Petrobras Distribuidora S.A.
Webcast/Conference Call
1Q18 Results
May 7, 2018

Operator:

Good morning ladies and gentlemen. Welcome to the webcast/teleconference of Petrobras Distribuidora with analysts and investors to present information related to the results of the first quarter of 2018.

We inform that the participants will follow the transmission by Internet and by phone only as listeners. After the presentation, the question and answer session will be opened, when the guidelines will be given to the participants.

If someone needs assistance during transmission, please ask the help of an operator by typing * 0.

Today we are joined by:

- Mr. Ivan de Sá, CEO of Petrobras Distribuidora S.A.;

- Mr. Rafael Grisolia, CFO and Investor Relations Officer

- Mr. Marcelo Bragança, Retail Network Officer;

- Mr. Gustavo Couto, Corporate Market Officer;

- Mr. Alípio Ferreira, Chief Operating and Logistics Officer;

This presentation may contain forward-looking statements. These forecasts only reflect expectations of the Company's managers regarding future economic conditions, as well as the Company's performance, financial performance and results, among others. The terms "anticipates", "believes", "expects", "predicts", "intends", "plans", "projects", "objective", "should", and similar terms, which, of course, involve risks and uncertainties anticipated or not by the Company and, consequently, are not guarantees of future results of the Company. Therefore, the future results of the Company's operations may differ from current expectations, and the reader should not rely solely on the information contained herein. The Company does not undertake to update the presentations and forecasts in the light of new information or future developments. The values reported for 2018 onwards are estimates or targets. In addition, the financial and operating information included in this presentation is subject to rounding off and, as a consequence, the total values shown in the graphs may differ from the direct numerical aggregation of the values that precede them.

Finally, we highlight that this presentation contains some financial indicators that are not recognized by BR GAAP or IFRS. These indicators do not have standardized meanings and may not be comparable to indicators with a similar description used by other companies. We provide these indicators because we use them as measures of company performance; they should not be considered in isolation or as a substitute for other financial metrics that have been disclosed in accordance with BR GAAP or IFRS.

To begin the announcement of the results of Petrobras Distribuidora, we will listen to the Chief Financial and Investor Relations Officer Mr. Rafael Grisolia, who will present the information regarding the results of the 1th quarter of 2018. Subsequently, a question & answers session will be opened. Please, Mr. Rafael Grisolia.

Rafael Grisolia

Welcome, everyone! I will begin by giving a brief presentation on the financial results of Petrobras Distribuidora S.A. in the 1st quarter of 2018. I would like to remind you that this presentation was made available to everyone one hour before the start of this conference call on our IR website. So, feel free to follow the presentation following the material previously made available. I ask everyone to pay particular attention to the notices, which are on slide 2 of the presentation and which were reinforced at the beginning of this teleconference.

Turning to Slide 3, we present the main highlights of the Company's performance in the 1Q2018.

Net income came from R$156 million in 1Q2017 to R$247 million in the 1Q2018, representing an increase beyond 58%, as a result of the increase of the company's profitability and better capital structure.

Our Adjusted EBITDA was R$773 million versus R$647 over the same period of last year, with an increase of 19.5%. The Adjusted EBITDA margin, which is one of the key points of our strategy presented at our IPO and that is a highlight in the comparison with our direct competitors, presented an expansion of R$13/m3, which in 1Q18 reaching R$76/m3, an increase of 20,6%.

In terms of leverage, we continue to have a lighter capital structure which leads to a net debt/LTM Adjusted EBITDA ratio of 1.1x at the end of 1Q18, coming from 3.3x in 1Q17 and 1.3x in 4Q17.

Additionally, we also highlight we have completed in this 1st quarter of 2018 an organizational restructuring that resulted in reduction of managerial positions that will positively impact our SG&A reduction targets for 2018, besides the implementation of the base-zero budget. Finally, we are happy with the successful conclusion of our Annual General Shareholding’s Meeting on April 25th which, among other deliberations, elected our new Board of Directors with the profile of independence that we presented in our IPO.

We follow the presentation on slide 4, in which we present the highlights of our consolidated result. It is always important to highlight that, for a better understanding of this result, we need to go through the analysis of each of our business segments, namely: Retail Stations, Major Customers, Aviation, and Other Businesses (composed by the sales of chemicals, asphalt and energy solutions, that include green pet coke and natural gas).

