

ULTRAPAR HOLDINGS INC

Form 20-F

May 05, 2006

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As filed with the Securities and Exchange Commission on May 5, 2006

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, 2005

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*	New York Stock Exchange

* Traded only in the form of American Depositary Shares (as evidenced by American Depositary Receipts) each representing 1 Preferred Share which are registered under the Securities Act of 1933.

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

None

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 May 5, 2006.

Title of Class	Number of Shares Outstanding
Common Stock	49,429,897

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Preferred Stock

31,895,512

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

PRESENTATION OF INFORMATION

The audited consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto, for the years ended December 31, 2005, 2004 and 2003, included herein, are our consolidated financial statements. The audited consolidated balance sheets as of December 31, 2003, 2002 and 2001 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto for the years ended December 31, 2002 and 2001 are not included in this annual report. The financial information presented in this annual report should be read in conjunction with our consolidated financial statements.

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

On April 30, 2006 the exchange rate for *reais* into U.S. dollars was R\$2.089 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank of Brazil (Banco Central do Brasil), or the Central Bank. The commercial selling rate was R\$2.341 to U.S.\$1.00 at December 31, 2005 and R\$2.654 to U.S.\$1.00 at December 31, 2004. The *real*/dollar exchange rate fluctuates widely, and the current commercial selling rate may not be indicative of future exchange rates. See Item 3A. 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 3A. 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, 2005 of R\$2.341 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Segment information for our businesses are presented on an unconsolidated basis. Consequently, intercompany transactions have not been eliminated in segment information and therefore this information will not sum to consolidated financial information provided. See Item 7B. Related Party Transactions for more information.

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.

Brazilian GAAP and U.S. GAAP

Our consolidated financial statements are prepared in accordance with accounting practices adopted in Brazil (Brazilian GAAP), which include accounting principles emanating from the Brazilian corporate law and accounting standards and supplementary procedures established by the CVM (the Brazilian Securities and Exchange Commission) and the Brazilian Institute of Independent Auditors (Instituto dos Auditores Independentes do Brasil),

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or IBRACON. Such accounting practices differ in certain material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP. See Note 24 to our consolidated financial statements for a summary of the differences between Brazilian GAAP and U.S. GAAP, and a reconciliation of shareholders' equity as of December 31, 2005 and 2004 and net income for the years ended December 31, 2005, 2004 and 2003 from Brazilian GAAP to U.S. GAAP.

Market share and economic information

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

FORWARD-LOOKING STATEMENTS

The statements contained in this annual report in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or revise any forward-looking statements after we distribute this 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 which cover, among other things, our:

strategy for marketing and operational expansion;

capital expenditures forecasts; and

development of additional sources of revenue.

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

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 industry, 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;

approval of Brazilian antitrust authorities of the Shell Gás acquisition;

access to sources of financing and our level of debt;

ability to integrate acquisitions;

regulatory issues relating to acquisitions;

availability of tax benefits and

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

We have selected the following consolidated financial data from our audited consolidated annual financial statements, for the periods indicated. You should read our selected financial data in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and notes to the consolidated financial statements included in this annual report.

Our consolidated financial statements are prepared in Brazilian *reais* in accordance with accounting practices adopted in Brazil, which differ in certain material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP. See Note 24 to our consolidated financial statements for a summary of the differences between the accounting practices adopted in Brazil, and U.S. GAAP.

The following table presents our selected financial information at the dates and for each of the periods indicated in Brazilian GAAP, and U.S. GAAP where indicated. The consolidated balance sheet information as of December 31, 2005 and 2004 and the consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2005, 2004 and 2003 are derived from our audited consolidated financial statements included in this annual report. The consolidated balance sheet information as of December 31, 2003, 2002 and 2001 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2002 and 2001 are derived from our audited consolidated financial statements that are not included in this annual report.

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	Year Ended December 31,					
	2005(1)	2005	2004	2003	2002	2001
	(in millions of U.S.dollars or reais, where indicated, except per share data)					
Consolidated Income Statement Data:						
	US\$	R\$	R\$	R\$	R\$	R\$
Gross sales and services	2,203.6	5,158.0	5,250.6	4,603.8	3,795.3	2,862.5
Taxes on sales and services, rebates, discounts and returns	(198.3)	(464.2)	(466.4)	(603.5)	(800.8)	(577.8)
Net Sales and Services	2,005.3	4,693.8	4,784.2	4,000.3	2,994.5	2,284.7
Cost of sales and services	(1,616.4)	(3,783.4)	(3,669.9)	(3,196.4)	(2,247.1)	(1,698.3)
Gross profit	388.9	910.4	1,114.3	803.9	747.4	586.4
Operating (expenses) income						
Selling, general and administrative expenses	(235.7)	(551.7)	(555.9)	(458.9)	(382.3)	(317.7)
Other operating income, net	(0.2)	(0.4)	5.5	6.6	0.4	10.2
Total operating expenses	(235.9)	(552.1)	(550.4)	(452.3)	(381.9)	(307.5)
Operating income before financial items	153.0	358.3	563.9	351.6	365.5	278.9
Financial (expenses) income, net	(11.7)	(27.3)	(45.0)	(57.2)	28.5	(31.1)
Nonoperating (expenses) income, net	(0.8)	(1.8)	(16.0)	1.0	(44.1)	(17.0)
Income before income and social contribution taxes, equity in earnings (losses) of affiliated companies and minority interest	140.5	329.2	502.9	295.4	349.9	230.8
Income and social contribution taxes	(12.3)	(28.8)	(83.0)	(44.9)	(71.4)	(27.5)
Income before equity in earnings (losses) of affiliated companies and minority interest	128.2	300.4	419.9	250.5	278.5	203.3
Equity in earnings (losses) of affiliated companies	0.7	1.6		(0.5)	(1.7)	1.9
Minority interest	(1.2)	(2.8)	(5.4)	(3.6)	(54.5)	(73.0)
Net income	127.7	299.2	414.5	246.4	222.3	132.2
Net earnings per share (2)	1.59	3.73	5.95	3.54	3.62	2.49
Dividends per common share (3)	0.82	1.93	2.36	1.01	1.00	4.20
Dividends per preferred share (3)	0.82	1.93	2.36	1.11	1.09	4.63
Other financial data (4)						
Cash flows from operating activities (5)	175.2	410.0	539.6	331.2	425.2	339.7
Cash flows from investing activities (5)	(288.9)	(676.3)	(303.1)	(391.3)	(427.2)	(206.7)
Cash flows from financing activities (5)	325.5	762.0	(176.8)	10.8	(59.7)	(339.2)
Depreciation and Amortization(6)	80.2	187.7	172.7	146.9	121.8	102.4
Adjusted EBITDA(7)	233.3	546.0	736.6	498.5	487.3	372.5
Net cash (debt) (8)	81.7	191.2	46.0	(78.1)	54.5	241.3
Number of common shares (in thousands) (9)	49,429.9	49,429.9	51,264.6	51,264.6	51,264.6	37,984.0
Number of preferred shares (in thousands) (9)	31,895.5	31,895.5	18,426.6	18,426.6	18,426.6	15,016.0
U.S. GAAP:						
Net income	124.8	292.1	414.3	288.3	143.9	123.0
Basic and diluted earnings per common share (10)	1.54	3.61	5.18	3.48	1.97	1.94
Basic and diluted earnings per preferred share (10)	1.54	3.61	5.18	3.82	2.16	2.14
Depreciation and amortization	58.7	137.4	126.6	98.5	85.4	74.9

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- (1) The *real* amounts for December 31, 2005 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$2.341, 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 3A. Selected Consolidated Financial Data Exchange Rates.

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- (2) Net earnings per share are calculated on the weighted average shares outstanding during each of the periods presented. Under Brazilian GAAP, net earnings per share are not retroactively adjusted for the stock dividend but are retroactively adjusted for the reverse stock split described under Item 4B. Business Overview.
- (3) See Item 8A. Consolidated Statements and Other Financial Information Dividend and Distribution policy for information regarding declaration and payment of dividends. Dividends per share do not reflect any adjustments related to the stock dividend described under Item 4B. Business Overview
- (4) Cash flow information has been derived from our consolidated financial statements prepared in accordance with Brazilian GAAP.
- (5) See Note 24(V)(i) to our consolidated financial statements.
- (6) Represents depreciation and amortization expenses included in cost of sales and services and in selling, general and administrative expenses.
- (7) The inclusion of adjusted EBITDA information is to provide a measure of assessing our ability to generate cash from our operations. Adjusted EBITDA is equal to operating income before financial items plus depreciation and amortization. In managing our business we rely on adjusted EBITDA as a means of assessing our operating performance and a portion of our management's compensation and employee profit sharing plan is linked to adjusted EBITDA performance. Because adjusted EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, we believe that this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. We also calculate adjusted EBITDA in connection with covenants related to some of our financings. We believe that adjusted EBITDA enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP or Brazilian GAAP. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity. Adjusted EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation or capital expenditures and associated charges. The adjusted EBITDA presented herein relates to Brazilian GAAP, which is used in the primary financial statements included in this filing. This adjusted EBITDA calculation is expressly permitted by the Brazilian regulators that establish the accounting principles generally accepted for use in such financial statements and is included in the financial statements published in Brazil.

The tables below provide a reconciliation of net income to adjusted EBITDA and of operating income before financial items to adjusted EBITDA for the years ended December 31, 2005, 2004, 2003, 2002 and 2001:

Ultrapar Reconciliation of net income to					
	adjusted EBITDA				
	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of reais)				
Net income	299.2	414.5	246.4	222.3	132.2
Minority interest	2.8	5.4	3.6	54.5	73.0
Equity in (earnings) losses of affiliated companies	(1.6)		0.5	1.7	(1.9)
Income and social contributions taxes	28.8	83.0	44.9	71.4	27.5
Non-operating expenses (income), net	1.8	16.0	(1.0)	44.1	17.0
Financial (income) expenses, net	27.3	45.0	57.2	(28.5)	31.1
Depreciation and amortization	187.7	172.7	146.9	121.8	102.4
Non-cash operating income included in Operating income (expenses), net					(8.8)
Adjusted EBITDA	546.0	736.6	498.5	487.3	372.5

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Reconciliation of operating income**

before financial items to adjusted EBITDA
Year ended December 31,
2005 2004 2003 2002 2001
(in millions of reais)

Operating income before financial items	358.3	563.9	351.6	365.5	278.9
Depreciation and amortization	187.7	172.7	146.9	121.8	102.4
Non-cash operating income included in Operating income (expenses), net					(8.8)

Adjusted EBITDA	546.0	736.6	498.5	487.3	372.5
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**Ultragaz
Reconciliation of operating income**

before financial items to adjusted EBITDA
Year ended December 31,
2005 2004 2003 2002 2001
(in millions of reais)

Operating income before financial items	77.8	152.7	113.2	143.2	101.1
Depreciation and amortization	117.3	116.2	95.0	76.6	61.9

Adjusted EBITDA	195.1	268.9	208.2	219.8	163.0
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**Oxiteno
Reconciliation of operating income**

before financial items to adjusted EBITDA
Year ended December 31,
2005 2004 2003 2002 2001
(in millions of reais)

Operating income before financial items	257.9	382.9	207.0	199.9	146.6
Depreciation and amortization	42.3	38.1	36.2	32.8	30.2

Adjusted EBITDA	300.2	421.0	243.2	232.7	176.8
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**Ultracargo
Reconciliation of operating income**

before financial items to adjusted EBITDA
Year ended December 31,
2005 2004 2003 2002 2001
(in millions of reais)

Operating income before financial items	17.2	23.0	24.7	17.6	27.4
Depreciation and amortization	27.1	17.5	15.3	11.6	9.5
Non-cash operating income included in Operating income (expenses), net					(8.8)

Adjusted EBITDA	44.3	40.5	40.0	29.2	28.1
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- (8) Net cash (debt) is included in this document in order to provide the reader with information relating to our overall indebtedness and financial position. Net cash (debt) is not a measure of financial performance or liquidity under U.S. GAAP or Brazilian GAAP. The table below provides a reconciliation of our consolidated balance sheet data to the net cash (debt) positions shown in the table, for the years ended December 2005, 2004, 2003, 2002 and 2001.

	Ultrapar				
	Reconciliation of cash and cash equivalents to net cash (debt)				
	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of reais)				
Cash and cash equivalents	1,114.2	624.5	568.8	637.9	656.0

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Ultrapar Reconciliation of cash and cash equivalents to net cash (debt) Year ended December 31, (in millions of reais)					
	2005	2004	2003	2002	2001
Short-term investments	184.8	22.4	41.0		
Long-term investments	372.7	38.8			
Short-term financing	(184.0)	(381.6)	(381.6)	(219.8)	(124.5)
Short-term debentures	(17.9)				
Long-term financing	(978.6)	(258.1)	(306.3)	(363.6)	(290.2)
Long-term debentures	(300.0)				
Net cash (debt) position	191.2	46.0	(78.1)	54.5	241.3

(9) The number of shares is retroactively adjusted for the reverse stock split.

(10) The calculation of earnings per share is retroactively adjusted for stock dividend and reverse stock split for all the periods presented.

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	As of December 31,					
	2005(1)	2005	2004	2003	2002	2001
	(in millions of U.S.dollars or reais, where indicated)					
Consolidated Balance Sheet Data:						
	US\$	R\$	R\$	R\$	R\$	R\$
Current assets						
Cash and cash equivalents	476.0	1,114.2	624.5	568.8	637.9	656.0
Short-term investment	79.0	184.8	22.4	41.0		
Trade accounts receivable	146.7	343.3	369.3	322.3	278.0	149.2
Inventories	81.9	191.7	210.3	137.7	106.3	94.5
Recoverable Taxes	26.9	62.9	73.0	115.5	115.1	121.2
Other	16.7	39.4	45.4	33.4	49.6	24.3
Total current assets	827.2	1,936.3	1,344.9	1,218.7	1,186.9	1,045.2
Long-term assets						
Long-term investments	159.2	372.7	38.8			
Related companies	1.6	3.7	3.1	2.8	2.6	1.7
Deferred income and social contribution taxes	26.1	61.0	36.3	61.4	33.3	27.3
Recoverable Taxes	20.0	46.8	36.6			
Other	23.6	55.4	28.5	20.7	11.5	13.0
Total long-term assets	230.5	539.6	143.3	84.9	47.4	42.0
Permanent assets						
Investments	13.8	32.3	31.8	33.1	33.0	88.8
Property, plant and equipment, net	458.3	1,072.7	1,047.4	968.6	779.5	707.9
Deferred charges, net	42.0	98.3	99.8	102.7	81.1	68.1
Total permanent assets	514.1	1,203.3	1,179.0	1,104.4	893.6	864.8
TOTAL ASSETS	1,571.8	3,679.2	2,667.2	2,408.0	2,127.9	1,952.0
Current liabilities						
Loans, financing and debentures	86.3	201.9	381.6	381.6	219.8	124.5
Trade accounts payable	38.8	90.9	102.0	90.3	104.4	88.4
Payroll and related charges	28.2	66.1	94.1	74.7	64.4	50.2
Dividends payable	44.4	103.9	74.7	41.7	49.0	33.6
Other	10.9	25.5	33.0	44.5	30.6	27.2
Total current liabilities	208.6	488.3	685.4	632.8	468.2	323.9
Long-term liabilities						
Loans, financing and debentures	546.2	1,278.6	258.1	306.3	363.6	290.2
Related companies	2.1	5.0	8.8	9.0	10.2	11.0
Other taxes and contributions	26.0	60.8	52.1	40.9	28.5	62.4
Other	11.5	26.8	34.1	30.1	35.3	24.8
Total long-term liabilities	585.8	1,371.2	353.1	386.3	437.6	388.4
TOTAL LIABILITIES	794.4	1,859.5	1,038.5	1,019.1	905.8	712.3
Minority Interest	12.6	29.6	28.2	32.2	31.0	439.8
Stockholder s equity						
Capital	404.2	946.0	664.0	664.0	664.0	433.9
Capital reserve	0.1	0.3	0.1			
Revaluation reserve	6.4	15.0	16.4	17.8	26.0	25.9
Reserves and retained earnings	354.1	828.8	920.0	674.9	501.1	340.1
TOTAL STOCKHOLDER S EQUITY	764.8	1,790.1	1,600.5	1,356.7	1,191.1	799.9

TOTAL LIABILITIES STOCKHOLDERS EQUITY	1,571.8	3,679.2	2,667.2	2,408.0	2,127.9	1,952.0
U.S.GAAP						
Total assets	1,544.9	3,616.1	2,595.9	2,343.6	2,004.2	1,892.0
Total stockholders equity	736.5	1,723.9	1,545.8	1,294.8	1,076.5	748.5

- (1) The *real* amounts for December 31, 2005 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$2.341, 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 3A. Selected Consolidated Financial Data Exchange Rates.

