

Investment Stewardship

Vote Bulletin: Petróleo Brasileiro S.A.

Company	Petróleo Brasileiro S.A. (B3: PETR4; NYSE: PBR)
Market and Sector	Brazil, Energy
Meeting Date	13 April 2022
Key Resolutions ^{1,2}	Item 5: Election of Márcio Andrade Weber as Chairman of the Board of Directors
Key Topics	Board quality and effectiveness; succession planning
Board Recommendation	The board recommended shareholders vote FOR item 5
BlackRock Vote	BlackRock voted FOR item 5

Overview

Petróleo Brasileiro S.A (Petrobras) is one of the largest producers of oil and gas globally. The Brazilian company engages in exploration, production, refining, energy generation, and trading activities.³ The company employs over 45,500 people and operates in seven countries in addition to Brazil.⁴

Petrobras is majority controlled by the Brazilian Federal Government. According to the company’s disclosures, the government holds 50.26% of the company’s common shares and 28.57% of total share capital.⁵ The Federal Government also holds an indirect interest through the Brazilian National Economic and Social Development Bank (BNDES) and BNDES Participações S.A, a wholly owned subsidiary of BNDES.^{6,7} Under the company’s bylaws, as the controlling shareholder, the Federal Government has the right to elect a majority of the members of Petrobras’ Board of Directors, which, in turn, elects management.⁸

BlackRock Investment Stewardship (BIS) seeks to have regular dialogue with executives and board directors to discuss issues – including environmental, social, and governance matters – that are material to the performance of the companies in which BlackRock’s clients invest. In the case of Petrobras, we note that our clients are long-term shareholders, and their interests should be considered by the board and management even though they are collectively a relatively small minority compared to the controlling shareholder. We engage company leadership to provide feedback from the perspective of a long-term investor and better understand

¹ Petróleo Brasileiro S.A. “[Call Notice](#).” 8 March 2022.

² Petróleo Brasileiro S.A. “[Petrobras on Annual and Extraordinary General Meetings](#).” 14 April 2022.

³ Petróleo Brasileiro S.A. “[Fact Sheet](#).” March 2022.

⁴ As of December 31, 2021. See Petróleo Brasileiro, S.A. “[2021 Sustainability Report](#).” Page 8.

⁵ As of February 28, 2022. See Petróleo Brasileiro, S.A. “[2021 Sustainability Report](#).” Page 9.

⁶ As of February 28, 2022. Petróleo Brasileiro, S.A. “[2021 Sustainability Report](#).” Page 9.

⁷ BNDES. “[BNDESPAR Bylaws](#).”

⁸ Petróleo Brasileiro S.A. “[2021 Annual Report and Form 20-F](#).” Page 210.

how companies are managing risks and opportunities that affect their ability to deliver the long-term financial returns on which our clients depend. BIS looks to company boards to have a clearly defined role in overseeing and advising executive leadership on material risks and opportunities, and the company's strategy overall.

Since 2020, BIS has had more than a dozen engagements with Petrobras' management team and members of the board of directors on a range of issues which can have a material impact on the company's long-term financial performance, such as board quality and effectiveness, succession planning, and climate-related risks and opportunities.⁹ BIS has also engaged to discuss how the company has enhanced their approach to risk management and oversight in light of the findings of the "Car Wash" corruption investigation.¹⁰ That incident resulted in Petrobras violating the United Nations Global Compact (UNGC) Principles, undermining the company's reputation.

We have found Petrobras to be receptive to our feedback on board quality, climate-risk, and responsible business conduct. In particular, the company's sustainability disclosures have improved significantly in quality and timeliness. After publicly supporting the Task Force on Climate-related Financial Disclosures (TCFD) in 2020,¹¹ the company has published sustainability reports, on a yearly basis, detailing their decarbonization journey. In addition to the yearly reports, in February 2022 Petrobras released a TCFD-aligned "Climate Change Supplement" that included expanded scope 1 and 2 emissions reduction targets in alignment with the Paris Agreement.¹² Following multi-year engagement and voting to signal concerns about the company's climate-related disclosures, we are encouraged by the company's demonstrated progress. As a company that plays an important role in Brazil's economy, and its orderly energy transition,¹³ we will continue to engage with Petrobras leadership to further our understanding of the climate-related risks and opportunities that might impact long-term performance, and how these factors are addressed in the context the company's business model and sector.

While we are encouraged by this progress, we believe Petrobras would benefit from a longer-term approach to succession planning for key board and executive roles. The frequent leadership changes experienced over the past several years have, in our assessment, made it difficult for management to establish a transformative and dependable strategy, which potentially undermines the company's ability to create long-term value for minority shareholders, such as BlackRock's clients. In our on-going discussions, we have emphasized the importance, from our perspective, of sound corporate governance and high caliber, effective boards, responsible for overseeing and advising management and accountable to shareholders.

