

Q3 2009 Earnings Call

Company Participants

- Andre Covre, Chief Financial & IR Officer

Other Participants

- Ricardo Cavanagh, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's Third Quarter 2009 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br, where the slide presentation is available for download. Please feel free to click 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 in a 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). 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 your conference.

Andre Covre {BIO 15233513 <GO>}

Good afternoon. Good morning. It's a pleasure to be here with you again. It is a particularly special period for Ultra. In October of this year, we completed the tenth listing anniversary in the New York Stock Exchange and in Sao Paulo.

A few weeks ago, we had the honor of holding a presentation to investors at the New York Stock Exchange, talking about our accomplishments over the last ten years. Here today, we made the same presentation to Brazilian investors; and the presentations that you have start with a summary of our accomplishments over the last ten years and then we follow to the Third Quarter earnings.

As I am aware, a number of you on the phone and on the Internet were present at our New York Stock Exchange presentation. I intend to make the first part of the presentation on a more summary fashion, not going through every single slide in order not to be repetitive to the ones that have seen it already.

Starting on page five, our motivation and challenges at the time of the IPO, the concept of listing Ultrapar started sometime in the '90s, when the Brazilian economy was opening and we realized that in order to grow efficiently, we would require funding for our future expansions and funding would progressively mean having listed a listed stock.

So our key motivation for listing was -- for the IPO was to grow our business. The business that we had at that time were Ultragaz, Oxiteno and Ultracargo.

A second reason for the IPO was to strengthen our corporate governance. Ultra had been a pioneer in a number of corporate governance initiatives for many years before the IPO. And we thought that making an IPO, having a broader base of shareholders would help us to improve our corporate governance, which we always saw as an instrument to align interests and therefore put everyone working on the same direction and that would make a better company with stronger growth perspectives and stronger value creation.

We had some challenges during our IPO. First, Brazil was, ten years ago, very different. If you remember, the world had just gone through the Asian crisis and the Russian crisis. And in '99, the devaluation of the real. So there were a number of concerns about the economy and the political stability of Brazil.

Also, this was the height of the dot-com IPOs and I suppose if you were a company that was going to grow 100% a year, you were a low growth company. But we were doing an IPO of old world, old economy, type of businesses.

And third, our corporate structure, corporate and shareholding structure in '98 and '99 had a degree of complexity, a heritage of years of evolution; and therefore it was prone to some potential conflicts of interest.

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But putting all of this together, we decided that we should do our IPO simultaneously in the Brazilian market and in the New York Stock Exchange, with the highest level of ADR possible, the ADR Level III, which would force us to adhere to standards of disclosure, standards of controls and standards of transparency that were, at that time, superior to the ones that were required in the Brazilian market.

And as a consequence, we were the first Brazilian company to do it simultaneously in Brazil and in New York in '99.

Well since then, moving to slide number six, we have worked diligently in producing returns to our old shareholders and our new shareholders. And most of the things that we have done follow the four factors that are listed in slide number six.

In other words, in our view, these were the four -- these are the four drivers of our success over the last 10 years.

First of all, we are constantly looking for ways to improve the competitive advantages of our businesses. And in doing so, we practice strategic planning and execution, always with a very strict discipline in capital allocation.

That discipline arises mainly from the alignment of interests that exists between management and shareholders, derived from the fact that a major portion of the wealth of our key management members is attached to the wealth of the company. In other words, our incentive schemes are designed in such a way that if the company does very well, not from a net profit standpoint or from a EBITDA standpoint, but if the company does very well from a value creation standpoint, from a stock price standpoint, from an EVA standpoint, management benefits as shareholders benefit. And that alignment of interests allows the discipline in capital allocation.

Now all of this always without losing sight of the prudent financial management, this in the past was absolutely critical when Brazil was a country of high volatility, in general, when you needed the financial markets, the financial markets were not there. And having a degree of financial flexibility was always critical to tap into the opportunities that normally arise in difficult times. And if you needed the financial markets, like everybody else, you're not going to be able to take advantage of those opportunities.

