

ULTRAPAR HOLDINGS INC  
Form F-1/A  
April 12, 2005  
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As filed with the Securities and Exchange Commission on April 12, 2005

Registration No. 333-122496

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## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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### AMENDMENT NO. 5

TO

### FORM F-1

### REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

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## Ultrapar Participações S.A.

(Exact Name of Registrant as Specified in Its Charter)

## Ultrapar Holdings Inc.

(Translation of Registrant's name into English)

Federative Republic of Brazil  
(State or other jurisdiction of

4924  
(Primary Standard Industrial

Not Applicable  
(I.R.S. Employer

incorporation or organization)

Classification Code Number)

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Identification No.)

Av. Brigadeiro Luis Antônio, 1343, 9º Andar,

São Paulo, SP, Brazil 01317-910

(Telephone: 55-11-3177-6482)

(Address and telephone number of Registrant's principal executive offices)

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CT Corporation System

111 Eighth Avenue

New York, NY 10011

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# Edgar Filing: ULTRAPAR HOLDINGS INC - Form F-1/A

(Name, address and telephone number of agent for service)

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**Approximate date of commencement of proposed sale to the public:** As soon as practicable after the Registration Statement becomes effective.

If any of the securities being registered on this form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. "

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, please check the following box. "

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.**

PRELIMINARY PROSPECTUS

Subject to Completion

April 12, 2005

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## **Preferred Shares**

**including Preferred Shares in the form of  
American Depositary Shares**

## **Ultrapar Participações S.A.**

**R\$        per 1,000 Preferred Shares**

**U.S.\$        per American Depositary Share**

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The selling shareholders named in this prospectus are offering 7,869,671,318 preferred shares (including preferred shares in the form of American Depositary Shares, which we refer to as ADSs) to be sold in a global offering. Each ADS represents 1,000 preferred shares. Of the total being sold by the selling shareholders, the underwriters are offering        preferred shares and        ADSs in the United States and other jurisdictions outside Brazil, preferred shares purchased by U.S. investors will be placed outside the United States by the Brazilian underwriters, settled in Brazil and paid for in reais and their offer is being underwritten by the Brazilian underwriters identified elsewhere in this prospectus, pursuant to an underwriting agreement governed by Brazilian law. We will not receive any proceeds from this offering unless the underwriters exercise their over-allotment option, as described below. The closings of the international and Brazilian offerings will be conditioned upon each other.

Our preferred shares are traded on the São Paulo stock exchange under the symbol UGPA4 and our ADSs are traded on the New York Stock Exchange under the symbol UGP . On March 21, 2005, the last reported sale price on the São Paulo Stock Exchange of our preferred shares was R\$45.20 per 1,000 preferred shares and the last reported sale price on the New York Stock Exchange of our ADSs was U.S.\$16.99 per ADS.

**Investing in the preferred shares or the ADSs involves risks. See Risk factors beginning on page 10.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per 1,000 preferred shares	Total
Public offering price	U.S.\$	U.S.\$
Underwriting discounts and commissions	U.S.\$	U.S.\$
Proceeds, before expenses, to the selling shareholders	U.S.\$	U.S.\$

The underwriters and the Brazilian underwriters may also purchase up to an additional aggregate 1,180,450,698 preferred shares (which may include preferred shares in the form of ADSs), from us at the public offering price, less the underwriting discounts and commissions, within 30 days from the date of this prospectus to cover over-allotments, if any. If the underwriters and the Brazilian underwriters exercise the option in full, the total underwriting discounts and commissions will be U.S.\$ , and the total proceeds, before expenses, to us will be U.S.\$ .

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The underwriters are offering the preferred shares and ADSs and the Brazilian underwriters are offering the preferred shares to non-U.S. investors as set forth under Underwriting. Delivery of the preferred shares will be made in Brazil through the facility of the Companhia Brasileira de Liquidação e Custódia (the Brazilian Settlement and Custodial Company), which we refer to as the CBLC, on or about , 2005. Delivery of the ADSs will be made through the book-entry facilities of the Depositary Trust Company on or about , 2005. Delivery of the ADSs will be made in New York, New York on or about , 2005.

**UBS Investment Bank**

**Pactual Capital Corporation**

**Credit Suisse First Boston**

**Itaú BBA**

The date of this prospectus is , 2005.

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You should rely only on the information contained in this prospectus or to which we have referred you. We, the selling shareholders and the underwriters have not authorized anyone to provide you with information different from that contained in this prospectus. The selling shareholders and the underwriters are not making an offer to sell the preferred shares or ADSs in a jurisdiction or state where such offer is not permitted. The information in this document is only accurate at the date of this prospectus, and our business, results of operations and financial condition may change after the date of this prospectus.

We have prepared this prospectus on the basis of information that we have or have obtained from external sources. The discussions of documents referred to in this prospectus summarize those documents and we refer you to those documents for more complete information. You should consult your own legal, tax and business advisors regarding an investment in our preferred shares or ADSs.

The offering of preferred shares is being made in Brazil by a Portuguese-language prospectus that has been filed with the CVM and has the same date as this prospectus but has a different format. This offering is being made in the United States and elsewhere outside Brazil solely on the basis of the information contained in this prospectus.

U.S. investors purchasing preferred shares must be authorized to invest in Brazilian Securities under the requirements established by the Brazilian National Monetary Council (Conselho Monetário Nacional, or CMN) and the Brazilian Securities Commission (Comissão de Valores Mobiliários, or CVM). The Brazilian underwriters are offering preferred shares in Brazil to Brazilian investors and other non-U.S. international investors authorized to invest in Brazilian securities under the requirements established by the CMN and the CVM.

No offer or sale of ADSs may be made to the public in Brazil except in circumstances which do not constitute a public offer or distribution under Brazilian laws and regulations. Any offer or sale of ADSs in Brazil to non-Brazilian residents may be made only under circumstances that do not constitute a public offer or distribution under Brazilian laws and regulations.

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**Table of Contents****Prospectus summary**

*This summary highlights material information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider before buying shares in this offering. You should read the entire prospectus carefully.*

**OUR BUSINESS**

We are of Brazil's leading corporate groups. We are engaged in the distribution of liquified petroleum gas, or LPG, production of chemicals, and the provision of integrated logistics services. Our wholly-owned subsidiary, Ultragas, is the largest LPG distributor in Brazil with a national market share of 24%. In the chemicals business, our wholly-owned subsidiary, Oxiteno, is the sole producer of ethylene oxide and its principal derivatives in the Mercosur area (comprising Brazil, Argentina, Paraguay and Uruguay) and a major producer of specialty chemicals. Through our wholly-owned subsidiary, Ultracargo, we believe we are a leading provider of integrated road transport, storage and handling services for chemicals and fuels.

The table below sets forth certain financial information for us and our principal businesses<sup>1</sup>.

	Year ended December 31,				
	2004	2003	2002	2001	2000
	(in millions of reais)				
Net sales and services					
Ultrapar	4,784.2	4,000.3	2,994.5	2,284.7	1,878.0
Ultragas	2,968.1	2,622.7	1,942.7	1,381.1	1,125.7
Oxiteno	1,662.7	1,237.8	956.1	832.1	686.1
Ultracargo	197.3	177.1	131.5	105.4	94.2
Adjusted EBITDA <sup>2</sup>					
Ultrapar	736.6	498.5	487.3	372.5	304.3
Ultragas	268.9	208.2	219.8	163.0	140.9
Oxiteno	421.0	243.2	232.7	176.8	132.4
Ultracargo	40.5	40.0	29.2	28.1	25.9
Net Income					
Ultrapar	414.5	246.4	222.3	132.2	128.5
Net cash (debt) <sup>3</sup> :					
Ultrapar	46.0	(78.1)	54.5	241.3	436.3

- (1) Segment information for our businesses are presented on an unconsolidated basis. See [Presentation of information](#) for more information.
- (2) See footnote 3 under [Summary financial information](#) for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.
- (3) See footnote 4 under [Summary financial information](#) for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

Our origins date to 1937 when our founder, Ernesto Igel, brought LPG to be used as cooking gas in Brazil. In 1966, we formed the operating subsidiaries of Ultracargo to satisfy the demand for high quality transportation services for chemicals and LPG. We were also one of the pioneers in developing Brazil's petrochemical industry with the creation of Oxiteno in 1970.





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### **RECENT DEVELOPMENTS**

#### **Stock dividend and share exchange by controlling shareholders**

At our Board of Directors meeting held on February 2, 2005, our directors approved a stock dividend of 10,453,690,324 preferred shares of Ultrapar, or 15 shares for each 100 outstanding common or preferred shares on February 16, 2005. As a result of the stock dividend, we issued 10,453,690,324 new preferred shares to our shareholders through a capitalization of reserves.

At an extraordinary shareholders meeting held on February 22, 2005, our shareholders approved the issuance of additional preferred shares by us to permit certain shareholders, including Ultra, to exchange common shares of Ultrapar held indirectly by them into preferred shares at a ratio of one common share for one preferred share. Common shares tendered for exchange into preferred shares will be cancelled.

#### **Bond offering in Brazil**

On February 2, 2005, our shareholders approved an offering to Brazilian investors of R\$ 300 million principal amount of Ultrapar bonds due 2008. The proceeds from this bond offering will be used to retire outstanding debt and/or for general corporate purposes.

#### **Investment in fatty alcohol plant**

On February 16, 2005, we announced that we will invest, through our subsidiary Oxitenio, approximately US\$94 million in the next two years for the construction of a fatty alcohols production plant, with co-production of fatty acids and glycerin. This plant will be a pioneer unit in Latin America for the production of fatty alcohols. Fatty alcohol is a raw material used in the manufacture of specialty chemicals derived from ethylene oxide, widely used in the production of personal care products and also has various applications in domestic cleaning products, agrichemicals and textiles, among others. Fatty alcohol and its derivatives are currently imported and already widely used in Oxitenio's surfactant line. We are the largest consumer of fatty alcohols in Brazil and we estimate that 30% of the total volume produced by the new plant will be used by us. Total production capacity should amount to approximately 100,000 tons per year, considering the entire product line. Besides adding value to the existing surfactants product line, this new plant is expected to generate additional net sales of US\$ 80 million/year when running at full capacity. We expect that the plant will be operational in the first half of 2007.

#### **Other projects under study**

We have signed a protocol with Petróleo Brasileiro S.A., or Petrobras, to study the viability of a project to produce basic petrochemicals, including ethylene, from heavy oil. Currently, we purchase ethylene from Brazilian suppliers whose production is based on naphtha. We have not made a commitment to invest in this project should it prove to be viable and we can give no assurance that the project will prove viable or, if so, that we will participate or make an investment in such project.

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We are also studying the viability of building a pipeline together with Petrobras to transport ethanol from the producing regions of Ribeirão Preto to Paulínia, one of Brazil's principal centers of ethanol distribution. We have not made a commitment to invest in this project should it prove to be viable and we can give no assurance that the project will prove viable or, if so, that we will participate or make an investment in such project.

### PRINCIPAL EXECUTIVE OFFICES

Our principal offices are located at Av. Brigadeiro Luis Antônio, 1343, 9º Andar, São Paulo, SP, Brazil 01317-910. Our telephone number is (011-55-11) 3177-6482. We maintain a website at [www.ultra.com.br](http://www.ultra.com.br). Information contained in our website does not constitute a part of this prospectus.

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## The offering

## Securities offered

preferred shares, including preferred shares in the form of ADSs, are being offered in a global offering. Of this total, the underwriters are offering preferred shares and ADSs in the United States and other jurisdictions outside Brazil, preferred shares purchased by U.S. investors will be placed outside the United States by the Brazilian underwriters, settled in Brazil and paid for in *reais* and their offer is being underwritten by the Brazilian underwriters pursuant to the Brazilian underwriting agreement. U.S. investors purchasing preferred shares must be authorized to invest in Brazilian Securities under the requirements established by the CMN and the CVM. The Brazilian underwriters are offering preferred shares in Brazil to Brazilian investors and to other non-U.S. international investors that are authorized to invest in Brazilian securities under the requirements established by the CMN and the CVM.

## Selling shareholders

Fábio Igel, Márcia Igel Joppert, Rogerio Igel, Maria Teresa Igel, Joyce Igel de Castro Andrade, Lúcio de Castro Andrade Filho, Paulo Guilherme Aguiar Cunha, Ana Maria Levy Igel, Fabio Schvartsman, José Carlos Guimarães de Almeida, Pedro Wongtschowski, Maria da Conceição de Moraes Coutinho Beltrão, Helio Marcos Coutinho Beltrão, Cristiana Coutinho Beltrão, Maria Coutinho Beltrão and Monteiro Aranha S.A. Following this offering, the holdings beneficially owned by each of these shareholders will be as follows:

	Shares beneficially owned	
	after this offering	
	Common	Preferred
Fábio Igel	5.7%	0.0%
Márcia Igel Joppert	7.1%	0.1%
Rogerio Igel	4.7%	0.0%
Maria Teresa Igel	2.0%	0.0%
Joyce Igel de Castro Andrade	6.7%	0.0%
Lúcio de Castro Andrade Filho	2.8%	0.0%
Paulo Guilherme Aguiar Cunha	9.9%	0.0%
Ana Maria Levy Villela Igel	18.3%	2.8%
Fabio Schvartsman	1.2%	0.0%
José Carlos Guimarães de Almeida	0.1%	0.0%
Pedro Wongtschowski	1.2%	0.0%
Maria da Conceição de Moraes Coutinho Beltrão	3.0%	0.0%
Helio Marcos Coutinho Beltrão	1.8%	0.0%
Cristiana Coutinho Beltrão	1.8%	0.0%
Maria Coutinho Beltrão	1.8%	0.0%
Monteiro Aranha S.A.	10.5%	3.3%

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Over-allotment option	We have granted the underwriters and the Brazilian underwriters an option to purchase up to an additional aggregate 1,180,450,698 preferred shares (or its equivalent in ADSs) from us, solely to cover over-allotments.
The ADSs	Each ADS represents 1000 preferred shares. The depositary for the ADSs is The Bank of New York. The preferred shares represented by the ADSs will be deposited with Banco Itaú S.A. Payments for the ADSs may be made only in U.S. dollars.
Use of proceeds	We will not receive any proceeds from the sale of the ADSs or preferred shares by the selling shareholders. If the underwriters exercise their over-allotment option, the proceeds from the sale of the over-allotment shares will be used by us for planned capital expenditures. See Management's discussion and analysis of financial condition and results of operations Liquidity and capital resources Investments in permanent assets and deferred charges.
Voting rights	Holders of the preferred shares and the ADSs do not have voting rights except in limited circumstances such as if the company fails to pay fixed or minimum dividends for three consecutive years or in meetings called to decide upon changes to the preferences or rights attributed to the preferred shares. See Description of capital stock Preferred share rights and Description of American Depositary Receipts Voting of deposited securities.
Dividends	Pursuant to our by-laws, we are required to distribute annually dividends equal to at least 50% of our adjusted net income, as calculated under Brazilian GAAP and adjusted as required by Brazilian corporate law (which may differ significantly from net income under US GAAP). Holders of our preferred shares are entitled to receive dividends per share in the same amount as the dividends per share paid to holders of our common shares. Holders of our preferred shares are entitled to receive dividends declared by us from the date of the acquisition of such shares. See Distribution policy and dividends.
Tag-along rights	In case our controlling shareholders sell their controlling stake in our Company, holders of our preferred shares are entitled to sell their shares pursuant to a public tender offer to be made by the purchaser of the controlling stake at the same price and with the same payment terms as our controlling shareholders.

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Lock-up	We and each of our directors, executive officers and the selling shareholders have agreed, for 180 days following the date of the final prospectus, not to offer, sell, offer to sell, contract to sell, or otherwise dispose of any of our shares of our capital stock or any securities convertible into or exchangeable for or any other rights to purchase or acquire shares of our capital stock, including preferred shares and ADSs, without the prior written consent of UBS Securities LLC.
Listing and trading markets	The preferred shares are listed on the São Paulo Stock Exchange under the symbol UGPA4. The ADSs are listed on the New York Stock Exchange under the symbol UGP.
Risk factors	See Risk factors and the other information included in this prospectus for a discussion of factors you should consider before deciding to invest in the preferred shares or the ADSs.

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## Summary financial information

The following tables present summary consolidated financial data for our company under Brazilian GAAP. The consolidated balance sheet information as of December 31, 2004 and 2003 and the consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2004, 2003 and 2002 are derived from our audited consolidated financial statements included in this prospectus. The consolidated balance sheet information as of December 31, 2002, 2001 and 2000 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2001 and 2000 are derived from our audited consolidated financial statements that are not included in this prospectus. You should read the information below in conjunction with our consolidated financial statements included elsewhere in this prospectus, as well as Presentation of financial information and Management's discussion and analysis of financial condition and results of operations.

	Year ended December 31,					
	2004(1)	2004	2003	2002	2001	2000
	U.S.\$	(in millions of U.S. dollars or reais, where indicated) R\$	R\$	R\$	R\$	R\$
<b>Consolidated income statement data:</b>						
Net sales and services	1,802.4	4,784.2	4,000.3	2,994.5	2,284.7	1,878.0
Cost of sales and services	(1,382.6)	(3,669.9)	(3,196.4)	(2,247.1)	(1,698.3)	(1,399.6)
Gross profit	419.8	1,114.3	803.9	747.4	586.4	478.4
Selling, general and administrative expenses	(209.4)	(555.9)	(458.9)	(382.3)	(317.7)	(266.2)
<b>Operating income before financial items</b>	<b>212.5</b>	<b>563.9</b>	<b>351.6</b>	<b>365.5</b>	<b>278.9</b>	<b>213.5</b>
Financial income (expenses), net	(17.0)	(45.0)	(57.2)	28.5	(31.1)	43.4
Nonoperating income (expenses), net	(6.0)	(16.0)	1.0	(44.1)	(17.0)	(16.5)
Income before income and social contribution taxes, equity in earnings (losses) of affiliated companies and minority interest	189.5	502.9	295.4	349.9	230.8	240.4
<b>Net income</b>	<b>156.2</b>	<b>414.5</b>	<b>246.4</b>	<b>222.3</b>	<b>132.2</b>	<b>128.5</b>
<b>Balance sheet data:</b>						
Total current assets	506.6	1,344.9	1,218.7	1,186.9	1,045.2	1,190.8
Property, plant and equipment, net	394.6	1,047.4	968.6	779.5	707.9	655.9
Total assets	1,004.8	2,667.2	2,408.0	2,127.9	1,952.0	2,014.5
Short-term financing	143.8	381.6	381.6	219.8	124.5	134.1
Long-term financing	97.2	258.1	306.3	363.6	290.2	291.8
Total liabilities	391.2	1,038.5	1,019.1	905.8	712.3	705.6
Shareholders' equity	603.0	1,600.5	1,356.7	1,191.1	799.9	897.7
<b>Other financial data:</b>						
Depreciation and amortization(2)	65.1	172.7	146.9	121.8	102.4	90.8
<b>Adjusted EBITDA(3)</b>	<b>277.5</b>	<b>736.6</b>	<b>498.5</b>	<b>487.3</b>	<b>372.5</b>	<b>304.3</b>
Net cash (debt)(4):	17.3	46.0	(78.1)	54.5	241.3	436.3

(footnotes on following page)

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- (1) The *real* amounts for December 31, 2004 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$ 2.654, which is the commercial rate reported by the Central Bank on this date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this prospectus as a statement that the amounts in *reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See *Exchange rates* .
- (2) Represents depreciation and amortization expenses included in cost of sales and services and in selling, general and administrative expenses.
- (3) The inclusion of adjusted EBITDA information is to provide a measure of assessing our ability to generate cash from our operations. Adjusted EBITDA is equal to operating income before financial items plus depreciation and amortization. In managing our business we rely on adjusted EBITDA as a means of assessing our operating performance and a portion of our management's compensation and employee profit sharing plan is linked to adjusted EBITDA performance. Because adjusted EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, we believe that this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. We also calculate adjusted EBITDA in connection with covenants related to some of our financings. We believe that adjusted EBITDA enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP or Brazilian GAAP. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation or capital expenditures and associated charges. The adjusted EBITDA presented herein relates to Brazilian GAAP, which is used in the primary financial statements included in this filing. This adjusted EBITDA calculation is expressly permitted by the Brazilian regulators that establish the accounting principles generally accepted for use in such financial statements and is included in the financial statements published in Brazil. See note 16 to our consolidated financial statements for a reconciliation of adjusted EBITDA to information in our financial statements.

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The tables below provide a reconciliation of net income to adjusted EBITDA and of operating income before financial items to adjusted EBITDA for the years ended December 31, 2004, 2003, 2002, 2001 and 2000:

Ultrapar					
Reconciliation of net income to					
adjusted EBITDA					
Year ended December 31,					
	2004	2003	2002	2001	2000
	(in millions of reais)				
Net income	414.5	246.4	222.3	132.2	128.5
Minority interest	5.4	3.6	54.5	73.0	74.2
Equity in (earnings) losses of affiliated companies		0.5	1.7	(1.9)	(9.6)
Income and social contributions taxes	83.0	44.9	71.4	27.5	47.3
Non-operating expenses (income), net	16.0	(1.0)	44.1	17.0	16.5
Financial (income) expenses, net	45.0	57.2	(28.5)	31.1	(43.4)
Depreciation and amortization	172.7	146.9	121.8	102.4	90.8
Non-cash operating income included in Operating income (expenses), net				(8.8)	
<b>Adjusted EBITDA</b>	<b>736.6</b>	<b>498.5</b>	<b>487.3</b>	<b>372.5</b>	<b>304.3</b>

Ultrapar					
Reconciliation of operating income					
before financial items to adjusted					
EBITDA					
Year ended December 31,					
	2004	2003	2002	2001	2000
	(in millions of reais)				
Operating income before financial items	563.9	351.6	365.5	278.9	213.5
Depreciation and amortization	172.7	146.9	121.8	102.4	90.8
Non-cash operating income included in Operating income (expenses), net				(8.8)	
<b>Adjusted EBITDA</b>	<b>736.6</b>	<b>498.5</b>	<b>487.3</b>	<b>372.5</b>	<b>304.3</b>

Ultragaz					
Reconciliation of operating income					
before financial items to adjusted					
EBITDA					
Year ended December 31,					
	2004	2003	2002	2001	2000
	(in millions of reais)				



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Operating income before financial items	152.7	113.2	143.2	101.1	98.6
Depreciation and amortization	116.2	95.0	76.6	61.9	42.3
<b>Adjusted EBITDA</b>	<b>268.9</b>	<b>208.2</b>	<b>219.8</b>	<b>163.0</b>	<b>140.9</b>

**Oxiteno**

**Reconciliation of operating income  
before financial items to adjusted  
EBITDA**

**Year ended December 31,**

	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
	<b>(in millions of reais)</b>				
Operating income before financial items	382.9	207.0	199.9	146.6	94.4
Depreciation and amortization	38.1	36.2	32.8	30.2	38.0
<b>Adjusted EBITDA</b>	<b>421.0</b>	<b>243.2</b>	<b>232.7</b>	<b>176.8</b>	<b>132.4</b>

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Ultracargo					
Reconciliation of operating income					
before financial items to adjusted EBITDA					
Year ended December 31,					
	2004	2003	2002	2001	2000
	(in millions of reais)				
Operating income before financial items	23.0	24.7	17.6	27.4	16.3
Depreciation and amortization	17.5	15.3	11.6	9.5	9.6
Non-cash operating income included in Operating income (expenses), net				(8.8)	
<b>Adjusted EBITDA</b>	<b>40.5</b>	<b>40.0</b>	<b>29.2</b>	<b>28.1</b>	<b>25.9</b>

- (4) Net cash (debt) is included in this document in order to provide the reader with information relating to our overall indebtedness and financial position. Net cash (debt) is not a measure of financial performance or liquidity under U.S. GAAP or Brazilian GAAP. The table below provides a reconciliation of our consolidated balance sheet data to the net cash (debt) positions shown in the table, for the years ended December 2004, 2003, 2002, 2001 and 2000.

Year ended					
December 31,					
	2004	2003	2002	2001	2000
Cash and cash equivalents	624.5	568.8	637.9	656.0	862.2
Short-term investments	22.4	41.0	0.0	0.0	0.0
Long-term investments	38.8	0.0	0.0	0.0	0.0
Short-term financing	(381.6)	(381.6)	(219.8)	(124.5)	134.1
Long-term financing	(258.1)	(306.3)	(363.6)	(290.2)	291.8
<b>Net cash (debt) position</b>	<b>46.0</b>	<b>(78.1)</b>	<b>54.5</b>	<b>241.3</b>	<b>436.3</b>

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## Risk factors

*You should carefully consider the risks described below, as well as the other information contained in this prospectus in evaluating an investment in our preferred shares or ADSs. Our business, results of operations or financial condition could be harmed if any of these materializes and, as a result, the trading price of the preferred shares or the ADSs could decline and you could lose a substantial part or even all of your investment.*

*We have included information in these risk factors concerning Brazil based on information that is publicly available.*

### **RISKS RELATING TO ULTRAPAR**

**Government deregulation of LPG prices has caused refinery prices to fluctuate according to the international markets and may affect our revenues and operating margin.**

The Brazilian government has historically regulated both the refinery price of LPG, which is the price we pay Petrobras and is thus a component of our cost of sales and services, and the retail price of LPG, which is the price we charge customers and is thus a component of our net sales and services. In the 1990's, the Brazilian government began to deregulate both prices. From May 2001 the retail store prices in Brazil ceased to be regulated.

In January 2002, Petrobras refinery prices, which are the LPG prices charged by Petrobras to distributors, including us, were deregulated and they have thereafter been freely established by Petrobras, although subject to government intervention when deemed appropriate, which occurred between August 2002 and October 2002. In this new market environment, the refinery price tends to fluctuate according to the international markets, while the retail price depends on a number of factors, including the level of competition, brand recognition and the relative prices of the energy sources that compete with LPG.

Fluctuations in LPG refinery prices affect our costs of sales and services. Therefore, if we are not able to pass on increases in the refinery price to our distribution network and/or improve our operational efficiency, our operating margins may be adversely affected. See Management's discussion and analysis of financial condition and results of operations Results of operations for a discussion on the effect of fluctuations of LPG prices on our net sales and services.

**Petrobras is the only supplier of LPG in Brazil. LPG distributors in Brazil, including Ultragaz, do not have formal contracts with Petrobras for the supply of LPG. Any interruption in the supply of LPG from Petrobras immediately affects Ultragaz's ability to provide LPG to its customers.**

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Prior to 1995, Petrobras benefited from a constitutional monopoly in the production and importation of petroleum products in Brazil. Although the Brazilian government removed Petrobras' monopoly from the Federal Constitution in November 1995, Petrobras effectively remains the sole provider of LPG in Brazil. Currently, Ultragas and all other LPG distributors in Brazil purchase LPG exclusively from Petrobras. Ultragas' net sales and services represented 62.0% of our consolidated net sales and services for the year ended December 31, 2004. The last significant interruption in the supply of LPG by Petrobras to the distributors occurred in 1995 due to a 15-day strike by Petrobras employees. See Business Distribution of liquefied petroleum gas Industry and regulatory overview.

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Furthermore, all Brazilian LPG distributors, including Ultragaz, currently purchase all their LPG requirements from Petrobras without a formal LPG supply contract. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors including Ultragaz. For more details, see [Business Ultragaz Supply of LPG](#).

Significant interruptions to LPG supplies from Petrobras may occur in the future. Any interruption in the supply of LPG from Petrobras immediately affects Ultragaz's ability to provide LPG to its customers. If we are not able to obtain an adequate supply of LPG from Petrobras under acceptable terms, we may seek to meet our demands through LPG purchased on the international market. The cost of LPG on the international market is currently more expensive than the LPG we obtain through Petrobras.

**Intense competition in the LPG distribution market may affect our operating margins.**

The Brazilian LPG market is very competitive in all segments residential, commercial and industrial. Petrobras, our supplier of LPG, and other major companies with greater resources than we possess have entered the Brazilian LPG distribution market. Intense competition in the LPG distribution market could lead to lower sales volumes and increased marketing expenses which may have a material adverse effect on our operating margins. See [Business Distribution of liquefied petroleum gas Industry and regulatory overview The role of Petrobras](#) and [Business Distribution of liquefied petroleum gas Competition](#).

**LPG competes with alternative sources of energy. Competition with and the development of alternate sources of energy in the future may adversely affect the LPG market.**

LPG competes with natural gas, wood, diesel, fuel oil and electricity. Natural gas is currently the principal source of energy against which we compete. Natural gas is currently less expensive than LPG for industrial consumers who purchase large volumes, but more expensive for residential consumers. In addition, supply of natural gas requires significant investments in pipelines. The development of alternatives sources of energy in the future may adversely affect the LPG market and consequently our business, financial results and results of operations. See [Business Distribution of liquefied petroleum gas Competition](#).

**The acquisition of Shell Gás is subject to Brazilian regulations and other antitrust rules. Our future business, financial condition and results of operations would be adversely affected if we do not gain approval of the acquisition.**

Ultragaz is subject to regulation under Brazilian antitrust rules. For this reason, the acquisition of Shell Gás (LPG) Brasil S.A., or Shell Gás, is still subject to approval by the Brazilian antitrust authorities, although these operations have been fully integrated into our business. The process is in the first of three phases of examination by the Brazilian antitrust authorities. A ruling requiring us to dispose of some of the acquired assets or to unwind the acquisition would adversely affect our future business, financial condition and results of operations.

**Ethylene, the principal raw material used in our petrochemical operations, comes from limited supply sources. Any reduction in the supply of ethylene would have an immediate impact on Oxitenos production and results of operation.**

All second generation petrochemical producers in Brazil that use ethylene as their key raw material, including Oxitenos, our subsidiary involved in the production and sale of chemical and petrochemical products, purchase ethylene, from Brazilian suppliers. Approximately 32% of our net revenues are derived from the sale of chemical products that require ethylene. Oxitenos purchases ethylene from two of Brazil's three naphtha crackers, which are the sole sources of ethylene in Brazil. Braskem S.A., or

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Braskem, supplies all of our ethylene requirements at our plant located at Camaçari pursuant to a long-term contract, and Petroquímica União S.A., or PQU, supplies all of our ethylene requirements at our plant located at Mauá. Oxitenó, like other purchasers from PQU, does not have a long-term contract for the purchase of ethylene from PQU. Because of its characteristics, ethylene is difficult and expensive to store and transport, and cannot be easily imported into Brazil. Therefore, Oxitenó is almost totally dependent on ethylene produced at Braskem and PQU for its supply of ethylene. For the year ended December 31, 2004, Brazilian ethylene imports totaled approximately 3,975 tons, representing less than 1% of Brazil's installed capacity.

Due to ethylene's chemical characteristics, Oxitenó does not store significant quantities of ethylene, and reductions in supply from Braskem and PQU would have an immediate impact on our production and results of operations. If we further expand our production capacity, there is no assurance that we will be able to obtain additional ethylene from Braskem and PQU.

In addition, Petrobras is the principal supplier of naphtha to crackers in Brazil, and any interruption in the supply of naphtha from Petrobras to the crackers could adversely impact their ability to supply ethylene to Oxitenó.

**The Brazilian petrochemical industry is very closely influenced by the performance of the international petrochemical industry and its cyclical behavior.**

The international petrochemical market is cyclical in nature, with alternating periods of tight supply, increased prices and high margins, and over capacity, declining prices and low margins. The decrease in Brazilian tariff rates on petrochemical products, the increase in demand for such products in Brazil, and the ongoing integration of regional and world markets for commodities, among other factors, have contributed to the increasing integration of the Brazilian petrochemical industry into the international petrochemical marketplace. As a consequence, events affecting the petrochemical industry worldwide could have a material adverse effect on our business, financial condition and results of operations.

**The price of ethylene is subject to fluctuations in international oil prices.**

The price of ethylene, which is the principal component of Oxitenó's cost of sales and services, is directly linked to the price of naphtha which, in turn, is largely linked to the price of crude oil. Consequently, ethylene prices are subject to fluctuations in international oil prices. A significant increase in the price of crude oil and, consequently, naphtha and ethylene, could increase our costs which could have a material adverse effect on our results of operations.

**The reduction in import tariffs on petrochemical products can reduce our competitiveness in relation to imported products.**

Final prices paid by importers of petrochemical products include tariff rates. Consequently, tariff rates imposed by the Brazilian government affect the prices we can charge for our products. The Brazilian government's negotiation of commercial and free trade agreements, principally with NAFTA and the European Union, may result in reductions in Brazilian import duties on petrochemical products, which generally range between 12% and 14%, and may reduce the competitiveness of our products vis-à-vis imported petrochemical products.

