

Q3 2015 Earnings Call

Company Participants

- Andre Pires de Oliveira Dias, Chief Financial and Investor Relations Officer
- Thilo Mannhardt, Chief Executive Officer

Other Participants

- Christian Audi, Analyst
- Frank McGann, Analyst
- Wesley Bernabe, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 3Q'15 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ri. Please feel free to flip through the slides during the conference call. Today with us we have Mr. Thilo Mannhardt, Ultrapar's Executive Officer and Mr. Andre Pires de Oliveira Dias, Chief Financial and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After Ultrapar's remarks are completed, there will be a question-and-answer session. At that time further instructions will be given.

(Operator Instructions) We remind you that questions which will be answered during the Q&A session may be posted in advance in the 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. Mannhardt, Mr. Mannhardt, you may now begin the conference.

Thilo Mannhardt {BIO 17338806 <GO>}

Thank you very much. Good afternoon to everybody. I would like to thank you all for your attendance in this conference call. It is a pleasure to talk to you. For today's meeting, we have prepared a presentation that will follow the agenda you may see in slide three. As we usually do in the third quarter, we held today our Investors Meeting in Brazil, so the presentation today is a bit longer to address certain additional aspects of our business.

I'll start by presenting our trajectory from the perspectives of strategy, management and corporate governance, which allowed us to grow, create value and boost our businesses. After my presentation, Andre Pires, my colleague and CFO of Ultra will comment on the performance of each business and also on the trends for the next 12 to 15 months.

In the end of the presentation, we will share with you some thoughts on our priorities and views for the coming years, followed by the already indicated Q&A session.

I ask you all to kindly move to slide number five. Ultrapar is a multi-business company that is present in the day-to-day life of Brazilians, with Ipiranga, Oxitenol, Ultragas and Ultracargo and more recently with Extrafarma as well all shown on this slide.

Thanks to the hard work and extreme dedication of our team, we achieved leadership positions in the markets we operate at, and consequently we stand out as one of Brazil's largest companies. If you move to slide six, I'd like to highlight the main attributes that characterize our businesses and that contributed to our growth over time. These attributes represent Ultra's working philosophy and the main characteristics of our business. It's the unique combination that makes us more solid, where our businesses are partly of resilient nature and partly leveraged on the economic growth.

This combination is not merely a matter of checks, it was designed and conceived in order to ensure a consistent growth over many years. Throughout our history, we looked for strategic moves in businesses where Ultra could develop competitive advantages and which could match the characteristics of our businesses. Then been resilient, leveraged on the economic growth room for differentiation through innovation and potential for two leadership in these segments. In this regard, consolidation and formalization processes contribute towards aspiring the mentioned leadership.

For many of you that have been with us for years, I believe you identify these attributes in our businesses and the competitive advantages that have been developed. For example, Oxitenol's focus on specialty chemicals, resilience in the LPG market, growth of the retail pharmacy sector, our full-service station strategy at Ipiranga among others. But I'll talk about each of them more specifically, as we move forward. Moving to slide seven, we have talked about the attributes of our business and now, as we move to the mentioned chart, we would like to highlight and talk about relevant aspects for our developments of corporate governance and how it influences our management and growth. We have a

corporate governance structure that values the alignment of interests, the structure that dates back to the 80s of last century.

In other words, it has been developed over 35 years since the entrepreneur, Pierre Eagle [ph], son of the founder and then Ultra's leading manager decided to professionalize its management team, and make its main executive shareholders in those days, it was Mr. Paulo Cunha, Mr. Lucio de Castro and Mr. Helio Beltrao. These executives together with those who became shareholders in the '90s among them, my predecessor, Mr. Pedro Wongtschowski have led the company and the main initiative since then.

After the IPO, the new share based compensation plan was implemented in 2003 for the new generation of then executives, the framework of which remains pretty much the same till this day. Also in the early 2000s variable compensation based on economic value growth was implemented, strengthening alignments and extending the mindsets to the teams. We see tight control and transparency standards, which allow us to barely detect any deviations in the processes.

We have established culture of dialog and sharing, the centralized financial area is part of day-to-day business strengthening the check and balances in the system. We have a simple and lean management structure, we promote management by proximity and we make the business grow without making the structure become more and more complex.

Me and my six fellow Executive Board Members are close to each other and maintain constant conversations. Financial soundness is the trace of the company that has been kept for many years and is a key element underpinning any decision. If you were to hear any of our discussions on investments, cash generation, dividends you would know how much we value long-term financial soundness, which is the cornerstone for financial discipline and necessary to be ready for new opportunities.

