

- The merger of Statoil and Norsk Hydro will create one of the world's largest offshore oil and gas operators.
- The new company will be a stronger, more competitive organisation that will enhance the long-term vitality of the Norwegian Continental Shelf.
- The merged company will be well positioned for international expansion, and for realising cost synergies and economies of scale.

New force in the field

IN DECEMBER 2006 STATOIL AND NORSK HYDRO ANNOUNCED A NOK185 billion (\$29.7 billion, €22.7 billion) merger deal to effectively create one of the world's largest offshore oil and gas operators. The two companies are both major players in Norway's offshore fields and global operators with interests across the world.

Norway is the third largest oil exporter in the world, and the merger of the two largest Norwegian oil and gas operators will create a new global force in the oil and gas market. The new company, with reserves of 6.3 billion barrels, will be the world's largest offshore producer, overtaking Royal Dutch Shell.

Certainly it makes very good business sense for the two large oil operators to merge, as they can rationalise and combine their expertise and effort towards the development of their combined international and domestic areas of interest. The president and chief executive of Statoil, Helge Lund, a former CEO of Aker Kværner who joined Statoil in 2004 and is tipped to be CEO of the merged company, says: 'It makes sense to work together. The competition is extremely tough, and there is little point in competing for the same opportunities.'

'This is a historic milestone. The time is right for one strong Norwegian-based energy champion. We are creating a stronger and more competitive company. By combining the best of both organisations, we will significantly improve our competitive position internationally and promote the long-term vitality of the Norwegian Continental Shelf (NCS). This merger is driven by the ambition to grow. By combining the strengths of both organisations, the merged company will be able to pursue more opportunities and take on more tasks. In addition, it will be able to realise cost synergies through more efficient operations and economies of scale.'

The deal will involve the transfer of the oil and gas operations of Norsk Hydro in their entirety. But the company also has interests in light metal production (aluminium and magnesium) and hydro-electric and solar power, which will remain part of Norsk Hydro under the control of its chief executive, Eivind Reiten, who will become a director of the new merged oil and gas company. Reiten said after the merger was announced: 'Hydro is ready to move on as a strong and focused aluminium company.'

These are challenging times for the oil and gas industry. In response, Statoil and Norsk Hydro are to form a new company that will be perfectly positioned to reinforce its domestic base while pursuing long-term international growth. World Expro reports.



The combined infrastructure of Statoil and Norsk Hydro will make the new company a dominant force on the Norwegian Continental Shelf.

Analysts and unions in Norway have agreed that the merger will strengthen Norway's oil industry – combined production is projected to be 1.9 million barrels a day in 2007. Although both companies are large enough to succeed on their own, the merged company will be better positioned for extensive international expansion and cost rationalising.

Formidable force

The new company will be in a unique position to further develop the global oil and gas industry to its advantage from its starting point on the NCS. The merged company will have a dominant position on the NCS, controlling 71% of proven reserves.

Officials have voiced concern about weakening competition in the offshore oil and gas business in the wake of the merger. Analysts have pointed out that the merged company will be much more competitive compared with its much larger European rivals, which include BP, Total SA and Shell, while the company's ability to make strategic acquisitions will increase, particularly in the Gulf of Mexico.

The new merged company will be the ninth largest oil company in the world with revenues of NOK480 billion. The combined upstream portfolio of the two companies is valued at \$57 billion. The revenue of Norsk Hydro for 2006 was NOK174 billion, while for

10

the same period Statoil revenue was NOK425 billion. The merger will produce a formidable world player.

Statoil is one of the largest net sellers of crude oil in the world, and a major supplier of natural gas to the European continent. The company also operates around 2,000 service stations in nine countries and is the largest operator on the NCS, with 60% of the total production. Statoil operates international interests in a range of countries, including Algeria, Angola, Azerbaijan, Brazil, China, Iran, Libya, Nigeria, the US and Venezuela.

The main Norsk Hydro oil and gas operations are on the NCS, but the company also operates in Angola, Canada, Russia and Libya. Hydro operates service stations in Sweden under their own Hydro brand name and as a joint venture with Chevron in Norway and Denmark as HydroTexaco. Hydro operates 13 oil fields and has an average yearly production of 563,000 barrels of oil equivalent.

Competition concerns

The Norwegian Petroleum and Energy Minister Odd Roger Enoksen met with representatives of larger field operators, including US major Exxon Mobil Corp and Canada’s Talisman Energy, in February 2007 in the wake of the Statoil-Hydro merger to address concerns over competition on the NCS and in the global arena. The results of the meetings will help the Norwegian government prepare the merger proposal, which will be put before parliament by early April.

It makes very good business sense for the two large oil operators to merge, as they can rationalise and combine their expertise and effort.

The Norway Petroleum Directorate (NPD) has already said that ‘maintaining competition will be a challenge after the merger’. The new company will own 34% of remaining proven resources on the NCS, while Petoro (owned by the Norwegian state) holds 30% and all other interested companies combined own 36%. The new company will be the operator for 71% of the NCS’s remaining proven resources (74% of the natural gas and 65% of the liquids). However, based on production figures and operations in November 2006, the NPD has now said that Statoil and Hydro together are responsible for 82% of total production, including 93% of the natural gas and 75% of the liquids.

Statoil has 28 operator deals in fields in operation or approved for development, while Norsk Hydro has a total of 16. However, Enoksen has been looking for ways to avoid creating a near monopoly on the NCS, including possible asset swaps. Gas

Statoil and Norsk Hydro: An analyst’s view

Oil and gas analyst Wood Mackenzie said of the merger: ‘The new company will be in a relatively advantageous position to pursue new business development opportunities because of the release of experienced resources from its largely overlapping domestic operations.’

‘While the Norwegian government’s majority stake may be viewed as negative, given that the state’s priorities may not always be aligned with the interests of shareholders, there has been minimal interference by the state to date and the majority interest is unlikely to be a shareholder concern.’

‘Given the increased global nationalisation of resources, the combined group could likely benefit from promoting its state-owned credentials in areas where it is politically advantageous to do so and leveraging access to new opportunities through initiatives in areas such as training and technology transfer.’

production from the new merged company will be an average of 15–16% of total European production.

Cost rationalisation

Out of 49 upstream assets considered to be commercial in the Hydro Norwegian upstream portfolio, 43 are assets in which Statoil also has an interest. Of the remaining six assets, only the Hydro stake in Grane is of note. This means that there are substantial opportunities to achieve cost synergies by merging of the two operations.

The two companies have been quick to say that personnel reductions are expected to be limited. Job cuts would be a politically sensitive issue in Norway, because the government has such a large stake in both companies, which are two of the largest employers in the country.

However, future staffing levels look as if they will be reduced to conform with new operational requirements. From the merged company’s point of view, this will allow them to pursue new opportunities for growth without being top heavy with human resources.

Despite concerns over job losses, the future looks bright for the merged company. Jan Reinås and Jannik Lindbæk, chairmen of the board of directors of Hydro and Statoil said in a joint statement: ‘Both Hydro and Statoil have developed competence and technologies acknowledged to be among the best in the global energy industry. By combining forces, the new company will be a highly competent and financially strong Norwegian-based energy champion, well positioned to ensure continued domestic excellence and pursue international business opportunities for long-term growth. The industry faces an increasingly challenging international landscape. To merge now makes perfect sense.’ ●