

ULTRAPAR HOLDINGS INC

Form 20-F

June 30, 2011

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As filed with the Securities and Exchange Commission on June 30, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-14950

ULTRAPAR PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

ULTRAPAR HOLDINGS INC.

(Translation of Registrant's name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Av. Brigadeiro Luis Antônio, 1343, 9º Andar

São Paulo, SP, Brazil 01317-910

Telephone: 55 11 3177 6695

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Preferred Shares, without par value (represented by, and traded only in the form of, American Depositary Shares (evidenced by American Depositary Receipts), with each	New York Stock Exchange

American Depositary Share representing one preferred share)

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

The number of outstanding shares of each class as of December 31, 2010.

Title of Class	Number of Shares Outstanding
Common Stock	49,429,897
Preferred Stock	86,666,102

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ☐ Yes ☒ No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☒ Accelerated Filer ☐ Non-accelerated Filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐ International Financial Reporting Standards as issued by the International Accounting Standards Board ☒ other ☐

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

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INTRODUCTION

Ultrapar is a Brazilian company with more than 70 years of history, with leading positions in the markets in which it operates: fuel distribution through Ultragas and Ipiranga, specialty chemicals production through Oxiteno and storage services for liquid bulk through Ultracargo. Ultragas is the leader in LPG distribution in Brazil with a 23% market share in 2010 and one of the largest independent LPG distributors in the world in terms of volume sold. We deliver LPG to an estimated 10 million households using our own vehicle fleet and our network of more than 4,000 independent retailers. Ipiranga is the second largest fuel distributor in Brazil, with a network of 5,662 service stations and a 21% market share in 2010. Oxiteno is one of the largest producers of ethylene oxide and its main derivatives in Latin America, a major producer of specialty chemicals and the sole producer of fatty-alcohols and related by-products in Latin America. Oxiteno has nine industrial units in Brazil, Mexico and Venezuela and commercial offices in the United States, Argentina, and Belgium. Ultracargo is the largest provider of storage for liquid bulk in Brazil, with seven terminals and a storage capacity of 638 thousand cubic meters as of December 31, 2010.

References in this annual report to Ultrapar, we, our, us and the company are to Ultrapar Participações S.A. and its consolidated subsidiaries (unless the context otherwise requires). In addition, all references in this annual report to:

ABTL are to *Associação Brasileira de Terminais de Líquidos*, the Brazilian Association of Liquid Bulk Terminal Operators;

ABIQUM are to *Associação Brasileira da Indústria Química*, the Brazilian Association of Chemical Industries;

ADRs are to the American Depositary Receipts evidencing our ADSs;

ADSs are to our American Depositary Shares, each representing one share of our non-voting preferred stock in 2010;

AGT are to AGT Armazéns Gerais e Transporte Ltda.;

am/pm are to Ipiranga's convenience stores franchise network that operate under the brand am/pm, managed by am/pm Comestíveis Ltda. and Conveniência Ipiranga Norte Ltda.;

ANFAVEA are to *Associação Nacional dos Fabricantes de Veículos Automotores*, the Brazilian Association of Vehicle Producers;

ANP are to the *Agência Nacional de Petróleo, Gás Natural e Biocombustíveis*, the Brazilian oil, natural gas and biofuels regulatory agency;

Aqces are to Aqces Logística Internacional Ltda.;

BM&FBovespa are to the BM&FBOVESPA S.A. - Bolsa de Valores, Mercadorias e Futuros, the São Paulo Stock Exchange;

Braskem are to Braskem S.A.;

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Brazilian Central Bank or Central Bank are to the *Banco Central do Brasil*, the Brazilian central bank;

Brazilian Corporate Law are to Law No. 6,404 enacted in December 1976, as amended by Law No. 9,457 enacted in May 1997, by Law No. 10,303 enacted in October 2001, and by Law No. 11,638 enacted in December 2007 and by Law No. 11,941/09 enacted in May 2009;

Brazilian government are to the federal government of the Federative Republic of Brazil;

CBPI are to Companhia Brasileira de Petróleo Ipiranga, a company that was merged into IPP in November 2009;

CBL are to Chevron Brasil Ltda. (currently IPP), a former subsidiary of Chevron that, together with Galena, held Texaco;

CDI are to the Brazilian money market interest rate (*Certificados de Depósito Interbancário*);

Chevron are to Chevron Latin America Marketing LLC and Chevron Amazonas LLC;

Conversion are to the conversion of all preferred shares issued by the company into common shares, at a ratio of 1 (one) preferred share for 1 (one) common share, as approved at the extraordinary general shareholders meeting and the special preferred shareholders meeting held on June 28, 2011;

CVM are to *Comissão de Valores Mobiliários*, the Brazilian securities authority;

Deposit Agreement are to the Deposit Agreement between Ultrapar Participações S.A. and the Bank of New York Mellon, dated September 16, 1999, and all subsequent amendments thereto;

DNP are to Distribuidora Nacional de Petróleo Ltda.;

DPPI are to Distribuidora de Produtos de Petróleo Ipiranga S.A., a company that was merged into CBPI in December 2008;

EMCA are to Empresa Carioca de Produtos Químicos S.A.;

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Galena are to Sociedade Anônima de Óleo Galena Signal, a former subsidiary of Chevron that, together with CBL, held Texaco;

IFRS are to International Financial Reporting Standards, as issued by the International Accounting Standards Board;

Imaven are to Imaven Imóveis Ltda.;

Ipiranga are to Ultrapar's subsidiaries that operate in the fuel distribution business and related activities;

Ipiranga Group are to RPR, DPPI, CBPI, Ipiranga Química S.A. (IQ), Ipiranga Petroquímica S.A. (IPQ), Companhia Petroquímica do Sul S.A. (Copesul) and their respective subsidiaries prior to their sale to Ultrapar, Petrobras and Braskem;

Ipiranga Group SPA are to the Share Purchase Agreement entered into and among Ultrapar, with the consent of Petrobras and Braskem, and the Key Shareholders on March 18, 2007;

Ipiranga Group Transaction Agreements are to agreements related to the acquisition of Ipiranga Group by Ultrapar, Petrobras and Braskem. Each Ipiranga Group Transaction Agreement is incorporated by reference to Exhibits 2.5, 2.6, 2.7, 4.4, 4.5, 4.6 and 4.7 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007;

IPP are to Ipiranga Produtos de Petróleo S.A., formerly CBL;

Key Shareholders are to Ipiranga Group's former controlling shareholders prior to the closing of the Ipiranga Group SPA;

Latin America are to countries in America other than the United States and Canada;

Linked Notes has the meaning given in Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness and Item 10. Additional Information Material Contracts ;

LPG are to liquefied petroleum gas;

LPG International are to LPG International Inc.;

New Bylaws are to the new bylaws of Ultrapar as approved at the extraordinary general shareholders' meeting held on June 28, 2011;

New Ultra S.A. Shareholders' Agreement has the meaning given in Item 4.A. Information on the Company History and Development of the Company Recent Developments , Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Material Contracts ;

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NYSE are to the New York Stock Exchange;

Northern Distribution Business are to former CBPI's fuel and lubricant distribution businesses located in the North, Northeast and Midwest regions of Brazil;

Novo Mercado are to *Novo Mercado* listing segment of BM&FBovespa;

Original Notes has the meaning given in Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Resources Indebtedness and Item 10. Additional Information Material Contracts;

Oxiteno are to Oxiteno S.A. Indústria e Comércio, our wholly owned subsidiary and its subsidiaries that produce ethylene oxide and its principal derivatives, fatty alcohols and other specialty chemicals;

Petrobras are to Petrobras Petróleo Brasileiro S.A.;

Petrochemical Business are to IQ, IPQ and IPQ's stake in Copesul;

Petrolog are to Petrolog Serviços e Armazéns Gerais Ltda.;

PFIC are to Passive Foreign Investment Company;

Quattor are to Quattor Participações S.A, acquired by Braskem in April 2010;

Real , *Reais* or R\$ are to Brazilian *Reais*, the official currency of Brazil;

RPR are to Refinaria de Petróleo Riograndense S.A. (formerly Refinaria de Petróleo Ipiranga S.A.), a company engaged in oil refining;

SBP are to Sociedade Brasileira de Participações Ltda., a company that was merged into IPP in August 2009;

SEC are to the U.S. Securities and Exchange Commission;

Securities Act are to the U.S. Securities Act of 1933, as amended;

Serma are to *Associação dos Usuários de Equipamentos de Processamento de Dados e Serviços Correlatos*, which is responsible for providing IT services to Ultrapar;

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Share Exchange are to the exchanges of RPR's, DPPI's and CBPI's preferred shares and any remaining common shares for Ultrapar's preferred shares in connection with the acquisition of Ipiranga Group;

Sindicás are to the Brazilian Association of LPG Distributors;

Sindicom are to the Brazilian Association of Fuel Distributors;

Southern Distribution Business are to Ipiranga Group's fuel and lubricant distribution businesses located in the South and Southeast regions of Brazil and their related activities;

STF are to Supremo Tribunal Federal, the Brazilian Supreme Federal Court;

Texaco are to the Texaco-branded fuels marketing business in Brazil, previously carried-out by CBL and Galena;

Tequimar are to Terminal Químico de Aratu S.A., Ultrapar's subsidiary that operate in the liquid bulk storage segment;

Tropical are to Tropical Transportes Ipiranga Ltda.;

TRR are to Retail Wholesale Resellers, specialized resellers in the fuel distribution;

Ultra S.A. are to Ultra S.A. Participações, the controlling shareholder of Ultrapar;

Ultracargo are to Ultracargo Operações Logísticas e Participações Ltda., our wholly owned subsidiary and its subsidiaries that provide storage, handling and logistics services for liquid bulk cargo;

Ultragaz are to Ultrapar's subsidiaries that operate in the distribution of LPG;

União Terminais are to União Terminais e Armazéns Gerais Ltda., a company that was merged into Tequimar in December 2008;

União/Vopak are to União/Vopak Armazéns Gerais Ltda., a company in which União Terminais had a 50% stake;

Unipar are to União das Indústrias Petroquímicas S.A.; and

US\$, dollars or U.S. dollars are to the United States dollar.

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Unless otherwise specified, data related to (i) the Brazilian petrochemical industry included in this annual report were obtained from ABIQUIM, (ii) the LPG business were obtained from Sindigás and ANP, (iii) the fuel distribution business were obtained from Sindicom and ANP, and (iv) the liquid bulk storage industry were obtained from ABTL.

PRESENTATION OF FINANCIAL INFORMATION

Our consolidated financial statements included herein were prepared in accordance with IFRS. The company first adopted IFRS for the consolidated financial statements for the year ended December 31, 2010. The transition date chosen by the company for the application of IFRS was January 1, 2009, the date on which the company prepared its opening balance sheet in accordance with IFRS.

As permitted by the applicable rules to first-time adopters of IFRS, (i) we have not included in this annual report our consolidated balance sheets, or statements of income, cash flows and changes in shareholders' equity for 2008 and 2007, including the notes thereto and (ii) we have not presented a reconciliation of financial statements prepared in accordance with IFRS to U.S. GAAP (United States Generally Accepted Accounting Principles). Additional information on the changes resulting from the adoption of the IFRS is available in Note 2 to our consolidated financial statements presented in this annual report.

Our audited consolidated financial statements include our consolidated balance sheets as of December 31, 2010, December 31, 2009 and January 1, 2009, and our consolidated statements of income, statements of comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2010 and 2009, as well as notes thereto. The financial information presented in this annual report should be read in conjunction with our consolidated financial statements.

In August 2008, Ultrapar executed a sale and purchase agreement for the acquisition of Texaco's fuel distribution business in Brazil, which was closed on March 31, 2009. The results of operations of the businesses acquired were consolidated into Ultrapar's financial statements as from April 1, 2009. Ultrapar's financial statements as of and for the periods prior to April 1, 2009 do not reflect any financial information of the acquired businesses. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Texaco.

On June 24, 2011 the exchange rate for *Reais* into U.S. dollars was R\$1.599 to US\$1.00, based on the commercial selling rate as reported by the Central Bank. The commercial selling rate was R\$1.666 to US\$1.00 on December 31, 2010, and R\$1.741 to US\$1.00 on December 31, 2009. The *Real*/dollar exchange rate fluctuates widely, and the current commercial selling rate may not be indicative of future exchange rates. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates for information regarding exchange rates for the Brazilian currency. Solely for the convenience of the reader, we have translated some amounts included in Item 3.A. Key Information Selected Consolidated Financial Information and elsewhere in this annual report from *Reais* into U.S. dollars using the commercial selling rate as reported by the Central Bank at December 31, 2010 of R\$1.666 to US\$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 is presented on an unconsolidated basis. Consequently, intercompany transactions have not been eliminated in segment information, and such information may differ from consolidated financial information provided elsewhere in this annual report. See Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions for more information on intercompany transactions.

Certain figures included in this annual report 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.

Market share and economic information

All market share information, unless otherwise specified, related to (i) the LPG business was obtained from Sindigás and ANP, (ii) the fuel distribution business was obtained from Sindicom and ANP, and (iii) the liquid bulk storage industry was obtained from ABTL. Unless otherwise specified, all macroeconomic data are obtained from the *Instituto Brasileiro de Geografia e Estatística* IBGE, *Fundação Getúlio Vargas* FGV and the Central Bank. Although we do not have any reason to believe any of this information is inaccurate in any material respect, we have not independently verified any such information.

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act subject to risks and uncertainties, including our estimates, plans, forecasts and expectations regarding future events, strategies and projections. 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 annual report 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 with respect to, among other things, our:

strategy for marketing and operational expansion;

capital expenditures forecasts; and

development of additional sources of revenue.

The risks and uncertainties described above include, but are not limited to:

the effect of the global economic situation on the Brazilian and Latin American economic condition;

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

competition;

ability to produce and deliver products on a timely basis;

ability to anticipate trends in the LPG, fuels, chemicals and logistics industries, including changes in capacity and industry price movements;

changes in official regulations;

receipt of official authorizations and licenses;

political, economic and social events in Brazil;

access to sources of financing and our level of indebtedness;

ability to integrate acquisitions;

regulatory issues relating to acquisitions;

instability and volatility in the financial markets;

availability of tax benefits; and

other factors contained in this 20-F under Item 3.D. Key Information Risk Factors .

Forward-looking statements involve risks and uncertainties and are not a guaranty of future results. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and our future results may differ materially from those expressed in or suggested by these forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

We have selected the following consolidated financial data from our audited consolidated financial statements, for the periods indicated. You should read our selected consolidated financial data in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and notes thereto included in this annual report. Our consolidated financial statements are prepared in *Reais* in accordance with IFRS. The consolidated balance sheet information as of December 31, 2010 and 2009, and the consolidated statements of income, statements of comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2010 and 2009 are derived from our audited consolidated financial statements included in this annual report. The following table presents our selected financial information at the dates and for each of the periods indicated in IFRS. Additional information on the changes resulting from the adoption of the IFRS is available in Note 2 to our consolidated financial statements presented in this annual report.

