

## Q3 2007 Earnings Call

### Company Participants

- Andre Covre, CFO, IRO
- Unidentified Speaker, Unknown

### Other Participants

- Trent Curry, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Unidentified Speaker

(technical difficulty). A slide presentation is available for download. Please feel free to flip through the slides during the conference call.

Today with us we have Mr. Andre 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 on a listen-only mode during the Company's presentation.

After Ultrapar's remarks are completed, there will be a question and answer session. At this time, further instructions will be given. (Operator Instructions).

We remind you that questions, which will be answered during the Q&A session may be posted in advance in 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 Security Legislation [ph] 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 result and differ materially from those expressed in such forward-looking statements.

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

## Andre Covre {BIO 15233513 <GO>}

Thank you very much. Good morning, to the people joining us from the United States. Good afternoon, to the ones in Europe. It's a pleasure to be here today with you to comment on Ultrapar's results for the Third Quarter of 2007 and outlook for the Company.

Before I start, I would like to point to a few things on slide number two, just to draw your attention to the fact that, as a result of the acquisition of certain companies from Ipiranga Group last April, Ultrapar became the controlling shareholder of the fuels and lubricants business in the Southeast of Brazil as well as EMCA, Empresa Carioca de Productos Quimicos, a producer of white mineral oils and special fluids and, as well, one third of Ipiranga's refinery operation.

Starting in the Second Quarter, Ultrapar's financial statement consolidates the acquired business and, when mentioning the term "Ipiranga" during this presentation, we are referring to the fuels and lubricants business acquired in the South and Southeast of Brazil, as well as EMCA.

Ultrapar's financial statement in the periods prior to Second Quarter 2007 did not include the operations acquired. However, when referring to Ipiranga with the objective of providing a comparison base for its performance analysis, another financial statement has been prepared for that company for the periods prior to Second Quarter '07, which we refer to as pro forma.

Very well, beginning with the Company's consolidated performance on slide number three, we have achieved operational growth in all our businesses this quarter compared to the same period last year, as a consequence of the investments made and the strength of the Brazilian economy.

Volume growth was particularly notable at Oxitenor, where total volumes increased by 8%, particularly in Specialty Chemicals which showed a 13% increase, as well as Ultracargo where storage volumes were up by 18%, both businesses repeating the positive trends seen in the Second Quarter of '07.

Ultrapar's EBITDA in the Third Quarter of the year amounted to BRL219m; 38% higher than the same period in '06.

Net earnings were BRL25m; a decrease compared to the Third Quarter of '06, basically due to the temporary effects related to the minority interest and financial leverage related to the acquisition of Ipiranga.

Following the completion of the acquisition process of Ipiranga, we expect no longer to have minority interests and the financial leverage should decrease significantly as a result of the payment expected from Braskem and Petrobras after the separation of assets, as provided in the investment agreement. Excluding these effects, net earnings would have presented significant growth.

We invested BRL252 million during this quarter, largely spent on expanding production capacity at Oxitenó. In addition to expanding production capacity, Oxitenó continued to invest in an internationalization and strengthening its position in The Americas, with the position of Arch Andina [ph], the only producer of this ethoxylate [ph] in Venezuela, as well as the opening of the Company's first sales and technical office in the United States.

\$7.6 million were paid for the acquisition and we expect that when running at full capacity, this new operation should generate annual net revenues of approximately \$60m.

Separately, still in Oxitenó, from October 31 we have obtained the rights to a 75% income tax reduction in the Oxitenó's unit Es Camateri [ph], which will reduce total income tax expense up to September by BRL15m, given that this tax benefit is retroactive through January 1, '07.

For this Third Quarter, please note that we have not booked any tax reduction as a consequence of this decision yet.

At Ultragaz, we have announced two new projects. The first is related to the Company's efforts to strength its presence in the North and Northeast of Brazil, beginning to sell LPG in the States of Maranhão and Pará. Up to now, Ultragaz has not had significant operations in these States. This initiative is being undertaken based on the expectations that growth in the LPG market in these regions will be above natural leverage.

As an example, between 2003 and 2006 the LPG market in Maranhão and Pará grew by an average of 5% a year, while the entire market of Brazil grew at rates of 1% on average.

The second project announced in Ultragaz refers to the expansion of the Company's gas coolant [ph] operations, in which Ultragaz is already a market leader, adding a product called DME [ph] to its portfolio of products, with sales scheduled to begin in the second half of 2008. DME is considered to be an outstanding product in the Aerosol [ph] Gas segment because of its lower formulation and packaging costs, as well as certain environmental benefits.

At Ultracargo we have announced an investment project program of BRL170 million to expand current storage capacities by around 35%.

And finally, at Ipiranga we have taken another important step in the acquisition process with the completion of the mandatory tag along offers for RPI, BCCI and CBCI. Approximately 77% of the total of shares offered were acquired, with a total value of approximately BRL160 million relating to Ultrapar.

Speaking now specifically about the results, I begin with Ultragaz in slide number four, whose results were impacted by the increased competition in the market in this quarter. Driven by the good performance of the economy and the increase in income levels among the population in Brazil, the LPG market grew by 3% in the first six months of this year.

However, in this Third Quarter the growth was softer, leading to a certain repositioning between the various companies, resulting in a more competitive market during the quarter. And this was the main reason for the decline in EBITDA when compared to last year.

The good news is that the market is already readjusting itself -- adjusting once again to its regular behavior, including higher sales volume. And we, therefore, expect the Fourth Quarter to show considerable improvement and probably at around the same level as the Fourth Quarter of 2006 in terms of EBITDA.

Moving on to Ipiranga, on slide number five, the continuation of the expansion in credit availability and improvement in income that I mentioned earlier has resulted in record sales of vehicles, particularly in the flex-fuel segment during the first nine months of the year, resulting in higher fuel consumption. In particular, sales of ethanol, in addition to the increase in the vehicle fleet, there was also a record sugarcane harvest which resulted in there being more of this product available and better competitive conditions in relation to gasoline.

In addition to these, the improvements in legislation and tax control measures undertaken in the sector, as well as controlling of potential product adulteration [ph], all had a positive effect on Ipiranga's sales volume, which showed an increase of 6% in the Third Quarter of 2007 when compared to the same period of 2006, with the highest growth seen in gasoline, ethanol (technical difficulty) which together saw an increased sales of 12%.

Ipiranga's EBITDA amounted to BRL106 million in this quarter, 40% higher than Third Quarter in 2006, as a consequence of the operational leverage related to the increase in volume, measures to improve legislation and tax control and a consequence of the record sugarcane harvest.

For the Fourth Quarter of 2007, we expect fuel sales to grow significantly with the same motives that have been present during the year with, therefore, an expected increase in EBITDA, however, to a lesser extent when compared to the Fourth Quarter of 2006 because in that period the positive effects of the sector improvements mentioned (technical difficulty) as well as the record sugarcane harvest.

At Oxiteno, on slide number six, the improvement in the performance economy, investment in Specialty Chemicals, production capacity and the various commercial and product development activities undertaken by the Company, all resulted in a substantial increase of 8% in sales volume and an improvement in sales mix, which saw an increase -- particular increase in Specialty Chemicals, expanding by 13% when compared to the Third Quarter of 2006. Sales of Specialty Chemicals expanded in practically all segments.

Exports were up by 45% in the quarter, basically, due to the increased exports of glycol, as a consequence of the greater availability of this product due to the stoppage of two PC [ph] plants in Brazil. And at the other side, lower supply for the product available in international markets, as a consequence of an accident at one of the glycol plants in the Middle East.

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EBITDA at Oxiteno amounted to \$19 million in the Third Quarter of 2007; down 30% compared to Third Quarter of 2006, basically as a consequence of the 12% appreciation in the Brazilian real and an increase in the cost of raw materials, particularly ethylene, which increased by 13% -- 12%, sorry. On the other hand, compared to the Second Quarter of the year, EBITDA showed an increase of 31% and a 19% increase in EBITDA per ton in dollars, due to the rise in volume and an improvement in average price of \$28 per ton.

For the Fourth Quarter, we expect even higher growth in sales volume with the new Specialty Chemicals capacity enabling profitability levels to further recover. Furthermore, the lower supplies of glycol in the international markets, which I just referred to, had a favorable effect on its international prices, which have risen significantly in the past few weeks. And Oxiteno is using its flexibility on production capacity to benefit from this situation.

At Ultracargo we're pleased to report an increase of 18% in volume stored, reflecting the higher efficiency [ph] rates of the Santos inter-modal terminal, as well as the expansions undertaken in the terminals at Suape and Aratu.

In the transport segment, a 17% reduction was observed. This reduction was due to the suspension of some transport operations, with the Company concentrating its operations on providing differentiated services.

EBITDA at Ultracargo amounted to BRL12 million in the Third Quarter, soaring 43% when compared to the Third Quarter of 2006; the result of an increase of its storage activity and the internal logistics operation.

EBITDA margin was 21%; an increase of five % points compared to the Third Quarter of last year.

Expectations for the Fourth Quarter are for a similar increase as seen between Third Quarters in both years, in reference to EBITDA.

We plan to maintain a -- such accelerated growth base at Ultracargo over the next few years. And we'll be carrying out significant investments in expansion of its terminals as demonstrated in slide number eight, especially in Santos and Aratu, taking advantage of the increasing demand for logistics infrastructure in Brazil, particularly in the area of bio-fuels and foreign trade.

Investments in budget at BRL110 million during 2008 and 2009, in addition to regular maintenance CapEx and this is expected to add 35% to our current storage capacity.

Finally, to sum up, we continue to be optimistic about the outlook for our businesses, specifically the ongoing investments of -- at Oxiteno, which have already started to show positive influence on volumes. And the investments announced by Ultracargo and Ultragaz pave the way for significant growth in the next few years.

In addition, at Ipiranga, we will continue to implement our business plan based on operational leverage and consolidation of sector.

This is what we had prepared as an introduction -- our presentation introduction. I'm available to take your questions.

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## Questions And Answers

### Operator

(Operator Instructions). Our first question is coming from Jial Landau [ph] from UBS.

### Q - Unidentified Participant

Yes. Hello and good afternoon. Can you give us a little color on what you expect for the ethylene glycol price in light of this recent spike in international prices after the result of the Saudi Arabia problems of the two [ph] plants there?

### A - Andre Covre {BIO 15233513 <GO>}

Glycol prices are currently \$1,400 per ton, having increased quite significantly in the last few weeks. And the expectations are that, by December, it will be trading at around \$1,600 per ton.

And just to give you a reference of the past, in August it was traded at around \$1,000.

### Q - Unidentified Participant

Okay. Thank you. Just one more question, please. The Specialty marketing -- special marketing -- from the -- do you think you are going to renegotiate prices in light of this strong currency, or you think -- do you think you want to be able to renegotiate the prices?

### A - Andre Covre {BIO 15233513 <GO>}

The way we relate to our customers in relation to pricing is the more value added we bring, obviously, the more value we're able to charge. And as we are continuously improving the products that we sell, through new versions and new products, the trend is that prices increase over time, therefore, compensating for the increases in costs.

### Q - Unidentified Participant

Okay. Thank you very much guys.

### Operator

(Operator Instructions). Our next question comes from Phylis Camara [ph] from Pax World Funds.

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## Q - Unidentified Participant

Hello, gentlemen. How are you? My question -- are you able to -- oops, I'm hearing something. Are you able to hedge? Since your currency has gotten so strong, are you starting to want to do that? Are you finding it -- hoping that it will be necessary to do that so you could smooth out your earnings going forward?

## A - Andre Covre {BIO 15233513 <GO>}

Well the structure of our Chemical business is one where the contribution margin is effectively in dollars. So our prices are in dollars. Our price list is in dollars because that's how the chemical market generally works around the world and, therefore, most of our fuel products -- fuel materials is also in dollars and, hence, contribution margin is in dollars.

Over time, if you look at a long series of data of Oxiteno, you will notice that we have very stable markets, often even compensating for currency devaluation if we're [ph] given some time. Therefore, we have chosen not to hedge the dollar aspect of our business because it is an instructional [ph] part of it and hedging it will be probably of a speculative nature, which we'll probably leave to you guys that have -- that know how to do that much better. We only know how to sell chemicals.

## Q - Unidentified Participant

Okay. Thank you.

