# Y 2020 Earnings Call

## Company Participants

- Andre Correa Natal, Chief Financial, Procurement and Investor Rrelations Officer
- Marcelo Fernandes Braganca, Interim Chief Executive Officer and Chief Operating, Logistics and Sourcing Officer
- Unidentified Speaker

## Other Participants

- Andre Hachem
- Bruno Montanari
- Christian Audi
- Luiz Carvalho
- Regis Cardoso
- Thiago Duarte
- Vicente Falanga Neto

## Presentation

### Operator

Good afternoon, ladies and gentlemen. Welcome to Petrobras Distribuidora webcast and conference call with analysts and investors to present our results of the fourth quarter of 2020. We inform you that participants will attend the webcast and conference call on listen-only mode. The presentation will be followed by a Q&A session, at which time you will receive instructions. (Operator Instructions) Today, we are joined by Mr.Marcelo Braganca, CEO -- Interim CEO; Mr.Andre Natal, CFO and IRO.

We remind you that this meeting is being recorded. And this presentation may contain forward-looking projections. These projections are the expectations of company executives about future economic condition, in addition to the sector we operate in the performance and financial results of the company, amongst others. 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, different 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 new information or future development these figures informed for 2019 onwards are estimates or targets.

Now Mr.Marcelo Braganca has the floor, that is the Interim CEO.

## Marcelo Fernandes Braganca {BIO 20453916 <GO>}

Good afternoon to everyone first and foremost. Before we go to the Q&A session and the results of 2020 and the fourth quarter, I would like to strengthen some messages throughout of the year 2020 was the first year since the privatization of the BR. And with all the challenges of the pandemic, we made progress in our transformation agenda, did more than we expected. Our resilience soundness before an adverse scenario were successful because we have a committed team, a committed, compromised team.

So I would like to thank our 3,400 employees that have done everything for this company. Our main indicators presented this year a consistent evolution, and now we're in a very good position in the sector. After a drop in volume between March and May because of the pandemic, we registered the gradual consistent performance. The fourth quarter of 2020, our volume grew above the pandemic levels, 3.5% above the last year. This volume expansion was followed by an increase of market share throughout all the quarters. In the fourth quarter, the result was 2 percentage points above 2019. And 2020, we were the greatest in quarters in fuel.

We also increased the supply of ethanol, adopting the best practices, adopting the -- putting practices during the harvest. And we had positive results in all quarters. Despite the volatility of the year, regardless of the price movements, we were able to capture gains regarding supply. All of this combined and was reflected in the company's EBITDA, that had the best performance in the history. The adjusted EBITDA was 3.8%, a growth of 22% vis-a-vis 2019, a unit EBITDA of BRL104 per cubic meter. Here, this is a milestone from a company, because in the past it was BRL66 per cubic meter. We closed the gap. And in 2020, we delivered gaps that were only expected for 2021.

This growth is a result of other initiatives in our value agenda. One of them was a review of our expenses. That reduced at over BRL1 billion when we compare to 2019. We also had important changes in the health insurance of our employees, our retirees, and their social security plan, that positively impacted the year and they will continue being relevant. These two actions reduced BRL2.8 billion in 2020, a significant drop of 64%. When we compare to our final position of 2019, the combined FX, the net profit was BRL3.9 billion, 77% above 2019. This is a good result. And this robust result is important to fulfill the long-term mission because we want to be a relevant company. In energy, mobility and convenience, we have made clear movement. We divested some businesses. We have gas -- compressed gas, CDGN.

At the same time, we made progress in new avenues of growth. We entered in the energy industry. We are distributing GNL, clarifying our location of being a power distributor regardless of the energy that is needed by our customers. Some years ago, we -- some days ago, we celebrated a partnership with Lojas Americanas for our convenience store. This is for the 1,250 BR Mania stores. And this is a partnership that we have with Lojas Americanas. And we have our own governance, and we want to have the best proximity retail platform.

It is important to say that, we created an important condition to expand organically. And organically, this year, our leverage went to 2.5x net debt over EBITDA. And in the past, it was 1 -- between 1x and 1.5x. Last year, we reviewed the ESG practices. We are the only distributor of fuel that is part of the sustainability index in B3. And we're also in the carbon efficiency index in B3. Our governance has been improved throughout the years -- was, then has been recognized. And we have received the maximum grade in governance. We increased diversity in the company with a number of other initiatives to mitigate the effects of the pandemic, together with our employees, partners, customers, and where we carried out solidarity actions. And we ended 2020 as a more efficient company, profitable, focused on the long-term, prepared to say energy transmission that we will have in the future. Our journey has just started.

Now we will go to the Q&A session where we will be able to explore the results of the fourth quarter of 2020. The results were very positive as well for the entire year 2020.

