

Q1 2020 Earnings Call

Company Participants

- Andre Correa Natal, Chief Financial, Procurement and Investor Relations Officer
- Rafael Salvador Grisolia, Chief Executive Officer

Other Participants

- Andre Hachem, Analyst
- Bruno Montanari, Analyst
- Christian Audi, Analyst
- Luiz Carvalho, Analyst
- Pedro Medeiros, Analyst
- Regis Cardoso, Analyst
- Ricardo Rezende, Analyst
- Thiago Duarte, Analyst
- Vicente Falanga, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to Petrobras Distribuidora conference call with analysts and investors to present the results of the first quarter of 2020. We would like to inform you that participants will be on listen-only mode. After the presentation, we will have a Q&A session when further instructions will be provided. (Operator Instructions)

Today, with us we have Mr. Rafael Grisolia, CEO; and Mr. Andre Natal, CFO. We would like to remind you that this meeting is being recorded.

This presentation may contain forward-looking statements. These statements are nearly the expectations of the company executives about future economic conditions, in addition to the sector we operate and the performance on financial results of the company, amongst other things. The terms predict, believe, expect, forecast, intend, plan, project, objective, 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 projections in the light of the new information or future development. The figures informed for 2019 onwards are estimated on target.

The first quarter's earnings presentation for Petrobras Distribuidora will be delivered by Mr. CEO, Rafael Grisolia. Mr. Rafael Grisolia, you have the floor.

Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon, everyone. Andre, my CFO, my IR and my accounting team is here together with me and we are following the entire safety protocol. Everybody is wearing safety masks, obeying social distancing. This is a different moment for Society. Society from the entire world, that this is a moment of crisis. Our first message here on behalf of BR, we are soldier [ph] to the entire Brazilian Society. We've had almost 40,000 deaths. And this is not only a specific data. We're talking about lives. And now we are seeing the great importance of human being. Sometimes, we see it as numbers. But these are not only numbers. We're talking about lives and this is a crisis that is affecting mankind, and as organization, we're taking this into account.

I will talk about the different steps in progress that we've made and I'll talk about our value agenda and we will -- and of course the crisis impacts all the companies here. I would just like to say that when the crisis begin -- as I always say, we are in the middle of a marathon right now. Therefore, a number of our initiatives are making progress, but I would like to make some that are important and how they are important for the subsequent moment of the crisis.

Number one, at the end of 2019, we had carried out a transformational process and this is beginning because we started this process between our employees and third parties during the last quarter of 2019. This is more or less 400 people, and today, we're talking about 3,700 people. This is an important figure when we start to understand the crisis. So our solid position has a strong underpinning that is the strategy regarding our organization.

We had also -- our debts were maturing in the beginning of April and our financial team spearheaded by Andre where we have funding to roll out the debt. This was an old debenture that was focused on only one maturity date. We had already worked on this before the crisis and this was -- it was important to resolve this and negotiate it. It is also very important to mention and it was very important for the first quarter, and was to have within our initiatives regarding sourcing. We have all our trading areas looking for alternatives not only regarding of purchasing products and byproducts and also to see our import alternatives. This was important and this is something that we have discussed in detail.

Another ongoing initiative regarding logistics, we optimized our transportation companies and this is important, and we saw our figures and I believe that we have made progress in this third initiative. And we have a fourth initiative that is managing expenses. Everything that had been done, had to be reinforced after the crisis and we also made progress in our pricing initiatives. And our entire team is strongly driven to quickly implement our pricing system.

FINAL

(Technical Difficulty) would be awareness, responsibility and solidarity, and we said that we will continue using these three mantras. Regarding all the decisions that we made regarding our customers, regarding our suppliers, regarding our team that we care so much the awareness. This is a serious program for society. Of course, this crisis is going to pass. We always believe on a positive side that everything ends, but what we have to be aware that this is a process responsibility because we have our stakeholders, our investors, our employees, our customers, our suppliers and solidarity that is an important pillar. I believe that mankind demonstrates the strong pillar from human beings, and as a company, this is a very important value for us.

As I mentioned, over 3,700 employees, we have 68% working remotely and the rest are in the operation. I would like to thank our team that is present in the operations in all the areas, state, federal, municipalities and they are working only in essential services. They're also working with our resellers. They're also working with our convenience store. So we have 95 bases and 99 aviation operation. Therefore, I would like to thank the team that is working in the operation and there is a new safety protocol of -- that these are recommendations from WHO, from our health Ministry.

Now also we are thinking our bases because, not only the team that is working there, but all the entry and exit of trucks and truck drivers that have to go into our bases to take fuel to Brazil. They were also taking temperatures, and were also adopting hygiene procedures according to the recommendations of the WHO and our Ministry of Health.

Now when we talk about solidarity, we would like to highlight that we are strongly focused on this. This is a strong value for BR. All BR culture is to serve Brazil, so we donated ethanol and fuel to universities, fuel to the Red Cross. A recent partnership with Petrobras were also donating -- carrying out donations to the governments, to municipalities. So this is the way we can cooperate.

Now regarding the truck drivers, we take care of these customers that are customers of our resellers. And we have been very careful to guarantee whatever it is possible to show that they can eat in the highways, also online medical appointments. We also have made a great effort with BR distributor to be of support to these customers that are so important for our chain because the truck drivers provide a great service to Brazil because most of the fuel that is transported in Brazil is done through highways.

Now also, BR has its headquarters in Rio de Janeiro, and we have supported the community that surround us. We have a partnership with city operators that allows us to promote the solidarity with the surrounding community and we give them also basic staple and other things that we can help them in terms of hygiene. And we are also -- this is something of solidarity.

Now the crisis, the definition of crisis for us is still seeing a drop of demand. This is something that affects other sectors and also the effect -- the drop of the price of commodities, fuel and this also affects the price of byproducts and also our business and our matrixes. So there's a reduction of demand, and there's a reduction in the price of the commodity.

FINAL

Now regarding demand, we felt the first impact in the beginning of the crisis, and this was very strong. And we mentioned this in our release, and we do have a number of challenges that we're dealing with. But during the 20 days of crisis at the end of March, the impact was strong. So we're talking about a drop in the Otto cycle of 56%. The Otto cycle that is gasoline, ethanol, the circulation of cars also dropped a lot. Diesel data represents a great drop. We identified that there was economic activity in the beginning of the March, but subsequently because of the drop of the circulation of cars in the cities, there was a drop. And this was -- there was a drop of 25%.

