US GAAP. Differences occur primarily because items accounted for differently under US GAAP also have deferred tax effects. Under N GAAP, deferred tax assets and liabilities for each tax entity are netted and classified as a long-term liability or asset. A reconciliation of the current and long-term temporary differences giving rise to the N GAAP deferred tax asset and liability is provided in Note 10.

Classification between current and long-term for US GAAP is determined by the classification of the related asset or liability giving rise to the temporary difference. For each tax entity, deferred tax assets and liabilities are offset within the respective current or long-term groups and presented as a single amount.

(e) Dividends payable: For N GAAP, dividends proposed at the end of the year which will be declared and paid in the following year are recorded as a reduction to equity and as debt. For US GAAP, equity is reduced when dividends are declared.

(f) Minority Interest: For N GAAP, shareholders' equity is presented including minority interest. In US GAAP shareholders' equity is presented excluding minority interest.

(g) Change in accounting principle: Hydro implemented SFAS 143, Asset Retirement Obligations, 1 January, 2003. For N GAAP, previous periods are restated as if FAS 143 was implemented 1 January, 2001. For US GAAP, the total effect of the implementation is included in the 2003 financial statements.

Financial statements Norsk Hydro ASA

Income statements

Amounts in NOK million	Notes	2003	2002
Operating revenues		**1,695**	2,689
Raw materials and energy costs		**143**	1,201
Change in inventories of own production		**8**	(2)
Payroll and related costs	2, 3	**2,264**	989
Depreciation, depletion and amortization	4	**41**	43
Other		**1,842**	1,732
Total operating costs and expenses		**4,298**	3,963
Operating income		**(2,603)**	(1,274)
Financial income (expense), net	5	**4,295**	3,994
Other income	5	**—**	3,368
Income before taxes		**1,692**	6,088
Income tax expense	6	**(6)**	194
Net income		**1,686**	6,282
Appropriation of net income and equity transfers:			
Dividend proposed		**(2,811)**	(2,709)
Retained earnings		**1,125**	(3,573)
Total appropriation		**(1,686)**	(6,282)

Statements of cash flows

Net income	**1,686**	6,282
Depreciation, depletion and amortization	**41**	43
Loss (gain) on sale of non-current assets	**719**	(3,257)
Other adjustments	**(4,850)**	(8,924)
Net cash used in operating activities	**(2,404)**	(5,856)
Investments in subsidiaries	**(2,737)**	(3,386)
Sale of subsidiaries	**1,139**	21,801
Net sale (purchases) of other investments	**1,406**	(1,847)
Net cash provided by (used in) investing activities	**(192)**	16,568
Dividends paid	**(2,711)**	(2,576)
Other financing activities, net	**14,789**	(30,383)
Net cash provided by (used in) financing activities	**12,078**	(32,959)
Foreign currency effects on cash flow	**471**	(196)
Net increase (decrease) in cash and cash equivalents	**9,953**	(22,443)
Cash and cash equivalents 01.01	**2,797**	25,240
Cash and cash equivalents 31.12	**12,750**	2,797

The accompanying notes are an integral part of the financial statements.

Balance sheets

Amounts in NOK million	Notes	31 December, 2003	2002
Assets			
Intangible assets		**2**	2
Property, plant and equipment	4	**245**	263
Shares in subsidiaries	7	**35,475**	34,200
Intercompany receivables		**42,417**	35,502
Non-consolidated investees	8	**623**	988
Prepaid pension, investments and other non-current assets	2, 9	**5,620**	6,806
Total financial non-current assets		**84,135**	77,496
Inventories	9	**19**	51
Accounts receivable, less allowances of 28 and 36		**62**	83
Intercompany receivables		**33,536**	29,846
Prepaid expenses and other current assets		**1,911**	3,564
Cash and cash equivalents		**12,750**	2,797
Current assets		**48,278**	36,341
Total assets		**132,660**	114,102
Liabilities and shareholders' equity			
Paid-in capital:			
Share capital 266,596,650 at NOK 20	11	**5,332**	5,332
Treasury stock 9,884,650 at NOK 20		**(198)**	(173)
Paid-in premium		**15,055**	15,055
Other paid-in capital		**16**	33
Retained earnings:			
Retained earnings		**23,986**	25,115
Treasury stock		**(3,325)**	(2,879)
Shareholders' equity	11	**40,866**	42,483
Deferred tax liabilities	6	**868**	921
Other long-term liabilities		**2,702**	2,241
Long-term liabilities		**3,570**	3,162
Intercompany payables		**771**	1,315
Other long-term interest-bearing debt		**27,414**	28,457
Long-term debt		**28,185**	29,772
Bank loans and other interest-bearing short-term debt	9	**3,354**	3,677
Dividends payable		**2,811**	2,709
Intercompany payables		**49,158**	27,908
Current portion of long-term debt		**1,004**	1,770
Other current liabilities		**3,712**	2,621
Current liabilities		**60,039**	38,685
Total liabilities and shareholders' equity		**132,660**	114,102

Financial statements Norsk Hydro ASA

1. Summary of significant accounting policies

The financial statements of Norsk Hydro ASA are prepared in accordance with accounting principles generally accepted in Norway (N GAAP).

Hydro's general accounting policies are presented in Note 1 to the consolidated financial statements on pages 93-97. See Note 28 on pages 129 and 130 for an additional clarification of the major differences in accordance with N GAAP compared with US GAAP.

Shares in subsidiaries and non-consolidated investees are in Norsk Hydro ASA's financial statements presented according to the cost method. Group relief received is included in dividends from subsidiaries.

For information about risk management in Norsk Hydro ASA see Note 24 in Notes to the consolidated financial statements and the Risk Management discussion in the Operating and Financial Review and Prospects section of this report. The information given in Note 19 in Notes to the consolidated financial statements on payments on long-term debt also applies to Norsk Hydro ASA.

Norsk Hydro ASA provides financing to most of the subsidiary companies in Norway as well as abroad. All employees working for Norsk Hydro Produksjon AS are employed by Norsk Hydro ASA.

2. Employee retirement plans

Norsk Hydro ASA is affiliated with the Hydro Group's Norwegian pension plans that are administered by Norsk Hydro's independent pension trust. Norsk Hydro ASA's employee retirement plans covered 12,953 participants as of 31 December, 2003 and 14,538 participants as of 31 December, 2002.

Net periodic pension cost

Amounts in NOK million	2003	2002
Defined benefit plans:		
Benefits earned during the year	**421**	362
Interest cost on prior period benefit obligation	**697**	620
Expected return on plan assets	**(532)**	(674)
Recognized net loss	**256**	61
Amortization of prior service cost	**68**	77
Amortization of net transition asset	**(6)**	(45)
Curtailment loss	**69**	160
Settlement loss	**341**	—
Net periodic pension cost	**1,314**	561
Termination benefits and other	**209**	218
Total net periodic pension cost	**1,523**	779

Change in projected benefit obligation (PBO)

Amounts in NOK million	2003	2002
Projected benefit obligation at beginning of year	**(11,046)**	(8,509)
Benefits earned during the year	**(421)**	(362)
Interest cost on prior period benefit obligation	**(697)**	(620)
Actuarial loss	**(797)**	(1,800)
Plan amendments	**(12)**	63
Benefits paid	**342**	334
Curtailment loss	**(19)**	(26)
Settlements	**732**	44
Special termination benefits	**(43)**	(170)
Projected benefit obligation at end of year	**(11,961)**	(11,046)

Change in pension plan assets

Amounts in NOK million	2003	2002
Fair value of plan assets at beginning of year	**7,651**	8,085
Actual return on plan assets	**954**	(614)
Company contributions	**700**	500
Benefits paid	**(300)**	(294)
Settlements	**(621)**	(26)
Fair value of plan assets at end of year	**8,384**	7,651

Status of pension plans reconciled to balance sheet

Amounts in NOK million	2003	2002
Defined benefit plans:		
Funded status of the plans at end of year	**(3,577)**	**(3,395)**
Unrecognized net loss	**4,879**	**5,103**
Unrecognized prior service cost	**630**	**735**
Unrecognized net transition (asset) obligation	**2**	**(4)**
Net prepaid pension recognized	**1,934**	**2,439**
Termination benefits and other	**(631)**	**(644)**
Total net prepaid pension recognized	**1,303**	**1,795**

Amounts recognized in the balance sheet consists of

Amounts in NOK million	2003	2002
Prepaid pension	**3,707**	3,808
Accrued pension liabilities	**(2,404)**	(2,013)
Net amount recognized	**1,303**	1,795

Assumptions used to determine net periodic pension cost

Amounts in NOK million	2003	2002
Discount rate	7.0%	7.5%
Expected return on plan assets	8.0%	8.5%
Expected salary increase	4.0%	3.5%
Expected pension increase	3.5%	2.5%

Assumptions used to determine pension obligation at end of year

	2003	2002
Discount rate	**6.0%**	7.0%
Expected salary increase	**4.0%**	4.0%
Expected pension increase	**3.5%**	3.5%

Investment profile plan assets

	2003	2002
Asset category		
Equity securities	**27%**	26%
Debt securities	**36%**	36%
Real estate	**21%**	24%
Other	**16%**	14%
Total	**100%**	100%

See Note 20 in Notes to the consolidated finacial statements for further information.

3. Remunerations and other

Remuneration of the members of the corporate assembly and the board of directors was NOK 457,500 and NOK 2,557,000, respectively. The president's salary and other benefits, excluding bonuses, totaled NOK 4,493,000 in 2003 and NOK 4,432,000 in 2002.

The president is entitled to retire at 62 years of age with a pension benefit representing 65 percent of his salary. The company's employment contract with the president provides that, in the event that employment terminates, he has the right to salary and the accrual of pension rights for a three year period. The company's obligation can be reduced by salary received or pension rights accrued from other sources. His employment can, under certain conditions, continue after retirement as president.

Egil Myklebust retired as president in May 2001. He continued to be employed by the company in accordance with his employment contract from 1991. Total salary and other benefits, exclusive of remuneration as Board Chair, amounted to NOK 3,362,000 for 2003 and NOK 3,676,000 for 2002. In addition he has pension rights in accordance with Hydro's normal pension scheme with a 65 year retirement age and a pension based on 65 percent of basis salary.

On 14 June 2002, the Board approved a new stock option plan for corporate officers and certain key employees, in addition to expanding the existing subsidized share-purchase plan for employees. Refer to note 4 in Notes to the consolidated financial statements for a description of stock based compensation.

In addition, there is established a stronger element of performance rewards in Hydro's compensation system: a bonus linked to achieving performance goals in the business plans for various units in Hydro. The bonus is limited to a maximum of one month's salary per year for employees. For approximately 100 managers with substantial responsibility for performance, the bonus is limited to a maximum of two months salary. For top management — around 30 persons — the bonus is limited to a maximum of three months salary. For the president the upper limit of the bonus is six months salary. Performance goals established eliminates effects of price variations of the company's main products and foreign exchange fluctuations. It is the actual improvements of Hydro's activities that will be measured and rewarded.

Bonus to the Corporate Management Board for 2002 paid in 2003

Amount in NOK	
Eivind Reiten	630,000
Tore Torvund	465,000
Jon-Harald Nilsen	592,000
Thorleif Enger[1)]	572.000
John O.Ottestad	315,000
Alexandra Bech Gjørv	255,000

1) Thorleif Enger was a member og the Corporate Management Board until August 2003.

Partners and employees of Hydro's appointed independent auditors, Deloitte Statsautoriserte Revisorer AS (Deloitte), own no shares in Norsk Hydro ASA or any of its subsidiaries. Fees in 2003 to Deloitte for ordinary audit were NOK 12,167,000 for Norsk Hydro ASA and NOK 14,090,000 for the Norwegian subsidiaries. Fees for audit-related services were NOK 742,000 for Norsk Hydro ASA and NOK 1,097,000 for the Norwegian subsidiaries. Fees for other services were NOK 921,000 for Norsk Hydro ASA and NOK 171,000 for the Norwegian subsidiaries. Deloitte Consulting AS, an affiliate company of Deloitte in Norway, has provided services to Hydro in the amount of NOK 7,377,000.

For 2003, the estimated adjustment to the tax basis (consolidated RISK) of shares for shareholders in Norsk Hydro ASA is a positive amount of NOK 20.85 per share.

In 2003, the average number of employees in the Group was 46,312, compared to 42,615 for 2002. The corresponding figure for the parent company was 6,984 employees in 2003 versus 8,309 in 2002. A substantial part of the employees in Norsk Hydro ASA are engaged in activities for other Group companies. The costs for these employees are accounted for on a net basis reducing Payroll and related costs.

Amounts in NOK million	2003	2002
Payroll and related costs:		
Salaries	**4,394**	4,974
Social security costs	**716**	797
Social benefits	**87**	201
Net periodic pension cost (Note 2)	**1,523**	779
Internal invoicing of payroll related costs	**(4,455)**	(5,762)
Total	**2,265**	989

Total loans to the company's employees as of 31 December, 2003 were NOK 836 million. All loans were given in accordance with general market terms.

4. Property, plant and equipment

Amounts in NOK million	Machinery, etc	Buildings	Plant under construction	Other	Total
Cost 31.12.2002	313	106	45	19	483
Additions at cost	21	9	48	—	78
Retirements	(125)	(14)	(4)	(1)	(144)
Transfers	4	20	(24)	—	—
Accumulated depreciation 31.12.2003	(117)	(43)	—	(12)	(172)
Net book value 31.12.2003	**96**	**78**	**65**	**6**	**245**
Depreciation in 2003	**(24)**	**(5)**	**—**	**(12)**	**(41)**[1]

1) Includes impairment loss of NOK 12 million.

5. Financial income and expense and other income

Amounts in NOK million	2003	2002
Dividends from subsidiaries	**3,625**	3,405
Non-consolidated investees	**(83)**	61
Interest from group companies	**3,614**	3,856
Other interest income	**384**	781
Interest paid to group companies	**(1,131)**	(1,432)
Other interest expense	**(2,184)**	(2,430)
Other financial income (expense), net	**70**	(247)
Financial income (expense), net	**4,295**	3,994

There was no "Other income" in 2003. "Other income" for 2002 was NOK 3,368 million, whereof NOK 3,342 million relates to the sale of Norsk Hydro Sverige AS to Norsk Hydro Produksjon AS.

6. Income taxes

The tax effect of temporary differences resulting in the deferred tax assets (liabilities) and the change in temporary differences are:

	Temporary differences			
	Tax effected		Change	
Amount in NOK million	2003	2002	2003	2002
Short-term items	**(183)**	36	**(695)**	(57)
Write-down on shares	**(624)**	(633)	**31**	68
Prepaid pension	**(1,038)**	(1,066)	**185**	(356)
Pension liabilities	**673**	564	**418**	399
Other long-term	**304**	178	**377**	239
Deferred tax liabilities	**(868)**	(921)		
Change for year			**316**	293

Reconciliation of nominal statutory tax rate to effective tax rate

Amount in NOK million	2003	2002
Income (loss) before taxes	**1,692**	6,088
Expected income taxes at statutory tax rate	**474**	1,704
Tax free income	**(10)**	(1,027)
Dividend exclusion	**(724)**	(702)
Non-deductible expenses and other, net	**266**	(169)
Income tax expense	**6**	(194)
Effective tax rate	**0.35%**	(3.19%)

See Note 10 in Notes to the consolidated financial statements for further information.

7. Shares in subsidiaries

Company name:		Percentage of shares owned by Norsk Hydro	Total share capital of the company (1,000's)		Book value 31.12.2003 (in NOK 1,000's)
Oil & Energy:	Norsk Hydro Kraft OY	100	EUR	34	269
	Norsk Hydro Technology Ventures AS	100	NOK	6,000	70,150
	Norsk Hydro Electrolysers AS	100	NOK	4,000	4,300
Aluminium:	Hydro Aluminium AS	100	NOK	2,167,001	4,866,019
	Norsk Hydro Magnesiumgesellschaft mbH[1)]	2	EUR	512	179
	Hydro Aluminium Acro[2)]	24.3	BRL	64,179	50,391
Agri:	Hydro Agri Hellas S.A.	100	EUR	1,264	7,437
	Djupvasskaia AS	100	NOK	1,000	3,523
	Hydro Agri Argentina S.A.	100	USD	33,012	108,702
	Hydro Agri Colombia Ltda.	100	COP	4,842,549	16,749
	Hydro Agri Russland AS	50	NOK	21,200	21,200
	Hydro Agri Venezuela C.A.	60	VEB	363,000	125
	Hydro Nordic, S.A.	100	GTQ	8,500	24,259
	Hydroship a.s	100	NOK	280,000	280,000
	Hydroship Services AS	100	NOK	1,039	1,039
	Norensacados C.A.	60	VEB	15,000	140
	Norsk Hydro (Far East) Ltd.	100	HKD	50	—
	Ceylon Oxygen Ltd.	70.85	LKR	67,500	18,912
	Hydro Agri Russia as	100	NOK	3,750	3,750
	Hydro Gas and Chemicals AS	100	NOK	15,100	49,416
	Hydro Agri Norge AS	100	NOK	400,000	1,057,569
	Hydro Agri Rus Ltd.	100	RUB	54,158	—
	Fertilizer Holdings AS	100	NOK	10,000	400,000
	Yara North America, Inc.	100	USD	1,000	467,947
	Norsk Hydro Asia Pte. Ltd.	100	SGD	243,145	1,114,364
	Yara International ASA	100	NOK	108,610	2,048,050
Other activities:	Hydro Pronova AS	100	NOK	59,644	846,634
	Industriforsikring AS	100	NOK	20,000	20,000
	Norsk Bulk AB	100	SEK	102	2,551
	Retroplast AS	100	NOK	100	18,876
	Grenland Industriutvikling AS	100	NOK	26,750	110,950
	Hydro Porsgrunn Eiendomsforvaltning AS	100	NOK	2,500	5,500
	Hydro IS Partner AS	100	NOK	5,000	5,000
Corporate:	Norsk Hydro Plastic Pipe AS	100	NOK	10,000	91,472
	Norsk Hydro Brasil Ltda.	100	BRL	46,976	135,544
	Norsk Hydro Danmark AS	100	DKK	1,002,000	4,515,523
	Hydro Aluminium Deutschland GmbH[3)]	23.2	EUR	56,242	10,143
	Norsk Hydros Handelsselskap AS	100	NOK	1,000	1,000
	Norsk Hydro Produksjon AS	100	NOK	200,000	18,811,324
	Norsk Hydro Russland AS	100	NOK	19,000	19,000
	Norsk Hydro North America, Inc.	100	USD	29,000	81,960
	Hydro Aluminium Holding Pte. Ltd.	100	SGD	46,920	185,532
Total					35,475,499

The foreign currency designation indicates country of domicile. Percentage of shares owned equals percentage of voting shares owned. A number of the above-mentioned companies also own shares in other companies as specified in their annual reports.

1) The company is owned 98 percent by Hydro Aluminium Deutschland GmbH and 2 percent by Norsk Hydro ASA.

2) The company is owned 68.3 percent by Norsk Hydro Brasil Ltda., 7.4 percent of a subsidiary of Norsk Hydro Produksjon AS and 24.3 percent by Norsk Hydro ASA.

3) The company is owned 76.8 percent by Norsk Hydro Deutschland GmbH & CoKG., which is a subsidiary of Norsk Hydro Produksjon AS and 23.2 percent by Norsk Hydro ASA.

8. Shares in non-consolidated investees

The most significant investments in non-consolidated investees for Norsk Hydro ASA are (amounts in NOK million):

Name	Percentage owned (equals voting rights)	Country	Book value as of 31 December, 2003	Long-term advances[1]	Total
Compania Industrial de Resinas Sinteticas — CIRES SA	26.2%	Portugal	100	—	100
Phosyn Plc.	35.0%	Great Britain	19	—	19
Suzhou Huasu Plastics Co. Ltd.	31.8%	China	67	48	115
Qatar Fertilizer Company (S.A.Q.)	25.0%[2]	Qatar	43	—	43
Other			78	268	346
Total			**307**	**316**	**623**

1) Including advances to associated companies indirectly owned by Norsk Hydro ASA.

2) Including 15 percent owned by Norsk Hydro Holland BV.

9. Specification of balance sheet items

Amounts in NOK million	2003	2002
Prepaid pension, investments and other non-current assets:		
Other investments	**967**	1,054
Prepaid pension	**3,707**	3,808
Other non-current assets	**946**	1,944
Total	**5,620**	6,806
Inventories:		
Raw materials	**3**	3
Finished goods	**16**	48
Total	**19**	51
Bank loans and other short-term interest-bearing debt:		
Bank overdraft	**1,075**	1,522
Other interest-bearing debt	**2,279**	2,155
Total	**3,354**	3,677

10. Guarantees

Norsk Hydro ASA provides guarantees arising in the ordinary course of business including stand-by letters of credit, letters of credit, performance bonds and various payment or financial guarantees. See Note 22 in Notes to the consolidated financial statements for further information about guarantees.

Amounts in NOK million	2003	2002
Guarantees (off-balance sheet):		
Non-consolidated investees' debt	**54**	96
Tax guarantees	**1,352**	936
Sales guarantees	**1,176**	1,176
Commercial guarantees	**11,627**	8,171
Total	**14,209**	10,379

11. Number of shares outstanding, shareholders, equity reconciliation etc

The share capital of the company is NOK 5,331,933,000. It consists of 266,596,650 ordinary shares at NOK 20 per share. As of 31 December, 2003 the company had purchased 9,884,650 treasury stocks at a cost of NOK 3.5 billion. For further information on these issues see Note 3 in Notes to the consolidated financial statements.

Shareholders holding one percent or more of the total 256,712,000 shares outstanding as of 31 December, 2003 are according to information in the Norwegian securities' registry system (Verdipapirsentralen):

Name	Number of shares
Ministry of Trade and Industry	116,832,770
Morgan Guaranty Trust Co. of NY[1]	12,565,237
Folketrygdfondet	9,639,875
State Street Bank & Trust[2]	9,141,315
JP Morgan Chase Bank[2]	9,126,667
JP Morgan Chase Bank[2]	5,338,400
Mellon Bank[2]	5,200,350
JP Morgan Chase Bank[2]	4,464,000
Euroclear Bank S.A./N.V.[2]	4,045,642
Fundamental Investors, INC	2,934,600
The Northern Trust co.	2,840,702
JP Morgan Chase Bank[2]	2,591,333

1) Representing American Depositary Shares.

2) Client accounts and similar.

Change in Shareholders' equity

Amounts in NOK million	Paid-in capital	Retained earnings	Total Shareholders' equity
Balance 31 December, 2002	20,247	22,236	42,483
Net income	—	1,686	1,686
Dividend proposed	—	(2,811)	(2,811)
Purchase of treasury stock	(30)	(525)	(555)
Treasury stock sold to employees	(12)	78	66
Dividende paid in excess of dividend proposed for 2002	—	(3)	(3)
Balance 31 December, 2003	**20,205**	**20,661**	**40,866**

Independent auditors' report

To the annual general meeting of Norsk Hydro ASA

Independent auditors' report for N GAAP financial statements for 2003

We have audited the financial statements of Norsk Hydro ASA and its subsidiaries as of 31 December, 2003, showing a profit of NOK 1,686 million for the parent company and a profit of NOK 10,249 million for the group. We have also audited the information in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income. Financial statements comprise the balance sheet, the statement of income, the statement of cash flows, the accompanying notes and the group accounts. These financial statements, which are presented in accordance with accounting principles generally accepted in Norway, are the responsibility of the Company's Board of Directors and the Company's President. Our responsibility is to express an opinion on these financial statements and on certain other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards generally accepted in Norway. Auditing standards generally accepted in Norway require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards generally accepted in Norway, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements, as shown on page 90-92 and page 131, are prepared in accordance with the law and regulations and present fairly, in material respects, the financial position of the Company as of 31 December, 2003 and the results of its operations and its cash flows for the period ended 31 December 2003, in accordance with accounting principles generally accepted in Norway;
- the Company's management has fulfilled its duty to maintain the Company's accounting process in such a proper and well-arranged manner that the accounting process is in accordance with the law and accounting practices generally accepted in Norway; and
- the information in the Board of Directors' report, as shown on page 50-55, concerning the financial statements, the going concern assumption, and the proposal for the allocation of net income is consistent with the financial statements and complies with the law and regulations.

Oslo, Norway, 2 March, 2004
Deloitte Statsautoriserte Revisorer AS

Aase Aa. Lundgaard — State Authorized Public Accountant, (Norway)

To the annual general meeting of Norsk Hydro ASA

Independent auditors' report for US GAAP financial statements

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of 31 December, 2003 and 2002, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended 31 December, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements on pages 88-90 present fairly, in all material respects, the financial position of the Company as of 31 December, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended 31 December, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, the Company changed it's method of accounting for asset retirement obligations in 2003 and goodwill and other intangible assets in 2002 to conform to newly adopted accounting principles.

Oslo, Norway, 2 March, 2004
Deloitte Statsautoriserte Revisorer AS

Aase Aa. Lundgaard — State Authorized Public Accountant, (Norway)

Corporate assembly

The following were members of Norsk Hydro's corporate assembly at the end of 2003:

Sven B. Ullring (leder)
Svein Steen Thomassen (nestleder)
Ellen Holager Andenæs
Frank A. Bakke
Solveig Alne Frøynes
Aase Gudding Gresvig
Westye Høegh
Idar Kreutzer
Kjell Kvinge
Sylvi A. Lem
Karen Helene Midelfart
Jon-Arne Mo
John-Arne Nilsen
Nils-Egel Nilsen
Anne Merete Steensland
Rune Strande
Sigurd Støren
Siri Teigum
Lars Tronsgaard
Kjell Aamot
Svein Aaser

Observers:

Frank Andersen
Sónia F. T. Gjesdal
Ingar Aas-Haug

Deputy members:

Erna Flattum Berg
Sven Edin
Anne-Margrethe Firing
Odd Arne Fodnes
Billy Fredagsvik
Oddny Grebstad
Stig Lima
Line Melkild
Bjørn Nedreaas
Wolfgang Ruch
Sten-Arthur Sælør
Terje Venold
Morten Ødegård

Statement of the corporate assembly to the Annual general meeting of Norsk Hydro ASA

The board of directors' proposal for the financial statements for the financial year 2003 and the Auditors' report have been submitted to the corporate assembly. The corporate assembly recommends that the directors' proposal regarding the financial statements for 2003 for the parent company, Norsk Hydro ASA, and for Norsk Hydro ASA and its subsidiaries be approved by the annual general meeting, and that the net income for 2003 of Norsk Hydro ASA be appropriated as recommended by the directors.

Oslo, 16 March, 2004
Sven Ullring

Directors' Report 2006[1]

The Statoil group recorded its best ever net income in 2006. A strong financial position lays the foundation for freedom of action and growth. The board of directors has recommended a merger between Statoil and Hydro's oil and gas division. The proposed merger is ideally suited to Statoil's strategy for growth. The merged company will have more and better opportunities for growth, which will help to ensure long-term value creation for the shareholders.

Best-ever annual profit

The Statoil group's net income of NOK 40.6 billion is NOK 9.9 billion higher than in 2005. Income before financial items, tax and minority interest was NOK 116.9 billion compared with NOK 95.0 billion in 2005. The increase is largely due to higher oil and gas prices. The return on capital employed was 27.1% in 2006, compared with 27.6% the year before. The return is very competitive compared with other oil companies.

Statoil's oil and gas production in 2006 was 1,135,000 barrels of oil equivalent (boe) per day, which is 34,000 boe lower than in 2005. This is largely the result of lower oil production from mature fields and a temporary reduction in production from fields in operation. Production costs per boe rose from NOK 22.3 in 2005 to NOK 26.6 in 2006. A high activity level, increased pressure on costs in the industry and lower production are the main reasons for the increase.

In 2006, the company replaced 73% of production with new, proven oil and gas reserves. The reserve replacement rate in 2005 was 102%. At year-end 2006, proven remaining reserves amounted to 4.2 billion boe.

The board is proposing to the annual general meeting a combined ordinary and special dividend of NOK 9.12 per share for 2006, compared with NOK 8.20 per share in 2005. The repurchase of own shares became part of the company's dividend policy in 2006. Repurchase represents NOK 1.55 per share in 2006. The total payment to Statoil's shareholders corresponds to NOK 10.67 per share. This amounts to 57% of the net income for 2006.

Exploration activity has increased considerably. A total of 37 exploration and appraisal wells were completed in 2006, 19 of which resulted in finds. The final evaluation of six wells remained at year-end. Finds were made in two out of four exploration extensions. Twenty wells were completed in 2005.

The company has further strengthened its position in the Gulf of Mexico through the acquisition of owner interests in discoveries and exploration acreage from Plains Exploration & Production and Anadarko Petroleum Corporation. The deepwater portfolio is ideally suited to the company's core expertise, building on the technology and experience developed over several decades through operations on the Norwegian continental shelf (NCS).

The company has sold Statoil Ireland to Topaz Energy Group. The sale is expected to result in a pre-tax gain of NOK 0.6 billion.

The board closely monitors the work relating to health, safety and the environment (HSE). Our ambition is zero harm to people and the environment. In 2006, Statoil has shown improvements in most areas in which we measure the results achieved in HSE.

In 2006, Statoil reached a settlement with the US Securities and Exchange Commission (SEC), the US Department of Justice (DOJ) and the United States Attorney's Office for the Southern District of New York (USAO). The settlement concluded the investigation carried out by the SEC, DOJ and USAO under US law concerning Statoil's contract from 2002 with Horton Investments Ltd for business development in Iran.

In the settlement with the DOJ and USAO, Statoil accepted a fine of USD 10.5 million for violation of the US Foreign Corrupt Practices Act (FCPA). Statoil also accepted responsibility for bribes paid to an Iranian civil servant in 2002 and 2003, for accounting for those payments improperly in its books and records, and for having insufficient internal controls in place to prevent the payments being made. In the settlement with the SEC, Statoil accepted the confiscation of USD 10.5 million.

---

(1) Excerpt from Statoil's Annual Report for 2006.

Markets and surroundings

Continued growth in the global economy contributed to a further increase in the demand for energy in 2006. A persistent shortage of production and refining capacity — reinforced by political uncertainty in important producer countries — resulted in record high oil and gas prices. The average price of oil in 2006 was USD 64.4 per barrel, compared with USD 53.6 per barrel the year before. Measured in NOK the average price increased by NOK 68 per barrel to NOK 413 in 2006.

Security of supply for gas has been the subject of increasing political attention in important energy markets such as Europe and the USA. Statoil adopts an aggressive strategy with a view to developing long-term sources for stable gas supplies to these markets. Gas prices in Europe and the USA continued to rise in 2006. The average realised gas price in 2006 was NOK 1.91 per cubic metre compared with NOK 1.45 per cubic metre in 2005.

Normalised refining margins (fluid catalytic cracker margin — FCC) fell from USD 7.9 per barrel in 2005 to USD 7.1 per barrel in 2006. The average contract price for methanol rose from EUR 225 per tonne in 2005 to EUR 300 per tonne in 2006.

The increase in activity in the industry in recent years has resulted in considerable pressure on capacity and prices in several supplier markets, including the markets for steel, rigs, marine operations, engineering and fabrication.

Competition is very keen for access to new resources and industrial opportunities. The board believes that competition will be further intensified in the years ahead. Statoil is in a good position for creating value and growth, and the company's robust financial position improves its long-term opportunities. The proposed merger with Hydro's petroleum division will further strengthen the company's competitive position in the international arena.

High level of exploration and project activity on the Norwegian continental shelf

The income before financial items, tax and minority interest was NOK 89.4 billion in 2006, compared with NOK 74.1 billion in 2005. The main reason for the improvement was the increase in oil and gas prices.

Statoil's production from the NCS averaged 958,000 boe per day in 2006, which is 27,000 boe lower than the year before. The decline is largely due to falling production from mature fields and temporary reductions related to measures aimed at improving recovery. Part of the drop in production was offset by the startup of new fields, measures to improve recovery and increased gas production.

In 2006, the company took part in the completion of 17 exploration and appraisal wells on the NCS, eight of which resulted in discoveries. Finds were also made in two of four exploration extensions. This is a substantial increase in activity compared with 2005, when nine exploration and appraisal wells were completed. Statoil was awarded four new shares in licences and one additional acreage in 2006, including three operatorships in the Norwegian and Barents Seas. In the awards in predefined areas (APA) in 2006, we were awarded eight production licences, six of them as operator.

Access to new exploration acreage is decisive if the company is to maintain a high activity level on the NCS and it is a precondition for achieving Statoil's long-term production ambitions.

Efficient and profitable further development of the NCS is important to the company's financial results and Statoil's reputation as a development operator. In 2006, the company approved development plans for the Gjøa field in the North Sea and the Alve field in the Norwegian Sea.

Gjøa will be the next big development on the NCS. The plan for development and operation (PDO) also calls for the Hydro-operated condensate and gas fields Vega and Vega South to be tied back to the new platform. The coordination benefits of this solution will be substantial.

Efficient project implementation is important to maximise the recovery of area reserves within the lifetime of existing production facilities. The Alve project is an example of this. The field will be phased into the Statoil-operated Norne field. The development will ensure good, continuous utilisation of spare capacity in existing production facilities.

Building new, strong foundations for international growth

Statoil's international operations will create positions that will form the basis for long-term growth in production.

The income before financial items, tax and minority interest was NOK 10.9 billion in 2006, compared with NOK 8.4 billion in 2005. The main reason for the improvement was the increase in oil and gas prices.

International oil and gas production fell from a daily average of 184,000 boe in 2005 to just under 178,000 boe in 2006. Oil output increased by 5%, while average gas production fell from 43,000 boe in 2005 to 29,000 boe. This reduction was largely due to the effects of the production sharing agreement (PSA) for the In Salah field in Algeria.

Four new fields came on stream in 2006, namely In Amenas in Algeria, Dalia in Angola, Shah Deniz and the second of two developments in phase 2 (East Azeri) in the Azeri-Chirag-Gunashli field in Azerbaijan.

In the international arena, Statoil took part in 20 completed exploration and appraisal wells in 2006. In 11 of these, new finds were proven or previous finds confirmed, while the evaluation of six wells was still ongoing at the turn of the year. Eleven wells were completed in 2005. Statoil secured 10 new exploration licences in 2006. The group has increased its activities in Algeria, drilling its first onshore exploration well in the Hassi-Mouina block in the Sahara desert. In 2006, Statoil opened new offices in Libya and Egypt.

Statoil has strengthened its position in the Gulf of Mexico through the purchase of two deepwater portfolios from Anadarko Petroleum Corporation and Plains Exploration & Production, respectively. Together with the acquisition of EnCana's portfolio and the exploration collaboration with Exxon Mobil, Statoil has established a new international growth area. By exploiting its high level of expertise in exploration, reservoir management and development technology, the company will create a new, strong foundation for growth.

The board considers that a continuing aggressive approach in the international exploration activity and business development will contribute to long-term value creation and growth.

Record gas sales at high prices

In 2006 the gas business achieved record results. The income before financial items, tax and minority interest was NOK 10.0 billion, up 70% on 2005. The increase was mainly due to the higher price of natural gas, increased sale volumes and the contribution from trading in the short-term gas market.

In 2006 Statoil sold more gas than in any previous year. Total gas sales from the NCS increased to 28.5 billion cubic metres in 2006 compared with 27.3 billion cubic metres in 2005. Of the total gas sales in 2006, 25.3 billion cubic metres were equity gas.

The start-up of the southern leg of the Langeled gas pipeline between Sleipner and the receiving terminal in Easington, south-east England, in October 2006 increased the company's capacity for processing and transporting gas to the UK market.

The board is satisfied with the US Federal Energy Regulatory Commission's (FERC) approval and the operator's start-up of work on expanding regasification capacity for liquefied natural gas (LNG) at the Dominion Cove Point receiving terminal. The expansion increases Statoil's annual supply capacity from 2.4 billion to more than 10 billion cubic metres. The capacity agreement with the energy company Dominion for the delivery of liquefied natural gas (LNG) from Snøhvit is an important contribution to the implementation of Statoil's strategy for making Norwegian gas a global commodity.

Good results in Manufacturing & Marketing

The Manufacturing & Marketing business area aims to generate as much value as possible from the group's overall supplies of crude oil, natural gas liquids (NGL) and refined products. Integration and active exploitation of profitable opportunities for synergies and growth will help increase value creation.

The income before financial items, tax and minority interest was NOK 7.0 billion in 2006, compared with NOK 7.6 billion in 2005. The reduction is mainly due to the recognition in the accounts of Statoil's sale of its share in Borealis in 2005. The sale of the service station chain in Ireland gave a book gain of NOK 0.6 billion before tax. Good contributions from oil trading, the high regularity of plant in operation and high methanol prices also helped to create a good result.