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	Year Ended December 31,		
	2010(1)	IFRS 2010	2009
	(in millions, except per share data)		
	US\$	R\$	R\$
Income Statements:			
Net revenue from sales and services	25,496.2	42,481.7	36,097.1
Cost of products and services sold	(23,600.3)	(39,322.9)	(33,443.6)
Gross income	1,895.8	3,158.8	2,653.5
Operating revenues (expenses)			
Selling and marketing	(698.8)	(1,164.4)	(1,020.3)
General and administrative	(455.9)	(759.7)	(751.4)
Income from disposal of assets	47.4	79.0	18.9
Other operating income, net	6.5	10.8	19.3
Operating income	794.9	1,324.5	920.0
Financial income	160.2	267.0	176.2
Financial expense	(318.7)	(531.1)	(467.7)
Equity in income of affiliates			0.2
Income before social contribution and income taxes	636.4	1,060.4	628.8
Social contribution and income taxes			
Current	(114.8)	(191.2)	(182.2)
Deferred charges	(80.9)	(134.7)	(26.4)
Tax incentives	18.4	30.7	20.6
	(177.2)	(295.2)	(188.0)
Net income	459.2	765.2	440.7
Net income attributable to:			
Shareholders of the Company	459.3	765.3	437.1
Non-controlling interests in subsidiaries	(0.1)	(0.1)	3.6
Earnings per share(2)	0.86	1.43	0.82
Dividends per common share(3)	0.48	0.80	0.52
Dividends per preferred share(3)	0.48	0.80	0.52
Other financial data			
Cash flows from operating activities(4)	905.2	1,508.2	1,742.1
Cash flows from investing activities(4)	(542.3)	(903.6)	(1,609.0)
Cash flows from financing activities(4)	92.2	153.6	484.5
Depreciation and amortization(5)	318.6	530.8	529.3
Adjusted EBITDA(6)	1,066.1	1,776.3	1,430.4
Net cash (debt)(7)	(1,305.8)	(2,175.7)	(2,131.8)
Number of common shares (in thousands)(8)	197,719.6	197,719.6	197,719.6
Number of preferred shares (in thousands)(8)	346,664.4	346,664.4	346,664.4

- (1) The figures in *Reais* for December 31, 2010 have been converted into dollars using the exchange rate of US\$1.00 = R\$1.666, 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 annual report as a statement that the amounts in *Reais* currently represent such values

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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 Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates .

- (2) Net earnings per share are calculated based on the net income attributable to Ultrapar s shareholders and the weighted average shares outstanding during each of the periods presented. Net earnings per share have been retroactively adjusted for the 1:4 stock split approved in the extraordinary general shareholders meeting held on February 10, 2011 described under Item 4.A. Information on the Company History and Development of the Company Recent Developments .
- (3) See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend and Distribution Policy for information regarding declaration and payment of dividends. Dividends per share were retroactively adjusted for the 1:4 stock split approved in the extraordinary general shareholders meeting held on February 10, 2011 described under Item 4.A. Information on the Company History and Development of the Company Recent Developments .

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- (4) Cash flow information has been derived from our consolidated financial statements prepared in accordance with IFRS. See our consolidated financial statements.
- (5) Represents depreciation and amortization expenses included in cost of products and services sold and in selling, general and administrative expenses.
- (6) The purpose of including adjusted EBITDA information is to provide a measure for assessing our ability to generate cash from our operations. Adjusted EBITDA is equal to net income before equity in income of affiliates, income and social contribution taxes, income from disposal of assets, net financial income (expense) and depreciation and amortization. In managing our business we rely on adjusted EBITDA as a means for assessing our operating performance and a portion of our employee profit sharing plan is linked to adjusted EBITDA performance. Because adjusted EBITDA excludes equity in income of affiliates, social contribution and income taxes, income from disposal of assets, net financial income (expense), 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 other income, 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 financing. 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 IFRS. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, 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 tables below provide a reconciliation of our net income to our adjusted EBITDA, of our operating income before financial income and income from disposal of assets to our adjusted EBITDA and of the operating income before financial income and income from disposal of assets of Ultraz, Ipiranga, Oxiten and Ultracargo and their respective Adjusted EBITDA for the years ended December 31, 2010 and 2009:

Ultrapar Reconciliation of net income to adjusted EBITDA Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Net income for the year	765.2	440.7
Equity in income of affiliates	(0.0)	(0.2)
Social contribution and income taxes	295.2	188.0
Income from disposal of assets	(79.0)	(18.9)
Net financial income (expense)	264.1	291.5
Depreciation and amortization	530.8	529.3
Adjusted EBITDA	1,776.3	1,430.4

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Ultrapar Reconciliation of operating income to adjusted EBITDA Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Operating income	1,324.5	920.0
Depreciation and amortization	530.8	529.3
Income from disposal of assets	(79.0)	(18.9)
Adjusted EBITDA	1,776.3	1,430.4

Ultragaz Reconciliation of operating income before financial income and income from disposal of assets to adjusted EBITDA Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Operating income before financial income and income from disposal of assets	188.6	167.6
Depreciation and amortization	118.8	113.6
Adjusted EBITDA	307.4	281.2

Ipiranga Reconciliation of operating income before financial income and income from disposal of assets to adjusted EBITDA Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Operating income before financial income and income from disposal of assets	804.3	578.5
Depreciation and amortization	269.1	251.4
Adjusted EBITDA	1,073.4	829.9

Oxiteno Reconciliation of operating income before financial income and income from disposal of assets to adjusted EBITDA Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Operating income before financial income and income from disposal of assets	137.1	68.1
Depreciation and amortization	104.1	102.6
Adjusted EBITDA	241.2	170.7

	Ultracargo Reconciliation of operating income before financial income and income from disposal of assets to adjusted EBITDA Year ended December 31, IFRS	
	2010	2009
	(in millions of <i>Reais</i>)	
Operating income before financial income and income from disposal of assets	82.6	51.7
Depreciation and amortization	28.9	52.8
Adjusted EBITDA	111.5	104.5

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- (7) 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 IFRS. In managing our businesses we rely on net cash (debt) as a means of assessing our financial condition. We believe that this type of measurement is useful for comparing our financial condition from period to period and making related management decisions. Net cash (debt) is also used in connection with covenants related to some of our financings. The table below provides a reconciliation of our consolidated balance sheet data to the net cash (debt) positions shown in the table, as of December 31, 2010 and 2009:

Ultrapar Reconciliation of cash and cash equivalents to net cash (debt) Year ended December 31, IFRS		
	2010	2009
	(in millions of Reais)	
Cash and cash equivalents	2,642.4	1,887.5
Short-term financial investments	558.2	440.3
Long-term financial investments	19.8	7.2
Short-term loans and finance lease	(817.8)	(1,142.8)
Short-term debentures	(2.7)	(1.4)
Long-term loans and finance lease	(3,382.1)	(2,136.0)
Long-term debentures	(1,193.4)	(1,186.5)
Net cash (debt) position	(2,175.7)	(2,131.8)

- (8) The number of shares corresponds to the totality of shares issued by the company, including those held in treasury. The number of shares for all periods presented was retroactively adjusted for the 1:4 stock split approved in the extraordinary general shareholders meeting held on February 10, 2011 described under Item 4.A. Information on the Company History and Development of the Company Recent Developments.

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	Year Ended December 31,		
	2010(1)	IFRS 2010 (in millions)	2009
Consolidated Balance Sheet Data	US\$	R\$	R\$
Current assets			
Cash and cash equivalents	1,585.9	2,642.4	1,887.5
Financial investments	335.0	558.2	440.3
Trade accounts receivable	1,029.7	1,715.7	1,618.3
Inventories	680.3	1,133.5	942.2
Recoverable taxes	212.6	354.3	320.2
Other receivables	10.9	18.1	35.3
Prepaid expenses	21.1	35.1	26.0
Total current assets	3,875.6	6,457.5	5,269.7
Non-current assets			
Financial investments	11.9	19.8	7.2
Trade accounts receivable	58.0	96.7	86.4
Related companies	6.1	10.1	7.6
Deferred income and social contribution taxes	338.7	564.4	697.9
Recoverable taxes	32.9	54.8	53.2
Escrow deposits	228.5	380.7	308.5
Other receivables	0.4	0.7	1.5
Prepaid expenses	24.4	40.6	47.7
	700.9	1,167.8	1,210.0
Investments			
Affiliates	7.5	12.5	12.5
Others	1.7	2.8	2.3
Property, plant and equipment	2,402.9	4,003.7	3,784.5
Intangible assets	807.6	1,345.6	1,203.7
	3,219.6	5,364.6	5,002.9
Total non-current assets	3,920.5	6,532.4	6,212.9
TOTAL ASSETS	7,796.1	12,989.8	11,482.6

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	Year Ended December 31,		
	2010(1)	IFRS 2010 (in millions)	2009
Consolidated Balance Sheet Data	US\$	R\$	R\$
Current liabilities			
Loans	488.2	813.5	1,132.1
Debentures	1.6	2.7	1.4
Finance leases	2.6	4.3	10.7
Trade payables	564.9	941.2	891.9
Salaries and related charges	137.0	228.2	176.5
Taxes payable	94.8	157.9	121.5
Dividends payable	115.5	192.5	113.9
Income and social contribution taxes payable	46.1	76.8	19.0
Post-employment benefits	6.8	11.3	12.0
Provision for assets retirement obligation	3.4	5.6	3.8
Provision for contingencies	23.8	39.6	23.0
Other payables	17.8	29.7	48.7
Deferred revenues	8.7	14.6	11.8
Total current liabilities	1,511.2	2,517.9	2,566.2
Non-current liabilities			
Loans	2,029.1	3,380.9	2,131.4
Debentures	716.2	1,193.4	1,186.5
Finance leases	0.8	1.3	4.6
Related companies	2.4	4.0	4.1
Deferred income and social contribution taxes	16.0	26.7	13.5
Provision for contingencies	282.4	470.5	540.2
Post-employment benefits	55.9	93.2	90.1
Provision for assets retirement obligation	35.0	58.3	60.8
Other payables	37.3	62.2	34.7
Deferred revenue	3.5	5.9	5.3
Total non-current liabilities	3,178.7	5,296.3	4,071.1
TOTAL LIABILITIES	4,689.9	7,814.3	6,637.4
Shareholders' equity			
Share capital	2,218.7	3,696.8	3,696.8
Capital reserve	4.6	7.7	4.5
Revaluation reserve	4.6	7.6	8.2
Profit reserves	908.6	1,513.9	1,177.0
Treasury shares	(72.0)	(120.0)	(123.7)
Additional dividends to the minimum mandatory dividends	41.0	68.3	56.9
Valuation adjustment	(1.4)	(2.4)	(4.1)
Cumulative translation adjustments	(11.2)	(18.6)	(5.3)
Shareholders' equity attributable to owners of the parent	3,092.9	5,153.3	4,810.1
Non-controlling interests in subsidiaries	13.4	22.3	35.1
TOTAL SHAREHOLDERS' EQUITY	3,106.2	5,175.6	4,845.3
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	7,796.1	12,989.8	11,482.6

- (1) The figures in *Reais* for December 31, 2010 have been converted into dollars using the exchange rate of US\$1.00 = R\$1.666, 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 annual report 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 Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates .

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Before March 14, 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:

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

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. 3,265, 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 resolution 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 transaction is legal. Foreign currencies may only be purchased through financial institutions domiciled in Brazil authorized to operate in the exchange market.

From 2003 to 2007, the *Real* appreciated 39% against the U.S. dollar. In 2008, the worsening of the global financial crisis from mid-September onwards led to a sharp reduction in the flow of capital to Brazil that resulted in a 32% *Real* devaluation, reversing the *Real* appreciation trend in place since 2003. However, in 2009, the quick rebound of the Brazilian economy has driven the inflow of foreign investments in the country, thus contributing to a 25% appreciation of the *Real* against the U.S. dollar in 2009 – the highest appreciation in the decade. In 2010, the effects of the strong economic growth in Brazil, together with the public offering of shares of Petrobras in the third quarter, resulted in a record of foreign investments inflow to Brazil, contributing to a 4% appreciation of the *Real* against the U.S. dollar. From January 1, 2011 to June 24, 2011 the *Real* continued this trend, and appreciating 4% against the U.S. dollar in the period.

It is not possible to predict whether the *Real* will remain at its present level and what impact the Brazilian government's exchange rate policies may have on us.

On June 24, 2011, the exchange rate for *Reais* into U.S. dollars was R\$1.599 to US\$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.

	Exchange rates of nominal Reais per US\$1.00			
	High	Low	Average	Period-Ended
Year Ended				
December 31, 2006	2.371	2.059	2.168(1)	2.138
December 31, 2007	2.156	1.733	1.930(1)	1.771
December 31, 2008	2.500	1.559	1.833(1)	2.337
December 31, 2009	2.422	1.702	1.990(1)	1.741
December 31, 2010	1.881	1.655	1.759(1)	1.666
Month Ended				
January 31, 2011	1.691	1.651	1.671(2)	1.673
February 28, 2011	1.678	1.661	1.669(2)	1.661
March 31, 2011	1.676	1.629	1.652(2)	1.629
April 30, 2011	1.619	1.565	1.592(2)	1.573
May 31, 2011	1.634	1.575	1.604(2)	1.580
June 30, 2011 (through June 24)	1.611	1.574	1.593(2)	1.599

(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.

B. Capitalization and Indebtedness

Not applicable.

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C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our shares and ADSs involves a high degree of risk. You should carefully consider the risks described below and the other information contained in this annual report in evaluating an investment in our shares or ADSs. Our business, results of operations, cash flow, liquidity and financial condition could be harmed if any of these risks materializes and, as a result, the trading price of the 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 and Its Industries

Petrobras is the only supplier of LPG and the main supplier of oil-based fuels in Brazil. Fuel distributors in Brazil, including Ipiranga, have formal contracts with Petrobras for the supply of oil-based fuels. Ultragas has a formal contract with Petrobras for the supply of LPG. Any interruption in the supply of LPG or oil-based fuels from Petrobras would immediately affect Ultragas or Ipiranga's ability to provide LPG and oil-based fuels to their customers.

Prior to 1995, Petrobras held a constitutional monopoly for the production and importation of petroleum products in Brazil. Although this monopoly was removed from the Brazilian constitution, Petrobras effectively remains the sole provider of LPG and oil-based fuels in Brazil. Currently, Ultragas and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragas's net sales and services represented 9% of our consolidated net sales and services for the year ended December 31, 2010. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors including Ultragas. For more details, see Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Supply of LPG .

With respect to fuel distribution, Petrobras also supplied nearly all of Ipiranga and other distributors' oil-based fuel requirements in 2010. Petrobras' supply to Ipiranga is governed by an annual contract, under which the supply volume is established based on the volume purchased in the previous year. Ipiranga's net sales and services represented 86% of our consolidated net sales and services for the year ended December 31, 2010.

The last significant interruption in the supply of oil derivatives by Petrobras to LPG and fuel distributors occurred during the 1995 strike by Petrobras employees. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview and Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview .

Significant interruptions of LPG and oil-based fuel supply from Petrobras may occur in the future. Any interruption in the supply of LPG or oil-based fuels from Petrobras would immediately affect Ultragas or Ipiranga's respective ability to provide LPG or oil-based fuels to its customers. If we are not able to obtain an adequate supply of LPG or oil-based fuels from Petrobras under acceptable terms, we may seek to meet our demands through LPG or oil-based fuels purchased on the international market. The average cost of LPG and oil based fuels imported from the international markets in 2010 was higher than the price we obtained through Petrobras. As a result, any such interruption could increase our purchase costs and, as a result, adversely affect our operating margins.

Intense competition in the LPG and in the Brazilian fuel 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 ours participate in 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 Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of Petrobras and Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Competition .

