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UGP - Q3 2004 Ultrapar Participações S/A Earnings Conference Call

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streetevents@thomson.com

617.603.7900

www.streetevents.com

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CORPORATE PARTICIPANTS

Fabio Schvartsman

Ultrapar - CFO, IRO

Americo

Ultrapar - Controlling Officer Ultragaz

CONFERENCE CALL PARTICIPANTS

Brian Singer

Goldman Sachs - Analyst

Joseph Carbone

Ultima Partners - Analyst

Daniella Guanabara

Pactual - Analyst

Emerson Leite

CSFB - Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's third quarter 2004 results conference call. We have also a simultaneous webcast that may be accessed through Ultrapar's website, www.ultra.com.br, where the slide presentation may be downloaded. Please feel free to flip through the slides during the conference call. Today with us we have Mr. Fabio Schvartsman, Ultrapar's Chief Finance 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]. A replay of this call will be available for 1 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. Schvartsman, who will present Ultrapar's results in the quarter and will discuss about perspectives. Mr. Schvartsman, you may now begin the conference.

Fabio Schvartsman - Ultrapar - CFO, IRO

Thank you. Good morning to everyone. It is a pleasure to be talking to you about Ultrapar's results in the third quarter of this year, and I intend to give you some indication of our expectations for the Company's performance as well for the fourth quarter and 2005.

Well, we are pleased that as we anticipated in our last conference call, in this third quarter Ultrapar has reported a very good set of results. Consolidated EBITDA showing an increase of 53% and net earnings up by 71%.

This performance is mainly due to a strong performance of Oxiteno, as a result of several new contracts that we closed, as we had already anticipated in the other conference calls to you; increase in petrochemical prices and obviously the performance in the Brazilian economy.

And besides Oxiteno we had very solid results for Ultragaz, as we planned, obtained through the additional volume from Shell Gas and benefits from economies of scale.

In the first 9 months of the year, the Company has reported an EBITDA of BRL551 m or 10% above the EBITDA of the whole year of 2003. This has confirmed the good momentum for our businesses and so established a new level of earnings at Ultrapar.

Talking about our businesses, starting with Ultragaz. We had a regular third quarter in the gas business and in the country. The market in the year to September has grown by 3%, due mainly to recovery in [the total] incomes and regular stability in LPG prices.

The volume of LPG sold by Ultragaz increased 19% in the year or 6% in the quarter, principally due to the acquisition of Shell Gas in August last year.

With regard to cash generation, Ultragaz has already accumulated an EBITDA of BRL205m or approximately the

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same level of EBITDA that Ultragaz has delivered in the whole year of 2003.

Oxitenó has shown a very positive volumes performance, mainly through the new contracts, higher concentration of chemical specialty sales, growing in the Brazilian economy and of course our operations [indiscernible]. In addition, the increase in the prices of petrochemical commodities has minimized the impact of rising oil prices and is consequently back in the prices of our raw materials.

In terms of investments, we are now accumulating BRL195m of investments up to September and we are planning to close the year around BRL240m, it just was exactly the forecasted figure for our investments this year.

Well, let's talk a little about our expectations for the next quarter. As you all know, the fourth quarter for Ultrapar businesses is always the lowest in seasonal terms. Meaning that it's not reasonable to expect the same kind of results that we had in the third quarter. But it's reasonable to expect the same kind of growth in results that we have shown in the comparison, year against year. Meaning that in the fourth quarter we expect that our EBITDA will grow in line with the growth in the third quarter of this year in comparison to last year.

Well, in terms of 2005. As you know, it's a little bit early to talk about 2005 results because we are still on our budget process. Nevertheless, all the indications that we have so far are very strong businesses in all of our business lines. Especially in Ultracargo, we will have the start up of the Santos Terminal that will start operating with a very reasonable capacity utilization and will add meaningfully for the results of Ultracargo.

The petrochemicals and the gas business will benefit from the continuity of the growth of the Brazilian economy and of the recovery in the income of the population, specifically for the gas business. Therefore, we are very confident that Ultrapar is poised to keep on delivering on average an EBITDA growth of 30% per year.

That's basically what we have as initial remarks. And now we are ready to take all of your questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our first question is coming from Brian Singer of Goldman Sachs.

