

## **Storting proposition no 60 (2006-2007)**

# **Merger of Statoil and Hydro's petroleum operations**

Recommendation from the Ministry of Petroleum and Energy of 30 March 2007, approved by the Council of State on the same day.

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## **1 Introduction and summary**

The boards of directors of Statoil ASA (Statoil) and Norske Hydro ASA (Hydro) announced on 18 December 2006 that they had reached agreement on recommending a merger between Hydro's petroleum business and Statoil ASA to their shareholders. The boards of the companies also considered and signed on 12 and 13 March 2007 a plan for demerging Hydro as part of the merger. This plan, hereafter called the merger plan, will be submitted to the general meetings of the companies for approval. This proposition is presented by the Ministry of Petroleum and Energy, but has been prepared in cooperation with the Ministry of Trade and Industry. The Ministry of Labour and Social Inclusion and the Ministry of the Environment have contributed to the text in chapter 8.

This chapter provides a summary of the other chapters in the proposition.

**Chapter 2** outlines the reasons given by the boards for the merger as presented in the merger plan of 12 and 13 March 2007 and the draft prospectus submitted to the US Securities and Exchange Commission (SEC) on 20 March 2007. The boards believe that combining the resources and knowledge of the companies will contribute to a financially and technologically sound company which will be a stronger international player than the two companies are separately. Statoil and Hydro also envisage that the merged company will be better able to explore for, develop and produce oil and gas in technically demanding areas of the Norwegian continental shelf (NCS), such as the Barents Sea.

**Chapter 3** provides a review of Statoil's present position. The company has shown good and stable progress for profits in recent years. Net profit for 2006 was its best ever, amounting to NOK 40.6 billion compared with NOK 30.7 billion in 2005. This increase primarily reflects higher oil and gas prices.

Statoil's total oil and gas production in 2006 was 1 135 000 barrels of oil equivalent (boe) per day. The company's goal for total production in 2007 is 1 300 000 boe per day, based on an average oil price of USD 60 per barrel. The goal is that 1 060 000 boe per day will derive from the company's operations in Norway and about 240 000 boe per day from its international business. The company has paid out an average of 46 per cent of its net profit as dividend over the past few years.

**Chapter 4** provides a corresponding review of Hydro's present position. The company became involved in oil and gas activities in 1963 and participated in the first discovery on the NCS in 1969. When the new century began, oil and gas, aluminium production and fertiliser formed the three main cornerstones of Hydro's business. In the summer of 2003, the company resolved to establish its agricultural division as an independent Norwegian-based company listed on the Oslo Stock Exchange. Hydro's operations have subsequently consisted primarily of the oil and energy and aluminium business areas.

Hydro has shown stable growth in profits over recent years. The company achieved its strongest result in 2006, when net profit increased by 11 per cent from 2005 to NOK 17.4 billion. Higher prices for oil, gas and aluminium, combined with efficient operation, boosted the 2006 result to a record level. The company has paid out an average of roughly 32 per cent of net profit in dividend over the past five years.

**Chapter 5** outlines the merger plan. This will be presented to the general meetings, which will be asked to accept or reject it. By voting for the merger plan, an implicit decision

is also taken in favour of all the conditions included in the merger plan, such as the exchange ratio, the articles of association, changes to the capital and so forth.

In terms of *company law*, the merger will be accomplished through a *demerger* of Hydro's petroleum business with a direct transfer to Statoil as the acquiring company. Put briefly, the merger process involves the transfer to Statoil of Hydro's total oil and gas business and activities relating to wind power, its shares in Naturkraft AS and Hydro IS Partner AS, and interests in Norsk Hydro Canada Inc. Shareholders in Hydro will receive 0.8622 shares in the merged company for every share they hold in Hydro as compensation for the transfer of the petroleum business. They will also retain their shares in the continued Hydro. According to the merger plan, shareholders in Statoil and Hydro will receive 67.3 per cent and 32.7 per cent respectively of the shares in the merged company.

