

NORSK HYDRO A S A  
Form 20-F/A  
April 27, 2006

As filed with the Securities and Exchange Commission on 27 April 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 20-F/A**

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

Commission file number 1-9159

**NORSK HYDRO ASA**

(Exact Name of Registrant as Specified in its Charter)

Kingdom of Norway

(Jurisdiction of Incorporation or Organization)

Drammensveien 264, Vækerø

N-0240 Oslo

Norway

(Address of Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
<b>American Depositary Shares</b>	<b>New York Stock Exchange</b>
<b>Ordinary Shares, par value NOK 18.30 per share</b>	<b>New York Stock Exchange*</b>

Securities registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**Ordinary Shares, par value NOK 18.30 per share**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**250,138,464 Ordinary Shares, par value NOK 18.30 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

\* Not for trading,  
but only in  
connection with  
the registration  
of American

Depositary  
Shares pursuant  
to the  
requirements of  
the Securities  
and Exchange  
Commission.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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**EXPLANATORY NOTE**

With this Form 20-F/A, Hydro is amending the following items:

- (i) note 5 to the consolidated financial statements included as Item 18 of its Annual Report on Form 20-F for the fiscal year ended December 31, 2005 (the 20-F ) to correct certain intersegment revenues and expenses for the years 2005, 2004 and 2003, none of which effects Hydro s total operating revenues and other operating expenses for those years as previously reported;
- (ii) the related auditors report dated 7 March 2006 filed with the financial statements included as Item 18 of the 20-F; and
- (iii) Item 16D of the 20-F to disclose, in respect of a non-management employee member of Hydro s audit committee, Hydro s reliance on an exemption provided by Rule 10A-3(b)(1)(iv)(C) under the U.S. Securities Exchange Act of 1934, as amended, as well as Hydro s assessment of the impact of such reliance.

This Form 20-F/A does not reflect events occurring after the filing of the original Form 20-F filed on March 24, 2006, and does not modify or update the disclosures therein in any way, except as described above.

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**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

As a non-management employee of Hydro elected to the Hydro board of directors pursuant to Norwegian law, Mr. Terje Friedstad is exempt from the requirements of Rule 10A-3(b)(1)(iv)(C) promulgated by the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the Exchange Act ). Hydro s board of directors has assessed whether reliance on this exemption in the case of Mr. Friedstad would materially affect the ability of its audit committee to act independently and satisfy the requirements of Rule 10A-3(b)(1)(iv)(C) under the Exchange Act, and has concluded that it would not.

**ITEM 18. FINANCIAL STATEMENTS**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and shareholders of Norsk Hydro ASA  
Oslo, Norway

We have audited the consolidated balance sheets of Norsk Hydro ASA and subsidiaries as of 31 December 2005 and 2004, and the related consolidated income statements, statements of comprehensive income, and cash flows for each of the three years in the period ended 31 December 2005. Our audits also included the financial statement schedule included at Item 15(a). These financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Norsk Hydro ASA and subsidiaries as of 31 December 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended 31 December 2005 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 5, the accompanying segment measures to the consolidated financial statements have been restated.

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for contingent asset retirement obligations in 2005, variable interest entities in 2004 and asset retirement

obligations in 2003 to conform to newly adopted accounting principles.

/s/ Deloitte Statsautoriserte Revisorer AS

Oslo, Norway

7 March 2006 (26 April 2006 as to the effects of the restatement discussed in Note 5)

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Consolidated financial statements F 3  
Norsk Hydro ASA and subsidiaries

Consolidated income statements US GAAP  
Consolidated statements of comprehensive income

Year ended 31 December		<b>2005</b>	<b>2005</b>	2004	2003
Amounts in million (except per share amounts)	Notes	<b>NOK</b>	<b>EUR <sup>1)</sup></b>	NOK	NOK
Operating revenues	5	<b>174,201</b>	<b>21,795</b>	153,891	131,778
Raw materials and energy costs		<b>88,665</b>	<b>11,093</b>	81,477	72,459
Payroll and related costs	7,20	<b>18,366</b>	<b>2,298</b>	18,830	18,569
Depreciation, depletion and amortization	5,15,16	<b>16,086</b>	<b>2,013</b>	16,898	13,947
Other	7,25	<b>4,652</b>	582	4,861	5,177
Restructuring costs (income)	6			(22)	
Operating costs and expenses		<b>127,768</b>	<b>15,986</b>	122,044	110,153
Operating income	5	<b>46,432</b>	<b>5,809</b>	31,847	21,625
Equity in net income of non-consolidated investees	5,13	<b>619</b>	<b>78</b>	629	620
Financial income (expense), net	8,11,24	<b>(1,890)</b>	<b>(236)</b>	137	155
Other income (expense), net	5,9	<b>990</b>	<b>124</b>	169	(1,253)
Income from continuing operations before taxes and minority interest		<b>46,152</b>	<b>5,774</b>	32,781	21,146
Income tax expense	10	<b>(30,317)</b>	<b>(3,793)</b>	(21,197)	(12,923)
Minority interest		<b>(118)</b>	<b>(15)</b>	(106)	151
Income from continuing operations before cumulative effects of changes in accounting principles		<b>15,716</b>	<b>1,966</b>	11,477	8,375
Income from discontinued operations	2			1,083	2,312
Income before cumulative effects of changes in accounting principles		<b>15,716</b>	<b>1,966</b>	12,560	10,687
Cumulative effects of changes in accounting principles	1,21	<b>(78)</b>	<b>(10)</b>		281
Net income	28	<b>15,638</b>	<b>1,957</b>	12,560	10,968

Basic and diluted earnings per share from continuing operations before cumulative effects of changes in accounting principles	3	<b>62.70</b>	<b>7.84</b>	45.10	32.50
Basic and diluted earnings per share from discontinued operations	3			4.20	9.00
Basic and diluted earnings per share before cumulative effects of changes in accounting principles	3	<b>62.70</b>	<b>7.84</b>	49.40	41.50
Basic and diluted earnings per share	3	<b>62.40</b>	<b>7.80</b>	49.40	42.60

CONSOLIDATED STATEMENTS OF  
COMPREHENSIVE INCOME <sup>2)</sup>

Net income		<b>15,638</b>	<b>1,957</b>	12,560	10,968
Net unrealized loss on securities available-for-sale	3	<b>(9)</b>	<b>(1)</b>	(2)	
Minimum pension liability adjustment	3	<b>(510)</b>	<b>(64)</b>	(132)	(113)
Net investment hedge	3	<b>33</b>	<b>4</b>	320	(333)
Cash flow hedges	3	<b>(751)</b>	<b>(94)</b>	(339)	35
Net foreign currency translation adjustments	3	<b>711</b>	<b>89</b>	(1,628)	4,856
Total other comprehensive income (loss), net of tax	3	<b>(526)</b>	<b>(66)</b>	(1,781)	4,445
Comprehensive income, net of tax		<b>15,112</b>	<b>1,891</b>	10,779	15,413

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2005, which was 7.9927 (unaudited).

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

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



F 4 Consolidated financial statements  
 Norsk Hydro ASA and subsidiaries  
 Consolidated balance sheets US GAAP

31 December		<b>2005</b>	<b>2005</b>	2004
Amounts in million	Notes	<b>NOK</b>	<b>EUR <sup>1)</sup></b>	<b>NOK</b>
<b>ASSETS</b>				
Cash and cash equivalents		<b>10,463</b>	<b>1,309</b>	14,366
Short-term investments	11	<b>3,865</b>	<b>484</b>	10,970
Accounts receivable, less allowances of NOK 784 and NOK 891		<b>23,333</b>	<b>2,919</b>	20,671
Inventories	12	<b>14,553</b>	<b>1,821</b>	12,851
Prepaid expenses and other current assets	12	<b>15,912</b>	<b>1,991</b>	10,478
Current deferred tax assets	10	<b>2,166</b>	<b>271</b>	1,070
Total current assets	5	<b>70,293</b>	<b>8,795</b>	70,406
Non-consolidated investees	13	<b>10,814</b>	<b>1,353</b>	10,017
Property, plant and equipment, less accumulated depreciation, depletion and amortization	15	<b>128,191</b>	<b>16,038</b>	106,117
Intangible assets	14,16	<b>5,153</b>	<b>645</b>	2,325
Prepaid pension, investments and other non-current assets	14,20	<b>11,910</b>	<b>1,490</b>	10,713
Deferred tax assets	10	<b>833</b>	<b>104</b>	664
Total non-current assets	5	<b>156,902</b>	<b>19,631</b>	129,836
Total assets	5	<b>227,195</b>	<b>28,425</b>	200,243
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
Bank loans and other interest-bearing short-term debt	17	<b>4,658</b>	<b>583</b>	3,785
Current portion of long-term debt	19	<b>379</b>	<b>47</b>	568
Other current liabilities	18	<b>47,239</b>	<b>5,910</b>	41,340
Current deferred tax liabilities	10	<b>980</b>	<b>123</b>	384
Total current liabilities		<b>53,256</b>	<b>6,663</b>	46,077

Long-term debt	19	<b>21,387</b>	<b>2,676</b>	19,487
Accrued pension liabilities	20	<b>9,939</b>	<b>1,244</b>	8,569
Other long-term liabilities	21	<b>12,424</b>	<b>1,554</b>	9,134
Deferred tax liabilities	10	<b>33,713</b>	<b>4,218</b>	29,515
Total long-term liabilities		<b>77,462</b>	<b>9,692</b>	66,705
Minority shareholders' interest in consolidated subsidiaries		<b>981</b>	<b>123</b>	1,571
Share capital	3	<b>4,739</b>	<b>593</b>	4,739
Additional paid-in capital	3	<b>10,501</b>	<b>1,314</b>	10,468
Retained earnings	3	<b>85,927</b>	<b>10,751</b>	75,310
- Treasury shares at cost	3	<b>(3,589)</b>	<b>(449)</b>	(3,069)
Accumulated other comprehensive income (loss)	3	<b>(2,083)</b>	<b>(261)</b>	(1,557)
Shareholders' equity	3	<b>95,495</b>	<b>11,948</b>	85,890
Total liabilities and shareholders' equity		<b>227,195</b>	<b>28,425</b>	200,243
Total number of outstanding shares		<b>250,138,464</b>	<b>250,138,464</b>	250,839,230
Nominal value per share		<b>18.30</b>	<b>2.29</b>	18.30

1) Presentation in euro is a convenience translation based on the exchange rate at 31.12.2005, which was 7.9927 (unaudited).

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

## US GAAP

## Consolidated statements of cash flows

Year ended 31 December		2005	2005	2004	2003
Amounts in million	Notes	NOK	EUR *)	NOK	NOK
Operating activities:					
Net income		15,638	1,957	12,560	10,968
Adjustments to reconcile net income to net cash provided by operating activities:					
Income from discontinued operations	2			(1,083)	(2,312)
Depreciation, depletion and amortization	5	16,086	2,013	16,898	13,947
Restructuring income	6			(22)	
Equity in net income of non-consolidated investees	5,13	(619)	(77)	(628)	(620)
Dividends received from non-consolidated investees		323	40	326	258
Deferred taxes	10	(519)	(65)	(2,945)	(1,585)
Loss (gain) on sale of non-current assets		(937)	(117)	39	(726)
Loss (gain) on foreign currency transactions	8	2,159	270	(1,350)	(1,035)
Net sales (purchases) of trading securities		(49)	(6)	(177)	245
Other		782	98	779	2,150 <sub>4</sub> )
Working capital changes that provided (used) cash:					
Receivables		(2,156)	(270)	(1,117)	(576)
Inventories		(1,940)	(243)	(1,040)	453
Prepaid expenses and other current assets		(7,951)	(995)	1,798	2,251
Other current liabilities		6,568	822	3,686	(645)
Net cash provided by continuing operating activities		27,385	3,426	27,724	22,773
Investing activities:					
Purchases of property, plant and equipment		(17,562)	(2,197)	(16,187)	(14,537)
Purchases of other long-term investments		(17,263)	(2,160)	(858)	(684)
Purchases of short-term investments		(15,162)	(1,897)	(9,166)	(702)
Proceeds from sales of property, plant and equipment		1,362 <sub>2</sub> )	170	837	647
Proceeds from sales of other long-term investments		1,862	233	1,400	6,384
Proceeds from sales of short-term investments		22,445	2,808	12	1,838
Net cash used in continuing investing activities		(24,318)	(3,043)	(23,962)	(7,054)

Financing activities:					
Loan proceeds		<b>1,844</b>	<b>231</b>	143	264
Principal repayments		<b>(2,102)</b>	<b>(263)</b>	(9,271)	(5,167)
Ordinary shares purchased	3	<b>(1,589)</b>	<b>(199)</b>	(1,684)	(555)
Ordinary shares issued		<b>71</b>	<b>9</b>	44	77
Dividends paid	3	<b>(5,021)</b>	<b>(628)</b>	(2,811)	(2,711)
Net cash used in continuing financing activities		<b>(6,797)</b>	<b>(850)</b>	(13,579)	(8,092)
Foreign currency effects on cash		<b>(173)</b>	<b>(22)</b>	(264)	702
Discontinued operations:					
Net cash provided by operating activities	2			838	1,805
Net cash provided by (used in) investing activities	2			8,840	(744)
Net cash used in financing activities	2			(109)	(141)
Foreign currency effects on cash	2			5	77
Net cash provided by discontinued operations				9,574	997
Net increase (decrease) in cash and cash equivalents		<b>(3,903)</b>	<b>(488)</b>	(507)	9,326
Cash and cash equivalents at beginning of year		<b>14,366</b>	<b>1,797</b>	14,873	5,547
Cash and cash equivalents at end of year		<b>10,463</b>	<b>1,309</b>	14,366	14,873
Cash disbursements (receipts) regarding:					
Interest (net of amount capitalized) <sup>3)</sup>		<b>(48)</b>	<b>(6)</b>	1,701	1,190
Income taxes		<b>29,612</b>	<b>3,705</b>	19,758	16,011

\*) Presentation in euro is a convenience translation based on the exchange rate at 31 December, 2005, which was 7.9927 (unaudited).

