Global Credit Research
Credit Opinion
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Credit Opinion: StatoilHydro ASA

StatoilHydro ASA

Stavanger, Norway

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	Aa2
Senior Unsecured	Aa2
Commercial Paper	P-1
Other Short Term	P-1
Statholding AS	
Outlook	Stable
Bkd Sr Unsec MTN	Aa2

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Key Indicators

StatoilHydro ASA

	2006	2005	2004
EBIT / Avg. Book Capitalisation	**55%**	**50%**	**37%**
EBIT / Interest Expense	**23x**	**26x**	**25x**
RCF / Net Debt	**87%**	**81%**	**93%**
Debt / Book Capitalisation	**29%**	**30%**	**32%**
Debt / Total Proved boe Reserves ($/boe)	**2.7**	**2.1**	**2.4**
Total Proved boe Reserve Life Index (years)	**10.0**	**9.9**	**10.5**

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

StatoilHydro ASA (formerly known as Statoil ASA) is a 62.5% state-owned Norwegian integrated oil and gas company with the majority of its oil and gas reserves of more than 6 billion boe located on the Norwegian Continental Shelf (NCS), where the entity is the largest producer. In 2006, the company generated pro-forma revenues of approximately NOK520 billion (~USD81 billion).

Recent Events

On 1 October 2007, the company completed its merger with Norsk Hydro's ("Hydro") oil & gas activities, which was announced on 18 December 2006, and changed its name to StatoilHydro ASA. At the same time, it assumed all of Norsk Hydro's rated bonds. While Moody's expects this assumption of debt to have slightly weakened the financial profile of the enlarged group, this is mitigated by the significant increase in operational scale enjoyed by StatoilHydro, which is the world's largest offshore operator and the undisputed leader on the NCS, with total proved reserves of more than 6 billion barrels of oil equivalent (boe) and a daily production averaging over 1.7 million boe. Moody's most recent rating action was the affirmation of the company's Aa2/P-1 ratings on 18 December 2006.

Rating Rationale

In accordance with Moody's Government Related Issuer ("GRI") rating methodology, the Aa2 ratings of StatoilHydro reflect the combination of the following inputs:

- Baseline credit assessment of 5-7 (on a scale of 1 to 21, where "Aa" assessments are published as a range from 2 to 4, single-"A" assessments map from 5 to 7, and so forth)

- Aaa local currency rating of the Norwegian government

- Low dependence

- High support

Low dependence reflects StatoilHydro's large international activities in selling its oil and gas output. High support reflects StatoilHydro's strategic role in Norway as employer, taxpayer and marketing entity for the State's oil and gas output and also reputational considerations by the Norwegian State. Moody's changed the government support assumption modestly in June 2006 to reflect its view of the more supportive attitude of the new government to certain specific State-owned enterprises, including StatoilHydro. Although modest, and having no rating impact, this change lifted the classification of support from the Medium range to "High".

To derive at the BCA of StatoilHydro, Moody's applies the Global Rating Methodology for integrated Oil & Gas Companies. The outcome reflects challenges associated with replacing declining reserves at competitive costs, partly offset by StatoilHydro's strong financial profile. The BCA of 5-7 also incorporates StatoilHydro being well positioned to benefit from the growing European gas consumption and Moody's expectation of a continued balanced development strategy encompassing international diversification while maximizing value from its NCS activities.

Factor 1 Reserves and Production Characteristics

While still lagging in terms of overall size the large global majors, StatoilHydro's position has clearly been strengthened by its merger with Norsk Hydro's oil and gas assets, which makes it by far the largest gas and oil operator on the NCS, with total proved reserves and pro-forma annual production of more than 6 billion boe and 630 million boe, respectively.

Factor 2 Re-Investment Risk

The three-year average all-sources reserve replacement of 97% (mapping to "Ba") and 50% (mapping to "Caa") for Statoil and Hydro's oil and gas business, respectively, reflect the difficulties the new company faces in replacing reserves. In 2006, only around 50 million boe (~17% of total 2006 additions) were added to Statoil's reserve base from extensions and new finds while Hydro's business discovered 32 million boe (~44% of total 2006 additions). Going forward, it is likely in our view that StatoilHydro will continue to be challenged to replace reserves at competitive prices. In this context, Moody's notes that the company is yet to finalise the investment strategy for the new group. Although we do not anticipate a major shift, we caution that future investments and acquisitions to replace reserves, such as the potential investment in the vast Shtokman field, bear some event/execution risk that could impair the company's financial and business risk profile.

During the last 3 years, Statoil all-sources F&D costs have increased and its 3-year average all-sources F&D costs are USD16.0 boe (USD32.9 for Hydro, both mapping to "Caa"), which is relatively high compared to its peers. This development partly reflects Statoil's acquisitions in recent years, increased exploration efforts and a general trend of rising F&D costs across the industry owing to the inflationary pressures compounded by the necessity to access more technologically demanding and therefore more costly reserves. In Moody's view, StatoilHydro's F&D costs are likely to continue to be weakly positioned relative to its rating.

