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## Schlumberger to Pay \$1.7 Billion for Stake in Russia's Eurasia Drilling

Deal Comes Amid High Tension Between Moscow, the West

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Schlumberger Ltd., the world's biggest oil-services company by market value, agreed to acquire a minority stake in Eurasia Drilling Co., Russia's largest onshore drilling firm, for about \$1.7 billion.

The move represents an unusually large investment by a U.S.-listed company in Russia's oil industry, at a time of high tension between Moscow and the West. The investment also comes as oil prices have more than halved since last summer, dragging down shares in the global oil-services sector and spurring consolidation elsewhere.

The deal presents risks for Schlumberger. While much of the Russian energy industry isn't subject to overall sanctions, Western governments have targeted parts of the industry and, if tensions with Moscow don't cool, restrictions could expand.

Schlumberger's move also comes when both lower oil prices and sanctions have put a big cloud over the oil-drilling ambitions of Russian producers, but the company said Tuesday that sanctions shouldn't affect the deal.

"At the current time, the U.S. and European Union sanctions are focused on Russia's energy future," Schlumberger said, noting they focus on drilling in the Arctic, deep water and shale formations. "From our careful review of the sanctions in place today, we do not believe that this transaction would be in conflict with the current sanction regime."

Moscow continues to pump oil furiously, amid a global glut that has helped sink world prices. But many of Russia's older wells may become uneconomic if prices continue to fall, or stay low for a long period.

Still, some industry players have used the lower prices to their advantage, especially at the deal table. In November, U.S.-based Halliburton Co. agreed to buy rival oil-field services company Baker Hughes Inc. for \$35 billion.

Schlumberger Chief Executive Paal Kibsgaard said in a conference call Friday that the company saw opportunities for mergers and acquisitions following the drop in oil prices.

EDC's shares fell by around 60% last year, as its two biggest customers—Russian independent oil company Lukoil and Gazpromneft—came under sanctions. The driller has also come under pressure from lower oil prices and the steep drop in the value of the ruble. While EDC gets paid in the Russian currency, it often buys equipment on global markets in dollars.

EDC on Monday reported a 19% year-to-year decline in drilling volume in December, while its overall drilling for the fourth quarter declined 16% from the same period of 2013.

Schlumberger's move extends a strategic alliance between the two companies that has been in place since 2011. That deal enabled the two to work together to deploy a range of drilling and well-engineering services to customers in the Russian conventional drilling market, Schlumberger said in a statement Tuesday.

EDC, which acquired Lukoil's drilling arm in 2004, is the largest provider of onshore drilling services in Russia, where it has a market share of about 30%. It also provides offshore drilling services in the Caspian Sea where it operates a number of jack-up rigs.

"The deal thus signals to us that [Schlumberger] is taking an opportunity to strengthen its presence in the regional market," Moscow-based Otkritie brokerage said.

EDC's main shareholders are Russian oil-industry veterans Alexander Djaparidze, who has a 30.2% stake and is the founder and chief executive, and Alexander Putilov, who has a 22.4% interest in the company. Neither of the two are thought to be close to the Kremlin's inner circle and haven't been targeted by Western sanctions.

Both Messrs. Djaparidze and Putilov will remain shareholders after the deal is completed, a spokeswoman for EDC said. Mr. Djaparidze will stay on as CEO, EDC said.

This isn't Mr. Djaparidze's first deal with Schlumberger. In 2003, Schlumberger agreed to buy PetroAlliance Services, a Russian oil-services company that the Russian billionaire founded in 1995.

Russia has long been a lucrative market for Schlumberger. While Western sanctions have sharply reduced Western investment in Russia in the past year, many major multinationals say they plan to remain in the country in the hope of a recovery once the geopolitical tensions ease.

"The deal is a good entry point for Schlumberger, which obviously wants to stay and grow in the region long-term," said Ekaterina Rodina, a VTB Capital analyst. EDC isn't subject to any sanctions, and the deal looks fairly priced for both companies, she said.

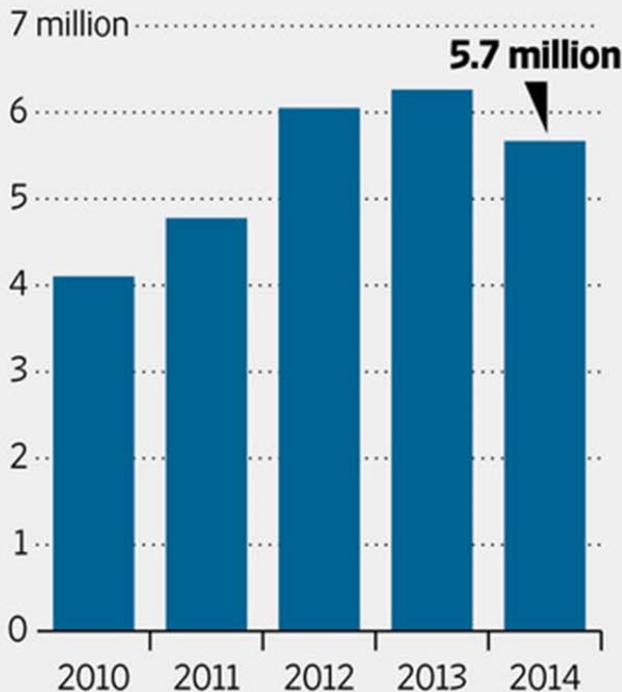
EDC is listed on the London Stock Exchange through global depository receipts. Upon completion of the deal, the company will be delisted, and Schlumberger will acquire a 45.65% stake for \$22 a share. That represents an 81% premium to EDC's closing price on Monday.

Schlumberger has an option to purchase the remaining shares in EDC during a two-year period, starting three years from the deal's close, which is expected in the first quarter of this year. EDC will hold an extraordinary shareholders meeting on Feb. 16 to vote on the proposed deal.

## Russian Ambitions

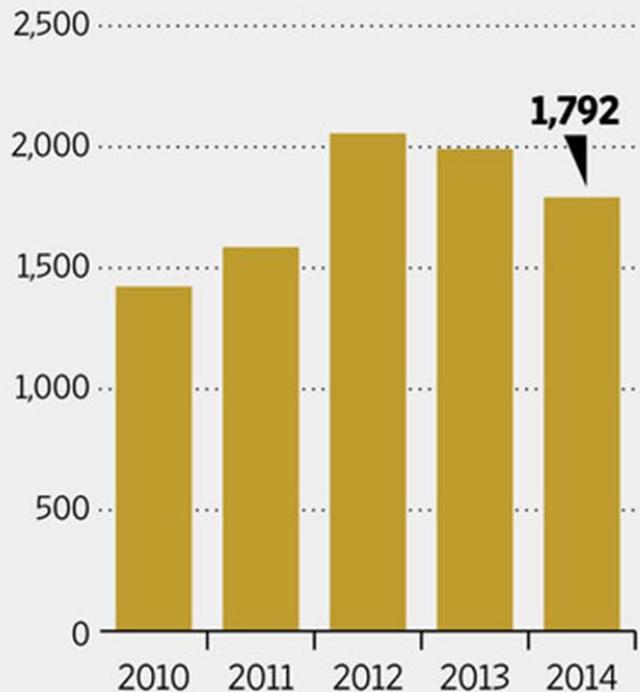
Schlumberger's move for a stake in Eurasia Drilling Co. comes as EDC drilled fewer wells last year amid sanctions and a weaker oil price.

Number of meters drilled



Source: the company

Number of wells drilled



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