

MAJOR CHANGES IN THE RETAIL SEGMENT IN LATIN AMERICA

AGENDA

- SIZE OF THE RETAIL SEGMENT
- CHARACTERISTICS OF THE RETAIL SEGMENT
- MAYOR CHANGES IN THE RETAIL SEGMENT
 - MEXICO
 - BRAZIL
 - SUMMARY



15 - 17 May 2018, Stuttgart, Germany

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THE LATIN AMERICAN REGION

SIZE AND POPULATION

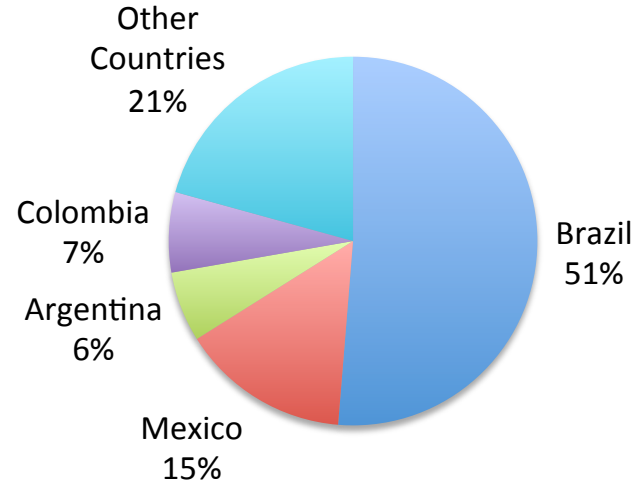
- Total of 42 countries and islands in the region
- Latin America: 19,200,000km²
 - US size: 9,850,000km²
 - European Union size: 4,300.000km²
- Total population of 615M
 - US population is 332M
 - Western Europe population is 400M
- More than 67% of the population resides in 4 countries
 - Brazil 204M
 - Mexico 121M
 - Colombia 48M
 - Argentina 43M
- Regional population annual growth of 1.13%
 - 6.9M more people every year
 - US population annual growth is 0.77% (+2.5M/yr)



PETROL STATION POPULATION

RANK by COUNTRY		# OF STATION
1.	Brazil	41.600
2.	Mexico	12.000
3.	Colombia	5.700
4.	Argentina	5.000
5.	Peru	4.200
6.	Paraguay	2.050
7.	Venezuela	1.550
8.	Chile	1.500
9.	Guatemala	1.340
10.	Puerto Rico	1.160
11.	Ecuador	1.060
12.	Rep. Dom.	800
13.	Bolivia	740
14.	Uruguay	500
15.	Panama	440
16.	Costa Rica	400
17.	Honduras	330
18.	El Salvador	310
19.	Others (est.)	420
TOTAL SITES		81.100

79% of total sites



ESTIMATED NUMBER OF STATIONS			% OF TOTAL
World wide	—	735.000	100%
Western Europe	—	168.000	23%
United States	—	150.000	20%
Latin America	—	81.000	11%
Rest of the world	—	336.000	46%

PETROLEUM RETAILING IN LATIN AMERICA

CHARACTERISTICS OF THE RETAIL SEGMENT

- Lagging the world in legislation covering service station operations (Vapor Recovery, AdBlue/DEF, storage tanks, etc.)
- Predominantly sales of gasoline
 - Low percentage of diesel vs. Europe
 - Increase in alcohol content, particularly Brazil
 - CNG in Argentina, LPG in some smaller markets
- Full service operation of stations, unions block self-service
- No pay-at-the-pump, minimal roll-out of payment systems
- Alternative sources of income at sites mostly underdeveloped
 - Limited penetration of comprehensive c-stores
 - Almost no car-wash or lubrication centers at sites
 - Limited merchandising, ATMs, or other services at stations



MAYOR CHANGES IN THE RETAIL SEGMENT MEXICO

- Why so much talk about Mexico?
 - Energy industry nationalized in 1938, re-opened in 2015
 - 5th largest consumer of gasoline in the world, 12.000 stations, 75% are one-site owned and operated
 - Amongst highest in the world of vehicles fueled per day per station (3000 vehicles)
 - Analysts estimate **8.000 new stations are needed**
- Energy reform of 2015 allowed fuel imports and station branding freedom
 - Hidrosina 220 stations, own brand, renewed supply contracts with PEMEX
 - PetroMex Subsidiary of 7Eleven, Petro 7 brand, stayed with PEMEX
 - OXXO 300 stations, own brand, mixed fuel supply (PEMEX and imports)
 - ExxonMobil Partnering with Grupo ORSAN, will have 50 Exxon branded sites, imported fuel via rail
 - Shell Plan US\$1B investment, 1000 sites, all imported fuel
 - Texaco Partnering with FULLGAS, supplied from Chevron refinery in US
 - BP 160 stations and plan 1,500 by 2021, supplied from the US
 - Others ECO, NEXUM, LA GAS, COMBURED, etc., own brands, mixed supply strategies (PEMEX and imports)

LEGISLATION ALLOWS DUAL BRANDING (PEMEX + PRIVATE BRAND)
BUT SINGLE SOURCE OF FUEL (PEMEX OR IMPORTED)

