

Q1 2014 Earnings Call

Company Participants

- André Covre, Chief Financial & Investor Relations Officer

Other Participants

- André Sobreira, Analyst
- Christian Audi, Analyst
- Frank McGann, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's First Quarter 2014 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ri. Please feel free to flip through the slides during the conference call. Today with us we have Mr. André Covre, Chief Financial and Investor Relations Officer, together with other executives of Ultrapar.

We would like to inform you that this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Ultrapar's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. We remind you that questions, which will be answered during the Q&A session may be posted in advance in the webcast. A replay of this call will be available for one week.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Ultrapar management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and, therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of Ultrapar and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference call over to Mr. Covre, who will present Ultrapar's results in the quarter and discuss about perspectives. Mr. Covre, you may now begin the conference.

André Covre

Good morning to the folks in the U.S. Good afternoon in Europe. It's a great pleasure to be here with you once again. Today, we will discuss Ultrapar's performance in the first quarter, which was another quarter of positive results and the first one with Extrafarma, our third business in specialized distribution and retail.

Here with me to help answering your questions I have José Manuel from Ipiranga; Ana Paula Santoro from Oxiteno; Julio Nogueira from Ultragaz; João Marcos Cazula from Ultracargo; and Miguel Jarros from Extrafarma, all of them executive officers of their respective businesses.

I also have here with me the Investor Relations team and I would like to take this opportunity to inform of some changes that we have made in the IR structure. Rodrigo Pizzinatto who was Director of Investor Relations, Corporate Planning and M&A has taken now a position at our new business Extrafarma. Rodrigo was intensely involved in the transaction of Extrafarma and became a natural consequence for him to become one of our leading team members in Extrafarma.

To take his position in Investor Relations, we have appointed Marcello de Simone. Marcello is a long time executive in Ultra. He helped in the IPO in 1999, has held a number of different positions in Ultra and is currently responsible for treasury, insurance and corporate communications. He will absorb the IR functions and, therefore, will be responsible for all aspects of corporate communications.

Before we continue, I'd like to draw your attention to slide number two where we highlight the criteria adopted for the information disclosed. This slide also brings some information regarding the association of Ultrapar.

Starting our discussion of consolidated results on slide number three. We started 2014 as planned with a quarter of earnings growth and closing the Extrafarma transaction on January 31. Ultrapar's EBITDA reached BRL 702 million, 14% growth over previous year as a result of three initiatives.

First, the investments made in recent years in all of our businesses, allowing for increased operating scale. At Ipiranga and Ultragaz, we expanded the geographical footprint of the network of resellers with increasing quality of service stations and LPG shops and differentiation to customers. At Oxiteno, we strengthened the focus on specialty chemicals with greater differentiation and operating scale. And finally, at Ultracargo, we significantly increased our storage capacity with expanded terminals and wider geographical coverage.

Second initiative, the improved sales mix, which was made possible by the investments and the focus on products with greater value added. And third, enhanced operational efficiencies in our businesses arising from the focus on productivity and quality.

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Net earnings in the first quarter reached BRL 249 million, up 1% over first quarter last year as a result of the EBITDA growth. This EBITDA growth was partially offset by two elements. First, higher financial expenses, mainly as a result of the increase in the Brazilian base interest rate, SELIC. As shown in the net earnings chart on the top of the slide, the SELIC rate soared by 3.5 percentage points between March 2013 and March 2014 from 7.25% per annum to 10.75% per annum. That rise in interest rates increased our financial expenses in the quarter by approximately \$35 million.

In addition, the investments made in the last 12 months are still in their maturing process. In the other hand, the increases in depreciation and amortization and in net debt levels have immediate impact in net earnings.

The first quarter, was also a period of recognitions and achievements. We were elected again one of the World's Most Admired Companies in the energy sector in a survey conducted by Fortune Magazine with company executives, directors and market analysts. We ranked two positions above last year, being now recognized as the world's second most admired company in the energy sector, for the quality of our team and corporate governance.

A great milestone for the quarter was the closing of the Extrafarma transaction, which took place on January 31. From there, we started to work on the deployment of our business plan, the one that paved the way to our entering the sector. In this plan, as we mentioned at the announcement, 2014 is a year of preparation for the more accelerated expansion. This preparation consists of two work streams: first, integration of Ultrapar, both for the operation and cultural level; and second, structuring Extrafarma for a more accelerated growth.