The Brazilian fuel distribution market is highly competitive in both the retail and wholesale segments. Petrobras, our supplier of oil-derivative products, and other major companies with greater resources than ours participate in the Brazilian fuel distribution market. Intense competition in the fuel distribution market could lead to lower sales volumes and increased marketing expenses which may have a material adverse effect on our operating margins. See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview

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The role of Petrobras and Item 4.B. Information on the Company Business Overview Fuel Distribution Ipiranga Competition . In addition, a number of small local and regional distributors entered the Brazilian fuel distribution market in the late 90s, after the market was deregulated, which further increased competition in such market.

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Anticompetitive practices by our competitors may distort market prices.

In the last few years, anticompetitive practices have been one of the main problems affecting fuels distributors in Brazil, including Ipiranga. Generally these practices have involved a combination of tax evasion and fuels adulteration, such as the dilution of gasoline by mixing solvents or adding anhydrous ethanol in an amount greater than that permitted by applicable law.

Taxes constitute a significant portion of the cost of fuels sold in Brazil. For this reason, tax evasion on the part of some fuel distributors has been prevalent, allowing them to lower the prices they charge. As the final prices for the products sold by these distributors, including Ipiranga, are calculated based on, among other factors, the amount of taxes levied on the purchase and sale of these fuels, such anticompetitive practices as tax evasion may affect Ipiranga's sales volume and could have a material adverse effect on our operating margins. Should there be any increase in the taxes levied on fuel, tax evasion may increase, resulting in a greater distortion of the prices of fuels sold.

These practices have enabled certain distributors to supply large quantities of fuel products at prices lower than those offered by the major distributors, including Ipiranga.

Although the Brazilian government has taken measures to inhibit these practices, if such practices become more prevalent, Ipiranga could suffer from a reduction in sales volume, which could have a material adverse effect on our operating margins.

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

LPG competes with alternative sources of energy, such as 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. Changes in relative prices or the development of alternative sources of energy in the future may adversely affect the LPG market and consequently our business, financial results and results of operations. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz Competition .

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 Oxiteno's production and results of operations.

All second generation petrochemical producers in Brazil that use ethylene as their key raw material, including Oxiteno, our subsidiary involved in the production and sale of chemical and petrochemical products, purchase ethylene from Brazilian suppliers. Approximately 3% of our net sales are derived from the sale of chemical products that require ethylene. Oxiteno purchases ethylene from two of Brazil's three naphtha crackers units, which are the sole sources of ethylene in Brazil. Pursuant to long-term contracts, Braskem supplies all of our ethylene requirements at our plant located at Camaçari and Quattor supplies all of our ethylene requirements at our plant located at Mauá. For more detailed information about these contracts see Item 5.F. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations . In January 2010, Braskem announced the acquisition of Quattor, which was concluded in April 2010. Given its characteristics, ethylene is difficult and expensive to store and transport, and cannot be easily imported to Brazil. Therefore, Oxiteno is almost totally dependent on ethylene produced at Braskem (including ethylene produced at Quattor) for its supply. For the year ended December 31, 2010, Brazilian ethylene imports totaled approximately 22 tons, representing less than 0.01% of Brazil's installed capacity.

Due to ethylene's chemical characteristics, Oxiteno does not store any quantity of ethylene, and reductions in supply from Braskem (including Quattor) would have an immediate impact on our production and results of operations. We are currently investing in the ethylene oxide production capacity expansion in Camaçari and we have agreed with Braskem on an additional ethylene supply after this expansion is completed. See Item 4.A. Information on the Company History and Development of the Company Investments . If we further expand our production capacity, there is no assurance that we will be able to obtain additional ethylene from Braskem (including Quattor). 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 Oxiteno.

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

The international petrochemical market is cyclical in nature, with alternating periods typically characterized by tight supply, increased prices and high margins, or by overcapacity, 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 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.

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

The price of ethylene, which is the principal component of Oxitenos 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 Oxitenos 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 import tariffs. Consequently, import tariffs imposed by the Brazilian government affect the prices we can charge for our products. The Brazilian governments negotiation of commercial and other intergovernmental agreements may result in reductions in the Brazilian import tariffs on petrochemical products, which generally range between 12% and 14%, and may reduce the competitiveness of Oxitenos 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 extensive federal and state legislation and regulation by government agencies responsible for the implementation of environmental and health laws and policies in Brazil, Mexico and Venezuela. 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 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.

In 2007, a new legislation entitled REACH (Registration Evaluation Authorization of Chemicals) was established by the European Union, focusing on controlling the production, imports and utilization of chemical products in the region. According to REACH, all the chemical products sold in the European Economic Area (EEA) must be registered, through the submission of information regarding properties, uses and safety of each product that will be analyzed by the European Regulatory Agency. In 2010, 2% of the volume sold by Oxiteno was exported to this region. Oxiteno is in compliance with the current requirements of this legislation for the products it currently exports in the EEA. We cannot guarantee the effect that amendments to this new legislation could have on any product we export to the EEA, or whether similar legislation come into force in other regions.

Changes in these laws and regulations, or changes in their enforcement, could adversely affect us by increasing our cost of compliance or operations. In addition, new laws or additional regulations, or more stringent interpretations of existing laws and regulations, could require us to spend additional funds on related matters in order to stay in compliance, thus increasing our costs and having an adverse effect on our results. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview Environmental, health and safety standards , Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview Environmental, health and safety standards and Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Industry and Regulatory Overview Environmental, health and safety standards .

The production, storage and transportation of LPG, fuels and petrochemicals are inherently hazardous.

The operations we perform at our plants involve safety risks and other operating risks, including the handling, production, storage and transportation of highly inflammable, explosive and toxic materials. These risks could result in personal injury and death, severe damage to or destruction of property and equipment and environmental damage. A sufficiently large accident at one of our plants, service stations or storage facilities could force us to suspend our operations temporarily and result in significant remediation costs and loss of revenues. 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, chemical products, LPG and fuel distribution involve substantial risks of property contamination and personal injury and may result in material costs and liabilities. Although we believe that current insurance levels are adequate, 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.

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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 have defined terms and may be cancelled or suspended at any time if we distribute to our shareholders the amount of income tax that was not paid as a consequence of tax 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 such 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. Income tax exemptions amounted to R\$30.7 million and R\$20.6 million, respectively, for the years ended December 31, 2010 and 2009. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Income tax exemption status, Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Oxiteno Income tax exemption status and Item 4.B. Information on the Company Business Overview Logistics Ultracargo Income tax exemption status .

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 the members of our founding family indirectly control approximately 66% of our voting shares through their control of Ultra S.A. This level of control enables Ultra S.A. to elect the majority of our directors and to determine the outcome of substantially all actions requiring shareholder approval. See Item 4.A. Information on the Company History and Development of the Company Recent Developments and Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements . Accordingly, minority shareholders, including holders of preferred shares or ADSs, have limited ability to control the direction of our business. Upon completion of the Conversion, our senior management and heirs of our founding family will no longer indirectly hold more than 50% of our voting shares.

Our status as a holding company may limit our ability to pay dividends on the 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, and therefore we depend on the distribution of dividends or interest on shareholders' equity from our subsidiaries. Consequently, our ability to pay dividends depends solely upon our receipt of dividends and other cash flows from our subsidiaries.

As a result of the acquisitions of Ipiranga, União Terminais and Texaco, Ultrapar has assumed certain liabilities of the businesses acquired and all the risks related to those liabilities.

Ultrapar has assumed certain liabilities of the business acquired in the acquisitions of Ipiranga, União Terminais and Texaco; therefore, certain existing financial obligations, legal liabilities or other known and unknown contingent liabilities or risks of the businesses acquired have become the responsibility of Ultrapar. See Item 4.A. Information on the Company History and Development of the Company for more information in connection with the acquisition of Texaco.

These liabilities may cause Ultrapar to be required to make payments, incur charges or take other actions that may adversely affect Ultrapar's financial position and results of operations and the price of Ultrapar's preferred shares.

Rising climate change concerns could lead to additional regulatory measures that may result in increased costs of operation and compliance, as well as a decrease in demand for our products.

Due to concern over the risk of climate change, a number of countries, including Brazil, have adopted, or are considering the adoption of, regulatory frameworks to, among other things, reduce greenhouse gas emissions. These include adoption of cap and trade regimes, carbon taxes, increased efficiency standards, and incentives or mandates for renewable energy. These requirements could reduce demand for hydrocarbons, as well as shifting hydrocarbon demand toward relatively lower-carbon sources. In addition many governments are providing tax advantages and other subsidies and mandates to make alternative energy sources more competitive against oil and gas. Governments are also promoting research into new technologies to reduce the cost and increase the scalability of alternative energy sources, all of which could lead to a decrease in demand for our products. In addition, current and pending greenhouse gas regulations may substantially increase our compliance costs and, as a result, increase the price of the products we produce or distribute.

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 businesses and the market price of our shares and ADSs.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes substantial changes in policy and regulations. The Brazilian government's actions to control inflation and affect other policies and regulations have involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other measures. Our businesses, 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:

currency fluctuations;

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inflation;

interest rates;

price instability;

energy shortages;

liquidity of domestic capital and lending markets;

fiscal policy; and

other trade, 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 government policies may adversely affect us and our businesses and results of operations and may adversely affect the trading price of our ADSs and shares.

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 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 that in previous periods. However, during the last several years, the economy has experienced increasing inflation rates 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, an inflation index, the Brazilian general price inflation rates were inflation of 11.3% in 2010, deflation of 1.7% in 2009, inflation of 9.8% in 2008 and inflation of 7.8% in 2007. From January 2011 to May 2011 IGP-M index was 3.3%. According to the *Índice Nacional de Preços ao Consumidor Amplo*, or IPCA, an inflation index to which Brazilian government's inflation targets are linked, inflation in Brazil was 5.9% in 2010, 4.3% in 2009, 5.9% in 2008 and 4.5% in 2007. From January 2011 to May 2011, inflation as measured by IPCA was 3.7%.

Brazil may experience high levels of inflation in the future. Our 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 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 shares.

During the last four decades, 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, it has historically been observed shorter periods of significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

From 2003 to 2007, the *Real* appreciated 39% against the U.S. dollar. In 2008, the worsening of the global financial crisis from mid-September led to a sharp reduction in the flow of capital to Brazil that resulted in a 32% *Real* devaluation, reversing the *Real* appreciation trend in place

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since 2003. In 2009, the quick rebound of the Brazilian economy has driven the inflow of foreign investments in the country, thus contributing to a 25% appreciation of the *Real* against the U.S. dollar in 2009 – the highest appreciation in the decade. In 2010, the effects of the strong economic growth in Brazil, together with the public offering of shares of Petrobras in the third quarter, resulted in a record of foreign investments inflow to Brazil, contributing to a 4% appreciation of the *Real* against the US dollar. From January 1, 2011 to June 24, 2011 the *Real* continued this trend, appreciating 4% against the U.S. dollar in the period. See Item 3.A. Key Information – Selected Consolidated Financial Data – 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 contracted hedging instruments with respect to our existing U.S. dollar debt obligations, in order to reduce our exposure to fluctuations in the dollar/*Real* exchange rate, we could in the future experience monetary losses relating to these fluctuations. See Item 11. Quantitative and Qualitative Disclosures about Market Risk – Foreign Exchange Risk for information about our foreign exchange risk hedging policy.

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Depreciations of the *Real* relative to the U.S. dollar can 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 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.

Although a large part of our sales is denominated in *Reais*, prices and certain costs (particularly ethylene and palm kernel oil, purchased by our subsidiary Oxiten) in the chemical business are benchmarked to prices prevailing in the international markets. Hence, we are exposed to foreign exchange rate risks that could materially adversely affect our business, financial condition and results of operations as well as our capacity to service our debt.

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 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 such as the global financial crisis started in 2008 may diminish investor interest in securities of Brazilian issuers, including our preferred shares and ADSs. 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.

Our businesses, financial condition and results of operations may be materially adversely affected by a general economic downturn and by instability and volatility in the financial markets.

The turmoil of the global financial markets and the scarcity of credit in 2008 and 2009 have led to lack of consumer confidence, increased market volatility and widespread reduction of business activity. An economic downturn could materially adversely affect the liquidity, businesses and/or financial conditions of our customers, which could in turn result not only in decreased demand for our products, but also increased delinquencies in our accounts receivable. Furthermore, an eventual new global financial crisis could have a negative impact on our cost of borrowing and on our ability to obtain future borrowings. The disruptions in the financial markets could also lead to a reduction in available trade credit due to counterparties' liquidity concerns. If we experience a decrease in demand for our products or an increase in delinquencies in our accounts receivable, or if we are unable to obtain borrowings our business, financial condition and results of operations could be materially adversely affected.

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 annual report are residents of Brazil or have business address in 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 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 bylaws, 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. Upon completion of the Conversion, all holders of our shares will have equal voting rights. See Item 10.B. Additional Information Memorandum and Bylaws.

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

Under our bylaws, 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

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distribution, if any, and whether the Board of Directors and the voting shareholders exercise their discretion to suspend these payments. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend and Distribution Policy Dividend Policy for a more detailed discussion of mandatory distributions.

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

In the event of a rights offering or a capital increase that would maintain or increase the proportion of capital represented by shares, shareholders would have preemptive rights to subscribe to newly issued shares.

Our bylaws 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 otherwise through a public offering.

The holders of shares or ADSs may be unable to exercise their preemptive rights in relation to the shares represented by the ADSs, unless we file a registration statement pursuant to the United States Securities Act 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 shares, you risk losing certain foreign currency remittance and Brazilian tax advantages.

The ADSs benefit from the depositary's certificate of foreign capital registration 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 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 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 Item 10.E. Additional Information Taxation Brazilian Tax Consequences.

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

Investing in securities, such as the 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:

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

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 shares underlying your ADSs at the price and time at which you wish to do so. The São Paulo Stock Exchange, known as BM&FBovespa, the only Brazilian stock exchange, had a market capitalization of US\$1.5 trillion as of December 31, 2010 and an average monthly trading volume of US\$76 billion for 2010. In comparison, NYSE had a market capitalization of US\$13.4 trillion as of December 31, 2010 in the United States and an average monthly trading volume of US\$1.0 trillion for 2010.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented approximately 55% of the aggregate market capitalization of BM&FBovespa as of December 31, 2010. The top ten stocks in terms of trading volume accounted for approximately 50% of all shares traded on BM&FBovespa in 2009. Ultrapar's average daily trading volume on both stock

exchanges in 2010, 2009 and 2008 was R\$33.0 million, R\$27.0 million and R\$26.5 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 shares, Ultrapar's capacity to make dividend payments to non-Brazilian investors and the market price of our 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

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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 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 disposal occurs outside or within Brazil. In the event that the disposal of assets is interpreted to include a disposal of our ADSs, this tax law could result in the imposition of the withholding income tax on a disposal of our ADSs between non-residents of Brazil. See Item 10.E. Additional Information Taxation Brazilian Tax Consequences Taxation of Gains.

Substantial sales of our shares or our ADSs could cause the price of our shares or our ADSs to decrease.

Shareholders of Ultra S.A., which own 24% of our shares, have the right to exchange their shares of Ultra S.A. for shares of Ultrapar and freely trade them in the market as more fully described under Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements. Other shareholders, who may freely sell their respective shares, hold a substantial portion of our remaining shares. A sale of a significant number of shares could negatively affect the market value of the shares and ADSs. 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 PFIC, U.S. Holders of our shares or our ADSs would be subject to disadvantageous rules under the U.S. tax laws.