# Questions And Answers

## Operator

(Question And Answer)

Now we will initiate the Q&A session. (Operator Instructions) Our first question from Thiago Duarte from BTG Pactual. Thiago, you may proceed.

## Q - Thiago Duarte {BIO 16541921 <GO>}

Good afternoon, and thank you for taking my question. I will pose two questions. The first question is, I would like you to elaborate on brand dynamics. You ended the year to the growth in the base of gas stations. Could you please tell us how (inaudible) is taking place from the commercial point of view? I mean to the competition with the brands and regarding the perception of the sellers of white brands that continued gaining space last year and in the past year. But the growth of BR draws our attention, especially when we compare it to the private players of greater scale. Could you comment what your commercial position is? And premiums, for your brand, could you elaborate a little bit on these points and tell us what you're expecting in the future?

And the second question is regarding the fuel import scenario. As you mentioned in the opening session and in your release, the company (inaudible) a platform of fuel origination to complete the origination of the domestic market. But we believe that the import window has been tighter in the past months, especially in the past weeks. Could you tell us how you see this? We know that -- we would like to see how you see the supply in the short term. Thank you very much.



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

Good afternoon, Thiago, and thank you for your question. I'm going to start by the second question. That is imports, we are monitoring the market day-by-day. We have to see the international market every day. That is already incorporated in the company's strategy. And what we actually see is that the market has to align with the international prices. So we still haven't seen any structural changes.

Now it is obvious that we are following all the discussions regarding fuel prices, and we understand that any mechanism that is discussed to minimize the volatility and -- is welcome. Nonetheless, our view and what we believe and due to our past experiences is that the continuum, by and large, will be aligned with the imports. Now obviously, there is a strategic long-term view, and it has been implemented -- it is being implemented since 2019. But last year, even more intensively. And we had tactic and operational decisions in the short term. In terms of supply, we always see one or two months ahead, the entire dynamic, and calibrating the volumes that (inaudible) domestic and the foreign markets.

So we are trying to do a trade-off. There are moments that we diminish or we increase imports in order to capture more value. And to guarantee for proper supply for our customer base, this strategy was assertive in 2020, even in the most critic quarters when you saw the price of oil going from 60 to negative numbers. And some months, we diminished the imports because we believe that it would make more sense, and this is what we're doing. But we believe that we will continue importing, and this scenario will not change.

Now our banner dynamic -- or brand dynamic. This is what we would told the market is we evolved in the value proposition for our resellers. We made progress in our pricing initiatives. Now we are looking for more consistent and assertiveness. We need balance to have more sustainable results, not only for BR, but for our customers and resellers. We put some initiatives into practice. We have a partnership with AME in terms of payments. This is an important value for our consumers, for our sellers to reduce transaction process. And those also undergoes a cultural change that is inside the company to align incentives with our sales force.

Today, we have a much more aligned team with varied compensation, with the incentive to be in the field to be closer to our customers. Trying to expand our network is something that is clear to our employees. We -- during the first semester, the number of new brands were affected by COVID. But the second -- but during the second semester and especially during the last quarter, we closed a great number of contracts as a result of a company that is more agile, more efficient and more geared toward the customer because this is one of the main purposes on our company.

Thiago, I would just like to add something. This is the main result. This is a result of our value proposal. And this -- and it's even more visible when we see that we had a great gain of competitiveness and inclusive. So our share was positive throughout the entire year, and we expanded our share. This progress in share is a reflection of greater productivity that we were able to offer to our resellers. We won day one. And this is an entire package of value after over 20 -- with over 20 years, we started overhauling the image of the company. I already mentioned our partnership in AME.

And also, when we talk about competitive, when we're competitive in price, this helps our resellers. And at the end of the line there, we gained more -- we have more people buying our brands, especially because of the difficulties of doing this, everybody was at home, a new -- it is difficult to put a new brand on the gas station, it's difficult during this period of time. But I believe we were able to make progress, and I believe that we made great progress. And now we had 165 new gas stations net, and this is very important in the sector, and this is a result of all of this. Remember that we increased the profit of these new banners, and now we don't have any problems of dealing with these standards. And we have been able to do it in a competitive fashion regarding the profitability. So we expand to do more of this.

## Q - Thiago Duarte {BIO 16541921 <GO>}

When you talk about the threshold, there is nothing evident when we see the aggregated values. I think that the public -- a part of the commercial strategy, then your images of a gas station, our sourcing strategy. Well, I was thinking about the costs, the costs of this new banner. Now that you have more expensive because you have 165 additional gas stations. When we see, for example, the cost of these new brands in 2017, 2018, we saw that there was an inflation of gas station. We have a feeling that the business has stabilized, and it even drops. As now, you have new gas stations. I want to see the cost.