In general and consolidated terms, in 1Q18 our physical sales volume is lower (-2.2%) in relation to 1Q17, due mostly to the lower sales to thermal power plants, especially of fuel oil, a lower sale of green pet coke and, we also believe, to the effects of the Brazil’s economic recovery expected not yet being reflected in the sales volumes gain in some of our segments.

Our net revenue increased 12.2% in the 1Q18 over 1Q17, due to our higher sales prices which are also related to our purchase prices of our products.

Our gross profit increased 2.4% in the 1Q18 and a gross margin expansion of R$ 143/m3 in the 1Q17 to R$150/m3 in the 1Q18, showing consistency with part our strategy of focusing on profitability via gross profit and gross margin.

As we mentioned in the highlights, the adjusted EBITDA presented an increase of 19.5% in the 1Q18 over 1Q17 with margin EBITDA in R$/m3 showed an increase of 20.6%, reaching R$76/m3 in 1Q18, from R$63/m3 in 1Q17, also showing consistency with the part of our strategy of focus on profitability also via SG&A optimization.

Turning to slide 5, we present the performance of the Retail Stations Segment in the first quarter of 2018.

In the Retail Stations Segment, there was a decrease of 1.1% in the physical volumes when compared 1Q18 over 1Q17, especially in otto cycle, reflecting a greater mix of hydrated ethanol sales and still reflecting resilience of regional players. In the physical volume of diesel we had an increase.

In this quarter we had practically no net increase in our network service stations, having invested R$186 million in branding and maintenance of the network. As commented, we still see a resilience of the regional players, but we are confident in our strategy of new branding for the year.

Our net revenue in the Network of stations increased 12.2% when compared 1Q18 over 1Q17.

Gross profit had an increase of 2.4% over 1Q17, due to an increase of 4.9% of the average gross margin, which came from R$161/m3 in 1Q17 to R$164/m3 in 1Q18, despite the higher share of hydrated ethanol in the sales mix, which has margins lower than those of gasoline. This fact also helps explain the comparisons of this first quarter with 4Q17.

1Q18 Adjusted EBITDA from the Retail Segment presented a slight reduction of 0.7% over 1Q17, but the Adjusted EBITDA Margin in R$/m3 remaining virtually unchanged in R$99/m3 between the periods, in line with our strategic for this period of the year.

On slide 6, we present the performance of the Major Customers business in the first quarter of 2018.

In the Major Costumers segment, sales volume decreased by 2.6% over 2017, mainly due to the drop in sales to thermal power plants, especially of fuel oil, offset by greater volumes sold for the non-thermal segments, where in our view we have already started a slight market recovery. The same goes in comparison with 4Q17.

Net revenue from the Major Customers Segment increased by almost 11% in the comparison between 1Q18 and 1Q17, a direct consequence of higher average sales prices and higher sales of non-thermal diesel.

For the gross profit, the year-on-year comparison, there was a 15.7% reduction, due to lower average sales margins, mainly resulted again to the lower sales to the thermal power plants, especially, once again, of fuel oil, a similar behavior to what was observed in the comparison of 1Q18 and 4Q17.

In terms of adjusted EBITDA, we had an expansion of 7.8% over 1Q17, with higher operational expenses efficiency, which boosted the segment's profitability and brought an increase in Adjusted EBITDA Margin of R$6/m3, from R$ 55/m3 in 1Q17 to R$ 61/m3 in 1Q18.

Continuing the presentation of results, we turn to slide 7, dedicated to presenting the performance of the Aviation segment, in which BR is market leader and which continue to show very positive figures compared to the periods of comparison.

In the comparison between 1Q18 1Q17, volumes sales were 4.2% higher, reflecting in this segment the signs of a gradual recovery of economic activity since the last months of 2017 in this segment, as we believe.

Net revenue increased by 21.6% in 1Q18 versus 1Q17 and 5.9% in comparison to 4Q17, mainly due to the average sales prices.

Gross profit from the Aviation products increased increased 19.8% between 1Q18 and 1Q17, especially due to the increase of the gross margin from R$181/m3 to R$ 208/m3, given the contractual adjustments in the period and the most favorable exchange rate in the first quarter.