If we were characterized as a PFIC, in any year, U.S. holders of our shares or our ADSs could be subject to unfavorable U.S. federal income tax treatment. Although we do not believe that we, based on the manner in which we currently operate our business, the projected composition of our income and valuation of our assets, and the current interpretation of the PFIC provisions of the Internal Revenue Code of 1986, as amended from time to time, were a PFIC in 2010 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 Item 10.E. Additional Information Taxation U.S. Federal Income Tax Considerations for a description of the PFIC rules.

If a substantial number of our preferred shareholders who dissent from the deliberations approved at the special preferred shareholders meeting of June 28, 2011 exercise their withdrawal rights, we will be required to make significant cash payments, which may adversely affect our financial condition and the market price of our shares and ADSs.

On June 28, 2011, the special preferred shareholders' meeting (a) approved the conversion of all preferred shares issued by the company into common shares, at a ratio of one preferred share for one common share and (b) approved and recognized that the new provisions related to the rights of all company's shareholders in the event of a change in control, pursuant to the draft proposed bylaws and the rules of the *Novo Mercado*, are equivalent to the provisions of the company's controlling shareholders' agreement of March 22, 2000, which has automatically been terminated. See Item 4.A. Information on the Company History and Development of the Company Recent Developments for more information.

The preferred shareholders who possibly dissent from the deliberations approved at the special preferred shareholders' meeting have withdrawal rights (the right to sell its shares back to us at the book value of the shares), which must be exercised within 30 thirty days from June 29, 2011. If a substantial number of our preferred shareholders exercise their withdrawal rights, we will be required to make significant cash payments, which may adversely affect our financial condition and the market price of our shares and ADSs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

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In 1966, the market demand for high-quality and safe transportation services led to the entrance in the transportation of chemicals, petrochemicals and LPG segments. In 1978, Tequimar, was founded for the specific purpose of operating the storage business.

We were also one of the pioneers in developing the Brazilian petrochemicals industry with the creation of Oxiteno in 1970, whose first plant was located in the Mauá petrochemical complex in São Paulo. In 1974, Oxiteno inaugurated its second industrial unit, in the Camaçari petrochemical complex in Bahia. In 1986, Oxiteno established its own research and development center in order to respond to specific customer needs.

In 1997, through Ultragaz, we introduced UltraSystem – a small bulk distribution system – to residential, 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 Oxiteno's industrial unit in Camaçari Petrochemical Complex, in the state of Bahia.

On October 6, 1999, we concluded our initial public offering, listing our shares simultaneously on BM&FBovespa and NYSE.

In 2000, Ultragaz started the construction of four new filling plants, therefore practically 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, Ultragaz 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 at a filling plant in Betim, in the state of Minas Gerais.

On March 22, 2000, the controlling shareholders of Ultrapar signed an agreement, assuring equal treatment of all shareholders (holders of both common and/or preferred shares) in the event of any change in control – tag along rights. The agreement stipulated that any transfer of control of Ultrapar, either direct or indirect, would only be executed in conjunction with a public offer by the acquiring entity to purchase the shares of all shareholders in the same proportion and under the same price and payment terms as those offered to the controlling shareholders. See – Item 4.A. Information on the Company – History and Development of the Company – Recent Developments – for more information.

In March 2002, Oxiteno made a tender offer for the acquisition of the shares of its subsidiary Oxiteno Nordeste S.A. Indústria e Comércio, known as Oxiteno Nordeste. The tender offer was completed on April 16, 2002, through the acquisition of 93,871 shares of Oxiteno Nordeste by Oxiteno, representing approximately 73.3% of the shares held by minority shareholders. Oxiteno 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 that we began on October 15, 2002. The effects of the corporate restructuring were:

the merger of Gipóia Ltda., a company which held a 23% direct stake in Ultragaz and was owned by Ultra S.A., into Ultrapar, increasing Ultrapar's ownership in Ultragaz from 77% to 100% of its total share capital. Ultrapar issued approximately 7.8 billion common shares in connection with this merger; and

the exchange of shares issued by Oxiteno for shares issued by Ultrapar, increasing Ultrapar's ownership in Oxiteno from 48% to 100% of its total share capital. The holders of approximately 12 million of Oxiteno's shares elected to exchange their shares for shares in Ultrapar, which resulted in the issuance of approximately 5.4 billion common shares and 3.4 billion preferred shares by Ultrapar. We paid R\$208.1 million to Oxiteno's minority shareholders who exercised their statutory withdrawal rights and owned approximately 13 million shares of Oxiteno. 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:				
Merger of Gipóia	38.5	7,850,603,880		7,850,603,880
Incorporation of Oxiteno's shares	191.6	5,430,005,398	3,410,659,550	8,840,664,948
As of December 31, 2002	664.0	51,264,621,778	18,426,647,050	69,691,268,828

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In August 2003, Ultragas acquired Shell Gás, Royal Dutch/Shell N.V.'s LPG operations in Brazil, for a total amount of R\$170.6 million. With this acquisition, Ultragas became the Brazilian market leader in LPG, with a 24% share of the Brazilian market on that date.

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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 had two plants in Mexico (Guadalajara and Coatzacoalcas). The acquisition amount was US\$10.25 million, without assuming any 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 of establishing a stronger presence in the Mexican petrochemical market and to create a production and distribution platform to the United States. Since July 2, 2007, CANAMEX has operated under a new name, Oxiten Mexico, S.A. de C.V., or Oxiten Mexico.

On May 18, 2004, at an extraordinary general shareholders meeting, the shareholders of Ultrapar approved the inclusion of tag along rights to the company's bylaws, for all shareholders, at 100% of the offer price, improving a right that was already established through a shareholders agreement dated March 22, 2000. The bylaws set forth that the sale of the control of Ultrapar, either direct or indirect, triggers a mandatory public offer by the acquiring entity for all of the shares in the same proportion and at the same terms and conditions (including price) as those offered for the control block.

On September 22, 2004, the shareholders of Ultra S.A. signed a new shareholders agreement replacing the previous agreement. This new agreement sought to maintain a stable controlling shareholder block in Ultrapar. See Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders .

On December 16, 2004, Igel Participações S.A. and Avaré Participações S.A., former controlling shareholders of Ultra S.A., were dissolved, and, as a result, their shares in Ultra S.A. were distributed to their respective shareholders on a *pro rata* basis. At a meeting held on February 2, 2005, our Board of 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 as of 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 general shareholders meeting held on February 22, 2005, our shareholders approved the issuance of additional preferred shares of Ultrapar to permit certain shareholders, including Ultra S.A., to exchange common shares of Ultrapar held 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.

On April 28, 2005, we concluded a primary and secondary offering of our preferred shares. The offering consisted of 7,869,671,318 preferred shares owned by Monteiro Aranha S.A. and certain shareholders of Ultra S.A., and 1,180,450,697 newly issued preferred shares resulting from the exercise of an overallotment option. The offering price was R\$40.00 per thousand preferred shares and the offering totaled R\$362 million. As a result of the offering, Ultrapar's total capital increased by R\$47 million, to a total of approximately R\$946 million. The total shares outstanding were 81,325,409,849 shares, with 49,429,897,261 common shares and 31,895,512,588 preferred shares.

At an extraordinary general shareholders meeting held on July 20, 2005, our shareholders approved a reverse stock split of all our issued common and preferred shares. As a result, each 1,000 shares of any class would be converted into one share of each such class. In connection with this reverse stock split, we authorized a change to the ADS ratio of our ADR program from one ADS representing 1,000 preferred shares to one ADS representing one preferred share. This reverse stock split and ratio change became effective on August 23, 2005. As a result of the reverse stock split, we have amended our bylaws. As of April 30, 2006, we had 81,325,409 shares outstanding, with 49,429,897 common shares and 31,895,512 preferred shares.

In July 2005, Ultracargo started up a new terminal in Santos, its second port installation that integrates road, rail and maritime transportation systems. The new terminal had a storage capacity of 33,500 cubic meters for chemical products, 40,000 cubic meters for ethanol and 38,000 cubic meters for vegetable oil at the time.

On December 2005, Ultrapar, through its subsidiary LPG International, issued US\$250 million in notes in the international market, with the aim of lengthening the company's debt profile, financing possible acquisitions and other corporate purposes. The notes mature in December 2015, have a coupon of 7.25% per annum and were priced at 98.75% of par value, resulting in a yield of 7.429% per annum.

In August 2006, Ultrapar announced the signing of an agreement between its subsidiary Oxiten Nordeste and Braskem, for the supply of ethylene, with a 15-year term. The 265 thousand tons/year volume of ethylene represents an addition of 68 thousand tons/year to the previous contractual amount and will be fully available after the conclusion of the expansion of ethylene oxide production capacity at the Camaçari plant, expected to be concluded in 2011. See Item 4.A. Information on the Company History and Development of the Company Investments . The agreed upon supply price is indexed to ethylene prices in the international market and to the volume effectively purchased by Oxiten. In 2006, Ultrapar also announced its plans to expand its ethylene oxide and specialty chemicals production capacity at Oxiten's plants located in Mauá, São Paulo and in Camaçari, Bahia.

In August 2006, Oxiten's first commercial office in Buenos Aires, Argentina Oxiten Argentina S.R.L. was opened.

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In April 2007, Ultrapar acquired the control of the Southern Distribution Business, EMCA and a one-third stake in RPR, in connection with the acquisition of the Ipiranga Group. Following the acquisition, Ultrapar, which was already the largest LPG distributor in Brazil, became the second largest fuel distributor in Brazil, with a 14% market share in 2007. Ultrapar believes that fuel distribution is a natural extension of LPG distribution as it has similar profitability drivers: logistics efficiency, management of a dealer network and leveraging a renowned brand. The rationale for the acquisition also included the attractive growth prospects of the fuel distribution business in light of increased fuel consumption in Brazil in the recent past, principally due to increased national

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income, greater availability of credit and reducing unfair competitive practices, which caused the grey market to decline in relation to the formal market. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group .

In April 2007, Ultrapar also acquired the operational sulfate and sulfonate assets of Unión Química S.A. de C.V., in San Juan del Río, Mexico through its subsidiary Oxitenox Mexico. The investment for this acquisition totaled US\$4.0 million of enterprise value and was financed entirely by Oxitenox Mexico in the local market.

In September 2007, Oxitenox acquired Arch Química Andina, C.A. (Arch), a subsidiary of the U.S. company Arch Chemicals, Inc. Arch is the sole producer of ethoxylates in Venezuela, which had been the only ethylene oxide producing country in Latin America where Oxitenox did not have operations. This acquisition is consistent with the company's growth and global expansion strategy and was intended to help Oxitenox (i) to strengthen its presence in Latin America, (ii) to have access to sources of raw materials at competitive prices given Venezuela's position as one of the main oil and natural gas producers in the world and (iii) to expand ethoxylate production capacity by an additional 70,000 tons/year. The amount of the acquisition was US\$7.6 million. The company was renamed Oxitenox Andina. Also in September 2007, Oxitenox announced the opening of its first sales office in the United States. The company intends to leverage its position in the American market, particularly with respect to specialty chemicals.

In January 2008, Ultrapar significantly increased the liquidity of its shares through the issuance of 55 million preferred shares, as a consequence of the Share Exchange. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group . The Share Exchange increased Ultrapar's free float from 32 million shares to 87 million shares, with the free float reaching 64% of the company's total capital from 39%. Ultrapar's shares achieved a new level of trading liquidity in equity markets, with average trading volume higher than the historic average of Ultrapar, RPR, CBPI and DPPI combined. This significant increase in the size of the free float helped Ultrapar to become part of Ibovespa, the BM&F Ibovespa index, as well as the MSCI index, which is widely recognized in international financial markets. In addition, the Share Exchange resulted in greater alignment of interests of all the company's shareholders and the extension of Ultrapar's recognized corporate governance standards to all the former shareholders of RPR, DPPI and CBPI.

In June 2008, Ultrapar announced that its subsidiary Ultracargo signed the sale and purchase agreement for the acquisition of 100% of the shares of União Terminais held by Unipar. In October 2008, Ultrapar completed the acquisition in relation to the port terminals in Santos and Rio de Janeiro. In November 2008, it completed the acquisition of 50% of the total capital stock of União/Vopak held by Unipar, which owned a port terminal in Paranaguá. The combination of its operations with those of União Terminais doubled the size of Ultracargo in terms of adjusted EBITDA, and made it the largest liquid bulk storage company in Brazil, strengthening its operating scale. With this acquisition, Ultracargo increased its presence at the port of Santos, the largest Brazilian port, and is now strategically positioned in the ports of Rio de Janeiro and Paranaguá, where the company did not previously have operations. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of União Terminais .

In July 2008, Oxitenox inaugurated its first sales office in Europe and the third outside Brazil in Brussels, Belgium, as part of Oxitenox's internationalization strategy.

In August 2008, Ultrapar announced that its subsidiary SBP entered into a sale and purchase agreement with Chevron for the acquisition of 100% of the shares of CBL and Galena. In March 2009, Ultrapar completed the acquisition and paid R\$1,106 million to Chevron, in addition to a US\$38 million deposit that it had made to Chevron in August 2008. In August 2009, Ultrapar also paid R\$162 million related to the expected working capital adjustment as set forth in the sale and purchase agreement. Texaco marketed fuel throughout Brazil, except for the state of Roraima, through a network of more than two thousand service stations and directly to large clients, supported by a logistics infrastructure with 48 distribution terminals. Texaco's acquisition was part of Ultrapar's strategy to increase its operational scale in the fuel distribution business and expand its operations to the Midwest, Northeast and North regions of Brazil. The combination with Texaco created a nationwide fuel distribution business, with a 21% market share in 2009, strengthening its competitiveness through a larger operational scale. The addition of Texaco allowed, for example, improved efficiency and competitiveness in the distribution and sales processes, dilution of advertising, marketing and product development expenses and gains of scale in administrative functions. Additionally, Texaco's acquisition led to Ultrapar geographical expansion in the sector, allowing the company to operate in regions with consumption growth above the national average, and brought new commercial opportunities arising from the national coverage. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Texaco .

In August 2008, Ultrapar announced the execution of a supply contract between Oxitenox and Quattor for the supply of ethylene to the Mauá unit, in the state of São Paulo, effective through 2023. The long-term contract establishes the ethylene supply conditions, referenced on the international market. The volume contracted allowed the increase of at least 30% in the ethylene oxide production compared to 2007. At the same time, Oxitenox sold the equity interest it owned in Quattor, equivalent to 2,803,365 shares, for approximately R\$46 million.

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In October 2008, certain production capacity expansions at Oxiteno were completed, including (i) the operational start-up of the fatty alcohols plant unit with an annual production capacity of approximately 100,000 tons of fatty alcohols and by-products; (ii) the expansion of the ethylene oxide unit at Mauá, adding 38,000 tons to the annual production capacity of this product; and (iii) the expansion of the ethoxylate and ethanolamine production at Camaçari, adding 120,000 tons to the annual capacity of these products. These expansions aimed at replacing imports and meeting the increased demand for specialty chemicals in the Brazilian market, mainly in the crop protection, cosmetics, detergents and coatings segments.

In November 2008 and December 2008, in order to simplify the corporate structure, Ultragas Participações S.A. and DPPI were merged into CBPI, respectively, thus consolidating all companies that operate in the distribution business into one single company.