Aviation, that is very important for BR, initially, had a slight drop, but now the drops are greater. Now when we see the most recent data, it is obvious that these are data that we still have to confirm, but this is a trend. The volume of diesel, we can see that they're going back to pre-crisis levels. And in a certain way, this gives us confidence that we will go back to normal levels. So the resumption of diesel consumption is positive because this means that the economy is reactivating itself. And although we are the greatest distributor, this is a very good indicator and we can see that the economic activity is reactivating itself, and this is a good signal for all of us.

Regarding the Otto cycle, we see that there is a drop regarding pre-crisis. But far from the 55%, there is an improvement. But although there is a drop when we compare it to pre-crisis, that is 50%, there was a drop of 85%. We have seen recovery signals according to our last analysis. Now subsequently, after the crisis, we had stress scenarios, and we studied this together with our Board. We saw the resilience of our cash flow and financial structure. We have low leverage. But during that moment, we worked with very stressed scenarios because this was something that we could see in terms of demand. This is why we strengthened the liquidity position of the company, although we had carried out funding for the debt that matured in April. We also reinforced our cash flow of BRL2.5 billion in order to guarantee more liquidity to be in a steady spot and to guarantee the resilience of our company.

We also quickly -- when we thought about expense management, we started to control CapEx, and we started creating targets of expense management and we counted with the conservative financial management that we've always had in the company. We proposed to -- submitted to the Board and to our shareholders because until we do not know what the results of the company -- until we do not know what the results will be, we are requesting a postponement of the payment of dividends.

Now as soon as we have this visibility, we intend to pay out the JCP of BRL500 million and the additional dividend of BRL500 million that are part of our good financial practices, that is to maintain our leverage at a good level and not to retain cash in the company. Nonetheless, we have to have visibility of refusal results to guarantee the long-lasting existence of the company.

Now, within the mantras of awareness, responsibility. Awareness -- the awareness that we -- awareness is -- that is the underpinning of a very important ecosystem not only of our employees and our team, but also our suppliers, Petrobras' refinery, the ethanol producers and biodiesel producers, our carriers that work with us, our resellers, our TRR, the aviation customers, industrial companies, transportation companies, urban

transportation companies. We are always making the best decisions, taking all of them into account. And this is important because this is solidarity, and this is something that is important. We did not declare any force majeure in any of our contracts, for example, in our labor unions as well. So we've been very careful, and we do know that BR is responsible for an enhanced financial structure to guarantee that we're able to help our ecosystem because this is a very important point of value. And when the crisis is over, I believe that we will be strengthened.

Now regarding our resellers, of course, everything that we did with our customers was always a specific case by case, every situation of each customer of each reseller of each industry that underwent the different financial situation, we were very careful for each case. Well, we're always finding the best solution. Taking into account the responsibility that we have with our customers, suppliers and investments, we were very careful as well to work as partners with our resellers to provide them the best sales conditions and quick drops of refinery prices of the international market. We were very careful to convey these prices. And also bearing in mind the financial soundness of our customers because sometimes our customers have a very low level of activity. So therefore, we're strongly focused on this.

Any results of market share, pleased with [ph] what was important was to support our customer base and our resellers because we have different economic groups. You have small, medium, great resellers, and we were very careful in supporting this according to our pricing strategy. And because in reality, there was a great impact because there was a drop in the price of commodity. We're talking about BRL700 per cubic meter. And those that follow us know that our margins are around BRL150 cubic meters. A drop like this in the prices of the refineries that are reflected on the international market, these are drop that have never been seen. And although with certain recovery during the month of June, we still continue focusing on this.

So we have to -- so the -- our responsibility as BR is to guarantee that our ecosystem will survive this crisis and will exit this crisis as a strengthened business regarding all of our customers. So this is a moment of crisis, a moment of crisis management. We are strongly focused on this, and we're still thinking how we're going to come back and following up the statistics of new cases and the new numbers of debt and the occupation of IT used in order to see how this new reality will be from here on. Despite the crisis, we have to remember our image, the Petrobras brand, BR Distribuidora, so we have an image that reflects the concept of energy that we want to convey and we want to give to Brazil and green our company.

We also are ending the divestment of the CDGN. We created a partnership in order to succeed. Also a partnership with Golar Power in LNG. We also have initiatives from here on. And recently, we are providing support to resell. We created a partnership with Lojas Americanas, B2W in terms of payments, electronic payments that -- we gave the reseller the opportunity to have a contactless payment option, which is very important in our relationship with the group, Lojas Americanas. We identified a very good opportunity that we offer to our retail and we will be following their results in the upcoming quarters.

I would like to thank, again, our employees that are working remotely and the ones that are working in our operations. We know it's not easy to work remotely because you have your family, you have your children around you. And I believe that we have interacted a lot through lives, through testimonials. Therefore, I would like to thank everyone. And once again, we can go to our Q&A. Andre will help me.

Questions And Answers

Operator

(Operator Instructions) Our first question, Andre Hachem from Itau.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you, Rafael, for your presentation. I have two questions. My first regarding the competitive environment. I want to know how the independents are going to behave? Do you believe that they will be weak because they don't have a distributor supporting them? We -- I would like to know what your perception about the competitive environment and how do you see the progression of the volumes in the past month? And I want to understand how you see the soundness of the network? Is there a risk or is there a deterioration of maturity when we see the second quarter? So how do you see your portfolio of accounts receivable for the second quarter? And I would like to know about your view in terms of your industrial and aviation customers?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Andre, this is Rafael. Thank you for your questions and for participating. Regarding the competitive environment, our interpretation is that it's a market that post-crisis will have a lower demand, and the situation takes into account the price dynamics. And here, we have the competitiveness of the brand that doesn't have a distributor backing it up. So generally, we are more present. On the other side, what we observed is that there are situations with gas stations as they have a lower cost structure when we compare it regarding the obligation. Perhaps they may present certain advantages, but this is more in the sense of when you have a demand situation dropping and the need to make cash to produce cash. Well, here, you have a -- actions that you take because of survival. This is my perception. I believe this is more the view -- the lower -- the smaller the structure, the lower cost they have. So here, you can have no influence of the pump price. Now, as we are seeing, and we are going to follow this up in the upcoming quarter, that is a recovery of demand, we already realized this, and I believe that these things will normalize because we need to have cash and liquidity quicker. So what I -- this is what I understand right now. And the wide brand market, it has its supply through imports. And during the price fluctuations, although there are no results, you have to unload the vessel. Well, sometimes there's the dynamic that we've seen in the market. So we expect to see stability regarding the price of commodity, something that we haven't seen between March and end of May.

