

Q2 2007 Earnings Call

Company Participants

- Andre Covre, CFO and IRO

Other Participants

- Seroz Kumara, Analyst

Presentation

Operator

Today with us, we have Mr. Andre Covre, Ultrapar's Chief Finance 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 in the United States. Good afternoon, to the people over in Europe. It is a pleasure to be here today with you to comment on Ultrapar's results for the Second Quarter of 2007 and the outlook for the Company.

I'd like to draw your attention before we begin to the fact that this presentation contains certain company projections, estimates and action plans, which depend on various factors, including the macroeconomic scenario. And for this reason it's important to pay due attention to the facts in slide number one.

In slide number 2, I would also like to draw your attention to the fact that as a result of the acquisition of certain companies from Ipiranga Group last April, Ultrapar became the controlling shareholders of the fuels and lubricant marketing business in the South and the Southeast of Brazil and related activities.

Number two, it became the controlling shareholder of EMCA, Empresa Carioca de Produtos Quimicos, a producer of white mineral oils and special fluids. And finally, we became the controlling shareholder of one-third of the refining operations of Ipiranga Group.

Starting the Second Quarter, Ultrapar's financial statement consolidates the acquired business. When mentioning the term Ipiranga during this presentation, we are referring to

the fuels and lubricants marketing business, acquired in the South and Southeast of Brazil and related activities, as well as EMCA.

Ultrapar's financial statements in the periods prior to Second Quarter of 2007 do not include the operations acquired. However, with objective of providing a comparison base for Ipiranga's performance analysis, an audited financial statement have been prepared for that company for periods prior to Second Quarter of 2007, which we refer to as pro forma.

Moving to slide number 3, now talking about the consolidated performance, I am pleased to report significant growth in our operations this quarter compared to last year. At Ultragaz, we achieved a 2% growth in sales volume inline with the growth in the market.

At Ipiranga, we report a 4% volume increase specially for gasoline, ethanol and natural gas for vehicles, which presented a 9% increase, confirming our optimistic view of fuels marketing business. Oxitenio in its ton reported a 9% increase in total volume in the quarter of an 18% growth in the domestic market. And finally Ultracargo also reported significant expansion and its storage operations was a 17% increase in the volumes stored.

Finally, Ultrapar's consolidated EBITDA in the Second Quarter of 2007, amounted to R\$225 million, 66% higher than the same period of 2006. And nearly double the EBITDA reported in the First Quarter of 2007. Net earnings amounted to R\$37 million, a decrease compared to the Second Quarter of 2006, basically due to temporary effects related to minority interests and financial leverage.

Following the completion of the Ipiranga acquisition process, we expect to no longer have minority interests. The financial leverage could also decrease as a result of the payment from Braskem and Petrobras after the separation of the assets as provided for in our investment agreement. Excluding these effects, net earnings would have presented strong growth as well.

Finally on the slide, I would like to draw your attention to our share buyback program. The renewal of the share repurchase program was approved on 8th of August with an estimated value of R\$150 million as limit. We believe the buyback of Ultrapar shares is an attractive option for investment at the company's available cash, especially once the transaction with Ipiranga is concluded.

Now talking specifically about the results of the each division and beginning with Ultragaz on slide number 4. As I mentioned, sales volumes were up 2% from the previous year, this growth being basically driven by stronger economy and an improvement in household income in the Brazilian population. The Bulk segment saw the highest growth with 9%, as a result of higher consumption by some large clients and a consequence of the stronger economy.

In the Bottled segment, sales volumes were down by 1%, as a consequence of a concentration of sales in the Second Quarter of last year due to the uncertainties related to the supply of natural gas from Bolivia in that period.

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EBITDA in the Second Quarter remained constant compared to the same quarter in 2006, basically due to the inflationary impact on the distribution costs and some increases of costs at UltraSystem, our bulk delivery system, due to changes in safety standards, both factors neutralize the positive aspects of the expansion in sales volume.

EBITDA per ton was R\$194 in the Second Quarter, almost unchanged compared to the amount reported last year. In dollars that's equivalent to a little more than a \$100 per ton of EBITDA.

The increase -- moving on to Ipiranga on slide number 5, the increased availability of credit and the improvement in household income resulted in record sales of vehicles in the country particularly of the so called flex-fuel vehicles, which can use gasoline and ethanol in any combination. These increases in sales of vehicles resulted consequently in higher fuel consumption.

In addition, improvements in the legislation and inspection enforcement measures carried out in the sector led to a positive influence on the volumes sold by Ipiranga, which increased by 4% in the Second Quarter of 2007 compared to the same period in 2006. The performance was particularly strong in the fields of gasoline, ethanol and natural gas for vehicles whose sales increased by 9%. Sales of diesel increased by 1.5% as a result of the stronger economy.

