

# ESG Radar | Petrobras (PETR4)

## How is Petrobras exploring the ESG field?

An ESG analysis of this giant



The winds of change are howling in the world of heavy industries and meeting ESG standards is swiftly becoming an urgent mandate for these companies, including within the O&G sector, as momentum builds behind efforts to promote renewable energy, sustainability, and the energy transition. When it comes to **Petrobras**, we see the company developing its ESG strategy and closing monitoring this agenda, which we welcome, while we note it's worth to keep an eye on (i) PETR's exposure to carbon risk resulting from its strategic option to focus on pre-salt assets; and (ii) its state-owned status which combined with a multi-class equity structure, may undermine minority shareholder interests, in addition to imply politics as the main risk for the case. Against this backdrop, in this report we aim to analyze how Petrobras screens from an ESG perspective and what the company is doing in order to be proactive in addressing ESG issues and to set out a strategy.

**(E) An increasing pressure to protect the environment; Efforts in place, while we expect more to come.** While the race to net zero intensifies within companies in the O&G sector, it increases the pressure to disclose how they plan to mitigate climate change. On this matter, we see Petrobras with solid efforts aiming to address the carbon risk resulting from its strategic option to focus on oil and gas production, while choosing for a "wait and see" mode regarding investments on renewables.

**(S) All eyes on the impacts around.** On the S front, we welcome PETR's strong health & safety measures, while when it comes to company's relation with communities surrounding, although we see room for improvement, we note that Petrobras recognizes the need to ensure the safety of the communities where their operate, as well as keep them informed about impacts and/or risks that may arise from company's activities.

**(G) Improvements were made, but it's worth to keep an eye.** Petrobras has been improving its corporate governance, both from external ("state company law" 13.303/2016) and internal (bylaws) forces, although we still note that it's worth to keep an eye on it, mainly on the back of its state-owned status, which combined with a multi-class equity structure, may undermine minority shareholder interests, in addition to imply politics as the main risk for the case (specially with presidential election to be held in 2022).

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Company	Ticker	Is the company listed?	Is the company in Novo Mercado?	Does it have an ESG Report?	Does it have a Materiality Matrix?	% of women (Board of Directors)	% of women (Board of Executive Officers)	% independent members (Board of Directors)	ESG MSCI Rating
Petrobras	PETR4	✓	✓	✓	✓	27%	0%	73%	CCC B BB BBB A AA AAA

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## ESG

### How is Petrobras exploring the ESG field?

**Our view in a nutshell.** The winds of change are howling in the world of heavy industries and meeting ESG standards is swiftly becoming an urgent mandate for these companies, including within the O&G sector, as momentum builds behind efforts to promote renewable energy, sustainability, and the energy transition. The pressure of ESG is being felt throughout the sector, and the perception has shifted from ESG as a nice-to-have feature to a must-have pre-requisite as it's greatly influencing the way investors analyses the industry, which may ultimately determine winners and losers in the market going forward. We're seeing and hearing a lot of chatter from the large integrated oil majors about their stated ESG goals and strategies. When it comes to Petrobras, we see the company developing ESG strategies to increase operational efficiencies and reduce greenhouse gas emissions, while regarding investments on renewables, the company have explored in the past some options, but for the moment, Petrobras have a strategy to focus on pre-salt assets and "wait and see" for a renewable path were could be synergic gains with current operations.

#### (E) An increasing pressure to protect the environment; Efforts in place, while we expect more to come

In our view, O&G is a sensitive sector from an ESG perspective, and the Environmental pillar is the most important front. O&G companies' operations could significantly impact surrounding ecosystems or existing land use practices, in addition to boost greenhouse gas (GHG) emissions, implying a challenge when it comes to mitigate climate change. Hence, we see three topics within this pillar that we see as key for companies in this sector to watch out: **(i)** GHG emissions; **(ii)** biodiversity & land use; and **(iii)** waste management. Below we look at how Petrobras is positioned in each of this key topics within the E pillar, mainly regarding how the company uses its resources or cash available to decrease environmental risks, considering the data available over the last years, and taking into consideration investors pressure for solid ESG strategies.

