



Operator:

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Ultrapar's 2016 and 4Q16 Results Conference Call. There is also a simultaneous webcast that may be accessed through Ultrapar's website at www.ultra.com.br/ri and Engage-x platform. Please feel free to flip through the slides during the conference call.

Today with us we have Mr. Andre Pires, 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 an 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 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. Pires. Mr. Pires, you may now begin the conference.

Andre Pires de Oliveira Dias:

Well, thank you very much. Good morning, everyone. It's a great pleasure to be here to discuss Ultrapar's fourth quarter and full year 2016 performance. Some of my colleagues from our businesses and from the IR team are also here to help me answering your questions.

Starting with slide number three, when we're going to discuss the performance of 2016. I'd like to start emphasizing that Ultrapar reached another year of earnings growth in 2016, despite the challenging economic environment we faced in Brazil. The resilience of our businesses, the execution capacity of our teams, the investments and our focus on differentiation and innovation, all contributed to the continuation of our growth and value creation.

In 2016, we reported the consolidated EBITDA of R\$4.2 billion, an increase of 7% year-on-year. Net earnings reached R\$1.6 billion, up 4% from 2015. Consistent earnings growth and consequent cash generation once again allowed us to increase dividends.

The Board approved dividend payments of R\$472 million for the 2H of the year equivalent to R\$0.87 per share. As a result, the accumulated dividends declared in 2016 reached R\$907 million, in line with the growth of our earnings in 2016. The annualized dividend yield is 2.5%, considering the average share price in 2016, and the payout ratio is 58%, same levels of recent years and an indication of our confidence on our results and performance going forward.



In 2016, we analyzed and executed various initiatives and projects that allowed us to pave new avenues of growth for our businesses. Working diligently and as a solid business model, we announced three important transactions. We signed a sale and purchase agreement for the acquisition of Alesat in the fuel distribution business and Liquigas in LPG distribution, both pending approval from the Brazilian antitrust authority.

We also announced the creation of the new lubricants business with Chevron, just being approved recently by the same authority. We are convinced of the benefits this operations will bring to Ultra and to Brazil. We also announced a robust organic CAPEX plan worth R\$2 billion in 2017. This is a clear demonstration of the continued opportunities for growth in both scale and productivity as well as for the modernization of existing operations.

Our growth was followed by a return on equity of 19% and by the maintenance of our financial soundness, a characteristic the company cultivated over many years. Net debt to EBITDA ratio remained at historical levels of 1.36x.

Let's move on now to slide number four and talk about Ipiranga. During our last call in November, I mentioned that one of the growth drivers of Ipiranga would be the acceleration of the expansion of our service station network, which should bring benefits as these investments mature. Our network grew by 5% in 2016, thanks to our investments in converting unbranded gas stations and opening new ones. In 2016, we had a gross addition of 453 new service stations throughout Brazil. That's more than one service station per day. And we finished the year with a total of 7,563 service stations.

Ipiranga's strategy based on differentiation, innovation and convenience, both hand in hand with the accelerated expansion of the network. A good proportion of the new service stations also included differentiation initiatives which strengthened ties with our resellers and clients. In 2016, this strategy was put into practice to an investment in 256 new am/pm convenience stores, which are now part of nearly 30% of our network, 128 Jet Oil units, 163 bakeries and 138 Beer Caves among other initiatives.

Earlier this month, we held our annual resellers marketing convention, which brought together more than 6,000 people, the largest participation in history. They had the opportunity to get to know our marketing plan for 2017, as well as new differentiation and innovation initiatives. Following the trend of the last few quarters, Ipiranga posted a 9% decrease in the overall volume in 2016 compared with 2015.

Fuel sales volume for light vehicles, the auto cycle, declined by 9% in line with the drop in diesel volumes, both the reflection of the economic situation, deterioration of the employment rates, a reduction in disposable income and low growth on the light vehicle's fleet by 2%.