Adjusted EBITDA for the aviation segment in the 1Q18 reached R$ 90 million, expanding the R$52 million 1Q17 result in 73%, with Margin EBITDA of R$ 91/m3 an increase of 66% in comparison to 1Q17.

Turning to slide 8, we present the last of our operating segments, which is represented by the businesses of chemical products, asphalt and energy solutions, which include natural gas and green pet coke.

Sales volumes in the other businesses segment decreased by 2% over 1Q17 and 13% in the fourth quarter of 2017, as a result of lower sales of green pet coke, due to the lower availability of the product.

Even with the reduction in volumes sold, net revenues increased 2.6% when compared 1Q18 over 1Q17, with the increase in gross profit of 26.4% between the aforementioned quarters, mainly due to the increase in the green pet coke margin caused by the increase in the price of coal in the international market, which positively affected the formation of the coke sales price.

This increase in gross profit was the main reason that led to an EBITDA increase of more than 52%, associated to the reduction in operating expenses.

Adjusted EBITDA margin in the other businesses segment closed the 1st quarter of 2018 in R$128/m3, a 56% increase compared to 1Q17 and 45% over 4Q17.

On slide 9, we present figures on the Company's cash generation, indebtedness and leverage.

In terms of cash management, the Company closed 1Q18 with approximately R$1.1 billion in cash and free cash flow of R$558 million.

As we mentioned in our highlights, the leverage, the Company closes the first quarter of 2018 with a reduction of the net debt/adjusted EBITDA ratio of 1.1x against 3.3x in 1Q17. The Company's net debt was R $ 3.5 billion in 1Q18, a 12% decrease compared to 4Q17, due to the increase in cash and cash equivalents, to the operating generation of more than R$ 600 million in 1Q18.

The Company's gross debt has an average maturity of approximately 3 years, is fully indexed in Reais and has an average cost of 115.26% of CDI at the end of 2018. Possibly throughout the year, we will be looking at liability management strategies.

Lastly, we had as a subsequent event, as announced to the market, the conclusion and signature of the instruments referring to the negotiations with the distributors controlled by Eletrobras of updated receivables of R$4.6 billion, in the joint negotiation with Petrobras and in line with our strategy regarding the management of these values. As reported, we do not see any significant impacts on our immediate results at this time.

Thank you for your attention and we will now move on to the question and answer session.

Operator:

The Q & A session will now begin.

We ask each participant to ask a maximum of two questions in a timely and clear manner, and then be asked to answer them in turn. We also ask that questions not be asked through the speakerphone function.

To ask a question, please type * 1. To remove your question from the list, please type * 2.

Any questions that may not be answered in this conference call may be sent to the e-mail address ri@br.com.br, for further response by the Company.

Our first question comes from Mr. Pedro Medeiros, of Citigroup. You may proceed.

Pedro Medeiros: Ok. Thank you so much. Good morning everyone. Congratulations on the results. I have… I think many questions were already answered on the Portuguese version of the call, but I still have like three questions on results and on the strategy going forward, and maybe if I can, if you allow me, I have two very objective follow ups we can take later. The first one is: can you please discuss, and perhaps quantify, how much of the first quarter results already reflect the results of the ongoing restructure that management is promoting on the company, and the pursue to optimize the company's expense base of selling and G&A expenses? First is, when we analyze your fry costs and general personnel costs, we see that fry was up near to sixty Reais on cubic meter year on year, and G&A was in line, or there was a typical inflation pressure and a two percent decline in total volumes. So, with that, is it possible to really quantify how much of your expense optimization for these were extracted in the first quarter? Second question is related to networking capital, ok? So, when we do the math here for your first quarter working capital, it seems that there was an important improvement on your receivable days, and with that, in the total cash cycle that the company has… So, can you please discuss these improvements, and whether those are recurrent, or we keep seeing more of that throughout the year? And my third question is perhaps for Ivan and Alipio… can you discuss on how do you think that the recent plan released by Petrobras to divest from a couple of refineries in Brazil can impact that competitive run scape for fuel distribution, and your procurement strategy over time? Thank you.