It has been proposed that the new company will be called StatoilHydro ASA. The board of the merged company will develop proposals for a new name and logo. A proposed new name will be submitted to the general meeting of StatoilHydro for approval in 2008.

It has been proposed that the company's business office will be in Stavanger. Corporate functions will be located in both Stavanger and Oslo, and the chief executive will have offices in both places. The most important commercial functions and business areas will be operated from Stavanger, Oslo, Bergen and Trondheim.

The provision in Statoil's articles of association that the company will handle the sale of the government's petroleum is to be retained by the merged company.

**Chapter 6** provides a review of the merged company. Its object will be to conduct exploration for and production, transport, processing and marketing of petroleum and derivative products as well as other forms of business. The merged company will also make a commitment to renewable energy as well as to carbon capture and storage.

StatoilHydro will have about 31 000 employees and a presence in almost 40 countries. The company will have an estimated market value approaching that of the large, but not the largest, listed oil and gas companies. Its production and development portfolio, both on the NCS and internationally, will be strengthened. The company is expected to have an overall output of 1.9 million boe per day in 2007, including 1.6 million boe per day from Norway. Its proven oil and gas reserves are estimated at 6.3 billion boe.

The company's business areas will be Exploration & Production Norway, International Exploration & Production, Natural Gas, Manufacturing & Marketing, Technology & New Energy and Projects. In addition come accounting and finance and the company's corporate centre with staff, support and service functions.

Operations in Norway will remain the most important area for the merged company. Sixty-eight per cent of its proven reserves will be on the NCS.

The companies have commissioned an independent calculation of the total cost benefits of the merged company. These cost benefits are estimated at roughly NOK 4 billion per year before tax. This embraces both enhanced efficiency related to exploration activities, development and operations, and savings in administration and business support. Gross cost benefits relating to running the business operated by the company are estimated to be significantly higher than NOK 4 billion.

**Chapter 7** provides a review of the continued business in Hydro. Following the demerger of the petroleum activity, it will concentrate primarily on being an integrated aluminium company. However, it will also own a substantial power output. Hydro will be the world's third largest listed aluminium company. In addition to a strong commitment to

primary aluminium and metal products, Hydro will continue to build on its leading European position for rolled and extruded aluminium products and building systems. Combined with increased production of metal and the raw material, aluminium oxide, this will provide the main basis for realising the company's growth ambitions in the aluminium business.

The continued Hydro would have had an estimated turnover of more than NOK 100 billion in 2006 and a net profit exceeding NOK 6 billion. It would have been among the largest companies on the Oslo Stock Exchange, and have about 25 000 employees.

**Chapter 8** begins with an overview of the merged company's position on the NCS. It will control more than a third of the remaining proven resources on the NCS. Statoil controls substantially larger resources than Hydro. Merging Statoil and Hydro's petroleum activities will result in a company with a significantly larger portfolio of production licences than the other licensees, but the NCS will retain a multiplicity of licensees.

The largest fields on the NCS have been developed. Up to now, major projects have presented the development teams in Statoil and Hydro with demanding assignments, and these challenges have meant a lot for the development of the companies. The discoveries which will be developed in the time to come are smaller than before, and a more diverse group of players will be responsible for their development.

Substantial gains stand to be made by taking a collective view of several fields and areas. Statoil and Hydro are operators for many of the major fields in mature areas, and the merged company will therefore play an important role in their continued development.

The trend is towards more but smaller fields. A requirement accordingly remains for a multiplicity of players in exploration, development and operation. Calculations by the Norwegian Petroleum Directorate/Ministry of Petroleum and Energy show that the merged company controls about 30 per cent of proven oil resources and 40 per cent of proven gas resources in 2007. The proportion of oil resources controlled by the merged company will fall to about 20 per cent up to 2020, while its share of the gas resources will only decline to a little under 40 per cent.

Further development of the reserve base and production in Norway is dependent on making and developing new discoveries, and on the most efficient possible operation of the production fields. The merged company will occupy a key position in petroleum activities on the NCS, while the bulk of its operations will also be located there. The merged company will accordingly play an important role both in the continued development of the large fields and in contributing to an active exploration of the non-mature areas.