More specifically in the 4Q16, diesel sales fell 19% year-on-year, reflecting a reduction of market share in wholesale segments. Sales for light vehicle segment in the fourth quarter of 2016 fell by 8%, affected mainly by the same factors mentioned previously. In this context, in 2016, we reported consolidated EBITDA of R\$3 billion and a 11% growth over 2015.

In the fourth quarter of 2016, Ipiranga's EBITDA reached R\$863 million, almost stable compared on a year-on-year basis. I'd like to remind you that in the 4Q15, we had an extraordinary inventory gains, while in the 4Q16, Petrobras announced three cost adjustments in oil derivatives, two reductions and one increase in December.

After upward and downward moves, the cost of diesel fell, while the gasoline costs remain at the same levels. For the current quarter, the operating environment and EBITDA variation



should stay largely in line with the preceding quarter. It is important to highlight that the accelerated expansion of our service station network should impact throughout 2017.

Now moving on to Oxitenó in slide number five. For the full year of 2016, sales volume increased by 2% over 2015. Breaking down these results, volume of specialty chemicals was 1% down, as a consequence of the weak economic activity in Brazil; commodity sales, however, rose by 17% on the same comparative basis, which helped to achieve greater efficiency in the capacity utilization and dilution of costs at the plants, especially in the 1H16.

In spite of the weaker real, average exchange rate movements in opposing directions in 2015 and 2016 were unfavorable to Oxitenó. In this comparison, FX rates in the beginning of 2015 was to R\$2.66 per USD and ended at R\$3.90 while 2016, began at R\$3.90 and closed at R\$3.26 per USD.

The same movement in exchange rates occurred in raw materials, mainly the palm kernel oil, where cost movements were favorable in 2015, but unfavorable in 2016. The price of palm kernel oil practically doubled from 2015 to 2016 with a significant effect on the Home & Personal Care segment. Considering all these effects, EBITDA reached BRL459 million in 2016, 38% less than in 2015.

In the quarter -- in the fourth quarter of 2016, sales volume increased by 4% compared with the fourth quarter of '15. Specialty chemicals volume was up by 6%, with a 4% increase in the domestic market. The fourth quarter of 2016 was the second consecutive quarter of growth in this segment, indicative of the gradual recovery trend for the Brazilian economy.

The agrochemical, automotive fluids and coating segments were the highlights. On the other hand, commodities reported a negative variation of 8% in sales volume due to a scheduled maintenance stoppage at the Camaçari petrochemical complex in November of 2016.

Despite the higher volumes sold in the 4Q16, the effect of the R\$0.55 stronger real over the US dollar coupled with a significant increase in the cost of certain raw materials, resulted in an EBITDA of R\$45 million, down 75% compared to the fourth quarter of 2015.

In the first quarter of 2017, we expect continuous growth for specialty chemical sales in the domestic market for the third consecutive quarter, in line with the slight recovery of the Brazilian economy. However, the dynamics of price of raw materials and foreign exchange levels continue to pressure our margins.

Moving on now to Ultragaz in the slide number six. Ultragaz continued to outperform the market, despite a weak economy. In the first quarter of 2016, consolidated sales volume increased by 7% on a year-on-year basis. Similar to previous quarters, this growth reflects investments made to add new resellers in the Bottled segment, which showed a 6% growth in volume and to capture new clients in the Bulk segment with an 8% rise in the period.

For 2016, Ultragaz reported a year-on-year volume growth of 4%. Together with discipline in cost management in the past few years, Ultragaz has evolved to a more differentiated approach to initiatives that enhance service quality and consumer confidence.

Ultragaz's EBITDA increased by 12% in the fourth quarter of 2016 to R\$122 million. EBITDA for the full year grew by 25% over 2015 reaching BRL447 million. For the current quarter, we expect EBITDA level similar to the last few quarters. It's important to highlight that the first quarter is normally bring lower volume from a seasonality impact.