Now regarding the soundness of our network, I believe that by and large, I always think our commercial and our financing from Flavio and Marcelo, we have a major team and they analyze case by case. I believe that they hold meetings -- we used to have weekly

FINAL

meetings. Now they hold daily meetings, and they're very careful to guarantee to see case-by-case and see what are the needs of our customers and to work with the best credit solutions. For our reseller, we also included specific packages that all lead to postponed contracts, but we also carried our negotiations with some acquirers. We also gave them discounts, so we have been very careful to guarantee the financial soundness of our network. Of course, we had an initial peak of default, and we were able to renegotiate a number of things. And now during the past 20 days, I believe that we have been in a better period. And we do not see -- we haven't seen anything that has stood out in the past weeks. We've worked together with our team, with our customers, with all the commercial and the financial teams. And I believe that currently, we have been able to find a breakeven point in our portfolio of accounts receivable and also working with B2B.

Regarding aviation, well, this is a sector that all society is focused on, it's a very sensitive sector. There has been a great drop. I believe that the demand will resume. We have seen what is happening in China, how things go back to normal. And there is a spirit of helping however is possible, but with all of our customers, the aviation sector is very important with us. We have been talking to them at all levels, from CO to CEO and the lower levels, and we're trying to find the best solution, and this is something that we try to do with our portfolio.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you very much.

Operator

Our next question from Vicente Falanga from Bradesco BBI.

Q - Vicente Falanga {BIO 16406266 <GO>}

Good afternoon, Natal and Rafa. I have two questions here. Here, we follow on a weekly basis, the price in terms of volume. And what we've seen is that the distribution chain is lagging behind the prices that Petrobras announced. I would like you to confirm something. How long -- how long will it take you to catch up?

And number two, regarding Green Coke, the volumes during the first quarter were very strong. I would like to better understand the guidance for the specific products, is distribution more connected to exploration or do you believe that it will suffer during this period? And what do you take into account to reduce the price of the service because if we analyze the situation, the oil price has dropped a lot.

A - Andre Correa Natal {BIO 21073585 <GO>}

Thank you, Vicente, for your question. Rafa?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

I'm going to answer regarding this follow -- and I've been reading all the reports. What I can say in terms of BR is that my interpretation and something that I mentioned at the

FINAL

beginning, but now we're being very careful. When we see the refinery prices of Petrobras and their policies regarding international prices -- and they're following international prices. Within our ability, we try to be agile to transfer this refinery cost to our sell in. As far as we're concerned, this was even quicker than our competition by and large. And why have we adopted this? Mainly because we are concerned and we see this in our default levels, and they have dropped because we have to guarantee the financial soundness of our resellers, but the negotiations that we've had individually and seeing the financial situation of HI because we want our selling capacity to be better. We believe that what we have done, it has been very important for the financial soundness of the reseller. Now of course, we have to follow up what the market is doing, so that our reseller can compete on par with their competitors. So there is a natural market dynamic, and I go back to the situation of the reseller. They have their financial situation, they have the region where they work. And some went after more volume, some of them created more margin, but this is a case-by-case scenario. When we see the reports and the samples when you analyze Brazil in a demand, you can see that, currently, we tried to be solid during the first quarter. We've tried to be agile and the reflection of building the pump will depend on the situation of each one of the resellers and their price strategies as things should always be. So I believe once again, when we go -- if we do not have commodity fluctuations against at least what we had until the middle of May, I believe that now we're going back to a normal situation. That is something that is within our expectation of management.

Now regarding coke, this is an interesting product. In reality, this is a consequent product of refined products. So the refinery depending on the -- their production, coke is a result of this. Even this is a product that we buy from Petrobras. Now, it is an energy instrument that is used in the blast furnaces of many industries. There are many industries that need this type of product. It is a very important input for Brazil and there are blast furnaces of a number of companies that need Coke. And we buy this product from Petrobras through a contract. And it also follows the fluctuations and the different alternatives that you have in the industry, you can have vegetable coal, it follows gas, and this is also included in the contracts. So the supply will be according to the production of the company. And our view is not only to deliver fuel and biofuel to our society through this distribution, but our view is that we have to deliver energy to society. And coke is very important because many of our customers need coke in order to be operational. So it's not the end of the market of coke. It is a product -- it's like the trash of the refinery and this is a result product of the entire process. But there are industries that need it for its blast furnace. It's precisely this. Coke mostly is much cheaper than oil. So it is a byproduct of the process and all the conversion units of the refinery. We've tried to minimize -- maximum the production of this product and to maximize the production of diesel. But yes, this is a necessary byproduct, but it has more or less the same value as the price of coal. It will not follow the value of oil.

Q - Vicente Falanga {BIO 16406266 <GO>}

Okay.

Operator

Next question from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning. Thank you for the call and for taking questions. Two questions. One, to understand the margin of the quarter. And second, to understand what we can expect in terms of gains in the future. And this is as a result of cost cutting. When we talk about margins, number one, I believe that you changed your accounting and now the hedge is operational. And although the gross margin, BRL16 per cubic meter is very low, especially in a context where we haven't had any drops in replacement margins. In addition to this, you have the cash effect. The cash margin seems to be very strong despite a working capital that was very low. You generated a lot of cash, but it wasn't because of working capital. This suggests that this low margin in the quarter is an accounting effect. If you could elaborate a bit on your inventory loss? And could you tell us how you interpret your loss of inventory, and what is the level of recurring margin? How could this be interpreted?

And my second question is, you're talking about a cost reduction of BRL196 million, which is higher. We want to understand, it is cost cut or is only a cut of expenses between these two periods because you have less freight expenses because you sold less volume. And the release stated that the BRL196 million was as of 2021, but I believe that this is reflected in this result. My general question would be, how much of gain have you already realized during the first quarter? And how much of gain do you expect for the upcoming quarters?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafa. Thank you for your question. I am going to mention a number of points, and then Andre will elaborate and give you details. Regarding your first question, our accounting practices. I believe that it's important to stay by and large, especially when we created value, the trade activity is very intense. So BR continues importing. So this activity will be present, and it is one of the pillars of our sourcing. So the group of Marcelo Braganca is always analyzing the units, and this is something that we have to do for Brazilian society. We have to look for the best source of power at a better cost for society. And this is part of our decision-making process when we buy fuel, especially when we see diesel. Why am I saying all of this? Because all of our imports pursue the best product and the best price. And of course, we want to buy from local refineries. Now for this, when you decide to import, you have to have block negotiations, and when you use a hedge to import that is natural. Regarding the arbitrage or the alternative of buying the product locally, this is something that is operational. So every time that BR imports, we analyze it, which is a good practice to have hedge operations with imports. So these are decisions.