In 2006, Statoil was granted permission by the authorities to build a combined heat and power (CHP) station at Mongstad. At the same time, the company entered into an agreement with the Ministry of Petroleum and Energy for the development of solutions for future capture of carbon dioxide. Construction work on the CHP station commenced on 16 January 2007.

At the beginning of 2006, the Norwegian Water Resources and Energy Directorate (NVE) granted Statoil a licence to build a gas-fired power plant at Tjeldbergodden. Statoil entered into an agreement with Shell with a view to developing a project for the establishment of a carbon value chain for improved oil recovery (IOR) from Draugen and later from Heidrun. The project is technologically and financially challenging, and is a response to the environmental challenge facing energy production.

Both projects represent a major commitment to energy and the environment. Good framework conditions and close industrial collaboration are decisive if we are to succeed.

Making use of first-class technology and expertise

The activity level was high within technology, modification and project work in 2006. Important, advanced subsea projects such as Tyrihans and subsea separation on the Tordis field are being developed.

The Technology & Projects business area is responsible for, among other things, completing the demanding Snøhvit project. Progress was good in 2006, and an important milestone was reached when LNG for cooling the storage tanks arrived at Melkøya in December.

The southern leg of the Langeled gas pipeline and the Easington receiving terminal were delivered on schedule and below the cost estimate when the project was approved. At 1,200 kilometres, Langeled will be the world's longest marine gas pipeline, with a transport capacity of around 20 billion cubic metres of gas annually.

Statoil purchased goods and services for NOK 67.7 billion in 2006. Companies in Norway accounted for 78% of the deliveries. Norwegian companies' high share of the deliveries shows that Norwegian industry has maintained its competitiveness. Statoil collaborates well with important suppliers and is actively engaged in recruitment and skills development. In the board's view, the company makes good efforts to secure sufficient capacity to implement Statoil's ambitious plans, both on the NCS and internationally.

Exploration for and the development of new finds make increasing demands on technology and expertise, while at the same time the general pressure on costs in the industry is increasing. As part of the efforts to strengthen the company's expertise in project implementation, a collaboration agreement was signed with the University of California, Berkeley in 2006 for the education of managers for big, complex development projects. The board stresses the importance of making purposeful efforts to develop and apply knowledge and new solutions that can contribute to further developing Statoil into a globally competitive company.

The group's financial development

Statoil had total revenues of NOK 425.2 billion in 2006, compared with NOK 387.4 billion in 2005.

The Statoil group recorded an income before financial items, tax and minority interest of NOK 116.9 billion in 2006, compared with NOK 95.0 billion the year before.

Net income amounted to NOK 40.6 billion, which was NOK 9.9 billion up on the year before. The earnings per share in 2006 came to NOK 18.79 compared with NOK 14.19 in 2005.

The cash flow from operations was NOK 60.9 billion in 2006, up from NOK 56.3 billion in 2005. The main reason for the increase was higher prices. The cash flow used for investments in 2006 was NOK 40.1 billion, compared with NOK 37.7 billion the year before.

The group's gross interest-bearing debt amounted to NOK 35.8 billion at the end of 2006, compared with NOK 34.1 billion the year before. The group's debt to equity ratio, defined as net interest-bearing debt in relation to capital employed, was 16.8% as of 31 December 2006, compared with 15.1% on the same date in 2005.

Total bank deposits and other liquid securities amounted to NOK 8.4 billion at the end of 2006, compared with NOK 13.9 billion in 2005.

Statoil uses financial derivatives to manage risk as a result of fluctuations in underlying interest rates, exchange rates and commodity prices. Since Statoil operates in the international oil and gas markets and has substantial financing needs, the company is exposed to these risks, which can influence operating, investment and financing costs.

The company has used, and will continue to use, financial instruments and commodity-based derivative contracts to reduce the risk relating to the overall earnings and cash flow. Derivatives, which largely offset such market exposure, are used to manage certain risks of this type. The company also uses derivatives to establish positions based on market expectations, but this has no significant effect on the group accounts.

Interest and exchange rate risks are substantial financial risks for the Statoil group. The total exposure is managed at portfolio level in accordance with the strategies and authorisations set out in the group-wide risk management programme, and it is monitored by the company's risk committee. The company's interest exposure is mainly related to the group's debt commitments and to management of the assets in Statoil Forsikring AS and Statholding AS. The group mainly uses interest and exchange rate swap agreements to manage interest and exchange rate exposure.

The group's financial reporting is in accordance with the US generally accepted accounting principles (USGAAP) as well as the Norwegian generally accepted accounting principles (NGAAP). Note 26 in the NGAAP accounts explains the difference between the two sets of accounts.

As required by section 3-3 a) of the Norwegian Accounting Act, the board confirms that the going concern assumption has been fulfilled. The accounts for 2006 have been prepared on that basis. Net income for the Statoil ASA parent company according to NGAAP was NOK 39.1 billion in 2006. The accounts give an accurate picture of the company's assets, liabilities, financial position and financial performance. No events have taken place after the end of the financial year that have a bearing on the evaluation of the company and that are not included in the annual accounts and notes.

The year 2006 was characterised by particularly favourable market conditions and good financial results. The board concludes that this allows for a special one-off dividend of NOK 5.12 per share. With an ordinary dividend of NOK 4.00 per share, the board proposes that the annual general meeting allocates a total dividend of NOK 9.12 per share. Repurchase represents NOK 1.55 per share in 2006. The total payment to Statoil's shareholders corresponds to NOK 10.67 per share.

The board proposes the following allocation of net income in the parent company Statoil ASA (in NOK million):

Provisions for dividend	19,690
Retained earnings	15,783
Reserve for valuation variances	3,592
Total allocated	39,065

The company's distributable equity after allocations amounts to NOK 77.1 billion.

Corporate governance

Good corporate governance is the board's most important tool for ensuring that Statoil's resources are managed in an optimal manner and contribute to maximum value creation for the company's owners.

The board must ensure that Statoil has good systems for internal control and risk management at all times. In 2006, Statoil's most important management and control principles were gathered together in one document based on the company's corporate values and ethical guidelines. Together with a clearly defined division of responsibility and roles between the shareholders, the board and the company's management, this forms the basis for the good relationship of trust between the board, the management and the employees.

In Statoil, corporate governance is based on openness and equal treatment of the company's shareholders, and is exercised through the board of directors, corporate assembly and annual general meeting. The board has also set up a separate audit committee and a remuneration committee.

There were two changes among board members in 2006. Marit Arnstad took office as a new shareholder-elected director from 14 June 2006. Stein Bredal stepped down in May 2006. Claus Clausen took office as a new representative of the employees on 14 June 2006.

The board held 17 meetings in 2006. The board notes the following matters to which particular attention was devoted:

— Work on health, safety and the environment

— Sanction of the Mongstad energy project with CHP station

— Continuous follow-up of the group's operations and financial development

— Strategies and plans for business development on the NCS and internationally

— Progress and cost developments in important development projects

— Changes in the company's remuneration policy

— Settlement with SEC, DOJ and USAO in the Horton case

— Consideration of the merger with Hydro's oil and gas division

The board has followed up the company's work on bringing the internal control systems into line with the regulations in section 404 of the Sarbanes-Oxley Act (SOX404). This work helps to ensure and document the quality of the company's internal controls in connection with financial reporting. The board is satisfied that no material weaknesses have been identified in the company's internal controls.

The board members have wide-ranging and varied experience and expertise that forms a good basis for the board's work. In the late autumn of 2006, the board initiated a self-assessment of its work processes, with assistance from external resources. The assessment will be concluded in 2007.

None of the board members were involved in transactions of a significant nature in 2006 that necessitated an evaluation of values by an independent third party.

The board's audit committee is a sub-committee of the board with the role of supporting the board in matters concerning:

— the quality of accounting and financial reporting

— the qualifications, independence and work of the elected auditor

— the company's internal audit and control routines

— the company's compliance with requirements set by the authorities and Statoil's ethical guidelines.

As of 31 December 2006, the members of the committee were Finn A Hvistendahl (chair), Morten Svaan, Ingrid Wiik and Knut Åm. In accordance with US statutory requirements, the board has deemed Finn A Hvistendahl to be an accounting expert as the US Securities and Exchange Commission (SEC) defines the term.

The audit committee held eight meetings in 2006, with particular attention being devoted to:

— continuous follow-up of accounting

— the progress of implementation of SOX404

— communication with the elected auditor

— the independence of the corporate audit entity

— the group's work on hedging and risk management

Pursuant to the instructions specified by the board, the remuneration committee will assist the board in its work on the terms and conditions of employment of Statoil's CEO, and on its principles and strategy for the remuneration of the company's leading executives. At 31 December 2006, the members of the committee were Jannik Lindbæk (chair), Grace R Skaugen and Knut Åm. The committee held eight meetings in 2006.

A healthy operating philosophy

Statoil is working purposefully to achieve its ambition of zero harm to people and the environment. There were no fatalities in Statoil operations in 2006. The serious incident frequency improved from 2.3 in 2005 to 2.1 in 2006 and it has never been lower.

The board is very pleased to note the improvement in the number of serious incidents. The company has worked systematically for several years to identify and reduce the danger of falling objects, and this work resulted in a strong improvement in this area in 2006.

There is also reason to assume that the group's systematic work to improve behaviour and attitudes throughout the organisation is a contributory factor. The safe behaviour programme was initiated three years ago. At the end of 2006, more than 30,000 people, both Statoil employees and contractor employees, had started on the safe behaviour programme.

Sickness absence rose from 3.5% in 2005 to 3.9% in 2006. The board will follow up the company's efforts to reverse this trend.

Environmental measures

Statoil's operations are based on the principle of zero harm to the environment. This applies to emissions of greenhouse gases and emissions of chemicals from the company's installations. The board places great emphasis on finding industrial solutions that safeguard the natural environment and further the co-existence of important industries.

Statoil works continuously to reduce the growth in greenhouse gas emissions. In 2006 the company established a scheme for buying emission allowances to offset carbon dioxide released by employee travel and air conditioning plants in Statoil's buildings.

The company works in four main areas to reduce the effect of its operations on the climate; energy efficiency; the development of clean energy carriers; quota trading in carbon dioxide; and the capture and storage of greenhouse gases.

Statoil is involved in five of the world's biggest carbon capture and storage projects: Sleipner, Snøhvit, In Salah in Algeria, the Halten carbon dioxide venture with Shell at Tjeldbergodden and the combined heat and power (CHP) station at Mongstad. In the board's view, a clear industrial foundation and a substantial financial commitment on the part of the authorities are preconditions for the establishment of viable carbon value chains on the NCS.

People, the group and society

Statoil works purposefully to develop a healthy performance culture rooted in unambiguous values and ethical principles. The company's management and control system was simplified and further developed in 2006. It is intended to reinforce values and management principles, to ensure compliance with operational requirements and to increase the quality of the decision-making process and their implementation. Systematic work is ongoing to achieve this in all parts of the organisation.

Statoil is a knowledge-based company in which 55% of the employees have a university or college education, and 25% of the employees have a craft certificate.

Statoil views variety in the workforce with respect to gender, age and cultural background as being a value in itself. More than 27% of the employees in the parent company are women, and work on gender equality has high priority in the company. Today, more than 26% of managers in the Statoil group are women, which is an increase on last year. The proportion of women among managers under the age of 45 is 34%. The proportion of women in Statoil's management development programmes in recent years has remained stable at around 30%.

Employees in Statoil ASA are remunerated in accordance with their position, competence, performance and behaviour. In the annual pay awards for individual employees, Statoil also applies the principle of equal pay for work of equal value.

Statoil's operations are based on a clear, shared set of values and clear ethical principles. In 2006, the company further developed the guidelines and strategies in order to contribute to sustainable development. This is crucial if our employees are to understand and succeed in handling risks in the countries where we do business.

In 2006, Statoil was ranked the best company in the oil and gas sector on the Dow Jones Sustainability Index for the third year in a row. The board is convinced that good results over time along several performance axes will contribute to ensuring access to new resources and long-term return.

Further development for the group

In 2006, Statoil recorded its best profit ever. The company has a strong financial and industrial position that allows freedom of action and enables growth. It is the board's goal to ensure that Statoil's owners achieve the best possible returns on their holdings in the company.

The recommended merger between Statoil and Hydro's oil and gas division is a natural consequence of Statoil's strategy for growth. In the board's view, the merged company will have more opportunities for growth and will ensure long-term value creation.

The company operates in demanding industrial arenas. Competition for reserves is increasing, and the industry is experiencing pressure on capacity and costs. Framework conditions have changed considerably since 2004 when the company defined the goals for 2007. In 2006 Statoil adjusted the production target for 2007 from 1.4 million to 1.3 million boe. The changed assumptions for normalisation are an important reason for this adjustment. The goal is still a very demanding one. It is more probable that production for the year will fall short of the goal than that it will exceed it. The company has abandoned the normalised return on capital employed target of 13% in 2007, since the relevance of the target has been significantly reduced as a result of higher oil prices. In the reporting on production and unit costs in 2007, it will be announced how oil prices have affected the right to book production and reserves from fields subject to production sharing agreements.

Statoil will implement all available means in order to ensure future growth within the framework of strict capital discipline. Further development of the company will continue to be based on organic growth. Exploration activity has increased considerably, both on the NCS and internationally. Acquisitions and mergers will be considered insofar as they support the company's strategy and generate added value in the long term for the company's shareholders.

Stavanger, 13 March 2007

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

MARIT ARNSTAD

LILL-HEIDI BAKKERUD

CLAUS CLAUSEN

MORTEN SVAAN

KACI KULLMANN FIVE

FINN A HVISTENDAHL

GRACE REKSTEN SKAUGEN

INGRID WIIK

KNUT ÅM

HELGE LUND
PRESIDENT AND CEO

Directors' Biographies

Jannik Lindbæk (68)
Chair of the board

Appointed to the board of directors in November 2003 and re-elected in June 2006.

Education and professional background: President and CEO of Storebrand, chief executive of the Nordic Investment Bank, executive vice president of the International Finance Corporation.

Other elective posts: Chair of the board of the Bergen International Festival, Transparency International Norway, Plan International Norway and Gearbulk. Former chair of Den norske Bank. Director of Kristian Gerhard Jebsen Skipsrederi.

Number of shares in Statoil: 0

Kaci Kullmann Five (56)
Deputy chair

On the board of directors since August 2002. Acting chair from September to November 2003. Deputy chair from November 2003.

Profession: Self-employed.

Education and professional background: MSc in political science from the University of Oslo. Member of the Norwegian Parliament 1981-1997. Minister for trade and shipping 1989-1990. Leader of the Norwegian Conservative Party 1991-1994. Executive vice president in Aker RGI 1998-2002.

Other elective posts: Director of NMD Grossisthandel AS, Vitus Apotek AS, Asker og Bærum Budstikke ASA and Bluewater Insurance ASA. Member of the Norwegian Nobel Committee.

Number of shares in Statoil: 1,000

Knut Åm (63)

On the board of directors since April 1999.

Profession: Independent consultant.

Education and professional background: Degree in geological and geophysical engineering from the Norwegian Institute of Technology. Former senior vice president in Phillips Petroleum, with responsibility for exploration and production; previously held positions in the Geological Survey of Norway, the Norwegian Petroleum Directorate and Statoil.

Other elective posts: Chair of the Industrial Council of the Norwegian Academy of Technological Sciences, chair of IOR-Chemco AS, EnVision AS and EnVision StreamLine AS. Director of Badger Explorer AS, Petrostream ZA and the Physics of Geological Processes Centre of Excellence at the University of Oslo.

Number of shares in Statoil: 14,594

Finn A Hvistendahl (65)

On the board of directors since April 1999, chair of the board's audit committee.

Profession: Business development consultant.

Education and professional background: Degree in industrial chemistry from the Norwegian Institute of Technology. Has been chief financial officer and chief executive of Norsk Hydro and group CEO of Den norske Bank.

Other elective posts: Chair of the board of the Financial Supervisory Authority of Norway (Kredittilsynet).

Number of shares in Statoil: 2,947

Grace Reksten Skaugen (53)

On the board of directors since June 2002.

Profession: Self-employed

Education and professional background: PhD in laser physics from the Imperial College of Science and Technology, London University, and an MBA from the Norwegian School of Management.

Director of corporate finance at Enskilda Securities, Oslo. Adviser for Aircontactgruppen, Oslo and Fearnley Finance Ltd, London. Postdoctoral research in the field of microelectronics at Columbia University, New York.

Other elective posts: Board chair at Entra Eiendom, deputy chair at Opera Software. Director of Investor AB and Atlas Copco AB.

Number of shares in Statoil: 0

Ingrid Wiik (62)

On the board of directors since June 2005. Education and professional background: MSc in pharmacy from the University of Oslo, MSc in biopharmacy from the University of London, Master of Business Administration (MBA) from the Norwegian School of Management (BI).

President and CEO of Alpharma Inc, New York. Various managerial posts in Alpharma, Apothekernes Laboratorium and Nygaard & Co (now GE/Nycomed).

Other elective posts: Director of Alpharma, Coloplast and Norske Skog.

Number of shares in Statoil: 500

Marit Arnstad (44)

On the board of directors since June 2006.

Profession: Adviser in Schjødt law firm.

Education and professional background: Law degree from the University of Oslo. Petroleum and energy minister 1997-2000. Member of Parliament from 1993-97 and 2001-05. Parliamentary leader of the Norwegian Centre Party, 2003-05. Senior executive officer, Ministry of the Environment. Assistant lawyer in Wiersholm, Mellbye and Bech law firm.

Other elective posts: Chair of the board of the Norwegian University of Science and Technology (NTNU). Director of Aker Seafood ASA, COWI AS and NTE Nett AS.

Number of shares in Statoil: 0

Claus Clausen (52)

On the board of directors since June 2006. Employee-elected director.

Profession: Process engineer.

Education and professional background: Engineer from Bergen College of Engineering. He has held various positions within the process discipline since 1997. At present, he is specialist manager for technical process systems on the Statfjord field.

Other elective posts: Deputy leader of the Norwegian Society of Engineers (Nito) in Statoil and of Nito's company branch in Stavanger. Member of the union-management committee in Exploration & Production Norway.

Number of shares in Statoil: 165

Lill-Heidi Bakkerud (43)

On the board of directors since June 2004, and in the period 1998-2002. Employee-elected director.

Profession: Process technician.

Education and professional background: Process/chemistry technician with experience from the petrochemicals industry and oil and gas production.

Other elective posts: Full-time union official, head of Industry Energy (IE) in Statoil.

Director of IE and member of the supervisory board of the Norwegian Federation of Trade Unions.

Number of shares in Statoil: 165

Morten Svaan (50)

On the board of directors since June 2004. Employee-elected director.

Profession: Project manager, HSE.

Education and professional background: PhD in chemistry from the Norwegian Institute of Technology and a bachelor degree in business from the Norwegian School of Management.

Has worked for Statoil in Manufacturing & Marketing, petrochemicals and research and development.

Number of shares in Statoil: 512

Statoil ASA — NGAAP

STATEMENTS OF INCOME STATOIL ASA — NGAAP

(in NOK million)	Note	For the year ended December 31, 2006	2005
REVENUES			
Sales		**377,237**	346,714
Equity in net income of subsidiaries	8	**13,229**	17,477
Equity in net income of affiliates	8	**199**	62
Other income	4	**1,370**	117
Total revenues		**392,035**	364,370
EXPENSES			
Cost of goods sold		**(227,983)**	(219,862)
Operating expenses	3	**(31,884)**	(29,128)
Selling, general and administrative expenses	3	**(4,666)**	(3,514)
Depreciation, depletion and amortization	10	**(14,079)**	(12,616)
Exploration expenses	10	**(3,131)**	(2,232)
Total expenses before financial items		**(281,743)**	(267,352)
Income before financial items and income taxes		**110,292**	97,018
Net financial items	12	**3,719**	(7,569)
Income before income taxes		**114,011**	89,449
Income taxes	13	**(74,946)**	(57,440)
Net income		**39,065**	32,009
Allocations			
Group Contribution		1,800	2,324
Tax on group contribution		(504)	(602)
Dividend		19,690	17,756
Change in Reserve for valuation variances		3,592	7,467

BALANCE SHEETS STATOIL ASA — NGAAP

(in NOK million)	Note	At December 31, 2006	2005
ASSETS			
Net property, plant and equipment	10	**119,905**	103,114
Long-term receivables	17, 22	**6,099**	5,795
Long- term investments	8	**28**	71
Investments in subsidiaries	8	**113,714**	102,603
Investments in affiliates	8	**1,158**	1,300
Total non-current assets		**240,904**	212,883
Inventories	7	**6,553**	4,326
Accounts receivable	11	**34,239**	33,907
Short-term receivables from subsidiaries		**73**	5,542
Prepaid expenses and other current assets	17	**6,016**	2,705
Total inventories and accounts receivables		**46,881**	46,480
Short-term investments	9	**87**	88
Cash and cash equivalents		**2**	189
Cash, cash equivalents and short-term investments		**89**	277
Total current assets		**46,970**	46,757
TOTAL ASSETS		**287,874**	259,640
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,166,143,715 and 2,189,585,600 shares, authorized and issued		**5,415**	5,474
Treasury shares, 7,107,768 shares and 24,208,212 shares		**(18)**	(156)
Additional paid-in-capital		**11,338**	12,450
Paid-in capital		**16,735**	17,768
Reserve for valuation variances		**13,410**	9,818
Retained earnings		**77,140**	63,354
Total equity	23	**107,285**	90,940
Net deferred income taxes	13	**41,557**	33,631
Other liabilities	17, 18	**31,124**	23,332
Long-term debt to subsidiaries		**59**	1,508
Long-term debt	15	**21,882**	23,910
Total long-term liabilities		**94,622**	82,381
Short-term debt	14	**2,176**	2,782
Accounts payable		**15,225**	15,854
Accounts payable — related parties	22	**7,539**	9,763
Short-term payable to subsidiaries		**6,540**	5,194
Withheld, excise and other taxes		**1,502**	1,678
Income taxes payable	13	**29,094**	28,040
Accrued liabilities		**4,201**	5,252
Dividend payable		**19,690**	17,756
Total current liabilities		**85,967**	86,319
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**287,874**	259,640

STATEMENTS OF CASH FLOW STATOIL ASA — NGAAP

(in NOK million)	For the year ended December 31, 2006	2005
OPERATING ACTIVITIES		
Net income	**39,065**	32,009
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	**14,079**	12,616
Exploration expenditures written off	**161**	158
(Gains) losses on foreign currency transactions	**(3,979)**	3,002
Deferred taxes	**6,020**	(3,838)
(Gains) losses on sales of assets and other items	**(4,952)**	(4,421)
Changes in working capital (other than cash):		
— (Increase) decrease in inventories	**(2,227)**	(1,095)
— (Increase) decrease in accounts receivable	**5,137**	(13,868)
— (Increase) decrease in prepaid expenses and other current assets	**(1,006)**	1,760
— (Increase) decrease in short-term investments	**0**	11,369
— Increase (decrease) in accounts payable	**(3,046)**	7,136
— Increase (decrease) in other payables	**(3,602)**	(14,586)
— Increase (decrease) in taxes payable	**1,054**	9,310
Increase (decrease) in non-current items related to operating activities	**(904)**	268
Cash flows provided by operating activities	**45,800**	39,820
INVESTING ACTIVITIES		
Net cash flows used in investing activities	**(24,672)**	(24,884)
FINANCING ACTIVITIES		
New long-term borrowings	**65**	0
Repayment of long-term borrowings	**(2,598)**	(2,877)
Dividend paid	**(17,756)**	(11,481)
Treasury shares purchased	**(1,012)**	0
Net short-term borrowings, bank overdrafts and other	**(14)**	(1,551)
Cash flows provided used in financing activities	**(21,315)**	(15,909)
Net increase (decrease) in cash and cash equivalents	**(187)**	(973)
Cash and cash equivalents at January 1	**189**	1,162
Cash and cash equivalents at December 31	**2**	189
Interest paid	2,496	1,690
Taxes paid	67,282	51,366

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972 as a 100 per cent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which is also 100 per cent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipelines and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been, with effect from June 1, 2001, accounted for at historical cost. The final cash settlement is under review by the Norwegian State, and Statoil recorded in 2004 its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Statoil ASA are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) and use the same accounting principle as the group. Shareholdings and interests in subsidiaries and affiliates are recorded using the equity method. For a description of other accounting policies, reference is made to note 2 of the NGAAP group accounts.

Certain reclassifications have been made to prior year's figures to be consistent with current year's presentation.

An overview of oil and gas reserves is shown in note 28 of the NGAAP group accounts.

3. REMUNERATION

Total payroll expenses are included in Operating expenses and Selling, general and administrative expenses as follows:

	For the year ended December 31,	
(in NOK million, except average man-labour years)	**2006**	**2005**
Salaries	8,970	8,035
Pension cost	1,611	973
Social security taxes	1,590	1,440
Other social benefits	958	842
Total payroll expenses	13,129	11,290
Average man-labour years	12,195	11,115

Payroll expenses are partly charged to partners of Statoil-operated activities.

The calculation of pension costs and pension assets/liabilities is described in note 17 Employee Retirement Plans.

Management remuneration in 2006 (in NOK thousand)

	Board remuneration	Audit committee	Fixed salary	Bonus	Benefits in kind	Pension cost*	Total remuneration	Present value of pension obligation
Management								
Helge Lund (Chief Executive Officer)			4,831	906	236	3,879	9,852	9,236
Rune Bjørnson			2,117	301	150	934	3,502	14,681
Reidar Gjærum			1,821	153	173	1,188	3,335	2,016
Jon Arnt Jacobsen			2,526	295	150	1,557	4,528	13,309
Jens R. Jenssen			1,911	283	204	1,708	4,106	3,767
Peter Mellbye			3,020	392	161	1,363	4,936	33,849
Terje Overvik			2,670	323	178	987	4,158	24,742
Eldar Sætre			2,558	373	167	898	3,996	23,727
Nina Udnes Tronstad			1,574	171	164	524	2,433	12,367
Margareth Øvrum			2,609	370	161	899	4,039	22,477
Members of the Board								
Jannik Lindbæk (Chairman)	425						425	
Finn A Hvistendahl (Member)	213	75					288	
Grace Reksten Skaugen (Member)	213						213	
Ingrid Wiik (Member)	213	50					263	
Kaci Kullmann Five (Member)	265						265	
Knut Åm (Member)	213	50					263	
Marit Arnstad (Member)	115						113	
Bjørn Erik Egeland (Employer repr)	5						5	
Claus Clausen (Employer repr)	113						113	
Heikki L Oltedal (Employer repr)	5						5	
Lill-Heidi Bakkerud (Employer repr)	213						213	
Morten Svaan (Employer repr)	213	50					263	
Stein Bredal (Employer repr	100						100	
Total remuneration	2,300	225	25,637	3,567	1,744	13,937	47,410	160,171

* Pension cost consist of benefits earned during the year.

The remunerations in 2006 are based on the following conditions:

Remuneration to the Corporate Assembly amount to NOK 515,000.

At December 31, 2006 loans to employees amounted to NOK 633 million. In addition, Statoil ASA has guaranteed for bank loans for employees totaling maximum NOK 10 million. At December 31, 2006 there are no loans from Statoil ASA to any member of the Corporate Executive Committee.

According to his contract, Chief Executive Officer (CEO) Helge Lund is entitled to severance pay equivalent to two annual salaries, excluding term of notice of six months, if a resignation is a request from the board. In addition, Helge Lund is entitled, under specific terms, to a pension amounting to 66 per cent of pensionable salary after reaching the age of 62. The full service period is 15 years and the benefits are independent of any future changes in National Insurance (Folketrygden). Based on performance, the board will assess an annually performance payment for Helge Lund. This payment may amount to a maximum of 30 per cent of base salary.

A performance pay system has also been established for the other members of the corporate executive committee, senior vice presidents and vice presidents. This entails a variable remuneration based on pre-determined goals. The scheme allows for a bonus of 10 per cent of base salary on achieving set goals, with a ceiling of 20 per cent for results that clearly exceed these goals.

If resigning at the request of the company, members of the corporate executive committee, other than the CEO, are on a general basis entitled to severance pay equivalent to 12 months salary, including six months term of notice. The pension rights follow the general system in Statoil ASA. Executive vice president Peter Mellbye is entitled to severance pay including term of notice equivalent to 24 months salary, if resigning at the request of the company. Peter Mellbye is entitled, under specific terms, to a pension after reaching the age of 60. The pension will amount to 66 per cent of the pensionable salary.

For information regarding shares owned by the corporate executive committee, the board of directors and the corporate assembly refer to note 23.

PRINCIPLES FOR REMUNERATION AND OTHER EMPLOYMENT TERMS FOR THE GROUP EXECUTIVE COMMITTEE

In accordance with the Norwegian Companies Act§ 6-16 a), the Board has the intention to present the following principles for remuneration for the Corporate Executive Committee to the General Meeting for their approval at the 2007 annual meeting:

Statoil's remuneration policy

Statoil's remuneration policy is based on the company's personnel policy. Certain key principles have been adopted for the design of the company's remuneration policy. These principles apply in general but they will be applied differently for the different remuneration systems and job categories.

The remuneration policy is intended to:

- Ensure that the overall picture is taken into account through solutions that are integrated with Statoil's value and performance-oriented framework.
- Be competitive in the employment market without being generally viewed as pacesetter on remuneration.
- Reward and recognize both delivery and behaviour.
- Ensure that there is a strong connection between performance and reward.
- Differentiate on the basis of responsibility and influence.
- Reward short-term and long-term results.
- Strengthen the common interest between employees, the company and its owners.
- Be transparent and in accordance with good corporate governance.

The decision-making process

The decision-making process for the establishment and changing of remuneration policies and the stipulation of salaries and other remuneration for management is in accordance with the provisions of the Companies Act paragraphs 5-6, 6-14, 6-16 a) and the Board Instruction adopted on October 27, 2006. The Board has appointed a separate Compensation Committee. The Compensation Committee is an advisory body for the Board of directors and it has the authority to decide special matters as authorized by the board.

The board of directors decides the salary and other terms of employment for the Chief Executive Officer.

The remuneration policy for managers

Statoil's remuneration policy for managers consists of the following main elements:

- Basic salary
- Variable pay
- Fridge benefits, e.g. car and telephone allowances
- Pensions and insurance schemes
- Severance pay arrangements

Base salary

The base salary shall be competitive and reflect the individual's area of responsibility and performance. The evaluation of performance is based on fulfillment of certain pre-defined goals; refer to "Bonus Scheme" below.

Bonus scheme

Based on performance, the Chief Executive Officer is entitled to an annual bonus of 25 per cent of base salary on achieving pre-defined goals, with a ceiling of 50 per cent for results that clearly exceed these goals. The performance pay system for the other members of the Corporate Executive Committee allows for an annual bonus of 20 per cent of base salary on achieving pre-defined goals, with a ceiling of 40 per cent for results that clearly exceed these goals. For other leaders in Statoil which take part in the annual bonus system, the maximum bonus will be between 22.5 per cent and 32.5 per cent of base salary.

The annual bonus is determined based on the achievement of agreed targets established between management and the employee. In Statoil, this evaluation is performed along two axis, delivery (what you have delivered) and behavior (to what extent the goals are achieved). Goals regarding delivery are based on targets set for each business area related to finance, operations and markets, in addition to targets regarding health, safety and environment. Evaluation of behavior is made based on defined values for management in Statoil. In addition, individual goals are also included in this evaluation.

Statoil has established a long-term incentive system for certain members of the management, including the members of the Corporate Executive Committee. The long-term incentive system in combination with annual variable salary based on performance, contributes to a remuneration system with focus on both short-term and long-term goals and results. The long-term incentive system is based on a three year period (LTI period). Participation in a new three year period is evaluated annual. The input value for each participant is an amount equal to the individual's annual bonus the year before start-up of the new LTI-period. When a three year period (LTI period) is over, Statoil's total shareholder return for the period is compared to a pre-defined group of reference.

If Statoil's result is equal to the result in the group of reference; a bonus equal to the input value will be paid. If Statoil's result is better than the result in the group of reference, the bonus may be larger than the input value, but the maximum bonus for each participant corresponds to an amount twice as much as the individual's input value. If Statoil's result is lower than the result in the group of reference, the input value may be reduced or annulled. If Statoil's result is <-2.5, no LTI-bonus will be paid for the relevant three year period. The participants in the long-term incentive system are committed to invest in Statoil shares for an amount equal to the participant's gross annual salary.

The group of reference consists of the 15 largest oil and gas companies within the OECD area. The group of references is determined by the Compensation Committee, by authority from the Board.

Benefits in kind

The members of the Corporate Executive Committee have benefits in kind such as company car and free telephone. Due to American legislation, there are no loans from Statoil ASA to any member of the Corporate Executive Committee.

Pension benefits

The Chief Executive Officer is entitled, under specific terms, to a pension amounting to 66 per cent of pensionable salary after reaching the age of 62. The full service period is 15 years.

A standard pension plan is established for the other members of the Corporate Executive Committee. To qualify for the plan, a three years period of service as member of the Corporate Executive Committee is required. According to the plan, the members are entitled to a pension amounting to 66 per cent of pensionable salary after reaching the age of 62, on condition that the member is still an employee in Statoil. The full service period is 10 years calculated from the employment date in Statoil. If the period of employment is shorter than 10 years, a pro rata benefit is given. When calculating the number of years of membership in the Statoil pension plan, the Executive vice presidents have the right to an extra period. It corresponds to half a year of extra membership for each year the person has served the company as an Executive vice president. In addition to the pension benefits mentioned above, the Executive vice presidents are offered the standard benefits in accordance with Statoil's pension plan.

Termination of employment

The Chief Executive Officer is entitled to severance pay equivalent to two annual salaries, excluding term of notice of six months, when the resignation is at the request from the Board.

Executive vice presidents are entitled to severance pay equivalent to six months salary, excluding term of notice of six months, when the resignation is at the request from the Board.

Other

Statoil has a Share Saving Plan, available to all employees. The members of the Corporate Executive Committee participants in the Share Saving Plan at the same conditions as for other employees. The Share Saving Plan gives the employees the opportunity to purchase Statoil shares in the market limited to five per cent of their annual gross salary. If the shares are kept for two full calendar years of continued employment the employees will be allocated bonus shares in proportion to their saving. Shares to be used for sale and transfer to employees are acquired by Statoil in the market, in accordance with the authorization from the General Meeting.

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In March, 2006 Statoil entered into an agreement to acquire a 25 per cent share in the license 218 in Blocks 6706/10 and 6706/12 in the Norwegian Sea. As a result of the agreement, Statoil increased its share to a 75 per cent interest in the license. Several discoveries have been made in this area, including the Luva discovery. The transaction was completed in the second quarter of 2006.

In June 2006 Statoil entered into an agreement to sell Statoil Ireland to Topaz, a financial consortium lead by Ion Equity. The transaction was completed on October 31, 2006. The gain from the transaction was NOK 0.7 billion before tax and has been classified as Other income in the Statements of Income.

5. ASSET IMPAIRMENT

There have been no material write-downs of properties owned by Statoil ASA in 2006 or 2005.

6. AUDITORS' REMUNERATION

(in NOK million, excluding VAT)	For the year ended December 31, 2006	2005
Audit fees	14.2	7.5
Audit-related fees	3.8	7.3
Total	18.0	14.8

In addition audit fee related to Statoil-operated licences amounts to NOK 4.0 and NOK 3.8 million for 2006 and 2005, respectively.

The changes in audit fee and audit related fee from 2005 to 2006 are mainly due to implementation of Sarbanes Oxley Act 404 (SOX) and IFRS.

7. INVENTORIES

Inventories are valued at the lower of cost or market determined under the first-in, first-out method.