The combination of these four elements of our corporate governance allows people to work with a high level of delegation, acting with an owner's mindset with an idea that Ultra is our company, not the place where we work. That's encouraging each person to take the best decision for the company.

They also make our decision-making processes faster, which is a differentiating element in management, mainly in large corporations. This creates a favorable environments to prospect, analyze and make good investments. As a result, we keep continuous prospecting and enhance this process, so that we may be ready to seize good opportunities that come along, but this does obviously require patience. The mortality rate of project is high, but those we committed to were actually thoroughly analyzed.

Finally, we conducted detailed planning of execution. We have teams with great experience in integrating acquisitions and making investments. We may quote as an example the acquisition of Texaco and Uniao Terminais in 2008 and '09 and the international acquisitions in the US and worldwide in 2012 which were all immediately integrated into our operations.

We also have a more recent example with the transition of Extrafarma, which was not attached to a previously existing business structure, but integrated as a new business into Ultrapar.

To sum up, Ultrapar's corporate governance structure results in an increasingly solid profitable and enduring company. Before talking specifically about each business, I would like to highlight another aspect behind everything that happens in the company. Moving to slide 8, I will give you an overview on our people management philosophy. People strategy is based on a strong culture, which at Ultra is very influenced by our multi-business characteristics.

Looking ahead, we need to continuously build future leadership and leaders do not just learn to be leader of a company such as Ultra by fate, it is necessary to keep a very solid program for young professionals to give career opportunities, to combine experiences and provide tools for the development of people. Only then, we will have readiness to challenges, and for leadership succession of current and next leaders. It is a continuous process.

Reinforcing what we said in the preceding slide about corporate governance, I would like to return to the point of alignment of interests. One of the means to translate the alignment of interest in people management is applying a meritocratic approach based on facts and on clarity of objectives.

We also encourage a sustainable and (inaudible) behavior in, -- on our mindsets and the identification and search for opportunities and not so obvious path also characterize our team. Without such behavior, we probably would not have entered the fuel market eight years ago, neither the retail pharmacy market last year, we brought in this slide two example of these pillars for our people strategy.

We are currently promoting a new program for leadership development of very high quality, which currently includes the participation of 140 executives and will be extended to other leaders next year. We have increasingly encouraged and promoted internal movements, among different areas and businesses, expanding the professional scope of individuals and promoting the exchange of best practices.

In 2014, 1,000 internal movements were made, that is 1,000 employees of Ultra had the possibility to make a career move and assume new challenges. Now moving to slide nine, let me talk a moment about Ipiranga strategy, highlighting our actions to strengthen the initiatives of differentiation in convenience and services.

As mentioned in our attributes, constant innovation is one of the pillars of our growth trajectory. This is materialized in several ways at Ipiranga and the most notorious way of our strategy of differentiation is convenience and services, helping to increase the flow, customer satisfaction and loyalty.

With this strategy, customers have higher value added products and services, while resellers are provided with an additional source of revenue and differentiating positioning.

Thus maximizing the value creation of the chain as a whole. This philosophy has been successfully applied through some marketing campaigns.

The most famous campaigns are, Ask at the Ipiranga Service Station and Ipiranga, the complete place waiting for you. These campaigns summarize the value of proposition to our customers.

In this slide, we show some of the several initiatives that strengthened Ipiranga's attributes of differentiation, in convenience and services, I do not want to talk about all of that, but it is worth emphasizing some of that. Am/pm stores are present in 25% of Ipiranga stations being an important source to increased fuel [ph] service station and the satisfaction and loyalty of our customers.

We also have the largest bakery network in Brazil and we have an innovative beverage purchasing experience, the BeerCave launched last year and with more than 178 [ph] open stores. I would also like to highlight two novelties in am/pm stores, am/pm is bringing new store concepts, expected to be launched until the end of this year supporting the strategy of differentiation and innovation.

It is an am/pm superstore as we call it, a model for resellers of urban service stations, operating 24 hours a day with an expanded range of products and services. For instance, we will have flowers, fruits and vegetables in addition to what we usually see in conventional stores, increasing the assortment of items we need in our neighborhood.

For the ones from Sao Paulo, stay tuned to the works in Ipiranga service station at Avenida (inaudible), where we will have a superstore and an Extrafarma. I want to see everyone there. Another new model is the am/pm (inaudible) concept developed for resellers of highway service stations, providing a complete food service with restaurants, snack bars, cafeteria, convenient stores besides WiFi and recharge services.

Another initiative we brought last year is the AM/PM suprimentos ensuring franchisees more efficiency product sorting, restocking and in the acquisition cost of the product basket traded. AM/PM suprimentos currently operates distribution sectors in the Rio de Janeiro, Parana and more recently in Sao Paulo.

