

## Q1 2007 Earnings Call

### Company Participants

- Andre Covre, CFO
- Unidentified Speaker, Unknown

### Other Participants

- Gustavo Gattass, Analyst

### Presentation

#### Operator

Please feel free to flip through the slides during the conference call. Today with us, we have Mr. Andre Covre, Ultrapar's Chief Financial and Investor Relations Officer, together with other executives of Ultrapar.

(Operator Instructions)

Now, I will turn the conference 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.

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

Thank you very much. Good morning, to the people joining us from the United States. Good afternoon, for the ones in Europe. It is a pleasure to be with you today to talk about Ultrapar's trading in the First Quarter of 2007 and outlook for the future. I would like to call your attention that this document may contain forecasts or estimates as to our Company's future events, which can depend on several factors, including the macroeconomic scenario. So it is important that you pay attention to the facts on this slide number two.

During this conference, I plan to talk about the results that we had in the First Quarter, commenting on the performance of each of our businesses in the period. After that, I would like to spend a minute talking about two small acquisitions, one for Oxiteno and one for Ultracargo. And lastly, we will provide you with an update about the Ipiranga acquisition, especially the status of the transaction and our outlook for the business.

First, I would like to give you some of the main highlights of this quarter, starting with the current trading. We presented a significant growth in our operations in the quarter compared to the same quarter of last year. At Ultragaz, sales volumes grew by 4%, something we had not seen for quite a long time. At Oxiteno, we finished the quarter with

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record sales volume registering 29% growth in the domestic market, quite significant. And Ultracargo posted a strong growth in its storage operations of 17%. With that, we achieved in this quarter consolidated EBITDA of R\$115 million, 8% higher than in the First Quarter of 2006, representing growth in each one of our trade business and reaching a third consecutive quarter of positive year-over-year evolution.

We also took some important steps in the First Quarter of this month -- this year, sorry, towards the execution of our growth strategy. The highlight was the acquisition of Ipiranga group, which we carried out together with Petrobras and Braskem, in one of the largest acquisitions ever made in Brazil. We acquired Ipiranga's fuel and distribution operations in the South and Southeast of Brazil, becoming the second largest Brazilian Company in the sector. The distribution of fuels and lubricants is a business for which the success drivers are very similar to the ones involved in the distribution of LPG, a strong brand, efficient logistics and knowledge to manage your resellers.

During this conference call, we will take a better look at this subject. We also finalized in this quarter two smaller acquisitions, the acquisition of the operational assets of Union Quimica by CANAMEX in Mexico. And the acquisition of Petrolog, an in-house logistics company by Ultracargo, which we will also address in a bit more detail later on.

Now, turning specifically to the quarter earnings and becoming -- and beginning with Ultragaz. We posted sales volume of 4% higher than a year ago, mainly driven by higher income levels in Brazil and by higher consumption in the bulk segment. In addition to the growth in sales volumes, we continued to capture the benefits of the distribution structure review, which led us to post EBITDA of R\$60 million, up 9% from the First Quarter last year. EBITDA per ton was R\$164 in the First Quarter of '07, an increase of 5% in relation to the previous year.

At Oxiteno, we had very strong volume performance concentrated in the domestic market, which posted a growth of 29% in relation to the First Quarter of '06, as I mentioned earlier, mainly due to the sales initiatives implemented by Oxiteno over the past few quarters. This growth was spread across the various segments served by Oxiteno, with particular strong sales to the polyester, cosmetic and detergents, agro chemicals. And hydraulic fluid segments, the latter one accompanying the excellent performance by the vehicle market in Brazil.

In addition, as we expected, we experienced an increase in the availability of ethylene at our Camacari plant, combined with improved new catalysts at the ethylene oxide plant. Also, the quality of our sales in Brazil -- outside Brazil improved, as shown by a 49% increase in the sales volumes at CANAMEX and a 17% increased sales volume to the Mercosur region, which enriched the export sales mix. As a result of the higher volumes and richer geographical mix, which offset the negative effect of the local currency appreciation and the increase in international ethylene prices, Oxiteno posted EBITDA of \$20 million, up 8% from First Quarter of '06.

Moving to Ultracargo, Ultracargo posted an EBITDA growth of 19%, a significant growth, mainly due to the consolidation of the operations at the Santos terminal and the growth

provided by the operations at the Suape terminal expansion that was concluded at the end of last year. We also decided to cease certain transport operations, concentrating our efforts on providing services with higher aggregate value, an initiative that this quarter contributed to improvement in both EBITDA and EBITDA margin, the latter rising from 16% in the First Quarter of '06 to 20% in the First Quarter of '07.

We invested R\$120 million over the first three months of 2007, continuing our expansion plans. At Ultragaz, the investments were mainly in the expansion of Ultrasystem, our supply system to the bulk market, where sales expanded by 4% in the First Quarter of '07, outpacing the growth in the overall market.