#### **(i) GHG emissions: Carbon performance within the E&P segment is the main highlight**

While the race to net zero intensifies within companies in the Oil & Gas sector, it increases the pressure to disclose how they plan to mitigate climate change. Aggressive carbon reduction targets and investments in renewable electricity are among the key measures taken by companies, since climate change as a longer-term trend that is likely to influence any decisions these institutions make in the short term.

When it comes to Petrobras, first regarding measurement, we positive highlight: **(i)** the company have its emissions inventoried by the Atmospheric Emissions Management System (SIGEA®); **(ii)** company's inventory is verified annually by a third party and published voluntarily in the Public Emissions Registry of the Brazilian GHG Protocol Program, of which Petrobras are one of the founders; **(iii)** PETR's carbon emissions have also been reported, since 2006, through the Carbon Disclosure Project (CDP), achieving a B score (Management level) in 2020 for the climate change questionnaire; and **(iv)** the company recently start supporting the Task Force for Climate Related Financial Disclosures (TCFD), evidencing its compromise with GHG emissions transparency, which we welcome.

According to data already disclosed regarding absolute emissions of greenhouse gases, Petrobras' GHG emissions totaled 56mn tCO2e\* in 2020, a decrease of 5% YoY, mainly on the back of improvements in energy efficiency, CO2 reinjection and reduction of gas flaring, an evolution that is in-line with company's goal of reducing this total by 25% by 2030, when compared to 2015.

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While we positively acknowledge the decrease in GHG emissions over the past few years (Figure 01), it's worth mentioning that, when we analyze PETR's carbon emissions intensity, according to MSCI, it was 841 tCO<sub>2</sub>e/US\$m of Net Revenues in the period 2018-2020, an amount that exceeded the industry average of 570 tCO<sub>2</sub>e/US\$m of Net Revenues (Figure 02), as of August 2021, which requires attention.

On the other hand, when we look the breakdown of Petrobras' total GHG emissions per segment of operation (mainly refining, E&P and TPP<sup>1</sup>), we see the company well positioned when it comes to E&P segment, while the major challenge evolves mainly both refining and thermal power plants (TPP).

In the E&P segment, PETR's carbon intensity achieved 15.8 kg of CO<sub>2</sub> equivalent per barrel of oil and gas produced (kgCO<sub>2</sub>e/boe) in 2020, which places Petrobras in the first quartile of the offshore oil and gas exploration industry in terms of carbon performance. Additionally, the improvement in carbon intensity from 2009 to 2020 was over 47% (Figure 03), with an additional 5% improvement planned by 2025.

Regarding the company's goal looking forward, it's worth mentioning that, in the context of a transition to a low carbon economy, Petrobras reiterates its commitment through six of the ten carbon-focused sustainability commitments with goals for the 2025 and 2030 horizon, presented on the next page.

Figure 01: Historical GHG emissions (millions tCO<sub>2</sub>e)

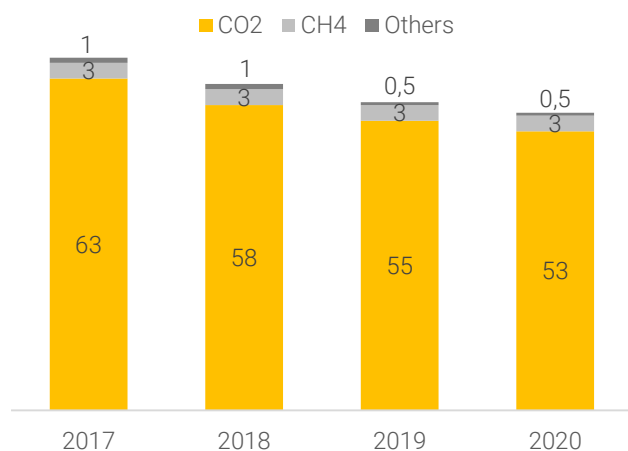


Figure 02: GHG emissions intensity (metric tons CO<sub>2</sub>e/USD millions sales)