**We may be adversely affected by the imposition and enforcement of more stringent environmental laws and regulations.**

We are subject to stringent environmental laws and regulations in Brazil and Mexico. Petrochemical companies like ours are required to obtain licenses for their manufacturing facilities from environmental authorities which may also regulate their operations by prescribing specific environmental standards in



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their operating licenses. Environmental regulations apply particularly to the discharge, handling and disposal of gaseous, liquid and solid products and by-products from manufacturing activities. Changes in these laws and regulations, or changes in the enforcement policy of these laws and regulations, could adversely affect us by increasing our cost of compliance or operation. In addition, it is possible that new laws or additional regulations will come into force, or that the relevant enforcement agencies will seek a more stringent interpretation of existing laws and regulations that would require us to spend additional funds on environmental matters in order to continue to keep our plants and operations in compliance with current legislation. See [Business Distribution of liquefied petroleum gas Industry and regulatory overview Environmental, health and safety standards](#), [Business Petrochemicals and chemicals Overview of the sector and applicable regulations Environmental, health and safety standards](#) and [Business Logistics of chemical products and fuels Ultracargo Transportation regulation](#).

**The production, storage and transportation of petrochemicals and chemicals are inherently hazardous.**

The complex manufacturing operations we perform at our plants involve a variety of safety and other operating risks, including the handling, production and transportation of highly inflammable, explosive and toxic materials. These risks could result in personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. A sufficiently large accident at one of our plants or storage facilities could force us to suspend our operations temporarily and result in significant remediation costs and lost revenue. In addition, insurance proceeds may not be available on a timely basis and may be insufficient to cover all losses. Equipment breakdowns, natural disasters, and delays in obtaining imports or required replacement parts or equipment can also affect our manufacturing operations and consequently our results from operations.

**Our insurance coverage may be insufficient to cover losses that we might incur.**

The operation of any chemical manufacturing plant and the distribution of petrochemicals, as well as the operations of logistics of oil and chemical products and LPG distribution involve substantial risks of property contamination and personal injury and may result in material costs and liabilities. The occurrence of losses or other liabilities that are not covered by insurance or that exceed the limits of our insurance coverage could result in significant unexpected additional costs.

**The suspension, cancellation or non-renewal of certain federal tax benefits may adversely affect our results of operations.**

We are entitled to federal tax benefits providing for income tax exemption or reduction for our activities in the northeast region of Brazil. These benefits may be cancelled or suspended if we do not comply with our commitment not to distribute to our shareholders the amounts under the benefits or if the relevant tax authorities decide to suspend or cancel our benefits. As a result, we may become liable for the payment of related taxes at the full tax rates. If we are not able to renew the tax benefits, or if we are only able to renew them under terms that are substantially less favorable than expected, our results of operations may be adversely affected. Tax exemptions amounted to R\$ 93.5 million, R\$ 52.4 million and R\$ 43.5 million, respectively, for the years ended December 31, 2004, 2003 and 2002. See [Business Distribution of liquefied petroleum gas Ultragaz Tax exemption status](#), [Business Petrochemicals and chemicals Oxiteno Tax exemption status](#) and [Business Logistics of chemical products and fuels Ultracargo Tax exemption status](#).

The federal tax authorities may decline to renew these benefits or may modify the terms upon which such renewals will be granted. The failure to renew such benefits on favorable terms could adversely affect our results of operations.

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**We are currently controlled by members of our founding family and our senior management, which substantially limits the ability of other shareholders to control the direction of our business.**

Our senior management and members of our founding family indirectly control, approximately 66% of our voting share capital through their control of Ultra S.A. This level of control enables Ultra to elect the majority of our directors and to determine the outcome of substantially all actions requiring shareholder approval. See Principal and selling shareholders Principal shareholders Shareholders agreement of Ultra S.A.

**Our status as a holding company may limit our ability to pay dividends on the preferred shares and consequently, on the ADSs.**

As a holding company, we have no significant operating assets other than our ownership of shares of our subsidiaries. Substantially all of our operating income comes from our subsidiaries. Consequently, our ability to pay you dividends depends solely upon our receipt of dividends and other cash flows from our subsidiaries.

**RISKS RELATING TO BRAZIL**

**The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions could adversely affect our business and the market price of our preferred shares and the ADSs.**

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes drastic changes in policy and regulations. The Brazilian government's actions to control inflation and effect other policies and regulations have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other measures. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations involving or affecting tariffs, exchange controls and other matters, as well as factors such as:

Ø currency fluctuations;

Ø inflation;

Ø interest rates;

Ø price instability;

Ø energy shortages;

Ø liquidity of domestic capital and lending markets;

Ø fiscal policy; and

Ø other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government may implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. These and other future developments in the Brazilian economy and governmental policies may adversely affect us and our business and results of operations and may adversely affect the trading price of the ADSs and our preferred shares.

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**Inflation and certain governmental measures to curb inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of the ADSs and our preferred shares.**

Brazil has in the past experienced extremely high rates of inflation. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the *Índice Geral de Preços-Mercado*, or IGP-M, a general price inflation index, the Brazilian general price inflation rates were 25.3%, 8.7% and 12.4% in 2002, 2003 and 2004, respectively.

Brazil may experience high levels of inflation in the future. Our cash operating expenses are substantially in *reais* and tend to increase with Brazilian inflation. Inflationary pressures may also hinder our ability to access foreign financial markets or may lead to further government intervention in the economy, including the introduction of government policies that could harm our business or adversely affect the market value of our preferred shares and, as a result, our ADSs.

**Exchange rate instability may adversely affect our financial condition and results of operations and the market price of the ADSs and our preferred shares.**

As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* appreciated 18.2% against the U.S. dollar in 2003 and a further 8.1% in 2004, no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. On January 31, 2005, the U.S. dollar/*real* exchange rate was R\$2.625 per U.S.\$1.00. See [Exchange rates](#).

There are no guarantees that the exchange rate between the *real* and the U.S. dollar will stabilize at current levels. Although we have managed our existing U.S. dollar debt obligations in order to protect against fluctuations in the dollar/*real* exchange rate, we could in the future experience monetary losses relating to these fluctuations. See [Business](#) Quantitative and qualitative disclosures about market risk Foreign exchange risk for information about our foreign exchange risk hedging policy.

Depreciations of the *real* relative to the U.S. dollar also create additional inflationary pressures in Brazil that may negatively affect us. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent

of the market price of our preferred shares and, as a result, the ADSs. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments, as well as to a dampening of export-driven growth.

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**Developments and the perception of risk in other countries, especially emerging market countries may adversely affect the results of our operations and the market price of the preferred shares and ADSs.**

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

**United States investors may not be able to obtain jurisdiction over or enforce judgments against us.**

We are a company incorporated under the laws of the Federative Republic of Brazil. All members of our Board of Directors, executive officers and experts named in this prospectus are residents of Brazil. All or a substantial part of the assets pertaining to these individuals and to Ultrapar are located outside the United States. As a result, it is possible that investors may not be able to obtain jurisdiction over these individuals or Ultrapar in the United States, or enforce judgments handed down by United States courts of law based on provisions for civil liability under federal law in relation to securities of the United States or otherwise.

**RISKS RELATING TO THE PREFERRED SHARES AND THE AMERICAN DEPOSITARY SHARES**

**The preferred shares and the ADSs generally do not give you voting rights.**

Generally under Brazilian corporate law and in the case of our by-laws, holders of preferred shares do not have the right to vote at shareholders meetings except in limited circumstances. This means, among other things, that holders of our preferred shares and our ADSs, which represent preferred shares, are not entitled to vote on important corporate transactions including mergers or consolidations with other companies. See Description of capital stock Rights of preferred shares.

**The preferred shares and ADSs do not entitle you to a fixed or minimum dividend.**

Under our by-laws, unless otherwise proposed by the Board of Directors and approved by the voting shareholders in the Annual General Meeting, we must pay our shareholders a mandatory distribution equal to at least 50% of our adjusted net income. The net income may be capitalized, used to set off losses and/or retained in accordance with the Brazilian corporate law and may not be available for the payment of dividends. Therefore, whether or not you receive a dividend depends on the amount of the mandatory distribution, if any, and whether the Board of Directors and the voting shareholders exercise their discretion to suspend these payments. See Distribution policy and dividends for a more detailed discussion on mandatory distributions.

**You might be unable to exercise preemptive rights with respect to the preferred shares.**

In the event of a rights offering or a capital increase which would maintain or increase the proportion of capital represented by preferred shares, preferred shareholders would have preemptive rights to subscribe to newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, preferred shareholders would have preemptive rights to subscribe for preferred shares in proportion to their shareholdings and for common shares only to the extent necessary to prevent dilution of their interest in the company.

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Our by-laws establish that the Board of Directors may exclude preemptive rights to the current shareholders, holding either common or preferred shares, in the case of an offering of new shares to be sold on a registered stock exchange or through public subscription.

The holders of preferred shares or ADSs may be unable to exercise their preemptive rights in relation to the preferred shares represented by the ADSs, unless we file a registration statement pursuant to the United States Securities Act of 1933 or an exemption from the registration requirements applies. We are not obliged to file registration statements with respect to the preemptive rights and therefore do not assure holders that such a registration will be obtained. If the rights are not registered as required, the depositary will try to sell the preemptive rights held by holder of the ADSs and you will have the right to the net sale value, if any. However, the preemptive rights will expire without compensation to you should the depositary not succeed in selling them.

**If you exchange the ADSs for preferred shares, you risk losing certain foreign currency remittance and Brazilian tax advantages.**

The ADSs benefit from the depositary's certificate of foreign capital registration, which permits the depositary to convert dividends and other distributions with respect to the preferred shares into foreign currency and remit the proceeds abroad. If you exchange your ADSs for preferred shares, you will be entitled to rely on the depositary's certificate of foreign capital registration for five business days from the date of exchange. Thereafter, you will not be able to remit abroad non-Brazilian currency unless you obtain your own certificate of foreign capital registration or you qualify under National Monetary Council Resolution 2,689 dated January 26, 2000, known as Resolution 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration. If you do not qualify under Resolution 2,689, you will generally be subject to less favorable tax treatment on distributions with respect to the preferred shares. The depositary's certificate of registration or any certificate of foreign capital registration obtained by you may be affected by future legislative or regulatory changes, and additional Brazilian law restrictions applicable to your investment in the ADSs may be imposed in the future. For a more complete description of Brazilian tax regulations, see "Taxation" Brazilian tax consequences.

**The relative volatility and illiquidity of the Brazilian securities markets may adversely affect you.**

Investing in securities, such as the preferred shares or ADSs, of issuers from emerging market countries, including Brazil, involves a higher degree of risk than investing in securities of issuers from more developed countries. For the reasons above, investments involving risks relating to Brazil, such as investments in ADSs, are generally considered speculative in nature and are subject to certain economic and political risks, including but not limited to:

- Ø changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payments, in whole or in part, in respect of their investments; and
- Ø restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may limit your ability to sell the preferred shares underlying your ADSs at the price and time at which you wish to do so.

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The São Paulo Stock Exchange, known as Bovespa, the only Brazilian stock exchange, had a market capitalization of approximately U.S.\$341 billion as of December 31, 2004 and an average monthly trading volume of approximately U.S.\$8.7 billion for 2004. In comparison, the New York Stock Exchange had a market capitalization of U.S.\$19.8 trillion as of December 31, 2004 and an average monthly trading volume of approximately U.S.\$968 billion for 2004.

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There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented approximately 49% of the aggregate market capitalization of the Bovespa as of December 31, 2004. The top ten stocks in terms of trading volume accounted for approximately 48% of all shares traded on the Bovespa in 2004. Ultrapar's average daily volume on both stock exchanges in 2004, 2003 and 2002 was R\$ 3.7 million, R\$ 1.6 million and R\$ 1.2 million, respectively.

**Controls and restrictions on the remittance of foreign currency could negatively affect your ability to convert and remit dividends, distributions or the proceeds from the sale of our preferred shares, Ultrapar's capacity to make dividend payments to non-Brazilian investors and the market price of our preferred shares and ADSs.**

Brazilian law provides that whenever there is a serious imbalance in the Brazilian balance of payments, or reasons for believing that there will be a serious imbalance in the future, the Brazilian government can impose temporary restrictions on remittances of income on investments by non-Brazilian investors in Brazil. The probability that the Brazilian government might impose such restrictions is related to the level of the country's foreign currency reserves, the availability of currency in the foreign exchange markets on the maturity date of a payment, the amount of the Brazilian debt servicing requirement in relation to the economy as a whole, and the Brazilian policy towards the International Monetary Fund, among other factors. We are unable to give assurances that the Central Bank will not modify its policies or that the Brazilian government will not introduce restrictions or cause delays in payments by Brazilian entities of dividends relating to securities issued in the overseas capital markets up to the present. Such restrictions or delays could negatively affect your ability to convert and remit dividends, distributions or the proceeds from the sale of our preferred shares, Ultrapar's capacity to make dividend payments to non-Brazilian investors and the market price of our preferred shares and the ADSs.

**Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our ADSs.**

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. In the event that the disposition of assets is interpreted to include a disposition of our ADSs, this tax law could result in the imposition of withholding taxes on a disposition of our ADSs by a non-resident of Brazil to another non-resident of Brazil. Due to the fact that Law No. 10,833 has been enacted and no judicial guidance as to its application yet exists, we are unable to predict whether an interpretation applying such tax laws to dispositions of the ADSs between non-residents could ultimately prevail in the courts of Brazil.

**Substantial sales of our shares or our ADSs after this offering could cause the price of our preferred shares or our ADSs to decrease.**

After completion of the global offering, the public will continue to hold substantially all of our preferred shares and ADSs representing preferred shares and Ultra S.A. will hold approximately 66% of our voting capital. Shareholders of Ultra also have the right to withdraw and convert common shares owned through Ultra into our preferred shares as more fully described under "Principal and selling shareholders." Shareholders agreement of Ultra S.A. Participações. Two other shareholders, who may freely sell their respective shares, hold a substantial portion of our remaining common shares. A sale of a significant number of shares could negatively affect the market value of the preferred shares and ADSs.

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We, the selling shareholders, our directors and executive officers and certain of our other shareholders have agreed that, subject to certain exceptions, we and they will not issue or transfer, until 180 days after the date of the final prospectus any preferred shares or ADSs or any options or warrants to purchase our

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preferred shares or ADSs, or any securities convertible into, or exchangeable for, or that represent the right to receive, our preferred shares or ADSs. After the 180 day lock-up period, the preferred shares and ADSs subject to these agreements will be eligible for sale in the public market. The market price of our preferred shares and the ADSs could drop significantly if the holders of shares or the ADSs sell them or the market perceives that they intend to sell them.

**If we were treated as a Passive Foreign Investment Company, U.S. Holders of our preferred shares or our ADSs would be subject to disadvantageous rules under the U.S. tax laws.**

If we are characterized as a passive foreign investment company, or PFIC, in any year, U.S. holders of our preferred shares or our ADSs could be subject to unfavorable U.S. federal income tax treatment. Although we do not believe that we were a PFIC in 2004 and we do not expect to be a PFIC in the foreseeable future, there can be no assurance that our business and activities will not lead to PFIC status for us in the future. PFIC classification is a factual determination made annually and thus is subject to change. See [Taxation](#) [U.S. federal income tax consequences](#) for a description of the PFIC rules.

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## Forward looking statements

The statements contained in this prospectus in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or revise any forward-looking statements after we distribute this prospectus because of new information, future events and other factors. Words such as believe, expect, may, will, plan, strategy, prospect, foresee, estimate, project, anticipate, can, intend and similar words are intended to identify forward-looking statements. We have made forward-looking statements which cover, among other things, our:

Ø strategy for marketing and operational expansion;

Ø capital expenditures forecasts; and

Ø development of additional sources of revenue.

These forward-looking statements are subject to risks and uncertainties, which could mean that our actual results and performance could differ significantly from those anticipated and that anticipated events or circumstances might not occur. The risks and uncertainties include, but are not limited to:

Ø general economic and business conditions, including the price of crude oil and other commodities, refining margins and prevailing foreign exchange rates;

Ø competition;

Ø ability to produce and deliver products on a timely basis;

Ø ability to anticipate trends in the LPG industry, including changes in capacity and industry price movements;

Ø changes in official regulations;

Ø receipt of official authorizations and licenses;

Ø political, economic and social events in Brazil;

Ø approval of Brazilian antitrust authorities of the Shell Gás acquisition;

- Ø access to sources of financing and our level of debt;
- Ø ability to integrate acquisitions;
- Ø regulatory issues relating to acquisitions;
- Ø availability of tax benefits; and
- Ø other factors contained in this prospectus under Risk factors.

## Presentation of information

The audited consolidated balance sheets as of December 31, 2004 and 2003 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto, for the years ended December 31, 2004, 2003 and 2002, included herein, are our consolidated financial statements. The audited consolidated balance sheets as of December 31, 2002,

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### **Presentation of Information**

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2001 and 2000 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto at for the years ended December 31, 2001 and 2000 are not included in this prospectus. The financial information presented in this prospectus should be read in conjunction with our consolidated financial statements.

As discussed in note 25 V p) to our consolidated financial statements, the consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002 have been restated to reflect the disclosure of exchange rate changes on cash and cash equivalents denominated in foreign currencies, which had been previously classified as cash flow from operating activities. These changes did not impact the total amount of cash flows or of cash and cash equivalents reported in 2004, 2003 and 2002. As a consequence, net cash provided by operating activities increased to R\$ 539.6 million, compared to R\$ 535.6 million previously reported for 2004, increased to R\$ 331.2 million, compared to R\$ 311.4 million previously reported for 2003 and decreased to R\$ 425.2 million, compared to R\$ 468.8 million previously reported for 2002.

All references herein to the *real*, *reais*, or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars, dollars or U.S.\$ are to United States dollars.

On April 4, 2005, the exchange rate for *reais* into U.S. dollars was R\$ 2.6598 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The commercial selling rate was R\$ 2.654 to U.S.\$1.00 at December 31, 2004 and R\$ 2.889 to U.S.\$1.00 at December 31, 2003. The *real*/dollar exchange rate fluctuates widely, and the current commercial selling rate may not be indicative of future exchange rates. See *Exchange rates* for information regarding exchange rates for the Brazilian currency since January 1, 2000.

Solely for the convenience of the reader, we have translated some amounts included in *Prospectus Summary* *Summary financial information*, *Capitalization*, *Selected consolidated financial information* and elsewhere in this prospectus from *reais* into U.S. dollars using the commercial selling rate as reported by the Central Bank at December 31, 2004 of R\$ 2.654 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Segment information for our businesses are presented on an unconsolidated basis. Consequently, intercompany transactions have not been eliminated in segment information and therefore this information will not sum to consolidated financial information provided. See *Business Related party transactions* for more information.

Certain figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

*Brazilian GAAP and U.S. GAAP*



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Our consolidated financial statements are prepared in accordance with accounting practices adopted in Brazil ( Brazilian GAAP ), which include accounting principles emanating from the Brazilian corporate law and accounting standards and supplementary procedures established by the CVM and the Brazilian Institute of Independent Auditors (Instituto dos Auditores Independentes do Brasil), or IBRACON. Such accounting practices differ in certain material respects from accounting principles generally accepted in

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**Presentation of Information**

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the United States of America, or U.S. GAAP. See note 25 to our consolidated financial statements for a summary of the differences between Brazilian GAAP and U.S. GAAP, and a reconciliation of shareholders' equity as of December 31, 2004 and 2003 and net income for the years ended December 31, 2004, 2003 and 2002 from Brazilian GAAP to U.S. GAAP.

*Market share information*

All market share information for the LPG business in Brazil is obtained from Sindigás, the Brazilian Association of LPG distributors. Unless otherwise specified, all macro economic data is obtained from Instituto Brasileiro de Geografia e Estatística (IBGE), Fundação Getúlio Vargas (FGV) and the Central Bank.

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## Use of proceeds

We will not receive any proceeds from the sale of the ADSs or preferred shares by the selling shareholders. If the underwriters and the Brazilian underwriters exercise their over-allotment option, we will use the proceeds from the sale of over-allotment shares (approximately U.S.\$ , if the over-allotment option is exercised in full) for planned capital expenditures.

Ultrapar's planned capital expenditures in 2005 are R\$299 million. Of this amount, investments in Ultragas should amount to approximately R\$83 million, a 7% reduction as compared to 2004, as part of its strategy of focusing on productivity and efficiency. At Oxitenó, investments are expected to amount to approximately R\$181 million in 2005, higher than in recent years mainly due to investments in expanding our production capacity of specialty chemicals and in the new production plant of fatty alcohol. In 2005, Ultracargo will maintain its strategy of investing in storage facilities and truck fleet. Ultracargo expects to invest approximately R\$35 million in 2005.

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## Market information

### GENERAL

Our ADSs are listed on the New York Stock Exchange under the trading symbol UGP. Our preferred shares trade on the São Paulo Stock Exchange under the symbol UGPA4. The ADSs offered in this offering will be fungible with, and will be identified by the same CUSIP number and will be eligible for trading under the same New York Stock Exchange trading symbol as, the existing ADSs.

We have registered our ADSs with the United States Securities and Exchange Commission pursuant to the Securities Act. Each ADS is evidenced by an American Depositary Receipt, or ADR, representing 1000 preferred shares. As of February 28, 2005, we had 19 U.S. resident holders of our preferred shares (including The Bank of New York, as depositary) representing approximately 22% of our total outstanding preferred shares.

### MARKET PRICE OF PREFERRED SHARES AND ADSs

The table below sets forth, for the indicated periods, the high and low closing prices of the ADSs on The New York Stock Exchange, in U.S. dollars, and the preferred shares on the São Paulo Stock Exchange, in *reais*:

Year ended	New York Stock Exchange			São Paulo Stock Exchange		
	HIGH	LOW	VOLUME(1)	HIGH	LOW	VOLUME(1)
	U.S.\$ per ADS			R\$ per 1,000 preferred shares		
December 31, 2000	13.56	8.00	27,542	25.00	15.00	22,522
December 31, 2001	10.75	4.95	21,107	21.65	14.00	24,653
December 31, 2002	9.55	5.00	17,582	26.40	18.10	40,360
December 31, 2003	12.97	6.41	16,739	37.70	21.95	39,398
December 31, 2004	20.00	8.70	21,409	53.50	27.10	71,265
<b>Year ended December 31, 2003</b>						
First quarter	7.45	6.41	10,068	24.90	21.95	19,389
Second quarter	9.22	6.94	16,515	26.80	22.50	45,073
Third quarter	10.60	8.69	11,703	30.99	25.35	26,077
Fourth quarter	12.97	10.25	28,139	37.70	30.00	67,143
<b>Year ended December 31, 2004</b>						
First quarter	13.45	11.25	18,344	38.01	33.03	48,036
Second quarter	11.95	8.70	14,759	34.65	27.10	54,070
Third quarter	15.96	10.05	19,823	46.01	30.10	96,567
Fourth quarter	20.00	14.47	32,511	53.50	42.24	86,386

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## Month ended

September 30, 2004	15.96	13.86	29,833	46.01	40.00	108,067
October 31, 2004	16.68	14.47	15,810	47.00	42.24	61,586
November 30, 2004	18.70	15.50	33,743	50.39	45.50	85,681
December 31, 2004	20.00	18.07	47,277	53.50	50.00	110,732
January 31, 2005	20.26	17.57	15,047	53.49	48.80	63,524
February 28, 2005(2)	19.12	16.00	61,803	49.50	43.00	108,581
March 31, 2005(2)	17.75	16.88	58,533	47.85	46.00	72,741

(1) Average daily trading volume.

(2) Prices after giving effect to the stock dividend of 15 shares for each 100 shares approved at our Board of Directors meeting held on February 2, 2005.

**Table of Contents****Market information****SHARE REPURCHASE PROGRAM**

In October 2001, the Board of Directors approved a share repurchase program under which we can acquire our own preferred shares at market price and hold them in treasury for subsequent sale or cancellation. During 2002 and 2003, we acquired a total of 20.2 million and 87.9 million preferred shares, respectively. From January 1, 2004 to September 23, 2004, we acquired a total of 219.6 million preferred shares. The last share repurchase program expired on September 23, 2004 and was not renewed by us. Of the 327.7 million shares repurchased since approval of the program in 2001, we have granted 145 million preferred shares as deferred stock compensation to our executive officers under our Deferred Stock Plan. See Management Compensation.

The table below shows all repurchases by us of our preferred shares during 2004:

Period	Total number of shares purchased	Average price paid per 1,000 shares in reais	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
January 1, 2004 - January 31, 2004	0		0	1,722,752,268
February 1, 2004 - February 29, 2004	0		0	1,722,752,268
March 1, 2004 - March 31, 2004	17,300,000	34.41	17,300,000	1,705,452,268
April 1, 2004 - April 30, 2004	17,300,000	33.65	17,300,000	1,688,152,268
May 1, 2004 - May 31, 2004	149,200,000	29.04	149,200,000	1,538,952,268
June 1, 2004 - June 30, 2004	22,100,000	30.62	22,100,000	1,516,852,268
July 1, 2004 - July 31, 2004	13,700,000	30.95	13,700,000	1,503,152,268
August 1, 2004 - August 31, 2004	0		0	1,503,152,268
September 1, 2004 - September 30, 2004	0		0	1,503,152,268
October 1, 2004 - October 31, 2004	0		0	0
November 1, 2004 - November 30, 2004	0		0	0
December 1, 2004 - December 31, 2004	0		0	0
<b>Total shares repurchased during 2004</b>	<b>219,600,000</b>		<b>219,600,000</b>	

- (1) Our latest share repurchase program approving the repurchase of 1,733,452,508 shares was announced on September 25, 2003 and expired on September 23, 2004.

**TRADING ON THE SÃO PAULO STOCK EXCHANGE**

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Settlement of transactions conducted on the São Paulo Stock Exchange is effected three business days after the trade date. Delivery of, and payment for, shares are made through the facilities of separate clearing houses for each exchange, which maintain accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the clearing house on the second business day following the trade date. The clearing house for the São Paulo Stock Exchange is *Companhia Brasileira de Liquidação e Custódia*, or CBLC, which is wholly owned by that exchange.

In order to better control volatility, the São Paulo Stock Exchange has adopted a "circuit breaker" system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of these stock exchanges fall below the limits of 10% and 15%, respectively, in relation to the closing index registered in the previous trading session.

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**Market information**

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The São Paulo Stock Exchange is less liquid than the New York Stock Exchange or other major exchanges in the world. At December 31, 2004, the aggregate market capitalization of the 373 companies listed on the São Paulo Stock Exchange was equivalent to approximately U.S.\$340.92 billion, and the ten largest companies listed on the São Paulo Stock Exchange represented approximately 49% of the total market capitalization of all listed companies. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by governmental entities or by one principal shareholder. See [Risk factors](#) Risks relating to the preferred shares and the American depositary shares The relative volatility and illiquidity of the Brazilian securities markets may adversely affect you.

Trading on the São Paulo Stock Exchange by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment and tax legislation. See [Description of capital stock](#) Regulation of foreign investment and exchange controls.

**REGULATION OF BRAZILIAN SECURITIES MARKETS**

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, by the *Conselho Monetário Nacional*, the National Monetary Council, and by the Central Bank, which has, among others, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions.

Under the Brazilian corporate law, a corporation is either publicly (*companhia aberta*), such as we are, or closely held (*companhia fechada*). All publicly held companies, including us, are registered with the CVM and are subject to reporting requirements, in order to be allowed to have their securities offered to the public and to be listed in a Brazilian stock exchange. Our preferred shares are traded on the São Paulo Stock Exchange but may be traded privately subject to certain limitations. The Brazilian over the counter market consists of direct trades in which a financial institution registered with the CVM serves as intermediary.

We may ask that trading of our securities on the São Paulo Stock Exchange be suspended in anticipation of a material announcement. Trading may also be suspended at the initiative of the São Paulo Stock Exchange or the CVM, among other reasons, based on or due to a belief that we have provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the CVM or the São Paulo Stock Exchange.

Brazilian securities law, Brazilian corporate law and the regulations issued by the CVM, the National Monetary Council and the Central Bank provide, among other things, disclosure requirements and restrictions on insider trading, price manipulation and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in some other jurisdictions.



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## Exchange rates

Before March 24, 2005, there were two principal foreign exchange markets in Brazil, in which notes were freely negotiated but could be strongly influenced by Central Bank intervention:

- Ø the commercial rate exchange market dedicated principally to trade and financial foreign exchange transactions such as the buying and selling of registered investments by foreign entities, the purchase or sale of shares, or the payment of dividends or interest with respect to shares; and
- Ø the floating rate exchange market that was generally used for transactions not conducted through the commercial foreign exchange market.

On March 4, 2005, the National Monetary Council enacted Resolution No. 3265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of reais by a person or legal entity, without limitation of the amount involved, provided, however, the legality of the transaction. Foreign currencies may only be purchased through financial institutions domiciled in Brazil authorized to operate in the exchange market.

Following the introduction of the *real* in 1994 and through 1998, the Central Bank maintained a band system exchange rate, under which the exchange rate between the *real* and the U.S. dollar would fluctuate within a pre-established moving band. In January 1999, due to market pressures, the Central Bank abolished the band system and allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the exchange rate has been established by the market and has fluctuated considerably, reporting a maximum quotation of R\$ 3.955 per U.S.\$ 1.00 on October 22, 2002. Since the liberalization of the exchange rate, the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. It is not possible to predict whether the Central Bank will continue to let the *real* float freely or whether the *real* will remain at its present level. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. The Brazilian government could impose a band system in the future or the *real* could devalue or appreciate substantially. See Risk factors Risks relating to Brazil.

On April 4, 2005, the exchange rate for *reais* into U.S. dollars was R\$ 2.6598 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank. The following table sets forth information on prevailing commercial foreign exchange selling rates for the periods indicated, as published by the Central Bank on its electronic information system, SISBACEN, using PTAX 800, Option 5.

Year ended	Exchange rates of nominal <i>reais</i> per U.S.\$ 1.00			
	High	Low	Average(1)	Year end
December 31, 2000	1.985	1.723	1.835	1.955
December 31, 2001	2.801	1.936	2.353	2.320
December 31, 2002	3.955	2.271	2.998	3.533
December 31, 2003	3.662	2.822	3.060	2.889
December 31, 2004	3.205	2.654	2.917	2.654



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**Exchange rates**

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Month ended	Exchange rates of nominal <i>reais</i> per U.S.\$ 1.00			
	High	Low	Average(2)	Month end
October 31, 2004	2.885	2.824	2.855	2.857
November 30, 2004	2.859	2.731	2.795	2.731
December 31, 2004	2.787	2.654	2.721	2.654
January 31, 2005	2.722	2.625	2.693	2.625
February 28, 2005	2.632	2.562	2.597	2.595
March 31, 2005	2.762	2.601	2.682	2.666

(1) Average of the foreign exchange rates on the last day of each month in the period.

(2) Average of the high and low foreign exchange rates for each month.

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## Capitalization

The following table sets forth our total debt and capitalization at December 31, 2004, and as adjusted to reflect (i) the issuance by us of R\$ 300 million principal amount of bonds due 2008 solely to Brazilian investors on March 1, 2005, and the repayment of short-term debt with the proceeds from the sale of these bonds, (ii) the issuance of 10,453,690,324 preferred shares as a stock dividend approved at a meeting of our Board of Directors held on February 2, 2005, and (iii) the sale by us of 1,180,450,698 preferred shares, assuming that the underwriters fully exercise their over-allotment option. This table should be read in conjunction with the consolidated financial statements appearing elsewhere in this prospectus.

	As of December 31, 2004		
	(in millions of U.S. dollars)(1)	(in millions of <i>reais</i> )	(as adjusted, in millions of <i>reais</i> )
Cash and cash equivalents	235.3	624.5	626.8
Short-term investments	8.4	22.4	22.4
Long-term investments	14.6	38.8	38.8
Related companies	1.2	3.1	3.1
<b>Total cash and financial investments</b>	<b>259.5</b>	<b>688.8</b>	<b>691.1</b>
Short-term financing	143.8	381.6	86.1
Long-term debt			
Financing	97.2	258.1	258.1
Related companies	3.3	8.8	8.8
Bonds			300.0
<b>Total debt</b>	<b>244.3</b>	<b>648.5</b>	<b>653.0</b>
<b>Minority interest</b>	<b>10.6</b>	<b>28.2</b>	<b>28.2</b>
Shareholders' equity			
Capital stock	250.2	664.0	898.8
Reserves and retained earnings	352.8	936.5	701.7
Capital over-allotment			
<b>Total shareholders' equity</b>	<b>603.0</b>	<b>1,600.5</b>	
<b>Total capitalization(2)</b>	<b>857.9</b>	<b>2,277.2</b>	

- (1) The *real* amounts for December 31, 2004 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$ 2.654, which is the commercial rate reported by the Central Bank on this date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this prospectus as a statement that the amounts in *reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See "Exchange rates".

