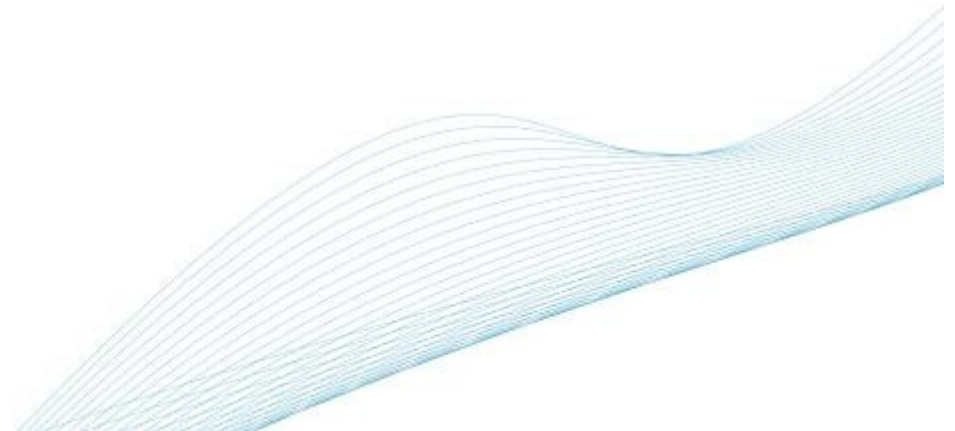


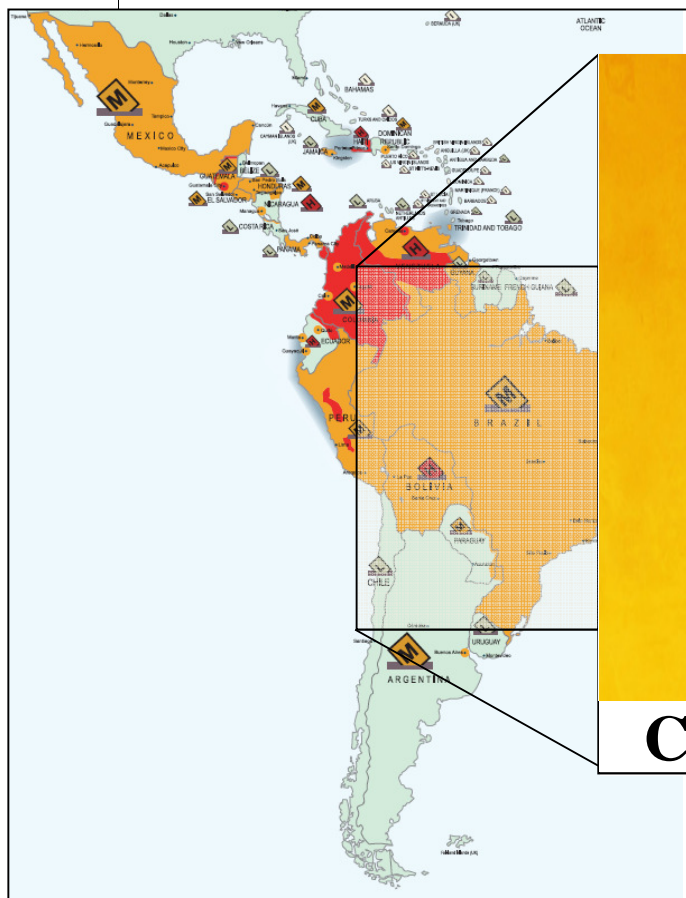
Brazil – the next 4 years *and what it means for your business*

Geert Aalbers – [Control Risks](#)
London, October 23rd 2014



Control Risks

Remind me again?



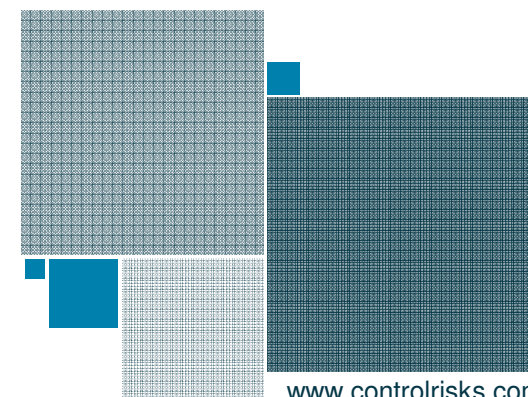
CHANGE AHEAD?