We continued to work in the production capacity expansion at Oxiteno, especially at implementing the fatty alcohols plant. But also in the expansions of ethylene oxide capacity in the Maua plant, as well as the expansion in specialty chemicals. Regarding the specialty chemicals, we will have additional capacity coming on stream at the end of the Second Quarter, with relevant impact in the Third Quarter of this year.

Finally, at Ultracargo, we invested in the expansion of the Aratu terminal for the storage of palm kernel oil.

Now, briefly turning to the two smaller acquisitions that we recently made, starting with Union Quimica. Based on the strong performance of CANAMEX, our chemical business in Mexico, which as I mentioned grew by 49% in volume this quarter, we acquired the operational assets of Union Quimica for \$4 million. The acquired plant has annual production capacity of 8,600 tons of sulfates and sulfonates, which basically serves the cosmetics and detergents market, which with a potential to generate annual revenues of approximately \$10 million. This acquisition reinforces our long-term commitment to the Mexican market, where we are also in the advanced stages of negotiations for another acquisition of similar size.

Through Ultracargo, we acquired Petrolog, an in-house logistics company for R\$10 million, which has at the present stage revenues of R\$11 million. The acquisition is a step to -- it's a further step towards Ultracargo being recognized as the largest and best provider of logistics for specialty bulk cargo in Brazil.

Now, talking about the acquisition of Ipiranga, the most recent developments are as following. Regarding stage one, the shares owned by the former controlling shareholders of Ipiranga were effectively acquired on April 18. Immediately after that or soon after that, we filed the registration statement for the tag-along offer with CVM, the Brazilian regulator, on May 2 and we expect the closing to occur sometime early August.

Following that, within this time table, the exchange offer of the preferred shares of CBPI, DPPI and RPI for Ultrapar preferred shares is estimated for September. And the conclusion of the transaction is estimated for October, with the delivery of the northern distribution assets to Petrobras and the petrochemical assets to Petrobras and Braskem. Therefore, we maintain our estimate of concluding the transaction on the Fourth Quarter as we announced when we made the announcement of the deal.

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Regarding stage one, moving to slide 11, total disbursement in this first stage was R\$2.1 billion, of which approximately a third was paid by Ultrapar in accordance with the terms of our investment agreement with Petrobras and Braskem. To cover this disbursement, we issued debentures of an amount of R\$675 million, at a cost of 102.5% of CDI rate. Immediately after the acquisition of the control, general shareholder meetings were held and new executive boards and Board of Directors were elected, establishing the start of Ultrapar, Petrobras and Braskem management of the respective businesses acquired from Grupo Ipiranga.

Ultrapar will consolidate the results of the few distribution assets in the south and southeast regions, as from the Second Quarter of 2007. Therefore, on our next conference call, I'll be talking about the usual part of Ultrapar, as well as the portion of Ipiranga that belongs to us. The work on reaping the benefits of the acquisition is well underway. Within days of the acquisition, the bodies related to the former control structure were dissolved, with benefits already appearing in the first -- in the Second Quarter. We also stepped forward in the analysis of the admin and financial processes for their subsequent integration into the Ultrapar structure.

At the same time, we have started the analysis of business opportunities and operational improvements that can be achieved between Ipiranga and Ultrapar's other businesses. These opportunities include, for example, the joint commercial approach to large clients by Ipiranga and Ultragaz, as well as gains in joint procurement for transport and inputs in the terminal operations between Ipiranga, Ultragaz and Ultracargo.

Additionally, a number of opportunities have been identified related to the biofuel segment. And their background is that Ipiranga is the second largest buyer of ethanol in Brazil. Oxitenio is already a consumer of ethanol for the production of chemicals that are used to produce specialty chemicals. But also, Oxitenio has expertise in technologies for using ethanol in the production of chemicals, for instance, in a project that we have under development called BioRefinery, where we intend to use ethanol to produce oxygenated solvents. And finally, Ultracargo is engaged in ethanol logistics holding an important position in storage for exports of ethanol in the port of Santos.

In addition to these operational and financial benefits of the acquisitions, we also observed a significant increase in the liquidity of the Ultrapar shares, with an increase of more than 150% in the average number of shares daily traded at the Bovespa in April this year in relation to April last year.

Moving to slide 13, under Ultrapar management, we have shared with most of you that we plan to leverage the growth of the few distribution businesses to our higher investment capacity, our solid financial position, the simplification of the management structure. And a focus on value creation. This vision will be applied to a market that is currently in a growth phase as evidence shows in slide 13. The increase in income levels, the greater availability of credits and the decline in interest rates in Brazil are reflected in the recent data for the vehicle market, where sales rose by more than 20% in the first four months of the year versus the same period last year.

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The vehicle market growth has a direct impact on the fuels market, obviously. And in the First Quarter, Ipiranga sales volume expanded by 5% over First Quarter '06, further supporting our convictions. Another important driver for growth in this business is the improvement in the regulations governing the fuels market. New measures we are recently taking on this front that resulted in improvement of controls over ethanol invoicing and restrictions on sales by distributors to other brands' service stations.

