

## Q1 2011 Earnings Call

### Company Participants

- Andre Covre, CFO, IRO

### Other Participants

- Gustavo Gattass, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's First Quarter 2011 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at [www.ultra.com.br/ri](http://www.ultra.com.br/ri), where the 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 executive of Ultrapar.

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 advanced 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 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 everyone. Good afternoon, to people in Europe. It's a great pleasure to be here with you today to discuss our performance in the First

Quarter. It was our 19th consecutive quarter of earnings growth. First of all, I'd like to draw your attention to some information included in slide three, which highlights the criteria adopted for the financial information included in this presentation.

As established by Brazilian securities regulators, CVM, the adoption of IFRS became mandatory in the financial statements in the year 2010, and therefore the figures in this presentation already comply with the new accounting standards. Before I talk to you about performance, I would like to highlight the announcement we made in early April, regarding the new corporate governance structure of Ultrapar.

In slide four, we highlight the reasons, the motivations, behind this movement. And all things considered, it's very simple. For Ultrapar, corporate governance has always been an instrument to build a solid, growing and profitable company. From time to time, the company takes the opportunity to review its corporate governance in light to the current context, both internal and external context.

And with this philosophy, the main motivation, this new recent move in corporate governance, is to create the conditions for the good performance of the company to be repeated in the next decades. What performance are we talking about? There's a bit of that on slide number five.

Since the initial public offering, our EBITDA has grown 21% a year. Earnings, net earnings, has grown 27% a year. And return on equity has increased to 15%. Keep in mind that we're in the midst making a lot of the investments that we made in the last several years to work and therefore the return on equity should continue to grow.

If you have bought shares of Ultra at the IPO, and still have it, total shareholder return is 22% a year. For the Brazilian local index, IBOVESPA, that's 17%. For our interest rates, which are acknowledged to be very high, one of the highest in the world, 15% and the average inflation of 17% a year. This is a very long period, 12 years, in which we have had growing economy, stagnant economy. We have had extremely high interest rates and we have had high interest rates. Fortunately, no low interest rates in Brazil yet.

We have had growing inflation. We have had very low inflation. We have had the currency - the exchange rate at BRL4 and we have had it at BRL1.50. We have had oil price at \$20 to \$30, as well as \$150. We have had different Presidents. We have had different international contacts. But with all of that, our performance has improved year-after-year, at a rate of more than 20%.

A lot of that has to do with governance, which is a bit of our steps in corporate governance since the IPO on slide number six. The way we organize ourselves, namely corporate governance, was fundamental to produce the type of performance that you see on the previous slide.

And there is a couple of things only that I think it's relevant pointing out on this slide six. You see a focus on alignment of interests, both internal and external, that's present in the 2000 initiative of being the first Brazilian company to grant 100% tag-along rights to all

shareholders. It's behind the stock ownership program. We have a long-term view. It's behind the variable remuneration linked to EVA targets.

All of that on an internal standpoint, makes people behave as small owners of the business. The second aspect that is present in this present slide, having effective controls. And the decision to list ourselves in New York as well as in Brazil in '99 had that as the background. And there's a number of other initiatives that are in this slide that demonstrate that.

That philosophy of corporate governance has a few consequences. Things that some of you are familiar with. For example, we are a company that generates a lot investment opportunities. Basically, because people are incentivized in their pockets to create good investments to make the company worth more money.

Then we have a recognized discipline in allocating capital and we generate a lot of opportunities and we diligently stand very thoroughly and only do the very, very good value creating opportunities. All of that is possible because of alignment of interests and effective controls. In other words, it highlights the intrinsic relation between corporate governance and performance for us.

Now what exactly are we doing? On slide seven, there's three elements to the new governance. Three new elements. It's convergence of each preferred share in a common share, common voting share, on a one-to-one ratio. It's migration to new Novo Mercado segment of BM&FBOVESPA and additional elements that exceed the Novo Mercado requirements, creating a differentiated corporate governance standard, which is quickly becoming the new benchmark for corporate governance in Brazil.