Exchange Rates

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

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the floating rate exchange market that was generally used for transactions not conducted through the commercial foreign exchange market.

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

Following the introduction of the *real* in 1994 and through 1998, the Central Bank maintained a band system exchange rate, under which the exchange rate between the *real* and the U.S. dollar would fluctuate within a pre-established moving band. In January 1999, due to market pressures, the Central Bank abolished the band system and allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the exchange rate has been established by the market and has fluctuated considerably, reporting a maximum quotation of R\$3.955 per U.S.\$ 1.00 on October 22, 2002. Since the liberalization of the exchange rate, the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. It is not possible to predict whether the Central Bank will continue to let the *real* float freely or whether the *real* will remain at its present level. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. The Brazilian government could impose a band system in the future or the *real* could devalue or appreciate substantially. See Item 3D. Risk factors Risks Relating to Brazil.

On April 30, 2006, the exchange rate for *reais* into U.S. dollars was R\$2.089 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank. The following table sets forth information on prevailing commercial foreign exchange selling rates for the periods indicated, as published by the Central Bank on its electronic information system, SISBACEN, using PTAX 800, Option 5.

	Exchange rates of nominal <i>reais</i> per U.S.\$1.00			
	High	Low	Average	Period-End
<u>Year Ended</u>				
December 31, 2001	2.801	1.936	2.353 ⁽¹⁾	2.320
December 31, 2002	3.955	2.271	2.998 ⁽¹⁾	3.533
December 31, 2003	3.662	2.822	3.060 ⁽¹⁾	2.889
December 31, 2004	3.205	2.654	2.917 ⁽¹⁾	2.654
December 31, 2005	2.762	2.163	2.412 ⁽¹⁾	2.341
<u>Month Ended</u>				
November 30, 2005	2.252	2.163	2.211 ⁽²⁾	2.207
December 31, 2005	2.374	2.180	2.277 ⁽²⁾	2.341
January 31, 2006	2.346	2.212	2.279 ⁽²⁾	2.216
February 28, 2006	2.222	2.118	2.170 ⁽²⁾	2.136
March 31, 2006	2.224	2.107	2.165 ⁽²⁾	2.172
April 30, 2006	2.154	2.089	2.122 ⁽²⁾	2.089

(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

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

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

Risks Relating to Ultrapar

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

Prior to 1995, Petrobras benefited from a constitutional monopoly in the production and importation of petroleum products in Brazil. Although the Brazilian government removed Petrobras' monopoly from the Federal Constitution in November 1995, Petrobras effectively remains the sole provider of LPG in Brazil. Currently, Ultragas and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragas' net sales and services represented 61.8% of our consolidated net sales and services for the year ended December 31, 2005. The last significant interruption in the supply of LPG by Petrobras to the distributors occurred in 1995 due to a 15-day strike by Petrobras employees. See Item 4B. Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview. Furthermore, all Brazilian LPG distributors, including Ultragas, currently purchase all their LPG requirements from Petrobras without a formal LPG supply contract. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors including Ultragas. For more details, see Item 4B. Business Overview Ultragas Supply of LPG.

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

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

The Brazilian LPG market is very competitive in all segments residential, commercial and industrial. Petrobras, our supplier of LPG, and other major companies with greater resources than we possess have entered the Brazilian LPG distribution market. Intense competition in the LPG distribution market could lead to lower sales volumes and increased marketing expenses which may have a material adverse effect on our operating margins. See Item 4B. Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of Petrobras and Business Distribution of Liquefied Petroleum Gas Competition.

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

LPG competes with natural gas, wood, diesel, fuel oil and electricity. Natural gas is currently the principal source of energy against which we compete. Natural gas is currently less expensive than LPG for industrial consumers who purchase large volumes, but more expensive for residential consumers. In addition, supply of natural gas requires significant investments in pipelines. The development of 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 4B. Business Overview Distribution of Liquefied Petroleum Gas Competition.

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

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

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

All second generation petrochemical producers in Brazil that use ethylene as their key raw material, including Oxiten, our subsidiary involved in the production and sale of chemical and petrochemical products, purchase ethylene from Brazilian suppliers. Approximately 27% of our net sales are derived from the sale of chemical products that require ethylene. Oxiten purchases ethylene from two of Brazil's three naphtha crackers, which are the sole sources of ethylene in Brazil. Braskem S.A., or Braskem, supplies all of our ethylene requirements at our plant located at Camaçari pursuant to a long-term contract, and Petroquímica União S.A., or PQU, supplies all of our ethylene requirements at our plant located at Mauá. Oxiten, like other purchasers from PQU, does not have a long-term contract for the purchase of ethylene from PQU. Because of its characteristics, ethylene is difficult and expensive to store and transport, and cannot be easily imported into Brazil. Therefore, Oxiten is almost totally dependent on ethylene produced at Braskem and PQU for its supply of ethylene. For the year ended December 31, 2005, Brazilian ethylene imports totaled approximately 6,022 tons, representing less than 1% of Brazil's installed capacity.

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

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

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

The international petrochemical market is cyclical in nature, with alternating periods of tight supply, increased prices and high margins, and 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, among other factors, have contributed to the increasing integration of the Brazilian petrochemical industry into the international petrochemical marketplace. As a consequence, events affecting the petrochemical industry worldwide could have a material adverse effect on our business, financial condition and results of operations.

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

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

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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 government's negotiation of commercial and free trade agreements, principally with NAFTA and the European Union, may result in reductions in Brazilian import duties on petrochemical products, which generally range between 12% and 14%, and may reduce the competitiveness of our products vis-à-vis imported petrochemical products.

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

We are subject to stringent environmental laws and regulations in Brazil and Mexico. Petrochemical companies like ours are required to obtain licenses for their manufacturing facilities from environmental authorities which may also regulate their operations by prescribing specific environmental standards in their operating licenses. Environmental regulations apply particularly to the discharge, handling and disposal of gaseous, liquid and solid products and by-products from manufacturing activities. Changes in these laws and regulations, or changes in the enforcement policy of these laws and regulations, could adversely affect us by increasing our cost of compliance or operation. In addition, it is possible that new laws or additional regulations will come into force, or that the relevant enforcement agencies will seek a more stringent interpretation of existing laws and regulations that would require us to spend additional funds on environmental matters in order to continue to keep our plants and operations in compliance with current legislation. See Item 4B. Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview Environmental, health and safety standards, Item 4B. Business Overview Petrochemicals and Chemicals Overview of the sector and applicable regulations Environmental, health and safety standards and Item 4B. Business Overview Logistics of Chemical Products and Fuels Ultracargo Transportation Transportation Regulation.

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

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

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

The operation of any chemical manufacturing plant and the distribution of petrochemicals, as well as the operations of logistics of oil and chemical products and LPG distribution involve substantial risks of property contamination and personal injury and may result in material costs and liabilities. 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.

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

We are entitled to federal tax benefits providing for income tax exemption or reduction for our activities in the northeast region of Brazil. These benefits may be cancelled or suspended if we do not comply with our commitment not to distribute to our shareholders the amounts under the benefits or if the relevant tax authorities decide to suspend or cancel our benefits. As a result, we may become liable for the payment of related taxes at the full tax rates. If we are not able to renew the tax benefits, or if we are only able to renew them under terms that are substantially less favorable than expected, our results of operations may be adversely affected. Tax exemptions amounted to R\$63.8 million, R\$93.5 million and R\$52.4 million, respectively, for the years ended December 31,

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2005, 2004 and 2003. See Item 4B. Business Overview Distribution of Liquefied Petroleum Gas Ultragas Tax exemption status, Item 4B. Business Overview Petrochemicals and Chemicals Oxiteno Tax exemption status and Item 4B. Business Overview Logistics of Chemical Products and Fuels Ultracargo Tax exemption status.

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

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 share capital through their control of Ultra S.A. This level of control enables Ultra to elect the majority of our directors and to determine the outcome of substantially all actions requiring shareholder approval. See Item 7A. Major Shareholders Shareholders Agreements.

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

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

Risks Relating to Brazil

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

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

currency fluctuations;

inflation;

interest rates;

price instability;

energy shortages;

liquidity of domestic capital and lending markets;

fiscal policy; and

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

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

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A presidential election will be held in Brazil in October 2006. The President of Brazil has considerable power to determine governmental policies and actions relating to the Brazilian economy that may consequently affect the operations and financial performance of businesses, such as our company. The presidential election may result in changes in existing governmental policies, and the post-election administration even if President Luiz Inácio Lula da Silva is reelected may seek to implement new policies. We cannot predict what policies the Brazilian government will adopt and whether these policies will negatively affect the economy or our business and financial performance.

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

Brazil has in the past experienced extremely high rates of inflation. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, inflationary pressures persist, and actions taken in an effort to curb inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the *Índice Geral de Preços-Mercado*, or IGP-M, a general price inflation index, the Brazilian general price inflation rates were 25.3%, 8.7%, 12.4% and 1.2% in 2002, 2003, 2004 and 2005, respectively.

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

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

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

The *real* depreciated against the U.S. dollar by 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* has appreciated since then (18.2% in 2003, 8.1% in 2004, 11.8% in 2005, and a further 10.7% from January to April 2006), no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. See Item 3A. 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 managed our existing U.S. dollar debt obligations in order to protect against fluctuations in the dollar/*real* exchange rate, we could in the future experience monetary losses relating to these fluctuations. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign exchange risk for information about our foreign exchange risk hedging policy.

Depreciations of the *real* relative to the U.S. dollar also create additional inflationary pressures in Brazil that may negatively affect us. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our preferred shares and, as a result, the ADSs. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments, as well as to a dampening of export-driven growth.

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Although a large part of our sales is denominated in *reais*, prices and certain costs (especially ethylene) 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 preferred shares and ADSs.

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

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

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

Risks Relating to the Preferred Shares and the American Depositary Shares

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

Generally under Brazilian corporate law and in the case of our by-laws, holders of preferred shares do not have the right to vote at shareholders meetings except in limited circumstances. This means, among other things, that holders of our preferred shares and our ADSs, which represent preferred shares, are not entitled to vote on important corporate transactions including mergers or consolidations with other companies. See Item 10B. Memorandum and By-laws.

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

Under our by-laws, unless otherwise proposed by the Board of Directors and approved by the voting shareholders in the Annual General Meeting, we must pay our shareholders a mandatory distribution equal to at least 50% of our adjusted net income. The net income may be capitalized, used to set off losses and/or retained in accordance with the Brazilian corporate law and may not be available for the payment of dividends. Therefore, whether or not you receive a dividend depends on the amount of the mandatory distribution, if any, and whether the Board of Directors and the voting shareholders exercise their discretion to suspend these payments. See Item 8. Consolidated Statements and Other Financial Information Dividend Policy for a more detailed discussion on mandatory distributions.

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

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

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

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

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

The ADSs benefit from the depositary's certificate of foreign capital registration, which permits the depositary to convert dividends and other distributions with respect to the preferred shares into foreign currency and remit the proceeds abroad. If you exchange your ADSs for preferred shares, you will be entitled to rely on the depositary's certificate of foreign capital registration for five business days from the date of exchange. Thereafter, you will not be able to remit abroad non-Brazilian currency unless you obtain your own certificate of foreign capital registration or you qualify under National Monetary Council Resolution 2,689 dated January 26, 2000, known as Resolution 2,689, which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration. If you do not qualify under Resolution 2,689, you will generally be subject to less favorable tax treatment on distributions with respect to the preferred shares. The depositary's certificate of registration or any certificate of foreign capital registration obtained by you may be affected by future legislative or regulatory changes, and additional Brazilian law restrictions applicable to your investment in the ADSs may be imposed in the future. For a more complete description of Brazilian tax regulations, see Item 10E. Taxation Brazilian Tax Consequences.

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

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

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 preferred shares underlying your ADSs at the price and time at which you wish to do so. The São Paulo Stock Exchange, known as Bovespa, the only Brazilian stock exchange, had a market capitalization of approximately U.S.\$482 billion as of December 31, 2005 and an average monthly trading volume of approximately U.S.\$13.8 billion for 2005. In comparison, the New York Stock Exchange had a market capitalization of U.S.\$21.4 trillion as of December 31, 2005 and an average monthly trading volume of approximately U.S.\$1.2 trillion for 2005.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the Bovespa as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 51% of all shares traded on the Bovespa in 2005. Ultrapar's average daily volume on both stock exchanges in 2005, 2004 and 2003 was R\$5.5 million, R\$3.7 million and R\$1.6 million, respectively.

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

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

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

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

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

Shareholders of Ultra have the right to withdraw and convert common shares owned through Ultra into our preferred shares as more fully described under Item 7A. Major Shareholders' Shareholders' Agreements. Two other shareholders, who may freely sell their respective shares, hold a substantial portion of our remaining common shares. A sale of a significant number of shares could negatively affect the market value of the preferred shares and ADSs. The market price of our preferred shares and the ADSs could drop significantly if the holders of shares or the ADSs sell them or the market perceives that they intend to sell them.

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

If we are characterized as a passive foreign investment company, or PFIC, in any year, U.S. holders of our preferred shares or our ADSs could be subject to unfavorable U.S. federal income tax treatment. Although we do not believe that we were a PFIC in 2004 and we do not expect to be a PFIC in the foreseeable future, there can be no assurance that our business and activities will not lead to PFIC status for us in the future. PFIC classification is a factual determination made annually and thus is subject to change. See Item 10E. Taxation—U.S. Federal Income Tax Consequences for a description of the PFIC rules.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Ultrapar Participações S.A., or Ultrapar, is a *sociedade anônima* incorporated under the laws of the Federative Republic of Brazil. We have a significant market presence in the business areas in which we operate. We are the leader in LPG distribution in Brazil through Ultragaz with a 24% market share and the sixth largest independent

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distributor in the world in terms of volume sold. We deliver LPG to an estimated 10 million households using our own vehicle fleet and also approximately 4,500 independent retailers. We are the only producer of ethylene oxide and its principal derivatives in the Mercosur region with an extensive business in the domestic and international markets. Through Ultracargo, we are a leading provider of integrated logistics of chemical products and fuels in Brazil. We offer integrated multimodal transportation, loading and unloading services and the management of third party fleets. Our high storage capacity together with the strategic location of our assets, facilitates product movement along an integrated multimodal logistics system.

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

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

We were also one of the pioneers in developing the Brazilian petrochemicals industry with the creation of Oxiteno in 1970, located in the Mauá petrochemical complex in São Paulo. In 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 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 of preferred shares, listing our shares on the São Paulo Stock Exchange (BOVESPA) and on the New York Stock Exchange (NYSE).