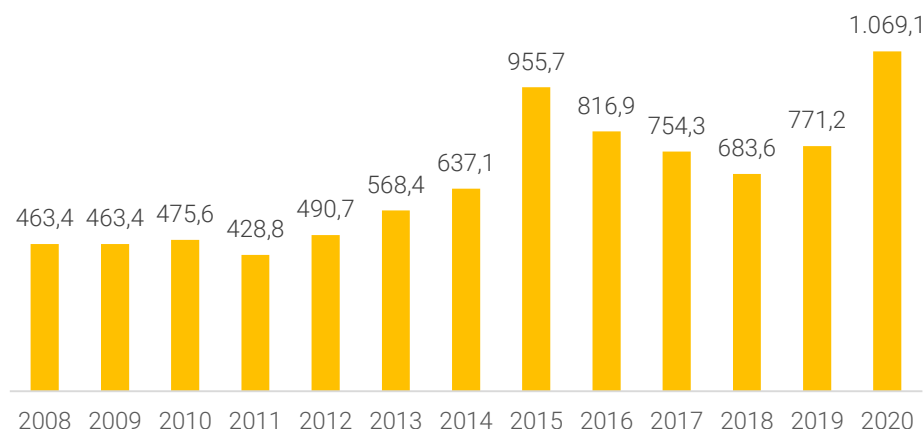
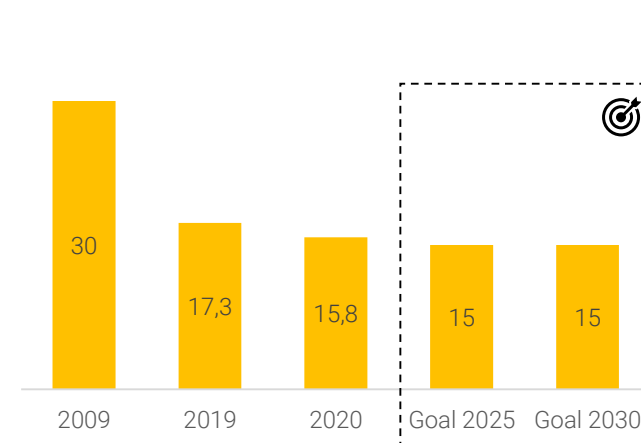











Figure 03: E&P carbon intensity (kgCO<sub>2</sub>e/boe)



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#### Petrobras' targets for 2025 and 2030

-  • Reduction of total operational absolute emissions by 15% by 2030;
-  • Reduction of -40MM ton CO<sub>2</sub> by 2025 in CCUS projects;
-  • 40% reduction in the intensity of methane emissions in the E&P segment by 2025;
-  • 50% reduction in freshwater collection in our operations by 2030;
-  • 100% of Petrobras facilities with a biodiversity action plan by 2025;
-  • Zero routine flare burning by 2030;
-  • 32% reduction in carbon intensity in E&P until 2025 (15kgCO<sub>2</sub>e/boe, maintained until 2030);
-  • 16% reduction in carbon intensity in refining segment by 2025, expanding to 30% by 2030 (30kgCO<sub>2</sub>e/CWT);
-  • Zero growth in the generation of process waste until 2025.

Moreover, in Sept/21, Petrobras public announced the ambition to achieve neutrality of GHG emissions (NetZero) from the operations under its control (Scope 1 and 2), however, without setting a deadline. Despite it, in line with this ambition, PETR stated public that a corporate decarbonization program is under development, aimed at accelerating and reducing the costs of decarbonization solution.