- (2) Total capitalization is the sum of total debt, minority interest and total shareholders' equity.



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## Selected consolidated financial information

The following table presents our selected financial information at the dates and for each of the periods indicated in Brazilian GAAP. The consolidated balance sheet information as of December 31, 2004 and 2003 and the consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2004, 2003 and 2002 are derived from our audited consolidated financial statements included in this prospectus. The consolidated balance sheet information as of December 31, 2002, 2001 and 2000 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2001 and 2000 are derived from our audited consolidated financial statements that are not included in this prospectus.

You should read the information below in conjunction with our audited consolidated financial statements included elsewhere in this prospectus, as well as Presentation of financial information and Management's discussion and analysis of financial condition and results of operations.

	Year ended December 31,					
	2004(1)	2004	2003	2002	2001	2000
	(in millions of U.S. dollars or reais, where indicated, except per share data)					
	U.S.\$	R\$	R\$	R\$	R\$	R\$
<b>Consolidated income statement data:</b>						
Gross sales and services	1,978.1	5,250.6	4,603.8	3,795.3	2,862.5	2,301.2
Taxes on sales and services, rebates, discounts and returns	(175.7)	(466.4)	(603.5)	(800.8)	(577.8)	(423.2)
Net sales and services	1,802.4	4,784.2	4,000.3	2,994.5	2,284.7	1,878.0
Cost of sales and services	(1,382.6)	(3,669.9)	(3,196.4)	(2,247.1)	(1,698.3)	(1,399.6)
<b>Gross profit</b>	<b>419.8</b>	<b>1,114.3</b>	<b>803.9</b>	<b>747.4</b>	<b>586.4</b>	<b>478.4</b>
Operating (expenses) income						
Selling, general and administrative expenses	(209.4)	(555.9)	(458.9)	(382.3)	(317.7)	(266.2)
Other operating income, net	2.1	5.5	6.6	0.4	10.2	1.3
Total operating expenses	(207.3)	(550.4)	(452.3)	(381.9)	(307.5)	(264.9)
<b>Operating income before financial items</b>	<b>212.5</b>	<b>563.9</b>	<b>351.6</b>	<b>365.5</b>	<b>278.9</b>	<b>213.5</b>
Financial income (expenses), net	(17.0)	(45.0)	(57.2)	28.5	(31.1)	43.4
Non-operating (expenses) income, net	(6.0)	(16.0)	1.0	(44.1)	(17.0)	(16.5)
Income before income and social contribution taxes, equity in earnings (losses) of affiliated companies and minority interest	189.5	502.9	295.4	349.9	230.8	240.4
Income and social contribution taxes	(31.3)	(83.0)	(44.9)	(71.4)	(27.5)	(47.3)
Income before equity in earnings (losses) of affiliated companies and minority interest	158.2	419.9	250.5	278.5	203.3	193.1
Equity in earnings (losses) of affiliated companies			(0.5)	(1.7)	1.9	9.6
Minority interest	(2.0)	(5.4)	(3.6)	(54.5)	(73.0)	(74.2)
<b>Net income</b>	<b>156.2</b>	<b>414.5</b>	<b>246.4</b>	<b>222.3</b>	<b>132.2</b>	<b>128.5</b>
Net earnings per thousand shares(2)	2.24	5.95	3.54	3.62	2.49	2.42

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Dividends per thousand common shares(3)	0.89	2.36	1.01	1.00	4.20	0.57
Dividends per thousand preferred shares(3)	0.89	2.36	1.11	1.09	4.63	0.63

(table continued on following page)

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	Year ended December 31,					
	2004(1)	2004	2003	2002	2001	2000
	(in millions of U.S. dollars or <i>reais</i> , where indicated, except per share data)					
	U.S.\$	R\$	R\$	R\$	R\$	R\$
<b>Other financial data(4)</b>						
Cash flows from operating activities (restated)(5)	203.3	539.6	331.2	425.2	339.7	302.7
Cash flows from investing activities(5)	(114.2)	(303.1)	(391.3)	(427.2)	(206.7)	(170.5)
Cash flows from financing activities(5)	(66.6)	(176.8)	10.8	(59.7)	(339.2)	(126.6)
Depreciation and amortization(6)	65.1	172.7	146.9	121.8	102.4	90.8
<b>Adjusted EBITDA(7)</b>	<b>277.5</b>	<b>736.6</b>	<b>498.5</b>	<b>487.3</b>	<b>372.5</b>	<b>304.3</b>
Number of common shares (in millions)	51,264.6	51,264.6	51,264.6	51,264.6	37,984.0	37,984.0
Number of preferred shares (in millions)	18,426.6	18,426.6	18,426.6	18,426.6	15,016.0	15,016.0
<b>U.S. GAAP:</b>						
Net income(8)	156.1	414.3	288.3	143.9	123.0	123.8
Basic earnings per thousand common shares(8)	1.95	5.18	3.48	1.97	1.94	1.96
Basic earnings per thousand preferred shares(8)	1.95	5.18	3.82	2.16	2.14	2.15
Depreciation and amortization	47.7	126.6	98.5	85.4	74.9	63.6

- (1) The *real* amounts for December 31, 2004 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$ 2.654, which is the commercial rate reported by the Central Bank on this date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this prospectus as a statement that the amounts in *reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See Exchange rates .
- (2) Net earnings per thousand shares is calculated on the weighted average shares outstanding during each of the periods presented. Under Brazilian GAAP, net earnings per thousand shares are not retroactively adjusted for the stock dividend described under Description of capital stock History of capital stock.
- (3) See Distribution policy and dividends for information regarding declaration and payment of dividends. Dividends per thousand shares do not reflect any adjustments related to the stock dividend described under Description of capital stock History of capital stock.
- (4) Cash flow information has been derived from our consolidated financial statements prepared in accordance with Brazilian GAAP. Cash flows from operations for the years 2004, 2003 and 2002 have been restated as described in Note 25 V p) to our consolidated financial statements.
- (5) See Note 25(V)(i) to our consolidated financial statements.
- (6) Represents depreciation and amortization expenses included in cost of sales and services and in selling, general and administrative expenses.
- (7) See footnote 3 under Summary financial information for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.
- (8) The calculation of earnings per thousand shares is retroactively adjusted for the stock dividend described under Description of capital stock-History of capital stock for all the periods presented.



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	As of December 31,					
	2004(1) (in millions of U.S. U.S.\$	2004 R\$	2003 R\$	2002 R\$	2001 R\$	2000 R\$
(in millions of U.S. dollars or reais, where indicated)						
<b>Consolidated balance sheet data</b>						
<b>Current assets</b>						
Cash and cash equivalents	235.3	624.5	568.8	637.9	656.0	862.2
Short-term investments	8.4	22.4	41.0			
Trade accounts receivables	139.1	369.3	322.3	278.0	149.2	139.2
Inventories	77.6	206.0	137.7	106.3	94.5	86.5
Recoverable taxes	37.7	100.1	115.5	115.1	121.2	82.2
Other	8.5	22.6	33.4	49.6	24.3	20.7
<b>Total current assets</b>	<b>506.6</b>	<b>1,344.9</b>	<b>1,218.7</b>	<b>1,186.9</b>	<b>1,045.2</b>	<b>1,190.8</b>
<b>Long-term assets</b>						
Long-term investment	14.6	38.8				
Related companies	1.2	3.1	2.8	2.6	1.7	1.5
Deferred income and social contribution taxes	23.8	63.3	61.4	33.3	27.3	23.0
Recoverable taxes	3.6	9.5				
Other	10.8	28.6	20.7	11.5	13.0	11.3
<b>Total long-term assets</b>	<b>54.0</b>	<b>143.3</b>	<b>84.9</b>	<b>47.4</b>	<b>42.0</b>	<b>35.8</b>
<b>Permanent assets</b>						
Investments	12.0	31.8	33.1	33.0	88.8	87.8
Property, plant and equipment, net	394.6	1,047.4	968.6	779.5	707.9	655.9
Deferred charges, net	37.6	99.8	102.7	81.1	68.1	44.2
<b>Total permanent assets</b>	<b>444.2</b>	<b>1,179.0</b>	<b>1,104.4</b>	<b>893.6</b>	<b>864.8</b>	<b>787.9</b>
<b>TOTAL ASSETS</b>	<b>1,004.8</b>	<b>2,667.2</b>	<b>2,408.0</b>	<b>2,127.9</b>	<b>1,952.0</b>	<b>2,014.5</b>
<b>Current liabilities</b>						
Financing	143.8	381.6	381.6	219.8	124.5	134.1
Suppliers	38.4	102.0	90.3	104.4	88.4	86.8
Payroll and related charges	35.5	94.1	74.7	64.4	50.2	44.7
Dividends payable	28.1	74.7	41.7	49.0	33.6	27.1
Other	12.3	32.7	44.5	30.6	27.2	28.9
<b>Total current liabilities</b>	<b>258.1</b>	<b>685.1</b>	<b>632.8</b>	<b>468.2</b>	<b>323.9</b>	<b>321.6</b>
<b>Long-term liabilities</b>						
Financing	97.2	258.1	306.3	363.6	290.2	291.8
Related companies	3.3	8.8	9.0	10.2	11.0	11.6
Other taxes and contributions contingent liability	19.6	52.1	40.9	28.5	62.4	53.4
Other	13.0	34.4	30.1	35.3	24.8	27.2
<b>Total long-term liabilities</b>	<b>133.1</b>	<b>353.4</b>	<b>386.3</b>	<b>437.6</b>	<b>388.4</b>	<b>384.0</b>
<b>TOTAL LIABILITIES</b>	<b>391.2</b>	<b>1,038.5</b>	<b>1,019.1</b>	<b>905.8</b>	<b>712.3</b>	<b>705.6</b>
Minority interest	10.6	28.2	32.2	31.0	439.8	411.2
<b>Shareholders' equity</b>						
Capital	250.2	664.0	664.0	664.0	433.9	433.9
Capital reserve		0.1				
Revaluation reserve	6.2	16.4	17.8	26.0	25.9	29.1

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Profit reserves	346.6	920.0	674.9	501.1	340.1	434.7
<b>Total shareholders' equity</b>	<b>603.0</b>	<b>1,600.5</b>	<b>1,356.7</b>	<b>1,191.1</b>	<b>799.9</b>	<b>897.7</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>1,004.8</b>	<b>2,667.2</b>	<b>2,408.0</b>	<b>2,127.9</b>	<b>1,952.0</b>	<b>2,014.5</b>
<b>U.S. GAAP:</b>						
Total assets	978.0	2,595.9	2,343.6	2,004.2	1,892.0	1,967.6
Total shareholders' equity	582.4	1,545.8	1,294.8	1,076.5	748.5	854.6

- (1) The *real* amounts for December 31, 2004 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$ 2.654, which is the commercial rate reported by the Central Bank on this date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this prospectus as a statement that the amounts in *reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See "Exchange rates".

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**Selected consolidated financial information**

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Changes in working capital (current assets less current liabilities) were a result primarily of an increase in our commercial operations.

Regarding our cash and cash equivalent position, the 2003 reduction largely reflects our investments in acquisitions of ownership interests and in capital expenditures. See Management's discussion and analysis of financial condition and results of operations Investments for more information on our investments.

The 2004, 2003 and 2002 variations in permanent assets were mainly due to changes in property, plant and equipment which are related to our investments during those years, primarily the acquisitions of Shell Gás and Canamex in 2003. See Management's discussion and analysis of financial condition and results of operations Investments for more information on our investments.

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## Management's discussion and analysis of financial condition and results of operations

### **OPERATING RESULTS**

You should read this discussion together with our consolidated financial statements, including the notes thereto, and other financial information included elsewhere in this prospectus and in conjunction with the financial information included under "Selected consolidated financial information." Our consolidated financial statements have been prepared in accordance with Brazilian GAAP and the accompanying notes contain a description of the principal differences between such practices and U.S. GAAP, and a reconciliation to U.S. GAAP of net income for each of the three years in the period ended December 31, 2004 and shareholders' equity for the periods ended December 31, 2004 and 2003. Our consolidated financial statements for the years ended December 31, 2004, 2003 and 2002 were audited by the independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes.

#### **Overview**

Our three principal businesses are:

- Ø the LPG distribution business, conducted by our wholly-owned subsidiary Ultragaz;
- Ø the chemical and petrochemical business, conducted by our wholly-owned subsidiary Oxitenor; and
- Ø logistical services for oil and chemical products, conducted by our wholly-owned subsidiary Ultracargo.

Ultragaz sells LPG to the residential, commercial and industrial market segments. Oxitenor produces ethylene oxide and its principal derivatives, and is also a significant producer of specialty chemicals. It manufactures approximately 700 products used in various industrial sectors such as polyethylene terephthalate, or PET, packaging, polyester, textiles, paints, cosmetics and detergents. Ultracargo operates a fleet of trucks specializing in the transport of chemical products and fuels and maintains storage facilities at railroad junctions and port terminals.

#### **Brazilian economic background**

Since most of our operating businesses are located in Brazil, we are significantly affected by Brazil's economic and social conditions, including, but not limited to, gross domestic product, or GDP, growth rates, the domestic rate of inflation and exchange rate fluctuations.

**Gross domestic product.** After the introduction of the *real* Plan in 1994, the Brazilian economy experienced some years of strong economic growth. However, in 1998, economic growth slowed down, followed by a sharp devaluation of the *real* and GDP increased by 0.8% in 1999. On the other hand, in 2000, Brazil's GDP grew by 4.4%. In 2001, Brazil's GDP grew by only 1.5%, largely due to the lack of energy supply, the terrorist attacks of September 11, and the Argentine crisis. In 2002, Brazil's GDP grew by 1.5%, as a result of the political instability surrounding the presidential elections of October 2002, which caused foreign exchange rate devaluation, and an increase in interest rates, and undermined consumer confidence. In 2003, the GDP grew 0.5%, largely a reflection of the economic policy of holding the basic interest rate at high levels throughout the year as a means of controlling inflation. As government became more confident regarding inflation trends, interest rates were lowered, and estimates are that during 2004 Brazilian GDP grew by 5%. Our operations are significantly impacted by Brazilian

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GDP growth, specifically, sales of LPG to the commercial and industrial customers, Oxiteno's sales to the domestic market and Ultracargo's logistics operations. In addition, sales of LPG to residential customers are affected by the level of household income.

**Inflation and currency fluctuations.** Our cash operating expenses are substantially in *reais* and tend to increase with inflation. The inflation rate, as measured by the *Índice Geral de Preços Mercado*, or IGP-M, was 1.8% in 1998. The inflation rate increased to 20.1% in 1999 as a result of the devaluation of the *real* beginning in January 1999, and decreased to 10.0% in 2000 and 10.4% in 2001. In 2002, the inflation rate as measured by the IGP-M increased to 25.3%, reflecting the foreign exchange rate devaluation of 52.3%, largely due to uncertainties and risks inherent in the Brazilian presidential succession campaign. In 2003, the *real* appreciated 18% against the U.S. dollar, consequently diminishing inflationary pressures and resulting in an IGP-M of 8.7%. In 2004, the *real* appreciated further against the U.S. dollar and IGP-M for the year was 12.4%. Future governmental actions, including actions to adjust the value of the *real* in relation to the dollar, may increase inflation.

The principal foreign exchange risk we face arises from certain U.S. dollar denominated costs and expenses. Although a substantial part of our debt is dollar-denominated, it is currently hedged against currency devaluation through the use of various derivative instruments. Additionally, a significant part of our raw materials is also denominated or indexed to the U.S. dollar. A large part of our sales is denominated in *reais*, although prices in the chemical business are benchmarked to prices prevailing in the international markets and denominated in U.S. dollars. Hence, we are exposed to foreign exchange rate risks which could negatively impact our businesses, financial situation and operating results as well as our capacity to service our debt.

The table below shows the inflation rate for the periods indicated, as measured by the IGP-M as well as the devaluation of the *real* against the U.S. dollar.

Index	Year ended December 31,		
	2004	2003	2002
General Price Index IGP-M	12.4%	8.7%	25.3%
Devaluation (appreciation) of the real against the U.S. dollar	(8.1)%	(18.2)%	52.3%

Inflation affects our financial performance by increasing some of our operating expenses denominated in *reais* (and not linked to the U.S. dollar). A significant portion of our costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate. In addition, some of our *real*-denominated debt is indexed to take into account the effects of inflation.

We manage the foreign exchange risk associated with the scheduled payments under the terms of our U.S. dollar indebtedness by investing in U.S. dollar-denominated securities and foreign currency/interest swap contracts, under which we pay variable interest in *reais* based on the interbank certificate of deposit rate, or CDI, and receive fixed interest in U.S. currency. As of December 31, 2004 our total debt denominated in foreign currency was R\$ 359.1 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$ 410.6 million, composed of investments indexed to U.S. dollars and swap instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. See Business Quantitative and qualitative disclosures about market risk Foreign exchange risk for information about our foreign exchange risk hedging policy and Notes 12 and 18 to our consolidated financial statements.



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**Management's discussion and analysis of financial condition and results of operations**

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**Discussion of critical accounting policies and estimates**

The presentation of our financial condition and results of operations requires our management to make judgments regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities and may affect the reported amount of them as well as our revenues and expenses. Actual results may differ from those estimated under different variables, assumptions or conditions, even though our management believes that its accounting estimates are reasonable. The following paragraphs review the critical accounting estimates that management considers most important for understanding our financial condition, results of operations and cash flows. An accounting estimate is considered a critical accounting estimate if it meets the following criteria:

- Ø The accounting estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made; and
- Ø Different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial condition, results of operations or cash flows.

We have identified the following four of our accounting policies that can be considered critical.

***Allowance for doubtful accounts.*** We maintain allowances for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. The allowance for doubtful accounts is recorded in an amount we consider sufficient to cover any probable losses on realization of our accounts receivable from our customers, as well as other receivables, and is included as selling expenses; no adjustment is made to net sales and services revenue. In order to establish the allowance for doubtful accounts, our management constantly evaluates the amount and characteristics of our accounts receivable. When significant delays occur and the likelihood of receiving these payments decreases, a provision is made. In case receivables in arrears are guaranteed or there are reasonable grounds to believe they will be paid, no provision is made. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required in future periods. However, because we can not predict with certainty the future financial stability of our customers, we can not guarantee that our reserves will continue to be adequate. Actual credit losses may be greater than the allowance we have established, which could have a significant impact on our selling expenses. See Note 25v(h) to our consolidated financial statements for additional information about our allowance for doubtful accounts.

***Deferred Taxes.*** We recognize deferred tax assets and liabilities which do not expire, arising from tax loss carry forwards, temporary add-backs, revaluation of property, plant and equipment and other procedures. We periodically review the deferred tax assets for recoverability and establish a valuation allowance, as required, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. In the event we or one of our subsidiaries operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we evaluate the need to establish a valuation allowance against all or a significant portion of our deferred tax assets, resulting in an increase in our effective tax rate, thereby decreasing net income. If we determine that we can realize a deferred tax in excess of our net recorded amount, we decrease the valuation allowance, thereby increasing net income. Significant management judgment is required in determining any valuation allowance. The principal uncertainty relates to the likelihood of future taxable income from the subsidiary that generated the deferred tax asset. A change in our projections of profitability could result in the need to record a valuation allowance against deferred tax assets, resulting in a negative impact of future results. See Note 21 to our consolidated financial statements for additional information on taxes.





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***Contingent liabilities.*** We are currently involved in certain legal and administrative proceedings that arise from our normal course of business as described in Note 19 to our consolidated financial statements and Business Legal proceedings. We believe that the extent to which these contingencies are recognized in our consolidated financial statements is adequate. It is our policy to record accrued liabilities in regard to contingencies that can be reasonably estimated and could have a material adverse impact on the result of our operations or our financial condition, to the extent not covered by insurance, and that are likely to occur in the opinion of our management, based on information available to us including information obtained from our legal advisors. Future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions, by the effectiveness of our strategies relating to these proceedings, by future developments in each matter being discussed or by changes in approach, such as a change in settlement strategy in dealing with these matters.

***Fair value of financial instruments.*** We enter into foreign currency swap agreements in order to hedge our foreign exchange exposure. Under Brazilian GAAP, these swap agreements are recorded at their net settlement prices as determined on each balance sheet date in accordance with their contractual terms. In applying U.S. GAAP to our swap agreements we adopted SFAS 133, Accounting for Derivative Instruments and Hedging Activities. The accounting required under SFAS 133 is broader than under Brazilian GAAP, especially with respect to the overall treatment and definition of a derivative, when to record a derivative, the classification of derivatives, and when to designate a derivative as a hedge. Under this method of accounting we adjusted our foreign currency swaps to their fair values, with changes in fair values being recognized in earnings. Note 25 to our consolidated financial statements provides additional information regarding the accounting of our swap agreements.

In order to estimate fair values, we consider several variables, such as interest rates, discount rates, foreign exchange rates and future cash flows. Our most important sources of information concerning these variables are the market projections of future exchange and interest rates provided by the Brazilian Mercantile & Future Exchange (BMF). We believe BMF to be the most adequate and reliable source of information available for our calculations. However, given the volatility inherent in financial markets, estimates concerning the variables used to calculate fair values are subject to constant change. As a consequence, our judgment related to, among other issues, the behavior of these variables, the selection of sources of information and the timing of calculation, directly affects the fair values of our swaps and the amount of gains or losses recorded in the income statement under U.S. GAAP.

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The following discussion of our results of operations is based on the financial information derived from our consolidated financial statements prepared in accordance with Brazilian GAAP.

*Year ended December 31, 2004 compared to the year ended December 31, 2003.*

The following table shows a summary of our results of operations for the year ended December 31, 2004 and 2003:

	Year ended	Percentage	Year ended	Percentage	
	December 31,	of net	December 31,	of net	
	2004	sales	2003	sales	Percent
		and		and	change
		services		services	
		(in millions of reais, except percentages)			
Net sales and services	4,784.2	100%	4,000.3	100%	20%
Cost of sales and services	(3,669.9)	77%	(3,196.4)	80%	15%
<b>Gross profit</b>	<b>1,114.3</b>	<b>23%</b>	<b>803.9</b>	<b>20%</b>	<b>39%</b>
Selling, general and administrative expenses	(555.9)	11%	(458.9)	11%	21%
Other operating income, net	5.5	0%	6.6	0%	(17)%
<b>Operating income before financial items</b>	<b>563.9</b>	<b>12%</b>	<b>351.6</b>	<b>9%</b>	<b>60%</b>
Financial income (expense), net	(45.0)	1%	(57.2)	1%	(21)%
Non-operating income (expense), net	(16.0)	0%	1.0	0%	
Income and social contribution taxes	(83.0)	2%	(44.9)	1%	85%
Minority interest/equity in earnings of affiliates	(5.4)	0%	(4.1)	0%	32%
<b>Net income</b>	<b>414.5</b>	<b>9%</b>	<b>246.4</b>	<b>6%</b>	<b>68%</b>
<b>Adjusted EBITDA(1)</b>	<b>736.6</b>		<b>498.5</b>		<b>48%</b>

(1) See footnote 3 under "Summary financial information" for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

*Net sales and services.* Net sales and services increased by 20%, to R\$ 4,784.2 million for the year ended December 31, 2004 from R\$ 4,000.3 million for the year ended December 31, 2003.

The following table illustrates the change in sales in each of our segments:

	Year ended December 31,		
			Percent
	2004 (in millions of <i>reais</i> , except percentages)	2003	change
Ultragas	2,968.1	2,622.7	13%
Oxiteno	1,662.7	1,237.8	34%
Ultracargo	197.3	177.1	11%

Ultragas' net sales and services were R\$ 2,968.1 million for the year ended December 31, 2004, a growth of 13% in relation to the R\$ 2,622.7 million in 2003. The increase in net sales was principally due to an increase in sales volume while LPG prices (refinery and retail) remained stable during the year. Ultragas' sales volume grew 14% compared to 2003, primarily due to the acquisition of Shell Gás in August 2003, which at that time accounted for 4.5% of the Brazilian market, and also due to the

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**Management's discussion and analysis of financial condition and results of operations**

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approximately 3% growth in the LPG market as a whole. We believe that this increase is largely a reflection of growth in the Brazilian economy and the increase in personal income among the population accompanied by a leveling-off of the price of LPG charged by Petrobras.

Oxitenó's net sales and services increased to R\$ 1,662.7 million in the year ended December 31, 2004, a 34% growth compared to R\$ 1,237.8 million for 2003. Oxitenó's sales volume was approximately 518,200 tons in this period, 9% higher than the 474,100 in 2003, mainly due to (i) stronger domestic sales, partially compensated by lower exports, resulting in additional 29.3 thousand tons sold, and (ii) the acquisition of Canamex, which contributed with incremental 14.8 thousand tons. In addition to the 9% increase in sales volume, the 34% higher net sales and services was driven by the recovery of petrochemical commodities prices in the international market and enhanced sales mix.

Ultracargo's net sales and services increased to R\$ 197.3 million for the year ended December 31, 2004, a growth of 11% compared to 2003, with net sales of R\$ 177.1 million. The improvement in net sales and services reflects the increased volume of operations (R\$4.9 million) and higher contractual tariffs (R\$ 14.7 million). Ultracargo's average stored volumes of liquids and gases increased by 4% for the year ended December 31, 2004 compared to 2003, as a result of a growth in its number of customers and increased economic activity. Stored volumes of solid chemicals saw an increase of 47% for the year ended December 31, 2004 compared to 2003, mainly due to the startup of the Tatuí Terminal.

*Cost of sales and services.* Cost of sales and services increased by 15% to R\$ 3,669.9 million in the year ended December 31, 2004, from R\$ 3,196.4 million for the year ended December 31, 2003.

Ultragaz's cost of sales and services increased 12% to R\$ 2,519.8 million for the year ended December 31, 2004 from R\$ 2,256.3 million in 2003, largely the result of an increase of 14% in sales volume.

Oxitenó's cost of sales and services rose by 24% to R\$ 1,069.0 million for the year ended December 31, 2004 from R\$ 863.6 million in 2003. This increase was mainly due to (i) a 9% growth in sales volumes and an increase in some raw material prices, the latter directly impacted by stronger naphtha prices on the international market, both effects contributed to an increase of approximately R\$ 156.3 million in the cost of sales and services, and (ii) the consolidation of Canamex, which contributed to a increase of R\$ 41.8 million in the cost of sales and services. In addition, Oxitenó increased its sales volume of specialty chemicals which have higher unit costs, and higher margins, by 23% compared to 2003.

Ultracargo's cost of sales and services increased 10% to R\$ 125.0 million in the year ended December 31, 2004 from R\$ 113.9 million in 2003. This increase is mainly a reflection of (i) a R\$ 2.1 million increase in personnel costs due to annual collective wage agreements and expansion in the size of the workforce to meet the demands of new clients and new operations, (ii) a R\$ 3.8 million increase in costs of fuel, tires and spare parts, and (iii) a R\$ 2.0 million increase in third-party freight costs and (iv) a R\$1.1 million increase in nitrogen costs, used for cleaning storage tanks.

*Gross profit.* Our gross profit increased by 39% to R\$ 1,114.3 million for the year ended December 31, 2004 from R\$ 803.9 million in 2003. Ultragaz's gross profit was R\$ 448.3 million, 22% higher than the gross profit of R\$ 366.4 million reported for 2003. Oxitenó's gross profit was R\$ 593.7 million, a 59% increase compared with R\$ 374.2 million reported in 2003. Ultracargo's gross profit was R\$ 72.3 million for the year ended December 31, 2004, corresponding to an increase of 14% compared with R\$ 63.2 million for the year ended December 31, 2003.

*Selling, general and administrative expenses.* Our selling, general and administrative expenses grew 21% to R\$ 555.9 million for the year ended December 31, 2004 from R\$ 458.9 million for the year ended December 31, 2003.

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Ultragas's selling, general and administrative expenses increased by 17% to R\$ 298.2 million for the year ended December 31, 2004 from R\$ 254.1 million in 2003. This increase was principally due to (i) a 22% increase in depreciation and amortization to R\$ 116.2 million for the year ended December 31, 2004 from R\$ 95.0 million in 2003, resulting from the acquisition of Shell Gás in August 2003 and investments in fixed and deferred assets, (ii) an increase of 14% in sales volume, which increased selling expenses in approximately R\$ 11.9 million; and (iii) the collective labor agreement negotiated during the year which increased payroll expenses in R\$ 7.2 million.

Oxiteno's selling, general and administrative expenses increased by 24% to R\$ 213.1 million for the year ended December 31, 2004 from R\$ 171.2 million in 2003, principally the result of (i) higher personnel expenses, due to a R\$ 8.3 million increase in annual collective wage agreements negotiated for the period and a R\$ 11.1 million increase in the provision for employee profit sharing, in line with the company's improved performance and (ii) the consolidation of R\$ 9.7 million in expenses of Canamex.

Ultracargo's selling, general and administrative expenses rose 29% to R\$ 50.8 million for the year ended December 31, 2004 from R\$ 39.4 million in 2003. General and administrative expenses increased R\$ 11.5 million, principally as a result of wage increases of R\$ 2.6 million for 2004 per the terms of collective labor agreements and a larger number of employees needed to service our increased customer base, notably in the transportation sector, which contributed R\$ 3.8 million to general and administrative expenses, and higher IT expenses.

*Operating income before financial items.* Our operating income before financial items increased 60% to R\$ 563.9 million for the year ended December 31, 2004 from R\$ 351.6 million in 2003. This was mainly due to the increase in Oxiteno's and Ultragas's operating results. Ultragas's operating income before financial items for the year ended December 31, 2004 was R\$ 152.7 million, a R\$ 39.5 million increase compared to 2003. At Oxiteno, operating income before financial items was R\$ 382.9 million for the year ended December 31, 2004, an 85% increase compared to R\$ 207.0 million in 2003. Ultracargo's operating income before financial items was R\$ 23.0 million for the year ended December 31, 2004, a 7% decrease compared to the R\$ 24.7 million in 2003.

*Financial income (expense), net.* We reported net financial expenses of R\$ 45.0 million for the year ended December 31, 2004, a decrease of 21% compared to a net financial expense of R\$ 57.2 million in 2003 primarily related to the decrease of our net debt position.

As of December 31, 2004, we had a net cash position of R\$ 46.0 million and a net asset foreign exchange rate exposure of R\$ 51.5 million. As of December 31, 2004 our total debt denominated in foreign currency was R\$ 359.1 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$ 410.6 million, composed of investments indexed to U.S. dollars and swap instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. See footnote 4 under "Summary financial information" for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

*Non-operating income (expense), net.* We posted a net non-operating expense of R\$ 16.0 million for the year ended December 31, 2004 compared to a net non-operating income of R\$ 1.0 million in 2003. This net expense is primarily attributable to the scrapping of storage cylinders by Ultragas in 2004.

*Income and social contribution taxes.* Income and social contribution tax expenses amounted to R\$ 83.0 million for the year ended December 31, 2004 an increase of 85% from R\$ 44.9 million in 2003. This increase is in line with the growth in our operating results.





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*Minority interest/equity in earnings of affiliates.* Minority interest was R\$ 5.4 million for the year ended December 31, 2004, compared to R\$ 3.6 million in 2003. Minority interest reflects our remaining minority stakes in certain subsidiaries, such as Cia. Ultragaz S.A. and Tequimar, not wholly-owned by us.

*Net income.* As a result of the foregoing, net income for the year ended December 31, 2004 was R\$ 414.5 million, an increase of 68% compared to R\$ 246.4 million in 2003.