With the status of being the largest loyalty program in Brazil, Kilometer de Vantagens is the case of success on the strategy of differentiation designed by Ipiranga. With a view to obtaining customer loyalty. Today, this program has more than 20 million participants and is an important relationship platform for the company. ConectCar is another well-known initiative with more than 500,000 users and growing at a significant pace.

I suppose you have seen our new strategic partner in ConectCar, Itau Unibanco with whom we will discuss after the transaction is completed, the future plans for this business. We talked about Ipiranga's differentiation strategy and now moving to slide 10, we can comment about the growth of our service station network.

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Since 2011, Ipiranga has invested nearly R\$2 billion in the expansion of the network of stations in Brazil. This was only to expand the network, we are not including the expansion of the logistics infrastructure and maintenance, and we continue investing in such expansion because we believe in our strategy.

Efforts are mainly focused on Kunene [ph] where the market grows above the national average and where there is higher potential for the conversion of unbranded service stations. In September, we had more than 7,200 service stations and the growth rate in the number of service stations, in Kunene region was 10% compared to the rate of 2% in South and Southeast regions.

That is, we also continue investing in South and South East regions, these investments in new service stations and converting unbranded service stations have allowed the company to grow above market in the reseller segment, obtaining an improved sales mix, as shown in the graph in the center of the slide.

Another positive factor is the increased formalization of the fuel market. Ethanol market presented an evolution over the year in terms of informality. In 2013, for instance, PIS and COFINS taxes on ethanol were changed, which we believe have contributed to improve the competitive environments.

Our investments in conversion of unbranded service stations also contributed to a reduction in the level of informality in the industry. The graph in the right side of this slide is a proxy over time to demonstrate the level of informality in the industry. The higher the percentage, the better the competitive environment.

Let me now move to slide number 11, and talk about Oxiteno. Oxiteno has a very strong positioning in Latin America. It is the only producer of ethylene oxide in Brazil, of fatty alcohols in Latin America, always with production capability superior to the domestic demand.

Over its more than 40 years of experience, Oxiteno developed and improved deep knowledge of the technology in the surfactants markets. This is essential to continue differentiating in the highly dynamic markets from the product launch view such as the cosmetics market.

We have been permanently investing in the development of new applications based on innovation and the use of renewable raw materials. These are products with wide appeal in the personal care and beauty segment, which has been one of the pillars of our marketing strategy. At the end of the last decade, we also invested in capacity expansions in Brazil and now we are prepared to continue growing without large local investments. These factor together with our increasing focus on specialty chemicals with sales volume with greater added value provides us with a very solid operating position.

And this gives us the opportunity to deepen our process of geographical expansion, for instance, we have just announced US\$100 million investment in (inaudible) plant in the United States. This investment is in line with our international expansion strategy which

allows us to first, diversify the raw material base with naphtha basis in Brazil and the shale gas base in the United States.

Secondly, explore the technology exchange among different locations, besides having access to the world's largest (inaudible) market in more competitive cost. Not only in terms of raw materials, but also in logistics. Moving to slide 12, I would like to highlight two noticeable aspects in Ultragaz. Resilience and the continuous search for differentiation in the bottled segment and diversification of solutions and optimization of the search for customers in the bulk segment. LPG business has two segments, bottled and bulk. Bottle segment is a business with extremely resilient volumes because it is mainly used for cooking and households.

Therefore, it is a good of first necessity Ultragaz has also been investing in differentiations through the innovation in resellers and customer relationships. On the left side, you can observe some initiatives. One of them is Ultragaz connect, an application was already a reality in Brazil that enabled consumers to order LPG through their mobiles and provide more flexibility, convenience and safety at the time of purchase. The purchase order is directly sent to Ultragaz or resellers vehicles closest to the customer locations. Since its launch, we had about 180,000 transactions through this trail set channel already.

Ultragaz was also pioneered in Villegas [ph] a coupon printed in partners POSS [ph] such as supermarkets, truck stores and bakeries among others, which grant the consumer the right to exchange the P13 bottle through this Ultragaz or resellers.

In 2014, 800,000 coupons were sold. Ultragaz's consumer also accumulates kilometers de Vantagens using the loyalty program of Ipiranga by purchasing P13 bottles. It may also redeem credits to purchase gas without, -- with discount beside the exchange in kilometer de Vantagens with other products and services offered by the program. To date, more than 2 million of these kilometers were actually accumulated.

In the bulk segment, Ultragaz has been working to optimize the capture of new customers, the essence of this initiative is to make the capture more assertive with the use of digital intelligence and geolocation, through the work of a team of business consultants and data analysis, the focus is on mapping customers within appropriate profile and a great probability of using LPG in bulk segments, particularly small and medium sized enterprises in agribusinesses.