- 2) In January 2005, Hydro received approximately NOK 1.1 billion relating to the sale of its 10% ownership interest in Snøhvit in 2004, and that was reported as a short term receivable within Other current assets as of 31 December, 2004.
- 3) Includes cash disbursements relating to early repayment of long term debt ( breaking costs ) of NOK 6 million in 2005 and NOK 938 million in 2004 (Note 8).
- 4) Includes non-cash charge relating to an expected state grant pertaining to an asset retirement obligation of NOK 2,207 million.

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

F 8 Notes to the consolidated financial statements  
 Norsk Hydro ASA and subsidiaries  
 Notes to the consolidated financial statements

## Note 1

### Summary of Significant Accounting Policies

Norsk Hydro ASA is an offshore producer of oil and gas and an integrated aluminium supplier with operations in nearly 40 countries. The consolidated financial statements of Norsk Hydro ASA and its subsidiaries (Hydro) prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) are included on pages F3 to F5. 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 and are an integral part of financial statements.

#### Consolidation

The consolidated financial statements include Norsk Hydro ASA and subsidiary companies. The majority of Hydro's consolidated subsidiaries are companies where Hydro controls directly or indirectly more than 50 percent of the voting interests. In certain circumstances, Hydro may control an entity through contractual arrangements or other means. Variable Interest Entities (VIEs) are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Entities for which Hydro is determined to be the primary beneficiary, are consolidated. Hydro currently consolidates one company based on the Variable Interest Model. All significant intercompany transactions and balances have been eliminated.

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

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

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

#### Business Combinations

All business combinations are accounted for as acquisitions (purchase accounting). Purchase accounting involves recording assets and liabilities of the acquired company at their fair value as of the time of the acquisition. Any excess of the purchase price over the fair value is recorded as goodwill. When the ownership interest in a subsidiary is less

than 100 percent, the recorded amount of assets and liabilities acquired reflect only Hydro's relative share of excess values. However, for VIEs, the total fair value of assets and liabilities are recognized and any excess value attributable to non-controlling interests affects minority interests. See note 2 for a description of significant acquisitions and disposals during the past three years.

**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

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basis in the income statement, with the margin from trading recognized in operating revenues.

**Cash and Cash Equivalents**

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

**Short-term Investments**

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

**Inventories**

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

**Investments**

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

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

**Exchanges of Nonmonetary Assets**

As of 1 January 2005 Hydro adopted SFAS No. 153 Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29. Nonmonetary transactions that have commercial substance are accounted for at fair value and any resulting gain or loss on the exchange is recognized in the income statement. A nonmonetary exchange has commercial substance if Hydro's future cash flows are expected to change significantly as a result of the exchange. Hydro accounts for certain non-monetary exchanges of assets at fair value and accounts for certain other nonmonetary exchanges of assets where Hydro has substantial continuing involvement without recognizing a gain or loss on the exchange.

**Property, Plant and Equipment**

Property, plant and equipment is carried at historical cost less accumulated depreciation, depletion and amortization. If a legal obligation for the retirement of a tangible long-lived asset is incurred, the carrying value of the related asset is increased by the estimated fair value of the asset retirement obligation upon initial recognition of the liability. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as described in FASB Statement of Financial Accounting Standards No. 144

Accounting for the Impairment or Disposal of Long-Lived Assets. The carrying amount is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and disposition of the asset or group of assets working together to create identifiable, relatively independent cash flows. If the carrying amount is not recoverable, a write-down (impairment) to fair value is recorded.

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

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

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

**Exploration and Development Costs of Oil and Gas Reserves** Hydro uses the successful efforts method of accounting for oil and gas exploration and development costs. Exploratory costs, excluding the cost of exploratory wells and acquired 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. For further information see note 27.

**Depreciation, Depletion and Amortization** Depreciation is determined using the straight-line method with the following rates:

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

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

Depreciation and depletion expense includes the accretion of discounted asset retirement obligations.

**Asset Retirement Obligations**

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

**Intangible Assets**

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

**Goodwill**

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

**Contingencies and Guarantees**

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

**Oil and Gas Royalty**

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

**Shipping costs**

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

**Research and Development**

Research and development costs are expensed as incurred.

**Emission Rights**

Hydro accounts for government granted and purchased CO<sub>2</sub> 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<sub>2</sub> emissions) or rolled over to cover the next year's emissions; impairment testing is done on an annual basis. Actual CO<sub>2</sub> 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<sub>2</sub> emission rights is recognized at the time of sale at the transaction price. See note 16 for additional

information.

**Other Income (Expense), net**

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

**Income Taxes**

Deferred income tax expense is calculated using the liability method in accordance with SFAS 109. Under this method, deferred tax assets and liabilities are measured based on the difference between the carrying value of assets and liabilities for financial reporting and their tax basis when such differences are considered temporary in nature. Deferred tax assets are reviewed for recoverability, and a valuation allowance is recorded against deferred tax assets to the extent that it is more likely than not that the deferred tax asset will not be realized. Deferred income tax expense represents the change in deferred tax asset and liability balances during the year except for the deferred tax related to items charged directly to equity. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates become effective.

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

**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

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or more derivatives net, they are presented net on the face of the balance sheet. Otherwise derivative contracts are presented gross at their fair value.

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

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

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

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

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

#### **Share-Based Compensation**

Hydro accounts for share-based compensation in accordance with Accounting Principles Board (APB) Opinion 25 as interpreted by FIN 28, and provides disclosures as required under the FASB Statement of Financial Accounting Standards No. 123 Share-Based Payments. For variable stock option awards and awards settled in cash, compensation cost is measured at the end of each period using the intrinsic method. For variable and cash settled awards where vesting depends on achieving a specified target share price increase, compensation cost is recognized when it is probable the performance criteria will be met. Compensation is charged to expense pro-rata over the vesting period.

Hydro offers treasury shares to employees at discounted prices to encourage share ownership. Issuance of treasury shares at a discount to employees results in a charge to compensation expense based on the difference between the market value of the share at the date of issuance and the price paid by employees. For further information see note 4.

#### **Pro Forma Information**

The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of SFAS 123 to share appreciation rights.

In NOK millions, except for earnings per share	2005	2004	2003
Net income, as reported	15,638	12,560	10,968

Add: share-based employee compensation expense included in reported net income, net of tax	<b>48</b>	8	
Less: Total share-based compensation expense determined under the fair value method, net of tax	<b>29</b>	11	3
Pro-forma net income	<b>15,657</b>	12,557	10,965
Earnings per share:			
Basic and diluted as reported	<b>62.40</b>	49.40	42.60
Basic and diluted, pro-forma	<b>62.50</b>	49.40	42.60

### **Employee Retirement Plans**

Pension costs are calculated in accordance with FASB Statement of Accounting Standards No. 87 Employers Accounting for Pensions and FASB Statement of Accounting Standards No. 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits . Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Accumulated gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of assets are amortized over the remaining service period of active plan participants.

### **Discontinued operations**

When an asset or a group of assets are decided to be sold, they are reported as Assets held for sale in accordance with FASB Statement of Accounting Standards No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets , provided that certain criteria are met, including that it is probable that the sale will be completed within one year.

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

Components to be disposed of other

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than by sale are reclassified to Discontinued operations as of the date of disposal. Prior periods' assets, liabilities, cash flows and results of operations are reclassified to be comparable. Immaterial disposal groups are not classified as discontinued operations.

As a result of rounding adjustments, the figures in columns included in the financial statements may not add up to the total for that column.

Changes in Accounting Principles

**Asset Retirement Obligations**

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

Effective 1 January 2003, Hydro adopted FASB Statement of Accounting Standards No. 143 Accounting for Asset Retirement Obligations. As a result of the new accounting standard, a positive after-tax effect of NOK 310 million was recorded as the cumulative effect of change in accounting principle in the Company's 2003 results of 2003. For further information see note 21.

**Inventory Cost**

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

**Exchanges of Nonmonetary Assets**

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

**Suspended well cost**

Effective for reporting periods beginning after the issuance date of 4 April 2005, the FASB Staff Position No. FAS 19-1 Accounting for Suspended Well Costs provides guidance in the accounting for exploratory well costs. Paragraph 19 of FASB Financial Accounting Standards Statement No. 19 Financial Accounting and Reporting by Oil and Gas Producing Companies (SFAS 19) requires the cost of drilling exploratory wells to be capitalized pending determination of whether the well has found proved reserves. FSP FAS 19-1 amended SFAS 19 to allow suspended well costs to remain capitalized beyond one year from drilling if certain specific criteria are met and additional disclosures provided. Hydro has not recognized any changes to the amounts previously capitalized. For further information see note 27.

**Consolidation of Variable Interest Entities**

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

became involved with such entities. Because Hydro did not become involved with any new VIEs during the period 31 January to 31 December 2003 or have any interests in Special Purpose Entities (SPEs) as of 31 December 2003, implementation of the Interpretation was required as of 31 March 2004. See note 26 for additional information.

**Contractual Mineral Rights**

The FASB issued FSP FAS 142-2 Application of FASB Statement No. 142, Goodwill and Other Intangible Assets, to Oil- and Gas-Producing Entities on 2 September 2004. This FSP is effective for the first reporting period beginning after the issuance date and clarifies that the costs for acquiring contractual mineral rights in oil and gas properties would continue to be recorded as those for tangible assets. It also addresses whether the scope exception within SFAS 142 for the accounting as pre-scribed 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.

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**Energy contracts**

Effective 1 January 2003, Hydro adopted EITF 02-3 Issues involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities. This standard requires only energy contracts that meet the definition of a derivative according to FASB Statement of Financial Accounting Standards No. 133 Accounting for Derivative Instruments and Hedging Activities and are held for trading, be recorded in the balance sheet at fair value. Other energy contracts are recorded at the lower of historical cost and fair market value. This change applies to contracts entered into before 25 October 2002. For contracts entered after 25 October 2002, the regulation applied from initial recognition. As a result of the new regulation, a negative after-tax effect of NOK 29 million was recorded as a cumulative effect of a change in accounting principle in the Company's 2003 result.

**Exit costs**

Effective 1 January 2003 Hydro adopted FASB Financial Accounting Standards No. 146 Accounting for Costs Associated with Exit or Disposal Activities. The standard supersedes EITF Issue No. 94-3 Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) and changed accounting for costs related to closing and restructuring an activity. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, not at the date of an entity's commitment to an exit plan. Termination benefits for involuntary termination of employees that are not required to render services beyond a minimum retention period are expensed as of the date of employee notification.

**New Pronouncements****Share-Based payment**

In December 2004 the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004)

Share-Based Payment. The revised standard requires all share-based payment plans to be recognized in the financial statements at fair value. Hydro will adopt SFAS 123 (R) as of 1 January 2006. The impact of the revised standard is not expected to be material for Hydro's current share-based payment plans.

**Accounting Changes and Error Corrections**

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154 Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3. The standard applies to all voluntary changes in accounting principle, error corrections and required changes due to new accounting pronouncements which do not specify a certain transition method. It generally requires retrospective application to prior periods' financial statements for changes in accounting principles. The Standard is effective for accounting changes and error corrections occurring in periods beginning after 15 December 2005.

**Inventory Counterparty Purchases and Sales**

During 2005 the FASB ratified the consensus reached by the EITF on Issue No. 04-13 Accounting for Purchases and Sales of Inventory with the Same Counterparty. The EITF concluded that inventory purchase and sale transactions with the same counterparty that are entered into in contemplation of one another should be combined for purposes of applying Opinion 29 (nonmonetary exchanges). The EITF also concluded that exchanges of inventory should be recognized at carryover basis except for exchanges of finished goods for either raw materials or work-in-process, which would be recognized at fair value. Issue No. 04-13 is effective for new arrangements entered into in the first interim period beginning after March 15, 2006. Hydro will implement EITF 04-13 no later than second quarter of 2006 with no material impact expected.

**Altersteilzeit (ATZ) Early Retirement Programs**

In June 2005 the EITF reached a consensus on Issue No. 05-05 Accounting for the Altersteilzeit Early Retirement Programs and Similar Type Arrangements. An Altersteilzeit Type II program is an early retirement program supported by the German government. This Issue addresses the accounting treatment of the annual bonus and additional pension contributions. The EITF consensus is that employee benefits provided 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. The consensus is effective for plans within its scope in the first fiscal year that begins after 15 December 2005. Hydro has operations in Germany and is currently evaluating the accounting impact but does not expect the adoption of EITF 05-05 to materially impact the results of operations or financial position.

**Recognition of buy/sell arrangements**

In February 2005, the SEC issued guidance requiring companies to provide disclosures about their buy/sell arrangements. A buy/sell arrangement is one in which a company buys and sells a commodity with the

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same counterparty under a single contract or separate contracts entered into concurrently. The first issue, recently discussed by the EITF and now addressed by EITF 04-13, concerns whether such buy/sell arrangements should be considered non-monetary exchanges accounted for at historical cost in accordance with APB Opinion No. 29, and, if so, when, if at all, could such arrangements be accounted for at fair value. A second issue is whether buy/sell arrangements should be presented gross as revenue and expense in the income statement, or whether such arrangements should be presented net.

Hydro currently presents the trading of derivative commodity instruments and physical commodities where net settlement occurs on a net basis, with the margin included in operating revenues. Trading of physical commodities, which are not net settled, are generally presented on a gross basis in the income statement. Hydro has reviewed its presentation of certain buy/sell arrangements whereby commodities are sold and bought with the same counterparty. Hydro has concluded that net presentation on the income statement is a better representation of the underlying business purpose of certain contracts. As a result, effective 1 January 2005, these arrangements have been presented net in the income statement. These arrangements were previously presented gross in the income statement, and have been reclassified for comparison purposes. Total revenue under these contracts was NOK 1,534 million for 2004 and NOK 1,983 for 2003.

**Note 2**  
**Business combinations, dispositions and demerger**

During the three years ended 31 December 2005, Hydro entered into the following significant business combinations and dispositions.

