

LANDMARK PETROBRAS DEAL CREATES NEW PLAYER IN GLOBAL MARKET

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Petrobras has closed a landmark deal with a consortium of Brazilian banks and pension funds to set up a new company to finance the construction of seven new rigs.



The creation of Sete Brasil introduces a major new player into oil rig construction

The new company, Sete Brasil, is owned by Santander, Bradesco, BTG Pactual and Caixa Economica Federal, as well as four of Brazil's largest pension funds; Previ, Petros, Funcef and Valia, together with Lakeshore Financial Partners Participações, which took counsel from Tauil & Chequer - affiliated with Mayer Brown LLP.

BTG Pactual took counsel from Mattos Filho, Veiga Filho, Marrey Jr e Quiroga Advogados, while Bradesco BBI hired Motta, Fernandes Rocha - Advogados.

In total, the investors will hold a 95 per cent stake in Sete Brasil, with Petrobras holding the remaining five per cent.

The structure of the deal, which was signed on 13 May, sees the banks and pension funds invest in the new company through an investment fund, FIP Sondas, that is managed by Caixa Econômica Federal, which also took counsel from Tauil & Chequer. In turn, Sete Brasil will invest in seven separate special purpose vehicles set up to build each of the rigs which will be rented back to Petrobras.

Freshfields Bruckhaus Deringer LLP advised Sete's holding company, Sete International, through its office in Austria where the private equity fund is registered. Loyens & Loeff NV also advised Sete, as well as seven SPVs created to build the rigs that are registered in the Netherlands.

Santander, which was also hired by Petrobras as financial advisor to structure the deal as well as being an investor, turned to Souza, Cescon, Barriou & Flesch Advogados. Counsel to Santander's investment arm was provided by Vieira, Rezende, Barbosa e Guerreiro Advogados.

Petrobras's decision to create a separate company is widely seen as a way for the company to protect its balance sheet, as well as a response to stricter local content rules imposed by the Brazilian government during the construction phase of the rigs - measures that coincided with the discovery of up to 100 billion barrels of pre-salt oil in 2007.

"Petrobras wanted to keep the structure off balance sheet, so we structured the project in a way to support Petrobras' interests and demands, says Miriam Signor, partner at Souza Cescon who worked on the deal for the last two years and was responsible for structuring the project. "The result is that after these rigs are ready, Sete Brasil will become one of the biggest players in rig charter in the [global] market."

All seven rigs will be built by the Estaleiro Atlantico Sul shipyard and be rented back to Petrobras.

It is estimated that they will be operational by 2015, with the Brazilian media reporting that if successful, the structure could be used by Petrobras to commission a further 21 rigs.

Eduardo Soares, partner at Tauil & Chequer has been regular counsel to Caixa Econômica Federal for the last four years and was brought into the deal in January. He says the government's requirement that the rigs be built in Brazil added "another point of complexity" to the transaction due to the shipbuilding industry having little experience of building rigs from scratch.

"The main objective of this transaction is to allow Brazilian contractors the opportunity to be in this business," he says, adding that he thinks the deal represents an "important first step" in the Sete Brasil becoming an important world player in rig building.

"There were many, many contracts that we executed - over 7,000 pages in total - both corporate and operational, and I think this was the biggest challenge faced by all the firms in the transaction," he says. "In a short period of time we had to discuss, negotiate, and reach an agreement over a lot of contracts, so it's definitely a landmark project."

Luiz Leonardo Cantidiano, partner at Motta Fernandes who is regular counsel to Bradesco, agrees: "The main difficulty was the large number of investors, all with different interests, as well as the number of the documents which had to all tie together," he says.

He adds that as well as the investment agreement, the by-laws of the private equity fund and all the agreements between the investors within the private equity fund, there were also the by-laws of Sete Brasil, the shareholders agreement, and the by-laws of the special purpose companies - which all had to be discussed with the other parties within 45 days.

"It's very unusual to have a deal structured like this one," he says. "In this case, it is a start-up company that will have equity and will have to obtain finance in order to construct the rigs."

He estimates the total value of the seven rigs to be “around US\$5 billion.” Other press reports speculate that it is likely that financing for the rigs will be obtained through an IPO by Sete Brasil which will occur with two to three years.

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