- Complex and risky, but too big to ignore
- Against a broad range of political risks, Brazil fares in middle, or just to the right
- No significant change in political course after 2014

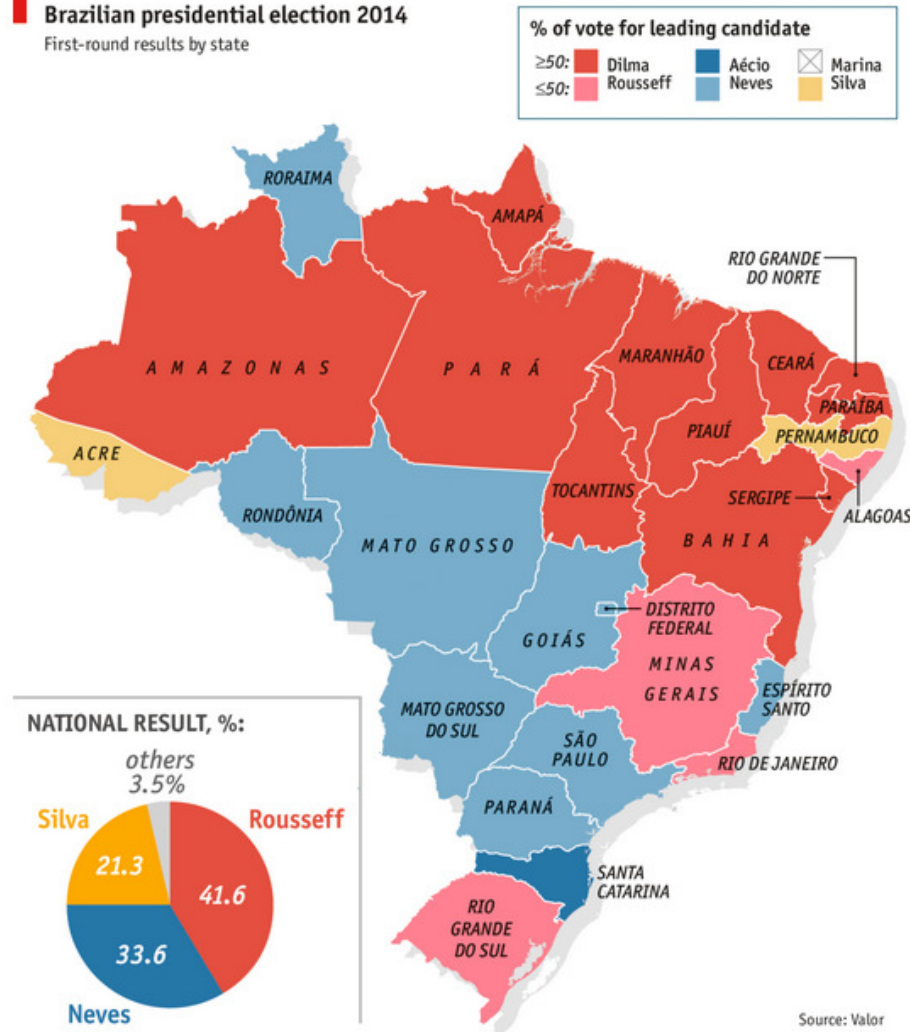
Major potential:

- O&G potential – 50+ bb – top 10 producer by 2030
- Infrastructure – USD 500 billion next 5 years
- Well regulated and capitalized financial system
- Agricultural commodities powerhouse
- ***World Cup 2014– bets are out***



The First Round: the Unexpected

Brazilian presidential election 2014
First-round results by state



Three key unexpected events:

1. Eduardo Campos tragedy
2. The rise and fall of Marina Silva
3. Aécio Neves, the comeback kid

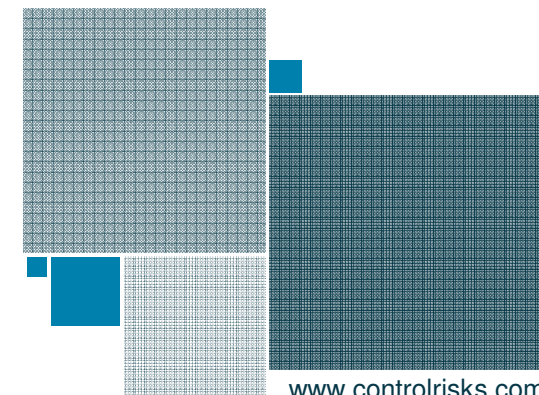
Control Risks



October 26th?