**2005 Acquisitions**

In September 2005 Hydro issued an offer to acquire Spinnaker Exploration Company (Spinnaker), a US based public company. The acquisition substantially increased Hydro's presence and growth potential in the US Gulf of Mexico. The transaction was completed 13 December after approval of Spinnaker's shareholders and US authorities, and is reflected in Hydro's consolidated results from that date. Spinnaker was engaged in exploration, development and production of oil and gas, mainly in the Gulf of Mexico. The consideration for all outstanding shares, including direct acquisition costs, amounted to NOK 16,534 million (USD 2,458 million).

Assets acquired and liabilities assumed have been recognized at estimated fair value. The majority of the fair values are allocated to developed and undeveloped oil and gas properties. Seismic database licenses controlled by Spinnaker, and rights to acquire such licenses by paying a change of control fee have been allocated a combined value of around NOK 500 million, of which NOK 320 million relates to database licenses that Hydro gained control of upon the acquisition. As Hydro uses the successful effort method of accounting for oil and gas exploration, this part of the purchase price was expensed as Exploration expense at acquisition. The remaining net value of NOK 180 million will be expensed as the rights to acquire the seismic database licenses are exercised or expire during 2006. The allocation results in recognition of goodwill. The main contributors to goodwill are the difference between nominal deferred tax and the present value of deferred tax, and certain seismic information not qualifying for separate recognition as intangible assets. The allocation of purchase price is provisional, and may be changed as further information about the acquired assets and liabilities assumed becomes known through remaining planned analyses of expected reserves in oil and gas properties and intangible assets.

**PRELIMINARY ALLOCATION OF PURCHASE PRICE:**

Amounts in NOK million

Cash and cash equivalents	89
Other current assets	1,094
Property, plant and equipment	18,869
Goodwill	2,991
Short-term liabilities	(886)
Long-term liabilities	(5,622)
Estimated fair value of the net assets of Spinnaker	16,534

### **2005 Dispositions**

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

### **2004 Acquisitions**

No major acquisition were agreed or completed during 2004.

### **2004 Dispositions**

In June 2004, Hydro sold its German based alumina activities consisting of the 50 percent stake in the non-consolidated investee Aluminium Oxid Stade GmbH, the related chemical grade alumina business and the dedicated bauxite supply source represented by Hydro's 10 percent share in Halco (Mining) Inc. The total consideration was NOK 677 million. The dispositions resulted in a total gain of NOK 35 million. In December 2003, Hydro entered into an agreement to sell 80.1 percent of Pronova Biocare for NOK 165 million. The sale was completed in January 2004, resulting in a gain of NOK 110 million.

### **2003 Acquisitions**

No major acquisition were agreed or completed during 2003.

### **2003 Dispositions**

During 2003, Hydro sold non-core subsidiaries and ownership interests for a total consideration of NOK 7.0 billion. The dispositions resulted in a total gain of NOK 995 million. In September 2002, KFK (later renamed BioMar Holding AS) entered into agreements to sell its Swedish feed and grain activities for approximately NOK 450 million. The sale was completed in January 2003 after approval from competition authorities. In December 2002, Hydro entered into an agreement for the sale of the Flexible Packaging unit for a total consideration of approximately NOK 3 billion. Flexible Packaging was acquired as part of the VAW acquisition in first quarter 2002, and is part of Other activities. The transaction was completed in April 2003, and did not result in any significant gain or loss. In June, Hydro transferred its interest in Sundsfjord Kraft ANS in exchange for 20.2 percent of the shares of SKS Produksjon AS resulting in a gain of NOK 326 million. In July, Hydro entered into an agreement for the sale of Carmeda AB, for approximately NOK 180 million, resulting in a gain of NOK 139 million. In September, Hydro entered into an agreement to sell its stake in Skandinaviska Raffinaderi AB (Scanraff) for approximately NOK 1.3 billion. The sale was completed in December, resulting in a gain of NOK 490 million. The agreement included the possibility of a price adjustment depending on the development in refinery

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margins during 2004 and 2005. High refinery margins during 2004 and 2005 have resulted in additional gain of NOK 59 million recognized in 2004 and NOK 65 million recognized in 2005.

**Pro forma Information (Unaudited)**

The following unaudited pro forma information has been prepared assuming Spinnaker Exploration Company was acquired as of the beginning of the periods presented.

Amounts in NOK million	2005	2004
Operating revenue	176,357	155,726
Operating income	45,121	29,621
Income before cumulative effect of change in accounting principles.	14,589	10,832
Net income	14,511	10,832
Earnings per share	57,90	42,60

The pro forma information has been prepared for comparability purposes only, and does not purport to be indicative of what the results of operations would have been had the transaction occurred on the dates described above. The pro forma information is based on Hydro's reported results for 2005 and 2004. For Spinnaker, the pro forma information is based on their financial statements for 2004, and management accounts for 2005. Spinnaker's results have been adjusted for the major effects of differences between full cost accounting and successful effort accounting for exploration for oil and gas.

Spinnaker's results have been translated into Norwegian kroner at average exchange rates for the periods. Pro forma adjustments are made for depreciation of fair value adjustments, mainly related to producing oil and gas fields which are depreciated according to the unit-of-production method based on proved reserves. Such depreciations are high as the acquisition took place during a period with substantially higher oil and gas prices than prices experienced in the period covered by the pro forma information. In addition, finance cost for the acquisition cost and deferred tax related to the above is included.

The effect of the remaining acquisitions and dispositions for 2005 and 2004 is not significant.

**Demerger 2004**

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

At the completion date, Hydro's shareholders received shares in Yara International ASA equal to 80 percent of the to total value of Yara, based on a valuation completed at the time of the demerger plan (November 2003). The remaining shares in Yara International ASA were owned by Norsk Hydro ASA. The Company has subsequently sold its share holdings in Yara in connection with the demerger transaction. The demerger was reflected in the Company's

accounts based on historical values of the transferred assets and liabilities. Hydro did not recognize any gain or loss, or received any proceeds, as a result of the demerger transaction. Hydro received proceeds of NOK 2,619 million, and recognized a gain of NOK 533 million, from sale of its 20 percent ownership in Yara in March 2004. The gain is included in **Income from discontinued operations** .

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

#### **Income from discontinued operations**

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

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

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

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

Prior periods are restated to be presented on a comparable basis. The following table summarize financial information for the discontinued operations for the periods they are included in Hydro's financial statements.

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## SUMMARY OF FINANCIAL DATA FOR DISCONTINUED OPERATIONS

NOK million	2005	2004	2003
Operating revenues		10,036	38,334
Operating income		936	2,633
Non-consolidated investees		131	610
Financial income (expense), net		(88)	47
Other income, net			40
Income before taxes and minority interest		979	3,330
Income tax expense		(307)	(1,015)
Minority interest		26	(3)
Income before sale of shares		698	2,312
Gain from sale of shares		533	
Tax on gain from sale of shares		(148)	
Net income US GAAP		1,083	2,312
31 December			
NOK million		2005	2004
Current assets			
Non-current assets			
Total assets			
Current liabilities			
Long-term liabilities			
Minority interest			
Discontinued operations, net US GAAP			
NOK million		2005	2004
Net cash provided by operating activities			838
Net cash provided by (used in) investing activities <sup>1)</sup>			8,840
Net cash used in financing activities			(109)
Foreign currency effects on cash flows			5

Net cash provided by discontinued operations

9,574

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

**Note 3****Consolidated shareholders equity**

Norsk Hydro ASA had authorized and issued 258,954,428 ordinary shares having a nominal value of NOK 18.30 per share as of 31 December 2005 and 2004. As of 31 December 2003 Norsk Hydro ASA had authorized and issued 266,596,650 ordinary shares having a nominal value of NOK 20 per share. As of 31 December 2005, 8,815,964 shares were treasury stock resulting in 250,138,464 outstanding ordinary shares, and as of 31 December 2004, outstanding ordinary shares were 250,839,230. Remaining treasury stock may be used as consideration in connection with commercial transactions or share schemes for the employees and representatives of the Corporate Assembly and the Board of Directors. The weighted average number of outstanding shares used for calculating basic and diluted earnings per share was 250,807,304 for the year 2005, 254,411,433 for 2004 and 257,528,511 for 2003.

In December 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 2,808,810 treasury shares acquired in 2004 in a buyback program approved by the 2004 Annual General Meeting. These shares were acquired at a market price of NOK 1,239 million. The extraordinary General Meeting also authorized the redemption of 2,191,190 shares owned by the Norwegian State. As compensation, the State received NOK 981 million. The cancellation and redemption were completed in February 2005. In addition, the General Meeting authorized a new buyback program limited to 5,617,621 shares. As part of this program, a total of 10 million shares may be cancelled, including shares owned by the Norwegian State. A decision to cancel any of the shares repurchased requires approval by a minimum of two-thirds of the shares represented at a future General Meeting.

In January 2004, an extraordinary General Meeting approved a capital reduction by cancellation of 1,484,300 treasury shares acquired in 2003 for a market price of NOK 555 million. The General Meeting also authorized the redemption of 1,157,922 shares owned by the Norwegian State. As compensation, the State received NOK 445 million. The cancellation and redemption were completed on 17 March 2004. In addition, the General Meeting approved the demerger of Norsk Hydro ASA, resulting in reduction of the nominal value of each Hydro share from NOK 20 to NOK 18.30. Each shareholder received one share in the newly established Yara International ASA, with a nominal value of 1.70 for each Hydro share. The demerger was completed on 24 March 2004.

In 2005, Hydro sold 233,634 shares of its treasury stock to employees for a price of NOK 122 million.

## CONSOLIDATED SHAREHOLDERS EQUITY

Amounts in NOK million except number of shares in thousands	Ordinary Shares issued		Additional paid-in capital	Total paid-in capital	Retained earnings	Treasury Stock Norsk Hydro ASA		Accumulated other compre- hensive income	Total shareholders equity
	Norsk Hydro ASA Number	Amount				Number	Amount		
Balance 31 December 2002	266,597	5,332	15,088	20,420	63,260	(8,636)	(3,052)	(4,761)	75,867
Net income 2003					10,968				10,968
Dividend declared and paid (NOK 10.50 per share)					(2,711)				(2,711)
Minimum pension liability								(113)	(113)
Hedge of net investment Cash flow hedges								(333)	(333)
Purchase of treasury stock						(1,484)	(555)	35	(555)
Treasury stock reissued to employees			(17)	(17)		235	83		66
Foreign currency translation								4,856	4,856
Balance 31 December 2003	266,597	5,332	15,071	20,403	71,517	(9,885)	(3,524)	(316)	88,080
Net income 2004					12,560				12,560
Dividend declared and paid (NOK 11.00 per share)					(2,811)				(2,811)
Net unrealized gain on securities								(2)	(2)
Minimum pension liability								(132)	(132)
Hedge of net investment Cash flow hedges								320	320
Purchase of treasury stock						(2,809)	(1,239)	(339)	(339)
			19	19		285	102		121

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Treasury stock reissued to employees									
Cancellation treasury stock	(4,294)	(82)	(1,511)	(1,593)	2	4,294	1,591		
Redeemed shares, the Norwegian State	(3,349)	(63)	(1,363)	(1,426)					(1,426)
Demerger Yara International ASA		(448)	(1,749)	(2,197)	(5,957)			540	(7,614)
Foreign currency translation								(1,628)	(1,628)
Balance 31 December 2004	258,954	4,739	10,467	15,206	75,311	(8,115)	(3,070)	(1,557)	85,890
Net income 2005					<b>15,638</b>				<b>15,638</b>
Dividend declared and paid (NOK 20.00 per share)					<b>(5,021)</b>				<b>(5,021)</b>
Net unrealized gain on securities								<b>(9)</b>	<b>(9)</b>
Minimum pension liability								<b>(510)</b>	<b>(510)</b>
Hedge of net investment								<b>33</b>	<b>33</b>
Cash flow hedges								<b>(751)</b>	<b>(751)</b>
Purchase of treasury stock						<b>(934)</b>	<b>(608)</b>		<b>(608)</b>
Treasury stock reissued to employees			<b>33</b>	<b>33</b>		<b>234</b>	<b>88</b>		<b>122</b>
Foreign currency translation								<b>711</b>	<b>711</b>
Balance 31 December 2005	<b>258,954</b>	<b>4,739</b>	<b>10,500</b>	<b>15,239</b>	<b>85,928</b>	<b>(8,816)</b>	<b>(3,590)</b>	<b>(2,083)</b>	<b>95,495</b>



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Norsk Hydro ASA and subsidiaries

## COMPONENTS OF TOTAL ACCUMULATED OTHER COMPREHENSIVE INCOME

Amounts in NOK million	Net unrealized gain on securities	Net unrealized gain (loss) investment hedge	Net gain cash flow hedge	Minimum pension liability adjustment	Net foreign currency translation loss	Total accumulated other comprehen- sive income (loss)
Balance 31 December 2002	11	81	1,114	(883)	(5,084)	(4,761)
Balance 31 December 2003	11	(252)	1,149	(996)	(228)	(316)
Balance 31 December 2004	9	102	810	(814)	(1,664)	(1,557)
Balance 31 December 2005		<b>135</b>	<b>59</b>	<b>(1,324)</b>	<b>(953)</b>	<b>(2,083)</b>

## CHANGES IN OTHER COMPREHENSIVE INCOME AND RELATED TAX EFFECTS

Amounts in NOK million	31 December 2005			31 December 2004 <sup>1)</sup>			31 December 2003		
	Pretax	Tax	Net	Pretax	Tax	Net	Pretax	Tax	Net
Net unrealized gain on securities	(12)	3	(9)	(3)	1	(3)			
Net investment hedge Companies sold	33		33	445	(125)	320	(462)	129	(333)
Net investment hedge	33		33	445	(125)	320	(462)	129	(333)
Cash flow hedge	(782)	219	(563)	(214)	60	(154)	385	(112)	272
Less: Reclassification of hedging gain	(261)	73	(188)	(256)	71	(185)	(331)	94	(237)
Net cash flow hedge	(1,043)	292	(751)	(470)	131	(339)	54	(18)	35
	(744)	234	(510)	(189)	57	(132)	(182)	69	(113)

Minimum pension  
liability adjustment

Foreign currency translation	<b>1,081</b>		<b>1,081</b>	(1,625)		(1,625)	4,650		4,650
Companies sold	<b>(370)</b>		<b>(370)</b>	(3)		(3)	206		206
Net foreign currency translation	<b>711</b>		<b>711</b>	(1,628)		(1,628)	4,856		4,856
Total change in other comprehensive income	<b>(1,055)</b>	<b>529</b>	<b>(526)</b>	(1,845)	64	(1,781)	4,266	180	4,445

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

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**Note 4**  
**Remuneration and Share-Based Compensation**

Members of the board of directors are elected for two-year terms. Remuneration to the Board of Directors consists of the payment of fees, and is based on the position of the board member and specific board committee appointments. Board fees for 2005 as well as any outstanding loans and share ownership as of 31 December 2005 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the board members during 2005.

