

Q4 2006 Earnings Call

Company Participants

- Eduardo de Toledo, Managing director of ultracargo
- Fabio Schvartsman, CFO & IR Officer
- Joao Benjamin Parolin, Managing director of oxiteno

Other Participants

- Gustavo Gattass, Analyst
- Jason Selch, Analyst
- Tereza Mello, Analyst

Presentation

Operator

(inaudible) where the slide presentation is available for download. Please feel free to flip through the slides during the conference call. Today with us, we have Mr. Fabio Schvartsman, Ultrapar's Chief Finance and Investor Relations Officer, along with the Company's executives.

(Operator Instructions). We remind you that questions, which will be answered during the Q&A session may be posted in advance on the website. 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 over to Mr. Schvartsman, who will present Ultrapar's results in the quarter and discuss about perspectives. Mr. Schvartsman, you may now begin the conference.

Fabio Schvartsman {BIO 2067677 <GO>}

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Yes. Good morning or good afternoon depending where you are. It is a pleasure to have you all in this conference call regarding the results of Ultrapar for the year of 2006. I would like to start mentioning that we had anticipated in the beginning of 2006 that the scenario for Ultrapar businesses in 2006 would continue to be a challenging one because of a combination of factors, especially currency -- Brazilian currency is too strong, plus the fact that oil prices were costing us a lot in terms of raw material cost effect, this together with petrochemical prices that were not that strong were causing a lot of pressure in our chemical division.

But knowing that and noticing the difficulties that we faced during 2005, we launched in the end of 2005, beginning of 2006 a series of internal measures towards reversing the trend of results of Ultrapar. And we told you in the beginning of 2006 that we expected to see a recovery that will, after a number of quarters, produce the same kind of results in 2006 that we saw in 2005. And therefore, we are very pleased now today in the beginning of 2007 to tell you that that was exactly what happened, meaning that our internal measures paid back accordingly. And that we took control of our own performance, not regarding the difficulties of the scenario for our businesses.

I would like to emphasize that we are distributing now a very strong dividend of R\$72 million. That's a little more than 50% of the net profit of the second half of the year. This is completely on line with our regular practices, meaning that as in 2006, we didn't make any meaningful acquisition. We are using the excess cash that was generated by the Company to make a bigger distribution to our shareholders. We said the dividend yield -- the average dividend yield for the year is 5%.

Well now mentioning about the -- some comments on regard of the Fourth Quarter. In the Fourth Quarter, our EBITDA achieved a growth of 33% in comparison of Fourth Quarter of last year. This was mainly because of the good performance of Ultragaz that performed 70% better than the same quarter of last year. But it's important to emphasize that Oxiteno, for the first time this quarter in comparison to the Second Quarter of last year, is showing a meaningful growth of around 10% in EBITDA. And this is showing that the projects that we undertake of shifting from commodities to chemical specialties as much as we could through this exercise is starting to pay back. This is a very good start because we are -- we know for sure that we will start the year of 2007 with the same trend.

Well the main factor regarding the projections for the year of 2007 of Ultrapar is the investment plan of Ultrapar that was recently announced. It is of almost R\$550 million, with Ultragaz and Ultracargo -- I'm sorry, Ultragaz and Ultracargo, basically repeating the same kind of investments of last year. But we saw good jump in the investments of Oxiteno that are poised to invest more than R\$400 million in the year. And this is because of a combination of the completion of the fatty alcohols plant, plus the expansions of ethylene oxide and the derivatives in both Maua plant and Camacari plant.

Because of that, we are innovating slightly in the way we are making this conference call. And we have here with us Mr. Parolin, who is the Managing Director of Oxiteno, recently indicated. And he will be in charge of making these investments in a successful way for Ultrapar. Therefore, Parolin is here with us and he is going to give you a brief description

of these investments, especially of the fatty alcohols plant that is very important for us here.

Joao Benjamin Parolin {BIO 4682080 <GO>}

Well. Good morning and good afternoon everybody. As most of you might know, Oxiteno has been passing to an important expansion moment, which will result in volume growth already in 2007. Starting with the additional volumes for specialty chemicals, in 2007, we expect to have about 40,000 metric tons of additional specialty chemical production, divided among Alcoxylates, Sulfates. And Isethionates. And also, we signed an agreement with Braskem, our ethylenes buyer in the Bahia plant last year. And this agreement guarantees us to have 13,000 metric tons of ethylene -- additional ethylene in 2007. So we will use this additional ethylene.

And last December, we changed the catalyst of our ethylene oxide plant in Camacari. And this new catalyst has a selectivity -- a higher selectivity in comparison with the former one. So we will use this ethylene and use it in a better catalyst. So we will have additional volume of ethylene oxide and part of it will be used to increase the specialty chemicals production.