The program will also evaluate opportunities related to scope 3 and will be supported by a dedicated decarbonization fund, with an initial budget of US\$ 250mn, which may be used in initiatives involving scopes 1, 2 and 3. Also, the 2022-26 Strategic Plan's CAPEX includes the amount of US\$1.8bn in projects related to initiatives of decarbonization of operations.

Among the initiatives, Petrobras' highlights CO<sub>2</sub> separation, methane detection systems, commissioning of the closed flare, HISEP technology and carbon reduction projects at the refineries, with most of these initiatives being related to production optimization and/or operational efficiency, with important consequences in the reduction of emissions. Regarding potential investments in renewable energy sources, as per said before, the company have explored in the past some options, but for the moment, Petrobras have a strategy to focus on pre-salt assets and "wait and see" for a renewable path were could be synergic gains with current operations.

In Petrobras' view, management proximity to the company's ESG agenda, along with their capital discipline, provides strength and resilience in relation to carbon risk resulting from PETR's strategic option to focus on oil and gas production. On this matter, it's worth highlightening the three strategies to address the issue of climate risk and energy transition announced by Petrobras in its Strategic Plan 2022-26:

- ✓ Maximize the value of the portfolio, focusing on deep and ultra-deep waters, seeking operational efficiency, optimization of the recovery factor, partnerships, and low intensity of greenhouse gases;
- ✓ Add value to the refining complex with more efficient processes and new BioRefino products, such as BioQAV and Renewable Diesel, moving towards a low carbon market;
- ✓ Develop long term research for operations over the long term in petrochemical and renewable energy businesses, focusing on wind and solar in Brazil.

\*Carbon commitments have a base year of 2015. Other commitments have a base year of 2018.

Source: Petrobras, MSCI and XP Research.

## ESG

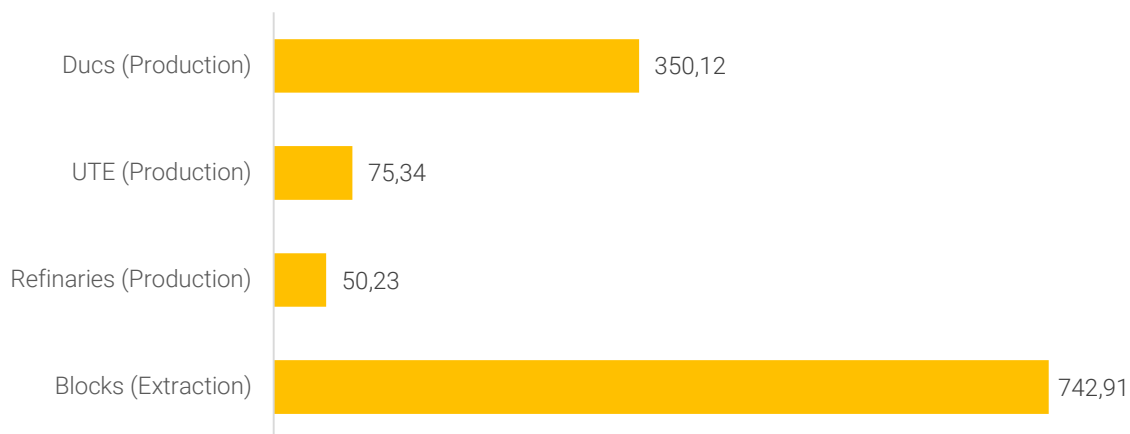
### How is Petrobras exploring the ESG field?

#### (ii) Biodiversity & Land Use: Efforts to define preventive, mitigating and compensatory measures

Oil and gas production involve significant disturbances to land (in the case of onshore drilling) or marine ecosystems (in the case of offshore drilling), while negative externalities include high freshwater consumption and oil spills. Also, in the case of an accident, companies may face lost market access or heavy fines and litigation.