Now the accounting practice comes from the past, and these fluctuations of imports and - or when we let the price fluctuate, while the hedge was within the financial results. Although we make a great effort, this is more connected to the product and has nothing to do with the financial results. So this is what we've done now. We had not done it in the past because the fluctuations of the commodity didn't present the variations that we saw this quarter. The interpretation was to understand the financial results of the company. And we saw part of the hedging that was operational. And this is not a financial result, and we saw that it wasn't reflecting on the dynamic of the company today. So this is something important to justify why we have to review or to -- because it is operational. We are going to evolve, and there's a report that shows that we will have a hedge account. This is the future and a complex decision, but we had to bring our hedge result

that is not financial. And it would be very difficult to explain what the financial result would be. This is why it's part of the operational result.

Now, I will let Andre complement my answer, and to talk about expenses, I think the other way around. And first reflection that we will see would be the effort that the company carried out regarding the transformation process. We are talking about a number of companies. I think you were talking about -- we have -- we had 5,400 employees, and now we have 3,700 employees. And we've carried out a number of negotiations regarding remuneration or compensation. This is something that we've done, and we can see that our results are improving. And we've also reduced extensively our carriers. We've optimized this service, and this is something that will affect us in the long run. You can tell us that this is not guidance, but the recurrent EBITDA margin during the privatization process, that was BRL70 per cubic meters. We believe that it is closer to BRL90 per cubic meter than BRL70 because of the special gains that we observed in people management. And as a consequence, better expense management.

I will give the floor to Andre, so he can give you more information.

A - Andre Correa Natal {BIO 21073585 <GO>}

I think that you are straight to the point. I believe that Rafa already gave the hedge actions in detail. I would add it to talk about the effect of the price variation. Rafa talked of variation, BRL600, BRL700 cubic meter. This is unprecedented and this created an inventory variation that was high. So in the processes, if you would imagine if the quarter -- if the price will have -- we have neutralized the drop of prices, and together with this, not only speaking about the loss of inventory, but thinking about offset and also the gaining hedge. And here, we have full disclosure of what we disclose hedges. So although the stock effect and being amortized by these other effects, this is the effect of the price variation. Our EBITDA per cubic meter would have been very similar to the one that we delivered in the past quarter, that had been a very strong result. Nonetheless, it was driven by a gain of inventory that we had during the fourth quarter, and there was a price appreciation.

So in practice, when we neutralize the price effects that you mentioned very clearly, we could say that the vital signals of the business, the capacity to generate replacement and margin. Our presence in the results, and there is a variation that is easily explained by the inventory or stock effect. And when we realized that the result of this quarter neutralized by all the effects connected to the drop of prices, it could have been or similar to last quarter's results. And it is obvious now to see how these expense savings affected significantly our result. So I believe that your interpretation is correct, and this is the same interpretation that we have.

So all these cost drops have been reflected during -- have been reflected on the first quarter. We have BRL196 million in the release and I believe that this could be like BRL20 per cubic meter. These are things that have already been executed, and these are essentially fixed expenses. And you said that perhaps we can have an effect in terms of price variation. Now, you do not have some expenses like spend in paper, you don't travel. Everybody is working remotely, so people don't have to print things. But I believe that the

FINAL

cost is very similar to what we had established as a target. In a certain way, we believe that this is a reflection of our initiatives. We have the frayed because we have a different contract model, and we disclose the figure. Our target is updated and we've already implemented the actions to reach BRL155 million a year. So I believe that we will materialize this figure throughout the year. We continue focusing on our guidance, the personnel, the BRL150 million. So I believe everything -- practically, everything has been priced in. But we are always analyzing the guidance. And this is how we see the BRL155 million in freight and also the cut in personnel costs. And most of this is part of our plan.

We will have some costs throughout 2020. Therefore, the drop will be lower in 2020 than in 2021. You don't -- you can't analyze the full year. One part of the savings will be reflected on 2021, but I believe that most of our actions can be observed. Most of the renegotiations were carried out last year, like transportation. So I believe that most of our actions have been priced in, and there is still progress to make, but we want to maintain our guidance bearing in mind 2021 in a full year.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you very much for your answers, and congratulations for all the measures that you've adopted to face COVID.

Operator

Our next question from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you for taking my question. Just some follow-up because the presentation has been very clear when we see hedge. I believe that your accounting basis are clear. So what is the company's strategy in terms of hedge and commodities? I want to see how you see those activities?

And the second question for Rafa. What was -- what does the company have to see in order to pay out dividends? An increase in volumes, macroeconomic environment, the end of the pandemic? Are there milestones that you're monitoring in order to pay out?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

This is Rafa, Bruno. Thank you for your question. Regarding hedge, here, we have different policies. When you talk about commodity hedges, commodity hedge is necessary or connected to an import decision. So Marcelo Braganca's group identified an opportunity of buying gasoline vis-a-vis in some areas in Brazil. When the group decides to import, they have to block the price fluctuation because in reality, the decision that they have to make has to see or do we import or do we buy local product, so the price -- we have to receive the product within our stock. Now operationally, it's done through imports. And becomes operational when the product arrives to Brazil. Now this is a decision that is connected to our import decision. What is behind the commodity hedge result is the operational result and our decision to import. This is why here, this appears in the gross margin and the part of the fluctuation during the import takes place in the hedging

mechanism. It would be ideal to evolve in the hedge account and for this to be connected to the product cost. Here we have for the operational results -- for commodities, this is an operational results and not a hedge. This is the decision of importing or not. And this is something that is going to -- so this is what we're going to analyze when we import the product.

Regarding exchange hedge, exchange rate and hedges, we do this with our export activity as every aviation fuel sale for international companies are considered exports. So here, you have a fluctuation. And yes, we do -- what we've seen in the operational results on the aviation industry is the margin without this effect and the exchange gains or losses. Because 20 years ago, during the hyper inflation time, the prices would increase and companies wouldn't hedge as now we have a more normal environment. The exchange rate can go up or down. So we also have exchange protection here for the aviation industry. These are the two basic policies of exchange hedge.