In February 2009, a capital increase of R\$15 million was approved at an extraordinary general shareholders' meeting of RPR through the issuance of 15 million new common and preferred shares and the admission of new shareholders in its capital stock, as part of the acquisition of the Ipiranga Group. As a result, RPR ceased to be a wholly-owned subsidiary of Ultrapar, in which Ultrapar retains an equity interest of 33%.

In March 2009, CBPI contracted a bank credit note with Caixa Econômica Federal - CEF, in the total amount of R\$500 million, with a 24-month grace period and 36-month term, with interest rate equivalent to 120% of the CDI, focusing on extending the company's debt profile and maintaining strong cash position. We believe that the high interest rate applicable to this loan reflected the sharp tightening in credit markets in the period due to the worsening of the global financial crisis. In the first quarter of 2010, this bank credit note was redeemed. In June 2009, Ultrapar completed its third issuance of R\$1.2 billion unsecured debentures in Brazil with a three-year term and interest of CDI plus 3.0% per annum. The proceeds from this issuance were used to redeem the promissory notes issued by Ultrapar in December 2008. In December 2009, Ultrapar renegotiated certain terms and conditions of these debentures and, as a result, was able to reduce interest rates applicable to the debentures to 108.5% of the CDI per annum and extend their terms to December 2012. For further information see Item 5.B. Liquidity and Capital Resources - Indebtedness.

In September 2009, Oxiteno concluded the expansion of the acetates unit at Mauá, which added 40,000 tons to its production capacity.

In December 2009, shareholders of Ultra S.A. entered into a new shareholders' agreement that replaced the previous agreement which was to expire on December 16, 2009. The terms and conditions of the new shareholders' agreement were substantially the same as those of the previous agreement and had a two-year term. See Item 4.A. Information on the Company - History and Development of the Company - Recent Development and Item 7.A. Major Shareholders and Related Party Transactions - Major Shareholders.

In December 2009, Ultrapar, through Ultracargo, acquired from Puma Storage do Brasil Ltda., or Puma, a storage terminal for liquid bulk with a 83 thousand cubic meters capacity located at the port of Suape, in the state of Pernambuco. This acquisition strengthened Ultracargo's position in the region of the port of Suape, enhanced its operational scale and represented another step in Ultracargo's strategy of strengthening its position as an important provider of storage for liquid bulk in Brazil.

In March 2010, Ultrapar entered into a loan agreement with Banco do Brasil through IPP in the amount of R\$500 million, with a three-year term, interest rate equivalent to 98.5% of CDI, and a single payment at the maturity date. This loan replaced the bank credit note that Ultrapar had in the same principal amount entered into in 2009 at a cost of 120% of the CDI with Caixa Econômica Federal.

In March 2010, Ultrapar entered into a sale and purchase agreement to sell Ultracargo's in-house logistics, solid bulk storage and road transportation businesses to Aqces for R\$82 million. In July 2010, the sale closed with the transfer of shares of AGT and Petrolog to Aqces in exchange for R\$74 million, which was in addition to the R\$8 million deposit received upon signing the sale and purchase agreement on March 31, 2010. In October 2010, Ultrapar disbursed R\$2 million in connection with the expected working capital adjustment. This transaction allowed Ultracargo to focus exclusively on its liquid bulk storage business, a segment in which it has a market leadership position.

In June 2010, Ultrapar entered into a series of three loan agreements with Banco do Brasil through IPP in the total amount of R\$900 million, with a four-year duration and average cost equivalent to 99% of CDI. See Item 10.C. Additional Information - Material Contracts.

In order to simplify Ultrapar's corporate structure, (i) in July, 2010, Galena was merged into IPP, (ii) in August, 2010, U.A.T.S.P.E Empreendimentos e Participações Ltda. was merged into Oxiteno and (iii) in September, 2010, Transultra - Armazenamento e Transporte Especializado Ltda. (Transultra) was merged into Tequimar.

In August 2010, Oxiteno concluded the expansion of the ethoxylate unit at Camaçari, which added 70 thousand tons per year to its production capacity. With this expansion, Oxiteno consolidated its position as the world's second largest ethoxylate producer.

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In October 2010, Ultrapar, through Ipiranga, entered into a sale and purchase agreement for the acquisition of 100% of the shares of DNP. The total value of the acquisition is R\$85 million, with an initial disbursement of R\$47 million in November 2010 and an additional disbursement of R\$26 million in January 2011, subject to the final working capital adjustment. DNP distributed fuels in the states of Amazonas, Rondônia, Roraima, Acre, Pará and Mato Grosso through a network of 110 service stations, with 4% market share in 2009 in the North of Brazil, and was the fourth largest fuel distributor in this geographic area. In 2009, the combined volume of diesel, gasoline and ethanol sold by DNP totaled approximately 260 thousand cubic meters, with EBITDA of R\$17 million. This transaction reinforced the strategy of expansion, initiated with the acquisition of Texaco, to the Midwest, Northeast and North, regions where the consumption growth has been above the national average and the market share of Ipiranga is lower than that in the South and Southeast in 2010. The acquisition of DNP increased the volume of Ipiranga by 40% in the region and resulted in a regional market share of 14% in the North region in 2010, allowing a better positioning to leverage the fast-paced growth in the region and additional benefits on the back of the larger operating scale, enabling significant gains for the company, resellers, customers and consumers.

In November 2010, Ultracargo announced the expansion in the Santos, Suape and Aratu terminals, adding 98 thousand cubic meters to Ultracargo's storage capacity, equivalent to 15% of its current capacity, with start-ups scheduled for 2011 and 2012.

Description of the Acquisition of Ipiranga Group

On March 19, 2007, Ultrapar, Petrobras and Braskem announced their intent to acquire the Ipiranga Group and that on March 18, 2007, Ultrapar had entered into, and Petrobras and Braskem had acknowledged, Ipiranga Group SPA with the Key Shareholders of the principal companies constituting of the Ipiranga Group. In connection with the acquisition of Ipiranga Group, Ultrapar acted on its own behalf and on behalf of Petrobras and Braskem pursuant to the Ipiranga Group Transaction Agreements. Ultrapar acted as a commission agent, under Articles 693 through 709 of the Brazilian Civil Code, for Petrobras and Braskem in the acquisition of the Petrochemical Business, and for Petrobras for the acquisition of Northern Distribution Business.

Following the acquisition, Ultrapar, already the largest LPG distributor in Brazil, became the second largest fuel distributor in Brazil, with a 14% market share in 2007. Ultrapar believes that fuel distribution is a natural extension of LPG distribution as it has similar profitability drivers: logistics efficiency, management of a dealer network and leveraging a renowned brand. The rationale for the acquisition also included the attractive growth perspectives for the fuel distribution business in light of increased fuel consumption in Brazil in the recent past, principally due to increased national income, greater availability of credit and curbing unfair competitive practices, which cause the grey market to decline in relation to the formal market. After the completion of all steps of the acquisition of Ipiranga Group, its businesses were divided among Petrobras, Ultrapar and Braskem. Ultrapar retained the fuel and lubricant distribution businesses located in the South and Southeast regions of Brazil; Petrobras received the fuel and lubricant distribution businesses located in the North, Northeast and Midwest regions of Brazil; Petrobras and Braskem received the Petrochemical Business, in the proportion of 60% for Braskem and 40% for Petrobras.

For a more detailed discussion of the acquisition of Ipiranga Group, see our Form F-4 filed with the Commission on December 17, 2007.

Description of the Acquisition of União Terminais

In June 2008, Ultrapar announced that its subsidiary Ultracargo entered into a sale and purchase agreement for the acquisition of 100% of the shares of União Terminais held by Unipar. In October 2008, Ultrapar completed the acquisition in relation to the port terminals in Santos and Rio de Janeiro. In November 2008, it closed the acquisition of 50% of the total capital stock of União/Vopak held by Unipar, which owned a port terminal in Paranaguá. The total amount of the acquisition was R\$519 million, which included the assumption of net debt of R\$32 million on September 30, 2008.

União Terminais had two port terminals for storage and handling of liquid bulk, with total capacity of 119 thousand cubic meters. The main facility, located in Santos (in the state of São Paulo), has storage capacity of 102 thousand cubic meters and concluded an expansion that added 20% (21 thousand cubic meters) to its capacity. The main products handled in this terminal are fuels, ethanol and chemicals. The terminal located in Rio de Janeiro has a storage capacity of 17 thousand cubic meters and the main products handled in this terminal are chemicals and lubricants. União Terminais also held 50% of the total capital of União/Vopak, which owns a port terminal in Paranaguá (in the state of Paraná) with storage capacity of 60 thousand cubic meters for the handling of vegetable oil and chemical products.

The combination of its operations with those of União Terminais doubled the size of Ultracargo in terms of adjusted EBITDA, and made it the largest liquid bulk storage company in Brazil, strengthening its operating scale. With this acquisition, Ultracargo has increased its presence at the port of Santos, the largest Brazilian port, and is now strategically positioned in the ports of Rio de Janeiro and Paranaguá, where the company did not have operations.

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Description of the Acquisition of Texaco

In August 2008, Ultrapar announced that its subsidiary SBP entered into a sale and purchase agreement with Chevron for the acquisition of 100% of the shares of CBL and Galena. Prior to the closing, Chevron's lubricant and oil exploration activities in Brazil were spun-off from CBL and Galena to other Chevron's legal entities.

On March 31, 2009, Ultrapar completed this acquisition and paid R\$1,106 million to Chevron, in addition to the US\$38 million deposit that it had made to Chevron in August 2008. In August 2009, Ultrapar also paid R\$162 million related to the expected working capital adjustment, reflecting the increased working capital effectively received by Ultrapar on the closing date of the acquisition (as set forth in the sale and purchase agreement).

Texaco markets fuel in the entire Brazilian territory, except for the state of Roraima, through a network of more than 2,000 service stations and directly to large clients, supported by a logistics infrastructure with 48 distribution terminals. Texaco's acquisition was part of Ultrapar's strategy to increase its operational scale in the fuel marketing business and expand its operations to the Midwest, Northeast and North regions of Brazil. The combination with Texaco created a nationwide fuel marketing business, with a 21% market share in 2009, strengthening its competitiveness through a larger operational scale. The addition of Texaco allowed, for example, improved efficiency and competitiveness in the distribution and sales processes, dilution of advertising, marketing and product development expenses and gains of scale in administrative functions. Additionally, Texaco's acquisition led to Ultrapar geographical expansion in the sector, allowing the company to reach regions with consumption growth above the national average, and brought new commercial opportunities arising from the national coverage.

After completion of this acquisition, Ultrapar started managing Texaco and implementing its business plan, which consisted of two main work streams (i) the integration of operations, administrative and financial functions of Texaco, and (ii) the implementation of Ipiranga's business model in the expanded network, with a wider range of products and services and a differentiated approach to its resellers. Ultrapar has also been converting the acquired Texaco branded stations into Ipiranga brand since 2009. From April 1, 2009 to December 31, 2010, 1,166 service stations in the South and Southeast regions were converted, representing 86% of the acquired service stations in these regions. Under the terms of the Ipiranga Group Transaction Agreements, Petrobras has the exclusive right to use Ipiranga's brand in the operating regions of the Northern Distribution Business for five years from the date of the acquisition of Ipiranga Group, expiring in March 2012. Until then, Ipiranga will operate under the Texaco brand in those regions.

Recent Developments

Stock split

On February 10, 2011, the extraordinary general shareholders' meeting approved a stock split of the shares issued by Ultrapar, so that each share would be represented by four shares of the same class and type, with no modification in the shareholders' financial position and interest in the company. The shares resulting from the stock split granted its holders - including holders of ADSs - the same rights attributable to the shares previously held, including dividends, interest on capital and any payments on capital eventually approved by the company. After the stock split, the 1:1 ratio between preferred shares and ADSs was maintained, and each ADSs consequently continued to be represented by one share. The stock split aimed at repositioning the price of the standard trading round lot of shares issued by Ultrapar in the stock market, in order to make the share price more accessible to investors and potentially increase the trading volume of the company's shares.

New corporate governance structure

The company's Board of Directors, at a meeting held on April 4, 2011, approved the submission to its shareholders of a proposal to (a) convert any and all shares of preferred stock issued by the company into shares of common stock, on a 1-to-1 conversion ratio; (b) amend the company's bylaws (*Estatuto Social*), modifying several of its provisions, aiming to strengthen the company's corporate governance; and (c) adhere to the *Novo Mercado* segment of BM&FBovespa.

The Conversion was approved by a majority vote at the extraordinary general shareholders' meeting and special preferred shareholders' meeting each held on June 28, 2011, whereby all preferred shares issued by the company will be converted into common shares, at a ratio of one preferred share for one common share. Preferred shareholders who dissent from the resolution approving the conversion of shares are entitled to withdrawal rights, pursuant to which such preferred shareholders may be reimbursed for the value of their shares. Such rights must be exercised within thirty days from the date of the publication of the minutes of the special preferred shareholders meeting, the period of which ends on August 1, 2011.

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The material proposed amendments to the bylaws were the following: (a) mandatory tender offer to 100% of the company's shareholders in the event a shareholder, or a group of shareholders acting in concert, acquire or become holders of 20% of the company's shares, excluding treasury shares. The tender offer price will be the highest price per share paid by the buyer in the previous 6 (six) months, adjusted by the SELIC rate, in addition to any tender offers otherwise required by the Brazilian Corporate Law and by the *Novo Mercado* segment rules; (b) minimum of 30% of independent members of the Board of Directors; and (c) creation of audit and compensation committees, as ancillary bodies of the Board of Directors, each with three members. The audit committee will be composed of these independent members, of whom two are not directors; and the compensation committee will be composed of at least two independent directors.

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On May 19, 2011, Ultrapar released a call notice for an extraordinary general shareholders' meeting to be held on June 28, 2011 in order to vote on the following matters:

- 1) the Conversion;
- 2) amendment of the company's bylaws;
- 3) the confirmation that the new provisions related to the rights of all company's shareholders in the event of a change in control, pursuant to the draft proposed bylaws and the Rules of the *Novo Mercado*, are equivalent to the provisions of the company's controlling shareholders' agreement of March 22, 2000;
- 4) adherence of the company to the rules of the *Novo Mercado* of BM&FBovespa; and
- 5) consolidation of the bylaws of the company, if the amendments proposed in item 2 are approved.

On May 19, 2011, Ultrapar also released a call notice for a special preferred shareholders' meeting to be held on June 28, 2011 in order to vote on the following matters:

- 1) the Conversion; and
- 2) confirmation that the new provisions related to the rights of all company's shareholders in the event of a change in control, pursuant to the draft proposed bylaws and the rules of the *Novo Mercado*, are equivalent to the provisions of the company's controlling shareholders' agreement of March 22, 2000.

On June 28, 2011, the above-mentioned shareholders' meetings were held and all the proposed matters were approved. The New Bylaws of Ultrapar, as approved on June 28, 2011, are included in this annual report in Exhibit 1.2 - New Bylaws of Ultrapar, dated as of June 28, 2011.

Ultra S.A.'s shareholders executed, on April 1, 2011, the New Ultra S.A. Shareholders' Agreement, which became effective upon the approval of the Conversion. The New Ultra S.A. Shareholders' Agreement replaced the shareholders' agreement executed in December 2009. The terms and conditions of the New Ultra S.A. Shareholders' Agreement are substantially the same of the previous shareholders' agreement, except, mainly, for (a) the requirement for prior approval at a shareholders' meeting for a third party to become an Ultra S.A. shareholder and (b) the purpose and form of the preliminary meetings to be held prior to the company's certain shareholders' meetings. See Exhibit 2.11 - New Ultra S.A. Shareholders' Agreement, dated as of April 1, 2011.