Board Member	Board Fees <sup>1)</sup>	Outstanding Loans <sup>1) 2)</sup>	Number of Shares <sup>3)</sup>
Jan Reinås	470		
Borger A. Lenth	420		144
Elisabeth Grieg	280		6,080
Håkan Mogren	245		
Ingvild Myhre	245		
Kurt Anker Nielsen	280		
Geir Nilsen <sup>4)</sup>	230	300	78
Terje Friestad <sup>4)</sup>	280	50	259
Odd Semstrøm <sup>4) 5)</sup>	84		152
Sten Roar Martinsen <sup>4) 6)</sup>	146		
Total Board fees 2005	2,680		

1) Amounts in NOK thousands.

2) Mr. Nilsen's loan is at an interest rate of 3.0-3.6 percent and has a repayment period of 4.5 years. Mr. Friestad's loan is at an interest rate of 3.0 percent and has a repayment period of 2.5 years. Both loans are extended to the board

- members under an employee benefit scheme applicable to all employees in Norway.
- 3) Number of shares includes related party share holdings as of 31 December 2005, in addition to the shares held directly by the board member.
- 4) Employee representative on the board elected by the employees in accordance with Norwegian company law. As such, these individuals are also paid regular salary, remuneration in kind and pension benefits that are not included in the table above.
- 5) Employee board representative until 12 May 2005.
- 6) Employee board representative from 12 May 2005.

**Corporate Management Board Remuneration**

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

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

Bonus is limited to a maximum of one-twelfth of their annual salary for employees. For approximately 100 managers with substantial responsibility for performance, the bonus is limited to a maximum of two-twelfths of their annual salary. For top management, approximately 30 managers, the bonus is limited to a maximum of one-fourth of their annual salary. For the president, the upper limit of the bonus is one-half of his annual salary. It is the actual improvements of Hydro's activities that is measured and rewarded.

Corporate management board salaries, bonus for 2004 paid in 2005, and the increase in the estimated value of pension benefits for 2005, as well as any loans outstanding as of 31 December 2005 are shown in the table below. Hydro did not have any guarantees made on the behalf of any of the corporate management board members during 2005.

Corporate Management Board	Salary <sup>1)</sup>	Exercise of Options <sup>1)2)</sup>	Remuneration in kind <sup>1)</sup>	Bonus <sup>1)</sup>	Estimated Change in Value of Pension Benefits <sup>3)</sup>	Outstanding Loans <sup>1)4)</sup>
E. Reiten	4,741	3,141	227	1,500	5,061	
J.O. Ottestad	2,502		169	374	3,109	
J.H. Nilsen <sup>4)</sup>	2,924		210	453	2,134	155
T. Torvund <sup>4)</sup>	3,165		220	419	2,144	944
H. Aasheim <sup>5)</sup>	457		31		329	
A.B. Gjørsv <sup>6)</sup>	567		50	257	203	

1) Amounts in NOK thousands.

2) Mr. Reiten exercised 9,320 options on 10 November 2005 at an exercise price of NOK 331.14; the average of the five preceding trading days share price was NOK 668.20.

3) Estimated change in value of

pension benefit is calculated as the increase in Projected Benefit Obligations (PBO) calculated with stable assumptions. As such, the number includes both the annual accrual of pension benefits and the interest element related to the total accrued pension benefits.

- 4) The loan to Mr. Nilsen was entered into prior to 30 July 2002. The loan has an interest rate of 3 percent and a repayment period of 7.5 years. The beginning balance of the loan to Mr. Torvund was entered into prior to 30 July 2002. During 2005, new loans of NOK 575,000 were entered into. Mr. Torvund's total loans are in the process of being repaid and will be finalized in March 2006. The loans to Mr. Torvund have an interest rate between 3.0-3.6 percent. The loans to Mr. Nilsen and Mr. Torvund are issued under an

employee benefit  
scheme  
applicable to all  
employees in  
Norway.

5) Ms. Aasheim  
joined Hydro as a  
member of the  
corporate  
management  
board on 1  
October 2005.

6) Ms. Bech Gjørvi  
stepped down  
from the  
corporate  
management  
board on 1  
May 2005.

#### **Executive Management Share-Based Compensation**

Hydro has an Executive Stock Option Plan for each of the years 2002, 2003, 2004 and 2005. The Executive Stock Option Plan awards are granted each year to approximately 30 Hydro executives, including the president and CEO and the corporate management board. All of the plans are in the form of Stock Appreciation Rights (SARs), as the plans are cash settled upon exercise of the options. Compensation expense related to these plans is recognized using the intrinsic method. See note 1 for further information.

In June 2005 the Board of Directors approved the 2005 Executive

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Stock Option Plan for corporate officers and certain key employees, authorizing 118,000 stock options (SARs). On 1 July 2005, 28 Hydro executives were granted a total of 118,000 SARs, with a vesting period of 3 years, an exercise period of 3 years and an exercise price of NOK 622 when the market price was NOK 603. As of 31 December 2005, 118,000 SARs were outstanding, with a remaining contractual life of five and one-half years, none of which were vested and therefore not exercisable.

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

Corporate management board SAR activity during 2005, as well as year-end SARs outstanding and year-end share ownership are given in the table below.

Corporate Management Board	SARs	SARs	SARs	SARs	SARs	SARs	Weighted Average Price of Exercise of SARs Outstanding as of 31.12.2005	Intrinsic Value of Options (NOK thousands) <sup>2)</sup>	Number of Shares Held 31.12.2005 <sup>3)</sup>
	31.12.2004	01.07.2005	Vested 2005	Forfeited 1)	Exercised in 2005	31.12.2005	31.12.2005		
Eivind Reiten	35,000	15,000	9,320	680	9,320	40,000	492.16	8,034	13,664
John O. Ottestad	24,000	10,000	6,524	476		33,524	459.12	9,111	8,261
Jon-Harald Nilsen	24,000	10,000	6,524	476		33,524	459.12	9,111	293
Tore Torvund	24,000	10,000	6,524	476		33,524	459.12	9,111	3,686
Hilde Aasheim <sup>4)</sup>									
Alexandra Bech Gjørsv <sup>5)</sup>	21,000		6,524	476	6,524	14,000	398.81	4,119	2,203

- 1) SARs amounting to 6,8 percent of total number granted were forfeited as the total shareholder return target was not achieved during the vesting period.
- 2) Share price 31 December 2005 less exercise price multiplied by the number of SARs outstanding as of year-end.
- 3) Number of shares held includes related party share holdings as of 31 December 2005, in addition to the shares held directly by the corporate management board member.
- 4) Ms. Aasheim joined Hydro as a member of the corporate management board on 1 October 2005.
- 5) Ms. Bech Gjørsv stepped down from the corporate management board on 1 May 2005.



For all four plans, upon exercise the option holder receives a cash payment equal to the difference between the exercise price and the average market price of the Company's stock for the five trading days previous to exercise date. Similar to the 2005 SAR plan, the 2004 plan has a 3-year vesting period and an exercise period of 3 years. The 2003 and 2002 plans have a vesting period of 3 years and an exercise period of 2 years. In addition, the option vesting schedules for the 2003 and 2002 plans are based on total shareholder return, as defined in the 2002 and 2003 plans. If shareholder return is less than 12 percent between the grant date and vesting date, none of the granted options vest. If the shareholder return is between 12 percent and 20 percent over the vesting period, the corresponding percentage of options that vest increases linearly between 20 percent and 100 percent. On 30 June 2005, the vesting date for the 2002 SARs, the total shareholder return target of 20 percent was not met, and only 93,2 percent of the total of 92 500 granted options were vested. Vesting of the 2003 SARs is dependent on the total shareholder return between 1 July 2003 and 30 June 2006. The 2004 and 2005 plans do not contain a vesting requirement based on total shareholder return.

The fair value at grant date is measured using a Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Hydro's stock options may have characteristics that vary significantly from traded options and changes in subjective assumptions can materially affect the fair value of the option. The following estimates were used to estimate the option fair value at grant date for 2005, 2004 and 2003:

	<b>2005</b>	2004	2003
Expected option life at grant date	<b>4.0</b>	4.0	4.0
Risk-free interest rate	<b>2.78%</b>	3.35%	3.87%
Expected volatility	<b>25.32%</b>	25.79%	26.79%
Expected Dividend per share, NOK	<b>20.00</b>	12.00	11.50
Estimated weighted average fair value per option, NOK	<b>95.65</b>	69.95	47.87
Fair value of total options granted during fiscal year, NOK thousands	<b>11,287</b>	8,743	4,667

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Share Appreciation Rights <sup>1)</sup>	Options	Weighted Average Exercise Price (NOK)	Exercise Price at Grant Date	Weighted Average Market Price at Grant Date <sup>2)</sup>	Vesting Period	Exercise Period
Outstanding 1 January 2003	175,000	374.80				
Granted 8 August - 15 September 2003	97,500		321.62	341.03	Grant Date 30.06.2006	01.07.2006 30.06.2008
Exercised						
Forfeited						
Expired						
Outstanding 31 December 2003	272,500	345.98				
Exercisable 31 December 2003						
Granted 9 September 2004	125,000		476.00	446.50	09.09.2004 30.06.2007	01.07.2007 30.06.2010
Exercised						
Forfeited	(82,500)	390.40				
Expired						
Outstanding 31 December 2004	315,000	385.68				
Exercisable 31 December 2004						
Granted 1 July 2005	<b>118,000</b>		<b>622.00</b>	<b>603.00</b>	<b>01.07.2005</b> <b>30.06.2008</b>	<b>01.07.2008</b> <b>30.06.2011</b>
Exercised	<b>(62,910)</b>	<b>331.14</b>				
Forfeited <sup>3) 4)</sup>	<b>(9,790)</b>	<b>327.74</b>				
Expired						
Outstanding 31 December 2005	<b>360,300</b>	<b>474.17</b>				
	<b>23,300</b>	<b>331.14</b>				

Exercisable 31  
December 2005

- 1) All options granted and then canceled or exercised related to the 2004 Yara de-merger are excluded from this table.
- 2) Close of day share prices, adjusted for changes in group structure, as appropriate.
- 3) Stock options granted in 2002 totaling 6,290 (6.8 percent of total number options granted) forfeited as of 30 June 2005. Options were forfeited as the total shareholder return target was not met during the vesting period.
- 4) Includes options totaling 3,500 that were forfeited upon resignation from the Company.

#### **United Kingdom Employee Share-Based Compensation**

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

Each year the employees were given the option to acquire a limited number of shares at a fixed price during a period from the third to the tenth year from the grant date. The exercise price of the shares equals the share price at the time the options were granted. During 2003, 34,867 options were exercised and a total of 3,653 options expired. At year-end 2003, 199,897 options were outstanding and the trust kept a balance of 210,649 shares. During 2004, 104,120 options were exercised and 8,274 options expired. At year-end 2004 87,503 options were outstanding and the trust's balance of shares at 31 December 2004 was 122,916. During 2005, 51,593 options were exercised and 970 options expired. At year-end 2005 34,917 options were outstanding and the trust's balance of shares at 31 December 2005 was 122,916. Activity during 2005 is given in the table below.

	Average Number of Shares	Strike Price (NOK) <sup>1)</sup>
Options outstanding as of 31 December 2004	87,503	345.98
Options Exercised during 2005	51,593	352.82
Options Expired during 2005	993	342.34
Options Outstanding as of 31 December 2005	34,917	337.44

- 1) Presentation in NOK is based on a translation from GBP using the 31 December 2005 exchange rate of 11.652.

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Norsk Hydro ASA and subsidiaries

### Employee Share Purchase Plan

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

Details related to the employee share-purchase plan are given in the table below.

Performance Measurement Period	01.01.05-31.12.05	01.01.04-31.12.04	01.01.03-31.12.03	01.01.02-31.12.02
Total shareholder return performance target achieved	<sup>3</sup> 12%	<sup>3</sup> 12%	<sup>3</sup> 12%	<12
Employee rebate, NOK	6,000	6,000	6,000	1,500
Employee rebate, percent	50%	50%	50%	20%
Award share price, NOK		260.25	212.25	223.92
Total number of shares issued to employees		233,634	285,152	235,768
Compensation expense related to the award, NOK thousands		60,803	60,524	13,198

### Note 5

#### Operating and geographic segment information

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

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

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

a commission basis.

Aluminium consists of the sub segments Metals, Rolled Products and Extrusion and Automotive. The Aluminium activities are organized in sectors representing various businesses, with separate management. The sector results are reviewed by the business area management. Metals activities include the production of primary aluminium, alumina, remelting of metal, and the international trading of aluminium, aluminium products and alumina. The sub segment comprises the sectors Primary Metal and Metal Products. Rolled Products delivers foil, strip, sheet and plate for application in such sectors as packaging, automotive and transport industries, as well as for offset printing plates. Extrusion and Automotive is involved in the manufacture and sale of extruded and cast aluminium products and components as well as production of primary magnesium for the automotive industry. The sub segment comprises the sectors Extrusion and Automotive. Effective 1 February 2006, Hydro has decided to split Aluminium into two business areas, Aluminium Metal and Aluminium Products. Aluminium Metal consists of the previous Metals sub segment. Aluminium Products consists of the previous Rolled Products and Extrusion and Automotive sub segments.

