



Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 2Q11 results conference call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ri, where the presentation is available for download. Please feel free to flip through the slides during the conference call.

Today with us we have Mr. André 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 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. Should any participant need assistance during this call, please press *0 to reach the operator.

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 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.

André Covre:

Good morning and good afternoon, everyone. It is a real pleasure to be here today with you to discuss our performance in the 2Q. We are particularly pleased as we complete in this quarter our 20th consecutive quarter of earnings growth of Ultrapar.

Before we talk about the results, I would like to draw your attention to some information included in slide number three, which highlights the criteria adopted for the financial information including in this presentation. As established by the CVM, the adoption of IFRS became mandatory in the financial statements for the year 2010 onwards, and therefore, the figures in this presentation are compliant with IFRS.

Moving to slide four, this slide attempts to bring context to our earnings progression during our economic operating environment. As you can see in the graphs presented, Brazilian GDP continues to grow but at a slower pace. In our view, this is a consequence of a more adverse international economic environment and the successive increases in interest rates aimed at controlling rising inflation.

Economic slowdown has had a lower impact on sectors more directly linked to consumption, mainly as a result of favorable conditions in the labor market. For example, the consumption of



durable goods presented strong growth. Sales of light vehicles increased 10% in the 1H11 compared to the same period last year.

At the other side, the high level of interest rates and the Brazilian economic growth have been contributing to the increased inflow of funds to the Country, and therefore, strengthening of the Real, which finished the quarter 11% stronger than the average exchange rate of the same period of 2010.

Slide five, let us talk about our main highlights in this quarter. We believe that reporting 20 quarters of EBITDA growth does not happen by chance. We are talking five complete years of quarterly growth, which happened through different economic cycles. For example, our earnings increased even during the most critical period of financial crisis in late 2008, early 2009, demonstrating the resilience of our businesses in periods of economic slowdown.

On the other side, EBITDA and earnings grew by 24% and 74% in 2010 respectively, when the Brazilian GDP presented a strong growth of 7.5% demonstrating that our businesses are leveraged on the growth of the Brazilian economy. This growth, which is resilient and continuing for the last five years, reflect the consistent planning and execution of our strategy, always focused on value creation.

Our EBITDA totaled R\$503 million in the quarter, up 8% in relation to last year. Such EBITDA growth contributed to net earnings and net income of R\$215 million in the quarter, 12% higher than last year. This good performance coupled with the sound financial position of the Company, allowed a dividend payment of R\$252 million, equivalent to \$0.47 per share, representing a 3.5% annualized dividend yield over the average Ultrapar share price for the 1H11.

Another important highlight in the 2Q was the approval of the new corporate governance structure in the Shareholders' Meetings held on June 28th. Upon the approval of the transaction, we started to work on the necessary steps to convert the preferred shares into common shares and becoming a part of Novo Mercado. These events will take place in a few days' time on August 17th, and on the same day the new bylaws will become effective. Everyone will have to say goodbye to ticker UGPA4 that will become UGPA3, which means that the shares are common voting shares.

Moving now to slide six, to comment on the performance of each one of our business units. In this quarter, as previously expected, volumes continue to present positive progression, with an 8% growth over the 2Q10. This volume growth was higher than the 3% market growth, and it is a consequence of the investments made to expand the network and capturing market from the unbranded gas stations.

The volume sold of fuels for light vehicles grew by 7% over the same period last year. This growth is derived from two factors. Firstly, the growth of the light vehicle fleet, which we estimate to have been around 8% in the period. This was partially offset by an increased share of gasoline in the sales mix. Second factor was the increased investments made to expand the network in the North, Northeast, and Midwest of Brazil, investments that have allowed growth above that of the market. They include the acquisition of DNP, concluded in late 2010, as well as the conversion of unbranded service gas stations and new service gas stations.

The growth in the fuels for light vehicle in gasoline equivalent mix, meaning taking away the effect of the change in mix between gasoline and ethanol was 11% over the 2Q10.