Investments

We have made substantial investments in our operations over the last two fiscal years to the date of this annual report. At Ultragas, we have invested in small and large bulk LPG distribution (UltraSystem), in the purchase and renewal of LPG bottles and tanks, and in the restructuring of our distribution logistics. We have also invested in the consolidation of our national coverage over the past years. Since March 2007, investments at Ipiranga included the expansion of the service station network, renewal of contracts and improvement in fuel service stations and distribution facilities, as well as investments related to information technology. Oxiteno has invested in increasing installed production capacity, mainly for specialty chemicals production, in the modernization of its industrial plants and in the development of new products. Oxiteno has also been investing in the development of products derived from renewable raw materials, including the building of a new fatty alcohols plant which started operations in October 2008. Ultracargo has invested in the expansion and maintenance of storage facilities in response to strong demand for a better logistics infrastructure in Brazil, including investments in capacity expansions at the Aratu, Santos and Suape terminals. See Item 4.A. Information on the Company - History and Development of the Company. 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.

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The following table shows our organic investments for the years ended December 31, 2010 and 2009:

	Year ended December 31, IFRS	
	2010 (in millions of Reais)	2009
Ultragaz	157.1	105.4
Ipiranga(1)	382.6	222.4
Oxitenó	227.3	163.4
Ultracargo	61.8	78.9
Others(2)	18.7	15.0
Total organic investments, net of disposals	847.5	585.1

- (1) Includes financing and bonuses to our resellers, net of repayments. Bonuses are lump sum payments made by distributors to resellers. Resellers typically use these payments to improve their facilities or to invest in working capital. Financing for clients is included under working capital in the cash flow statement and bonuses are included under intangible assets. In 2010 financing to clients (net of repayments) amounted to R\$7 million. In 2009, repayments from clients (net of financing) amounted of R\$20 million.
- (2) Includes capital expenditures related to maintenance of our headquarters, made by our wholly-owned subsidiary Imaven, and capital expenditures made by Serma.

We have also made several acquisitions and related investments to maintain and create new opportunities for growth and to consolidate our position in the markets in which we operate or in complementary markets.

In March 2009, Ultrapar concluded the acquisition of Texaco. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Texaco. In July 2010, Ultracargo sold its in-house logistics, solid bulk storage, and road transportation businesses. See Item 4.A. Information on the Company History and Development of the Company. In November 2010, Ipiranga acquired the totality of shares of DNP. See Item 4.A. Information on the Company History and Development of the Company. In the logistics segment, the sale of Ultracargo's in-house logistics, solid bulk storage, and road transportation businesses is part of our strategy to focus on storage services for special bulk cargo and become Brazil's leading provider in this segment. The acquisitions of Texaco and DNP are part of our growth strategy in the fuel distribution industry, representing the company's expansion to the Midwest, Northeast and North regions of Brazil and the significant increase in Ipiranga's operational scale.

In November 2010, Ultrapar acquired the totality of shares of DNP, the fourth largest fuel distributor in the North region of Brazil, thus reinforcing its strategy of expansion to the North, Northeast and Midwest regions of Brazil, where the consumption growth rate has been above the national average and market share of Ipiranga is lower than in the South and Southeast regions in 2010. See Item 4.A. Information on the Company History and Development of the Company.

Ultrapar's 2011 investment plan, excluding acquisitions, amounts to R\$1,044 million and aims at growth through increased scale, technological differentiation and productivity gains, as well as modernizing existing operations. Ultrapar expects to invest R\$171 million at Ultragaz, R\$548 million at Ipiranga, R\$153 million at Oxitenó and R\$146 million at Ultracargo. The increase in investments over 2010 reflects the opportunities arising from the continued dynamism of the Brazilian economy and the implementation of strategic initiatives specific to each business unit. At Ultragaz, investments will be mainly dedicated (i) to the expansion of UltraSystem (small bulk), as a result of the higher level of economic activity and the prospects for capturing new clients, (ii) to the expansion and modernization of bottling facilities and (iii) to the replacement of LPG bottles and tanks. At Ipiranga, investments will be directed to the expansion and renewal of its service stations, franchise network and storage facilities, focusing the expansion in the North, Northeast and Midwest regions of Brazil. Out of Ipiranga's total investment budget, R\$ 520 million refer to additions to property, plant and equipment and intangible assets and R\$ 29 million refer to financing to clients, net of repayments. At Oxitenó, the significant reduction in investments reflects the conclusion of an expansion cycle, with R\$ 87 million directed to expansion projects, mainly the conclusion of the ethylene oxide plant in Camaçari, adding 90 thousand tons/year to the current capacity. Ultracargo's investments will be directed to expansions in Santos, Suape and Aratu terminals, adding 98 thousand cubic meters to Ultracargo's storage capacity, an addition equivalent to 15% of its current capacity, with start-ups scheduled for 2011 and 2012.

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In the three months ended on March 31, 2011, our capital expenditures were R\$214 million. At Ultragas, R\$50 million were invested, directed mainly to new clients in the bulk segment, expansion and modernization projects at bottling facilities and renewal of LPG bottles. At Ipiranga, R\$ 102 million were invested, mainly in (a) conversion of unbranded service stations and new service stations, (b) renewal of the distribution network and (c) expansion of storage capacity. Of the total amounted invested,

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R\$ 97 million were related to additions to property, plant and equipment and intangible assets, of which R\$ 30 million were invested in the acquisition of a new distribution terminal in Porto Velho, and R\$ 6 million were related to financing to clients, net of repayments. At Oxiteno, R\$ 21 million were invested, mainly concentrated on the project to expand the ethylene oxide production capacity in Camaçari and on the maintenance of its production plants. At Ultracargo R\$ 11 million were invested, directed mainly to the expansion in the terminals of Suape (30 thousand cubic meters) and Santos (46 thousand cubic meters) and in the maintenance of its terminals.

Other projects under study. We are considering the possibility to invest in an ethylene oxide and derivatives plant in a new complex under design and construction by Petrobras in the municipalities of Itaboraí and São Gonçalo, in Rio de Janeiro State. We have not made any commitments to invest in this project.

Equity Investments

The table below shows our equity investments for the years ended December 31, 2010 and 2009:

	Year ended December 31, IFRS	
	2010 (in millions of Reais)	2009
Ultragas		
Ipiranga		
Oxiteno	0.8	
Ultracargo	(80.4) ⁽¹⁾	
Others	46.8 ⁽²⁾	1,355.5 ⁽³⁾
Total	(32.8)	1,355.5

- (1) Sale of the in-house logistics, solid bulk storage and road transportation businesses of Ultracargo. See Item 4.A. Information on the Company History and Development of the Company .
- (2) Investments made in connection with the acquisition of DNP. See Item 4.A. Information on the Company History and Development of the Company .
- (3) Investments made in connection with the acquisition of Texaco. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Texaco .

We are a company incorporated under the laws of Brazil. Our principal executive office is located at Avenida Brigadeiro Luís Antônio, 1343, 9th Floor, 01317-910, São Paulo, SP, Brazil. Our telephone number is 55 11 3177 7014. Our Internet website address is <http://www.ultra.com.br>. Our agent for service of process in the United States is C.T. Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

Ultrapar is a Brazilian company with more than 70 years of history, with leading positions in the markets in which it operates: fuel distribution through Ultragas and Ipiranga, specialty chemicals production through Oxiteno and storage services for liquid bulk through Ultracargo. Ultragas is the leader in LPG distribution in Brazil with a 23% market share in 2010 and one of the largest independent LPG distributors in the world in terms of volume sold. We deliver LPG to an estimated 10 million households using our own vehicle fleet and our network of more than 4,000 independent retailers. Ipiranga is the second largest fuel distributor in Brazil, with a network of 5,662 service stations and a 21% market share in 2010. Oxiteno is one of the largest producers of ethylene oxide and its main derivatives in Latin America, a major producer of specialty chemicals and the sole producer of fatty-alcohols and related by-products in Latin America. Oxiteno has nine industrial units in Brazil, Mexico and Venezuela and commercial offices in the United States, Argentina, and Belgium. Ultracargo is the largest provider of storage for liquid bulk in Brazil, with seven terminals and storage capacity of 638 thousand cubic meters as of December 31, 2010 .

The following chart simplifies our organizational structure as of December 31, 2010, showing our principal business units. For more detailed information about our current organizational structure, see Item 4.C. Information on the Company Organizational Structure .

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Our Strengths

Leading market positions across businesses

Ultragaz is the largest LPG distributor in Brazil. In 2010, Ultragaz's national market share was 23%, serving approximately 10 million homes in the bottled segment and approximately 40 thousand customers in the bulk segment. For the year ended December 31, 2010, Ultragaz's total volume of LPG sold was approximately 1.6 million tons.

Ipiranga is the second largest fuel distributor in Brazil with a 21% market share in 2010, and a network of 5,662 service stations as of December 31, 2010. In addition to the service stations, Ipiranga's network has approximately 1.7 thousand convenience stores and Jet Oil stores. The acquisitions of Texaco and DNP strengthened Ipiranga's competitiveness by increasing its operational scale, reinforcing its strategy of expansion to the North, Northeast and Midwest regions of Brazil, where the consumption growth rate has been above the national average and the market share of Ipiranga is lower than that in the South and Southeast in 2010. The implementation of Ipiranga's business model in the acquired networks allowed it to offer a broader range of products and services, which benefits consumers and resellers. The volume of fuel sold by Ipiranga in 2010 was 20,150 thousand cubic meters.

Oxiteno is the largest producer of ethylene oxide and its principal derivatives in Latin America and is also a major producer of specialty chemicals. Our chemical operations supply a broad range of market segments, particularly crop protection chemicals, food, cosmetics, leather, detergents, packaging for beverages, thread and polyester filaments, brake fluids, petroleum and coatings. For the year ended December 31, 2010, Oxiteno sold 684 thousand tons of chemical products. In Brazil, Oxiteno competes principally against imports.

Ultracargo is the largest provider of storage for liquid bulk in Brazil, with seven terminals and storage capacity of approximately 638,000 cubic meters as of December 31, 2010. In 2010, Ultracargo accounted for approximately 75% of all tank capacity for liquids at the Aratu terminal in the State of Bahia, which serves South America's largest petrochemical complex.

Robust business portfolio

Our operations encompass LPG and fuel distribution, the production of ethylene oxide and its derivatives and storage services for liquid bulk. We believe our businesses provide us with increased financial capability and flexibility. Our 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 is constituted of more than 4,000 dealers who sell Ultragaz LPG bottles. This has enabled Ultragaz to control the quality and productivity of its dealers leading to a strong brand name recognition that we believe is associated with quality, safety and efficiency, and also to have frequent contact with LPG customers. In addition, Ultragaz was the first player to introduce LPG small bulk delivery in Brazil, with lower distribution costs than bottled distribution. Over the years it has built a strong client base.

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Efficiencies in retail network logistics in addition to resale management know-how

We believe that the expertise in logistics and resale management that we have gained at Ultragas can be complemented by Ipiranga's know-how in the same areas, thus maximizing efficiency and profitability at both companies.

Flexibility across the petrochemical cycle

Oxiteno is the largest producer of ethylene oxide and its principal derivatives in Latin America. Approximately 97% of its ethylene oxide production was used internally in the production of ethylene oxide derivatives in 2010, which can be classified in two groups: specialty and commodity chemicals. Oxiteno is a major producer of specialty chemicals, which have traditionally higher margins and less exposure to petrochemical cycles than commodity chemicals. Oxiteno has also been heavily investing in the development of products derived from renewable raw materials, such as those produced at the oleochemicals unit, reducing its dependence on oil-based feedstock and expanding its product portfolio.

Cost-efficient operations

Oxiteno's operations have a high degree of production efficiency derived from a scale that we believe is 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. Ipiranga also has a significant market presence in the South and Southeast regions of Brazil, which allows it to operate its extensive network of primary and secondary storage terminals and its distribution system in a cost-efficient manner. After the consolidation of Texaco and DNP, the increased scale of Ipiranga allowed improved efficiency and competitiveness in the distribution and sales processes, dilution of advertising, marketing and new product development expenses, and gains from economies of scale in administrative functions.

Strong operational track record

Our business has exhibited a solid operational track record. Our adjusted EBITDA presented an average compound annual growth of 21% from 1998 to 2010, in spite of the overall macroeconomic volatility in Brazil during this same period. Our adjusted EBITDA is used to provide a measure of assessing the company's ability to generate cash from its operations. See Item 3.A. Key Information – Selected Consolidated Financial Data for more information about adjusted EBITDA. Our net income (including income attributable to minority shareholders) presented average compound annual growth of 27% from 1998 to 2010.

Experienced management team

We are led by a strong and experienced management team with a proven track record in the LPG and fuel distribution, petrochemical and specialized logistics industries. Our senior management team possesses an average of more than 22 years of experience in the company and its subsidiaries.

Alignment of interests

Ultrapar's main executives are relevant shareholders of Ultrapar and have variable compensation linked to performance and value generation to shareholders measured by the Economic Value Added (EVA[®]) growth targets. Moreover, Ultrapar has consistently implemented improvements in corporate governance, such as being the first Brazilian company to grant 100% tag along right to all its shareholders, the separation of the roles of Executive Officer and Chairman of the Board of Directors and the constant and transparent interaction with the capital market, also being a founding member of the Latin American Corporate Governance Roundtable Companies Circle, a group dedicated to promote the corporate governance in Latin America.

The New Bylaws of Ultrapar include provisions further aligning our shareholders' interests, including by providing for a single class and type of shares, all of which have identical voting rights, allowing our shareholders to actively participate in the decisions of the shareholders' meeting, without any limitation on voting rights, special treatment to current shareholders, required public tender offers for prices greater than the acquisition price of a controlling interest or any other poison pill provisions.

Our Strategy

Build on the strength of our LPG and fuel distribution brands

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Our LPG and fuel distribution businesses have 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 to introduce new services and distribution channels.

Maintain a strong relationship with our resellers in the LPG and fuel distribution business

We intend to preserve our strong relationship with dealers by keeping their distribution exclusivity and continuing to implement our differentiated incentive programs in Ultragas and Ipiranga. We plan to continue to invest in training our dealers, in order to maximize efficiency, further strengthen our relationship and promote the high standards of our distribution network. In parallel, we plan to continue to increase our operational efficiency and productivity at Ultragas and Ipiranga.

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Continuously improve cost and capital efficiency in LPG and fuel distribution

We plan to continue to invest in the cost and capital efficiency of our distribution systems. Current initiatives include enhanced discipline with respect to our capital allocations and programs to revise Ultragaz's distribution structure.

Increase market share in fuel distribution

We intend to benefit from a generally favorable outlook in the fuel distribution market as a result of an increasing vehicle fleet in Brazil. Our sales strategy is to increase Ipiranga's market share by converting unbranded stations to Ipiranga's brand and to increase our scale in the Midwest, Northeast and North regions of Brazil, where we have lower market share and the consumption growth is higher than the national average, given the lower car penetration and faster-growing household income in these regions.

