HYDRO

Financial Statements & Directors' Report 2006

Hydro's 2006 reporting

Our 2006 reporting has a different structure compared to previous years. For distribution to the shareholders, we have prepared two reports; "Financial Statements and Directors' Report 2006", and "2006 - in Brief". The first one fulfils the Norwegian requirements to annual reporting, while the latter one gives a short presentation of Hydro's progress and main challenges in 2006. These reports are available in both English and Norwegian.

Our main report for 2006 is "Annual Report 2006" and includes detailed information about Hydro's businesses, operational performance, financial performance, viability performance, corporate governance and financial statements. It incorporates the requirements of the annual report on Form 20-F in order to meet the requirements of the US Securities and Exchange Commission (SEC), and is filed with SEC. The report is available in English.

At www.hydro.com/reports the full content of the three reports are presented together, and with some supplementary information. Part of the content is only available in English. Printed versions of all reports can be ordered from this site, and all parts of the reports can be downloaded and printed, as demanded.

Hydro's main reporting on Viability Performance is included in the "Annual Report 2006" and on the web.

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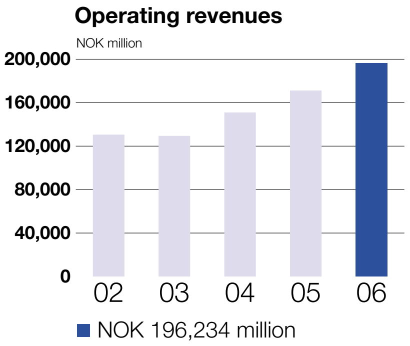
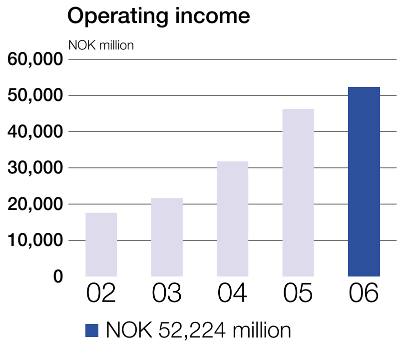
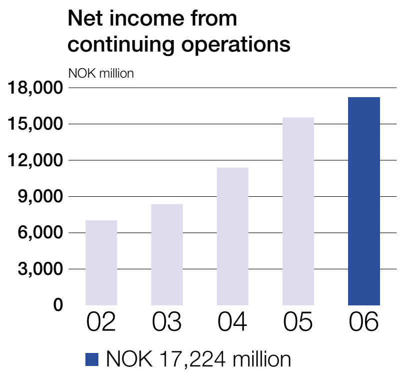
Content

Board of Directors' Report







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.

■ 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).

Overview

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.

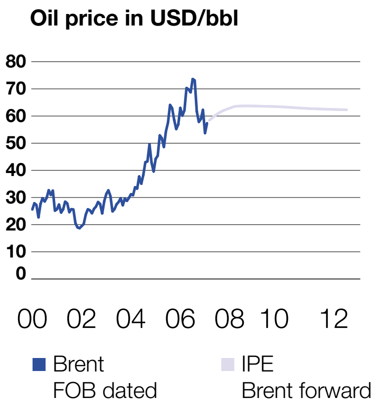
Efforts to reposition our primary aluminium operations are progressing and are expected to significantly improve our smelter cost position. The Qatalum project (Hydro share 50 percent), a major element in our growth strategy, is on track and a final decision to construct the new plant is expected in 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.

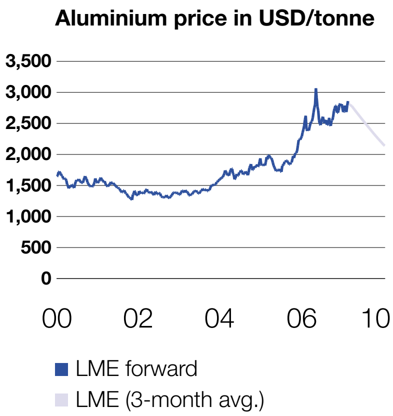
Operating results for our downstream aluminium operations were impacted by write-downs and losses relating to our ongoing restructuring and divestment efforts. We have taken steps to exit the automotive castings and structures businesses and have decided to close our primary magnesium plant in Becancour, 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.

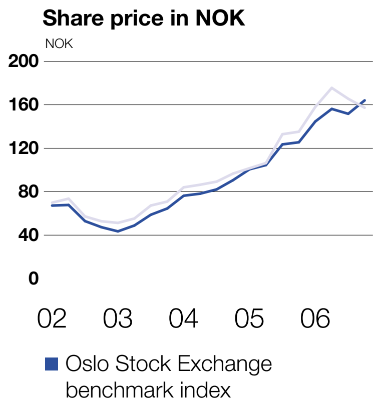
Hydro Polymers has delivered a strong performance for 2006. In December 2006, we announced that we are considering a divestment or public listing of this business. We believe it is an appropriate time to create new opportunities for Polymers by re-exploring options for new ownership.

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).







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 write-downs 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.

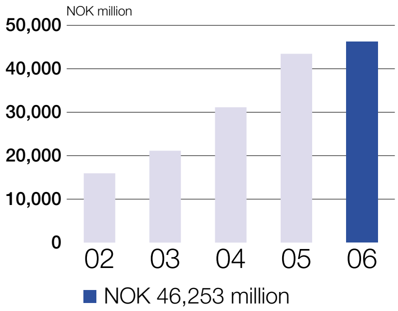
Increased oil recovery and selective acquisitions are also key elements in our strategy to replace reserves. Hydro is focusing on improved oil recovery from existing fields in addition to finding viable solutions for developing smaller fields and making optimal use of present infrastructure. Outside 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.

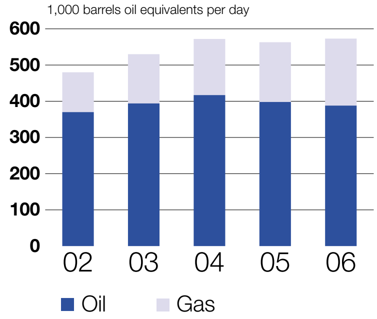
We are currently present in seven of the top 21 oil producing countries globally, but more than 90 percent of our production is currently in OECD countries. As fields mature in more developed regions, reserve replacement opportunities are increasingly concentrated in areas characterized by emerging and 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

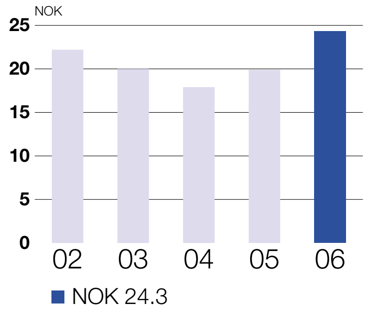
Operating income Oil & Energy



Oil and gas production



Production costs per barrel*



* Excluding gas injection costs

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 postion 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 (loss) – Oil & Energy

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/d)	**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 increased 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 increased 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.

