

Q1 2019 Earnings Call

Company Participants

- Alipio Ferreira, Executive Director of Operations and Logistics
- Jose Lettiere, Chief Financial and Investor Relations Officer
- Marcelo Fernandes Braganca, Executive Director of Retail and Gas Station
- Rafael Salvador Grisolia, Chief Financial and Investor Relations Officer

Other Participants

- Analyst
- Andre Hachem
- Bruno Montanari
- Christian Audi
- Gustavo Allevato
- Luiz Carvalho
- Pedro Medeiros
- Pedro Soares
- Regis Cardoso
- Vincent Falanga

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to the webcast for the conference call of the earnings release of the Petrobras Distribuidora with analysts and investors and the presentation for information regarding the first quarter 2019. We inform that participants would only be in listen mode. And after the presentation there will be a Q&A session. When further instructions will be given. (Operator Instructions). Here with us we have, Mr. Rafael Salvador Grisolia, Executive CEO; Jose Roberto Lettiere, Executive CFO and Investor Relations Officer; Marcelo Braganca, Executive Director of the Retail and Gas Stations Area; and Alipio Ferreira, Executive Director of Operations and Logistics.

I would like to remind you that this is being recorded. We remind you that please pay special attention to Slide number 2, that has a warning to investors and advisors. This presentation may contain forecast about future events. Such events only reflect the expectations of the company's management about future conditions of the economy in addition to the areas and performance of the financial results of the company. The words anticipate, believe, expect, foresee, pretend or intend plans, projects, aims to and should as well as other similar terms aim to identify such forecast which of course involve risks

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It is advisable therefore that the reader won't be exclusively based on information contained herein. The company is not obliged to update its presentation and forecast in the light of new information or future development. Announcing from -- for the year 2019 forward are estimates or goals. In addition, financial and operating figures included in this presentation are rounded figures and therefore the total values presented in charts may differ from the total value added -- when you add the values, that precede them. Finally, I would like to see highlight that this presentation has some financial indicators that are not recognized by BR GAAP or IFRS Such indicators may -- do not have meanings that are standardized and not -- may not be comparable to indicators with a similar description used by other companies. They should not be considered isolatedly or in comparison to other financial goals.

We will now pass the floor to the CEO of Petrobras Distribuidora who will make his comments, and then, the company managers will be available. So Mr.Grisolia, you have the floor.

Rafael Salvador Grisolia {BIO 16673583 <GO>}

Good afternoon, everyone. Before anything else, I'd like to leave a message. Congratulations for the return of Petrobras Distribuidora. Because differently from our last interactions in earnings calls. I'll give you like a summary view and the return of the CEO of Petrobras Distribuidora. And after that, we'll answer your questions. So I reinforce, the fact that the project of Petrobras Distribuidora has always been very important to me.

After working at Petrobras, I have a better understanding as well as the holding company - holding shareholders in terms of investments. And I would like to emphasize that then the whole agenda that was shown to investors is present in our plans of BR So, the message is of continuity. But a continuity that based on our goals of the IPO, we have a large focus based on the pillars that we've established at that time. Differently, from the moment of the IPO, it's also important to highlight the external environment is different. I mean, the way society sees the distribution of fuel has changed since we went public. Now there is a better understanding, people have asked more questions and there have been clarifications as well as all the accounting and regulatory bodies. And therefore, BR Distribuidora has even more responsibility to show to society its role as a distributing company and its reason to be -- to make a product that -- make it at the refinery and bring it up to the vehicles. So this is important. And this is the demand from society and we like to meet that need. So, this is -- as we communicated to the markets, one of the first things we'll do is the truck driver card, . That will be very important for this market. Of course, it will evolve and develop as it's used, but we're working to present this product to the market. So the agenda of the IPO is reinforced, therefore, I would like to remind you again that, the readings that we had are very important months. The logistics of BR Distribuidora is present throughout the country. We identified metrics in comparison to our main competitors. We have GAAP in profitability. We have discussed during the IPO some points, such as, for example our pricing, policy as well as sourcing, but always keeping the

discipline of maintaining the scale and market share as we had envisaged in our growth metric, and

the pillars of SG&A in terms of how we can work to improve efficiency in SG&A. Another important point during our IPO was the brand name Petrobras is a message for Petrobras Distribuidora. Petrobras understands that Petrobras Distribuidora is a brand that is directly in touch with the consumer. It has to translate excellence in service to end users, that's the gas stations, the service stations and as well as to our industrial and commercial customers.