Talking about the oleochemicals plant, building an infrastructure are on the advanced stage. All the critical raw materials and the utilities supply is contracted now. Most of the equipment are on assembling phase and some of them are already delivered. On the logistics, we already designed and contract most of the services related to it. And the startup of the plant is expected for the Third Quarter of 2007. The amount of investment -- the total amount of investment is R\$256 million. Part of it we already invested in 2006, R\$76 million. And for 2007, we will spend about R\$180 million to complete this investment.

The rationale of the investment is that this -- the final markets for this product has a growth rate of about 10% a year, especially on the personal care area. Also, the aging of population has contributed to increase the size of the market for skin care products and also because of the biodegradability of this product, most of the chemists have preferred this product when it comes to formulate personal care or household products. So our final markets with a very nice growth rate and we will take advantage of it.

There are five large producers of fatty alcohols in the world. But none of them in Latin America. So our site, our plant, we will be the first one in Latin America. It's a world scale plant with 100,000 metric tons per year and we use natural raw materials especially from kernel oil. The current level of the prices and costs is, in fact, more favorable than the original assumptions we made when we decided to invest in this plant. So prices are higher. Raw materials costs are also higher. But if you sum up the conditions, they are better than what we had in the original assumptions of the project.

Fabio Schvartsman {BIO 2067677 <GO>}

Very good. Thank you, Parolin. And now, as we always do, we are going to give you some guidance regarding the year 2007 outlook. First of all, 2006, our strategy was clearly

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towards reversing the trend with internal measures. 2007 is a totally different story because now we are using these new investments to grow the Company, to grow the EBITDA of the Company. And we are taking advantage of a slightly better scenario, because now oils prices are in a more favorable condition and the growth in the Brazilian economy is better than it was last year.

With that in mind, we can tell you that, in Ultragaz, we will continue to benefit in 2007 from the restructuring of the distribution structure that we did -- that we started last year and we are still implementing it. And there is still a lot of gains to be collected during the year of 2007. And the environment for the LPG market is very favorable, especially because of the natural gas availability issues, especially regarding Bolivia, plus the fact that the Brazilian economy is growing that is helpful for Ultragaz.

In Oxitenó, we will have a combination of further volumes, especially in -- in more valuable products like chemical specialties coming on stream this year, therefore growing our capacity and improving our mix during the year. Therefore, we can expect a very reasonable growth in EBITDA of Oxitenó coming from the combination of these new capacities plus also better market, as we are anticipating that it will be the case this year.

In the logistics business, we will finally take advantage of the revision of some of our contracts that we discontinued last year. We paid the cost of discontinuity during last year. And this year, we will collect the benefits plus the EBITDA growth that will come from the new operations that we are starting both in Aratu and in Suape in Pernambuco, plus better capacity utilization in the terminal of Santos, with another improvement in EBITDA coming from here.

Therefore, for the First Quarter of the year. And for the year as a whole, we can anticipate that we will -- for sure we will have double-digit growth in EBITDA. But we are not expecting as strong growth as we had in the Fourth Quarter in comparison to the Fourth Quarter of last year, because the Fourth Quarter of 2005 was very weak in terms of results and for the comparison was easier. It's not the case from 2007 on. Therefore, we anticipate that the growth will be double -- again both in the quarter and in the year -- we will be between double digits and what happened in the Fourth Quarter of last year.

That's exactly what we wanted to share with you. And therefore, we pass the conference to you and we are ready to take the questions that you might have. Thank you.

Questions And Answers

Operator

(Operator Instructions)Your first question is coming from Gustavo Gattass of UBS. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

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Hi, Fabio. I have a couple of questions here. First one on restructuring costs, you mentioned that Ultragaz will still see some benefit from all the restructuring that took place last year and that is still taking place. But we saw some hefty restructuring charges in the Fourth Quarter. I was just wondering if there is anymore to come inside Ultragaz for the coming year?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Nothing meaningful is expected to happen regarding costs in 2007.

Q - Gustavo Gattass {BIO 1702868 <GO>}

The second question that I have was whether you could just outline for us the expansions as far as timing goes on the Oxiteno project, when each one is expected to come online or at least what's your, let's say, reasonable expectation is at this moment?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. I will let Parolin develop this one, because he is in a better position to take this point than I am.

A - Joao Benjamin Parolin {BIO 4682080 <GO>}

Okay. Gustavo, thank you for your question. In fact, we have two ethylene oxide expansions. The first one in the Maua site that will take place in 2008. So the start-up is expected for mid-2008. And the second one in Camacari, which will start up in 2009; both in the middle of the year.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Thanks.

Operator

(Operator Instructions) Your next question is coming from Tereza Mello of Citigroup. Please go ahead.