EBITDA Ipiranga amounted to R\$105 million this quarter, 31% higher than in the Second Quarter of 2006 as a result of operating leverage driven by higher volumes sold and measures implemented to improve the legislation and inspection enforcement measures in the segment.

I'd like to draw your attention also that in this quarter, we begun our plan of aligning the corporate structures of Ipiranga to the size of Ultrapar, the first step was conducted during this quarter by eliminating the assumptions that were related to the prior control group. Because of that, we had a non-recurring expense of R\$11 million whose benefits should begin to show in the next quarter -- in the Third Quarter. If we eliminate the R\$11 million non-recurring expense, EBITDA Ipiranga would have increased by 45%.

At Oxiteno, on slide number 6, with stronger economies, commercial initiatives, development of new products as well as increased availability of ethylene allowed for an expansion in sales volume of 9% compared to the previous year, as well as an improved sales mix with an increased concentration in domestic market which expanded by 18% compared to Second Quarter 2006. These efforts also resulted in improvement of product mix, particularly in the area of cosmetics, detergents, agrochemicals, paints and varnishes. Exports were down 11% compared to Second Quarter 2006 as a result of the reduced availability of products driven by the higher demand in the local market.

Sales volume at Oxiteno Mexico continued to grow strongly. The growth in this quarter was 24% amounting to approximately 9,000 tons. Despite the increase in volume, the adverse effect of the 9% appreciation in the Brazilian Real and the 21% increase in the cost

of ethylene in dollars, resulted in an EBITDA of \$14 million, 33% than in the same period in 2006.

Moving to slide number 7, at Ultracargo. We reported a 17% increase in volumes sold as a resulted expansion of operations at the Santos Intermodal Terminal and at the Suape Terminal. In addition, service providers were boosted by revenues from Petrolog, an internal logistics operations company, acquired during the First Quarter of 2007.

In the Transport segment, we had a 25% reduction in kilometers traveled due to the ceasing of certain transportation operation, as well as the Company concentrated on providing differentiated services.

EBITDA amounted to R\$12 million, up 14% compared to the previous year, as a result in increase in storage and internal logistics operations. EBITDA margin continues to increase, amounting to 22%, up 2% compared to the prior year and previous quarter.

In terms of Investments, it was obviously a very active quarter. We invested a little less than R\$1 billion during the quarter, continuing our plan to expand existing operations and carry out acquisitions in areas related to our businesses.

Acquisitions totaled R\$703 million that includes the first stage of acquisition of Ipiranga, the acquisition of Petrolog. And our share buyback program. At Ultragaz, investments amounted to R\$28 million, basically allocated to the expansion and renewal of gas cylinders and tanks. At Ipiranga, R\$30 million was spent on renovation and operational improvement at the Company's service stations and distribution bases as well as expansion of the Company's natural gas vehicles distribution network.

Of this total investments, R\$16 million refers to the addition of fixed and deferred assets, net of divestment and approximately R\$6 million were related to financing to the reseller network net of repayments.

At Oxiteno, capital expenditures were very strong totaling R\$119 million in this quarter, being basically allocated to expanding Oxiteno's production capacity, particularly it's new fatty alcohols plant, the expansion of the ethylene oxide production at our Maua facility and expansion of the specialty chemicals production.

With regard to the specialty chemicals, we had in July the startup of the ethoxilation unit at the Maua plant already contributing to the Company's result in the Third Quarter. Also in the Third Quarter, we expect additional ethanolamines capacity at the Camacari plant, which will contribute to the results in a more significant way from 2008 onwards.

At Ultracargo, finally, we invested a total of R\$10 million in the expansion of the Aratu Terminal for the search of palm oil and on maintenance of our operating assets.

Moving to the last slide and talking about the future. As we look towards the future, we are optimistic with our businesses and the respective expansions over the next quarters.

At Ipiranga, volume should continue to grow as a result of the record vehicles sales, leading to increased profitability as the consequence of operating leverage.

Furthermore, the improvements in the regulations in the sector are likely to have a positive impact on Ipiranga's results over the next few quarters, as well as the benefits arising from the scale gain and optimization of structures with its new parent, Ultrapar.

At Ultragaz, we are also likely to see the reflection of the improvement in the economy and higher household income in the volume of sales.

At Oxiten, the additional specialty chemicals and ethylene production capacity should continue to result in significant growth in volume in the domestic market, further contributing to a higher proportion of specialty chemicals sales and therefore significantly improving the mix. Because of the new production capacity that will come on stream later this year and particularly at early last next year. We will have much bigger production capacity area of disposals resulting in a substantial increase in EBITDA which we expect conservatively to grow by 50% next year at Oxiten.