Mr. Rafael Grisolia: Hi, Pedro, this is Rafa. Thanks again for your participation and the question. I will try to address your first two questions, and then I will pass to Ivan and Alipio, ok? Regarding SG&A, I think the message I'd like to leave with you is that the results that we are showing in the first quarter, when compared to the first quarter of last year, we have improvements of around thirteen Reais per cubic meter, and roughly speaking, half of it coming from gross profit and margins… and gross margins, and half of it coming from SG&A reduction. I think, first of all, just to reinforce that this kind of number and figures is an important indication to what we expect to see and to be discussing with the market along the next quarters of this year, ok? For this first quarter, in terms of SG&A, this piece of the reduction is effectively reflecting, let's say, the first implementations of one is the reduction number of employees giving… in terms of our workforce that started last year with the voluntary program, as well as the organization structure already implemented in the beginning of this year. The rest of the year, we'll see again the continuous figure of that along the comparison periods, as well as the zero budget targets being achieved, and then we'll… it'll help us to the same level of reduction SG&A, so I think most of this movement is supposed, and we think we will continue to expect that this is a recurring effect. In terms of working capital, I think on cash cycle we are basically… when we compare the first quarter of this year to the first quarter of last year, some important issues are related not necessarily to accounts receivables, but remember that, when we go to inventories, we have a strategy that was changed in mid last year, regarding the terms of some products, especially jet fuel… when we acquire that product from Petrobras, so we have a reduction on that terms, so that's the comparison, so this cash cycle of the first quarter is pretty in line with the cash cycle of the fourth quarter of 2017, and that's something that's also continuing to be recurring. There was one specific item on the first quarter of 2018, was that the end of the quarter ended in the holiday, ok? It was the Easter holiday, so that was some fluctuations which now estimates around one hundred million reais, so in terms of cash working capital needs for the quarter, we believe that at least one hundred was impacted by that, so that one hundred, one hundred and something million reais will not be recurring, so we think that the cash need for working capital variation would be lower than that figure in the quarter, ok? I will pass now to Ivan and Alipio.

Mr. Ivan de Sá: Hi, Pedro thanks for the question. Regarding our strategy for origination of product, we will continue to look for the most competitive source to reduce the cost of the products that we buy. We are still working to understand and to know in a more profound way what will be this opportunity for divestments in the refining business in Brazil that Petrobras is showing to the market. Still in the beginning of the information required for this kind of analysis, but in the end of the day, looking for the best alternative for origination of product continues to be our strategy. Alipio has some figures regarding how BR is performing in this regard.

Mr. Alipio Ferreira: Good morning, Pedro. As Ivan mentioned, we are prepared to supply BR with the most competitive product that we need to sell, you know. We can import product, we can buy from Petrobras, right now we are discussing with Petrobras a second half of this year contract, which will bring more value to the distribution companies, and we will certainly discuss with other refineries in Brazil in case the divestment goes on, and I believe that it is going to go ahead. We are going to be prepared to discuss with other refineries as well and consider the opportunities to supply BR from Brazil or abroad, you know. And the market has been changing, and we have seen a decrease in the imported volume, because margins have been dropping a lot, you know. But we are prepared to supply the company from anywhere.

Mr. Pedro Medeiros: Ok. Well, thank you very much for those answers yet. Can I do two quick follow ups… very quick… the first one is… in the Portuguese conference call earlier today, Marcelo has provided in extra color on service station additions to the company network by April. The question is if Marcelo can add to that on how have sales volumes behaved within the service station channel by April as well, like are volumes going up already on a year and year basis by April. And the second follow up is: Rafa, I'm trying to reconcile your free cash flow generation this quarter, and I hear the word virtually no cash tax is paid, with the company recognizing near nine hundred seventy five million reais for tax assets coming from the overdue receivables with Eletrobras. However, based on the financials, if these are the portions deducted from taxes coming from that case, Eletrobras was significantly and lower, then the total tax in the quarter, so can you confirm how much it came from that, because I suppose this should be reversed in the second quarter with the recent agreement? So we understand the recurrence of your free cash flow generation. Thank you.

Mr. Marcelo Bragança: Ok, Pedro, it is Marcelo speaking. In April, we had sales higher than last year, and we expect you to recover sales through the year. So, in May, we have a good expectation also.