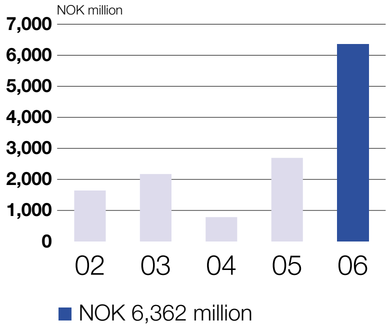
Efforts to reposition our upstream aluminium operations are on track. During 2005 and 2006, we closed down 110,000 mt of high-cost annual primary production capacity. This was partly replaced by new, low-cost capacity from the expansion of the Alouette smelter in Canada (Hydro share 20 percent) and incremental 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.

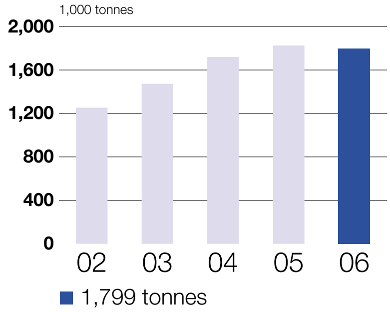
Preparations for the Qatalum primary aluminium plant (Hydro share 50 percent) continued during 2006. The estimated total investment cost for the project is in the range of USD 4.5 billion (100 percent). A final cost estimate and a decision to proceed with the project are expected in 2007. The Qatalum 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.

Operating income Aluminium Metal

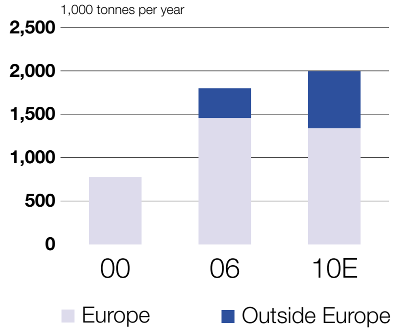


Production of primary aluminium



Including our share of non-consolidated investees

Hydro smelter geography



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

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.

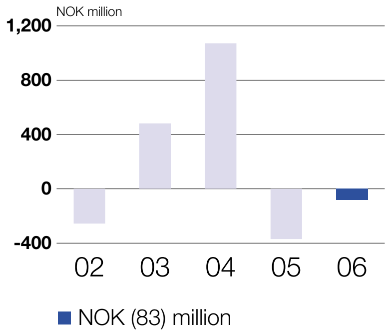
Realized prices measured in Norwegian kroner increased 30 percent for 2006, compared with 2005, contributing about NOK 6,200 million to operating income, and 4 percent in 2005 compared with 2004.

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 Årdal 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.

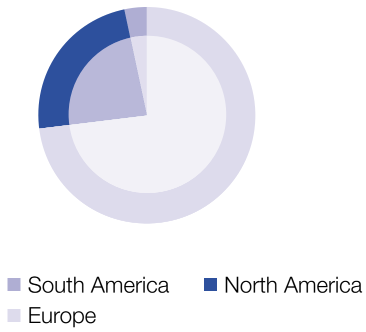
Primary aluminium production, including production from partly owned companies, decreased slightly to 1,799,000 mt in 2006 from 1,826,000 mt in 2005, due to closures of the Hamburger Aluminium Werk (HAW) smelter in Germany and the Søderberg production line at Høyanger. The reduced capacity was mostly 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.

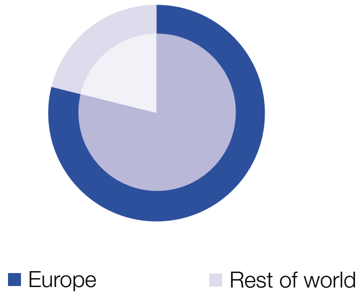
Operating income Aluminium Products



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) – Aluminium Products

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.

Other activities

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 Hydro 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

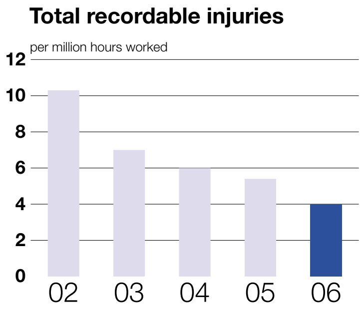
Hydro allocates an annual sum of NOK 726 million to R&D. Roughly half of this goes to our in-house research organization, while the other half supports work carried out at external institutions.

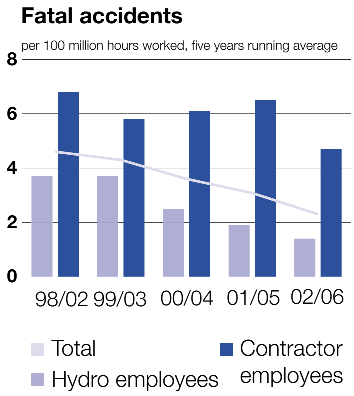
Our aluminium business, which has research centers in Årdal and Porsgrunn in Norway as well as smaller groups of researchers elsewhere in the world, spent a total of NOK 487 million. Our oil and energy operations, which run research centers in Porsgrunn and Bergen, Norway, expended NOK 212 million.

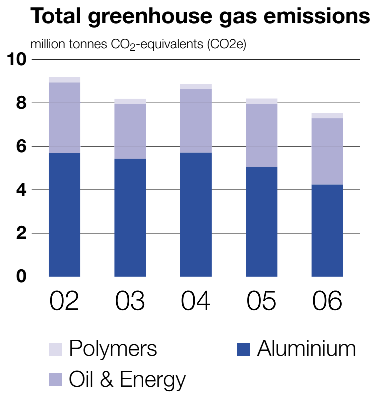
Our oil and gas research is concentrated on six main programs: breakthrough exploration, increased recovery, field development, operations in arctic areas, CO_2 handling and new energy. In addition, a basic program helps secure and renew strategically important competence for Hydro like health, safety 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 loss 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.