Other activities consist of Polymers, BioMar AS (sold in December 2005), VAW Flexible Packaging (sold April 2003) and certain other activities. Polymers is a producer of the plastic raw material polyvinyl chloride (PVC) in Scandinavia and in the UK. BioMar's main activity is production and sale of fish feed.

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Norsk Hydro ASA and subsidiaries

### **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.

Subsequent to the issuance of Hydro's annual consolidated financial statements for 2005, management determined that certain intersegment revenues and expenses for the years 2005, 2004 and 2003 were incorrectly disclosed. As a result, such amounts have been restated from the amounts previously reported. These disclosures had no impact on the consolidated financial positions, revenues, or results of operations.

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Norsk Hydro ASA and subsidiaries

	External revenues			Internal revenues			Total operating revenues		
	2005	2004	2003	2005 As restated	2004 As restated	2003 As restated	2005 As restated	2004 As restated	2003 As restated
NOK million									
Exploration and Production	<b>18,362</b>	13,519	12,099	<b>45,838</b>	35,444	25,805	<b>64,201</b>	48,962	37,904
Energy and Oil Marketing <sup>1)</sup>	<b>65,742</b>	51,303	41,438	<b>6,698</b>	6,017	6,491	<b>72,440</b>	57,319	47,928
Eliminations <sup>1) 2) 6)</sup>				<b>(50,166)</b>	(37,136)	(27,326)	<b>(50,166)</b>	(37,136)	(27,326)
Hydro Oil & Energy	<b>84,104</b>	64,821	53,536	<b>2,371</b>	4,325	4,970	<b>86,475</b>	69,146	58,506
Metals <sup>7)</sup>	<b>36,024</b>	33,525	25,729	<b>18,937</b>	18,385	13,411	<b>54,961</b>	51,910	39,140
Rolled Products	<b>18,949</b>	18,729	17,825	<b>541</b>	1,559	552	<b>19,490</b>	20,288	18,377
Extrusion and Automotive <sup>7)</sup>	<b>26,040</b>	27,086	24,424	<b>35</b>	51	60	<b>26,075</b>	27,137	24,483
Other and eliminations <sup>3)</sup>	<b>(437)</b>	50	190	<b>(19,252)</b>	(19,797)	(13,867)	<b>(19,689)</b>	(19,747)	(13,677)
Hydro Aluminium	<b>80,575</b>	79,391	68,167	<b>261</b>	198	156	<b>80,836</b>	79,589	68,323
Other activities <sup>2) 4)</sup>	<b>9,510</b>	9,665	10,013	<b>2,787</b>	3,204	3,745	<b>12,297</b>	12,869	13,759
Corporate and eliminations <sup>1) 2)</sup>	<b>11</b>	14	61	<b>(5,419)</b>	(7,727)	(8,871)	<b>(5,407)</b>	(7,713)	(8,810)
Total	<b>174,201</b>	153,891	131,778				<b>174,201</b>	153,891	131,778

- 1) Certain internal revenues, including the effect of marked-to-market valuation of internal derivative contracts, were previously included in external revenues. These revenues, and the elimination thereof, are now reported as internal revenues. Prior periods have been reclassified for comparative purposes.
- 2) Corporate and eliminations includes elimination of unrealized gain/loss on power contracts between Energy and other units in Hydro with a gain of NOK 1,391 million in 2005, loss of NOK 235 million in 2004 and a loss of NOK 141 million in 2003. In addition, gains and losses on electricity contracts, NOK 101 million, NOK 13 million and NOK 21 million are eliminated within the Oil and Energy Area in 2005, 2004 and 2003, respectively.
- 3) Other and eliminations includes unrealized gains and losses related to LME contracts with a loss of NOK 1,021 million in 2005, a gain of NOK 175 million in 2004 and a loss of NOK 49 million in 2003.
- 4) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro's internal services.
- 5) Corporate and elimination's operating income (loss) and Adjusted EBITDA includes a net periodic pension cost of NOK 495 million for 2005, NOK 1,001 million for 2004 and NOK 1,111 million for 2003.
- 6) Eliminations Oil & Energy includes elimination of unrealized gains on gas contracts with NOK 713 million in 2005 and NOK 144 million in 2004.
- 7) During 2005 Hydro's magnesium operations were transferred from Metals sub segment to Extrusion and Automotive sub segment because the automotive industry is the dominant customer segment for this business. In addition, the remelt operations in North America were transferred from Extrusion and Automotive and included in Metals, in order to combine the results from these activities with the Company's worldwide primary and remelt metal results. Prior period amounts are reclassified accordingly.





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Norsk Hydro ASA and subsidiaries

NOK million	Depreciation, depletion and amortization			Other operating expenses			Operating income (loss) before fin. and other income		
	2005	2004	2003	2005 As restated	2004 As restated	2003 As restated	2005	2004	2003
	Exploration and Production	<b>9,961</b>	9,752	9,052	<b>13,645</b>	10,848	10,352	<b>40,594</b>	28,363
Energy and Oil Marketing	<b>651</b>	640	592	<b>68,214</b>	54,030	44,668	<b>3,575</b>	2,650	2,668
Eliminations <sup>2) 6)</sup>				<b>(49,447)</b>	(37,267)	(27,301)	<b>(719)</b>	132	(25)
Hydro Oil & Energy	<b>10,612</b>	10,391	9,643	<b>32,412</b>	27,610	27,719	<b>43,451</b>	31,144	21,143
Metals <sup>7)</sup>	<b>1,687</b>	3,798	1,451	<b>49,376</b>	47,253	35,609	<b>3,898</b>	860	2,080
Rolled Products	<b>773</b>	687	650	<b>17,962</b>	18,975	17,595	<b>754</b>	626	132
Extrusion and Automotive <sup>7)</sup>	<b>2,473</b>	1,477	1,314	<b>24,702</b>	25,413	22,859	<b>(1,100)</b>	248	310
Other and eliminations <sup>3)</sup>				<b>(18,649)</b>	(19,818)	(13,610)	<b>(1,041)</b>	72	(67)
Hydro Aluminium	<b>4,934</b>	5,962	3,414	<b>73,391</b>	71,822	62,453	<b>2,511</b>	1,805	2,456
Other activities <sup>4)</sup>	<b>517</b>	532	878	<b>11,782</b>	12,025	13,285	<b>(2)</b>	312	(404)
Corporate and eliminations <sup>2) 5)</sup>	<b>22</b>	12	11	<b>(5,902)</b>	(6,311)	(7,252)	<b>472</b>	(1,414)	(1,569)
Total	<b>16,086</b>	16,898	13,947	<b>111,683</b>	105,146	96,205	<b>46,432</b>	31,847	21,625

NOK million	Equity in net income non-consolidated investees			Other income (expense), net			Adjusted EBITDA		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Exploration and Production	<b>6</b>	4	29				<b>50,601</b>	38,168	27,624
Energy and Oil Marketing	<b>108</b>	73	81	<b>65</b>	59	815	<b>4,456</b>	3,478	4,226
Eliminations <sup>2) 6)</sup>	<b>(2)</b>	(2)	(4)				<b>(719)</b>	132	(25)
Hydro Oil & Energy	<b>112</b>	75	107	<b>65</b>	59	815	<b>54,339</b>	41,777	31,826
Metals <sup>7)</sup>	<b>272</b>	281	379				<b>6,025</b>	5,372	4,019
Rolled Products	<b>(27)</b>	(13)	(14)				<b>1,565</b>	1,361	835
Extrusion and Automotive <sup>7)</sup>	<b>100</b>	113	67				<b>1,495</b>	1,850	1,710
Other and eliminations <sup>3)</sup>							<b>(1,041)</b>	72	(67)

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Hydro Aluminium	<b>345</b>	381	433				<b>8,044</b>	8,655	6,498
Other activities <sup>4)</sup>	<b>164</b>	170	83	<b>925</b>	110	139	<b>1,880</b>	1,363	1,113
Corporate and eliminations <sup>2) 5)</sup>	<b>(1)</b>	3	(3)			(2,207)	<b>1,231</b>	(680)	(809)
Total	<b>619</b>	629	620	<b>990</b>	169	(1,253)	<b>65,493</b>	51,116	38,627

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Norsk Hydro ASA and subsidiaries

NOK million	Current Assets <sup>1)</sup>		Non-current Assets		Assets <sup>1)</sup>	
	2005	2004	2005	2004	2005	2004
Exploration and Production	<b>14,939</b>	9,072	<b>87,536</b>	61,262	<b>102,475</b>	70,334
Energy and Oil Marketing	<b>17,723</b>	9,683	<b>21,934</b>	18,896	<b>39,657</b>	28,579
Eliminations	<b>(7,308)</b>	(2,892)	<b>(287)</b>	18	<b>(7,594)</b>	(2,873)
Hydro Oil & Energy	<b>25,354</b>	15,863	<b>109,183</b>	80,176	<b>134,537</b>	96,039
Metals <sup>8)</sup>	<b>15,402</b>	12,469	<b>22,473</b>	21,147	<b>37,875</b>	33,616
Rolled Products	<b>6,930</b>	6,405	<b>6,245</b>	6,782	<b>13,175</b>	13,187
Extrusion and Automotive <sup>8)</sup>	<b>8,139</b>	8,283	<b>9,947</b>	10,827	<b>18,086</b>	19,109
Other and eliminations	<b>(2,811)</b>	(2,323)	<b>(280)</b>	(297)	<b>(3,091)</b>	(2,621)
Hydro Aluminium	<b>27,660</b>	24,833	<b>38,385</b>	38,459	<b>66,045</b>	63,292
Other activities <sup>5)</sup>	<b>4,740</b>	6,034	<b>5,202</b>	5,393	<b>9,942</b>	11,427
Corporate and eliminations	<b>12,539</b>	23,676	<b>4,132</b>	5,809	<b>16,671</b>	29,484
Total	<b>70,293</b>	70,406	<b>156,902</b>	129,836	<b>227,195</b>	200,243

NOK million	Non-consolidated investees <sup>2)</sup>		Segment debt <sup>3)</sup>		Investments <sup>4)</sup>	
	2005	2004	2005	2004	2005	2004
Exploration and Production	<b>52</b>	18	<b>10,090</b>	5,411	<b>33,846</b>	10,606
Energy and Oil Marketing	<b>2,528</b>	2,310	<b>15,117</b>	8,137	<b>2,333</b>	1,460
Eliminations	<b>18</b>	19	<b>(7,030)</b>	(3,027)		
Hydro Oil & Energy	<b>2,598</b>	2,347	<b>18,177</b>	10,520	<b>36,179</b>	12,067
Metals <sup>8)</sup>	<b>3,863</b>	3,066	<b>6,232</b>	7,603	<b>1,792<sub>6)</sub></b>	4,244 <sub>7)</sub>
Rolled Products	<b>1,430</b>	1,532	<b>3,115</b>	3,339	<b>545<sub>6)</sub></b>	553
Extrusion and Automotive <sup>8)</sup>	<b>1,065</b>	859	<b>5,208</b>	5,332	<b>1,425</b>	1,398
Other and eliminations			<b>(2,022)</b>	(2,478)		
Hydro Aluminium	<b>6,358</b>	5,457	<b>12,532</b>	13,796	<b>3,762</b>	6,194

Other activities <sup>5)</sup>	<b>1,125</b>	1,095	<b>2,346</b>	3,068	<b>1,097</b>	1,058
Corporate and eliminations	<b>732</b>	1,118	<b>342</b>	1,535	<b>72</b>	145
Total	<b>10,814</b>	10,017	<b>33,396</b>	28,919	<b>41,110</b>	19,464

- 1) Current assets and assets exclude internal cash accounts and accounts receivables related to group relief.
  - 2) Non-consolidated investees comprises investments and advances, see note 13.
  - 3) Segment debt is defined as short-term interest from liabilities excluding income tax payable and short-term deferred tax liabilities.
  - 4) Additions to property, plant and equipment plus long-term securities, intangibles assets, long-term advances and investments in non-consolidated investees.
  - 5) Other activities consist of the following: Polymers, BioMar AS (sold December 2005), Flexible Packaging (sold in April 2003), the industrial insurance company, Industriforsikring, and Hydro's internal services.
  - 6) Includes non-cash increase in investment from effect of change in accounting principle (FIN 47), of NOK 186 million in Metals and NOK 9 million in Rolled Products.
  - 7) Includes non-cash increase in investment from effect of change in accounting principle (FIN 46R), of NOK 1,275 million.
  - 8) During 2005 Hydro's magnesium operations were transferred from Metals sub segment to Extrusion and Automotive sub segment because the automotive industry is the dominant customer segment for this business. In addition, the remelt operations in North America were transferred from Extrusion and Automotive and included in Metals, in order to combine the results from these activities with the Company's worldwide primary and remelt metal results. Prior period amounts are reclassified accordingly.
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Amounts in NOK million	Assets			Long-lived assets			Investments		
	2005	2004	2003	2005	2004	2003	2005	2004	2003
Norway	<b>137,916</b>	135,005	124,923	<b>92,121</b>	88,096	88,687	<b>13,795</b>	11,988	12,514
Germany	<b>15,619</b>	15,973	19,099	<b>8,328</b>	8,733	11,895	<b>835</b>	1,107	780
Sweden	<b>4,299</b>	4,453	4,633	<b>1,085</b>	1,163	1,417	<b>198</b>	187	267
Great Britain	<b>2,669</b>	2,724	2,628	<b>1,093</b>	1,056	1,088	<b>171</b>	136	128
France	<b>2,340</b>	2,483	2,713	<b>627</b>	690	729	<b>60</b>	99	155
Italy	<b>2,284</b>	2,037	1,967	<b>876</b>	704	646	<b>291</b>	160	89
The Netherlands	<b>2,663</b>	2,321	3,707	<b>1,194</b>	1,309	485	<b>1</b>	98	372
Denmark	<b>1,330</b>	3,664	4,189	<b>944</b>	1,781	1,941	<b>136</b>	152	338
Spain	<b>962</b>	1,191	1,301	<b>321</b>	530	608	<b>18</b>	38	28
Other	<b>4,928</b>	4,684	2,809	<b>2,824</b>	2,718	1,518	<b>380</b>	1,720	191
Total EU	<b>37,094</b>	39,530	43,046	<b>17,292</b>	18,685	20,328	<b>2,090</b>	3,696	2,345
Other Europe	<b>1,391</b>	1,597	1,728	<b>1,134</b>	1,327	1,559	<b>49</b>	169	258
Total Europe	<b>176,401</b>	176,132	169,697	<b>110,547</b>	108,107	110,573	<b>15,934</b>	15,854	15,117
USA	<b>28,159</b>	4,428	4,340	<b>21,411</b>	1,918	1,983	<b>21,889</b>	484	378
Canada	<b>6,636</b>	6,746	6,980	<b>5,618</b>	6,062	6,121	<b>806</b>	1,203	850
Other Americas	<b>4,787</b>	3,855	3,597	<b>4,272</b>	3,432	3,156	<b>145</b>	186	215
Africa	<b>5,728</b>	4,613	4,248	<b>4,937</b>	4,113	3,464	<b>1,653</b>	1,218	782
Australia and New Zealand	<b>3,049</b>	2,588	2,578	<b>2,464</b>	2,081	2,127	<b>320</b>	280	285
Asia	<b>2,434</b>	1,880	1,623	<b>1,667</b>	1,133	942	<b>364</b>	239	85
Total outside Europe	<b>50,793</b>	24,111	23,367	<b>40,368</b>	18,738	17,792	<b>25,177</b>	3,610	2,595
Total continued operations	<b>227,195</b>	200,243	193,064	<b>150,915</b>	126,846	128,365	<b>41,110</b>	19,464	17,712
Discontinued operations			25,566			10,801			1,188
Total	<b>227,195</b>	200,243	218,629	<b>150,915</b>	126,846	139,166	<b>41,110</b>	19,464	18,900