(in NOK million)	At December 31, 2006	2005
Crude oil	4,598	2,183
Petroleum products	1,109	1,509
Other	846	634
Total inventories	6,553	4,326

8. SHARES AND LONG-TERM INVESTMENTS

Subsidiaries and affiliates by equity method

(in NOK million)	Subsidiaries	Affiliates
Investment at January 1, 2006	102,603	1,300
Net income subsidiaries and affiliates	13,229	199
Translation adjustment	(1,994)	0
Change in paid-in equity	5,908	(274)
Group contribution (after tax)	1,296	0
Ordinary dividend	(7,328)	(67)
Investment at December 31, 2006	113,714	1,158

Ownership in certain subsidiaries (in per cent)

AS Eesti Statoil	100	Statoil Nigeria AS	100
Latvija Statoil SIA	100	Statoil Nigeria Deep Water AS	100
Statholding AS	100	Statoil Nigeria Outer Shelf AS	100
Statoil AB	100	Statoil Norge AS	100
Statoil Angola Block 15 AS	100	Statoil North Africa Gas AS	100
Statoil Angola Block 15/06 Award AS	100	Statoil North Africa Oil AS	100
Statoil Angola Block 17 AS	100	Statoil North America Inc.	100
Statoil Angola AS	100	Statoil Orient Inc AG	100
Statoil Apsheron AS	100	Statoil Pernis Invest AS	100
Statoil Asia Pacific Pte. Ltd.	100	Statoil Plataforma Deltana AS	100
Statoil Azerbaijan Alov AS	100	Statoil Polen Invest AS	100
Statoil Azerbaijan AS	100	Statoil Russia AS	100
Statoil BTC Finance AS	100	Statoil Sincor AS	100
Statoil Coordination Center N.V.	100	Statoil SP Gas AS	100
Statoil Danmark A/S	100	Statoil UK Ltd	100
Statoil Deutschland GmbH	100	Statoil Venezuela AS	100
Statoil do Brasil Ltda	100	UAB Lietuva Statoil	100
Statoil Exploration Ireland Ltd	100	Statoil Metanol ANS	82
Statoil Forsikring AS	100	Mongstad Refining DA	79
Statoil Hassi Mouina AS	100	Mongstad Terminal DA	65
Statoil Innovation AS	100	Tjeldbergodden Luftgassfabrikk DA	51
Statoil Iran AS	100		

Voting rights correspond to ownership interests.

Ownership in certain equity method affiliates (in per cent):

Nova Naturgas AB	30
Vestprosess DA	17
Etanor DA	16

9. INVESTMENTS

(in NOK million)	At December 31, 2006	2005
Liquidity funds	78	48
Other	9	40
Total short-term investments	87	88

The cost price of short-term investments is NOK 87 and NOK 146 million as at year-end 2006 and 2005, respectively.

All short-term investments are considered held for trading and are recorded at fair value with unrealized gains and losses included in income.

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, incl. pipelines	Production plants onshore	Buildings and land	Vessels	Construction in progress	Capitalized exploration expenditures	Total
Cost at January 1, 2006	2,315	249,217	4,506	2,561	108	18,421	1,547	278,675
Accumulated depreciation, depletion and amortization at January 1	(1,774)	(169,639)	(3,058)	(1,022)	(97)	0	0	(175,590)
Additions and transfers	393	17,206	40	81	2,232	9,032	3,152	32,136
Disposal at booked value	(2)	0	0	(1,111)	0	0	0	(1,113)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(161)	(161)
Depreciation, depletion and amortization for the year	(281)	(13,535)	(134)	(42)	(85)	0	0	(14,077)
Book value fixed assets at December 31, 2006	651	83,249	1,354	467	2,158	27,453	4,538	119,870
Intangible assets								35
Net property, plant, equipment and intangible assets at December 31, 2006								119,905
Estimated useful life (years)	3-10		15-20	20-33	20-25			

* Depreciation according to Unit of production, see note 2.

The book value of vessels consists of financial leases. In 2006 and 2005 NOK 1,072 and NOK 866 million respectively, of interests were capitalized. In addition to depreciation, depletion and amortization specified above intangible assets have been amortized by NOK 2 million in 2006.

Exploration expenses

(in NOK million)	2006	2005
Incurred during the year	3,989	2,602
Capitalized share of current year's exploration activity	(1,019)	(528)
Expensed, previously capitalized exploration expenditures	161	158
Expensed during the year	3,131	2,232

11. PROVISIONS

There are no significant provisions or changes thereof against assets other than property, plant and equipment and intangible assets in 2006 or 2005.

12. FINANCIAL ITEMS

(in NOK million)	For the year ended December 31, 2006	2005
Dividends received	206	82
Gain (loss) on sale of securities	(149)	459
Interest and other financial income	489	570
Currency exchange adjustments, short-term items	3,643	(4,113)
Currency exchange adjustments, long-term items	2,116	(2,914)
Interest and other financial expenses	(3,658)	(2,519)
Capitalized interest	1,072	866
Net financial items	3,719	(7,569)

13. INCOME TAXES

Income tax expense consists of

(in NOK million)	For the year ended December 31, 2006	2005
Current taxes payable	68,926	61,278
Change in deferred tax	6,020	(3,838)
Income tax expense	74,946	57,440
Uplift benefits for the year	4,876	4,258

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. In addition to normal corporation tax, a special tax of 50 per cent is levied after deducting uplift, a special investment tax credit. The main rule is that for investments made prior to 2005 uplift is deducted by 5 per cent per year over a period of six years, while for investments made in 2005 and after uplift is deducted by 7.5 percent per year for four years, as from year of investment. Unrecognized uplift credits of NOK 11.6 billion as at December 31, 2006 will be recognized over a period of four years.

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2006	2005
Bank loans and overdraft facilities	45	10
Current portion of long-term debt	2,051	924
Margin call	0	1,783
Other	80	65
Total	2,176	2,782
Weighted average interest rate	5.32%	4.00%

Significant components of deferred assets and liabilities were as follows:

(in NOK million)	At December 31, 2006	2005
Deferred tax assets on		
Inventory	917	1,118
Other short-term items	302	1,194
Decommissioning and asset retirement obligation	20,121	12,478
Other long-term items	2,297	978
Total deferred tax assets	23,637	15,768
Deferred tax liabilities on		
Property, plant and equipment	53,810	41,722
Capitalized exploration expenditures and interest	8,495	7,222
Other long-term items	2,889	455
Total deferred tax liabilities	65,194	49,399
Net deferred tax liabilities	41,557	33,631

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2006	2005
Deferred income tax liability at January 1	33,631	37,295
Charged to the income statement	6,020	(3,838)
Acquisitions, sales and other	1,906	174
Deferred income tax liability at December 31	41,557	33,631

15. LONG-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2006	2005
Unsecured debentures bonds		
US dollar (USD)	21,394	24,269
Euro (EUR)	200	187
Other currencies	7	10
Total	21,601	24,466
Other debt*	2,332	368
Grand total debt outstanding	23,933	24,834
Less current portion	2,051	924
Total long-term debt	21,882	23,910
Weighted average interest rate	5.89%	5.75%

* As at December 31, 2006, Other Debt includes financial lease obligation (see note 20) of NOK 2,099 million.

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2006 and 2005, NOK 3,091 and NOK 3,343 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has an unsecured debenture bond agreement for USD 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2014. At December 31, 2006 and 2005, NOK 3,125 and NOK 3,382 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2006 and 2005, NOK 4,092 and NOK 3,961 million were outstanding, respectively. EUR 200 million of the bond has been swapped through an interest rate swap agreement to a EURIBOR-based floating interest rate.

Statoil has an unsecured debenture bond agreement for GBP 225 million, with a fixed interest rate of 6.125 per cent, maturing in 2028. At December 31, 2006 and 2005, NOK 2,760 and NOK 2,622 million were outstanding, respectively. The bond has been swapped through cross currency interest rate swap agreements to a USD LIBOR-based floating interest rate.

Statoil has an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2006 and 2005, NOK 2,339 and NOK 2,528 million were outstanding, respectively. Net after buy-back this amounts to NOK 2,035 and NOK 2,197 million at year-end exchange rates.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Statoil's secured bank loans in USD have been secured by guarantee commitments amounting to USD 77 million, mortgage in shares in a subsidiary and investments in other companies with a combined book value of NOK 3,846 million, a bank deposit with a book value of NOK 1,310 million, and Statoil's pro-rata share of income from certain applicable projects.

Statoil has 18 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are net after buy-back at the December 31, 2006 closing rate valued at NOK 22,172 million.

Long-term debt falls due as follows:

(in NOK million)	
2007	2,051
2008	1,709
2009	3,130
2010	106
2011	2,927
Thereafter	14,010
Total	23,933

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.0575 per cent per annum.

As of December 31, 2006 and 2005 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Statoil ASA's exposure to and management of commodity risk, interest and currency risk and market risk for financial investments in equity and debt securities is akin to the exposure to and management of risks in the Statoil group. The combined use of commodity based derivatives and financial instruments is an integral part of the risk management process and is common for group entities. Reference is made to note 16 in the consolidated accounts for a more detailed description of risks and the use of derivatives.

Interest rate and currency risks constitute the most important financial risks for Statoil. Total exposure is managed at portfolio level in accordance with the strategies and mandates adopted. Interest rate risk and currency risk are assessed against mandates and based on a scenario of 10 per cent currency devaluation and one percentage point change in interest rates.

The table below illustrates an uncorrelated loss scenario.

	At December 31,	
(in NOK million)	2006	2005
Currency risk	8,015	7,756
Share risk	0	0
Interest rate risk	363	428

17. EMPLOYEE RETIREMENT PLANS

Statoil is required to have an occupational pension scheme in accordance with the Norwegian law on required occupational pension. Statoil's pension scheme meets the requirements of that law.

Pension benefits

Statoil has defined benefit retirement plans. Plan benefits are generally based on years of service and final salary levels. The retirement plans are covered by Statoil's pension funds. These funds are organized as independent trusts. The major part of their assets are invested in Norwegian and foreign bonds and shares, as well as real estate in Norway.

Net periodic pension cost

(in NOK million)	For the year ended December 31, 2006	2005
Benefits earned during the year	1,387	967
Interest cost on prior years benefit obligation	906	895
Expected return on plan assets	(969)	(983)
Amortization of loss/prior service cost	257	70
Defined benefit plans	1,581	949
Multi-employer plans	31	24
Total net pension cost	1,612	973

Pension costs are partly charged to partners of Statoil-operated activities.

Change in projected benefit obligation (PBO)

(in NOK million)	2006	2005
Projected benefit obligation at January 1	21,501	16,410
Benefits earned during the year	1,387	967
Interest cost on prior years benefit obligation	906	895
Settlement/curtailment	(17)	0
Actuarial loss (gain)	3,835	3,492
Benefits paid	(331)	(263)
Projected benefit obligation at December 31	27,281	21,501

Change in pension plan assets

(in NOK million)	2006	2005
Fair value of plan assets at January 1	17,737	15,133
Actual return on plan assets	2,055	1,528
Settlement	(11)	0
Company contributions	1,668	1,201
Benefits paid	(161)	(125)
Fair value of plan assets at December 31	21,288	17,737

Status of pension plans reconciled to Balance Sheets

(in NOK million)	2006	2005
Funded status of the plans at December 31	(5,993)	3,764)
Unrecognized net loss	7,753	5,227
Unrecognized prior service cost	199	233
Total net prepaid pension recognized at December 31	1,959	1,696

Amounts recognized in the Balance Sheets

(in NOK million)	2006	2005
Prepaid pension at December 31	5,931	5,199
Accrued pension liabilities	(3,972)	(3,503)
Net amount recognized at December 31	1,959	1,696

Weighted-average assumptions for the year ended December 31 (Profit and Loss items)

(in per cent)	2006	2005
Discount rate	4.25	5.50
Expected return on plan assets	5.75	6.50
Expected rate of compensation increase	3.00	3.50

Weighted-average assumptions at December 31 (Balance Sheet items)

(in per cent)	2006	2005
Discount rate	4.50	4.25
Expected return on plan assets	5.75	5.75
Expected rate of compensation increase	4.25	3.00

Number of members	Defined benefit plans	Multi-employer plans
Active members	13,169	9,623
Pensioners	1,512	298
Paid-up policies	1,985	0
Total members at December 31, 2006	16,666	9,921

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure, decommissioning and removal expenditures. The accretion expense is classified as Operating expenses.

(in NOK million)	2006	2005
Asset retirement obligation at January 1	17,894	17,212
Liabilities incurred/revision in estimates	7,488	189
Accretion expense	807	774
Disposals	0	(69)
Incurred removal cost	(158)	(212)
Asset retirement obligation at December 31	26,031	17,894
Long-lived assets related to ARO at January 1	2,831	3,011
Net assets incurred/revision in estimates	7,484	120
Depreciation	(534)	(300)
Long-lived asset related to ARO at December 31	9,781	2,831

The asset retirement obligations have increased from NOK 17.9 to NOK 26.0 billion, mostly due to upward revisions of cost estimates related to removal complexity, rigs, marine operations and heavy lift vessels. The change has material effects on the Net property, plant and equipment and Other liabilities captions in the Consolidated Balance Sheets but only immaterial effects on the Consolidated Statements of Income for the years presented. The changes are expected however to have a significant impact on future depreciation and accretion charges. The amount of increase in Depreciation is uncertain and will depend on future levels of production. Increases will mainly affect the Total expenses before financial items in the Exploration and Production Norway segment.

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 1,180 and NOK 1,025 million in 2006 and 2005 respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably vessels and drilling rigs.

Statoil has entered into certain operational lease contracts for a number of drilling rigs as of December 31, 2006. The remaining contract terms range from 24 to 56 months. Certain contracts contain renewal options. Rig lease agreements are normally and for the most part based on fixed day rates. Statoil's rig leases have partly been entered into in order to ensure drilling capacity for sanctioned projects and planned wells, and partly in order to secure long term strategic capacity for future exploration and production drilling. Certain rigs have been subleased in whole or for parts of the lease term to Statoil-operated licenses on the Norwegian Continental Shelf (NCS). These matters are shown gross as operating leases in the table below. However, for rig leases where the joint venture is the original lessee, Statoil only includes its proportional share of the rig lease.

Statoil has also entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts run up until the end of the respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Gross rental expense was NOK 4,177 and NOK 4,075 million in 2006 and 2005, respectively. Sublease payments received in 2006 and 2005 were NOK 991 and NOK 816 million, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2006. In addition, Statoil has entered into partly offsetting subleases of certain assets amounting to a total future rental income of NOK 2,337 million, of which NOK 490 million in 2007.

Amounts related to capital leases include future minimum lease payments for assets in the financial statements at December 31, 2006.

		Capital leases		
(in NOK million)	Operating leases	Minimum lease payments	Interest	Principal
2007	4,841	175	9	166
2008	5,230	158	13	145
2009	5,338	158	20	138
2010	3,598	158	26	132
2011	2,245	158	31	127
Thereafter	2,116	2,309	918	1,391
Total future minimum lease payments	23,369	3,116	1,017	2,099

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2006 and 2005.

(in NOK million)	2006	2005
Vessels	2,345	107
Accumulated depreciation	(182)	(96)
Capitalized amounts	2,163	11

21. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

Contractual commitments

(in NOK million)	In 2007	Thereafter	Total
Contractual commitments related to investments and property, plant and equipment	4,477	3,148	7,625

At December 31, 2006 these contractual commitments mainly comprise construction and acquisition of property, plant and equipment.

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sales contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition the Company has entered into certain processing and storage capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expenses for 2006 and 2005 were NOK 4,671 and NOK 3,623 million respectively. Obligations payable by the Company to affiliates are included gross in the table below. Where the Company however reflects both ownership interests and transport capacity cost for a pipeline in the accounts, the amounts in the table include the transport commitments that exceed Statoil's pipeline ownership share.

Transport capacity and other obligations at December 31, 2006:

(in NOK million)	
2007	4,519
2008	4,199
2009	4,486
2010	4,438
2011	3,594
Thereafter	30,444
Total	51,680

Guarantees

In 2004 Statoil entered into guarantee commitments for financing of the development of the BTC pipeline. At December 31, 2006 the maximum potential future amount of payment under these guarantee commitments amounts to USD 110 million (NOK 0.7 billion). In addition, the Company has provided certain other third party guarantees which are immaterial at year-end 2006.

The Company has provided parent company guarantees to Statoil Forsikring AS and to subsidiaries with operations in Sweden, Venezuela, Azerbaijan, Great Britain, Ireland, Iran, Algeria, the Faroe Islands, France, USA, Nigeria, Belgium and Brazil. The Company has also counter-guaranteed certain bank guarantees to subsidiaries in Brazil, Algeria, the Netherlands, Venezuela, Sweden, Nigeria, Egypt and Angola.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about USD 0.8 billion (NOK 5 billion) for each incident, including liability for claims arising from pollution damage. Most of the Company's production installations are covered through Statoil Forsikring AS, which reinsures a major part of the risk in the international insurance market. About 43 percent is retained by the group.

Other commitments and contingencies

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2006, Statoil was committed to participate in 18 wells off Norway, with an average ownership interest of approximately 45 per cent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 2.5 billion. Additional wells that Statoil may become committed to participate in depending on future discoveries in certain licences are not included in these numbers.

A group of Norwegian pensioners has brought legal proceedings against Statoil ASA over certain changes made to the pension fund articles of association in 2002, relating to the basis for adjustment of pension payments after that date. Stavanger District Court ruled in favor of Statoil in the first quarter of 2007. The verdict has been appealed. Depending on the final outcome of this case, the issue might impact certain assumptions used in the computation of Statoil's pension obligations as reflected in the Financial Statements.

Statoil ASA issued a declaration to the Norwegian Ministry of Petroleum and Energy (MPE) in 1999 in connection with a dispute between four Åsgard partners and Statoil related to the construction of new facilities for the Åsgard development at the Kårstø Terminal. The declaration confirmed the MPE similar treatment as the four Åsgard partners with respect to the disputed issues, which had been resolved by 2004. The MPE has indicated that a claim will be presented based on the declaration.

During the normal course of its business Statoil is involved in legal proceedings, and several other unresolved claims are currently outstanding. The ultimate liability in respect of such litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgement. Statoil does not expect that the financial position, results of operations or cash flows will be materially adversely affected by the resolution of these legal proceedings.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. In June 2004, Økokrim informed Statoil that it had concluded that Statoil had violated the Norwegian Penal Code's prohibitions on trading in influence, which became effective on July 4, 2003, and imposed a penalty of NOK 20 million (USD 3 million). In October 2004, Statoil agreed to accept the penalty without admitting or denying the charges by Økokrim.

On October 13, 2006, Statoil announced that it had reached agreements with the U.S. Securities and Exchange Commission (SEC), the U.S. Department of Justice (DOJ), and the United States Attorney's Office for the Southern District of New York (USAO). Statoil has, in the agreement with the DOJ and USAO, accepted a penalty of USD 10.5 million for having violated the U.S. Foreign Corrupt Practices Act (FCPA), as well as accepting responsibility for bribery in connection with the payments under the consultancy services contract with Horton Investments Ltd, for accounting for those payments improperly in its books and records, and for having insufficient internal controls in place to prevent the payments. The NOK 20 million (USD 3 million) fine paid to Økokrim has been deducted, so that the fine actually paid by Statoil under this agreement is USD 7.5 million. Statoil has, in the agreement with the SEC, neither admitted nor denied the charges, but agreed to pay USD 10.5 million as disgorgement.

The settlement takes the form of a three-year deferred prosecution agreement with the DOJ and USAO and a Cease and Desist Order with the SEC. In the deferred prosecution agreement, Statoil has consented to the filing with the United States Court for the Southern District of New York of a criminal information charging violations of the anti-bribery and books and records provisions of the FCPA. If Statoil fulfills its obligations under the deferred prosecution agreement for three years the criminal charges will be dismissed and the Horton case will be closed.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May 2004. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

22. RELATED PARTIES

The Norwegian State is the majority shareholder of Statoil and also holds major investments in other entities. This ownership structure means that Statoil participates in transactions with many parties that are under a common ownership structure and therefore meet the definition of a related party. All transactions are considered to be on a normal arms-length basis.

The ownership interests of the Norwegian State in Statoil are held by the Norwegian Ministry of Petroleum and Energy (MPE). The following transactions were made between Statoil and MPE for the years presented:

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 104,628 million (254 million barrels oil equivalents) and NOK 97,078 million (282 million barrels oil equivalents) in 2006 and 2005, respectively. Purchases of natural gas from the Norwegian State amounted to NOK 293 million and NOK 262 million in 2006 and 2005, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable — related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchases from the Norwegian State are estimated market prices.

Statoil is selling, in its own name, but for the Norwegian State's account and risk, the state's production of natural gas. This sale and related expenditures incurred by Statoil are refunded by the State and recorded net in Statoil's financial statements. Such refundable expenditures relate to activities incurred to secure market access, transportation, processing capacity and investments made to maximize profitability from the sale of natural gas.

In relation to its ordinary business operations such as pipeline transport, gas storage and processing of petroleum products, Statoil also has regular transactions with certain unconsolidated affiliated entities. Such transactions are carried out at arm's length basis, and are included within the applicable captions in the Consolidated Statements of Income.

23. EQUITY AND SHAREHOLDERS

Change in equity

(in NOK million)	2006	2005
Shareholders' equity January 1	90,940	74,294
Net income	39,065	32,009
Ordinary dividend	(19,690)	(17,756)
Treasury shares acquired	(1,095)	(96)
Value of stock compensation plan	59	31
Foreign currency translation adjustment	(1,994)	2,458
Shareholders' equity December 31	107,285	90,940

Common stock

	Number of shares	Par value (in NOK)	Common stock (in NOK)
Authorized and issued	2,166,143,715	2.50	5,415,359,287.50
Treasury shares	(7,107,768)	2.50	(17,769,420)
Total outstanding shares	2,159,035,947	2.50	5,397,589,867.50

There is only one class of shares and all shares have voting rights.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a number of 1,558,115 of the treasury shares were distributed as bonus shares in favor of retail investors in the initial public offering in 2001.The remaining treasury shares, 23,441,885, were annulled in 2006.

The board of directors is authorized on behalf of the company to acquire Statoil shares in the market. The authorization may be used to acquire Statoil shares with an overall nominal value of up to NOK 10 million. The board decides the manner in which the acquisition of Statoil shares in the market will take place. Such shares acquired in accordance with the authorization may only be used for sale and transfer to employees of the Statoil group as part of the group's share saving plan approved by the board. The lowest amount which may be paid per share is NOK 50; the highest amount which may be paid per share is a maximum NOK 500. The authorization is valid until the next ordinary general meeting. Statoil has 1,240,768 shares according to this authorization.

The annual General Meeting in 2006 also authorized the Board of Directors to acquire own shares for subsequent annulment. The authorization is valid until the next ordinary General Meeting, and applies to the acquisition of up to 50,000,000 shares in the market, at a price of between NOK 50 and NOK 500 per share. Under an agreement with the Norwegian state, which currently has an ownership interest in Statoil of 70.9 per cent, a proportion of the state's shares will later be redeemed and annulled, so that the state's owner interest remains unchanged. The total annulment could thus involve up to 171,798,603 shares, or approximately 7.9 per cent of the company's share capital. The resolution to annul shares will be made by a later General Meeting, and requires a two-thirds majority vote of the aggregate number of votes cast, as well as a two-thirds majority of the share capital represented at the General Meeting. Under its agreement with Statoil, the Norwegian state has also agreed to vote in favor of the annulment resolution. As of December 31, 2006 Statoil has acquired 5,867,000 shares in the open market according to this authorization. In addition Statoil is obligated to acquire 14,291,848 shares from the Norwegian state. The acquired shares in the open market are included in Treasury shares.

The 20 largest shareholders at December 31, 2006 (in per cent)

1	THE NORWEGIAN STATE (Ministry of Petroleum and Energy)	70.90
2	BANK OF NEW YORK, ADR department*	3.13
3	STATE STREET BANK*	1.91
4	JP MORGAN CHASE BANK*	1.25
5	FOLKETRYGDFONDET	1.18
6	FIDELITY FUNDS EUROPE.*	0.74
7	CLEARSTREAM BANKING S.A.*	0.60
8	MELLON BANK*	0.50
9	DANSKE BANK	0.41
10	DRESDNER BANK*	0.41
11	STATE STREET BANK*	0.36
12	STATOIL ASA — TREASURY SHARES	0.33
13	SKANDINAVISKA ENSKILDA BANKEN*	0.33
14	MELLON BANK as agent for ABN AMRO*	0.32
15	DEUTSCHE BANK AG FRANKFURT*	0.31
16	RBC DEXIA INVESTORS*	0.30
17	EUROCLEAR BANK*	0.30
18	VITAL FORSIKRING ASA	0.29
19	SVENSKA HANDELSBANKEN*	0.28
20	STATE STREET BANK*	0.27

* Client account and similar

Members of the board of directors, corporate executive committee and corporate assembly holding shares as of December 31, 2006:

Board of Directors	
Jannik Lindbæk (the chairman of the board of directors)	0
Knut Åm	14,594
Finn A Hvistendahl	2,947
Kaci Kullman Five	1,000
Ingrid Wiik	500
Grace Reksten Skaugen	0
Marit Arnstad	0
Lill-Heidi Bakkerud	165
Morten Svaan	512
Claus Clausen	165
Corporate Executive Committee	
Helge Lund (chief executive officer)	4,583
Rune Bjørnson	724
Reidar Gjærum	1,853
Jon Arnt Jacobsen	2,344
Jens R Jenssen	500
Peter Mellbye	3,538
Terje Overvik	1,924
Eldar Sætre	1,836
Nina Udnes Tronstad	1,237
Margareth Øvrum	3,311
Corporate Assembly (in total)	**2,260**

24. SHARE-BASED COMPENSATION

Statoil has a Share Saving Plan for all permanent Statoil employees both in full and part time positions.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares though monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will give a contribution to the employees of 20 per cent of the saved amount, at a maximum of NOK 1,500 per employee per year.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. With effect for the 2007 program and the future yearly programs it is planned that the employees will be allocated one bonus share for each share they have bought. The planned change requires a resolution by the annual General Meeting in 2007.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated to measure the annual expense of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the corporate dividend policy in the vesting period.

Significant assumptions for 2006 used in connection with estimating the fair value are shown in the table below.

Risk free interest rate	4.4%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	9.9%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2005, 2006 and 2007 programs (granted in 2006), this amounts to NOK 116, NOK 145 and NOK 205 million, respectively.

Estimated compensation expense including contribution and social security related to the 2005, 2006 and 2007 program for Statoil amounts to NOK 69, NOK 86 and NOK 110 million respectively. If the allocation of bonus shares is changed with effect for the 2007 program, see comments above, the expense related to the 2007 program will increase. At December 31, 2006 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 194 million.

25. SUBSEQUENT EVENTS

The Board of Directors of Statoil ASA and Norsk Hydro ASA have agreed to recommend to their shareholders a merger of Hydro's oil and gas activities with Statoil. The proposed merger is subject to approval by the General Meetings of the two companies as well as by regulatory authorities. The General Meetings are expected to be held during second quarter of 2007. Final closing is expected to be in the third quarter of 2007. In the meantime, Hydro and Statoil will be managed as separate companies.

To the Annual Shareholders' Meeting of Statoil ASA

Auditor's report for 2006 — NGAAP accounts

We have audited the annual financial statements of Statoil ASA as of December 31, 2006, showing a profit of NOK 39,065 million for the parent company and a profit of NOK 39,065 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company and the group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and the President and chief executive officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

— the financial statements of the parent company and the group are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of December 31, 2006, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway

— the Company's management has fulfilled its duty to properly record and document the accounting information as required by law and generally accepted bookkeeping practice generally accepted in Norway

— the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Stavanger, March 13, 2007

ERNST & YOUNG AS

Jostein Johannessen	Erik Mamelund
State Authorized Public Accountant	State Authorized Public Accountant
(Norway)	(Norway)
(sign.)	(sign.)

Note: The translation to English has been prepared for information purposes only.

RECOMMENDATION OF THE CORPORATE ASSEMBLY

Resolution:

At its meeting of March 29, 2007 Statoil's corporate assembly discussed the 2007 annual accounts of Statoil ASA and the Statoil group, and the board of directors' proposal for the allocation of net income. The corporate assembly recommends that the general meeting adopts the annual accounts and the allocation of net income, in accordance with the proposals presented by the board of directors.

Stavanger, March 29, 2007

Anne Kathrine Slungård

Anne Kathrine Slungård
Chair of the corporate assembly

Corporate assembly

Anne Kathrine Slungård, Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad,
Anne Britt Norø, Arvid Færaas, Per Helge Ødegård, Greger Mannsverk, Ingvald Strømmen,
Inger Østensjø, Anne Synnøve Hebnes, Einar Arne Iversen

Directors' Report 2005[1]

Statoil's industrial and financial position at the start of 2006 is strong. In 2005 the group delivered its best annual results to date. Production and profitability were higher than ever before. Moreover, 2005 also saw the sanctioning of a record number of upstream projects. Combined with focused improvement work, this should give Statoil a good platform for developing into a globally competitive company.

The best annual results ever

According to the American generally accepted accounting principles (USGAAP), the Statoil group had a net income of NOK 30.7 billion in 2005, which is a NOK 5.8 billion improvement on 2004. Income before financial items, tax and minority interest was NOK 95.1 billion, compared with NOK 65.1 billion in 2004. Return on capital employed was 27.6% in 2005, compared with 23.5% the previous year. This increase was mainly due to higher oil and gas prices and increased production. Adjusted for market conditions of USD 22 per barrel, the average return on employed capital was 11.7%, compared with 12.4% in 2004. Increased investment is the main reason for this change.

High oil and gas production made a solid contribution to the record results. Statoil produced 1,169,000 barrels of oil equivalent (boe) per day in 2005, which is 63,000 boe per day more than in 2004. Higher gas production and increased production from international activities helped to secure the highest production figures to date. The average normalised production cost fell from NOK 23.3 per boe in 2004 to NOK 22.3 per boe in 2005.

The high price of oil meant that earnings and profitability in international projects with production sharing agreements (PSA) were considerably higher than anticipated in 2004 when Statoil sets its targets for 2007, which means an early transition from a cost-covering to a profit-generating phase. In PSA contracts, the higher the oil price when the field becomes profitable, the smaller the share of production that goes to the partners. The concrete effect varies from agreement to agreement and country to country.

Statoil has an oil and gas production target of 1,400,000 boe per day in 2007. This target is based on an average oil price of approximately USD 30 per barrel in the period 2005-07. If the price of oil were to remain at the current level throughout 2006 and 2007, the negative effect on international PSA projects in 2007 would be in the area of 50,000-60,000 boe per day. Statoil will therefore adjust for PSA effects when it reports on production and production unit costs in the period leading up to 2007.

The PSA effect and, to some extent, the stepping up of exploration activity and increased investments are all linked to the high price of oil. They will have a negative impact on the normalised return on capital employed. Given the normalisation assumptions adopted in 2004, the normalised return on employed capital in 2007 is likely to fall short of the target of 13%.

In 2005 the group replaced 102% of its production with new oil and gas reserves, compared with 106% in 2004. At the end of 2005, remaining proven reserves amounted to 4.3 billion boe.

The board proposes that the annual general meeting allocates a total ordinary and special dividend of NOK 8.20 per share for 2005, compared with NOK 5.30 per share for 2004. This is an increase of 55%.

Exploration activity has been stepped up considerably. A total of 20 exploration and appraisal wells were completed in 2005, 14 of which resulted in discoveries. We are still awaiting the final evaluation of one well. Furthermore, discoveries were made in four of the five exploration extensions. Twelve wells were completed in 2004.

In 2005 Statoil made the biggest acquisition in the group's history when it took over the deepwater portfolio in the Gulf of Mexico from the Canadian company EnCana. The portfolio harmonises well with Statoil's core competence and comprises several high-quality discoveries and exploration projects.

Statoil adjusted its portfolio during 2005 in order to strengthen its core activities. It sold its 50% holding in the Borealis petrochemical group for EUR 1 billion, realising a book profit of NOK 1.5 billion. At the beginning of 2006 Statoil sold its 30% holding in the Ringsend gas power station in Ireland.

(1) Excerpt from Statoil's Annual Report for 2005.

Major work is being put into the improvement initiatives launched in 2004 with the aim of promoting operational improvement and new business opportunities. These will provide an important source of increased value creation until 2007.

Good results in the area of health, safety and the environment are important to Statoil. The group is working hard to achieve its goal of zero harm to people and the environment. Statoil's safety indicators show a continued improvement. The group has ambitious targets and works on the assumption that all accidents can be prevented. It is therefore extremely regrettable that two people lost their lives while working for Statoil in 2005.

In view of its high ambitions, Statoil's activities still involve too many undesirable incidents. The board will therefore prioritise follow-up of improvement work in this area.

Statoil accepted the fine of NOK 80 million imposed on it after the gas blowout on the Snorre A platform in the North Sea in November 2004. This was a serious incident that could have caused major harm. An extensive action plan has been drawn up to prevent similar occurrences in the future. Safety at the group's facilities and installations is an area to which the board devotes great attention.

Statoil is still under investigation by the American authorities for possible violation of US criminal and securities legislation, including «The Foreign Corrupt Practices Act». The investigation concerns the agreement with Horton Investment Ltd on consultancy services in Iran. Statoil is cooperating with the US authorities to obtain the necessary information.

Markets and surroundings

Positive economic development in the USA and China plus progress in Europe and Japan were important factors in continued global economic growth in 2005. The growth in the global economy generated a further increase in energy demand. A persistent shortage of production and refining capacity — combined with loss of production due to adverse weather conditions and political uncertainty in important oil-producing countries — resulted in record high oil and gas prices in 2005. The average price of oil in 2005 was USD 53.6 per barrel, compared with USD 38.1 per barrel in 2004. Translated into NOK this represents an increase of NOK 88 per barrel, to NOK 345 per barrel in 2005.

Important energy markets such as Europe and the USA are becoming increasingly dependent on the import of gas, and supply reliability has been the centre of increased political focus. Statoil is working proactively to develop long-term and stable gas supply sources for these markets. Gas prices in Europe and the USA continued to rise in 2005. In 2005 the average realised gas price was NOK 1.45 per cubic metre, compared with NOK 1.10 per cubic metre in 2004.

Standardised refining margins (fluid catalytic cracker margin) rose from USD 6.4 per barrel in 2004 to USD 7.9 per barrel in 2005. The average contract price for methanol increased from EUR 213 per tonne in 2004 to EUR 225 per tonne in 2005.

The intensification of activity in the industry in recent years has led to considerable pressure on capacity and prices in several of the supplier markets, including those for steel, rigs, marine operations, engineering and fabrication.

There is growing competition in the oil and gas industry for access to new resources and industrial opportunities. The board assumes that this competition will intensify in the years ahead. Statoil is well positioned for value creation and growth, and the good results in 2005 enhance the company's long-term potential.

Exploration & Production Norway: record results and new projects

Statoil's ambition for the Norwegian continental shelf (NCS) is to maintain a production level of one million boe per day for as long as possible beyond 2010.

Income before financial items, tax and minority interest totalled NOK 74.1 billion in 2005, compared with NOK 51.0 billion in 2004. This improvement is primarily due to higher oil and gas prices.

Statoil's production from the NCS averaged 985,000 boe per day in 2005. This is slightly lower than the previous year and somewhat short of the target for the year. This decrease is expected to be of a temporary nature and is mainly due to an unforeseen loss of production from important fields and delayed start-up on new fields. Oil production from mature fields is waning, but is being compensated for by new fields, increased gas production and improved oil recovery measures.

The board is happy with Statoil's proactive approach to industrial and commercial development on the NCS. Production from five new Statoil-operated projects, including the technologically-pioneering Kristin field, started in 2005. In addition, 12 new upstream projects were sanctioned for development. One of these was Statfjord late life, which will ensure continued profitable production from the Statfjord field up to 2020.

A continuously high level of exploration activity is a prerequisite for realising Statoil's long-term ambitions for production from the NCS. Statoil has an assertive exploration strategy and sees great potential in both mature and new areas. In 2005 the group participated in the completion of nine exploration and appraisal wells on the Norwegian continental shelf, six of which resulted in discoveries. Furthermore, discoveries were made in four of five exploration extensions. Statoil was awarded shares in 16 new licences in 2005 and submitted a wide-ranging application for the 19th licensing round.

A new review of the progress and the scope of work remaining in the Snøhvit project revealed the necessity of increasing the investment budget by NOK 7 billion, to NOK 58.3 billion. Statoil has a 33.53% stake in Snøhvit. Furthermore, the planned start-up of regular gas deliveries was deferred by eight months to December 2007. These changes were mainly a result of delayed engineering, and deficient quality and delays in sub-deliveries. More of the work has been transferred to Melkøya, which entails a more drawn-out and more expensive completion. Statoil has initiated a number of measures aimed at promoting the safe and efficient completion of the project. In order to support its implementation, responsibility for the project has been transferred to the Technology & Projects business area.

Efficient project execution is important for the group's financial results as well as for Statoil's reputation as a development operator. The board would stress the value of applying experience from Snøhvit to future projects. The project is profitable and strategically and industrially significant. It involves the development of new technology in several areas, opens up opportunities in the Barents Sea and Russia and introduces Norwegian gas into the US market through Statoil's position at the Cove Point gas terminal.

International Exploration & Production: strong growth in production

Statoil's international activity is intended to build positions to form the basis for long-term growth in production.

In 2005 net income before financial items, tax and minority interest amounted to NOK 8.4 billion, compared with NOK 4.2 billion in 2004. This improvement primarily reflects strong growth in production and higher oil and gas prices.

International oil and gas production increased by 60% from an average of 115,000 boe per day in 2004 to 184,000 boe in 2005.