Integrity and transparency

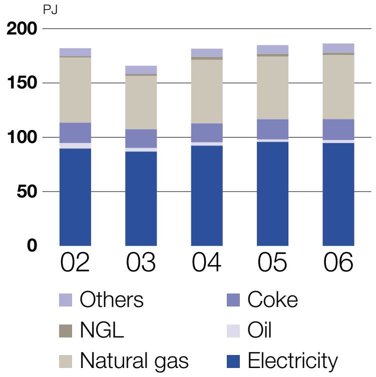
Corruption and human rights violations are a reality in several of the countries where Hydro operates. It is important for us to work systematically and to have a consistent approach in order to ensure and promote ethical conduct. Our position is zero tolerance of corruption and human rights violation. 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.

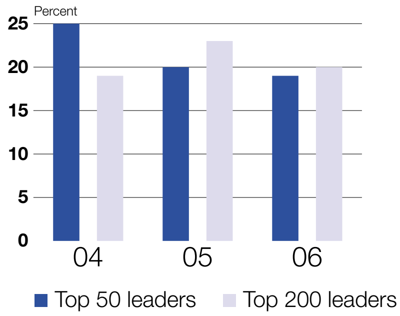
In the business plans for 2007, the business areas have included measures that contribute to making the integrity program and other topics within corporate responsibility ever more integrated with our business activities.

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.

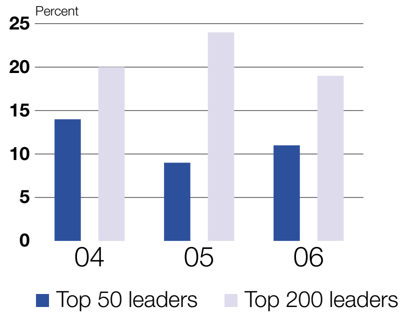
Total energy consumption



Share of women leaders



Share of non-Norwegian leaders



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

NOK million	2006	2005		2006	2005
Oil & Energy					
Norway	**33,466**	27,579	Iran	**-**	-
US	**654**	21	Cuba	**-**	-
Canada	**207**	132	Denmark	**-**	-
Brazil	**1**	-	Mozambique	**6**	0.2
Angola	**1,957**	625	Morocco	**-**	-
Libya	**458**	268	Madagascar	**-**	-
Russia	**335**	18	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.

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

Eivind Reiten
President and CEO

Shareholder information

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).

Hydro has one class of share. By the end of 2006 there were 1,226,175,885 outstanding shares. A total of 2.3 billion Hydro shares were traded on the Oslo Stock Exchange during 2006, representing about 15 percent of the total turnover on the exchange in terms of share value. In addition, Hydro's ordinary shares are listed in London, Paris, Frankfurt, Düsseldorf and Hamburg. ADSs are listed on the New York Stock Exchange.

All share prices and number of shares in this section have been recalculated to reflect the five for one share split in 2006.

Dividend policy

Long-term returns to shareholders should reflect the value created by Hydro. Shareholders' returns consist of dividends and share price development. Over time value creation should be reflected to a greater extent by share price development than through dividends. Our dividend policy for current Hydro has been to pay out 30 percent of net income over time to our shareholders. The payout ratio in one specific year may be above or below 30 percent of net income, but should average 30 percent of net income over a period of several years. In setting the dividend for a specific year we will take into consideration future earnings, future investment opportunities, the outlook for world commodity markets and our financial position.

Hydro's Board of Directors normally proposes a dividend per share in connection with the publication of our fourth quarter results. The Annual General Meeting then considers this proposal in May each year, and the approved dividend is subsequently paid to shareholders in May or June. We pay dividends once each year. For non-Norwegian shareholders, Norwegian tax will be deducted at source in accordance with the current regulations.

The Board of Directors has proposed a dividend of NOK 5.00 per share for 2006, up from NOK 4.40 per share in 2005. The Annual General Meeting on 8 May 2007 will consider the dividend proposal. See financial calendar for more information on key dates related to the dividend.

Buyback of shares

In periods when earnings are high, Hydro's policy has been to buy back shares in addition to ordinary dividend payments. This consideration has been made in the light of alternative investment opportunities and our financial situation. In circumstances when buying back shares are relevant, our Board of Directors proposes buyback authorizations to be considered and approved by the Annual General Meeting. Share buyback authorizations are granted for a specific time period and for a specific share price interval for which share buybacks can be made.

The Annual General Meeting on 9 May 2006 approved a new buyback authorization of 40,000,000 shares over a one-year period, where 22,470,482 shares could be purchased in the market. Our intention is to cancel the repurchased shares through a capital reduction. The Norwegian State has agreed to participate by redemption and cancellation of a proportional number of shares. Upon redeeming the State's shares, Hydro will pay a price equal to the volume-weighted average of the prices we paid for shares bought in the market, plus an interest rate of NIBOR plus one percent to compensate for the later settlement. The share price interval for the potential buybacks was between NOK 50 and NOK 300 per share. During 2006 we repurchased 21,627,000 shares in the market under this buyback authorization at an average price of NOK 160.79 per share. No further repurchases will be made under this authorization. The Norwegian State's proportional number of shares amounting to 16,871,506 shares will be redeemed during 2007. At the Annual General Meeting expected in second quarter 2007, we will propose to cancel 38,498,506 shares by means of a capital reduction.

We also redeemed 3,644,685 shares held by the Norwegian State at an average price of NOK 129.30 per share as part of a buyback authorization approved by the Extraordinary General Meeting on 1 December 2004. At the same time we executed a capital reduction by canceling 8,316,685 shares.

Revised dividend policy for "new" Hydro

Following the completion of the proposed merger of our oil and gas activities and Statoil, Hydro will continue its existing dividend policy with an average payout of 30 percent of net earnings. Share buybacks or extraordinary dividends will supplement dividends during periods of strong financials, due consideration being given to the commodity cycle and capital requirements for future growth. The payout should reflect Hydro's aim to give its shareholders competitive returns benchmarked against alternative investments in comparable companies.

Major shareholders and voting rights

An overview of Hydro's major shareholders as of 31 December 2006 is provided on page F53 in this report.

Annual general meeting

The Annual General Meeting of Norsk Hydro ASA will be held at the Radisson SAS Scandinavia Hotel, Holbergsgate 30, Oslo, Norway, on Tuesday, 8 May 2007, at 17:00 CET. In accordance with Hydro's Articles of Association, notice of the Annual General Meeting will be published in the Norwegian newspapers Aftenposten, Dagens Næringsliv and Dagsavisen.