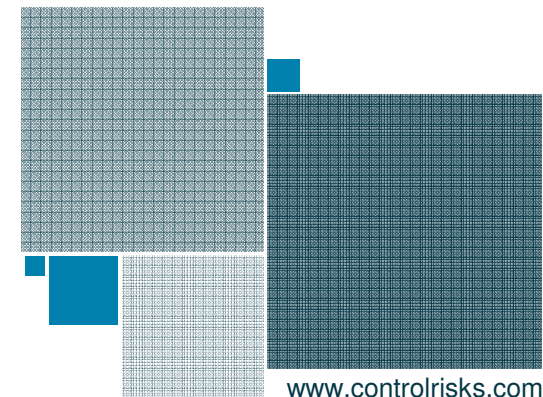


■ The Second Round: Expect the Expected



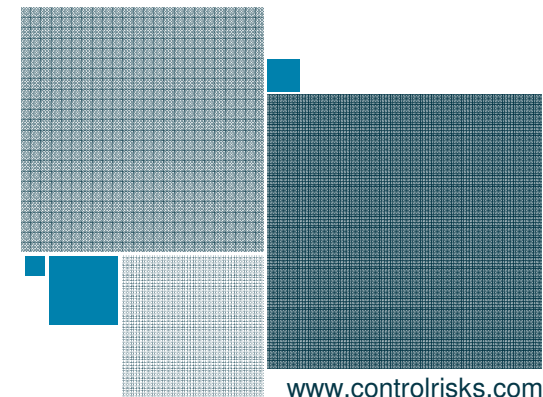
■ So what's at stake?

- Credibility vs. Crisis
- Reform agenda – tax, labor, political (not again)
- Efficiency of government
- Brazil's place in the world



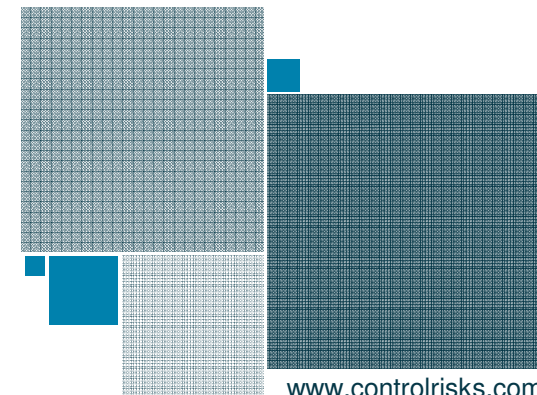
■ Despite the mudslinging, there is some agreement

- Democracy is a given
- The need for foreign investment
- Developing national industry
- Prioritizing infrastructure
- Social policies
- Avoiding the “D” word
- Anti-corruption enforcement



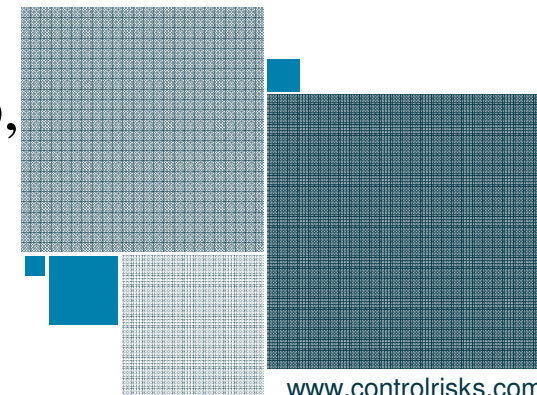
■ Government Intervention Risk

- Continued strong role of government in economy
- Influence over mixed capital companies
- Continued ad hoc stimuli, but also an opportunity to reverse some of the controversial measures
- Local content requirements