So on slide seven, we list some of the activities that we carried out since the IPO, all of them with the aim of building stronger business. In general, what we have done is, first, acquire any remaining minority stakes we that we didn't have in our businesses, and therefore becoming holder of 100% of each one of them.

We expanded capacity in all of them, being geographical footprint in Ultragas or production capacity in the chemicals business or storage capacity in logistics.

And where we saw it fitted and attractive, we have made acquisitions to speed up that process to foster economies of scale.

If you look at slide eight, we've done a number of acquisitions, principally since 2003. Most of the larger amount acquisitions were done in the last two years, with, obviously, a highlight to the Ipiranga acquisition in 2007, the Texaco acquisition in 2009 and the Uniao Terminais acquisition in 2008.

All of these acquisitions have produced significant benefits and have been always ahead of our regional plan that was behind the economics of the acquisitions.

The benefits of such positions and such investments appear on slide nine. Over the last 10 years, the differentials that we had in each one of our businesses have been strengthened. For example, at Ultragaz, we expanded our distribution network, for example, through the acquisition of Shell. We were the first mover in building -- bringing to Brazil the small bulk delivery system that we branded UltraSystem. We expanded the number of resellers that we have in our distribution network.

In Oxiteno, we became even more dominant in the areas that we are present in Brazil. And we developed very deep technology in specialty chemicals.

And in overall, we have managed to achieve leadership positions in each one of the markets that we operated, building a ten-year proven track record of consistent evolution and results through volatile economic cycles. All of that built on top of a results-oriented culture, where the client comes first, a passion for the client, doing that with a cost discipline and as the key enabler, the people that we have in our organization.

In slide number ten, we show that the capital markets and the process of corporate governance have been critical instruments in the growth of our business and in improvement of value of Ultrapar. We have a history of a number of pioneering initiatives in Brazil in corporate governance.

We were the first Brazilian company to grant 100% tag alongs to all shareholders. We were probably the first Brazilian company to have a deferred stock ownership program. In our case, it started in 1984. Probably at that time, the term corporate governance didn't even exist.

And Ultrapar was already practicing what would later be called corporate governance.

A number of other initiatives have been implemented in the last ten years and I am very pleased that today and for some time the market recognizes that Ultrapar has leadership in the areas of corporate governance.

Now I highlight, we don't do this for other people to see it. We do it because it makes us a better company. It aligns interests, it produces better controls, makes everyone focus on the right decisions and with that, we build bigger business.

It also gives a clear understanding to anyone that wants to be our partner, a debt holder or shareholder, that his interests are aligned and protect with the rest of the organization.

We have been very pleased that in the last several years, we extrapolated a practice of our corporate governance, only within our company, and we joined an organization that is led by the IFC and the OECD to contribute to promote improvement of the capital markets and corporate governance in Latin America and in Brazil.

We are a founding member of the Latin American Corporate Governance Roundtable Companies Circle, a group that is dedicated to promote corporate governance in Latin America. I'm particularly honored that for the last 18 months, I have been the chairman of this group.

Another important aspect of our capital market strategy has been constant pursuit improving liquidity of our shares. We believe that adequate liquidity paved the way to adequate pricing of our shares. And therefore reduces cost of capital.

We are also pleased that we trade today, approximately BRL30 million a day between Sao Paulo's Exchange and the New York Stock Exchange, a very, very meaningful improvement from the levels post-IPO, but nevertheless, we continue to work in finding ways to improve the liquidity of our shares.

Finally, on financial management, the consistent evolution of results and the prudent financial management has allowed us to be upgraded in our credit ratings by both Moody's and S&P to investment grade. That is a very -- there is a very selective group of companies that have a credit rating equal or better than ours in Brazil, and that will pave the way to a reduction in our overall cost of capital, already on the next couple months.

Our leverage has been declining and today we have about 1.7 times net debt over EBITDA. As you will see later, post the acquisition of Texaco, that has been 2.3 and we've been delevering as we include the business -- implement the business plan of Texaco.