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

In 2000, Ultragaz started the construction of four new filling plants, therefore covering the entire Brazilian territory. In August 2000, the first of the four new plants, located in Goiânia, in the state of Goiás, started operations. In 2001, 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 in the new plant of Betim, in the state of Minas Gerais.

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

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

In March 2002, 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 which we began on October 15, 2002. The effects of the corporate restructuring were:

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 to 100% from 77% of total share capital. Ultrapar issued approximately 7.8 billion common shares in connection with this merger.

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Exchange of shares issued by Oxiteno for shares issued by Ultrapar, increasing Ultrapar's ownership in Oxiteno to 100% from 48% of total share capital. The holders of approximately 12 million of Oxiteno's shares elected to exchange their shares for shares in Ultrapar, triggering the issue of approximately 5.4 billion common shares and 3.4 billion preferred shares by Ultrapar. We paid R\$208.1 million representing approximately 13 million shares to Oxiteno's minority shareholders who exercised their statutory withdrawal rights.

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

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

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

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

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

On September 22, 2004, the shareholders of Ultra S.A., a holding company that controls Ultrapar, signed a shareholders' agreement that primarily aimed at maintaining the controlling shareholder block in Ultrapar.

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

In December 2004, we invested R\$10.0 million to acquire a 7.3% interest in Companhia Ultragas from Nacional Investimentos S.A.

At our Board of Directors' meeting held on February 2, 2005, our directors approved a stock dividend of 10,453,690,324 preferred shares of Ultrapar, or 15 shares for each 100 outstanding common or preferred shares as of February 16, 2005. As a result of the stock dividend, we have issued 10,453,690,324 new preferred shares to our shareholders through a capitalization of reserves. At an extraordinary shareholders' meeting held on February 22, 2005, our shareholders approved the issuance of additional preferred shares of Ultrapar to permit certain shareholders, including Ultra, 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.

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On April 8, 2005, we completed our first offering of unsecured debentures in the aggregate principal amount of R\$300 million with a term of 3 years, at a rate of 102.5% of CDI. Standard & Poor's assigned the company and its debentures its brAA+ corporate credit rating from its Brazil National Scale.

On April 28, 2005, we concluded a primary and secondary offering of our preferred shares. The offering was comprised 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 pursuant to an overallotment option. Shares were distributed at a price of R\$40.00 per thousand preferred shares, totaling approximately R\$362 million. At the end of the distribution, Ultrapar's total capital increased by R\$ 47 million, to a total of approximately R\$946 million, and there were 81,325,409,849 total shares outstanding, with 49,429,897,261 common shares and 31,895,512,588 preferred shares.

At a special meeting of our shareholders 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 1 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 1 ADS representing 1,000 preferred shares to 1 ADS representing 1 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 by-laws. 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 inaugurated a new terminal in Santos, its second port installation that integrates road, rail and maritime transportation systems. The new terminal has a storage capacity of 33,500 m³ for chemical products, 40,000 m³ for ethanol and 38,000 m³ for vegetable oil.

On December 20, 2005, Ultrapar, through its subsidiary LPG International Inc., issued U.S.\$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%^{pa} and were priced at 98.75% of par value, resulting in a yield of 7.429%^{pa}. Standard & Poor's assigned its BB+ credit rating on a global scale for the company and the securities issued. The credit rating is above the credit rating of Brazilian sovereign debt, and only one degree below that of investment grade.

Investments

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

We have also made several acquisitions to maintain our growth and to consolidate our position in the markets where we operate. In 2002, we acquired minority shareholders' interests in Oxitenó for R\$212.6 million. In 2003, we acquired the Brazilian LPG distribution operations of Royal Dutch/Shell N.V. The operations of Shell Gás have been fully integrated in our LPG distribution business. In addition, we entered the petrochemical production market in Mexico through the acquisition of Canamex, a specialty chemicals company, in December 2003 for \$10.3 million, and the acquisition of the operating assets of Rhodia Especialidades Mexico for U.S. \$2.7 million in June 2004. These two were motivated by our desire to establish a presence in the Mexican petrochemical market as a platform for production and distribution to supply the United States market, and to diversify geographically Oxitenó's production facilities.

Table of Contents**Investments in Permanent Assets and Deferred Charges**

The following table shows our capital expenditures in permanent assets and deferred charges in the years indicated below:

	Year ended December 31,		
	2005	2004	2003
	(in millions of reais)		
Ultragaz	89.4	94.0	114.4
Oxitenó	96.3	86.8	58.2
Ultracargo	44.4	92.2	41.5
Others ⁽¹⁾	0.6	0.7	0.3
Total capital expenditures	230.7	273.7	214.4
Disposals	(12.0)	(6.0)	(7.4)
Total capital expenditures, net of disposals	218.7	267.7	207.0

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

At Ultragaz, our recent investment strategy has been to expand small bulk delivery distribution, to consolidate our geographic coverage and to invest in the modernization of our assets. During the years ended December 31, 2005 and 2004, investments focused on expanding the small bulk market segment (UltraSystem), on fleet renewal and on the replacement of cylinders. In 2003, in addition to the items previously listed, Ultragaz also invested in the installation of the integrated ERP system.

At Oxitenó, during the years ended December 31, 2005 and 2004, capital expenditures were largely focused on increasing installed production capacity of specialty chemicals, the modernization of industrial plants, and the development of new products. In addition, in 2003, we made significant investments in the installation of the ERP system and on quality and environmental control systems.

At Ultracargo, during previous years we have invested in expanding our storage facilities and truck fleet. For the years ended December 31, 2005, 2004 and 2003, Ultracargo's capital expenditures focused on the construction of Santos Intermodal Terminal, the Liquid Fuels Terminal in Montes Claros and fleet expansion.

Ultrapar's planned capital expenditures in 2006 are R\$388 million, R\$238 million of which will be allocated to investments in expansion at Oxitenó, principally on the new plant for the production of fatty alcohols, the expansion of the installed production capacity of specialty chemicals and ethylene oxide, as well as ongoing improvement projects in quality, safety and environmental protection. At Ultragaz, R\$90 million has been budgeted for quality and productivity improvements including IT projects to provide support for the program to modify its distribution structure and sales channels, aiming at enhancing the operation's profitability and in the expansion of small bulk distribution. The investments in Ultracargo will be allocated to expanding storage capacity and enlarging its truck fleet.

Investment in fatty alcohol plant. On February 16, 2005, we announced that we will invest, through our subsidiary Oxitenó, approximately U.S.\$100 million in the next two years for the construction of a fatty alcohols production plant, with co-production of fatty acids and glycerin. This plant will be a pioneer unit in Latin America for the production of fatty alcohols. Fatty alcohol is a raw material used in the manufacture of specialty chemicals derived from ethylene oxide, widely used in the production of personal care products and also has various applications in domestic cleaning products, agrichemicals and textiles, among others. Fatty alcohol and its derivatives are currently imported and already widely used in Oxitenó's surfactant line. We are the largest consumer of fatty alcohols in Brazil and we estimate that 30% of the total volume produced by the new plant will be used by us. Total production capacity should amount to approximately 100,000 tons per year, considering the entire product

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line. Besides adding value to the existing surfactants product line, this new plant is expected to generate additional net sales of U.S.\$80 million/year when running at full capacity. We expect that the plant will be operational in the first half of 2007.

Other projects under study. We have signed a protocol with Petróleo Brasileiro S.A., or Petrobras, to study the feasibility of a project to produce basic petrochemicals, including ethylene, from heavy oil. Currently, we purchase ethylene from Brazilian suppliers whose production is based on naphtha. We have hired Technip Italy Spa, an engineering company, to help us in the assessment of available technologies, optimization of the conceptual project and pilot tests. Together with our partner Petrobras, we have chosen to locate the project in the municipalities of Itaboraí and São Gonçalo, in Rio de Janeiro state. We have not made any commitments to invest in this project should it prove to be feasible and we can give no assurance that the project will prove feasible or, if so, that we will participate or make an investment in such project.

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

Equity Investments

The table below shows our investments in shareholding stakes for the years ended December 31, 2005, 2004 and 2003.

	Year ended December 31,		
	2005	2004	2003 ⁽¹⁾
	(in millions of reais)		
Ultragaz		10.3	171.1
Oxiteno			32.5
Ultracargo			
Others ⁽²⁾		6.8	2.1
Total		17.1	205.7

- (1) The difference between equity investments (excluding the share repurchase program) of R\$203.6 million above and Business combinations, net of cash acquired, of R\$134.6 million, shown in the consolidated statement of cash flow in our 2003 consolidated financial statements, is substantially comprised of cash acquired and settlement of debt of Shell Gás (included in Cash flow from financing activities Loans from affiliated companies).
- (2) Share repurchase program, included in our consolidated statement of cash flows under Cash flows from financing activities Other. The main equity investment made in the last three years is the acquisition of Shell Gás, Royal Dutch/Shell N.V.'s LPG operations in Brazil, in August 2003, for a total consideration of R\$170.6 million. Following the acquisition, Ultragaz became the Brazilian market leader in LPG with a 24% share of the Brazilian market.

Our principal executive office is located at Avenida Brigadeiro Luis Antônio, 1343, 9º Andar, 01317-910, São Paulo, SP, Brazil. Our telephone number is 55-11-3177-6482. 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 1633 Broadway, New York, New York 10019.

B. Business Overview

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

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The following chart simplifies our current organizational structure. For a more detailed information about our current organizational structure, see Item 4C. Information on the Company Organizational Structure .

Our Strengths

Leading market positions across businesses

Ultragaz is the largest LPG distributor in Brazil. It has a national market share of 24% and is present in every state, excluding the north region, reaching approximately 10 million homes. For the year ended December 31, 2005, Ultragaz's total volume sold reached 1.5 million tons of LPG.

Oxiteno is the sole producer of ethylene oxide and its principal derivatives in the Mercosur region and is also a major producer of specialty chemicals. Our chemical operations supply a broad range of market segments, particularly agricultural chemicals, food, cosmetics, leather, detergents, packaging for beverages, thread and polyester filaments, brake fluids, petroleum, paints and varnishes. For the year ended December 31, 2005, Oxiteno sold approximately 525 thousand tons of chemical products. In the Brazilian market for these products we compete principally with imports. Imports of ethylene glycol and methyl-ethyl-ketone, two of our most important products, represented approximately 24% and 6% respectively, of the volumes sold in Brazil during the year ended December 31, 2005.

Ultracargo is a leading provider of integrated logistics for chemicals and fuels, with 21% of Brazil's tank storage capacity for chemical products in 2004, according to the latest available data. In 2004, Ultracargo accounted for approximately 71% of all tank capacity for liquids at the Aratu terminal in the State of Bahia, which serves South America's largest petrochemical complex.

Balanced business mix

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

Highly efficient LPG distribution network

In addition to making direct sales of bottled LPG, Ultragaz is the only LPG distributor in Brazil with an exclusive network of independent dealers. This network comprises approximately 4,500 dealers who represent Ultragaz. This has enabled Ultragaz to control the quality and productivity of its dealers leading to a strong brand name recognition associated with quality, safety and efficiency, and also allows frequent contact with its customers. In addition, Ultragaz was the first to introduce LPG small bulk delivery in Brazil, with lower distribution cost than bottled distribution, and over the years has built a strong client base.

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Flexibility across the petrochemical cycle

Oxiteno is the sole producer of ethylene oxide and its principal derivatives in the Mercosur region. Approximately 97% of its ethylene oxide production is used internally in the production of ethylene oxide derivatives which can be classified in two groups: specialty and commodity chemicals. Oxiteno is a major producer of specialty chemicals, which are traditionally products with better margins and less exposure to petrochemical cycles than commodity chemicals.

Cost efficient operations

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

Strong operational track record

Our business has exhibited a solid operational track record. During the last five years, we experienced a consolidated annual compounded average growth rate of 23% in net income, in spite of the overall macroeconomic volatility in Brazil during this same period. This growth has been driven by the operational performance of all our businesses.

Experienced management team

We are led by a strong and experienced management team with a proven track record in the LPG, petrochemical and specialized logistics industries. Our senior management team possesses an average of 27 years of experience in the relevant industries, is a significant shareholder in our company, and has a performance-linked remuneration based on an economic value-added model (EVA®).

Alignment of shareholders' interests

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

Our Strategy

Build on the strength of our LPG brand

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

Maintain exclusivity in LPG distribution

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

Continuously improve cost and capital efficiency in LPG distribution

We plan to continue to invest in the cost and capital efficiency of our distribution system. Current initiatives include the enhanced discipline in capital allocation and a program to revise Ultragaz's distribution structure, both prompted by changing market conditions such as market stability and new sales channels.

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Expand capacity at Oxiteno

We intend to continue to expand Oxiteno's production capacity ahead of demand in Brazil. As we expand, we 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 plan to increase Oxiteno's capacity to produce a variety of value-added ethylene oxide derivatives in order to optimize its sales mix across petrochemical cycles. Oxiteno's investments in research and development has resulted in the introduction of 112 new applications for its products during the last three years. Oxiteno will continue to invest in research and development focused on developing new product applications to meet clients' needs. In addition, we intend to focus Oxiteno's sales on the domestic market, which allows us to have higher margins.

Maintain financial strength

We seek to maintain a sound financial position to allow us to pursue investment opportunities and enhance our shareholders' return on their investment in our Company. Our net cash position for the year ended December 31, 2005 was R\$191 million. Additionally, all foreign currency denominated debt is hedged until its maturity.

We have been consistently distributing dividends to our shareholders. During the last five years we have paid yearly dividends representing an average of approximately 52% of our net income.

Continue to grow our businesses

Our principal corporate objective is to enhance shareholder value and strengthen our market presence by growing our business. Historically, we have grown our business organically and through acquisitions and we intend to continue this strategy. To complement Ultrapar's leading market positions in Brazil, we are also focused on expansion abroad, which we commenced with the acquisition of specialty chemicals producer Canamex in Mexico in 2003. In 2005, we prepared ourselves financially for the next phase of international expansion, raising approximately U.S.\$450 million in long-term financing in the global capital markets.

Table of Contents**Key Financial Information**

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

	2005	Year ended December 31, 2004 2003 2002 2001 (in millions of reais)			
Net sales and services					
Ultrapar	4,693.8	4,784.2	4,000.3	2,994.5	2,284.7
Ultragaz	2,902.4	2,968.1	2,622.7	1,942.7	1,381.1
Oxiteno	1,610.1	1,662.7	1,237.8	956.1	832.1
Ultracargo	234.2	197.3	177.1	131.5	105.4
Adjusted EBITDA(2)					
Ultrapar	546.0	736.6	498.5	487.3	372.5
Ultragaz	195.1	268.9	208.2	219.8	163.0
Oxiteno	300.2	421.0	243.2	232.7	176.8
Ultracargo	44.3	40.5	40.0	29.2	28.1
Net Income					
Ultrapar	299.2	414.5	246.4	222.3	132.2
Net cash (debt) (3):					
Ultrapar	191.2	46.0	(78.1)	54.5	241.3

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

(2) See footnote 7 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

(3) See footnote 8 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

Distribution of Liquefied Petroleum Gas**Industry and Regulatory Overview**

LPG is a fuel derived from the oil and natural gas refining process. In Brazil, approximately 92% of local demand in 2005 was produced in local refineries and the remaining 8% 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 and hospitals.

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The following chart shows the process of LPG distribution:

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

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

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

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Currently, the LPG distribution industry in Brazil consists of 15 LPG distribution companies or groups of companies, and is regulated by the National Oil Agency, or ANP, which reports to the Ministry of Mines and Energy. The LPG distribution industry includes purchasing LPG from Petrobras, filling LPG cylinders and bulk delivery trucks at filling stations, selling LPG to dealers and end users, controlling product quality and providing technical assistance to LPG consumers. See The role of the ANP.