The agenda of additional value in the business that will add value that include the lubricants and the convenience stores, loyalty programs as well as means of payment. So it's important to have an additional agenda as in terms of digital transformation because we'll be able to provide a digital access to all business in general as well as the refinery because it's important to -- for end customers to understand the business as a whole and to reduce SG&A.

In terms of metrics, I would like to give you some quick and important highlights. Again, we had the effect of receivables from Eletrobras. The negotiation was made from a Eletrobras with Petrobras representing Petrobras Distribuidora and we see how that is reflected in our business and net income. However, we did have improvements in markets and our main segments. There have been some historical gains and inventory gains that's present in the gross margins. We are analyzing those comparisons as soon as we have more data from the market to try to understand how much of that will last. And the market share and scale, we interpreted as an improvement although it still concerns us because we must have consistency between balancing our pricing policy and our presence and volume in the market. This is also reflected in the fact that we expect an improvement in this area and possible interpretations throughout the quarters in terms of short-term figures. This quarter, we've had the impact of IFRS 16 which is reflected in our EBITDA, an impact BRL four per cubic meter in our EBITDA. And it has also the other side of it was an increase in debt and the ratio net debt over EBITDA. Not considering as IFRS 16 it would be closer to -- it would be a better figure. So the leverage is very low. And we have declared dividends already. So in terms of my personal and professional life, it's very important to be back to BR Distribuidora. The figures and everything is in the release, as well as in the presentation. That's available at the webcast. So I think, I would like to go straight to the Q&A session. Please feel free to ask.

Questions And Answers

Operator

(Question And Answer)

Questions that are not answered in this conference call can be send to the IR address to be further answered by the company. The first question is from Luiz Carvalho from UBS.

Q - Luiz Carvalho {BIO 18040760 <GO>}

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Good afternoon. Welcome back and good luck to you. You can count on us on whatever is possible. I have two questions. The first one, Rafael is, you mentioned the IPO and there is a process that mentioned by Petrobras itself. And given your recent -- the fact that you came from Petrobras, I would like to ask you, what are the main difficulties? And what is the time line of this possible offer? And what can we expect? How can we reconcile the dynamics from the court of accounts and the market?

And the second question is -- would be to Alipio or Braganca. We've seen an improvement -- a significant improvement in the margin in this quarter and the consequence of that is a loss of volumes that is considerable. So, I would like to understand, how could we discuss the balance of this process? I know it's extremely dynamic given market conditions. What would be the balance point for this margin in terms of losing market share, and recovering margins? What could we expect in that towards the future? And how much of that margin was given by the recent changes?

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

Okay. Thank you, Luiz, for your question. I'll try to address both questions because I believe there is some correlation a partial correlation between them. And then I'll turn over to Marcelo Braganca. As for investments as for the lower share that Petrobras will have as a shareholder of BR on the Petrobras side we've made a formal announcement in terms of the analysis and the moment of the analysis as well as the shareholding at Petrobras Distribuidora. I go back to my initial point in this presentation that the agenda of value of any shareholder including the controlling shareholder, should cease when Petrobras Distribuidora goes public. Any decisions, any movements regarding that has to be looking at the value agenda. So, if approved, if analyzed, and it is understood that on Petrobras side that that would add more value for Petrobras as well as for shareholders of Distribuidora, that is something that could be sought after. But, since we're a government-owned company partially we have some compliance issue or governance issue, it will be communicated in a timely manner.

Now going back to your second question, and then I'll turn over to Marcelo. I think it's important, because the basic problems of Petrobras Distribuidora are in the three pillars from the business. So, this is what I mentioned, this agenda with development and focus. We must look for leverage for additional value. But we want to also be effective in pricing, sourcing to ensure level of gross margin and be effective in the reductions of SG&A,

so much so, that we're able to gauge the volume. Because if you lose scale, you'll end up affecting your metrics and the analysis that the other metrics that Petrobras shows to analyze its figures. It's real per cubic meter. So, losing sales goes against this, if you don't do anything to reduce SG&A. So everything must be balanced out. So we -- there is an agenda. And given the external market condition, for example, last year was a very difficult one, because we had the truck drivers' strike and several other movements. But we have to remind ourselves that the value that we could offer to continue giving -- empowering our efforts. So, let's keep that in mind and read the structure given the conditions of 2019 and take everything into account and find the best points for this equation to work out.

So, of course, cost reductions will help us to balance things out and to have a consistent pricing policy and with an effective sourcing to ensure continuous growth and conversion.

I will now turn the floor over to Marcelo.