So bringing this part to a close, today Ultrapar is summarized in slide 12. We hold 100% of each one of our businesses. We are controlled by Ultra SA, which is an entity that congregates the interests of the heads or the founder and some of the senior management that was awarded stock starting in '84 on that pioneering deferred stock ownership program.

The vast majority of our stock, 64%, is free float, it is in the hands of the market.

We have managed with the initiatives that I have briefly outlined to grow over a ten-year period EBITDA by 14%, earnings by 17%. And more importantly, if you purchased our stock in the IPO and you still have it today and you have reinvested the dividends that we have paid in additional stock of Ultra, you would have had about a 25% per year total shareholder return since the IPO. In other words, for ten years, you would have earned 25% return every year.

We are aware that that is an attractive return and that only puts the burden for the next ten years, which I will talk about in a moment.

Some important changes also resulted from the last ten years. Ultra, today, is a company of a completely different size. Our quarter revenues are about BRL5 billion. Ten years ago, \$5 billion. Ten years ago, our yearly revenues were not \$5 billion.

Also, we have become much more of a company of retail and distribution than anything else and we have a number of recent investments that are still in the maturing stage. In other words, there is more to come, particularly in improving capital returns as these investments mature.

I am particularly pleased to be celebrating, today, our ten-year listing with the publishing of a very strong Third Quarter results. This is the 13th consecutive quarter of earnings growth; and I have mentioned to my Brazilian colleagues earlier today that this must be a sign of luck, as today is Friday the 13th and we're publishing our 13th consecutive earnings improvement.

EBITDA has grown by 39%, largely influenced by the acquisition of Texaco and its synergies, but also significantly by the improvement in profitability at Ultragaz and Ultracargo.

Net earnings has grown 9%, lower than the EBITDA growth, due to the higher depreciation levels and also higher interest expenses, both effects related to the maturing of investments that we have made over the last 12 months.

The debt levels are coming down, as I mentioned. You can see on this picture that we have moved from 2.3 times net debt to EBITDA immediately after the close of Texaco to 1.7 times. This consistency in evolution of results paved the way for S&P to upgrade us during the quarter to investment grade.

We are very pleased also to receive some very important recognition for value creation and corporate governance on this quarter, and we listed on the slide 14 three of them that we were awarded during the last couple months.

Moving on to slide 16, where we talk about more specifically, each one of our businesses, starting with the original business of Ultrapar, Ultragaz, which was founded in 1937, so we have 70-plus years of practice in the LPG business. Today, the LPG market is fully deregulated and competitive. In other words, prices are absolutely free, only limited by the competitive dynamics.

It is a market that has low per-capita consumption. And the reason for that is we have very low use for household heating in Brazil, as we barely have any winter. This unless we're experiencing a climate change -- unless we experience a climate change and the reverse of what we're seeing, is likely to remain this way and that is actually a benefit because the low per-capita consumption is a barrier to natural gas.

In the countries that have a winter, the use for household heating is very important. And that tends to allow natural gas to become competitive for household use. In countries like

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Brazil, with absence of real winter, natural gas and LPG tend to co-exist, with LPG being the energy source for household cooking and general household usage; and natural gas tends to be the energy of choice for bigger volumes, with the bigger volumes allowing the profitability or allowing the capital returns necessary in relation to the investment that one needs to make in the pipes and pipelines to bring the natural gas to the houses.

In this market, scale and low distribution costs are the key competitive advantages. Ultragaz is the market leader with 24% and, of course, the company with the largest scale. And we also believe we are the company with the most efficient distribution network.

Distribution network has been enhanced over the last ten years, both from an improvement, an increase in the number of our independent resellers, which are all exclusive, but also from an increase in our geographical footprint, where today we cover 22 states of the Brazilian federation.

Talking about our recent performance, in slide 21, I think we only have good news to share with you in this quarter. The market is showing fairly clear signs of improvement in demand. As you can see, when the financial and economic crisis started, on the curve, the bottom of the market was the First Quarter with a decline of 3%, the Second Quarter, 2.1%, the Third Quarter, a decline of 0.7% and we are seeing now, on the Fourth Quarter, already some volume in the positive territory.