Promote and benefit from the formalization of the fuel distribution market

We plan to continue to collaborate with the competent authorities to promote improvements to legislation and to enhance regulatory enforcements in the fuel distribution sector as means of creating a level playing field in the market, increasing sales volume in the formal market and improving our gross margin, thus reducing the competitiveness of players which benefited from cost advantages derived from unfair practices.

Enhance retail network

We intend to continue expanding Ipiranga's sources of non-fuel income by creating new products and expanding our services, such as convenience store sales, lubricant-changing services, car maintenance services, credit cards, the sale of car-related products in the fuel service stations and some 40 thousand items available in our e-commerce website Ipirangashop.com.

In 2009, Ipiranga launched two initiatives aiming at strengthening Ipiranga's brand recognition: (i) Km de Vantagens, a pioneer customer loyalty program in the fuel industry that awards points in connection with purchase of products and services at Ipiranga's network and allows customers to exchange such points for discounts, products or services provided by Ipiranga and its partners, and (ii) Jet Oil Motos, a specialized lubricant-changing service for motorcycles in Brazil.

In 2010, as part of its differentiation strategy, Ipiranga opened bakeries within its am/pm stores and became Brazil's largest bakery franchise chain. Over the year, it developed a new image, further strengthening the perception of being a convenience center always close to its consumer. In addition, Ipiranga increased its strategic partnerships to broaden the scope of the Km de Vantagens loyalty program and, accordingly, the benefits for its clients and resellers, including partners in the areas of entertainment, tourism and magazines, among others. The Km de Vantagens reached over 5.5 million clients by the end of 2010.

Invest in niche segments for LPG distribution

Ultragaz is strengthening its presence in the North and Northeast regions of Brazil by focusing on expanding to states, such as Pará and Maranhão, where it did not use to have significant operations and where LPG consumption is growing faster than Brazil's national average rate. Ultragaz also expanded its portfolio by selling the propellant (Dymethyl-ether) DME, which was sold in Brazil exclusively through imports. Following its strategy of growing in niche markets, Ultragaz expanded in 2010 its participation in the use of LPG for localized heating, such as pre-heating of industrial furnaces, especially in steel and metallurgical plants.

Expand capacity at Oxiteno

We intend to maintain Oxiteno's production capacity ahead of demand in Brazil. We also plan to continue our efforts to apply the best global practices to Oxiteno's plants and production processes with a view to remain technologically competitive.

Continue to enhance product mix at Oxiteno

We increased Oxiteno's capacity to produce a variety of value-added ethylene oxide derivatives and other specialty chemicals in order to optimize its sales mix across petrochemical cycles. Oxiteno's investments in research and development have resulted in the introduction of 41 new products during the last three years. Oxiteno will continue to invest in research and development focused on developing new products to meet clients' needs. In addition, we intend to focus Oxiteno's sales in the Brazilian market, which allows us to have higher margins.

Table of Contents***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 debt position for the year ended December 31, 2010 was R\$2,176 million, representing a 1.2 times net debt to adjusted EBITDA ratio. We have been consistently distributing dividends to our shareholders. During the five years ended December 31, 2010, we have declared yearly dividends representing an average of approximately 65% of our net income.

Continue to grow our businesses

Our principal corporate goal is to enhance shareholder value and strengthen our market presence by growing our business. Historically, we have grown our business organically and through acquisitions, such as the acquisitions of Ipiranga, União Terminais, Texaco and DNP, and we intend to continue this strategy.

We have also made several investments in the expansion of our existing operations. In Oxiteno, in the last four years, we invested in the expansion of our production capacity focusing on specialty chemicals. In Ipiranga, organic investments were mainly directed to the expansion of our resellers network. In Ultracargo, we started in 2010 a new expansion plan to increase the capacity of our terminals in Suape, Santos and Aratu. We constantly analyze acquisition opportunities in the segments in which we operate and in complementary segments that could add value to our company.

Key Financial Information

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

	Year ended December 31, IFRS	
	2010	2009
	(in millions of Reais)	
Net sales and services(1)		
Ultrapar	42,481.7	36,097.1
Ultragaz	3,661.3	3,441.0
Ipiranga	36,483.5	30,485.8
Oxiteno	2,083.0	1,915.8
Ultracargo	293.3	336.6
Adjusted EBITDA(2)		
Ultrapar	1,776.3	1,430.4
Ultragaz	307.4	281.2
Ipiranga	1,073.4	829.9
Oxiteno	241.2	170.7
Ultracargo	111.5	104.5
Net income attributable to Ultrapar's shareholders	765.3	437.1
Net cash (debt)(3)		
Ultrapar	(2,175.7)	(2,131.8)

- (1) Segment information for Ultragaz, Ipiranga, Oxiteno and Ultracargo is presented on an unconsolidated basis. See "Presentation of Financial Information" for more information.
- (2) See footnote 6 under "Item 3.A. Key Information - Selected Consolidated Financial Data" for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.
- (3) See footnote 7 under "Item 3.A. Key Information - Selected Consolidated Financial Data" for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

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Distribution of Liquefied Petroleum Gas

Industry and Regulatory Overview

Liquefied petroleum gas (LPG) is a fuel derived from the oil and natural gas refining process. In Brazil, approximately 80% of local demand in 2010 was produced in local refineries and the remaining 20% was imported. LPG has the following primary uses in Brazil:

Bottled LPG used primarily by residential consumers for cooking; and

Bulk LPG used primarily for cooking and water heating in shopping malls, hotels, residential buildings, restaurants, laundries, hospitals and industries, with several other specific applications to each industrial process.

The following chart shows the process of LPG distribution:

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Historically, bottled LPG has represented a substantial portion 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, demand seasonality throughout the year is significantly small. 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 costs a major competitive differential in the Brazilian LPG market.

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.

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

Currently, the LPG distribution industry in Brazil consists of 17 LPG distribution companies or groups of companies, and is regulated by the ANP. The LPG distribution industry includes purchasing nearly all its LPG requirements from Petrobras, filling LPG bottles and bulk delivery trucks at filling stations, selling LPG to dealers and end users, controlling product quality and providing technical assistance to LPG consumers. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of the ANP. LPG produced by Petrobras, which represented approximately 80% of total LPG sold in Brazil in 2010, is transported in pipelines and by trucks from Petrobras' 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 bottles or in bulk. The bottles are filled in the LPG distributors' filling stations. Distribution of bottled LPG is conducted through the use of bottles via two principal channels:

- home delivery of LPG bottles; and

- the sale of LPG bottles in retail stores and at filling stations.

In both cases, the bottles 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 geographical 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 Brazilian government started a deregulation process of the 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 in Brazil.

Since 2001, distributors have been allowed to freely establish retail prices, which were previously set by the Brazilian government. Until the end of 2001, the LPG refinery price charged by Petrobras to all LPG distributors was determined by the Brazilian government and was the same for all LPG distributors in all regions of Brazil. Historically, refinery prices have been subsidized by the Brazilian government. In 2002, the Brazilian government abolished subsidies to refinery prices and, from January 2002, Petrobras started to freely price LPG in the domestic market, adopting the international price plus surcharges as its benchmark. However, the Petrobras refinery price of LPG is still subject to the Brazilian government influence when the government deems appropriate. Prices of LPG in *Reais* remained unchanged from May 2003 to December 2007. In 2008, Petrobras increased the LPG refinery price for commercial and industrial usage by 15% in January, an additional 10% in April and 6% in July. In February 2009, Petrobras reduced the LPG refinery price for commercial and industrial usage by 5%. In January 2010, Petrobras increased the LPG refinery price for commercial and industrial usage by 6%. In 2010, Petrobras' average refinery price was approximately US\$563 per ton, compared with the average international price of US\$622 per ton. LPG refinery prices for residential use have remained unchanged since 2003.

The role of Petrobras. Petrobras, Brazil's national oil and oil products company, 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 LPG.

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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, also known as *Lei do Petróleo*, 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 or to imports.

On June 25, 2004, Petrobras entered the LPG distribution market in Brazil through the acquisition of Liquegás, one of the main players in the market.

With the discovery of the pre-salt reservoirs, the Brazilian government adopted a series of measures in the regulatory environment, establishing a new legal framework for the oil industry, which may result in a series of regulations, such as production-sharing and concession contracts, among others. This discovery may bring a new scenario for the sector, creating major investments and adaptations in infrastructure such as new refineries, highways, pipelines, platforms, ports and ships, among others.

The role of the ANP. The ANP is responsible for the control, supervision and implementation of the government's oil, gas and biofuels policies. The ANP regulates all aspects of the production, distribution and sale of oil and oil products in Brazil, including 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:

- maintenance of sufficient LPG storage capacity;

- maintenance of an adequate quantity of LPG bottles;

- use of bottles stamped with the distributor's own brand name;

- possession of its own filling plant;

- appropriate maintenance of LPG filling units;

- distribution of LPG exclusively in areas where it can provide technical assistance to the consumer either directly or indirectly through an authorized dealer; and

- 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 sales in the previous month 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 bottles and infrastructure 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.

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, bottle 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 bottles (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 Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Bottle swapping centers and Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Requalification of bottles. Before the Self-Regulatory Code came into effect, certain LPG distributors, not including Ultragas, would fill bottles stamped with another distributor's brand. This practice resulted in a low level of investment in new bottles, giving rise to concerns regarding the safety of older bottles. The Self-Regulatory Code provides, among other things, that:

each LPG distributor may only fill and sell bottles that are stamped with its own trademark;

each LPG distributor is responsible for the quality and safety control of its bottles; and

each LPG distributor must maintain a sufficient number of bottles to service its sales volume.

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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 set forth the following timetable for the implementation of the measures adopted under the Self-Regulatory Code:

the construction of at least 15 bottle swapping centers, starting in November 1996 (see Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Bottle swapping centers and Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Requalification of bottles);

the filling of third-party bottles to have ceased by October 1997;

by November 1, 2006, the requalification of 68.8 million bottles manufactured up to 1991; and

by November 1, 2011, the requalification of 12.8 million bottles manufactured between 1992 and 1996.

Ultragas itself was required to requalify 13.8 million bottles before November 2006 and an additional 10.7 million bottles by November 2011. In 2010, Ultragas requalified 2.3 million bottles and in 2011, Ultragas expects to requalify approximately 2.5 million bottles.

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, the Ministry of Labor, or *Ministério do Trabalho*, and the Ministry of Transport, or *Ministério dos Transportes*, 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 repair 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 bottles. 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 consumer protection laws.

Ultragas

We distribute LPG through Ultragas. 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. Ultragas was the leading company by sales volume in the Brazilian LPG market as of December 31, 2010.

Ultragas operates nationwide in the distribution of both bottled and bulk LPG, 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 or on a scheduled delivery basis. Bulk LPG is serviced through Ultragas own truck fleet.

In August 2003, Ultragas acquired Shell Gás, Royal Dutch Shell's LPG operations in Brazil, for a total price of R\$170.6 million. Shell Gás had about a 4.5% market share in Brazilian LPG distribution, selling 287,400 tons of LPG in 2002. With this acquisition, Ultragas became the national market leader in LPG, with a 24% share of the Brazilian market in 2003.

Ultragas has three operating subsidiaries:

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

Bahiana Distribuidora de Gas Ltda., or Bahiana, which primarily operates in the Northeast region of Brazil; and

Utingás Armazenadora S.A., or Utingás, a storage services provider that operates two facilities in São Paulo and Paraná. Utingás 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 .

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Markets and marketing. When Ultragas began its operations, it served only the Southeast region of Brazil. Currently, Ultragas is present in almost all of Brazil's significant population centers. In the last three years, Ultragas strengthened its presence in the North and Northeast of Brazil, selling LPG in the states of Pará and Maranhão, where it did not have significant operations and where LPG consumption has been growing faster than Brazil's national average growth rate. Distribution of bottled LPG includes direct home delivery and retail stores, both carried out by Ultragas or its dealership network mainly using 13 kg ANP approved bottles. In the case of Ultragas, the bottles 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 the distribution channel in the region.

Before Shell Gás acquisition, Ultragas'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, Ultragas became the Brazilian market leader in LPG, and the focus of its marketing strategy evolved to investing in the brand, protecting market share and strengthening its position in certain regions where it does not have a significant presence. The LPG bottled market in Brazil is a mature one and Ultragas believes that growth in demand will be a function of an increasing number of households consuming the product as well as an increasing level of household income.

Distribution of bulk LPG is largely carried out through 190 kg storage tanks installed on its clients' premises. Since 1997, Ultragas operates small- and medium-sized bulk delivery facilities with bob-tail trucks, known together as UltraSystem, which deliver LPG in bulk to residential buildings, commercial and industrial clients. Ultragas's clients in the commercial sector include shopping centers, hotels, residential buildings, restaurants, laundries and hospitals. Ultragas's trucks supply clients' stationary tanks using a system that is quick, safe and cost effective.

Ultragas's bulk sales include large industrial clients, including companies in the food, metallurgical and steel sectors that have large fixed tanks at their plants and consume monthly volumes in excess of five tons of LPG. These clients represent a small portion of Ultragas's sales volume since, in the case of large volume consumers, Ultragas is competing with other highly competitive energy sources such as natural gas, diesel and fuel oil.

Ultragas 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 Ultragas, and any change in supplier would imply the client's reimbursing Ultragas's investments. The contract also requires that any tank supplied by Ultragas may only be filled with LPG delivered by the company. When the bulk delivery contract expires, it can be renegotiated or the tank is removed. Since the installation of the tank represents a significant investment for Ultragas, it seeks to achieve a return on its investment within the term of the contract.

Ultragas's strategy for bulk LPG distribution is to continue its process of product and service innovation and to increase the profile of its trademark. Ultragas also has a team to identify the needs of each bulk LPG client and to develop technical solutions for using LPG as an energy source.

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

Client category	Year ended December 31,		
	2010	2009	2008(2)
	(in thousands of tons)		
Bottled LPG			
Residential delivery by Ultragas / Ultragas owned retail stores	61.7	77.8	77.9
Independent dealers(1)	1,053.3	1,036.2	1,028.1
Total bottled LPG	1,114.9	1,114.0	1,106.0
Total bulk LPG	493.3	475.1	495.0
Total tons delivered	1,608.3	1,589.1	1,601.0

(1) Includes residential deliveries and distribution through retailers' stores.

(2) Ultragas's sales volume between the bottled and bulk segments from the first quarter of 2008 on were reclassified to reflect the current structure and management responsibility between geographies and segments.

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Residential delivery has evolved during the last few years from primarily door-to-door to a primarily scheduled or phone-ordered delivery.

In 2008, Ultragas was granted the Marketing Best award for the technological and marketing innovation of its Management and Planning System. The system supports company decisions regarding its marketing positioning through market share and competitiveness analysis using geoprocessing techniques, collecting regional information on the markets in which Ultragas operates.

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The LPG distribution is a very dynamic retail market where consumers' habits change constantly, thus creating opportunities for the company. In order to follow market developments and differentiate itself from competitors, Ultragas has developed and enhanced sales channels and payment methods. In the last decade, the company expanded the participation of *Disk Gás* (sale of LPG bottles by telephone) and online ordering and introduced bottle ordering by mobile phone messages. These initiatives provide customers with greater convenience, add further value and generate logistic optimization to Ultragas. The same principles are extended to the bulk segment, in which Ultragas is a pioneer and has a leading position, and where it has been developing new usages for its products, such as localized heating for the ignition of industrial furnaces, mainly in iron and steel industries. Ultragas also began offering a new product in 2009, the synthetic natural gas (SNG), which is a mixture of LPG and compressed air, features that make it an alternative or supplement for companies located in areas supplied with natural gas. Also aiming to follow the consumption trends in the bulk segment, Ultragas intensified its unique account billing service in residential condominiums, through which it provides individual gas bills.