Elements that exceed Novo Mercado include, for example, the mandatory tender offer in the event of an acquisition of a relevant stake, modeled after the European directive and absence of poison bills, voting limitations or any type of unequal treatment provisions. Our shareholders -- in other words, our shareholders with the same rights, with the voice of the majority prevailing, to produce the best performance for the Company.

Well where are we on the implementation of this? We have submitted our revised bylaws to BM&FBOVESPA, which needs to certify that it is compliant with the Novo Mercado. We're in the final steps of that process and we should publish the call convening notice for the shareholders' meeting and the special preferred shareholders' meeting very soon, with the expectation that they will take place late June, early July.

Now I want to highlight the extreme importance of preferred shareholders coming to the special preferred shareholders' meeting. Because for the new governance and the conversion of shares, to become effective, the majority of the preferred shareholders' votes is necessary. In other words, 50% of the preferred issue shares need to vote in favor. And therefore, your presence in that meeting is fundamental for us, the company, to do this next step.

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Moving on to slide eight, to talk about performance, in the First Quarter of 2011, we continued to present strong earnings growth. It was -- this quarter represented, as I mentioned, our 19th consecutive quarter of EBITDA growth, which was boosted by the good governance and the good performance of the Brazilian company, by the larger operating scale of our businesses on the back of investments that we have made.

Consolidated EBITDA reached BRL467 million, a growth of 23% over First Quarter 2010, similar to the average EBITDA growth that we have presented since the IPO. Net earnings for the quarter amounted to BRL194 million, a 58% increase over same period of last year, as a result of EBITDA growth and lower financial expenses, which are derived from lower cost of debt. Our consistent cash flow generation has allowed a reduction in our financial leverage with net debt to EBITDA decreasing from 1.7 times to 1.4 times at the end of the First Quarter 2011.

I'm moving now to slide nine to comment in more detail on the performance of our businesses, starting with Ipiranga. On the volumes, we saw continuity of the positive progression, with a 7% growth over First Quarter 2010, leveraged by the 11% growth in fuel volumes for light vehicles. Such growth derives from two factors.

First, expansion in the light-vehicle fleet, estimated at 8% in the period. And second, the investments made to expand the network in the north, northeast and Midwest regions of Brazil, investments that include the acquisition of DNP concluded in late 2010. Diesel volume grew by 4% in this quarter, a progression similar to the estimated GDP for the First Quarter.

EBITDA amounted to BRL286 million, 10% above First Quarter 2010, excluding the non-recurring items. Besides the volume growth, and the consequent operating leverage, a third element influenced the results, namely the increased share of gasoline in the volumes sold. In this First Quarter, we experienced lower availability of ethanol in the market, something that was present through last year, but more present this quarter, as a result of a particularly low availability of ethanol during this winter harvest period.

As a consequence, ethanol prices increased significantly and therefore, gasoline became more attractive from an economical standpoint than ethanol from the consumer, resulting in a higher share of gasoline in our volumes sold. As a result of all of that, Ipiranga's EBITDA margin in the First Quarter was BRL58 per cubic meter, higher than the BRL57 per cubic meter of last year.

For the current quarter, we expect things to carry on, as they have recently. Our estimate before is for a volume progression, similar to the one we saw between the First Quarters, based on the same growth drivers that I mentioned. And we expect EBITDA margin per cubic meter in the same level of the First Quarter of 2011.

Moving on to our second distribution business, Ultragaz, First Quarter volumes presented a 3% growth over First Quarter 2010, boosted by a 7% increase in the bulk sales volume, a growth higher than the estimated GDP period for the -- GDP for the period, something that was already expected as a result of the investment made to capture new clients.