The spatial distribution and the variety of Petrobras' operations make the interface with protected and sensitive areas frequent. Hence, we welcome that the company identifies these areas and mitigates the risks and associated impacts by crossing information from its operations with the data from the World Bank for Protected Areas (Figure 04).

Figure 04: Intersection with protected areas (km²)



Regarding the biodiversity, the management of its risks and impacts is internalized in the corporate management and operational activities, being guided by company's Annual Biodiversity Report, which consolidates management measures and other initiatives related to biodiversity or that interface with it, making an important contribution in the critical evaluation and improvement of company's strategies. Despite all its initiatives, in 2020, four events were reported involving small volumes of offshore oil or oil-products, without significant impacts, according to Petrobras, and two onshore oil spills, both with local impacts of short duration and that were reversed by contingency actions.

Finally, within the scope of the environmental licensing process for its activities, it's worth mentioning that such process takes time depending on how complex is the project and how it can affect both the environment and communities surrounding. For example, the drilling approval from the environmental regulator Ibama for Petrobras to begin drilling at the Equatorial Margin in 2022 is pending approval and gathering long discussions, as this area, which is an important and strategic zone, hosts a major coral reef and is closely monitored by environmental groups such as Greenpeace.

As a reference, the European majors never managed to obtain permits from Ibama to drill in this area. Looking ahead, recognizing the importance of biodiversity for their internal management and for the interested parties, within Petrobras' ten Sustainability Commitments, one includes: "100% of Petrobras installations with a biodiversity action plan by 2025."

#### (iii) Waste Management: Looking for environmentally appropriate treatment alternatives

Oil and gas production also emit large amounts of pollutants, generating a high quantity of waste, which lead companies in the sector to face risks of liabilities associated with pollution, contamination and emissions of toxic substances.



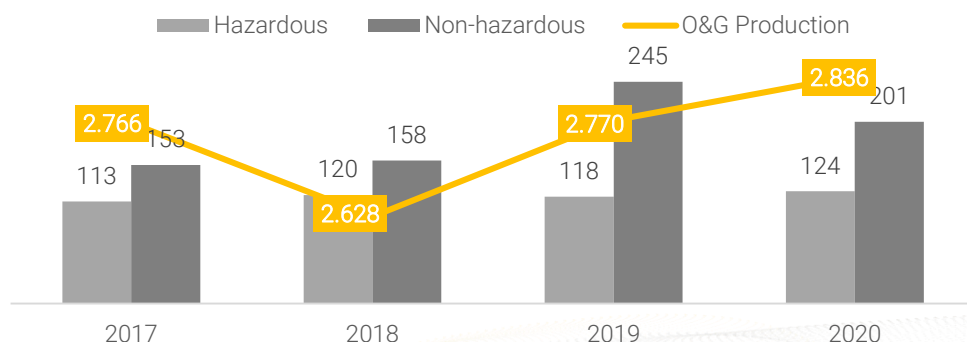
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On this matter, in 2020, Petrobras' generation of hazardous and non-hazardous solid waste was 124 and 201 thousand tons, respectively. Despite an +5% YoY increase in hazardous waste, we positive highlight that relatively to Petrobras' total O&G production, which reached the record of 2,840 thousand barrels of oil equivalent per day (boed), the waste generation in 2020 evidences that company's efforts within waste management has shown results, and we expect more improvements to come ahead (Figure 05).

Among company's initiatives to minimize the generation of solid waste, in line with the concept of a circular economy, we highlight: **(i)** processing of oily residual streams, with the recovery of hydrocarbons and a reduction in the generation of oily waste at the Shale Unit (SIX) in Paraná, which allowed the generation of 119kt of oily waste to be avoided in 2020; and **(ii)** operation of an oil recovery unit at the Alberto Pasqualini Refinery (Refap), which allowed, in 2020, the reuse of 12k m<sup>3</sup> of oily residual streams, with the recovery of hydrocarbons and the production of green petroleum coke, avoiding oily waste generation. Finally, it's worth mentioning Petrobras' compromise of "Zero growth of process waste by 2025", which is part of its ten Sustainability Commitments.

