

The Developments of Brazil's "Operation Car Wash" after the Publication of Petrobras Audited Financials

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How It All Started

- **July 2009** - “Operation Car Wash” is secretly launched by Federal Police
 - Focused on illegal money brokers; first phase was named “Car Wash” because of the practice of using gas stations for money laundering
 - Focus expanded to investigate on allegation of corruption at Petrobras
 - The name “Car Wash” has stuck, although each phase has its own codename (“Dolce Vita”, “Bidone”, “Doomsday”, “My Way”)

Corruption at Petrobras Becomes Public

- ***March-October 2014*** – Behind the scenes, a senior Petrobras executive and a black market money dealer enter into plea agreements with Brazilian authorities and begin cooperating
- ***November 12, 2014*** – SBM Offshore, a Dutch supplier of offshore oil vessels, settles a bribery case involving \$240 million of payments to Petrobras employees
- ***November 2014*** – Petrobras' auditor refuses to sign-off on its third quarter financials

“Operation Car Wash” Becomes a Popular Brazilian Soap Opera

- **November 14, 2014** – “Operation Doomsday”
- **January 14, 2015** – Former Director of Petrobras’ International Division is arrested
- **February 5, 2015** – “Operation My Way”
- **March 3, 2015** – Brazil’s Attorney General files investigation requests before Supreme Court against sitting politicians
 - Indicts Presidents of Congress (Senate) and House of Representatives
- **March 13, 2015** – Former and current Governors of the State of Rio de Janeiro (Sergio Cabral and Luiz Fernando Pezão) and Governor of the State of Acre are investigated at the Superior Court of Justice (STJ)

Petrobras' Directors Arrests



Renato Duque, *November 14, 2014 + March 16, 2015*



Paulo Roberto Costa,
October 1, 2014



Nestor Cerveró,
January 14, 2015

“Operation Car Wash” Becomes a Popular Brazilian Soap Opera

- **March 16, 2015** – Operation “What Kind of Country is This?” (“*Que país é esse?*”) with several dawn raids
 - Former Petrobras Services Officer is arrested
 - PT Treasurer (João Vaccari) is charged with corruption
- **March 27, 2015** – New arrests
 - President of Galvão Engenharia (Dario Queiroz Galvão Filho)
 - Alleged “Operator” Guilherme Esteves
- **April 15, 2015** – Vaccari (PT’s Treasurer) arrested
- **April 28, 2015** – STF sends executives to house arrest
- **May 6, 2015** – House of Deputies confirm that a dawn raid was conducted at the office of President of the House.

“Operation Car Wash” Becomes a Popular Brazilian Soap Opera

Criminal investigations and lawsuits are judged by the 2nd Panel of the Court
Composition changed recently:



Teori Zavascki

Appointed by Dilma
Roussef
President of the Panel
Reporter of the Case



Celso de Mello

Appointed by José
Sarney



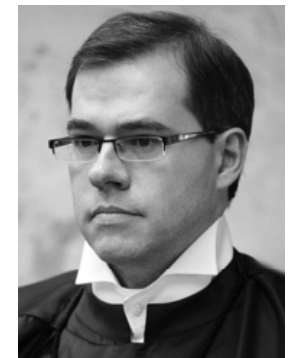
Gilmar Mendes

Appointed by
Fernando Henrique
Cardoso



Carmen Lucia

Appointed by Lula
Vice-President of
Supreme Court



Dias Toffoli

Appointed by Lula
Future President of
the Panel

NEW MEMBER

The Financial Statements

- **November 2014** – Petrobras' auditor refuses to sign-off on its third quarter reports
- **January 28, 2015** – Petrobras releases its third-quarter non-audited reports two months after the deadline and after PWC declined to sign off on the results
- **February 4, 2015** – Petrobras CEO Graça Foster and five other officers resign
- **April 22, 2015** – Petrobras issues its financial statements with a USD 2.1 billion write down for corruption and a USD 14.8 billion impairment
- **May, 2015** – Petrobras vows to seek reimbursement for write down

What to Expect from the Brazilian Securities Commission – CVM?