Key figures for the Hydro share

	2006	2005	2004	2003	2002
Share price high, Oslo (NOK) [1]	**199.40**	149.70	104.30	73.18	77.77
Share price low, Oslo (NOK)	**135.00**	92.50	72.30	46.20	48.14
Share price average, Oslo (NOK)	**164.05**	119.14	88.77	59.96	61.65
Share price year-end, Oslo (NOK)	**193.50**	138.60	95.40	72.39	54.75
Share price high, NYSE (USD)	**32.37**	23.43	16.72	10.95	9.22
Share price low, NYSE (USD)	**20.93**	14.80	10.69	6.33	6.53
Share price average, NYSE (USD)	**25.73**	18.46	13.22	8.49	7.73
Share price year-end, NYSE (USD)	**30.67**	20.64	15.74	10.90	7.83
Earnings per share (EPS) (NOK)	**14.00**	12.50	9.90	8.50	6.80
EPS from continuing operations (NOK)	**13.90**	12.40	9.00	6.50	5.50
P/E [2]	**13.92**	11.05	10.58	11.14	9.96
Dividend per share (NOK) [3]	**5.00**	4.40	4.00	2.20	2.10
Pay-out ratio [4]	**36%**	35%	44%	26%	31%
Dividend growth	**14%**	10%	82%	5%	5%
Pay-out ratio five year average [5]	**34%**	34%	29%	28%	31%
Debt/equity ratio [6]	**0.22**	0.31	0.11	0.38	0.60
Credit rating, Standard & Poor's	**A-**	A	A	A	A
Credit rating, Moody's	**A2**	A1	A2	A2	A2
Beta [7]	**1.91**	1.76	1.56	0.84	0.94
Non-Norwegian ownership, year-end	**38%**	40%	37%	35%	36%
Outstanding shares, average	**1,240,804,344**	1,254,036,520	1,272,057,165	1,287,642,555	1,288,997,055
Outstanding shares, year-end	**1,226,175,885**	1,250,692,320	1,254,196,150	1,283,560,000	1,289,802,660

1) Adjustment factor 0.881699 used for share prices prior to the demerger of 25 March 2004, according to Oslo Stock Exchange's calculation methods.

2) Share price at year-end divided by EPS from continuing operations

3) Proposed dividend for 2006

4) Dividend per share divided by earnings per share. EPS from continuing operations in 2004.

5) Total dividend divided by net income for last five years

6) Interest-bearing debt + net pension liability (tax adjusted) + operating lease commitments (discounted) - cash and cash equivalents - short-term investments divided by shareholders' equity + minority interest

7) Change in share price compared with Oslo Benchmark Index (measured for rolling 48 months)

Shareholders who wish to attend are asked to inform the registrar by 16.00 CET on Friday, 4 May:

DnB NOR Bank ASA
Verdipapirservice
0021 Oslo, Norway
Fax: + 47 22 48 11 71

You may also register electronically on our website www.hydro.com/register or via VPS Investor Services. Any shareholder may appoint a proxy with written authority to attend the meeting and vote on his or her behalf.

Holders of shares in the form of ADSs need to exchange their ADSs for shares in accordance with the Deposit Agreement and then register such shares with the Norwegian Central Securities Depository to be eligible to vote their shares at the Annual General Meeting.

Change of address

Shareholders registered in the Norwegian Central Securities Depository should send information on changes of address to their registrars and not directly to Hydro.

Financial calendar

8 May 2007	Annual General Meeting
9 May 2007	Ordinary shares and ADRs trading ex-dividend
11 May 2007	Record date for dividend ADRs
12 May 2007	Record date for dividend ordinary shares
21 May 2007	Payment of dividend ordinary shares
29 May 2007	Payment of dividend ADRs
31 May 2007	First quarter results
24 July 2007	Second quarter results
23 October 2007	Third quarter results

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**	14,285	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		**(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 intergral 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	14,553
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 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

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 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.

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. 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 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 split 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 nill.

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 for 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 is 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 FSP 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 Uncertainty 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 for 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 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 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**	2005	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 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

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 the 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 emploees 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 loss	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	-	30,400
Håkan Mogren	255	-	-
Ingvild Myhre 4)	94	-	-
Kurt Anker Nielsen	351	-	-
Grete Faremo 5)	159	-	-
Lena Olving 5)	213	-	-
Geir Nilsen 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, remuni-tion 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	Salary [1) 2)]	Exercise of options [1) 3)]	Remuneration in kind [1) 2)]	Bonus [1) 4)]	Estimated change in value of pension benefits [5)]	Outstanding loans [1) 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 Nilsen [7)]	234	-	17	443	2,413	135
Tore Torvund	3,350	8,379	225	582	3,329	-
Hilde Aasheim [8)]	1,808	-	135	-	1,893	-
Svein Richard Brandtzæg [9)]	3,912	1,923	91	-	9,065	309
Torstein Dale Sjøtveit [10)]	1,892	1,932	119	-	5,912	427
Cecilie Ditlev-Simonsen [11)]	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 Mangement 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 managment 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-1 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, 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 2006	2005	2004	Internal revenues 2006	2005	2004	Total operating revenues 2006	2005	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	2005	Non-current Assets 2006	2005	Assets [1] 2006	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	2005	Segment debt [3] 2006	2005	Investments [4] 2006	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	2005	2004	Long-lived assets 2006	2005	2004	Investments 2006	2005	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	2005	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	***(4,821)***	*(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	***53,612***	*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.

	US GAAP Deferred Tax			
	Assets	**Liabilities**	Assets	Liabilities
Amounts in NOK million	**2006**	**2006**	2005	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 sales	**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 tax 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	58
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	512	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 a.s 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 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 1,433 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 major 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 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 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 Borealis 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**	4,243	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 liabilites	**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
Liabilites 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 million	**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	Land-based activities: Machinery and equipment	Land-based activities: Buildings	Land-based activities: Plant under construction	Oil and gas activities [1]	Total
Cost:						
Cost 31.12.2005	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 adjustement related to the acqusition of Spinnaker Exploration Company in December 2005, see note 2.
7) Includes previously capitalized exploration costs, including acqusition 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	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 comrehensive 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 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 2006.

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 2006, the remaining volume covered under the guarantee was 0,78 million Sm^3 of crude oil, equivalent to approximately NOK 1,844 million calculated at current market prices. 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.