*Adjusted EBITDA.* Adjusted EBITDA increased by 48% to R\$ 736.6 million for the year ended December 31, 2004, from R\$ 498.5 million in 2003. Ultragaz posted adjusted EBITDA of R\$ 268.9 million for the year ended December 31, 2004, 29% higher than the figure in 2003. Factors behind this growth included: (i) our acquisition of Shell Gás and our ensuing gains in scale, and (ii) the growth seen in Brazil's LPG market. Oxiteno's adjusted EBITDA amounted to R\$ 421.0 million for the year ending December 31, 2004, representing an increase of 73% compared to 2003. This performance reflected an increase in sales volume due to new contracts, growth of the Brazilian economy, an increased sales focus on specialty chemicals and improved prices for petrochemical commodities. Ultracargo reported adjusted EBITDA of R\$ 40.5 million for the year ended December 31, 2004, a 1% increase compared to R\$ 40.0 million in 2003. See footnote 3 under "Summary financial information" for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

*Year ended December 31, 2003 compared to the year ended December 31, 2002.*

The following table shows a summary of our results of operations for the years ended December 31, 2003 and 2002:

	Percentage			Percentage	
	Year ended	of net	Year ended	of net	
	December 31,	sales	December 31,	sales	Percent
	2003	and	2002	and	change
	(in millions of reais, except percentages)				
Net sales and services	4,000.3	100%	2,994.5	100%	34%
Cost of sales and services	(3,196.4)	80%	(2,247.1)	75%	42%
<b>Gross profit</b>	<b>803.9</b>	<b>20%</b>	<b>747.4</b>	<b>25%</b>	<b>8%</b>
Selling, general and administrative expenses	(458.9)	11%	(382.3)	13%	20%
Other operating income, net	6.6	0%	0.4	0%	
<b>Operating income before financial items</b>	<b>351.6</b>	<b>9%</b>	<b>365.5</b>	<b>12%</b>	<b>(4)%</b>
Financial expense, net	(57.2)	1%	28.5	1%	
Non-operating income (expense), net	1.0	0%	(44.1)	1%	
Income and social contribution taxes	(44.9)	1%	(71.4)	2%	(37)%
	(4.1)	0%	(56.2)	2%	(93)%

Minority Interest/equity in earnings of  
affiliates

Net income	246.4	6%	222.3	7%	11%
<b>Adjusted EBITDA(1)</b>	<b>498.5</b>		<b>487.3</b>		<b>2%</b>

(1) See footnote 3 under Summary financial information for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

*Net sales and services.* Net sales and services increased by 34%, to R\$ 4,000.3 million in 2003 from R\$ 2,994.5 million in 2002.

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The following table illustrates the change in net sales and services in each of our segments:

	Year ended December 31,		
			Percent
	2003 (in millions of reais, except percentages)	2002	change
Ultragas	2,622.7	1,942.7	35%
Oxiteno	1,237.8	956.1	29%
Ultracargo	177.1	131.5	35%

Ultragas's net sales and services were R\$ 2,622.7 million in 2003, an increase of 35% compared to R\$ 1,942.7 million in 2002. The falling disposable income in Brazil, mainly a consequence of the weak economic activity which characterized the first semester of 2003, together with the increase of 42% in Petrobras' refinery LPG prices to distributors, which contributed to the retail prices increase during 2003, contributed to an overall 5.7% volume decline in the LPG distribution market. Ultragas reported a year over year increase of 5% in sales volume to 1,362.1 thousand tons from 1,302.7 thousand tons, principally due to the acquisition of Shell Gás in August 2003. Excluding the sales volume from Shell Gás, Ultragas's 2003 sales volume decreased 4.3% compared to 2002.

Oxiteno's net sales and services were R\$ 1,237.8 million in 2003, an increase of 29% compared to R\$ 956.1 million in 2002. Oxiteno's sales volume in 2003 was 474,100 tons, a growth of 9% compared with 433,500 tons in 2002, mainly a result of (i) its greater penetration in the agrochemical sector, which contributed to an increase in sales volume of 7.1 thousand tons, (ii) the acquisition of new clients, including through import substitution, in several of Oxiteno's sectors, and (iii) the increase of 20.5 thousand tons in exports. The growth in sales volume, which contributed to an increase of R\$ 83.6 million in net sales and services, was accompanied by (i) a price improvement, in U.S. dollars, in Oxiteno's principal products on the international market, and (ii) a better sales mix, due to the increased demand in the domestic market in the second half of 2003, with both factors accounting for the balance of the increase in net sales and services.

Ultracargo's net sales and services increased to R\$ 177.1 million in 2003, a growth of 35% over 2002, when net sales and services were R\$ 131.5 million. This increase in net sales and services reflected investments in expanding services, mainly related to new clients in the transportation sector and to the 20,000 cubic meters of additional capacity at the Aratu terminal in the storage sector. These resulted in a 26% increase in total kilometers covered by the truck fleet and an 8% increase in product volumes held in storage.

*Cost of sales and services.* Cost of sales and services increased by 42% to R\$ 3,196.4 million in 2003 from R\$ 2,247.1 million in 2002.

Ultragas's cost of sales and services increased 42% to R\$ 2,256.3 million in 2003 from R\$ 1,585.1 million in 2002, largely the result of the 5% higher sales volume and increased LPG refinery prices charged by Petrobras to distributors.

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Oxiteno's cost of sales and services rose by 40% to R\$ 863.6 million in 2003 from R\$ 614.8 million in 2002. This increase was due to the 9% higher sales volumes as well as an increase in ethylene prices, the latter directly impacted by stronger naphtha prices on the international market. In 2003, the increase in the cost of ethylene accounted for 51% of Oxiteno's increase in the cost of sales and services. In addition, Oxiteno increased its sales volume of specialty chemicals, which have a higher unit cost, and higher margins, by 11% from 2002 to 2003.

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Ultracargo's cost of sales and services increased 38% to R\$ 113.9 million in 2003 from R\$ 82.8 million in 2002. This increase reflected (i) a R\$ 10.3 million increase in third-party freight costs, (ii) an R\$ 8.8 million increase in costs of fuel, tires and spare parts for maintenance and (iii) R\$ 0.9 million increase in the cost of nitrogen, used for cleaning storage tanks.

*Gross profit.* Our gross profit increased by 8% to R\$ 803.9 million in 2003 from R\$ 747.4 million in 2002. Ultragaz's gross profit in 2003 was R\$ 366.3 million, 2% higher than the gross profit of R\$ 357.6 million reported in 2002. Oxiteno's gross profit was R\$ 374.2 million in 2003, a 10% growth compared with R\$ 341.3 million reported in 2002. Ultracargo's gross profit was R\$ 63.2 million in 2003, corresponding to an increase of 30% compared with R\$ 48.6 million in 2002.

*Selling, general and administrative expenses.* Selling, general and administrative expenses grew 20% to R\$ 458.9 million in 2003 from R\$ 382.3 million in 2002.

Ultragaz's selling general and administrative expenses increased by 17% to R\$ 254.1 million in 2003 from R\$ 217.1 million in 2002. This increase was the result of (i) a 24% increase in depreciation and amortization to R\$ 95.0 million in 2003 from R\$ 76.6 million in 2002, mainly due to the investment of R\$ 114.4 million in fixed and deferred assets in 2003; (ii) the acquisition of Shell Gás and; (iii) the collective labor agreement negotiated during the year which increased payroll expenses.

Oxiteno's selling, general and administrative expenses increased by 20% to R\$ 171.2 million in 2003 from R\$ 142.4 million in 2002, principally the result of an increase in selling and commercial expenses to R\$ 76.9 million in 2003 from R\$ 53.6 million in 2002. This increase was mainly due to the 9% growth in sales volume and increases in the cost of freight, which together contributed to a R\$ 21.2 million increase in selling expenses.

Ultracargo's selling, general and administrative expenses rose 25% to R\$ 39.4 million in 2003 from R\$ 31.5 million in 2002. The increase was a function of general and administrative expenses R\$ 7.8 million higher in 2003, compared to 2002, principally as a result of R\$ 6.0 million in wage increases for 2003 per the terms of collective labor agreements and higher headcount, related to increased client base, notably in the transportation sector.

*Operating income before financial items.* Operating income before financial items decreased by 4% to R\$ 351.6 million in 2003 from R\$ 365.5 million in 2002. This was mainly a consequence of the increase of depreciation and amortization expenses at Ultragaz. Ultragaz's operating income before financial items in 2003 was R\$ 113.2 million, a decrease of 21% compared to R\$ 143.2 million in 2002. Oxiteno's operating income before financial items was R\$ 207.0 million in 2003, an increase of 4% compared to R\$ 199.9 million in 2002. Ultracargo's operating income before financial items was R\$ 24.7 million in 2003, an increase of 40% compared with R\$ 17.6 million in 2002.

*Financial income (expense), net.* We recorded a net financial expense of R\$ 57.2 million in 2003, compared with a net financial income of R\$ 28.5 million in 2002. This change was caused principally by (i) a reduction in financial investments, principally due to the lower levels of cash available for investment following the payment of R\$ 170.6 million for the acquisition of Shell Gás in August 2003 and the acquisition of minority shareholdings of Oxiteno in December 2002, (ii) a reduction in the prevailing interest rates on financial investments (benchmarked to the CDI Interbank Deposit Rate) and (iii) the effect of the appreciation of the *real* on our net foreign exchange exposure.

As of December 31, 2003, we had net debt of R\$ 78.1 million. We had a net foreign exchange rate exposure of R\$ 52.2 million, comprised of U.S. dollar financial investments of R\$ 21.1 million and

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R\$ 31.1 million currency exposure related to our investment in Canamex. See footnote 4 under "Summary financial information" for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

*Non-operating income (expense).* We posted a net non-operating income of R\$ 1.0 million in 2003 versus a net non-operating expense of R\$ 44.1 million in 2002, the latter due to the provision of R\$ 40.6 million for our investment in Nordeste Química S.A., a holding company with stakes in the chemical and petrochemical industry in Brazil.

*Equity in earnings of affiliates.* Our affiliates generated a loss of R\$ 0.5 million in 2003 compared to a loss of R\$ 1.7 million in 2002. The result of 2002 is mainly a consequence of a loss of R\$ 1.0 million in our affiliate Fábrica Carioca de Catalisadores S.A. FCC, in which we held a 20% ownership interest. This interest was sold in November 2002.

*Minority interest.* Minority interest fell 93% to R\$ 3.6 million in 2003 from R\$ 54.5 million in 2002, largely as a result of the corporate restructuring in 2002, pursuant to which Ultragaz and Oxitenos became wholly owned subsidiaries. In accordance with Brazilian GAAP, we included 100% of Ultragaz's and Oxitenos' results in our operating results as from July 1, 2002, practically eliminating the impact of minority interest item in our results in 2003.

*Net income.* As a result of the foregoing, net income grew 11% to R\$ 246.4 million in 2003 from R\$ 222.3 million in 2002.

*Adjusted EBITDA.* Our adjusted EBITDA increased by 2% to R\$ 498.5 million in 2003 from R\$ 487.3 million in 2002. Ultragaz's adjusted EBITDA fell 5% to R\$ 208.2 million in 2003 from R\$ 219.8 million in 2002. Oxitenos' adjusted EBITDA increased by 5% to R\$ 243.2 million in 2003 from R\$ 232.7 million in 2002. Ultracargo's adjusted EBITDA rose 37% to R\$ 40.0 million in 2003 from R\$ 29.2 million in 2002. See footnote 3 under "Summary financial information" for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

**LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of liquidity are cash generated from operations and financing. We believe that these sources will continue to be sufficient to satisfy our current funding requirements, which include, but are not limited to, working capital, capital expenditures, amortization of debt and payment of dividends.

From time to time, we examine the opportunities for acquisitions and investments. We consider different types of investments, either direct or through subsidiaries, joint ventures, or affiliated companies. We finance such investments using cash generated from our operations, through funding raised in the capital markets, through capital increases or through a combination of these methods.

## Sources and uses of funds

Net cash flow from operations was R\$ 539.6 million, R\$ 331.2 million and R\$ 425.2 million for 2004, 2003 and 2002, respectively. Our cash flow from operations increased R\$ 208.4 million in 2004 compared to 2003, mainly reflecting increases in our operating income. Our cash flow from operations decreased R\$ 94.0 million in 2003 compared to 2002, mainly reflecting the decrease in our financial results due to the increase in net debt and the effect of the appreciation of the *real* in our U.S. dollar denominated investments.

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Net cash flow from financing activities amounted to R\$ (176.8) million, R\$ 10.8 million and R\$ (59.7) million in the years ended December 31, 2004, 2003 and 2002, respectively. The negative cash flow from financing activities for the year ended December 31, 2004 is largely due to (i) a R\$ 52.2 million increase in dividends paid, and (ii) the partial repayment of export prepayments financing activities used to finance acquisitions in 2003. The increase in cash flow from financing in 2003, compared to 2002 was mainly due to the increase in export prepayments financing used to finance acquisitions.

Investing activities consumed net cash of R\$ 303.1 million, R\$ 391.3 million and R\$ 427.2 million in the year ended December 31, 2004, 2003 and 2002, respectively. Acquisitions of property, plant and equipment consumed R\$ 227.2 million, R\$ 163.4 million and R\$ 168.8 million in 2004, 2003 and 2002, respectively. For the year ended December 31, 2004, investing activities were mainly composed of fixed asset modernization, expansion of production capacity for specialty chemicals, construction of the Santos Intermodal Terminal and expansion of our transport fleet.

We made several acquisitions during the period presented in this prospectus which are reflected in our results from operations and financial condition. The acquisition of ownership interests, including the acquisitions of Nacional Investimentos S.A.'s interest in Ultragas and the operating assets of Rhodia Especialidades Mexico in 2004 used cash of R\$ 18.4 million. The acquisition of Shell Gás and Canamex in 2003 consumed cash of R\$ 203.6 million. The acquisition of Oxiten's minority interests in 2002 consumed cash of R\$ 212.6 million. None of these acquisitions is significant as defined in Rule 11-01(b) of Regulation S-X of the Securities Act of 1933, as amended. For more information on our investments and capital expenditures, see Investments.

We believe we have sufficient working capital for our present requirements. We have R\$ 381.6 million in debt maturing from January 2005 through December 2005. Additionally we have a R\$ 299 million capital expenditures budget for 2005. We are in the process of issuing a R\$ 300 million bond in the Brazilian market, due 2008. The proceeds from this bond offering and any proceeds from the offering being made hereby (assuming the underwriters exercise their over-allotment option) will be used to meet, in part, these requirements for cash. As of December 2004 we had R\$ 685.7 million in cash, cash equivalents, short and long term investments.

We anticipate that will spend approximately R\$ 2.6 billion to meet the long-term contractual obligations described in Tabular Disclosure of Contractual Obligations below and budgeted capital expenditures. We expect to meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financing and the refinancing of our indebtedness as it becomes due.

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As of December 31, 2004, our consolidated short and long-term debt was as follows:

Debt	Currency	Interest Rate(1)	Principal amount of outstanding and accrued interest through December 31		
			2004	2003	2002
			(in millions of reais)		
Foreign currency-denominated loans:					
Eurobonds	U.S.\$	3.5%	151.5		
Export prepayment(2)	U.S.\$	4.22% to 6.85%	129.8	205.1	23.2
Advances on Foreign Exchange Contracts	U.S.\$	2.0% to 2.86%	3.3	24.9	73.9
BNDES National Bank for Economic and Social Development	UMBND\$	10.91%	20.8	23.2	28.9
BNDES National Bank for Economic and Social Development	U.S.\$				17.8
Financing of Inventories and Property Plant & Equipment	MX\$(4)	TIIE(4) + 2.0%	8.8	11.4(5)	3.8(5)
Working capital loan	MX\$(4)	TIIE(4) + 1.4%	0.5	0.5	
Foreign Financing	U.S.\$	LIBOR + 2.0%	32.2		
International Finance Corporation IFC	U.S.\$				17.7
Syndicated loan(6)	U.S.\$			173.6	212.5
Real-denominated loans:					
BNDES-National Bank for Economic and Social Development		TJLP(7) + 3.0%			
	R\$	to 3.85%	130.2	142.2	163.8
BNDES-National Bank for Economic and Social Development	R\$	IGPM(8) + 6.5%	15.5	17.1	18.2
FINEP Research and Projects Financing	R\$	TJLP(7) - 2.0%	24.4	5.3	
FINAME Financing for Machines and Equipment	R\$	TJLP(7) + 1.8%			
		to 4.85%	34.1	28.9	23.6
Total loans:			551.1	632.2	583.4
Unrealized losses on swaps transactions			88.6	55.7	0
Total			639.7	687.9	583.4

(1) Interest rate only as of 2004.

(2) Net of linked operations.

(3) UMBND\$ is based on the average currency basket of the BNDES. The currency basket is a composition of all BNDES foreign currency debts.

(4) MX\$ is the Mexican currency and TIIE is the Mexican interbank interest rate.

(5) In 2002 and 2003 the currency of Financing of Inventories and Property Plant & Equipment is U.S.\$.

(6) In December 11, 2003, LPG International renegotiated the interest rate from 7.15% per year to 4.25% per year.

(7) TJLP (Long Term Interest Rate) is a nominal rate of interest established quarterly. In December 31, 2004, TJLP was fixed at 9.75% p.a.

(8) IGPM is the General Market Price Index in Brazil.



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Our consolidated debt as of December 31, 2004 had the following maturity schedule:

<b>Maturity</b>	<b>Amount (in millions of reais)</b>
January 1, 2005 to December 31, 2005	381.6
January 1, 2006 to December 31, 2006	109.3
January 1, 2007 to December 31, 2007	57.3
January 1, 2008 to December 31, 2008	36.9
January 1, 2009 to December 31, 2009	54.6
<b>Total</b>	<b>639.7</b>

As of December 31, 2004, R\$ 39.0 million of our consolidated debt was secured by property, plant and equipment, R\$ 15.5 million was secured by shares of affiliated companies and R\$ 15.5 million was secured by guarantees provided by minority shareholders. As of December 31, 2004, we guaranteed a portion of our subsidiaries' indebtedness in the amount of R\$ 533.1 million.

In 1997, our indirect subsidiary Companhia Ultragaz issued U.S.\$ 60 million in a 9% U.S. dollar-denominated Eurobond due in 2005 with a put/call option exercisable in 2002. We and our subsidiary Ultragaz jointly, severally and unconditionally guaranteed this Eurobond and are thus subject to covenants which restrict, among other things, our ability to incur indebtedness, grant liens, make dividend payments and other distributions and conduct sale-leaseback transactions, mergers and asset sales. None of these covenants has restricted our ability to conduct our ordinary course of business as of the date of this prospectus. This Eurobond was purchased in June 2002 by our indirect subsidiary, LPG International Inc., with funds obtained from a syndicated loan with maturity in August 2004. In January 2004, taking advantage of surplus international liquidity, this syndicated loan was refinanced through a new Eurobond issued by LPG International Inc. with an annual interest rate of 3.5% and maturity in June 2005. The new Eurobond benefits from a first priority pledge over the original Eurobond granted by LPG International Inc.

**Investments**

The table below shows our investments in shareholding stakes for the years ended December 31, 2004, 2003 and 2002. For more details on these acquisitions see Business Investments.

<b>Company</b>	<b>Year ended December 31,</b>		
	<b>2004</b>	<b>2003(1)</b>	<b>2002</b>
	<b>(in millions of reais)</b>		
Ultragaz	10.3	171.1	
Oxiteno		32.5	212.6
Ultracargo			
Others(2)	6.8	2.1	0.4

Total	17.1	205.7	213.0
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- (1) The difference between principal equity investments (excluding the share repurchase program) of R\$ 203.6 million above and Business combinations, net of cash acquired, of R\$ 134.6 million, shown in the consolidated statement of cash flow in our 2003 consolidated financial statements, is substantially comprised of cash acquired and settlement of debt of Shell Gás (included in Cash flow from financing activities Loans from affiliated companies ).
- (2) Share repurchase program included in our consolidated statement of cash flows under Cash flows from financing activities Other.
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**Table of Contents****Management's discussion and analysis of financial condition and results of operations****Investments in permanent assets and deferred charges**

The following table sets forth our investments in permanent assets and deferred charges for the years ended December 31, 2004, 2003 and 2002.

	Year ended December 31,		
	2004	2003	2002
	(in millions of reais)		
Ultragas	94.0	114.4	130.6
Oxitenó	86.8	58.1	55.8
Ultracargo	92.2	41.5	36.2
Others(1)	0.7	0.3	0.2
Total capital expenditures	273.7	214.3	222.8
Disposals	(6.0)	(7.4)	(4.5)
Total capital expenditures, net of disposals	267.7	206.9	218.3

- (1) Includes expenditures related to maintenance of our headquarters which is performed by our wholly-owned subsidiary Imaven Imóveis e Agropecuária Ltda.

At Ultragas, our investment strategy has been to expand the small bulk delivery distribution and to expand our geographic coverage. During the year ended December 31, 2004, investments focused on expanding the small bulk market segment (UltraSystem), on fleet renewal and on the replacement of cylinders. In 2003 and 2002, in addition to the items previously listed, Ultragas also invested in the installation of the integrated ERP system and in the building of new filling plants.

At Oxitenó, during the year ended December 31, 2004, capital expenditures were largely focused on the modernization of industrial plants, the development of new products and increasing installed production capacity of specialty chemicals. In addition, in 2003 and 2002 we made significant investments in the installation of the ERP system and on quality and environmental control systems.

At Ultracargo, during previous years we have invested in expanding our storage facilities and truck fleet. For the year ended December 31, 2004 and 2003, Ultracargo's capital expenditures focused on the construction of the Santos and Tatuí Intermodal Terminals, the Liquid Fuels Terminal in Montes Claros, and fleet expansion. In 2002, Ultracargo upgraded and expanded its operating capacity and renewed its lease of the Aratu site with Docas do Estado da Bahia CODEBA for 20 years.

Ultrapar's planned capital expenditures in 2005 are R\$ 299 million. Of this amount, investments in Ultragas should amount to approximately R\$ 83 million, a 7% reduction as compared to 2004, as part of its strategy of focusing on productivity and efficiency. At Oxitenó, investments are expected to amount to approximately R\$ 181 million in 2005, higher than in recent years mainly due to investments in expanding our production capacity of specialty chemicals and in the new production plant of fatty alcohol. In 2005, Ultracargo will maintain its strategy of investing in storage facilities and truck fleet. Ultracargo expects to invest approximately R\$ 35 million in 2005.



**Table of Contents****Management's discussion and analysis of financial condition and results of operations****Tabular disclosure of contractual obligations**

The following table summarizes our contractual obligations, as of December 31, 2004:

Contractual Obligations	Total	Payment due by period			
		Up to 1 year	Between 1 and 3 years (in millions of reais)	Between 3 and 5 years	More than 5 years
Long-term financing	639.7	381.6	166.6	91.5	
Estimated interest payments on financing(1)(2)	65.3	28.9	27.7	8.7	
Estimated payments under swap agreements(1)	79.6	72.6	7.6	(0.7)	
Estimated planned funding of pension and other postretirement benefit obligations(1)	137.2	3.8	8.2	8.8	116.5
Purchase obligations(3)	1,601.6	200.2	400.4	400.4	600.6
Operating leases(4)	82.6	4.5	9.0	9.0	60.1
Total contractual obligations	2,606.0	691.6	619.5	517.7	777.2

- (1) The estimated interest payment amount was calculated based on macro-economic assumptions including, on average for the period, principally (i) a 14% CDI interest rate, (ii) a 5% variation in the *reais* to U.S. dollar exchange rate, (iii) a 5% inflation rate, and (iv) an 8% TJLP rate. See Debt and Note 12 to our consolidated financial statements for more information about the maturity of our debt and applicable interest rates. See Note 12 and Note 25 IV f) to our consolidated financial statements for more information on the maturity and the fair value of our swap agreements. See Note 23 to our consolidated financial statements for more information relating to our estimated planned funding of pensions and other postretirement benefit obligations.
- (2) Includes estimated interest payments on our short and long-term debt.
- (3) The purchase obligation relates to a long-term contract, with Braskem under which we are committed to purchase at least 138,000 tons of ethylene annually through 2012. In the event that this commitment is not met, we are obliged to pay a fine of a maximum of 40% of the annual ethylene volume, multiplied by the price of ethylene. This contract does not establish the price of ethylene and for this reason the amount in *reais* is based on the purchase price as at December 31, 2004.
- (4) Our subsidiary company Terminal Químico de Aratu S.A. Indústria e Comércio has contracts with CODEBA Companhia Docas do Estado da Bahia, and Complexo Industrial Portuário Governador Eraldo Gueiros, related to the harbor facilities in Aratu and Suape, respectively. These contracts establish a minimum movement of products of 1,000,000 tons per year in Aratu effective through 2022 and 250,000 tons per year in Suape effective through 2027. If the annual movement is less than the minimum contractual movement, the subsidiary is liable to pay the difference between the effective movement and the minimum contractual movement based on the port tariff rates on the date established for payment. As of December 31, 2004, these rates were R\$ 3.67 for Aratu and R\$ 3.44 for Suape. The Company has been in compliance with the minimum movement of products since the inception of the contracts.

**U.S. GAAP reconciliation**

Our net income under Brazilian GAAP was R\$ 414.5 million, R\$ 246.4 million and R\$ 222.3 million for the years ended December 31, 2004, 2003 and 2002, respectively. Under U.S. GAAP, we had net income of R\$ 414.3 million, R\$ 288.3 million and R\$ 143.9 million, respectively, for the years ended December 31, 2004, 2003 and 2002, respectively.





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**Management's discussion and analysis of financial condition and results of operations**

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Our shareholders' equity under Brazilian GAAP as of December 31, 2004 and 2003 was R\$ 1,600.5 million and R\$ 1,356.7 million, respectively. Under U.S. GAAP, we had shareholders' equity of R\$ 1,545.8 million and R\$ 1,294.8 million, respectively, as of December 31, 2004, 2003.

The principal differences between Brazilian GAAP and U.S. GAAP that affect our net income and shareholders' equity relate to the treatment of the following items:

- Ø capitalized interest;
- Ø fixed assets revaluation reversal;
- Ø reversal of deferred charges;
- Ø restatement of property, plant and equipment to adjust for the effects of inflation between January 1, 1996 and December 31, 1997, and its respective depreciation, not required by Brazilian GAAP;
- Ø differences in equity accounting;
- Ø differences in goodwill accounting;
- Ø securities available for sale;
- Ø purchase value adjustments relating to business combinations (including the 2002 corporate restructuring);
- Ø marking-to-market of financial instruments; and
- Ø deferred tax effects on the foregoing adjustments.

The main difference of Brazilian GAAP that impacted net income under U.S. GAAP, negatively in 2002 and positively in 2003, refers to the marking-to-market of financial instruments. See Note 25 to our consolidated financial statements for a description of the differences above as they relate to us and a reconciliation to U.S. GAAP of net income and total shareholders' equity.

**OFF BALANCE SHEET ARRANGEMENTS**

Our subsidiaries have provided guarantees to financial institutions related to amounts owed to those institutions by certain of their customers (vendor financing). The guarantees have a term of up to 210 days and are equal to the terms of the related financing arrangements. There exists no recourse provision that would enable us or our subsidiaries to recover any amount paid to the financial institutions under these guarantees. In the event that the financial institutions exercise these guarantees, we are entitled to recover the amount paid directly from our customers under the vendor contracts. At December 31, 2004, the maximum potential payment under these guarantees totaled R\$ 45.2 million, which represented a R\$ 25.4 million increase over December 31, 2003. This increase was mainly due to increased sales to clients that operate with financing arrangements of 210 days. The use of vendor financing was the best alternative to make financing available to these clients. If we stop using this financing instrument, our competitiveness with these clients may be affected. At December 31, 2004, we had not recorded any liability related to these guarantees under Brazilian GAAP.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, primarily related to variable interest rates and foreign exchange rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rates and interest rates. We do not enter into derivative financial instruments for speculative purposes. Our market risks are mitigated by our high level of financial investments.

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See Notes 4, 18 and 25(k) to our consolidated financial statements for a discussion of the accounting policies for derivative instruments and information with respect to those financial instruments.

**Interest rate risk**

Substantially all of our debt obligations in reais are subject to variable rates of interest based on either the TJLP or the IGP-M inflation index. Our foreign currency borrowings, however, are substantially subject to fixed rates of interest. As of December 31, 2004, we did not have any derivative contracts outstanding which could limit exposure to variations in the TJLP or the IGP-M, primarily because such instruments are not available in the Brazilian market at reasonable prices. Nevertheless, our exposure to interest rate risk is partially limited by our Brazilian currency variable interest investments, which generally earn the overnight interest rates paid on interbank certificates of deposit. In addition to the exposure with respect to existing borrowings, we would be exposed to interest rate volatility with respect to any future debt issuance.

The table below provides information as of December 31, 2004 about our debt obligations in foreign currency and in *reais* that are subject to variable rates of interest. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates and interest rates:

Debt	Average	Fair	Outstanding	Principal by year of maturity				
	interest			2005	2006	2007	2008	2009
	rate	value	debt R\$	(in millions of reais)				
U.S. dollar borrowings	5.0%	320.5	316.7	225.6	41.6	8.8	8.8	31.9
Borrowings indexed to the UMBNDES	10.2%	20.5	20.8	6.2	7.0	4.7	1.9	1.0
Borrowings indexed to the TIIE + MX\$	2.0%	9.3	9.3	0.5				8.8
Borrowings indexed to the TJLP	2.5%	186.3	188.8	56.0	56.4	39.5	24.0	12.9
Borrowings indexed to the IGP-M	6.5%	15.5	15.5	4.7	4.3	4.3	2.2	
<b>Subtotal</b>		<b>552.1</b>	<b>551.1</b>	<b>293.0</b>	<b>109.3</b>	<b>57.3</b>	<b>36.9</b>	<b>54.6</b>
Unrealized losses on swaps transactions		79.6	88.6	73.2	12.2	2.2	1.0	
<b>Total</b>		<b>631.7</b>	<b>639.7</b>	<b>366.2</b>	<b>121.5</b>	<b>59.5</b>	<b>37.9</b>	<b>54.6</b>

**Foreign exchange risk**

A substantial portion of our debt obligations is denominated in U.S. dollars. In addition, a significant portion of our raw materials, are denominated in, or indexed to U.S. dollar. Most of our revenues are denominated in reais, although sales prices of products of the chemicals segment are linked to international market prices established in U.S. dollars. As a result, we are exposed to currency exchange risks that may adversely affect our business, financial condition and results of operations, as well as our ability to meet our debt service obligations.

We manage the foreign exchange risks associated with the scheduled payments related to our debt obligations by investing in U.S. dollar-denominated assets and in foreign currency/interest swap contracts, under which we pay variable interest in reais based on the interbank certificate of deposit rate, or CDI, and receive fixed interest in U.S. currency.

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The table below summarizes our U.S. dollar net swap position at December 31, 2004:

	Maturity			
				2007 and thereafter
Swap	2005	2006		
Notional amount of swaps (in millions of <i>reais</i> )(1)	200.3	32.9		11.5
Average receiving rate	U.S.\$ + 7.3%	U.S.\$ + 6.3%		U.S.\$ + 6.2%
Average payment rate(2)	100% CDI 0.7%	100% CDI 1.9%		100% CDI 1%

(1) Notional amount converted according to the commercial selling rate reported by *Banco Central do Brasil* (Ptax) at December 31, 2004

(2) CDI Interbank Certificate of Deposit Rate

We also manage the foreign exchange risks related to our U.S. dollar denominated and Mexican currency denominated assets through foreign currency hedge contracts, as follows:

Swap	Maturity		
	2005	2006	2007 thereafter
Notional amount of swaps (in millions of <i>reais</i> )(1)		28.5	
Average receiving rate		U.S.\$	
Average payment rate <sup>2</sup>		MX\$ + 5.8%	

(1) Notional amount converted according to the commercial selling rate reported by Banco Central do Brasil (Ptax) at December 31, 2004.

(2) MX\$ is the Mexican currency.

Non-deliverable forward (NDF)	Maturity
	2005
Notional amount of NDF (in millions of <i>reais</i> )(1)	51.8
Average receiving rate	R\$
Average payment rate	U.S.\$

(1) Notional amount converted according to the commercial selling rate reported by Banco Central do Brasil (Ptax) at December 31, 2004.

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## Business

### OUR BUSINESS

We are one of Brazil's leading corporate groups. We are engaged in the distribution of LPG, the production of chemicals, and the provision of integrated logistics services. Our wholly-owned subsidiary, Ultragaz, is the largest LPG distributor in Brazil with a national market share of 24%. In the chemicals business, our wholly-owned subsidiary, Oxitenio, is the sole producer of ethylene oxide and its principal derivatives in the Mercosur area (comprising Brazil, Argentina, Paraguay and Uruguay) and a major producer of specialty chemicals. Through our wholly-owned subsidiary, Ultracargo, we believe we are a leading provider of integrated road transport, storage and handling services for chemicals and fuels.

