Petrobras Distribuidora S.A.
Webcast/Conference Call
Results for the 2nd quarter of 2018
August 2, 2018

Operator: Good afternoon ladies and gentlemen. Welcome to the Petrobras Distribuidora webcast and conference call with analysts and investors to present our results for the second quarter of 2018.

We inform you that participants will attend the webcast and conference call as listeners only. The presentation will be followed by a Question and Answer Session, at which time you will receive instructions.

If you require assistance during the transmission, please request help from the operator by dialing *0.

Today we are joined by:
- Mr. **Ivan de Sá, CEO and Interim CFO** of Petrobras Distribuidora S.A.;
- Mr. **Marcelo Bragança, Officer of the Retail Network**;
- Mr. **Gustavo Couto, Corporate Market Officer**;
- Mr. **Alípio Ferreira, Chief Operating and Logistics Officer**; and
- Mr. **Fábio de Lucena, Investor Relations Executive Manager**.

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

This presentation may contain forward-looking projections. These projections are merely the expectations of Company executives about future economic conditions, in addition to the sector we operate in, the performance and financial results of the Company, amongst other things. The terms “predict", "believe", "expect", "forecast", "intend", "plan", "project", "objective", "should", and other such terms, are used to identify such forecasts, which evidently involve risks and uncertainty seen or not seen by the Company and do not therefore provide an assurance as to the Company’s future results. The future results of the Company’s operations may therefore differ from current expectations, and readers should not solely rely on the information set out herein. The company undertakes no obligation to update the presentations and projections in the light of new information or future developments. The figures informed for 2018 onwards are estimates or targets. The financial and operational information set out in this presentation is rounded off. The total amount is presented in the graphs could therefore differ from the direct numerical aggregation of the preceding numbers.

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

The 2nd quarter earnings presentation for Petrobras Distribuidora will be delivered by Executive Manager for Investor Relations Fábio de Lucena. Company officers will then be available to respond to participants' questions. I will now turn the presentation over to Mr. Fábio de Lucena.

Fábio de Lucena: Welcome to our 2nd quarter 2018 earnings call. This presentation will be available on the Brazilian Securities Commission website and on our Investor Relations website.

Slide 3 presents the Company's performance headlines for the second quarter of 2018.

Net income this quarter was R$ 263 million compared with 70 million in the same period of 2017, which once again reflects the Company's commitment to its strategy of focusing on profitability and balancing its capital structure.

The Adjusted EBITDA in the second quarter of 2018 was R$ 508 million (five hundred and eight million reais) versus R$ 481 million (four hundred and eighty-one million reais) in the same period of 2017, an increase of 5.6% (five point six percent), due to better sales margins which made up for the lower volume. However, when compared with the first quarter of this year there was a decrease of 34.3% in the second quarter of 2018, explained by the truck driver strike in May, which impacted the company's EBITDA by around R$ 200 million (two hundred million reais), or R$ 20/m3, due to the devaluation of diesel inventories. If we disregard this nonrecurrent event, the adjusted EBITDA margin would have reached the level of R$ 70/m3, virtually the same as the R$ 76/m3 witnessed in the first quarter of 2018.

In terms of leverage, the Company now has a more balanced capital structure. The net debt / EBITDA ratio at the end of the second quarter of 2018 was 1.0x (one time), down from 1.1x (one point one time) in the first quarter of 2018 and 3.7x (three point seven times) in the second quarter of 2017. In addition to Petrobras' R$ 6.3 billion capitalization in 2017, the improvement in the company's capital structure was also due to the bolstering of its operational cash generation.

We now move on to slide 4, which shows the highlights of our consolidated results. This result can be better understood through a review of each business, which we will now present in the following part of this presentation: Service Station Network and Corporate Market, which includes Major Customers, Aviation and Special Markers (sales of chemicals, energy solutions and asphalt).

In the second quarter of 2018, physical sales volumes were down 4.2% compared with the same period of 2017, reflecting reduced Otto cycle fuel sales (as a result of the trucker strike), lower fuel oil sales to thermal power plants, reduced sales of green petroleum coke, and a slow economic recovery in Brazil, which has yet to translate into sales volumes in some of our segments.

Consolidated net revenues rose by 21.2% in the second quarter of 2018 compared with the same period of 2017, reflecting a dedicated focus on profitability that is consistent with the strategic guidance presented in the IPO.

Gross income increased by 3.1% in the second quarter of 2018, with unit gross margin expanding from R$ 122/m3 in the second quarter of 2017 to R$ 131/m3 in the second quarter of 2018, an improvement of 7.6%.

As previously described in the headlines, consolidated EBITDA was up 5.6% in the second quarter of 2018 compared with the same period in 2017, with EBITDA margin in R$ per cubic meter increasing by 10.2% to R$ 50/m3 in the second quarter of 2018, from R$ 46/m3 in the same period of last year. Without the impact from the depreciation of diesel stocks, EBITDA margin would have been approximately R$ 70/m3.