Moving now to slide number seven, talking about Ultracargo, which is our liquid bulk storage business. Ultracargo's average storage increased by 11% compared to the 4Q15 and 3% compared to 2015. This was largely due to increased handling of fuels at the Suape, Aratu and Santos terminals. Ultracargo reported EBITDA of R\$74 million in the 4Q16, an increase of R\$61 million compared to the fourth quarter of 2015, mainly due to the growth in average storage and in average tariffs at all the terminals.

In addition, in the 4Q16, we recognized revenues from insurance payments of R\$74 million and expenses of R\$23 million, all related to the fire insurance. Excluding the Santos operations, the other Ultracargo terminals recorded 24% increase in EBITDA in the fourth quarter 2016. For 2016 as a whole, Ultracargo's EBITDA was BRL171 million, an increase of R\$145 million compared to 2015.

In addition to the effects on results, it is also important to highlight the effects of our negotiations with the insurance companies that impacted only the balance sheet described in our financial statements. We continue to implement the commissioning plan and expect resuming activities by the middle of this year in the part of the terminal in Santos that is still currently suspended.

Excluding Santos operations, EBITDA for the current quarter will be in line with recent quarters and we will incur expenses related to the resumption of activities in Santos.

Moving on now to slide number eight and talking about Extrafarma. Extrafarma ended the fourth quarter of 2016 with 315 stores, which corresponds to a net increase of 61 stores or 24%, when compared to the end of the fourth quarter of 2015. Throughout the year, gross additions to the network reached 71 stores, 27 in the first half and 44 in the second half, mostly in the Northeast region. At the end of the fourth quarter of 2016, 45% of all the stores were in the maturing phase. This compares with the 37% at the end of the 4Q15.

Extrafarma's gross revenue increased by 28% compared to the 4Q15, mainly due to the increased average number of stores and 21% growth in the same-store sales. For 2016, gross revenues at Extrafarma rose by 18%, also a reflection of the growth in number of stores and same-store sales. According to Abrafarma data for this sector, market sales growth was 8% for the quarter and 11% for the year.

Extrafarma's 4Q16 EBITDA reached R\$13 million, 52% growth on a year-on-year basis. This was mainly due to increased revenues and initiatives to raise the retail management standards. These effects were partially offset by the larger number of stores still ramping up in 2016. Extrafarma's EBITDA increased by 29% to R\$37 million.

For the current quarter, we estimate an EBITDA at the same level of the previous quarter. Nevertheless, it should be impacted by some non-recurring expenses related to the transfer of our distribution center from Belem to a new one in a neighboring town with better logistics conditions and also more modern equipment, as well as to some severance expenses.

Now, moving to slide number nine and talking about priorities and outlook for Ultrapar. We recently announced our R\$2 billion investment plan for 2017. This is a further indication of our confidence in continued growth opportunities for both increasing scale and productivity, as well as for the modernization of existing operations.

Among the main growth initiatives, we mentioned at Ipiranga, a more accelerated expansion of the service station network, at Oxiteno further internationalization of investments with the ethoxylation plant in the United States; at Ultragaz, the focus on differentiation, at Ultracargo, the expansion of Itaqui port terminal; and at Extrafarma, our continuous focus



on accelerated expansion of the company and improvements on the retail pharmacy management.

Additionally, as discussed at the beginning, we are confident in the benefits that the true strategic initiatives currently being examined by the anti-trust authorities will bring to Ultra as well as to our specific industry sectors and to Brazil. We've also seen signs of a gradual recovery in the economy and this should benefit our businesses more closely correlated with the GDP.

With that, I conclude the presentation and are available for any questions you might have. Thank you very much.

Frank McGann, Bank of America:

OK. Thank you very much. I have two questions if I could. One is just on Ipiranga. You've done an excellent job keeping margins very strong. So I was just wondering what types of – in the current weak environment that you're seeing, I was just wondering what types of pressures you're seeing either from a cost side or relative to the weak demand that might make it more difficult going forward to sustain those margins or what trends you're seeing that could affect those?