As some of you know, Ultragaz, our subsidiary in LPG, acted proactively and was a pioneer in the self-regulation of the LPG sector. Ipiranga has played a similar role in the fuel distribution market through its joint activities with Sindicom, the trade union of fuel and lubricant distributors. Providing seminars and educating government institutions on the characteristics of the industry amongst other things. We plan to intensify these efforts to establish a safe regulatory environment for expanding our operations in this segment.

Finally, to conclude our conference, as we usually do, I would like to provide you with some -- some views on the outlook for the coming quarters. At Ultragaz, we should continue to obtain benefits from the distribution structure review, albeit they will be marginally smaller than the ones obtained in 2006 due to the different base of comparison.

At Oxiteno, the new specialty chemicals capacity and the additional ethylene will continue to boast very significant volume growth in the domestic market. In addition, the integration of the volumes from Union Quimica should benefit sales specialties -- specialty chemical sales in the international market. Ultracargo posted a very strong EBITDA improvement in the First Quarter. And should present -- should continue to grow results over the next quarters, supported by its new strategic position. As already mentioned, as from next quarter, the results of Ipiranga for the business that we acquired will be consolidated in Ultrapar results.

And finally, talking specifically about the Second Quarter, we expect overall a very similar year-over-year growth to the one posted by the Company in the First Quarter.

I would like to thank everyone for your presence in this conference call. And I will take any questions you have.

## Questions And Answers

### Operator

(Operator Instructions)

Our first question is coming from Gustavo Gattass of UBS. Please go ahead.

### Q - Gustavo Gattass {BIO 1702868 <GO>}

Hi, Andre. I had a couple of questions here for you. First, with regards to Ipiranga, you have as we understand it stepped into the Company already. And after this first move in

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the acquisition, I don't know if you already did any kind of clean-up provisions or something like that for your start-up balance sheet. What I wanted to know is, number one, can you give us an update on the size of the goodwill that you expect to have with the acquisition and the timing of the amortization of the goodwill?

And number two, whether or not, you now feel there could be, let's say, a better margin improvement at Ipiranga from the levels that we had last year? I know you mentioned a 5% volume increase. I don't know if that's going to play into it or not.

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

Gustavo, thanks for your question. I will start from the end. From the very few weeks that we have had now with Ipiranga under our management, our projection for margin improvement has been confirmed and we are exploring other ways of further improving gross margins. In relation to the goodwill, let me pass to Roberto [ph], which will answer the question. Roberto is our Director of Controlling.

**A - Unidentified Speaker**

In terms of the goodwill, we will have in this first step, where we have acquired the controlling stake of the former shareholders, R\$420 million reais of goodwill. That's our estimate. We expect to amortize this goodwill over the period of ten years.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. So the acquisition goodwill in total after the end of the deal is going to 420?

**A - Unidentified Speaker**

No. The first step is 420.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay.

**A - Unidentified Speaker**

It's more around R\$1,100 million.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay, R\$1.1 billion. And all of that over a ten-year period?

**A - Unidentified Speaker**

That's correct.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay, perfect. And Andre, just to confirm, what is the margin improvement that you are thinking about right now and whether or not you guys have a good timeframe for how to

get there?

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

I think as I have had the opportunity to mention to you, a number of you, the measures that we have identified in terms of consolidating some of the functions. And demobilizing the corporate staff result in a margin improvement of about 35% from what it is today, I am talking here EBITDA margin.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. And let me ask you one question. Again and again, you guys have mentioned the potential for ethanol. And to be quite honest with you, I have never paid as much attention to it in the past. I was wondering if you could talk a little bit about what you are planning on that front, are we to see Ultrapar going into ethanol production. If that's the case, is it going to be Greenfield or acquisitions or is that, I would say, for now just something to think about in the future?

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

Our line of sight at this moment is more related to exploiting things that Ultracargo, Ipiranga and Ultragas already do -- and Oxitenio, I am sorry, already do than venture into new branches related to ethanol. So in its very simplest form, it includes things like Ultracargo becoming a service provider to Ipiranga in certain things. It includes joint purchases of ethanol between Ipiranga and Oxitenio. And to more elaborate things, they may include a bigger participation of Ultrapar in the ethanol business in Brazil. But at the moment, we are not contemplating venturing into any new part of the ethanol business.

**Q - Gustavo Gattass** {BIO 1702868 <GO>}

Okay. Thank you.

**Operator**

(Operator Instructions)

There appear to be no further questions. I would now like to turn the floor back over to Andre Covre for any further or closing remarks.

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

Well thank you very much for your presence. It's been a pleasure to have you here for the conference call of the First Quarter results. I look forward to having you with us in a few months from now when we announce the Second Quarter. Thank you very much.

**Operator**

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

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