Now regarding dividend, I'd like to explain to our investors, our decision is always the same. We have generation. They are -- we have a high cash generation and low level of leverage. And at a different moment, we have already declared the JCP, and we are declaring our dividends. It's just only a matter of cash management. We want to manage cash, and we want to strengthen the liquidity of BRL2.5 billion with a short maturity. So this is a first consideration that I would make. We have to see what will happen. Perhaps this is an alternative. We want -- what we want to have is to adopt actions that allow us to have a more resilient company. We have declared JCP and dividends, and we will pay them out as soon as we believe it is -- at the correct moment, Andre and his team carried out a liability management to see liquidity. And here, we have to see how -- what is our outlook for the rest of the year regarding our EBITDA projection for this year because we have important matters. Number one, we have to guarantee a demand of savings.

We have to see what is going to happen. We have to see what kind of risk, what kind of stress, there will be in order to protect Brazilian society because unexpected events may occur, even a new wave of COVID. So we have to know what our future demand will be, what our capacity to generate cash flow and what is -- what will be the leverage of the company, although the leverage level of the company is low. Of course, the market always likes to see the EBITDA with a lower EBITDA, and the credit markets net debt EBITDA ratio -- so we have to see this. We have to be conservative in our actions, and we monitor everything that we do. So we have to see how we generate demand, how we manage our cash. This is that many things that are being transferred for next year, and we are not compromising our leverage levels. And depending on what we do well and depending on what we see this will allow us to anticipate the payment of dividends to our shareholders.

Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you very much.

Operator

Next question, Christian Audi, Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Rafa and Andre, good afternoon. One question and one clarification. My question is, have you been able to increase your replacement margins during the first quarter? I would like to know, what you did in order to achieve this? And what do you see in the beginning of the third quarter in terms of production? Do you believe that you will be able to increase it? And I would like to better understand your strategy. Here you said that there are operational changes. I would like to understand.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Christian, thank you for your participation, and I'm going to answer your first question and Andre will answer the second question. Regarding your first question, our replacement margins are different dynamics when we talk about resellers. According to our reseller customers, we were very careful to see things case by case because to sell in, we try to offset the reductions in the refinery and everything in comparison to what happened in the past. This is why this is a relative discussion. So we have in the B2B and the TREs what is behind this, is that our pricing initiative, although we are in the middle of the deployment of our system of dynamic prices, but it is helping us and it's working because consciously, we have -- we were able to hold our pricing strategy during this quarter, thanks to the team. So there's a reseller dynamic, the B2B, TRE dynamic, where you have the products supplied, import arbitrage fluctuations from the beginning of the crisis and import decisions, people.

You can imagine that all the imports in Brazil especially in April and May, presented a higher rate blend because you have to make a decision if you're going to import because you don't know if you're going to be able to sell, and there were also great fluctuation with during April and May, and this caused market -- dynamics in the market, if you needed more or less product, what you were going to buy more or less. Here, our pricing initiative, our sourcing strategy is coordinated. The management once -- meet once a week to see in detail all the figures and see what the situation of the market is, what is the pricing in line, what is the purchase positioning, what is our position regarding our resellers. So we believe that our visibility in terms of competition were captured. We saw this dynamic, and this helped us to see the resell. And we have to position ourselves strongly in B2B, especially when we think about arbitrage.

Now, what about this segment. The decision is a result of all the organizational transformation that we underwent. This started with the complete restructuring of the company, we redefined new management towards taking a more horizontal company. We dropped the number of hierarchical levels and this resulted in great transformations regarding allocation of activities, we created more areas, we eliminated some areas. So there were a number of changes and an important change that is connected to what you mentioned within the B2B segment, this was seen as a major segment of the company that presented a dynamic of managers that were distant from products.

So there was an area of significant consumers that were focused on the diesel market of significant customers, and then you have aviation that is a very important segment, not only relevant, but also a separate segment that has its own management and its own dynamic. But before you have commercial managements that were geared toward

FINAL

special segment, special products, chemical products, et cetera. And with the restructuring, our new structure, our B2B structure connects, so now we have regional managers in the same area that sells diesel, sells coke, sells lubricants and sells whatever they have to sell. And now we have a key account area. So due to the dynamic, it's structured in all the systems, the profit systems, the cost system changed the results analysis. Our reports, our systems, everything is generated by the new structure.

And the accounting standard, this is not only something that we do, this -- we have to report this to the market, and this is a reflection of what the decision-making personnel do. And there is not even -- there is not a profit center. What we thought was interesting and now we have pricing, and it couldn't be different than we make our external announcements. This is a reflection of past decisions that appear now this way because we have to follow the standards.

Q - Christian Audi {BIO 1825501 <GO>}

So from here on, will this be separated or do you believe that everything will be grouped?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

And because of the relevance of the segment, it will be separated and the structure is calculated by a profit center. There is a team that is totally dedicated to aviation. These are figures that are relevant in the area. And this is how the management and the Board sees this and the announcement of the results also showed this way. And there are areas that detail what we have in each one of the segments. I don't know, it would be interesting for you to read this. But from here on, an important point is that the reconciliation example, because we're just joining two things. So if you want to conciliate something from the past, it's not that you will have two different parts. It's very simple. It's -- what you're going to do is you're going to add up what we had in the past -- that what was special in the past, it was called the consumer market. So it is easy to conciliate all of these -- all of this information.

Operator

Next question from Thiago Duarte, BTG Pactual.

Q - Thiago Duarte {BIO 16541921 <GO>}

Good afternoon. Thank you for this opportunity. Two questions and follow. What would be in the aviation segment? Could we analyze the margins of the segment? I believe the impact demand is clear. This is something that was observed at the end of March. And now we can see the demand for the second quarter. Could you elaborate on the margins? I believe that there wasn't a significant impact in inventory like we saw in other units. And I'd say, I'd believe that there would be an impact on the margin because of the slowdown in demand. Could you elaborate on this?

The second question would be your stock variation. We are already in the last month of the second quarter, maybe qualitatively, could you tell us how you saw the dynamic of inventory in April? And I believe that April was very similar to March. So the non-realized

Bloomberg Transcript

result is because of this. But in May, there was a dynamic reversion in the pricing of commodities, even in ethanol. Could you elaborate on this so that we can understand the cruise speed on the inventory?