Since 2014, Ultragaz has been applying a new model for bulk facilities. The redesigned process reduces on average one-third of the time of installation with significant cost savings to the Company and agility for the respective customers.

I would also like to highlight the diversification of solutions for different uses of LPG for instance in asphalt plants, drying of grains and seeds, car washing, aviary heating and special gases, which is a new propellant developed for aerosol spray for products such as the ordnance, paints, insecticides and hair spray. This positioning closer to the customer was reflected in our recent campaign to reposition the brand with the slogan (inaudible) Ultragaz.

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Moving to slide 13, we will talk about Ultracargo. Ultracargo is the largest liquid bulk storage company in Brazil. Handling about 6 million tons of products on an annual basis. This position was achieved in part due to organic growth and in part through acquisitions. Most of them in 2008 with the purchase of Uniao Terminais which doubled Ultracargo size.

We are located in the main port terminals of Brazil with operations in six different of those shown on the right side of the graph. This geographical footprint is unparalleled in this segment and provides us with flexibility and operational agility. Covering the North and Northeast regions of Brazil, we have terminals in Itaquí, Suape and Aratu. In the Southeast and South regions of the Brazilian coasts, in turn we operates Rio de Janeiro, Santos and Paranaguá.

Ultracargo focuses its strategy on port operations, which as we know is a segment with long-term investment opportunities. Mainly due to the demand for logistics infrastructure in Brazil.

And moving now to slide 14, let's talk a moment about retail pharmacy business about Extrafarma. In February last year, we incorporated Extrafarma into Ultra. As we said at that time, the retail pharmacy segment has the attributes we seek in our business. Resilience in view of the demographic aspect, the aging Brazilian population drives the demand in the truck market, growth, potential for consolidation. The top 10 in this segment have less than 40% of the market.

In addition, Extrafarma was a chain of 180 stores when it came to us that is an excellent local scale with a competent team that builds the chain from scratch and a very, very strong brand. This was our entrance point into the segment, from there we devised an expansion plan and we have a very interesting and exciting project ahead of us.

We currently have already over 240 stores, to grow in fast and sustainable manner, we choose to further strengthen our retail platform. The several initiatives implemented are on the left side of the slide, we have put some pictures to illustrate our new quality standard for stores which offer a better shopping experience, with better qualified teams, improved visual communications and consumer support as the focus of attention.

To this end, we invest in the researchers, in training teams and in a program involving all store managers with a goal of implementing a culture of entrepreneurship and on our mindset.

We also make progress in the display and communication of products, this picture on the bottom left shows an example with nail polish management, we reduced the number of SKUs, removed the bottles from the plastic packaging for easier handling by the customer, rearranged accessory products, and all this led to a significant sales increase in this class of products. We are replicating this approach in various products across our chain.

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Some initiatives are still being or about to be implemented as listed on the right side of the slide, we will have, for example, a new store model and architecture, a new brand for Extrafarma, we are entering new states and we'll have the pilot store in Sao Paulo as we mentioned in Ipiranga.

This type of action makes store management more effective, allowing Extrafarma speed up its growth with a more robust retail model.

Let me now hand over to Andre Pires, who will present the performance of each business and in addition, the trends for the next months, and he will also finish by adding some additional considerations to you. Andre over to you.

Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Thank you, Thilo. Good afternoon, everybody. I would like to thank you all for participating in this conference call. As you may know, this is my first results conference call for Ultrapar. I took a position of CFO on July 20, and since then I have participated in an intensive process of integration. It has been a very rich period for me and I have witnessed the resilience of Ultra's business model and the outstanding professional capability of our people.

I will -- after Thilo's presentation on strategy, I will comment on the performance of each business and also on the trends for the next 12 to 15 minutes.

So going to slide 16, let's begin our presentation with Ultrapar's historical performance. Ultrapar even though having undergone various economic cycles presented between 2006 and 2015 an annual growth of 35% in net sales of 24% growth in EBITDA and a 19% growth in net earnings.

This does not mean that everything we will grow constantly forever, but it means that we don't rely on good economic conditions alone to achieve good performance and that resilience in our business model and the execution capability of our leaders many times are able to contract a more challenging operational environments.

It is not by chance also the Ultrapar shares had a strong performance since the IPO, with operational performance influencing the market value of our stock. Shares had an average annual growth of 23% since the IPO, considering the reinvestment of dividends. In the same period the CDI, which is a proxy for the Brazilian risk free rate, the appreciation of the CDI was 14% per year and Ibovespa, the index grew at 9% per year.