The table below sets forth certain financial information for us and our principal businesses(1):

	Year ended December 31,				
	2004	2003	2002	2001	2000
	(in millions of reais)				
Net sales and services					
Ultrapar	4,784.2	4,000.3	2,994.5	2,284.7	1,878.0
Ultragaz	2,968.1	2,622.7	1,942.7	1,381.1	1,125.7
Oxitenio	1,662.7	1,237.8	956.1	832.1	686.1
Ultracargo	197.3	177.1	131.5	105.4	94.2
Adjusted EBITDA(2)					
Ultrapar	736.6	498.5	487.3	372.5	304.3
Ultragaz	268.9	208.2	219.8	163.0	140.9
Oxitenio	421.0	243.2	232.7	176.8	132.4
Ultracargo	40.5	40.0	29.2	28.1	25.9
Net Income					
Ultrapar	414.5	246.4	222.3	132.2	128.5
Net cash (debt)(3)					
Ultrapar	46.0	(78.1)	54.5	241.3	436.3

(1) Segment information for our businesses are presented on an unconsolidated basis. See "Presentation of information" for more information.

(2) See footnote 3 under "Summary financial information" for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

(3) See footnote 4 under "Summary financial information" for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

### OUR STRENGTHS

#### Leading market positions across businesses

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Ultragas is the largest LPG distributor in Brazil and the sixth largest independent distributor in the world in terms of volume sold. It has a national market share of 24% and is present in every state, excluding the Amazon region, reaching more than 10.5 million homes. For the year ended December 31, 2004, Ultragas' total volume sold reached 1.5 million tons of LPG.

Oxiteno is the sole producer of ethylene oxide and its principal derivatives in the Mercosur region and is also a major producer of specialty chemicals. Our chemical operations supply a broad range of market

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segments, particularly agricultural chemicals, food, cosmetics, leather, detergents, packaging for beverages, thread and polyester filaments, brake fluids, petroleum, paints and varnishes. For the year ended December 31, 2004, Oxitenó sold approximately 518 thousand tons of chemical products. In the Brazilian market for these products we compete principally with imports. Imports of ethylene glycol and methyl-ethyl-ketone, two of our most important products, represented approximately 30% and 10% respectively, of the volumes sold in Brazil during the year ended December 31, 2004.

We believe Ultracargo is a leading provider of integrated logistics for chemicals and fuels, with 21% of Brazil's tank storage capacity for chemical products. Ultracargo accounts for approximately 71% of all tank capacity for liquids at the Aratu terminal in the State of Bahia, which serves South America's largest petrochemical complex.

**Balanced business mix**

Our operations encompass the distribution of LPG, the production of ethylene oxide and its derivatives and the transportation and storage of chemicals and fuels. We believe our businesses provide us with increased financial capability and flexibility across the businesses in which we operate. Our balanced business mix makes us less vulnerable to economic fluctuations and allows us to pursue growth opportunities as they arise in any of our business segments.

**Highly efficient LPG distribution network**

In addition to making direct sales of bottled LPG, Ultragaz is the only LPG distributor in Brazil with an exclusive network of independent dealers. This network comprises approximately 4,400 dealers who exclusively represent Ultragaz. This has enabled Ultragaz to control the quality and productivity of its dealers leading to a strong brand name recognition associated with quality, safety and efficiency, and also allows frequent contact with its customers. In addition, Ultragaz was the first to introduce LPG small bulk delivery in Brazil, with lower distribution cost than bottled distribution, and over the years has built a strong client base.

**Flexibility across the petrochemical cycle**

Oxitenó is the sole producer of ethylene oxide and its principal derivatives in the Mercosur region. Approximately 96% of its ethylene oxide production is used internally in the production of ethylene oxide derivatives which can be classified in two groups: specialty and commodity chemicals. Oxitenó is a major producer of specialty chemicals, which are traditionally products with better margins and less exposure to petrochemical cycles than commodity chemicals.

**Cost efficient operations**

Oxitenon's operations have a high degree of production efficiency derived from scale similar to that of the largest producers in the world. Ultragas has significant market presence in densely populated areas which allows it to operate its filling plants and distribution system with a high level of capacity utilization and efficiency.

### **Strong operational track record**

Our business has exhibited a solid operational track record. During the last five years, we experienced consolidated annual compounded average growth rates of 25% in adjusted EBITDA and 34% in net income, in spite of the overall macroeconomic volatility in Brazil during this same period. This growth has been driven by the operational performance of all our businesses.

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**Experienced management team**

We are led by a strong and experienced management team with a proven track record in the LPG, petrochemical and specialized logistics industries. Our senior management team possesses an average of 31 years of experience in the relevant industries, is a significant shareholder in our company, and has a performance-linked remuneration based on an economic value-added model (EVA<sup>®</sup>).

**Alignment of shareholders' interests**

Our by-laws provide important rights that align the interests of all our shareholders, including our controlling shareholders, management shareholders and minority shareholders. If our controlling shareholders sell their controlling stake in our Company, our by-laws provide that holders of our preferred and common shares are entitled to sell their shares in a public tender offer at the same price and with the same payment terms as our controlling shareholders.

**OUR STRATEGY**

**Build on the strength of our LPG brand**

Our LPG distribution business has a high brand recognition associated with quality, safety and efficiency. We intend to reinforce this market perception by continuing to supply high quality products and services and introducing new services and distribution channels.

**Maintain exclusivity in LPG distribution**

We intend to preserve our strong relationship with dealers by keeping their distribution exclusivity and avoiding geographic overlap. We plan to continue to invest in training our dealers, in order to maximize efficiency, further strengthen our relationships with them and promote the high standards of our distribution network. In parallel, we plan to increase our operational efficiency and productivity at Ultragas.

**Expand capacity at Oxitenor**

We intend to continue to expand Oxitenor's production capacity ahead of demand in Brazil. As we expand, we plan to continue our efforts to apply the best global practices to Oxitenor's plants and production processes with a view to remain technologically competitive.

**Continue to enhance product mix at Oxitenor**

We plan to increase Oxitenor's capacity to produce a variety of value-added ethylene oxide derivatives in order to optimize its sales mix across petrochemical cycles. Oxitenor's investments in research and development has resulted in the introduction of 135 new applications for its products during the last three years. Oxitenor will continue to invest in research and development focused on developing new product applications to meet clients' needs. In addition, we intend to focus Oxitenor's sales on the domestic market, which allows us to have higher margins.

**Maintain financial strength**

We seek to maintain a sound financial position to allow us to pursue investment opportunities and enhance our shareholders' return on their investment in our Company. Our net cash position for the year

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### **Business**

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ended December 31, 2004 was R\$ 46 million. Additionally, all foreign currency denominated debt is hedged until its maturity.

We have been consistently distributing dividends to our shareholders. During the last five years we have paid yearly dividends representing an average of approximately 49% of our net income.

### **Continue to grow our businesses**

Our main objective is to enhance shareholder value and strengthen our market presence by growing our business. Historically, we have grown our business organically and through acquisitions. We intend to continue this strategy, both domestically and internationally.

## **HISTORY AND DEVELOPMENT OF THE COMPANY**

Ultrapar Participações S.A., or Ultrapar, is a *sociedade anônima* incorporated under the laws of the Federative Republic of Brazil. Today, we have a significant market presence in the business areas in which we operate. We are the leader in LPG distribution in Brazil through Ultragaz with a 24% market share and the sixth largest independent distributor in the world in terms of volume sold. We deliver LPG to an estimated 10.5 million households using our own vehicle fleet and also approximately 4,400 independent retailers. We are the only producer of ethylene oxide and its principal derivatives in the Mercosur region with an extensive business in the domestic and international markets. Through Ultracargo, we believe we are a leading provider of integrated logistics of chemical products and fuels in Brazil. We offer integrated multimodal transportation, loading and unloading services and the management of third party fleets. Our high storage capacity together with the strategic location of our assets, facilitates product movement along an integrated multimodal logistics system.

We were incorporated on December 20, 1953, with our origins going back to 1937, when Ernesto Igel founded Companhia Ultragaz S.A and brought LPG to be used as cooking gas in Brazil using cylinders acquired from Companhia Zeppelin. The gas stove began to replace the traditional wood stove and, to a lesser degree, kerosene and coal, which dominated the Brazilian kitchens at the time.

In 1966, Transultra Armazenamento e Transporte Especializado Ltda, or Transultra was formed to satisfy the demand for high quality transportation services and focused in the transportation of chemicals, petrochemicals and LPG. In 1978, Terminal Químico de Aratu Tequimar, or Tequimar was founded for the specific purpose of operating the storage business. Transultra and Tequimar are operating subsidiaries of Ultracargo.

We were also one of the pioneers in developing the Brazilian petrochemicals industry with the creation of Oxiteno in 1970, located in the Mauá petrochemical complex in São Paulo. In 1986, Oxiteno established its own research and development center in order to respond to specific customer needs.

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In 1997, through Ultragas, we introduced UltraSystem a small bulk distribution system to commercial and industrial segments; and we started the process of geographical expansion through the construction of new LPG filling plants. We also concluded the expansion of capacity of Oxitenor's industrial unit in Camaçari Petrochemical Complex, in the state of Bahia.

On October 6, 1999, we concluded our Initial Public Offering of preferred shares, listing our shares on the São Paulo Stock Exchange (BOVESPA) and on the New York Stock Exchange (NYSE).

In 1999 the new Paulínia Intermodal terminal constructed by Ultracargo in the state of São Paulo started operations providing storage for solid and liquid products as well as intermodal transportation.

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In 2000 Ultragas started the construction of four new filling plants, therefore covering the entire Brazilian territory. In August 2000 the first of the four new plants, located in Goiânia, in the state of Goiás, started operations. In 2001 Ultragas started two new plants: in Fortaleza, in the state of Ceará, and in Duque de Caxias, in the state of Rio de Janeiro. In 2002 the company started operations in the new plant of Betim, in the state of Minas Gerais.

On March 22, 2000, our controlling shareholders entered into a shareholders' agreement designed to ensure the equal treatment to all non-controlling shareholders in the event of any change in control.

On May 23, 2001, we acquired the 35% voting interest of Transultra that we did not already own, from Petrobras Distribuidora S.A. We made this acquisition through our wholly owned subsidiary, Ultracargo, in an auction held at Bovespa.

In March 2002, Oxitenor made a tender offer for the acquisition of the shares of its subsidiary Oxitenor Nordeste S.A. Indústria e Comércio, known as Oxitenor Nordeste. The tender offer was completed on April 16, 2002, through the acquisition of 93,871 shares of Oxitenor Nordeste by Oxitenor, representing approximately 73.3% of the shares held by minority shareholders. Oxitenor increased its share ownership from 97% to 98.9% for approximately R\$ 4.4 million.

On December 20, 2002, we completed a corporate restructuring process which we began on October 15, 2002. The effects of the corporate restructuring were:

- Ø merger of Gipóia Ltda, a company which held a 23% direct stake in Ultragas and was owned by Ultra S.A., into Ultrapar, increasing Ultrapar's ownership in Ultragas to 100% from 77% of total share capital. Ultrapar issued approximately 7.8 billion common shares in connection with this merger.
- Ø Ultrapar's incorporation of shares issued by Oxitenor, increasing Ultrapar's ownership in Oxitenor to 100% from 48% of total share capital. The holders of approximately 12 million of Oxitenor's shares elected to exchange their shares for shares in Ultrapar, triggering the issue of approximately 5.4 billion common shares and 3.4 billion preferred shares by Ultrapar. We paid R\$ 208.1 million representing approximately 13 million shares to Oxitenor's minority shareholders who exercised their statutory withdrawal rights.

The table below shows the effects of the corporate restructuring in our share capital:

Total capital				
(in millions				
	of reais)	Common shares	Preferred shares	Total shares
As of December 31, 2001	433.9	37,984,012,500	15,015,987,500	53,000,000,000

Shares issued for:

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Merger of Gipóia	38.5	7,850,603,880		7,850,603,880
Incorporation of Oxitenó's shares	191.6	5,430,005,398	3,410,659,550	8,840,664,948
<b>As of December 31, 2002</b>	<b>664.0</b>	<b>51,264,621,778</b>	<b>18,426,647,050</b>	<b>69,691,268,828</b>

In August 2003, Ultragas acquired Shell Gás, Royal Dutch/Shell N.V.'s LPG operations in Brazil for R\$ 170.6 million, a price which included the purchase of the company's total equity without taking on any debt. With the acquisition, Ultragas has become the Brazilian market leader in LPG with a 24% share of the Brazilian market.



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On December 4, 2003 we concluded the acquisition of the chemical business of the Berci Group (CANAMEX), a Mexican specialty chemicals company. CANAMEX has 2 plants in Mexico (Guadalajara and Coatzacoalcos). The acquisition amount was US\$ 10.25 million, without assuming any residual debt. In June 30, 2004 we acquired the operational assets of Rhodia Especialidades S.A. de C.V. in Mexico for US\$ 2.7 million. Both acquisitions had the target to establish a stronger presence in the Mexican petrochemical market and to create a production and distribution platform to the United States.

On May 18, 2004, at an Extraordinary General Meeting, the shareholders of Ultrapar approved the addition of tag-along rights to the company's bylaws, for all shareholders, at 100% of the offer price, which has improved a right that was already conceived through a shareholder agreement Ultrapar of March 22, 2000.

On September 29, 2004, the shareholders of Ultra S.A., a holding company that controls Ultrapar, signed a shareholders' agreement which primarily aimed at maintaining the controlling shareholder block in Ultrapar.

Igel Participações S.A. and Avaré Participações S.A., former controlling shareholders of Ultra S.A., were dissolved on December 16, 2004, and their shareholders received shares in Ultra S.A. as reimbursement for their shares in the respective paid-up capital, in the same proportion and of the same share class as previously held by Igel and Avaré.

At our Board of Directors' meeting held on February 2, 2005, our directors approved a stock dividend of 10,453,690,324 preferred shares of Ultrapar, or 15 shares for each 100 outstanding common or preferred shares on February 16, 2005. As a result of the stock dividend, we have issued 10,453,690,324 new preferred shares to our shareholders through a capitalization of reserves.

At an extraordinary shareholders' meeting held on February 22, 2005, our shareholders approved the issuance of additional preferred shares by us to permit certain shareholders, including Ultra, to exchange common shares of Ultrapar held indirectly by them into preferred shares at a ratio of one common share for one preferred share. Common shares tendered for exchange into preferred shares were cancelled.

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**ORGANIZATIONAL STRUCTURE**

The following chart shows our current organizational structure(1) for our principal subsidiaries:

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- (1) Percentages represent approximate ownership of voting share capital and total capital (voting capital/total capital).  
(2) Minority participations in Utingás are mainly held by Liquigás Distribuidora S.A. and SHV Gas (31% and 7% of voting capital, respectively).

We conduct LPG distribution through our wholly-owned subsidiary, Ultragaz. Ultragaz operates through its four primary subsidiaries, Companhia Ultragaz S.A., Bahiana, SP Gás and Utingás. The first three companies operate in the filling and distribution of LPG cylinders. Bahiana operates primarily in the northeast region of Brazil, and Companhia Ultragaz and SP Gas serve the rest of Brazil. Utingás is an LPG storage company, with facilities in the states of São Paulo and Paraná.

We conduct petrochemical and chemical activities through our wholly-owned subsidiary, Oxitenor. Oxitenor operates in the petrochemical and chemical sector directly and through its subsidiaries, Oxitenor Nordeste S.A. and Canamex. Oxitenor operates two plants located in the state of São Paulo, and Oxitenor Nordeste operates one plant in Camaçari, in the state of Bahia, and a second plant in Triunfo, in the state of Rio Grande do Sul. We acquired Canamex, which has two plants in Mexico, in December 2003.

We conduct chemical products and fuel logistics through our wholly-owned subsidiary, Ultracargo, which operates through its subsidiaries Transultra and Tequimar. Transultra provides transportation

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services throughout Brazil, as well as in Argentina and Chile. Tequimar maintains storage facilities at four port terminals located near two of the main petrochemical complexes in Brazil: Camaçari and São Paulo.

### **INVESTMENTS**

We have made substantial investments in our operations in the last five years. At Ultragaz, we have invested heavily in LPG small bulk delivery distribution (UltraSystem), restructuring our distribution logistics. We have also invested in the construction of filling plants over the past five years, expanding our operations geographically to achieve an almost nationwide coverage. Oxiteno has invested in increasing installed production capacity, in the modernization of its industrial plants and in the development of new products. Ultracargo has invested in storage facilities and in the truck fleet in response to strong demand for a better logistics infrastructure in Brazil, deregulation of the oil and oil products industry and the strong growth in the international trade of vegetable oils and alcohol. We have invested in information technology at all our businesses for integrating processes, improving the quality of information, increasing the response time in decision making and improving our services.

We have also made several acquisitions to maintain our growth and to consolidate our position in the markets where we operate. In 2002, we acquired minority shareholders' interests in Oxiteno for R\$ 212.6 million. In 2003, we acquired the Brazilian LPG distribution operations of Royal Dutch/Shell N.V. The operations of Shell Gás have been fully integrated in our LPG distribution business. In addition, we entered the petrochemical production market in Mexico through the acquisition of Canamex, a specialty chemicals company, in December 2003, and the acquisition of the operating assets of Rhodia Especialidades Mexico for U.S.\$2.7 million in June 2004. This acquisition was motivated by our desire to establish a presence in the Mexican petrochemical market as a platform for production and distribution to supply the United States market, and to diversify geographically Oxiteno's production facilities.

### **DISTRIBUTION OF LIQUEFIED PETROLEUM GAS**

#### **Industry and regulatory overview**

LPG is a fuel derived from the oil and natural gas refining process. In Brazil, approximately 85% of local demand in 2004 was produced in local refineries and the remaining 15% was imported. LPG has the following primary uses in Brazil:

Ø Bottled LPG is used primarily by residential consumers for cooking; and

Ø Bulk LPG is used primarily for cooking and water heating in shopping malls, hotels, residential buildings, restaurants, laundries and hospitals.

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The following chart shows the process of LPG distribution:

Historically, bottled LPG has represented more than 70% of the LPG distributed in Brazil, and is primarily used for cooking. The use of LPG for domestic heating in Brazil is immaterial compared with its use in other developed and emerging countries, primarily because of Brazil's generally warm climate. Consequently, consumer seasonality throughout the year is significantly smaller. In addition, because LPG is not used to a significant extent for domestic heating in Brazil, overall consumption of LPG per capita is lower in Brazil compared to countries where domestic heating is a major element of LPG demand, making low distribution cost a major competitive differential in the market for Brazilian LPG.

Prior to 1990, extensive governmental regulation of the LPG industry essentially limited the use of LPG to domestic cooking. Since 1990, regulations have permitted the use of LPG for certain commercial and industrial uses, and the use of LPG has increased accordingly.

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The primary international suppliers of LPG are major oil companies and independent producers of both natural gas liquids and oil. However, due to Petrobras's monopoly over the production and importation of petroleum and petroleum products until the end of 2001, Petrobras is currently the sole de facto supplier of LPG in Brazil.

Currently, the LPG distribution industry in Brazil consists of 14 LPG distribution companies or groups of companies, and is regulated by the National Oil Agency, or ANP, which reports to the Ministry of Mines and Energy. The LPG distribution industry includes purchasing LPG from Petrobras, filling LPG cylinders and bulk delivery trucks at filling stations, selling LPG to end users, controlling product quality and providing technical assistance to LPG consumers. See The role of the ANP.

LPG produced by Petrobras, which represented approximately 85% of total LPG sold in Brazil in 2004, is transported in pipelines and by trucks from Petrobras's production and storage facilities to filling stations maintained by LPG distributors. The balance is imported by Petrobras into Brazil and stored in large storage facilities maintained by Petrobras. The imported LPG is then transported from the storage facilities by pipeline and truck to the LPG distributors' filling stations.

LPG can be delivered to end users either in cylinders or in bulk. The cylinders are filled in the LPG distributors' filling stations. Distribution of bottled LPG is conducted through the use of cylinders via two principal channels:

Ø home delivery of LPG cylinders; and

Ø the sale of LPG cylinders in retail stores and at filling stations.

In both cases, the cylinders are either delivered by the LPG distributors themselves or by independent dealers.

Bulk delivery is the principal delivery method to large volume consumers, such as residential buildings, hospitals, small and medium-sized businesses and industries. In the case of bulk delivery, LPG is pumped directly into tanker trucks at filling stations, transported to customers and pumped into a bulk storage tank located at the customer's premises.

***The role of the Brazilian government.*** The Brazilian government historically regulated the sale and distribution of LPG in Brazil. The period from 1960 to 1990 was characterized by heavy governmental regulation, including price controls, regulation of the areas in which each LPG distributor could operate, regulation of the services offered by distributors and governmental quotas for the LPG sold by distributors, thus restricting the growth of larger LPG distributors. In 1990, the government started a deregulation process with the purpose of establishing a largely unregulated LPG market. This process included easing the requirements for the entry into the market of new distribution companies, reducing certain administrative burdens and removing restrictions on the areas in which distributors could conduct their business and on sales quotas. There are currently no restrictions on foreign ownership of LPG companies.

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Since May 2001, distributors have been allowed to freely establish retail prices, which were previously set by the government. Until the end of 2001, the LPG refinery price, which is charged by Petrobras to all LPG distributors, was determined by the government and was the same for all LPG distributors in all regions of Brazil. Historically, refinery prices have been subsidized by the government. In January 2002, the government abolished subsidies to refinery prices and created a new tax system, the CIDE, which equalized the tax charges on the local market with the imported product in order to open up the market for LPG. Consequently, from January 2002, Petrobras started to freely price LPG in the domestic

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market, adopting the international price plus surcharges as its benchmark. However, the Petrobras price of LPG is still subject to government intervention when the government deems appropriate, such as occurred between August and October of 2002. Prices of LPG in *reais* have been unchanged since May 2003. In 2004, Petrobras' average refinery price was approximately U.S.\$ 319.36 per ton compared with the average international price of U.S.\$ 389.97 per ton.

***The role of Petrobras.*** Petrobras, Brazil's national oil and oil products company, has had a legal monopoly in the exploration, production, refining, importing and transporting of crude oil and oil products in Brazil and Brazil's continental waters since its establishment in 1953. This monopoly was confirmed in Brazil's federal constitution enacted in 1988. As a result, Petrobras was historically the sole supplier in Brazil of oil and oil-related products, including naphtha and LPG.

In November 1995, Petrobras' monopoly was removed from the federal constitution by a constitutional amendment approved by the Brazilian Congress. According to this amendment, other state and private companies would be able to compete with Petrobras in virtually all fields in which Petrobras operated. This amendment was implemented through Law No. 9,478, dated August 6, 1997, which effectively allowed Petrobras' monopoly to continue for a maximum period of three years. Law No. 9,478 prescribed that the termination of Petrobras' monopoly would be accompanied by the deregulation of prices for oil, gas and oil products, and created a new regulatory agency, the ANP, to oversee oil-related activities. However, in practice, Petrobras still remains the sole LPG supplier in Brazil, even though there are no legal restrictions to the operation of other suppliers.

On June 25, 2004, Petrobras entered the LPG distribution market in Brazil through the acquisition of Agip do Brasil S.A. which had a market share of 21.8% for the year 2004.

***The role of the ANP.*** The ANP is responsible for the control, supervision and implementation of the government's oil and gas policies. The ANP regulates all aspects of the production, distribution and sale of oil and oil products in Brazil, product quality standards, and minimum storage capacities required to be maintained by distributors.

In order to operate in Brazil, an LPG distributor must be licensed with the ANP and must comply with certain minimum operating requirements, including:

- Ø maintenance of sufficient LPG storage capacity;
- Ø maintenance of an adequate quantity of LPG cylinders;
- Ø use of cylinders stamped with the distributor's own brand name;
- Ø possession of its own filling plant;



- Ø appropriate maintenance of LPG filling units;
- Ø distribution of LPG exclusively in areas where it can provide technical assistance to the consumer either directly or indirectly through an authorized dealer; and
- Ø full compliance with the Unified Suppliers Registration System Sistema Único de Cadastramento Unificado de Fornecedores SICAF.

LPG distributors are required to provide the ANP with monthly reports showing their previous month's sales and the volume of LPG ordered from Petrobras for the next four months. The ANP limits the volume of LPG that may be ordered by each distributor based on the number of cylinders and infra-structure owned by the distributor. Based on the information provided by the distributors, Petrobras supplies the volume of LPG ordered, provided its production and imports of LPG are sufficient to meet the demand.

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LPG distribution to the end consumer may be carried out directly by the LPG distribution companies or by independent dealers. Each LPG distributor must provide the ANP with information regarding its contracted independent dealers on a monthly basis. The construction of LPG filling plants and storage facilities is subject to the prior approval of the ANP, and filling plants and storage facilities may only begin operations after ANP inspection.

***The self-regulatory code.*** In August 1996, most of the Brazilian LPG distributors, representing more than 90% of the market, cylinder manufacturers, LPG transportation companies and certain LPG retail stores, under the supervision of the Brazilian government, entered into a statement of intent regarding the establishment of a program for requalifying LPG cylinders (a process under which they undergo safety and quality checks) and other safety procedures, known as the Self-Regulatory Code or *Código de Auto-Regulamentação*. See Cylinder swapping centers and requalification of cylinders. Before the Self-Regulatory Code came into effect, certain LPG distributors, not including Ultragas, would fill cylinders stamped with another distributor's brand. This practice resulted in a low level of investment in new cylinders, giving rise to concerns regarding the safety of older cylinders. The Self-Regulatory Code provides, among other things, that:

- Ø each LPG distributor may only fill and sell cylinders that are stamped with its own trademark;
- Ø each LPG distributor is responsible for the quality and safety control of its cylinders; and
- Ø each LPG distributor must maintain a sufficient number of cylinders to service its sales volume.

Under the Ministry of Mines and Energy Normative Ruling No. 334 of November 1, 1996, or Ruling 334, any party that defaults on its obligations under the Self-Regulatory Code will be subject to the legal penalties, ranging from payment of a fine and suspension of supply of LPG to such party to suspension of such party's LPG distribution operations.

Ruling 334 sets forth the following timetable for the implementation of the measures adopted under the Self-Regulatory Code:

- Ø the construction of at least 15 cylinder swapping centers, starting in November 1996 (See Cylinder swapping centers and requalification of cylinders );
- Ø the filling of third party cylinders to have ceased by October 1997;
- Ø by November 1, 2006, the requalification of 68.8 million cylinders manufactured up to 1991; and
- Ø by November 1, 2011, the requalification of 12.8 million cylinders manufactured between 1992 and 1996.

Ultragas itself is required to requalify 13.8 million cylinders by November 2006 and an additional 1.3 million cylinders by November 2011. Ultragas has already requalified more than two-thirds of its cylinders.

***Environmental, health and safety standards.*** LPG distributors are subject to Brazilian federal, state and local laws and regulations relating to the protection of the environment, public health and safety. The National Council of the Environment, or *Conselho Nacional do Meio Ambiente* CONAMA, and the Ministry of Labor, or Ministério do Trabalho, are the primary environmental regulators of Ultragas at the federal level.

Brazilian federal and state environmental laws and regulations require LPG distributors to obtain operating permits from the state environmental agencies and from the fire department. In order to obtain such permits, distributors must satisfy regulatory authorities that the operation, maintenance and

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reclaiming of facilities are in compliance with regulations and are not prejudicial to the environment. In addition, regulations establish standard procedures for transporting, delivering and storing LPG and for testing and requalification of LPG cylinders. Civil, administrative and criminal sanctions, including fines and the revocation of licenses, may apply to violations of environmental regulations. Under applicable law, distributors are strictly liable for environmental damages.

Distributors are also subject to federal, state and local laws and regulations that prescribe occupational health and safety standards. In accordance with such laws and regulations, it is mandatory for distributors to prepare reports on their occupational health and safety records on an annual basis to the local office of the Ministry of Labor in each of the states in which they operate. In addition, they are also subject to all federal, state and local governmental regulation and supervision generally applicable to companies doing business in Brazil, including labor laws, social security laws, and public health and consumer protection laws.

### **Ultragaz**

We distribute LPG through Ultragaz. Founded in 1937, we were the first LPG distributor in Brazil. At that time, Brazilians used wood stoves and, to a lesser extent, alcohol, kerosene and coal stoves. At present Ultragaz is the leading company by sales volume in the Brazilian LPG market.

Ultragaz operates in the distribution of both bottled and bulk LPG, nation-wide, including the most highly populated states in Brazil, such as São Paulo, Rio de Janeiro and Bahia and sells bottled LPG through its own retail stores and through independent dealers as well as its own truck fleet, which operates on a door-to-door basis. Bulk LPG is serviced through its own truck fleet.

In August 2003, Ultragaz acquired Shell Gás, Royal Dutch/Shell N.V.'s LPG operations in Brazil for a total price of R\$ 170.6 million. Shell Gás had about 4.5% market share in Brazilian LPG distribution, selling approximately 287,400 tons of LPG in 2002. With this acquisition, Ultragaz has become the Brazilian market leader in LPG with a 24% share of the Brazilian market at the date of the acquisition and has also improved its economies of scale for distribution and reduced its logistics cost.

Ultragaz has four operating subsidiaries:

Ø Companhia Ultragaz S.A., or Cia. Ultragaz, the company that pioneered our LPG operations;

Ø Bahiana Distribuidora de Gas Ltda., or Bahiana, which is a wholly owned subsidiary of Ultragaz;

Ø Shell Gás, acquired in August 2003 and subsequently renamed SP Gás Distribuidora de Gás Ltda.; and

Ø Utingás Armazenadora S.A., or Utingás, which was incorporated in 1967 when Ultragas and other LPG distributors joined to construct LPG storage facilities based in the states of São Paulo and Paraná. Ultragas currently controls 56% of the storage operations. See Storage of LPG.

**Markets and marketing.** When Ultragas began its operations, it served only the southeast region of Brazil. Currently, Ultragas is present in all of Brazil's significant population centers, with the exception of the Amazon region. Ultragas provides this service through 16 filling plants in its principal operating areas.

Distribution of bottled LPG includes direct home delivery and retail stores, both carried out by Ultragas or its dealership network using 13 kg ANP (National Oil Agency) approved cylinders. In the case of Ultragas, the cylinders are painted blue, which we believe is an important element in recognizing the Ultragas brand. Ultragas's operating margins for bottled LPG vary from region to region and reflect market share and distribution channel in the region.

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Until recently, Ultragaz's sales strategy for bottled LPG delivery was to increase market share through geographical expansion as well as protecting and incrementing market participation in regions where it already operated. With the acquisition of Shell Gás, Ultragaz became the Brazilian market leader in LPG, intensifying its strategy of investing in the brand and protecting market share. The LPG bottled market in Brazil is a mature one and Ultragaz believes that growth in demand will be a function of increasing number of households consuming the product and the level of household income.

Distribution of bulk LPG is largely carried out through 190 kg storage tanks installed on its clients' premises. Since 1994, Ultragaz has been investing in small/medium size bulk delivery facilities and in bob-tail trucks, known as UltraSystem, which deliver LPG in bulk to commercial clients. Ultragaz's clients in the commercial sector include shopping centers, hotels, residential buildings, restaurants, laundries and hospitals. Ultragaz's trucks supply clients' stationary tanks using a system that is quick, safe and cost effective.

Ultragaz's industrial clients are made up mostly of companies in the food, metallurgical, steel and ceramics industries that have large fixed tanks at their plants and consume monthly volumes in excess of 5 tons of LPG. These clients represent a very small portion of Ultragaz's sales volume since, in the case of large volume consumers, Ultragaz is competing with other highly competitive energy sources such as natural gas.

Ultragaz supplies its bulk delivery clients on the basis of supply contracts with terms ranging from two to five years. This type of contract limits fluctuations in sales given that the installation of the tanks is carried out by Ultragaz, and any change in supplier would imply the client reimbursing Ultragaz's investments. The contract also requires that any tank supplied by Ultragaz may only be filled with LPG delivered by the company. When the bulk delivery contract expires, it can be renegotiated or the tank removed. Since the installation of the tank represents a significant investment for Ultragaz, it seeks to achieve a return on its investment within the term of the contract.

Ultragaz's strategy for bulk LPG distribution is to continue its process of product and service innovation and in increasing the profile of its trade-mark. Ultragaz also has a team to identify needs of each bulk LPG client and develop practical solutions for using LPG as an energy source.

The table below shows Ultragaz's sales of LPG to clients of bottled and bulk LPG:

Client category	Year ended December 31,		
	2004	2003	2002
	(in thousands of tons)		
Bottled LPG cylinder			
Residential delivery by Ultragaz	178.8	114.4	78.4
Ultragaz retail stores	7.0	5.0	4.7
Independent dealers(1)	866.0	770.6	715.2
Total bottled LPG	1,051.8	890.0	798.3
Total bulk LPG	496.7	472.0	504.3

<b>Total tons delivered</b>	1,548.5	1,362.1	1,302.6
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(1) Includes residential deliveries and distribution through retailers' stores.