In both, we are advancing as planned and made significant advances during the quarter. For example, treasury, accounts payable and legal activities are already centralized in the corporate center, starting the implementation of Ultrapar's management model and sharing its structures with the other businesses.

We expect the whole process of centralization of the financial activities and IT to be concluded in mid-2014. By June, we expect to complete the implementation of the EVA management and variable compensation system, therefore, advancing also on the implementation of our corporate governance and alignment of interest tools.

We have established a new organization structure at Extrafarma to allow for greater specialization and agility, with the creations of areas dedicated to expansion and operations. Currently, these areas are in the phase of structuring their teams. And as part of this process, we have also allocated managers and analysts from Ultrapar to Extrafarma, strengthening its team and facilitating the integration process. Finally, we concluded the detailing of the work plan that we need to perform to establish the necessary steps to start the accelerated openings of drug stores.

Moving now to slide four to comment in more detail on the performance of our businesses and starting with Ipiranga. The market trends seen in recent years with growth

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in volumes and reduction of the grey market remain present and positively impacted the volume for the first quarter. The volume growth is boosted by an increase in the light-vehicle fleet which positively affects the consumption of Otto cycle fuels and by the positive performance of certain segments of the economy, particularly agribusiness and retail, increasing the deals of consumption.

As you can see in the top left chart, the Brazilian vehicle fleet was estimated at 37 million in March 2014, which corresponds to a 6% growth compared to March 2013. From our side, we'll continue to expand Ipiranga's service station network through significant investments in opening new service stations and converting unbranded ones. Our investments have a particular focus on the Midwest, Northeast and North of Brazil, regions where fuel consumption grows above the Brazilian average.

We ended the first quarter of the year with 6,828 stations, 5% growth over the end of March 2013. These investments have allowed the company to grow above the market and achieved improved sales mix with increased share of sales through service stations, also known as the reseller segment.

The reduction of the grey market, especially in ethanol, brings benefits to customers, resellers and the company itself in addition to greater tax revenues for the government. An evidence of this is increased shares in ethanol sales by the Sindicom companies as compared to the total market. This share increased from 63% to 67% in the first quarter of this year, as seen in the chart on the top right.

Initiatives such as the collection of PIS/Cofins taxes for the whole ethanol chain at the producer, and investment in the conversion of unbranded service stations contributed to curb the grey market.

From a market positioning standpoint, Ipiranga continue to invest in differentiation through constant innovation and services and convenience, helping to increase the flow of customers at the service station, their satisfaction and their loyalty to our gas stations.

This philosophy has been successfully developed through some marketing campaigns. The most famous campaign is Ask at the Ipiranga service station, which summarizes the value proposition to Ipiranga's clients. With all these factors, we had a 9% growth in volumes and a 12% sales volume growth of fuels for light vehicles and a 6% growth in diesel volumes. EBITDA reached BRL 499 million in the first quarter, up 15% over the first quarter of 2013 as a result of the abovementioned factors.

Looking ahead, the trends seen in the first quarter and in the previous years remain present. However, the second quarter of 2014 has some important specific events. First, a calendar effect, two business days less which has a reducing impact on volume growth of approximately 3%. This impact does not consider any potential impacts of the World Cup events.

Second, the World Cup itself is a high audience event, which we will use to strengthen our market positioning with promotions and advertising campaigns, thus incurring in

increased expenses for the quarter. And third, we had an increase in diesel refinery price in March 2013 which carried benefits into the second quarter of 2013. With all of that, we expect a small EBITDA growth in this quarter compared to the last year.

Moving on now to Oxiteno on slide number five. The volume of specialty chemicals sold in Brazil grew by 4%, about two times the GDP growth estimated for the quarter. Such growth was made possible by the expansions in production capacity finalized in 2011 and the strong positioning of Oxiteno in segments of growing demand especially home and personal care, coatings and agrochemical segments, segments in which we have made constant investments in innovation and development of new products.

Specialty chemicals sales in the foreign markets decreased by 5% in the quarter, as a result of the reduction in the operating level in Venezuela due to limitations in importing raw materials in the country. Total glycols sales volume was down 25%, a significant percentage change, but that is not unusual in the case of this product. This occurs because, as a commodity, glycols have greater volatility in prices and, on average, lower profitability. This leads to variations in the attractiveness of its sales and the four variations in our sales volumes. Market conditions in the first half of last year were more attractive than in the first half of this year.