LPG produced by Petrobras, which represented approximately 92% of total LPG sold in Brazil in 2005, is transported in pipelines and by trucks from Petrobras's production and storage facilities to filling stations maintained by LPG distributors. The balance is imported by Petrobras into Brazil and stored in large storage facilities maintained by Petrobras. The imported LPG is then transported from the storage facilities by pipeline and truck to the LPG distributors' filling stations.

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

home delivery of LPG cylinders; and

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

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

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

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

Since May 2001, distributors have been allowed to freely establish retail prices, which were previously set by the government. Until the end of 2001, the LPG refinery price, which is charged by Petrobras to all LPG distributors, was determined by the government and was the same for all LPG distributors in all regions of Brazil. Historically, refinery prices have been subsidized by the government. In January 2002, the government abolished subsidies to refinery prices and created a new tax system, the CIDE, which equalized the tax charges on the local market with the imported product in order to open up the market for LPG. Consequently, from January 2002, Petrobras started to freely price LPG in the domestic market, adopting the international price plus surcharges as its benchmark. However, the Petrobras price of LPG is still subject to government intervention when the government deems appropriate, such as occurred between August and October of 2002. Prices of LPG in *reais* have been unchanged since May 2003. In 2005, Petrobras's average refinery price was approximately U.S.\$387 per ton compared with the average international price of U.S.\$484 per ton.

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

In November 1995, Petrobras's 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

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

On June 25, 2004, Petrobras entered the LPG distribution market in Brazil through the acquisition of Agip do Brasil S.A. which had a market share of 21.8% for the year 2004. Agip's market share remained unchanged in 2005, the first full year of operations following its acquisition by Petrobras.

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

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

maintenance of sufficient LPG storage capacity;

maintenance of an adequate quantity of LPG cylinders;

use of cylinders 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 previous month's sales and the volume of LPG ordered from Petrobras for the next four months. The ANP limits the volume of LPG that may be ordered by each distributor based on the number of cylinders and 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, cylinder manufacturers, LPG transportation companies and certain LPG retail stores, under the supervision of the Brazilian government, entered into a statement of intent regarding the establishment of a program for requalifying LPG cylinders (a process under which they undergo safety and quality checks) and other safety procedures, known as the Self-Regulatory Code or Código de Auto-Regulamentação. See *Ultragas* Cylinder swapping centers and *Ultragas* Requalification of cylinders. Before the Self-Regulatory Code came into effect, certain LPG distributors, not

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including Ultragas, would fill cylinders stamped with another distributor's brand. This practice resulted in a low level of investment in new cylinders, giving rise to concerns regarding the safety of older cylinders. The Self-Regulatory Code provides, among other things, that:

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

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

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

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

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

the construction of at least 15 cylinder swapping centers, starting in November 1996 (See *Ultragaz Cylinder swapping centers* and *Ultragaz Requalification of cylinders*);

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

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

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

Ultragaz itself is required to requalify 13.8 million cylinders by November 2006 and an additional 1.3 million cylinders by November 2011. As of December 31, 2005, Ultragaz had already requalified approximately 90% of these cylinders.

Environmental, health and safety standards. LPG distributors are subject to Brazilian federal, state and local laws and regulations relating to the protection of the environment, public health and safety. The National Council of the Environment, or Conselho Nacional do Meio Ambiente - CONAMA, and the Ministry of Labor, or Ministério do Trabalho, are the primary environmental regulators of Ultragaz 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 reclaiming of facilities are in compliance with regulations and are not prejudicial to the environment. In addition, regulations establish standard procedures for transporting, delivering and storing LPG and for testing and requalification of LPG cylinders. Civil, administrative and criminal sanctions, including fines and the revocation of licenses, may apply to violations of environmental regulations. Under applicable law, distributors are strictly liable for environmental damages.

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

Ultragaz

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

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

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

Ultragas has four operating subsidiaries:

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

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

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

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

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

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

Until recently, 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 strategy evolved to investing in the brand and protecting market share. The LPG bottled market in Brazil is a mature one and Ultragas believes that growth in demand will be a function of increasing number of households consuming the product and the level of household income.

Distribution of bulk LPG is largely carried out through 190 kg storage tanks installed on its clients' premises. Since 1994, Ultragas has been investing in small/medium size bulk delivery facilities and in bob-tail trucks, known as UltraSystem, which deliver LPG in bulk to commercial clients. 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 industrial clients are made up mostly of companies in the food, metallurgical, steel and ceramics industries that have large fixed tanks at their plants and consume monthly volumes in excess of 5 tons of LPG. These clients represent a very small portion of 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.

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 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 in increasing the profile of its trademark. Ultragas also has a team to identify needs of each bulk LPG client and develop practical solutions for using LPG as an energy source.

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

Client category	Year ended December 31,		
	2005	2004	2003
	(in thousands of tons)		
Bottled LPG cylinder			
Residential delivery by Ultragas	137.6	178.8	114.3
Ultragas retail stores	3.6	7.0	5.0
Independent dealers ⁽¹⁾	904.7	866.0	770.6
Total bottled LPG	1,045.8	1,051.8	890.0
Total bulk LPG	484.9	496.7	472.0
Total tons delivered	1,530.7	1,548.5	1,362.1

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

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

Ultragas delivers bottled LPG using a distribution network, which in 2005 included 94 company-owned retail stores, and approximately 4,500 independent dealers. In 2005, Ultragas had a fleet of 754 vehicles for delivering gas cylinders to homes and commercial establishments.

Bottled sales capacity derives from the number of cylinders owned by Ultragas and the number of cylinders owned by its independent dealers. Ultragas estimates that as of December 31, 2005, there were 20 million 13kg Ultragas cylinders 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 cylinders. Until the enactment of ANP Rule 297 on November 18, 2003, independent dealers needed only to be registered with ANP for the sale of LPG cylinders. No licenses were required except for those required by the fire department and the municipal authorities. Rule 297 established that the independent dealers must be registered with ANP and comply with a list of prerequisites contained in such rule, as well as those required by law for the storage of cylinders up to 90 kg. Also, each municipality sets forth its own safety regulations applicable to stores that sell LPG, including a minimum distance from certain locations, such as schools. For the year ended December 31, 2005, approximately 87% 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 in 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 cylinders.

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. Ultragas believes that improving the efficiency of independent dealers is a key factor to improve the profitability of the distribution chain of LPG.

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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 comprised almost exclusively of industrial users, is made by tanker trucks that deliver the LPG directly to the storage tanks located at the customers' premises. Small bulk distribution, classified by Ultragas as consumption of between 0.5 and five tons per month and comprised of commercial users and smaller industrial users, is made primarily by bob-tail trucks, to enable delivery to be made to commercial users whose tanks are not readily accessible by traditional bulk delivery equipment. 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 Ultracargo and by third parties.

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

Cylinder swapping centers. Pursuant to the Self-Regulatory Code, the LPG distributors have established sixteen operating swapping centers to facilitate the return of third-party cylinders to the appropriate distributor. Under the Self-Regulatory Code, while LPG distributors may pick up any empty LPG cylinders tendered by customers in exchange for full LPG cylinders, whether or not such empty cylinders were put in circulation by that distributor, after October 1997, LPG distributors were not permitted to refill third-party cylinders. Accordingly, LPG distributors may deliver third-party cylinders to a swapping center where such cylinders may be exchanged for cylinders placed in circulation by such LPG distributor. The swapping centers currently charge a fee of R\$0.19 per exchanged LPG cylinder. In areas where only one LPG distributor has a sizable market share, it is customary to use the facilities of that distributor as an unofficial swapping center for which that distributor may charge an additional fee.

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

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

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

Storage of LPG. In 2005, Ultragas' storage capacity was approximately 17,900 tons. Based on its 2005 average LPG sales, Ultragas could store approximately two days' supply of LPG. Petrobras maintains approximately three and a half days' supply of LPG at its refineries and other facilities. Accordingly, any interruption in the production of LPG can result in shortages, such as the one that occurred during the Petrobras strike in 1995.

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 in order to optimize the LPG distribution process. See Item 4D. Property, Plants and Equipment.

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Competition. Ultragaz'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, formerly controlled by ENI Group and acquired by Petrobras in June 2004, which has been operating in the Brazilian LPG distribution sector for more than 40 years; and

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

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

LPG Distributor	Year ended December 31,		
	2005	2004	2003
Ultragaz ⁽¹⁾	24.0%	24.1%	21.8%
SHV Gas ⁽²⁾	23.4%	20.5%	17.1%
Liquigás.	21.8%	21.8%	21.7%
Butano.	18.3%	18.7%	19.0%
Others	12.5%	14.9%	20.4%
Total tons delivered	100.0%	100.0%	100.0%

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

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

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

The bottled market for LPG is a mature market with relatively low consumption growth and thus competition is largely based upon attempts by LPG distributors to increase market share at the expense of their competitors. LPG distributors in the bottled market compete primarily on brand awareness and reliability of delivery and the service provided to customers. Ultragaz believes that it is competitive in these aspects. Since per capita consumption is small, low distribution costs is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in distribution and delivery as all LPG distributors currently purchase all of their LPG requirements from Petrobras, and as Petrobras's refinery price charged to the distributors is the same to all LPG distributors. Ultragaz's principal markets, including the cities of São Paulo, Salvador and Curitiba, contain heavy concentrations of residential consumers and therefore distribution to this market can be carried out with great economies of scale resulting in lower distribution costs to Ultragaz. Additionally, Ultragaz enjoys low bulk LPG distribution costs through UltraSystem.

In addition to competing with other LPG distributors, Ultragaz competes with companies that offer alternative energy sources to LPG, mainly natural gas, and other sources such as wood, diesel, fuel oil and electricity. Natural gas is currently the principal source of energy against which we compete. Natural gas is currently less expensive than LPG for industrial consumers who purchase large volumes, but more expensive for residential consumers. In addition, supply of natural gas requires significant investments in pipelines. While fuel oil is less expensive than LPG, LPG has performance and environmental advantages over fuel oil in industrial use.

From January 2002, the LPG refinery price charged by Petrobras to its distributors was set at international market levels. This change has meant that domestic prices may be affected by the fluctuations in prices on the overseas market as well as foreign exchange rate variation. The real's depreciation against the U.S. dollar increased the ex-refinery price of LPG by approximately 123% in 2002, resulting in a 5% decline in

consumption in the

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Brazilian market in the same year. This increase in LPG prices during 2002 continued to impact sales volume in 2003, which together with the average loss in disposable incomes in Brazil, translated into a 6% decline. Ultragas posted a 5% growth in sales volumes during 2003, principally due to the acquisition of the LPG distribution business of Shell in Brazil in August 2003. Ignoring the additional volume from the acquisition of Shell Gás, Ultragas posted an approximately 4% decline in sales volume. For the year ended December 31, 2004, growth in the Brazilian economy, improvement in personal incomes among the population and the enhanced stability of the LPG price charged by Petrobras contributed to the increase of the LPG sales in the Brazilian market, which reported an increase of approximately 3% compared to 2003. For this period, Ultragas's sales volume increased 14% compared to 2003, due to the acquisition of Shell Gás in August 2003 and growth in the LPG market. In the year ended December 31, 2005, the weaker performance of the Brazilian economy, driven by high interest rates, led to a 1% decline in both the LPG market and Ultragas sales.

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

Source: Sindigás

Tax exemption status. Pursuant to legislation which provides tax relief for industries located in the northeast region of Brazil, Ultragas benefits from an income tax exemption on operating income with respect to the filling plant at Suape, expiring in 2007, a 75% tax reduction at the Mataripe and Cauaia filling plants, expiring in 2013 and 2012, respectively, and a 25% reduction at the filling plants in Ilhéus and Aracaju, valid through 2008. Tax exemptions amounted to R\$ 4.7 million, R\$7.3 million and R\$3.7 million for the years ended December 31, 2005, 2004 and 2003 respectively. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 21 to our consolidated financial statements.

Quality. We are still the only Brazilian LPG distributor with ISO (International Standards Organization) certification for excellence in quality management.

Petrochemicals and Chemicals

Overview of the sector and applicable regulations

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

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

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Brazil's three crackers sell these basic petrochemicals to second generation companies. The basic petrochemicals, which are in the form of either gases or liquids, are transported to the second generation companies through pipelines for further processing.

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

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

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

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

caprolactam, produced from benzene; and

purified terephthalic acid, or PTA, produced from p-xylene.

In 2005, there were approximately 45 second generation companies operating in Brazil, including Oxiten. The intermediate petrochemicals are produced in solid form (as plastic pellets or powders) and in liquid form and are transported through roads, railroads or by ship to third generation companies.

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

polyester produced from PTA and ethylene glycol (ethylene glycols produced from ethylene oxide);

plastics produced from polyethylene, polypropylene and PVC;

elastomers produced from butadiene;

acrylic fibers produced from acrylonitrile; and

nylon produced from caprolactam.

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

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

The northeast complex, located in the municipality of Camaçari in the state of Bahia, began operations in 1978. It consists of approximately 15 second generation companies, including Oxiten, situated around Braskem. Braskem currently has an ethylene production capacity of

1.3 million tons per annum.

The São Paulo complex, at Capuava in the state of São Paulo, was created in 1972 and is the oldest petrochemical complex in Brazil. Its cracker, PQU, supplies first generation petrochemicals to 23 second generation companies including Oxitenó. PQU has an ethylene production capacity of 500,000 tons per annum.

The southern complex, located in the municipality of Triunfo in the state of Rio Grande do Sul, is based around the raw materials cracker, Copesul, and includes seven second generation companies. Copesul has an ethylene production capacity of 1.1 million tons per annum. Oxitenó does not purchase ethylene from Copesul. Oxitenó purchases C4 from Copesul, a raw material used in the production of Methyl-ethyl-ketone, or MEK.

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In December 2005, RioPol, located in the state of Rio de Janeiro, started operations of its ethylene production plant based on natural gas. RioPol has an ethylene production capacity of 520,000 tons per year. All of RioPol's ethylene production is used in its own polyethylene production.

Role of Petrobras. Naphtha is the raw material used in Brazil for the production of basic petrochemicals such as ethylene and propylene. Petrobras is still the only producer and the most important naphtha supplier in Brazil, even though its legal monopoly ended in August 2000. See Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview for a discussion of the termination of the Petrobras monopoly.

Naphtha prices have been freely negotiated since August 9, 2000. In July 2000, the domestic naphtha price was 9% above the Amsterdam, Rotterdam and Antwerp Region price, known as the ARA price, which is the international reference price. The average domestic price in 2005 was at the same level as the average international reference price.

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

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

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

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

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

Oxiteno

We operate in the chemical sector through the second generation company, Oxiteno, a wholly-owned subsidiary of Ultrapar. According to the Ethylene Oxide & Glycol World Supply & Demand Report 2004/05 report, from PCI Xylenes & Polyesters Ltd, Oxiteno is the only Brazilian producer of ethylene oxide, ethylene glycols, ethanolamines, glycol ethers and methyl-ether-acetates. Oxiteno is also a major producer of specialty chemicals. With the exception of a small plant in Venezuela, Oxiteno is the only ethylene oxide producer in South America. Its products are used in a broad range of industrial sectors, such as polyester, packaging, paints, varnishes and cosmetics. During the year ended December 31, 2005, Oxiteno sold approximately 525 thousand tons of chemical and petrochemical products.