Figure 05: Intersection with protected areas (km<sup>2</sup>)



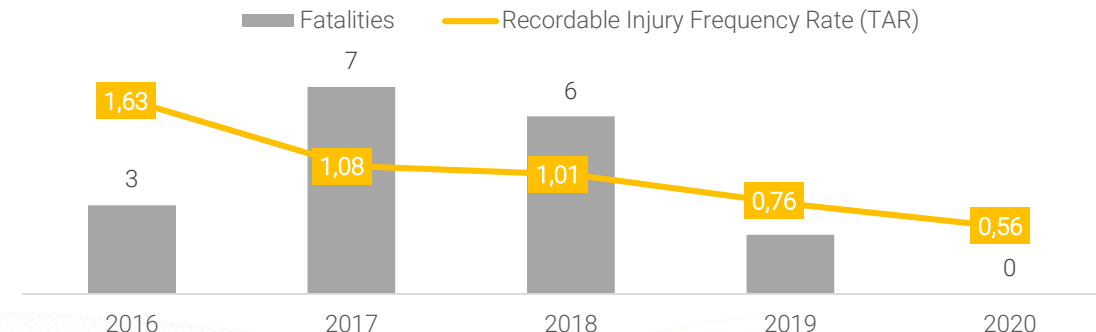
#### (S) All eyes on the impacts around

In our view, O&G companies should have a robust policy regarding: **(i)** the health & safety of its workforce; and **(ii)** its relationship and impact with local communities. Bellow we detail Petrobras' initiatives within both key topics in the S pillar.

#### **(i) Health & Safety: Strong measures**

Oil and gas exploration and production is a higher risk occupation than refining. Hence, companies with more assets in exploration and production have higher risk exposure in occupation than the ones focused on refining. On the other hand, over the years and after significant accidents around the world, safety standards have increased in the sector leading to a lower externality vs. other industries. When it comes to Petrobras, the company states to be in comply with national and international standards for health and safety impacts, and its products go through stages of health and safety risk assessment, with a view to protecting workers, neighboring communities, and the final consumer. Such efforts led Petrobras to post a decrease in its accident rate through the past years and also in the number of fatalities (Figure 06), which we welcome.

Figure 06: Fatalities and Injury Frequency Rate



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#### **(ii) Community Relations: It's a long-term process**

The Oil & Gas exploration and production industry can have a significant positive impact on the economic life of surrounding communities, but there are also substantial risks for those communities such as potential land degradation, or their rights to access water and food. Thus, companies' relationship with communities require a multidisciplinary assessment to establish an assertive community approach.

That said, we positive highlight that Petrobras analyze and respond to social impacts related to communities in its operations through the community relationship process, with the identification of critical social risks in terms of severity, which will consequently cause response actions to be incorporated in the Social Responsibility and Community Relationship Plan of each operating unit. Currently, there are 22 local Social Responsibility and Community Relationship plans, representing 100% of Petrobras' refining and exploration and production units. As a reference, Petrobras has currently 182 assets in operation. Of this total, 93% have had consultation with the communities.

In our view, companies' relation with communities is a long-term process, based on dialogue, transparency and consistency between its positioning and the planned actions. Hence, although we see room for improvement, we note that Petrobras recognizes the need to ensure the safety of the communities where they operate, as well as keep them informed about impacts and/or risks that may arise from company's activities.

#### **(G) Improvements were made, but it's worth to keep an eye**

Petrobras is a publicly held company, with its shares – PETR4 and PETR3 – traded on the São Paulo Stock Exchange (B3), where it is listed in B3's Level 2 Corporate Governance, and on the New York Stock Exchange (NYSE) – PTR. The company's main shareholders are the controller group (36.75%), which is composed by the Federal Government (28.67%), BNDESPar (7.04%) and BNDES (1.04%), while the remaining are on the free float (63.25%).