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

This is an excellent question. And the answer is no. We see new gas stations emerging according to historic average cost that we observed and something that we anticipated in our plan. The -- it's not because this wasn't an attractive (inaudible), but there were new gas stations because it was difficult to do it in the middle of a pandemic. And you remember, the Otto cycle here is very important and it was 60% lower during the more critical points of the pandemic. And here, it's more difficult to do this type of expansion. And if it's -- this was when we did our cash saving because of a pandemic, but the unit cost is good and the returns due to all the changes that we implemented in the company, now we can have more gains using the same type of allocated capital. Of course, we will carry out renovations throughout time. The average returns to marginal gains take some time, but we believe that we have costs, with nothing abnormal.

## Q - Thiago Duarte {BIO 16541921 <GO>}

Okay. Thank you very much.

## Operator

Our next question from Christian Audi, Santander. You may proceed.

## Q - Christian Audi {BIO 1825501 <GO>}

Thank you, Marcelo, Andre. First, I would like to congratulate you not only for the results of the fourth quarter, but with -- for everything that you delivered throughout the year, because it was a difficult year, and you were able to deliver more than what you promised. So congratulations to you and to your team.

I would like to focus on a number of points. One, could you talk about your leverage? It has changed. And how is it related to your entry in new segments? And what kind of timing do you see in order to achieve this level of leverage?

Now two, pricing. Do you continue implementing your pricing policies? How much of all of this is complete? Are there still things to do? Or have you done everything? And that would mean -- but now you would only have to focus on results? And now talking about inputs. Do you see a risk of lack of supply from Petrobras side?

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

Good afternoon, Christian.Thank you for your questions. And so recognizing our best, I will start talking and then Andre will talk about our leverage.

Now, I will talk about supply. We -- the market in March because of the dynamic is more focused in the domestic market. And the domestic market was stressed in its capacity to supply, but it -- and that the specific case of BR is due to the logistic capacity that we have, the capillarity that we have, and everything that we have been developing on the sourcing line, even with very specific restrictions in some supply areas, we are able to buy products from the domestic and the external market to fulfill the needs of our customers. So it is a month that has had a hiccup here or there, but there is no danger in lack of supply.

Now regarding our pricing, yes, we have evolved now or centralized. We have evolved on our mentality. Everybody is aligned because now we have a more assertive prices with less variations. So that it is more sustainable, and so the refill can better understand what the dynamic of the company. And so that they can be competitive every day so that consumers can buy in our gas stations, we have developed technology and systems. They have not been totally deployed, but a good part has already been deployed, and we're starting to capture the gains of this evolution in pricing. But because of the competitive dynamic of our market, this is a continuous effort. This never ends. We have to continue evolving, and we will evolve in terms of pricing. Now leverage, I believe that Paolo can give you more details about our new leverage range that has been approved.

## A - Unidentified Speaker

Thank you very much for your participation. Now regarding leverage, the company since the IPO has been working with a leverage range that was self-imposed. And we had a limitation of 1.0x net debt EBITDA. And this range, we believe that is reasonable because of the control position that we had in those days. When we see a period before the company's privatization, the level was low, and it was below the funding cost. So what we understood is to have a greater range of leverage at this point wouldn't add value to our shareholders. Therefore, we tried to focus more this first year in all the agenda that our debt -- that Marcelo mentioned, all the transformation agenda that we mentioned.

And with this, we understand that the level of return of the company is different. And we also observed that the funding cost of the company dropped because of the drop of interest rates in Brazil and because of the company's resilience and all the margins that we've had since then. With all of these changes, we believe that we have a more returnable -- a comfortable range. And now we can try to flexibilize or we can try to broaden the ceiling of this range that we believe that is more compatible with this return level.

And what we observed in terms of capital allocation, this new range, we don't want to treat it like it's nothing and just to pay once a dividend. This is not the spirit. The spirit is to be able to have within this range or we can use it to see additional payouts to our shareholders or other opportunities that we're studying and observing of -- inorganic or organic allocations of capital, we have been very active. Marcelo highlighted some transactions throughout 2020. Nonetheless, we are very active in M&A. There are many things happening, and we are paying attention. We are participating in some things. But we do believe that the best way to create value and the best way of using this range will always be between balanced allocation of -- or new distribution to shareholders.

Here, we already took a first step. There was a funding, BRL2.8 million during February. Part of this will be used to pay the public debts that mature in May, that was what we acquired during COVID. And with this, we declare BRL2.3 billion to -- we repaid BRL2.3 million of dividends and 2, 500 -- BRL2.3 billion -- BRL500 million went in January. But we have BRL1.8 billion, that BRL1 billion -- BRL100 million will be paid in April and the BRL700 and something million will be paid until the end of the year. So this BRL2.3 billion is BRL1.97 per share. It's an interesting figure. But at all of this range that we intend to use it in an intelligent, gradual and balanced way. So that we can assess all the possible payout according to what happens.