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

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

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

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Commodity products. The following are Oxiteno's principal commodity products and their principal uses and markets:

Ethylene oxide. Ethylene oxide is a colorless and highly flammable gas at room temperature and atmospheric pressure. Ethylene oxide is produced in a continuous production process by gaseous phase catalytic partial oxidation of ethylene by oxygen at high temperature and pressure. In 2005, Oxiteno used approximately 97% of its ethylene oxide production in the production of derivatives and sold the remaining 3% to other petrochemical companies.

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

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

Specialty chemicals. The following table sets forth Oxiteno's principal specialty chemical products and their principal uses and markets.

Major Markets	Specialty Chemicals	Examples of uses and effects
Detergents	Alkylbenzene sulfonic acids, alkylsulfates, alkyl ether sulfates, ethoxylated alkylphenols, ethoxylated fatty alcohols, polyethyleneglycols, alkanolamides, betaines, sulphasuccinates, block copolymers EO/PO	Used in detergents, the specialty chemicals are added mainly to improve cleaning power and foaming and to reduce skin irritability
Agricultural chemicals	Ethoxylated fatty amines, ethoxylated alkylphenols, alkyl ether sulfates, blends, naphthalene sulfonate, ethoxylated vegetable oil, copolymers EO/PO	Used as part of the composition of agricultural chemical defensives, such as herbicides. Increases its efficiency, such as better soil penetration and improved adherence of the products to plant surfaces
Cosmetics	Alkyl sulfates, alkyl ether sulfates, betaines, ethoxylated fatty alcohols, polyethyleneglycols, alkanolamides, ethoxylated sorbitan esters, sorbitan fatty esters	Used in cosmetics as moisturizers, detergents for foaming and residue removal, and reduction of eye irritation in shampoos
Foods	Sorbitan fatty esters, ethoxylated sorbitan esters Emulsifiers, stabilizers, dispersants	Principally used as additives for breads and cakes, improving their texture and consistency, as well as used as an emulsifier responsible for ice cream creaminess
Textiles	Ethoxylated alkylphenols, ethoxylated fatty alcohols, ethoxylated vegetable oils, ethoxylated fatty amines Antistatic agents, lubricants, softeners, emulsifiers, antifoamers, mercerizing additives, humectants, low foam detergents	Used in the processing of textiles, improving spinning and weaving performance. Permits greater evenness in the mixing of fibers, dyeing, bleaching and improving the softness of the final cloth

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Major Markets	Specialty Chemicals	Examples of uses and effects
Leather	Ethoxylated alkylphenols, polyethyleneglycols, naphthalenes, sulfonates	Applied from the beginning of the leather processing stage up to the finishing stage, as an emulsifier, detergent, degreaser, dispersant, moistener, color penetrating agent and vulcanization additive (manufacture of soles)
Oil field chemicals	Block copolymers EO/PO, condensed naphthalenes, sulphonates, sorbitan fatty esters	Used directly as hydraulic fluids in vehicles. Brake fluids guarantee brake system performance and safe braking. Cooling liquids help in cooling the motor and maintaining the correct operating temperature

Domestic sales. The Brazilian petrochemicals industry seeks to prioritize demand from the domestic market, where there is greater value added, although sales are also made to the overseas market. While Oxitenó sells the larger part of its commodities and specialty chemicals in Brazil, production capacity exceeds domestic market demand, with Oxitenó exporting surplus production to more than 48 countries in Asia, Latin America, Europe and North America. Oxitenó maintains production capacity above local demand for strategic reasons. For the years ended December 31, 2005, 2004 and 2003, 29%, 32% and 34% of Oxitenó's net sales, respectively, were from exports. For the years ended December 31, 2005, 2004 and 2003, 30%, 34% and 40% of Oxitenó's volume, respectively, were from exports.

In the Brazilian market, mono-ethylene glycol, or MEG, produced by Oxitenó, is sold mainly to chemical companies that manufacture polyester fiber, which is used to produce a variety of fabrics, and is also sold to producers of polyethylene terephthalate, or PET, which is a polymer used to make packaging, such as soft drink bottles. The polyester market constitutes the single most important market for Oxitenó's products representing approximately 26% of its sales in Brazil in 2005. The remainder of Oxitenó's domestic sales are made to roughly ten different industry segments, from chemical industries to cosmetics and leather.

The following table shows Oxitenó's domestic market sales volume by market segment for the period indicated:

Market sector	Year Ended December 31,		
	2005	2004	2003
	(in thousand metric tons)		
Polyester (fabrics and PET)	94.8	83.0	72.7
Paints and varnishes	20.7	16.9	15.2
Chemical Industries	37.8	34.0	26.5
Detergents	30.3	25.3	18.9
Hydraulic fluids	28.4	26.1	24.0
Agricultural chemical	43.2	38.5	19.5
Resins	16.3	20.8	16.9
Cosmetics	16.3	13.8	15.7
Leather	11.8	12.2	13.2
Textiles	5.9	6.0	5.4
Food	3.2	2.8	3.0
Distributors	44.1	47.8	40.0
Others ⁽¹⁾	12.4	14.2	12.0
Total domestic market	365.3	341.4	283.0

(1) Includes catalyzers, civil construction, pharmaceutical and veterinary product manufacturers.

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Many of Oxiten's commodity product prices in the Brazilian market are set by reference to international contract prices in U.S. dollars, although the prices are denominated in *reais*. For specialty products, sales are individually negotiated and are generally not made pursuant to long-term written contracts. Specialty chemicals are designed to meet specific customer needs and are not easily substituted by imported products. Accordingly, specialty chemicals have a higher value added and Oxiten has more flexibility in pricing for these products.

Sales outside Brazil. Oxiten's export sales are made principally to customers in the Far East and in the Mercosur region. In the Far East, Oxiten exports principally to South Korea, China and Taiwan.

The following table sets forth Oxiten's sales by volume for each geographic market served by Oxiten in the periods indicated:

Market	Year Ended December 31,					
	2005		2004		2003	
	(in thousand metric tons and percentage of the total)					
Mercosur (not including Brazil)	62.7	39%	72.8	41%	53.3	28%
Remainder of Latin America	7.1	4%	6.5	4%	4.5	2%
NAFTA	7.4	5%	8.5	5%	12.5	7%
Europe	23.2	14%	11.0	6%	21.6	11%
Africa	4.6	3%	6.0	3%	7.7	4%
Far East	34.5	22%	54.5	31%	87.3	46%
Pacific Region	0.6	0%	1.2	1%	2.1	1%
Middle East	0.2	0%	0.5	0%	1.1	1%
CANAMEX ⁽¹⁾	19.1	12%	15.8	9%	1.0	0%
Total	159.4	100%	176.8	100%	191.1	100%

(1) Canamex sales volume to the local market (Mexico) and exports

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

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

For the year ended December 31, 2005, Canamex's sales volume of 19,087 tons was incorporated in Oxiten's results.

In most cases, Oxiten's sales prices for its commodity chemicals in the export markets are based on international contract prices rather than international spot prices. International contract prices are fixed by reference to published data regarding the price at which industry participants have sold the relevant product. In general, Oxiten's operating margins on products sold in the international market are lower than operating margins for similar products sold in the domestic market. Nevertheless, Oxiten deems it important to maintain a presence in international markets. Oxiten intends to shift sales to the domestic market as local demand for its products increases, but will continue to export and will maintain its presence in the international market.

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

Oxitenos principal customers in the domestic market include Mossi-Ghisolfi (formerly Rhodia Ster), which principally purchases ethylene glycols, Monsanto, which principally purchases ethanolamines, Clariant S.A., which principally purchases ethylene oxide and ethoxylated products, Indústrias Gessy Lever Ltda (Unilever), which principally purchases surfactants, and Braskem S.A., which principally purchases ethylene glycol. In the international market, Oxiteno sells both to industrial customers, including Voridian Argentina S.R.L., Unilever de Argentina S.A. and Cognis S.A., as well as trading companies and other third-party distributors. Oxitenos largest customer in the international market is Oxyde Chemicals, Inc., a major European trading company for glycol, which accounted for approximately 5% of Oxitenos total revenues in 2005. In 2005, Oxitenos ten largest customers accounted for 37% of its net sales. No single customer accounted for more than 10% of Oxitenos net sales in such year.

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

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

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

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Research and development. Oxiteno carries on a wide range of research and development activities, principally related to the application of specialty chemicals and improvements in production processes. As of December 31, 2005, 109 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2005, 2004 and 2003 were R\$17.4 million, R\$15.4 million and R\$13.4 million, respectively. In 2004, Oxiteno founded its own Science and Technology Council, with six of the world's major specialists in tensoactives being members. The Council, which first met from December 7 to 10, 2004 and again in September 2005, analyzes critically the company's research and development projects portfolio, as well as the methodology used. These recommendations enable the company to increase its efficiency in research and development, as well as enlarge its partnerships with international entities.

Raw materials. Oxiteno's principal raw material is ethylene. For the year ended December 31, 2005, ethylene was responsible for 52% of Oxiteno's variable costs of production and approximately 46% of its total cost of sales and services. Among Oxiteno's other raw materials, the principal include butenes, ethyl, butyl and lauryl alcohols, oxygen and acetic acid.

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

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

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

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

First generation petrochemical companies undergo scheduled maintenance stoppages. Oxiteno anticipates these stoppages by building up inventory and provisioning costs. Oxiteno also uses these planned stoppages for regular maintenance work on its own plants or eventual substitution of catalyzers or for expansion in installed capacity. During the first half of 2002, there was a planned stoppage at Braskem's pyrolysis I unit for expanding installed ethylene capacity. Consequently, in the first quarter 2002, Oxiteno's ethylene quota was reduced by 32% as

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compared to the first quarter of 2001. In addition, problems involving the start-up extended the plant stoppage beyond schedule, restricting the volume of ethylene supplied in the second quarter of 2002 to 22% of the second quarter of 2001 volumes. In the second half of 2002 supplies were normalized. In July 2002, PQU shut down its plant for a scheduled stoppage, the first time in six years. Braskem's last scheduled downtime was in January 2004 and there were no problems in the re-start.

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

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

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

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The following table shows the listed prices provided by Braskem and PQU for ethylene per metric ton for the periods indicated (period averages, except for maximum and minimum prices):

	Braskem	PQU
	(R\$/ton)	
2005		
First Quarter	2,566.00	2,766.33
Second Quarter	2,623.67	2,703.33
Third Quarter	2,286.33	2,409.33
Fourth Quarter	2,561.67	2,600.33
Maximum Price in Year	2,750.00	2,850.00
Minimum Price in Year	2,281.00	2,350.00
Year Average	2,509.42	2,619.92
2004		
First Quarter	1,970.33	1,981.67
Second Quarter	2,155.00	2,259.67
Third Quarter	2,395.67	2,463.33
Fourth Quarter	2,713.39	2,835.12
Maximum Price in Year	2,925.18	2,933.35
Minimum Price in Year	1,752.00	1,760.00
Year Average	2,308.60	2,384.95
2003		
First Quarter	1,944.00	2,009.33
Second Quarter	2,036.33	2,060.00
Third Quarter	1,555.33	1,703.33
Fourth Quarter	1,610.00	1,670.00
Maximum Price in Year	2,439.00	2,280.00
Minimum Price in Year	1,523.00	1,640.00
Year Average	1,786.42	1,860.67

As naphtha is the main raw material for the production of ethylene in Brazil, fluctuations in the price of naphtha strongly influence fluctuations in the price of ethylene. Because the main determinant of the price of naphtha is the price of crude oil, the price of naphtha, and thus ethylene, is subject to fluctuations based on changes in the international oil price. The increases in the price of ethylene could affect Oxitenos competitiveness in the petrochemical market. See Item 3D. Risk Factors Risks Relating to Ultrapar.

For the portion of naphtha acquired in the domestic market, the current price for naphtha paid by the crackers is negotiated between those crackers and Petrobras. The average domestic price of naphtha in 2005 was at the same level as the average international reference price. See Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview.

Other raw materials. For the year ended December 31, 2005, other raw materials, principally oxygen, lauryl alcohol, ethanol, C4, butyl alcohol, acetic acid, alcohol, nonene, phenol, primary fatty amine, fuel oil and LAB accounted for approximately 30% of Oxitenos variable costs and 26% of its total costs of sales and services.

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

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

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Tax exemption status. Pursuant to legislation that provides tax relief for industries located in the northeast region of Brazil, Oxiteno benefits from an income tax exemption on operating profits from sales of its products at the Camaçari plant through 2006. Tax exemptions amounted to R\$ 56.0 million, R\$81.9 million and R\$44.0 million for the years ended December 31, 2005, 2004 and 2003, respectively. Given the modernization and expansion of our plant, we intend to renew with the tax authorities a reduction of 75% income tax from 2007 to 2013. If this benefit is not obtained, after 2006 the income resulting from the Camaçari plant operation will continue to benefit from a partial income tax exemption, resulting in an income tax rate of 19% until 2008 and 22% until 2013. After 2013, Oxiteno will be liable for the full tax rate, currently 25%. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 21 to our consolidated financial statements.

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

Health, safety and environmental matters. Oxiteno continuously monitors its compliance with federal, state and municipal legislation applicable to its various places of operation. In accordance with applicable law, Oxiteno is strictly liable for losses and damages of an environmental nature. See Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview.

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

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

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

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

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

Logistics of Chemical Products and Fuels

Ultracargo

Ultracargo is a leading provider of integrated logistics for chemical products and fuels in Brazil. Ultracargo's main differential is to integrate different modals – road transportation facilities to storage facilities through warehousing at port terminals and rail junctions for the handling of chemical products and fuels. Transportation

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services include integrated multimodal transportation as well as the receiving and dispatching of customer's goods. Ultracargo also offers ship loading and unloading services, the operation of pipelines, logistics programming and installation engineering. Ultracargo is the only company in the Brazilian market to offer integrated transport and bulk liquid and liquefied storage services to the petrochemical industry. Ultracargo's ten largest clients accounted for 64% of its revenues in 2005, with its three largest clients, Braskem, Air Liquide and Oxiteno accounting for 19%, 10% and 8%, respectively, of Ultracargo's revenues.

Ultracargo's strategic location of its operations, close to the main Brazilian port terminals, railroad junctions and roads, is one of the company's main strengths and a key driver of integrated services profitability. The latest available data shows that Ultracargo accounted for approximately 71% of all tank capacity for liquids at the Aratu Terminal in the State of Bahia, which serves South America's largest petrochemicals complex. The company is also present in the port of Santos, in the state of São Paulo, which was responsible for approximately 27% of the Brazilian foreign trade in 2005 (U.S.\$ 192 billion in 2005). The Santos Intermodal Terminal (TIS) is the second largest storage facility operated by Ultracargo and was inaugurated in mid-2005.

As of December 31, 2005, Ultracargo operated a fleet of approximately 560 tanker trucks and a storage capacity of 324,877 cubic meters and 11,200 square meters.

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

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

Ultracargo, through a fleet of tanker trucks, offers transportation services for LPG and chemical products in several major industrial regions in Brazil, as well as transportation services to Chile and Argentina. In 2005, Ultracargo operated a fleet of approximately 560 trucks and, in the years ended December 31, 2005, 2004 and 2003, transported approximately 2.7 million, 2.6 million and 2.4 million tons, respectively.

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

In 1997, Ultracargo began operating in the market for bulk transportation of solid chemical products, an important sector of the transport business in the domestic market in which products are transported utilizing special silos and semi-trailers. Ultracargo believes that there are good opportunities for growth in this market. For the year ended December 31, 2005, Ultracargo transported approximately 372,000 tons of solid chemical products which accounted for approximately 18% of Ultracargo's revenues in this period.