Three new fields came on stream in 2005: Kizomba B in Angola, and phase one and the first of two developments in phase two (West Azeri) in the Azeri-Chirag-Gunashli field in Azerbaijan. In 2005 Statoil also decided to sanction the development of five new international projects.

Following substantial cost increases and delays in developing the Iranian gas and condensate field South Pars, Statoil wrote down the book value by NOK 1.6 billion after tax. This was primarily a result of productivity and quality problems with the main contractor, who had already been chosen before Statoil took over as operator.

On the international front, Statoil took part in 11 completed exploration and appraisal wells in 2005. Finds were made in eight of the wells and one well is still being evaluated. In 2005 Statoil acquired 11 new exploration licences. The board would stress that high-level international commercial development and exploration activity must be continued, as they are important contributory factors to Statoil's long-term growth.

With its acquisition of EnCana's portfolio in the Gulf of Mexico, Statoil has laid the foundations for a new international growth area. The position will allow the group to use its expertise in exploration, reservoir management and subsea technology. In 2005 Statoil also signed an agreement with ExxonMobil on exploration activity in the Gulf of Mexico, thereby further solidifying its position there.

Statoil's proposal for possible solutions for the development of the Shtokman field in the Barents Sea was submitted to Gazprom in April. Statoil is one of five applicants invited to participate further in the allocation process for Shtokman.

In 2005 new offices were opened in the USA, Qatar, Jordan and Libya.

Natural Gas: record gas sales at high prices

At the moment natural gas is the fastest growing energy carrier in the world, and the market prospects are good both in Europe and the USA. Statoil aims to double its own production of natural gas to 50 billion cubic metres by 2015. This will require new projects on the NCS, access to international gas resources and further development of the group's market positions.

Income before financial items, tax and minority interest amounted to NOK 5.9 billion, which is NOK 0.9 billion less than in 2004. This decrease is primarily due to the higher internal transfer price of gas from the NCS.

The business area has never sold more gas than last year. Total gas sales increased to 27.3 billion cubic metres, compared with 25.0 billion cubic metres in 2004. Of the total gas sales in 2005, 24.6 billion cubic metres were entitlement gas.

New contracts for the sale of gas were signed with Scottish Power, the Dutch company NUON and Norway's Statkraft. Statoil has extended its gas sales agreement with the German company Verbundnetz Gas by six years.

Statoil has signed a 20-year agreement on the expansion of the LNG receiving terminal at Cove Point in the USA. Implementation of this agreement will increase Statoil's annual supply capacity from 2.4 billion to over 10 billion cubic metres. Work is currently ongoing to receive the necessary approval for the expansion and to establish the supply chain for increased LNG export to the USA. The Cove Point terminal position is of considerable strategic value to Statoil.

The securing of sufficient capacity for the treatment and transport of gas is a prerequisite if Statoil is to realise its gas targets. The gas processing plant at Kårstø was expanded by 20% in 2005 to enable it to receive new gas from the Kristin field. The project was delivered at a cost that was NOK 1.6 billion less than originally estimated.

Manufacturing & Marketing: good operations and high refining margins

Manufacturing & Marketing aims to maximise the group's total access to crude oil, NGL and refined products. Integration, brand building and active exploitation of profitable synergy and growth opportunities will all contribute to increased value creation.

The business area had its best annual result ever in 2005. Net income before financial items, tax and minority interest totalled NOK 7.6 billion in 2005, compared with NOK 3.9 billion in 2004. This increase is mainly due to substantially greater refining margins in Europe, high regularity from refining activities and the sale of the Borealis holding.

Increased pressure on fuel margins and higher oil prices made their mark on retailing operations in 2005. The board would stress the importance of the ongoing improvement programme in the work to achieve the 2007 profitability target.

On 13 October 2005, Statoil sold its 50% holding in the Borealis petrochemical group for NOK 7.8 billion. The sale was realised as part of Statoil's efforts to strengthen its core activity.

Net income from Borealis before financial items, tax and minority interest prior to the sale was NOK 2.2 billion, compared with NOK 0.8 billion in 2004. NOK 1.5 billion of this was a tax-free gain on the sale of the holding. Agreements entered into with Borealis for deliveries of raw materials will be continued.

At the beginning of 2006 Statoil was given permission to build a gas-fired power station at Tjeldbergodden. Statoil will evaluate the project carefully in light of the final stipulations from the authorities and profitability.

Technology & Projects: new projects with pioneering technology

The most important strategic task of this business area is to continue to build up Statoil as an efficient industrial player and project developer with first-class technology and expertise.

For many years Statoil has been solving large and complex development tasks which have contributed to a high level of value creation. Requirements for efficient project execution are becoming increasingly stringent and the board attaches great importance to continuous improvement in this area.

New technology has added substantially to value creation in Statoil. Pioneering technology lay behind the decision to develop two new Statoil-operated projects: the project for improved oil recovery on the Tordis field

(Tordis IOR) involves the development of technology that will make the field the first in the world to use subsea processing of water, sand and oil. The Tyrihans field will be the first seabed development to use seabed pumps to inject untreated seawater into the reservoir to increase production. The technological solutions in these projects may give Statoil a competitive edge both on the NCS and internationally.

In 2005 Technology & Projects took over formal responsibility for completion of the demanding Snøhvit project. On the NCS, the business area has played a major role in the positive development in the areas of reserve replacement and improved oil recovery. The business area has also made a vital contribution to the group's international commercial development.

Financial developments for the group

In 2005 Statoil's total revenues came to NOK 393.3 billion, compared with NOK 306.2 billion in 2004.

The Statoil group's income before financial items, other items, tax and minority interest was NOK 95.1 billion in 2005, compared with NOK 65.1 billion the previous year.

The profit for the year was NOK 30.7 billion, which was NOK 5.8 billion more than the year before. In 2005, earnings per share came to NOK 14.19, compared with NOK 11.50 in 2004.

Cash flow from operations was NOK 56.3 billion in 2005, up from NOK 38.8 billion in 2004. This is due chiefly to higher prices and margins. Cash flow to investments was NOK 37.7 billion in 2005, compared with NOK 32.0 billion the previous year.

The group's gross interest-bearing debt at year-end 2005 was NOK 34.2 billion, compared with NOK 36.2 billion the previous year. The group's debt-equity ratio, defined as net interest-bearing debt in relation to capital employed, was 15.3 per cent at 31 December 2005, compared with 19.0 per cent on the same date in 2004.

Total bank deposits and other liquid securities amounted to NOK 13.9 billion at year-end 2005, compared with NOK 16.6 billion in 2004.

Statoil uses derivatives to manage risk resulting from fluctuations in the underlying interest rates, exchange rates and commodity prices. Because Statoil operates in the international oil and gas markets and has significant financing requirements, the group is exposed to these risks, which can affect the cost of operating, investing and financing.

The group has used and will continue to use financial instruments and commodity-based derivative contracts to hedge risk relating to overall earnings and cash flow. Derivatives creating essentially equal and offsetting market exposure are used to help manage such risks. The group also uses derivatives to establish certain positions based on market expectations, although this activity is immaterial to the consolidated financial statements.

Interest and currency risks constitute significant financial risks for the Statoil group. Total exposure is managed at portfolio level in accordance with the strategies and mandates issued by the group-wide risk management programme and monitored by the corporate risk committee. Statoil's interest rate exposure is mainly associated with the group's debt obligations and management of the assets in Statoil Forsikring AS. Statoil mainly employs interest rate swap and currency swap agreements to manage interest rate and currency exposure.

Statoil's reporting is in accordance with the American generally accepted accounting principles (USGAAP) and the Norwegian generally accepted accounting principles (NGAAP). Note 26 in the NGAAP accounts explains the difference between the two consolidated accounts.

The board confirms that the going concern requirement has been fulfilled pursuant to section 3-3 a) of the Norwegian Accounting Act. The accounts for 2005 have been prepared on the going concern assumption.

According to NGAAP the net income of the Statoil ASA parent company was NOK 32.0 billion.

The year 2005 was characterised by particularly favourable market conditions and good financial results.

The board concludes that this allows for a special dividend of NOK 4.60 per share. With an ordinary dividend of NOK 3.60 per share, the board therefore proposes that the annual general meeting allocates a total dividend of NOK 8.20 per share.

The board proposes the following allocation of net income in the parent company Statoil ASA (in NOK million):

Provisions for dividend	17,756
Retained earnings	6,786
Reserve for valuation variances	7,467
Total allocated	32,009

The company's distributable equity after allocations amounts to NOK 63.2 billion.

Corporate governance

Good corporate governance is the board's most important tool in ensuring optimum management of Statoil's assets and optimum value creation for the company's owners. The board will ensure that Statoil has good internal control and risk management systems at all times. This makes the business more robust and reduces uncertainty about the company's dispositions.

In 2005 Statoil's board conducted a thorough evaluation of the Norwegian Code of Practice for corporate governance and concurs fully with the recommendation.

Corporate governance in Statoil is based on openness and equal treatment of its shareholders. It is exercised through the board of directors, the corporate assembly and the annual general meeting. Statoil's board has also set up a separate audit committee and a remuneration committee.

There were three changes to the representatives elected by the shareholders in 2005: Eli Sætersmoen stepped down with effect from 22 June 2005, and Ingrid Wiik and Lars Thunell took office as new board members on the same date. Mr. Thunell resigned from the board on 31 December 2005 when his new position at the World Bank disqualified him from sitting on Statoil's board.

Statoil's board held 16 meetings in 2005. The board finds it appropriate to mention the following from among the issues that were given special attention:

— Health, safety and environment work

— Continuous follow-up of the group's operations and financial development

— Strategies and plans for commercial development on the NCS and internationally

— Progress and cost developments in important development projects

The board has followed up Statoil's endeavours to bring internal control systems in line with the rules in section 404 of the Sarbanes-Oxley Act (SOX404). This work will help to secure and document the quality of the group's internal control in connection with financial reporting.

The board members have wide-ranging and varied backgrounds with regard to both experience and qualifications, providing a sound basis for the board's work. In 2005 the board carried out a self-assessment of its working methods.

In 2005, none of the board members participated in transactions that were material enough to necessitate valuations by an independent third party.

The board's audit committee is a preparatory body for the board in accounting and audit matters. At 31 December 2005 the committee members were Finn A Hvistendahl (chair), Morten Svaan, Ingrid Wiik and Knut Åm. The last two joined the committee as new members in October 2005. In accordance with American legislation, the board has concluded that Finn A Hvistendahl qualifies as an accounting expert as defined by the US Securities and Exchange Commission (SEC).

In 2005 the audit committee held eight meetings, with special focus on:

— continuous follow-up of accounting

— progress in the implementation of SOX404

— communication with the external auditor

— independence of the corporate audit function

— the group's work on hedging and risk management

In accordance with the instructions specified by the board, the remuneration committee is to assist in the board's work in establishing the terms and conditions of employment for Statoil's chief executive, and with principles and strategy for remunerating key leaders in Statoil. At 31 December 2005 the committee members were Jannik Lindbæk (chair), Grace R Skaugen and Knut Åm. The committee held six meetings in 2005.

A sound operating philosophy

Statoil is working purposefully to achieve its ambition of zero harm to people and the environment. Regrettably, two people lost their lives while working for two of Statoil's contractors in 2005: one in a work accident on the Kristin platform and one on board a tanker alongside the quay at Mongstad.

Both Statoil's and the Petroleum Safety Authority's investigations of the gas leak on the Snorre A platform in November 2004 exposed a number of matters worthy of criticism, including several cases of nonconformity with the applicable regulations. Statoil accepted the fine of NOK 80 million.

The incident on Snorre A had major potential to cause harm. Both the gas leak on Snorre A and other less serious events in 2005 serve to remind us of the importance of safety work. There must be absolutely no doubt about Statoil's duty to ensure safe operations.

Statoil's safety indicators for 2005 show further improvement. The total recordable injury frequency fell from 5.9 in 2004 to 5.1 in 2005, and the serious incident frequency also fell, from 3.2 to 2.3.

There is reason to believe that the group's systematic work to improve behaviour and attitudes throughout the organisation is a contributory factor. By the end of 2005, 95 workshops had been organised for more than 22,000 employees of Statoil and its suppliers under the auspices of the safe behaviour programme. The safe behaviour programme will continue and the board deems it important to keep on with this work with undiminished vigour.

Sickness absence increased from 3.2% in 2004 to 3.5% in 2005. The board will closely follow the trend in this area.

Environmental measures

Statoil works continuously to limit greenhouse gas emissions. Total carbon dioxide emissions from Statoil-operated facilities amounted to 10.3 million tonnes in 2005, compared with 9.8 million tonnes in 2004. This increase is mainly due to increased production at Statoil's refineries, and increased production of gas, which is more energy-intensive than oil production.

Statoil has long been a pioneer in the capture and storage of carbon dioxide. The group is currently either sole or joint operator in three of the world's four largest projects in this field: Sleipner, Snøhvit and In Salah in Algeria. In the board's opinion, the establishment of viable carbon dioxide chains on the NCS requires a clear industrial basis and considerable financial commitment from the Norwegian authorities. In Norway, Statoil has also advocated the replacement of the current carbon tax system by a model whereby offshore activity is included in the quota trading system.

Statoil's activity is guided by the principle of zero harm to the environment. The board considers it extremely important to find industrial solutions that safeguard the natural environment and secure the coexistence of important industries.

Norwegian environmental authorities have stipulated requirements for zero harmful discharges to sea by the end of 2005. The great majority of Statoil's fields on the NCS had implemented zero discharge measures by the deadline. In the case of some fields it has been necessary to extend the work into 2006.

People, the group and society

Statoil's business is governed by three bottom-line dimensions: economic performance, environmental impact and the effect on society. The board deems it important to maintain a good balance between the different dimensions in Statoil's management model.

Statoil is making focused efforts to develop a healthy performance culture that is rooted in clear values and ethical principles. A value-based performance culture is a vital element of any company's long-term value-creation capability. Systematic work is being put into this throughout the organisation.

All entities in Statoil ASA underwent training in ethics and social responsibility in 2005. Statoil is now implementing its own anti-corruption programme for the group's 300 senior management personnel. The company's ethical regulations have been further developed and made known to all employees.

Statoil is a knowledge-based company in which 55% of the employees have a university or college education. Many highly qualified employees will be retiring in the course of the next few years, which makes it very important for the group to further develop and replace expertise in the face of growing competition for knowledge resources.

Statoil sees an intrinsic value in having a varied staff with regard to gender, age and cultural background. Statoil ASA employees are remunerated according to their position, qualifications, results and behaviour.

Over 27% of the employees of Statoil ASA are women, and equal opportunities work has an important place in the company. Twenty-five per cent of Statoil's current managers are women, which is slightly fewer than last year. Managers under the age of 45 comprise 34% women. The proportion of women in Statoil's management development programmes has remained stable for the last few years at around 30%.

Statoil has long prioritised the recruitment of female skilled workers. In 2005, 20% of our skilled workers were women, compared with 18% in 2004. Of staff engineers, 22% are women.

The equal-pay-for-equal-work principle is applied through the annual individual salary adjustments.

During many years Statoil has worked systematically with companies' social responsibility. For the second year in succession, Statoil was ranked as the best oil and gas company in the world by the Dow Jones Sustainability World Index in 2005.

A new, overall uniform strategy for the group's social responsibility work was also established. The strategy emphasises three priority areas: openness about financial transactions, human rights and labour rights and local spin-off effects. These are areas in which Statoil can make a positive contribution to development in the host country. In 2005 Statoil's social investments increased by more than 50%, to USD 10 million. These investments may have a major impact on the lives of individual people and the local communities.

The board is convinced that, over time, good results in the triple bottom-line will build a robust reputation and help to secure Statoil access to new resources and opportunities.

Further development for the group

Statoil's industrial platform is stronger than ever, and the group can build further on a clear strategy, a strong financial foundation, solid market positions and a competent organisation.

The board wants to ensure that Statoil's owners obtain the best possible return on their shares. Improvement and efficiency work will continue to come high on the board's agenda. This is necessary in the face of fiercer international competition.

The most important contribution to the maintenance of competitive strength is the ability to continuously improve. Improvement work in the year leading up to 2007 will contribute substantially to Statoil's business. In addition to its production targets, Statoil has raised its ambitions for exploration, gas and downstream activities.

Statoil's operational and financial objectives for 2007 remain unchanged. However, the framework conditions have changed considerably since 2004, when the 2007 targets were set. PSA effects and, to some extent, also increased exploration activity and investment, have put pressure on Statoil's 2007 targets. Given the normalisation assumptions adopted in 2004, Statoil will probably fall short of its target of a 13% normalised return on capital employed in 2007. The group will adjust for PSA effects in its reporting of production and production unit costs up to 2007.

Statoil's strategy aims to achieve long-term profitable growth and continuous efforts are being made to further develop the group. Statoil has a clear strategy and assertive plans for maintaining a high level of production on the NCS. The group is making focused efforts to acquire and further develop new positions that will secure a continued increase in production at the international level also after 2007. Statoil's background as a national oil company, combined with its industrial experience and technological expertise, is very special and, in the board's opinion, gives and should continue to give the group a competitive advantage in securing interesting international positions.

Statoil will use the available tools to ensure future growth within a strict capital-discipline framework. Organic growth will remain central to the further development of the group. There has been a considerable stepping-up of exploration activity both on the NCS and internationally. Non-organic growth measures will be assessed continuously, provided that they underpin Statoil's strategy while contributing to long-term value creation for Statoil's shareholders.

The board emphasises the importance of further development of Statoil's organisation and management to enable the group to face intensified competition. A proactive strategy combined with the financial results it achieved in 2005 will provide a good platform on which to continue to build the group.

Stavanger, 9 March 2006

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL	LILL-HEIDI BAKKERUD	MORTEN SVAAN
KACI KULLMANN FIVE	FINN A HVISTENDAHL	GRACE R SKAUGEN
INGRID WIIK	KNUT ÅM	HELGE LUND PRESIDENT AND CEO

Directors' Biographies

Jannik Lindbæk (67)
Chair of the board

On the board of directors since November 2003.

Education and professional background: President and CEO of Storebrand, chief executive of the Nordic Investment Bank, executive vice president of the International Finance Corporation.

Other elective posts: Chair of the board of the Bergen International Festival, Transparency International Norway, Plan International Norway and Gearbulk. Director of Kristian Gerhard Jebsen Skipsrederi.

Number of shares in Statoil: 0

Kaci Kullmann Five (55)
Deputy chair

On the board of directors since August 2002. Acting chair from September to November 2003. Deputy chair from November 2003.

Profession: Self-employed.

Education and professional background: MSc in political science from the University of Oslo. Member of the Norwegian Parliament 1981-1997. Minister for trade and shipping 1989-1990. Head of the Norwegian Conservative Party 1991-1994. Executive vice president in Aker RGI 1998-2002.

Other elective posts: Member of the Norwegian Nobel Committee.

Number of shares in Statoil: 1,000

Knut Åm (62)

On the board of directors since April 1999.

Profession: Independent consultant.

Education and professional background: Degree in geological and geophysical engineering from the Norwegian Institute of Technology. Senior vice president in Phillips Petroleum, with responsibility for exploration and production, previously held positions in the Geological Survey of Norway, the Norwegian Petroleum Directorate and Statoil.

Other elective posts: Chair of the Industrial Council of the Norwegian Academy of Technological Sciences, chair of IOR-Chemco AS, EnVision AS and EnVision StreamLine AS. Director of Badger Explorer AS and the Physics of Geological Processes Centre of Excellence at the University of Oslo.

Number of shares in Statoil: 14,594

Finn Hvistendahl (64)

On the board of directors since April 1999, chair of the board's audit committee.

Profession: Business development consultant.

Education and professional background: Degree in industrial chemistry. Has been chief financial officer and chief executive of Norsk Hydro and group CEO of Den norske Bank.

Other elective posts: Chair of the board of the Financial Supervisory Authority of Norway (Kredittilsynet).

Number of shares in Statoil: 2,947

Grace Reksten Skaugen (52)

On the board of directors since June 2002.

Profession: Self-employed

Education and professional background: PhD in laser physics from the Imperial College of Science and Technology, London University, and an MBA from the Norwegian School of Management. Director of corporate finance at Enskilda Securities, Oslo. Adviser for Aircontactgruppen, Oslo and Fearnley Finance Ltd, London.

Postdoctoral research in the field of microelectronics at Columbia University in New York. Other elective posts: Board chair at Entra Eiendom, deputy chair at Opera Software. Director of Tandberg, Storebrand, Atlas Copco AB and Berg-Hansen Holding.

Number of shares in Statoil: 0

Ingrid Wiik (61)

On the board of directors since June 2005.

Profession: President and CEO of Alpharma Inc, New York.

Education and professional background: MSc in pharmacy from the University of Oslo, MSc in biopharmacy from the University of London, Master of Business Administration (MBA) from the Norwegian School of Management (BI). Various managerial posts in Nygaard & Co (now Amersham/Nycomed), Apothekernes Laboratorium/Alpharma.

Other elective posts: Director of Alpharma, Coloplast and Norske Skog.

Number of shares in Statoil: 500

Stein Bredal (55)

On the board of directors since April 2000. Employee-elected director.

Profession: Materials coordinator

Education and professional background: College of further education (economics). Has worked on installations in the North Sea since 1976, and has been a union official in the group for the last seven years.

Other elective posts: Convenor for the Confederation of Vocational Unions (YS) in Statoil.

Number of shares in Statoil: 352

Lill-Heidi Bakkerud (42)

On the board of directors since June 2004, and in the period 1998-2002. Employee-elected director.

Profession: Process technician.

Education and professional background: Process/ chemistry technician with experience from the petrochemicals industry and oil and gas production.

Other elective posts: Full-time union official for the Norwegian Oil and Petrochemical Workers Union (Nopef). Director of Nopef and member of the supervisory board of the Norwegian Federation of Trade Unions.

Number of shares in Statoil: 165

Morten Svaan (49)

On the board of directors since June 2004. Employee-elected director.

Profession: Project manager, HSE.

Education and professional background: PhD in chemistry from the Norwegian Institute of Technology and a bachelor degree in business from the Norwegian School of Management. Has worked for Statoil in Manufacturing & Marketing, petrochemicals and research and development.

Other elective posts: Was convenor for the Norwegian Society of Chartered Technical and Scientific Professionals (Nif/Tekna) from 1999-2003.

Number of shares in Statoil: 469

STATEMENTS OF INCOME STATOIL ASA — NGAAP

(in NOK million)	Note	For the year ended December 31, 2005	2004
REVENUES			
Sales		**346,714**	272,780
Equity in net income of subsidiaries	8	**17,477**	8,118
Equity in net income of affiliates	8	**62**	111
Other income	4	**117**	886
Total revenues		**364,370**	281,895
EXPENSES			
Cost of goods sold		**(219,862)**	(175,762)
Operating expenses	3	**(29,128)**	(24,959)
Selling, general and administrative expenses	3	**(3,514)**	(2,760)
Depreciation, depletion and amortization	10	**(12,616)**	(13,458)
Exploration expenses	10	**(2,232)**	(1,102)
Total expenses before financial items		**(267,352)**	(218,041)
Income before financial items and income taxes		**97,018**	63,854
Net financial items	12	**(7,569)**	5,379
Income before income taxes		**89,449**	69,233
Income taxes	13	**(57,440)**	(44,487)
Net income		**32,009**	24,746
Allocations			
Group Contribution		2,324	2,640
Tax on group contribution		(602)	(739)
Dividend		17,756	11,481
Change in Reserve for valuation variances		7,467	(1,286)

BALANCE SHEETS STATOIL ASA — NGAAP

(in NOK million)	Note	At December 31, 2005	2004
ASSETS			
Net property, plant and equipment	10	**103,114**	97,372
Long-term receivables	17,22	**5,795**	4,760
Long-term investments	8	**71**	77
Investments in subsidiaries	8	**102,603**	90,343
Investments in affiliates	8	**1,300**	1,288
Total non-current assets		**212,883**	193,840
Inventories	7	**4,326**	3,231
Accounts receivable	11	**33,907**	20,503
Short-term receivables from subsidiaries		**5,542**	5,078
Prepaid expenses and other current assets		**2,705**	4,465
Total inventories and accounts receivables		**46,480**	33,277
Short-term investments	9	**88**	11,457
Cash and cash equivalents	1	**189**	1,162
Cash, cash equivalents and short-term investments		**277**	12,619
Total current assets		**46,757**	45,896
TOTAL ASSETS		**259,640**	239,736
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,189,585,600 shares authorized and issued		**5,474**	5,474
Treasury shares, 24,208,212 and 23,452,876 shares	23	**(156)**	(60)
Additional paid-in capital		**12,452**	12,421
Paid-in capital		**17,770**	17,835
Reserve for valuation variances		**9,818**	2,351
Retained earnings		**63,352**	54,108
Total equity	23	**90,940**	74,294
Net deferred income taxes	13	**33,631**	37,295
Other liabilities	17,18	**23,332**	21,866
Long-term debt to subsidiaries		**1,508**	2,056
Long-term debt	15	**23,910**	21,938
Total long-term liabilities		**82,381**	83,155
Short-term debt	14	**2,782**	6,777
Accounts payable		**15,854**	18,973
Accounts payable — related parties	22	**9,763**	552
Short-term payable to subsidiaries		**5,194**	19,358
Withheld, excise and other taxes		**1,678**	1,699
Income taxes payable	13	**28,040**	18,619
Accrued liabilities		**5,252**	4,828
Dividend payable		**17,756**	11,481
Total current liabilities		**86,319**	82,287
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**259,640**	239,736

STATEMENTS OF CASH FLOW STATOIL ASA — NGAAP

(in NOK million)	For the year ended December 31, 2005	2004
OPERATING ACTIVITIES		
Net income	**32,009**	24,746
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	**12,616**	13,458
Exploration expenditures written off	**158**	61
(Gains) losses on foreign currency transactions	**3,002**	(1,892)
Deferred taxes	**(3,838)**	5,012
(Gains) losses on sales of assets and other items	**(4,421)**	(3,752)
Changes in working capital (other than cash):		
— (Increase) decrease in inventories	**(1,095)**	(792)
— (Increase) decrease in accounts receivable	**(13,868)**	(356)
— (Increase) decrease in prepaid expenses and other current assets	**1,760**	(2,798)
— (Increase) decrease in short-term investments	**11,369**	(2,261)
— Increase (decrease) in accounts payable	**7,136**	(1,343)
— Increase (decrease) in other payables	**(14,586)**	4,940
— Increase (decrease) in taxes payable	**9,310**	2,192
Increase (decrease) in non-current items related to operating activities	**268**	1,810
Cash flows provided by operating activities	**39,820**	39,025
INVESTING ACTIVITIES		
Net cash flows used in investing activities	**(24,884)**	(32,549)
FINANCING ACTIVITIES		
New long-term borrowings	**0**	3,461
Repayment of long-term borrowings	**(2,877)**	(7,021)
Dividend paid	**(11,481)**	(6,390)
Net short-term borrowings, bank overdrafts and other	**(1,551)**	1,616
Cash flows used in financing activities	**(15,909)**	(8,334)
Net increase (decrease) in cash and cash equivalents	**(973)**	(1,858)
Cash and cash equivalents at January 1	**1,162**	3,020
Cash and cash equivalents at December 31	**189**	1,162
Interest paid	1,690	933
Taxes paid	51,366	37,135

NOTES TO FINANCIAL STATEMENTS STATOIL ASA — NGAAP

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972, as a 100 per cent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 per cent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipelines and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been, with effect from June 1, 2001, accounted for at historical cost. The final cash settlement is under review by the Norwegian State, and Statoil has in 2004 recorded its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Statoil ASA are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) and uses the same accounting principle as the group. Shareholdings and interests in subsidiaries and affiliates are recorded using the equity method. For a description of other accounting policies, reference is made to note 2 of the NGAAP group accounts.

Certain reclassifications have been made to prior year's figures to be consistent with current year's presentation.

An overview of oil and gas reserves is shown in note 28 of the NGAAP group accounts.

3. REMUNERATION

Total payroll expenses are included in Operating expenses and Selling, general and administrative expenses as follows:

	For the year ended December 31,	
(in NOK million, except number of work-years)	**2005**	**2004**
Salaries	8,035	7,595
Pension cost	973	1,205
Payroll taxes	1,440	1,346
Other social benefits	842	783
Total payroll expenses	11,290	10,929
Average number of work-years	11,115	10,813

Payroll expenses are partly charged to partners of Statoil-operated activities.

The calculation of pension costs and pension assets/liabilities is described in note 17 Employee Retirement Plans.

At December 31, 2005 loans to employees amounted to NOK 587 million. In addition, Statoil ASA has guaranteed for bank loans for employees totaling maximum NOK 10 million. At December 31, 2005 there are no loans from Statoil ASA to any member of the Corporate Executive Committee.

Total remuneration of NOK 510,000 was paid to the members of the corporate assembly and NOK 2,300,000 to the board of directors.

Chief Executive Officer (CEO) Helge Lund received in 2005 NOK 5,128,647 in salary and other remuneration (including pension premium paid). According to his contract, Helge Lund is entitled to severance pay equivalent to two annual salaries, excluding term of notice of six months, when the resignation is a request from the board. In addition, Helge Lund is entitled, under specific terms, to a pension amounting to 66 per cent of pensionable salary after reaching the age of 62. The full service period is 15 years and the benefits are independent of any future changes in National Insurance (Folketrygden). Based on performance, the board will assess a performance payment for Helge Lund. This payment may amount to a maximum of 30 per cent of base salary.

A performance pay system has also been established for the other members of the corporate executive committee, senior vice presidents and vice presidents. This entails a variable remuneration based on pre-determined goals. The scheme allows for a bonus of 10 per cent of base salary on achieving set goals, with a ceiling of 20 per cent for results that clearly exceed these goals.

If resigning at the request of the company, members of the corporate executive committee, other than the CEO, are on a general basis entitled to severance pay equivalent to 12 months salary, including six months term of notice. The pension rights follow the general system in Statoil ASA. Executive vice president Peter Mellbye is entitled to severance pay including term of notice equivalent to 24 months salary, if resigning at the request of the company. Peter Mellbye is entitled, under specific terms, to a pension after reaching the age of 60. The pension will amount to 66 per cent of the pensionable salary.

For information regarding shares owned by the members of the corporate executive committee, the board of directors and the corporate assembly, see note 23.

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

In January 2004 Statoil acquired 11.24 per cent of the Snøhvit field, of which 10 per cent from Norsk Hydro and 1.24 per cent from Svenska Petroleum. Following these transactions, Statoil has an ownership share of 33.53 per cent in the Snøhvit field.

In January 2004 Statoil sold its 5.26 per cent shareholding in the German company Verbundnetz Gas, generating a gain of NOK 619 million before tax (NOK 446 million after tax). The gain has been classified as Other income in the Statements of Income.

In 2004 Statoil acquired the retailer group ICA's 50 per cent holding in Statoil Detaljhandel Skandinavia AS (SDS), and now owns 100 per cent of SDS. Following approval under the EU merger control regulations on July 1, the transaction was completed on July 8, 2004.

5. ASSET IMPAIRMENT

There have been no material write-downs of properties owned by Statoil ASA in 2005 or 2004.

6. AUDITORS' REMUNERATION

	For the year ended December 31,	
(in NOK million)	**2005**	**2004**
Audit fees	7.5	7.3
Audit-related fees	7.3	3,8
Tax fees	0.0	0.7
Total	14.8	11.8

7. INVENTORIES

Inventories are valued at the lower of cost or market determined under the first-in, first-out method.

(in NOK million)	For the year ended December 31, 2005	2004
Crude oil	2,183	1,754
Petroleum products	1,509	885
Other	634	592
Total inventories	4,326	3,231

8. SHARES AND LONG-TERM INVESTMENTS

Subsidiaries and affiliates by equity method.

(in NOK million)	Subsidiaries	Affiliates
Investment at January 1, 2005	90,343	1,288
Net income subsidiaries and affiliates	17,477	62
Translation adjustment	2,458	0
Change in paid-in equity	152	14
Group contribution (after tax)	1,722	0
Ordinary dividend	(9,549)	(64)
Investment at December 31, 2005	102,603	1,300

Ownership in certain subsidiaries (in per cent)

AS Eesti Statoil	100
Latvija Statoil SIA	100
Offtech Invest AS	100
Statholding AS	100
Statoil AB	100
Statoil Angola Block 15 AS	100
Statoil Angola Block 17 AS	100
Statoil Angola AS	100
Statoil Apsheron AS	100
Statoil Asia Pacific Pte. Ltd.	100
Statoil Azerbaijan Alov AS	100
Statoil Azerbaijan AS	100
Statoil BTC Finance AS	100
Statoil Coordination Center N.V.	100
Statoil Danmark A/S	100
Statoil Deutschland GmbH	100
Statoil do Brasil Ltda	100
Statoil Exploration Ireland Ltd	100
Statoil Forsikring a.s	100
Statoil Hassi Mouina AS	100
Statoil Innovation AS	100
Statoil Iran AS	100
Statoil Ireland Ltd	100
Statoil Kazakstan AS	100
Statoil Latin America AS	100
Statoil Marine Holding AS	100
Statoil Nigeria AS	100
Statoil Nigeria Deep Water AS	100
Statoil Nigeria Outer Shelf AS	100
Statoil Norge AS	100
Statoil North Africa Gas AS	100
Statoil North Africa Oil AS	100
Statoil North America Inc	100
Statoil Orient Inc AG	100
Statoil Pernis Invest AS	100
Statoil Plataforma Deltana AS	100
Statoil Polen Invest AS	100
Statoil Russia AS	100
Statoil Sincor AS	100
Statoil SP Gas AS	100
Statoil UK Ltd	100
Statoil Venezuela AS	100
UAB Lietuva Statoil	100
Statoil Metanol ANS	82
Mongstad Refining DA	79
Mongstad Terminal DA	65
Tjeldbergodden Luftgassfabrikk DA	51

Voting rights correspond to ownership interests.

Ownership in certain equity method affiliates

Nova Naturgas AB	30%
Vestprosess DA	17%
Etanor DA	16%

9. INVESTMENTS

(in NOK million)	At December 31, 2005	2004
Short-term deposits	0	8
Commercial papers	0	9,693
Liquidity funds	48	1,662
Other	40	94
Total short-term investments	88	11,457

The cost price of short-term investments is NOK 146 and NOK 11,712 million as at year-end 2005 and 2004, respectively.

All short-term investments are considered held for trading and are recorded at fair value with unrealized gains and losses included in income.

Commercial papers related to strategic liquidity management have been transferred to the subsidiary Statholding AS.

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, incl. pipelines	Production plants onshore	Buildings and land	Vessel	Construction in progress	Capitalized exploration expenditures	Total
Cost at January 1, 2005	2256	231,316	4,280	2,534	107	19,022	1,119	260,634
Accumulated depreciation, depletion and amortization at January 1	(1,781)	(157,534)	(2,928)	(956)	(91)	0	0	(163,290)
Additions and transfers	372	17,929	225	52	0	(599)	589	18,578
Disposal at booked value	(1)	(24)	0	(35)	0	(2)	(3)	(65)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(158)	(158)
Depreciation, depletion and amortization for the year	(305)	(12,107)	(130)	(67)	05)	0	0	(12,614)
Book value fixed assets at December 31, 2005	541	79,580	1,447	1,538	11	18,421	1,547	103,085
Intangible assets								29
Net property, plant, equipment and intangible assets at December 31, 2005								103,114
Estimated useful life (years)	3-10	*	15-20	20-33	20-25			

* Depreciation according to Unit of production, see note 2.

The book value of vessels consists of financial leases. In 2005 and 2004 NOK 866 and NOK 452 million respectively, of interests were capitalized. In addition to depreciation, depletion and amortization specified above intangible assets have been amortized by NOK 2 million in 2005.

Exploration expenditures

(in NOK million)	2005	2004
Incurred during the year	2,602	1,417
Capitalized share of current year's exploration activity	(528)	(376)
Expensed, previously capitalized exploration expenditures	158	61
Expensed during the year	2,232	1,102

11. PROVISIONS

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past two years are as follows:

(in NOK million)	Balance at January 1,	Recovery	Balance at December 31,
Year 2005			
Provisions against accounts receivable	39	0	39
Year 2004			
Provisions against accounts receivable	44	(5)	39

12. FINANCIAL ITEMS

(in NOK million)	For the year ended December 31, 2005	2004
Dividends received	82	5
Gain (loss) on sale of securities	459	(280)
Interest and other financial income	570	527
Currency exchange adjustments, short-term items	(4,113)	3,390
Currency exchange adjustments, long-term items	(2,914)	2839
Interest and other financial expenses	(2,519)	(1,554)
Capitalized interest	866	452
Net financial items	(7,569)	5,379

13. INCOME TAXES

Income tax expense consists of

(in NOK million)	For the year ended December 31, 2005	2004
Current taxes payable	61,278	39,475
Change in deferred tax[1)]	(3,838)	5,012
Income tax expense	57,440	44,487
Uplift benefits for the year	4,258	3,793

1) Due to changes in Norwegian tax legislation in 2004, dividends from companies, with some exceptions, are not taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates was reversed in 2004.