Ultragaz had a slightly bigger decline in its volumes, 1.8%, higher than the 0.7% of the market. This was largely due to something that happened last year and not this year. Last year, we had a large client that had a temporary consumption, something that we knew was temporary. If you eliminate this client from the last year consumption, we'd actually have shown a 0.7% growth in total volumes.

EBITDA has grown significantly, in spite of the declining volumes, a 42% increase in EBITDA. This is a continuation of the recent trend and it's driven by the same aspects that have been present throughout this year. In other words, a recovery in the trading margins, prompted by a market that is operating under normal conditions, with the competition focused on quality and profitability.

A second element for the recovering margin are the benefits of our operational efficiency programs, which I have had the opportunity to share with you in the last two previous quarters.

Looking to the future now, as I mentioned, in the Fourth Quarter, we can observe the continuation of the recovery on the bulk segment, which is the one that tends to follow the economy. And also, keeping in mind that the comparison base of the Fourth Quarter last year is a relatively weak comparison base.

With everything in place that we have had so far, we expect, in the Fourth Quarter, an evolution in terms of EBITDA similar to the one that we have had so far this year. I only remind you that the Fourth Quarter is seasonally weaker than the Third Quarter, so in

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relation to the Third Quarter, we expect a decline in EBITDA. But nevertheless, a meaningful growth in relation to the Fourth Quarter last year.

Now as this is our last formal interaction with the capital markets this year, we normally try to give you our views about the next year on a preliminary basis. And at Ultragaz, what we can share with you is that we, like most people, expect a much stronger economy in 2010 for Brazil and that should have an impact on the volumes of the bulk segment.

In terms of profitability, having had a very meaningful growth in results in 2009, we still have some additional benefits to capture, but they will certainly be, now, of smaller magnitude than the ones that we captured this year.

Moving to Ipiranga, on slide 23, Ipiranga, as I believe most of you know, was a business that we acquired in 2007. It was a natural extension of the LPG distribution business, where we were already market leaders in a market that had relatively small rates of growth.

The drivers of profitability and the success of the two businesses, distribution of general fuels and distribution of LPG, are basically the same. In other words, adequate operating scale, efficiency in logistics, management of the reseller network and a strong brand.

Our view of the market of peers distribution in 2006 and 2007 when we were gearing up for the acquisition was that volumes were going to grow on the back of an increasing fleet of cars in the country. It was an industry under a process of formalization, in other words, an industry that was undergoing a process of reduction in tax evasion and product adulteration. And we, therefore, believed it would be possible to achieve growth in volumes, with an improvement in profitability.

Last but not least, we thought that this was a market that was prone for consolidation. Within peer marketing, Ipiranga was a very obvious choice as an entry door. It was a very unique asset because at one side it had very, very efficient commercial operation management with a very strong brand linked to quality of services and quality of products, in other words, a very good platform to build upon.

On the other side, Ipiranga was burdened by very a complex shareholding and corporate structure. It was a company that had four listed entities, so it was not a company but it was a group of four listed entities with cross shareholdings managed by five families through a shareholders' agreement that involved 67 individuals where largely everyone had equal rights. So there was very, very meaningful potential for misalignment of interests.

We believed that a simplification of that shareholding profit structure could generate significant gains in expense reduction, a more agile decision making process and that the business could benefit from bigger availability of capital.

Well roll forward two years, in 2008, Ipiranga had EBITDA of BRL600 million prior to the acquisition of Texaco, about 72% from the BRL350 million that it had in 2006 which was

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the last year prior to the acquisition. And this improvement in EBITDA was nevertheless achieved through the volume growth that we had expected to take place in the market through the formalization of the industry and to the benefit of the simplification of the structure.