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

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Storage. Ultracargo provides storage facilities to Braskem and most of the second-generation petrochemical companies in the Northeastern Petrochemical Complex, including Oxiten. Transactions between Ultracargo and Oxiten are carried out strictly on an arm's-length basis. At the end of 2003, Ultracargo maintained five storage terminals in Aratu and Camaçari in the state of Bahia, in Paulínia and Santos in the state of São Paulo, and in Suape in the state of Pernambuco. In early 2004, Ultracargo completed construction of an intermodal terminal in Tatuí in the state of São Paulo and later in the year inaugurated another in Montes Claros, in the state of Minas Gerais.

Ultracargo completed the construction of a new intermodal terminal in Santos (TIS) in mid 2005. This project is Ultracargo's second port installation to integrate road, rail and maritime transportation systems, the first being Aratu. Ultracargo's investment in this terminal was approximately R\$80 million. The terminal occupies an area of approximately 64,000 square meters that hosts 33,500 cubic meters of tankage space for chemical products, 40,000 cubic meters for alcohol and 38,000 cubic meters for vegetable oils. The terminal was built in partnership with Crystalsev and Cargill/ Coinbra.

Tax exemption status. Pursuant to legislation which offers tax relief to industries located in the northeast region of Brazil, Ultracargo enjoys a 75% reduction in income tax on the total operating profits from its Aratu terminal, valid through 2012. The tax exemption on operating profits from acetic acids and butadiene product storage activities at the Suape Terminal expired in December 2005. A request was filed with ADENE (Northeast Region Development Agency), the agency responsible for this tax benefits program, seeking a 75% income tax reduction until 2015 for the Suape Terminal, which is still pending approval. Should the request not be approved, these activities will enjoy income tax reductions of 25% until 2008 and 12.5% from 2009 to 2013. For the years ended December 31, 2005, 2004 and 2003, tax breaks totaled R\$3.1 million, R\$3.4 million and R\$3.8 million, respectively. We cannot assure that there will be no amendments to the current legislation. For further information see Note 21 to our consolidated financial statements.

Quality. In 2005, Ultracargo was reevaluated by SASSMAQ (Safety, Health, Environment and Quality Evaluation System), a program from ABIQUIM, the Brazilian Chemical Industries Association, as part of the Responsible Care Program. We were the first Brazilian company in the sector to go through this evaluation process. The purpose of the system is to ensure that service providers in this industry comply with the technical standards required by the chemical industry, thus reducing the risks in transportation and distribution. In addition, all the units have adapted their Quality Management System to ISO 9001:2000 in a process based on the continual upgrading and the servicing of specific customer needs. Paulínia Intermodal Terminal (TIP) obtained the ISO 14000 certification in 2004.

Insurance

We maintain insurance policies covering all our facilities and which we consider appropriate to cover the risks to which we believe we are exposed, including loss and damage from fire, lightning, explosion of any nature, windstorm, plane crash and electrical damage. Our insurance policies provide coverage of up to a maximum of U.S.\$240 million.

Oxiten S.A. Indústria e Comércio and its subsidiaries, Oxiten Nordeste S.A. Indústria e Comércio and Canamex Químicos S.A. de C.V., also maintain business interruption insurance against losses from potential accidents affecting their assets, with coverage of up to a maximum of U.S.\$128 million.

We have additional insurance that covers all of our companies, with coverage of up to a maximum of U.S.\$150 million, for losses and damage incurred by third parties as a result of any accidents that occur in connection with our commercial/industrial operations and/or the distribution and sale of our products and services.

Finally, we also have group life insurance, personal accident insurance, health insurance and domestic and international transportation insurance.

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

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C. Organizational Structure

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

-
- (1) Percentages represent approximate ownership of voting share capital and total capital (voting capital/total capital).
(2) Minority participations in Utingás are mainly held by Liquigás Distribuidora S.A. and SHV Gas (31% and 8% of voting capital, respectively).

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

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

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We conduct chemical products and fuel logistics through our wholly-owned subsidiary, Ultracargo, which operates through its subsidiaries Transultra and Tequimar. Transultra provides transportation services throughout Brazil, as well as in Argentina and Chile. Tequimar maintains storage facilities at four port terminals located near two of the main petrochemical complexes in Brazil: Camaçari and São Paulo.

Ultragaz, Oxiteno and Ultracargo are each incorporated under the laws of Brazil.

D. Property, Plants and Equipment

Ultragaz

Plants. Ultragaz's LPG distribution network includes 16 filling plants. LPG is carried to the filling plants either via gas pipelines from Petrobras installations, or by tanker truck. When LPG transportation is via gas pipeline the bases are known as primary and when transportation is via tanker truck, the bases are known as secondary. Ultragaz also operates LPG storage bases, known as satellite bases for supplying our trucks. Ultragaz maintains storage facilities for LPG cylinders and satellite bulk distribution plants at strategic locations in order to maintain supplies closer to its customer bases and thus to reduce transportation costs. Substantially all of the LPG transported by truck from Petrobras to Ultragaz's secondary plants is transported by Ultracargo's fleet of tanker trucks on an arm's-length basis. LPG is stored in the filling plants in large LPG storage tanks with a capacity of 60 tons per tank. In the case of LPG to be delivered in bulk, the LPG is pumped directly from the storage tanks into the bulk tankers. In the case of LPG to be delivered in cylinders, the LPG is pumped from the storage tanks into a number of filling heads, which deliver the LPG cylinders.

The following table sets forth the total storage capacity, total filling capacity (assuming one 8-hour shift per day) during 2005 and the 2005 average filling utilization for each of Ultragaz's primary and secondary filling stations and satellite stations.

Base	Type	Total storage capacity (in tons)	Filling capacity (in tons per month)	2005 average filling utilization rate
Capuava	Primary	720	13,136	95%
Santos	Primary	960	3,727	74%
São José dos Campos	Primary	960	4,062*	109%
Rio de Janeiro	Primary	500	8,029	87%
Barueri	Secondary	1,500	4,100*	137%
Araraquara	Satellite	60		
Mauá	Satellite	720		
Pouso Alegre	Satellite	60		
Paulínia	Primary	1,500	8,403*	111%
Araucária	Primary	240	9,677	83%
Canoas	Secondary	600	4,694	83%
Betim	Secondary	882	4,316*	106%
Ribeirão Preto	Secondary	180	4,679*	109%
Goiânia	Secondary	360	3,512	85%
São José do Rio Preto	Satellite	60		
Araçatuba	Satellite	180		
Bauru	Satellite	60		
Cascavel	Satellite	120		
Londrina	Satellite	60		
Blumenau	Satellite	60		
Chapecó	Satellite	60		
Florianópolis	Satellite	60		
Joinville	Satellite	60		

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Base	Type	Total storage capacity (in tons)	Filing capacity (in tons per month)	2005 average filling utilization rate
Caxias do Sul	Satellite	60		
Joaçaba	Satellite	60		
Dois Vizinhos	Satellite	60		
Ponta Grossa	Satellite	57		
Sorocaba	Satellite	115		
Mataripe	Primary	1,140	13,512	75%
Suape	Primary	500	3,292*	125%
Caucáia	Secondary	300	4,164	98%
Aracajú	Secondary	240	4,169	67%
Ilhéus	Secondary	360	3,861	66%
Maceió	Satellite	692		
Juazeiro	Satellite	60		
João Pessoa	Satellite	60		
Pirajá	Satellite	60		
Total		13,726	97,333	92%

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

In addition, Ultragaz maintains headquarters in the city of São Paulo and regional offices in the areas in which it operates. Ultragaz also maintains 94 retail stores.

Oxiteno

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

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

Units	Capacity (in tons per year)
Camaçari.	260,000
Mauá	52,000
Tremembé	
Triunfo	
Total .	312,000

Ethylene oxide is primarily an intermediate material used in the production of ethylene oxide derivatives only approximately 3% of Oxiteno's sales volume in the year ended December 31, 2005 were ethylene oxide. Therefore, Oxiteno's total production output may not be determined by adding the capacities of ethylene oxide and its derivatives.

As Oxiteno's capacity for ethylene oxide derivatives exceeds its ethylene oxide production capacity, Oxiteno cannot produce the maximum amount of each derivative product in any year and, accordingly, actual production of ethylene oxide derivatives is less than its capacity shown in the tables below.

However, the excess production capacity of ethylene oxide derivatives provides a degree of operating flexibility that enables the company to switch production partially to other products and re-manage its ethylene oxide output for derivative products depending on relative demand, thus mitigating the effects of reductions in demand for certain products resulting from downturns in the petrochemical business cycle.

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

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

Units	Capacity (in metric tons per year)
Ethylene oxide	260,000
Ethylene glycols	285,000
Ethanolamines	45,000
Glycol ethers	25,000
Ethoxylated derivatives	130,000

In 2005, the Camaçari plant operated at approximately 92% of its production capacity.

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

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

Units	Capacity (in metric tons per year)
Ethylene Oxide	52,000
Ethylene Glycols	35,000
Glycol Ethers	40,000
Acetates	32,000
C4+C5 Alcohols	10,000
Ethoxylated Derivatives	25,000
Alkylation	17,000
Esterification	4,000
Emulsification	3,000
Hydraulic fluids	30,000

In 2005, the Mauá plant operated at approximately 83% of its production capacity.

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

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

Units	Capacity (in metric tons per year)
Esterification	10,000
Specialties	15,000
Sulfonation/Sulfation	30,000
Betaines	10,000

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Units	Capacity (in metric tons per year)
Hydraulic fluids	3,200
Naphthalenes Sulfonates	5,000
Agricultural Blends	11,000

In 2005, the Tremembé plant operated at approximately 87% of its production capacity.

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

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

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

In 2005, the Triunfo plant operated at approximately 81% of its production capacity.

With the acquisition of Canamex in December 2003, Oxiteno acquired two specialty chemical plants in Mexico. As of December 31, 2005, the Coatzacoalcos plant has a production capacity of 44,000 tons per year of ethoxylates and the Guadalajara plant has a production capacity of 24,000 tons per year of specialty chemicals. In December 2005, the Guadalajara and the Coatzacoalcos plants operated at approximately 58% and 47% of their production capacity, respectively.

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

Units	Capacity (in metric tons per year)
Ethoxylated derivatives Coatzacoalcos plant	44,000
Ethoxylated derivatives Guadalajara plant	12,000
Esterification Guadalajara plant	12,000

Ultracargo

The following tables set forth the principal products stored at, and the storage capacity operated by, Ultracargo's plants at December 31, 2005, and the average utilization of Ultracargo's plants during 2005.

Plant	Capacity (in cubic meters)	Average utilization %	Product Lines
Aratu (Bahia)	156,450	99%	Glycols, aromatics, acrylates, acrylonitrile, EDC, TDI, normal paraffins, linear alkyl benzene (LAB), linear alkyl sulphonate- LAS, methanol, ethers, alcohols, caustic soda, vegetable oil, fuels
Montes Claros (Minas Gerais)	4,400	83%	Fuels
Suapec (Pernambuco)	37,350	95%	Fuels, VAM, acetic acid, styrene, butadiene
Santos (São Paulo)	4,696	100%	Vinyl Chloride Monomer
Santos TIS ¹ (São Paulo) (including third-party facilities operated by Ultracargo)	111,500	21%	Styren monomer, mineral oil, EDC, linear alkyl benzene LAS, alcohols (including ethanol), vegetable oil.

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Plant	Capacity (in cubic meters)	Average utilization %	Product Lines
Paulínia Granel (São Paulo)	1,881	100%	PET
Paulínia Químico (São Paulo)	8,600	100%	Phenol, LAB, LAS
Total	324,877	85%	

Plant	Capacity (in square meters)	Average utilization %	Product Lines
Paulínia (São Paulo)	6,000	85	Chemical and other packed goods
Tatuí (São Paulo)	2,400	76	Chemical and other packed goods
Camaçari (Bahia)	2,800	91	Chemical and other packed goods
Total	11,200	84%	

¹ The average utilization of the TIS was calculated based on the period the terminal was operational.
As of December 31, 2005, R\$53.8 million of our consolidated debt was secured by property, plant and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**A. Operating Results**

You should read this discussion together with our consolidated financial statements, including the notes thereto, and other financial information included elsewhere in this annual report and in conjunction with the financial information included under Item 3A. Selected Consolidated Financial Information. Our consolidated financial statements have been prepared in accordance with Brazilian GAAP and the accompanying notes contain a description of the principal differences between such practices and U.S. GAAP, and a reconciliation to U.S. GAAP of net income for each of the three years in the period ended December 31, 2005 and shareholders' equity for the periods ended December 31, 2005 and 2004. Our consolidated financial statements for the years ended December 31, 2005, 2004 and 2003 were audited by the independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes.

Overview

Our three principal businesses are:

the LPG distribution business, conducted by our wholly-owned subsidiary Ultragas;

the chemical and petrochemical business, conducted by our wholly-owned subsidiary Oxitenio; and

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

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Brazilian economic background

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

Gross domestic product. After the introduction of the *real* Plan in 1994, the Brazilian economy experienced some years of strong economic growth. However, in 1998, economic growth slowed down, followed by a sharp devaluation of the *real* and GDP increased by 0.8% in 1999. On the other hand, in 2000, Brazil's GDP grew by 4.4%. In 2001, Brazil's GDP grew by only 1.5%, largely due to the lack of energy supply, the terrorist attacks of September 11, and the Argentine crisis. In 2002, Brazil's GDP grew by 1.5%, as a result of the political instability surrounding the presidential elections of October 2002, which caused foreign exchange rate devaluation, and an increase in interest rates, and undermined consumer confidence. In 2003, the GDP grew 0.5%, largely a reflection of the economic policy of holding the basic interest rate at high levels throughout the year as a means of controlling inflation. As government became more confident regarding inflation trends, interest rates were lowered, and Brazilian GDP grew by 4.9% in 2004. However, in order to meet inflation targets, the Central Bank increased interest rates again in 2005, and GDP growth decreased to 2.3% in the year ended December 31, 2005. Our operations are significantly impacted by Brazilian GDP growth, specifically, sales of LPG to the commercial and industrial customers, Oxiteno's sales to the domestic market and Ultracargo's logistics operations. In addition, sales of LPG to residential customers are affected by the level of household income, which often bears a relation to GDP performance.

Inflation and currency fluctuations. Our cash operating expenses are substantially in *reais* and tend to increase with inflation. However, a significant portion of our costs of sales and services rendered are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate. In addition, some of our *real*-denominated debt is indexed to take into account the effects of inflation. The inflation rate, as measured by the *Índice Geral de Preços Mercado*, or IGP-M, was 1.8% in 1998. The inflation rate increased to 20.1% in 1999 as a result of the devaluation of the *real* beginning in January 1999, and decreased to 10.0% in 2000 and 10.4% in 2001. In 2002, the inflation rate as measured by the IGP-M increased to 25.3%, reflecting the foreign exchange rate devaluation of 52.3%, largely due to uncertainties and risks inherent in the Brazilian presidential succession campaign. In 2003, the *real* appreciated 18% against the U.S. dollar, consequently diminishing inflationary pressures and resulting in an IGP-M of 8.7%. In 2004, the *real* appreciated further against the U.S. dollar and IGP-M for the year was 12.4%. In 2005, the *real* continued to appreciate against the U.S. dollar, which, together with the increased interest rates, resulted in an inflation rate of 1.2%, as measured by the IGP-M. Future governmental actions, including actions to adjust the value of the *real* in relation to the dollar, may increase inflation.

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

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

Index	Year ended December 31,		
	2005	2004	2003
General Price Index IGP-M	1.2%	12.4%	8.7%
Devaluation (appreciation) of the <i>real</i> against the U.S. dollar	(11.8)%	(8.1)%	(18.2)%
We manage the foreign exchange risk associated with the scheduled payments under the terms of our U.S. dollar indebtedness by investing in U.S. dollar-denominated securities and foreign currency/interest swap contracts,			

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under which we pay variable interest in *reais* based on the interbank certificate of deposit rate, or CDI, and receive fixed interest in U.S. currency. As of December 31, 2005 our total obligations denominated in foreign currency were R\$860.3 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$873.9 million, composed of investments indexed to U.S. dollars and swap instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. See

Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign exchange risk for information about our foreign exchange risk hedging policy and Notes 12 and 18 to our consolidated financial statements.