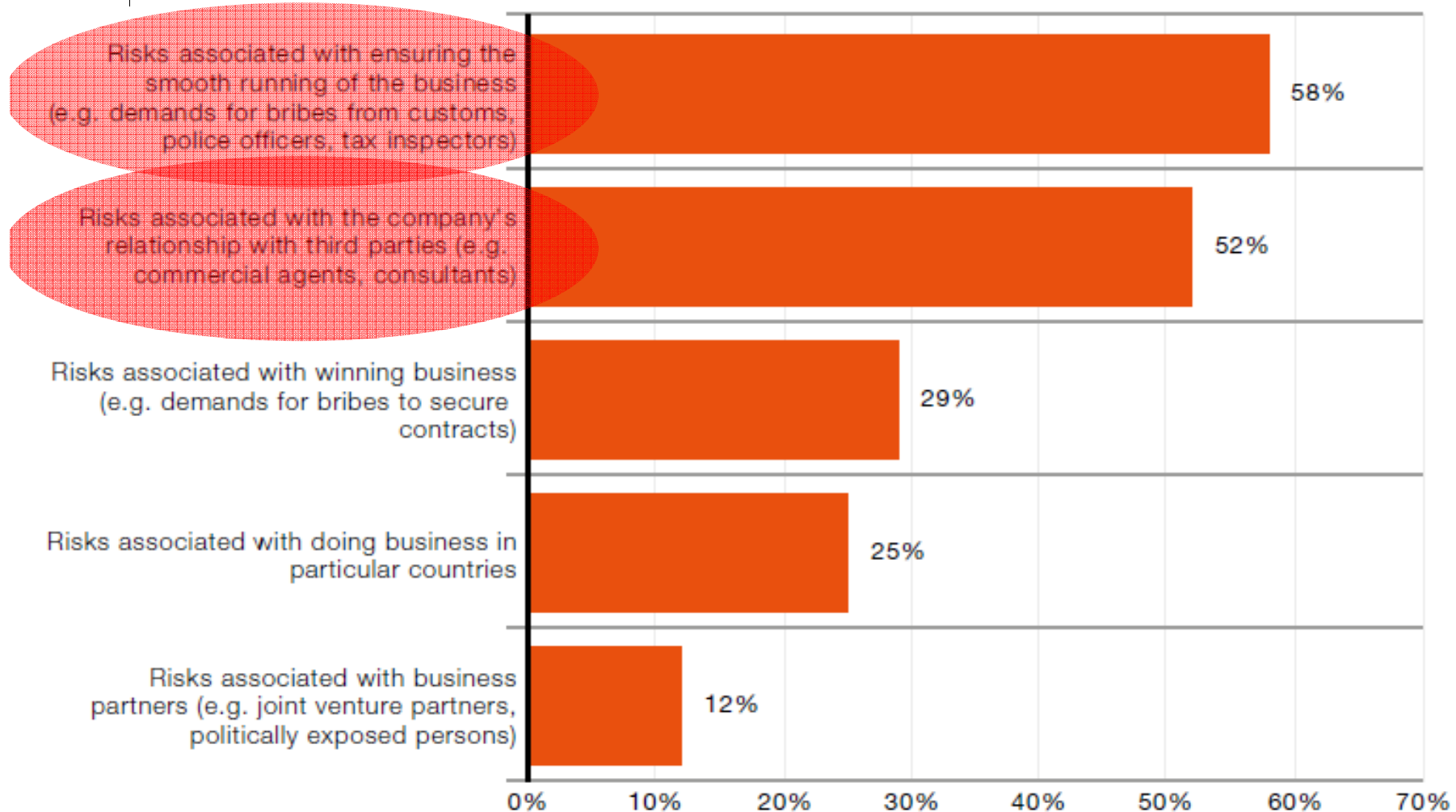
■ Corruption Risk

- Another element of “Brazil cost”?
- Operation “Car wash”: bombshell testimony of former Petrobras director
- The silver lining in the muck
 - Clean Companies Act
 - Corruption risk is getting riskier
 - Regulatory enforcement is stepping up, across the board