## Q - Christian Audi {BIO 1825501 <GO>}

Okay. Thank you. And congratulations once again for your results.

## Operator

Our next question from Luiz Carvalho, UBS.

## Q - Luiz Carvalho {BIO 18040760 <GO>}

Good afternoon, and thank you for taking my question. I wanted to pose two questions along the line of capital allocation. Now you have the opportunity -- or an interesting opportunity to use the higher leverage and a robust cash generation that the company has to -- for organic, inorganic growth, through buybacks or dividends, just like you have mentioned. Could you tell us, if it would make sense for the company to reform a buyback if Petrobras announces a follow-on? Is this permitted? Has this been discussed? Would this make sense or not?

And my second question, I believe that is in terms of image, and this is something that we've discussed. You did an excellent job. You closed the gap when you compare yourself to your competitors. And Marcelo, you can answer those. Is this level of margin, are you comfortable with this? Or because of the 10 actions that you deployed, if there is still space for an increase? And where did this come from? I would just like to understand how the margin communicate with these 10 initiatives. And do you believe that there will be an improvement in margin in the future?

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

Good afternoon, Luiz, and thank you for the question and for your feedback. I'm going to start here, and then I will give the floor to Andre Natal. In terms of margin, we are never comfortable with our level of margin. We always believe that we can capture more, and we have to be pursuant for efficiency, for managing expenses. And when we compare 2019 and 2020, well, we still have -- that there is room for improvement in terms of expenses, what pricing has a mindset change, but we've also identified the opportunity to bring more value to our company and to our resellers. So we're still working on this. We do not believe that our current margin level should let us sit in our laurels. Now we do have a potential because of the strength, because of our logistics scale, because of our process, and everything that we have been implementing in terms of initiatives last year. And yes, we believe that there is room for improvement in margin. So this is my main message regarding margin.

Now capital allocation, I will hand it over to Andre, but we want to have is more latitude. Yes, we have analyzed any possibilities of growth, not only organic but potential businesses that may be a result of this capital allocation. But Andre will elaborate a little bit more on this initiative.

## Q - Luiz Carvalho {BIO 18040760 <GO>}

Marcelo, what would be a margin target? Do you have something in mind, something that you can disclose?

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

Luiz, I would not like to give you any type of number. An example that we put in our release, we see the actuarial review. In 2021, we will have BRL200 million in expense reduction here -- just because of this entry, this is a significant drop. We have better pricing and to improve the supply of the company, there are still some initiatives in trade, in ethanol, but we are not comfortable -- we don't feel comfortable to give you a reference for our guidance, but there is still an important -- have to take here.

Regarding capital allocation, I believe that we were able to start remodeling the company's business portfolio. We started -- we had assets where there were no major perspectives or was non-core. Now we have more cash that we can use in businesses that are more promising. Now management doesn't have to focus on this, and we have time for what is important. And we are highly active in other fronts, analyzing what is happening in the energy market as a whole in Brazil.

And yes, we are looking for inorganic opportunities. We don't want to be the producers of energy, but we want to have a complete portfolio of energy for our customers. And if we find an opportunity that can create value and if we think that our -- if we think that our skills are aligned with the business, if we think that -- if we can help with things that we do positive, this is the type of capital allocation that we like to do, in businesses that we know or where we can operate and add value. So we need something that will give us a positive result. But as you mentioned, we do see opportunities of organic growth. This is a scalable business. And we can invest according to the economic opportunities that emerge. And so if we see -- depending on the opportunity, we will be able to make the best of the opportunities that can emerge.

Now a buyback, well, yes, we've already contemplated this. And CVM, they do not allow this. We cannot do a public offering. So at the same part -- and we could be a buyer. And this is prohibited by CVM, so we cannot do this through a projected offering and we cannot do this through a public offering. But yes, we would be able to use this resource. We can use the buyback because this is a way of distribution that can add value even at today's prices because it is to create a good opportunity, and once again, this greater range of possible leveraging. The dividend payout does not exclude the buyback. So we would be able to explore this pathway. Today, we really have nothing decided. We have an open buyback program, but we totally agree that the direction is good and it makes sense at the current prices.

## Q - Luiz Carvalho {BIO 18040760 <GO>}

I would just like to add something. Now regarding your dividends, you paid dividends at a good price. I want to understand '21. If this -- if the company continues delivering strong cash generation, and if you do not have a good -- a relatively high cash level, can we imagine another payout of dividends? Or because of the scenario, would it make sense to preserve a bit of this for future acquisition?