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. In addition to normal corporation tax, a special tax of 50 per cent is levied after deducting uplift, a special investment tax credit. Uplift is deducted by 7.5 per cent per year for four years, as from year of investment. Uplift credits of NOK 10.8 billion will be recognized over a period of four years.

Significant components of deferred tax assets and liabilities were as follows:

(in NOK million)	At December 31, 2005	2004
Deferred tax assets		
Inventory	1,118	1,001
Other short-term items	1,194	252
Decommissioning and asset retirement obligation	12,478	9,709
Other long-term items	978	1,775
Total deferred tax assets	15,768	12,737
Deferred tax liabilities		
Property, plant and equipment	41,722	40,756
Capitalized exploration expenditures and interest	7,222	7,407
Other long-term items	455	1,869
Total deferred tax liabilities	49,399	50,032
Net deferred tax liabilities	33,631	37,295

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2005
Deferred income tax liability at January 1	37,295
Charged to the income statement (see footnote 1 above)	(3,838)
Acquisitions, sales and other	174
Net deferred income taxes at December 31	33,631

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2005	2004
Bank loans and overdraft facilities	10	1,518
Current portion of long-term debt	924	2,156
Margin call	1,783	2,995
Other	65	108
Total	2,782	6,777
Weighted average interest rate	4.00%	2.84%

15. LONG-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2005	2004
Unsecured debentures bonds		
US dollar (USD)	24,269	23,379
Euro (EUR)	187	214
Other currencies	10	12
Total	24,466	23,605
Other debt	368	489
Grand total debt outstanding	24,834	24,094
Less current portion	924	2,156
Total long-term debt	23,910	21,938
Weighted average interest rate	4.86%	5.03%

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2005 and 2004, NOK 3,343 and

NOK 2,981 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2014. At December 31, 2005 and 2004, NOK 3,382 and NOK 3,017 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2005 and 2004, NOK 3,961 and NOK 4,081 million were outstanding, respectively. EUR 200 million of the bond has been swapped through an interest rate swap agreement to an EURIBOR-based floating interest rate.

Statoil also has an unsecured debenture bond agreement for GBP 225 million, with a fixed interest rate of 6.125 per cent, maturing in 2028. At December 31, 2005 and 2004, NOK 2,622 and NOK 2,619 million were outstanding, respectively. The bond has been swapped through cross currency interest rate swap agreements to an USD LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2005 and 2004, NOK 2,528 and NOK 2,252 million were outstanding, respectively. Net after buyback this amounts to NOK 2,197 and NOK 1,955 million at year end exchange rates.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Statoil's secured bank loans in USD have been secured by guarantee commitments amounting to USD 83 million, mortgage in shares in a subsidiary and investments in other companies with a combined book value of NOK 4,490 million, a bank deposit with a book value of NOK 1,494 million, and Statoil's pro-rata share of income from certain applicable projects.

Statoil has 20 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are net after buyback at the December 31, 2005 closing rate valued at NOK 23,743 million.

Long-term debt falls due as follows:

(in NOK million)	
2006	924
2007	1,665
2008	1,898
2009	3,125
2010	289
Thereafter	16,933
Total	24,834

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.0575 per cent per annum.

As of December 31, 2005 and 2004 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Statoil ASA's exposure to and management of commodity risk, interest and currency risk and market risk for financial investments in equity and debt securities is akin to the exposure to and management of risks in the Statoil group. The combined use of commodity based derivatives and financial instruments is an integral part of the risk management process and is common for group entities. Reference is made to note 16 in the consolidated accounts for a more detailed description of risks and the use of derivatives.

Interest rate and currency risks constitute the most important financial risks for Statoil. Total exposure is managed at portfolio level in accordance with the strategies and mandates adopted. Interest rate risk and currency risk are assessed against mandates and based on a scenario of 10 per cent currency devaluation and one percentage point change in interest rates.

The table below illustrates an uncorrelated loss scenario.

	At December 31,	
(in NOK million)	**2005**	**2004**
Currency risk	7,756	5,283
Interest rate risk	428	454

17. EMPLOYEE RETIREMENT PLANS

Pension benefits

The company has defined benefit retirement plans. Plan benefits are generally based on years of service and final salary levels. The retirement plans are covered by Statoil's pension funds. These funds are organized as independent trusts. The major part of their assets are invested in Norwegian and foreign bonds and shares, as well as real estate in Norway.

Net periodic pension cost

	For the year ended December 31,	
(in NOK million)	**2005**	**2004**
Benefits earned during the year	967	973
Interest cost on prior years benefit obligation	895	837
Expected return on plan assets	(983)	(811)
Amortization of loss/prior service cost	70	185
Defined benefit plans	949	1,184
Multi-employer plans	24	21
Total net pension cost	973	1,205

Pension costs are partly charged to partners of Statoil-operated activities.

Change in projected benefit obligation (PBO)

(in NOK million)	**2005**	**2004**
Projected benefit obligation at January 1	16,410	15,347
Benefits earned during the year	967	973
Interest cost on prior years benefit obligation	895	837
Actuarial loss (gain)	3,492	(492)
Benefits paid	(263)	(255)
Projected benefit obligation at December 31	21,501	16,410

Change in pension plan assets

(in NOK million)	**2005**	**2004**
Fair value of plan assets at January 1	15,133	13,231
Actual return on plan assets	1,528	966
Company contributions*	1,201	1,054
Benefits paid	(125)	(119)
Fair value of plan assets at December 31	17,737	15,132

* In 2004, the amount included paid-up policies transferred from external companies.

Status of pension plans reconciled to Balance Sheets

(in NOK million)	2005	2004
Funded status of the plans at December 31	(3,764)	(1,278)
Unrecognized net loss	5,227	2,318
Unrecognized prior service cost	233	266
Total net prepaid pension recognized at December 31	1,696	1,306
Amounts recognized in the Balance Sheets		
Prepaid pension at December 31	5,199	4,416
Accrued pension liabilities	(3,503)	(3,110)
Net amount recognized at December 31	1,696	1,306

Number of members	Defined benefit plans	Multi-employer plans
Active members	12,817	9,343
Pensioners	1,403	290
Paid-up policies	1,990	0
Total at December 31	16,210	9,633

Weighted-average assumptions for the year ended December 31 (Profit and Loss items)

(in per cent)	2005	2004
Discount rate	5.50	5.50
Expected return on plan assets	6.50	6.00
Expected rate of compensation increase	3.50	3.50

Weighted-average assumptions at December 31 (Balance Sheet items)

(in per cent)	2005	2004
Discount rate	4.25	5.50
Expected return on plan assets	5.75	6.50
Expected rate of compensation increase	3.00	3.50

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure, decommissioning and removal expenditures. The accretion expense is classified as Operating expenses.

(in NOK million)	2005	2004
Asset retirement obligation at January 1	17,212	15,171
Liabilities incurred/revision in estimates	189	1,424
Accretion expense	774	715
Disposals	(69)	(22)
Incurred removal cost	(212)	(76)
Asset retirement obligation at December 31	17,894	17,212
Long-lived assets related to ARO at January 1	3,011	2,352
Net assets incurred/revision in estimates	120	1,380
Depreciation	(300)	(721)
Long-lived assets related to ARO at December 31	2,831	3,011

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 1,025 and NOK 994 million in 2005 and 2004, respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably shipping vessels and drilling rigs.

Rental expense was NOK 4,075 and NOK 4,094 million in 2005 and 2004, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2005. In addition, Statoil has entered into subleases of certain assets amounting to a total future rental income of NOK 1,668 million, of which NOK 1,372 million for 2006.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts expire in 2007 or later, up until the end of respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Amounts related to capital leases include future lease payments for assets in the books at year-end 2005.

(in NOK million)	Operational leases	Capital leases
2006	2,692	18
2007	2,286	18
2008	2,594	0
2009	1,622	0
2010	883	0
Thereafter	1,875	0
Total future lease payments	11,952	36
Interest component		(5)
Net present value		31

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2005 and 2004.

	At December 31,	
(in NOK million)	2005	2004
Vessel	107	107
Accumulated depreciation	(96)	(91)
Net	11	16

21. OTHER COMMITMENTS AND CONTINGENCIES

Contractual commitments

(in NOK million)	2006	Thereafter	Total
Contractual commitments related to investments in property, plant and equipment	4,436	5,250	9,686

These contractual commitments mainly comprise construction and acquisition of property, plant and equipment.

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sales contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition the Company has entered into certain processing and storage capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expenses for 2005 and 2004 were NOK 3,623 and NOK 3,082 million. Obligations payable by the Company to affiliates are included gross in the table below. Where the Company however reflects both ownership interests and transport capacity cost for a pipeline in the accounts, the amounts in the table include the transport commitments that exceed Statoil's pipeline ownership share.

Transport capacity and other obligations at December 31, 2005:

(in NOK million)	
2006	3,938
2007	3,614
2008	3,423
2009	3,182
2010	3,122
Thereafter	23,607
Total	40,886

Guarantees

In 2004 Statoil, as an owner in BTC Co, entered into guarantee commitments for financing of the development of the BTC pipeline. At December 31, 2005 the maximum potential future amount of payment under these guarantee commitments amounts to USD 110 million (NOK 0.7 billion). In addition, the Company has provided other third party guarantees which are immaterial at year-end 2005.

The Company has provided parent company guarantees to Statoil Forsikring a.s and to subsidiaries with operations in Sweden, Venezuela, Azerbaijan, Great Britain, Ireland, Iran, Algeria, the Faroe Islands, France and USA. The Company has also counter-guaranteed certain bank guarantees to subsidiaries in Brazil, Algeria, Netherlands and Venezuela.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about USD 0.8 billion (NOK 5.4 billion) for each incident, including liability for claims arising from pollution damage. Most of the group's production installations are covered through Statoil Forsikring a.s, which reinsures a major part of the risk in the international insurance market. About 23 percent is retained.

Other commitments and contingencies

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2005, Statoil was committed to participate in 16 wells off Norway, with an average ownership interest of approximately 48 percent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 2.0 billion. Additional wells that Statoil may become committed to participate in depending on future discoveries in certain licences are not included in these numbers.

The price reviews for two long-term natural gas sales contracts are currently in arbitration. Contractual prices for a total volume of 3.2 billion cubic meters of gas delivered as of December 31, 2005 and for future deliveries under these contracts may be positively or negatively affected by the arbitration verdicts, the final outcome of which cannot be determined at this time.

During the normal course of its business Statoil is involved in legal proceedings, and several other unresolved claims are currently outstanding. The ultimate liability in respect of such litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that neither the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. On June 28, 2004 Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code, which became effective from July 4, 2003 and prohibits conferring on or offering to a middleman an improper advantage in return for exercising his influence with a decision-maker, without the decision-maker receiving any advantage, and imposed a penalty on Statoil of NOK 20 million. The Board of Statoil ASA decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim.

The U.S. Securities and Exchange Commission (SEC) is also conducting a formal investigation into the Horton consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC Staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. Statoil is continuing to provide information to the U.S. authorities to assist them in their ongoing investigations.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May 2004. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

22. RELATED PARTIES

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 97,078 million (282 million barrels oil equivalents) and NOK 81,487 million (319 million barrels oil equivalents), in 2005 and 2004, respectively. Purchases of natural gas from the Norwegian State amounted to NOK 262 and NOK 237 million in 2005 and 2004, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable — related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchases from the Norwegian State are estimated market prices.

Statoil is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. This sale, as well as related expenditures refunded by the State, are shown net in Statoil's Financial Statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimize the profit from sale of natural gas.

23. EQUITY AND SHAREHOLDERS

Change in equity

(in NOK million)	2005	2004
Shareholders' equity January 1	74,294	64,591
Net income	32,009	24,746
Ordinary dividend	(17,756)	(11,481)
Settlement with the Norwegian state related to SDFI properties (see note 1)	0	(458)
Treasury shares bought	(96)	(1)
Value of stock compensation plan	31	3
Foreign currency translation adjustment	2,458	(3,106)
Shareholders' equity December 31	90,940	74,294

Common stock

	Number of shares	Par value (in NOK)	Common stock (in NOK)
Authorized and issued	2,189,585,600	2.50	5,473,964,000
Treasury shares	(24,208,212)	2.50	(60,520,530)
Total outstanding shares	2,165,377,388	2.50	5,413,443,470

There exists only one class of shares and all shares have voting rights.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a number of 1,558,115 of the treasury shares were distributed as bonus shares in favor of retail investors in the initial public offering in 2001. Distribution of treasury shares requires approval by the general meeting.

The board of directors is authorized on behalf of the company to acquire Statoil shares in the market. The authorization may be used to acquire Statoil shares with an overall nominal value of up to NOK 10 million. The board will decide the manner in which the acquisition of Statoil shares in the market will take place. Such shares acquired in accordance with the authorization may only be used for sale and transfer to employees of the Statoil group as part of the group's share investment plan approved by the board. The lowest amount which may be paid per share is the nominal value; the highest amount which may be paid per share is a maximum of 100 times the nominal value. The authorization will apply until November 2006. As per December 31, 2005 Statoil has 766,327 shares according to this authorization.

The 20 largest shareholders at December 31, 2005 (in per cent)

1	DEN NORSKE STAT	70.90
2	STATE STREET BANK & TRUST CO.*	2.66
3	BANK OF NEW YORK*	1.89
4	JPMORGAN CHASE BANK*	1.57
5	MELLON BANK AS AGENT FOR CLIENTS*	0.88
6	FOLKETRYGDFONDET	0.84
7	THE NORTHERN TRUST CO.*	0.66
8	FIDELITY FUNDS EUROPE.*	0.59
9	INVESTORS BANK & TRUST COMPANY*	0.52
10	JPMORGAN CHASE BANK*	0.50
11	VITAL FORSIKRING ASA	0.46
12	STATE STREET BANK & TRUST CO.*	0.45
13	CLEARSTREAM BANKING S.A.*	0.44
14	MELLON BANK AS AGENT FOR ABN AMRO*	0.39
15	DEUTSCHE BANK AG*	0.35
16	SIS SEGAINTERSETTLE AG*	0.33
17	SKANDINAVISKA ENSKILDA BANKEN*	0.33
18	DEUTSCHE BANK AG FRANKFURT*	0.32
19	DRESDNER BANK AG*	0.32
20	SKANDINAVISKA ENSKILDA BANKEN*	0.31

* Client account and similar

Members of the board of directors, corporate executive committee and corporate assembly held the following number of shares as of December 31, 2005:

Board of Directors

Jannik Lindbæk (the chairman of the board of directors)	0
Lill-Heidi Bakkerud	165
Stein Bredal	352
Kaci Kullman Five	1,000
Finn A Hvistendahl	2,947
Grace Skaugen	0
Morten Svaan	469
Ingrid Wiik	500
Knut Åm	14,594

Corporate Executive Committee

Helge Lund (chief executive officer)	3,256
Rune Bjørnson	297
Reidar Gjærum	1,397
Jon Arnt Jacobsen	1,707
Jens R Jenssen	500
Peter Mellbye	3,250
Terje Overvik	1,217
Eldar Sætre	1,478
Nina Udnes Tronstad	832
Margareth Øvrum	2,875
Corporate Assembly (in total)	**941**

24. SHARE-BASED COMPENSATION

In 2004 Statoil introduced a Share Saving Plan for all permanent Statoil employees both in full and part time positions. Because of differences in legal and tax regulations between participating jurisdictions, and with the need for specific technical solutions for the Share Saving Plan, the program will be launched at different times in the different countries/companies within the Statoil Group.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares though monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will give a contribution to the employees of 20 per cent of the saved amount, at a maximum of NOK 1,500 per employee per year.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. The same kind of allocation is planned to be carried out for future yearly programs.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated in connection with the valuation of the cost of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the corporate dividend policy in the vesting period.

Significant assumptions for 2005 used in connection with estimating the fair value are shown in the table below.

Risk free interest rate	3.0%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	8.5%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2004, 2005 and 2006 programs granted in 2005), this amounts to NOK 52, NOK 116 and NOK 145 million, respectively.

Estimated compensation cost including contribution and social security related to the 2004, 2005 and 2006 programs for Statoil amounts to NOK 35, NOK 69 and NOK 86 million respectively. At December 31, 2005 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 140 million.

25. SUBSEQUENT EVENTS

On January 31, 2006, Statoil ASA announced its decision to evaluate strategic options for its Irish downstream Retail and Commercial & Industrial business (Statoil Ireland), including a possible sale. This decision has resulted from a review of the Retail Business Portfolio and the intention to accelerate strategic commitment to Scandinavian and Eastern European markets. The nature and timing of any resulting transactions are uncertain, but are expected to occur during 2006. Current and long-term assets in Statoil Ireland amount to EUR 132 and 127 million respectively as at December 31, 2005. Current liabilities amount to EUR 96 million as at December 31, 2005.

On March 8, 2006 Statoil entered into an agreement to acquire a 25 per cent share in the license 218 in Blocks 6706/10 and 6706/12 in the Norwegian Sea. The agreement results in that Statoil after the transaction will have a 75 per cent interest in the license. Several discoveries have been made in this area, including the Luva discovery. The investment will be recorded in the segment Exploration and Production Norway

Stavanger, March 9, 2006

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL

LILL-HEIDI BAKKERUD

MORTEN SVAAN

KACI KULLMANN FIVE

FINN A HVISTENDAHL

GRACE R SKAUGEN

INGRID WIIK

KNUT ÅM

HELGE LUND
PRESIDENT AND CEO

To the Annual Shareholders'
Meeting of Statoil ASA

Auditor's report for 2005

We have audited the annual financial statements of Statoil ASA as of December 31, 2005, showing a profit of NOK 32 009 million for the parent company and a profit of NOK 32 009 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Norwegian Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements of the parent company and the group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and chief executive officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

— the financial statements of the parent company and the group are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the Company as of December 31, 2005, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway

— the Company's management has fulfilled its duty to properly record and document the accounting information as required by law and generally accepted bookkeeping practice generally accepted in Norway

— the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Stavanger, March 9, 2006

ERNST & YOUNG AS

Jostein Johannessen

Jostein Johannessen
State Authorized Public Accountant
(Norway)

RECOMMENDATION OF THE CORPORATE ASSEMBLY

Resolution:

At its meeting of March 21, 2006 Statoil's corporate assembly discussed the 2005 annual accounts of Statoil ASA and the Statoil group, and the board of directors' proposal for the allocation of net income. The corporate assembly recommends that the general meeting adopts the annual accounts and the allocation of net income, in accordance with the proposals presented by the board of directors.

Stavanger, March 21, 2006

Anne Kathrine Slungård

Anne Kathrine Slungård
Chair of the corporate assembly

Corporate assembly

Anne Kathrine Slungård, Wenche Meldahl, Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Per-Inge Søreng, Anne Britt Norø, Asbjørn Rolstadås, Arvid Færaas, Hans M Saltveit, Per Helge Ødegård, Åse Karin Staupe

Directors' Report 2004[1]

The Statoil group's net income in 2004 came to NOK 24.9 billion, which is NOK 8.4 billion more than in 2003. Income before financial items, other items, tax and minority interest totalled NOK 65.1 billion, as against NOK 48.9 billion the year before. The return on average capital employed after tax was 23.5 per cent, as against 18.7 percent in 2003. Normalised for market factors, the return on capital employed was 12.3 percent in 2004, which exceeds the target of 12 per cent for 2004 that was presented at the time of the flotation in 2001. The board is satisfied that Statoil to a large extent met the targets that were set in 2001 for 2004.

The good result has been driven forward through high oil and gas production, among other things. Average oil and gas production totalled 1,106,000 barrels of oil equivalent (boe) per day, which is 26,000 boe per day more than in 2003. Decreased output from fields which have passed plateau production contributed to a reduction in production on the Norwegian continental shelf (NCS) in 2004. At the same time, new fields made important contributions to the total production.

At the time of the listing in 2001, Statoil presented the demanding goal that average production in 2004 should exceed 1,120,000 boe per day. Of that, 115,000 boe was to be produced internationally. The results from last year show that the group is very close to reaching the production target for 2004. The development throughout 2004 also supports the 2007 production target of 1,400,000 boe per day. This goal means an average annual growth in total oil and gas production of eight per cent in the next three years.

At the end of 2004, remaining proven oil and gas reserves amounted to 4.3 billion boe. The reserve replacement ratio was 106 per cent, compared with 99 per cent in 2003. Over the last three years the average reserve replacement ratio has been 101 per cent, while the goal set at the listing was 100 per cent.

In order to reach the group's goal of a 12 per cent normalised return on capital employed in 2004, an extensive improvement programme was initiated. The aim was to realise cost reductions and improved earnings corresponding to NOK 3.5 billion in 2004. At the end of 2004, the overall effect of the programme was NOK 3.2 billion. Lower production growth than expected in the international activities has resulted in higher unit costs than the goals in the improvement programme. This is an important reason why the target was not reached.

The board proposes that the annual general meeting allocates a dividend of NOK 5.30 per share for 2004, as against NOK 2.95 for 2003.

Statoil's strategy is based on a sound operating philosophy, and the group has ambitious targets within health, safety and the environment (HSE). Unfortunately, three fatal accidents occurred in connection with Statoil's operations in 2004. The board stresses the importance of continuous improvement in the HSE results, and is closely following the group's work in this area.

Norway's National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has completed its investigation into the consultancy agreement Statoil entered into with Horton Investments in 2003, regarding business development in Iran. In June 2004 Økokrim concluded that Statoil was in violation section 276c, first paragraph (b) of the Norwegian general penal code provision relating to illegal influencing of foreign government officials, and issued a NOK 20 million fine against the group. In October 2004 the board resolved to accept the fine. This decision does not imply admission of guilt or denial of culpability. Statoil's board has acknowledged earlier that the consultancy agreement was not compatible with the group's ethical guidelines. The board has adopted extensive measures in order to prevent a similar situation from arising in the future.

The US Securities and Exchange Commission (SEC) is conducting its own inquiry into the consultancy agreement to determine whether any violations of US federal securities laws, including the Foreign Corrupt Practices Act (FCPA), have occurred. The US Department of Justice, together with the US prosecution authorities, is carrying out a criminal investigation of the affair. In September 2004 the SEC informed Statoil that a civil legal action was being considered for violation of US federal securities laws, included the FCPA. Statoil is cooperating with the US authorities in acquiring the necessary information for the investigation.

On 8 March 2004 Helge Lund was appointed as new chief executive. Acting chief executive Inge K Hansen stepped down on the same day. The board appointed executive vice president Erling Øverland as acting chief executive until Mr. Lund took up his new position on 16 August 2004.

---

(1) Excerpt from Statoil's Annual Report for 2004.

Changes in Statoil's markets

The global economic growth in 2003 continued in 2004, with important contributions from developments in the USA and China. Low interest rates and stimulation from the international economy also contributed to an increased growth in demand in Norway.

International economic recovery also resulted in a marked increase in the demand for energy. Together with international uncertainty and an increasing shortage of production capacity, this led to very high oil and gas prices in 2004. The average price of North Sea oil (Brent blend) in 2004 was USD 38.3 per barrel, which is an increase of USD 9.4 per barrel compared with the year before. As a result of a weaker dollar, the percentage increase in prices was somewhat less in NOK — from NOK 204 per barrel in 2003, to NOK 258 per barrel in 2004.

Gas prices also increased throughout 2004. The average realised gas price was NOK 1.10 per standard cubic metre (scm) as against NOK 1.02 in 2003. The market prospects for natural gas in Europe and the USA indicate that the gap between demand and domestic production will increase further. It is in Statoil's strategic interest to develop long-term sources to supply these markets. Cost-saving new technology and increasing demand in Europe also create opportunities for new supply chains for liquefied natural gas (LNG) from the Middle East and elsewhere.

The average refining margin (fluid catalytic cracker margin) rose from USD 4.4 per barrel in 2003 to USD 6.4 per barrel in 2004. The average contract price for methanol fell from EUR 226 per tonne in 2003 to EUR 213 in 2004.

The international economic recovery and high consumer growth also provided the basis for improved market conditions for Borealis in 2004. The average petrochemical margins for Statoil were EUR 153 per tonne in 2004, compared with EUR 119 the year before.

The increase in activity throughout the year led to pressure on capacity and prices in some market segments. This applied especially to rigs and steel. Valuable exploration and production well drilling capacity was also reduced in 2004 as a result of strikes. Norwegian industry otherwise appears to have maintained its competitiveness in the main markets in which Statoil does business.

Exploration & Production Norway

Income before financial items, other items, tax and minority interest totalled NOK 51.0 billion in 2004, as against NOK 37.9 billion in 2003. This improvement primarily reflects higher oil and gas prices.

Statoil's production from the NCS averaged 991,000 boe per day in 2004, which is the same as in 2003. While oil output from mature fields in the North Sea is declining, this is offset by new fields and increased gas production.

Safe and efficient operations are a prerequisite for maintaining production and the level of activity on the NCS in the years ahead. The board will therefore follow up developments in this area.

The further development of mature fields in the North Sea continued in 2004. The Statfjord field celebrated its 25th anniversary in November. The Statfjord late life plans were submitted to the authorities at the beginning of 2005. The Statfjord late life project will provide profitable production of oil and natural gas up to 2020.

Two new Statoil operated fields came on stream on the NCS in 2004. The Alpha North satellite on Sleipner West, which was developed as a subsea field tied back to the Sleipner T platform, began production in October. Production from Kvitebjørn commenced in September. Kvitebjørn is Statoil's first development of a field with extremely high pressure and high temperature. The gas is processed in upgraded facilities and piped to Kollsnes and Mongstad. The board is pleased that both these projects have been executed according to the schedule and budget.

Statoil's reputation as development operator is affected by profitable and efficient project development in accordance with budgets and plans. The board therefore closely follows the development of the most important projects.

Through the Snøhvit LNG project, Statoil is establishing a strategic bridgehead in the Barents Sea and in the international LNG market. New technology is being applied within several areas of this project. The complexity has been underestimated and the project was not sufficiently matured when it was sanctioned in 2001. This has led to increases totalling NOK 11.8 billion in the investment budget, which is now NOK 51.3 billion. Statoil has a

33.53 per cent stake in the project. The development of the Snøhvit LNG project is demanding and will represent uncertainty right up until the field comes on stream. Production start-up is scheduled for the autumn of 2006.

The Kristin project is characterised by extremely high reservoir pressure and high temperature. Unforeseen reservoir challenges and an adjustment to the drainage solution for the project have led to a NOK 3.6 billion increase in investment costs to NOK 20.8 billion. Statoil has a 41.6 per cent share in the Kristin project. Kristin is scheduled to come on stream in October 2005.

Statoil participated in a total of six exploration and appraisal wells on the NCS during 2004, four of which resulted in discoveries. These finds were made close to existing infrastructure. Ambitions and plans for exploration activity have been adjusted upwards as a result of the awarding of new exploration acreage, among other things. An ongoing high level of exploration activity is a prerequisite in order to fulfill Statoil's long-term ambitions for operations and production on the NCS.

The board also envisages big opportunities on the NCS in a longer perspective. Statoil's activities on the NCS are in an active period which gives cause for an ambition to maintain Statoil's production level of one million boe per day beyond 2010.

International Exploration & Production

Income before financial items, other items, tax and minority interest totalled NOK 4.2 billion in 2004, as against NOK 1.8 billion the year before. This increase primarily reflects higher oil and gas prices, and strong growth in international production.

Average international oil and gas output rose from 89,000 boe per day in 2003 to 115,000 boe per day in 2004.

Development projects in Angola provided important contributions to the positive development of production in Statoil's international exploration and production activities in 2004. Statoil's equity production from Angola rose by 70 per cent throughout the year, to around 60,000 boe per day.

Statoil is operator for the development of phases six-eight of the South Pars gas and condensate field in Iran. The technical progress for the Statoil-operated activities has been good throughout 2004. Profitability in the project has been weakened in relation to the original plans and remaining commercial challenges may have a further impact on the economy of the project.

Important steps were taken with the establishment of a new international growth area in Algeria. The agreement for the acquisition of stakes in the In Salah and In Amenas gas projects in Algeria was concluded, gas deliveries from the In Salah field commenced, Statoil was awarded operatorship for the Hassi Mouina exploration block, and Statoil's office in Algeria was officially inaugurated on 27 September in the presence of the board.

The first phase of the partner-operated Azeri-Chirag-Gunashli oilfield was completed and came on stream at the beginning of 2005. The Shah Deniz gas project in the Caspian Sea is under development, and is expected to come on stream in the second half of 2006.

Statoil's business development in Russia was intensified in 2004, with special focus on the Barents Sea.

The good international results continued in 2004. The group took part in eight exploration and appraisal wells, six of which were completed by the end of the year. Finds were made in four of the wells. Exploration activity will be stepped up further in 2005.

Statoil's international strategy has laid the basis for strong production growth. The board places emphasis on maintaining the ambitions for the group's international exploration and development operations. Commercial development will be pursued with unabated strength and contribute to Statoil's long-term growth.

Natural Gas

Income before financial items, other items, tax and minority interest totalled NOK 6.8 billion in 2004, up NOK 0.8 billion from 2003. The improvement is due to increased sales volumes and higher gas prices.

Statoil's gas sales reached a historic high in 2004, with an increase from 21.1 billion cubic metres in 2003 to 25.0 billion cubic metres last year, which represents an increase of 19 per cent. Of the total gas sales in 2004, 21.0 billion cubic metres was equity gas.

Statoil entered into a five-year contract with the Dutch energy company Essent for new annual deliveries of up to 1.4 billion cubic metres of natural gas. A one-year contract was also entered into with British Gas Trading for the delivery of one billion cubic metres in 2004/2005.

Statoil is implementing two major expansions at the Kårstø processing complex in the period 2004-2006. These projects will provide capacity to process increased gas deliveries from the Statoil operated Kristin and Kvitebjørn fields. Both projects are proceeding according to schedule and budget, but the HSE results are not satisfactory.

In 2004 Statoil established a joint venture with Conoco Phillips for the operation and maintenance of receiving terminals for Norwegian gas in Germany. This measure is part of a broader improvement programme with ambitions of achieving a 20 per cent reduction in normal operating costs by 2009.

The board is also following developments in the US gas market with interest. Last year Statoil entered into a 20-year agreement relating to the expansion of the LNG receiving terminal at Cove Point in the USA. At present there is major focus on receiving the necessary approval from the US authorities, and establishing the underlying supply chain for increased LNG export to the USA. Implementing the agreement will increase Statoil's annual supply capacity from 2.4 billion to over 10 billion cubic metres of gas.

Manufacturing & Marketing

Income before financial items, other items, tax and minority interest totalled NOK 3.9 billion in 2004, as against NOK 3.6 billion the year before. This increase is mainly due to good market conditions and high regularity for the refining area in addition to the good results achieved by the Borealis petrochemicals group. This was partly offset by the fact that Navion was no longer part of Statoil's business in 2004.

Following the acquisition of ICA/Ahold's 50 per cent interest in Statoil Detaljhandel Skandinavia AS in June 2004, Statoil now owns 100 per cent of the company. The retail activities have been consolidated into Statoil's accounts, and extensive measures are now being implemented to realise gains from a more integrated business model.

Income from other marketing activities is not satisfactory. This is chiefly due to the fact that the margins in the retailing operations are under considerable pressure. The board therefore attaches importance to intensifying the improvement work so that Manufacturing & Marketing will achieve 13 per cent normalised return on capital employed by 2007.

Borealis increased its profit considerably in 2004. This is due to improved margins in the industry as a result of consumer growth and price increases, increased volumes and good results from an extensive improvement programme. In October 2004 Borealis announced that an agreement had been entered into regarding the sale of the business in Sines in Portugal to Repsol YPF.

Technology & Projects

In September 2004 a new business area was established in order to bring together the group's technology expertise and ensure increased focus on the planning and execution of large development projects.

Due to an increasing number of development projects in Norway and internationally, the requirements to a more efficient project execution are being tightened. Focus is being specifically aimed at better planning in the early phase, parallel activities, increased standardisation and reuse, application of new technology, and closer collaboration with suppliers. The board attaches importance to this work.

Basic challenges for Statoil's technology activities include providing the conditions for efficient exploration activities, quality-oriented project development, and improved oil and gas recovery.

Statoil's results from reservoir management and improved oil recovery illustrate the potential economic value in the development and application of new technology. The board places emphasis on the importance of linking technology development closely with the group's commercial and strategic challenges.

Financial developments for the group

In 2004 total revenues for Statoil came to NOK 306.2 billion, compared with NOK 249.4 billion the year before.

Income before financial items, other items, tax and minority interest totalled NOK 65.1 billion as against NOK 48.9 billion in 2003. Net income came to NOK 24.9 billion, which is NOK 8.4 billion higher than the previous year.

Earnings per share came to NOK 11.50, as against NOK 7.64 in 2003.

Cash flow provided by operations was NOK 38.8 billion in 2004, compared with NOK 30.8 billion in 2003. This is due chiefly to higher prices and margins. Cash flow to investments in 2004 amounted to NOK 32.0 billion, as against NOK 23.2 billion in 2003.

The group's gross interest-bearing debt at 31 December 2004 was NOK 36.2 billion, as against NOK 37.3 billion in 2003. The group's debt-equity ratio, defined as net interest-bearing debt in relation to capital employed, was 19 per cent at 31 December 2004, compared with 23 per cent in 2003. The reduction is mainly due to a fall in net interest-bearing debt and an increase in capital employed.

The group had NOK 16.6 billion in bank deposits and other liquid assets at 31 December 2004, which is the same as at 31 December 2003.

At 31 December 2004, Statoil managed a portfolio of around NOK 22.5 billion in bonds, certificates and shares. Fund management by the group relates to assets in Statoil Forsikring AS (insurance), the group's liquidity reserves and Statoil's pension funds. The pension funds are not consolidated in the accounts.

Statoil uses derivative instruments to manage risks resulting from fluctuations in underlying interest rates, foreign currency exchange rates and commodity prices. Because Statoil operates in the international oil and gas markets and has significant financing requirements, it is exposed to these risks, which can affect the cost of operating, investing and financing.

The management has used and will continue to use financial and commodity-based derivative contracts to reduce the risks in overall earnings and cash flows. Derivative instruments creating essentially equal and offsetting market exposures are used to help manage some of these risks. The company also uses derivatives to establish certain positions based on market expectations although this activity is immaterial to the consolidated financial statements.

Interest and currency risks constitute significant financial risks for the Statoil group. Total exposure is managed at portfolio level in accordance with the strategies and mandates issued by the group-wide risk management programme and monitored by the corporate market risk committee. Statoil's interest rate exposure is mainly associated with the group's debt obligations and management of the assets in Statoil Forsikring AS. Statoil mainly employs interest rate swap and currency swap agreements to manage interest rate and currency exposure.

The group's financial reporting is in accordance with the US generally accepted accounting principles (US GAAP) as well as the Norwegian generally accepted accounting principles (NGAAP). Note 27 in the NGAAP accounts explains the difference between the two sets of accounts.

As required by section 3-3 of the Norwegian Accounting Act, the board confirms that the going concern assumption has been fulfilled. The accounts for 2004 have been prepared on that basis.

Net income for the Statoil ASA parent company according to NGAAP was NOK 24.7 billion in 2004.

Last year was characterised by particularly favourable market conditions and good financial results. The board concludes that this allows for an extraordinary dividend of NOK 2.10 per share. With an ordinary dividend of NOK 3.20 per share, the board proposes that the annual general meeting allocates a total dividend of NOK 5.30 per share.

The board proposes the following allocation of net income in the parent company, Statoil ASA (in NOK million):

Provisions for dividend	11,481
Retained earnings	14,551
Reserve for valuation variances	(1,286)
Total allocated	24,746

The company's distributable equity amounts to NOK 54.1 billion.

Responsible corporate governance

The board puts great emphasis on good business management. On the owner side this is addressed through the company's board of directors, the corporate assembly and the annual general meeting. The board set up a separate audit committee in 2003 and a remuneration committee in 2004.

Two new owners' representatives in Statoil's corporate assembly were elected at the annual general meeting on 5 May 2004. Since then the corporate assembly has comprised the following representatives elected by the owners: Anne Kathrine Slungård (chair), Wenche Meldahl (deputy chair), Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Anne Britt Norø, Asbjørn Rolstadås and Per-Inge Søreng. In 2004 a new representative to the corporate assembly was elected by the employees. The employee representatives in the corporate assembly are now: Arvid Færaas, Hans M Saltveit, Åse Karin Staupe and Per Helge Ødegård.