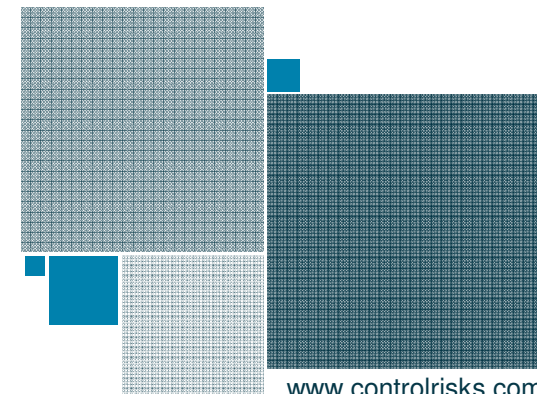


■ The Devil is in the Details



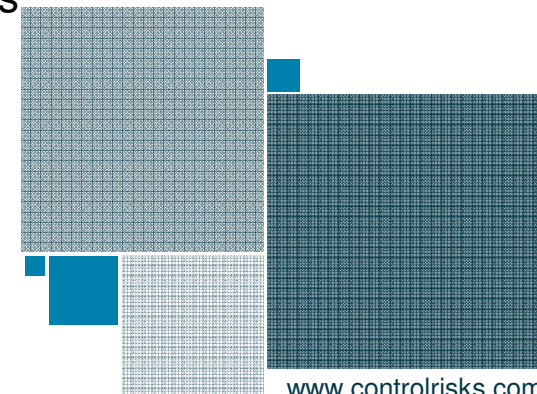
■ Security Risks

- State not Federal responsibility
- The past is a good predictor for the future, at national level
- Some innovative proposals on the table, but not police or judiciary reform
- Material improvements in overall security situation unlikely
- Watch the economy