Brian Singer - Goldman Sachs - Analyst

Hi Fabio. Your margins in LPG rose again during the quarter. Have you seen any increased competition from Petrobras? And how do you expect that, if at all, to impact margins in -- at Ultragaz going forward?

Fabio Schwartsman - Ultrapar - CFO, IRO

Good morning Brian. I will turn you to Americo, that's here with us, as you know. He is the Controlling Officer of Ultragaz and he will take your question.

Americo - Ultrapar - Controlling Officer Ultragaz

Hi Brian. We haven't seen any change in the market due to the acquisition of the LPG operation of Liquigas by Petrobras up to the moment. It also has another transaction during this quarter, that was the SHV. But so far nothing has changed in terms of competition due to these 2 transactions.

Brian Singer - Goldman Sachs - Analyst

That's helpful. Fabio or Americo, could you talk about any further international expansion plans that you may be looking at?

Fabio Schwartsman - Ultrapar - CFO, IRO

Well, as you know, in terms of Brazil, Brian, we are exactly with the same -- with the scale that we would like to have. Therefore, if we are to expand this gas business, it will be outside Brazil. Nevertheless, at this moment we don't have any particular investments being persecuted. Therefore, I cannot anticipate in the short period of timing that [indiscernible] internationally in the gas business.

Brian Singer - Goldman Sachs - Analyst

Right. Thank you very much.

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Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our next question is coming from Joseph Carbone(ph) of Ultima Partners.

Joseph Carbone - Ultima Partners - Analyst

Hi Fabio. Congratulations on a fantastic quarter. Can you hear me?

Fabio Schvartsman - Ultrapar - CFO, IRO

Yes, yes we can. Thank you.

Joseph Carbone - Ultima Partners - Analyst

Listen, I just -- my questions were about CapEx in 2005. I was just wondering if you're still going forward with that \$80m investment project and if you can give me a sense of what your CapEx looks like for next year.

Fabio Schvartsman - Ultrapar - CFO, IRO

Okay. Joseph, thank you for your remarks but in terms of investments for next year, we are still preparing our budget at this point. Nevertheless, we already know that our investments will grow in the petrochemical division. We are planning to invest in a chemical specialty plant for ethoxylation and for a new line of chemical specialties. Both together will represent an investment during 18 months of approximately \$120m. Therefore, we think that you can expect Oxiteno total CapEx to be next year between \$80m and \$100m.

The gas business, here we have basically maintenance CapEx and the cargo business will be finalizing this cycle -- the first cycle of investment preparing the new one. Therefore, the investments will probably be lower than this year.

Of course all these remarks are not including acquisitions.

Joseph Carbone - Ultima Partners - Analyst

Right, exactly. And in terms of the petrochemical business, how much -- it was a spectacular quarter. If I'm not mistaken, the EBITDA margin came down a touch in this quarter and I was just wondering, is that the result of pricing? And I just

wondered if you could give me some view -- your view on what you expect your petrochemical prices to be going forward, if there's going to be much change or if you expect them to hold up.

Fabio Schvartsman - Ultrapar - CFO, IRO

Well Joseph, it's important that you give me the opportunity of mentioning that with your question, because in fact we have a specific factor that was different in the third quarter. If you notice carefully, we had already anticipated that during the second quarter. In fact, a number of exports that Oxiteno would do in the end of the second quarter were eventually postponed and they were only exported on the third quarter. And therefore the effect was a huge volume that was sold during the third quarter but this is not a regular volume of Oxiteno.

As we have this component of extra exports, the combination was this very slight reduction in margin that you mentioned.

Joseph Carbone - Ultima Partners - Analyst

And pricing going forward, do you expect it to remain robust?

Fabio Schvartsman - Ultrapar - CFO, IRO

Very strong. Very strong. To give you some figures, the glycol prices are around \$1200 per ton today against \$700 in November last year. And they are still growing up -- going up, sorry.

Joseph Carbone - Ultima Partners - Analyst

Well thank you very much. Congratulations on a good quarter.

Fabio Schvartsman - Ultrapar - CFO, IRO

Thank you.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our next question is coming from Daniella Guanabara of Pactual.

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Daniella Guanabara - *Pactual - Analyst*

Fabio, good morning. My question is about Canamex. What is your current utilization capacity rate? And the expectation for 2004 -- 5, sorry? And how's your level of exports to the US?