This process was crowned with the acquisition of Texaco last year which we're in the process of integrating to Ipiranga as we show on slide 24. The synergies, the gains and synergies have basically two work streams. First one is benefits from the increased operating scale. As any important distribution business scale is the key driver of profitability just like I mentioned for Ultragaz. And we are in advanced stage of executing and capturing those benefits of economies of scale.

At the beginning of August we managed to integrate the IT systems of the two companies, Texaco and Ipiranga. And at the beginning of October we merged the two legal entities. And with this we have gone from two companies with two IT systems to one company, one IT system.

Continuing on slide 20, we also are in advanced stages of implementing the business model of Ipiranga in the Texaco network. This is the business model that is based on differentiated products and services that create a better retail experience for our customers and ultimately lead to higher margins.

The more visible aspect of that implementation is the process of brand change. We have so far changed about 65% of the service stations' brands in the south and southeast of Brazil from Texaco to Ipiranga. We expect to finish that process in the south and southeast of Brazil sometime in the first half of next year.

The brand of the network in the north of Brazil will remain Texaco until March 2012 which is when our licensing agreement with Petrobras lapses and we gain, again, the right to use the Ipiranga brand in the north of Brazil.

With these two work streams of synergies, in other words, increased operating scale and implementation of the Ipiranga business model and the technical network, we expect to bring a consolidated business EBITDA margin back to the level of margins that Ipiranga had prior to the acquisition of Texaco. And that level is BRL53 per cubic meter.

Another reason to acquire Texaco related to our desire to expand our activities to the midwest, northeast and north of Brazil. That desire was driven by the fact that although these regions represent a smaller portion of the Brazilian market, they are the ones where consumption has been growing fast as the graph on the bottom left of the slide 20 shows.

The acquisition of Texaco marked the beginning of our expansion to that region. As you can see, we now have approximately 9% market share but we do intend to grow faster than the market in those regions. And we will do that through a combination of organic growth, adding new gas stations to our network and acquisitions of regional networks.

Moving to the next slide, slide 21, the results of the quarter are positively impacted by the acquisition of Texaco and already the realization of some of the synergies. As you can see, volume is up 51%, EBITDA ex-integration costs is up 55% and more importantly EBITDA margin is showing a positive trend towards the BRL53 per cubic meter.

Looking to the future on slide 22, we are very optimistic about the growth in the Brazilian market for the years to come and particularly for next year. The volumes of gasoline, ethanol and natural gas for vehicles are driven by two factors, the size of the light vehicle fleet and improvement in legislation and (fiscalization).

Now, as you can see on the left of this chart, the top left, at the current level of car sales in Brazil, the Brazilian fleet grows at around 8% a year. And with that the consumption of fuels grows around 8% a year.

And in spite of the recent growth in the Brazilian fleet, as you can see in the middle graph, penetration of cars is still very modest in Brazil, even in comparison to countries like Argentina and Mexico, even further to also developing or transition economies like Poland.

To mention an extreme case, penetration of cars in the United States is about 80% and Brazil is 14%. I don't know if Brazil will ever get to 80% as a system. I guess I should say I hope not because traffic in Sao Paulo will become absolutely unmanageable. But there is clearly space for further growth in the penetration of our car fleet.

The last abstract in the growth of vehicles, of fuel for light vehicles is the continuing process of better regulation and fiscalization in the sales of fuels. In particular, in ethanol which is the fuel that still lags behind in terms of regulation in comparison to, for example, gasoline and diesel.

A good way to follow the degree of improvement is to compare the volume sold by the members of the National Trade Association Sindicom to the total of the market. And for ethanol you can see that that percentage has moved from 46% in 2006 to 61% the nine months, year-to-date in 2009. That contributes to further growth of gasoline and ethanol and also creates a more level playing field and therefore allows for margins to improve.

In relation to diesel, it's a much simpler story. In Brazil, diesel is largely used for trucks, railroads and industrial processes and, therefore, by nature it is directly linked to the GDP growth. With improvement in the economy, you can see on the bottom right graph on the green line that diesel is showing a clear trend of recovery. With the beginning of the economic crisis in the First Quarter 2009 consumption of diesel in Brazil fell 5%, then 4% in the Second Quarter and 1% now, and we are clearly now in positive territory during the Fourth Quarter. And that leads us to expect that our Fourth Quarter volumes will show a bigger improvement in relation to the Fourth Quarter last year than the equivalent comparison between Third Quarters that we have just published.