Mr. Rafael Grisolia: Well, Pedro, in terms of cash generation of the quarter, first you see that the cash payment of income tax was zero, and that was the application of the credit we took in the beginning of the year for the proportional income tax we would need… we are recognizing, and that was the cash impact that was zero, basically reducing that cash. With the new agreements with the Eletrobras distributor, the companies controlled by Eletrobras, we will necessarily revert that tax credit, ok? So, income tax cash payments should move up, accordingly to the cash… to the income tax that we are going to account on the quarter… on monthly basis, no more tax… eventually that will be reduced as we move on and eventually declare extra interest to shareholder… the JCP methodology, if we move along the quarters, but in compensation, we expect to receive the payment, the installments that on that concessions we just closed with this distribution… with the Eletrobras distribution company, ok? This is our base scenario as for now. In case we have some reversion on that, we will come back to the original scenario where we work with the receivables in a different way, ok?

Mr. Pedro Medeiros: Thank you so much. Congratulations once again for the results.

Mr. Rafael Grisolia: Thank you again.

Our next question comes from Mr. Frank McGann, of Bank of America. You may proceed.

Mr. Frank McGann: Ok, thank you and good day. Just to focus on the retail segments, I guess more than the others at this point if you could comment on what you're seeing in terms of the overall competitive environment, in terms of pricing, in terms of COC, in terms of different AV, perhaps you're seeing your competitors off the road, you know, you may find yourselves needing the offers, how that is changing right now, and then secondly, in the other businesses, I'm looking at the commercial strategies you have that seem to be paying off, I was just wondering how much of this, you know, improvement you can get in margins because of more aggressive pricing with some of your customers?

Mr. Marcelo Bragança: Ok. Frank, one is… it's Marcelo speaking. We see the market remains very competitive, and the other players are still paragraphing in the market, and we are working BR in order to adjust our pricing intelligence, our pricing, our systems that we are managing our pricing in order to capture the value and maintain, and still recover margins for the next quarters, but we already see a market very, very competitive, even the regional distributors, but also with the big competitors that we have. But we already see some recovery in some regions, mainly in the North and the Northeast, we had the volume increase in the first quarter and in April, we had high volumes compared to last year.

Mr. Gustavo Couto: Hi, Frank, this is Gustavo Couto, thanks for the question. As I mentioned during the first conference call in Portuguese, I would like to highlight the portfolio that we have in the corporate market here in BR. So, it differentiates ourselves compared to our competitors. If you take a look in the diesel strategy, then we are facing a very tough competition and we are starting to recover some mark, some volume, but the margins are still a little bit better than last year, but very, very tough to increase margins in this product. But if you take a look in the other ones, where we can differentiate and be more aggressive, as I mentioned in the pricing strategy, then we are getting more margins, mainly in the green coke, and also in chemicals. In aviation, it's quite a global business, as you know, we operate with the least prices of our customers, so the strategy is to focus on cost reduction, and then we are pursuing a reduction in the number of airports that we operate, and also in the number of sites where we don't have any promising result in the next month, so that's the way we are moving forward and our strategy in the corporate market.

Mr. Frank McGann: Ok, thank you very much, very helpful.

Our next question comes from Mr. Luiz Carvalho, of UBS. You may proceed.

Mr. Luiz Carvalho: Hi guys, thanks for taking the questions again. Just a follow up… maybe Rafa, if you can help us… the good thing between Petrobras and BR and Eletrobras basically accounts for 4.6 billion with the achieved proper guarantees. I understand that have roughly forty percent of that volume, and that is before tax, right? So I just would like to understand if the reversion of the provision it is going to be around one billion dollars, and if you really are going to do that by the second quarter. The second question… I do not know how much you are going to be able to add about this, maybe for Ivan… but President Temer, during the weekend, made an interview mentioning that the government is considering reducing electricity and fuel prices… I mean, under the Plural environment, or more, how can I say, sector environment, how do you see these discussions in terms of the extension price reductions, and how this could be done, if it's tax regulatory, if you started to see some discussions about the government controlling your prices or something like this. And the third question, if I may, I don't know, maybe to Alipio… but BR Distribuidora used to use the trading company to actually… to import at least from a, how can I say, bureaucratic perspective, the products to Brazil. Now we got information that, I mean, BR Distribuidora is likely to use the Petrobras global trading, or the PGT, so I just would like to understand what the benefits from using PGT are and if this is confirmed. Thank you.