There were no changes among the owners' representatives on the Statoil board in 2004, and the board of directors still comprises the following shareholder-elected representatives: Jannik Lindbæk (chair), Kaci Kullmann Five (deputy chair), Finn A Hvistendahl, Grace Reksten Skaugen, Eli Sætersmoen and Knut Åm. Two new representatives were elected to the Statoil board by the employees in 2004. The employee-elected directors on the board are now Lill-Heidi Bakkerud, Stein Bredal and Morten Svaan.

The audit committee is a preparatory body for the board in accounting and audit matters. The committee members are Finn A Hvistendahl (chair), Morten Svaan and Eli Sætersmoen. US regulations require that Statoil reports whether one or more of the committee members is an accounting expert as defined by the US Securities and Exchange Commission. The board has concluded that Finn A Hvistendahl has the qualities of an accounting expert as defined by the SEC.

In 2004 the board set up a remuneration committee to assist the board's work in establishing the terms and conditions of employment for Statoil's chief executive, and with principles and strategy for remunerating key leaders in Statoil. The members of the remuneration committee are: Jannik Lindbæk (chair), Grace Reksten Skaugen and Knut Åm.

A new Norwegian standard for corporate governance has been published and the board will carry out a thorough assessment of these recommendations.

A sound operating philosophy

Purposeful efforts to avoid harm to people and the environment are at the heart of Statoil's management model. Unfortunately, three people were killed in connection with the group's operations in 2004 when carrying out work for suppliers in phases six-eight of the South Pars development project in Iran. In 2003 there were two fatal accidents.

On 12 July a fire broke out in the crude oil facility at Statoil's Mongstad refinery. The blaze was extinguished after two hours. Two operatives suffered minor injuries. The potential for more extensive harm was, however, considerable.

On 28 November a gas leak occurred in a well during a workover operation and led to an uncontrolled well incident on the Snorre A platform. The incident was serious, with major potential to cause harm. The gas leak did not cause a fire or explosion, and no personnel were injured. The gas flow was halted within 24 hours, but as a result of securing the well and subsequent work, production was not resumed until the end of January 2005. Measures have been initiated to prevent similar situations in the future.

Calculated per million working hours, the total recordable injury frequency (including both Statoil employees and contractors) was 5.9 in 2004, compared with 6.0 in 2003. The frequency for Statoil's own employees was reduced from 3.7 in 2003 to 2.8 in 2004, and has never been lower.

The number of lost-time injuries per million working hours has improved from 2.6 to 2.3. The number of serious incidents per million working hours in 2004 remains unchanged at 3.2. The board attaches importance to continuing unabated the ongoing work to improve safety.

A number of measures have been prepared to improve behaviour and attitudes throughout the organisation. Among the most important is the continuation of the safe behaviour programme, which covers Statoil employees and contractor personnel. The safe behaviour programme has now been extended to include the entire group, and 25,000 people are now to complete the programme.

Sickness absence fell from 3.5 per cent in 2003 to 3.2 percent in 2004. The board takes a positive view of Statoil's successful inclusive workplace (IA) work and stresses the importance of continuing it.

Statoil works continuously to reduce the rise in greenhouse gas emissions. Total carbon dioxide emissions from Statoil-operated facilities fell from 10 million tonnes in 2003 to 9.8 million tonnes in 2004. Carbon dioxide emissions of 2.4 kilograms per boe from the Kvitebjørn field make Statoil a world-leader for carbon dioxide emissions per produced unit. At the same time, the group has worked purposefully for future reductions of greenhouse gases through emission trading.

In accordance with the authorities' requirements, the group is pursuing its plan to achieve zero harmful discharges to the sea by the end of 2005. The Barents Sea has been reopened, with even stricter environmental requirements in the area. Statoil will meet these requirements, while at the same time ensuring compliance with the group's principles of zero harm to the environment and coexistence with the fishing industry.

Social commitment

The board attaches importance to the management of Statoil's operations according to the triple bottom line — economic performance, environmental impact and effect on society. Giving consideration to sustainable development and social responsibility is an important element in Statoil's management model.

In order to increase the internal awareness of sustainable development, Statoil implemented two group-wide programmes with focus on ethics and social responsibility, and safety. In the wake of the so-called Horton affair, Statoil has developed an improvement programme with special emphasis on strengthening vigilance regarding ethical and corruption-related matters. This programme includes the establishing of ethical committees in the business areas, sharpened focus on training, and more transparency in the group's procurement and decision-making processes.

In February 2005 Statoil was found guilty of violating competition regulations in Sweden in 1999 and was fined SEK 50 million. The board is satisfied that the necessary measures have been put in place to prevent similar occurrences in future.

In 2004 the group also continued the work to improve the understanding of the impact of the operations on society and the environment. Progress was made in reducing discharges to the sea, and the chief executive's HSE prize for 2004 was awarded to an interdisciplinary team comprising Statoil and contractor personnel for a project within this area. In line with Statoil's international growth, more resources were allocated to contribute to a sustainable development in the group's host communities.

The board is pleased with the recognition Statoil has received from the Dow Jones sustainability index for its work in this area. The board is convinced that good results in the triple bottom line can help to increase access to new resources in demanding areas.

Statoil is a knowledge-based company in which over half of the employees have a college or university education, and further development of expertise is important.

Twenty-seven per cent of Statoil employees are women, and equal opportunities work has an important place in the group. Of the group's managers, 26 per cent are women. The proportion of managers under the age of 45 is 35 percent. Statoil has separate development programmes for managers, and the proportion of female participants in recent years has remained stable at around 30 per cent.

Statoil has long prioritised the recruitment of female skilled workers. Women represent 18 per cent of our skilled workers. Among the newly-recruited skilled workers in 2004, 29 per cent were women. On average, the female skilled workers have a slightly lower basic salary than their male counterparts. This is due to the fact that on average the men have a longer length of service than the women.

Employees of Statoil ASA are remunerated in accordance with their position, skills and results. In the annual individual pay awards, Statoil also applies the principle of equal pay for work of equal value.

Further development of the group

Strong market positions, a focused strategy and a robust performance have played an important role in Statoil's positive development in recent years. Together with skilled employees, unambiguous values and a strong industrial and technological platform, this forms a solid basis for the further development of the group. At the same time, it is important to stress that the group's operations and strategies are adapted to the community at large and prospects that reflect considerable uncertainty.

In 2004 Statoil revised its values and leadership principles in order to make its values base clearer. The values and principles stated in the document *We in Statoil* will provide guidance for dealing with challenges and development of customer relations. Overall, this will help to strengthen Statoil's competitive position.

A dynamic environment and tougher international competition highlight the importance of a solid foundation for leadership and control. The board attaches importance to ensuring that results and performance in the short and medium term remain high on the management's agenda at all times. Purposeful development of the organisation and leadership are also important in order to meet the group's long-term objectives. At the same time, Statoil's reputation must be maintained through good relations between the group and the rest of society.

A review of the business plan and strategy in the autumn of 2004 concluded in adjusting operational and financial targets for 2007. Statoil's oil and gas output will be increased to 1.4 million boe per day. This means an average annual production growth of eight per cent in the next three-year period. The 2007 goal for normalised return on capital employed is 13 per cent. The board emphasises that this represents a competitive combination of growth and return on capital employed in the short and medium term.

Statoil's strategy aims to achieve long-term profitable growth. The production profile is being actively adapted in order to ensure a long-term development of the group. It is necessary to revitalise the NCS in order to secure the current level of production for as long as possible. It will also be important to develop existing and new positions in order to continue the growth in international production beyond 2007.

Organic growth will remain central to the further development of the group. At the same time, Statoil is facing considerable changes in the industrial arena, with tougher competition for limited oil and gas resources. The board will therefore continuously assess non-organic measures. A prerequisite for such initiatives is that they underpin the group's strategy, while contributing to value creation for the group's owners.

The board emphasises that the results achieved in 2004 provide a good point of departure for the further development of the group. The ambitions have been stepped up, the objectives have been raised and a new improvement programme has been initiated. Experiences with performance management in Statoil are good, and the system will be continued. Statoil is therefore in a good position to assert itself amid intensified international competition.

Oslo, 9 March 2005

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL	LILL-HEIDI BAKKERUD	MORTEN SVAAN
KACI KULLMANN FIVE DEPUTY CHAIR	FINN AHVISTENDAHL	GRACE RSKAUGEN
ELI SÆTERSMOEN	KNUT ÅM	HELGE LUND PRESIDENT AND CEO

Directors' Biographies

Jannik Lindbæk, chair

Jannik Lindbæk (born 1939) has been chair of the board of directors since November 2003.

From 1976 to 1985 he was president and CEO of Storebrand. He then became chief executive of the Nordic Investment Bank. From 1994 he was executive vice president of the International Finance Corporation, a subsidiary of the World Bank Group. Jannik Lindbæk has been chair of the board in Gaz de France Norge, Saga Petroleum and Den norske Bank.

He is currently chair of the board of the Bergen International Festival and Transparency International Norway, and deputy chair of DnB NOR.

Kaci Kullmann Five, deputy chair

Kaci Kullmann Five (born 1951) was elected to the board in August 2002. She was acting chair in the period 29 September-1 November 2003, and has been deputy chair since then. Ms Five is a public affairs consultant. She was a member of the Norwegian parliament from 1981 to 1997, which included a period as minister for trade and shipping as minister for trade and shipping from 1989 to 1990. Ms Five was head of the Norwegian Conservative Party from 1991 to 1994. She is also a member of the Norwegian Nobel Committee.

Knut Åm

Knut Åm (born 1944) was elected to the board in April 1999 and re-elected in June 2002. He has a degree in geological and geophysical engineering from the Norwegian University of Science and Technology and is currently an independent technology and business development consultant. Mr Åm was formerly a senior vice president in Phillips Petroleum, with responsibility for exploration and production.

He has previously held positions in the Geological Survey of Norway, the Norwegian Petroleum Directorate and Statoil, and he has been adjunct professor of geophysics at the University of Bergen.

Finn A Hvistendahl

Finn A Hvistendahl (born 1942) was elected to the board in April 1999 and re-elected in May 2002. He has a degree in industrial chemistry from the Norwegian University of Science and Technology and is currently a business development consultant. Mr Hvistendahl has previously held senior positions in Norsk Hydro, and he was chief executive of Den norske Bank. He is chair of the board of directors of the Financial Supervisory Authority of Norway (*Kredittilsynet*) and a director of Dyno Nobel.

Grace R Skaugen

Grace R Skaugen (born 1953) was elected to the board in June 2002. She has a PhD in laser physics from the Imperial College of Science and Technology, London University, and an MBA from the Norwegian School of Management. She did postdoctoral research in the field of microeletronics at Columbia University in New York. Ms Skaugen is an independent consultant. She has previously been a director of corporate finance at Enskilda Securities, Oslo. She is a director on the boards of a number of companies, including Storebrand and Atlas Copco (Sweden).

Stein Bredal

Stein Bredal (born 1950) joined the board as an employee-elected director in April 2000, and was re-elected in June 2002. He is a materials coordinator on the Gullfaks field and has worked for Statoil since 1985. Mr. Bredal is convenor for the Confederation of Vocational Unions (YS).

Eli Sætersmoen

Eli Sætersmoen (born 1964) was elected to the board in June 2002. She has a degree in petroleum technology from the Norwegian University of Science and Technology. Ms Sætersmoen is an independent business development and strategy consultant. She was previously chief financial officer and executive vice president in the Selvaag Group in Oslo, and has held positions in Cell Network, Orkla Securities, GE-Capital in London, McKinsey and Norsk Hydro.

Lill-Heidi Bakkerud

Lill-Heidi Bakkerud (born 1963) joined the board as an employee-elected director in June 2004. She has also served in this position in an earlier period. Ms Bakkerud is a full-time union official for the Norwegian Oil and Petrochemical Workers Union (Nopef). She is a qualified process/chemistry technician and has previously worked at the petrochemical complex in Bamble, south of Oslo, and on the Gullfaks field.

Morten Svaan

Morten Svaan (born 1956) joined the board as an employee-elected director in June 2004. He has been convenor for the Norwegian Society of Chartered Technical and Scientific Professionals (Nif/Tekna) from 2000 to 2004. Mr. Svaan has a PhD from the Norwegian University of Science and Technology and a bachelor degree in business from the Norwegian School of Management. He has worked for Statoil since 1985 and is currently a project manager within health, safety and the environment in the Technology & Projects business area.

STATEMENTS OF INCOME STATOIL ASA — NGAAP

(in NOK million)	Note	For the year ended December 31, 2004	2003
REVENUES			
Sales		**272,780**	218,970
Equity in net income of subsidiaries	8	**8,118**	4,737
Equity in net income of affiliates	8	**111**	300
Other income	4	**886**	658
Total revenues		**281,895**	224,665
EXPENSES			
Cost of goods sold		**(175,762)**	(134,909)
Operating expenses	3	**(24,959)**	(23,191)
Selling, general and administrative expenses	3	**(2,760)**	(2,972)
Depreciation, depletion and amortization	10	**(13,458)**	(13,037)
Exploration expenses	10	**(1,102)**	(1,656)
Total expenses before financial items		**(218,041)**	(175,765)
Income before financial items, other items and income taxes		**63,854**	48,900
Net financial items	12	**5,379**	48
Other items	2	**0**	(6,025)
Income before income taxes		**69,233**	42,923
Income taxes	13	**(44,487)**	(25,859)
Net income		**24,746**	17,064
Allocations			
Group Contribution		2,640	915
Tax on group contribution		(739)	(256)
Dividend		11,481	6,390
Change in Reserve for valuation variances		(1,286)	3,637

BALANCE SHEETS STATOIL ASA — NGAAP

(in NOK million)	Note	At December 31, 2004	2003
ASSETS			
Net property, plant and equipment	10	**97,372**	90,161
Other long-term receivables	17, 22	**4,760**	4,951
Long-term receivables from subsidiaries		**0**	458
Long-term investments	8	**77**	310
Investments in subsidiaries	8	**90,343**	69,980
Investments in affiliates	8	**1,288**	2,566
Total non-current assets		**193,840**	168,426
Inventories	7	**3,231**	2,439
Accounts receivable	11	**20,427**	20,823
Accounts receivable — related parties	22	**76**	150
Short-term receivables from subsidiaries		**5,078**	4,252
Prepaid expenses and other current assets	17	**4,465**	2,665
Total inventories and accounts receivables		**33,277**	30,329
Short-term investments	9	**11,457**	9,196
Cash and cash equivalents	1	**1,162**	3,020
Cash, cash equivalents and short-term investments		**12,619**	12,216
Total current assets		**45,896**	42,545
TOTAL ASSETS		**239,736**	210,971
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,1 89,585,600 shares authorized and issued		**5,474**	5,474
Treasury shares, 23,452,876 shares and 23,441,885 shares	25	**(60)**	(59)
Additional paid-in capital		**12,421**	12,418
Paid-in capital		**17,835**	17,833
Reserve for valuation variances		**2,351**	3,637
Retained earnings		**54,108**	43,121
Total equity		**74,294**	64,591
Deferred income taxes	13	**37,295**	31,037
Other liabilities	17, 18	**21,866**	18,015
Long-term debt to subsidiaries		**2,056**	4,628
Long-term debt	15	**21,938**	24,103
Total long-term liabilities		**83,155**	77,783
Short-term debt	14	**6,777**	4,797
Accounts payable		**18,973**	13,921
Accounts payable — related parties	22	**552**	6,049
Short-term payable to subsidiaries		**19,358**	14,130
Withheld, excise and other taxes		**1,699**	1,914
Income taxes payable	13	**18,619**	17,166
Accrued liabilities		**4,828**	4,230
Dividend payable		**11,481**	6,390
Total current liabilities		**82,287**	68,597
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**239,736**	210,971

STATEMENTS OF CASH FLOW STATOIL ASA — NGAAP

(in NOK million)	For the year ended December 31, 2004	2003
OPERATING ACTIVITIES		
Net income	**24,746**	17,064
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	**13,458**	13,037
Exploration expenditures written off	**61**	256
(Gains) losses on foreign currency transactions	**(1,892)**	(606)
Deferred taxes	**5,012**	(7,026)
(Gains) losses on sales of assets and other items	**(3,752)**	803
Changes in working capital (other than cash):		
— (Increase) decrease in inventories	**(792)**	804
— (Increase) decrease in accounts receivable	**(356)**	12,751
— (Increase) decrease in prepaid expenses and other current assets	**(2,798)**	(1,411)
— (Increase) decrease in short-term investments	**(2,261)**	(7,540)
— Increase (decrease) in accounts payable	**(1,343)**	(5,817)
— Increase (decrease) in other payables	**4,940**	6,852
— Increase (decrease) in taxes payable	**2,192**	(751)
Increase (decrease) in other non-current obligations	**1,810**	1,147
Cash flows provided by operating activities	**39,025**	29,563
INVESTING ACTIVITIES		
Net cash flows used in investing activities	**(32,549)**	(18,764)
FINANCING ACTIVITIES		
New long-term borrowings	**3,461**	3,201
Repayment of long-term borrowings	**(7,021)**	(2,695)
Ordinary dividend paid	**(6,390)**	(6,282)
Net short-term borrowings, bank overdrafts and other	**1,616**	(2,227)
Cash flows used in financing activities	**(8,334)**	(8,003)
Net increase (decrease) in cash and cash equivalents	**(1,858)**	2,796
Cash and cash equivalents at the beginning of the year	**3,020**	224
Cash and cash equivalents at the end of the year	**1,162**	3,020
Interest paid	933	1,134
Taxes paid	37,135	33,379

1. ORGANIZATION AND BASIS OF PRESENTATION

Statoil ASA was founded in 1972, as a 100 percent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 percent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipeline and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfer of properties from SDFI has been accounted for as transactions among entities under common control and the results of operations and financial position have been, with effect from June 1, 2001, accounted for at historical cost. The net book values of the acquired oil and gas properties, and the cash settlement, have been reported as capital contribution and dividend, respectively. The final cash settlement is under review by the Norwegian State, and Statoil has in 2004 recorded its estimated outcome against shareholders' equity. No further material impact is expected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statement of Statoil ASA are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) and uses the same accounting principle as the group. Shareholdings and interests in subsidiaries and affiliates are recorded using the equity method. For a description of other accounting policies, reference is made to note 2 of the NGAAP group accounts.

Certain reclassifications have been made to prior years' figures to be consistent with current year's presentation.

An overview of oil and gas reserves is shown in note 28 of the NGAAP group accounts.

3. REMUNERATION

Total payroll costs is included in Operating expenses and Selling, general and administrative expenses as follows:

	For the year ended December 31,	
(in NOK million, except number of work-years	**2004**	**2003**
Salaries	7,595	7,388
Payroll taxes	1,346	1,264
Other social benefits (included pension cost)	1,988	1,523
Total payroll costs	10,929	10,175
Number of work-years at December 31	10,813	10,643

Payroll costs are partly charged to partners of Statoil-operated activities.

At December 31, 2004 loans to employees amounted to NOK 556 million. In addition, Statoil ASA has guaranteed for bank loans for employees totaling maximum NOK 10 million.

Total remuneration of NOK 533,000 was paid to the members of the corporate assembly and NOK 2,068,000 to the board of directors.

In 2004 Statoil ASA has had three chief executive officers (CEO). The former acting CEO Inge Hansen received NOK 2,119,000 in salary and other remuneration (including performance pay for the year 2003, vacation pay and pension premium paid) until his resignation on March 8, 2004. The former acting CEO Erling Øverland received NOK 2,389,000 in salary and other remuneration (including performance pay for the year 2003, vacation pay and pension premium paid) from March 8 until his temporary position ended on August 16, 2004.

CEO Helge Lund took office on August 16, 2004 and has received NOK 1,936,000 in salary and other remuneration (including pension premium paid) in 2004. According to his contract, Helge Lund is entitled to severance pay equivalent to two annual salaries, excluding term of notice of six months, when the resignation is a request from the board. In addition, Helge Lund is entitled, under specific terms, to a pension amounting to 66 percent of pensionable salary after reaching the age of 62. The full service period is 15 years and the benefits are independent of any future changes in National Insurance (Folketrygden). Based on performance, the board will assess a performance payment for Helge Lund. This payment may amount to a maximum of 30 percent of base salary. The first assessment related to performance payment for Helge Lund, will take place in January 2006, for the year 2005.

A performance pay system has also been established for the other members of the corporate executive committee, senior vice presidents and vice presidents. This entails a variable remuneration based on pre-determined goals. The scheme allows for a bonus of 10 percent of base salary on achieving set goals, with a ceiling of 20 percent for results that clearly exceed these goals.

If resigning at the request of the company, members of the corporate executive committee, other than the CEO, are on a general basis entitled to severance pay equivalent to 12 months salary, including term of notice. The pension rights follow the general system in Statoil ASA. Executive vice president Peter Mellbye is entitled to severance pay including term of notice equivalent to 24 months salary, if resigning at the request of the company. Peter Mellbye is entitled, under specific terms, to a pension after reaching the age of 60. The pension will amount to 66 percent of the pensionable salary.

Executive vice presidents, Eldar Sætre and Terje Overvik, have interest-free loans of NOK 202,000 and 305,000 respectively. These loans have been approved with a repayment period of 10 years.

For information regarding shares owned by the corporate executive committee, the board of directors and the corporate assembly refer to note 23.

4. SIGNIFICANT ACQUISITIONS AND DISPOSITIONS

Effective January 1, 2003 and in relation to the Statoil group's sale of Navion ASA, Statoil ASA sold its 80 percent shareholding in Navion ASA to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation. The operations of Navion were shuttle tanking and conventional shipping. The profit and loss effect from the sale in Statoil ASA's books was a gain of NOK 0.5 billion before tax.

In January 2004 Statoil acquired 11.24 percent of the Snøhvit field, of which 10 percent from Norsk Hydro and 1.24 percent from Svenska Petroleum. Following these transactions, Statoil has an ownership share of 33.53 percent in the Snøhvit field.

In January 2004 Statoil sold its 5.26 percent shareholding in the German company Verbundnetz Gas, generating a gain of NOK 619 million before tax (NOK 446 million after tax). The gain has been classified as Other income in the Statements of Income.

Statoil has acquired the retailer group ICA's 50 percent holding in Statoil Detaljhandel Skandinavia AS (SDS), and now owns 100 percent of SDS. Following approval under the EU merger control regulations on July 1, the transaction was completed on July 8, 2004.

5. ASSET IMPAIRMENT

There have been no material write-downs of properties owned by Statoil ASA in 2004 or 2003.

6. PROVISON FOR RIG RENTAL CONTRACTS

Statoil provides for estimated losses on long-term fixed price rental agreements for mobile drilling rigs. The losses are calculated as the difference between estimated market rates and the fixed price rental agreements.

(in NOK million)	2004	2003
Provision at January 1	1,360	960
Increase (decrease) during the year	(702)	454
Cost incurred during the year	(298)	(54)
Provision at December 31	360	1,360

7. INVENTORIES

Inventories are valued at the lower of cost or market determined under the first-in, first-out method.

	At December 31,	
(in NOK million)	2004	2003
Crude oil	1,754	1,347
Petroleum products	885	595
Other	592	497
Total inventories	3,231	2,439

8. SHARES AND LONG-TERM INVESTMENTS

Subsidiaries and affiliates by equity method

(in NOK million)	Subsidiaries	Affiliates
Investment at January 1, 2004	69,980	2,566
Net income subsidiaries and affiliates	8,118	111
Translation adjustment	(3,120)	14
Change in paid-in equity	17,783	(1,182)
Group contribution (after tax)	1,901	0
Ordinary dividend	(4,319)	(221)
Investment at December 31, 2004	90,343	1,288

Ownership in certain subsidiaries in per cent

AS Eesti Statoil	100
Latvija Statoil SIA	100
Offshore Technology AS	100
Offtech Invest AS	100
P/F Statoil Føroyar	100
SDS Holdmg AS	100
Statholding AS	100
Statoil AB	100
Statoil Angola Block 15 AS	100
Statoil Angola Block 17 AS	100
Statoil Angola AS	100
Statoil Apsheron AS	100
Statoil Asia Pacific Pte. Ltd.	100
Statoil Azerbaijan Alov AS	100
Statoil Azerbaijan AS	100
Statoil BTC Finance AS	100
Statoil Coordination Center N.V.	100
Statoil Danmark A/S	100
Statoil Detaljhandel Skandinavia AS*	50
Statoil Deutschland GmbH	100
Statoil do Brasil Ltda	100
Statoil Dublin Bay AS	100
Statoil Exploration Ireland Ltd	100
Statoil Forsikring AS	100
Statoil Innovation AS	100
Statoil Iran AS	100
Statoil Ireland Ltd	100
Statoil Kazakstan AS	100
Statoil Latin America AS	100
Statoil Marine Holding AS	100
Statoil Nigeria AS	100
Statoil Nigeria Deep Water AS	100
Statoil Norge AS	100
Statoil North Africa Gas AS	100
Statoil North Africa Oil AS	100
Statoil North America Inc.	100
Statoil Orient Inc	100
Statoil Pernis Invest AS	100
Statoil Plataforma Deltana AS	100
Statoil Russia AS	100
Statoil Sincor AS	100
Statoil UK Ltd	100
Statoil Venezuela AS	100
UAB Lietuva Statoil	100
Statoil Metanol ANS	82
Mongstad Refining DA	79
Statoil Mongstad Terminal DA	65
Tjeldbergodden Luftgassfabrikk DA	51

* The remaining shares in Statoil Detaljhandel Skandinavia AS are owned by SDS Holding AS.

Voiting rights correspond to ownership interests.

Ownership in certain equity method affiliates

Nova Naturgas AB	30%
Vestprosess DA	17%
Etanor DA	16%

9. INVESTMENTS

(in NOK million)	At December 31, 2004	2003
Short-term deposits	8	1,310
Certificates	9,693	7,846
Liquidity Fund	1,662	0
Other	94	40
Total short-term investments	11,457	9,196

The cost price of short-term investments is NOK 11,712 million and NOK 9,166 million as at year-end 2004 and 2003, respectively.

All short-term investments are considered held for trading and are recorded at fair value with unrealized gains and losses included in income.

10. PROPERTY, PLANT AND EQUIPMENT

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Production plants onshore	Buildings and land	Vessel	Construction in progress	Capitalized exploration expenditures	Total
Cost at January 1, 2004	2,087	216,947	4,245	2,460	107	12,511	1,768	240,125
Additions and transfers	305	14,652	35	91	0	7,368	(579)	21,872
Disposal at cost	(1)	(261)	0	(18)	0	(858)	(9)	(1,147)
Expensed exploration expenditures capitalized earlier years	0	0	0	0	0	0	(61)	(61)
Accumulated depreciation, depletion and amortization	(1,916)	(157,553)	(2,928)	(955)	(91)	0	0	(163,443)
Net property, plant and equipment at December 31, 2004	475	73,785	1,352	1,578	16	19,021	1,119	97,346
Other intangible assets								26
Book value at December 31, 2004								97,372
Depreciation, depletion and amortization for the year	328	12,903	157	65	5	0	0	13,458
Estimated useful life (years)	5-10	*	15-20	20-25	20-25			

* Depreciation according to Unit of production, see note 2.

The book value of vessels consist of financial leases. In 2004 and 2003 NOK 452 million and NOK 275 million respectively, of interests were capitalized.

Exploration expenditures

(in NOK million)	2004	2003
Incurred during the year	1,417	1,506
Capitalized share of current year's exploration activity	(376)	(106)
Expensed, previously capitalized exploration expenditures	61	256
Expensed during the year	1,102	1,656

11. PROVISIONS

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past two years are as follows:

(in NOK million)	Balance at January 1,	Expense	Recovery	Write-off	Balance at December 31,
Year 2004					
Provisions against accounts receivable	44	0	(5)	0	39
Year 2003					
Provisions against accounts receivable	44	0	0	0	44

12. FINANCIAL ITEMS

(in NOK million)	For the year ended December 31, 2004	2003
Dividends received	5	36
Gain (loss) on sale of securities	(280)	52
Interest and other financial income	527	726
Currency exchange adjustments, short-term items	3,390	521
Currency exchange adjustments, long-term items	2,839	71
Interest and other financial expenses	(1,554)	(1,633)
Capitalized interest	452	275
Net financial items	5,379	48

13. INCOME TAXES

Income tax expense consists of

(in NOK million)	For the year ended December 31, 2004	2003
Current taxes payable	39,475	32,885
Change in deferred tax[1)]	5,012	(314)
Change in deferred tax due to new legislation (see note 2 to the Consolidated Financial Statement)	0	(6,712)
Income tax expense	44,487	25,859
Uplift benefits for the year	3,793	3,738

1) Due to changes in Norwegian tax legislation in 2004, dividend from companies, with some exceptions, will not be taxable in Norway. Consequently, NOK 1.4 billion in deferred taxes related to retained earnings in subsidiaries and affiliates have been reversed in 2004.

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. This stipulates a surtax of 50 per cent after deducting uplift, a special investment tax credit, in addition to normal corporate taxation. Uplift credits are deducted as they arise, 5 per cent each year for six years, as from initial year of investment. Uplift credits not utilized of NOK 9.9 billion can be carried forward indefinitely.

Significant components of deferred income tax liability

(in NOK million)	For the year ended December 31, 2004	2003
Decommissioning	9,709	11,801
Other	3,028	2,671
Total deferred tax assets	12,737	14,472
Property, plant and equipment	40,756	37,176
Capitalized exploration expenditures and interest	7,407	7,338
Other	1,869	995
Total deferred tax liabilities	50,032	45,509
Net deferred tax liability	37,295	31,037

Income taxes payable in the balance sheet consists of the following

(in NOK million)	2004
Current tax in the income statement	39,475
Taxes paid in installments	(20,000)
Current tax on group contribution	(739)
Other	(117)
Income taxes payable at December 31	18,619

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2004
Deferred income tax liability at January 1	31,037
Charged to the income statement (see footnote 1 above)	5,012
Acquisitions, sales and other	1,246
Deferred income tax liability at December 31	37,295

14. SHORT-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2004	2003
Bank loans and overdraft facilities	1,518	10
Current portion of long-term debt	2,156	3,029
Margin call	2,995	1,758
Other	108	0
Total	6,777	4,797
Weighted average interest rate (per cent)	4.03	3.39

15. LONG-TERM INTEREST-BEARING DEBT

(in NOK million)	At December 31, 2004	2003
Unsecured debentures bonds		
US dollar (USD)	23,379	24,835
Euro (EUR)	214	729
Other currencies	12	18
Total	23,605	25,582
Other debt	489	1,550
Grand total debt outstanding	24,094	27,132
Less current portion	(2,156)	(3,029)
Total long-term debt	21,938	24,103
Weighted average interest rate (per cent)	5.03	4.14

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 per cent, maturing in 2028, callable at par upon change in tax law. At December 31, 2004 and 2003, NOK 2,981 million and NOK 3,293 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 per cent, maturing in 2011. At December 31, 2004 and 2003, NOK 4,081 million and NOK 4,166 million were outstanding, respectively. EUR 200 million of the bond has been swapped through an interest rate swap agreement to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2004 and 2003, NOK 2,252 million and NOK 2,486 million were outstanding, respectively. Net after buyback this amounts to NOK 1,955 million and NOK 2,156 million at year-end exchange rates.

In 2004 Statoil issued USD 500 million of unsecured bonds with a fixed interest rate of 5.125 per cent maturing in 2014. At December 31, 2004 NOK 3,017 million were outstanding. The interest rate has been swapped to a LIBOR-based floating interest rate.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Parent company guarantee commitments concerning Statoil's secured bank loans amount to USD 108 million.

Statoil has 23 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are net after buyback at the December 31, 2004 closing rate valued at NOK 24,760 million.

Reimbursements of long-term debt fall due as follows:

(in NOK million)	
2005	2,156
2006	923
2007	1,539
2008	1,563
2009	2,777
Thereafter	15,136
Total	24,094

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totalling USD 2.0 billion, all undrawn. Commitment fee is 0.058 per cent per annum.

As of December 31, 2004 and 2003 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. FINANCIAL INSTRUMENTS AND DERIVATIVES

Statoil ASA's exposure to and management of commodity risk, interest and currency risk and market risk for financial investments in equity and debt securities is akin to the exposure to and management of risks in the Statoil group. The combined use of commodity based derivatives and financial instruments is an integral part of the risk management process and is common for group entities. Reference is made to note 16 in the consolidated accounts for a more detailed description of risks and the use of derivatives.

Interest rate and currency risks constitute the most important financial risks for Statoil. Total exposure is managed at portfolio level in accordance with the strategies and mandates adopted. Interest rate risk, currency risk and share risk are assessed against mandates and based on a scenario of 10 per cent currency devaluation, one percentage point change in interest rates and 10 per cent change in share prices. The table below illustrates an uncorrelated loss scenario.

	At December 31,	
(in NOK million)	**2004**	**2003**
Currency risk	5,283	3,602
Share risk	0	0
Interest rate risk	454	561

17. EMPLOYEE RETIREMENT PLANS

Pension benefits

The company has defined benefit retirement plans. Plan benefits are generally based on years of service and final salary levels. The retirement plans are covered by Statoil's pension funds. These funds are organized as independent trusts. The major part of their assets are invested in Norwegian and foreign bonds and shares, as well as real estate in Norway.

Net periodic pension cost

	For the year ended December 31,	
(in NOK million)	**2004**	**2003**
Benefit earned during the year	973	780
Interest cost on prior period benefit obligation	837	683
Expected return on plan assets	(811)	(734)
Amortization of loss/prior service cost	185	67
Total net pension cost	1,184	796

Change in projected benefit obligation (PBO)

(in NOK million)	**2004**	**2003**
Projected benefit obligation at January 1	15,347	10,995
Benefits earned during the year	973	780
Interest cost on prior period benefit obligation	837	683
Actuarial gain (loss)	(492)	3,119
Benefits paid	(255)	(230)
Projected benefit obligation at December 31	16,410	15,347

Change in pension plan assets

(in NOK million)	2004	2003
Fair value of plan assets at January 1	13,231	10,871
Actual return on plan assets	966	1,454
Company contributions*	1,054	1,005
Benefits paid	(119)	(99)
Fair value of plan assets at December 31	15,132	13,231

* Include paid-up policies transferred from external companies

Status of pension plans reconciled to Balance Sheets

(in NOK million)	2004	2003
Funded status of the plans at December 31	(1,278)	(2,116)
Unrecognized net loss	2,318	3,773
Unrecognized prior service cost	266	299
Total net prepaid pension recognized at December 31	1,306	1,956
Amounts recognized in the Balance Sheets:		
Prepaid pension	4,416	4,644
Accrued pension liabilities	(3,110)	(2,688)
Total at December 31	1,306	1,956
Weighted-average assumptions for the year ended December 31 (Profit and Loss items)		
Discount rate	5.5%	6.0%
Expected return on plan assets	6.0%	6.5%
Rate of compensation increase	3.5%	3.0%
Weighted-average assumptions at December 31 (Balance Sheet items)		
Discount rate	5.5%	5.5%
Expected return on plan assets	6.5%	6.0%
Rate of compensation increase	3.5%	3.5%

18. DECOMMISSIONING AND REMOVAL LIABILITIES

The asset retirement obligation (ARO) is related to future well closure-, decommissioning- and removal costs. The accretion expense is classified as Operating expenses.

(in NOK million)	2004	2003
Asset retirement obligation at January 1	15,171	13,954
Liabilities incurred/revision in estimates	1,424	782
Accretion expense	715	491
Disposals	(22)	0
Incurred removal cost	(76)	(56)
Asset retirement obligation at December 31	17,212	15,171
Long-lived assets related to ARO at January 1	2,352	2,087
Net assets incurred/revision in estimates	1,380	782
Depreciation	(721)	(517)
Long-lived assets related to ARO at December 31	3,011	2,352

19. RESEARCH AND DEVELOPMENT EXPENDITURES

Research and Development (R&D) expenditures were NOK 994 million and NOK 971 million in 2004 and 2003, respectively. R&D expenditures are partly financed by partners of Statoil-operated activities.

20. LEASES

Statoil leases certain assets, notably shipping vessels and drilling rigs.

Rental expense was NOK 4,094 million and NOK 4,088 million in 2004 and 2003, respectively.

The information in the table below shows future minimum lease payments under non-cancelable leases at December 31, 2004. In addition, Statoil has entered into subleases of certain assets amounting to a total future rental income of NOK 1,277 million, of which NOK 534 million for 2005.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. The main contracts expire in 2007 or later, up until the end of respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Amounts related to capital leases include future lease payments for assets in the books at year-end 2004.

