Q4 2018 Earnings Call

Company Participants

- AlÃpio Ferreira Pinto, Interim Corp Market, Lubricants, Operations & Logistics Executive Officer and Executive Board Member
- Ivan De SÃ¡ Pereira, CEO & Member of the Executive Officers Board
- Jose Roberto Lettiere, CFO & IR Officer
- Marcelo Fernandes BraganÃ§a, Chief Posts Network Officer & Member of the Executive Officers Board
- Unidentified Speaker, Unknown

Other Participants

- Andre Saleme Hachem, Research Analyst
- Bruno Montanari, Equity Analyst
- Fernanda Perez Da Cunha, Senior Associate
- Gustavo Allevato, Research Analyst
- Luiz Carvalho, Director and Analyst
- Regis Cardoso, Research Analyst
- Vicente Falanga Neto, Research Analyst
- Vinicius Tsubone, Analyst of Latam Utilities, Oil & Gas

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the Petrobras Distribuidora webcast and conference call with analysts and investors to present the earnings results for Q4 2018. (Operator Instructions)

Today we are joined by Mr. Ivan De Sa, CEO; Mr. Jose Roberto Lettiere, CFO and Investor Relations Officer; Mr. Marcelo Braganca, Retail Network for Gas Stations Officer; and Mr. Alipio Ferreira, Chief Operating and Logistics Officer.

We remind you that this meeting is being recorded and ask you to pay special attention to Slide #2, which contains a warning for shareholders and investors.

This presentation may contain forward-looking projections. These projections are merely the expectations of company executives about future economic conditions in addition to the sector we operate in, the performance and financial results of the company, amongst other things.

The terms predict, believe, expect, forecast, intend, plan, project, objectives, should and other such terms are used to identify such forecasts, which evidently involve risks and uncertainties seen or not seen by the company and do not, therefore, provide an assurance as to the company's future results.

The future results of the company's operations may, therefore, differ from current expectations. And readers should not solely rely on the information set out herein. The company undertakes no obligation to update the presentation and projections in the light of new information or future developments.

The figures informed for 2018 onwards are estimates or targets. The financial and operational information set out in this presentation is rounded off. The total amount as presented in the graphs could, therefore, differ from the direct numerical aggregation of the preceding numbers.

We lastly point out that this presentation also contains certain financial indicators that are not recognized under BR GAAP or IFRS. These metrics do not have standardized meanings and might not be comparable with similarly described indicators used by other companies. We disclose these metrics because we use them to measure the company's performance. They should not be used separately or as a substitute for the financial metrics that have been disclosed under BR GAAP or IFRS.

The Fourth Quarter earnings presentation for Petrobras Distribuidora will be delivered by CFO and Investor Relations Officer, Mr. Jose Roberto Lettiere. The company officers will then be available to respond to participants' questions.

I will now turn the presentation over to Mr. Jose Roberto Lettiere.

Jose Roberto Lettiere {BIO 16358413 <GO>}

We'd like to welcome you to our Fourth Quarter 2018 earnings call. Luis Claudio Bispo, our Controller; and Flavio Sena, our Investor Relations Officer, are also here with us. And therefore, we would like to begin the presentation.

On Slide #3, we present the company's performance headlines. I would like to highlight: the disciplined management of working capital, receivables and liabilities, enabled us to generate additional operating cash upwards of BRL 3 billion; reducing the company's net debt by 39%; and a record net income of BRL 3.2 billion at the end of 2018; positively impacted by recognizing the debt account acknowledgment instruments with the distribution companies and former distribution companies of Eletrobras for the amount of BRL 1.6 billion; and also the ICMS tax agreement with Mato Grosso state in the amount of BRL 645 million.

The normalized EBITDA margin amounted to BRL 67 per cubic meter. And this favors the comparison -- as I said, reached BRL 67 per cubic meter, remaining at the same level as 2017. We would like to highlight that during 2018 we had a reduction in the number of accidents and also in the severity of the cases registered by the company, from a recordable accident rate of 0.82 at the end of 2017 to 0.57 at the end of 2018.

Now going on to Slide #4, here we talk about details of the change in EBITDA between 2018 and 2017. In order for us to be able to correctly analyze the adjusted EBITDA it is necessary, as I said, to normalize the basis, highlighting the nonrecurrent effects in the respective periods. The years of 2017 and 2018 were impacted by major events. In July 2017 the PIS and COFINS tax rates went up, leading to the company's fuel inventories appreciating by BRL 169 million, or BRL 4 per cubic meter.