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 22

Contractual and other commitments for future investments and operations

As of 31 December 2006: Amounts in NOK million	2007	Investments thereafter	Total
Contract commitments for investments in property, plant and equipment:			
Land based	754	2,274	3,028
Oil and gas fields and transport systems	5,995	9,586	15,581
Total	6,749	11,860	18,609
Additional authorized future investments in property, plant and equipment:			
Land based	636	1,235	1,871
Oil and gas fields and transport systems	1,892	32	1,924
Total	2,528	1,267	3,794
Contract commitments for other future investments:	69	48	117

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 Pool). 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.

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	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 (OCI) 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 flow 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	5,836
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 28,088,105 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 Helene Ulltveit-Moe	55,000
Terje Venold [2]	200
Svein Aaser	9,360

Deputy members	
Nils Roar Brevik	80
Tore 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 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.

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
Impaiment 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)
Impaiment 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 for 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)

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

Statements of cash flows

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.

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

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 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 12,511 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 AS	100	NOK	80,000	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	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 loans 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 EuroPacific 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 Share-holders' equity
Balance 31 December, 2005	15,078	31,380	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	2005	2004	International 2006	2005	2004	Total 2006	2005	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 unsuccessfull well drilled in 2004.

Costs related to development, transportation systems and other

Amounts inn NOK million	Norway 2006	2005	2004	International 2006	2005	2004	Total 2006	2005	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

	Norway			International			Total		
Amounts in NOK million	**2006**	2005	2004	**2006**	2005	2004	**2006**	2005	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**	15,253	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			
	Oil	Natural gas		Oil and	Oil	Natural gas		Oil and	Oil	Natural gas		Oil and
		billion	billion	gas		billion	billion	gas		billion	billion	gas
	mmboe [1]	Sm^3 [2]	cf [2]	mmboe [3]	mmboe [1]	Sm^3 [2]	cf [2]	mmboe [3]	mmboe [1]	Sm^3 [2]	cf [2]	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	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
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	4,197	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
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 = 6.2898 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 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 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.

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.

Use of non-GAAP financial measures

Non-GAAP financial measures are defined in the SEC regulations as financial measures that either exclude or include amounts that are not excluded from or included in the most directly comparable measure calculated and presented in accordance with GAAP.

Adjusted net interest-bearing debt, adjusted equity and adjusted net debt/equity

Hydro refers to "Adjusted net interest-bearing debt" and "Adjusted net debt/equity ratio" in its discussion of its financial condition.

The "Adjusted net debt/equity ratio" is comprised of "Adjusted net interest-bearing debt" divided by "Adjusted equity."

"Adjusted net interest-bearing debt" is defined as net interest-bearing debt, plus net unfunded pension obligations, after tax, and the present value of operating lease obligations.

"Net interest-bearing debt" is comprised of interest-bearing debt less cash and cash equivalents and short-term investments. Hydro's interest-bearing debt consists primarily of long-term debenture bonds which are not readily repayable. Cash and cash equivalents are therefore accumulated in periods with significant cash in-flow. Investments, including substantial acquisitions, have, to a large extent, been financed through drawing on accumulated cash positions. Hydro uses net debt to calculate the adjusted net debt/equity ratio in order to reflect the considerable variances in ability to assume additional debt from changes in cash holdings over time.

"Net interest-bearing debt" is adjusted for the estimated effects of changes in the fair value of net pension liabilities. Prior to the adoption of SFAS 158 as of 31 December 2006, this liability was partially recognized in the balance sheet. However, effective with the implementation of SFAS 158, the entire estimated liability is recognized, with changes in the liability that are not recognized in earnings being recognized in Other Comprehensive Income and therefore as part of shareholders' equity. Prior periods are not restated; the liability is not recognized in any balance sheet prior to 31 December 2006. Hydro also adjusts "Net interest-bearing debt" for liabilities relating to operating lease agreements. Both of the obligations described above are considered debt-like in nature and therefore affect Hydro's ability to incur additional debt.

"Adjusted equity" reported for 2005 consists of equity plus minority interests, less unrecorded pension liabilities which are not reflected in retained earnings and therefore excluded from equity under US GAAP. The adjustment is net of the expected income tax benefit. "Adjusted equity" reported for 2006 consists of equity plus minority interests, as the pension liability is now recognized in the 31 December 2006 equity. No adjustment to "Equity" is made for operating lease agreements in either the 2005 or 2006 figures because the value of the right to use leased assets is considered to be similar to the payment obligation. To summarize, no adjustment is made to equity as of 31 December 2006, while equity in prior periods is adjusted for unrecognized pension liabilities net of the related tax benefit.

The measurement of the adjusted net debt/equity ratio as described above is considered important to measure Hydro's financial position. Since market conditions may result in significant differences between pension liabilities recognized under generally accepted accounting principles in prior periods and the fair value of these liabilities, and because leases represent commitments affecting Hydro's financial capacity going forward, these adjustments add information value when measuring Hydro's financial position. The "Adjusted debt/equity ratio" is calculated by Hydro using similar methodology as the major credit rating agencies, and we believe it helps management and investors to evaluate potential changes in credit rating.

Management makes regular use of the "Adjusted net debt/equity ratio" in its assessment of Hydro's financial stability and ability to incur new debt. Management believes that this ratio provides useful information to readers of Hydro's financial statements and helps them to assess the effect of pension liabilities and operating lease commitments that are otherwise not apparent when analyzing Hydro's financial statements prepared in accordance with US GAAP. However, this measure does not recognize the fact that cash may not be available for debt repayments, but may be required for operational needs including tax payments on periodic results, contractual obligations or necessary investments.

"Adjusted net interest-bearing debt," "Adjusted equity" and "Adjusted net debt/equity ratio" are presented in the following table.

Management believes that the most directly comparable US GAAP ratio is the "Debt/equity ratio." However, this ratio measures gross interest-bearing debt relative to equity, i.e. it does not measure changes in cash position, and is therefore not directly comparable with the non-GAAP measure "Adjusted net debt/equity ratio."

Hydro management's use of the described non-GAAP measures should not be construed as an alternative to "Debt/equity ratio," gross debt and statements of cash flows in accordance with generally accepted accounting principles when evaluating Hydro's financial condition. Management carefully reviews the appropriateness of adjustments to the US GAAP figures, and also makes regular use of measures calculated according to generally accepted accounting principles in addition to "Adjusted net interest-bearing debt" and "Adjusted net debt/equity ratio" when measuring financial condition.