Our consistent earnings growth and the resulting cash generation have allowed the company to pay higher dividends with the payout higher than 60% and a dividend yields between 2.5% and 3% on an annualized basis. Moving to slide 17, and talking specifically about the performance in the 3Q of 2015 and also on the first nine months of 2015, we can observe that during the year Brazilian market economic scenario followed the trend of deterioration, with a combination of above target inflation declining economic activity,

climbing interest rates, rising unemployment and a weaker Real as you can see in the graphs to the right.

As already mentioned, even in this environment, we have reached an EBITDA of R\$944 million in the third quarter of 2015, 20% over the third quarter of 2014, mainly due to the EBITDA growth in all business units except Ultracargo. This results evidence the resilience of our business model and Ultra's management capability. It is worth mentioning that in this quarter of Oxiteno EBITDA growth is represented 73% of Ultrapar's EBITDA growth alone.

In the nine months of 2015, Ultrapar's EBITDA totaled 2,776 million, an increase of 24% over the same period of 2014. Net earnings in the 3Q of '15 amounted to R\$299 million, down 9% from the same period of last year. Mainly due to the impact of a higher CDI and exchange rate and also a negative exchange rates changes on financial results. It is important to say that the real was 28% weaker only in this quarter. In the first nine months of 2015, Ultrapar reported net earnings of R\$1,016 million, 16% higher than the same period of 2014. Our return on equity in turn closed at 17% in September.

Moving to slide 18, we will comment in more detail on the performance of our businesses starting with Ipiranga. Consistently with prior periods, the growth in volume was boosted by an increase in the light vehicles fleet, which positively affected light vehicle fuel sales.

As you can see in the top left chart the Brazilian vehicle fleet has estimated to grow at the rate of 3% a year even with an estimated drop of 7% in sales of new vehicles, which is in fact [ph] a latest estimate. In fact it is a drop of 27% if you compare it to the same period of last year.

In addition to the pillar, Ipiranga is also reaping the fruits of the strategy of depreciation through constant innovation in services and convenience which helped increase the flow at the service station and customer satisfaction and loyalty as mentioned by Thilo in prior slides.

With these elements, Ipiranga sales volume totaled 6,574,000 cubic meters in 3Q '15, 1% above the 3Q '14 volume. Sales volume of fuels for light vehicles which we call the Otto cycle increased by 3% driven by the growth in the vehicle fleets, the investments made in network expansion and the 54% growth in ethanol sales. Diesel volumes fell by 2% compared to the same period of 2014 due to the economic downturn.

In the first nine months of 2015, Ipiranga accumulated sales volume of 19 million and 137,000 cubic meters up 1% over the same period of last year. The EBITDA reached R\$610 million in the third quarter up 10% over the third quarter of 2014, mainly due to the increased sales volume in Otto cycle boosted by investments in the service station network expansion and the strategy of constant innovation in services and convenience in the service stations. In the first nine months of 2015, EBITDA reached R\$1.9 billion up 21% over the first nine months of 2014.

Excluding the non-recurring result for the 1Q of 2015, that includes temporary benefit of inventory gains and import of products and a result of sales of assets, EBITDA would have grown by 12% in the first nine months of 2015. This third quarter was a good representation of our level of our year-on-year earnings growth in this specific economic scenario. Therefore, the next quarter and the next year will follow the same trend as we saw in the third quarter of 2015.

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Moving now to Oxiteno on slide 19, where the sales volume reached 191,000 tons a 7% decline in comparison to the third quarter of 2014, breaking down this result we observed that the volume of commodity sales was 7% lower due to the price and demand volatility.

The volume of sales of specialty chemicals was also 7% lower compared to the same period of last year, due to the contraction of the Brazilian economy and the decision to discontinue a line of products aimed at the latter market. Sales volume in the first nine months of 2015 reached 559,000 tons, down 5% from the nine months of 2014.

In spite of the weaker volume, also a weaker Real over the last 12 months contributed to a significant earnings progressions at Oxiteno. The average dollar exchange rate was nearly R\$1.30 higher than in the third quarter of 2014. As a result Oxiteno's EBITDA reached R\$212 million in the third quarter of 2015 up 115% over the same period of last year which equals to \$313 per ton of EBITDA.

In the first nine months of 2015, EBITDA reached R\$560 million, up 83% over the first nine months of 2014. We have also an EBITDA per ton of \$317.

Now looking at the fourth quarter, we see that the trend will be maintained, the expected reduction in the volume of specialty chemicals is bound to continue given the weak economy activity. As for the EBITDA, we expect that the pace of growth of the third quarter compared to last year will be maintained with margins remaining at the level of \$300 per ton, which should be maintained as well for 2016 as a whole.

