

Petróleo Brasileiro

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Background

Petrobras is one of the largest producers of oil and gas in the world, primarily engaged in exploration and production, refining, energy generation and trading. The company has over 750,000 shareholders, local and international, individual and institutional investors. The share capital is divided into ordinary shares, with full voting rights, and preferential shares, with voting rights limited to specific matters. The Brazilian state holds 36.75% of the share capital, but 50.50% of the voting rights.

The company has over 100 subsidiaries, ranging from special purpose vehicles established as part of a project finance structure, to fully fledged companies, with their own supervisory and executive boards. Historically, the major subsidiaries, some of them established by acts of parliament, have been managed with a significant degree of independence from their parent company and subject to political interference. This was a source of controversies related to bribery and corruption during the "Lava-Jato"¹ ("Car Wash") scandal.

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¹ [lagunes-lavajato-backgrounder.pdf \(bakerinstitute.org\)](#)

Engagement objective:



Governance:

Governance of subsidiaries and joint ventures

Sustainable Development Goals:



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Our engagement

EOS at Federated Hermes started engaging with Petrobras on the governance of its subsidiaries in Q1 2017, when we discussed with the head of governance the need to extend the implementation of best practices to the company's most material subsidiaries, providing improved control and oversight, as well as operational efficiency. We provided our input to the head of governance on the development of a minimum set of governance requirements to be implemented by all subsidiaries, acknowledging that completely uniform practices would not be feasible, given the distinct nature of Petrobras' subsidiaries.



In meetings with the chair in Q1 and Q2 2018, we continued to engage on the development of the framework for corporate governance of subsidiaries and were assured that the subject was a priority for the board. We discussed with independent board members, in Q2 2020 and Q3 2021, the effectiveness of the new framework, especially the conglomerate audit committee, currently covering 15 of Petrobras' subsidiaries.

Changes at the company

An important step was taken in the 2017 AGM, when the company proposed, and shareholders approved, an amendment to its articles of association to extend its nomination policy and compliance procedures to controlled companies.

A framework for corporate governance of subsidiaries was formally approved in Q2 2018. The creation of the new Petrobras conglomerate audit committee, separate from the Petrobras parent company audit committee, was approved at an extraordinary shareholders' meeting in Q4 2018. It followed the specifications of Law 13303/16, enacted to improve the governance of state-controlled companies, and established that subsidiaries may share governance structures with the parent company.

We gained assurance from our engagement with independent directors that the outcome of the improved governance of subsidiaries was a better oversight on nomination, compliance and audit, as well as improved operational efficiency at subsidiary level.

Additionally, the company established a statutory technical governance and compliance committee, comprising senior executives in the governance and compliance function. The committee examines and advises on matters related to governance and compliance before they are submitted to a decision by the Chief Governance and Compliance Officer. The committee also advises and supports the nomination process of subsidiaries' senior executives and board members, thus reinforcing the oversight of Petrobras' controlled entities.

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Next steps

We continue to engage with Petrobras on the governance of its subsidiaries and joint ventures and issues such as board composition and effectiveness, including the election of minority-shareholder nominated directors.

 This case study has been fact-checked by Petrobras to ensure a fair representation of EOS work carried out and changes made at the company.



Jaime Gornsztejn
Engagement
EOS



Federated Hermes

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Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

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Our investment and stewardship capabilities:

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- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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