Mr. Rafael Grisolia: Luiz, it's Rafa, thank you for your question. Regarding the first question, we, as of now, as we communicated to the market, we do not intend to reflect any immediate positive or negative results regarding this negotiation with the Eletrobras controlled distributors. We think that it will be more appropriate to recognize results as far as the concession installments are performed, ok? So, that's why, for the short term, we do not see any impact in the accounting results, and we will be recognizing results as far as the actual payments are made, and we monitor how the privatization process of the Eletrobras distribution companies move on. This is the best conservative approach in this sense.

Mr. Luiz Carvalho: Ok, so just to understand… every quarter you're going to… what you mean is that every quarter you're going to book, or you're going to… how I am going to say… revert, how I'm going to say… the correlation or the correlated payment that have been made in that quarter… so, if they pay three installments, I don't know… let's say, April, May and June, so you're going to revert only the payments from that quarter, right? You are not going to bring the entire 36 installments in the second quarter, for example, right?

Mr. Rafael Grisolia: Right, exactly that. We will revert as the payments are performed, yes.

Mr. Luiz Carvalho: Ok, ok.

Mr. Rafael Grisolia: Luiz, please, help me and Ivan with your second question… we quite not did follow because of some communication issue here on the sound. Can you repeat the second question, please?

Mr. Luiz Carvalho: Sure. Yes, during the weekend, President Temer gave an interview to a local… to SBT, the local broadcast here in Brazil, and he mentioned about the government wants to reduce the electricity prices, and fuel prices as well. So, I'm asking more from, how I am going to say… sector perspective… in your conversations with Plural now, if there's any discussions about how the sector can be impacted on a potential government interference or something like this, or if there's any discussions with the government to try to reduce the taxes applied to the field if you process?

Mr. Ivan de Sá: Hi Luiz, again, Ivan speaking. Well, we do not have any conversation with Plural or any other entity, regarding pricing and the Brazilian market. What, of course, we know is that prices are free, any dealer is able to price at the pump as they see their competitiveness, of their micro-region… we see Petrobras adjusting the refinery pricing to compete against the imported product… now we have ethanol being very competitive in our market, so it's another variable that will bring some dynamics for the market, and even for the gasoline refined price, as we expected, but we don't have any analysis going on now regarding any interference from the government for this field in terms of pricing that we have.

Mr. Alipio Ferreira: And Luiz, this is Alipio speaking. Would you please repeat what you do want to know about PGT?

Mr. Luiz Carvalho: Yes, I mean… BR Distribuidora used Star trading in the beginning to bring products to Brazil, not physically but to… how can I say… do the bureaucratic work and be able to customs, right. Start trading was a trading used by BR. And as far as we heard, I mean… BR Distribuidora is likely to use Petrobras global trading from now on, or from the past quarter, so… I just would like to confirm the information, and what are the benefits to use Petrobras trading to actually, to perform the imports?

Mr. Alipio Ferreira: For a long time, Petrobras has been establishing companies outside Brazil to procure products and oil for Petrobras. And these companies, they can work for Petrobras itself, or for any other Petrobras company, like BR Distribution Company. We are taking advantage of the traders that are in the market abroad, you know, to procure products for BR. We can do business with them, we can do business with any other company, but we see that this is a good position to have the traders doing the business for us. That is how we do.

Mr. Luiz Carvalho: Ok, clear. Thank you very much, guys, again.

Once again, to ask a question, please dial *1.

Thank you. We hereby close this question and answer session of this webcast conference call. CFO and IRO Rafael Grisolia will now make his closing comments. Back to you, Mr. Rafael Grisolia.

Mr. Rafael Grisolia: Well, guys, we would like to thank you once again for participating in the teleconference. Please continue to count on our Investor Relations team, to talk about any other further questions. Hope you all have a great day.

Thank you, ladies and gentlemen. The audio from this conference call will be available on our Investor Relations website, www.br.com.br/ri. This concludes the webcast conference call. Thank you for participating. Please hang up and have a nice day.