In order to differentiate itself from its competitors, Ultragas has been implementing initiatives directed to the end consumer and brand promotion. As part of these initiatives Ultragas developed programs like *Ultragas na sua rua* (Ultragas in your street) and *Carreta Ultragas*, both aimed to increase interaction and proximity to customers through distribution of souvenirs and brochures containing safety tips and relevant information on LPG, cultural contests, culinary courses, and handicraft work courses as an alternative source of income, among others. Through its new brand positioning, Ultragas also created *Ultragas especialista no que faz* (Ultragas the specialist), reinforcing the features of quality and differentiation of its products and services offered in a nationwide marketing campaign through magazines and radio advertisements. Another initiative to increase the proximity to consumers and promote the cultural encouragement among the low-income population is the *Ultragas Cultural*. *Ultragas Cultural* is a movie theatre adapted to a wagon that travels throughout several cities exhibiting movies. This program, launched in 2000, traveled to 37 cities in 2010, totaling approximately 370 exhibitions.

Distribution infrastructure. Ultragas' 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 Ultragas' home deliveries strongly influence the ranking of the Ultragas' brand name in the bottled market. Ultragas seeks to expand its home delivery services, including faster delivery, quality and comfort for its customers, having delivery personnel that provide safety recommendations to household customers. For both bottled and bulk LPG, deliveries are made by employees wearing Ultragas uniforms and driving vehicles with Ultragas' logo.

Ultragas delivers bottled LPG using a distribution network, which in 2010 included 59 points of sales, and more than 4,000 independent dealers. In 2010, Ultragas had a fleet of 356 vehicles for the delivery of gas bottles and 267 for bulk delivery. Ultragas also maintains a call center which centralizes all LPG bottle orders made through phone calls.

Bottled sales capacity derives from the number of bottles bearing Ultragas' brands. Ultragas estimates that, as of December 31, 2010, there were approximately 21 million 13kg bottles stamped with Ultragas' brands in the market.

Independent dealers. Ultragas' independent distribution network ranges from large dealers, which carry out extensive home delivery, to single retail stores, which sell small quantities of LPG bottles. 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 bottles. 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 prerequisites contained in such rule, as well as those required by law for the storage of bottles 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, 2010, approximately 94% of Ultragas' bottled LPG sales were made through independent dealers. The agreements entered into between Ultragas and independent dealers require the use of the Ultragas brand and the display of the Ultragas logo in the delivery vehicles and on the uniforms worn by delivery personnel. Proprietary rights in the trademark and logo are retained by Ultragas and are duly registered with the National Institute of Industrial Property (INPI - *Instituto Nacional de Propriedade Industrial*). All contracted dealers are Ultragas' exclusive representatives. Under the terms of the respective contracts, each dealer agrees not to deliver non-Ultragas LPG bottles.

In order to strengthen the relationship with its network of independent dealers, Ultragas 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.

In order to improve the efficiency of its network of independent dealers, other reseller relationship programs were implemented aiming at establishing guidelines of the market best practices for its network focusing on operational excellence. The main initiative carried out in 2009 was *Academia de Revendedores* (Resellers Academy), which included the training programs *Formação em Gestão de Revendas* (Reseller Management Education) and *O especialista em atendimento* (The specialist in serving). These programs seek to provide its resellers and their employees with critical skills to ensure an effective management in the LPG retail market and strengthen the qualification of its resellers network.

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In 2010, Ultragaz has continued these training programs, including the *Programa de Qualificação de Revendas* (Reseller Qualification Program), which seeks to standardize Ultragaz's resellers' best management practices, including brand standardization, management quality, and strict compliance with the laws applicable to the industry. Through an assessment process, resellers are classified into categories (blue diamond, diamond, golden and opportunity), allowing the participants to check their performance compared to Ultragaz's excellence standards and encouraging constant improvement. In 2010, over three thousand resellers participated in the program – a significant increase compared to 2008, when the program began with more than 700 resellers evaluated. Out of the resellers that participated in the program in 2010, 228 qualified as blue diamond, a 109% increase over 2009, indicating an improvement in the quality of the resellers network last year. Ultragaz believes that improving the efficiency of independent resellers is a key factor for improving the profitability of the entire chain.

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Distribution channels to bulk consumers. Large bulk distribution, classified by Ultragas as consumption of more than five tons per month and constituted 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 Ultragas as consumption under five tons per month and comprised of residential buildings and commercial users, and smaller industrial users, is made primarily by bob-tail trucks. Ultragas uses the UltraSystem trade name in connection with its small bulk distribution through bob-tail trucks. Ultragas makes bulk sales directly to customers using its own fleet and transportation provided by third-party transportation companies.

Payment terms. Ultragas's sales through its retail stores and through home delivery are made mainly on a cash basis. Ultragas's sales to independent dealers and to industrial and commercial users have payment terms of 20 days on average.

Bottle swapping centers. Pursuant to the Self-Regulatory Code, established in 1996 and approved by ANP, the LPG distributors have established nine operating swapping centers to facilitate the return of the bottles to the appropriate distributor. Under the Self-Regulatory Code, while LPG distributors may pick up any empty LPG bottles tendered by customers in exchange for full LPG bottles, whether or not such empty bottles were put in circulation by that distributor, after October 1997, LPG distributors were not permitted to refill third-party bottles. Accordingly, LPG distributors may deliver third-party bottles to a swapping center where such bottles may be exchanged for bottles placed in circulation by such LPG distributor. The swapping centers currently charge a fee of R\$0.27 per exchanged LPG bottle. 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.

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

Supply of LPG. Currently, Ultragas and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragas has a formal contract with Petrobras for the supply of LPG. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors, including Ultragas, which basically consist of sending an estimate of our needs to Petrobras four months in advance and a more precise estimate of our needs one month in advance. There have been no significant interruptions in the supply of LPG by Petrobras to the distributors since an interruption in 1995 due to a 15-day strike by Petrobras employees.

Petrobras freely prices LPG in the domestic market, adopting the international price plus surcharges as its benchmark. However, the Petrobras refinery price of LPG is subject to the Brazilian government influence when the government deems appropriate. Prices of LPG in *Reais* remained unchanged from May 2003 to December 2007. In 2008, Petrobras increased the LPG refinery price for commercial and industrial usage by 15% in January, an additional 10% in April and 6% in July. In February 2009, Petrobras reduced the LPG refinery price for commercial and industrial usage by 5%. In January 2010, Petrobras increased the LPG refinery price for commercial and industrial usage by 6%. In 2010, Petrobras' average refinery price was approximately US\$563 per ton compared with the average international price of US\$622 per ton. LPG refinery prices for residential use have remained unchanged since 2003. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of the Brazilian government .

Storage of LPG. On December 31, 2010, Ultragas's storage capacity was approximately 19 thousand tons, including Utingás' storage capacity. Based on its 2010 average LPG sales, Ultragas could store approximately three days of LPG supply. Petrobras maintains approximately two days of LPG supply at its refineries and other facilities. Accordingly, an interruption in the production of LPG may result in shortages, such as the one that occurred during the Petrobras strike in 1995.

Ultragas 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 small bulk distribution to customers that are not located near a primary or secondary filling plant. See Item 4.D. Information on the Company Property, Plants and Equipment .

Competition. Ultragas's main competitors are:

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;

Liquigás, which was acquired by Petrobras in June 2004 from the ENI Group and has been operating in the Brazilian LPG distribution sector for more than 40 years; and

Nacional Gás, a Brazilian LPG distributor which has been present in the market for more than 45 years.

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

LPG Distributor	Year ended December 31,		
	2010	2009	2008
Ultragaz	23.2%	23.7%	23.6%
Liquigás	22.3%	22.3%	22.2%
SHV Gas	22.1%	22.1%	22.9%
Nacional Gás	18.7%	18.6%	18.3%
Others	13.8%	13.3%	13.0%
Total	100.0%	100.0%	100.0%

Prior to 1990, the Brazilian 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.

Considering that the bottled market for LPG is a mature market with relatively low consumption growth, the 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. Ultragaz believes that it is competitive in these aspects. Since *per capita* consumption is small, low distribution cost is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in distribution and delivery as all LPG distributors currently purchase nearly all of their LPG requirements from Petrobras, and as Petrobras 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 Recife, contain heavy concentration 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 most uses.

In 2006, the Brazilian LPG market grew by 1%, substantially as a result of the intensification by the Brazilian government of social programs, which contributed to an increase in Brazilians' average income. Additionally, the nationalization of the natural gas reserves in Bolivia generated uncertainties related to the natural gas supply from Bolivia to Brazil. The same factors that were present in the market in 2006, combined with a 5.4% growth in GDP, led to a 2.6% growth in the Brazilian LPG market in 2007. In 2008, the 5.1% GDP growth contributed to the 2.5% increase in the LPG market, mainly concentrated in the first nine months of the year, before the worsening of the global financial crisis. In 2009, given the economic downturn seen particularly in the first half of 2009, Brazilian LPG market decreased by 1% compared to 2008, mostly driven by the bulk segment, which decreased 4% compared to 2008. The volume of the bottled segment remained flat, given its resilient nature as an essential good. In 2010, the Brazilian LPG market increased by 3.7% compared to 2009, mainly as a result of the growth in the bulk segment, driven by the stronger economy.

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

Source: Sindigás (volume for 2009 and 2010 according to ANP)

Income tax exemption status. Pursuant to legislation which provides tax relief for industries located in the northeast region of Brazil, Ultragas benefits from a 75% income tax reduction at the Caucaia, Mataripe, Aracaju and Suape filling plants, expiring in 2012, 2013, 2017 and 2018, respectively. Income tax exemptions amounted to R\$8.4 million and R\$6.8 million for the years ended December 31, 2010 and 2009 respectively. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 9(c) to our consolidated financial statements.

Quality. We were the first Brazilian LPG distributor to receive ISO (International Standards Organization) certification for excellence in quality management. We were also the first LPG distributor in Brazil to be awarded with *Prêmio Paulista de Qualidade*, a well recognized quality award in Brazil.

Fuel Distribution

Industry and Regulatory Overview

The Brazilian fuels market comprises the distribution and marketing of gasoline, ethanol, diesel, fuel oil, kerosene and natural gas for vehicles (NGV). In 2010, diesel represented 48% of the fuels distributed in Brazil, followed by gasoline, ethanol, fuel oils, NGV, lubricants and greases, and kerosene, each of which represented 29%, 14%, 5%, 2%, 1% and 0.02%, respectively.

Growth in the fuel distribution sector has been directly influenced by GDP growth rates and size of light vehicle fleet. GDP growth is the main driver for diesel volume, given that diesel in Brazil is highly used for buses, trucks and agricultural engines. The size of the light vehicle fleet influences the growth in the combined volumes of gasoline, ethanol and NGV, which are basically used for light vehicle. The growth in the size of the car fleet in turn, is highly correlated with credit availability and disposable income. Since 2005, the Brazilian economy has been passing through a structural change with the creation of a well-established credit market for consumer goods. Credit in Brazil in December 2010 reached 46% of GDP, compared to 45% in 2009, 41% in December 2008, 35% in December 2007 and 31% in December 2006, which, combined with an increase in disposable income in Brazil, has had a positive effect on the sales of vehicles.

According to ANFAVEA, the number of new light vehicles registered in Brazil increased by 11% to 3.3 million in 2010 compared to 2009, mainly as a result of the increased disposable income and credit availability. Among the total vehicles sold in 2010, including trucks and buses, 82% were flex-fuel vehicles, which have engines adapted to function using either gasoline or ethanol, or by any combination of the two, 8% were gasoline-only fueled vehicles and the remaining 10% were powered by diesel. Since the launching of flex-fuel vehicles in Brazil in 2003, 12.5 million flex-fuel cars were sold in Brazil.

Moreover, recent changes to legislation and inspection in the fuel distribution sector have helped to progressively curb unfair competition, creating a level playing field. These improvements should benefit the formal market by capturing the volume from the grey market.

According to ANP, the distribution of fuels is made mainly through three channels as follows:

Service stations (77% of the market in 2010), which serve final retail consumers;

Large consumers (17% of the market in 2010), mainly industries and fleets; and

Retail - wholesale resellers TRR (6% of the market in 2010), specialized resellers that distribute diesel to medium and small volume end-users.

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The following chart shows the oil-derivative fuel distribution process in Brazil:

The following chart shows the ethanol distribution process in Brazil:

Distribution of oil-derivative products is carried out through an extensive network of primary and secondary storage terminals. Primary storage terminals are generally located near refineries and are used to store products to be sold to customers (service stations, large consumers and TRRs) and to be transported to secondary storage terminals.

Oil-derivative products are transported from refineries to primary storage terminals via pipelines and coastal or river shipment. Transportation of oil-derivative products between primary and secondary storage terminals is provided by pipeline, railroad, trucks and coastal or river barges. Ethanol is transported from the many distilleries to primary and secondary storage bases by trucks. Delivery to service stations, large consumers and TRRs is made exclusively by trucks.

All gasoline sold in Brazil must contain a certain proportion of anhydrous ethanol that can vary from 18% to 25% anhydrous ethanol. As of December 31, 2010, the level established by the Brazilian Minister of Agriculture was 25%. Gasoline A, as it is known in its unmixed form, is mixed with anhydrous ethanol at primary storage terminals or at secondary storage terminals. Gasoline

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A, mixed with anhydrous ethanol, forms gasoline C, which is delivered directly to service stations and large consumers by truck. Since January 2008, under the Biodiesel Program, distributors have been required to include 2% of biodiesel in the volume of diesel sold, in order to reduce greenhouse gas emissions. In addition, this program has also the social purpose of encouraging and developing small agriculture producers of biodiesel raw materials. On July 1, 2008 and 2009, the biodiesel mix requirement was increased to 3% and to a further 4%, respectively. Since January 1, 2010, the biodiesel mix requirement is 5%.

As of December 31, 2010, there were 210 fuel distributors authorized by ANP to operate in Brazil.

Supply. Petrobras is currently the only relevant supplier of oil derivatives in Brazil. There are currently 16 oil refineries in Brazil, of which Petrobras owns 12. Brazil's total refining capacity in 2009, the last information available, was 333 thousand cubic meters per day, of which Petrobras accounted for 98%. Brazilian refineries are located predominantly in the South and Southeast regions of Brazil. The overall product yield for these refineries in 2010 was 39% diesel, 20% gasoline, 13% fuel oil, 7% LPG and 21% other products, including naphtha.

Ethanol is purchased from various producers. In 2010, there were more than 400 distilleries in Brazil, which produced approximately 28 million cubic meters of ethanol, 30% of which was anhydrous ethanol and the rest of which was hydrated ethanol. Brazil's supply of anhydrous and hydrated ethanol is seasonal and depends on the sugarcane harvest. In 2010, 93% of such supply came from Central and Southern Brazil and the remainder of which came from Northern Brazil.

Biodiesel is purchased from the many producers of biofuels in Brazil, and can come from soy and tallow. Since January 2008, which was the first year of the Biodiesel Program, Petrobras has been required to purchase biofuels in auctions promoted by ANP and supply distributors with amounts of biodiesel corresponding t