***Distribution infrastructure.*** Ultragaz's distribution strategy includes having its own distribution infrastructure, since it believes proximity to customers is a significant factor in successful distribution and sales strategies. The services associated with Ultragaz's home deliveries strongly influence the ranking of

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the Ultragaz brand name in the bottled market. Ultragaz seeks to expand its home delivery services by having its delivery personnel provide safety recommendations to household customers and by scheduling deliveries on the same week-day in each covered area. For both bottled and bulk LPG, deliveries are made by employees wearing Ultragaz uniforms and driving vehicles with Ultragaz's logo. Ultragaz, in partnership with consumer goods companies, distributes samples of soap and shampoo, among other things, to encourage customer loyalty and add value to its services.

Ultragaz delivers bottled LPG using a distribution network, which includes 90 company-owned retail stores, and approximately 4,400 independent dealers. Ultragaz has a fleet of 762 vehicles for delivering gas cylinders to homes and commercial establishments.

Bottled sales capacity derives from the number of cylinders owned by Ultragaz and the number of cylinders owned by its independent dealers. Ultragaz estimates that as of December 31, 2004, there were 20 million 13 kg Ultragaz cylinders in the market.

***Independent dealers.*** Ultragaz's independent distribution network ranges from large dealers, which carry out extensive home delivery, to single retail stores, which sell small quantities of LPG cylinders. Until the enactment of ANP Rule 297 on November 18, 2003, independent dealers needed only to be registered with ANP for the sale of LPG cylinders. No licenses were required except for those required by the fire department and the municipal authorities. Rule 297 established that the independent dealers must be registered with ANP and comply with a list of pre-requisites contained in such rule, as well as those required by law for the storage of cylinders up to 90 kg. Also, each municipality sets forth its own safety regulations applicable to stores that sell LPG, including a minimum distance from certain locations, such as schools. For the year ended December 31, 2004, approximately 82% of Ultragaz's bottled LPG sales were made through independent dealers.

The agreements entered into between Ultragaz and independent dealers require the use of the Ultragaz brand and the display of the Ultragaz logo in the delivery vehicles and in the uniforms worn by delivery personnel. Proprietary rights in the trademark and logo are retained by Ultragaz, duly registered with the National Institute of Industrial Property (INPI *Instituto Nacional de Propriedade Industrial*). All contracted dealers are Ultragaz's exclusive representatives. Under the terms of the respective contracts, each dealer agrees not to deliver non-Ultragaz LPG cylinders.

In order to strengthen the relationship with its network of independent dealers, Ultragaz has created project SOMAR (Marketing Solutions Applied to Independent Dealers), as part of which it recommends changes to dealers' operating procedures, helps to improve the efficiency of their operations and encourages their adoption of best practices. Ultragaz believes that improving the efficiency of independent dealers is a key factor to improve the profitability of the distribution chain of LPG.

***Distribution channels to bulk consumers.*** Large bulk distribution, classified by Ultragaz as consumption of more than five tons per month and comprised almost exclusively of industrial users, is made by tanker trucks that deliver the LPG directly to the storage tanks located at the customers' premises. Small bulk distribution, classified by Ultragaz as consumption of between 0.5 and five tons per month and comprised of commercial users and smaller industrial users, is made primarily by bob-tail trucks, to enable delivery to be made to commercial users whose tanks are not readily accessible by traditional bulk delivery equipment. Ultragaz uses the UltraSystem trade name in connection with its small bulk distribution through bob-tail trucks. Ultragaz makes bulk sales directly to customers using its own fleet and transportation provided by Ultracargo and by third parties.



**Payment terms.** Ultragaz's sales through its retail stores and through home delivery are made on a cash basis. Ultragaz's sales to independent dealers and to industrial and commercial users have payment terms of 10 to 30 days.

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#### **Cylinder swapping centers and requalification of cylinders**

***Cylinder swapping centers.*** Pursuant to the Self-Regulatory Code, the LPG distributors have established sixteen operating swapping centers to facilitate the return of third-party cylinders to the appropriate distributor. Under the Self-Regulatory Code, while LPG distributors may pick up any empty LPG cylinders tendered by customers in exchange for full LPG cylinders, whether or not such empty cylinders were put in circulation by that distributor, after October 1997, LPG distributors were not permitted to refill third-party cylinders. Accordingly, LPG distributors may deliver third-party cylinders to a swapping center where such cylinders may be exchanged for cylinders placed in circulation by such LPG distributor. The swapping centers currently charge a fee of R\$ 0.16 per exchanged LPG cylinder. In areas where only one LPG distributor has a sizable market share, it is customary to use the facilities of that distributor as an unofficial swapping center for which that distributor may charge an additional fee.

Prior to the establishment of the swapping centers, Ultragaz incurred significant costs associated with the return of its cylinders, as it did not follow the widespread industry practice of filling third-party cylinders. As the swapping centers costs are shared amongst LPG distributors, Ultragaz's costs from the return of cylinders were significantly reduced when the swapping centers were created, but have since then increased due to Ultragaz's geographic expansion.

***Requalification of cylinders.*** The useful life of a cylinder varies depending on a number of factors, the most important of which are the extent to which the cylinder has been exposed to corrosion from the atmosphere and whether the cylinder has been damaged. The Self-Regulatory Code provides that all cylinders must be requalified after their first 15 years' use, and every 10 years thereafter. Each cylinder is visually inspected for damage and corrosion to determine if it can be requalified or if it should be discarded as scrap metal. In the case of cylinders which pass the quality and safety checks, several procedures are followed before the cylinders are stamped with the year of requalification and the next year in which they are due for requalification.

#### **Supply of LPG**

Currently, Ultragaz and all other LPG distributors in Brazil purchase LPG exclusively from Petrobras without a formal LPG supply contract. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors, including Ultragaz, basically consist of ordering LPG from Petrobras four months in advance and Petrobras supplies our LPG for each month at the beginning of such month. There have been no significant interruptions in the supply of LPG by Petrobras to the distributors with the exception of an interruption in 1995 due to a 15-day strike by Petrobras employees.

It is possible that LPG distributors, including Ultragaz, could diversify their supply sources as a result of the end of Petrobras's constitutional monopoly, the equalization of the tax on domestic and imported LPG and the matching of Petrobras's prices with prevailing prices in the international market.

#### **Storage of LPG**

Ultragaz's storage capacity is approximately 18,300 tons. Based on its 2004 average LPG sales, Ultragaz can store approximately three and a half days' supply of LPG. Petrobras maintains approximately three and a half days' supply of LPG at its refineries and other facilities. Accordingly, any interruption in the production of LPG can result in shortages, such as the one that occurred during the Petrobras strike in 1995.

Ultragaz stores its LPG in large tanks at each of its filling plants located throughout the regions in which it operates. Primary filling plants receive LPG directly from Petrobras by pipeline; secondary filling plants are supplied by truck; and satellite plants primarily hold LPG which is used to fill bob-tail trucks for

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small bulk distribution to customers that are not located near a primary or secondary filling plant in order to optimize the LPG distribution process. See Business Property, plants and equipment Ultragas.

**Future storage requirements.** Due to the historical Petrobras monopoly in the production and importation of LPG, LPG distributors have historically not made substantial investment in storage capacity. Nevertheless, Ultragas believes that an LPG distributor that decides to diversify its supply of LPG through importation will have to increase its storage capacity because the importation of LPG would only be economically viable if carried out on a large scale. Ultragas's management believes that Ultragas has several alternatives to address storage capacity including joint ventures, joint investments with other LPG distributors and possible contracts with Petrobras for using existing storage facilities.

**Competition**

Ultragas's main competitors are:

- Ø SHV Gas, formed by the merger of Minasgás S.A. and Supergasbrás S.A. and controlled by SHV Energy, a major multinational LPG distributor, which operates through its two separate brands, Minasgás and Supergasbrás ;
- Ø Liquigás, formerly controlled by ENI Group and acquired by Petrobras in June 2004, which has been operating in the Brazilian LPG distribution sector for more than 40 years; and
- Ø Butano, a domestic Brazilian LPG distributor which has been present in the market for more than 45 years.

The following table sets forth the market share of Ultragas and its competitors:

LPG Distributor	Market share for the year		
	2004	2003	2002
Ultragas(1)	24.1%	21.8%	19.6%
SHV Gas(2)	20.5%	17.1%	16.8%
Liquigás	21.8%	21.7%	21.2%
Butano	18.7%	19.0%	19.4%
Others	14.9%	20.5%	23.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

(1) Includes sales volume of Shell Gás since its acquisition in August 2003.

(2) Proportional to SHV equity stakes in the operating companies. As of July 2004, SHV Gas owned 100% of its operating subsidiaries in Brazil.

Prior to 1990, the government specified the areas in which LPG distributors were permitted to operate and each LPG distributor was allocated a limit in its LPG sales for each Brazilian geographic region in which it operated. These limits impacted the growth of larger LPG distributors and limited competition among LPG distributors. These restrictions were removed as part of the deregulation process, resulting in a substantial increase in competition among domestic LPG distributors.

The bottled market for LPG is a mature market with relatively low consumption growth and thus competition is largely based upon attempts by LPG distributors to increase market share at the expense of their competitors. LPG distributors in the bottled market compete primarily on brand awareness and reliability of delivery and the service provided to customers. Ultragas believes that it is competitive in these aspects. Since per capita consumption is small, low distribution costs is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in

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distribution and delivery as all LPG distributors currently purchase all of their LPG requirements from Petrobras, and as Petrobras's refinery price charged to the distributors is the same to all LPG distributors. Ultragaz's principal markets, including the cities of São Paulo, Salvador and Curitiba, contain heavy concentrations of residential consumers and therefore distribution to this market can be carried out with great economies of scale resulting in lower distribution costs to Ultragaz. Additionally, Ultragaz enjoys low bulk LPG distribution costs through UltraSystem.

In addition to competing with other LPG distributors, Ultragaz competes with companies that offer alternative energy sources to LPG, mainly natural gas, and other sources such as wood, diesel, fuel oil and electricity.

Natural gas is currently the principal source of energy against which we compete. Natural gas is currently less expensive than LPG for industrial consumers who purchase large volumes, but more expensive for residential consumers. In addition, supply of natural gas requires significant investments in pipelines. While fuel oil is less expensive than LPG, LPG has performance and environmental advantages over fuel oil in industrial use.

From January 2002, the LPG refinery price charged by Petrobras to its distributors was set at international market levels. This change has meant that domestic prices are now affected by the fluctuations in prices on the overseas market as well as foreign exchange rate variation. The *real's* depreciation against the U.S. dollar increased the ex-refinery price of LPG by approximately 123% in 2002, resulting in a 5% decline in consumption in the Brazilian market in the same year. This increase in LPG prices during 2002 continued to impact sales volume in 2003, which together with the average loss in disposable incomes in Brazil, translated into a 6% decline. Ultragaz posted a 5% growth in sales volumes during 2003, principally due to the acquisition of the LPG distribution business of Shell in Brazil in August 2003. Ignoring the additional volume from the acquisition of Shell Gás, Ultragaz posted an approximately 4% decline in sales volume. For the year ended December 31, 2004, growth in the Brazilian economy, improvement in personal incomes among the population and the enhanced stability of the LPG price charged by Petrobras contributed to the increase of the LPG sales in the Brazilian market, which reported an increase of approximately 3% compared to 2003. For this period, Ultragaz's sales volume increased 14% compared to 2003, due to the acquisition of Shell Gás in August 2003 and growth in the LPG market.

The following graph shows LPG sales volume for the Brazilian market and Ultragaz for the periods indicated:

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**Tax exemption status**

Pursuant to legislation which provides tax relief for industries located in the northeast region of Brazil, Ultragas benefits from an income tax exemption on operating income with respect to the filling plant at Suape, expiring in 2007, a 75% tax reduction at the Mataripe and Caucáia filling plants, expiring in 2013 and 2012, respectively, and a 25% reduction at the filling plants in Ilhéus and Aracaju, valid through 2008. Tax exemptions amounted to R\$ 7.3 million, R\$ 3.7 million and R\$ 5.4 million for the years ended December 31, 2004, 2003 and 2002 respectively. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 21 to our consolidated financial statements.

**Quality**

We are still the only Brazilian LPG distributor with ISO (International Standards Organization) certification for excellence in quality management. All our filling plants are ISO 9001 certified.

**PETROCHEMICALS AND CHEMICALS**

**Overview of the sector and applicable regulations**

The petrochemical industry transforms crude oil or natural gas into widely used consumer and industrial goods. The Brazilian petrochemical industry is generally divided in three sectors, depending on the stage of transformation of the petrochemical raw material. The companies that operate in these different stages are known as first, second and third generation companies.

**First generation companies.** Brazil's first generation companies, which are referred to as crackers, break down or crack naphtha (a by-product of the oil refining process), their principal feedstock, into basic petrochemicals. In Brazil, the crackers supply their naphtha requirements from Petrobras and through imports. Currently, Petrobras is the only Brazilian producer of naphtha. The basic petrochemicals produced by the crackers include olefins, primarily ethylene, propylene and butadiene and aromatics, such as benzene, toluene and xylenes. Braskem S.A, Companhia Petroquímica do Sul, known as Copesul, and Petroquímica União, known as PQU Brazil's three crackers sell these basic petrochemicals to second generation companies. The basic petrochemicals, which are in the form of either gases or liquids, are transported to the second generation companies through pipelines for further processing.

**Second generation companies.** Second generation companies process the basic petrochemicals produced by the crackers to obtain intermediate petrochemicals, such as:

Ø polyethylene, ethylene oxide, polystyrene and polyvinyl chloride, or PVC, each produced from ethylene;

Ø polypropylene, oxo-alcohols and acrylonitrile, each produced from propylene;

Ø caprolactam, produced from benzene;

Ø purified terephthalic acid, or PTA, produced from p-xylene; and

Ø styrene butadiene rubber, or SBR, and polybutadiene, each produced from butadiene.

There are approximately 50 second generation companies operating in Brazil, including Oxiten. The intermediate petrochemicals are produced in solid form (as plastic pellets or powders) and in liquid form and are transported through roads, railroads or by ship to third generation companies.

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**Third generation companies.** Third generation companies, known as transformers, purchase the intermediate petrochemicals from the second generation companies and transform them into final products, including:

Ø polyester a byproduct of PTA and ethylene glycol (ethylene glycols are byproducts of ethylene oxide);

Ø plastics produced from polyethylene, polypropylene and PVC;

Ø acrylic fibers produced from acrylonitrile;

Ø nylon produced from caprolactam; and

Ø elastomers produced from butadiene.

Third generation companies produce a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents and paints as well as automobile parts, toys and consumer electronic goods. There are over 6,000 third generation companies operating in Brazil.

**Petrochemical complexes.** The production of first and second generation petrochemicals in Brazil centers around three complexes: the northeast complex, the São Paulo petrochemical complex, and the southern petrochemical complex. Each complex has a single first generation producer or cracker, and several second generation companies.

The northeast complex, located in the municipality of Camaçari in the state of Bahia, began operations in 1978. It consists of approximately 19 second generation companies, including Oxiteno, situated around Braskem. Braskem currently has an ethylene production capacity of 1.3 million tons per annum.

The São Paulo complex, at Capuava in the state of São Paulo, was created in 1972 and is the oldest petrochemical complex in Brazil. Its cracker, PQU, supplies first generation petrochemicals to 25 second generation companies including Oxiteno. PQU has an ethylene production capacity of 500,000 tons per annum.

The southern complex, located in the municipality of Triunfo in the state of Rio Grande do Sul, is based around the raw materials cracker, Copesul, and includes seven second generation companies. Copesul has an ethylene production capacity of 1.1 million tons per annum. Oxiteno does not purchase ethylene from Copesul.

**Role of Petrobras.** Naphtha is the raw material used in Brazil for the production of basic petrochemicals such as ethylene and propylene. Petrobras is still the only producer and the most important naphtha supplier in Brazil, even though its legal monopoly ended in August 2000. See Distribution of liquefied petroleum gas Industry and regulatory overview for a discussion of the termination of the Petrobras monopoly.

Naphtha prices have been freely negotiated since August 9, 2000. In July 2000, the naphtha price was 9% above the Amsterdam, Rotterdam and Antwerp Region price, known as the ARA price, which is the international reference price. In 2004, the domestic naphtha price was approximately U.S.\$ 8.5/ton lower or 2% lower than the international reference price.

**Environmental, health and safety standards.** Petrochemical companies are subject to Brazilian federal, state and local laws and regulations governing the protection of the environment. At the federal level the main regulators are CONAMA and the Ministry of Labor.

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In accordance with environmental laws and regulations, petrochemical companies are required to obtain licenses for their manufacturing facilities from competent environmental authorities, which may also regulate its operations by prescribing specific environmental standards in its operating licenses. Petrochemical companies must satisfy regulatory authorities that the operation, maintenance, and reclaiming of facilities comply with regulations and do not cause damage to the environment.

Environmental regulations apply particularly to the discharge, handling and disposal of gaseous, liquid and solid products and by-products from manufacturing activities. Rules issued by CONAMA and by state authorities also prescribe preventive measures relating to environmental pollution and waste treatment requirements. In addition, the transportation, storage and supply of products are subject to specific standards designed to prevent spills, leakages and other accidents.

Historically, environmental regulations have imposed increasingly strict standards, higher fines, and greater exposure to liability and increased operating costs and capital expenditures. In addition, civil, administrative and criminal sanctions, including fines and the revocation of licenses may apply to violations of environmental regulations. Under applicable law, Oxitenó is strictly liable for environmental damages.

Petrochemical companies are also subject to federal, state and local laws and regulations that establish occupational health and safety standards. In accordance with such laws and regulations, these companies are also required to report on their occupational, health and safety records on a yearly basis to the local office of the Ministry of Labor in each of the states in which they operate. They are also subject to all federal, state and local government regulation and supervision generally applicable to companies doing business in Brazil, including labor laws, social security laws, public health, consumer protection, securities laws and antitrust laws.

### **Oxitenó**

We operate in the chemical sector through the second generation company, Oxitenó, a wholly owned subsidiary of Ultrapar. According to Ethylene Oxide & Glycol World Supply & Demand Report 2003/04 report, from PCI Xylenes & Polyesters Ltd, Oxitenó is the only Brazilian producer of ethylene oxide, ethylene glycols, ethanolamines, glycol ethers and methyl-ether-acetates, and also a major producer of specialty chemicals. With the exception of a small factory in Venezuela, Oxitenó is the only ethylene oxide producer in South America. Its products are used in a broad range of industrial sectors, such as polyester, packaging, paints, varnishes and cosmetics. During the year ended December 31, 2004, Oxitenó sold approximately 518 thousand tons of chemical and petrochemical products.

Oxitenó's strategic focus is to provide a broad coverage of the ethylene oxide and derivatives market, maintaining a leading position in these markets that strengthens barriers to entry. Oxitenó's strategy is to increase its specialty chemical production capacity and its geographic reach.

**Products and markets.** Although a portion of Oxitenó's products could be classified as either a commodity or a specialty chemical depending on the use of each product by our customer, for ease of understanding, Oxitenó's products are here divided into two principal groups: (i) commodity chemicals, which are generally higher-volume products, with standard features, and (ii) specialty chemicals, which tend to be lower-volume products sold on the basis of chemical composition and suitability to meet a particular end-use requirement. Oxitenó's principal commodity chemicals are ethylene oxide, ethylene glycol and methyl-ethyl-ketone, or MEK. Oxitenó's principal specialty chemicals include a wide variety of products that are used as surfactants, softeners, dispersants, emulsifiers and hydraulic fluids.



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The following chart outlines the principal raw materials used by Oxiteno and their intermediate and final products.

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**Commodity products**

The following are Oxitenos principal commodity products and their principal uses and markets.

**Ethylene oxide.** Ethylene oxide is a colorless and highly flammable gas at room temperature and atmospheric pressure. Ethylene oxide is produced in a continuous production process by gaseous phase catalytic partial oxidation of ethylene by oxygen at high temperature and pressure. In 2004, Oxitenos used approximately 96% of its ethylene oxide production in the production of derivatives and sold the remaining 4% to other petrochemical companies.

**Ethylene glycols.** The principal ethylene glycol produced by Oxitenos is mono-ethylene glycol, known as MEG. Oxitenos also produces di- and tri-ethylene glycol. Mono-ethylene glycol is a clear, non flammable, non volatile liquid at room temperature and atmospheric pressure. Ethylene glycols are produced in a continuous process from an ethylene oxide solution and principally sold to chemical companies for the manufacture of polyester fibers and polyethylene terephthalate, known as PET, with the remainder sold for use in the production of antifreeze, brake fluids, solvent and other chemicals.

**Methyl-ethyl-ketone.** Methyl-ethyl-ketone, or MEK, a clear, volatile, flammable liquid at room temperature and atmospheric pressure, is Oxitenos principal commodity chemical not produced from ethylene oxide. MEK is used as a fast evaporation solvent for thinners, paints, lacquers and adhesives and also as an active solvent for several resins such as cellulose, acrylics, polyesters, polyurethanes, PVC, neoprene and maleic.

**Specialty chemicals**

The following table sets forth Oxitenos principal specialty chemical products and their principal uses and markets.

Major markets	Specialty chemicals	Uses
Detergents	Alkylbenzene sulfonic acids, alkylsulfates, alkyl ether sulfates, ethoxylated alkylphenols, ethoxylated fatty alcohols, polyethyleneglycols, alkanolamides, betaines, sulposuccinates, block copolymers EO/PO	Dispersants, solubilizing agents, emulsifiers, foam stabilizers, adjuvants, moisteners, detergent bases
Agricultural chemicals	Ethoxylated fatty amines, ethoxylated alkylphenols, alkyl ether sulfates, blends, naphthalene sulfonate, ethoxylated vegetable oil, copolymers EO/PO	Emulsifiers, moisteners, dispersants, humectants
Cosmetics	Alkyl sulfates, alkyl ether sulfates, betaines, ethoxylated fatty alcohols, polyethyleneglycols, alkanolamides, ethoxylated sorbitan esters, sorbitan fatty esters	Emollients, densifiers, emulsifiers, foam stabilizers, adjuvants, moisteners, detergent
Foods	Sorbitan fatty esters, ethoxylated sorbitan esters	Emulsifiers, stabilizers, dispersants

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Textiles	Ethoxylated alkylphenols, ethoxylated fatty alcohols, ethoxylated vegetable oils, ethoxylated fatty amines	Antistatic agents, lubricants, softeners, emulsifiers, antifoamers, mercerizing additives, humectants, low foam detergents
Leather	Ethoxylated alkylphenols, polyethyleneglycols, naphthalenes, sulfonates	Depilatory agents, degreasers, dispersants, softeners, synthetic tannins
Oil field chemicals	Block copolymers EO/PO, condensed naphthalenes, sulphonates, sorbitan fatty esters	Dispersants, surfactants, emulsion preventers

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**Domestic sales**

The Brazilian petrochemicals industry seeks to prioritize demand from the domestic market, where there is greater value added, although sales are also made to the overseas market. While Oxitenos sells the larger part of its commodities and specialty chemicals in Brazil, production capacity exceeds domestic market demand, with Oxitenos exporting surplus production to more than 48 countries in Asia, Latin America, Europe and North America. Oxitenos maintains production capacity above local demand for strategic reasons. For the years ended December 31, 2004, 2003 and 2002, 32%, 34% and 30% of Oxitenos net sales and services, respectively, were from exports. For the years ended December 31, 2004, 2003 and 2002, 34%, 40% and 39% of Oxitenos volume, respectively, were from exports.

In the Brazilian market, the polyester market constitutes the single most important market for Oxitenos products representing approximately 24% of its sales in 2004. Mono-ethylene glycol, or MEG, produced by Oxitenos is sold to chemical companies that manufacture polyester fiber, which is used to make a variety of fabrics, and is also sold to producers of polyethylene terephthalate, or PET, which is a polymer used to make packaging, such as soft drink bottles. The remainder of Oxitenos domestic sales are made to roughly ten different industry segments, from chemical industries to cosmetics and leather/paper.

Many of Oxitenos product prices in the Brazilian market are set by reference to international contract prices in U.S. dollars, as they are commodity chemicals, although the prices are denominated in *reais*. Sales are made on a negotiated basis rather than pursuant to long-term written contracts. In the case of specialty chemicals which meet the requirements of particular customer needs and which are not subject to ready substitution by imports, Oxitenos pricing is more flexible and takes into account the value added to its customers by the particular specialty chemical.

**Export sales**

Oxitenos export sales are made principally to customers in the Far East and in the Mercosur region. In the Far East, Oxitenos exports principally to South Korea, China and Taiwan.

Oxitenos exports a wide variety of chemical products including glycols, MEK, ethoxylated alkylphenols, glycol ether acetates, glycol ethers, ethanolamines, ethoxylated fatty amines and other ethoxylated products.

With the acquisition in December 2003 of Canamex, a Mexican specialty chemicals company, Oxitenos expects to establish a growing presence in the Mexican market for specialty chemicals and create a distribution platform for its product sales to the United States. Canamex has two production units, manufacturing principally ethoxylates, which were operating at 25% production capacity on the acquisition date due to serious financial difficulties being faced by Canamex. Currently, most of Canamexs sales are destined to the domestic Mexican market, largely for the food and textile segments. The remaining sales volume is exported, mainly to the United States.



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For the year ended December 31, 2004, Canamex's sales volume of 15,764 tons was incorporated in Oxiten's results.

In most cases, Oxiten's sales prices for its commodity chemicals in the domestic and export markets are based on international contract prices rather than international spot prices. International contract prices are fixed by reference to published data regarding the price at which industry participants have sold the relevant product.

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In general, Oxiteno's operating margins on products sold in the international market are lower than operating margins for similar products sold in the domestic market. Nevertheless, Oxiteno deems it important to maintain a presence in international markets. Oxiteno intends to shift sales to the domestic market as local demand for its products increases, but will continue to export and will maintain its presence in the international market.

### **Customers**

Oxiteno's most important customers for its commodity chemicals are chemical companies, surface coating producers and polyester producers. In turn, the customers for specialty chemicals comprise a variety of industrial and commercial enterprises including brake fluid distributors, agrochemical producers, manufacturers of food additives and manufacturers of detergents and cosmetics. Oxiteno believes that by distributing its products to a variety of markets it is able to protect itself, to a certain extent, from the effects of a decrease in economic activity in any particular market.

Oxiteno's principal customers in the domestic market include Mossi-Ghisolfi (formerly Rhodia Ster), which principally purchases ethylene glycols, Clariant S.A., which principally purchases ethylene oxide and ethoxylated products, and Indústrias Gessy Lever Ltda (Unilever), which principally purchases surfactants. In 2004, Oxiteno's ten largest customers in the domestic market accounted for 42% of domestic market revenues. No single customer accounted for more than 10% of Oxiteno's domestic market revenues.

In the international market, Oxiteno sells both to industrial customers, including Voridian Argentina S.R.L., Unilever de Argentina S.A. and Cognis S.A., as well as trading companies and other third-party distributors. Oxiteno's largest customer in the international market is Oxyde Chemicals, Inc., a major European trading company for glycol, which accounted for approximately 23% of international revenues in 2004. In the same period, only three other customers individually accounted for more than 10% of Oxiteno's sales in the international market.

### **Competition**

Oxiteno competes largely with imported products. Since 1990, it has had to operate in an increasingly competitive environment due to imports from international and transnational petrochemical industries. As imported products are mostly commodity chemicals, competition is based principally on price. Importers incur additional costs when selling their products in the Brazilian market, due to import tariffs which generally range between 12% and 14%, and additional freight charges. However, factors such as product quality, timely delivery, reliability of supply and technical service and support are also important competitive factors. Because it is a local producer, Oxiteno believes it has a particular competitive advantage over imports with regard to timely delivery and reliability of supply.

In the case of specialty chemicals, Oxiteno competes primarily with other Brazilian producers (which buy ethylene oxide from Oxiteno) and pricing is a less decisive competitive factor than with true commodity chemicals, while conformity with specifications, product performance and reliability of service are comparatively more important. Access to technology and research and development are important factors with regard to conformity to specifications and product performance, especially in the development of new products to meet customers' needs. As Oxiteno's competitors have research and development resources, Oxiteno's strategy involves ensuring access to technology through its own research and development activity, licensing and joint ventures, if appropriate opportunities become available.



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Oxiteno's principal competitors are Shell Brasil Ltda., Exxon Mobil Química Ltda., Dow Brasil S.A., Lyondell Química do Brasil Ltda., Cognis Brasil Ltda., Clariant S.A. and BASF S.A.

### **Research and development**

Oxiteno carries on a wide range of research and development activities, principally related to the application of specialty chemicals and improvements in production processes. As of December 31, 2004, 105 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2004, 2003 and 2002 were R\$ 15.3 million, R\$ 13.4 million and R\$ 11.4 million, respectively.

### **Raw materials**

Oxiteno's principal raw material is ethylene. For the year ended December 31, 2004, ethylene was responsible for 52% of Oxiteno's variable costs of production and approximately 46% of its total cost of sales and services. Among Oxiteno's other raw materials, the principal include ethyl, butyl and lauryl alcohols, oxygen, acetic acid and raffinate II.

Supply of ethylene constitutes an obstacle to entry for new ethylene oxide producers in the country since the current production capacity of ethylene by Brazilian crackers is committed to existing second generation companies, including Oxiteno, and significant investments are needed for the construction of a new cracker. Ethylene is difficult and expensive to transport and store because it must be kept at a temperature below -200 degrees Fahrenheit (-100 degrees Celsius) during transportation and storage, therefore importing and exporting of ethylene is generally uneconomical. Accordingly, the naphtha crackers, including Braskem and PQU, are largely dependent for their sales upon the second generation petrochemical companies, such as Oxiteno, located in the respective petrochemical complexes. However, ethylene oxide derivatives are regularly imported by the major international petrochemical companies and by international and domestic trading companies.

**Ethylene supply.** Ethylene is used for the production of ethylene oxide at the Camaçari plant and the Mauá plant. Braskem and PQU supply all of Oxiteno's ethylene requirements for the Camaçari plant and Mauá plant, respectively, through pipelines, thus minimizing the costs of delivery of ethylene and helping to ensure the reliability of supply. See Business Petrochemicals and chemicals Overview of the sector and applicable regulations.

Oxiteno has a long-term, non-exclusive contract with Braskem relating to the volume of ethylene to be supplied to, and purchased by Oxiteno to be used in its Camaçari plant. This contract will expire in 2012. The contract is automatically renewed for additional periods of 5 years, unless one of the parties elects not to renew the contract by giving 36 months advance notice. Pursuant to its terms, Braskem is required to supply Oxiteno with up to 197,000 tons of ethylene per year, and Oxiteno is required to purchase at least 138,000 tons per year. By October 30 of each year, Oxiteno must inform Braskem of its desired purchase volume for the next year, within minimum and maximum limits established by the agreement. This volume must be confirmed by Braskem by December 10 of the given year. The contract does not provide a price for the ethylene, but provides that the price will be negotiated between the parties from time to time and will be the same for all buyers of ethylene. The price is currently established pursuant to a margin sharing mechanism between Braskem and its customers, including Oxiteno. Oxiteno must obtain Braskem's consent in order to sell any excess ethylene. The ethylene supply contract with Braskem also provides ethylene specifications,

method of delivery and the measurement of the volumes supplied. In the case of PQU, Oxiten, like other purchasers from PQU, does not have a long-term contract relating to the volume or price of ethylene supplied.

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Oxiteno does not maintain any significant storage of ethylene and any unexpected interruptions in supply from the crackers would have an immediate impact on Oxiteno's production. The last unexpected interruption in the ethylene supply was in 1993, due to a pipeline fire that affected the naphtha delivery from Petrobras to Braskem, which caused a shutdown in the naphtha cracking operations, resulting in a 14-day shutdown in the Camaçari plant's operations.

First generation petrochemical companies undergo scheduled maintenance stoppages. Oxiteno anticipates these stoppages by building up inventory and provisioning costs. Oxiteno also uses these planned stoppages for regular maintenance work on its own plants and eventual substitution of catalyzers or for expansion in installed capacity. During the first half of 2002, there was a planned stoppage at Braskem's pyrolysis I unit for expanding installed ethylene capacity. Consequently, in the first quarter 2002, Oxiteno's ethylene quota was reduced by 32% as compared to the first quarter of 2001. In addition, problems involving the start-up extended the plant stoppage beyond schedule, restricting the volume of ethylene supplied in the second quarter of 2002 to 22% of the second quarter of 2001 volumes. In the second half of 2002 supplies were normalized. In July 2002, PQU shut down its plant for a scheduled stoppage, the first time in six years. Braskem's last scheduled downtime was in January 2004 and there were no problems in the re-start.