- **Supervision and Sanction** of violations to Laws 6.404/76 and 6.385/76 (“Securities Law”) and to CVM regulation.
- **Main Applicable Penalties (Art. 11 of Securities Law):** (i) **fines** (shall not exceed the larger of: (a) R\$500,000 (aprox. US\$170,000); (b) 50% of the irregular transaction; or (c) 3x the improper economic advantage); (ii) **suspension or temporary prohibition (up to 20 years)** to act as manager, board or audit committee member of publicly held companies or at entities of the distribution system in Brazil.
- **Dec., 2014:** CVM informed the existence of 6 investigations against the management of Petrobras related to: pricing policies, outcome of illegal payments/corruption, and omission of information to investors, being 2 of them converted into punitive administrative proceedings (“PAS”).
- **May 5, 2015:** CVM announced a 3rd PAS against board members of Petrobras (violation of duty of loyalty by approving impossible targets/goals vis a vis the price policy conducted).

International Cooperation: The New Normal?

[W]e increasingly find ourselves shoulder-to-shoulder with law enforcement and regulatory authorities in other countries. Every day, more countries join in the battle against transnational bribery. And this includes not just our long-time partners, but countries in all corners of the globe.

-- Assistant Attorney General Leslie R. Caldwell (Nov. 19, 2014)

U.S.-Brazilian Cooperation

- U.S. and Brazil have historically maintained deep enforcement relationships
 - Brazil is DOJ's most prolific MLAT customer
 - Formal and informal cooperation and coordination
 - Coordinated money tracing and asset forfeiture efforts

U.S.-Brazilian Cooperation

- The U.S. will actively cooperate with Brazil
 - Legal advice and practical support
 - Proactive assistance with discovery
 - Document subpoenas
 - Witness interviews
 - Tracing the illicit funds
 - Asset freezes / restraining orders
 - Asset forfeitures / repatriation

Economic Consequences of Investigation: Petrobras Suppliers

- Almost **two dozen entities** have been identified as subjects of the investigation and **suspended** from doing business with Petrobras
 - These entities face potentially **severe economic challenges** on several fronts, including loss of significant revenue streams, payment of large fines, difficulty obtaining affordable credit and higher litigation and restructuring expenses
 - While Petrobrás has already made it public that it will not retain any entity that is on the “List of Banned Companies” in future supply agreements, **other construction companies not included in the list have been mentioned in the Carwash Operation**

Economic Consequences of Investigation: Petrobras Suppliers

- Suppliers' default under existing agreements
- No revision for existing contracts
- Closing of operational sites
 - Risk to assets (equipments, parts for construction, etc.) in the site
 - Deterioration of assets and guarantees lost
- Dismissal of thousands of employees
 - Local crisis in remote cities
 - Responsibility of Petrobrás as beneficiary of the service provided for all labor claims

Economic Consequences of Investigation: Petrobras Suppliers

- Companies which have filed for bankruptcy
 - **Schahin Group**
 - **OAS Group**
 - **Galvão Engenharia**
 - **Alumini Engenharia S.A.**
 - Not included in this banned companies list, but is mentioned in the Carwash Operation
 - **Inepar Group (Iesa)** had already filed prior to the Carwash Operation emerged
 - The company's main contract (70% of its revenues) was for the construction of FPSOs for Petrobrás. Petrobras terminated this agreement after the investigations became public

Economic Consequences of Investigation: Petrobras Suppliers

- Companies which are facing financial/reputational trouble in accordance with specialized press:
 - Camargo Corrêa
 - Odebrecht
 - Engevix
- Likelihood of filing for bankruptcy or liquidation will depend on the size of the company and whether their revenues rely in the public sector only (not only Petrobrás)

Economic Consequences of Investigation Petrobras Suppliers

- Risk to the O&G business: which companies would be Petrobras able to retain?
 - Most important construction companies are involved in the Carwash Operation
 - Possible opportunity for foreign investors
 - Who would invest?
 - Uncertainties of investigation process and financial risks to the company or the new investor
 - Reputational risks
- *Petrobras announces USD 13.7 billion divestment plan for 2015-2016*

Brazilian state-run oil company Petrobrás said today that its executive board had approved the company's two-year (2015/2016) divestment plan for a total USD 13.7bn.

Economic Consequences of Investigation: General Economic Situation

- Brazilian companies lost space in international capital markets
- Long crisis in the ethanol business and crisis in the power sector due to governmental intervention in energy price – crisis in the whole energy sector in Brazil
- The world is looking for the outcome of this investigation
 - Reputation of Brazilian institutions
 - I.E. Eike’s assets and the judge in charge of its case
- “Wave effect” in suppliers of suppliers, banks, investment funds, etc – possible recession (decrease in the GDP)

Thank You

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