(in NOK million)	Operational leases	Capital leases
2005	2,693	16
2006	1,372	16
2007	391	16
2008	359	0
2009	330	0
Thereafter	1,626	0
Total future lease payments	6,771	48
Interest component		(8)
Net present value		40

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2004 and 2003:

(in NOK million)	At December 31, 2004	At December 31, 2003
Vessel	107	107
Accumulated depreciation	(91)	(86)
Net	16	21

21. OTHER COMMITMENTS AND CONTINGENCIES

Contractual commitments

(in NOK million)	In 2005	Thereafter	Total
Contractual commitments related to investments and property, plant and equipment	5,691	5,537	11,228

These contractual commitments mainly comprise construction and acquisition of property, plant and equipment.

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to pay for booked capacity. In addition the Company has entered into certain processing and storage capacity commitments. The following table outlines nominal minimum obligations for future years. Corresponding expense for 2004 was NOK 3,082 million. Obligations payable by the Company to affiliates are included gross in the table below. Where the Company however reflects both ownership interests and transport capacity cost for a pipeline in the accounts, the amounts in the table include the transport commitments that exceed Statoil's pipeline ownership share.

Transport capacity and other obligations at December 31, 2004:

(in NOK million)	
2005	3,563
2006	3,595
2007	3,262
2008	3,327
2009	3,352
Thereafter	23,445
Total	40,544

Guarantees

In 2004 Statoil has entered into guarantee commitments for financing of the development of the BTC pipeline. At year-end 2004 these guarantee commitments amount to USD 110 million (NOK 0.66 billion). In addition, the Company has provided other third party guarantees which are immaterial at year-end 2004.

The Company has provided parent company guarantees to Statoil Forsikring AS and to subsidiaries with operations in Belgium, Sweden, Angola, Brazil, Venezuela, Azerbaijan, Great Britain, Ireland, Iran, Algeria, the Faroe Islands, South Africa and USA. The Company has also counter-guaranteed certain bank guarantees to subsidiaries in Brazil, Algeria and Venezuela.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about USD 0.8 billion (NOK 4.8 billion) for each incident, including liability for claims a rising from pollution damage. Most of Statoil's production installations are covered through Statoil Forsikring AS, which reinsures a major part of the risk in the international insurance market. About 29 per cent is retained.

Other commitments and contingencies

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2004, Statoil was committed to participate in 13 wells off Norway, with an average ownership interest of approximately 49 per cent. Statoil's share of estimated expenditures to drill these wells amounts to approximately NOK 1.2 billion. Additional wells that Statoil may become commited to participate in depending on future discoveries in certain licences are not included in these numbers.

During the normal course of its business Statoil is involved in legal proceedings, and several unresolved claims are currently outstanding. The ultimate liability in respect of litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that either the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has conducted an investigation concerning an agreement which Statoil entered into in 2002 with Horton Investments Ltd for consultancy services in Iran. On June 28, 2004 Økokrim informed Statoil that it had concluded that Statoil violated section 276c, first paragraph (b) of the Norwegian Penal Code, which became effective from July 4, 2003 and prohibits conferring on or offering to a middleman an improper advantage in return for exercising his influence with a decision-maker, without the decision-maker receiving any advantage, and imposed a penalty on Statoil of NOK 20 million. The Board of Statoil ASA decided on October 14, 2004 to accept the penalty without admitting or denying the charges by Økokrim.

The U.S. Securities and Exchange Commission (SEC) is also conducting a formal investigation into the Horton consultancy arrangement to determine if there have been any violations of U.S. federal securities laws, including the Foreign Corrupt Practices Act. The U.S. Department of Justice is conducting a criminal investigation of the Horton matter jointly with the Office of the United States Attorney for the Southern District of New York. The SEC Staff informed Statoil on September 24, 2004 that it is considering recommending that the SEC authorize a civil enforcement action in federal court against Statoil for violations of various U.S. federal securities laws, including the anti-bribery and books and records provisions of the Foreign Corrupt Practices Act. Statoil is continuing to provide information to the U.S. authorities to assist them in their ongoing investigations.

Iranian authorities have been carrying out inquiries into the matter. In April 2004 the Iranian Consultative Assembly initiated an official probe into allegations of corruption in connection with the Horton matter with Iran. The probe was finalized for the parliamentary session at the end of May. It was reported in the international press that at such time no evidence of wrongdoing by the subjects of the probe in Iran had been revealed by the probe.

22. RELATED PARTIES

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 81,487 million (319 million barrels oil equivalents) and NOK 68,479 million (336 million barrels oil equivalents) in 2004 and 2003, respectively. Purchases of natural gas from Norwegian State amounted to NOK 237 million and NOK 255 million in 2004 and 2003, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable — related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the purchased from the Norwegian State are estimated market prices.

Statoil is, in its own name, but for the Norwegian State's account and risk, selling the State's natural gas production. This sale, as well as related expenditures refunded by the State, is shown net in Statoil's Financial Statements. Refunds include expenses incurred related to activities and investments necessary to obtain market access and to optimize the profit from sale of natural gas.

23. EQUITY AND SHAREHOLDERS

Change in equity

(in NOK million)	2004	2003
Shareholders' equity January 1	64,591	51,033
Net income	24,746	17,064
Ordinary dividend	(11,481)	(6,390)
Settlement with the Norwegian state related to SDFI properties (see note 1)	(458)	0
Treasury shares bought	(1)	0
Value of stock compensation plan	3	0
Foreign currency translation adjustment	(3,106)	2,884
Shareholders' equity December 31	74,294	64,591

Common stock

	Number of shares	Par Value	Common stock
Authorized and issued	2,189,585,600	2.50	5,473,964,000
Treasury shares	(23,452,876)	2.50	(58,632,190)
Total outstanding shares	2,166,132,724	2.50	5,415,331,810

There exists only one class of shares and all shares have voting rights.

In 2001, 25,000,000 treasury shares were issued. During 2002 and 2003 a number of 1,558,115 of the treasury shares were distributed as bonus shares in favor of retail investors in the initial public offering in 2001. Distribution of treasury shares requires approval by the general meeting.

The board of directors is authorized on behalf of the company to acquire Statoil shares in the market. The authorization may be used to acquire Statoil shares with an overall nominal value of up to NOK 10 million. The board will decide the manner in which the acquisition of Statoil shares in the market will take place. Such shares acquired in accordance with the authorization may only be used for sale and transfer to employees of the Statoil group as part of the group's share investment plan approved by the board. The lowest amount which may be paid per share is the nominal value; the highest amount which may be paid per share is a maximum of 50 times the nominal value. The authorization will apply until November 2005. As per December 31, 2004 Statoil has 10,991 shares according to this authorization.

	The 20 largest shareholders at December 31, 2004	(per cent)
1	DEN NORSKE STAT	76.33
2	STATE STREET BANK & TRUST CO.*	2.16
3	BANK OF NEW YORK*	1.37
4	JPMORGAN CHASE BANK*	1.28
5	MELLON BANK AS AGENT FOR CLIENTS*	0.74
6	SKANDINAVISKA ENSKILDA BANKEN	0.65
7	THE NORTHERN TRUST CO.*	0.62
8	DEUTSCHE BANK AG*	0.53
9	SKANDINAVISKA ENSKILDA BANKEN*	0.49
10	FOLKETRYGDFONDET	0.49
11	INVESTORS BANK & TRUST COMPANY*	0.45
12	JPMORGAN CHASE BANK*	0.43
13	EUROCLEAR BANK S.A./N.V. (‘BA’)*	0.36
14	MELLON BANK AS AGENT FOR ABN AMRO*	0.35
15	STATE STREET BANK & TRUST CO.*	0.34
16	MORGAN STANLEY & CO. INC.*	0.33
17	VITAL FORSIKRING ASA	0.32
18	CLEARSTREAM BANKING S.A.*	0.31
19	THE NORTHERN TRUST CO.*	0.28
20	GOLDMAN SACHS & CO.*	0.23

* Client account and similar

Members of the board of directors, corporate executive committee and corporate assembly holding shares as of December 31, 2004:

Board of Directors	
Jannik Lindbæk (the chairman of the board of directors)	0
Lill-Heidi Bakkerud	165
Stein Bredal	245
Kaci Kullman Five	1,000
Finn A. Hvistendahl	2,947
Grace Skaugen	0
Morten Svaan	410
Eli Sætersmoen	0
Knut Åm	14,594
Corporate Executive Comittee	
Helge Lund (chief executive officer)	1,500
Rune Bjørnson	0
Jon Arnt Jacobsen	1,219
Jens R Jenssen	500
Morten Loktu	0
Peter Mellbye	3,250
Terje Overvik	825
Eldar Sætre	990
Erling Øverland	2,693
Margareth Øvrum	2,280
Corporate Assembly (in total)	668

24. AUDITORS' REMUNERATION

(in NOK million)	For the year ended December 31, 2004	2003
Audit fees	7.3	7.6
Audit-related fees	3.8	1.4
Tax fees	0.7	3.5
Total	11.8	12.5

25. STOCK-BASED COMPENSATION

In 2004 Statoil introduced a Share Saving Plan for all permanent Stat oil employees both in full and part time positions. Sixty percent of all employees in Statoil participate in the program as of December 31, 2004.

Statoil's Share Saving Plan gives the employees the opportunity to purchase Statoil shares though monthly salary deduction. The employees may save up to five per cent of their annual gross salary. Statoil will give a contribution to the employees of 20 percent of the saved amount, at a maximum of NOK 1,500 per employee per year.

If the shares are kept for two full calendar years of continued employment the employees will be allocated one bonus share for each two they have bought. The same kind of allocation is planned to be carried out for future yearly programs.

Due to uncertainty with respect to future share prices, the number of shares to be purchased by employees under the programs is unknown. Consequently, the number of bonus shares to be purchased by Statoil must be estimated in connection with the valuation of the cost of the program. The fair value of the bonus shares is estimated at the date of grant using a one-factor capital asset pricing model with adjustments for dividend payments assumed according to the dividend policy in the vesting period.

Significant assumptions for 2004 used in connection with estimating the fair value a re shown in the table below.

Risk free interest rate	2.5%
Risk premium	5.5%
Beta	1.0
Expected return/discount rate	8.0%

The model requires the input of highly subjective assumptions. Because changes in the subjective input assumptions can affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of Statoil's Share Saving plan.

The basis for purchases of bonus shares is the combined amount of salary deductions and Statoil contributions. For the 2004 and 2005 programs (granted in 2004), this amounts to NOK 52 and NOK 107 million, respectively.

Estimated compensation cost including contribution and social security related to the 2004 and 2005 program for Statoil amounts to NOK 3.3 million and NOK 63 million respectively. At December 31, 2004 the amount of compensation cost yet to be expensed throughout the vesting period is NOK 87 million.

Oslo, March 9, 2005

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL	LILL-HEIDI BAKKERUD	MORTEN SVAAN
KACI KULLMANN FIVE	FINN A HVISTENDAHL	GRACE R SKAUGEN
ELI SÆTERSMOEN	KNUT ÅM	HELGE LUND PRESIDENT AND CEO

**To the Annual Shareholders'
Meeting of Statoil ASA**

Auditor's report for 2004

We have audited the annual financial statements of Statoil ASA as of 31 December 2004, showing a net income of NOK 24,746 million for the parent company and a net income of NOK 24,746 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheets, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and President and chief executive officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

— the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the group as of 31 December 2004, and the results of the operations and cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway

— the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway

— the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Stavanger, March 9, 2005

ERNST & YOUNG AS

Jostein Johannessen

Jostein Johannessen
State Authorized Public Accountant
(Norway)

RECOMMENDATION OF THE CORPORATE ASSEMBLY

Resolution:

At its meeting of March 17, 2005 Statoil's corporate assembly discussed the 2004 annual accounts of Statoil ASA and the Statoil group, and the board of directors' proposal for the allocation of net income. The corporate assembly recommends that the general meeting adopts the annual accounts and the allocation of net income, in accordance with the proposals presented by the board of directors.

Kårstø, March 17, 2005

Anne Kathrine Slungård

Anne Kathrine Slungård
Chair of the corporate assembly

Corporate assembly

Anne Kathrine Slungård, Wenche Meldahl, Kjell Bjørndalen, Kirsti Høegh Bjørneset,
Erlend Grimstad, Per-Inge Søreng, Anne Britt Norø, Asbjørn Rolstadås, Arvid Færaas,
Hans M Saltveit, Per Helge Ødegård, Åse Karin Staupe

Directors' Report 2003[1]

Statoil's financial position is strong at the start of 2004. Production is higher and unit costs are lower than ever before in the group's history. Ambitious improvement targets, planned development of a robust project portfolio and important strategic progress lay a sound foundation for profitable growth in the years to come.

Results for 2003

The Statoil group's net income in 2003 came to NOK 16.6 billion, which is NOK 0.3 billion lower than in 2002. Income before financial items, other items, tax and minority interest totalled NOK 48.9 billion in 2003 as against NOK 43.1 billion the year before. The return on average capital employed after tax was 18.7 per cent, as against 14.9 per cent in 2002. Normalised for market factors, the return on capital employed was 12.4 per cent in 2003, which is 1.6 percentage points higher than in 2002.

High levels of oil and gas production contributed to the good result. Average oil and gas production totalled 1 080 000 barrels of oil equivalent (boe) per day, compared with 1 074 000 boe in 2002. Decreased output from fields which have passed plateau production contributed to a reduction in production on the Norwegian continental shelf (NCS) in 2003. At the same time, new fields made important contributions to the total production.

The board is satisfied that production in 2003 supports the goal of maintaining the production level on the NCS up to 2007. Statoil's ambition is to increase oil and gas production by an average of six per cent in 2004 — 2007, to 1,350,000 boe per day.

At the end of 2003, remaining proven oil and gas reserves amounted to almost 4.3 billion boe. The reserve replacement rate was 99 per cent, compared with 98 per cent in 2002. Over the last three years the average reserve replacement rate has been 95 per cent.

In order to reach the group's goal of a 12 per cent normalised return on capital employed in 2004, an extensive improvement programme has been initiated. The aim is to realise cost reductions and improved earnings equivalent to an improvement in annual income before financial items of NOK 3.5 billion in 2004, compared to 2001. At the end of 2003, the estimated effect of the implemented measures is NOK 2.8 billion from 2004, compared to the final target of NOK 3.5 billion. In the board's view, the group is still on track to delivering in accordance with its objectives.

The board proposes that the annual general meeting allocates a dividend of NOK 2.95 per share for 2003, as against NOK 2.90 for 2002.

Good results for health, safety and the environment are very important to the group. Unfortunately, two fatal accidents occurred in connection with Statoil's operations in 2003. However, the frequency of total recordable injuries and lost-time injuries has declined. The board places emphasis on the continuous improvement of HSE results and will continue to monitor closely the group's efforts in this area.

Statoil's chair, chief executive and executive vice president for International Exploration & Production all resigned in September 2003 after it had emerged that a consultancy agreement relating to business development in Iran, known as the Horton affair, was not compatible with the group's ethical guidelines. Norway's National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has brought a preliminary charge against Statoil ASA alleging violations of the Norwegian general penal code provision relating to illegal influencing of foreign government officials. Økokrim is carrying out an investigation to clarify whether any criminal offence has been committed in connection with the Horton Investments contract. Statoil has also been notified by the US Securities & Exchange Commission (SEC) that it is conducting its own inquiry into the consultancy agreement to determine whether any violations of US federal securities laws have occurred. On the board's initiative, an external legal adviser has been engaged to conduct a comprehensive legal review of all aspects of the Horton agreement. The board emphasises that the ambitions for Statoil's internationalisation will be upheld and implemented to high ethical standards. The board is convinced that Statoil can succeed internationally without becoming engaged in operations which breach recognised ethical norms and rules.

Statoil's principal markets

After a downturn in the global economy in 2001 and 2002, an improvement was noted in 2003.

(1) Excerpt from Statoil's Annual Report for 2003.

The scope of the global economic conditions had a substantial influence on Statoil's markets and the oil prices in 2003 were higher than many had expected. The annual average for Statoil's realised oil price was USD 29.1 per barrel, compared with USD 24.7 per barrel in 2002. Due to a strengthening of the Norwegian krone against the US dollar during the year, the oil price measured in NOK rose by a modest five per cent to NOK 206 per barrel in 2003.

The demand for gas continued to rise in western Europe in 2003. The average realised gas price was NOK 1.02 per standard cubic metre (scm) as against NOK 0.95 in 2002. With a flattening out of gas production in Europe and continuing rising demand, the market prospects for natural gas look good. This applies in particular to the UK, where the country's own production will supply an ever smaller portion of the demand.

The average refining margin (fluid catalytic cracker margin) rose from USD 2.2 per barrel in 2002 to USD 4.4 per barrel in 2003, and the refining market is characterised as good at the beginning of 2004. The average contract price for methanol rose from EUR 172 per tonne in 2002 to EUR 226 in 2003.

High feedstock prices and weak growth in the end-user markets caused the market conditions for the Borealis petrochemicals group to continue to be characterised by weak margins. However the market rallied somewhat during the year and the margins increased by 11 per cent in 2003 compared with the year before.

Statoil ASA awarded contracts for goods and services worth NOK 52.7 billion in 2003.

Over the past 10 years, Norwegian suppliers have provided just over two-thirds of Statoil's total contracts. In 2003 the Norwegian share was about 75 per cent.

A marked weakening of the competitiveness of Norwegian industry has led to several large contracts being awarded to contractors outside Norway in recent years. This includes the contract awarded in February 2003 for the processing plant at the Melkøya gas liquefaction plant. A lower NOK exchange rate and more moderate pay rises in Norwegian industry led to an improvement in its competitiveness last year. As a result, more and more Norwegian suppliers have won contracts amid international competition in 2003.

Exploration & Production Norway

Income before financial items, other items, tax and minority interest totalled NOK 37.6 billion in 2003 as against NOK 34.0 billion in 2002. This increase primarily reflects higher oil prices measured in NOK, increased gas sales and reduced operating costs at facilities and platforms.

Statoil's production from the NCS averaged 991,000 boe per day in 2003, an increase of 2,000 boe per day compared with 2002. While oil output declined slightly, this was largely offset by higher gas sales to the group's European customers.

Statoil's ambition is to be the industry's best production operator on the NCS. Cost-efficiency continued to improve in 2003 and the improvement targets for 2004 are within reach.

In 2003 Statoil recommended to the partnership in the Tampen area that efficiency enhancements and improvements to existing installations in the area should be carried out. Statoil is the sole operator for all fields in the Tampen area, and adjusted its organisation in 2003 to realise coordination gains and economies of scale.

Two Statoil-operated fields and one with Statoil participation came on stream in 2003. These are, the Mikkel gas field, Vigdis Extension and Fram West, a subsea development operated by Hydro.

The board attaches importance to field projects being developed in a profitable and confidence-inspiring manner, and will follow them closely. The development of the Kvitebjørn field is proceeding according to plan but the schedule is tight. Gas deliveries from Kvitebjørn start on 1 October 2004. High pressure and high temperature in the reservoir make Kristin the most demanding field on the NCS. The complexity of the reservoir has led to a discussion on a drainage solution for parts of the reservoir. This means that the Kristin project could face a cost increase, but the solution could also boost revenues. Through its economic, technological and strategic weight, Snøhvit is also an important project for Statoil. Progress is following the revised cost estimates, but the schedule is also tight for the Snøhvit project.

Statoil participated in a total of nine exploration and appraisal wells during 2003, six of which resulted in discoveries. These finds are relatively small but the oil find in the Ellida prospect off mid-Norway gives cause for some optimism for the prospects in new areas. The board attaches importance to maintaining exploration activity in order to lay the basis for long-term production and activity on the NCS. This requires regular access to new quality exploration acreage.

International Exploration & Production

Income before financial items, other items, tax and minority interest totalled NOK 1.7 billion in 2003, as against NOK 1.1 billion the year before. This increase primarily reflects higher oil prices measured in NOK.

Average international oil and gas output rose from 86,000 boe per day in 2002 to 89,000 boe in 2003. Production cost per unit produced remained unchanged from 2002, at USD 3.9 per boe.

Statoil's international E&P operations lay an important basis for the group's ambitions for growth in the years ahead. In Angola, the partner-operated Xikomba and Jasmim fields came on stream. In Azerbaijan the development decision for phase one of Shah Deniz was taken by the licensees, and in Iran the development of the Statoil-operated South Pars field phases six-eight is well underway.

Statoil and BP have signed an agreement whereby Statoil will acquire 49 per cent of BP's interest in the In Salah gas project and 50 per cent of BP's interest in the In Amenas gas project, both in Algeria. The two companies will work together with Sonatrach, the Algerian state oil and gas company, in a joint operation of the two projects. The deal accords with Statoil's international strategy and provides interesting perspectives for natural gas activities.

Statoil had good international exploration results in 2003, particularly associated with activities off western Africa. The group took part in 14 exploration and appraisal wells in international waters. Of these, 11 resulted in finds. Future exploration will also take place in Venezuela, the Gulf of Mexico, the Middle East and the Caspian region.

The Horton affair created unrest relating to Statoil's business development in Iran towards the end of 2003 and raised doubts about the group's ability to comply with its own ethical guidelines in its international operations. Statoil has taken important steps forward in its international upstream operations during recent years and the board emphasises that the group's international strategy will proceed to high ethical standards.

Natural Gas

Income before financial items, other items, tax and minority interest totalled NOK 6.4 billion in 2003, down NOK 0.1 billion from 2002.

Statoil's gas sales from the NCS continued to grow, from 19.6 billion cubic metres in 2002, to 20.8 billion cubic metres in 2003, an increase of six per cent. Operating costs also rose in 2003, chiefly due to higher costs of goods sold. The business area is doing well as regards the improvement targets for 2004.

The Kårstø gas processing complex has been expanded to be able to receive gas from the Mikkel field, on time and at a cost 30 per cent lower than planned.

In December 2003 the Ormen Lange licence sanctioned the Langeled gas export pipeline from Nyhamna in mid-Norway, via the Sleipner Riser platform in the North Sea, to Easington in the UK.

Plans call for the southern section of the line, from Sleipner to Easington, to come on stream in 2006. The Ormen Lange field and the northern section of the line are due to start operating in 2007.

The key to future value creation lies in Statoil's ability to maximise the value of long-term gas sales contracts, secure new gas sales and arrange for the most efficiently possible operation of processing plants and transport infrastructure.

Manufacturing & Marketing

Income before financial items, other items, tax and minority interest totalled NOK 3.6 billion in 2003, as against NOK 1.6 billion the year before. This increase is mainly due to improved market conditions for the manufacturing area in addition to the effect of measures to reduce costs.

Statoil is the world's third largest net seller of crude, and has substantial international market positions. The group has also built a strong global position for natural gas liquids (NGL). Sales of crude oil, refined products and NGL gave good results in 2003. After weak results in 2002, the manufacturing activities showed a marked improvement throughout 2003. Statoil's refining margin showed a strong improvement in 2003 and capacity utilisation at the refineries also developed well.

Retailing operations showed stable results from 2002 to 2003, with positive development in all countries except Denmark.

On the initiative of ICA, Statoil has signed a letter of intent covering the acquisition by Statoil of ICA's 50 per cent stake in Statoil Detaljhandel AS.

Borealis made a profit of NOK 0.1 billion in 2003, compared with an equivalent loss the year before.

The improvement is mainly due to an increase in the petrochemical margins, but this market remains weak.

In April 2003, Statoil sold its wholly-owned shipping company Navion to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation.

The sale of Navion took effect on 1 January 2003 in accounting terms. Statoil received just over NOK 6 billion through the sale.

Health, safety and the environment

The board attaches particular importance to Statoil's active and purposeful efforts to avoid harm to people or the environment. There were unfortunately two fatalities in the group's operations in 2003. In 2002 there were six fatal accidents.

A contractor employee died on 24 March 2003 following an accident while working on the *Saipem 7000* crane vessel in the North Sea. On 25 September 2003 a contractor employee was killed in an accident at the Iranian yard which is building the jackets for the gas platforms for South Pars phases six-eight. Both accidents have been investigated and improvement measures have been implemented.

Calculated per million working hours, the total recordable injury frequency (including both Statoil employees and contractors) remains unchanged from 2002, at 6.0. The frequency for Statoil's own employees was 3.7, and has never been lower. The number of lost-time injuries per million working hours fell from 2.8 to 2.6. The results for 2003 also show an improvement in the number of serious incidents per million working hours — the frequency shows a decline from 3.8 in 2002 to 3.2.

In the third quarter a fine of NOK 1 million was imposed on Statoil following an accident on the *Byford Dolphin* drilling rig on 17 April 2002, when one person died.

High priority is given to safety work. A number of measures are being prepared to improve behaviour and attitudes throughout the organisation. One of the most significant is the safe behaviour programme, which covers 18,000 Statoil employees and contractor personnel working for Statoil on the NCS.

Sickness absence remains low, although the frequency rose from 3.4 per cent in 2002 to 3.5 per cent in 2003. Statoil is now working actively to promote a good working environment and prevent sickness absence. In Norway, Statoil has signed an agreement with the authorities to pursue a more inclusive workplace (IA), and this has had a positive effect in terms of sickness absence in the areas where it has been adopted. The board takes a positive view of the group's successful IA work and stresses the importance of continuing it.

Statoil works continuously to reduce the rise in greenhouse gas emissions. Total carbon dioxide emissions from Statoil-operated facilities rose from 8.9 million tonnes in 2002 to 10.0 million tonnes in 2003. This is primarily due to the takeover of operator-ship for Snorre, Tordis, Vigdis and Visund on the NCS and a high rate of production at our land-based plants.

In accordance with the authorities' requirements, the group is pursuing its plan to achieve zero harmful discharges to the sea by 2005. Efforts to maintain a good natural environment in connection with the Snøhvit development in the Barents Sea in particular are being closely monitored, and the board considers the measures implemented to avoid environmental harm to be satisfactory.

Sustainable development

For the board, sustainable development means creating good financial, environmental and social results. Statoil will pursue its business in a profitable, safe and ethical manner. It will also demonstrate environmental awareness and social responsibility. The group's third sustainability report is being published at the same time as the annual report and accounts.

Statoil has worked systematically to tackle its environmental challenges. Knowledge and expertise have been central factors, and this has produced good results. The group's low carbon dioxide emissions per produced unit are currently among the best in the world, and the group constantly receives recognition for its development and application of new environmental technology.

Diversity in terms of gender, age and cultural background are an important part of Statoil's values base. The group strives to achieve a balanced age distribution among the employees, and to develop an organisation which reflects the cultural diversity of the countries in which it operates.

At the end of 2003 women represented 32 per cent of the group's employees. The target has been that women should hold at least 20 per cent of all leading posts by 2005. At the end of 2003, 23 per cent of the managers were women.

Employees are rewarded according to their position and expertise. For individual pay increases, importance is attached to the results achieved. Through the annual individual pay adjustments, the principle of equal pay for equal work is also practised.

As a rule, all staff are employed on a full-time basis. Statoil demonstrates flexibility towards employees who apply for temporarily reduced working hours due to health, social or other weighty welfare reasons. Of employees applying for such an arrangement, women are in a clear majority.

Financial developments for the group

In 2003 total revenues for Statoil came to NOK 249.4 billion, an increase of 5.6 billion from the year before.

Income before financial items, other items, tax and minority interests totalled NOK 48.9 billion as against NOK 43.1 billion in 2002. Net income came to NOK 16.6 billion, compared with NOK 16.8 billion in 2002.

Earnings per share came to NOK 7.64, as against NOK 7.78 in 2002.

In June 2003 the Norwegian parliament (Storting) decided to replace its Act on reimbursement of expenses for removal of installations on the NCS with ordinary tax deductions for the actual removal expenses. This change meant that Statoil's calculated receivable from the Norwegian state of NOK 6.0 billion in 2003 was booked under other items.

Correspondingly, a deferred tax benefit of NOK 6.7 billion was included under income taxes. This resulted in net income in 2003 of NOK 0.7 billion.

Cash flow provided by operations was NOK 30.8 billion in 2003, compared with NOK 24.0 billion in 2002. This is due to higher prices and margins. Cash flow to investments in 2003 amounted to NOK 23.2 billion, as against NOK 16.8 billion in 2002.

The group's gross interest-bearing debt at 31 December 2003 was NOK 37.3 billion, as against NOK 37.1 billion in 2002. The group's debt-equity ratio, defined as net interest-bearing debt in relation to capital employed, was 23 per cent at 31 December 2003, compared with 29 per cent in 2002. The reduction is mainly due to an increase in total liquid assets and increased shareholders' equity.

The group had NOK 16.6 billion in bank deposits and other liquid assets at 31 December 2003, up NOK 4.7 billion from 2002.

At 31 December, Statoil managed a portfolio of NOK 21.5 billion in bonds, certificates and shares. Fund management by the group relates to assets in Statoil Forsikring (insurance), the group's liquidity reserves and Statoil's pension funds. The pension funds are not consolidated in the accounts.

The group's financial reporting is in accordance with the US generally accepted accounting principles (USGAAP) as well as the Norwegian generally accepted accounting principles (NGAAP). Note 25 in the NGAAP accounts explains the difference between the two sets of accounts.

As required by section 3-3 of the Norwegian Accounting Act, the board confirms that the going concern assumption has been fulfilled. The accounts for 2003 have been prepared on that basis.

Net income for the Statoil ASA parent company according to NGAAP was NOK 17.1 billion in 2003.

The board proposes that the annual general meeting allocates a dividend of NOK 2.95 per share. The amount of the dividend comprises 40 per cent of the USGAAP result adjusted for special items. The size of the dividend complies with the group's dividend policy.

The board proposes the following allocation of net income in the parent company, Statoil ASA (in NOK million):

Dividend	6,390
Retained earnings	7,037
Reserve for valuation variances	3,637
Total allocated	17,064

The company's distributable equity after allocations amounts to NOK 43.1 billion.

Statoil's governing bodies

The owners' representatives in Statoil's corporate assembly were elected at the annual general meeting in 2002. There were no changes in 2003, and the corporate assembly still comprises the following representatives elected by the owners: Anne Kathrine Slungård (chair), Wenche Meldahl (deputy chair), Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Gunnar Mathisen, Anita Roarsen and Asbjørn Rolstadås. The other representatives are Arvid Færaas, Einar Arne Iversen, Hans M Saltveit and Åse Karin Staupe, elected by the employees.

Following Leif Terje Løddesøl's resignation as chair of the Statoil board in September 2003, Kaci Kullmann Five was elected acting chair. The corporate assembly then elected Jannik Lindbæk as the new chair, and he took up office on 1 November 2003. Since then the board of directors has comprised the following representatives elected by the owners: Jannik Lindbæk (chair), Kaci Kullmann Five (deputy chair), Finn A Hvistendahl, Grace Reksten Skaugen, Eli Sætersmoen and Knut Åm. The other directors are Marit Bakke, Stein Bredal and Bjørn Erik Egeland, elected by the employees. Statoil puts great emphasis on good corporate governance. For the owners, this is practised through the group's board, corporate assembly and annual general meeting.

A separate audit committee was set up in 2003 as a preparatory body for the board in accounting and audit matters. The committee members are Finn A Hvistendahl (chair), Marit Bakke and Eli Sætersmoen. US regulations require that Statoil reports whether one or more of the committee members is an accounting expert as defined by the US Securities and Exchange Commission.

Further developments for the group

Following several years of good results, Statoil has entered 2004 with a strong position financially, operationally and strategically. The board therefore finds it natural that its ambitions should be raised, and this is reflected in the new financial and operational targets for 2007. The production target for 2007 is 1,350,000 barrels of oil equivalent per day. Profitability is to increase to 13 per cent in the same period, measured as return on average capital employed with normalised prices, exchange rates and refining margins.

Planned expertise and manager development is a focus area. The Statoil School, established in 2003, is an important tool for training and expertise enhancement. The group has also devoted substantial resources to a top management training programme which will provide systematic manager development and ensure that the group's activities are based on a uniform set of values and commercial goals.

The development and application of new technology is important to Statoil's success. Surveys conducted in 2003 show that the group has consolidated its competitive position in the area of technology. A more purposeful technology strategy has been developed and implemented in 2003. The board attaches importance to the fact that Statoil's technology development work is commercially-oriented at all times.

Statoil's strong position on the NCS will form the basis for the group's activities for many years to come. Exploration & Production Norway is to maintain stable production at roughly one billion barrels of oil equivalent per day for as long as possible. This calls for continuous efforts to achieve more cost-efficient operations, the successful development of new field projects and exploration success in both mature and less well-explored areas.

The internationalisation of Statoil is a prerequisite for securing growth opportunities for the group. The international strategy builds on more than 30 years' experience as a national oil company on the NCS. First-class reservoir expertise, seabed technology and knowledge of gas value chains now lay the basis for international business development and partnerships in resource-rich areas.

Maximum utilisation of market prospects for natural gas are central to Statoil's strategic adjustment in the years ahead. The board is satisfied that Statoil has worked systematically to improve its market position in the UK in 2003, and important milestones have been passed.

The manufacturing and marketing business has been developed to maximise the value of Statoil's oil and gas reserves. Maintaining Statoil's leading position in the international crude oil market is therefore an important task. The land-based plants are also to be further developed and improved, to best underpin this strategy. In retail marketing the main focus will be on strengthening profitable market positions where Statoil has a competitive advantage in the Nordic countries/Baltic area.

The board's fundamental objective is to secure for Statoil's owners the best possible return on their shares in the group. Efforts to ensure continued improvement and efficiency therefore have high priority on the board's agenda. The board will also contribute to maintaining strict capital discipline.

The point of departure for the growth ambitions which Statoil has communicated is organic growth. After several years of good results, the group has built up financial strength which permits alternative measures to develop the group. The board will also continuously assess non-organic measures as part of Statoil's further development. A prerequisite for such initiatives is that they underpin the group's main strategic direction, and that they contribute to long-term value creation for the group's shareholders.

Stavanger, 3 March 2004
The board of directors
of Statoil ASA

Jannik Lindbæk
Chair of the board

Kaci Kullmann Five
Deputy chair

Bjørn Erik Egeland

Stein Bredal

Marit Bakke

Eli Sætersmoen

Finn A Hvinstendahl

Grace Skaugen

Knut Åm

STATEMENTS OF INCOME STATOIL ASA — NGAAP

(in NOK million)	Note	Year ended December 31, 2003	2002
REVENUES			
Sales		**218,970**	209,305
Equity in net income (loss) of subsidiaries	8	**4,737**	1,198
Equity in net income (loss) of affiliates	8	**300**	201
Other income	4	**658**	248
Total revenues		**224,665**	210,952
EXPENSES			
Cost of goods sold		**(134,909)**	(130,294)
Operating expenses	3	**(23,191)**	(22,935)
Selling, general and administrative expenses	3	**(2,972)**	(2,533)
Depreciation, depletion and amortization	10	**(13,037)**	(12,850)
Exploration expenses	10	**(1,656)**	(1,872)
Total expenses before financial items		**(175,765)**	(170,484)
Income before financial items, other items and income taxes		**48,900**	40,468
Net financial items	12	**48**	8,342
Other items	2	**(6,025)**	0
Income before income taxes		**42,923**	48,810
Income taxes	13	**(25,859)**	(32,433)
Net income		**17,064**	16,377
Allocations			
Group Contribution		**915**	4,807
Tax on Group Contribution		**(256)**	(1,346)
Dividend		**6,390**	6,282
Change in Reserve for valuation variances		**3,637**	(955)

BALANCE SHEETS STATOIL ASA — NGAAP

(in NOK million)	Note	At December 31, 2003	2002
ASSETS			
Net property, plant and equipment	10	**90,161**	87,388
Other long-term receivables	17, 22	**4,951**	4,498
Long-term receivables from subsidiaries		**458**	1,215
Long-term investments	8	**310**	342
Investments in subsidiaries	8	**69,980**	56,556
Investments in affiliates	8	**2,566**	2,372
Total non-current assets		**168,426**	152,371
Inventories	7	**2,439**	3,243
Accounts receivable	11	**20,823**	23,486
Accounts receivable — related parties	22	**150**	0
Short-term receivables from subsidiaries		**4,252**	14,490
Prepaid expenses and other current assets		**2,665**	1,254
Total inventories and accounts receivables		**30,329**	42,473
Short-term investments	9	**9,196**	1,656
Cash and cash equivalents	1	**3,020**	224
Cash, cash equivalents and short-term investments		**12,216**	1,880
Total current assets		**42,545**	44,353
TOTAL ASSETS		**210,971**	196,724
EQUITY AND LIABILITIES			
Common stock (NOK 2.50 nominal value), 2,189,585,600 shares authorized and issued		**5,474**	5,474
Treasury shares, 23,441,885 shares		**(59)**	(59)
Additional paid-in capita		**12,418**	12,418
Paid-in capita		**17,833**	17,833
Reserve for valuation variances		**3,637**	0
Retained earnings		**43,121**	33,200
Total equity	23	**64,591**	51,033
Deferred income taxes	13	**31,037**	36,648
Other liabilities	17, 18	**18,015**	9,621
Long-term debt to subsidiaries		**4,628**	4,670
Long-term debt	15	**24,103**	25,439
Total long-term liabilities		**77,783**	76,378
Short-term debt	14	**4,797**	4,182
Accounts payable		**13,921**	16,040
Accounts payable — related parties		**6,049**	5,594
Short-term payable to subsidiaries		**14,130**	14,452
Withheld, excise and other taxes		**1,914**	1,461
Income taxes payable	13	**17,166**	17,917
Accrued liabilities		**4,230**	3,385
Dividend payable		**6,390**	6,282
Total current liabilities		**68,597**	69,313
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**210,971**	196,724

STATEMENTS OF CASH FLOW STATOIL ASA — NGAAP

(in NOK million)	Year ended December 31, 2003	Year ended December 31, 2002
OPERATING ACTIVITIES		
Net income	**17,064**	16,377
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	**13,037**	12,850
Exploration cost written off	**256**	551
(Gains) losses on foreign currency transactions	**(606)**	(7,979)
Deferred taxes	**(7,026)**	(1,139)
(Gains) losses on sales of assets and other items	**803**	(2,456)
Changes in working capital (other than cash):		
— (Increase) decrease in inventories	**804**	7
— (Increase) decrease in short-term investments	**12,751**	(14,445)
— (Increase) decrease in accounts receivable	**(1,411)**	4,832
— (Increase) decrease in other receivables	**(7,540)**	314
— Increase (decrease) in accounts payable	**(5,817)**	3,486
— Increase (decrease) in other payables	**6,852**	2,775
— Increase (decrease) in taxes payables	**(751)**	1,746
Increase (decrease) in other non-current obligations	**1,147**	994
Cash flows provided by operating activities	**29,563**	17,913
INVESTING ACTIVITIES		
Net cash flows used in investing activities	**(18,764)**	(18,064)
FINANCING ACTIVITIES		
New long-term borrowings	**3,201**	6,619
Repayment of long-term borrowings	**(2,695)**	(2,197)
Ordinary dividend paid	**(6,282)**	(6,169)
Net short-term borrowings, bank over drafts and other	**(2,227)**	2,118
Cash flows provided by (used in) financing activities	**(8,003)**	371
Net increase (decrease) in cash and cash equivalents	**2,796**	220
Cash and cash equivalents at January 1	**224**	4
Cash and cash equivalents at December 31	**3,020**	224
Interest paid	**1,134**	1,550
Taxes paid	**33,379**	30,234

NOTES TO FINANCIAL STATEMENTS STATOIL ASA — NGAAP

1. Organization and Basis of Presentation

Statoil ASA was founded in 1972, as a 100 percent Norwegian State-owned company. Statoil's business consists principally of the exploration, production, transportation, refining and marketing of petroleum and petroleum-derived products. In 1985, the Norwegian State transferred certain properties from Statoil to the State's direct financial interest (SDFI), which were also 100 percent owned by the Norwegian State.