Players on the NCS comprise both the big, established oil companies and the new players who have arrived since 2000. Diversity is greatest in exploration activity in mature areas, but we also see a more nuanced player picture for development of new fields. Such diversity ensures that competition is maintained over the best ideas for exploration, development and operation.

At the same time, parts of the NCS are moving in a direction where economies of scale and integration make a bigger contribution to good resource management. That applies particularly to the big fields in the North Sea and parts of the Halten Bank.

The Ministry of Petroleum and Energy has considered whether the merged company will acquire too strong a position on the NCS, and possible measures to compensate for this.

One possible way to reduce the company's influence is for the authorities to require, in connection with merger, that the company disposes of participatory interests in fields and/or transfers operatorships to other players. The purpose of setting such conditions

would be to reduce the company's position as a key licensee and operator, and strengthen other players in an effort to compensate for the role Hydro has played as a licensee and operator in the joint ventures. The Ministry has assessed the possible positive effects of setting such conditions against their cost and risk. It has concluded that such conditions would not contribute to improving resource management and increasing value creation from the petroleum industry.

On the basis of these assessments, the government has concluded that it would not be relevant to impose conditions for the disposal of participatory interests or the transfer of operatorships in connection with the merger.

Two factors in particular suggest that the merged company will have little opportunity to exploit its position as operator in a way which causes a loss of petroleum resources and reduces value creation on the NCS:

- A multiplicity of players, the licensing system and voting rules in the production licences will help to ensure that alternative views on exploration, development and operation are studied and assessed.
- The merged company's operatorships lie to a great extent in areas of the NCS with substantial opportunities and challenges related to efficient operation and area optimisation – the merger will thereby provide opportunities for enhanced value creation from these areas.

It is important that the relevant government bodies responsible for such considerations as resource management, health and the environment continue to monitor activities by the merged company and to assess how the company fulfils its operator role. The merged company is expected to be able to maintain and continue the commitment required to operate in an acceptable manner

In the time to come, relevant government bodies will assess the need to review their instruments and working methods, and how far these are sufficient for adequate exercise of their jurisdiction over the petroleum activity.

Statoil and Hydro are important players today in research and development (R&D). The bulk of their R&D is financed by the joint ventures for the fields operated by the companies. Combined with the significance of new technology for the company's competitive position, this should indicate that the company has a strong focus on R&D. The company will be better able to pursue large research projects than was the case before. However, the merger could lead to a reduction in diversity and less creative solutions. The government will expect the merged company to maintain its R&D work in Norway on a par with the present level of activity pursued by the two companies separately.

The merged company will exercise great influence over the Norwegian-based supplies industry – particularly in the production phase. It is expected to be conscious of the responsibility associated with this position. The consequence is that the merged company must stimulate broad competition and diversity among suppliers in order to continue securing good solutions in technological and efficiency terms in the future.

**Chapter 9** provides an overall assessment of the merger between Statoil and Hydro's petroleum business.

The government shares the view of the two boards that changes in international frame conditions have substantially altered the competitive position of Statoil and Hydro and that greater international weight is required. The merged enterprise will be a strongly-based energy company, competitive both nationally and internationally.

The merged company will continue to have its principal business in Norway, and will have a strong self-interest in further developing this. However, the merger does mean the unification of two important communities for conducting studies in the petroleum sector. This will be countered in part by a multiplicity of players, particularly in the exploration and development phase, who will help to maintain competition. It is also necessary to ensure that the authorities can retain a broad perspective on the management of the oil and gas resources.

The government supports the plans of the two companies for a merger, and has great expectations for the company as the leading player on the NCS. The company must be expected to encourage continued diversity and competition between suppliers and research communities. A number of unsolved assignments exist in the Norwegian petroleum activity. StatoilHydro will have a special place in helping to find good solutions in the future.

The government believes that the StatoilHydro name conserves the traditions of the two merged companies in a good way and supports the proposed name. The government will take a position on a proposal for a new name as a shareholder at the general meeting.