Moving now to Ultragaz, on slide number 20, in the third quarter of 2015, Ultragaz sales volumes reached 451,000 tons, a 2% decline compared to the third quarter of 2014, mainly as a result of the economic slowdown in the bulk segment, partially offset by commercial initiatives of new resellers. During the first nine months of 2015, Ultragaz accumulated a sales volume of 1,284,000 tons remaining at the same levels that we had in the first nine months of 2014.

However, Ultragaz EBITDA reached R\$103 million a 16% increase compared to the third quarter of 2014. Such increase results mainly from commercial initiatives of new resellers in the bottled segment and from investments in capturing new customers in the residential beauty segment partially offsetting the effects of the economic slowdown in the bulk segments.

During the first nine months of 2015, Ultragaz EBITDA reached R\$248 million up 11% when we compare to the first nine months of 2014. For the next quarter, we expect an EBITDA

at the same level of the third quarter. For 2016, EBITDA is expected to maintain the same evolution than what we saw in the third quarter.

Moving now to slide number 21 on Ultracargo, our bulk storage businesses. In the third quarter of 2015, Ultracargo's average storage had a 13% reduction over the third quarter of 2014, as a result of the partial stoppage of the Centro Terminal due to the fire which occurred in the beginning of April 2015. Excluding Centro's operations, other Ultracargo's terminals reported a stable average storage in the third quarter of '15 compared to the same period of last year.

Ultracargo's EBITDA reached R\$14 million in the third quarter of '15, a 67% decline compared to the same quarter of last year, mainly to the lower handling due to the partial stoppage of the Santos terminal and also its fire-related expenses.

If we exclude Santos's operations other Ultracargo's terminals reported an EBITDA of R\$25 million a 6% decline compared to the third quarter of 2014, mainly due to lower handling of chemicals resulted from economic slowdown and higher maintenance costs.

As an update of the accidents, the activities in the Santos terminal remained partially suspended. The part of the terminal which suspended operations has a capacity of 185,000 cubic meters, 55% of Ultracargo's capacity in Santos and 22.5% of the Company's total capacity. The fire affected 6 tanks with a total capacity of 34,000 cubic meters. Ultracargo has been performing the first stage of the decommissioning plan of the affected area, which consists in removing, transferring and disposing of the remaining products and residues.

At the same time, we have prepared the second stage of the works to present it to the involved authorities in order to obtain the approvals necessary to remove equipment and structures from the terminal affected by the fire. For the current quarter the same factors that influenced the third quarter remains in the fourth quarter.

Therefore EBITDA level shall remain similar to the same level in the third quarter of 2015. During 2016, we also expect to carry out the actions to resume the operations in Santos completing the decommissioning and the works for the terminal at rehabilitation. Next, we will submit an application to obtain licenses with the competent authorities.

Moving to the slide 22, I am going to talk about the Extrafarma we finished the third quarter of 2015 with 244 drugstores in the North and Northeast regions of Brazil, an increase of 16% compared to the same level that we had in the third quarter of 2014, but above the 7% growth that was given by Abrafarma which is the Association of pharma producers.

In this quarter, as mentioned by Thilo, we opened the first Extrafarma drugstore in an Ipiranga service station building [ph]. By the end of the third quarter of 2015, 17% of the drugstores were under one year of operation versus 15% in the third quarter of 2014.

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In the third quarter of 2015, Extrafarma's gross revenues reached R\$362 million and the 11% increase compared to the same quarter of 2014.

The increase in gross revenues is mainly due to the investments on opening up new drugstores and the increase in store sales with more than one year the same-store sales and the annual adjustments in the prices of medications authorized by the chamber for the regulation of the medical pharmaceuticals market, which we call CMEDs.

This was partially offset by lower sales in telephony, so if we exclude telecommunications and telephony, Extrafarma same-store sales would have been 9%. In this quarter, Extrafarma's EBITDA reached R\$6 million an increase of R\$4 million compared to the third quarter of 2014 due to the increase in gross revenues and lower expenses with studies in projects.

As mentioned by Thilo in his speech, in 2015 we developed several initiatives aiming the evolution of Extrafarma's retail standard, due to such initiatives, we opted to slow down the pace of opening drugstores, so we can open new drugstores under this new model.

In view of this, we planned to open from 15 to 20 stores as from the fourth quarter on a trend which is expected to continue throughout 2016. The fourth quarter is seasonally stronger in Extrafarma, therefore, the trend is that EBITDA in the fourth quarter will be higher than the one we presented in the third quarter.

For 2016, EBITDA level in absolute terms is expected to be slightly higher than what we'll have this year considering that the expectation of new drug stores opened will double compared to 2015.