Also, in May 2018, we had the truck drivers' strike, as you all know, which resulted, had a consequence in the lowering of diesel prices following a measure introduced by the federal government. The carrying amount of the company's inventory was reduced by BRL 230 million, or BRL 6 per cubic meter.

Thus, the adjusted EBITDA reported on a normalized basis for the period of 2018 would be BRL 2.8 million (sic; BRL 2.8 billion), slightly lower than the EBITDA reported for Fiscal Year 2017, for as BRL 2.8 million (sic; BRL 2.8 billion). The margins were stable, at BRL 67 per cubic meter in both periods, as mentioned earlier.

When comparing the periods, we can also see a drop in SG&A expenses, worth BRL 75 million, chiefly due to lower personnel expenses, lower freight and also lower provisions for receivables. Although it's volatile, we had a very good management of our accounts receivable.

We also noticed an increase also, a tax expense increase of BRL 19 million due to the elimination of the ICMS tax liability with Mato Grosso state. And an increase of BRL 30 million in other net expenses, primarily due to the increase in provisions or accruals to reflect the performance bonus which was not applicable in 2017.

Now continuing with Slide #5, where we have the highlights of our consolidated results. This result can be better understood through a review of each business. And I will do this during the presentation. First, we will talk about retail and corporate market, which includes major customers, aviation and special markets made up of sales of coke, chemicals, energy solutions and asphalt.

In the Fourth Quarter of 2018, the sales volume was lower by 5.6% when compared to the same period of 2017, especially due to a reduction in the Otto cycle volumes and sales of fuel oil to thermal and nonthermal power plants. Consolidated net revenue rose by 8.7% in Q4 '18 in relation to the same period of 2017, reflecting higher average sales prices.

The gross profit of the cubic meter had a drop, BRL 6, in comparison with Q4 last year, especially to the lower volumes and the ethanol and gasoline, this in our gas station network. Our net profit, as I anticipated, was impacted by the receivables of the Eletrobras system and also lower services, lower expense with the service of the debt. And also, we had a strong cost control and a reduced SG&A.

To conclude, we would like to talk about the results concerning an agreement reached with the state of Mato Grosso.

Going on to Slide #6, we see here the gas station network. The sales volumes remained stable in comparison with Q4 '18 in relation to Q4 '17, despite the increase in ethanol and diesel sales in the Otto cycle. Net revenue in the gas station network rose by 7.2% in Q4 '18 when compared with the same period last year, due to higher average sales prices.

Gross profit had a reduction, shrank by 17.2% in relation to Q4 '17, especially due to the reduction in the price of fuels and also due to higher average replenishment margins. Note that despite higher replenishment margins, lower fuel prices and the change in the Otto cycle sales mix, with a greater participation of ethanol, offset this effect in Q4 '18. Gross unit margin was BRL 150 per cubic meter, (17 points, 4%) less than in Q4 '17.

The adjusted EBITDA amounted to BRL 535 million in Q4 '18, an increase of 76.6% in relation to Q3 '18, due to higher sales margins. The EBITDA margin rose from BRL 53 per cubic meter in Q3 '18, to BRL 91 per cubic meter, a positive variation of 73%.

Now concerning Q4 '17, the drop was of 23.4% due to the lower fuel prices, putting pressure on inventory in the period. The adjusted EBITDA margin in Q4 '18 was BRL 91 per cubic meter, in comparison with BRL 53 per cubic meter in Q3 '18 and BRL 119 per cubic meter in Q4 '17.

We'd like to highlight that operating expenses amounted --- they dropped by 23% in comparison with Q3 '18. We had a reduction also in the provisions related to clients and also reduction in the costs with freight. In relation to Q4 '17, the operational expenses dropped by 5.5%. We'd like to highlight once again that there was a very strict cost control.

At the end of this quarter, the company expanded its total station network by another 253 gas stations, or units, in comparison with Q4 '17 and 93 gas stations in relation to Q3 '18. We also invested BRL 934 million in the branding and also with the maintenance of the gas station network in 2018. During 2018, the company adopted firm measures to combat the irregular use of Petrobras' brand, which resulted in the de-accreditation of 865 service stations in our network, closing the year at 7,665 units.