A - Marcelo Fernandes Braganca {BIO 20453916 <GO>}

I think you said it very well, Refael. Just adding to the points of balancing margin and volume. We've mentioned in the last quarter that we improved the BR network. We cleaned from the portfolio. We did like a cleaning process. We've eliminated this removed from a network. And now we're more focused on more attractive customers that would help us improve our positioning and brand positioning and value positioning to customers. Of course, the trade-off of price margin and volume in the very short term you could tackle it in a more aggressive manner in terms price and it will be faster. However, we are focused on a more sustainable growth through planning of a network, not only in terms of quantity, but also looking at point of sale that makes sense. So it makes sense to wait for this to mature in order to maintain more sustainable margins. And volume starts to increase as well.

Q - Luiz Carvalho {BIO 18040760 <GO>}

If you allow me to give next two follow-ups. As for the idea of selling part of it does it make sense for example, to sell the convenience stores on any strategic partners before defining the strategy of Petrobras? And second, Marcelo you say that the loss of portfolio, that brought led to a loss of volume that we saw. Has this process ended? Or could we expect a continuity in the loss of market share for the next quarters? Or do you believe that this process has been completed now?

A - Marcelo Fernandes Braganca {BIO 20453916 <GO>}

Luiz let me make it a comment. With regards to the convenience project, what -- we've said what we can say to the market. When we talked about going public we have designed and projected for convenience, because convenience stores help the business in the profitability and adding value to the business for the network of gas stations. So the idea is to also find other ideas and partners that would add more value to this area within this logic of adding value. So each one has a different had now -- wearing a different hat? Of course. If the controlling shareholder Petrobras decides to reduce its shareholding or its interest possibly the process that will be followed would be going to the -- going public using the capital markets, then it would be free competition according to CVM Novo Mercado rules.

As for market share, I was telling Marcelo, nobody intends to reduce market share. Otherwise, we'd be fired right? But, we must take into account that we need profitability and volume. Not or volume, and volume. So yes this is the decision we made to continue with this point of view. And you said it very well finding the balance for this equation is very important in a consistent manner. We must service our customers with consistency.

Q - Luiz Carvalho {BIO 18040760 <GO>}

Okay. Thank you. That's very clear.

Operator

Next question is from Gustavo Allevato from Santander. You may continue.

Q - Gustavo Allevato {BIO 18933135 <GO>}

Thank you. Good afternoon, everyone. I have two questions. Welcome back Rafael. I would like to understand, in this 10 years, you are not in BR. If you could list your main priorities now looking at BR in the months to come in terms of strategy. And my second question is more of a short-term one. We've seen an improvement quarter-on-quarter, year-on-year. I would like to understand, it whether this has been more of a one event related to the first quarter or this level could be projected onwards. Thank you.

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

Hello, Gustavo, thank you for your questions and for welcoming me back. I think, that these are the main points that we're trying to address. I want to convey the message that, this is present not only in the business plan of the company, but the value agenda of when we went public at the IPO So it's a message of continuity, of development and focus. Focus with regards to what we defended, and we believe it is in our business plan. So we have the three pillars, the first two are a an endless search for -- to increase gross margins, and the reduction of SG&A. So all these facts were implicit in the issue of the scale is important, because the metric to measure the value is related to volumes.

In addition to that there also additional value leverages regarding the project that we continue to work on lubricants, adding value convenience stores, profitability, and means of payment. So, all of us, Brazilians, become sensitive to fuel issues; and we, that are fuel distributors, must be sensitive to that as well and explain to society our role why does the Distribuidora company exist, what is the logistics, what is the role of BR Distribuidora in the markets mechanisms and questions -- and answer questions that the society May have about that.

So today, the external environment is different from when we went public. So, it is a priority of BR today. By being sensitive to the questions of society, we try to present a market product that meets our goals and needs. And that has become concrete in the truck driver cards that could help in the personal purchasing decision of each truck driver. It's a product that we intend to launch soon. I think, these are the two main agendas that I have talked about.

I will now turn the floor over to Lettiere to talk about the expenses.

A - Jose Lettiere

What I can say that this is a trend we have observed since last year, the search for a strict budget control. As you may know, the company, we use a zero based budget and this is spread throughout the areas of the entire company, all the areas. We've had a reduction of 10% in operating expenses when compared to the first quarter of 2018. So, we more than offset the inflation. So, this is one of the goals to be sought after and to be measured

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in order to have a larger market profitability without losing quality or without decreasing the level of services and delivery.

Q - Analyst

Okay. That's very clear. Thank you for your answers.

Operator

The next question comes from Bruno Montanari from Morgan Stanley.

Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon, welcome Carlos. Thank you for the presentation. It's very concise in the beginning. About the truck driver card, could you help us understand how it would work? What's the dynamic of it in terms of price, distribution at retail? Is it to split in the chain somehow? And about the convenience store, regardless of what is the partner, does the process continues and may be completed before the schedule? Or something do you expect to take longer? As for release, when you talk about the Duke network, what is the deciding factor for this agreement to be passed? So what did BR ask in terms of advantage and benefits? I would like to understand whether it brings any upsides for the conversion plan that you have for 2019. Thank you.

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

Hello, Bruno, this is Rafa, again speaking. Thank you for your questions. I'll ask you to be patient and look with care towards the truck driver card. I know it's a different product. It's a market product. We're interacting and making several tests, interacting with several people. So, I will ask you to be patient a bit and wait, because we can't anticipate and because there is competitiveness. That's part of the game. Since it's a market product, we cannot tell you in advance more details. But soon enough, you'll know when we present it to the market and you'll have more details. So we'll discuss it sooner, okay?

The message I wanted to convey regarding our value leverages in lubricants, convenience stores, loyalty programs and means of payments that the processes do not need to stop due to a decision on how we're going to behave in terms of the interest of Petrobras in BR. They have their own time dynamics, that interact with convenience projects as well as other projects on a step-by-step process. So, you won't necessarily need to stop them, on the contrary, because it is in our agenda -- value agenda to deliver such value. So, if Petrobras does confirm a reduction in its interest, it won't stop the project. We have to show with current investors future investments or -- what has been our progress in this project. As for Duke, the Duke network station or gas station. Well, the Duke network, this is a negotiation that's been going on since last year. We were dating each other, negotiating, , as we say in Portuguese. And it is actually a relationship that's growing again. We used to have that relationship. We're increasing it. And we have discussed during this period our growth plan, especially in the state of Sao Paulo. And they have their own plans as well to grow. The other point such as brands and products, the relationship that BR has with its network are a very close one. Everything was considered. But I would summarize it in a strategy on our side to grow on a planned way, especially in the state of Sao Paulo, in addition to their plan to grow in the business. So we have united

and it has efforts and it's been positive for the company and Duke network, and at the end of the day for consumers in general.

Q - Bruno Montanari {BIO 15389931 <GO>}

Okay, thank you very much.

Operator

The next question comes from Andre Hachem from Itau BBA.

Q - Andre Hachem {BIO 20209966 <GO>}

Thank you for the questions. Welcome back, Rafa. And my question is about the aviation segment. There has been a significant drop in margins in the first quarter because of a very one important customer that's no longer operating, Avianca. And since Avianca happened in the first quarter there's nothing recurring in this quarter. Do you believe this current margin level is sustainable? There is non -- any other nonrecurring events for this quarters. Have you identified possible synergies that would come from this process of new activities maybe, such as engagement or hiring? How do you see the possible actions post project?

A - Alipio Ferreira {BIO 20511273 <GO>}

Hello, Andre, this is Alipio. I'll talk about the aviation question first. In this quarter, we have had the impacts that you mentioned of Avianca. It is a significant amount. And then another customer we had an impact caused by. It's a customer that stopped flying and was -- had a loss of volume because seven aircraft stopped flying. And in terms of margins there was an impact in diesel and gasoline. The market went up throughout the quarter, but the pricing in the aviation segment was a reduction for twice -- two times -- we had twice the price reduction in aviation. So, this was the main impact in the aviation sector.

We also had an effect on the volume that's delivered to international companies, that we hedged for that. But the result may have had an impact on the margin of aviation. That is offset by financial results, not necessarily in aviation, but that was significant. So, there were periods in which the Brazilian real appreciated when we were sending values abroad to international companies. So, everything influenced the result.

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

This is Rafa speaking. Thank you for questions. I'll try to answer your question, Andre. It depends on a final decision by Petrobras. But once again, I go back to the pillars of our IPO. If you remember the third one, there was in the base business a comparison of sales to our main competitors in terms of SG&A. We're talking about BRL 15 to BRL 20 per cubic meter. And we identify a higher SG&A. So, any agenda that brings a reduction in the interest of Petrobras in BR that would help our team to meet this goal -- to reach this goal that we have agreed upon with minority shareholders as well as investors, will be sought after when we think about any future decisions. And any future decision about the interest of Petrobras in the capital of Petrobras -- BR Distribuidora should help in this agenda of efficiency. So, it should help the management to deliver on this commitment that we

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made with our investors in terms of reducing, and providing a better way to provide value and meet the needs of our customers the best way possible. So, this is one way of interpreting a situation in no longer being a state-owned company. The law of state owned companies has the governance aspects. That's very important. Governance remains an important value, at Distribuidora. It's a key value as well as safety which is key. This is a value of Petrobras Distribuidora But some points that the law state owned companies bring for companies that have to compete in the market, it creates a series of difficulties in terms of procurement, for example, dealing with people management. So, it's more about the law and the difficulties that it brings. Because when the company is in the market it's different from a state-owned company purely. So, we're trying to address your question in the best way possible.