In conjunction with a partial privatization of Statoil in June 2001, the Norwegian State restructured its holdings in oil and gas properties on the Norwegian Continental Shelf. In this restructuring, the Norwegian State transferred to Statoil certain SDFI properties with a book value of approximately NOK 30 billion, in consideration for which NOK 38.6 billion in cash plus interest and currency fluctuation from the valuation date of NOK 2.2 billion (NOK 0.7 billion after tax), and certain pipeline and other assets with a net book value of NOK 1.5 billion were transferred to the Norwegian State. The transaction was completed June 1, 2001 with a valuation date of January 1, 2001 with the exception of the sale of an interest in the Mongstad terminal which had a valuation date of June 1, 2001.

The total amount paid to the Norwegian State was financed through a public offering of shares of NOK 12.9 billion, issuance of new debt of NOK 9 billion and the remainder from existing cash and short-term borrowings.

The transfers of properties from the SDFI have been accounted for as transactions among entities under common control and, accordingly, these properties have been combined with those of Statoil at their historical book value with effect from June 1, 2001. However, certain adjustments have been made to the carrying value of the properties transferred. These adjustments primarily relate to imputing of capitalized interest in the same manner as if the properties transferred to Statoil had been Statoil's from inception. The cash payment and net book value of properties transferred to the Norwegian State in excess of the net book value of the properties transferred to Statoil, was recognized directly against equity. The final cash payment is contingent upon review by the Norwegian State, which is expected to be completed in 2004. The adjustment to the cash payment, if any, will be recorded against equity.

2. Summary of Significant Accounting Policies

The consolidated financial statement of Statoil ASA are prepared in accordance with Norwegian generally accepted accounting principles (NGAAP) and uses the same accounting principle as the Group. Shareholdings and interests in subsidiaries and affiliates are recorded using the equity method. For a description of other accounting policies, reference is made to note 2 of the NGAAP group accounts.

Certain reclassifications have been made to prior periods' figures to be consistent with current year's presentation.

An overview of oil and gas reserves is shown in note 27 of the NGAAP group accounts.

3. Wages

Wages are included in Operating expenses and Selling, general and administrative expenses as follows:

(in NOK million, except number of employees)	Year ended December 31, 2003	2002
Wages	**7,388**	6,459
Payroll taxes	**1,264**	1,044
Other social benefits (included pension cost)	**1,245**	1,034
Total payroll costs	**9,897**	8,537
Average number of employees	**11,077**	10,175

Payroll costs are partly charged to Statoil-operated activities.

At December 31, 2003 loans to employees amounted to NOK 551 million. In addition Statoil ASA has guaranteed for bank loans for employees totaling maximum NOK 5 million.

Total remuneration of NOK 365,000 was paid to the members of the corporate assembly and NOK 1,873,000 to the board of directors. The former Chief executive officer Olav Fjell received NOK 3,227,000 in salary and other remuneration (included pension premium paid) until resignation September 22, 2003. According to contract, Olav Fjell had claim on severance compensation equaling two annual salaries, exclusive term of notice of six months, when the resignation is a request from the board. In addition, Olav Fjell is entitled, under specific terms, to a pension amounting to 66 percent of pensionable salary after Reaching the age of 60. Acting Chief executive officer Inge K Hansen has received NOK 1,015,000 in salary and other remuneration (included pension premium paid) since September 22, 2003.

A performance pay system has been established for the other members of the executive committee, senior vice presidents and vice presidents. This entails a variable remuneration based on pre-determined goals. The scheme allows for a bonus of 10 per cent of basic salary on achieving set goals, with a ceiling of 20 per cent for results that clearly exceeds these goals.

If resigning at the request of the board of directors, Inge K Hansen is entitled to severance compensation equaling two annual salaries, exclusive term of notice of three months. This also applies to the executive vice president Erling Øverland, if resigning at the request of the Company. Executive vice president Peter Mellbye is entitled to severance compensation equaling two annual salaries, if resigning at the request of the Company. The acting Chief executive officer and the two mentioned executive vice presidents are entitled, under specific terms, to a pension after reaching the age of 60. The pension will amount to 66 per cent of their pensionable salaries.

Executive vice presidents, Henrik Carlsen, Elisabeth Berge, Terje Overvik, Ottar Inge Rekdal and Eldar Sætre have interest-free loans of NOK 243,000, 21,000, 347,000, 394,000 and 238,700, respectively. These loans have been approved with a repayment period of 10 years.

For information regarding shares owned by corporate executive committee, the board of directors and the corporate assembly refer to note 23.

4. Significant Acquisitions and Dispositions

Effective January 1, 2003, and in relation to the Statoil Group's sale of Navion ASA, Statoil ASA sold its 80 percent shareholding in Navion ASA to Norsk Teekay AS, a wholly-owned subsidiary of Teekay Shipping Corporation. The operations of Navion are shuttle tanking and conventional shipping. The profit and loss effect from the sale in Statoil ASAs books was a gain of NOK 0.5 billion before tax.

In January 2004, Statoil sold its 5.26 percent shareholding in the German company Verbundnetz Gas, generating a gain of approximately NOK 0.6 billion before tax (approximately NOK 0.4 billion after tax).

5. Asset Impairment

There have been no material write-downs of properties owned by Statoil ASA in 2003 or 2002.

6. Provision for Rig Rental Contracts

Statoil provides for estimated losses on long-term fixed price rental agreements for mobile drilling rigs. The losses are calculated as the difference between estimated market rates and the fixed price rental agreements.

(in NOK million)	2003	2002
Provision at January 1	960	734
Increase (decrease) during the year	454	231
Cost incurred during the year	(54)	(5)
Provision at December 31	1,360	960

7. Inventories

The lower of cost or market test is measured, and the results are recognized and any resulting writedowns to market, if required, are recorded as adjustments to the cost of inventories.

(in NOK million)	At December 31, 2003	2002
Crude oil	1,347	1,967
Petroleum products	595	864
Other	497	412
Total inventories	2,439	3,243

8. Shares and Long-Term Investments

Subsidiaries and affiliates by equity method

(in NOK million)	Subsidiaries	Affiliates
Investment at January 1, 2003	56,556	2,372
Net income subsidiaries and affiliates	4,737	300
Translation adjustment	2,884	0
Change in paid in equity	7,305	12
Group Contribution (after tax)	659	0
Ordinary dividend	(2,161)	(118)
Investment at December 31, 2003	69,980	2,566

Ownership in certain subsidiaries

AS Eesti Statoil	100%
Latvija Statoil SIA	100%
Offshore Technology AS	100%
Offtech Invest AS	100%
P/F Statoil Føroyar	100%
Statholding AS	100%
Statoil AB	100%
Statoil Angola Block 15 AS	100%
Statoil Angola Block 17 AS	100%
Statoil Angola AS	100%
Statoil Apsheron AS	100%
Statoil Asia Pacific Pte. Ltd.	100%
Statoil Azerbaijan Alov AS	100%
Statoil Azerbaijan AS	100%
Statoil BTC Finance AS	100%
Statoil Coordination Center N.V.*	88%
Statoil Danmark A/S	100%
Statoil Deutschland GmbH	100%
Statoil do Brasil Ltda	100%
Statoil Dublin Bay AS	100%
Statoil Exploration Ireland Ltd	100%
Statoil Forsikring AS	100%
Statoil Innovation AS	100%
Statoil Iran AS	100%
Statoil Ireland Ltd	100%
Statoil Kazakstan AS	100%
Statoil Latin America AS	100%
Statoil Marine Holding AS	100%
Statoil Nigeria AS	100%
Statoil NorgeAS	100%
Statoil North Africa Gas AS	100%
Statoil North Africa Oil AS	100%
Statoil North America Inc.	100%
Statoil Orient Inc	100%
Statoil Pernis Invest AS	100%
Statoil Plataforma Deltana AS	100%
Statoil Russia AS	100%
Statoil Sincor AS	100%
Statoil UK Ltd	100%
Statoil Venezuela AS	100%
UAB Lietuva Statoil	100%
Statoil Metanol ANS	82%
Mongstad Refining DA	79%
Statoil Mongstad Terminal DA	65%

* The remaining shares in Statoil Coordination Center N.V. are owned by Statoil AB. Voting rights correspond to ownership interests.

Ownership in certain equity method affiliates

Statoil Detaljhandel Skandinavia AS	50%
Nova Naturgas AB	30%
Vestprosess DA	17%
Etanor DA	16%
Tjeldbergodden Luftgassfabrikk DA	51%

Shares in other companies

Included in Long-term investments of NOK 310 million are shares in Verbundnetz Gas AG of NOK 242 million.

9. Investments

(in NOK million)	At December 31, 2003	2002
Short-term deposits	1,310	115
Certificates	7,846	1,491
Bonds	0	50
Other	40	0
Total short-term investments	9,196	1,656

The cost price of short-term investments is NOK 9,166 million and NOK 1,656 million as at year-end 2003 and 2002, respectively.

All short-term investments are considered held for trading and are recorded at fair value with unrealized gains and losses included in income. The Company's bonds are in their entirety issued by Norwegian banks and credit institutions and denominated in NOK.

10. Property, Plant and Equipment

(in NOK million)	Machinery, equipment and transportation equipment	Production plants oil and gas, including pipelines	Production plants onshore	Buildings and land	Vessels	Construction in progress	Capitalized exploration cost	Total
Cost at January 1, 2003*	2,077	209,364	4,176	2,365	107	6,499	2,000	226,588
Additions and transfers	218	8,465	194	111	0	6,012	64	15,064
Disposal at cost	(208)	(882)	(125)	(16)	0	0	(40)	(1,271)
Expensed expl cost capitalized earlier year	0	0	0	0	0	0	(256)	(256)
Accumulated depreciation, depletion and amortization*	(1,587)	(144,653)	(2,771)	(890)	(86)	0	0	(149,987)
Net property, plant and equipment at December 31, 2003	500	72,294	1,474	1,570	21	12,511	1,768	90,138
Other intangible assets								23
Book value at December 31, 2003								90,161
Depreciation, depletion and amortization for the year	311	12,518	140	63	5		0	13,037
Estimated useful life (years)	5-10	**	15-20	20-25	20-25			

* The impact of new accounting principle regarding decommissioning and removal costs is included in acquisition cost, and accumulated depreciation, depletion and amortization at January 1, 2003.

** Depreciation according to Unit of production, see note 2.

The book value of vessels consist of financial leases. In 2003 and 2002 NOK 275 million and NOK 190 million respectively, of interests were capitalized.

Exploration expenditures

(in NOK million)	2003	2002
Incurred during the year	1,506	1,802
Capitalized share of current year's exploration activity	(106)	(481)
Expensed, previously capitalized exploration expenditures	256	551
Expensed during the year	1,656	1,872

11. Provisions

Provisions against assets (other than property, plant and equipment and intangible assets) recorded during the past two years are as follows:

(in NOK million)	Balance at January 1,	Expense	Recovery	Write-off	Other	Balance at December 31,
Year 2003						
Provisions against other long-term assets	0	0	0	0	0	0
Provisions against accounts receivable	44	0	0	0	0	44
Year 2002						
Provisions against other long-term assets	16	0	(16)	0	0	0
Provisions against accounts receivable	41	3	0	0	0	44

12. Financial Items

(in NOK million)	Year ended December 31, 2003	2002
Dividends received	36	103
Gain (loss) on sale of securities	52	(26)
Interest and other financial income	726	954
Currency exchange adjustments, short-term items	521	1,604
Currency exchange adjustments, long-term items	71	7,283
Interest and other financial expenses	(1,633)	(1,766)
Capitalized interest	275	190
Net financial items	48	8,342

13. Income Taxes

Income tax expense consists of

(in NOK million)	Year ended December 31, 2003	2002
Current taxes payable	32,885	33,572
Change in deferred tax	(314)	(1,139)
Change in deferred tax due to new legislation (see note 2 in the group accounts)	(6,712)	0
Income tax expense	25,859	32,433
Uplift benefits for the year	3,738	3,564

Revenue from oil and gas activities on the NCS is taxed according to the Petroleum tax law. This stipulates a surtax of 50 percent after deducting uplift, a special investment tax credit, in addition to normal corporate taxation. Uplift credits are deducted as they arise, 5 percent each year for six years, as from initial year of investment. Uplift credits not utilized of NOK 9.0 billion can be carried forward indefinitely.

Significant components of deferred income tax liability

(in NOK million)	Year ended December 31, 2003	2002
Impairment	375	363
Decommissioning	11,801	4,606
Other	2,671	929
Total deferred tax assets	14,847	5,898
Property, plant and equipment	37,551	34,364
Capitalized exploration expenditures and interest	7,338	7,845
Other	995	337
Total deferred tax liabilities	45,884	42,546
Net deferred tax liability	31,037	36,648

Income taxes payable in the balance sheet consists of the following

(in NOK million)	2003
Current tax in the income statement	32,885
Taxed paid in instalments	(15,300)
Current tax on group contribution	(256)
Other	(163)
Income taxes payable at December 31	17,166

The movement in deferred income tax liability can be specified as follows

(in NOK million)	2003
Deferred income tax liability at January 1	36,648
Charged to the income statement	(314)
Other[1]	1,415
Change in deferred tax due to new legislation (see note 2 in the group accounts)	(6,712)
Deferred income tax liability at December 31	31,037

1) Other is mainly changes in deferred tax due to application of new principle for recognition of decommissioning and removal cost.

14. Short-Term Debt

(in NOK million)	At December 31, 2003	2002
Bank loans and overdraft facilities	10	2,238
Current portion of long-term debt	3,029	1,944
Total	3,039	4,182
Weighted average interest rate (per cent)	4.65	5.28

15. Long-Term Debt

(in NOK million)	At December 31, 2003	2002
Unsecured debentures bonds		
US dollar (USD)	24,835	25,975
Euro (EUR)	729	621
Other currencies	18	22
Total	25,582	26,618
Other debt	1,550	765
Grand total debt out standing	27,132	27,383
Less current portion	(3,029)	(1,944)
Total long-term debt	24,103	25,439
Weighted average interest rate (per cent)	4.14	3.98

Statoil has an unsecured debenture bond agreement for USD 500 million with a fixed interest rate of 6.5 percent, maturing in 2028, callable at par upon change in tax law. At December 31, 2003 and 2002, NOK 3,293 million and NOK 3,435 million were outstanding, respectively. The interest rate of the bond has been swapped to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for EUR 500 million, with a fixed interest rate of 5.125 percent, maturing in 2011. At December 31, 2003 and 2002, NOK 4,166 million and NOK 3,601 million were outstanding, respectively. EUR 200 million of the bond has been swapped through an interest rate swap agreement to a LIBOR-based floating interest rate.

Statoil has also an unsecured debenture bond agreement for USD 375 million, with a fixed interest rate of 5.75 per cent, maturing in 2009. At December 31, 2003 and 2002, NOK 2,486 million and NOK 2,591 million were outstanding, respectively. Net after buyback this amounts to 2,156 and 2,244 at year-end exchanges rates.

Statoil utilizes currency swaps to manage foreign exchange risk on its long-term debt. The swaps are reflected in the table above. The stated interest rate on the majority of the long-term loans are fixed. Interest rate swaps are utilized to manage interest rate exposure.

Substantially all unsecured debenture bond and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders.

Statoil has 24 debenture bond agreements outstanding, which contain provisions allowing Statoil to call the debt prior to its final redemption at par if there are changes to the Norwegian tax laws or at certain specified premiums. The agreements are net after buyback at the December 31, 2003 closing rate valued at NOK 25,527 million.

Reimbursements of long-term debt fall due as follows:

	(in NOK million)
2004	3,029
2005	2,055
2006	1,658
2007	1,671
2008	1,703
Thereafter	17,016
Total	27,132

Statoil has an agreement with an international bank syndicate for committed long-term revolving credit facility totaling USD 1.6 billion, all undrawn. Commitment fee is 0.108 percent per annum.

As of December 31, 2003 and 2002 respectively, Statoil had no committed short-term credit facilities available or drawn.

16. Financial Instruments and Derivatives

Statoil ASA's exposure to and management of commodity risk, interest and currency risk and market risk for financial investments in equity and debt securities is akin to the exposure to and management of risks in the Statoil group. The combined use of commodity based derivatives and financial instruments is an integral part of the risk management process and is common for group entities. Reference is made to note 16 in the consolidated accounts for a more detailed description of risks and the use of derivatives.

Interest rate and currency risks constitute the most important financial risks for Statoil. Total exposure is managed at portfolio level in accordance with the strategies and mandates adopted. Interest rate risk, currency risk and share risk are assessed against mandates and based on a scenario of 10 per cent currency devaluation, one percentage point change in interest rates and 10 per cent change in share prices. The table below illustrates an uncorrelated loss scenario.

Risk exposure in the areas of currency, market risk on equity security investments and interest are estimated as follows:

	At December 31,	
(in NOK million)	2003	2002
Currency risk	3,602	3,752
Share risk	0	0
Interest rate risk	561	1,060

17. Employee Retirement Plans

Pension benefits

The company have defined benefit retirement plans. Plan benefits are generally based on years of service and final salary levels. The retirement plans are covered by Statoil's pension funds. These funds are organized as independent trusts. The major part of their assets are invested in Norwegian and foreign bonds and shares, as well as real estate in Norway.

Net periodic pension cost

	Year ended December 31,	
(in NOK million)	2003	2002
Benefit earned during the year	780	663
Interest cost on prior period benefit obligation	683	610
Expected return on plan assets	(734)	(746)
Amortization of loss/prior service cost	67	58
Total net pension cost for the year	796	585

Change in projected benefit obligation (PBO)

(in NOK million)	2003	2002
Projected benefit obligation at January 1	10,995	10,159
Benefits earned during the year	780	663
Interest cost on prior period benefit obligation	683	610
Actuarial gain (loss)	3,119	(148)
Benefits paid	(230)	(288)
Projected benefit obligation at December 31	15,347	10,996

Change in pension plan assets

(in NOK million)	2003	2002
Fair value of plan assets at January 1	10,871	11,471
Actual return on plan assets	1,454	(609)
Company contributions	1,005	135
Benefits paid	(99)	(126)
Fair value of plan assets at December 31	13,231	10,871

Status of pension plans reconciled to Balance Sheets

(in NOK million)	2003	2002
Funded status of the plans at December 31	(2,116)	(125)
Unrecognized net loss	3,773	1,409
Unrecognized prior service cost	299	332
Total net prepaid pension recognized at December 31	1,956	1,616

Amounts recognized in the Balance Sheets:

(in NOK million)	2003	2002
Prepaid pension	4,644	3,724
Accrued pension liabilities	(2,688)	(2,108)
Total at December 31	1,956	1,616

Weighted-average assumptions at December 31

Discount rate	5.50%	6.00%
Expected return on plan assets	6.00%	6.50%
Rate of compensation increase	3.50%	3.00%

18. Decommissioning and Removal Liabilities

The asset retirement obligation (ARO) is related to future well closure-, decommissioning- and removal costs. The accretion expense is classified as Operating expenses.

(in NOK million)	2003
Asset retirement obligation at January 1	13,954
Liabilities incurred	475
Accretion expense	491
Revision in estimates	307
Incurred removal cost	(56)
Asset retirement obligation at December 31	15,171

(in NOK million)	2003
Long-lived asset related to ARO at January 1	2,087
Assets incurred/revision in estimates	782
Depreciation	(517)
Long-lived asset related to ARO at December 31	2,352

19. Research Expenditures

Research expenditures were NOK 971 million and NOK 729 million in 2003 and 2002, respectively.

20. Leases

Statoil leases certain assets, notably shipping vessels and drilling rigs.

Rental expense was NOK 4,088 million and NOK 3,488 million in 2003 and 2002, respectively.

The information in the table below shows future minimum lease payments under non-cancellable leases at December 31, 2003. In addition, subleases of certain assets amounting to a rental income of NOK 521 million have been entered into for 2004.

Statoil has entered into a number of general or field specific long-term frame agreements mainly related to loading and transport of crude oil. Main contracts expire in 2007 or later, up until the end of respective field lives. Such contracts are not included in the below table of future lease payments unless they entail specific minimum payment obligations.

Amounts related to capital leases include future lease payments for assets in the books at year-end 2003.

(in NOK million)	Operating leases	Capital leases
2004	2,578	17
2005	1,711	17
2006	982	17
2007	157	17
2008	144	0
Thereafter	410	0
Total future lease payments	5,982	68
Interest component		(14)
Net present value		54

Property, plant and equipment include the following amounts for leases that have been capitalized at December 31, 2003 and 2002:

	At December 31,	
(in NOK million)	2003	2002
Vessel	107	107
Accumulated depreciation	(86)	(80)
Net	21	27

21. Other Commitments and Contingencies

Contractual commitments

(in NOK million)	In 2004	Thereafter	Total
Contractual commitments made	5,877	3,561	9,438

These contractual commitments comprise acquisition and construction of fixed assets.

Guarantees

The Company has provided parent company guarantees for subsidiaries in Angola, Brazil, Nigeria, Venezuela, Azerbaijan, Great Britain, Ireland, Iran and USA. In addition, the Company has provided guarantees of NOK 0.4 billion, NOK 0.3 billion of which relates to the wholly owned insurance subsidiary Statoil Forsikring AS's investment in the company sEnergy Insurance Ltd.

Contingent liabilities and insurance

Like any other licensee, Statoil has unlimited liability for possible compensation claims arising from its offshore operations, including transport systems. The Company has taken out insurance to cover this liability up to about NOK 5.6 billion for each incident, including liability for claims arising from pollution damage. Most of Statoil's production installations are covered through Statoil Forsikring AS, which reinsures a major part of the risk in the international insurance market. About 33 per cent is retained.

Other commitments

As a condition for being awarded oil and gas exploration and production licenses, participants may be committed to drill a certain number of wells. At the end of 2003, Statoil was committed to participating in 6 wells off Norway, with an average ownership interest of approximately 34 per cent. Statoil's share of expected costs to drill these wells amounts to approximately NOK 1 billion.

Statoil has entered into agreements for pipeline transportation for most of its prospective gas sale contracts. These agreements ensure the right to transport the production of gas through the pipelines, but also impose an obligation to cover Statoil's proportional share of the transportation costs based on booked volume capacity. The following table outlines nominal minimum obligations for future years. Corresponding expense for 2003 was NOK 2,448 million. Where the Company has both ownership interests and transport capacity commitments in a pipeline, the amounts in the table include transport commitments that exceed Statoil's pipeline ownership share.

Transport capacity and similar obligations at December 31, 2003:

(in NOK million)	
2004	2,708
2005	2,922
2006	2,935
2007	2,411
2008	2,356
Thereafter	18,989
Total	32,321

During the normal course of its business Statoil is involved in legal proceedings and a number of unresolved claims are currently outstanding. The ultimate liability in respect of litigation and claims cannot be determined at this time. Statoil has provided in its accounts for these items based on the Company's best judgment. Statoil does not expect that either the financial position, results of operations nor cash flows will be materially adversely affected by the resolution of these legal proceedings.

On October 10, 2003 the Norwegian Supreme Court ruled in the case raised by Statoil and several other companies against the Norwegian State, represented by the Ministry of Finance, regarding the tax assessment of income from the joint venture Statpipe for the years 1993 and 1994. The Supreme Court instructed the Oil Taxation Board to reassess the basis for taxation. The ruling will also affect subsequent years. The effect of the reassessment cannot be estimated with a reasonable degree of certainty. For accounting purposes, the disputed taxes have been expensed.

The Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim) has issued a preliminary charge against the Company alleging violations of the Norwegian General Civil Penal Code provision concerning illegal influencing of foreign government officials and is conducting an investigation concerning a consulting agreement which Statoil entered into in 2002 with Horton Investments Ltd. The company has also been notified by the U.S. Securities and Exchange Commission (SEC) that the Commission is conducting an inquiry into the consultancy arrangement to determine if there have been any violations of U.S. federal securities laws.

22. Related Parties

Total purchases of oil and natural gas liquid from the Norwegian State amounted to NOK 68,479 million (336 million barrels oil equivalents) and NOK 72,298 million (374 million barrels oil equivalents) in 2003 and 2002, respectively. Amounts payable to the Norwegian State for these purchases are included as Accounts payable — related parties in the Consolidated Balance Sheets. The prices paid by Statoil for the oil purchased from the Norwegian State are estimated market prices. In addition Statoil sells the Norwegian State's natural gas, in its own name, but for the account and risk of the Norwegian State.

The Norwegian State compensates Statoil for its relative share of the expenditures related to certain Statoil natural gas storage and terminal investments and related activities.

23. Equity and Shareholders

Change in equity

(in NOK million)	2003	2002
Equity at January 1	51,033	46,189
Net income	17,064	16,377
Translation adjustment	2,884	(5,318)
Ordinary dividend	(6,390)	(6,282)
Other	0	67
Equity at December 31	64,591	51,033

Common stock

	Number of shares	Par value	Common stock
Authorized and issued	2,189,585,600	2.50	5,473,964,000
Treasury shares	(23,441,885)	2.50	(58,604,712)
Total outstanding shares	2,166,143,715	2.50	5,415,359,288

There exists only one class of shares and all have voting rights.

188,700,000 new shares were provided in a public offering in 2001. Investors in the retail offer were entitled to receive one additional ordinary share for every 10 ordinary shares which they purchased and continued to hold in the same VPS account through June 17, 2002. The entitlement to bonus shares was limited to an aggregate purchase amount of NOK 25,000 (NOK 75,000 for Statoil employees).

The 25,000,000 treasury shares were issued through a transfer from retained earnings to common stock. The treasury shares will be used to grant additional bonus shares, and may not be used for any other purpose without the consent of the general meeting. During 2002 and 2003 a number of 1,558,115 bonus shares were issued.

The 20 largest shareholders at December 31, 2003

1	81.72%	DEN NORSKE STAT
2	1.96%	STATE STREET BANK & TRUST CO.*
3	1.67%	JPMORGAN CHASE BANK*
4	0.96%	MELLON BANK AS AGENT*
5	0.64%	BANK OF NEW YORK*
6	0.56%	THE NORTHERN TRUST CO.*
7	0.47%	JPMORGAN CHASE BANK*
8	0.41%	DEUTSCHE BANK AG (GCS) LONDON
9	0.37%	CLEARSTREAM BANKING*
10	0.33%	FOLKETRYGDFONDET
11	0.30%	VITAL FORSIKRING ASA
12	0.29%	THE NORTHERN TRUST CO.*
13	0.27%	EUROCLEAR BANK S.A./N.A. ('BA')*
14	0.26%	MELLON BANK AS AGENT*
15	0.25%	SKANDINAVISKA ENSKILDA BANKEN*
16	0.22%	JPMORGAN CHASE BANK*
17	0.21%	MORGAN STANLEY & CO.*
18	0.17%	STATE STREET BANK & TRUST CO.*
19	0.17%	SKANDINAVISKA ENSKILDA BANKEN
20	0.17%	ROYAL TRUST CORPORATION OF CANADA*

* Client accounts and similar.

Members of the board of directors, corporate executive committee and corporate assembly holding shares as of December 31, 2003:

Board of Directors	
Jannik Lindbæk (Chair)	0
Marit Bakke	165
Stein Bredal	165
Bjørn Erik Egeland	1,243
Kaci Kullmann Five	1,242
Finn A Hvistendahl	2,947
Grace Skaugen	0
Eli Sætersmoen	0
Knut Åm	14,594
Corporate Executive Comittee	
Inge K Hansen (acting Chief executive officer)	12,403
Elisabeth Berge	1,603
Henrik Carlsen	1,243
Peter Mellbye	2,843
Terje Overvik	825
Ottar Inge Rekda	825
Eldar Sætre	825
Erling Øverland	2,464
Corporate Assembly (in total)	1,738

24. Auditors' Remuneration

(in NOK million)	Year ended December 31, 2003	2002
Audit fees	7.6	6.5
Audit-related fees	1.4	1.6
Tax fees	3.5	1.1
Total	12.5	9.2

25. Subsequent Events

In January 2004, Statoil acquired in all 11.24 per cent of the Snøhvit Field, 10 per cent from Norsk Hydro and 1.24 per cent from Svenska Petroleum, respectively. Following these transactions, Statoil will own 33.53 per cent of the Snøhvit Field. The transactions will be made with economic effect from January 1, 2004 and are subject to approval by the Norwegian authorities.

After year-end 2003, Statoil has entered into guarantee commitments for financing the development of the BTC pipeline amounting to USD 140 million (NOK 0.9 billion).

ICA AB and Statoil have signed a letter of intent covering the acquisition by Statoil of ICA's holding in Statoil Detaljhandel Skandinavia AS (SDS). ICA and Statoil currently own 50 per cent each of SDS. Subject to approval by the boards of Statoil and ICA, the finalized deal is expected to be implemented during the spring of 2004.

STAVANGER, MARCH 3, 2004

THE BOARD OF DIRECTORS OF STATOIL ASA

JANNIK LINDBÆK
CHAIR

STEIN BREDAL	MARIT BAKKE	BJØRN ERIK EGELAND
KACI KULLMANN FIVE	FINN A HVISTENDAHL	GRACE SKAUGEN
ELI SÆTERSMOEN	KNUT ÅM	INGE K. HANSEN ACTING PRESIDENT AND CEO

To the Annual Shareholders'
Meeting of Statoil ASA

Report of independent auditors — Norwegian GAAP accounts

We have audited the annual financial statements of Statoil ASA for the year ended December 31, 2003, showing a net income of NOK 17,064 million for the parent company and a net income of NOK 17,064 million for the Group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the consolidated accounts. These financial statements are the responsibility of the Company's Board of Directors and the President and chief executive officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

— the financial statements have been prepared in accordance with law and regulations and present the financial position of the Company and of the Group as of December 31, 2003, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway

— the Company's management has fulfilled its duty to properly register and document the accounting information as required by law and accounting standards, principles and practices generally accepted in Norway

— the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

Stavanger, March 3, 2004

ERNST & YOUNG AS

Gustav Eriksen
State Authorised Public Accountant
(Norway)

Jostein Johannessen
State Authorised Public Accountant
(Norway)

RECOMMENDATION OF THE CORPORATE ASSEMBLY

Resolution:

At its meeting of 16 March 2004, Statoil's corporate assembly discussed the 2003 annual accounts of Statoil ASA and the Statoil group, and the board of directors' proposal for the allocation of net income. The corporate assembly recommends that the general meeting adopts the annual accounts and the allocation of net income, in accordance with the proposals presented by the board of directors.

Stavanger, March 16, 2004

Anne Kathrine Slungård
Chair of the corporate assembly

Corporate assembly

Anne Kathrine Slungård, Wenche Meldahl, Kjell Bjørndalen, Kirsti Høegh Bjørneset, Erlend Grimstad, Gunnar Mathisen, Anita Roarsen, Asbjørn Rolstadås, Arvid Færaas, Hans M Saltveit, Einar Arne Iversen, Åse Karin Staupe

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annex 12

Draft opening balance Statoil ASA as of 14 May 2007*

	(in NOK million)
ASSETS	
Net property, plant and equipment	118,737
Long-term receivables	7,088
Long-term receivables from subsidiaries	16,994
Long-term investments	28
Investments in subsidiaries	132,731
Investments in affiliates	1,164
Total non-current assets	276,742
Inventories	5,534
Accounts receivable	34,917
Short-term receivables from subsidiaries	6,037
Prepaid expenses and other current assets	57,093
Total inventories and accounts receivables	103,581
Short-term investments	87
Cash and cash equivalents	2
Cash, cash equivalents and short-term investments	89
Total current assets	103,670
TOTAL ASSETS	380,412
EQUITY AND LIABILITIES	
Common stock (3 188 647 103 shares)	7,972
Treasury shares (1 240 768 shares)	(3)
Additional paid-in-capital	18,655
Paid-in capital	26,624
Reserve for valuation variances	19,213
Retained earnings	98,092
Total equity	143,929
Net deferred income taxes	39,288
Other liabilities	33,205
Long-term debt to subsidiaries	127
Long-term debt	40,693
Total long-term liabilities	113,313
Short-term debt	4,511
Accounts payable	15,742
Accounts payable — related parties	7,539
Short-term payable to subsidiaries	33,590
Withheld, excise and other taxes	1,502
Income taxes payable	29,094
Accrued liabilities	5,371
Dividend payable	25,821
Total current liabilities	123,170
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	380,412

*) The draft of the opening balance sheet is prepared using Statoil ASA's accounting principles as described in note 2 to the enclosed 2006 Annual Financial Statements and included in the Plan for the demerger of Norsk Hydro ASA pursuant to the merger of the Norsk Hydro ASA's petroleum activities with Statoil ASA (annex 10). The opening balance sheet is based on the pooling of interests method. The draft of the opening balance sheet is based on the historical financial statements of both of the companies as of 31.12.2006. Changes in capital according to the merger plan, consisting of capital increases as well as retirement of treasury shares and redemption of certain other shares, are included together with adjustments to conform accounting principles and eliminate transactions between the combining companies.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Annex 13

To the Shareholders of
Statoil ASA

Confirmation of Draft Opening Balance

We confirm that the draft opening balance as of 14 May 2007 for Statoil ASA has been prepared in accordance with generally accepted accounting principles in Norway and the provisions of the Norwegian Accounting Act.

Stavanger, 14 May 2007
ERNST & YOUNG AS

/s/ Jostein Johannessen
State Authorised Public Accountant (Norway)
(sign.)

This is a translation of the original official Norwegian document, and is provided for information purposes only.

[THIS PAGE INTENTIONALLY LEFT BLANK]

Translation from Norwegian

To the General Meeting of Norsk Hydro

INDEPENDENT ACCOUNTANTS' REPORT

We confirm that subsequent to the reduction of the share capital in Norsk Hydro ASA from NOK 3,197,265,703.30 from NOK 4,567,522,433.30 to NOK 1,370,256,730 and the reduction of the premium paid-in capital of 6,727,420,000 there will be full coverage of Norsk Hydro ASA's restricted equity subsequent to the reduction.

Oslo, Norway, 14 May 2007
Deloitte AS

/s/ Aase Aa. Lundgaard
State Authorized Public Accountant, (Norway)

BOWNE
U52613