Q - Tereza Mello {BIO 6448187 <GO>}

Hi. Good afternoon. I have couple of quick questions. Do you see any improvement firstly on the glycol market in the coming months or you think that current price is kind of stabling? Secondly, on the fatty alcohol plant, how long do you think it is going to take for it to reach full capacity? And as prices and costs -- the cost of raw material and the differential between the cost and price are better, what's your current expectations for EBITDA margin in that operation?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Talking about the first question, glycol prices are fairly stable right now in the international market. What we expected, what was expected on the second half of the year, prices would drop a little bit. But as we have seen many delays on the new project,

it's difficult to tell you exactly what will happen, I would like to know also. But I would say that prices by now are fairly stable. We have seen many uranium plant delays, time after time and so, I would say, we expect prices to be a little bit better than the projections we saw last year.

Q - Tereza Mello {BIO 6448187 <GO>}

Okay.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. About the fatty alcohol plant, we expect to reach full capacity one or two years after start-up. That's our business plan assumption.

Operator

(Operator Instructions) Your next question is coming from Jason Selch of Equity Group Investments. Please go ahead.

Q - Jason Selch {BIO 17309526 <GO>}

Yes. You were talking earlier about the fatty acid plant, I think. And I think all of the other specialty chemicals that you are making are part of the ethylene glycol cycle. Is there an interest in the Company in diversifying from being based on one input into being based on different kinds of commodity chemical inputs?

A - Fabio Schvartsman {BIO 2067677 <GO>}

In fact, we are -- our intention is to keep a very narrow approach to our core business. We don't intend to diversify strongly from what we know today, what we do today. The fatty alcohol business is somehow strictly related to our surfactants business. So the main market is the non-ionic and anionic surfactants market, which we are in already. So the idea is to keep -- to stick to our core and invest according to this vision.

Q - Jason Selch {BIO 17309526 <GO>}

Okay. Thank you.

Operator

Thank you. Your next question is coming from Gustavo Gattass of UBS. Please go ahead.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Pardon me. I have two more here. First one on Ultracargo, last year, when you guys started talking about the improvements that were going to be coming on Ultragaz, there was a very clear target that was sent out to us of potential improvement on the EBITDA margins, non-EBITDA margins -- the EBITDA of Ultragaz itself. Are you guys willing to give any guidance whatsoever on how much of an improvement you think we might be able to see on Ultracargo?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Well we have here Eduardo Toledo, who is the Managing Director of Ultracargo. Let's see if he is capable of giving you a clear guidance.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Okay. Thank you, Gustavo, for the question. We expect this year a very important improvement when you compare to our performance last year. I would say that more or less the same kind of improvement that you saw in Ultragaz, we expect to have this kind of improvement in our figures for this year.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Okay. Is that back-ended or do you think it kicks in early like the Ultragaz one did during 2006?

A - Eduardo de Toledo {BIO 2067933 <GO>}

I didn't understand, I am sorry. Gustavo, can you repeat it?

Q - Gustavo Gattass {BIO 1702868 <GO>}

Do you expect the improvements to happen more on the second half of the year or is it something that we should be able to see already in the beginning of the year?

A - Eduardo de Toledo {BIO 2067933 <GO>}

You are going to see already in the beginning. But gradually it will improve through the year. But you are already going to see performance in the First Quarter that is already better than the performance in the Fourth Quarter of 2006, for example,

Q - Gustavo Gattass {BIO 1702868 <GO>}

Fabio, I have a question that I think is more specific to you on dividend policy. Let's say we do see the improvement that you are talking about on EBITDA on the higher end of the range. Our view over here would be that even with 550 million in CapEx, you would effectively have excess cash on top of the 50% payout. Would the Company consider a more aggressive payment next year or is that for now out of the question?

A - Fabio Schvartsman {BIO 2067677 <GO>}

Gustavo, our rule of thumb continues to be the same. If we have acquisitions that are meaningful during the year, we are going to control the investments -- sorry, the dividends to be in a condition to make this acquisition. If we don't, we are going to try to make the best dividend payment that we can.

Q - Gustavo Gattass {BIO 1702868 <GO>}

Fair enough. Thank you.

Operator

(Operator Instructions). There appear to be no further questions at this time. I will now turn the floor back over to management for any closing comments.

A - Fabio Schvartsman {BIO 2067677 <GO>}

Very well. Thank you, all for being here with us during this conference call. It was, as always, a pleasure to discuss the growth and the results that were inline with our own expectations. And we are expecting a nice 2007 year, as you could see during these comments. And especially, we are very optimistic about the new plants that we are building, that will accelerate the growth of our chemical division. With that in mind, again I thank you all. And I hope that you would be watching the next conference call of Ultrapar with the results of the First Quarter of the year. Thank you.

Operator

Thank you. This does conclude today's teleconference. You may now disconnect your lines at this time and have a wonderful day.

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