Q - Andre Hachem {BIO 20209966 <GO>}

Okay. That's clear. Thank you. Alipio mentioned the reduction in the aviation inventory, right? Could -- or this loss of inventory. Could you quantify that? Could you, there has been a gain in inventory in retail. Could you explain a bit more?

A - Alipio Ferreira {BIO 20511273 <GO>}

I'm looking at the figures and everybody's nodding here. So we should make more calculations and work better on the interactions with you, analysts, to provide more information about it. So as I said in the beginning, the margins in aviation, there has been a loss of inventory. And we need more information from the market in terms of our competitors in general, how they behave so that we can have a metrics for comparison. Internally, in terms of SG&A and gross margins, we need to look at our main competitors. So, we need to look at more information from the market so that we can have a better way to interact with you, okay, on that note.

Q - Andre Hachem {BIO 20209966 <GO>}

Okay. Thank you.

Operator

The next question from Regis Cardoso from Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, everyone. Thank you for the question. It's good to have you back, Rafa, at the conference calls of BR I would like to go back to the topic of a specific result of the first quarter of 2019. It was a strong one. And of course if it remains so throughout the year it will be very important for the company. So, if you could quantify -- I know it may be not possible, but if you could list at least the different lines of business. What were the effects? For example, you've mentioned that the inventory in B2B and retail, Marcelo, you mentioned there's the cleaning of the retail network in B2B So in addition to those two figures -- two facts, anything else that contributed to the gain of margin in the corporate segment as well as the product?

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And the second question is related to market share variation. Do allow me, I disagree from my colleagues here, because BR has gained market share, in fact, when you compare quantities month-to-month. So, I would like to understand how do you see this? I mean, it increased its market share in a more competitive market. So how do you see your competitive competition dynamics in terms of arbitration, experts, any business that had a comparison -- a compared import in terms of white flags. I would like to understand this balance between margins and market share, and if you believe that towards the future you would recover market share and margin. Thank you.

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

Rigs, this is Rafa speaking. Thank you for your questions. Reigs, I will try to answer you. Going back to the initial point of my speech regarding the specific understanding of the first quarter the stock or inventory gains in the several segments, we need more information in my comparisons, in order to be sure how much that is effective in terms of our comparison metrics, especially to our competitors. So, it's important for us to have more information that will come in the next week so that we can be more sure about what we're talking about in each segment. Of course, gaining and losing inventory for a distribution company, this is what we do. This is our life. But there's also the replacement margins that we look into. So here there is a plan that was made in terms of each segment and the positioning of margins. And we have seen throughout 2018 this is several reasons, a result and a market share trend as well as a volume trend.

So, finding the right spot on where to position yourself, because after the fact you just measure the effect on inventory. But actually, it's important. So, how can we price the products today looking at what we believe will be the result in the future? So, this is what we need more market information to make sure that this trend that we seek in terms of margin goal will not cause an effect that will damage scale because, scale is important for distribution companies, because that affects our cost units. So we need to gauge that very carefully. I won't give you any figures, because we are still in the planning phase, but we'll certainly search this balance looking at the success that is based on the value pillars. The growth of volume in the network of gas stations comes from the larger conversion of gas stations. In terms of B2B in general it has a direct correlation to the LIBOR of economic activity, because that would allow us to increase pricing as well as volume. This is our own strategy for consistency in the next quarters. We will discuss that more in detail in the next quarters. This is what I can say for now.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay. For a more objective follow-up, in the segment of corporate customer is there an explanation that would -- you could give to the growth of some products? And how do you see arbitrations given the price changes awarded by Petrobras?

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

Hello. I'll first start talking about arbitration, because it's clearly connected. Arbitrations are lower, Petrobras prices are much closer to the import prices. Petrobras today accounts for a larger segment, a significant segment and -- of diesel. And therefore, it's operating at its units with a higher load which has generated in higher volume of cuts in this quarter in the special items segment because this product increased not only the volume, but the

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price. This product is a more noble one. So the prices are higher, so we did this work in the special products area. So there is a clear connection between these two issues.

In addition, there's a better margin in the chemical product with the segment of added value products, which also increased the -- improved the corporate segment. In addition, there is a strategy of improving margins for transportation, and mines. And it's important to notice that the drop in volume is associated to a large industrial customer from the north, that's operating a very much lower level than last year. So the surge of margins did not necessarily lead to a drop that we've seen in the corporate market segment.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you. That's very clear.