In terms of EBITDA for the Fourth Quarter, we expect another period of sequential positive evolution in EBITDA margin with further gains of integration of Texaco but also, in particular in this quarter, benefitted from positive seasonality. What I mean by that is that

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this is a quarter where volumes are very meaningful and, therefore, operating leverage is present in a more meaningful way. And also it's a period where the sales of gasoline are very strong because of the holiday season and margins of gasoline product a mix improvement in the total margins.

Looking out to 2010 the positive trends that are outlined are expected to produce a positive influence in our volumes sold, plus we have one additional quarter of Texaco in our volumes and in our EBITDA. In terms of EBITDA, we also expect a continuation of improvement in the EBITDA margin. Having now done by the end of the year the bulk of the initiatives in economies of scale, the improvement in EBITDA margins for 2010 is likely to be more gradual than we have seen so far this year.

And for our chemicals business, slide 24, we have what I consider to be a very different chemicals business. The conventional wisdom about chemicals business, chem-co businesses are that they are very capital intensive. They sell product in very large quantities and they are cyclical in nature.

That's everything that Oxiteno is not. Oxiteno is a chemical business that operates in a niche area. It is the sole producer of ethylene oxide in Brazil and the largest producer of specialty chemicals derived from ethylene oxide in Latin America.

Ethylene oxide derivatives are used in a very wide range of applications and we list on the bottom left of this chart some of the key areas, cosmetics and detergents, agricultural chemicals, paints and varnishes, oil and gas, just to mention the more important ones. But I would include to this applications in leather and the food industry and the clothing industry and so on, so very widespread in the economy.

And as a consequence, the volumes of our products in Brazil tend to grow historically at a ratio of two to three times GDP.

We always have production capacity ahead of domestic demand. This is a deliberate strategy, maintaining ourselves as the sole producer of ethylene oxide. In other, our deliberate strategy is a deterrent strategy.

But the excess capacity over and above the domestic demand does not sit idle. The way we operate is always to produce as closely as possible to 100%. We sell everything we can in Brazil where we have higher margins and we export the balance.

As over time the Brazilian market grows, we shift volume from the export markets to the Brazilian market benefitting therefore from the mix improvement until it's time to (inaudible) that in new capacities again.

We believe that we have used the benefits of being the sole producer of ethylene oxide in Brazil to generate another differential. And that is state-of-the-art technology in the production of ethylene oxide and its derivatives.

A few years ago we had put that belief to test by acquiring a small company in Mexico, our first step towards increasing our geographical footprint beyond the borders of Brazil. We bought a company that was the less than third player in the Mexican market; and through the transferring of technology and the transferring of commercial relationships that company is today market leader competing with all major chemical companies in Mexico.

That has given us the confidence that we have indeed produced another differential over and beyond sole producer of ethylene oxide in Brazil, a differential that we can potentially deploy in other geographies.

Talking about the results of the recent quarter, we finished last year a number of important expansions in the area of ethylene oxide, specialty chemicals derived from ethylene oxide and specialty chemicals related to ethylene oxide, which is the focus of the company. Volume grew as a consequence of expansion and growing demand in Brazil 12% with the specialty chemicals growing 18%.

And in spite of the improvement in volumes, EBITDA declined slightly from the Third Quarter, improved in relation to the second but declined in the Third Quarter, a decline of 10% due to two effects, both related to costs. On one side with the increasing oil price, most of our fixed costs are increasing. As an example, our key feedstock is ethylene which is derived from naphtha; and ethylene prices in the Third Quarter were about 25% higher than ethylene prices in the Second Quarter.