Rationale for BlackRock's vote

Item 5: Election of Márcio Andrade Weber as Chairman of the Board of Directors

BIS supported the nominee to chair Petrobras' Board of Directors. Mr. Andrade Weber was added to the slate relatively late in the process. The previous nominee unexpectedly pulled out of the board nomination process, in the interests of his other business commitments, after being indicted by the Brazilian Federal

⁹ BIS has also engaged with Vibra Energía S.A (Vibra), formerly known as Petrobras Distribuidora, S.A. Vibra was a a Petrobras subsidiary until 2021.

¹⁰ The "Car Wash" operation – also known as the "Lava Jato" operation – resulted in an investigation that ran from 2014 to 2021, looking into corruption, money laundering, and organized crime allegations involving several companies and former politicians in Latin America. As disclosed by Petrobras, within the scope of the operation, a former director, and several other employees, were charged with money laundering and organized crime. The company collaborated closely with the Brazilian Prosecutor General's office in the investigation. See "Internal steps taken by Petrobras in response to 'Lava Jato Operation'" and "After seven years, Brazil shuts down Car Wash anti-corruption squad – Reuters" to learn more.

¹¹ Petróleo Brasileiro S.A. "2021 Sustainability Report." Page 114.

¹² Petróleo Brasileiro S.A. "Climate Change Supplement."

¹³ Petrobras is included in the BIS [climate focus universe](#), a list of approximately 1,000 carbon-intensive public companies that BIS has identified that represent nearly 90% of the global scope 1 and 2 greenhouse gas (GHG) emissions of our clients' public equity holdings. The list is derived from public information and is intended to focus BIS' climate engagement efforts. Many of these companies are leaders in their sectors—they have detailed climate adaptation strategies, rigorous GHG emissions reduction targets, and are creating the technology and solutions that are vital for a low-carbon transition. Others are at a much earlier stage in this journey.

Prosecutor's office.^{14,15} We hope that Mr. Andrade Weber, in his role as chairman of the board, will work with the controlling shareholder to establish a structured, long-term succession plan for key board and executive roles.

As we explain in our [Global Principles](#), we believe that the performance of the board is critical to the economic success of a company and the protection of shareholders' interests. We believe that, as part of their fiduciary duty to the company, directors in Brazil should take shareholder interests into consideration in the fulfilment of their responsibilities to oversee the strategic direction and operation of the company. For this reason, BIS sees engaging with and the election of directors as one of our most important and impactful responsibilities.

As explained in our commentary, "[Our approach to engagement on board quality and effectiveness](#)," we look to boards to establish robust and effective corporate governance practices. The board nomination process is key to ensuring the company is in a position to nominate non-executive directors with relevant skills and experience who can bring independent views and steer board discussions. This is particularly important at companies with a controlling shareholder to protect minority shareholders' interests, as well as the long-term value of the company.

As mentioned above, BIS has long engaged with Petrobras to discuss issues related to board quality and effectiveness, such as composition and independence, among others. More recently, we have discussed the impact on corporate stability of the frequent leadership changes that have taken place at the company, both at the board and management level, over the past year, including:¹⁶

- The dismissal of the then CEO and member of the Board of Directors, Roberto da Cunha Castello Branco, at the April 12, 2021 Extraordinary General Meeting (EGM)^{17,18}
- The election of Joaquim Silva e Luna as CEO, following the April 12 EGM¹⁹ and his dismissal less than a year later²⁰
- The resignation of a number of directors, followed by the nomination, and subsequent election, of a new slate to replace those directors at the August 2021 EGM^{21,22}

Further, on March 5, 2022, Petrobras announced that the controlling shareholder had submitted new nominations to the company's Board of Directors – including that of Luiz Rodolfo Landim Machado as Chairman of the Board – to be voted at the April 13, 2022 Annual General Meeting (AGM).²³ About three weeks later, the controlling shareholder replaced two director candidates out of the eight nominees it had originally proposed.²⁴

Prior to the AGM, BIS engaged with the company to express concerns with Mr. Landim Machado's nomination, given he was not independent and there were questions about his suitability to serve as a board director. Mr. Landim Machado, who worked at Petrobras for 26 years and is the current president of the Brazilian sports

¹⁴Globo International Valor. "[Soccer mogul accused of fraud may run Petrobras.](#)" 7 March 2022

¹⁵Financial Times. "[Petrobras nominee rejects top job after football team is defeated.](#)" 3 April 2022.

¹⁶Throughout the course of 2021 the company also announced the resignation of a director and the dismissal and approval of several other management level positions, including the Chief Digital Transformation and Innovation Officer, Institutional Relations and Sustainability Officer, and Chief Governance and Compliance Officer, among others. See Petrobras's "[Results and Announcements](#)" section to learn more.

¹⁷A *sociedade anônima* (S.A.) such as Petrobras, is one of the most common corporate entity forms used in Brazil. Under Brazilian law, corporations must hold an annual shareholders' meeting during the first four months after the end of each fiscal year. Special meetings can be held whenever the corporate interest so requires. See "[Corporate governance and directors' duties in Brazil](#)" to learn more.

¹⁸Petróleo Brasileiro S.A. "[Petrobras on the CEO of the company.](#)" 12 April 2021.