Fabio Schvartsman - *Ultrapar - CFO, IRO*

Okay. Well, I'll try to address this the best I can but when we bought Canamex in 2003, Canamex had sales of less than \$20m. Our forecast for 2005 is close to \$40m. This will imply twice as much volume as well. Therefore the capacity utilization is growing from 20 something to close to 50.

Daniella Guanabara - *Pactual - Analyst*

Okay. And what about the export level to the US?

Fabio Schvartsman - *Ultrapar - CFO, IRO*

I'm sorry, I don't have this figure here. But they used to be like 10 to 15% of the total volume of Canamex. And [I'm prepared] I don't have any information that's different from that. I think it remains on this ballpark.

Daniella Guanabara - *Pactual - Analyst*

Okay, thanks.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. Our next question is coming from Emerson Leite of CSFB.

Emerson Leite - *CSFB - Analyst*

Hi Fabio. A question I have is on the Ultragas side. Should we assume that the synergies from the acquisition of Shell Gas are already fully incorporated for 100%? And now going forward, the improvements if any will come from the volume perspective, not any more from cost improvements?

And second, in relation to your project submitted for the appreciation of Petrobras for a new refining complex and a potential new ethylene producer. Could you discuss a little bit more with us your thoughts on this project? Why do you think it is interesting and why it has good economics, and if

eventually that would mean some potential investments by the Company or not?

And third, could you comment on the impact in terms of revenues from the start up of the expansion of the terminal of Santos for 2005?

Fabio Schvartsman - *Ultrapar - CFO, IRO*

Okay. Emerson, thank you for your questions. Starting with the gas business. I think that you're mostly right. The synergies from the acquisition of Shell Gas are basically incorporated into our figures but I would like to reinforce that our project now is that we are investing less in the expansion of the gas business in Brazil. And therefore we are much more focused in enhancing the productivity of the existing assets of Ultragas, and that is coming after 4 to 5 years of large investments. Therefore I would say that we will have a lot of room for improving in our productivity, therefore for improving our EBITDA, without further investments.

Well, now speaking about the petrochemical project with Petrobras. Just as you suggest, it is a large one. I think -- the opinion of our company is that it makes a lot of sense for the country because, as you know, Brazil has a lot of heavy oil. This heavy oil is exported with a meaningful discount to the light products, and Petrobras is willing to find utilization for this oil in Brazil. And on the other hand, the forecasts are that if Brazil keeps on growing during the next few years there's going to be a scarcity of specialty ethylene.

And therefore this project addressed simultaneously both of those things - the utilization of this abundant raw material and this scarcity of ethylene. Given that fact, the investment makes a lot of sense. It's a long, long range investment because it will start only after 2010, and at this point it's very difficult to say which it will be overall. Nevertheless, it's quite obvious that if this project turns out to be a very profitable one, we would like to have the biggest role possible. If not, we are not going to be interested in the investment because the reason for this project is because we think that we can collect a good return on the investment that will be made.

Nevertheless, as we are in 2004 and we are talking about a project that would start after 2010, we don't have details to give you. During 2005 the discussions and analysis will go ahead and eventually during the year we will have a more detailed position about this project to deliver to the market.

About your third question, the Santos Terminal. The Santos Terminal will add in 2005 roughly BRL20m and roughly BRL8m of EBITDA, and these are approximate figures, of course. And it will grow -- the sales will keep on growing by another 50% in the next 2 years and will more than double during the next few years.

Emerson Leite - CSFB - Analyst

Okay. Thank you Fabio.

Fabio Schvartsman - Ultrapar - CFO, IRO

Thank you.

Operator

Thank you. [OPERATOR INSTRUCTIONS]. There appear to be no other questions at this time. I'd like to turn the floor over to Mr. Schvartsman for any closing remarks.

Fabio Schvartsman - Ultrapar - CFO, IRO

Once again, thank you very much for joining our conference call about the third quarter results. The third quarter results were very good and we are very confident the fourth quarter will keep on being very good. And it's a very happy moment for us because after 5 years of becoming a public company we have been delivering a very strong performance and even more important, a very consistent performance during this last year. And I hope that I'll be with you during the next conference call, once again delivering information about our results. Thank you.

Operator

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

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