Total sales volume decreased by 4% between quarters, reaching 191,000 tons in the first quarter of 2014. With the different evolutions by product type that I mentioned, we presented an improved sales mix with specialty chemicals accounting for 86% of the total, 4 percentage points above that of last year. The improved sales mix and the weaker real contributed to a positive earnings progression. EBITDA reached BRL 109 million, up 35% compared to the same period of last year. EBITDA margin reached \$241 per ton.

Looking ahead, we expect the second quarter to present similar operational characteristics when compared to the first quarter. Thus, we expect a similar volume evolution between second quarters and same EBITDA margin in dollars per ton.

Moving now to Ultragaz on slide six. As anticipated in the call in February, we have seen exceptionally hot weather in the first quarter, which negatively affect LPG demand. The graph on the top left shows the increase in average temperatures on the capitals of the South and Southeast regions of Brazil.

Mainly due to such effect, the sales volume in the first quarter was 1% lower than first quarter 2013. This effect of the hot weather was partially offset by investments in capturing new customers, mainly on the residential and small and medium-sized company segments producing an improved sales mix. Sales volume for these segments rose by 2% in the first quarter this year, as shown in the bottom chart of this slide.

Ultragaz's EBITDA amounted to BRL 61 million, a 4% reduction from first quarter 2013. This increase was due mainly to the planned requalification of an increased number of LPG bottles, which we also anticipated to you in the call of February and the lower sales volumes. These effects were partially offset by some commercial initiatives, including the

improvement in mix. If we were to exclude the impact of the larger requalification of LPG bottles, Ultragaz EBITDA would have grown by 7%.

Now in the second quarter, we have not seen the high temperatures of the first quarter. However, we have the fact of the reduction of two business days, as mentioned earlier in Ipiranga. And in addition, the greater expenses with requalification should still be repeated in this quarter. And as a consequence, we expect to reach an increase of EBITDA and volume similar to the ones we had in the first quarters.

Moving to slide seven, in the first quarter, Ultracargo presented an average storage 16% higher than first quarter 2013. This growth was mainly due to an increase in demand for fuel oil for thermoelectric plants and greater demand in automotive fuels, lubricants and methanol. This last one is used in the production of biodiesel, which is used in cars in Brazil as part of the diesel. Increased demand allowed for greater handling in the terminals and as a consequence, EBITDA reached BRL 41 million, 15% higher. For the current quarter, we expect EBITDA to have a lower increase than that observed in the first quarters, mainly a result at some expenses with expansion projects planned for this quarter.

Moving now to Extrafarma, we started to consolidate Extrafarma in our results on February 1. Therefore, the results presented here refer to the months of February and March only, as well as the information for the first quarter in 2013 used as comparison basis.

One of our motivations to enter the drug store market was its strong organic growth. A recent indicator of such growth is the 17% sales increase of the Abrafarma member companies in the first quarter compared to the first quarter last year. Extrafarma's revenues increased by 19% as compared to February and March 2013. Part of this growth is explained by the 11% increase in same-store sales. Another part of the growth in revenues is due to the investment in new drug store openings during the year.

Extrafarma ended the first quarter of this year with 200 stores in the North and Northeast regions of Brazil, an increase of 25 stores or 14% when compared to March 2013. Expenses related to the process of integration and structuring amounted to BRL 3 million in the quarter which led to an EBITDA of BRL 10 million, a 7% reduction when compared to the same period of 2013.

However, excluding integration and the structuring process, EBITDA reached BRL 13 million, a 16% growth when compared to the same period of 2013, mainly due to the increase in gross revenues. EBITDA margin was 6.9%, just slightly below the margin presented in the same period of last year, due to a greater shares of drug store with less than one year in our store base and above inflation increases in personnel costs.

For the current quarter, we expect growth similar to that in the first quarter and the maintenance of the EBITDA margin. Such growth is based on a gross revenue of BRL 267 million for the second quarter of 2013 and it excludes the integration and structuring effects estimated at around BRL 10 million for this quarter.