Operator

The next question comes from Vincent Falanga from Banco Safra.

Q - Vincent Falanga

Good afternoon. Thank you for this opportunity. I have only one question out of the main business of the company. It's about the gas distributing company in its pretty substantial stake. I believe -- I would like to know whether you could give us an update on this process. How are negotiations? Are they progressing or not? Any update in that area would be very helpful. Thank you.

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

Good afternoon. You are right. Yes, we're ending with a final agreement with our stakeholders at Espirito Santo. And that's important for the next step.

Q - Vincent Falanga

And do you expect to start this process in the first half of the year or more towards the end?

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

Yes, possibly in the first half of this year.

Q - Vincent Falanga

Thank you very much.

Operator

Next question from Pedro Soares from BTG Pactual.

Q - Pedro Soares {BIO 20879952 <GO>}

Good afternoon, everyone, and Rafael, I have a question about the gas station network. We've seen that the productivity decreased again a bit. And I know there is an effect of drop in volume in this segment. But could you give us some more color on the actions you're taking to get to the proposed efficiency level? As well as the partnership with the Duke network, are you optimistic in thinking about adding your brand name to other networks, for example?

A - Marcelo Fernandes Braganca {BIO 20453916 <GO>}

Good afternoon, Pedro, this is Marcelo speaking. In fact there has been a drop in the average volume. The basis of -- the number of gas stations increased and the average volume dropped. So, what we're trying to do is looking to changing this portfolio to grow, not only in quantitative terms, but also in quality. Duke has a DMM that's higher than our network. So, we are looking at opportunities in any areas of the country, in all regions doing that low work going gas station to gas station of white flag ones and branded, as well as large brands. Because it's important as a natural moment in the market to qualify -- to add quality in our point of sale so that we can increase the average volume so we did in our network in general. This is the strategy.

Q - Pedro Soares {BIO 20879952 <GO>}

Okay. This is very clear. Thank you.

Operator

The next question is from Vincent Falanga from Bradesco BBI.

Q - Vincent Falanga

Welcome back, Rafa. With regard to a future offer do you understand that Petrobras? Would own a significant interest in BR capital, would that have to be approved at the TCU, the court of account like for example or CBM rules, the Brazilian SEC? Or the

second question is, I don't know if you can comment about this partnership you made, a question we have if this new partner whether will buy any interest in the franchises you own?

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

Thank you for your questions. This is Rafa speaking. Thank you for welcoming me. And as for a possible decision of Petrobras to reduce its interest in our company or there is no specific approval that is a condition for the deal, just the regular process that Petrobras follows in investments. Reminding you that BR is a company listed at Novo Mercado, so if they decide to go on with this idea to reduce their investments it would probably happen through the capital markets channel. So, there may be a need to revisit some points, set bylaws. And at Petrobras any new interpretation of the bylaws must be rediscussed with the CVM and SEC. But when this happens -- if this happens in a timely manner, of course, we would not be considered a state owned company according to the state company's law. I'll now pass the floor to Marcelo.

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A - Marcelo Femandes Braganca {BIO 20453916 <GO>}

I've mentioned before, we're looking at several models. One model that's being discussed in terms of partnership is to get the assets we own today or the franchise agreement and manage them somehow in which the operating and corporate measure model is with the partner because BR is not selling its business. And I would like to reinforce that. We identify that we have a great potential to add value to BR and resellers and our franchisees, including also a model to have our own company, our own operations that could add scale. And some partners could bring some assets that could be combined. So we are advancing in this project. We are within schedule. We are then at the discussion phase, and then we'll go on to the next step of decision making process according to our governance decision.

Q - Vincent Falanga

Okay, thank you. Would there be any cash coming to BR? But shouldn't be an -- if there is no cash income and cash, shouldn't it be compensated given the agreement or contracts that it has already?

A - Marcelo Femandes Braganca {BIO 20453916 <GO>}

Well, one of the models is that the valuation in this business on a standalone basis is included in our analysis. So that could be a cash inflow immediately or we could agree to a combination with some assets brought by a partner. And the combination of these assets could add even more value in time in terms of executing our growth plan in the network. So, this is a discussion, but it could be an initial investment, yes. We'll look carefully into all the possibilities.

Q - Vincent Falanga

Okay. Thank you very much. It's very clear.