**Price of ethylene.** The price of ethylene supplied by Braskem to Oxiteno for the production of goods to be sold in Brazil is determined by a margin sharing mechanism established in March 1997, and is the same for all of Braskem's ethylene customers. Prior to March 1997, the price of ethylene was negotiated between Braskem and its ethylene customers on a monthly basis.

Under the margin sharing mechanism, the price paid for ethylene depends upon the weighted average market price charged by the ethylene customers in the Brazilian market during the previous month for a basket of goods derived from ethylene. The weight of each product in the basket depends upon the relative proportion of the total supply of ethylene used in the production of such product as compared with the other products in the basket. Certain cost elements are then deducted from the weighted average price. The remaining margin after the deduction of such cost elements from the average weighted price is shared between Braskem and the ethylene customers based on the respective investment of Braskem and such customers. The respective investments are calculated based on U.S. benchmarks rather than the actual investments of the parties.

A different margin sharing mechanism is currently in place with respect to products produced from ethylene for the export market. Under this arrangement, the price paid for ethylene depends upon the gross margin of each export transaction of Braskem's customers. Subject to certain limits, the resulting margin is divided by 45% for Braskem and by 55% to the exporters.

As naphtha accounts for approximately 68% of total costs of ethylene production, fluctuations in the price of naphtha strongly influence fluctuations in the price of ethylene. Because the main determinant of the price of naphtha is the price of crude oil, the price of naphtha, and thus ethylene, is subject to fluctuations based on changes in the international oil price. The increases in the price of ethylene could affect Oxiteno's competitiveness in the petrochemical market. See Risk factors Risks relating to Ultrapar.

The current price for naphtha paid by Brazil's naphtha crackers is negotiated between those crackers and Petrobras and is currently determined using a formula that leads to a domestic naphtha price that is approximately U.S.\$ 8.5/ton lower or 2% lower than the international reference price. See Industry and regulatory overview.



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**Other raw materials.** For the year ended December 31, 2004, other raw materials, principally oxygen, lauryl alcohol, ethanol, C4, butyl alcohol, acetic acid, alcohol, nonene, phenol, primary fatty amine, fuel oil and LAB accounted for approximately 32% of Oxiteno's variable costs and 28% of its total costs of sales and services.

Oxiteno generally obtains these other raw materials from a variety of sources, except for phenol, which Oxiteno purchases principally from a single supplier, Rhodia Poliamida Especialidades Ltda.

**Utilities.** Steam, electric power and natural gas are the main utilities required for Oxiteno's production. Part of the electricity and steam used by Oxiteno is generated internally and part is purchased from electricity companies and third-party suppliers of steam in the regions where Oxiteno's plants are located. Natural gas is purchased from local companies.

### **Tax exemption status**

Pursuant to legislation which provides tax relief for industries located in the northeast region of Brazil, Oxiteno benefits from an income tax exemption on operating profits from sales of its products at the Camaçari plant through 2006. Tax exemptions amounted to R\$ 81.9 million, R\$ 44.0 million and R\$ 36.1 million for the years ended December 31, 2004, 2003 and 2002, respectively. Given the modernization and expansion of our plant, we intend to renew with the tax authorities a reduction of 75% income tax from 2007 to 2013. If this benefit is not obtained, after 2006 the income resulting from the Camaçari plant operation will continue to benefit from a partial income tax exemption, resulting in an income tax rate of 19% until 2008 and 22% until 2013. After 2013, Oxiteno will be liable for the full tax rate, currently 25%. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 21 to our consolidated financial statements.

### **Maintenance and quality control**

Oxiteno carries out a program of preventive maintenance at each of its plants and uses statistical analysis to help predict production problems. The stoppages due to the maintenance program take place at the same time as the stoppages for the change of the ethylene oxide catalyst. In the case of the ethylene oxide and ethylene glycol units at the Mauá and Camaçari plants, which have continuous production processes, maintenance is preferably scheduled for periods when the relevant cracker, which supplies ethylene to the plant, is scheduled to be shut down for maintenance. Each cracker is typically shut down for maintenance for a period of approximately 20 days every 36 to 48 months. The same happens to the Triunfo plant, which receives butane from Copesul. In the case of the other production units at such plants and the Tremembé plants, maintenance is performed during scheduled breaks in production. Oxiteno uses its own employees for specialized maintenance and uses third-party contractors for routine maintenance. In addition, Oxiteno has a team of employees responsible for quality control that operates continuously.

### **Health, safety and environmental matters**



Oxiteno continuously monitors its compliance with federal, state and municipal legislation applicable to its various places of operation. In accordance with applicable law, Oxiteno is strictly liable for losses and damages of an environmental nature. See Industry and regulatory overview.

Each of Oxiteno's plants is licensed by the competent environmental authorities. Licenses granted are valid for a fixed period of time and then must be renewed. The other terms of the licenses vary according to the applicable legislation and to the periodic inspections performed by environmental authorities.

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Waste products from Oxitenó's industrial plants are discharged in accordance with legal requirements. Effluents are discharged and treated in Oxitenó's own treatment centers or by petrochemical complexes where it has activities. Oxitenó seeks to reprocess solid waste products in cement furnaces. Where reprocessing is not possible, these products are incinerated or deposited in landfills owned by Oxitenó. Oxitenó periodically monitors these discharge areas and to date there are no significant liabilities.

Oxitenó's health and safety indicators are comparable to relevant international standards and are a priority in Oxitenó's activities and in the action plans for the upcoming years.

In March 2002, Oxitenó obtained an SA 8000 certification, which establishes the parameters for a Quality Management System Focused on Social Responsibility. This certification covers various matters, including health, safety, labor relations and compliance with the current legislation.

In addition to the legal requirements, Oxitenó intends to voluntarily comply with other requirements, such as those related to the Responsible Care Program, issued by ABIQUIM, the Brazilian Chemical Industries Association, which sets forth international standards for environmental protection and occupational health as well as safety measures to be followed by chemical product producers.

**LOGISTICS OF CHEMICAL PRODUCTS AND FUELS**

**Ultracargo**

We believe Ultracargo is a leading provider of integrated logistics – road transportation and storage services – for chemical products and fuels in Brazil. Among the solutions Ultracargo offers are road transportation facilities using its own and third party fleets and storage services through warehousing facilities at port terminals and rail junctions for the handling of chemical products and fuels. Transportation services include integrated multimodal transportation as well as the receiving and dispatching of customer's goods. Ultracargo also offers ship loading and unloading services, the operation of pipelines, logistics programming and installation engineering. Ultracargo is the only company in the Brazilian market to offer integrated transport and bulk liquid and liquefied storage services to the petrochemical industry. Ultracargo's ten largest clients account for 77% of its revenues, with its three largest clients, Braskem, Ultragaz and Air Liquide accounting for 21%, 12% and 10%, respectively, of Ultracargo's revenues.

Ultracargo operates a fleet of approximately 529 tanker trucks and provides transportation services to the chemical and fuel industries. Ultracargo had a storage capacity of 207,151 cubic meters and 11,200 square meters at December 31, 2004. Ultracargo accounts for approximately 71% of all tank capacity for liquids at the Aratu Terminal in the State of Bahia, which serves South America's largest petrochemicals complex and it is also present at the ports of Suape and Santos.

Ultracargo's history is one of pioneering logistics solutions in the Brazilian market. Ultracargo implemented a radar operated tank measurement system in 1996, increasing the safety of product loading and unloading. In addition, Ultracargo has introduced web-based systems allowing customers to monitor transportation and storage. This includes services such as e-cargo for producing customized reports and monitoring operations in real time and estoque.net, for consulting inventory positions accessed through any Internet-enabled computer, which permits clients to effectively participate at all stages of transportation and storage.

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#### **Transportation**

Ultracargo's principal market for transportation is the chemical industry, for which transportation is provided by truck between and among port terminals and first, second and third generation petrochemical companies operating at the various petrochemical complexes. Ultracargo has been establishing long-term relationships with key companies in the chemical industry, and provides its services on a negotiated basis with each individual customer.

Ultracargo, through a fleet of tanker trucks, offers transportation services for LPG and chemical products in several major industrial regions in Brazil, as well as transportation services to Chile and Argentina. In 2004, Ultracargo operated a fleet of approximately 529 trucks and, in the years ended December 31, 2004, 2003 and 2002, transported approximately 2.6 million, 2.4 million and 2.5 million tons, respectively.

In the LPG distribution industry, Ultracargo provides transportation from Petrobras's facilities to filling stations of the distributors and between the distributors and their final industrial clients, although in this case, on a reduced scale.

In 1997, Ultracargo began operating in the market for bulk transportation of solid chemical products, an important sector of the transport business in the domestic market in which products are transported utilizing special silos and semi-trailers. Ultracargo believes that there are good opportunities for growth in this market. For the year ended December 31, 2004, Ultracargo transported approximately 364,000 tons of solid chemical products which accounted for approximately 16% of Ultracargo's revenues in this period.

#### **Transportation regulation**

Ultracargo's principal market for transportation is the chemical industry. Therefore, besides the general Brazilian transports regulation (National Code of Traffic - Law 9,503/1997), Ultracargo is subject to specific legislation that rules the transportation of hazardous products, mainly Decree 96,044/88 and Portaria 204 of the Ministry of Transportation. According to these regulations vehicles that transport hazardous materials must have clear indication of what kind of products they are transporting as well as carry symbols identifying that the material is inflammable. The vehicle is also subject to INMETRO - Instituto Nacional de Metrologia, Normalização e Qualidade Industrial - inspection every three years in order to attest that it complies with the current legislation. The regulation also provides specific rules regarding parking, travel itinerary, documentation and emergency procedures. Violations to the legislation are subject to monetary fines and cancellation of the registry for products transportation.

#### **Storage**

Ultracargo provides storage facilities to Braskem and most of the second-generation petrochemical companies in the Northeastern Petrochemical Complex, including Oxiteno. Transactions between Ultracargo and Oxiteno are carried out strictly on an arm's-length basis. At the end of 2003, Ultracargo maintained five storage terminals - in Aratu and Camaçari in the state of Bahia, in Paulínia and Santos in the state of São Paulo, and in

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Suape in the state of Pernambuco. Ultracargo has been investing in the expansion of storage capacity to meet demand for logistics infrastructure in Brazil. Currently, Ultracargo is investing in a new intermodal terminal in Santos, and in early 2004 completed construction of an inter-modal terminal in Tatuí in the state of São Paulo and later in the year inaugurated another in Montes Claros, in the state of Minas Gerais.

The new Montes Claros terminal serves fuel distribution companies with a secondary distribution point. It integrates road and rail systems and has a storage capacity of 4,400 cubic meters. The new Tatuí

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terminal has a 2,250 square meter solid storage capacity and includes a branch rail link for the simultaneous unloading of four rail cars at a time.

The completion of the Santos Intermodal Terminal, constructed in partnership with Crystalsev and Cargill/ Coinbra, is scheduled for the first half of 2005. Ultracargo's investment in this terminal is budgeted at approximately R\$ 80 million and has an occupied area of approximately 64,000 square meters and a total of 33,500 cubic meters of tankage space for chemical products. Crystalsev and Cargill/ Coinbra are to invest in tankage space for 40,000 cubic meters of alcohol and 38,000 cubic meters of vegetable oils, respectively. This project will be Ultracargo's second port installation to integrate road, rail and maritime transportation systems, the first being Aratu.

We believe that Ultracargo is the second largest company in Brazil providing chemical product and fuel storage, having approximately 21% of the total domestic tankage capacity for chemical products.

### **Tax exemption status**

Pursuant to legislation which offers tax relief to industries located in the northeast region of Brazil, Ultracargo enjoys a 75% reduction in income tax on the total operating profits from its Aratu terminal as well as an exemption on operating profits from acetic acids and butadiene product storage activities at the Suape Terminal, valid through 2012 and 2005, respectively. For the years ended December 31, 2004, 2003 and 2002, tax breaks totaled R\$ 4.2 million, R\$ 4.7 million and R\$ 2.0 million, respectively. We cannot assure you that there will be no amendments to the current legislation. For further information see Note 21 to our consolidated financial statements.

### **Quality**

In 2003, Ultracargo was reevaluated by SASSMAQ (Safety, Health, Environment and Quality Evaluation System), a program from ABIQUIM, the Brazilian Chemical Industries Association, as part of the Responsible Care Program. We were the first Brazilian company in the sector to go through this evaluation process. The purpose of the system is to ensure that service providers in this industry comply with the technical standards required by the chemical industry, thus reducing the risks in transportation and distribution. In addition, all the units have adapted their Quality Management System to ISO 9001:2000, in a process based on the continual upgrading and the servicing of specific customer needs.

## **PROPERTY, PLANTS AND EQUIPMENT**

### **Ultragaz**

**Plants.** Ultragaz's LPG distribution network includes 16 filling plants. Ultragaz also operates LPG storage bases, known as satellite bases for supplying our trucks. LPG is carried to the filling plants either via gas pipelines from Petrobras' installations, or by tanker truck. When LPG

transportation is via gas pipeline the bases are known as primary and when transportation is via tanker truck, the bases are known as secondary. Ultragas maintains storage facilities for LPG cylinders and satellite bulk distribution plants at strategic locations in order to maintain supplies closer to its customer bases and thus to reduce transportation costs. Substantially all of the LPG transported by truck from Petrobras to Ultragas secondary plants is transported by Ultracargo's fleet of tanker trucks on an arm's length basis. LPG is stored in the filling plants in large LPG storage tanks with a capacity of 60 tons per tank. In the case of LPG to be delivered in bulk, the LPG is pumped directly from the storage tanks into the bulk tankers. In the case of LPG to be delivered in cylinders, the LPG is pumped from the storage tanks into a number of filling heads, which deliver the LPG cylinders.

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The following table sets forth the total storage capacity, total filling capacity (assuming one 8-hour shift per day) during 2004 and the 2004 average filling utilization for each of Ultragas's primary and secondary filling stations and satellite stations.

Base	Type	Total storage		2004 average filling utilization rate
		capacity (tons)	Filling capacity (tons/month)	
Capuava	Primary	720	13,136	94%
Santos	Primary	960	3,727	78%
São José dos Campos	Primary	960	5,164*	104%
Rio de Janeiro	Primary	480	7,355	96%
Barueri	Secondary	1,500	4,200*	123%
Araraquara	Satellite	60		
Mauá	Satellite	720		
Pouso Alegre	Satellite	60		
Paulínia	Primary	1,488	11,786	81%
Araucária	Primary	240	9,677	79%
Canoas	Secondary	720	4,650	79%
Betim	Secondary	1,080	4,600*	106%
Ribeirão Preto	Secondary	180	3,950*	126%
Goiânia	Secondary	360	3,620	82%
São José do Rio Preto	Satellite	60		
Araçatuba	Satellite	180		
Bauru	Satellite	60		
Cascavel	Satellite	120		
Londrina	Satellite	60		
Blumenau	Satellite	60		
Chapecó	Satellite	60		
Florianópolis	Satellite	60		
Joinville	Satellite	60		
Caxias do Sul	Satellite	60		
Joaçaba	Satellite	60		
Dois Vizinhos	Satellite	60		
Ponta Grossa	Satellite	60		
Sorocaba	Satellite	120		
Mataripe	Primary	1,270	10,550	96%
Suape	Primary	480	3,844*	101%
Caucáia	Secondary	300	4,288	93%
Aracajú	Secondary	240	4,259	64%
Ilhéus	Secondary	360	3,000	85%
Maceió	Satellite	692		
Juazeiro	Satellite	60		
João Pessoa	Satellite	60		
Pirajá	Satellite	60		
Total		14,130	97,806	92%

\* These bases operated above capacity with more than one 8-hour shift per day.



In addition, Ultragaz maintains headquarters in the city of São Paulo and regional offices in the areas in which it operates. Ultragaz also maintains 90 retail stores.

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**Table of Contents****Business****OXITENO**

Oxiteno has four plants in Brazil: Camaçari, in the northeast complex, the Mauá plant in the São Paulo complex, the Triunfo plant in the southern complex and the Tremembé plant in the state of São Paulo.

The following table sets forth the current ethylene oxide production capacity of Oxiteno's plants in Brazil:

<b>Units</b>	<b>Capacity (in tons per year)</b>
Camaçari	260,000
Mauá	52,000
Tremembé	
Triunfo	
<b>Total</b>	<b>312,000</b>

Ethylene oxide is primarily an intermediate material used in the production of ethylene oxide derivatives - only approximately 4% of Oxiteno's sales volume in the year ended December 31, 2004 were ethylene oxide. Therefore, the total production capacities of a plant may not be determined by adding the capacities of ethylene oxide and its derivatives.

***Camaçari plant.*** The Camaçari plant, located in the Northeast Complex, was built by Oxiteno and commenced production in 1978. The Camaçari plant produces ethylene oxide and ethylene oxide derivatives, such as ethylene glycols, ethanalamines, glycol ethers and ethoxylated derivatives. In July 1997, a major modernization of this plant was completed adding 105 thousand tons of ethylene oxide capacity.

The following table sets forth the production capacity of the Camaçari plant for each of its principal products.

<b>Units</b>	<b>Capacity (in metric tons per year)</b>
Ethylene oxide	260,000
Ethylene glycols	285,000
Ethanalamines	45,000
Glycol ethers	25,000
Ethoxylated derivatives	130,000

In 2004, the Camaçari plant operated at approximately 93% of its production capacity.

***Mauá plant.*** The Mauá plant, located in the São Paulo Complex, was the first plant built by Oxitenó and commenced production in 1974. The Mauá plant has process units for ethylene oxide, ethylene glycols, glycol ethers, glycol ether acetates, natural alcohols and ethoxylated derivatives. In addition to the production units, the plant has drumming, storage, warehouse and maintenance facilities and also houses Oxitenó's principal research and development laboratory.

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The following table sets forth the current production capacity of the Mauá plant for each of its principal products.

<b>Units</b>	<b>Capacity (in metric tons per year)</b>
Ethylene Oxide	52,000
Ethylene Glycols	25,000
Glycol Ethers	40,000
Acetates	32,000
C4+C5 Alcohols	10,000
Ethoxylated Derivatives	25,000
Alkylation	17,000
Esterification	4,000
Emulsification	3,000
Hydraulic fluids	30,000

In 2004, the Mauá plant operated at approximately 88% of its production capacity.

**Tremembé plant.** The Tremembé plant, located at Bairro dos Guedes, Tremembé, in the state of São Paulo, has three principal production units, a sulfonation/sulfation unit and two multipurpose units. The Tremembé plant commenced production in 1970 and was subsequently acquired by us in 1985.

The following table shows the current capacity of the principal units at the Tremembé plant

<b>Units</b>	<b>Capacity (in metric tons per year)</b>
Esterification	10,000
Specialties	12,000
Sulfonation/Sulfation	30,000
Betaines	10,000
Hydraulic fluids	3,000
Naphthalenes Sulfonates	5,000

In 2004, the Tremembé plant operated at approximately 72% of its production capacity.

**Triunfo plant.** The Triunfo plant is located in the Southern Complex. The Triunfo plant was built by Oxiteno and started production in October 1989. The Triunfo plant has two process units, one for the production of secondary butyl alcohol, which is used in the production of MEK, and one for the production of MEK.

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The following table shows the current capacity of the principal units at the Triunfo plant.

Units	Capacity (in metric tons per year)
Methyl-ethyl-ketone (MEK)	35,000
Sec butyl alcohol	40,000

In 2004, the Triunfo plant operated at approximately 100% of its production capacity.

With the acquisition of Canamex in December 2003, Oxiteno acquired two specialty chemical plants in Mexico. As of December 31, 2004, the Coatzacoalcos plant has a production capacity of 30,000 tons per year of ethoxylates and the Guadalajara plant has a production capacity of 24,000 tons per year of specialty chemicals. In December 2004, the Guadalajara and the Coatzacoalcos plants operated at approximately 50% and 65% of their production capacity, respectively.

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The following table sets forth Oxiteno's overseas production plants:

<b>Units</b>	<b>Capacity (in metric tons per year)</b>
Ethoxylated derivatives Coatzacoalcos plant	30,000
Ethoxylated derivatives Guadalajara plant	12,000
Esterification Guadalajara plant	12,000

**Ultracargo**

The following tables set forth the principal products stored at, and the storage capacity of, Ultracargo's plants at December 31, 2004, and the average utilization of Ultracargo's plants during 2004.

<b>Plant</b>	<b>Capacity (in cubic meters)</b>	<b>Average utilization %</b>	<b>Product Lines</b>
Aratu (Bahia)	151,600	96%	Glycols, aromatics, acrylates, acrylonitrile, EDC, TDI, normal paraffins, linear alkyl benzene (LAB), linear alkyl sulphionate-LAS, methanol, ethers, alcohols, caustic soda, vegetal oil, fuels
Suape (Pernambuco)	34,850	100%	Fuels, VAM, acetic acid, styrene, butadiene
Santos (São Paulo)	10,220	100%	Vinyl Chloride Monomer
Paulínia Granel (São Paulo)	1,881	100%	PET
Paulínia Químico (São Paulo)	8,600	100%	Phenol, LAB, LAS
<b>Total</b>	<b>207,151</b>	<b>97%</b>	

<b>Plant</b>	<b>Handling capacity (in cubic meters/ month)</b>	<b>Handling Rate</b>	<b>Product line</b>
Montes Claros	20,000	61%	Fuels
<b>Total</b>	<b>20,000</b>	<b>61%</b>	

<b>Plant</b>	<b>Capacity (in square meters)</b>	<b>Average utilization %</b>	<b>Product Lines</b>
Paulínia (São Paulo)	6,000	98%	PET (bag), polyethylene (bag), LAS
Tatuí (São Paulo)	2,400	19%	Polyethylene, polypropylene (bags)
Camaçari (Bahia)	2,800	100%	Polyethylene, polypropylene (bags)
<b>Total</b>	<b>11,200</b>	<b>81%</b>	

## INTELLECTUAL PROPERTY

Our trademarks, especially *Ultragaz*, and our patents, are our main intellectual property. We carefully manage our trademarks in order to preserve consumer confidence in our products. We have registered our main trademarks in Brazil and in the other Mercosur countries. We currently have the definitive registry of 97 nominative trademarks, besides *marcas figurativas* and mixed trademarks. Additionally, we have registered with the Instituto Nacional de Propriedade Intelectual, or INPI, 17 patents, the majority of which relate to *Oxiten*. We have 5 patent requests filed with the INPI which are currently under analysis. We also have registry requests for trademarks and patents that are not yet published in the INPI magazine of intellectual property nor filed with them. Furthermore, we have some registry requests for trademarks and patents that are being disputed at the INPI level with other interested parties.

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**INSURANCE**

We maintain insurance policies covering a number of risks to which we believe we are exposed.

Our third party insurance covers each of our companies and comprises two policies: one policy covers minor events and has a limit of R\$ 1.0 million and the other covers possible events of a more serious nature and has a limit of U.S.\$ 150.0 million.

We believe that this insurance covers, in all material respects, the risks to which we are exposed and is in line with industry standards in Brazil.

**LEGAL PROCEEDINGS**

We are party to administrative proceedings and lawsuits that are incidental to the normal course of our business. We believe that our provisions for legal proceedings are sufficient to meet probable and reasonably estimable losses in the event of unfavorable court decisions and that the ultimate outcome of these matters will not have a material effect on our financial condition or results of operations. The majority of our legal proceedings are pending in the courts of the States of São Paulo, Minas Gerais, Rio de Janeiro, Rio Grande do Sul and Bahia.

**Labor matters**

We are involved in legal proceedings with former and current employees mainly relating to overtime, health and safety premiums and job reintegration. Although we can not estimate the exact amount involved in these labor claims, we believe in the event they are decided against us they would not, collective or individually, have a material adverse effect on our financial condition or results of operation.

The Petrochemical Industry Labor Union, which represents the employees of our indirect subsidiary Oxitenor Nordeste S.A., filed class action suits against Oxitenor Nordeste in 1990 demanding compliance with the adjustments established in collective labor agreements or other specific indexes, in lieu of the salary policies effectively practiced. The class action suits were originated in the courts of the State of Bahia and are currently being analysed by the Brazilian Supreme Court - Supremo Tribunal Federal. Based on information from our legal advisors that our views will prevail in this matter, our management does not believe that it is necessary to record a provision with respect to this matter.

**Civil claims**



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The civil claims against us relate mainly to accidents originated from fires or explosions of LPG cylinders and traffic accidents with Ultragaz and Ultracargo trucks.

There are also approximately 100 claims filed by former employees of Ultragaz, regarding bodily harm suits in which the plaintiffs are claiming damages for the loss of economic benefit and for pain and suffering arising from labor accidents. According to Ultragaz's estimate, our exposure in any individual suit ranges from R\$ 30,000 to R\$ 250,000. Such amounts are generally covered by Ultragaz's third-party insurance policies, subject to the terms of such policies. For those suits involving death or permanent disabilities, the value of the claim is established by the courts and is based on the average salary and age of the victim.

Ultragaz is a defendant in legal suits filed in the state of São Paulo relating to damages caused by an explosion in 1996 in a shopping mall in the city of Osasco. The largest single claim involving Ultragaz is

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an insurance subrogation claim filed with the 3<sup>o</sup> Civil Court of the City of São Paulo for approximately R\$ 9 million brought against Ultragaz, the builder of the shopping mall, the management of the shopping mall and the engineer responsible for the building's project. This claim is currently being reviewed by the superior courts of the State of São Paulo. Between 1996 and 2002, individual suits were filed by victims of the explosion claiming damages from Ultragaz for the loss of economic benefit and for pain and suffering. Of the 49 individual suits files, 46 have already been decided in our favor by the lower courts of the city of São Paulo. The plaintiffs have appealed to the superior courts of the State of São Paulo and are currently awaiting the results. In June 2002, the management of the shopping mall filed a suit against Ultragaz with the 37<sup>o</sup> Civil Court of the City of São Paulo for the reimbursement of medical and legal fees as well as expenses relating to the reconstruction of the mall. No ruling has yet been given on this suit. Ultragaz believes that it has produced evidence that defective gas pipes in the shopping mall caused the accident and that Ultragaz's on-site LPG storage facilities did not contribute to the explosion.

**Tax matters**

We filed suits challenging the constitutionality of several taxes that affect us with the federal courts. Among the main tax matters are individual lawsuits filed by Ultragaz, Oxiteno and some of our subsidiaries against the Brazilian tax authorities contesting the increase in certain taxes introduced by Law 9,718 of November 28, 1998. Among other things, Law 9,718 introduced a mechanism under which Ultragaz's contributions of PIS and COFINS on sales would be withheld by Petrobras, thereby effectively increasing overall taxation for Ultragaz. Our subsidiaries were granted preliminary injunctions which allowed them to continue to pay these contributions according to regulations applicable prior to Law 9,718. At the same time, we had made provisions to contemplate these tax increases. In November 2002, based on our legal advisors' opinion, we opted to pay these provisioned amounts, except for the provision of the taxation of gross financial and other income. Amounts which were not paid to tax authorities remain provisioned in the financial statements, and totaled R\$ 33.7 million at December 31, 2004. In the event we lose these lawsuits, we would have to pay these provisioned amounts to the tax authorities, but this would not affect our statement of operations.

Utingás is challenging an ISS (service tax) assessment presently under judgment at the judicial level in the state of São Paulo. The subsidiary's legal advisors classify the risk as being low, since a significant part of the decisions already announced were favorable to the subsidiary and its case is supported by the opinion of a renowned tax specialist. The total amount at risk as of December 31, 2004 is R\$ 25.4 million. We believe that a reserve for a potential loss is not currently necessary.

The table below summarizes our provisions related to legal proceedings as of December 31, 2004, 2003 and 2002:

	2004	2003	2002
	(in millions of reais)		
Social contribution taxes on net income	2.9	2.9	2.9
Labor claims	2.0	0.9	1.5
PIS and COFINS on other gains	33.7	30.5	24.1
ICMS	9.4	0	0
Other	4.1	6.6	0
	<hr/>	<hr/>	<hr/>
Total	52.1	40.9	28.5
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**Antitrust matters**

CADE, the Brazilian antitrust authority, is currently reviewing our acquisition of the LPG distribution operations of Royal Dutch/Shell N.V. Shell Gás in Brazil. In November 2003, an association of LPG resellers, ANERGÁS, incorporated after the acquisition of Shell Gás, filed a petition with the Economic Policy Bureau, a division of the Ministry of Justice or SDE, requesting the SDE to order Ultragaz and Shell Gás to refrain from going forward with the transaction alleging protection of market conditions for the Shell Gás franchisees. The SDE denied ANERGÁS request and sent its opinion to CADE in January 2004. In March 2004, Brazilian oil and gas regulatory body, Agência Nacional do Petróleo (ANP), issued a recommendation to SDE approving the transaction without restrictions. CADE has not yet issued its final approval.

There are two proceedings at the SDE against all Brazilian LPG distributors, including Ultragaz and SPGás. These proceedings aim to verify anti-competitive market practices in certain regions. According to our legal advisors the possibility of loss in these proceedings is remote.

**RELATED PARTY TRANSACTIONS**

None of the members of our board of directors or executives or their family members have any direct participation in any material transaction involving the Company or that is relevant to our businesses.

We and our subsidiaries and affiliated companies enter into intercompany loans on a regular basis. In certain cases, group companies maintain offsetting credits and debits on matching terms. In the case of intercompany loans among Ultrapar and some of its subsidiaries and affiliates, loans may be extended on financial terms so as to maximize consolidated profits at the Ultrapar level. See Note 20 to our consolidated financial statements for a detailed breakdown of intercompany loans as of December 31, 2004.

Transultra provides transportation services to Ultragaz and Oxitenó on arm's length terms. Similarly, Tequimar leases storage capacity for chemicals to Oxitenó on arm's length terms. In 2004, payments from Ultragaz and Oxitenó to Transultra in connection with these services totaled R\$ 26.3 million and R\$ 9.9 million, respectively. For this same period, payments from Oxitenó to Tequimar in connection with the leased storage capacity totaled R\$ 7.5 million.

Utingás's by-laws provide for each of its shareholders to use a proportion of Utingás's total storage capacity equal to such shareholder's proportionate ownership of Utingás. Accordingly, Ultragaz is entitled to use 4.2 thousand tons of LPG storage capacity at Utingás's facilities, reflecting Ultragaz's 56% ownership in Utingás. The amount of payments made by Ultragaz to Utingás in 2004 with respect to the use of storage capacity at Utingás's facilities totaled R\$ 2.9 million.

Our subsidiaries lease office space from Imaven Imóveis e Agropecuária Ltda, or Imaven, our wholly-owned subsidiary, on an arm's length basis in the building in São Paulo in which our head offices are located. The sole activity of Imaven is the ownership of the mentioned building. The total amount of rent payments under these leases is R\$ 6.7 million in 2004.

We are guarantors of a portion of our subsidiaries' indebtedness in the amount of R\$ 533.1 million as of December 31, 2004.

Banco Pactual S.A., an affiliate of Pactual Capital Corporation, has a proprietary stake of 180,855,900 preferred shares issued by the Company.

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## Management

### BOARD OF DIRECTORS AND SENIOR MANAGEMENT

The following table lists the current members of our Board of Directors and senior management.

Name	Position	Years with the Company	Age
<b>Board of Directors</b>			
Paulo Guilherme Aguiar Cunha	Chairman	37	65
Lucio de Castro Andrade Filho	Vice Chairman	27	59
Ana Maria Levy Villela Igel	Director	7	62
Renato Ochman	Director	4	45
Nildemar Secches	Director	3	56
Paulo Vieira Belotti	Director	7	72
Olavo Egydio Monteiro de Carvalho	Director	2	63
<b>Executive Officers(1)</b>			
Paulo Guilherme Aguiar Cunha	Chief Executive Officer	37	65
Lucio de Castro Andrade Filho	Vice-President	27	59
Fabio Schvartsman	Chief Financial and Investor Relations Officer, Ultrapar	20	51
José Carlos Guimarães de Almeida	Officer, Ultragaz	44	70
Pedro Wongschowski	Officer, Oxitenó	27	58

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- (1) José Carlos Guimarães de Almeida plans to retire as an officer of the Company on April 13, 2005. On April 13, 2005 our Board of Directors expects to appoint the Executive Officers for the one year term ending 2006, including two new executive officers, who have been managers of their respective business units at Ultrapar for several years.

Summarized below is information regarding the business experience, areas of experience and principal outside business interest of the current members of our Board of Directors and our senior management.

