

Phillips Petroleum, Conoco merging in \$35 billion deal

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TULSA, Okla. (AP) - Phillips Petroleum Co. agreed Sunday to buy Conoco Inc. for about \$15.4 billion in stock, creating the world's sixth-largest oil and gas company, in terms of reserves and production, at a time of tremendous industrywide consolidation.

Phillips, which bought the refining company Tosco Corp. for \$7 billion earlier this year, will gain extra strength as a producer of petroleum. The combined market value of the new company would be \$35 billion based on Friday's closing price of each company's shares.

Phillips would also assume roughly \$8 billion in debt.

Under the terms of the deal, which was approved by the boards of both companies on Sunday and described by the two rivals as a merger of equals, the combined company, ConocoPhillips, would have reserves of 8.7 billion barrels of oil equivalent, daily production of 1.7 million barrels and \$18.6 billion in debt and preferred securities.

The merger is expected to close during the second half of 2002 pending regulatory and shareholder approval.

The deal, which also includes a \$550 million breakup fee, would maintain ConocoPhillips at the No.3 spot in the United States behind Exxon Mobil Corp. and ChevronTexaco Corp.

ConocoPhillips would be based in Houston, home to Conoco. It would keep a reduced presence in Bartlesville, Okla., where Phillips employs 2,400 at its headquarters and research facility.

"This is really a growth story for Conoco and Phillips," said Conoco chairman Archie W. Dunham, who is delaying a planned retirement to serve as chairman of the combined com-

pany.

Phillips chairman James Mulva will be chief executive and president of the new company and become chairman when Dunham retires in 2004. "What we saw was just an ideal time for us to put our growth plans together," Mulva said.

Conoco and Phillips have a combined global work force of 58,000 employees and expect to save at least \$750 million annually by merging.

Mulva said most of the savings should come from realized operating efficiencies instead of job cuts, but said some jobs will be eliminated in Bartlesville. He didn't say how many cuts would be implemented there.

While making Phillips much larger, analysts also said the deal would give the company better strategic balance.

"They really needed to beef up their exploration portfolio around the world," said Gene Gillespie, senior energy analyst with Howard Weil in New Orleans. "Conoco has a presence in some areas that Phillips is interested in, including the Gulf of Mexico and the MacKenzie Delta in Western Canada."

Under the terms of the deal, Phillips shareholders will get one share of each of ConocoPhillips stock for each Phillips share they own.

Conoco shareholders will get .4677 shares of the new stock. The merger is expected to be tax-free to shareholders. Phillips shareholders will end up with a 56.6-percent stake in the new company.

The new board will have 16 directors - eight from each company - including Dunham and Mulva.

The merger should result in cost savings in refining, marketing and transportation and more capital to fund worldwide

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