Net interest-bearing debt to equity

NOK million	31 December 2006	31 December 2005
Cash and cash equivalents	**6,760**	10,463
Current assets	**15,020**	3,865
Bank loans and other interest-bearing short-term debt	**(3,213)**	(4,658)
Current portion of long-term debt	**(441)**	(379)
Long-term debt	**(19,619)**	(21,387)
Net interest-bearing debt	**(1,493)**	(12,095)
Net pension liabilities at fair value	**(11,750)**	(13,529)
Expected income tax benefit on pension liability (30%)	**3,525**	4,059
Operating leases commitments discounted at 6.9% [1]	**(12,068)**	(6,287)
Adjusted net interest-bearing debt	**(21,786)**	(27,852)
Shareholders' equity	**(96,496)**	(95,495)
Minority interest	**(707)**	(981)
Shareholders' equity and minority interests	**(97,202)**	(96,476)
Net pension liabilities not recognized without equity effect	**-**	8,474
Expected income tax benefit (30%)	**-**	(2,542)
Equity adjustment off-balance sheet pension liabilities	**-**	5,932
Adjusted shareholders' equity and minority	**(97,202)**	(90,544)
Adjusted net debt/equity ratio	**0.22**	0.31

1) The discount rate for the operating lease commitments is 6.9%, reflecting Hydro's average interest expense. This also corresponds to amended methodology used by major rating agencies for the purpose of credit rating.

The most directly comparable GAAP figure is considered to be "Debt/equity ratio". However, this ratio measures gross debt relative to equity, and does not measure changes in cash position, and the non-GAAP measure "Adjusted debt/equity ratio" is therefore not directly comparable.

Debt/equity ratio	**0.24**	0.28

Return on average capital employed (RoaCE)

In this Report, Hydro refers to certain non-GAAP financial measures, which are an integral part of Hydro's steering model. These non-GAAP financial measures are:

- Return on average Capital Employed (RoaCE)
- Earnings after tax
- Capital Employed

Hydro's management makes regular use of these indicators to measure performance for the group as a whole and within its operating segments, both in absolute terms and comparatively from period to period. Management views these measures as providing additional understanding, - for management and for investors -, of:

- The rate of return on investments over time, in each of its capital intensive businesses
- The operating results of its business segments

RoaCE is defined as "Earnings after tax" divided by average "Capital Employed." "Earnings after tax" is defined as "Operating income" plus "Equity in net income of non-consolidated investees" plus "Other income, net" less "Adjusted income tax expense." Because RoaCE represents the return to the capital providers before dividend and interest payments, adjusted income tax expense included in "Earnings after tax" does not include the effect of items reported as "Financial income and expense." "Capital Employed" is defined as "Shareholders' Equity" plus "Minority interest" plus "long-term and short-term interest-bearing debt" less "Cash and cash equivalents" and "Short-term investments." Capital Employed can be derived by deducting "Cash and cash equivalents," "Short-term investments" and "Short-term and long-term interest free liabilities" (including deferred tax liabilities) from "Total assets." The two different approaches yield the same value.

In order to calculate "Earnings after tax" for the Company's operating segments, an imputed tax is calculated for each segment. An adjusted income tax expense is calculated as "Operating income" and "Other income, net" multiplied by an applicable tax rate. For most operating segments the applicable tax rate is estimated at 35 percent. Oil & Energy businesses are subject to various tax regimes including Norwegian surtax on petroleum and power production. To calculate tax effects for these business units applicable statutory tax rates based on the source of income are applied. For the Group as a whole, "Adjusted Income tax expense" is calculated as US GAAP Income tax expense less tax effects relating to items reported as "Financial income and expense".

Hydro believes that RoaCE facilitates benchmarking of Hydro with its peers. It is important to note, however, that RoaCE is, similar to all other financial metrics, influenced by a company's selection of acceptable accounting principles and applying different GAAPs which can result in significant differences when comparing RoaCE for different companies. This is particularly important when comparing companies with an active acquisition history.

RoaCE should not be construed as an alternative to operating income, income before taxes and net income as an indicator of Hydro's results of operations in accordance with generally accepted accounting principles. Hydro's management make regular use of measures calculated according to generally accepted accounting principles in addition to non-GAAP financial measures described above when measuring financial performance.

In order to illustrate the effects of certain events, RoaCE have also been calculated excluding such events. In 2006, the impairment write-down of the Front Runner and 9 shelf fields in our GoM portfolio have impacted the RoaCE metric negatively and the write-down has been excluded when calculating RoaCE adjusted for certain events. Our Castings business have now been classified as discontinued operations and is therefore no longer included in the calculation of RoaCE. When calculating RoaCE, excluding certain events, the castings business has therefore been included for the years 2005 and 2006. For 2005, the write-down in Hydro's magnesium business (affecting the Group and Aluminium Products) have been excluded for this purpose. In addition, the effect of the Spinnaker acquisition (affecting the Group and Oil & Energy) completed in December 2005, and therefore impacting the capital employed without significant impact on earnings have been excluded. Excluding such items from RoaCE should not be considered as an adjustment of the metric, but rather as supplemental information to demonstrate how these events affects RoaCE.

Return on average Capital Employed – Hydro

		Year ended	
Amounts in NOK million	**2006**	2005	2004
Operating income	**52,224**	46,237	31,796
Equity in net income of non-consolidated investees	**962**	593	597
Other income/expense, net	**53**	990	169
Earnings before tax	**53,239**	47,821	32,561
Adjusted income tax expense	**(38,033)**	(31,647)	(21,150)
Earnings after tax	**15,207**	16,174	11,412

	31 December	31 December	31 December	31 December
Amounts in NOK million	**2006**	2005	2004	2003
Current assets 1)	**59,229**	55,964	45,070	45,468
Non-consolidated investees	**10,455**	10,814	10,017	10,162
Property, plant and equipment	**124,976**	128,191	106,117	107,779
Prepaid pension, investments and other non-current assets 2)	**13,862**	17,897	13,703	13,228
Other current liabilities 3)	**(56,684)**	(48,219)	(41,724)	(37,725)
Other long-term liabilities 4)	**(55,823)**	(56,076)	(47,218)	(48,082)
Capital Employed	**96,015**	108,571	85,965	90,831

	2006	2005	2004
Return on average Capital Employed (RoaCE)	**14.9%**	16.6%	12.9%

1) Excluding cash and cash equivalents and short-term investments, but including deferred tax assets
2) Including deferred tax assets
3) Including deferred tax liabilities
4) Including accrued pension liabilities and deferred tax liabilities