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Moving now to this last slide. I'd like to share with you some of our priorities and some of our views on the longer-term outlook. At Ipiranga, we continue to invest in the expansion of its service station network, franchises and related logistics infrastructure focused on North, Northeast, and Midwest regions of Brazil. Over the last 12 months, we added 319 service stations to our network, a 5% growth in the period.

During the same period, we opened 328 new am/pm and Jet Oil stores, a 13% increase, strengthening the differentiation strategy based on increasing the offering of products, services and convenience. We're also expanding the penetration of the bakeries in the am/pm and connect (23:46) card in our service station network.

As I mentioned, we will take the advantage of the strong audience to the workup (23:55) to promote Ipiranga and run promotions and advertisers in the media in order to strengthen our consumer perception that Ipiranga station is a complete place waiting for you.

For Oxiteno, we'll continue to maximize the benefits from the production capacity expansions made in Brazil with growth in specialties at around 2 times GDP, therefore, allowing for an improved sales mix. In addition, we will continue our focus on innovation to proximity of our clients and development of new products and applications.

At Ultragaz, we're investing to capture new bulk segment customers focused on condominiums and small- and medium-sized companies, segments in which we have increasingly more differentiation proposition and, therefore, great potential to add value. Additionally, we will continue to focus our management in costs and expenses.

At Ultracargo, we'll focus on capturing the benefits related to the expansions of the terminals, and we will do that serving the growing demand of fuels in the country. At Extrafarma in turn, our priority are as I mentioned, analyzing it's integration to Ultrapar and structuring it for an accelerated expansion which shall be developed more intensively starting at the end of 2014.

Lastly, we believe that our corporate governance structure designed to ensure the company's growth and value creation allow us to pursue, select, and implement good investment opportunities and prepares us for new growth cycles.

I conclude here what we have prepared for the presentation today. Thank you all for your attention. And I'm now available to any questions you may have.

Q&A

Operator

Thank you. The floor is now open for questions. And our first question will come from Frank McGann of Bank of America Merrill Lynch.

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Q - Frank McGann {BIO 1499014 <GO>}

Hi. Good afternoon. Just two things. One is in terms of the expansion going forward at Extrafarma, how you're thinking of that in terms of integration with the service station network or freestanding pharmacies. The impression I have is that it's mostly freestanding pharmacies, but I was just wondering what your - how you're thinking of that and what plans you have. And then in Venezuela, the effects that you have in Oxiteno in the first quarter. I was wondering how you view those. Are those one-offs, or is this something that will continue to impact results going forward?

A - André Covre

Hi, Frank. Thanks for joining the call. On the expansion of Extrafarma as far as choice or freestanding or street stores versus service station stores or LPG shop stores. Our view that what should drive the choice is the customer. So, it is the commercial attractiveness of the location that should determine what we place a drug store.

Now, given that we have 11,000 points of sale between gas stations and LPG stations, there'll be many of those which will be very attractive. So, without, at this moment, knowing an exact breakdown of percentages, our expectation is that we'll have drug stores in the street, in shopping malls, in service stations of Ipiranga, in LPG shops of Ultragaz, always driven by the attractiveness to the consumer.

It is - part of this year is invested exactly in determining the answer to that question. If we're going to enter a new city or a new state, which privileged locations we'll have and which locations we should look for. And that's why one of the reasons we want to start a more accelerated growth plan towards the end of the year.

As far as Venezuela goes, we have had one event, which is reducing the operating level in the country, but that carries consequences at least on the comparison basis for another three quarters. In other words, we have now reduced the level of our operations in Venezuela and, therefore, will not generate the earnings that we were generating during the previous four quarters. So, there'll be nothing new in relation to this for the second, third and fourth quarter, but we'll be comparing with quarters of last year which had the benefit of EBITDA from Venezuela that we're not going to have now.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. If maybe I could just follow up. Just in terms of Extrafarma, how you're thinking about acquisitions to augment growth going forward even in the North and Northeast or moving into other regions as well. And then staying with acquisitions, just in terms of Oxiteno in the United States and other potential markets where - how are you seeing acquisitions in those markets as well?

A - André Covre

In Extrafarma, the priorities for this year is the integration and the structuring process. Starting next year, acquisitions will be part of the plan. The pace at which they will happen, why that will happen, obviously, depends on third party negotiations. We will have acquisitions as part of our strategy as we go forward starting next year.