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Ultrapar's EBITDA -- Ultragas EBITDA grew by 2%, mainly as a result of higher volumes sold in the bulk segment. For the Second Quarter, of Ultragas, we expect volume and EBITDA progression, similar to the one verified between First Quarters, with investments that we have made or are making in the bulk segment having stronger effects from the second half of the year onwards.

Moving on to slide 11 with Oxitenó, volumes sold decreased by 5% due to unplanned stoppages at the Camacari petrochemical complex as a result of a power outage in the northeast region of Brazil in the beginning of the year. That was partially offset by the growth in the volumes sold to the cosmetics and detergents segment and volumes sold by our units in Mexico and in the Andean region.

Even with a lower volume we had an excellent earnings performance in relation to the First Quarter last year due mainly to two factors. Firstly, in the First Quarter of 2010 the Company was in process of realigning its prices to new level of costs which were a consequence of increase in oil prices. And as a result First Quarter 2010 was a quarter of relatively low profitability in a transition period in relation to the level of prices.

Second in some product lines in this First Quarter of 2011 we have a very positive marketing environment with strong demand. Oxitenó took advantage at this moment and focused production and sales on this line of products which resulted also improved sales mix for the First Quarter of 2011. About the Second Quarter our estimate is for a small reduction in volumes due to the very strong glucose volume in the Second Quarter of 2010 when this product was particularly attractive in terms of prices and markets.

Regarding EBITDA the positive momentum we had in the First Quarter for some product lines is still present although with declining intensity. And as a result we expect EBITDA margins in dollars lower than the First Quarter but significantly higher than the ones we had for the entire 2010.

Moving to the logistics in slide 12, our volumes were basically stable in relation to last year. The ethanol shortage that I mentioned in the analysis of Ipiranga also affected our terminal in the port of Santos which has a part of its storage capacity dedicated to ethanol exports. In addition the unplanned stoppages in the Camacari petrochemical complex that affected Oxitenó also had an impact in Ultracargo as the company has a terminal in the port of Aratu that serves the petrochemical complex.

These effects were offset by the increased effective storage in other segments for example an increase in exports of vegetable oils on the back of the larger soybean harvest. On the results Ultracargo's EBITDA was \$28 million, 6% percent lower than First Quarter 2010 mainly as a result of the disposal of in house logistics, solid books, storage and road transportation business.

Take notice however, that we presented EBITDA margin of 46% in this quarter, up from 37% in the First Quarter of 2010 and up from 42% presented in the Fourth Quarter 2010 when we already had solely the storage for liquid bulk business. For the current quarter with the normalization and the handling of the Aratu terminal we expect an increase in

average storage similar to the historical levels of 5% to 10% with obviously more than proportional effect in EBITDA due to operating leverage.

Coming to the last slide number 13 and now looking a bit to the medium term and a bit to the long term I'd like to recall investments and value creation opportunities present in all four businesses. In Ipiranga the strategic initiatives can be divided into two streams. The first is the expansion to higher growth regions namely Midwest, northeast and north regions of Brazil where Ipiranga's market share is lower than we have in the south and southeast.

These regions are currently the focus of our expansion investments, to conversions of unbranded service stations and new service station openings and where we also look for acquisition opportunities such as D&P. The second work stream is to reinforce the differentiated positioning that we have in the market through the expansion of products and services portfolio linked to fuel sales such as bakery inside our convenience stores, private label product line, jet oil for motorcycles, amongst other initiatives.

In addition we keep working together with the local trade association and the authorities aiming to reduce the grey market in the ethanol sector something that has -- that reduction that has benefited the whole chain the last several years.

In Ultragaz our strategy includes investments to expand the bulk segment in which Ultragaz is a prominent leader and where volumes are strongly linked with the performance of the company. Our strategy also includes investments in niche areas and in capturing new clients. In addition Ultragaz is always monitoring changes in consumer habits which from time to time create opportunities to capture benefits such as the operational excellence programs that we implemented in the last several years.