Our diesel volume grew by 10%, as a result of the economic growth and the investments to capture new clients. With the benefits of volume growth and consequent increased operating leverage, combined with increased share of gasoline in sales mix, Ipiranga's EBITDA amounted to R\$308 million in the 2Q11, 15% higher than last year. This has led to an EBITDA margin of R\$57 per m³, higher than the R\$54 per m³ in the 2Q10, and in line with the margin of the 1Q.

For the current quarter, we expect trends to continue. Our estimate at this moment is a volume progression similar to the one we saw between 2Qs, based on the same growth drivers that we have seen so far. And finally, we expect EBITDA margin per m³ to have the same level as the one we had on the 2Q.

Moving on to our other distribution business, Ultragaz, in slide seven, we posted an increase of 2% in volumes over the 2Q10, growth obtained both in bottled and bulk segments, and in line with market growth.

EBITDA amounted to R\$79 million, a small 5% decrease in relation to last year as a result of the effects of inflation on costs and expenses, and the startup of two new bottling facilities in the State of Espírito Santo. These bottling facilities are currently in a maturing process, and therefore do not generate the underlying benefits. For the 3Q, we expect continuation of the scenario we saw in the 2Q, with similar volume progression and similar level of profitability.

Coming to Oxitenon on slide eight, the volumes sold in this quarter decreased by an overall 13%, mainly as a result of higher spot sales of glycols in the 2Q of last year and the de-stocking process in Oxitenon's customers due to the economic slowdown. In spite of the decrease in sales volume and the Real 11% stronger, we have excellent results in the quarter, better even than the indications we had, when we released the 1Q results.

In the beginning of the 2Q, when we had our last conference call, the scenario indicated that the good conditions experienced in some segments during the 1Q were about to gradually slowdown in the 2Q. However, it did not happen in the quarter and it was one of the main drivers of the great Oxitenon performance, leading to an EBITDA of R\$80 million.

Looking into the 3Q, in the domestic market, we begin to see a lower effect of the adjustment on our customer's inventories and therefore we expect now stable volumes in the domestic market compared with the volumes of the 3Q.

For the sales outside Brazil, mainly exports, we expect still a decrease over the last year on the 3Q, part as a result of the global economic slowdown, and part as a result of the stoppage at the Camaçari unit for a period longer than expected. As we had previously announced, certain units at Camaçari stopped this quarter to allow the conclusion of the last phase of our capacity expansion plan.

Regarding the EBITDA for the current quarter, the slowdown of the excellent moment we had in the 1Q11 instead of having the expected gradual effect in the 2Q, it is now having a very accelerated and sharp effect in the 3Q. This accelerated decrease also had some effects on our inventories, especially raw material inventories of the units in Camaçari that are stopped for longer period than expected. Therefore, Oxitenon's margins in USD, which were above a normal level in the 2Q, are expected to be lower than normal level in the 3Q.



Talking now about our storage facilities business, Ultracargo, we had a record level of 95% utilization of average storage in the quarter, 8% higher than in 2Q10. This is due to the increased handling of products in the Suape and Santos terminals.

In relation to our results, Ultracargo's EBITDA was 8% higher than 2Q last year as a consequence of the average storage, which was 8% higher as well. Our results would have been even stronger because the benefits of the average storage growth were partially offset by the effects of the sale of the in-house logistics, solid bulk storage and road transportation business in the end of the 2Q.

For the quarter underway, we expect earnings progression stronger than the one we had in the 2Q. As in the 3Q, we will be comparing with a normalized quarter in which we did not have anymore the businesses that we sold.

Coming to the last slide, I would like to share with you a longer-term view of the businesses beyond the current quarter. Now also talking about the perspectives of the economic environment that I presented at the beginning of the conference call and the way it interacts with the profitability of our business.

At Ipiranga, the investments made under implementation for the expansion of the distribution network will continue to drive the volume growth of fuels for light vehicles above the market growth. In addition, even with a recent trend of lower economic growth, we have solid reasons to believe in the continuity of the fleet expansion as a consequence of the number of light vehicles that have been added to the fleet.