In Oxiteno, the expansion in NAFTA is – the NAFTA region is a priority. We are in process of finalizing our expansion in Mexico. It should be operational mid this year. They're in the process of ranking up the capacity that we put in the United States last year and we will remain attentive to any potential acquisitions in the region.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Thank you very much.

Operator

And the next question will come from Christian Audi of Santander.

Q - Christian Audi {BIO 1825501 <GO>}

Hi, André. I have actually several questions, so let me just give you the list so you can take one by one please. The first one is just a big picture question related to your EBITDA growth guidance. André, I know you've talked in the past about 15% growth, more or less.

But given what you've seen as of now, sitting where you are today, there are some factors that are out of your control such as temperature impacting Ultragaz, World Cup, and others. Would you say that the risk to your guidance of 15% is more on the downside or more on the upside? In other words, we're talking more about a 13% to 15% growth or a 15% to 17% growth?

The other question was on Ipiranga. You mentioned in your comments that the outlook for the second quarter after a 15% growth year-over-year in the first quarter, you're talking about much smaller growth in the second quarter. And I was just trying to understand in EBITDA growth if you're talking about low single-digit growth, André, or are we talking about 5% to 10% growth in the second growth for Ipiranga?

On Oxiteno, I was just curious, when you look at the specialty chemicals volume, can it fall – the mix, can it fall even to lower levels than what you saw in the first quarter? Also, the topic of Venezuela, can you just remind us what's the EBITDA level that you get out of Venezuela right now? Can you give a specific number, what's the percentage of your consolidated EBITDA that comes from Venezuela? And is there a – are we reaching capacity optimization level there that you may not be breaking even anymore?

And then the last question on Ultragaz, you talked about in your outlook comments that the EBITDA in the second quarter will be similar to the first quarter. And I just wanted to clarify; you're talking about an EBITDA, with the requalification which means BRL 61 million as you show in your slide or an EBITDA of BRL 68 million, which is also on the chart that you used on page six. Thank you.

A - André Covre

All right, Christian. I hope I took note of all of them. It's not (34:30).

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Q - Christian Audi {BIO 1825501 <GO>}

Yeah. Sorry. I'll go over. Sure. Sure. Thanks.

A - André Covre

So first, I guess on the main question about the guidance for the year. When we guided the market, transmitted to the market our expectations for the year, we had in mind that 2014 was going to be a year of modest growth. So, I don't see a major modest growth in the economy. So, I don't see a major change from the guidance that we gave. If you allow me to judge, if there is more risk on the downside than on the upside, there's probably more risk on the downside.

But the level of guidance hasn't changed. In other words, as I mentioned in the conference call in Portuguese, we're not a Swiss watch. So it's not that we say 15 then 15 will happen. 15 is an indication of a corridor, of an interval. It can be 12. It can be 13. It can be 17 or 18. On this current moment, there's probably more downside to the forecast than upside.

On Ipiranga growth for the second quarter, just to remind, we're talking about three important effects which have an effect only in this quarter. Two working days less, is the marketing expenses in relation to workup (36:09) and, as the comparison basis, it's the second quarter of last year that carried benefits from the refinery price increase of diesel. All of these compound (36:22) does have significant impact on the quarter. So, it is somewhere between a low single-digit and around 5%. That's as much as I know at this point and, therefore, that's as much as I can tell you.

On Oxiteno, mix can be further improved because we still have some production capacity on specialty chemicals that can be used for production capacity for specialty chemicals which are currently used to export and when we bring it to Brazil that generates further mix gains. Venezuela had a EBITDA contribution to Ultra last year around BRL 40 million to BRL 50 million, and we have brought it down to zero now. So it is EBITDA breakeven.

And the last question, Ultragaz, I was referring to - when I referred to similar EBITDA evolution, I was referring to similar reported EBITDA evolution. In other words, it should be a small decline in EBITDA in relation to last year. Obviously, if you add back the requalification expenses, you probably get a similar pro forma EBITDA growth as we had this between first quarters.

Q - Christian Audi {BIO 1825501 <GO>}

Great. And just a quick follow-up on Oxiteno, energy reform in Mexico, is that something you're attentively looking at in terms of potential opportunity for further growth in Mexico, or you have your hand already so full in Brazil that that's an interesting event happening in Mexico, but it doesn't change your plans much?