MAYOR CHANGES IN THE RETAIL SEGMENT MEXICO



HIDROSINA



LA GAS



EXXON MOBIL



PETRO 7



SHELL



TEXACO

MORE THAN 1,500 MEXICAN SITES ALREADY RE-BRANDED

MAYOR CHANGES IN THE RETAIL SEGMENT MEXICO



PEMEX TAKING DEFENSIVE STEPS

- Partnering with Grupo SAIGSA to develop 'new franchise'
- Focused on customer experience and nationalism
- Franchise to sign stations that meet image, quality and transparency guidelines
- Start in Mexico City, Monterrey and Guadalajara, then 59 metropolitan areas, then motorways
- Launched 'Guía Pemex' APP
 - Locate stations
 - Offer discounts
 - Advertise cross-promotions

OBJECTIVE: BUILD LOYALTY, RETAIN MAJORITY OF RETAIL OUTLETS
FOR MEXICAN REFINED PRODUCT

MAYOR CHANGES IN THE RETAIL SEGMENT MEXICO

Implementation of Energy Reform of 2015 is most significant in Latin America en the last 30 years
But very significant challenges remain...

- Short time for traditional PEMEX retailers to become competitive
 - Modernize, embrace technology
 - Abandon outdated and obscure business practices
- Fuel importation rules and cost are still in flux
- Social and political barriers remain
- Gasoline theft and corruption are big hurdle
- Concurrent implementation of vapor recovery complicates transition
 - NOM regulations very recently published
 - Tough efficiency standards defined
 - NOM certification (for suppliers and retailers) delayed
 - Implementation costs are very high for retailers to cover



MAYOR CHANGES IN THE RETAIL SEGMENT

BRAZIL

Why is Brazil always so important

- Represents 50% of Latin America (people, GDP, vehicles, stations)
- 41.600 stations, 7.650 C-Stores and lots of room to grow

Mayor changes in the retail segment

1. Focus on transparency, side-effect of corruption scandals
 - Tampering with meter pulses and truck deliveries
 - Water into tanks (gasoline & AdBlue), tax evasion
2. Growth of C-Stores segments
 - Only 18% of station have C-Stores
 - Number of stores growing at 8% to 10% annually
 - Revenue per store growing at over 10% annually
3. Labor unions forcing legislation that impacts the forecourt
 - New legislation requires breakaways at all fuelling positions
 - Vapor Recovery legislation requires 100% Stage II implementation
 - 500.000 fueling positions replaced within 15 years
 - All new dispensers to have vapor recovery starting September 2019



VAPOR RECOVERY IN BRAZIL










- Regulations were turned into law on September 21, 2016
 - Portaria N°1.109, issued by the Ministry of Labor
 - Principal lobby was the Union of Service Station Attendants
 - Drivers:
 1. Occupational Safety (exposure to fuel vapors at service stations)
 2. Environmental Protection (reduction of emissions)
 - Technical standards now being developed by INMETRO
- Implementation schedule already released

Manufacturing Year of Dispenser	Maximum Allowed Date for Conversion to Vapor Recovery*
• Starting Sept. 2019	_ New dispensers must have vapor recovery
• Prior to 2019	_ 15 years (2031)
• Prior to 2016	_ 12 years (2026)
• Prior to 2014	_ 11 years (2025)
• Prior to 2011	_ 10 years (2024)
• Prior to 2007	_ 8 years (2022)
• Prior to 2004	_ 6 years (2020)

* Counting from date law was signed (21 Sept. 2016)

CHANGES IN C-STORE PENETRATION

- Latin America is far behind other regions in C-Store penetration
- This is changing rapidly as retailers position their businesses to survive downturns in gasoline retailing volumes and/or margins

	COUNTRY	NUMBER OS STATIONS	NUMBER OF C-STORES	% STATIONS WITH C-STORES
	United States	150.000	123.807	80%
	United Kingdom	9.941	8.748	88%
	Australia	6.337	6.020	95%
	Uruguay	481	428	89%
	Argentina	5.024	3.768	75%
	Chile	1.593	483	30%
	Paraguay	2.050	389	19%
	Brazil	41.626	7.655	18%
	Colombia	5.748	214	4%

MAYOR CHANGES IN THE RETAIL SEGMENT

REGIONAL SUMMARY

MORE STABILITY – Economic growth resulting in increased fuel consumption

– Long-term government policies stimulate investment

MORE STATIONS – Number of stations growing in most countries

– Specially in Brazil, Mexico and Argentina

MORE LEGISLATION – Acceleration of drafting and implementation of laws

– Focus is on environment, labor and consumer protection

MORE ENFORCEMENT – Control of tax collection from service station operations

– Control of quality and quantity of gasoline dispensed

MORE TECHNOLOGY – Focus on control, efficiency, cost reduction

– Total Cost of Ownership becoming more important

MORE MOVEMENT – Multinational Oil Companies coming and going

– National Oil Companies returning home and growing at home

MORE C-STORES – Particularly in Brazil, Paraguay and Chile



MORE OPPORTUNITIES

(FOR RETAILERS, OIL COMPANIES, EQUIPMENT & SERVICE SUPPLIERS)

THANK YOU

FRANK DE POLI
MAY 16, 2018
STUTT GART, GERMANY