The government assumes that the head office will be in Stavanger, where Statoil's head office is already located. This location will maintain Stavanger's strong role and position in the Norwegian oil and gas industry and facilitate further development of the expertise community in the region. At the same time, the government assumes that the company will maintain the strong expertise communities possessed by the two companies at several locations in Norway. It is important that the company facilitates further growth in northern Norway when the level of activity provides a basis for this. The government expects that expanding activity will have industrial effects in the far north, with naturally associated management functions. It is the company itself which determines the organisation and location of its commercial functions and business areas.

The Ministry of Petroleum and Energy and the Ministry of Trade and Industry have made use of an external independent financial adviser, Lehman Brothers, which has conducted an analysis of the financial aspects of the merger on behalf of the Ministries. Lehman Brothers has concluded that the exchange ratio negotiated and supported by the boards is fair from a financial perspective for the government as a shareholder in both Statoil and Hydro.

Under the merger plan, the government will have a shareholding of about 62.5 per cent in the merged company. In accordance with the Storting's decision in 2001 that the government holding in Statoil should be at least 67 per cent, and with White Paper no 13 (2006-2007), the government intends that the state shareholding in the merged company will be increased over time from 62.5 per cent to 67 per cent, see draft resolutions III and IV. A government shareholding of 67 per cent will help to ensure that the intentions on state ownership specified in connection with the decision to list Statoil are also maintained for the merged company. The government's intention is that the purchase of shares in the merged company will take place in the market over time.

Hydro's aluminium business has been strengthened in recent years. The company will now be established with a minimum of debt. The government accordingly considers that the demerger of the oil and gas business will not undermine Hydro's opportunities to realise its strategies for the aluminium business. The company will be a big player in the global aluminium market. In the government's view, Hydro will have sufficient size and financial strength to continue developing as an independent company. The government is concerned that the business can continue to be developed in Norway, including further processing, and that the expertise community built up by Hydro will be preserved.

The government wants to maintain the state's existing shareholding in Norsk Hydro ASA and sustain the stable ownership which Hydro has enjoyed. In the government's view, the transaction takes care of the goals which the government has set for this business.

This proposition recommends that the Ministry of Trade and Industry be mandated to vote at the extraordinary general meeting of Norsk Hydro ASA in favour of the board's proposal to demerge the petroleum business as a step towards the merger of Hydro's petroleum business with Statoil by and large on the terms detailed in this proposition, see draft resolution I. It further recommends that the Ministry of Petroleum and Energy be mandated to vote at the extraordinary general meeting of Statoil ASA in favour of the board's motion to merge Statoil and Hydro's petroleum business by and large on the terms detailed in this proposition, see draft resolution II.

## 9 Assessments

### 9.1 Assessment of the industrial basis for the merger

Merging Statoil and Hydro's petroleum operations creates new conditions and opportunities for the business both in Norway and abroad. The background for the proposal to open up for more owners in Statoil by listing the company on the stock market is outlined in Storting proposition no 36 (2000-2001) *Ownership of Statoil and Future Management of the SDFI*. This proposition noted in part that a steadily increasing proportion of Statoil's investment and value creation would relate to the international commitment. Internationalisation was seen as a central and essential strategy for ensuring continued growth and value creation as the Norwegian continental shelf (NCS) matured and the level of activity declined. It was also noted that the petroleum sector had undergone substantial changes, leading to rapid developments and tougher competition in the industry. Rapid and continuous adaptation to changing circumstances was seen as crucial to success. In order for Statoil to participate adequately in the restructuring of the industry, the assumption underlying the Storting's consideration of the matter was that Statoil would be given the opportunity to conclude ownership-based strategic alliances with others – by using its own shares as a means of settlement, for instance.

The government shares the view of the two boards that changes in international frame conditions have substantially altered the competitive position of Statoil and Hydro and that greater international weight is required. The merged enterprise will be a strongly-based energy company, competitive both nationally and internationally.

