ExxonMobil shifts strategy with XTO takeover

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ExxonMobil has signalled a significant shift in strategy with a deal to pay $31bn (£19bn) in stock for **XTO Energy**, which will give the world's biggest publicly listed **oil** company a large position in domestic natural gas.

Analysts said the cash-rich company had paid a relatively high price for XTO's reserves, many of which lie in US shale deposits. The deal, which includes a further $10bn in XTO debt, gives **Exxon** an increased foothold in difficult-to-tap gas reserves and greater access to a cleaner-burning alternative to coal.

"What they are signalling with this acquisition is that they understand the importance of gas in their future,'' said Amy Myers Jaffe, energy expert at the James A Baker Institute for Public Policy.

Exxon will create an organisation to manage the production of oil and gas from unconventional deposits, such as shale, tightly compressed sands and coal bed methane, which require sophisticated technology to tap.

Exxon, which prides itself on having better technology than its peers, says the new group will help it rapidly develop and deploy technology and operating practices that will boost output.

Exxon will base the organization in XTO's Fort Worth, Texas, offices, where it intends to keep the company's team in place.

While Exxon has been building a global liquified natural gas portfolio, it had nothing of significance in US onshore, unconventional gas. This meant it had missed out on the recent boom in the sector, driven by technology advances.

World gas production

FT interactive graphic: The balance of power among the producers of natural gas has changed dramatically in the past few decades. Use this graphic to see the shifts

These companies, including XTO, have, in the past three years, grown estimates of US supplies from 30 years, at current usage rates, to 100 years supply, mostly by figuring out how to economically extract gas from shale rock.

BP and BG Group of the UK; StatoilHydro, the Norwegian energy company; and Eni, the Italian oil company, **have all bought into the US gas industry** in the past 18 months.

Gas has adequate scale and infrastructure to replace oil in some cases and is about 30 per cent less carbon intensive than oil and about 50 per cent less carbon intensive than coal.

The fuel is gaining support from lawmakers at a time when the world is looking at ways to reduce carbon emissions.

The acquisition could be a bigger win than many realize, Ms Jaffe said, if Exxon's pilot project to remove carbon emissions from gas works.

PFC Energy, a consultancy, **estimates advances** made by industry pioneers in developing natural gas from shale could, if taken abroad, more than quadruple gas reserves.

Yet Robin West, chairman of PFC Energy, the consultancy, noted the onshore unconventional gas industry has been dominated by smaller players than the majors, who specialize in the short-term nature of the play, which requires constant reinvestment and drilling to maintain production.

This is at odds with the traditional Exxon strategy of large, long-term, highly efficient assets. "The success of this investment will depend on whether Exxon can keep the XTO culture in its team,'' he said. "It's a different business."

The all-stock transaction with XTO provides for Exxon issuing 0.7098 shares for each share of XTO, representing a 25 per cent premium to XTO shareholders. The transaction value includes $10bn of existing XTO debt and is based on the closing share prices of Exxon and XTO on December 11.

JPMorgan Securities acted as financial adviser to Exxon, and Barclays Capital and Jefferies & Company are advisers to XTO.