July year-to-date, almost 2 million new vehicles were licensed in Brazil or a fleet of slightly below 30 million vehicles. This already allows us to envision the few market growth for the year 2012, even if a more severe crisis was to come.

At Ultragaz, investments in expansion in the bulk segment should reflect in new clients and therefore higher volumes for this segment. The other side in the bottled segment, even with more adverse economic conditions, it will be little affected due to its very resilient nature.

Oxiteno concludes in this quarter an important investment cycle, this will contribute to higher volumes in the next few years and increased production flexibility. As a consequence Oxiteno will be able to optimize its production according to the demand of different segments it serves and it will benefit from the growth of the Brazilian market in the coming years.

Ultracargo will continue to capture the results from the investments in expansion, particularly in the Suape terminal, which is expected to start operations in September, adding 26,000 m³ to the storage capacity of the Company. We still have expansions underway in the terminals of Santos and Aratu.

Well, looking at an even longer period, I would like to highlight some of the motivations for our new corporate governance structure, which includes the conversion of all preferred shares into common shares on a one-to-one ratio and our participation in the Novo Mercado with new bylaws that attempted to incorporate all the best elements in corporate governance available in the United States, Brazil, and Europe.

We designed this new corporate governance to deepen the alignment of interests, something that has been the basis of our value creation mentality leading to very careful planning and execution of our strategy.



Additionally, the new structure provides an increased investment capacity and allows us to pursue even more ambitious projects. This will contribute to the continuity of our value creation path aiming at repeating in the future a total shareholder return of 22% a year that we have presented since the IPO, in 1999.

Thank you very much for your attendance and your patience. I look forward to any questions you might have.

Gustavo Gattass, BTG Pactual:

Hi guys, I just had a follow-up question from a conversation on the previous call. But I was just wondering, could you elaborate a little bit on this change in margins in Oxitenó, effectively what the components are, if it is basically lower prices, higher costs, just higher costs associated to having more or less of an operational leverage?

And effectively, how you see it playing out for next year? Is this something that could have a negative impact or is it much more technical about just going back to the adjusted margin that you guys were looking for?

André Covre:

Well, first of all, thanks for your attendance again. So, it is always good to have you with us, Gattass. The margins in Oxitenó are passing through a moment where we had some very good things and these things are getting reverted. They mean nothing about structural margins, structural future, sustainable margins.

In short, it is just two effects. First, as it happens from time to time, supply and demand of certain products gets tight. If you are in a position to supply, you sell as much as you can on that segment, and the overall mix improves; that we had in the 1Q.

We had in the 2Q that imbalance in the supply and demand going away, and we should go back to normal margins. Now, we are going to be below normal margins on the 3Q, because when that imbalance is corrected in a very fast pace, which is happening now, and your plants are stopped for a longer period than you imagine, you have also an inventory effect. Mainly in this case, it is mainly raw materials. That is why margins will be lower than a "normal margin".

None of these things are structural. They are situational. They will happen from time to time, and we will make always our attempt to capture the best of it and not to have any of the negatives of it. The negatives come basically from having to stop the plants from time to time, something that we will have to do less frequently from now on, because with the expansion programs, every time you do one, in one plant, you have to stop it. So, we have had many stoppages on the last two years. We have a lot less going forward because the expansions are now finished.

Gustavo Gattass:

OK. But let me just understand then, the mechanical drivers here, André, if I got it correctly, were you are probably seeing a lower market price for the product that you are selling in the 3Q, and given that your costs are pretty much flat because of having your plants stop because of inventory, you are seeing a margin compression because of pricing. Is that the correct way of thinking about it?



André Covre:

That is the correct way of thinking and that is the effect that causes margins to be lower than normal.

Gustavo Gattass:

OK. All right. Perfect. Thank you.

Christian Audi, Santander:

Thanks. Hi, André. Couple of questions, the first one is a very quick one. On Oxiteno, I know, as you explained in the Portuguese conference call, imports are not significant in the segment because of the specialty nature of your products, but can you give me a sense of what imports percentage-wise were of the markets in the 2Q and how that number changed versus the 1Q?