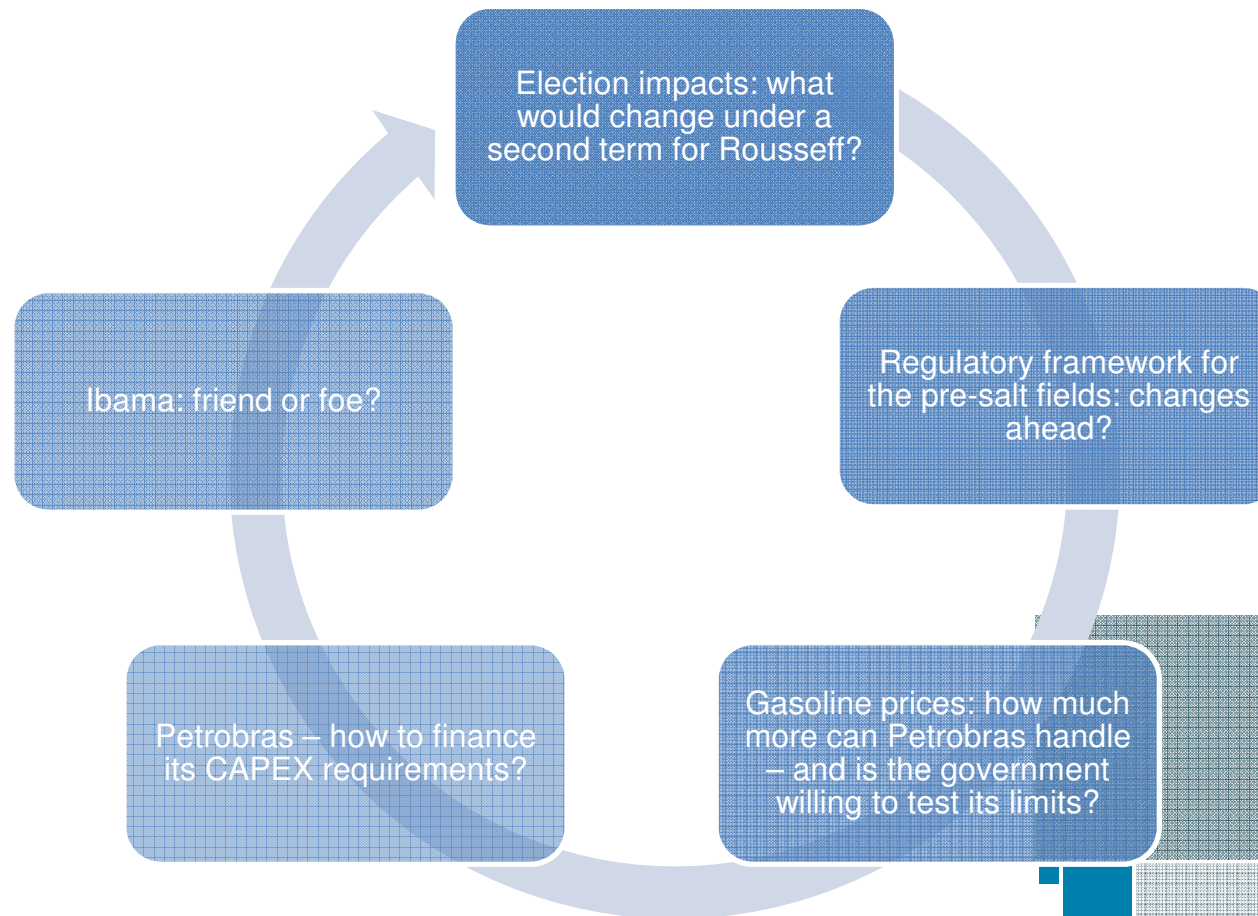
■ Social Risks

- June 2013 demonstrations: in hindsight more of a one-off
- Elections 2014 – where is everyone?
- Labour unrest likely to increase
 - Divided labor unions
 - Slower economic growth
- Lively civil society – a changing landscape
 - landless, indigenous groups, and urban movements



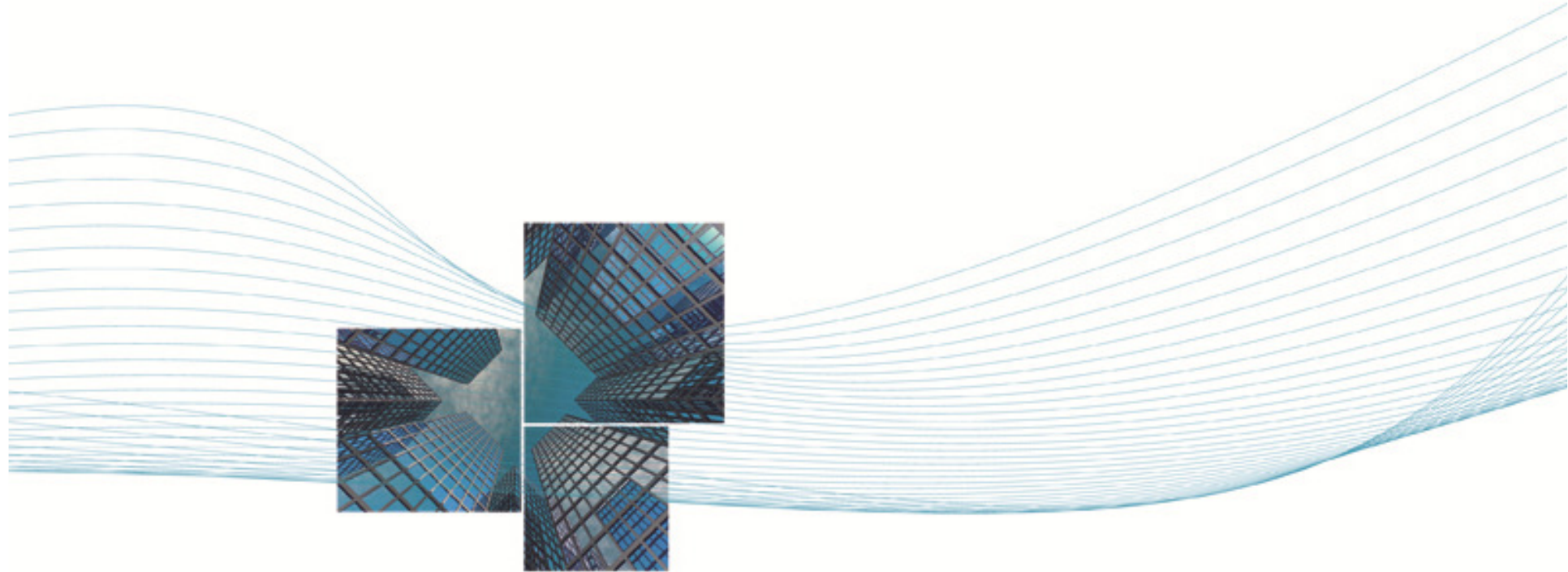


Oil & Gas



■ Some things change, but not the leopard's spots

- **“Moderate” improvement** in fiscal and monetary policy
 - Change to economic team – Finance Minister Guido Mantega
- **Continued selective state intervention**, with some loosening of state's grip on key industries (e.g., infrastructure and O&G)
 - More concessions, more access to pre-salt
- **“Custo Brasil” continues unabated** – bureaucracy and red tape
- **Anti-corruption enforcement steps up**
 - Foreign companies beware
 - First test case of the Clean Company Act (Embraer)
- Potential **worsening of the security situation and social unrest**



Perguntas?