When it comes to Petrobras' Board of Directors, it is composed by 11 members, with 8 being characterized by the company as independent (73%); however, it's worth mentioning that 5 of them were elected by the controller group. Regarding diversity, it counts with 3 women (27%), while at the Board of Executive Officers (9 members), Petrobras lacks female presence, evidencing plenty room for improvement.

As we previously mentioned, Petrobras has been improving its corporate governance, both from external ("state company law" 13.303/2016) and internal (bylaws) forces, an important step after what was discovered following the "car wash" operation. The company has fulfilled the obligations provided in the agreement with the US DoJ and returned to the Dow Jones Sustainability Index, in addition to be signatories of Brazilian and international anti-corruption initiatives, such as the United Nations Global Compact, the Partnering Against Corruption Initiative (PACI), which is linked to the World Economic Forum, and the Business Pact for Integrity and Against Corruption of the Ethos Institute.

Although we acknowledge the improve, we still note that it's worth to keep an eye on governance, mainly on the back of Petrobras' state-owned status (the Brazilian government stake of 28.67%), which combined with a multi-class equity structure, may undermine minority shareholder interests, in addition to imply politics as the main risk for the case (specially with presidential election to be held in 2022).

Finally, we deeply appreciate that, in 2020, Petrobras created a Climate Change Executive Management Team, reinforcing the company's existing carbon governance, and including advisory committees from the Executive Board and the Board of Directors and from various management levels involved in the management of carbon related aspects.



# ESG

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**MSCI ESG Ratings:** Petrobras has a **BB** rating by MSCI ESG Ratings. On a global perspective, the **BB** rating places PETR4 among the 24% companies with this rating under MSCI ACWI Index constituents within Integrated Oil & Gas (29 companies).