Finally at Ultracargo, which reported strong improvement on EBITDA in the first and Second Quarter is likely to report even better results over the next few quarters driven by new strategic positioning and the recent expansion of this operation.

Overall, Ultrapar will continue to focus on the ongoing projects providing strong volume growth for the rest of the year and in 2008. We will remain very optimistic in relation to the opportunities to increase our business.

To conclude, talking specifically about Third Quarter, our current expectation is to obtain expressive growth -- impressive growth in terms of EBITDA in comparison to last year of the same order of magnitude of the one reported on the Second Quarter of this year again Second Quarter of last year.

With that, I thank you very much and I am available to answer any questions you might have.

Questions And Answers

Operator

Thank you, Mr. Covre. (Operator Instructions) Thank you, your first question is coming from Seroz Kumara of (inaudible). Please go ahead.

Q - Seroz Kumara

Hi, thank you. I was just little curious what type of...

A - Andre Covre {BIO 15233513 <GO>}

I am sorry, I can barely hear you. Could you come closer to the mic?

Q - Seroz Kumara

Okay. How is this? Is this any better?

A - Andre Covre {BIO 15233513 <GO>}

It is a little better.

Q - Seroz Kumara

Okay.

A - Andre Covre {BIO 15233513 <GO>}

Thank you very much.

Q - Seroz Kumara

You are welcome. I am just curious what type of legislative changes you expect to happen that will improve the results at your Oxiteno operations?

A - Andre Covre {BIO 15233513 <GO>}

I might have...

Q - Seroz Kumara

Ipiranga operations?

A - Andre Covre {BIO 15233513 <GO>}

When I was referring to improvement in legislation and stronger enforcement, I was referring to Ipiranga.

Q - Seroz Kumara

Right.

A - Andre Covre {BIO 15233513 <GO>}

And not Oxiteno.

Q - Seroz Kumara

Okay.

A - Andre Covre {BIO 15233513 <GO>}

And the fuels marketing business in Brazil had been for sometime in the market where that -- there was a lot of, what we call, informality, in other words unfair competition. And

our process was started not too long ago of bringing better regulations to sector and having stronger enforcement. That's a process that is well underway but is not nearly finished and therefore there is a lot of measures that can be enacted that could continue to improve the efficiency in the sector.

Q - Seroz Kumara

And you expect some of that to happen over the next 12 months?

A - Andre Covre {BIO 15233513 <GO>}

Yes. Most of these actions as none other than is in accelerated terms a very significant change. It is really a process of small things that make a difference over the certain period of time. If I look back on the last 12 months, I would say there were probably 10 actions that were taken that improved the efficiency in the sector and I know that looking towards the next 12 months there is probably an agenda or as many to continue to improve the efficiency in the sector.

Q - Seroz Kumara

Okay. My next question then also was on, in purchasing ethanol that was one of the issues that caused your EBITDA to be down because you -- do you buy in US dollars or do you buy in your Brazilian currency and then just convert the number to US dollars?

A - Andre Covre {BIO 15233513 <GO>}

I am not sure I understood your question. So just let me see if I give you an adequate answer. In our chemicals business, one of the key raw materials is something called Ethylene and that is indeed priced in dollars and as the currency -- Brazilian currency appreciated, our cost in reais increased and that was one other reasons our EBITDA in the quarter was down in comparison to last year.

Q - Seroz Kumara

All right. Okay that was also for the -- that was for Oxiteno?

A - Andre Covre {BIO 15233513 <GO>}

Oxiteno, yes.

Q - Seroz Kumara

Oxiteno. But in the Ipiranga, I believed you mentioned that vehicles sales were up, I am sorry, no I was thinking of ethanol and never mind sorry. I was thinking of something else. But that would not be relevant to you guys. So sorry.

A - Andre Covre {BIO 15233513 <GO>}

Seroz if I can give you a suggestion, we will be very glad as we do with any investor to take a separate phone call with you and brief you on the structure of our businesses if you would like that?

Q - Seroz Kumara

Okay. I may do that, I may take you up on that. Thank you.

Operator

(Operator Instructions) There appear to be no further questions at this time. And I would now like to turn the floor back to Mr. Andre Covre for any closing comments. Please go ahead, sir.

A - Andre Covre {BIO 15233513 <GO>}

Well thank you very much to everyone present in this call. I look forward to having you with us on the Third Quarter results. Again, have a good afternoon.

Operator

Thank you. This concludes today's Ultrapar's Second Quarter 2007 results conference call. You may now disconnect your lines at this time and have a wonderful afternoon.

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