Global competition is demanding. Stronger and more active national oil companies, the consolidation of a number of companies and an increased shortage of physical and intellectual resources have collectively helped to present the oil companies with a new set of conditions governing efficient exploration for and production of oil and gas. Larger entities with greater financial strength and stronger negotiating positions have made it difficult for smaller companies to gain access to new resources through exploration, purchases or swaps.

In a number of cases, nation states have given priority to recovering the resources themselves rather than permitting access to the international oil companies. At the same time, a number of national oil companies are operating in markets outside their national boundaries in order to secure access to required energy sources as part of efforts to meet the energy requirements of their home countries. National oil companies have often proved ready to pay more than international players are willing and able to do. This contributes to strong competition over access to scarce resources on a world basis, either through exploration or through purchases/swaps.

The most important consideration for oil companies today is to increase their reserves and resource base. This can be done in several ways, including organic growth through exploration for resources, acquiring other oil and gas companies or farming into producing fields. A financially-strong company can take more risk. By developing new technology, it is possible to tap resources which were previously commercially unrecoverable. The government takes the view that the merged company would be better able to increase its reserves than Statoil or Hydro separately.

The government would point out that the merged company will remain Norwegian-based. Its biggest assets will be related to the activity in Norway, where 68 per cent of its reserves lie. Challenges and new assignments in Norway will continue to develop the company, but it will also need new opportunities internationally in order to make further progress. The company's commitment internationally will provide knowledge and

expertise which can contribute in its turn to further development of the activity in Norway. As a single unit, the merged company will have greater capacity to pursue a larger number of more complex operations than either of the existing companies separately.

In the government's view, the proposed merger will lay the basis for substantial growth by the company. At the same time, transactions of this kind involve an element of uncertainty. The success of the merger will depend in part on the company's ability to take effective advantage of growth opportunities and to achieve efficiency improvements, synergies, cost savings and other gains. A successful merger will also depend on the company's ability to unify two strong corporate cultures and expertise communities. Gains from the merger could be countered by reduced operating revenues as a result of changes in product prices, changed frame conditions for the oil and gas business, risks and uncertainties relating to its projects, unexpected challenges and costs related to the integration of the two companies, and conditions related to competition in the industry and other risk factors. However, these are risks with which the companies would also have to live as independent entities. In the government's view, a merged company would be more strongly placed to meet such business risks.

## **9.2 Assessment of effects on the NCS**

The merger will integrate the two biggest players on the NCS into one large entity. It will control more than a third of remaining proven reserves, account for a third of production and be operator of two-thirds of the fields on stream. The company will have substantial holdings in the major oil and gas fields.

During the exploration phase, we currently have a multiplicity of players – particularly in mature areas. We need diversity in this phase in order to give scope for alternative views of exploration opportunities. The merged company will be an important player in the non-mature areas of the Norwegian and Barents Seas, but these areas will also attract great interest from the international companies. The merger will have limited significance for exploration activity.

Statoil and Hydro write in their merger prospectus that they envisage that the merger “will strengthen the merged company's ability to explore for, develop and produce oil and gas in technically challenging frontier regions of the NCS such as the Barents Sea”. The merged company will have a very high level of expertise for exploring non-mature areas of the NCS, and thereby be well placed to make a continued commitment to these waters. The authorities expect the merged company to make a strong commitment to exploration in non-mature areas of the NCS. StatoilHydro has every opportunity to become a stronger and more active exploration company than the two companies have been separately.

A central role has been played by Statoil and Hydro in the development of Norway's oil and gas fields. The merger means the loss of an important development team in terms of providing alternative proposals. The company will be a substantial participant in the development phase, but the trend will again be towards a larger number of players. The four largest discoveries currently being planned for development are operated by players other than Statoil and Hydro.

The production phase calls for companies which take a long-term view of production, continue to develop the fields, and view fields in a broad context. A significant proportion of production in the years to come will derive from fields already on stream. The merged company will have a strong position in the production phase as operator of the big fields in the northern part of the North Sea, including Statfjord, Gullfaks, Snorre, Oseberg and Troll. It will have the expertise and resources to continue developing these fields. It will be very

much in the company's own interest to operate fields and areas efficiently, in accordance with good management of the petroleum resources.