Over time for the ones that follow us for a number of years you'll know that that creates only a temporary effect on our profitability because with a number of months or a couple quarters we tend to equalize our costs to our price, our prices to our costs. But nevertheless, while that's in process, profitability suffers. And this was, indeed, a quarter where that happened.

In addition, we had in the Third Quarter the remaining portion of our process of aligning our inventory. You can see on the top right, inventory levels declined since the Fourth Quarter of last year and that the high inventory level had costs much above the marginal costs that we have seen during the year and that difference generated an affect of about BRL10 million on the Third Quarter.

Looking further to the Fourth Quarter and next year, in terms of volumes for the Fourth Quarter, we are witnessing a continuation of the trajectory of growth. And that allows us to expect absolute volume growth in the Fourth Quarter to be bigger than the Third Quarter, which is normally not the case because the Fourth Quarter is seasonally weaker than the Third Quarter.

Looking to 2010 we'll have a full year, complete year with expansions, with an improving economy, so we are at this moment expecting a year with growth in volumes in the same order magnitude that we expect to finish the year 2009.

In terms of EBITDA, both for the Fourth Quarter and for the year 2010, on the positive side, we have the expectation of growth in volumes, as I mentioned, and we also have the process of inventory alignment finished. On the other side, we have some challenges coming from the pace and extent of the real appreciation and the rise of oil prices.

In particular, on the Fourth Quarter, that leads us to expect an EBITDA that is smaller than the Third Quarter that we have just presented. In other words, it's a quarter where we're working on adjusting our prices to our costs and also it's a quarter where the real is appreciating from the level that it was at the end of September.

Now, we do deal with the appreciation of real in three ways. On the longer period, we attempt to compensate real appreciation with improvement in scale. And in the shorter term Oxitenio is working on a number of cost and expense reductions. Some of them started showing already in this quarter. And we also have a little bit of our debt in dollars, given that Oxitenio has cash flow in dollars. And this tends to produce, when the real appreciates, a certain degree of compensation.

Obviously geographically they appear in different places in the income statement. Depreciation of real reduces the EBITDA of Oxitenio and reduces the interest expenses, so one thing tends to compensate the other in some magnitude depending on the quarter.

Moving to the last business, Ultracargo on slide 27. Ultracargo's key area of activity today is storage for bulk liquids that require special handling. We invested quite significantly in its storage capacity over the last 10 years having moved from about 200,000 square meters of storage capacity in '99 to close to 550,000 in 2009. About 170,000 cubic meters of that increase was the recent acquisition of Uniao Terminais, but the remaining was all expansion in the existing terminals that we had.

Such investments allowed us to today be market leader in Brazil with a 35% market share of liquid bulk storage and handling in the country and we're also the largest provider of storage for liquids in South America. These results in slide 28 are positively impacted by the acquisition of Uniao Terminais and the realization of the synergies.

As you can see, effective storage has grown by 60% in relation to the Third Quarter last year and SG&A only grew by a tenth of that, 6%. That has led to a string of five quarters of improvement in EBITDA bringing Ultracargo to a level of EBITDA that is really three times the one of the same time of last year.

We continue to work on expanding our storage capacity. We have already on the way two expansions, one in the port of Suape of about 30,000 cubic meters which should be operational in the first half of 2011. We also have one capacity expansion underway in the port of Santos of about 20,000 cubic meters. And that is expected to be operational in the First Quarter of 2010.

Such expansions underway allow us to expect some volume growth in 2010 and with a positive reflect on EBITDA.

In particular, in relation to the Fourth Quarter, due to the seasonality that is typical in this business, we expect an EBITDA that is smaller than the Third Quarter but significantly higher than the Fourth Quarter last year when we consolidated Uniao Terminais for the first time.

Well to close this presentation and pass to your questions, we believe that our company is well positioned to take advantage from the Brazilian economic growth. Each one of our businesses has very strong competitive advantages and has very strong market positioning. We've had to deploy our capital discipline, our corporate governance and alignment of interest philosophy in order to produce another 10 years of positive results for Ultra and for its shareholders.

This is what we have prepared for you today. I am available to answer any questions you might have.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions).