Now going on to Slide #7, here we have the corporate markets. The corporate market includes major customers, aviation and also special markets. In the comparison year-over-year, we highlight the additional net revenue, 18%. And a normalized EBITDA, 20%.

In the quarterly comparison, the sales volume had a reduction of 12.1%, primarily due to the decrease in fuel oil and diesel sales to thermal power plants, also adjustments to the aviation segment's operation and lower sales of oil coke due to the poor availability of the product in the market.

We can also mention other factors, like the slow economic recovery in Brazil and consequent lower demand from industries. The corporate result was primarily due to the devaluation of diesel and aviation fuel inventories in Q4 '18, triggered by lower fuel prices over the quarter and also the increase in provisions for receivables.

Now on Slide #8, here we talk about the performance with major consumers. The sales contracted or dropped by 15.6% in relation to Q4 '17, especially due to the lower sales of fuel oil and diesel to thermal power plants, in addition to the slow economic recovery in the country and, consequently, lower demand from industry.

Net revenue from this segment, major consumers, rose 2.3% between Q4 '17 and Q4 '18, as a direct consequence of higher average sales prices. Gross income compared normalized maintained itself stable.

Now continuing and going on to Slide #9, we will now dedicate this slide to aviation, where we are market leaders. In the comparison of Q4 '18/Q4 '17, there was a 3.9% drop in volumes, reflecting the elimination of relatively unprofitable operations. We made adjustments also to credit concessions and contractual renegotiations.

Net revenue rose by 33.4% compared with Q4 '17 and 38% year-over-year, due to higher average sales prices directly impacted by the increase in international fuel prices. The EBITDA had a growth of 44.5% year-over-year. And this as a result of a better management of the service expenses and also cost control.

Now in the quarter-over-quarter comparison, we had a decrease. And this is due to the joint effect of reducing inventory prices and lower sales volume and also an increase in the provisions for trade receivables. And that, more specifically, bad debt; a decrease of 65.5%.

On Slide #10, special markets, here we present the special markets of coke, chemicals, energy and asphalt. Although we had a reduction in the volumes sold quarter-over-quarter, net revenue had an increase of 17%, resulting in an increase of 8.3% in gross income (sic; profit) due to the higher margin on green petroleum coke driven by higher international coal prices, which positively affected its sales pricing.

This increase of the gross income (sic; profit) in the quarter, together with reduction in expenses of 32%, resulted in an EBITDA of BRL 176 million, 37.5% greater than the EBITDA in Q4 '17. The adjusted EBITDA margin closed Q4 '18 at BRL 145 per cubic meter, an increase of 54.3% in relation to Q4 '17. The EBITDA year-over-year, also had expressed growth of 56%.

Going on to Slide #11, here we present the data of the company's cash generation, debt and leverage of the company. The company closed Q4 '18 with BRL 3.3 billion of cash and a free cash flow of BRL 2.9 billion. The ratio of net debt and adjusted EBITDA for Q4 '18 was 0.9x. The company's net debt at the end of the quarter was approximately BRL 2.3 billion, due to substantial operational cash generation.

We inform you that the company will submit a proposal to the annual general meeting, which will happen in April, to distribute approximately 95% of the net profit in dividends, around BRL 3 billion. Of this amount, BRL 563 million will be paid on April 30, 2019, in the form of interest on equity. We will make this payment based on the share position at December 11, 2018, inclusive.

Finally, we would like to comment that 2018 was extremely challenging year for the company. The company managed to achieve good results despite regulatory discussions and a contracting market, with a performance lower than in 2017 aggravated by the truck drivers' strike.

We made every effort to make this happen. We sought efficiency gains through a better management of receivables and working capital, without overlooking initiatives such as zero-based budgeting, reorganization of staffing structures, redefinition of duties, renegotiation of service agreements, apart from also improvement in internal processes, BPOs and RPAs.

We would also like to highlight that in December 2018 the company approved its new business and management plan, PNG, for the period 2019 through 2023, underpinned by mobility and convenience. The plan focuses on efficiency gains for the company and also creating value by implementing new ventures with growth and also an increase in our gas station network and also going into new business areas and also development of new products. A very robust plan.

I would like to thank you all for your participation. And now we will go on to the Q&A session. And all the board of directors, Bispo, Flavio, we are available to answer your questions.