The merger prospectus states that the merger could "increase efficiency of operations and improve utilisation of resources, which, in turn, is expected to improve operations and extend the lifetime of existing fields in production". The NCS is the core area for the merged company. The government expects that the merged company will make a continued commitment to improved recovery and efficient operation of these fields and areas. It also expects the company to maintain a high level of exploration activity.

The merged company will be a substantial operator. It is the operator who is responsible for development and production of the fields and who, through its leadership role and capacity to carry out studies, exerts substantial influence on activities related to a field. The other licensees in the field have an important function in monitoring and challenging the operator. Statoil and Hydro have been key partners and competitors. The merger will put an end to this interaction.

The Ministry of Petroleum and Energy has considered whether the merged company will acquire a too strong position on the NCS, and possible measures to compensate for this.

One possible way to reduce the company's influence is for the authorities to require, in connection with merger, that the company disposes of participatory interests in fields and/or transfers operatorships to other players. The purpose of setting such conditions would be to reduce the company's position as a key licensee and operator, and strengthen other players in an effort to compensate for the role Hydro has played as a licensee and operator in the joint ventures. The Ministry has assessed the possible positive effects of setting such conditions against their cost and risk. It has concluded that such conditions would not contribute to improving resource management and increasing value creation from the petroleum industry.

On the basis of these assessments, the government has concluded that it would not be relevant to impose conditions for the disposal of participatory interests or the transfer of operatorships in connection with the merger.

The government believes that several considerations indicate that the company will operate in a way which enhances value creation on the NCS:

- The merged company will primarily operate fields in the mature areas of the northern North Sea and on the Halten Bank in the Norwegian Sea. The company has a strong self-interest in improving recovery and operating the fields as efficiently as possible, including coordinated operation of several fields in the same area.
- The operator is important for the development of oil and gas fields, but cannot implement projects without the support of the other licensees. The balance of power between the operator and licensees is regulated by such means as the licensing system and voting rules. These have been framed so that the operator is dependent on involving and securing support from other licensees. The voting rules will be adjusted in the production licences concerned.
- A greater diversity of companies means that a number of the new developments will be operated by companies other than the merged company.

Competition between Statoil and Hydro has been an important source of information for the authorities. The merger will reduce the access of the authorities to important information. The government will ensure that the public administration possesses the expertise and capacity required to regulate the petroleum activity in a satisfactory manner.

The merged company must be expected to stimulate broad competition and diversity among suppliers in order to continue securing good solutions in technological and

efficiency terms in the future. In order to assess the possible impact of the merger on the supplies industry, the authorities will strengthen their dialogue with the supplies industry and the oil companies on such issues as contract strategy, procurement policy, rights to new technology and commitment to research. Paying particular attention to assessing the position of the small and medium-sized supplier companies will be important. The authorities will also support and further develop arenas which contribute to diversity in the supplies industry. Such networks must contribute to a good and early flow of information between oil companies and suppliers, and between suppliers and their sub-contractors. This could be pursued through industry associations, for instance, supplier networks and meeting places such as Konkraft.

Statoil and Hydro are important players today in research and development (R&D). The bulk of their R&D is financed by the joint ventures for the fields operated by the companies. Combined with the significance of new technology for the company's competitive position, this should indicate that the company has a strong focus on R&D. The company will be better able to pursue large research projects than was the case before. However, the merger could lead to a reduction in diversity and less creative solutions. The government will expect the merged company to maintain its R&D work in Norway on a par with the present level of activity pursued by the two companies separately.

The authorities expect the merged company to be able to maintain and continue its commitment within the existing structure in the area of health, safety and the environment, including aspects relating to the natural environment.

Merging the two largest players on the NCS will have effects which the government must take into account in its overall management of Norway's petroleum resources.

In the time to come, relevant government bodies will assess the need to review their instruments and working methods, and how far these are sufficient for adequate exercise of their jurisdiction over the petroleum activity.