At Oxiteno in the next few months we will conclude an important investment cycle with expansions in the specialty chemicals and ethylene oxide production capacity. These investments are directed to serve fast growing segments such as cosmetics, detergents, agricultural chemicals, coatings, oil and gas. These segments have been growing above GDP allowing not only for higher volumes but also improved sales mix over time.

Other important development area is the production of chemicals from renewable sources which in addition to diversifying the sources of raw materials for Oxiteno have a higher perceived value in the segments that we serve.

At Ultracargo as we previously disclosed we are working on the expansion of existing terminals in Santos, Aratu and Suape to serve growing demand. In the last five years the storage market for liquid bulk in Brazil grew an average of 8% a year a growth higher than economic performance for the period. Expansions underway will increase exiting capacity by 15% and are expected to be all concluded by next year.

At last looking now long term as I tried to show you in the beginning of the presentation Ultrapar's successful track record in this 11 years as a listed company with an average annual earnings grow of more than 20% a year has corporate governance at a central

outlet. The new corporate governance structure allows for increased alignment of interests in the Company and decisive staff towards professional management reinforcing and paving the way for the attraction and retention of talented professionals and increased investment capacity.

All of these things combined have the objective of creating the conditions to repeat in the next decades the performance that we have had since the initial public offering. Thank you very much for your time. Myself and the team here is available for any questions you might have.

## Questions And Answers

### Operator

Thank you, the floor is now open for questions. (Operator Instructions). Thank you, our first question is from Gustavo Gattass from BTG. Go ahead please.

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

Hi Andre I had simple question for you guys. When we look at your balance sheet and this is a discussion that we probably have on somewhat of a recurring basis there's still a very, very large cash position on hand.

And I was just wondering if you could talk a little bit about the possibilities of either acquisitions or expansion in some way that you could actually put that cash to work or even perhaps the possibility that you guys see of being even more aggressive on dividends then you have been over the last years where we've already seen quite a consistent rise on the dividend payment.

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

Thank you for the question. I think I can feel a very privileged CFO because I have the benefit of working in a company that has very low credit risk and operates in businesses that allows for funding costs at very attractive rates, that allows for great financial flexibility with carrying cost of our debt at very low or sometimes zero carrying costs.

In other words we keep such position with flexibility that costs us very little or nothing. That flexibility is used to weather difficult times and is used to react very quickly when important investment opportunities arise. The process of creating and distilling investment opportunities is constant in Ultra as I mentioned in the presentation.

Everyone is incentivized through their variable remuneration to come up with attractive projects and they get scrutinized and judged together with the senior management which is equally incentivized only to invest in very attractive projects. If we have very good projects we do all of them because our financial flexibility allows. And in the moments where we don't have major investments underway or major acquisitions underway we have increased dividends.

And we've done that a few times, the most famous one was in 2001 when we paid a very significant dividend but we also did that I think it was in 2004 and in 2005 not to keep excess cash in relation to what we don't think we need. But that's a general framework. I know you're very familiar with it Gattass and there is no news therefore but I thought it was useful to state it for the benefits of the other people on the call.

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

Perfect but is something that you guys are looking at as far as acquisitions at the moment?

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

We are I have to say constantly looking at acquisitions. Now what are we looking at the moment? We are prospecting and negotiating acquisitions in the northern part of Brazil for Ipiranga. We are for Oxitenio looking into further acquisitions abroad particularly in Mexico where we are already market leader. And as a next step potentially the United States.

And for Ultracargo there is a number of medium sized players and a few larger sized players in our area of work that we think it will change hands over the next two to three years. Those are the areas where we are closely monitoring and/or working for acquisitions at the moment.

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

Okay thank you.

**Operator**

(Operator Instructions). This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Andre Covre for any closing remarks.

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

Thank you very much for your attention and your presence. I look forward having you on our conference call in August when we publish Second Quarter results. Thank you.

**Operator**

Thank you. This concludes today's Ultrapar First Quarter 2011 Results Conference Call. You may disconnect your lines at any time.

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