Questions And Answers

Operator

(Operator Instructions) Any questions not answered during the conference call can be sent to the email, ri.br.com.br. And the company will answer it later. Our first question comes from Gustavo Allevato, Santander.

Q - Gustavo Allevato {BIO 18933135 <GO>}

I have some questions related to volume. Looking at your performance we see a volume that is much lower than that of the competitors. So what is the reason this performance?

And the second question, the payment of dividends. The additional part of 2.4, with this payment will your leverage go to 2x EBITDA? Is this the level you will be working in the future? Or can you -- do you believe you will be able to pay more dividends?

And finally, looking at operational expenses, this drop of 6% that we see year-over-year, is this sustainable for the future? Or only in Q4?

A - Marcelo Fernandes BraganÃ§a

Marcelo speaking. Well let's answer the issue of the volumes and results in retail. Concerning volumes, in fact we had a year that was different from other years, a nontypical year. In Q4, we see the beginning of a recovery. We had growth in relation to Q3. And year-over-year we see a small growth, which is different from the previous quarters, which show a reversal in the last quarter.

We see a reversal in the last quarter due to everything that happened during the year. A great sensitivity to prices, the change in mix with ethanol. We had some difficulties. But I believe that with all the measures that we took with great focus on improving the performance of the network, the results, the recovery in the volumes, have appeared during 2019.

Now concerning expenses in Q4, this is linked to liability management. We really worked on this. We solved all the pending problems. And we worked to decrease commercial expenses in gas stations for this. And we believe this will continue in the next quarters.

Now concerning corporate markets, we had a reduction in volumes, especially due to the reduction in the demand for fuel oil and, especially, from a large industrial client in the north of the country. We had a reduction in special volumes due to the availability of these products in Brazil.

A - Unidentified Speaker

Gustavo, concerning dividends, well, we will pay the JCP, we communicated that to the market, on April 30. And the ex-dividend for supplementary dividends will be on the date of the general meeting. If shareholders are on our base on this date, they will have these dividends.

Now concerning the other question that you asked about debt, our plan, we will have a strong cash generation. Our business model is aimed at this. So in the next few years this will continue. So our level of leverage will be very similar to that in 2018, with an adequate capital structure and also very solid structure.

Operator

The next question comes from Bruno Montanari, Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

I'd like to hear from Ivan. After a year of IPO, excluding the truck drivers' strike effects, how do you evaluate the performance as planned during the IPO? What worked? What didn't work? And how does the company intend to adjust itself in 2019 in relation to the original plan?

My second question is about the strategy with convenience stores. It seems that it is becoming mature, convenience stores. I'd like to know about the model of this new way of managing the convenience stores. Do you have partnerships already defined? Could you give us more information?

And a quick third question. The value that you used as provision for aviation, is this linked to Avianca's case, Avianca Airlines?

A - Ivan De SÃ¡ Pereira {BIO 21810537 <GO>}

This is Ivan. Well this year's reports one year after the IPO is a positive report. We maintain the same perspectives and outlooks that we mentioned during the process, which is growth of the company, better profitability, growth of the gas station network in order to be on a growth curve. And this is improving volume and also the profitability of the company.

In terms of costs, as Lettiere mentioned, there was a reduction in SG&A expenses. We continue making an effort to make the company as efficient in terms of costs as our peers in our segments. We had in fact a difficult year in terms of industrial market is difficult. It continues difficult. The B2B market depends on a better performance of the economy.

We feel this because we -- some thermoelectric power plants consuming less than last year, some clients for fuel oil that left the market. So we lost volume not because of market share. But because of clients that we have. We have a large percentage of the clients. But they stopped consuming. They stopped buying.

Our attention now more than ever is to have growth. So together with growth we may improve profitability, better profitability in our businesses. And we continue to believe that we will truly make it.

I will ask Marcelo to talk more about the convenience stores. Thank you.

A - Marcelo Fernandes BraganÃ§a

Bruno, Marcelo. Concerning the project for convenience stores, as we told the market we hired an assistant working on the project. And right now he is contacting the potential partners. And the first results have been seen. We see a great interest in continuing them signing contracts in a very interesting way. We have some possible models.