### **9.3 Assessment of the merger plan**

The Ministry of Petroleum and Energy and the Ministry of Trade and Industry have assessed the merger plan presented by the companies.

The companies have proposed that the name of the merged company should be StatoilHydro ASA. They have also agreed that the board of the merged company will develop proposals for a new name and logo. A proposed new name will be submitted to the general meeting of StatoilHydro for approval in 2008. The government believes that the StatoilHydro name conserves the traditions of the two merged companies in a good way and supports the proposed name. The government will take a position on a proposal for a new name as a shareholder at the general meeting.

It has been proposed that the company's business office will be in Stavanger. Corporate functions will be located in both Stavanger and Oslo, and the chief executive will have offices in both places. The most important commercial functions and business areas will be operated from Stavanger, Oslo, Bergen and Trondheim. The government assumes that the head office will be in Stavanger. This location will maintain Stavanger's strong role and position in the Norwegian oil and gas industry and facilitate further development of the expertise community in the region. At the same time, the government assumes that the company will maintain the strong expertise communities possessed by the two companies at several locations in Norway. It is important that the company facilitates further growth in northern Norway when the level of activity provides a basis for this. The government expects that expanding activity will have industrial effects in the far north, with naturally

associated management functions. It is the company itself which determines the organisation and location of its commercial functions and business areas.

The company's board of directors will have 10 members. These directors, including the chair and deputy chair, will be elected by the corporate assembly. It is assumed in the merger plan that Eivind Reiten will be elected chair and that there will be seven shareholder-elected directors. The nomination committee in Statoil will recommend four of these and the nomination committee in Hydro the other two shareholder-elected directors. These directors will serve until the annual general meeting in 2010. The company will have a corporate assembly of 18 members plus alternates, with 12 members and four alternates elected by the general meeting. The nomination committee in Statoil will recommend seven members of the corporate assembly and the nomination committee in Hydro five. These members will serve until the annual general meeting in 2010. The government concurs with this solution.

The Ministry of Petroleum and Energy and the Ministry of Trade and Industry have made use of an external independent financial adviser, Lehman Brothers, to conduct a financial analysis of the merger on behalf of the Ministries.

Lehman Brothers has assessed the exchange ratio with the aid of several recognised valuation methods, including discounted cash flows from future recovery of reserves, comparable pricing in relation to other similar transactions, key figures from other listed companies with similar or corresponding businesses, assessment of historical exchange ratios with and without a valuation of anticipated synergies, comparison with other independent analytical assessments and so forth. Lehman Brothers has also assessed the merger plan and other public documents relating to the matter.

The Lehman Brothers assessment has not produced information which indicates that the government should have objections to the exchange ratio. Lehman Brothers has concluded that the exchange ratio negotiated and supported by the boards is fair from a financial perspective for the government as a shareholder in both Statoil and Hydro.

The object of the government's ownership in StatoilHydro remains unchanged from its ownership of Statoil and Hydro today. In White Paper no 13 (2006-2007) *An Active and Long-term Ownership*, the government noted that the state should have a large shareholding in Statoil and Hydro in order to safeguard industrial expertise and jobs. Keeping head office functions and R&D assignments in Norway is regarded as important. In accordance with the Storting's decision in 2001 that the government holding in Statoil should be at least 67 per cent, and with White Paper no 13, the government intends that the state shareholding in the merged company will be increased over time from 62.5 per cent to 67 per cent. A 67 per cent shareholding will help to ensure that the intentions in the decision to list Statoil are also maintained for the merged company.

#### **9.4 Assessment of Hydro's continued business**

In its assessment of the continued business, the government has based its evaluation on the figures prepared by Norsk Hydro ASA in connection with the demerger of its petroleum business.

As the largest shareholder in Hydro, the government has wished to be sure that the company is sustainable and can develop on its own without the petroleum business. It has been assumed that the demerger will free up value for the shareholders of Hydro while also laying a good foundation for further development of the remainder of the company. The continued company must have sufficient financial strength to implement the investment required to meet growing international competition and the capital adequacy to withstand a

recession.