Operator

The next question is from Christian Audi from Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hello, Rafa. It's a very objective question. You mentioned that there is a dynamic of continuity and evolution in terms of the pillars, in the two pillars -- of gross margin and SG&A. How have the targets of these two pillars evolved? What is the cutting target for the -- you'll work away for SG&A and improvement of gross margin?

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

Thank you, Christian, for your question and for welcoming me. We don't have all the figures from other data from the quarter, because they're metrics from competitors in addition to cubic meters. Also a few -- we need to compare our figures to our main competitors. In this quarter we don't have all the data available. So it's hard to compare those figures. If you look at the data from 2018, they are very similar. So there was a development. Some competitors evolved differently at the moment of the IPO. But when

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we look at something that we aim for in terms of market value and creation, the figures are there. I mean if we compare our EBITDA per cubic meter at the closing of 2018, it was BRL 62. Then when you look at the best competitor last year, it's above BRL 100 per cubic meter. So, in the EBITDA line there is a significant difference. So, at least half of it, at least BRL 40 something is in SG&A. So, this is what we're going to focus on now. So as I mentioned, we'll focus on the continuity of development and focus, so focus on this profitability gap. And then the results of the first quarter will be important to guide this next actions that we'll take in order to increase volume.

Q - Christian Audi {BIO 1825501 <GO>}

So in the SG&A, Rafa, you mentioned BRL 15 to BRL 20 per cubic meter, right? Does this continue to be a target from now on? Or you were just recalling what you had mentioned during the IPO?

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

Yes, this is the minimum. And any future decisions of Petrobras regarding the size of its interest in BR Distribuidora, they are still to be confirmed and if it happens may help us in the search in time of course. This is not something that would happen in one quarter. But with time, to -- it could help us to reduce SG&A. Again, the law of state-owned companies has a good element in terms of governance and discipline in terms of governance and we won't let go of that ever. But there are other elements that are quite difficult in terms of management.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Last question, Rafa. We have heard some comments from the government recently of having Brazil being controlled by three companies only. How worried are you about the fact that the government may try to change the dynamics of this segment?

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

Excellent question. And I think that in my initial speech when I made a comment about the pillars of the IPO and reminded you that this point of view from the external international scenarios is different. So after the truck drivers' strike all of us Brazilians and the society as a whole want to answer this need of society. We're talking about 200 distributors in Brazil. So it is a competitive market. And the price at the pumps or the gas station is not determined by the distributor, but rather by the owner of the gas station. So, the economic situation is also important. I'm always mentioning, that we as a distributor of fuel, we must explain why we exist. How can we cause a product to come from the refinery to the car? So, outside from all of the inventory management issues there is a credit management aspect as well. We cause retail to grow. So there is a concern, yes. And we should communicate clearly and explain to everyone the regulators and society what is our role. Petrobras Distribuidora is a listed company at the Novo Mercado. We are transparent in terms of our segments. It's quite clear. We've been so transparent since the IPO. Look at the results in the retail network at the refinery in all places. So, the more transparent we are to society the better. So, yes, we want to show that to society that there is a real concern and also all the based also on all the consequences that follow the truck drivers' strike. So we must make clear what is our economic role. It is a competitive

market. This is a market that's been opened from many years ago. The distribution area has an -- it's very competitive for many years and there's many things that come from the past. I've been in the market for 30 years since and I've seen how much the market has suffered in terms of taxation, the way that taxes were collected, the tax dynamics that should give -- should provide efficiency in terms of competition. Of course, we need to develop and evolve. But everything has to be explained.

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Q - Christian Audi {BIO 1825501 <GO>}

Okay, thank you. For your clarification.

Operator

Next question comes from Pedro Medeiros.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Thank you, good afternoon. Welcome back. Congratulations on your results. I decided to ask my questions at the end because I have so many questions, that will be quite objective. First, could you comment how much would be the margin in the service stations segment for the company to consolidate your lubricant? So what I understand from your published data, lubricant went to corporate business. So, in terms of lubricant, could you comment on the progress of the extension on the planned capacity? Do you continue with that forecast of half of 2020 for the start-up -- or start the operation with a higher capacity?

The second question goes back to the improvement of gross margins observed in the gas stations or service stations segment. Could you comment whether there has been a highlight in the development of gross margin in the three main areas? And the reason for that is that in the past that company's management said that you were taking many initiatives to increase the competitiveness of the company. So, I would like to understand how this process progressed, whether it has advanced in terms of expected gains that you envisaged.

The third question, is about the reduction of gross margins. Could you give us an estimate of what has been in the fuels in the quarter? We've talked about the arbitrations. But I believe that there has been a contribution, and maybe a significant one from sales of imported fuels.

And the other questions are about investments and capital allocation strategy, I'll leave it for later.