And follow-up, I believe that the first question would be the competitive environment. What about the flags? I believe that you have 150 gas stations, slightly below the 200 that we saw in the past. If you could help us so that we can -- so we can see what kind of figures we can expect in the future.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Thiago, this is Rafa. Thank you for your participation. Regarding the aviation industry, the aviation market has long contracts, one, two years, when we serve the airline. These contracts are based on parametric formulas and acquisition costs and other costs and replacement margin. If you strictly see the contract, you can see that recognition of [ph] margins in the aviation sector is something that we have to negotiate. We dispute each one of these contracts. And this depends on the bidding moment of the airline. And then the next bid is done one or two years. It depends on what kind of contract with -- you have with the airline. Now the stock effect dynamics per the parametric formula in Brazil, uses the cost of the jet fuel acquisition in Brazil. So how we buy it? How the distributors buy (Technical Difficulty) parametric formula in the contract that has time to loss in comparison to the international market. And then the quarter is depending on what happens, if you can't -- it's unperceivable. And it's all going to depend on what we see. April and May have gone by. We're in the month of June. We have to see how we end the quarter in order to show the market what happened as a matter of fact in our stock fluctuations.

Now regarding the other products, I think that your interpretation is correct. We saw the month of April and May -- most of May, we saw a drop in commodities. Not only this, we have to see how Petrobras continues with it's pricing policies and the right refineries, the local prices, is it imports? And this is our dynamic, and this is why we're analyzing this quarter. June, I believe, we will have a recovery, but fluctuations were very significant. And basically, we buy and sell power, byproducts and biofuel. And in order for our logistics to work, we have to have an operational inventory. Our operational inventory strategy is solid. So we are not speculating from neither from one side or the other.

Now the number of inventory days, we have our margins, we have our flexibility, but this is operational, our obligation of serving our customers. And in order to serve our customers, we must have our days of inventory. And I believe because of the distance of our customers, sometimes we have higher inventory days, and I believe that the strategy is very correct. We are following everything, and we are seeing also in Petrobras, a reflection of the refinery prices. And we also have our own import decisions. As I said, our team of operations and trading is always analyzing the import opportunity. The first decision is an obvious because today, we have greater visibility of the demand. That wasn't obvious in May.

Now it's a bit more obvious. So we can see what in terms of demand. So we can't do the imports because we don't know if we will be able to sell. So we never know, we can't bet

or in the exchange rate or in the branding price. So sometimes you need a local alternative. This is something that we're seeing in the quarter. I think in June, it will come to an end, and I believe, that in the future, we will be able to give you better numbers regarding follow-up.

We have a value proposition that is interesting for our resellers. So we don't want to be presumptuous, and we would like to have a value proposition and that don't work with the -- our brand, we want them to come to us, so that we can represent them. This is our view to have our brand. This is why most of our initiatives exist to give a value proposition that is attractive to the reseller, and also to BR customers, to our industrial customers and our carriers by and large. Now of course, to do this, you need good pricing, you have to have good visibility of margin from the price of the refinery, price of the pump, and marketing programs, a partnership that we have with AME [ph]. So everything that we can add to the reseller in terms of value. Of course, this is something that will attract them to be our partner. So yes, we do have this aspiration. And even we have discussed with the Board about this matter. We also talked about this new image. This is a more modern image, connected to energy, and we can show this in a very good way to the market. And we want the reseller to recognize it because we want to attract more people to our network.

Our aspiration is to have a solid network encompassing, like we have today with scale that we have in Brazil and to continue with our actions to be able to attract more partners to our network because we think that we have value because we have great location and because we've built a lot in this country. Now we are always very careful in terms of optimization, geographic position, now, the financial condition post crisis. So we have to understand this in the short term. But our view is, Brazil, a young country, that grows -- the Otto cycle will be -- they'll always present the byproducts, and ethanol is a product that Brazilian society has decided to adopt to use. So we believe that this type of fuel is something that is here to stay. Brazil is a country that is young, that we will continue growing. We want -- and we want to be present everywhere. We want to create value, and we want to be the great distributor of Brazil. And when we think about diesel, Brazil will use diesel for a long period of time. We know for the gas stations in the highways, and we do need coverage in the highways or even railway infrastructure. They also use diesel. So we have an encompassing presence. We want to be present in the best network, and as such we want to be the greatest distributor.

Q - Thiago Duarte {BIO 16541921 <GO>}

Thank you, Rafa. Thank you very much for your answer.

Operator

Next question, Luiz Carvalho, Bank UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you. Andre talked about margin. What about your stock hedging impact, you would have a recurrent margin of BRL90, BRL95 per cubic meter. Can we expect this as a recurring level from here on? What kind of gap do you see from these standpoints, these 10 actions that could contribute, without giving us a new guidance? According to the

current situation, do you believe you will have a recurrent margin, BRL105, BRL110 per cubic meter to the sale of assets. This is something that you mentioned in the past. You talked real estate, I would like to understand how this process is right now. And if you could give us an update regarding the partnerships with Ame and also cards for the truck driver to last -- last week, 2,000 new gas stations were registered by the Ame.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Thank you for participating. Regarding the margin, we don't give guidance, as you're aware. Let's see if you're satisfied with this answer. I consider that we've taken an important step. Do you remember a company from the IPO? Do you remember how much the profitability gap when we saw market and competitors, but SG&A is a very important part of the earnings gap and part of the SG&A is connected to people management. So all of the company's effort, all the efforts made by the team at the end of 2019, this is done already and this is something that was done, it was ended, it was very specific. Everybody continued working with us and there were people that decided to leave -- there were people that decided to leave with new remuneration pay. So this is already something that is in the company. So I consider this part as an initiative. And actually, I'm focusing more on management in terms of cultural transformation. We're also working with corporate brand image. So there is an asset that is not a number, that is very important for every company, and we're working with it strongly. And we are working, although, remotely, strengthening the cultural transformation of the team. So what do I mean with all of this? In reality, I'm always demanding from myself. In the past, I would say, this is since the IPO with the price. It used to be BRL70 cubic meter and not only people management, but we already did in terms of expense from Marcelo Braganca area regarding the export company. And Andre, with expense management or control?

A - Andre Correa Natal {BIO 21073585 <GO>}

I demand from myself, I'm very strict with myself, because we have to have between BRL85 and BRL90 per cubic meter because this is something that we have already delivered. Any results from here on that are not within this range, especially when you see replacements. Now, of course, the inventory variations are always commented, and we set them aside. But we see them. Now, the business recurrent number or the replacement margin at least when I see SG&A on our expense level, that is something that we have achieved. And we have to be recurrent, and we have to be at least BRL85 cubic meters from thereon. So when we see the two core, the reconciliation is easy to do. We can only see the loss of inventory. We are closer to BRL90 per cubic meter than BRL85.