Figure 07: MSCI Distribution for the O&G sector

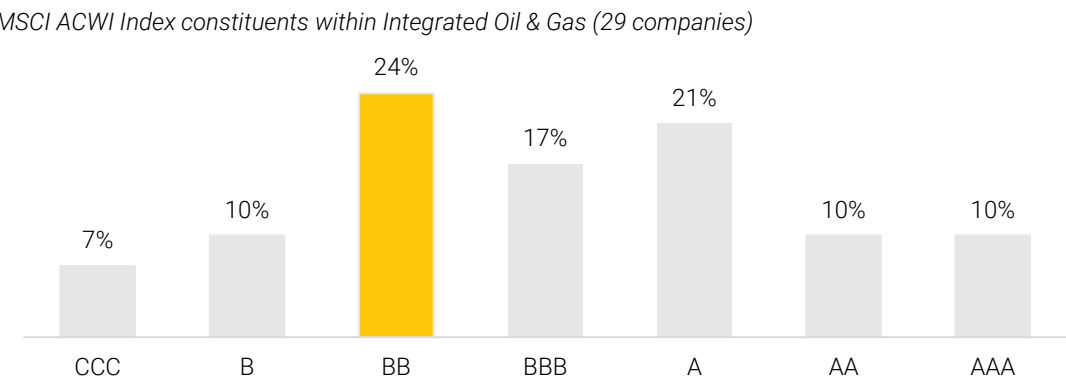


Figure 08: ESG MSCI Rating for Petrobras - Weights

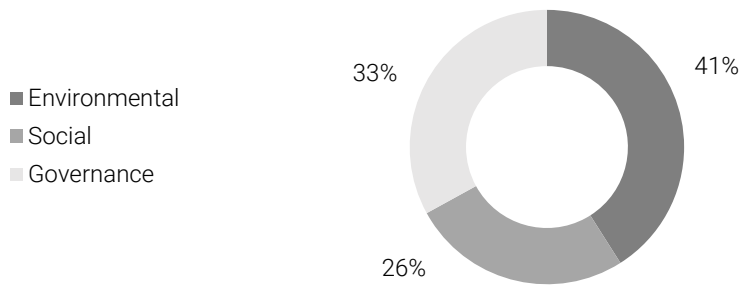
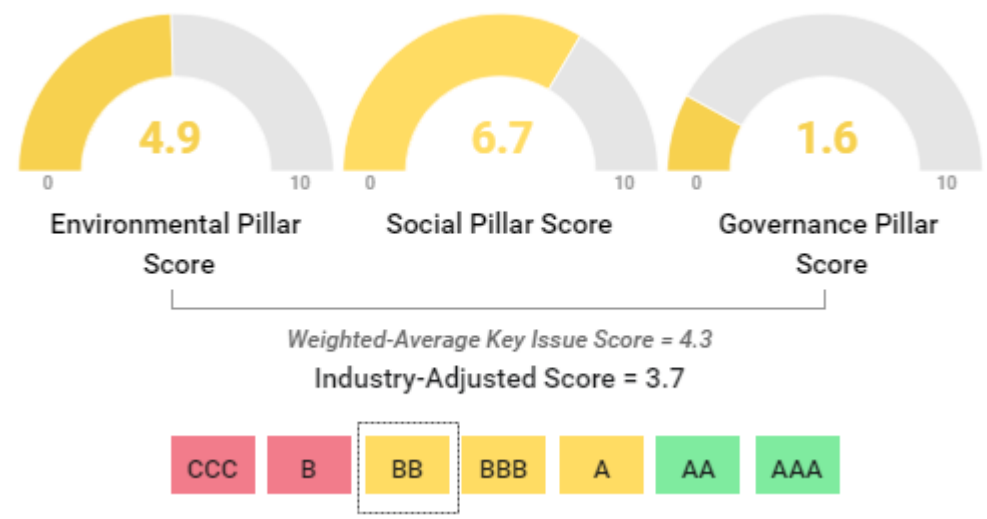


Figure 09: ESG MSCI Rating for Petrobras – Scores



## ESG

### How is Petrobras exploring the ESG field?

Figure 10: Board of Directors

Name	Position	Election
Eduardo Bacellar Leal Ferreira	Chairman	-
Joaquim Silva e Luna	CEO	Elected by the Controlling Shareholder
Rosangela Buzanelli Torres	Member	Elected by Petrobras employees
Cynthia Santana Silveira	Independent Member	Elected by the Controlling Shareholder
Márcio Andrade Weber	Independent Member	Elected by the Controlling Shareholder
Murilo Marroquim de Souza	Independent Member	Elected by the Controlling Shareholder
Ruy Flaks Schneider	Independent Member	Elected by the Controlling Shareholder
Sonia Julia Sulzbeck Villalobos	Independent Member	Elected by the Controlling Shareholder
Marcelo Gasparino da Silva	Independent Member	Elected by Minority Shareholders
Marcelo Mesquita de Siqueira Filho	Independent Member	Elected by minority shareholders holders of common shares
Rodrigo de Mesquita Pereira	Independent Member	Elected by minority shareholders holders of preferred shares

Figure 11: Board of Executive Officers

Name	Position
Joaquim Silva e Luna	CEO
Fernando Assumpção Borges	Chief Exploration and Production Officer
Rodrigo Araujo Alves	Chief Financial and Investor Relations Officer
Rodrigo Costa Lima e Silva	Chief Refining and Natural Gas Officer
Cláudio Rogério Linassi Mastella	Chief Trading and Logistics Officer
Salvador Dahan	Chief Governance and Compliance Officer
Nicolás Simone	Chief Digital Transformation and Innovation Officer
Rafael Chaves Santos	Chief Institutional Relations and Sustainability Officer
João Henrique Rittershausen	Chief Production Development Officer

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