The company has a preferred model. But initially we want to test the model we believe will bring more value to BR and the partners and our resellers, franchisees. We're not detailing to the market because we're talking and hearing what our partners have to say and what they can bring to us in terms of models and opportunities, while we will make an announcement about the model and these agreements in order to proceed.

Answering your last question, the launch that you see, the EBITDA in aviation, Q4 '18, yes, is due to the company's position and also due to Avianca, which is in a recovery mode.

Operator

Our next question comes from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

I'd like to touch upon the evolution of margins in retail. We saw a recovery of gross margin quarter-over-quarter. But this is BRL 20 per cubic meter in the segment. This explains half of the evolution of the EBITDA. So I'd like to explore with you in gross margin, do you believe this is due to loss of inventory or gains? And do you expect a positive evolution of margins?

Also, the D&A dropped BRL 10 per cubic meter. Is there a reason? Maybe 2018 was outside the curve? And also, the line Others. This reduction, what is the reason for the reduction in the line Others in retail?

And if you allow me a few follow-ups, you mentioned new business, convenience stores and how Eletrobras had an impact on the result. And noncirculating assets, why did they go up so much, receivables?

A - Marcelo Fernandes BraganÃ§a

Marcelo speaking. Answering the first part, concerning margins, the effect did not compensate the recording losses because of the strike. We tried to practice margins that would be sustainable from now on.

Now concerning PDD, yes, we tried to have a strong management of liabilities. We had reversals. We had more PDDs in 2017. But in Q4, specifically, we had an important recovery. I had mentioned here in the previous quarter that Q3 also had an impact which was the opposite, greater loss. During the year it was greater than last year. And this is linked to this cleanup that we did in the network. And also cost control, we can mention to reduce commercial costs for transactions. And this continues from now on.

Now I'd like to pass the floor to Lettiere.

A - Jose Roberto Lettiere {BIO 16358413 <GO>}

Regis, I did not capture your last point. Could you repeat it?

Q - Regis Cardoso {BIO 20098524 <GO>}

Strong cash generation or working capital. Here, a more specific question, there was an investment in receivables, noncirculating assets, which is not normal. So a question, why receivables in noncirculating went up? Was there a specific effect reason?

A - Jose Roberto Lettiere {BIO 16358413 <GO>}

It's the following. Directly linked to receivables, we had an agreement with Eletrobras. When we recognized the revenues, this affected the results and they offset an asset in accounts receivables. That is why you have the increase that you noticed.

Q - Regis Cardoso {BIO 20098524 <GO>}

Lettiere, just a follow-up. Did you reverse provisions because of Eletrobras, BRL 300 million?

A - Jose Roberto Lettiere {BIO 16358413 <GO>}

With the privatization of the distribution companies, with firm guarantee as collateral, including prepayments, we recognized these revenues in cash. So this became part of our year-end report. Now the amounts receivable, they remain in the year.

Q - Regis Cardoso {BIO 20098524 <GO>}

A last one. In the P&L, reported adjusted EBITDA includes a reversal of provisions?

A - Jose Roberto Lettiere {BIO 16358413 <GO>}

EBITDA? No. The impact of receivables of the Eletrobras system has an impact on net profits. It does not impact EBITDA, only financial.

Operator

The next question comes from Andre Hachem, Itau.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

The first, you talk about a write-off of a relevant client. Is this a loss only now? And you lost also share in Q4. What is the reason?

My second question. The strategic plan for the next few years. You mentioned the result improved at the end of the year. Could you talk about CapEx in the next few years and the points that you discussed during the IPO, the CapEx? Give us more details about the plan for the next few years.

A - Unidentified Speaker

Your first point was aviation. The aviation sector, we are leaders. It was a very good year. And we had 1 client you know well, they are in recovery mode. Due to this situation, we made an accrual of BRL 35 million. So it is totally protected from a possible PDD.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

My question, the market is growing. The market grew almost 6% in Q4. So is there a shift? Is this happening -- did this happen only in Q4?

A - Unidentified Speaker

Due to the situation that I explained previously, we are concentrating on volumes and profitability. We lost volumes to other clients and this drop in volume. Now the prospective is for strong growth.

It's worthwhile saying, Andre, this year since we had a strong increase in the price of fuel during the year and, therefore, the credit commitments got to a point where we thought we would have to manage this credit risk and we, thus, worked to have a more robust operation managing these levels both in profitability and also with our clients.