Our first question comes from the line of Ricardo Cavanagh of Raymond James.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Good afternoon, and thank you very much for this very good and clear presentation. My question is looking at the company in the future, how is your approach towards the corporate structure that you are foreseeing in the past few years? You have had a corporate structure that has been conservative in terms of leverage and also dividend payments have always been conservative and preferrenting growth. How are you seeing that evolving in the future?

My question would be do you think that leverage could be increased, dividends could be increased? Basically that's the question.

A - Andre Covre {BIO 15233513 <GO>}

Thank you for the question, Ricardo.

The immediate use for the cash flow that we are generating is to reduce our debt level, as you have seen on the evolution of the last two quarters. Our comfort level in terms of indebtedness is somewhere between 1 to 1.5 times net debt to EBITDA as a rolling target. It doesn't mean we cannot be above that for good opportunity as we have indeed been this year. But as a target, that's where we aim to be.

Any excess cash that we have in relation to that comfort area has obviously only two potential uses. It will either be used for growing the business as a way to grow value or it

will be paid as dividends.

Now we have in the last couple of years been fortunate to be in businesses that allowed us to find very attractive investment opportunities. But should that change, and we don't have very attractive uses for the cash, then the natural step is to pay that back to the shareholders.

That mechanism is very automatic and simple for us because the very same people that are taking the decisions about investments are also very large shareholders of this company. The senior management owns somewhere between 10% to 15% of the stock of the company.

So every time one decides to make a BRL100 million investment or BRL1 billion investment it is -- 10% of that are dividends that could be going to their pockets and are not. And I think that it should give everyone the comfort that at least the people making those decisions are actually convinced that that money is better invested in the company than receive those dividends and invest in, for example, other places as individuals.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Perfect.

And just a second question, if I may, after these past two years of intense acquisitions and expansions, how are you looking at the next, let's say, two years? Do you think this would be more a consolidation phase for Texaco [ph] et cetera, or we could have more news in terms of potential investments of scale?

A - Andre Covre {BIO 15233513 <GO>}

The line was breaking up a bit. Could you briefly repeat your question?

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Sure. The past two years have been years of strong investment in expansions and acquisitions. Are we looking at the next -- how should we look at the next two years? Are they going to be more of a consolidation phase such as, for instance, upgrading Texaco's efficiency or you might continue delivering news on the acquisition front in terms of significant acquisitions or investments?

A - Andre Covre {BIO 15233513 <GO>}

Okay, I understood. Well acquisitions or target investment are part of the strategy to some of our businesses.

At Ipiranga, as we aim to grow faster than the market in the north of Brazil the acquisitions of regional networks are a very important possibility for the next several years and something that we are pursuing as we speak. We don't have anything at this point that is mature to announce in final negotiations. But as we finish the first steps of our Texaco

integration we're starting to shift some resources to pursue potential acquisitions of regional networks in the north of Brazil.

And at Oxiteno any further steps towards internationalization is likely to take place through an acquisition.

At Ultracargo we operate in a market where the number of participants are still relatively large and there are some acquisitions that we could make in the next several years in order to increase operating scale and repeat in smaller or bigger fashion what we have done at Uniao Terminais.

Also, the pace of our investment that we may have the next several years obviously will depend on the pace of growth in the Brazilian economy. A very strong growth in the Brazilian economy will, for example, lead to very fast growth in the products sold by Oxiteno. It will lead to a very strong growth in the sales of diesel and the sales of bulk LPG at Ultragaz. It will lead to also an increase in storage capacity. And in order to participate on that benefit we would obviously increase the pace of our investments.

Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay. Thank you. Thank you very much for all your answers.

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>}

Well thank you very much. I thank you for your interest. It was a pleasure, again, to share with you the results of our company and celebrate the 10 years of our listing. I look forward to seeing you in our next quarter results which actually will be also the release of the year's results. Thank you very much.

Operator

Thank you. This concludes today's Ultrapar's Third Quarter 2009 results conference call. You may disconnect your lines at this time.

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