Moving now to our closing slides, slide number 24 and our closing remarks for that call, the macroeconomic prospects for Brazil do not show signs of recovery, much the opposite. Estimates show that the GDP will continue to fall. Nevertheless, I just presented to you a vision that the general trends for our business for the next year will be maintained which is very positive in light of this scenario.

Our vision for the company is not for the next year, it is far wider and so we will continue to invest in our businesses as this has been the tool for our growth so far. At Ipiranga we will continue to invest in the expansion of the distribution network and intensify our differentiation initiatives based on increasing the offer of products, services and convenience.

At Oxiteno, we will keep the focus on innovation with the development of new products and we have the challenge of executing our new project in the US. At Ultragaz, we'll keep the focus on the capture of new customers and the constant management of costs and expenses. At Ultracargo, the priorities is to do the clarification and management of the impacts arising from the actions in Santos without forgetting to consider opportunities from the growing demand for port operations in Brazil.

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Finally, at Extrafarma we will keep focused on the expansion of the Company and the progress of retail management. I end here what we have prepared for you and I thank you once again for attention. We may start now the Q&A session. We may start now the Q&A session, please. Thank you.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question comes from Frank McGann of Bank of America Merrill Lynch, please go ahead.

Q - Frank McGann {BIO 1499014 <GO>}

Yeah. Thank you and good afternoon. No, just a kind of a broad question, looking at what is a very difficult overall economic environment right now. You've been able to show very good growth on a very consistent basis for many, many years and the outlook remains still relatively positively, but I was wondering in terms of allocating capital, in terms of thinking about the growth in your various businesses, are you more cautious now in terms of CapEx and are you likely to -- do you think of your businesses is perhaps having less potential now say than six to 12 months ago and how have your views changed towards your businesses over the last six months or so?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hi, Frank. This is Andre Pires here. Thanks for the question. We remained obviously -- we're always being cautious in terms of focusing on the right opportunities and making sure that our CapEx would increase value for our shareholders over the long period of time, so in that sense, we haven't changed our approach towards CapEx, obviously, we are very, I mean it's very clear to us that the economic environment is very challenging, but at the same time we are very confident on the resilience of our business model and also on the execution capability of our leaders.

So obviously we are looking at the opportunities in terms of organic growth, we are looking at the opportunities in terms of inorganic growth, eventually, but keeping the financial discipline that we always have kept when making decisions.

So we are not, I mean to summarize, we are not changing or restricting CapEx at this point in times, taking to consideration the economic environment. We continue to see a business that will continue to generate a very healthy cash flow going forward and therefore we believe that our strategy will be maintained as it has been in the past.

Q - Frank McGann {BIO 1499014 <GO>}

Okay, thank you very much.

Operator

Our next question comes from Christian Audi of Santander. Please go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Thank you. Hello, Thilo, Andre and the rest of the team. I had a few questions, four to be exact. The first one maybe if Thilo could address this one, you're in a very strong financial position of the company and in a very unique position to be able to look probably at many inorganic growth opportunities.

I was just wondering, are you still as aggressive as before in looking these inorganic opportunities or given the very low visibility on the economic front you're just referring to take a more conservative stance as you analyze these? So that's the first question and the second question, if maybe you could speak in general terms, Andre about the impacts that's rising unemployment is having on your business in particular, maybe on Ipiranga. The third question, have you seen on Ipiranga any changes at all to the positive or negative in your conversion process?

Is it becoming more difficult, is it becoming easier to convert the unbranded, and then lastly on Oxitenio, you made it very clear, in your comments Andre the guidance of margin of around \$300 per ton, I was just curious is this more of a conservative outlook, do you think there is depending on FX and market conditions space for this to be somewhere between 300 and 325 or now you feel very good about the \$300 level. Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Hi, Christian. This is Andre Pires. Thilo have to leave, so I will follow-on with your questions here, well, I'll try to address on the order that they have been asked, question number one, regarding the financial positions that our, let's say, solid financial position and potential opportunities for M&A or inorganic growth.

I believe that our approach remains the same, obviously the scenario as I said, continues to be very challenging, but also there are lot of opportunities that is part of our DNA to analyze these opportunities, we don't have anything specific to talk about at this point, but we -- it's part of our job and it's part of our DNA to evaluate opportunities if they appear.

As I said before, the financial discipline is a key aspect of our DNA as well, so we will be obviously looking at this very cautiously, but we haven't changed our approach and again if you look at the history of Ultrapar part of the growth that we had happened through inorganic opportunities. So we're not giving that up taking to consideration the economic scenario.