But of course, there are still things to do. We are working on other initiatives that are connected to continued control in expenses. You can always improve expense management, and we're always working on this even home office. Our culture is learning about this, but everybody is learning. You know that it's -- everybody is learning how to deal, how to work remotely, and we're learning. Maybe we can concentrate in one headquarter. Maybe we don't need so many offices. We will drop the cost with transportation, with travel. So there is a part that is important of SG&A. And we also have vocations in order to make progress in gross margin as soon as the pricing system is ready, and as soon as all our pricing efforts are finished, because we are implementing them very diligently. And to continue with the potential gains in terms of sourcing, not only

with the progress that we will have in trading, but eventually, we will be able to have, ethanol trading company and all of their products in B2B.

So I believe that the initiatives are underway. This is not a sprint, this is a marathon. And the only guidance that we assess is that in 2021, we believe that when we see our main competitors, I believe our ambition and aspiration is to be better competitors. So we believe that we will achieve this. I am very strict with myself. Sometimes when I talk to my team, I say, we've already delivered our expense control, and there are other elements that affect the gross margin.

Now regarding the sale of assets in portfolio management, yes, we do continue, we concluded the sale of CDGN. We have these two projects of hydro plants that Marcelo is working on, and we want to offer this to the market. We are seeing what kind of decisions we're going to make the company from Espirito Santo. We are aligned with the government of Espirito Santo, to -- so that the company can become operational and the Governor of the State has also publicly announced that he is interested in participating in the selling process, although he wants to be a small shareholder, but he wants certain control of the company. This is going to be important. Now a part of real estate assets, it's more difficult because currently, I believe it's a bit more complicated, but we are focused on delivering this value. And also, we have other companies that we're working on. So we can have a new ethanol trading company. We also have -- we're also working with a power company or energy company. So here, we have also areas of assets and liabilities in our AME partnership. We have identified a very interesting project together with them, and we have been working with ITAU and LASA. And we see this as a very important project that creates a lot of synergy. This emerged because we had a bid to a reseller product and we needed a contactless payment practice because society is demanding this. But now we can see that this is adding value to our resellers. And this is a partnership that is gaining momentum because we have a partnership with LASA. Our discussions are public and we're talking about -- and this is regarding our convenience project. We are making progress. And during the upcoming quarters, we will follow this up.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay, thank you very much.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Thank you, Luiz.

Operator

Next question, Pedro Medeiros, Citigroup.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Good morning. I would like to talk something -- working capital. This is a highly volatile period. Clients, suppliers, the main products are being purchased in different ways, could be through Petrobras or through ethanol suppliers. Could you talk about your inventory? And could you talk about the relationship with your customers? Do you think that you

could think about structural changes in your working capital in terms of days, more credit for customers, less credit for customers? Could something be happening that could be a benefit for you that can improve the way the business has been working in the past years? And there is a quick follow-up. You intend to expand your lubricant plant, what are your expectations? And do you believe what -- how it will contribute with your results?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

By and large, regarding working capital, when I think about the company's cash cycle, I don't necessarily see changes in our structure. When we negotiate with the airlines, you have to be solid here, and you have to understand, these are very dear customers to us for the time being because of lower demand and you're at a frozen moment. But in a structural way, the cash flow of the company should not change. I know -- this is not part of our strategy, unless the market drives us toward this area.

Echo what you mentioned, our inventory is operational. And this type of cash when you see inventory has an interesting dynamic. Because this affects your import decision. Import has a different cash position, a different accounts receivable than a local purchase, especially with the current rules that we have with the local refineries. Perhaps a structural change in the future, new refiners, but we are also deciding to import and to know when or when not to import. Now accounts receivables of our customers are seeing no major structural changes because regarding the type of cash of accounts receivables, I see more. I -- we've seen -- in 20, 30 years, we've seen credit crisis. And this is a totally different crisis than what we've seen in the past, there's no one to blame. This is a crisis that involves lives. But it's a crisis that involves credit. Of course, we have to understand, we have to be solid and we have to see things case-by-case and we have to negotiate. And perhaps, we haven't seen a great impact in the working capital because there wasn't such a great demand. But now we will be able to see this transformation because we believe that this will come to an end, but the economy will recover itself, will start going back to normal. But here -- and we believe that we will --

Q - Pedro Medeiros {BIO 16187063 <GO>}

Now you have an accounts receivable that was refinanced when you have new activities although, this -- current cash, you will have to inject more working capital. We have to see stock. We have to see accounts receivables and accounts payable to suppliers. What is going to happen?

A - Andre Correa Natal {BIO 21073585 <GO>}

We will need cash, and we will need working capital, and this is why the the past question focused on our projections because we don't want to affect our leverage targets if the economy resumed its activity strongly. We have to -- we want to maintain our contracts and everything that we have for the time being. I believe that the separation of structural and situational is different. This was a very typical quarter. There was a sudden drop of demand, and this was significant. So when you have an inventory position and then the demand disappears and your inventory days have -- represent a higher number of days and gradually we start replacing your inventories. Now with the demand drops like it did, this does impact, but this is a matter of the current situation. When you compare the fourth quarter to the first quarter, it's not relevant, and it's not structural. It is not a result

FINAL

of change of parameters that we create or in terms of how many inventory days we wanted to have or how many days in terms of inventory safety -- safety inventory days that we want to know. And here, we have a lead time and there are uncertainties, but there is a short-term impact on inventory, but it's a result of the readjustment between the drop of demand -- sudden drop of demand and what is coming. But as Rafa mentioned, we don't expect to change this in the future. Accounts receivable, the same thing.

There is an increase in default, of course, because of the crisis and it's translated in a slight -- there was a slight increase of our average period of receivables. So of course, it was impacted by the pandemic and Rafa mentioned this. And we had to work case-by-case with each customer to understand their situation, their context and then laying out payment conditions for them. But there is no structural requirement, where we need to extend the payment term. We can't speculate anything about this today.

And then accounts payable, something that Rafa mentioned before, that is to migrate a domestic supply to a mixed supply. So when we see the different supply options and import products, this impacts the payment terms, and we have longer payment terms in international supply. So structurally speaking, and we believe that our sourcing will be more balanced because we will always have a percentage of other sources. We believe that has an important structural effect that doesn't change in comparison to the other quarters because we are aligned to our supply. Now of course, there can be some type of variation when we capture more or less of this arbitrage, but I believe that the fluctuation depends on the situation, but we don't see any changes in the payment terms of accounts payable. So I see no difference when we see the long term.