Alipio will supplement.

A - AlÃpio Ferreira Pinto

Specifically, sales to this client that had higher risk had more impact than other clients. So we are negotiating.

Now concerning CapEx, we will have -- we will announce at the time of the general meeting the CapEx. I can tell you that in some areas, some areas will be priorities for us. I can highlight that modernization, digitalization will be a priority. Of course, the maintenance of our logistics base, maintaining safety, lower risk. So the part in operations. And also lubricants, yes, we have in the budget for 2019. This will also continue in 2020, these investments, concluding the project in Caxias.

Q - Andre Saleme Hachem {BIO 20209966 <GO>}

Will you announce in April the business plan for next years?

A - Unidentified Speaker

What we will do, we will announce the part concerning capital, without the strategic part. This is internal. And as a company we don't give guidance in this area. We will be communicating the highlights. But not specifically all these details.

Operator

The next question comes from Luiz Carvalho, UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

2 questions. Marcelo, can you help me? You said that in this quarter the parachutes effect due to the price of oil did not offset. It was lower than the loss of inventory that you had. I'd like to understand your strategy.

Looking at the results of the main competitors in the sector, they had a marginal gain in this area, although your numbers are very close. It seems strange. Maybe I did not understand something in terms of your strategy concerning prices, the loss of inventory.

The second question is for Ivan. We mentioned this in the Petrobras call. Castello Branco mentioned a few times publicly his desire to have activities. In the last interview he said that the sales model would be close -- would be ready close to the end of Q1.

Are you involved in this process? Is there any discussion of -- is your management discussing with Petrobras' management? And if this process continues as the market believes it will, what would be the best type of sales, the best strategy for sales? Or reduction? The distribution company would stop being (a separate) company? How would it work?

A - Marcelo Fernandes BraganÃ§a

First, Marcelo. I'd like to answer about the market. In fact, in our case we did not have a total compensation. We had -- we worked on prices trying to capture the best possible results, a pricing strategy aligned with the markets. You can see the numbers. When you go to adjusted gross margin, they're very close to the 3 players. So competition was very strong at retailers, resellers.

And we strive to increase volume during this quarter. We were able to have a growth in volume in relation to the quarter in the previous year. And this did not happen in previous quarters. We tried to calibrate to have more volume and, obviously, price in the best possible way. We have a pricing policy that we implemented during 2018.

Now answering your question, in our case this did not offset -- this increase in margin did not offset all the recording losses that we had in Q4, both in gasoline and diesel and ethanol.

A - Ivan De SÃ¡ Pereira {BIO 21810537 <GO>}

Ivan. I agree that what you heard, what you're hearing is what we have in the newspapers. But also this process is yet to be defined by Petrobras. There is this discussion happening. It's being discussed. It's a decision of our controlling company. And we don't have a definition whether it will happen, the model. We're still waiting for definition on the part of Petrobras.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Ivan, just a quick follow-up. We understand that there is a discussion. Were you invited by Petrobras' management about this topic? Or you're still waiting?

A - Ivan De SÃ¡ Pereira {BIO 21810537 <GO>}

We haven't received anything. We're still waiting.

A - Marcelo Fernandes BraganÃ§a

Marcelo. Later on we can talk about this offline.

Operator

The next question, Vicente Falanga, Bradesco BBI.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

I have 2 questions. Going back to aviation, you mentioned that you are leaving the less profitable contracts and improvements in the margins. When we look at the EBITDA margin for the cubic meter in the semester and the adjustment, BRL 50 million, an EBITDA per cubic meter of BRL 93 per cubic meter. In aviation it is around BRL 100.

Is it true that you have more profitable contracts now? This drop in margin, how should we see it? A negative impact? And also exchange rates close to BRL 3.50, do you believe that this is going to continue at BRL 90, BRL 95?

And also we have heard that to avoid truck drivers in the future, distribution companies are selling diesel in a prepaid format. Would this help their cash flow, with prepayments of diesel fuel? And I'd like to know, are you talking to truck drivers associations? Do you believe they would accept this?

A - AlÃpio Ferreira Pinto

Vicente, Alipio speaking. Now answering your question about aviation, we have 2 clients in recovery. We also have the effect of loss of inventory due to the drop in prices for aviation fuel. And also in Q3 the exchange rates favored the results and did not favor the results in Q4. 2018 is a good representation of the aviation sector.