NOK million	Operating revenues		
	2005	2004	2003
Norway	<b>24,835</b>	23,477	13,522

Great Britain	<b>35,567</b>	28,579	20,178
Germany	<b>17,702</b>	19,350	17,909
France	<b>9,710</b>	6,859	11,661
Sweden	<b>9,543</b>	8,400	9,828
Italy	<b>6,868</b>	7,360	6,517
The Netherlands	<b>6,694</b>	6,649	4,530
Spain	<b>4,824</b>	6,168	4,697
Denmark	<b>1,220</b>	1,201	2,031
Other	<b>14,791</b>	12,994	12,937
<b>Total EU</b>	<b>106,920</b>	97,561	90,287
Switzerland	<b>6,631</b>	5,603	4,659
Other Europe	<b>2,349</b>	1,658	1,727
<b>Total Europe</b>	<b>140,735</b>	128,299	110,195
USA	<b>13,394</b>	10,357	10,466
Canada	<b>3,439</b>	5,188	2,690
Other Americas	<b>8,211</b>	2,526	1,879
Asia	<b>6,366</b>	6,000	5,567
Australia and New Zealand	<b>1,076</b>	972	715
Africa	<b>981</b>	548	266
<b>Total outside Europe</b>	<b>33,466</b>	25,592	21,583
<b>Total</b>	<b>174,201</b>	153,891	131,778

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

Operating revenues are identified by customer location.

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## Note 6

### Restructuring costs

In October of 2001 Hydro discontinued production of primary magnesium in Norway. As a result, Hydro closed the Porsgrunn magnesium production facilities in March of 2002, and started the clean up and dismantling work. Dismantling and clean-up work was finalized in December 2004. Restructuring costs resulted in a credit of NOK 22 million in the income statement for 2004, representing the difference between the accrual relating to the restructuring and the final cost of the program, which ended in 2004.

## Note 7

### Operating costs and expenses

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

Amounts in NOK million	2005	2004	2003
Research and development expense	716	760	722
Bad debt	233	269	638
Shipping and handling costs	3,205	3,151	2,966
Operating lease expense: <sup>1)</sup>			
Drilling rigs, ships, office space	880	689	685
Office space leased from Hydro's independent pension trust	233	225	199
Total	1,112	914	884
Payroll and related costs:			
Salaries	13,461	13,847	13,574
Social security costs	2,256	2,319	2,280
Social benefits	463	543	642
Net periodic pension cost (Note 20)	2,185	2,121	2,073
Total	18,366	18,830	18,569

1) Total minimum future rentals of NOK 7,529 million are due under non-cancelable operating leases as follows (in NOK million): 2006 1,427; 2007 2,317; 2008 1,784; 2009 1,109; 2010 357; and thereafter 535. Estimating earnings relating to research and development costs incurred is considered impracticable for the years ended 31 December 2005, 2004 and 2003.

## Note 8

### Financial income and expense

Amounts in NOK million	2005	2004	2003
Interest income	897	927	971
Net gain on securities	168	72	182
Dividends received	170	164	136
Interest income and other financial income	1,235	1,163	1,291
Interest expense	(1,745)	(2,077)	(2,782)
Capitalized interest	867	664	715
Net foreign exchange gain (loss)	(2,159)	1,350	1,034
Other, net <sup>1)</sup>	(89)	(964)	(104)
Interest expense and foreign exchange gain (loss)	(3,125)	(1,027)	(1,136)
Financial income (expense), net	(1,890)	137	155

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

## Note 9

### Other income and expense

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

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

For the year 2003, other income and expense resulted in a loss of NOK 1,253 million. The loss included a charge of NOK 2,207 million resulting from new Norwegian tax regulations relating to the removal costs for oil and gas installations on the Norwegian Continental Shelf. In accordance with earlier regulations, removal costs could not be deducted when calculating taxable income. Instead, the Norwegian state assumed a portion of the removal costs by means of a special removal grant. The new rules permit removal costs to be deducted from taxable income. The amendment resulted in a charge in the second quarter representing the estimated value of expected grants. At the same time a deferred tax asset representing the value of the new tax deductions was included as a reduction to the tax provision for the second quarter in the amount of NOK 2,380 million. Further, other income consisted of a gain on the sale of Hydro's share in Scanraff of NOK 490 million. The remaining NOK 464 million consisted of a gain from the transfer of Hydro's interest in the Sundsfjord power plant (NOK 326 million) and a gain on the disposal of Carmeda AB (NOK 138 million).



**Note 10**  
**Income taxes**

Amounts in NOK million	2005	2004	2003
Income from continuing operations before taxes and minority interest:			
Norway	<b>40,254</b>	29,378	19,657
Other countries	<b>5,898</b>	3,403	1,489
Total	<b>46,152</b>	32,781	21,146
Current taxes:			
Norway	<b>28,784</b>	22,537	13,696
Other countries	<b>2,053</b>	1,605	812
Current income tax expense	<b>30,837</b>	24,142	14,508
Deferred taxes:			
Norway	<b>(217)</b>	(2,340)	(1,487)
Other countries	<b>(302)</b>	(606)	(98)
Deferred tax expense (benefit)	<b>(519)</b>	(2,945)	(1,585)
Total income tax expense	<b>30,317</b>	21,197	12,923

## COMPONENTS OF DEFERRED INCOME TAX EXPENSE

Amounts in NOK million	2005	2004	2003
Deferred tax expense (benefit), excluding items below	<b>(1,532)</b>	(2,295)	734
Benefits of tax loss carryforwards	<b>(575)</b>	157	(79)
Tax expense (benefit) allocated to other comprehensive income	<b>529</b>	64	188
Effect of tax law changes	<b>5</b>	(846)	(70)
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations			(2,380)

Net change in valuation allowance	<b>1,054</b>	(25)	22
Deferred tax expense (benefit) US GAAP	<b>(519)</b>	(2,945)	(1,585)

## RECONCILIATION OF NORWEGIAN NOMINAL STATUTORY TAX RATE TO EFFECTIVE TAX RATE

Amounts in NOK million	<b>2005</b>	2004	2003
Expected income taxes at statutory tax rate <sup>1)</sup>	<b>12,923</b>	9,179	5,921
Petroleum surtax <sup>2)</sup>	<b>18,739</b>	13,977	9,980
Uplift benefit <sup>2)</sup>	<b>(1,357)</b>	(967)	(990)
Hydro-electric power surtax <sup>3)</sup>	<b>84</b>	163	152
Tax law changes	<b>5</b>	(846)	(70)
Non-recurring effect of tax law changes relating to the removal costs for oil and gas installations			(2,380)
Losses and other deductions with no tax benefit	<b>1,067</b>	139	216
Non-deductible expenses	<b>105</b>	119	43
Foreign tax rate differences	<b>319</b>	145	170
Tax free income	<b>(683)</b>	(473)	(619)
Dividend exclusion	<b>(23)</b>	(37)	(12)
Losses and other benefits not previously recognized	<b>(579)</b>	(146)	(100)
Other, net	<b>(281)</b>	(56)	611
Income tax expense US GAAP	<b>30,317</b>	21,197	12,923
Effective tax rate US GAAP	<b>65.7%</b>	64.7%	61.1%

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.
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Norsk Hydro ASA and subsidiaries

The tax effects of temporary differences and tax loss carryforwards giving rise to deferred tax assets and liabilities were as follows as of 31 December, 2005 and 2004.

Amounts in NOK million	US GAAP Deferred Tax			
	Assets 2005	Liabilities 2005	Assets 2004	Liabilities 2004
Short-term:				
Marketable securities	4			(4)
Inventory valuation	435	(410)	178	(295)
Accrued expenses	1,174	(1,115)	899	(558)
Unrealized exchange (gains) losses	958	(852)	354	(725)
Uplift benefit	1,068		766	
Other	5		162	
Long-term:				
Unrealized exchange (gains) losses	736	(1,350)	695	(223)
Property, plant and equipment	6,325	(40,893)	5,617	(34,862)
Capitalized interest		(3,506)		(3,379)
Exploration drilling costs		(2,455)		(2,323)
Other non-current assets	544	(600)	338	(629)
Accrued expenses	1,179	(681)	1,005	(473)
Pensions	2,209	(1,430)	1,574	(1,390)
Deferred (gains) losses on sales	169	(575)	204	(974)
Uplift benefit	1,740		1,613	
Abandonments and decommissioning accruals	4,866		4,395	
Cash Flow Hedges	13	(42)		(320)
Other	788	(697)	842	(1,156)
Tax effect of tax loss carryforwards	3,290		1,471	
Subtotal	25,503	(54,606)	20,113	(47,311)
Total valuation allowance	(2,591)		(967)	
Gross deferred tax assets and liabilities	22,912	(54,606)	19,146	(47,311)

Deferred income taxes have not been provided for on undistributed earnings of foreign subsidiaries, amounting to NOK 28,207 million, since those earnings are considered to be indefinitely invested. No deferred income taxes have been recognized on undistributed earnings of Norwegian subsidiaries which can be remitted tax-free as dividends.

At the end of 2005, Hydro had tax loss carryforwards of NOK 10,118 million, primarily in United States, Norway, Canada, Jamaica, Malaysia, Spain and Trinidad. Carry forward amounts expire as follows:

Amounts in NOK million

2006	46
2007	12
2008	65
2009	30
2010	79
After 2010	6,007
Without expiration	3,880
<b>Total tax loss carryforwards</b>	<b>10,118</b>

**Note 11****Short-term investments**

Amounts in NOK million	<b>2005</b>	2004
Bank, time deposits	<b>1,851</b>	9,151
Marketable equity securities	<b>517</b>	416
Debt securities and other	<b>1,498</b>	1,404
<b>Total short-term investment</b>	<b>3,865</b>	10,970

The net change in unrealized gains on securities for the years ended 31 December 2005, 2004 and 2003 was a net gain of NOK 90 million, a net gain of NOK 91 million and a net gain of NOK 284 million, respectively. Total cost of marketable equity securities and debt securities and other was NOK 1,886 million and NOK 1,781 million as of 31 December 2005 and 2004, respectively.

