

Enesco and Pride saga laid bare by US filings

Documents from the SEC reveal deep insights into the corporate strategies of companies involved



Barry Parker — New York

VERY rarely are regulatory disclosure documents, such as those filed with the US Securities and Exchange Commission, the stuff of a fast-reading novel.

One exception is proxy material prepared for shareholders of Enesco and Pride International, filed earlier this month, in advance of shareholder votes on the companies' potential merger.

The thriller-like background material provides deep insights into the corporate strategies at the highest levels, and the interacting of the strategic blueprint with arising opportunities and shifts in the market.

The end result, with a very good outcome for Pride International shareholders, came after much suspense for its board. In such deals, a target must get the best deal for shareholders, while fending off advances from suitors thought to be undesirable — or, in more practical terms, who may sack the current management. Boards can be sued for blocking deals, even if hostile, where shareholders may have achieved a better outcome.

The saga, spanning more than five years, provides a rare behind the scenes look into the executive suite at the highest levels, particularly at 'the target' — Pride International. It starts with a July 2005 meeting between Tor Olav Troim, John Fredriksen's right hand man, and Louis Raspino, then the newly promoted president of Pride International.

At that time, the discussion concerned a proposal for Seatankers Management, a major owner of the emergent Seadrill which had been formed in May 2005 after acquiring equipment from Mosvold and Odjell, to buy a significant equity position and put its own directors on to Pride's board. This would be the first of multiple encounters between the two drillers.

Nearly two years later, in the first quarter 2007, after Seadrill had digested Smedvig (acquired in the first quarter of 2006) and caught the tailwind of the market boom, executives from the two



Seadrill's West Triton jack-up: is Seadrill considering a Brazil rig strategy? Seadrill

firms were now discussing a possible all-cash offer, where Seadrill would acquire Pride — which had now hired Goldman Sachs as an advisor. By April 2008, Seadrill and its affiliates had already acquired 9.9% of Pride's stock — just under the 10% level that would trigger regulatory filings that open the door for government competition regulators to examine a transaction.

At that time, Pride's board lowered its threshold for a 'poison pill' to 10% specifically for Seadrill, from the more customary 15% (applying to everyone else), saying "the board wanted to make sure that all stockholders were protected appropriately". But the filing did draw out that Enesco which then indicated that it, too, might want to acquire Pride.

The saga continued through 2008, with Seadrill and Pride having various meetings and discussions, and attempting, in vain, to negotiate a confidentiality letter — with discussions commencing after Seadrill having threatened to launch a 'Bear Hug' offensive which would have triggered a proxy fight. But the clock was still ticking and by September 2008, discussions were derailed by the financial crisis. In 2009, as markets (and oil prices) recovered, Pride's discussions were back on with Seadrill, but also with companies mysteriously labelled 'A' and 'B' and 'C'.

The Deepwater Horizon accident in April, 2010 focused the thinking of all concerned, and brought Enesco and Pride together for a series of meetings. The regulatory narrative shows Pride's board to be rattled by continued rumours of Seadrill's rapacious intentions, in the absence of any real proposals from the Fredriksen-linked entity. It also shows an intense fourth quarter 2010 where Pride is attempting to fashion its best deal with Enesco, Seadrill and, variously, the A-B-C trio, with a host of merger structures mentioned.

The hectic pace heated up during November and on through the Christmas holidays, with Pride and Enesco talking extensively through bankers, lawyers and face to face. The filing shows Pride and Seadrill continuing to haggle from mid-November 2010 into early February 2011 over due diligence questions, while Enesco was marching towards the deal that was announced on February 7, 2011.

One insight into the emerging Seadrill strategy comes from the description of a meeting with Pride management, attended by Tor Olav Troim and John Fredriksen personally, in late September 2010. According to the filing: "Mr Troim described a restructuring of the combined company into three separate companies: one holding premium assets, a second holding lower specification rigs and a third holding rigs working in Brazil."

Memo to deal strategists: Seadrill has already launched its premium outfit — North Atlantic Drilling. Whether Seadrill (sans Pride), or others, will launch a Brazil-only entity is definitely worth watching. ■

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The Gazprom-operated Sakhalin-II project in the Sea of Okhotsk: the Sakhalin region's overall oil reserves is estimated at 7bn barrels, and gas at 80 trn cu ft. Gazprom

Sovcomflot leads way as ambitions in harsh climes of the Arctic hot up

THE forward thinking style, typical of John Fredriksen, where maximum value is extracted by unbundling businesses that exploit specific niches, has highlighted the importance of harsh environments, writes Barry Parker.

Quickly, conversations turn to that harshest of all venues for drilling — the Arctic, including the Barents Sea and the Russian Arctic Shelf. In Russian waters, Sovcomflot is positioned for domination of the the Russian Arctic.

Gazflot, a subsidiary of Gazprom, entered into a partnership with Sovcomflot in 2008, with the stated objective of "servicing Gazprom's current and future offshore projects and for the transportation of hydrocarbons".

Equity analyst Kjetil Garstad, at Oslo's Arctic Securities, told Lloyds List: "The Gazflot/Sovcomflot agreement includes future operation of gas carriers and we understand that this agreement could also be extended to include drilling rigs."

In early March, rumours were emerging of talks between Maersk Drilling and Gazprom regarding construction of drillsips that would work in the Russian Arctic.