*Paulo Guilherme Aguiar Cunha.* Mr. Cunha is our chief executive officer and chairman of our board of directors since 1998. Mr. Cunha is also the chief executive officer of Oxitenó since 1981 and a member of the board of directors of Monteiro Aranha since 1997. Mr. Cunha joined Ultrapar in 1967 and was appointed vice president in 1973 and chief executive officer in 1981. Mr. Cunha has also been a member of the National Monetary Council, BNDESPAR, a subsidiary of BNDES, president of the Brazilian Association of Technical Standards ABNT, and President of IBP, the Brazilian Petroleum Institute. Mr. Cunha is the vice-president of ABIQUIM, the Brazilian Chemical Industry Association, a board member of the Superior Council of Economy and of the Consultative Council for Industry of FIESP, the state of São Paulo Industry Association and ex-President of IEDI Research Institution for the Industrial Development. Mr. Cunha is also a member of the board of IBMEC Business School and of the board of IPT Technological Research Institution. Mr. Cunha received a degree in industrial mechanical engineering from Catholic University in Rio de Janeiro in 1962. Mr. Cunha also was a Professor of Engineering at the Catholic University and at the Federal University of Rio de Janeiro from 1963 to 1966.

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*Lucio de Castro Andrade Filho.* Mr. Andrade Filho is the vice chairman of our board of directors since 1998. He is also vice president of Ultrapar since 1982, director of Ultracargo since 1977, a member of the board of Ultra S.A. since 1982, a director of Tequimar since 1996, a director of Ultragaz since 1994 and a member of the board of directors of Oxiteno Nordeste since 1997. He joined Ultrapar in 1977. Mr. Andrade Filho has held a number of positions with Ultrapar's subsidiaries in both the LPG as well as logistics, engineering and chemicals segments. Mr. Andrade Filho is also the chief executive officer of

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GLP Qualidade Compartilhada, an LPG industry association and a member of the board of directors of the Brazilian Petroleum Institute (Instituto Brasileiro de Petróleo - IBP). Mr. Andrade Filho received degrees in civil engineering and in administration from Mackenzie University in São Paulo in 1968 and 1972, respectively.

*Ana Maria Levy Villela Igel.* Ms. Villela Igel joined us as a member of the board of directors in October 1998. She is also a member of the board of directors of Ultra S.A. since 1988. She has served as a secretary in the finance department at the United Nations and as a counselor for CIEE - Centro de Integração Empresa Escola, an organization which assists students in transitioning to the professional environment, and as a counselor and member of the executive committee of Alumni Association - Bi-National Cultural Center. She is also involved in several organizations that promote social welfare activities for children and the elderly throughout Brazil.

*Renato Ochman.* Mr. Ochman joined us in April 2001 as a member of the board of directors. Mr. Ochman is a partner in the law firm Ochman Advogados Associados S/C and General Secretary of the Chamber of Commerce and Industry of Brazil-Israel. Mr. Ochman is a member of the Youth's Committee of the United Nations - Brazil and is also a member of the audit committee of the Association for Assistance to Handicapped Infants. Previously, Mr. Ochman taught commercial law at the Fundação Getúlio Vargas and acted as legal counsel for the Brazilian Association of Supermarkets. Mr. Ochman has obtained a law degree from the Catholic University of Rio Grande do Sul and a commercial law masters degree and post-graduate degree from the Catholic University of São Paulo.

*Nildemar Secches.* Mr. Secches joined us in April 2002 as a member of the board of directors. Mr. Secches is the chief executive officer of Empresas Perdigão since 1995, chief executive officer of ABEF - Brazilian Association of Chicken Producers and Exporters and vice-president of ABIPECS - Brazilian Association of Pork Producers and Exporters Industries. Mr. Secches is also a member of the board of WEG S.A. From 1972 to 1990, Mr. Secches worked for Banco Nacional de Desenvolvimento Econômico e Social - BNDES, serving as an executive officer from 1987 to 1990. From 1990 to 1994, Mr. Secches served as chief executive officer of Grupo Iochpe-Maxion. Mr. Secches received a degree in mechanical engineering from the University of São Paulo, a master's degree in finance from Pontifícia Universidade Católica of Rio de Janeiro and a doctoral degree in economics from the University of Campinas (state of São Paulo).

*Paulo Vieira Belotti.* Mr. Belotti joined us in October 1998 as a member of our board of directors. Mr. Belotti has also served as chief executive officer of several companies including Petrobras Distribuidora S.A., Petrobras Mineração S.A., Petrobras Química S.A., Petrobras Comércio Internacional S.A., Petrobras Fertilizantes S.A. and Norcell S.A. He has also served as a member of the board of directors of Nordon Indústria Metalúrgica S.A. Mr. Belotti received a degree in civil engineering from the National School of Engineering at the University of Brazil, a bachelor's degree in mathematics from the University of Guanabara and a degree in nuclear engineering from Oak Ridge School of Technology in Tennessee.

*Olavo Egydio Monteiro de Carvalho.* Mr. Monteiro de Carvalho joined our company in December 2002 as a member of the board of directors. He is chairman of the board of directors of Monteiro Aranha S.A. and a member on the board of Klabin S.A.. He is also a member of the Brazil-United States Business Council, member of the Brazil-Japan Conceptual Group and member of the board of Ad-Rio - Agência de Desenvolvimento Econômico do Estado do Rio de Janeiro (the Rio de Janeiro State Development Agency). He holds a mechanical engineering degree from Technische Hochschule in Munich.





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*José Carlos Guimarães de Almeida.* Mr. Almeida is an officer of Ultrapar's LPG distribution business since 1985. Mr. Almeida is also an officer of Bahiana and Utingás since 1982, member of the board of directors of Ultraprev since 1982, director of Ultragas since 1987 and of Ultracargo since 2003 and member of the board of directors of Oxiteno Nordeste since 2003. Mr. Almeida was an officer of Ultralar Aparelhos e Serviços S.A., general superintendent and member of the consultative council of Ultracred Crédito, Financiamento e Investimentos S.A., treasury officer of Unidade Interamericana de Publicidade, and director general of Vedebrasil II Participações S.A., the holding company in Brazil of Vendex International. Since 2003, Mr. Almeida has been a member of the Board of Sindigás - the National Union of Liquefied Petroleum Gas Distribution Companies. Mr. Almeida received a degree in civil engineering in 1962 from Pontifícia Universidade Católica of Rio de Janeiro and a master's degree in economic engineering.

*Fabio Schvartsman.* Mr. Schvartsman is our Chief Financial Officer since 1990 and our Investor Relations Officer since 1999. Mr. Schvartsman is also director of Ultragas since 1990, member of the board of directors of Ultraprev since 1995, Ultra S.A. since 1998, Tequimar since 1998 and Oxiteno Nordeste since 2003. Prior to joining us, Mr. Schvartsman worked in the finance area at Duratex S.A. Mr. Schvartsman is our chief financial officer and our investor relations officer. Mr. Schvartsman received a degree in production engineering from Escola Politécnica da Universidade de São Paulo and a master's degree in business administration from the Business School of São Paulo/Getúlio Vargas Foundation in 1979.

*Pedro Wongtschowski.* Mr. Wongtschowski has served as an officer since 1985. Mr. Wongtschowski is also a member of the board of directors of Ultraprev since 1989 and of Oxiteno Nordeste since 2003, and an officer of Oxiteno and Oxiteno since 1992. Mr. Wongtschowski was employed at our chemical fertilizer company from 1970 until 1972 and rejoined Ultrapar in 1977. Mr. Wongtschowski is also the Chairman of the Board of the Brazilian Association for Chemical Engineering, Vice-President of the board of directors of ABIQUIM, Brazilian Chemical Industries Association, and Vice-President of Latin American Petrochemical and Chemical Associations - APLA. Mr. Wongtschowski is an officer of our chemical and petrochemical businesses. Mr. Wongtschowski received a degree in chemical engineering, master's degree in chemical engineering and a doctoral degree in chemical engineering from the Escola Politécnica da Universidade de São Paulo. Mr. Wongtschowski is the author of the book *Indústria Química - Riscos e Oportunidades* (Chemical Industry - Risks and Opportunities), published in 2002 (2nd edition).

**COMPENSATION**

For the year ended December 31, 2004, the aggregate compensation of our directors and executive officers was approximately R\$ 11.6 million. A portion of such amount is represented by variable compensation, dependent on business performance as measured by metrics such as Economic Value Added - EVA and adjusted EBITDA. Except for the expenses related to Ultraprev - Associação de Previdência Complementar, known as Ultraprev, which manages our pension plan, we have not set aside or accrued any additional amounts for pension, retirement or similar benefits for our directors and executive officers. See Employees.

On April 27, 2001, the General Shareholders' Meeting approved a plan for granting stock options (The Stock Option Plan) to members of management and employees in executive positions in the Company and its subsidiaries. On November 26, 2003, the Extraordinary General Shareholders' Meeting approved certain amendments to the original plan of 2001 (the Deferred Stock Plan). In the Deferred Stock Plan, certain members of management have the voting and economic rights of preferred shares held as treasury



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stock and the ownership of these shares is retained by Ultrapar. The Deferred Stock Plan provides for the transfer of the ownership of the shares to those eligible members of management after ten years from the initial concession of the rights subject to uninterrupted employment of the Deferred Stock Plan participant by the Company during the period. The Board of Directors determines the number of shares to which each eligible participant shall have rights. The total number of shares to be used for the Deferred Stock Plan is subject to the availability in treasury of such shares. It is incumbent on Ultrapar's executive officers to select the members of management eligible for the plan and propose the number of shares in each case for approval by the Board of Directors. As of December 31, 2004, the amount granted to the Company's executives, including tax charges, totaled R\$ 7.6 million. This amount is amortized over a ten year period, the amortization for 2004 amounts to R\$ 567 thousand and is recorded as an operational expense for 2004.

**BOARD PRACTICES**

**Board of Directors**

Prior to December 20, 2002, our Board of Directors was limited to six members. Pursuant to our amended by-laws, our Board of Directors must consist of a minimum of four and a maximum of seven members. Our Board of Directors generally meets quarterly or whenever called by its chairman or by any two directors. During 2004, eight board meetings were held. Each meeting of the Board of Directors requires a quorum of a minimum of three members, including the chairman or the vice-chairman. The Board of Directors is responsible for our general policies, for electing our executive officers and supervising their management, and for deliberating on capital increases up to the authorized capital, distributions of dividends and interest on shareholders' equity, investments in other companies, our dissolution or incorporation and the appointment of independent auditors. Pursuant to Brazilian law, each member of the Board of Directors must hold at least one of our common or preferred shares and be elected by the holders of our common shares at the General Shareholders' Meeting.

Members of the Board of Directors are elected by the common shareholders for a period of one year and may be reelected. According to Law 10,303/2001, minority shareholders that together hold common shares representing at least 15% of the voting capital, are entitled to appoint one Board member. Holders of preferred shares representing 10% or more of our capital stocks have the right to elect one member of our Board of Directors. Minority holders of our voting shares and preferred shareholders that do not represent the minimum percentage required for the right to elect a member of the Board of Directors in the manner described above may jointly elect a single member to the Board. In this case such shareholders should jointly represent a minimum of 10% of the corporate capital. Until the general shareholders' meeting of 2005, preferred shareholders have the right to elect a Board member from a short list of three names drawn up by the controlling shareholder. As from the general shareholders' meeting of 2006, the election of this member will be unrestricted. In 2002, we granted our minority shareholders the right to elect a member of our Board of Directors, a corporate governance change that Brazilian companies are not required to make until 2006. Mr. Nildemar Secches was elected to the Board in April 2002, as the representative of the minority shareholders. Mr. Secches was reelected in 2003 and in 2004. In 2005, although the minority shareholders did not obtain the minimum percentage required for the right to elect a member of the board of directors, Mr. Secches was reelected by the Company.

Minority holders of voting shares and preferred shareholders must prove uninterrupted title to a shareholding interest in our shares for a period of at least three months immediately prior to the holding of the general shareholders' meeting in order to exercise their rights related to election of directors.

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Law 10,303/2001 granted members of the Board of Directors elected by minority holders of voting shares and/or preferred shareholder, veto powers over the appointment and dismissal of our independent auditors, provided such veto is reasonably justified.

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### **Management**

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#### **Executive Officers**

Our executive officers include our chief executive officer and a minimum of three and a maximum of five other members. Each of our current executive officers has been appointed by the Board of Directors for a one-year term, which began on April 26, 2004 and may remain in office until the appointment of his substitute. Sitting members can be reelected for additional one-year terms.

#### **Fiscal Council**

Under Brazilian corporate law and our by-laws, we are not required to, and currently do not, maintain a permanent fiscal council. We would, however, be required to establish a fiscal council upon the request of shareholders who hold 2% of the common shares or 1% of the preferred shares, pursuant CVM Instruction 324 of January 19, 2000. The primary responsibility of the fiscal council, which, if established, would act independently from our management and external auditors, would be to review our consolidated financial statements and report on them to our shareholders.

#### **Corporate Governance**

We are incorporated under the laws of Brazil and we are subject to Brazilian laws related to corporate governance. Under Brazilian law, there are no regulatory requirements with respect to corporate governance such as (i) the independence of our Board of Directors, (ii) meetings of non-management directors, (iii) the establishment and composition of certain board committees or (iv) the adoption and disclosure of corporate governance guidelines or codes of business conduct and ethics. As a non-U.S. issuer we are exempt from adopting certain New York Stock Exchange corporate governance requirements and other requirements will only apply to us in the future. However, we aim to ensure that best practices, recommendations and standards of corporate governance are employed in our functioning and operations. We have adopted corporate governance guidelines, such as the requirement that a majority of the members of the Board of Directors be independent, and the implementation of a code of ethics for senior officers that we believe is in compliance with applicable U.S. corporate governance requirements.

We are currently working to comply with all Sarbanes-Oxley and New York Stock Exchange requirements within the required time frame.

#### **EMPLOYEES**

As of December 31, 2004, we had 6,724 employees.

The following table sets forth our number of employees per line of business at the dates indicated.

	Number of employees		
	2004	2003	2002
Ultraz	4,630	4,560	4,156
Oxiteno	1,121	1,078	912
Ultracargo	966	815	743
Others(1)	7	12	11
Ultrapar	6,724	6,465	5,822

(1) Includes headquarters maintenance personnel hired by our wholly-owned subsidiary, Imaven Imóveis e Agropecuária Ltda.

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**Management**

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Ultragas's employees are covered by collective agreements with the labor unions representing the employees in the LPG industry. According to Brazilian legislation, Oxiten's employees are represented by labor unions, and are currently covered by collective agreements, which are renewed annually.

All Ultracargo's employees are covered by a collective agreement, which incorporates clauses of a social, financial, labor union and labor relations nature signed by the companies, labor unions and employees.

In February 2001, our Board of Directors approved the adoption of a defined contribution pension plan to be sponsored by Ultrapar and each of its subsidiaries. Participating employees have been contributing to this plan, managed by *Ultraprev Associação de Previdência Complementar*, known as Ultraprev, since August 2001. Under the terms of the plan, every year each participating employee chooses his or her basic contribution to the plan. Each sponsoring company provides a matching contribution in an amount equivalent to each basic contribution, up to a limit of 11% of the employee's reference salary, according to the rules of the plan. As participating employees retire, they may choose to receive either (i) a monthly sum ranging between 0.5% and 1.0% of their respective contribution in Ultraprev or (ii) a fixed monthly amount which will exhaust their respective contribution over a period of 5 to 25 years. The sponsoring company does not guarantee the amounts or the duration of the benefits received by each employee that retires. The total number of participating employees as of December 31, 2004 was 5,560.

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## Principal and selling shareholders

### PRINCIPAL SHAREHOLDERS

In accordance with our by-laws, there are two classes of capital stock authorized and outstanding, the common shares and the preferred shares, of which only the common shares have voting rights.

The following table sets forth the principal holders of our common and preferred shares:

	Common		Preferred	
	Shares (in thousands, except percentages)	%	Shares (in thousands, except percentages)	%
<b>Shareholders</b>				
Ultra S.A. Participações	32,646,714	66%	0	0%
Parth Investments Company(1)	9,311,730	19%	1,396,760	5%
Monteiro Aranha S.A.	5,212,637	11%	2,526,887	8%
Ultra-DI Participações S.A.(1)	490,095	1%	73,514	0%
Others(2)	1,768,721	3%	26,717,901	87%
<b>Total</b>	<b>49,429,897</b>	<b>100%</b>	<b>30,715,062</b>	<b>100%</b>
<b>Board of Directors(3)</b>				
Paulo Guilherme Aguiar Cunha(4)	15	0%	739,682	2%
Lucio de Castro Andrade Filho(4)	15	0%	208,806	1%
Ana Maria Levy Villela Igel	869,285	2%	1,484,732	5%
Olavo Egydio Monteiro de Carvalho	0	0%	0	0%
Renato Ochman	15	0%	2	0%
Nildemar Secches	15	0%	2	0%
Paulo Vieira Belotti	15	0%	2	0%
<b>Executive officers(3)</b>				
Fabio Schwartsman	0	0%	88,837	0%
José Carlos Guimarães de Almeida	0	0%	730,813	2%
Pedro Wongtschowski	0	0%	88,837	0%

- (1) Parth Investments Company and Ultra-DI Participações S.A., which together hold 19.8% of our common shares, are controlled by Daisy Igel.
- (2) Shareholders other than Ultra S.A. Participações, Parth Investments Company, Monteiro Aranha S.A., and Ultra DI Participações, and includes those shares held by members of our Board of Directors and our executive officers.
- (3) Our Board members and executive officers beneficially own additional shares primarily through their participation in the holding company Ultra S.A. Participações as discussed below.
- (4) These individuals are also executive officers.

On December 31, 2004, approximately 4.98 billion preferred shares were held in the form of ADSs.

**OWNERSHIP AND CAPITAL STRUCTURE OF ULTRA S.A. PARTICIPAÇÕES, MONTEIRO ARANHA S.A. AND CHRISTY PARTICIPAÇÕES LTDA.**

Ultra S.A. Participações, or Ultra S.A., owns approximately 66% of Ultrapar's voting shares. Historically, the voting stock of Ultra S.A. was owned primarily by two holding companies, Igel Participações S.A. and Avaré Participações S.A., owned primarily by members of the Igel family and certain members of our senior management, respectively. Igel Participações S.A. and Avaré Participações S.A. were dissolved on December 16, 2004, and the shares of Ultra owned by these companies were distributed to their respective shareholders.

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The capital stock of Ultra S.A. was owned as follows:

	Common		Preferred	
	Shares	%	Shares	%
<b>Shareholders</b>				
Fabio Igel	5,912,469	9%	1,768,275	7%
Rogério Igel	6,876,245	11%	2,062,989	8%
Joyce Igel de Castro Andrade(1)	6,876,246	11%	2,062,989	8%
Marcia Igel Joppert	6,876,246	11%	2,062,988	8%
Christy Participações Ltda.	6,425,199	10%	4,990,444	20%
<b>Directors and officers</b>				
Paulo Guilherme Aguiar de Cunha	13,294,109	21%		
Ana Maria Levy Villela Igel	9,764,689	15%	12,395,100	49%
Lucio de Castro Andrade Filho(1)	3,775,470	6%		
Fabio Schvartsman	1,606,301	3%		
Pedro Wongtschowski	1,606,301	3%		
José Carlos Guimarães de Almeida	188,774	0%		
Directors and Officers	30,235,644	48%	12,395,100	49%

(1) Lucio de Castro Andrade Filho and Joyce Igel de Castro Andrade are husband and wife.

The capital stock of Monteiro Aranha S.A. was owned as follows:

	Common		Preferred	
	Shares	%	Shares	%
<b>Shareholders</b>				
Joaquim Francisco Monteiro de Carvalho	1,626,651,965	14%	0	0%
Fundo de P. do B.E.S. Com de Lisboa	1,168,120,757	10%	0	0%
Dresdner Bank AG	1,159,759,765	10%	0	0%
Bradesco Capitalização S.A	1,192,483,939	10%	0	0%
Sociedade Técnica Monteiro Aranha Ltda	961,337,879	8%	0	0%
Olavo Egydio Monteiro de Carvalho	905,042,208	8%	0	0%
AMC Participações S/C Ltda	599,525,779	5%	0	0%
CEJMC Participações S/C Ltda	599,525,779	5%	0	0%
SAMC Participações S/C Ltda	599,525,779	5%	0	0%
Treasury shares	195,398,211	2%	0	0%
Others	2,590,225,589	23%	0	0%
Total	11,597,597,650	100%	0	0%

The capital stock of Christy Participações Ltda. was owned as follows:

	Capital Stock	%
<b>Shareholders</b>		
Maria da Conceição Coutinho Beltrão	3,066	34%
Helio Marcos Coutinho Beltrão	1,906	22%
Cristiana Coutinho Beltrão	1,906	22%
Maria Coutinho Beltrão	1,906	22%
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Total	8,784	100%
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**Principal and selling shareholders**

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**SHAREHOLDERS AGREEMENT OF ULTRA S.A. PARTICIPAÇÕES**

On September 22, 2004, the shareholders of Ultra S.A. entered into a new Shareholders Agreement (the New Shareholders Agreement) replacing a prior Shareholders Agreement entered into on May 22, 1997, to ensure the continuation of the controlling shareholder block upon the contemplated dissolution and distribution of Ultra S.A. shares held by its shareholders, Igel Participações S.A. and Avaré Participações S.A.

The New Shareholders Agreement has a term of five years from December 16, 2004 and provides principally that:

- Ø all shares of Ultrapar that are held by Ultra will be voted as a block;
- Ø the Ultra S.A. shares will be voted in accordance with the instructions of the absolute majority of its common shares except for certain significant matters (including changes to the by-laws of either company changes to our capital structure, mergers, material acquisitions or sales of assets, and election of Board members) which require the vote of 66% of the common shares;
- Ø the Chairman of our Board of Directors must convene a meeting of, and provide all requested information and available documents to, all parties to the New Shareholders Agreement before or after any meeting of our Board of Directors considering key issues such as our strategic plan and general policies, our organizational structure, the election of executive officers, our dividend policy, and any other material decisions as determined by the Board of Directors;
- Ø any party purchasing shares of Ultra S.A. must agree to be bound by the terms of the New Shareholders Agreement; and
- Ø any party to the New Shareholders Agreement may exchange his or her shares in Ultra S.A. into our preferred shares at an exchange ratio necessary to obtain the same percentage of our capital stock as was held in Ultra S.A., unless the exchange would result in (i) Ultra S.A. no longer having more than the majority of our voting shares or (ii) a violation of the number of preferred shares as a percentage of total capital stock legally permitted to be issued by us or by Ultra S.A.

**Table of Contents****Principal and selling shareholders****SELLING SHAREHOLDERS**

The Selling Shareholders identified below received or will receive certain of the preferred shares being offered hereby (i) by converting part of their holdings in Ultra S.A. into preferred shares and (ii) in the stock dividend approved by us. The following table sets forth shareholders who are selling preferred shares in this offering, the number of preferred shares being sold by them and the number of shares of Ultrapar to be beneficially held by them following this offering:

	Shares offered	Shares beneficially owned after offering				
		Common	%	Preferred	%	
	Preferred	(In thousand shares)				
Selling Shareholders						
Fabio Igel	424,786,103	2,831,907	5.7%	0	0%	
Marcia Igel Joppert	494,387,311	3,527,947	7.1%	34,805	0.1%	
Rogério Igel	346,071,118	2,307,141	4.7%	0	0%	
Maria Teresa Igel	148,316,193	988,775	2.0%	0	0%	
Joyce Igel de Castro Andrade	761,223,304	3,295,916	6.7%	0	0%	
Lucio de Castro Andrade Filho	208,803,625	1,392,039	2.8%	2	0%	
Paulo Guilherme Aguiar Cunha	735,235,122	4,901,582	9.9%	4,447	0%	
Ana Maria Levy Villelalgel	638,022,913	9,039,649	18.3%	846,709	2.8%	
Fabio Schvartsman	88,837,011	592,247	1.2%	0	0%	
José Carlos Guimarães de Almeida	730,812,691	69,601	0.1%	0	0%	
Pedro Wongtschowski	88,837,011	592,247	1.2%	0	0%	
Maria da Conceição de Moraes Coutinho Beltrão	589,579,281	1,468,932	3.0%	0	0%	
Helio Marcos Coutinho Beltrão	366,586,545	913,347	1.8%	50	0%	
Cristiana Coutinho Beltrão	366,586,545	913,347	1.8%	0	0%	
Maria Coutinho Beltrão	366,586,545	913,347	1.8%	0	0%	
Monteiro Aranha S.A.	1,515,000,000	5,212,637	10.5%	1,011,887	3.3%	
Total	7,869,671,318	38,960,661	78.8%	1,897,849	6.2%	

The business address of each of the Selling Shareholders is Avenida Brigadeiro Luis Antônio, 1343, 9º andar, São Paulo, SP, Brazil 01317-910.

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## Distribution policy and dividends

The by-laws of a Brazilian company may establish a minimum percentage of the profit that must be paid to shareholders as mandatory dividends. The amounts due as dividends may be paid as interest on net equity. Our by-laws provide for a mandatory distribution equal to 50% of the Distributable Amount (as defined below). In addition, until May 18, 2004, under our by-laws, the amount we distributed in respect of each preferred share was equal to 110% of the amount we distributed in respect of each of our common shares. On May 18, 2004, we held an Extraordinary General Meeting which approved amendments of our by-laws. The amendments were (i) the registration in our by-laws of tag along rights for all Company shareholders, at 100% of the offer price which provisions were previously provided for in our 2000 shareholders agreement; and (ii) to make the dividend right of preferred shareholders equal to those of common shareholders by abolishing the right of preferred shareholders to receive dividends at least 10% (ten per cent) higher than those received by common shareholders.

Brazilian corporate law defines the *net profit* as the results of the relevant fiscal year, reduced by accumulated losses of prior fiscal years, provisions for income tax and social contribution on the net profit for such fiscal year, and amounts allocated to employees and management's participation on the results in such fiscal year. The amount available for distribution of dividends, referred to as the *Distributable Amount*, is the net profit, as reduced or increased by the following:

- Ø amounts allocated to the legal reserve;
- Ø amounts allocated to the statutory reserve, if any;
- Ø amounts allocated to the contingency reserve, if required;
- Ø amounts allocated to the unrealized profit reserve;
- Ø amounts allocated to the retained profit reserve;
- Ø reversions of reserves registered in prior years, in accordance with Brazilian GAAP; and
- Ø reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

*Legal reserves.* We are required to maintain a legal reserve to which we must allocate 5% of our net profit until the amount of our legal reserve equals 20% of paid-in capital. We are not required to make any allocations to the legal reserve for any fiscal year in which such reserve, when added to our capital reserves, exceeds 30% of our capital stock. Accumulated losses, if any, may be charged against the legal reserve. Other than that, the legal reserve can only be used to increase our capital.

*Statutory reserves.* Under Brazilian corporate law, any corporation may create statutory reserves, in which case it shall be provided in its respective bylaws. In this case, the bylaws must also indicate the reserve purpose, allocation criteria and maximum amount of reserve. Our

bylaws do not provide for, and thus we do not maintain, a statutory reserve.

*Contingency reserves.* Under Brazilian corporate law, our shareholders may decide, upon a proposal of our board of directors, to allocate a discretionary amount of our net profit to a contingency reserve for estimated future losses which are deemed probable. The distributable amount may be further increased

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**Distribution policy and dividends**

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by the reversal of such reserve in the fiscal year when the reasons that justified the creation of such reserve cease to exist or in which the anticipated loss occurs. Accordingly, there is no specific percentage of net profit allocable to this type of reserve.

*Unrealized profits reserves.* Under Brazilian corporate law, when the mandatory dividend amount exceeds the realized net profit in a given fiscal year, our shareholders may elect, upon a proposal of our board of directors, to allocate some or all of the excess dividend amount to an unrealized profits reserves. Brazilian corporate law defines realized net profit as the amount by which the Company's net profits exceed the sum of (1) its net positive results, if any, from the equity method of accounting for earnings and losses of the Company's subsidiaries and certain of its affiliates and (2) the profits, gains or returns that will be received by the Company after the end of the next fiscal year. The distributable amount is increased by the profits that were allocated to such reserve when they are realized.

*Retained profits reserve.* Under Brazilian corporate law, our shareholders may decide to retain a discretionary amount of the our net profit that is provided for in a budget approved in the general shareholders' meeting, upon the proposal of its board of directors, for the expansion of the our installations and other investment projects. After the conclusion of the relevant investments, we may retain the reserve until the shareholders approve the transfer of the reserve, in full or in part, to its capital or to the accumulated profits reserve. In accordance with Brazilian corporate law, if a project to which part of the reserve has been allocated has a term exceeding one year, the budget for such project must be approved by the general shareholders' meeting each fiscal year through the conclusion of the project.

Brazilian corporate law provides that all statutory allocations of net profit, including the unrealized profits reserve and the reserve for investment projects, are subject to approval by the shareholders voting at a general shareholders' meeting and may be used for capital increases or for the payment of dividends in subsequent years. The legal reserve is also subject to approval by the general shareholders' meeting and may be transferred to capital or used to absorb losses, but are not available for the payment of dividends in subsequent years.

The balance for the profit reserve accounts, except for the contingency reserve and unrealized profits reserve, may not exceed the share capital. If this happens, our shareholders must determine whether the excess will be applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed stock capital or to distribute dividends.

The profits unallocated to the accounts mentioned above must be distributed as dividends.

A company is permitted to allocate to the unrealized profits reserves all income from equity gains in subsidiaries that are not distributed to the company in the form of cash dividends. When such gains are distributed to the company in the form of cash dividends, the company is required to reverse the reserve. See Risk factors Risks relating to the preferred shares and ADSs. In addition to the mandatory distribution, the Board of Directors may recommend to the shareholders the payment of interim distributions from other funds that are legally available for such purposes. Any payment of an interim dividend may be set off against the amount of the mandatory dividend distribution for that fiscal year.

As an alternative form of payment of dividends, Brazilian companies may distribute interest attributed to shareholders' equity, which payments may be treated by a company as a deductible expense for income tax and social contribution purposes. Payments of interest attributed to shareholders' equity may be made at the discretion of our Board of Directors, subject to the approval of the holders of our common shares. Payments of interest attributed to shareholders' equity, net of withholding tax, may be used to



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satisfy a company's mandatory distribution obligation. This interest is calculated in accordance with the daily *pro rata* variation of the Brazilian government's long-term interest rate, (TJLP), as determined by the Brazilian Central Bank from time to time, and cannot exceed the greater of:

Ø 50% of net income (after the deduction of the social contribution on profits and before the provision for corporate income tax and the amounts attributable to shareholders as net interest on equity) related to the period in respect of which the payment is made; or

Ø 50% of the sum of retained profits and profit reserves in the beginning of the period with respect to which the payment is made.

Under Brazilian corporate law, a company may suspend the mandatory distribution either in the form of dividends or payments of interest on shareholders' equity if the general shareholders' meeting determines based on Board of Directors' proposal, reviewed by the fiscal council if it is in place at the time, that payment of the mandatory distribution for the preceding fiscal year would be inadvisable in light of the company's financial condition. Our managers must report to the CVM such suspension within five days of the relevant general shareholders' meeting. Under Brazilian law, mandatory distributions that are suspended and not offset against losses in future years must be paid as soon as the financial condition of the company permits.

**DIVIDEND POLICY**

We declare and pay dividends and/or interest attributed to shareholders' equity, pursuant to Brazilian corporate law and our by-laws. Our Board of Directors may approve the distribution of dividends and/or interest attributed to shareholders' equity, calculated based on our annual or semi-annual financial statements or on financial statements relating to shorter periods. The amount of any distributions will depend on a series of factors, such as our financial condition, prospects, macroeconomic conditions, tariff adjustments, regulatory changes, growth strategies and other issues our Board of Directors and our shareholders may consider relevant.

For 2004 and 2003, we declared dividends to our shareholders in the amounts of R\$ 164 million and R\$ 72 million, corresponding to 40% and 29% of our net income for each period, respectively.

The following table sets forth the dividends per 1,000 shares distributed by us with respect to our capital stock in the past five years.

**Dividend History**

Year Declared	Common	Preferred	Common Shares (in US\$ per thousand shares(1))	Preferred Shares
	Shares (in <i>reais</i> , per thousand shares)	Shares		
2000	0.57	0.63	0.30	0.33

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2001	4.20	4.63	1.61	1.77
2002	1.00	1.09	0.30	0.33
2003	1.01	1.11	0.34	0.38
2004	2.36	2.36	0.84	0.84

(1) The amounts in *reais* have been converted into dollars using the exchange rates at each respective payment date.

Holders of our preferred shares are entitled to receive dividends declared by us solely from the date of the subscription and/or acquisition of such shares.

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