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

There are a number of variables that you have to take into account. You -- in order to make these decisions, you have to see the pace of this cash generation. And obviously, we have our ambitions, our plans and we have to see and practice what reality is like. From the beginning of the year, everything started positive. But let's see. And parallelly, we see how mature on how attractive are the opportunities that we're analyzing. And we will make these decisions gradually as other opportunities start emerging. And depending on opportunity, we will accelerate.

On the organic side, yes, the simple answer is yes. If other allocations do not materialize themselves, we can imagine additional payouts. Right now, we haven't decided anything. It's something that we have to assess throughout time. But this range, what we really like to do is to balance, what I mentioned, to be able to have an interesting allocation, inorganic and organic opportunities, together with additional payouts whenever it makes sense. But when you only see the current payout, that is almost BRL2 per share, this is a payout that is a strong and -- strong payout. And this would be even stronger, but these are things that we built throughout time, observing all the factors, and we even have to pay attention to a new pandemic wave and observe. But as you said, yes, we're analyzing things.

## Q - Luiz Carvalho {BIO 18040760 <GO>}

Thank you very much, and congratulations again for your results.

## Operator

Our next question from Vicente Falanga, Bradesco. Vicente, you may proceed.

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

Good afternoon, Marcelo, Natal. I had two questions here. Some resellers have traced you on the last -- some are concerned that AME -- that they were concerned that they were continue -- they were going to continue investing in AME. I don't know, if the cash back was 10%. I want -- what do you expect from here on, because this has been a very successful program?

And the second question is that some competitors have observed losses in imports during the fourth quarter, something that didn't happen with BR. And we believe that this window has been closing since the end of December. What explains this from your point of view, from the operational point of view? Have you anticipated this window? And how are your imports today? I believe that this represented 20% of your sales. Are you still importing something? Has the window closed or not? Thank you very much.

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

Good afternoon, Vicente, and thank you for your questions and for your feedback. Number one, our partnership with AME. This has been a very positive partnership, for BR, for AME, for the resellers and for the consumers. We have discussed and carrying out adjustments in the partnership without changing assumptions, like the reseller has the best market condition. And I'm talking about the transaction cost for the reseller, be it through credit cards or any type of apps, where you have rates and transaction costs, and this assumption does not change. Our resellers have the best conditions in the market. And even with adjustments in the offering of the cash back, this is called generosity that is distributed to the consumers that fill -- that buy through the app between -- the app that is a partnership with BR and AME.

Now it is the most competitive platform in the market, and we are assessing this. We have been positive in capturing new customers. And they -- and we also have a loyalty program that has been very successful with this. Things haven't changed, and we have communicated things very clearly to our resellers. And we are not changing the benefits for the resellers and for the consumer.

Another important point that we have is the recurrence. There has been an increase of customer recurrence in our gas stations. And this is one of the points that contributed to improve our market share last year, and we continue. January this year, BR also gained share in January compared to December and compared to last January -- and when we compare all products: gas, diesel, ethanol. This is a journey built day by day. And our partnership with AME has been very fruitful for all parties.

Now regarding imports and the result of the fourth quarter. As I mentioned, here, we interpreted what was happening in the market, and it was positive. In all quarters, the price of oil going up, going down, but Petrobras dropping, increasing the price to follow the international market being more and less agile in these moments -- movements. So the balance, the market supply, the domestic market and the external market. And our figures in 2020 are 20% about -- 20% of our supply of gas and diesel came from the foreign market. And when we think about the future, we believe that the internal price and the external price will come closer.

And as I mentioned, our short term is to calibrate and to diminish the imported volumes starting from a specific time because we did -- believe the domestic market will be more competitive. Things don't change structurally. Of course, we are using our logistic capacity, the infrastructure that we have and all the trading that we have in the company. But in operational terms, we observe to see what happens because we have to -- we always observe the domestic prices and the international prices.

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

Thank you very much, Marcelo, Natal. Congratulations, again.

## Operator

Our next question from Regis Cardoso, Credit Suisse. Regis, you may proceed.

## Q - Regis Cardoso {BIO 20098524 <GO>}

Good afternoon to everyone, Marcelo and Natal for taking my question. Congratulations for your excellent results. This is because all of your works, especially since the privatization. I would like to ask two questions. And I would like to just elaborate on the past answers. And I would like to know, with the increase of leverage ratio, here, we're talking about 2.5x net debt EBITDA. In your opinion, in addition to the paid dividend, you would have BRL5 billion of firepower in your balance to reach this leverage range -- or level. Now this value is very significant. How would you use this capital? If there are new major actions or something like -- or you would use a little bit of the balance moment? JV (inaudible) me that already released capital on this have consumed. So this is -- these are new avenues of growth without using this balance. I would like to understand. It would be major organic allocations or something that you have already done. And what about your margins?