Moving on to slide 5, we present the performance of our Service Stations in the 2nd quarter of 2018.

The retail network experienced a 3% drop in physical volumes in the second quarter of 2018 compared with the same period last year, mainly in the Otto cycle, as a result of the truck driver strike. Diesel sales rose in the second quarter of 2018 compared with the first quarter of this year (by 1%), which demonstrates the volume recovery in June.

At the end of this quarter the Company had expanded its chain of active stations by 243 net units on June 2017 and 61 net stations on March 2018. R$ 361 million were invested in branding and maintaining the network. We remain confident in our strategy of branding more stations in 2018.

Net revenue from the retail network rose by 21.1% in the second quarter of 2018 compared with the same period last year due to higher average sales prices, despite the 3% downturn in physical sales volumes.

Gross income contracted by 3.2% on the second quarter of 2017, due to the impact of the diesel inventory devaluation coupled with lower average sales margins, due to a greater presence of hydrous ethanol in the company's sales mix, a product which has lower sales margins than gasoline products. Despite this, the unit gross margin remained stable compared with the second quarter of 2017, reaching R$ 128/m3 compared with R$ 129/m3 in the same period of the previous year.

The Adjusted EBITDA of the Service Stations diminished by 12.6% in the second quarter of 2018 compared with the second quarter of 2017. In addition to lower gross income, another factor affecting EBITDA was the 6.3% increase in operating expenses explained by the higher expenditure on freight, general and personnel expenses, where the latter item contains the provision for performance bonuses for employees, an event which did not occur in 2017. The adjusted EBITDA margin in R$ per m3 was 10% lower than the level recorded for the same period last year, standing at R$ 58/m3 versus R$ 64/m3 last year.

Slides 6 presents our Corporate Market performance.

Corporate Market comprises the segments Major Customers, Aviation and Special Markers (consisting of sales of chemicals, energy solutions and asphalt).

This quarter saw growth of 14.9% (fourteen point nine percent) in the adjusted gross margin in relation to the second quarter of 2017, amounting to R$ 164/m3. The Adjusted EBITDA also grew by 23.7% on the same period last year: R$ 344 million (three hundred and forty-four million reais) compared with R$ 278 million (two hundred and seventy-eight million reais).

Our positive Corporate Market performance was primarily due to gains in Aviation (36.7% increase in EBITDA this quarter vs second quarter of 2017) due to higher average sales margins and in Special Markets (115.2% increase in EBITDA compared with the second quarter of 2017), with an increase in the coke sale margin driven by higher international coal prices.

Slide 7 presents the performance of Major Customers in the second quarter of 2018.

The sales volume contracted by 9.1% in relation to the second quarter of 2017, primarily due to the decrease in fuel sales to the thermal power plants and the decrease in diesel sales to a client experiencing operating problems. The demand for fuel oil by thermal power plant is expected to recover in the third quarter due to the greater energy production by these plants from August onwards. Net revenue from the Major Customers segment rose nearly 18% in the second quarter of 2018 compared to the same period last year, as a direct consequence of higher average sales prices.

Gross income diminished by 24.9% in this quarter compared with the same period in 2017 due to the decrease in average sales margins, the devaluation of the diesel inventory, lower sales of thermal and nonthermal diesel and, above all, sales of fuel oil to thermal power plants.

The adjusted EBITDA contracted by 51.5% on the second quarter of 2017 (falling from R$ 163 million to R$ 79 million), as a result of diesel inventory devaluation (due to the strike) and lower sales volumes, as mentioned earlier.

In continuation of our earnings presentation, we now move to slide 8 which presents the performance of the Aviation segment, in which BR is the market leader, and continues performing well in the comparison periods.

Volumes rose by 6.7% in the second quarter of 2018 compared with the second quarter of 2017, driven by higher sales to airlines.

Net revenue rose 38.8% in the second quarter of 2018 compared to the same period last year, due to higher average sales prices.

Gross income from aviation products this quarter rose by 53.1% in relation to the second quarter of 2017, resulting in the gross margin rising from R$ 179/m3 to R$ 257/m3, as a result of contractual price rises in the period and a favorable exchange rate.

In the second quarter of 2018, the adjusted EBITDA for the Aviation segment amounted to R$ 123 million, growth of 151% on the R$ 49 million reported in the second quarter of 2017, with an EBITDA margin of R$ 129/m3, which represents growth of 135% compared with the second quarter of 2017.

Moving on to slide 9, we present the last of our operating segments which is the sale of chemicals, asphalt and energy solutions, which include natural gas and green pet coke.