Return on average Capital Employed – Oil & Energy

Amounts in NOK million	Year ended 2006	2005	2004
Operating income	**46,253**	43,451	31,144
Equity in net income of non-consolidated investees	**223**	112	75
Other income/expense, net	**53**	65	59
Earnings before tax	**46,529**	43,628	31,278
Adjusted income tax expense	**(36,832)**	(31,470)	(22,051)
Earnings after tax	**9,697**	12,158	9,227

Amounts in NOK million	**31 December 2006**	31 December 2005	31 December 2004	31 December 2003
Current assets [1]	**25,725**	25,084	15,630	16,015
Non-consolidated investees	**2,027**	2,598	2,347	2,406
Property, plant and equipment	**96,482**	96,321	73,437	74,460
Prepaid pension, investments and other non-current assets [2]	**10,828**	10,264	4,392	3,903
Other current liabilities [3]	**(35,635)**	(34,027)	(23,310)	(18,829)
Other long-term liabilities [4]	**(44,461)**	(43,888)	(35,985)	(35,627)
Capital Employed	**54,964**	56,353	36,511	42,329

	2006	2005	2004
Return on average Capital Employed (RoaCE)	**17.4%**	26.2%	23.4%

1) Excluding cash and cash equivalents and short-term investments, but including deferred tax assets
2) Including deferred tax assets
3) Including deferred tax liabilities
4) Including accrued pension liabilities and deferred tax liabilities

Return on average Capital Employed – Aluminum Products

Amounts in NOK million	2006	Year ended 2005	2004
Operating income	**(83)**	(370)	1,072
Equity in net income of non-consolidated investees	**(179)**	47	68
Other income/expense, net	**-**	-	-
Earnings before tax	**(261)**	(323)	1,140
Adjusted income tax expense	**30**	(304)	(375)
Earnings after tax	**(231)**	(627)	765

Amounts in NOK million	31 December 2006	31 December 2005	31 December 2004	31 December 2003
Current assets [1]	**17,143**	15,357	14,667	13,984
Non-consolidated investees	**1,900**	2,495	2,391	2,403
Property, plant and equipment	**8,639**	11,259	12,433	13,116
Prepaid pension, investments and other non-current assets [2]	**2,485**	2,228	2,481	2,849
Other current liabilities [3]	**(10,417)**	(9,042)	(9,020)	(8,092)
Other long-term liabilities [4]	**(3,138)**	(2,835)	(2,869)	(3,156)
Capital Employed	**16,613**	19,462	20,082	21,105

	2006	2005	2004
Return on average Capital Employed (RoaCE)	**(1.3)%**	(3.2)%	3.7%

1) Excluding cash and cash equivalents and short-term investments, but including deferred tax assets
2) Including deferred tax assets
3) Including deferred tax liabilities
4) Including accrued pension liabilities and deferred tax liabilities

Effect on RoaCE of certain events

Actual RoaCE

Amounts in NOK million	Hydro Year ended 2006	Hydro Year ended 2005	Oil & Energy Year ended 2006	Oil & Energy Year ended 2005	Aluminium Products Year ended 2006	Aluminium Products Year ended 2005
Earnings after tax	**15,207**	16,174	**9,697**	12,158	**(231)**	(627)
Adjustment for write downs	**3,407**	1,239	**3,407**	-	**-**	1,239
Adjustment for Spinnaker	**-**	241	**-**	241	**-**	-
Adjustment for Castings	**167**	174	**-**	-	**167**	174
Adjusted Earnings after tax	**18,781**	17,828	**13,104**	12,399	**(64)**	786

Amounts in NOK million	31 December 2006	31 December 2005	31 December 2006	31 December 2005	31 December 2006	31 December 2005
Capital Employed	**96,015**	108,571	**54,964**	56,353	**16,613**	19,462
Adjustment for write downs	**3,407**	1,239	**3,407**	-	**-**	1,239
Adjustment for Spinnaker	**-**	(17,065)	**-**	(17,065)	**-**	-
Adjustment for Castings	**2,643**	-	**-**	-	**2,643**	-
Adjusted Capital Employed	**102,065**	92,745	**58,371**	39,288	**19,256**	20,701

	2006	2005	2006	2005	2006	2005
RoaCE adjusted for certain events	**17.8%**	20.0%	**22.8%**	32.7%	**(0.3)%**	3.9%

Average Capital Employed in 2006 calculated based on adjusted 2006 closing balance, but 2005 unadjusted balance.

Combined information for the aluminium activities

Hydro refers to combined information for the Aluminium activities, including both the Aluminium Metal business area and the Aluminium Products business area, and eliminations related to transactions between those areas, which are included in Corporate and Elimination. The activities were organized as one business area, Aluminium, until the end of January 2006. Management makes regular use of these measures and believes that combined information about the Aluminium activities gives important information about Hydro's activities related to the Aluminium businesses in addition to the information provided for the segments separately and for the group as a whole.

Management uses this information to assess the impact of horizontal integration in the aluminium activities, in addition to reviewing the business areas Aluminium Metal and Aluminium Products individually.

The combined information for the Aluminium business should not be construed as an alternative to segment information under GAAP or to the consolidated financial statements.

Aluminium activities

Operating income (loss)

NOK million	**2006**	2005	2004
Aluminium Metal	**6,362**	2,694	785
Aluminium Products [1)]	**(83)**	(370)	1,072
Eliminations	**(98)**	(8)	(103)
Total	**6,181**	2,316	1,754

1) The specifications are based on continuing operations.

IFRS in Hydro's financial statements

The European Union's (EU) Regulation (the "regulation") requires the use of International Financial Reporting Standards (IFRS) for all listed companies in the EU and European Economic Area (EEA) and will apply to Hydro. The regulation was incorporated into Norwegian law in December 2004. The regulation requires that most companies adopt IFRS by 2005. However, companies using internationally accepted accounting standards for the purpose of a non-EU stock exchange listing for their primary financial statements may, if the member state permits, delay the implementation of IFRS until 2007. Hydro uses United States Generally Accepted Accounting Principles (US GAAP) as the accounting principles underlying its primary financial statements. Because Norway has implemented the member state option to delay implementation for certain companies, Hydro qualifies for the 2007 implementation. Hydro intends to implement IFRS effective in 2007. From the same time, information relating to Hydro's filing with the US Securities and Exchange Commission (SEC) on Form 20-F will be based on IFRS with a reconciliation to US GAAP. Additionally, Hydro will no longer report consolidated financial statements in accordance with accounting principles generally accepted in Norway.