The situation continues. There is a complex plant, it is -- and this is the modernization of mixed products. And lubricant is very interesting in terms of technology. We continue making progress. We haven't stopped working faithfully. We're doing everything that we used to do on this plant. The projection is for it to become operational 2021, '22. And once it becomes operational, it has a greater capacity and the decisions that we will make with this capacity, we have made progress in the export of lubricants, especially to Argentina, Chile as well. We have to better understand this capacity. We have to see how the domestic market will receive it. We also have to take a look at the foreign market because sometimes, we will have to expand the plant.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you. Thank you, Rafa.

Operator

Our next question comes from JPMorgan.

Q - Ricardo Rezende {BIO 16469276 <GO>}

Good afternoon, Rafa. (Technical Difficulty) good health. One is the point that you mentioned already. What you've done -- how to help with accounts receivables, could you tell us what this represented? And if it represented more than the financial impact? What

about imports? April and May were months of high volatility, and there was a drop in a number of refineries in Brazil. What is your -- what will your import strategy be in the upcoming quarters, not only regarding the price of the commodity, but when you see Petrobras international companies, what is this impact -- how is this impact -- how is this import going to impact your strategy in terms of imports?

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Ricardo, this is Rafa speaking. I'll start with the second question, and Andre will answer your first question. Andre will talk about the support we give to the network. I will talk about the view that we have about imports. Our view, we are -- have a vocation of buying fuel and delivery to society. We have no ambition of telling society, what fuel, what energy they have to use, but our aspiration is to be able to deliver this product to society, whatever the decision is, and we have no vocation of being refineries or producers. This is not our expertise. So what we have to do properly if we are into purchase product or to buy energy to have the best sourcing. This is why this is one of the initiatives. And the decisions have to be the best opportunity. We have to see the best product that has the best quality, the best energy for society and at a better financial condition because we're talking a product that will be commoditized.

And then what we're seeing right now, in the current environment, is that we have major fluctuations with produces in Brazil, abroad, and this is influencing our decision. But there is a concept that I have to register, before we decide to import, we have to be reassured that we will have this demand. There is no use in -- I always say, there's no use in winning a vessel that can make sense and -- or ship that can make sense, and then we don't have demand for what this ship is bringing. This is the first concept, that we bear in mind. This is something that we have to identify. Now I guarantee that being keen is -- on a daily basis, they see every opportunity that appears to buy the best product possible, at the lowest cost possible because we want to deliver good value to our customers. So this is something that we're constantly analyzing, and this is part of our 10 initiatives. And here, you can see how important it is to be reassured of the value that we have. And we'll work -- and to work on them and to continue with working with them very diligently because these are the ones that create value. So if we wouldn't have made progress with outsourcing, we wouldn't have made product progress with logistics, we wouldn't have made progress in pricing or value proposition. It would have been much more difficult for us to have this current situation, and we would be in a situation that wouldn't be very good.

But now we have the size and we have an aspiration of the market neighbor, so yes. But I want to say holistically and pragmatically, yes, we are constantly analyzing this and we see a positive evolution in the trading area, and we're seeing all the other drivers that are possible. And we are very sensitive because Petrobras, as the only local refinery, is very sensitive, very proactive to talk to the market and to talk with BR. That is one of their greatest customers.

Regarding possible flexibilization, regarding local purchase because they also have to defend their local market share. So here who are in the sustainability part of the chain, we've seen opportunities how Petrobras is flexibilizing in the market. They also carried out a number of options in the quarter. They adapted their local purchased contracts. So this

dynamic of downstream, and we're really going to change. A lot of this will be beneficial for BR, for the country. We will have many opportunities in the future.

A - Andre Correa Natal {BIO 21073585 <GO>}

Now how we help our resellers and how we extend this to our customer base, and this is something that encompassed our B2B segment and segments that were affected by the crisis. So -- and your question is interesting, what is the reach of all of this? We adopted a number of measures. We postponed leases. For example, we suspended the payment as part of the leases. And this -- over -- we're talking about 400 gas stations, they are our own gas stations. And also we estimated grace periods, they could pay in installments, but something in the future. So we have been very solid there because of what the crisis has brought to our partners, and we are offering these solutions, so this is encompassing. We also suspended the payment of the marketing fund, this with our convenience stores. And we also created important partnerships. So yes, there are a number of measures. There is a part that is more direct.

What would be the debit negotiations for accounts receivables, if it was due or not? In some cases, there was an increase of demand for this type of negotiation. And as Rafa already mentioned, we have negotiated and we have engaged the credit committee, analyzed in case-by-case the situation of each of them. What I would say is that there was a peak situation for these type of negotiations. That was -- or lasted about three weeks. It went from the last week of March and the two first weeks of April, and I believe that the peak of these cases.

And subsequently, what we saw was that the number of new cases dropped and it went back to the historic level, so we no longer saw any type of new deteriorations in terms of credit or new requests of renegotiations. It's not that there are no new. But this was aligned with the historic pre-crisis level. So we've seen case by case, it's not even 5% of our base. So I believe that the number is even lower than this. And it is important to be specific. So we analyze case by case, as I already mentioned, when we talk about credit. There is no blanket solution. No, there's no blanket solution. It has to be specific. So yes, I would say, in terms of debit and credit negotiations, this doesn't represent even 5% of our base, but the other measures are highly encompassing in terms of reach.

Q - Ricardo Rezende {BIO 16469276 <GO>}

Thank you.

Operator

Thank you. We bring our Q&A session to an end. Mr. Rafael Grisolia has the floor for his final remarks.

A - Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon. Thank you very much for everyone for participating in our conference call. We are a soldier to the Brazilian society during this moment of crisis. We have had a high number of deaths, but we also believe that there will be a moment of recovery. We

are aware of our responsibility before Brazil, before our suppliers, before carriers, our customers, our resellers, our industrial customers, our aviation customers. We know that we are responsible for this dear team. I would like to thank everyone that is working in our operations, all our team that is working remotely.

And we continue enthusiastic with our new project. We believe in a cool BR with -- because we deliver a lot and how can we help Brazil and Brazilian society to continue growing. So we are highly reassured. Although we have lots of people working remotely because here, we see how work is evolving. So we are enthusiastic, still running a marathon in order to create more value inside BR. A big hug to everyone, and thank you very much.

Operator

Ladies and gentlemen, the audio and the slides will be available in the Investor Relations side of the company, ri@br.com.br. Thank you very much.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript