

## Q3 2005 Earnings Call

### Company Participants

- Fabio Schvartsman, CFO & IR

### Other Participants

- Rodrigo Goes, Analyst
- Unidentified Participant, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Ultrapar's Third Quarter 2005 results conference. We have also simultaneous webcast that may be accessed through Ultrapar's website at [www.Ultrapar.com.br](http://www.Ultrapar.com.br) 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. We would like to inform you that this event is being recorded and all participants will be in 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. (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 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 prospectives. Mr. Schvartsman, you may begin your conference.

## Fabio Schvartsman {BIO 2067677 <GO>}

Good morning, or good afternoon to everybody. It's a pleasure to have you in our conference call related to the Third Quarter results of Ultrapar. I would like to start by giving you a general overview of what happened last quarter.

We had fully anticipated during the Second Quarter call our quarter under high pressure from the petrochemicals and the gas business. Therefore we had a (inaudible) combination or very strong performance in the operations side with growth in volume in all businesses. Nevertheless, with weak margins and therefore a low EBITDA generated from each one of the businesses.

The reason for that (inaudible) is the fact that we had a combination of factors against (inaudible) starting -- remember the story of that. It had started in the end of last May when we had a sudden drop in the petrochemical prices worldwide driven by a low demand coming from China. And later on we had decided that the increase in oil prices and therefore (inaudible) and we had as well a very meaningful appreciation of the Brazilian currency.

As you know Oxiteno is pricing all of its products in dollars and therefore the effect of appreciation is very bad. Even worse, all these factors were getting worse during the Third Quarter and therefore this trend is even more damaging as the effect of the (inaudible) in a certain value.

Nevertheless we kept our strategy in Oxiteno. We're able to move, to shift production from export to local markets, trying to improve mix. We did it by -- with a 90% [ph] increase in volume in the general market in comparison to the same quarter of last year. That was a very strong quarter. And we had a reduction in exports in the same period as well. Therefore we are not only minimizing the effect on Oxiteno now, but we are putting ourselves in a better position mix wise when it comes to the reverse situation in these negative factors that are affecting Oxiteno.

In the gas business we have a very similar situation because in volume we had meaningful growth in this quarter and we recovered the market share after the restructuring that we did in one of the regions in Brazil, the Central South region. And therefore we are now back to the same kind of volume and especially the same kind of market share that we had before. And we are prepared to make a lot more volume once the market is stabilized and therefore given this key effect to produce better results.

Actually the market in general was weak during the first nine months of the year. This was driven by a weak Brazilian economy and low income from the population. The good news is that you can anticipate that for the next year the performance of the Brazilian economy will be better and the income of the population will improve. Therefore you can expect results of (inaudible) gas to improve as well.

Despite that we are knowing that we shall recover the same kind of profitability that we used to have. We are undertaking a very strong new (inaudible) towards cost reduction in

FINAL

Ultragaz that will help a lot to recover the profitability of the gas business.

Unfortunately the (inaudible) business will continue under pressure during the next quarter. And why is that. It's because the Brazilian currency is even more strong, the oil price is still very high-end and therefore (inaudible). And in total debt, our (inaudible) product (inaudible) is under new pressure now, pressure coming from a big new plant from Saudi Arabia that is starting production shortly and they are starting to make a lot of noise and pressure in the market (inaudible). Glycol prices are very weak worldwide.

With that we cannot see recovery in a results of Oxitenio for the next quarter. Therefore you can anticipate that our Fourth Quarter we will represent in comparison to the same quarter of last year the same kind of reduction that we had in the Third Quarter of this year.

Just a quick comment on behalf of the Ultracargo business. The Ultracargo business has performed well during this period. With an increase of roughly 10% in EBITDA and 18% in sales. With strong volumes in storage and in transportation. We've started operations of the Santos intermodal terminal (inaudible). This terminal started last July with just a small movement of 3 million tons in that -- sorry 3000 tons of movement in this month. And now last month, we are already moving 50,000 tons through the terminal. Therefore, a meaningful improvement in capacity optimization, but nevertheless, we have a lot of room to go in the months to come. This terminal had no impact in EBITDA so far. This impact should start shortly and therefore add to the results of the Company.

In this general scenario, we are taking the time to deepen [ph] our understanding and (inaudible) the commitment to the strategy of all of our businesses. In the gas business, we will be favored by fact that the natural gas (inaudible) in Brazil will clearly improve the competitiveness of UGP in the short run. Therefore, you can anticipate better results coming from this weak competitor. And besides that for the gas business, we are driven towards investing outside Brazil in order to replicate the model that we have in Brazil that gives us roughly twice as much margin per ton than our nearest competitor (inaudible), especially in the emerging markets where the conditions are similar to Brazil.

And in the (inaudible) business, we understand that we will have to face one of the negatives that is here to stay. That's the fact that the Brazilian currency will be strong for the foreseeable future. And therefore, we are very focused into increasing our capacity of production in order to bring more volume to the Company and to compensate with volume what we will lose in terms of the currency. This will translate into investments in both (inaudible) in Bahia and (inaudible), increasing our production on (inaudible) side.

Despite that, we are building -- erecting this (inaudible) plant that we will start operations in the beginning of 2007. Despite that we are on the long run (inaudible) in raw material supplies for Brazil for future expansion and this will be (inaudible) by the petrochemical complex that we are discussing with Petrobras or through investments in Venezuela where you can have access to very cheap raw material -- natural gas.

Let me step back and give you an overall view of the performance for Ultrapar. I would like to turn that to you. I'm ready to take your questions. Thank you.

## Questions And Answers

### Operator

(Operator Instructions). Marcus Segreto [ph], Deutsche Bank.

### Q - Unidentified Participant

Good morning, everyone. I have a few questions. In regards to the LPG business, we saw that the margins were a little bit weaker in this quarter and while we were expecting a more rational market. And just would like to know your thoughts and prospects for the next quarter, next year about margins in the LPG business?

Secondly, on your possible positions in the LPG business, what kind of -- which regions you would be looking at and what kind of returns you would be expecting?

And third, on the LPG business, if you could provide a clarification why bulk sales were weaker compared to the other quarters. We would have thought that you would have a more competitive advantage in this segment. Thank you.

### A - Fabio Schvartsman {BIO 2067677 <GO>}

Okay. Thank you, Marcus. I'll try to answer your questions. Starting for the question about the weak margins in the Third Quarter and what is the expectation for the next quarter. First of all, the reason for this let's say less rational behavior is directly connected to the fact that the market as a whole dropped by 1% or so in volume this year when the expectation in the beginning of the year was the market will grow in a meaningful way. That happened because of the overall performance of the Brazilian economy, as I said, and because of the very high interest rates and the net effect in the income of the population.

Because of that the companies were struggling to maintain their volumes and therefore it was difficult to pass through cost increases to prices. That's the reason why the quarter was weak. This behavior is starting to change because as we are suffering the other companies are suffering much more and therefore the general behavior is improving and margins are starting to move up. Meanwhile, the market is starting to recover as well in terms of volume. Therefore it is quite possible that we will see better margin in the near future associated with better volumes in the (inaudible).

Speaking about -- talking about these acquisitions of ours, the returns, as you know, they are always connected to our (inaudible) calculations and we use an internal (inaudible) of roughly 15% in dollars as a reference and we only do acquisitions that can perform better than that. The reason for that, as I said, I think that in general (inaudible) countries in emerging markets can be a good reference especially (inaudible) in Latin America where you have very similar operations as the ones that we have in Brazil.

Regarding bulk sales, we had (inaudible) during this Third Quarter coming specific customers that we lost during the quarter. But this was just one single situation that will not repeat during the next quarter.

### Q - Unidentified Participant

Thank you very much.

### Operator

(Operator Instructions). Marcus Segreto, Deutsche Bank.

### Q - Unidentified Participant

Just following on the customer [ph] you lost in the bulk sale. Is that loss for natural gas or for a competitor?