¹⁹Petróleo Brasileiro S.A. "[Petrobras approved the election of CEO and Chief Officers.](#)" 16 April 2021.

²⁰Barron's. "[Bolsonaro Pick To Lead Brazil's Petrobras Steps Aside: Media.](#)" 4 April 2022.

²¹Petróleo Brasileiro S.A. "[Petrobras on Shareholders Meeting.](#)" 15 June 2021. ²²Petróleo Brasileiro S.A. "[Petrobras on the appointment of Board Members by the Federal Government.](#)" 20 July 2021.

²²Petróleo Brasileiro S.A. "[Petrobras on the appointment of Board Members by the Federal Government.](#)" 20 July 2021.

²³Petróleo Brasileiro S.A. "[Petrobras on candidates nominated by the controlling shareholder for the Board of Directors and Fiscal Council.](#)" 5 March 2022.

²⁴Petróleo Brasileiro S.A. "[Petrobras on letter from the Ministry of Mines and Energy.](#)" 28 March 2022.

team *Clube de Regatas do Flamengo*, was recently indicted by the Brazilian Federal Prosecutor's office given allegations of fraudulent management of Petros, Petrobras employees' pension fund.^{25,26} We also discussed our view that the company would benefit from a more structured and long-term focused approach to succession planning for key leadership roles.

Following our engagements with the company, and prior to the 2022 AGM, the company announced the withdrawal of Mr. Landim Machado as the nominee for the role of Chairman of the Board. Media outlets reported that Mr. Landim Machado had decided to step aside as he needed to dedicate his time and attention to his sports club.²⁷ The proposed successor to the CEO - Adriano José Pires Rodrigues - also withdrew from the process.²⁸ Two days after the withdrawal, two new director nominees were put forward, including Márcio Andrade Weber as Chairman of the Board of Directors.²⁹

BIS supported Mr. Andrade Weber's election as Chairman of the Board of Directors through the cumulative voting process.³⁰ BIS also supported the rest of management's and minority shareholders' nominees to the board. However, we remain concerned about the frequent leadership changes both at the board and management level, including the most recent appointment of a new CEO a day after the 2022 AGM. On April 14, 2022, the company announced that Petrobras' newly elected Board of Directors appointed José Mauro Ferreira Coelho as CEO for a one-year term.^{31,32} As described in the BIS [proxy voting guidelines for Latin American securities](#), BIS encourages companies to have their board of directors appoint the CEO; for state-owned enterprises we look to the board to establish a transparent and robust appointment process, supported by stipulations within the company's bylaws.

While we believe that it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking, we also strongly believe that a long-term approach to board composition and succession planning supports both continuity and appropriate levels of renewal. This in turn positions the board well to establish sound corporate governance practices to support and oversee management in setting and delivering a company's long-term strategy for the benefit of all shareholders, including those in the minority, such as BlackRock's clients.

We will continue to engage with Petrobras to encourage a long-term approach to succession planning, amongst other key corporate governance and sustainability considerations that support the company in delivering long-term financial returns. We are encouraged by Petrobras' positive response to shareholder feedback, including that offered by BlackRock, on issues such as the disclosure of climate-related risks and opportunities. Given this track record of positive engagement, we remain hopeful that the company will continue to enhance their approach to corporate governance and business model sustainability. However, we may withhold voting support if we believe that the company has not made sufficient progress or has not clearly articulated how their current governance structure supports long-term value creation. We recognize that accepted standards and norms of corporate governance can differ between markets. However, as a manager of long-term investments on behalf of our clients, we believe companies with high quality, diverse, and independent boards, that are effective in their oversight and counselling of management, are best poised to succeed in generating durable long-term profitability.

²⁵ Petróleo Brasileiro S.A. "[Petrobras on candidates nominated by the controlling shareholder for the Board of Directors and Fiscal Council.](#)" 5 March 2022.

²⁶ Globo International Valor. "[Soccer mogul accused of fraud may run Petrobras.](#)" 7 March 2022.

²⁷ Financial Times. "[Petrobras nominee rejects top job after football team is defeated.](#)" 3 April 2022.

²⁸ Petróleo Brasileiro S.A. "[Petrobras on letters from the Ministry of Mines and Energy.](#)" 4 April 2022.

²⁹ Petróleo Brasileiro S.A. "[Petrobras on letter from the Ministry of Mines and Energy.](#)" 6 April 2022.

³⁰ The Brazilian Corporation Law allows for cumulative voting, a "method that allows shareholders to cast all of their votes for a single nominee for the board of directors when the company has multiple openings on its board." See "[Cumulative Voting](#)" to learn more.

³¹ Petróleo Brasileiro S.A. "[Petrobras approved the election of CEO.](#)" 14 April 2022.

³² On May 23, 2022, the company disclosed that they received a request to call for an Extraordinary General Meeting (EGM) "with the purpose of promoting the removal and election of a member of the Board of Directors, and appointing Caio Mario Paes de Andrade, to replace José Mauro Ferreira Coelho" as CEO. See "[Petrobras on letter from the Ministry of Mines and Energy](#)" to learn more.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.³³

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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³³ As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.