André Covre:

Christian, I do not have that information, because that is basically an informational market share in Brazil, and that is not available on a quarter-by-quarter basis. I can tell you that on average, we have between 70% and 80% market share on the products that we sell, and the effect of higher imports competing with us, I have to stress again, was very small because they only affect us on the products where we have a bigger component of commodity lower value-added products.

Christian Audi:

OK. And the second question is more a big picture one. In a scenario of a lower-than-expected growth in the economy not only globally, but in Brazil as well, so forget 3.5% GDP growth, it goes below that. Can you rank among the four businesses that you have in your view which ones get most affected by a more severe slowdown and which of the four get least affected, please?

André Covre:

Well, the parts of our businesses that are directly linked to GDP are diesel sales in Ipiranga; that is about half of the volume. The bulk segment in Ultragaz; that is about 30% of the volume. The domestic sales of Oxiteno; they are all linked to GDP. Now, that is about it.

Then if we have parts of the business that are not linked to GDP and some of them present strong growth despite of GDP, some of them are very resilient to GDP. So for example, the other half of volume of Ipiranga, the gasoline and ethanol is linked to the size of the fleet. And as I have shown the fleet continues to grow and continued to grow even during the period of economic instability.

Christian Audi:

And what growth are you using for the remainder of the year in terms of the economic growth in your budgets and for 2012? What are your expectations given all that you are seeing right now in the market in terms of Brazil and domestic GDP growth for budget purposes?



André Covre:

My crystal ball is not any better than yours, I think, and the consensus of the market. So, we do not take views that are different than the rest of the market. But, again to stress and complement the answer that I was giving, we do worry about it.

But, there are large parts of our business which are not directly linked to GDP. So for example in Ipiranga, I was saying about half of the volume is diesel, that is GDP, half of the volume is related to the continued growth of the fleet, but in profitability, the participation of ethanol and gasoline is bigger than the 50%.

In Ultragaz, 70% of the volume is for consumption of households, even with the most severe crises that does not get affected. And then finally, in Ultracargo the experience we have is that the Company's volumes grow when the economy grows because everyone is importing and exporting more goods. And when there is instability, people need space to put their inventory so we have our tanks full.

So we have a great combination of resilience and leverage on the economy, which make us have great performance when the economy goes well; that was the example last year. And we also have positive growing results when the economy does not do well.

So, all of that to say we do not put great time into determining forecasts for GDP because it is an important variable, but it is not a fundamental variable in our business. And as I joked our crystal ball is not better than the market's crystal ball.

Christian Audi:

Right. And then a very last question, André. The Company has changed a lot obviously since 2008, but what are the main changes that you think since 2008 when we had a crisis in the market that put pressure across that board? What are the key differences or changes that Ultra has gone through that you think better prepared it to deal with a more bearish scenario now in 2011?

André Covre:

Well if I had to single out one, is that we have —

Christian Audi:

It has to be more than one, sorry, I just meant like the main ones in your opinion.

André Covre:

OK, so starting with probably the biggest one is the fact that we acquired Texaco since then. And that has made our Ipiranga business stronger with a 22% market share, solidifying its position as the second player in the market, having met our scale and therefore being stronger to face even the most severe downturns of the economy.

The other one that I would say is that we are in a financial position even better than we were in 2008, we do not have any important debt maturing within a year. And our average cost of debt currently is around CDI, which makes our cost of carrying the debt basically zero. So, the financial flexibility that we have to weather any very severe crisis is not costing us anything.



Christian Audi:

OK, great. Thanks for the help.

Operator:

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

André Covre

Well, thank you very much for your attendance. Thank you, Gattass and Christian, for the questions, I appreciate it. And we look forward to having you with us on our next results, 3Q results. Thank you. Have a good day.

Operator:

Thank you, this concludes today's Ultrapar's 2Q11 results conference call. You may disconnect your lines at this time.

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