Discussion of critical accounting policies and estimates

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

The accounting estimate requires management to make assumptions about matters that were highly uncertain at the time the accounting estimate was made; and

Different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on our financial condition, results of operations or cash flows.

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

Allowance for doubtful accounts. We maintain allowances for doubtful accounts for estimated losses resulting from the subsequent inability of our customers to make required payments. The allowance for doubtful accounts is recorded in an amount we consider sufficient to cover any probable losses on realization of our accounts receivable from our customers, as well as other receivables, and is included as selling expenses; no adjustment is made to net sales and services revenue. In order to establish the allowance for doubtful accounts, our management constantly evaluates the amount and characteristics of our accounts receivable. When significant delays occur and the likelihood of receiving these payments decreases, a provision is made. In case receivables in arrears are guaranteed or there are reasonable grounds to believe they will be paid, no provision is made. If the financial conditions of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required in future periods. However, because we cannot predict with certainty the future financial stability of our customers, we cannot guarantee that our reserves will continue to be adequate. Actual credit losses may be greater than the allowance we have established, which could have a significant impact on our selling expenses. See Note 24V(h(a)) to our consolidated financial statements for additional information about our allowance for doubtful accounts.

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

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Contingent liabilities. We are currently involved in certain legal and administrative proceedings that arise from our normal course of business as described in Note 19 to our consolidated financial statements and Item 8. Financial Information Legal Proceedings. We believe that the extent to which these contingencies are recognized in our consolidated financial statements is adequate. It is our policy to record accrued liabilities in regard to contingencies that can be reasonably estimated and could have a material adverse impact on the result of our operations or our financial condition, to the extent not covered by insurance, and that are likely to occur in the opinion of our management, based on information available to us including information obtained from our legal advisors. Future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions, by the effectiveness of our strategies relating to these proceedings, by future developments in each matter being discussed or by changes in approach, such as a change in settlement strategy in dealing with these matters.

Fair value of financial instruments. We enter into foreign currency swap agreements in order to hedge our foreign exchange exposure. Under Brazilian GAAP, these swap agreements are recorded at their net settlement prices as determined on each balance sheet date in accordance with their contractual terms. In applying U.S. GAAP to our swap agreements we adopted SFAS 133, Accounting for Derivative Instruments and Hedging Activities. The accounting required under SFAS 133 is broader than under Brazilian GAAP, especially with respect to the overall treatment and definition of a derivative, when to record a derivative, the classification of derivatives, and when to designate a derivative as a hedge. Under this method of accounting we adjusted our foreign currency swaps to their fair values, with changes in fair values being recognized in earnings. Note 24I (i) to our consolidated financial statements provides additional information regarding the accounting of our swap agreements.

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

Results of operations

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

Year ended December 31, 2005 compared to the year ended December 31, 2004.

The following table shows a summary of our results of operations for the years ended December 31, 2005 and 2004:

	Year ended December 31, 2005	Percentage of net sales and services (in millions of reais, except percentages)	Year ended December 31, 2004	Percentage of net sales and services	Percent change
Net sales and services	4,693.8	100%	4,784.2	100%	(2)%
Cost of sales and services	(3,783.4)	81%	(3,669.9)	77%	3%
Gross profit	910.4	19%	1,114.3	23%	(18)%
Selling, general and administrative expenses	(551.7)	12%	(555.9)	12%	(1)%
Other operating income (expense), net	(0.4)	0%	5.5	0%	(107)%
Operating income before financial items	358.3	8%	563.9	12%	(36)%
Financial income (expense), net	(27.3)	1%	(45.0)	1%	(39)%

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Non-operating income (expense), net	(1.8)	0%	(16.0)	0%	(89)%
Income and social contribution taxes	(28.8)	1%	(83.0)	2%	(65)%
Minority interest/equity in earnings of affiliates	(1.2)	0%	(5.4)	0%	(78)%
Net income	299.2	6%	414.5	9%	(28)%
Adjusted EBITDA⁽¹⁾	546.0		736.6		(26)%

⁽¹⁾ See footnote 7 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

Net sales and services. Net sales and services for the year ended December 31, 2005 decreased to R\$4,693.8 million from R\$4,784.2 million for the year ended December 31, 2004.

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

	Year ended December 31, 2005 2004 (in millions of reais)		Percent change
Ultragaz	2,902.4	2,968.1	(2)%
Oxitenó	1,610.1	1,662.7	(3)%
Ultracargo	234.2	197.3	19%

Ultragaz's net sales and services were R\$2,902.4 million for the year ended December 31, 2005, a decrease of 2% compared to R\$2,968.1 million for the year ended December 31, 2004. The decrease in net sales was largely driven by the 1% lower sales volume and the effect of a retraction in the Brazilian LPG market.

Oxitenó's net sales and services decreased to R\$1,610.1 million for the year ended December 31, 2005, a 3% reduction compared to R\$1,662.7 million for the year ended December 31, 2004. The decrease in Oxitenó's net sales and services was mainly due to the 17% appreciation in the Brazilian *real* against the U.S. dollar in 2005 compared to 2004, since prices at Oxitenó are benchmarked to prices prevailing in the international markets. The appreciation of the *real* was partially offset by an improvement in sales mix, with sales growth in the domestic market. Domestic sales grew as a function of the increased market share in the customers served by Oxitenó, mainly in the cosmetics and detergents, paints and varnishes and polyester industries.

Ultracargo's net sales and services increased to R\$234.2 million for the year ended December 31, 2005, a growth of 19% compared to R\$197.3 million for the year ended December 31, 2004. This increase in net sales and services reflects an increased volume of operations and contractual tariffs readjustments. Ultracargo's average stored volumes of liquids and gases increased by 8% for the year ended December 31, 2005 compared to the same period in 2004, largely as a result of a growth in its number of customers and the commencement of operations of the Santos Terminal in July 2005 and the Montes Claros Terminal in November 2004. Total kilometers traveled by Ultracargo's transport segment increased by 5% for the year ended December 31, 2005 compared to 2004.

Cost of sales and services. Cost of sales and services increased by 3% to R\$3,783.4 million for the year ended December 31, 2005, compared to R\$3,669.9 million for the year ended December 31, 2004.

Ultragaz's cost of sales and services were nearly unchanged at R\$2,530.8 million for the year ended December 31, 2005, compared to R\$2,519.8 million for the year ended December 31, 2004, despite a 1% decrease in sales volume, primarily as a result of the increases in the cost of fuel and freight.

Oxitenó's cost of sales and services rose by 8% to R\$1,150.7 million for the year ended December 31, 2005 from R\$1,069.0 million in 2004. This increase was mainly due to (i) an increase in the cost of raw materials, particularly ethylene, arising from higher oil prices and (ii) the growth in sales volumes.

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Ultracargo's cost of sales and services increased 24% to R\$154.9 million for the year ended December 31, 2005 from R\$125.0 million for the year ended December 31, 2004. This increase was principally attributable to its new operations in Santos and Montes Claros intermodal terminals and was comprised of (i) a R\$10.9 million increase in third-party freight costs and costs of fuel, tires and spare parts (ii) a R\$9.6 million increase in depreciation due to an increase in permanent assets and (iii) a R\$3.2 million increase in personnel costs under its annual collective wage agreements and expansion in the size of the workforce to staff its new operations.

Gross profit. Gross profit decreased by 18% to R\$910.4 million for the year ended December 31, 2005 from R\$1,114.3 million for the year ended December 31, 2004. Ultragaz's gross profit was R\$371.6 million for the year ended December 31, 2005, 17% lower than the gross profit of R\$448.3 million reported in 2004. Oxiteno's gross profit was R\$459.4 million for the year ended December 31, 2005, a 23% decrease compared with R\$593.7 million in 2004. Ultracargo's gross profit was R\$79.3 million for the year ended December 31, 2005, a 10% increase compared with R\$72.3 million in 2004.

Selling, general and administrative expenses. Our selling, general and administrative expenses decreased by 1% to R\$551.7 million for the year ended December 31, 2005 from R\$555.9 million for the year ended December 31, 2004.

Ultragaz's selling, general and administrative expenses decreased by 2% to R\$291.9 million for the year ended December 31, 2005 from R\$298.2 million for the year ended December 31, 2004. This decrease reflects (i) a decrease of 1% in sales volume; (ii) expense rationalization programs and optimization initiatives developed during the year; and (iii) lower provision for employee profit sharing.

Oxiteno's selling, general and administrative expenses decreased by 5% to R\$203.3 million for the year ended December 31, 2005 from R\$213.1 million in 2004, principally as a result of (i) lower provision for employee profit sharing and (ii) lower export freight expenses due to lower export sales.

Ultracargo's selling, general and administrative expenses rose 22% to R\$61.9 million for the year ended December 31, 2005 from R\$50.8 million in 2004. General and administrative expenses increased R\$11.0 million, principally as a result of (i) higher operational volume and (ii) wage increases in accordance with the terms of its annual collective wage agreements.

Operating income before financial items. Our operating income before financial items decreased by 36% to R\$358.3 million for the year ended December 31, 2005 from R\$563.9 million for the year ended December 31, 2004. This was mainly due to the decrease in Ultragaz's and Oxiteno's operating results. Ultragaz's operating income before financial items for the year ended December 31, 2005 was R\$77.8 million, a 49% decrease compared to R\$152.7 million in 2004. At Oxiteno, operating income before financial items was R\$257.9 million for the year ended December 31, 2005, a 33% decrease compared to R\$382.9 million in 2004. Ultracargo's operating income before financial items was R\$17.2 million for the year ended December 31, 2005, a 25% decrease compared to the R\$23.0 million in 2004.

Financial income (expense), net. We reported net financial expenses of R\$27.3 million for the year ended December 31, 2005, a decrease of 39% compared to a net financial expense of R\$45.0 million for the year ended December 31, 2004. The R\$17.7 million improvement was principally due to the R\$56.7 million increase in interest income from financial investments, as a result of our higher average cash position, which was partially offset by the R\$ 39.1 million increase in interest expenses.

As of December 31, 2005, we had a net cash position of R\$191.2 million and a net asset foreign exchange rate exposure of R\$13.6 million. As of December 31, 2005 our total liabilities denominated in foreign currency was R\$860.3 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$873.9 million, composed of investments indexed to U.S. dollars and swap instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. See footnote 8 under Item 3A. 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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Non-operating income (expense), net. We reported a net non-operating expense of R\$1.8 million for the year ended December 31, 2005 compared to a net non-operating expense of R\$16.0 million for the year ended December 31, 2004. This net expense is primarily attributable to the scrapping of storage cylinders by Ultragaz in both periods.

Income and social contribution taxes. Income and social contribution tax expenses amounted to R\$28.8 million for the year ended December 31, 2005, a decrease of 65% from R\$83.0 million for the year ended December 31, 2004. This decrease is primarily due to lower pre-tax profit and an increase in non-taxable revenues.

Minority interest/equity in earnings of affiliates. Minority interest and equity in earnings of affiliates was R\$1.2 million for the year ended December 31, 2005, compared to R\$5.4 million for the same period in 2004. Minority interest reflects remaining minority stakes in certain of our subsidiaries, such as Utingás Armazenadora S.A. and Cia. Ultragaz S.A., which are not wholly-owned by us. The decrease in minority interest for the year ended December 31, 2005 compared to 2004 is due to a decrease in the results of operations of these subsidiaries. In addition, Ultrapar invested R\$10.0 million to acquire a 7.3% interest in Companhia Ultragaz held by Nacional Investimentos S.A. in December 2004, which reduced minority interests in the company.

Net income. As a result of the foregoing, net income for the year ended December 31, 2005 was R\$299.2 million, a decrease of 28% compared to R\$414.5 million in 2004.

Adjusted EBITDA. Adjusted EBITDA decreased by 26% to R\$546.0 million for the year ended December 31, 2005, from R\$736.6 million for the year ended December 31, 2004. Ultragaz reported adjusted EBITDA of R\$195.1 million for the year ended December 31, 2005, a 27% decrease compared to 2004, driven by the reduction of 1% in the LPG market and the impact of oil price increases on the company's distribution costs. Oxitenos adjusted EBITDA amounted to R\$300.2 million for the year ended December 31, 2005, a 29% decrease compared to 2004. This decrease was principally attributable to the appreciation of the *real* and the increase in the cost of raw materials, especially ethylene, driven by higher oil prices. Ultracargo reported adjusted EBITDA of R\$44.3 million for the year ended December 31, 2005, a 9% increase compared to R\$40.5 million in 2004, principally as a result of expansion in operational volume. See footnote 7 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our consolidated financial statements.

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

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

	Year ended December 31, 2004	Percentage of net sales and services (in millions of reais, except percentages)	Year ended December 31, 2003	Percentage of net sales and services	Percent change
Net sales and services	4,784.2	100%	4,000.3	100%	20%
Cost of sales and services	(3,669.9)	77%	(3,196.4)	80%	15%
Gross profit	1,114.3	23%	803.9	20%	39%
Selling, general and administrative expenses	(555.9)	11%	(458.9)	11%	21%
Other operating income, net	5.5	0%	6.6	0%	(17)%
Operating income before financial items	563.9	12%	351.6	9%	60%
Financial income (expense), net	(45.0)	1%	(57.2)	1%	(21)%
Non-operating income (expense), net	(16.0)	0%	1.0	0%	

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	Year ended December 31, 2004	Percentage of net sales and services (in millions of <i>reais</i> , except percentages)	Year ended December 31, 2003	Percentage of net sales and services	Percent change
Income and social contribution taxes	(83.0)	2%	(44.9)	1%	85%
Minority interest/equity in earnings of affiliates	(5.4)	0%	(4.1)	0%	32%
Net income	414.5	9%	246.4	6%	68%
Adjusted EBITDA ⁽¹⁾	736.6		498.5		48%

(1) See footnote 7 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

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

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

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

Ultragaz's net sales and services were R\$2,968.1 million for the year ended December 31, 2004, a growth of 13% in relation to the R\$2,622.7 million in 2003. The increase in net sales was principally due to an increase in sales volume while LPG prices (refinery and retail) remained stable during the year. Ultragaz's sales volume grew 14% compared to 2003, primarily due to the acquisition of Shell Gás in August 2003, which at that time accounted for 4.5% of the Brazilian market, and also due to the approximately 3% growth in the LPG market as a whole. We believe that this increase is largely a reflection of growth in the Brazilian economy and the increase in personal income among the population accompanied by a leveling-off of the price of LPG charged by Petrobras.

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

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

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

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

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Oxiteno's cost of sales and services rose by 24% to R\$1,069.0 million for the year ended December 31, 2004 from R\$863.6 million in 2003. This increase was mainly due to (i) a 9% growth in sales volumes and an increase in some raw material prices, the latter directly impacted by stronger naphtha prices on the international market, both effects contributed to an increase of approximately R\$156.3 million in the cost of sales and services, and (ii) the consolidation of Canamex, which contributed to a increase of R\$46.3 million in the cost of sales and services. In addition, Oxiteno increased its sales volume of specialty chemicals, which have higher unit costs, and higher margins, by 23% compared to 2003.