Hydro's planned implementation of IFRS in 2007 will require the preparation of an opening balance as of 1 January 2006 and income statement, balance sheet and cash flow statement for 2006 in accordance with IFRS. Amendments to IFRS during 2007 will be implemented retrospectively. Hydro will issue its accounting policies under IFRS and converted comparable financial information for 2006 in a separate document before the release of the 2007 quarterly results.

Hydro's analysis of IFRS and comparison with currently applied US GAAP accounting principles has identified a number of differences relevant for Hydro. Many of these differences will not have a significant impact on the reported results or financial position for 2006. However, there will be a significant influence from some accounting changes as a result of the conversion to IFRS and provisions for the first time adoption of IFRS, primarily in the areas relating to financial instruments, pensions, certain aspects of accounting for property, plant and equipment (PP&E) and the related tax effects.

IAS 32 "Financial Instruments: Disclosure and Presentation", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement" contain important differences from comparable US standards, primarily SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" (including later revisions and interpretations). In particular, these differences relate to commodity instruments and contracts in connection with commodities traded in liquid markets. Examples of such commodities are crude oil, natural gas and metals, including physical delivery contracts for commodities. Hydro's evaluation of the consequences of applying IFRS implies that the majority of contract types used by Hydro will have similar treatment under the two sets of accounting standards. However, certain individual contracts or types of contracts will receive different treatment, e.g. marked to their market value under one set of standards while accrual accounting may be the treatment under the other set of standards. There are also differences related to accounting for contracts with embedded derivatives, including when to separately value the embedded derivative and when the existence of an embedded derivative in a host contract requires the host contract to be marked to its market value. The monetary effect of these differences is dependent on the contract portfolio in place at any given time, and the evaluation of market conditions and market development in future periods. Therefore, the financial statement effects of the differences between the two sets of accounting principles will vary from period to period.

IFRS requires either full retrospective application of IAS 19 "Employee benefits", or recognition of all cumulative actuarial gains and losses at the date of transition to IFRS. Hydro will utilize the implementation provision to recognize prior periods' unrecognized gains and losses directly in equity at transition. Because the funded status of pension plans is recognized in the balance sheet under US GAAP, the impact on Hydro's balance sheet as of the end of 2006 will be limited. Hydro will apply the same economic and actuarial assumptions under IFRS as applied under US GAAP. There are certain other measurement differences between IFRS and US GAAP, mainly related to plan amendments, curtailments and other changes, which may lead to differences in specific situations and over time.

IFRS offers the opportunity to revalue property, plant and equipment on a regular basis to current fair market value. Hydro will not utilize this option, and will continue to account for property, plant and equipment based on historic cost, depreciated over the asset's expected useful life. One important difference for PP&E relates to major servicing costs, which is maintenance not defined as day-to-day servicing. Hydro's conversion to IFRS will result in an income statement reclassification from reporting all maintenance costs as Other operating expense to capitalizing a significant part of such costs upon expenditure and depreciating them over the service time period. This change will not have a significant impact on Hydro's net result, but it will impact the IFRS equity and PP&E in the balance sheet, as the major servicing accrued liabilities under US GAAP will be reversed and major servicing and certain other maintenance costs will be capitalized and depreciated.

Related to the impairment of property, plant and equipment, a relevant accounting principles difference is related to how to test fixed assets for impairment. US GAAP requires a two-step test where the first step involves testing the asset's carrying value against the sum of undiscounted expected cash flows from the asset. If this test implies that the asset is impaired, the asset is written down to its estimated fair value. In IFRS, there is a one-step impairment test whereby the asset's carrying value is compared to the higher of its estimated fair value and its value in use based on discounted expected cash flows from the asset. Generally, the difference related to the impairment testing procedure implies that impairments can be expected to occur earlier under IFRS than when applying US GAAP. Additionally, under IFRS, impairment losses are reversed if the reason for the impairment is no longer present, whereas under US GAAP reversal of an impairment loss is not allowed. The N GAAP standard for impairment is in all significant respects the same as the IFRS standard. Therefore, previously reported impairments in the N GAAP financial statements (and in the N GAAP – US GAAP reconciliation) are expected to be the same impairment differences reported in IFRS for the same periods.

Asset retirement obligations (AROs) are measured differently over the life of the asset and related liability. The difference is mainly linked to changes in interest rate level. US GAAP requires that AROs continue to be measured at the interest rate level in place at initial recognition, while IFRS requires the obligation and related asset to be remeasured at each reporting period at the current interest rate. This implies an increase in both asset and liability in periods of a reduction in the interest level, and a corresponding decreas of both asset value and liability in periods with an increasing interest level. IFRS have specific regulations stipulating how to reflect changing interest rate levels over the life of an asset when IFRS is first implemented. The liability is measured at the current interest level, while the corresponding asset is measured at historic interest rate levels, with the impact in the financial statements that parts of the interest rate level changes in the liability are not offset in the asset value. As interest levels were lower at the date of Hydro's IFRS implementation than when the liabilities were first recognized under US GAAP, the recognized IFRS asset retirement obligation will be higher with an offsetting effect (net of tax) in equity.

IFRS offers options to elect accounting principles for accounting for joint ventures operated as an entity. Hydro has elected to continue to account for such jointly controlled entities under the equity method.

There is currently limited IFRS industry specific regulations pertaining to oil and gas activities. However, IFRS 6 "Exploration for and Evaluation of Mineral Resources" allows for the continued application of accounting policies relating to exploration costs in use immediately prior to adopting IFRS. After analyzing the implications of IFRS 6 and other relevant IFRSs, Hydro's conclusion is that there will be limited changes to the specific accounting principles applied to the company's oil and gas activities.

Hydro has identified other differences, in addition to those specifically discussed above, which, based on the specific facts and circumstances, may or may not result in an effect on reported earnings and the recognition, measurement and valuation of assets and liabilities in future periods. These differences are not expected to represent significant differences between Hydro's reported US GAAP financial statements for 2006 and the converted IFRS financial statements for the same period.

Hydro is a Fortune 500 energy and aluminium company with 33,000 employees in nearly 40 countries. We are a leading offshore producer of oil and gas, a major aluminium supplier and a leader in the development of renewable energy sources. Our mission is to strengthen the viability of the customers and communities we serve.

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Design: Cobra Production: Hydro – 3700064 Print: LOS Grafisk AS

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