The second question, which is the impact on rising unemployment specifically for Ipiranga. We continue to see, let's say, a stronger correlation when we look at the Otto cycle with the average growth of our fleet. So clearly, when we look at our fleet growing at the pace around 3% to 4% per annum and when we compare to the Otto cycle, we see that the growth is very similar.

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So at this point, the rising unemployment, I mean hasn't changed this trend so far, obviously it's something that we are monitoring very closely. But we haven't seen any specific impact of the rising unemployment related to the overall volume, the volumes that we are seeing at Ipiranga.

Obviously, you probably noticed that in our release, when you look at the mix of the Otto cycle, the mix is different now, right I mean, there has been a growth in ethanol and there is -- has been a decline in gasoline. So this has to do -- this could have something to do with rising unemployment as well, but it's marginal, it's not something, at this point significant. The conversion process, which is the third question of unbranded service stations, historically, the strategy has been to grow through new to -- let say organic investments or Greenshoe investments in new service stations and the conversion of unbranded stations. So historically, this has been 50-50. What we are seeing now is let's say a quicker or accelerating more in the unbranded service stations than investing organically Greenfield in new service station.

So, you could say that at this point, the focus in conversion is bigger, may be because of the economic environment, but this is opportunistic, I mean ideally when you look long-term is a 50-50 strategy, but at this point, the conversion I would say is a little higher than the traditional organic investments.

And last but not least on Oxiteno, we are confident on this new threshold of \$300 per ton, it doesn't seem to be conservative. This is the current level of EBITDA per ton when we take into consideration the current level of exchange rate as well. As you know, this also has some impact when there is major changes in exchange rates, but we're comfortable with this level.

Q - Christian Audi {BIO 1825501 <GO>}

Great, thanks Andre and last follow up changing to the topic of taxation, can you just explain why we saw this pick up on the tax rate this quarter versus the past one?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Christian, those are things that eventually happen one quarter to another I think you should focus more on the long-term trend. Sometimes you have in a specific quarter higher deferred taxes than current taxes, that has to do with our operations overseas, but this is not the trend.

I believe that it's normal to have some differences between quarter to quarter, but when you look over the long period of time there is a stability in terms of the overall tax brackets that we have in our results around the 30% level.

Q - Christian Audi {BIO 1825501 <GO>}

So you suggest that we continue to use 30% longer term?

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Yes, yes.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. Alright. Thank you, Andre.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Welcome.

Operator

Our next question comes from Wesley Bernabe of Banco do Brasil. Please go ahead.

Q - Wesley Bernabe {BIO 17336637 <GO>}

Good afternoon. Thank you again for the opportunities. I have a simple follow-up question from the conference call in Portuguese about Ultracargo. You mentioned that the company is working on with its commission creeping in, and it was mentioned that recovery is expected for the next year, I would like to know if you expect this to happen at the end of the first half or by the end of the year and the second point is about ConectCar. It was mentioned in the event in Portuguese, a kind of cross selling strategy, by which customers will pay you in ConectCar or do you think (inaudible) and you have now more than 500,000 users.

My point is what's the level of growth quarter over quarter in the number of users, since this strategy has started or how this growth best has changed the system? Thank you.

A - Andre Pires de Oliveira Dias {BIO 17698724 <GO>}

Thank you. Wesley. Thanks for the question. On Ultracargo, basically what we said there is that we are going to go through a decommissioning phase throughout 2016 and also what we call a rehabilitation of the terminal. Once this is all said and done and this could take all over a good portion of the year.

We need to get all the licenses from the authorities to start operating. So it's very difficult to give you a specific date when this portion of the terminal would be operated. That's why we are not giving you a date. This could take the good portion of 2016 as a whole.

On ConectCar, I think the cross-selling initiatives that ConectCar has, it's one of its main strategies. Obviously, I cannot give you an estimate in terms of number of users and all the other opportunities, because as we've mentioned as well, we just got a new partner that announced the transaction a couple of weeks ago, so the transaction is undergoing all its authorizations in order to be closed.

I mean it's going to close in the next few months. So once this is all said and done, we need to sit down with our new partner and rediscuss and redesign all the business plan for that joint venture, but it's clear for us obviously that this brings a very interesting opportunity in terms of growth potential for this type of product and this type of business.

Q - Wesley Bernabe {BIO 17336637 <GO>}

Thank you very helpful.

Operator

This concludes the question-and-answer session. At this time, I would like to turn the floor back over to Mr. Mannhardt for any closing remarks.

A - Thilo Mannhardt {BIO 17338806 <GO>}

Okay, well thank you all for participating in the call, and I'm looking forward to the next call, when we announce the results of the fourth quarter of 2015. Thank you very much.

Operator

Thank you. This concludes today's Ultrapar's 3Q15 results conference call. You may disconnect your lines at this time.

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