A - André Covre

We are closely following it. It may open the possibility of having bigger supply of its line of sight in the country and, therefore, allow us to have Mexico as a larger production base. Now, this is all in very early stages and it's on the make by the Mexican government. So, we're not taking any action on it. We're not doing anything about it. We're closely following what's happening with the government.

Q - Christian Audi {BIO 1825501 <GO>}

Excellent. Thank you very much, André.

Operator

And our next question is from André Sobreira of Credit Suisse.

Q - André Sobreira

Hi. Good afternoon, everyone. I had a couple of questions, mostly on the Ipiranga site. You mentioned higher expenses related to World Cup marketing. I was wondering, André, if you see any business impact on volumes due to the World Cup. That'll be a first question.

And then, secondly, more generally, have you seen any changes in the competitive dynamics between you and the other main players or between you and the white flags in the recent quarters.

And maybe a third question would be, what can the industry do further in both the ethanol side and on gasoline and probably less on diesel to increase formality further? For example, this is probably more difficult, but do you think you could do to VAT taxes the same thing that you did to the other taxes, or are there any other initiatives that the industry is pursuing to try to increase formality? Thank you.

A - André Covre

Well, André, in relation to World Cup, we are keeping a positive view to it in the sense that, as I mentioned, it's a high-audience event and, therefore, an opportunity for us to further strengthen our market positioning.

Whether the World Cup will have an effect on volumes, it would largely depend on two things. First, the number of days off that are enacted in relation to the games and, second, if everything takes place on an orderly fashion or not. We'll have to wait and see that, how it plays and we'll only know after the facts.

In relation to changes in the competitive dynamics between the branded players and the white flags, it's been now a relative long period where the branded players have competed very truthfully (41:43) on who has the nicest gas station, who has the best product, who's got more convenience and service.

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It is the type of competition that puts the burden on us as we are generally seen as the market innovator, the company that has a leading position in differentiation. We consider this very healthy competition because the consumer gets a better service, a better product. Our gas station owners get a better business and ourselves, the distributors also get a better business.

The story is a bit different with the white flags. The white flags, as you know, not all of them, but a significant portion of them, compete on the basis of unfair cost competitive advantages. And their competitive edge has been diminishing over the last few years gradually. And we have seen some indications of that during the last year, particularly the graph that I showed, demonstrating the increased participation of the Sindicom member companies in the total sales of ethanol. We expect that trend to continue.

And moving to your fourth - third question, it would be of great impact in this issue, if the ICMS tax, one of the VAT taxes that we have in Brazil, would have the same percentage for all the states. Currently, there are different ICMS taxes for the different states in Brazil in relation to ethanol. It would be even better if ICMS would have a regime where all the ICMS tax was levied at the producer. These initiatives involve a number of different interests and have very complex implementation process.

But in the short term, I think where we can focus on is ourselves, the distributors, converting as many white flags as possible and Sindicom working with the authorities to improve the fiscalization of the existing measures because I think fiscalization can still be improved in relation to the existing measures. We have short-term potential actions and benefits, and we have an agenda for the longer term which is a more complex agenda.

Q - André Sobreira

Okay. Thank you.

Operator

And our next question comes from Frank McGann of Bank of America Merrill Lynch.

Q - Frank McGann {BIO 1499014 <GO>}

Yeah. Hi. Just a follow-up on Venezuela again and I know it's only a relatively small part of the business but if you're breakeven now, is there a risk that goes to a loss or do you see the opportunities at this stage that at some point becomes more profitable again and what does it take to get there?

A - André Covre

We have sized that to be basically zero, Frank. So, I think the downside risk is minimal. Unfortunately, I think the upside risk is also minimal because we could increase production very quickly should we have raw material and should the conditions of Venezuela improve. But unfortunately, that does not seem to be the current trend in which Venezuela is going.

Q - Frank McGann {BIO 1499014 <GO>}

Okay. Great. Thanks.

Operator

This concludes our question-and-answer session. At this time, I would like to turn the conference back over to Mr. André Covre for any closing remarks.

A - André Covre

Well, thank you very much for your presence. We look forward to seeing you in three months when we talk about the second quarter. Have all a great weekend.

Operator

Thank you. This concludes today's Ultrapar first quarter 2014 results conference call. You may disconnect your lines at this time.

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