**Note 12****Inventories and other current assets**

Amounts in NOK million	<b>2005</b>	2004
Finished goods	<b>6,736</b>	6,096
Work in progress	<b>2,598</b>	2,211
Raw materials	<b>5,218</b>	4,543
<b>Total inventories</b>	<b>14,553</b>	12,851
Prepaid expenses	<b>6,171</b>	3,653
Other current assets	<b>9,742</b>	6,825
<b>Total prepaid expenses and other current assets</b>	<b>15,912</b>	10,478

**Note 13****Non-consolidated Investees**

Amounts in NOK million	Naturkraft Texaco	Hydro	Alunorf	Alunorte	Sora	Aluchem	Meridian	QVC	Noretyl	Other	Total
Balance 01.01.2004	4	1,057	1,576	902	568	460	586	310	437	4,262	10,162
Investments (sale), net	43	8		284		524				(327)	532
Change in long-term advances, net						(430)		(54)	(85)	(96)	(665)
Transfers (to) from other investments										(64)	(64)
Hydro's share of net income (loss)	(26)	39	45	375	175	7	68	111	53	192	1,039
Amortization and write-down		(8)	(59)	(18)		(10)				(315)	(410)
Dividends and other payments received by Hydro		(126)			(100)		(26)			(75)	(327)
Foreign currency translation and other		(7)	(30)	1		13	(35)	(6)		(186)	(250)
Balance 31.12.2004	21	963	1,532	1,544	643	564	593	361	405	3,391	10,017
Changes in 2005:											
Investments (sale), net	<b>300</b>			<b>180</b>						<b>(46)</b>	<b>435</b>
Change in long-term advances, net									<b>(70)</b>	<b>(400)</b>	<b>(470)</b>
Transfers (to) from other investments										<b>(20)</b>	<b>(20)</b>
Hydro's share of net income (loss)	<b>(41)</b>	<b>30</b>	<b>29</b>	<b>279</b>	<b>196</b>	<b>6</b>	<b>60</b>	<b>88</b>	<b>50</b>	<b>53</b>	<b>750</b>
Amortization and write-down			<b>(56)</b>	<b>(21)</b>		<b>(15)</b>				<b>(39)</b>	<b>(131)</b>
Dividends and other payments received by Hydro		<b>(48)</b>	<b>(12)</b>	<b>(27)</b>	<b>(100)</b>	<b>(2)</b>	<b>(35)</b>			<b>(99)</b>	<b>(323)</b>
Foreign currency translation and other		<b>(51)</b>	<b>(63)</b>	<b>413</b>	<b>(19)</b>	<b>(18)</b>	<b>70</b>	<b>63</b>		<b>160</b>	<b>555</b>
Balance 31.12.2005	<b>280</b>	<b>895</b>	<b>1,430</b>	<b>2,368</b>	<b>721</b>	<b>537</b>	<b>688</b>	<b>512</b>	<b>385</b>	<b>3,000</b>	<b>10,814</b>

## SPECIFICATION OF NON-CONSOLIDATED INVESTEEES

Amounts NOK million, except ownership	Percentage owned by Hydro 2005	Investments in and advances		Hydro's current receivable (payable), net	
		to investees 2005	2004	with investees 2005	2004
Naturkraft	50.0%	<b>280</b>	21		
Hydro Texaco	50.0%	<b>895</b>	963	<b>43</b>	25
Alunorf	50.0%	<b>1,430</b>	1,532	<b>254</b>	(274)
Alunorte	34.0%	<b>2,368</b>	1,544		(81)
Søral	49.9%	<b>721</b>	643	<b>(165)</b>	(110)
Aluchemie	36.2%	<b>537</b>	564		(6)
Meridian	49.0%	<b>688</b>	593	<b>36</b>	(26)
QVC	29.7%	<b>512</b>	361	<b>1</b>	2
Noretyl	50.0%	<b>385</b>	405	<b>25</b>	39
Others		<b>3,000</b>	3,391	<b>(245)</b>	184
Total		<b>10,814</b>	10,017	<b>(51)</b>	(247)

A description of significant investees' business, majority owners and the nature of related party transactions with Hydro including amounts if material follow:

Naturkraft AS, part of Energy and Oil Marketing, is a joint venture between Hydro and Statkraft (50 percent each). Naturkraft is currently constructing a gas power plant. It is expected that the power plant will be finalized during autumn 2007. Each of the partners will supply gas to the power plant for conversion to electricity on a tolling basis. The electricity will be sold in the market by each of the partners. Share of production will be based on the partner's ownership, unless other conditions are agreed upon.

Hydro Texaco a.s operates 827 gasoline stations and 149 diesel stations in Norway, Denmark and the Baltics. Hydro and ChevronTexaco Corp. each own 50 percent in the joint venture. Hydro sells and purchases oil related products with the joint venture at market prices. Sales from Hydro Texaco to Hydro amounted to NOK 417 million, 347 million and NOK 428 million in 2005, 2004 and 2003, respectively. Sales from Hydro to Hydro Texaco amounted to NOK 93 million, NOK 248 million and NOK 1,003 million in 2005, 2004 and 2003, respectively. Hydro Texaco is part of Energy and Oil Marketing.

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## Norsk Hydro ASA and subsidiaries

Aluminium Norf GmbH (Alunorf) is the world largest rolling mill located in Germany nearby other Hydro facilities. Alunorf is jointly owned by Hydro and Novelis (50 percent each). Each partner supplies Alunorf with raw material, which is transformed to flat rolled coils and delivered to the partners. Sales from Alunorf to Hydro based on this tolling arrangement amounted to NOK 1,317 million in 2005, NOK 1,373 million in 2004 and NOK 1,301 million in 2003. Hydro's revenues from sales to Alunorf were not material. Alunorf is part of Rolled Products.

Alumina do Norte do Brasil S.A. (Alunorte) is an alumina refinery located in Brazil. Hydro's owner share is 34 percent. Hydro purchased alumina from Alunorte amounting to NOK 1,314 million, 1,109 million, and NOK 907 million in 2005, 2004 and 2003, respectively. Alunorte is part of Metals.

Sør-Norge Aluminium AS (Søral), part of Metals, is a Norwegian primary aluminium manufacturer. Søral sells 50 percent of its production to each major owner at current market prices. The other 50 percent owner of Søral is an unaffiliated company. Sale of aluminium from Søral to Hydro amounted to NOK 1,047 million, NOK 1,115 million and NOK 949 million in 2005, 2004 and 2003, respectively. Sale of alumina, metal and carbon from Hydro to Søral amounted to NOK 496 million, NOK 671 million and NOK 356 million in 2005, 2004 and 2003 respectively.

Aluminium & Chemie Rotterdam B.V (Aluchemie) is an anode producer located in the Netherlands. Hydro increased its shareholding in 2004 from 21.21 percent to 36.2 percent. Hydro purchased anodes from Aluchemie amounting to NOK 482 million, NOK 591 million and 285 million in 2005, 2004 and 2003, respectively. Sales from Hydro to Aluchemie amounted to NOK 84 million, NOK 12 million and NOK 50 million in 2005, 2004 and 2003 respectively. Aluchemie is part of Metals.

Meridian Technologies Inc. (Meridian), part of Extrusion and Automotive, is a Canadian company owned 51 percent by Teksid S.p.A. (a subsidiary of the Fiat group) and 49 percent by Hydro. Meridian provides magnesium die-casting products to the automobile industry. Meridian purchases alloyed magnesium from Hydro. Sales from Hydro to Meridian amounted to NOK 196 million, NOK 238 million and NOK 198 million in 2005, 2004 and 2003, respectively.

Hydro owns 29,7 percent of Qatar Vinyl Company Ltd (QVC). The other owners are three unaffiliated companies. QVC produces Caustic Soda, EDC and VCM. Hydro and the other partners deliver technical, marketing and support services to QVC.

Hydro and Borealis own Noretyl AS a joint venture (50-50 percent). Noretyl is part of Hydro Polymers. Hydro paid processing fees to Noretyl for refining of NGL of NOK 277 million, NOK 242 million and NOK 245 million in 2005, 2004 and 2003, respectively.

Non-consolidated investees split by segment can be found in Note 5.

**Non-consolidated investees 100 percent basis**

The following table sets forth summarized unaudited financial information of Hydro's non-consolidated investees on a 100 percent combined basis. Hydro's share of these investments, which is also specified below, is accounted for using the equity method.

## INCOME STATEMENT DATA

Amounts in NOK million  
(unaudited)

	<b>2005</b>	2004	2003
Operating revenues	<b>35,513</b>	31,454	24,254
Operating income	<b>4,341</b>	4,212	3,154



Income before taxes and minority interest	<b>4,179</b>	3,816	3,248
Net income	<b>3,248</b>	3,465	2,670
Hydro's share of net income	<b>750</b>	1,039	811

## BALANCE SHEET DATA

Amounts in NOK million  
(unaudited)

	<b>2005</b>	2004	2003
Current assets	<b>15,721</b>	15,052	13,504
Non-current assets	<b>34,009</b>	29,759	30,503
Assets	<b>49,730</b>	44,811	44,007
Current liabilities	<b>9,534</b>	8,572	8,083
Non-current liabilities	<b>13,877</b>	13,275	14,049
Minority interest	<b>30</b>	19	
Shareholders' equity	<b>26,289</b>	22,945	21,875
Liabilities and shareholders' equity	<b>49,730</b>	44,811	44,007
Hydro's investments and advances	<b>10,814</b>	10,017	10,162

**Note 14****Intangible assets, prepaid pension, investments and non-current assets**

Amounts in NOK million	<b>2005</b>	2004
Goodwill for consolidated subsidiaries	<b>4,100</b>	1,028
Intangible assets, less accumulated amortization (Note 16, note 20)	<b>1,053</b>	1,297
Total intangible assets	<b>5,153</b>	2,325
Prepaid pension (Note 20)	<b>4,659</b>	4,636
Available-for-sale securities at fair value <sup>1)</sup>		16
Other investments at cost	<b>2,046</b>	2,065
Non-current assets	<b>5,205</b>	3,996
Prepaid pension, investments and other non-current assets US GAAP	<b>11,910</b>	10,713

1) As of 31  
December 2004,  
available-for-sale

securities at cost  
amounted to  
NOK 4 million  
and unrealized  
holding gain  
amounted to  
NOK 12 million.

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**Note 15**  
**Property, plant and equipment**

Amounts in NOK million	Land	Land-based activities			Oil and Gas activities 1)	Total
		Machinery and equipment	Buildings	Plant under construction		
Cost:						
Cost 31.12.2004	1,032	49,337	17,280	4,146	141,142	212,937
Additions at cost	12	1,281	229	3,012	32,576	37,109
Retirements	(7)	(1,911)	(645)	(204)	(552)	(3,320)
Transfers	26	3,859	788	(4,672)		
Foreign currency translation	(8)	675	202	132	1,063	2,063
Implementation effect of <i>FIN No. 47 Accounting for Conditional Asset Retirement Obligations</i>		186	9			195
<b>Cost 31.12.2005</b>	<b>1,056</b>	<b>53,426</b>	<b>17,861</b>	<b>2,414</b>	<b>174,229</b>	<b>248,985</b>
Depreciation:						
Accumulated depreciation 31.12.2004	(1)	(28,064)	(7,719)		(71,036)	(106,820)
Depreciation, depletion and amortization <sup>2)</sup>		(4,462)	(890)		(10,011)	(15,363)
Retirements		1,533	313		463	2,309
Foreign currency translation and transfers		(109)	(122)		(604)	(835)
Implementation effect of <i>FIN No. 47 Accounting for Conditional Asset Retirement Obligations</i>		(85)	(2)			(87)
<b>Accumulated depreciation 31.12.2005</b>	<b>(1)</b>	<b>(31,187)</b>	<b>(8,420)</b>		<b>(81,188)</b>	<b>(120,795)</b>
Net book value 31.12.2004 <sup>3)</sup>	1,032	21,273	9,561	4,146	70,106	106,117
	<b>1,055</b>	<b>22,239</b>	<b>9,441</b>	<b>2,414</b>	<b>93,041</b>	<b>128,191</b>

Net book value 31.12.2005

3)

- 1) Includes land-based Oil and Gas activities and transportation systems for Hydro Oil & Energy.
- 2) Impairment losses for 2005, 2004 and 2003 were NOK 1,467 million, NOK 2,176 million and NOK 88 million, respectively. The fair value of the impaired assets was generally estimated by discounting the expected future cash flows of the individual assets. Impairment was indicated by adverse 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 2005 included a write-down of NOK 1,084 million

related to the magnesium business in Hydro Aluminium's sub-segment Extrusion & Automotive. The write-down was caused by a significant weakening of the magnesium market during the fourth quarter of 2005.

Impairment losses in 2005 did also include NOK

154 million related to Hydro Aluminium's sub-segment Rolled Products and NOK

208 million related to the Telemark field in the Gulf of Mexico in Hydro Oil & Energy's sub-segment Exploration and Production.

- 3) Includes NOK 542 million and NOK 153 million related to capital leases for 2005 and 2004, respectively.
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Norsk Hydro ASA and subsidiaries

**Note 16**  
**Goodwill and intangibles**

INTANGIBLE ASSETS

Amounts in NOK million	Finite Useful Life	Indefinite Useful Life	Total
Cost 31.12.2004	3,205	5	3,210
Additions at cost	106		106
Disposals	(184)		(184)
Foreign currency translation and other	(54)		(54)
Accumulated amortization 31.12.2005	(2,249)		(2,249)
Net book value 31.12.2005	823	5	828

Amortization of intangibles of NOK 319 million and NOK 393 million were recorded for 2005 and 2004, respectively. In addition, 2004 figures includes impairment loss of NOK 8 million.

Estimated amortization expense, in million NOK for the next five years is 2006 267, 2007 200, 2008 94, 2009 53 and 2010 - 41.

Beginning in 2005 Hydro is required by law to participate in the EU emissions trading system. Quotas are granted on an installation by installation basis, and are not exchanged between Hydro entities. Quotas are received for 95 percent (for Norwegian installations) of estimated CO<sub>2</sub> emissions; any emissions shortfall must be covered with quotas purchased in the open market. Both purchased and granted quotas not used in 2005 (2006) can be rolled over to 2006 (2007). As of 31 December 2005 Hydro has retained all government granted quotas for own use and all liability amounts related to CO<sub>2</sub> emission rights are immaterial.

GOODWILL

Amounts in NOK million	Oil & Energy	Aluminium	Total
Balance at December 31, 2004		1,028	1,028
Goodwill acquired	2,991		2,991
Currency translation effect	15	70	85
Other		(4)	(4)
Balance at December 31, 2005	3,005	1,094	4,100

Hydro incurred in 2003 a NOK 166 million goodwill impairment charge in Other Activities related to Treka (now named BioMar).

**Note 17****Bank loans and other interest-bearing short-term debt**

Amounts in NOK million	Weighted average interest rates		2005	2004
	2005	2004		
Bank loans and overdraft facilities	3.5%	2.9%	<b>586</b>	482
Commercial paper	8.5%	8.5%	<b>2</b>	3
Other	2.6%	1.6%	<b>4,069</b>	3,300
Total bank loans and other interest-bearing short-term debt			<b>4,658</b>	3,785

As of 31 December 2005, Norsk Hydro ASA had unused short-term credit facilities with various banks totalling approximately NOK 2,594 million. The interest rate for withdrawals under these facilities is based on the interbank interest rate for the relevant currency plus a margin depending on the currency.

**Note 18****Other current liabilities**

Amounts in NOK million	2005	2004
Accounts payable	<b>14,035</b>	13,352
Income taxes payable	<b>13,843</b>	12,421
Payroll and value added taxes	<b>2,956</b>	3,142
Accrued liabilities	<b>10,605</b>	9,534
Other liabilities	<b>5,799</b>	2,891
Total other current liabilities US GAAP	<b>47,239</b>	41,340

**Note 19****Long-term debt**

Substantially all unsecured debenture bonds and unsecured bank loan agreements contain provisions restricting the pledging of assets to secure future borrowings without granting a similar secured status to the existing bondholders and lenders. Certain of the debenture bond agreements contain provisions allowing Hydro to call the debt prior to its final redemption date at certain specified premiums.