Hydro's aluminium business has been strengthened in recent years. The company will now be established with low debt. The government accordingly considers that the demerger of the oil and gas business will not undermine Hydro's opportunities to realise its strategies for the aluminium business. The company will be a big player in the aluminium market. In the government's view, Hydro will have sufficient size and financial strength to continue developing as an independent company. The government's adviser has provided an assessment of the "new" Hydro's financial and industrial position which supports this assessment.

In White Paper no 13 (2006-2007) *An Active and Long-term Ownership*, the government noted that the state should have a high shareholding in Hydro in order to safeguard industrial expertise, further processing, jobs and the management of major Norwegian natural resources. This object for the government's ownership remains unchanged. Norsk Hydro ASA has a strong foundation for continuing the development of its business as a focused aluminium and power company.

The transaction will not have significant consequences for Hydro's employees. No downsizing has been notified other than the strategic changes in the organisation which had already been announced before the merger with Statoil was made known. The demerger is expected to strengthen the aluminium business, which will help when viewed in isolation to safeguard these jobs. As owner, the government will have expectations that the business can continue to be developed in Norway, including further processing, and that the expertise community built up by Hydro will be preserved.

The government wants the continued company to have a solid Norwegian foundation in order to safeguard industrial expertise, further processing, jobs and management of natural resources as described in the ownership White Paper. It is also important to maintain head office functions and R&D assignments in Norway. The government will maintain the government's existing shareholding in Norsk Hydro ASA after the demerger, and thereby sustain the stable ownership which the company has enjoyed.

In the government's view, the transaction adequately protects the continued business in Hydro and the company will continue as a financially-sound enterprise concentrated on the aluminium market.

## **9.5 Overall assessment and recommendation**

Merging Statoil and Hydro's petroleum activity opens substantial industrial perspectives both in Norway and internationally. In the growing global competition over oil and gas resources, a merged StatoilHydro will be far better equipped financially, technologically and organisationally than the two companies separately.

The merged company will continue to have its core business in Norway, and will have a strong self-interest in further developing this. However, the merger does mean the unification of two important communities for conducting studies in the petroleum sector. This will be countered in part by a multiplicity of players, particularly in the exploration and development phase, who will help to maintain competition. It is also necessary to ensure that the authorities can retain a broad perspective on the management of the oil and gas resources.

The government supports the plans of the two companies for a merger, while simultaneously setting great expectations for the company as the leading player on the NCS. The company must be expected to encourage continued diversity and competition between suppliers and research communities. A number of unsolved assignments exist in

the Norwegian petroleum activity. StatoilHydro will have a special place in helping to find good solutions in the future.

## **9.6 Mandates**

It is recommended that the Ministry of Trade and Industry be mandated to vote at the extraordinary general meeting of Norske Hydro ASA in favour of the proposal to demerge the petroleum business as a step towards the merger of Hydro's petroleum business with Statoil by and large on the terms detailed in this proposition, see draft resolution I.

It is recommended that the Ministry of Petroleum and Energy be mandated to vote at the extraordinary general meeting of Statoil ASA in favour of the board's motion to merge Statoil and Hydro's petroleum business by and large on the terms detailed in this proposition, see draft resolution II. By voting for the merger plan, an implicit decision is also taken in favour of all the conditions included in the merger plan, such as the exchange ratio, the articles of association and changes to the capital.

It is recommended that the Storting consents to the state shareholding in the merged company being 67 per cent in the longer term, see draft resolution III. A 67 per cent government shareholding will help to ensure that the intentions specified for state ownership in connection with the decision to list Statoil are maintained for the merged company.

It is recommended that the Ministry of Petroleum and Energy be mandated to expense the purchase of shares in the merged company without appropriation under chap 1811 StatoilHydro ASA, item 96 Share purchase, see draft resolution IV. A continuation of the mandate will be proposed in the relevant budget documents until the government's holding in the merged company reaches 67 per cent.