### A - Fabio Schvartsman {BIO 2067677 <GO>}

This was a large bulk corporation that was lost to natural gas.

### Q - Unidentified Participant

I have other questions. On Ultracargo, how much do you expect the effect on EBITDA of the (inaudible) terminal in the next quarter? Then in Oxiteno, I'd just like to get your thoughts on Venezuela. I know that Venezuela is (inaudible) importance because of raw materials and also its location with export markets, but the risk there is increasing a lot as we've seen (inaudible) latest moves on product companies. Do you think the risk would compensate the benefits?

### A - Fabio Schvartsman {BIO 2067677 <GO>}

I'll try to address both questions. First of all in terms of Ultracargo, what I can tell you is that we expect an EBITDA in the neighborhood of 15 million reais per year once this terminal is operating at full capacity. Obviously this is not going to be the case in the next quarter, but we've been improving EBITDA off the terminal month after month getting to this volume in doing sometime during next year.

In terms of investments in Venezuela, investments in Venezuela I'd like to point out the following. We agree 100% with you in regard of the risks of investing in Venezuela. That's the reason why we should start small there. It's not going to be the case of going there and make a huge investment towards a new production in a country that we don't know and where the risks are high.

Actually we will do a very small investment, likewise we did in Mexico, and we stayed there for a while understanding how the country works. And only after that and if we get comfortable with the overall situation that we will do a larger investment.

### Q - Unidentified Participant

Thank you very much. One last question, if I may. I'm just wondering, I know that in the Brazilian market the LPG business is very concentrated in maybe four or five companies, but will that make sense for you guys to make smaller provisions (inaudible) smaller distribution companies and so increase your market share in the overall market by a little bit? Would that make sense?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

It could make sense, but actually you have four companies representing north of 90% of the market. You have one fifth company with like 7% of the market. Therefore five companies that represent 97% of the Brazilian market. And as far as I know, this company that has 7% is not for sale. Therefore it gets very, very difficult to buy anyone in Brazil.

**Q - Unidentified Participant**

Okay. Thank you very much.

**Operator**

(Operator Instructions). Rodrigo Goes, UBS.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Apologies if this question has already been asked, I joined a bit after the call started. But wondering if you could make a few comments on the ethylene glycol market, how you see prices trending going forward? We keep on hearing about a ton of capacity that's supposed to come on line from the Middle East sometime in the next several quarters. Wondering if you can make a few comments with that regard?

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

We already made a comment on that, but nevertheless --.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Apologies.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

I will answer for you. Actually it's true; the glycol prices are under pressure now turning from this new capacity that is coming from Saudi Arabia. This is causing the prices to go down and the margins to get squeezed. That's exactly the situation that we are living now. Nevertheless, the demand remains strong worldwide, and therefore after some time this new capacity will be absorbed by the growth in the demand. And we anticipate that this is not going to happen for sure during this Fourth Quarter, but can happen sometime during next year because of continuous growth on the demand.

**Q - Rodrigo Goes** {BIO 6232382 <GO>}

Okay, perfect. Thanks a lot. My apologies again.

FINAL

Bloomberg Transcript

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

No problem.

**Operator**

(Operator Instructions). Mr. Schvartsman, there appear to be no further questions at this time, sir. I'll turn the floor back over to you for any closing remarks you may have.

**A - Fabio Schvartsman** {BIO 2067677 <GO>}

Thank you, to everybody for taking this call. And I would like to emphasize two things that are very important at this point. First that the results of next quarter we will continue to be under pressure. I guess it's important to have a good knowledge of that. Nevertheless, it's very important to remember that even with this kind of pressure the returns that our business will be showing are very meaningful.

Oxiteno will be delivering a sound result even with these weak conditions and all these factors aligned against us. And we are working in a very determined way in order to change that and return that to the profitability of the Company as soon as we can. To the historical profitability of the Company as soon as the conditions allow. Having said that, thank you very much for taking our call and I'll appreciate to have you back on the next quarters' calls. Thank you.

**Operator**

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

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*