## LONG-TERM DEBT PAYABLE IN VARIOUS CURRENCIES

Amounts in million	Weighted average interest rates	Denomi- nated amount 2005	Balance in NOK 2005	2004
USD	7.3%	<b>2,618</b>	<b>17,708</b>	15,802
NOK	5.8%	<b>174</b>	<b>174</b>	527
GBP	6.5%	<b>10</b>	<b>117</b>	182
EUR	6.3%	<b>300</b>	<b>2,401</b>	2,473
Total unsecured debenture bonds			<b>20,401</b>	18,984
USD	5.0%	<b>50</b>	<b>338</b>	164
EUR	4.0%	<b>5</b>	<b>39</b>	123
Other	5.3%		<b>84</b>	114
Total unsecured bank loans			<b>461</b>	401
Capital lease obligations			<b>517</b>	103
Mortgage loans			<b>23</b>	33
Other long-term debt			<b>364</b>	534
Outstanding debt			<b>21,766</b>	20,055
Less: Current portion			<b>(379)</b>	(568)
Total long-term debt			<b>21,387</b>	19,487

As of 31 December 2005 the fair value of long-term debt, including the current portion, was NOK 25,905 million and the carrying value was NOK 21,766 million.

Foreign currency swaps are not reflected in the table above. (See Note 24).

## PAYMENTS ON LONG-TERM DEBT FALL DUE AS FOLLOWS

Amounts in	Deben-	Bank-	Capital lease
------------	--------	-------	------------------



NOK million	tures	loans	and other	Total
2006	174	25	180	379
2007		80	283	363
2008		76	67	143
2009	2,029	76	66	2,171
2010	2,401	154	36	2,591
Thereafter	15,795	51	273	16,119
Total	20,401 <sup>1)</sup>	461	904	21,766

- 1) Of which Norsk Hydro ASA (the parent company) is responsible for NOK 20,292 million.

Norsk Hydro ASA has entered into a syndicated long-term revolving credit facility with several international banks for a total amount of USD 2,000 million maturing in 2012. The commitment fee on the facility is 0.0525 percent per annum for the first five years, 0.06 percent thereafter. Hydro has also entered into a long-term loan facility of EUR 300 million with European Investment Bank (EIB). There are no borrowings under these facilities as of 31 December 2005.

## Note 20

### Employee retirement plans

#### Pension Benefits

Norsk Hydro ASA and many of its subsidiaries have defined benefit retirement plans that cover substantially all of their employees. Plan benefits are generally based on years of service and final salary levels. Some subsidiaries have defined contribution or multiemployer plans. Hydro uses a December 31 measurement date for the majority of its defined pension benefit retirement plans.

#### NET PERIODIC PENSION COST

Amounts in NOK million	2005	2004	2003
Defined benefit plans:			
Benefits earned during the year, net of participants' contributions	830	813	637
Interest cost on prior period benefit obligation	1,292	1,355	1,259
Expected return on plan assets	(1,003)	(1,000)	(892)
Recognized loss	283	345	290
Amortization of prior service cost	107	111	115
Amortization of net transition (asset) obligation		3	(6)
Curtailed loss	1	59	20
Settlement loss		30	199

Net periodic pension cost	<b>1,510</b>	1,716	1,622
Defined contribution plans	<b>45</b>	32	28
Multiemployer plans	<b>26</b>	35	13
Termination benefits and other	<b>604</b>	338	410
Total net periodic pension cost	<b>2,185</b>	2,121	2,073
Change in the additional minimum pension liability included within other comprehensive income	<b>724</b>	189	216

## CHANGE IN PROJECTED BENEFIT OBLIGATION (PBO)

Amounts in NOK million	<b>2005</b>	2004
Projected benefit obligation at beginning of year	<b>(25,399)</b>	(23,456)
Benefits earned during the year	<b>(851)</b>	(840)
Interest cost on prior period benefit obligation	<b>(1,292)</b>	(1,355)
Actuarial loss	<b>(4,799)</b>	(864)
Plan amendments	<b>(20)</b>	(23)
Benefits paid	<b>875</b>	870
Curtailment loss		(8)
Settlements	<b>2</b>	85
Special termination benefits	<b>(80)</b>	(52)
Divestments	<b>6</b>	54
Business combinations	<b>(40)</b>	
Foreign currency translation	<b>38</b>	190
Projected benefit obligation at end of year	<b>(31,560)</b>	(25,399)

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## CHANGE IN PENSION PLAN ASSETS

Amounts in NOK million	2005	2004
Fair value of plan assets at beginning of year	<b>16,504</b>	14,669
Actual return on plan assets	<b>2,528</b>	1,699
Company contributions	<b>769</b>	924
Plan participants' contributions	<b>21</b>	26
Benefits paid	<b>(596)</b>	(605)
Settlements	<b>(2)</b>	(88)
Divestments	<b>(4)</b>	(33)
Foreign currency translation	<b>58</b>	(88)
Fair value of plan assets at end of year	<b>19,277</b>	16,504

## STATUS OF PENSION PLANS RECONCILED TO BALANCE SHEET

Amounts in NOK million	2005	2004
Defined benefit plans:		
Funded status of the plans at end of year	<b>(12,282)</b>	(8,895)
Unrecognized net loss	<b>9,498</b>	6,557
Unrecognized prior service cost	<b>883</b>	967
Net accrued pension recognized	<b>(1,902)</b>	(1,371)
Termination benefits and other	<b>(1,247)</b>	(1,161)
Total net accrued pension recognized	<b>(3,148)</b>	(2,532)
Amounts recognized in the balance sheet consist of:		
Prepaid pension	<b>4,659</b>	4,636
Accrued pension liabilities	<b>(9,939)</b>	(8,569)
Intangible asset	<b>225</b>	219
Accumulated other comprehensive income	<b>1,907</b>	1,183
Net amount recognized	<b>(3,148)</b>	(2,532)

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The accumulated benefit obligation for all defined pension benefit retirement plans was NOK 26,163 million and NOK 21,460 million at December 31, 2005 and 2004, respectively.

PLANS IN WHICH THE ACCUMULATED BENEFIT OBLIGATION EXCEEDS PLAN ASSETS

Amounts in NOK million	2005	2004
Projected benefit obligation	<b>(15,343)</b>	(12,581)
Accumulated benefit obligation (ABO)	<b>(12,755)</b>	(10,582)
Plan assets	<b>4,250</b>	3,477

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE NET PERIODIC PENSION COST

	2005	2004	2003
Discount rate	<b>5.2%</b>	5.8%	6.7%
Expected return on plan assets	<b>6.2%</b>	7.0%	7.9%
Rate of compensation increase	<b>3.1%</b>	3.5%	3.5%

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE PENSION OBLIGATION AT END OF YEAR

	2005	2004
Discount rate	<b>4.1%</b>	5.2%
Rate of compensation increase	<b>3.1%</b>	3.1%

WEIGHTED-AVERAGE INVESTMENT PROFILE PLAN ASSETS AT END OF YEAR

Asset category	Target Allocation	2005	2004
Equity securities	25-42%	<b>40%</b>	36%
Debt securities	30-54%	<b>41%</b>	36%
Real estate	17%	<b>15%</b>	17%
Other	3-10%	<b>4%</b>	11%

Total	<b>100%</b>	100%
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Management of plan assets must comply with applicable laws and regulations in the countries where Hydro provides funded defined benefit plans. Within constraints imposed by laws and regulations, and given the assumed pension obligations and future contribution rates, the majority of assets are managed actively to obtain a long-term rate of return that at least reflects the chosen investment risk.

Based on the current portfolio of plan assets the expected rate of return on plan assets is determined to be one to two percentage points above the yield on a portfolio of long-term high-quality debt instruments that receive one of the two highest ratings given by a recognized rating agency.

In 2003, Hydro incurred a settlement loss of NOK 199 million. The charge included a settlement loss resulting from an agreement between Hydro and an external party, to transfer Hydro's operatorship of certain licenses on the Norwegian continental shelf to the external party, including the transfer of employment for 535 employees, as of 1 January, 2003.

Hydro expects to contribute approximately NOK 1,500 million to its pension plans in 2006. Total pension benefit payments expected to be paid to participants, which include payments funded from Hydro's assets as well as payments paid from the plans are as follows:

#### EXPECTED PENSION BENEFIT PAYMENTS

Amounts in NOK million

2006	956
2007	1,027
2008	1,074
2009	1,153
2010	1,231
2011-2015	7,375

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**Other Retirement Benefits**

Hydro has unfunded retiree medical and life insurance plans for certain of its employees outside Norway. Related net periodic postretirement cost was NOK 13 million, NOK 19 million and NOK 2 million for 2005, 2004 and 2003, respectively. The post retirement liability was NOK 150 million and NOK 136 million as of 31 December, 2005 and 2004, respectively.

**Note 21****Contingencies and other long-term liabilities**

Hydro is subject to changing environmental laws and regulations that in the future may require the company to modernize technology to meet more stringent emissions standards or to take actions for contaminated areas. As of 31 December 2005 and 2004, Hydro had accrued NOK 412 million and NOK 351 million, respectively, for corrective environmental measures. The corresponding expense was NOK 89 million in 2005 compared to NOK 44 million and NOK 31 million in 2004 and 2003, respectively.

Hydro's future expenses for these corrective environmental measures are affected by a number of uncertainties including, but not limited to, the method and extent of corrective action. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that such estimates could be revised in the near term. In addition, conditions which could require future expenditures may be determined to exist for various sites, including Hydro's major production facilities and product storage terminals. The amount of such future costs is not determinable due to the unknown timing and extent of corrective actions which may be required.

Hydro is involved in or threatened with various legal and tax matters arising in the ordinary course of business. Hydro is of the opinion that resulting liabilities, if any, will not have a material adverse effect on its consolidated results of operations, liquidity or financial position.

On 30 June 2004 the EFTA Surveillance Authority (ESA) decided that exemptions for certain Norwegian businesses from the electricity tax for the period between 6 February and 31 December 2003 constituted illegal State aid under the EEA Agreement. The decision requires the Norwegian government to make recoveries from those businesses. On 21 July 2005 an application for annulment of the decision launched by the Norwegian Government and the Federation of the Norwegian Processing Industry (PIL) was dismissed by the EFTA court. The total amount which the Norwegian government must recover from Hydro is dependant upon the government's interpretation of ESA's decision. The amount will not be material to Hydro.

At the end of 2004, a dispute arose in connection with a claim against TadAZ, an aluminium company owned by the state of Tajikistan, for non-delivery of approximately 80,000 tonnes of aluminium under a barter contract. The value of the claim is approximately US dollar 145 million. Risks related to non-performance have been mitigated by designated security arrangements. In an award by an arbitration court of 8 November 2005 the court ruled in favor of Hydro and the barter contract was held valid and enforceable. TadAZ has appealed the award to the High Court of London, challenging the arbitration court's jurisdiction. Hydro is confident that the award of the arbitration court will be upheld.

As operator on the Norwegian Continental Shelf Hydro make charges to its partners for pension costs. Since 1 January 2001 pension costs have been charged to the partners on a current basis as a percentage of the salary costs. Prior to that date, costs of funded pensions were charged to the partners based upon pension premiums. Costs related to unfunded pensions were charged when pensions were paid to the recipients. As part of the transition to the current system, Hydro made a one-time charge to its partners related to prior periods. Certain of the partners did not accept the charge and have brought the case to arbitration. During the preparations for the arbitration proceedings the partners have acknowledged that Hydro is entitled to charge all relevant pensions costs incurred as operator. In the third quarter of 2005, Hydro has repaid the one-time charge related to prior periods. These costs will instead be charged to the partners later in accordance with the principles in place prior to 1 January 2001. Final settlement of this issue

could result in a range of possible outcomes, resulting in a gain or loss to Hydro.

Hydro has long-term gas sales contracts with E.ON Ruhrgas. Deliveries under the contracts amount to approximately 1.6 bcm per year. According to the contracts, each party may request adjustment of the price provisions at regular intervals during the contract period. Each of Hydro and E.ON Ruhrgas has requested adjustments of the price provisions of the gas sales contracts with effect from 1 January 2005. Failing agreement, E.ON Ruhrgas has, as of 18 October 2005, referred the matter to an independent arbitration panel as provided for under the contracts. Hydro filed its answer and a claim for a price increase on 24 November 2005.

## CONTINGENCIES AND OTHER LONG-TERM LIABILITIES

Amounts in NOK million	2005	2004
Insurance premiums and loss reserves	556	121
Asset retirement obligations	7,447	6,244
Postretirement benefits other than pensions	150	136
Derivatives	2,336	759
Other	1,935	1,875
Total US GAAP	12,424	9,134

Hydro's asset retirement obligations covered by SFAS 143 are associated mainly with the removal and decommissioning of oil- and gas offshore installations. The obligations are imposed and defined by legal requirements in Norway and other countries as well as the OSPAR convention (The Convention for the Protection of the Marine Environment of the North-East Atlantic). The fair value of the obligations is recognized in the balance sheet in the period in which it is incurred, i.e. when the oil- and gas installations are constructed and ready for production, and the obligation amount is adjusted for accretion and estimate changes in subsequent periods until settlement.

Hydro implemented FASB Interpretation (FIN) No. 47 Accounting for Conditional Asset Retirement Obligations, beginning 31 December 2005. FIN 47 is an interpretation of SFAS 143 Accounting for Asset Retirement Obligations, which refers to legal obligations to perform asset retirement activities. FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation, if the fair value of the liability can be reasonably estimated, even if timing and/or method of settlement is conditional on a future event that may not be within the control of the entity. FIN 47 implementation mainly relates to brick-lining used in primary aluminium production within Metals.

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