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

Good afternoon. This is Marcelo, and thank you for your question. Number one, this new leverage range depends on time. We haven't said that this has to be done quickly or slowly. And here, we are analyzing all fronts. We are analyzing organic businesses that don't need a lot of capital and other possibilities, and how to pay out dividends to our shareholders. But I will give more color here.

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

Hey, Regis, thank you for your feedback and for your questions. Well, number one, is that you are correct. The firepower is major using your words. Today, we are at a level of 1.2x net debt EBITDA. So the complete range is up to 2.5x. We don't have to necessarily use our entire range. This is a ceiling, and this ceiling gives us more latitude. And when you translate this into money, it is the volume of resources similar to what you mentioned.

But this time is not different from what we imagined. And as Marcelo already anticipated, the number of opportunities that we see, we believe that there is no preference in terms of size. We have no preference in having major allocations. These have to be businesses that we believe that there is a potential to create value at interesting prices. And they must be sustainable. So these are the conditions that we see. If they are bigger or smaller opportunities, well, it depends on each one of the opportunities. But we have no preference for size. We have preference for return or something that we would like to be in.

Now our portfolio that is today has two things. Like now we allocated our targets. Here, we see a major potential. We like this case, and we did a small capital allocation, but we believe that we can create value here. We may have a business in a short period of time that will multiply the amount of money that we invest. And we like doing things like -- everything that presents an opportunity like this, we would like to do, but we don't have restrictions in seeing bigger businesses that require a higher amount of capital. So the more the capital -- the more capital, the more return. Of course, more return, we want to continue.

So we can't actually anticipate what we're looking at right now because this is confidential, but everything is aligned with what we've said. Of course, we don't want to be energy producers, but we want something that will complement our energy portfolio. And we believe that we can work with these lines. And now we will have this entire range to complement this with the additional distributions that make sense throughout time. In a summary, obviously, although we can't give you specific details about the transaction, this is my answer.

## Q - Regis Cardoso {BIO 20098524 <GO>}

I would just like to ask two specific questions about the fourth quarter. The first one is PIS/COFINS. As you recognize, this gain elevated your income tax return payment. We're now realizing now the monetization of the credit of PIS/COFINS. My question is, thinking about 2021, '21, would this -- could it be monetized? Or it's -- is it net from income tax?

And now about the margin effects. You have CBIO that was higher than we expected, BRL8 per cubic meter, but it's not necessarily a recurrent level because in 2020, the CBIO was more expensive than now and you had a yearly provision. So you've had a greater value of CBIO, you divided it by one quarter. I would like to know, if CBIO should be higher. What about expense, because the expense drops of BRL12 per cubic meter. Now your actual liability, what does it do? So this is an expense that goes through the operational margin, affects your EBITDA margin. And this would be BRL200 million. That would be about BRL5 per cubic meter. So when you add all of these effects, they contribute to the margin, the recurring margin in the future.

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

Marcelo. I will answer the margin levels and CBIOs. We explained the CBIO in 2020, presenting a particular characteristic because of the final definition of the target for the last three months of the year, and it was really concentrated. And we had to transfer the cost of oil, the byproducts. Well, the cost is lower. The transactions are at lower costs, even because there was a small period of time, and we had to fulfill the targets of the year. And last year, there was a great -- a more balanced supply and offer -- it is neutral. It will be transferred to byproducts, especially products that are used to calculate the targets of each distributor. We're talking about gasoline and diesel. And we believe that this will generate more -- any impacts on the results from here on. This is more or less about CBIOs. Then now Andre can talk about PIS/COFINS and the other points that you set forth.

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

Now the second part of your question, you mentioned the one-off that affected expenses. And this represents about BRL120 million of effects -- nonrecurring effects in the expenses. And there are a number of things that we have to consider. We have the additional provisioning of variable remuneration. We had a negotiation with the state of Maralia. I'm not going to mention all of those because you can read them in our release. We didn't draw attention to this because with this, we had some positive effects that contributed to a drop in expense. So we had -- we obtained a credit because of our deferment of the ICMS, subsea and other things. Now the balance of these negative nonrecurrent effects hindered the level of expenses of the quarter, you are right. But normal level should not be -- should be closer to the average between the third and fourth quarter in absolute terms.

Marcelo mentioned that during the end of the year, we received external support BRL1.1 billion is something that we are pursuing. We are never comfortable or accommodated with our margin levels. There are different options that exist. Here, we were looking for other opportunities. And with this, we understand that the absolute level of the expenses should be slightly lower in 2021 vis-a-vis 2020, although, we will have higher volume than 2020. But this is something that we will have to confirm according to the scenario.