Two major LNG projects, Yamal and Shtockman, are on the drawing board. Shtockman was the subject of much fanfare up until the steady collapse of gas prices and increased production of shale gas in the US — at one time thought to be a target market for the project. Minority partners Total and Statoil, which have joined Gazprom, have delayed decisions on LNG exports, now unlikely to start prior to 2017.

Russian independent company Novatek, spearheading a competing liquefied natural gas export project at the Yamal peninsula, has also been seeking to attract foreign investors. Significantly, Novatek shipped a cargo of condensate on Sovcomflot's Aframax SCF Baltica

SAKHALIN-II LNG EXPORTS

Million tonnes per year

	2008	2009	2010
Japan	0.2	3.8	6.0
Mexico	—	1.6	—
South Korea	—	1.5	2.9
Total	0.2	6.9	8.9

Source: Drewry Shipping

LNGs at Sakhalin-II

JAPAN CONTRACTS:

- Grand Elena
2007-built, 145,200 cu m
- Grand Aniva
2008-built, 147,200 cu m
- Grand Mereya
2008-built, 147,200 cu m
- Cygnus Passage
2009-built, 145,400 cu m
- Pacific Enlighten
2009-built, 145,400 cu m

SOUTH KOREA CONTRACTS:

- K. Jasmine
2008-built, 145,700 cu m

Chartered by Kogas
Source: Drewry Shipping

during summer 2010, on the northern route, from Murmansk to China — a market under consideration for future exports through the Arctic waters. Reports have Novatek set to ship eight aframax cargoes on this route during this summer plus an experimental suezmax cargo.

Gazflot has been building two semi-submersible rigs that will be drilling for gas at Shtockman — in the harsh environment of the Barents Sea. The first of the two, Polayrana Zvezda (Polar Star), was built at the Vyborg shipyard, floated to South Korea with topside outfitting completed at Samsung. The second rig, Servernoye Siyane (Northern Light), is expected to be completed this year. They are described as capable of handling waves of up to 32 m height, and drilling exploration and production wells down to 500 m water depth.

Sovcomflot has also been

expanding its capabilities to serve the Russian Pacific. The Sea of Okhotsk region is the location of two oil and gas projects in waters near Sakhalin Island: Sakhalin-I, operated by Exxon Neftegas (with Rosneft owning a minority stake), and Sakhalin-II, operated by Gazprom. AUS Energy Information Administration brief puts the Sakhalin region's overall oil reserves at 7bn barrels, and gas at 80 trn cu ft. In a February 2011 transaction, Sovcomflot acquired six aframax tankers, all strengthened for trading in ice (ice-class 1C) and with bow loading capabilities from Primorsk Shipping. Two vessels will continue on existing export contracts serving Sakhalin-I, loading at the De-Kastri terminal's offshore mooring, while three will continue shipping crude from Sakhalin-II — loading at Prigorodnoye, at the south tip of Sakhalin Island, also several miles offshore. The sixth vessel is in spot trades.

In early 2009, Sakhalin-II began exports of LNG to Japan from a terminal adjacent to the Prigorodnoye tanker terminal. Drewry Shipping's Pranay Shukla said: "The terminal has signed 10 sales/purchase agreements under which it has contracted a total of 8.03m tonnes a year of its production capacity.

"It has signed eight SPAs with Japan, and one each with South Korea and Mexico. In order to ship LNG cargoes, six conventional LNG carriers have been committed on long-term time charter."

The Moss-type vessels, all ice class, are owned by Sovcomflot, Primorsk Shipping and Japanese shipping partners. Sovcomflot also owns of two 2008-built membrane-type LNG carriers. Both the ice strengthened vessels, *Tanguh Batur* and *Tanguh Towuti*, with shared ownership from NYK Line and Samudera, are trading partners in Indonesia and Japan.

Sovcomflot continues to consolidate its market share in support vessels as well. In the summer of 2010, Sovcomflot

bought *Fesco Sakhalin*, a 2005-built Finnish icebreaker supply vessel serving Exxon Neftegas at Sakhalin-I. Two additional vessels, priced around \$100m each, are on order from Arctech, a joint venture between STX Finland and Russia's state owned United Shipbuilding Corp.

In the supply vessel trades, Sovcomflot, in conjunction with Swire Offshore, operates three ice-breaker supply vessels *Pacific Endeavor*, *Pacific Endurance* and *Pacific Enterprise*, classed as Ice-15, to serving platforms producing for Sakhalin-II.

Two additional Arctic projects showcase Sovcomflot's close intertwining with harsh environment supply chains. Shipments of crude oil began in 2008 from Varandey, in the Barents/Pecora Sea in three 70,000 dwt ice-class shuttle tankers built at Samsung (with financing from HSH Nordbank), servicing a Lukoil/Conoco Phillips project.

In another example of its strategy of offering specialised expertise, Sovcomflot built 70,000 dwt vessels at the Admiralty

"The Gazflot/Sovcomflot agreement includes future operation of gas carriers and this could also extend to include drilling rigs"

Kjetil Garstad, Arctic Securities

Shipyard to service liftings from Prirazlomnoye, operated by a subsidiary of Gazprom, also in the Barents Sea.

On the horizon, BP is seeking to drill in at three prospects at East Prinovozemelsk in Russia's Kara Sea. The oil giant is in the midst of a battle with its joint venture partners in its TNK-BP deal. The joint venture investors are challenging the BP share swap with Rosneft, which would give BP access to the three fields. Once the business arrangements are sorted, the Kara Sea could likely offer Sovcomflot additional outlets. ■