## Operator

(Operator Instructions). Our next question comes from Trent Curry from Pope Asset Management.

## Q - Trent Curry {BIO 19218665 <GO>}

Andre, I just want -- a question for you. Can you explain in more detail the competition for Ultragas in that particular segment. And how -- I know you mentioned it. But can you explain to me more as to what's driving the lower margins in the [ph] EBITDA even though you increased the volumes, in more detail -- a little bit more detail?

## A - Andre Covre {BIO 15233513 <GO>}

Sure, Trent. Thank you very much for your question. The Brazilian LPG market in the recent past -- is passed -- has been passing through a structural change. For many years the market was a highly competitive market of fast growth and many players and, therefore, price-competitive. A few years ago the market became served [ph] and started growing at lower levels, often with populational growth, therefore, between 0% and 1%, sometimes declining 1%.

And in other places in the world where this has happened, this often has triggered consolidation, which did so in Brazil, resulting in a smaller number of players in the market. If you look many years ago, we had 15 players and today there are four players that represent nearly 90% of the market.

Again, as it happened in other countries, once this consolidation took effect, profitability in the sector tended to increase, giving a change in the competition dynamics between the players. And this is what exactly happened in 2006 and a portion of 2007.

What happened different in the Third Quarter of 2007 is that the market took a level of [ph] growth a little different than it had been growing during the first six months of the year. And that resulted in everyone that had sales growing, trying to continue to have sales growing and, therefore, excluded [ph] market share.

And the result was a more competitive market in the Third Quarter. In a sense, it's a little bit like old habits die hard. I think the good news is that one quarter was enough to remind the companies that fighting for market share in a stable market will not result in anyone increasing market share. But will result in lower profitability. And because of that, on the Fourth Quarter we already see the market readjusting to the pattern that had established on the last few quarters.

A bit of a long answer. But I think putting in perspective what was happening.

#### **Q - Trent Curry** {BIO 19218665 <GO>}

Okay. Thank you. One more follow-up question with respect to Ipiranga. That great jump in EBITDA, obviously, by 40% you're attributing a lot to the volume increase and improvements in the sector, the sugarcane harvest. But also, is -- what portion of that is related to the actual less management structure that was previously in place with the older Company?

#### **A - Andre Covre** {BIO 15233513 <GO>}

That's a lot more visible if you compare sequential quarters than Third Quarter with Third Quarter. But if you look in G&A expenses, you will see a decline of about 10% in G&A expenses. If you look at the comparison between second and Third Quarter in G&A, you also see a 12% decline in expenses.

#### **Q - Trent Curry** {BIO 19218665 <GO>}

Okay. But 10% or 12% of that is probably going to be [ph] reduce management structure. Okay. Thank you very much.

#### **Operator**

(Operator Instructions). Our next question is a follow up from Phylis Camara from Pax World Fund.

#### **Q - Unidentified Participant**

Thank you. Can you remind us again when you're hoping to get the funds from Braskem and the other company for Ipiranga?

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**A - Andre Covre** {BIO 15233513 <GO>}

This is scheduled for the fourth stage of the transaction, which is expected to take place at the beginning of next year.

**Q - Unidentified Participant**

And I know that -- I believe you raised the price for the -- that you paid to the minority shareholders. Is that going to change the price that you're going to be getting from Braskem? And is it Petrobras?

**A - Andre Covre** {BIO 15233513 <GO>}

The change in price that was announced was very small. The factor [ph] for the three buyers was BRL19m. And our investment agreement provided that about one third of that value is for the account of each one of the three buyers.

**Q - Unidentified Participant**

All right. Thank you. And I assume you'll be using, basically, most of that money to repay your debt?

**A - Andre Covre** {BIO 15233513 <GO>}

Correct.

**Q - Unidentified Participant**

Thanks.

**Operator**

(Operator Instructions). We appear to have no further questions. I'd like to turn the floor back over to Mr. Covre for any closing comments.

**A - Andre Covre** {BIO 15233513 <GO>}

Ladies and gentlemen, thank you very much for your time and interest in hearing the results of the Third Quarter. We'll look forward to having you with us early next year when we publish Fourth Quarter results as well as the full year earnings report. Thank you very much.

**Operator**

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

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