Regarding actuarial, our expenses and margins we see 2020, we had more than BRL10 of cubic meter of bargain, connected to the actuarial expenses, connected to health insurance. And our competitors do not have a liability like this. And this change was important not only because it lowers our liability significantly. This lowered to two-third. And so now we still have one-third of this liability. And obviously, the overwhelming part of this cost and something that we had this year and affects the EBITDA, it is a cost that is interest rate over net liabilities. And as we substantially reduce the liability, we reduce the interest rate. Now this is always tough subject to measurements throughout the time, but along -- but we believe that we face less risks now. But what we -- we expect something like BRL130 million in cost reductions. So this is -- it is an important action regarding the nonrecurrent expense levels that are lower than what they were during the past years.

Now going to your first question, that is PIS/COFINS. When you see net debt in the quarter vis-a-vis the third quarter was -- this is not variation of working capital. We saw this in a number of reports. We have BRL160 million of the prepayment of a long-term debt as part of the benefit balance that we announced this to the market. And we believe that this would be financially efficient to prepay this debt. So we anticipated this payment as soon it was possible. This is BRL160 million. And there are BRL300 million that is in income tax connected to PIS/COFINS that we recognized in the quarter's results. This is something that we pay in advance. And the credits will be -- PIS/COFINS will be received in the upcoming months.

As a matter of fact, there are BRL460 million and BRL600 million of variation. And now the variation of working capital, we have -- everything that Marcelo mentioned at CBIO, that was the complete purchase of CBIOs. We didn't buy anything until the third quarter. So all the purchase of the year was concentrated during the fourth quarter. So this consumed the cash flow of the quarter. And it's not connected to the quarter. So our working capital variation, it is compatible with the growth of the quarter. We grew importantly in terms of volume.

But you are totally right. Now the last point. When it comes to crediting PIS/COFINS, we've done very little. So we have suffered the burden of paying income tax, but the credits were coming diluted in the upcoming months.

## Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you very much.

## Operator

Next question from Andre Hachem, Itau. Andre, you may proceed.

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

Thank you for taking my question. First and foremost, well, my question is simple. I would like to understand the actuarial review that you had. I know that there was a great drop on expenses, expenses of BRL200 million. But I wanted to know how you attain this drop. What did you consider here? There was a target. It was noncash. If it were cash, would it be better? So I would like to know what you did, how you did it, in what quarter did you do this, and what this represents for the future.

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

Thank you for your participation. I apologize, it was difficult to understand your question. The audio is terrible. Could you please --

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

Did my sound improve now?

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

If you speak slowly, perhaps, we will be able to understand what you're asking us.

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

And this drop of BRL200 million part is noncash. These would be provisions built throughout time. How much of pension plan and health insurance is cash and noncash?

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

Thank you, Andre. About variation, actuarial variation, every year, we have to assess this, by and large, the evaluations, result and changes in the net liabilities because of demographic variables and other variables that are typical, that have to be included in the calculation of these liabilities. When there is a projection, most of this liability is noncash is a long projection. And this is why it suffers from variables, that throughout time, are adjusted, like interest rates and the characteristics of the population. Every time we do this type of reassessment, these variations, asset and liabilities go to the net equity of the company. Nonetheless, when the variation is due to effective changes in the regulations or changes in the plan, this affects the results, and this is part of the total variation.

So the -- we carried out significant changes. When you have a self-management plan that was a self-managed and extensive plan, that was what we had in the past. We have no scale to have a plan that compares to the market plans, like the case of Bradesco, something that we chose as one of the best plans of South America. And those for you to have an example, we had to maintain -- in 175 municipalities, we have to pay an entire structure to pay one employee. So you can imagine how inefficient this can be, because you needed an entire infrastructure for one employee that was in one municipality. And when we have this -- and now that we have the market plan, now we have -- now we are up against of the entire structure that already exists and has been diluted.

For instance, there are other possibilities. Therefore, now we have the visibility to the market plan. And this is win-win because they receive better service, because they have more efficient service structure, and this costs less. So the change has been significant from the cost point of view. And obviously, there are changes because of the demographics of BR, because of all the transformation throughout the year, we have changed our demography. And we also impact. We were submitted to restrictions. We had to pay 70% of all of the costs. We bear restrictions for our transfers. So this is no longer part of this new model. And we want that the standard of usage to be different, but the unit cost of this plan will be significantly more efficient when you see reais per beneficiary per month.

So this change generates a great reduction for the future company's obligations. And this is BRL2.1 billion, just for the reasons -- just because of the reasons I mentioned. Of course, these are always calculations. Every year, we have to recalculate this. And throughout time, there will be some type of variations. But I can say that the level of costs that we expect is a level that is totally aligned with other companies. In the past, our situation was different from the market. And now our plan is aligned to the practice and the unit prices of the market. This was like a no-brainer for us. It's a win-win situation. And yes -- and regarding the cash effect, it didn't affect cash, but this was a burden. And of course, and this is subject to reviews throughout time.