The sales in the segment Special Market contracted by 6.8% on the second quarter of 2017, also due to lower sales of green pet coke, caused by lower supplies. The volume rose by around 5.7% on the first quarter of 2018, due to the recovery of the coke sector and greater supply. Despite the downturn in sales volumes, net revenue rose by 10.6% in the quarter compared with the same period last year, leading to gross income rising by 46.3% between these quarters, primarily due to the higher margin on green pet coke, driven by higher international coal prices, which positively affected its sales pricing.

This increase in gross income coupled with lower operating expenses resulted in an EBITDA of R$ 142 million (one hundred and forty-two million reais), 115% greater than the EBITDA in the second quarter of 2017.

The segment's adjusted EBITDA margin closed the second quarter of 2018 at R$ 114/m3, an increase of 131% on the second quarter of 2017.

Slide 10 presents data on the Company’s cash generation, debt and leverage.

The Company closed the second quarter of 2018 with approximately R$ 1.3 billion (one billion three hundred million reais) of cash and a healthy generation of free cash flow of R$ 883 million (eight hundred and eighty-three million reais).

We point out again that the Company closed the second quarter of 2018 having diminished the net debt/adjusted EBITDA ratio to 1.0x (one time), down from 1.1x (one point one time) in the first quarter of 2018 and 3.7x (three point seven times) in the second quarter of 2017. The Company's net debt at the end of the quarter was approximately R$ 3.2 billion (three billion two hundred million reais), down by 6% on the first quarter of 2018, due to higher equivalents triggered by greater operational cash generation in the period.

The Company's gross debt has an average term of maturity of approximately 3 years is completely indexed to Reais and incurs an average interest rate of 112.5% of the CDI rate at the end of the second quarter of 2018.

As disclosed in a press release yesterday, August 01, we lastly draw your attention to the receipt of the third debt payment installment by Eletrobrás, under the settlement reached with BR in April 2018. The restated total receivable amount is R$ 4.6 billion (four billion six hundred million reais), over 36 monthly installments (with no grace period) restated by market interest rates. We have received already R$ 457 million to date.

I would like to thank you all for your attention and we will now move to the questions and answers session.

Operator: We will now open the session for Questions and Answers. We request that each participant pose no more than two questions speaking slowly and clearly. Both questions should be posed one after the other, and will be answered by the executives one after the other. We also request that you do not use the loudspeaker function to pose your questions.

To ask a question, please dial *1. To remove your question from the list, please dial *2. Any questions not answered during this conference call can be sent to the email address ri@br.com.br, which the Company will reply to at a future date.
Our first question comes from **Mr. Luiz Carvalho**, with **UBS**. You may proceed.

Mr. Luiz Carvalho, UBS: Hi, Ivan. Hi, Marcelo. Hi, Gustavo. Just a quick follow-up from the Portuguese call. I think that the question goes to Marcelo, mainly on the retail segment. We have been seeing a quarter (how can I say) with demand until this part of the year, and also with diesel prices controlled by Petrobras/the government… So, I just would like to understand how do you see the competitiveness market, or the competition to the market in the second half of the year, on the back of this scenario, with the (I would say) this low demand… and also some other players being more aggressive on the pricing or the pricing form. Thank you.

Mr. Marcelo Bragança: Ok. Hi, Luiz, good afternoon. We see the weak demand in the first semester of this year mainly caused by the truck drivers' strike… we are now looking for our plan in the second half of the year, in order to see how the economy growth will go to the next months. As I said before, we see the market remains very competitive, but we remain confident in our strategy and value that we offer to our resellers in order to catch the volume. It is important to say that in the first half of this year, in retail segment, we have been growing market share since January, reaching 25.2% of market share in June. We also increased our active network, adding 61 gas stations in this quarter. And we believe that our strategy in continuous growing selecting our natural gas station, and converting mainly white flags gas stations, we'll demonstrate that our thesis remain valid. So, we see a volume recovery in the second half of this year, but the truck drivers' strike maybe can cause some not so high expansion in volumes in the economy recovery like was expected in the beginning of the year.

Mr. Ivan de Sá: And… hi, Luiz… this is Ivan… And we emphasize that the fact that we don´t see arbitrage opened for imported products, we see this scenario in the Brazilian market better for our network. We expect to have a better competition position against especially white flags with this scenario where import no longer attracts.

Mr. Luiz Carvalho: Ok, perfect. Thank you very much.

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

Operator: Thank you. We hereby close this questions and answers session of this webcast conference call. CEO Ivan de Sá will now make his closing comments. Please, go ahead, CEO.
Mr. Ivan de Sá: Thanks all for the participation; we will be completely available for additional questions. Fabio de Lucena, our new Investor Relations manager, will be available, and all the BR directors as well to further questions and special talks in the future. Thank you so much for all.

Operator: Thank you. Ladies and gentlemen, the audio from this conference call and live presentation will be available at our Investor Relations website, www.br.com.br/ri.
This concludes our webcast conference call. Thank you for participating. Please, now hang up and have a great day.