Factor 3 Operating and Capital efficiency

Statoil's ROCE of 46% and the leveraged full cycle ratio on a 3 year all-sources F&D costs of 2.2 times are commensurate with "Aaa", reflecting Statoil's relatively low debt levels and associated financial expenses. Hydro's three-year average ROCE of around 30% also maps to the "Aaa" category while its leveraged full-cycle ratio of 1.4x is positioned at the "A" level.

Factor 4 Downstream rating factors

StatoilHydro yields "Ba" on this factor, reflecting the company's lower level of integration compared to the large multinational oil and gas companies. The group owns 3 refineries with a capacity above 100,000 boe per day (mapping to "Baa"; Hydro did not have downstream operations) and, together with its proportional share in jointly-owned refineries, has a total crude distillation capacity of around 300 million boe/d, which ranks it in the Ba category.

Factor 5 Credit Metrics

Based on the high oil price environment of recent years, StatoilHydro's financial profile has improved strongly in recent years (mapped in the Aaa to Aa range). While the company's financial profile is expected to slightly weaken as a result of the assumption of Hydro's rated bonds, the group is likely to retain a degree of financial flexibility to take on external growth opportunities or increased capital expenditure within its current rating category.

Factor 6 Geographical Diversification

In 2006, Statoil had around 80% of its reserves and 85% of its production located on the NCS. Given Hydro's even more pronounced bias towards the NCS (accounting for 90% of its production), StatoilHydro's geographical diversification still remain limited post merger; as a result, the group is expected to remain weakly positioned relative to its rating on this specific factor. However, Moody's notes StatoilHydro's ongoing strategic efforts to develop its international upstream presence and takes comfort from the relatively low economic and political risk associated with the NCS activities.

Rating Outlook

The outlook is stable. StatoilHydro's rating is supported by its strong and enhanced position on the NCS, its anticipated benefit from the growing demand for gas in Europe, and its demonstrated ability to achieve its operating and financial targets. Even following the completion of the transaction with Norsk Hydro, which is expected to translate into slightly weaker metrics at year-end 2007 (on a pro-forma basis), the company is likely to retain a degree of financial flexibility to take on external growth opportunities or increased capital expenditure within its current rating category, and indeed ratings incorporate ongoing moderate asset acquisitions going forward.

What Could Change the Rating - Up

-Successful long-term transition to a diversified, growing, low-cost multinational, supported by gradually increasing diversification.

-A change in the current BCA range from 5-7 to the 2-4 range will change the final rating from Aa2 to Aa1.

What Could Change the Rating - Down

-Weakening of financial profile due to material investments and acquisitions in addition to the large investment programme or due to no corresponding adjustment of financial policy in a lower oil price environment.

-Significant deterioration of business risk profile mainly as a result of increasing exposure to higher risk countries.

- Sustainable and substantial decline of StatoilHydro's reserve base due to a lack of successfully replacing and diversifying reserves at competitive prices.

- A weakening of the BCA in the 5-7 range will move the final rating to Aa3.

In addition to the factors listed above affecting the baseline credit assessment, the ratings may also be impacted by changes in the ratings of the supporting government, or by changes in Moody's assessments of default dependence and support described in the rating rationale.

Rating Factors

StatoilHydro ASA

Integrated Oil & Gas Industry	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Reserve & Production Characteristics (25%) [1]							
a) Total Proved Reserves (billion boe)			4.0				
b) Total Production (million boe p.a.)		403					
c) Total Proved Reserve Life (years)			10				
Factor 2: Re-Investment Risk (10%)							
a) 3-Year All-Sources Reserve Replacement					97%		
b) 3-Year All-Sources F&D Cost							16.0

Factor 3: Operating & Capital Efficiency (10%)							
a) Return on Capital Employed (ROCE)	47%						
b) Leveraged Full-Cycle Ratio on 3-Year All-Sources F&D (x)	2.2						
Factor 4: Downstream Rating Factors (15%)							
a) Total Crude Distillation Capacity ('000 bpd)					297		
b) # Refineries with Capacity > 100 M bpd				3			
c) Segment ROCE					n/a		
Factor 5: Financial Metrics (30%)							
a) Retained Cash Flow / Net Debt (3-yr average)	87%						
b) EBIT / Interest Expense (3-yr average)	24.4						
c) Gross Debt / Total Proved Reserves		$2.7					
d) Gross Debt / Total Capital	29%						
Factor 6: Geographical/Geopoliticial Risk Diversification (10%)							
a) Geographical/Geopoliticial Diversification					X		

Government-Related Issuer	Factor
a) Baseline Credit Assessment	5-7
b) Government Local Currency Rating	Aaa
c) Default Dependence	Low
d) Support	High

[1] Using conversion factor 6 for bcf to boe