A - Marcelo Fernandes BraganÃ§a

Vicente, Marcelo. Concerning prepaid fuel, the model that you mentioned, yes, we are studying this prepayment. There are challenges. We don't have the model ready. There are regulatory challenges that must be addressed. We're discussing this. We are analyzing. Because if we see that it is feasible, that it will bring results for the consumer and also add value to us, we will go forward with this project. It's being studied.

Q - Vicente Falanga Neto {BIO 16406266 <GO>}

Okay. Just a follow-up. Your annual meeting is April 24?

A - Unidentified Speaker

Yes. April 24, the general meeting.

Operator

Next question, Vinicius Tsubone, HSBC.

Q - Vinicius Tsubone {BIO 20139966 <GO>}

Could you clarify the gains from the contract with Eletrobras, BRL 900 million, the difference between (BRL 1.8 billion) and the amount received, less the amount not received, according to your last press release?

A - Unidentified Speaker

Your numbers are well aligned with ours. And this, yes, went to cash.

Operator

Next question, Fernanda Cunha, Citibank.

Q - Fernanda Perez Da Cunha {BIO 20784520 <GO>}

Could you be more specific concerning compensation? The last quarters, we saw an amount for bonus. I'd like to know, was there any change in the company concerning the performance of the board of directors? What are the metrics used to evaluate? Because this extra BRL 100 million accrued and according to what we said before, you would need (BRL 15) per cubic meter. So did anything change the way to look at this?

Second question. You gave us a forecast about Eletrobras. So you did the reverse? I'd like to understand how can we expect -- what can we expect about tax rates in 2019?

You said that you closed more than 800 gas stations that were inactive. We saw a competitor of yours doing this. What do you mean when you say these gas stations were de-accredited, yes? And were these gas stations inactive? No fixed assets there? Please explain.

A - Unidentified Speaker

Fernanda, your first point about metrics in terms of bonus compensation. Here we also have included PLR for all the employees of the company. There was no change in metrics. The main indicators, financial and EBITDA and other components, performance, this hasn't changed. It's the same.

Now PDR had an impact. This is the generation of net profit. And this is a metric that has a correlation. If you want more details, you can see Explanatory Notes 21.6. It has all the details.

Q - Fernanda Perez Da Cunha {BIO 20784520 <GO>}

I will take a look at it. But concerning net profit, does this include the reversal of Eletrobras, the net profit that was generated?

A - Marcelo Fernandes BraganÃ§a

Fernanda, Marcelo. Let me answer about the de-accreditation of gas stations. If you look at the previous quarter, we talked about the inactive gas stations. These did not buy and they were not buying. And we adopted measures, legal measures.

What we did now, apart from these gas stations, other gas stations, too, we identified that they had inadequate practices. They were not in line with the contracts. So we de-accredited and took all the measures, commercial and legal measures. But these were all treated. There is no -- we don't have any write-offs because of this. Now we have the actual number of gas stations.

Q - Fernanda Perez Da Cunha {BIO 20784520 <GO>}

Thank you. The tax rate, please?

A - Unidentified Speaker

Our actual tax rates, our projection for the next two years, approximately. And this is standard for income tax social contribution, 34%. But how about the inactive? Of course we have an advantage, a tax advantage. Payment of JCP. We have some tax gains. But this does not reduce. It is a little better. But when we talk about rates we work with 34%. Obviously, we're looking, yes, into this, all the tax efficiencies we can have.

Operator

Well thank you. We'd like to close the Q&A session for this conference call. Now we'd like to pass the floor to Mr. Lettiere for his final comments. Mr. Jose Roberto Lettiere?

A - Jose Roberto Lettiere {BIO 16358413 <GO>}

I would like to thank you all for participating. And I wish you all a great day. And I would like Ivan to make his final comment.

A - Ivan De SÃ¡ Pereira {BIO 21810537 <GO>}

I'd like to thank you all for participating. The year of 2018, we had extraordinary events. We had nonrecurring events. The result is very positive at the end of the year for BR. We continue to look for opportunities to improve and to have better results. So we'd like to celebrate especially the financial results. We'd like to thank you all and wish you a great day.

Operator

Thank you, ladies and gentlemen. The slides and the presentation will be available at ri.br.com.br. Thank you for your participation.