## Operator

Our next question from Bruno Montanari from Morgan Stanley. Bruno, you may proceed.

## Q - Bruno Montanari {BIO 15389931 <GO>}

Good afternoon, and thank you for taking my question. I have a follow-up question and some questions. Going back to the buyback, I understand CVM's position, but what we -- what Petrobras says, that is correct. This is a potential offering. I ask you because they can sit on this offering during two years, and you will not implement the buyback because of a technicality. Would it be possible to launch a buyback and credit -- and set it aside?

And my other questions are, now we're undergoing of deterioration of the pandemic. There is confinement in a number of cities. Do you believe that there is lower consumption? I know that the situation was stronger in February. I want to see how we -- I want to know how you see the market now in terms in the -- of the long term when you see natural gas. Today, the are -- there is 100% focus on fuel. I want to understand how you see the makeup if fuel distribution will represent 80% or 90% or do you want to have something more divided. Half of the business distribution and the other half would be distributed through other energy sources.

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

Okay. Marcelo -- this is Marcelo. Thank you for your question and for your feedback. I'm going to start by your final question. Now regarding the pandemic, we are following the news and the situation of the country. What we can say right now is that, when we analyze January and February, our aggregated values in the main products were above the levels of January, February last year. So we had a growth in volume during the two first months. And during in March, well, we believe we started with a strong pace compared to the last year. Now obviously, in March, at the end of March, the comparisons will be different because last -- because during the second fortnight of March was when we -- when the airlines stopped flying. But when we analyze the first quarter in terms of volume, I think it's going to be positive.

Now right now, we cannot project anything. What we can say is that the company today is more resilient to face any type of question. When the -- last year, when the crisis emerged, the -- when the Otto cycle dropped 60%, we were undergoing a transformation. But many of these things had a positive effect, not totally captured. Today, the company is more efficiency and resilient to weather should there be a drop in demand. So I believe that now we will be able to weather this stage as we did during 2020.

Now when we talk about partnerships, how are we going to position ourselves? What we have commented, the company understands that it has to be a main player in the energetic transition. We have to be main players to supply our customers the energy that they want. The company is present in the best corners of the cities, in the best highways of the country. We are throughout the entire country to -- and we explore new forms of energy. But as -- the energetic transition has a relevant role. We still don't know the percentage. We discussed this with our officers, with our Board. But yes, there is no doubt, I can tell you that we are prepared because of our strong cash position or our capital structure that allows us to look at the future in -- not in a comfortable way, because we're never comfortable, but with good opportunities to capture opportunities. But I cannot give you a percentage regarding how much of the revenue or how much of the bottom line will come for this. Maybe Andre can talk about a buyback.

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

Hello, Bruno, thank you for your question. Regarding buyback, as I said, we like this format. It could create value. And we have to pay attention to this and an option to distribute. Today's decision, and something that we're aware of, is that Petrobras decision is that they have the intention of selling their entire share in BR. But on the other side, as far we're concerned, there is no decision of filing and offering. There's no undergoing open offering. And as I mentioned, CVM forbids us to buyback even in a projected offering. And this is very subjective because of what is projected offering, because in its -- and this is not a clear and objective position.

But naturally, on our side, what we can do is, number one, to understand and to internally discuss our intention of working with the program. We have not decided anything up till the date. But I can also strengthen that our new leverage range gives us the possibility to project this. And this would make sense. It would make sense at least to discuss this internally. On our side, what we can guarantee is discussion and -- occasionally. And if we decide to proceed with this, to be very careful. And we have to do things the right way, at the right timing, the correct way, because we don't want to do something that has a potential of creating value, but at the end of the line presents a risk for us. So what we can see is that, we agree with you and that we will always try to do things in a safe fashion.

## Q - Bruno Montanari {BIO 15389931 <GO>}

Thank you very much.

## Operator

Thank you to everyone. We are bringing our Q&A session to an end. Mr.Marcelo Braganca has the floor for his final comments.

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

Thank you to everyone. Now I would like to help the analysts and everybody that pose questions. I would like to thank once again to our employees for all of that they delivered in 2020. Because for this, we needed the competency of our entire team. I would like to thank our resellers, customers, franchisees that trusted us. These are over 2,200 services and 30 million customers that go to our gas stations. And as I mentioned in the beginning, our journey within this transformation has just started. This company is sound in terms of cash, and we are obviously prepared for the future. Thank you very much to everyone again.

## Operator

Ladies and gentlemen, the audio and slides will be available in the investor site, in ri.br.com.br. Thank you very much for your participation. This conference call has come to an end.