And then secondly in terms of Extrafarma, in terms of going forward and continuing to expand the network, you mentioned the 45% of stores are in the mature phase. When do you think you pass kind of over some point – I don't know what percentage it would be, where the net positive effect of being in the mature phase with a little bit better cost sales mix begins to offset or be more than the period where you're having more that are immature and that have less favorable economics?

Andre Pires de Oliveira Dias:

Hi, Frank. Thanks for the questions. Well, starting with Ipiranga, I mean, we continue to focus on the implementation of our business model throughout our network. I think there are some specific points that are worth noted when we look at the recent performance. One is the pace of the expansion of our network. I mean, we finished 2016 opening 453 new service stations, which represents 333 net additions to our network. So the implementation -- and in most part of the cases, this expansion basically had convenience included. Our convenience penetration is now at 30% versus 23% a year ago for example.

In addition, out of the 453 openings, 70% of those were basically branding unbranded service stations, which normally brings a better return on invested capital than when you open a new one.

So, as for the margins, obviously we have to bear in mind that the 4Q normally is a quarter that you have from a seasonality point of view a level of EBITDA margin per m³ that is higher than the average of the year. When we look at the average EBITDA margin or EBITDA in reais as per m³ for 2016, which was R\$131 per m³. We continue to focus on expanding this margin, however, obviously the pace of expansion of this margin will not be as strong as it was in the last couple of years. That's one point.

And the second point is in terms of volume, we are expecting better volumes in 2017 versus 2016, basically coming from the maturity of this accelerated expansion of our network and also by the fact that we're probably going to have a more acquisitive competition environment in Brazil after the recent change in pricing policy from Petrobras.

So those factors plus our potential recovery in the economy, especially after the second semester should bring better volumes for Ipiranga in 2017 versus 2016. For those reasons,



we don't -- we're not seeing major pressures in terms of cost and in terms of trends, I mean, Ipiranga does not intent to change its strategy in terms of focusing on the financial sustainability of its business, but obviously, we are anticipating better growth in terms of volume in 2017, we're anticipating also some recovery in terms of market share considering those impacts that I mentioned to you.

Talking about Extrafarma and the expansion of our network, you are right, 45% of our stores are still in its maturity phase.

We don't have a specific target in terms of when the maturing number of stores will start to decrease, obviously we are opening over one-third of our network every year. So we have an objective to open 100 stores in 2017 out of 315, a 1/3, right? So it does have an impact from an expansion point of view.

Our expansion in 2016 was 24%. The market grew by 8% in terms of opening a new store. So we are growing three times quicker, three times more than the market. This will continue to impact the results. But at the same time, we are already seeing the results of increased revenues. So we are increasing revenues also, twice as much as the market is increasing revenues.

So, the impact of those stores that are maturing are not being enough to offset in the growth of our EBITDA. We grew our EBITDA by 29% in 2016. So again, I think the combination of organic expansion that is much quicker than the market and the fact that the revenues are growing at a much quicker pace are offsetting obviously the impact that we have on stores that are maturing. And we are continuing to see Extrafarma as one of our main avenues of growth for Ultrapar and focusing on the organic growth of Extrafarma.

Frank McGann:

Okay. Thank you very much.

Operator:

Showing no additional questions. We will conclude the question-and-answer session. I would like to hand the conference back to Mr. Pires for any closing remarks.

Andre Pires de Oliveira Dias:

Well, thanks, everyone. Thanks for the participation and as always any further questions you might have, you could address to our IR team. And I hope to see you again in our next conference call, which will happen in May. Thank you very much. Have a good afternoon, everybody.

Operator:

Thank you, sir. Ladies and gentlemen, thank you. This concludes today's Ultrapar 2016 and fourth quarter 2016 results conference call. You may disconnect your lines at this time.