A - Marcelo Fernandes Braganca {BIO 20453916 <GO>}

This is Marcelo. If lubricant had continued the way it was, we would be talking on an increment of BRL 6 to BRL 7 in the EBITDA margin. So, this result is not here. And we chose the first quarter of 2018 to be on a comparable basis, and it was reallocated to the corporate market. As for the dynamic of product margins, we have again said that the ethanol has a lower margin than diesel because of its dynamic. It has a higher

participation of a smaller gas stations the so-called white or -- white flag or -- and branded. And there are some unorthodox market practices that caused this market to be challenging. And therefore, we have to be more aggressive in terms of pricing to make our gas stations attractive, so in terms of improvement of supply in general, as a company. But in this quarter we have strongly worked on the margin of diesel and gasoline, so that it should be maintained consistence. And we expect an improvement in the next quarters.

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A - Alipio Ferreira {BIO 20511273 <GO>}

Hello, this is Alipio speaking. I'll start connecting with Marcelo. Actually the market has had an important presence in the last two years. This year we have a difference in the ethanol price due to the price of sugar, and this is one of the markets that most impacted by this unorthodox practices. And the distributing company has a 70% market share in diesel and gasoline, whereas in ethanol, it's less than 50% due to the presence of other companies with unorthodox practices. We are competitive. Due to scale and volume we are able to buy ethanol at the benchmark prices that are reported, so there is competitiveness. And there are several initiatives to make this further -- market more a competitive field. As for the scheduled lubricant plant, yes, we continue to work with the same date in 2020 for the opening. As for imports, arbitrations are quite modest in terms of what we used to see in the past. Since there was the truck drivers' strike and the progression we've incited, this market was dealt with by Petrobras and its refineries with less space for imports. We are present in importing sector, but without the activity we've seen before. So that's not the name of the game right now.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Okay. Wonderful. Thank you for your answer. I have to two more questions more to Rafa. This is, Rafa, I would like to understand about this strategy of capital allocation of the company. In the past, you talked about the portfolio of assets of the company, including the positives of investing into these gas distributors at the Espirito Santo. And there was an interest to work with some assets such as, energy generation, some energy generation agreements that were yet to be delivered. Could you give us an overview and some guidance on what you expect regarding other assets that have been announced?

And also the second question. Recently Petrobras announced a new area of business to invest under the refinery complex of the company in Brazil. Could you qualify or somehow comment on the interest of BR Distribuidora to take part in this process?

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

Thank you, Pedro. Good afternoon. Regarding your first question, now going back to the pillars of the IPO, it was then and it remains the idea of looking and I have these three words: continuity, evolution or development and focus. So we must focus on our value leverages and then the projects that we generate added value: lubricants convenience store means of payment. And there is an idea here at BR to keep focus on each business and its assets in terms of how much value they actually add to our strategy.

This is a part of our history that we need to have an important change. There has been a change in scenario. So, we need to revisit some decisions made in the past. But, yes,

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nothing is outside of our scope in terms of investments. Although, in energy and gas we must think about the long-term, what will be our role in the future. So, we may revisit some of these things, but not to be confirmed right now. The same applies to the decision of the Petrobras to this new business in refinery. Every distribution company, especially the distribution -- fuel distribution company in the country must look into this topic with two points of view: one, that the purchase, it still continues the way we see it looking from outside of what Petrobras did, that there won't be only Petrobras to buy product. So then we would have a more interesting dynamic for to make decisions as a distributor company. In terms of how much we decide to import or buy from Petrobras, then there will be an additional dynamic what are the threats and opportunities you may buy from Petrobras in the future or import or buy from refineries that are not necessarily owned by Petrobras. A decision from BR to have a participation in refinery, as a distributing company we have the duty of looking into that. And of course we will do that. For future decisions we have to look at everything.

Q - Pedro Medeiros {BIO 16187063 <GO>}

Wonderful. That's very clear. Thank you very much. Welcome back again, and congratulations on your results.

Operator

Thank you all. This ends the Q&A session of the call. I'll now give the floor over to Rafael for his final remarks.

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

So again, I would like to reinforce -- I can be more emotional now that I'm no longer the CFO I'm so happy to be back to BR and because of everything I believe in terms of capacity to generate value that this company has. And right now, to me in a personal and professional point of view, this is a very important moment working with this team, with everyone that makes the wheel turn here. And for all -- thank you for your support thank you for your participation. And we remain available for any questions you may have.

Operator

Ladies and gentlemen, the audio of this conference as well as the slide presentation will be available at the Investors website of the company www.brir.com. Thank you very much. Have a good day.

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