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

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

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

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

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

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

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

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

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As of December 31, 2004, we had a net cash position of R\$46.0 million and a net asset foreign exchange rate exposure of R\$51.5 million. As of December 31, 2004 our total debt denominated in foreign currency was R\$359.1 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$410.6 million, composed of investments indexed to U.S. dollars and swap instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. See footnote 8 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

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

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

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

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

Adjusted EBITDA. Adjusted EBITDA increased by 48% to R\$736.6 million for the year ended December 31, 2004, from R\$498.5 million in 2003. Ultragaz posted adjusted EBITDA of R\$268.9 million for the year ended December 31, 2004, 29% higher than the figure in 2003. Factors behind this growth included: (i) our acquisition of Shell Gás and our ensuing gains in scale, and (ii) the growth seen in Brazil's LPG market. Oxiteno's adjusted EBITDA amounted to R\$421.0 million for the year ending December 31, 2004, representing an increase of 73% compared to 2003. This performance reflected an increase in sales volume due to new contracts, growth of the Brazilian economy, an increased sales focus on specialty chemicals and improved prices for petrochemical commodities. Ultracargo reported adjusted EBITDA of R\$40.5 million for the year ended December 31, 2004, a 1% increase compared to R\$40.0 million in 2003. See footnote 7 under Item 3A. Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.

B. Liquidity and Capital Resources

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

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

Sources and uses of funds

Net cash flow from operations was R\$ 410.0 million, R\$539.6 million and R\$331.2 million for 2005, 2004 and 2003, respectively. Our cash flow from operations decreased R\$129.6 million in 2005 compared to 2004, mainly reflecting the decrease in our net income. Our cash flow from operations increased R\$208.4 million in 2004 compared to 2003, mainly reflecting increases in our operating income.

Net cash flow from financing activities amounted to R\$ 762.0 million, R\$(176.8) million and R\$10.8 million in the years ended December 31, 2005, 2004 and 2003, respectively. The increase in cash flow from financing in 2005,

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compared to 2004 was mainly due to the issue of (i) R\$300 million in debentures in the domestic market in April 2005 and (ii) U.S.\$250 million in notes in the international market in December 2005. The negative cash flow from financing activities for the year ended December 31, 2004 is largely due to (i) a R\$52.2 million increase in dividends paid, and (ii) the partial repayment of export prepayments financing activities used to finance acquisitions in 2003.

Investing activities consumed net cash of R\$ 676.3 million, R\$303.1 million and R\$391.3 million in the years ended December 31, 2005, 2004 and 2003, respectively. Acquisitions of property, plant and equipment and additions to deferred charges consumed R\$ 230.7 million, R\$273.7 million and R\$214.4 million in 2005, 2004 and 2003, respectively. For the year ended December 31, 2005, investing activities were mainly composed of fixed asset modernization, expansion of production capacity for specialty chemicals and the investment of the cash proceeds from debt issuances in the domestic and international markets in government securities and other financial products.

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

We believe we have sufficient working capital for our present requirements. We have R\$201.9 million in debt maturing from January 2006 through December 2006. Additionally we have a R\$388 million capital expenditures budget for 2006.

On December 20, 2005, we issued U.S.\$250 million in notes with a ten-year term in the international capital markets. The proceeds from these notes will be used to refinance existing debt obligations, extend maturities, fund potential acquisitions and for general corporate purposes.

As of December 2005, we had R\$1,671.7 million in cash, cash equivalents, short-and long-term investments.

We anticipate that we will spend approximately R\$2.3 billion in the next five years to meet long-term contractual obligations described in the Tabular Disclosure of Contractual Obligations below and budgeted capital expenditures. We expect to meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financing and the refinancing of some of our indebtedness as it becomes due.

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As of December 31, 2005, our consolidated short-and long-term debt was as follows:

Debt	Currency	Interest Rate ⁽¹⁾	Principal amount of outstanding and accrued interest through December 31, 2005 2004 2003 (in millions of reais)		
Foreign currency-denominated loans:					
Notes due in 2005	U.S.\$		151.5		
Syndicated loan	U.S.\$	5.05	140.6		173.6
Notes due in 2015	U.S.\$	7.25%	586.5		
Export prepayment ⁽²⁾	U.S.\$	4.22% to 6.85%	44.9	129.8	205.1
Advances on Foreign Exchange Contracts	U.S.\$	3.90% to 4.88%	9.8	3.3	24.9
BNDES National Bank for Economic and Social Development	UMBND ⁽³⁾	8.76% to 10.91%	22.3	20.8	23.2
BNDES National Bank for Economic and Social Development	U.S.\$	10.96%	0.3		
Financing of Inventories and Property Plant & Equipment	MX\$ ⁽⁴⁾	TIIE ⁽⁴⁾ + 1.5% to 2.0%	11.0	8.8	11.4 ⁽⁵⁾
Working capital loan	MX\$ ⁽⁴⁾	TIIE ⁽⁴⁾ + 1.0%	0.4	0.5	0.5
Foreign Financing	U.S.\$	LIBOR + 2.0%	28.5	32.2	
Real-denominated loans:					
BNDES-National Bank for Economic and Social Development	R\$	TJLP ⁽⁶⁾ + 1.5% to 4.85%	173.0	130.2	142.2
BNDES-National Bank for Economic and Social Development	R\$	IGPM ⁽⁷⁾ + 6.5%	11.2	15.5	17.1
FINEP Research and Projects Financing	R\$	TJLP ⁽⁶⁾ -2.0%	38.1	24.4	5.3
FINAME Financing for Machines and Equipment	R\$	TJLP ⁽⁶⁾ + 1.8% to 4.85%	47.7	34.1	28.9
Debentures	R\$	102.5% of CDI	317.9		
Other	R\$		0.2		
Total loans	R\$		1,432.4	551.1	632.2
Unrealized losses on swaps transactions			48.1	88.6	55.7
Total			1,480.5	639.7	687.9

(1) Interest rate only as of 2005.

(2) Net of linked operations.

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

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

(5) The amount of Financing of Inventories and Property Plant & Equipment in 2003 is denominated in U.S.dollars.

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

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

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Our consolidated debt as of December 31, 2005 had the following maturity schedule:

Maturity	Amount (in millions of reais)
January 1, 2006 to December 31, 2006	201.9
January 1, 2007 to December 31, 2007	94.0
January 1, 2008 to December 31, 2008	515.5
January 1, 2009 to December 31, 2009	75.0
January 1, 2010 to December 31, 2010	9.0
Thereafter	585.1
Total	1,480.5

As of December 31, 2005, R\$53.8 million of our consolidated debt was secured by property, plant and equipment, R\$11.2 million was secured by shares of affiliated companies and by guarantees provided by minority shareholders. As of December 31, 2005, we guaranteed a portion of our subsidiaries' indebtedness in the amount of R\$1,017.9 million.

In 1997, our indirect subsidiary Companhia Ultragaz issued U.S.\$ 60 million in a 9% U.S. dollar-denominated Eurobond due in 2005 with a put/call option exercisable in 2002. We and our subsidiary Ultragaz jointly, severally and unconditionally guaranteed this Eurobond and are thus subject to covenants which restrict, among other things, our ability to incur indebtedness, grant liens, make dividend payments and other distributions and conduct sale-leaseback transactions, mergers and asset sales. None of these covenants has restricted our ability to conduct our ordinary course of business as of the date of this annual report.

This Eurobond was purchased in June 2002 by our indirect subsidiary, LPG International Inc., with funds obtained from a syndicated loan with maturity in August 2004. In January 2004, taking advantage of surplus international liquidity, this syndicated loan was refinanced through a new Eurobond issued by LPG International Inc. with an annual interest rate of 3.5% and maturity in June 2005. On June 20, 2005, we entered into a third-supplemental indenture related to the bond issued by Companhia Ultragaz extending its maturity to 2020. Our indirect subsidiary Oxitenio Overseas Corporation is the new holder of this Eurobond, and financed its acquisition through a U.S.\$60 million syndicated loan maturing in June 2008 at an annual interest rate of 5.05%.

On April 8, 2005, we issued a R\$300 million debenture in the Brazilian market due in 2008 at a rate of 102.5% of CDI.

On December 20, 2005, Ultrapar, through its subsidiary LPG International Inc., issued U.S.\$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% ^{pa} and were priced at 98.75% of par value, resulting in a yield to maturity of 7.429% ^{pa}. Standard & Poor's assigned its BB+ credit rating on a global scale for the company and the securities issued. The credit rating is above the credit rating of Brazilian sovereign debt and only one degree below that of investment grade.

Investments***Equity investments***

The table below shows our investments in shareholding stakes for the years ended December 31, 2005, 2004 and 2003. For more details on these acquisitions see Item 4A. History and Development of the Company Investments.

Company	Year ended December 31,		
	2005	2004	2003⁽¹⁾
	(in millions of reais)		
Ultragaz	10.3	171.1	

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Company	Year ended December 31,		
	2005	2004	2003 ⁽¹⁾
	(in millions of reais)		
Oxiteno			32.5
Ultracargo			
Others ⁽²⁾		6.8	2.1
Total		17.1	205.7

- (1) The difference between equity investments (excluding the share repurchase program) of R\$203.6 million above and Business combinations, net of cash acquired, of R\$134.6 million, shown in the consolidated statement of cash flow in our 2003 consolidated financial statements, is substantially comprised of cash acquired and settlement of debt of Shell Gás (included in Cash flow from financing activities Loans from affiliated companies).

- (2) Share repurchase program included in our consolidated statement of cash flows under Cash flows from financing activities Other.

Investments in permanent assets and deferred charges

The following table sets forth our investments in permanent assets and deferred charges for the years ended December 31, 2005, 2004 and 2003.

	Year ended December 31,		
	2005	2004	2003
	(in millions of reais)		
Ultragaz	89.4	94.0	114.4
Oxiteno	96.3	86.8	58.2
Ultracargo	44.4	92.2	41.5
Others ⁽¹⁾	0.6	0.7	0.3
Total capital expenditures	230.7	273.7	214.4
Disposals	(12.0)	(6.0)	(7.4)
Total capital expenditures, net of disposals	218.7	267.7	207.0

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

At Ultragaz, our investment strategy has been to expand the small bulk delivery distribution, enhance our assets and to consolidate our geographic coverage. During the years ended December 31, 2005 and 2004, investments focused on expanding the small bulk market segment (UltraSystem), on fleet renewal and on the replacement of cylinders. In 2003, in addition to the items previously listed, Ultragaz also invested in the installation of the integrated ERP system.

At Oxiteno, during the years ended December 31, 2005 and 2004, capital expenditures were largely focused on increasing installed production capacity of specialty chemicals, the modernization of industrial plants, and the development of new products. In addition, in 2003, we made significant investments in the installation of the ERP system and on quality and environmental control systems.

At Ultracargo, during previous years we have invested in expanding our storage facilities and truck fleet. For the years ended December 31, 2005 and 2004, Ultracargo's capital expenditures focused on the construction of the Santos terminal and on fleet expansion.

Ultrapar's planned capital expenditures in 2006 are R\$388 million, R\$ 238 million of which will be allocated to investments in expansion at Oxiteno, principally on the new plant for the production of fatty alcohol, the expansion of the installed production capacity of specialty chemicals and ethylene oxide, as well as ongoing improvement projects in quality, safety and the environment. At Ultragaz, R\$ 90 million has been budgeted for quality and

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productivity improvements including IT projects to provide support for the optimization of sales channels and for the expansion of Ultragas's small bulk distribution system. The investments in Ultracargo will be allocated to expanding storage capacity and enlarging its truck fleet.

U.S. GAAP reconciliation

Our net income under Brazilian GAAP was R\$299.2 million, R\$414.5 million and R\$246.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. Under U.S. GAAP, we had net income of R\$292.1 million, R\$414.3 million and R\$288.3 million, respectively, for the years ended December 31, 2005, 2004 and 2003, respectively.

Our shareholders' equity under Brazilian GAAP as of December 31, 2005 and 2004 was R\$ 1,790.1 million and R\$1,600.5 million, respectively. Under U.S. GAAP, we had shareholders' equity of R\$1,723.9 million and R\$1,545.8 million, respectively, as of December 31, 2005 and 2004.

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

capitalized interest;

fixed assets revaluation reversal;

reversal of deferred charges;

restatement of property, plant and equipment to adjust for the effects of inflation between January 1, 1996 and December 31, 1997, and its respective depreciation, not required by Brazilian GAAP;

differences in equity accounting;

differences in goodwill accounting;

securities available for sale;

purchase value adjustments relating to business combinations (including the 2002 corporate restructuring);

fair value adjustments of derivatives; and

deferred tax effects on the foregoing adjustments.

The main difference of Brazilian GAAP that impacted net income under U.S. GAAP, positively in 2003, refers to the fair value adjustments of derivatives. See Note 24 to our consolidated financial statements for a description of the differences above as they relate to us and a reconciliation to U.S. GAAP of net income and total shareholders' equity.

C. Research and Development, Patents and Licenses, etc.

Oxiteno carries on a wide range of research and development activities, principally related to the application of specialty chemicals and improvements in production processes. As of December 31, 2005, 109 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2005, 2004 and 2003 were R\$17.4 million, R\$15.4 million and R\$13.4 million, respectively. In 2004, Oxiteno founded its own Science and Technology Council, with six of the world's major specialists in tensoactives being members. The Council, which first met from December 7 to 10, 2004, analyzed critically the company's research and development projects portfolio, as well as the methodology used. Many of these recommendations will enable the company to increase its efficiency in research and development, as well as enlarge its partnerships with international entities. In December 2005, Oxiteno signed a contract with PMD Project Management and Development Co., or PMD, a private Saudi-Arabian company with their head-office in the industrial city of Al Jubail, for the license of technologies for the production of ethanolamines and ethoxylates. The technologies licensed by Oxiteno will be used in the petrochemical complex located in Al Jubail, currently being built by PMD. The plants that will use the Oxiteno technologies will have a production capacity of 100,000ton/year of ethanolamines and 40,000ton/year of ethoxylates.

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See Operating Results above.

E. Off Balance Sheet Arrangements

Our subsidiaries have provided guarantees to financial institutions related to amounts owed to those institutions by certain of their customers (vendor financing). The guarantees have a term of up to 210 days and are equal to the terms of the related financing arrangements. There exists no recourse provision that would enable us or our subsidiaries to recover any amount paid to the financial institutions under these guarantees. In the event that the financial institutions exercise these guarantees, we are entitled to recover the amount paid directly from our customers under the vendor contracts. At December 31, 2005, the maximum potential payment under these guarantees totaled R\$33.2 million, which represented a R\$12.0 million decrease over December 31, 2004. This decrease was mainly due to lower sales to clients that utilize these financing arrangements. At December 31, 2005, in accordance with Brazilian GAAP, we did not record any liability on our consolidated financial statements related to these guarantees.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations, as of December 31, 2005:

Contractual obligations	Total	Up to 1 year	Payment due by period		
			Between 1 and 3 years	Between 3 and 5 years	More than 5 years
			(in millions of reais)		
Financing	1,480.5	201.9	609.5	84.0	585.1
Estimated interest payments on financing ⁽¹⁾⁽²⁾	744.2	135.1	199.5	108.8	300.8
Estimated payments under swap agreements ⁽¹⁾	54.2	2.6	8.1	43.5	
Estimated planned funding of pension and other postretirement benefit obligations ⁽¹⁾	172.2	5.2	11.2	12.4	143.4
Purchase obligations ⁽³⁾	1,202.6	171.8	343.6	343.6	343.6
Operating leases ⁽⁴⁾	78.8	4.5	9.0	9.0	56.3
Total contractual obligations	3,732.5	521.1	1,180.9	601.3	1,429.2

- (1) The estimated interest payment amount was calculated based on macro-economic assumptions including, on average for the period, principally (i) a 15% CDI interest rate, (ii) a 5% variation in the *reais* to U.S. dollar exchange rate, (iii) a 4% inflation rate, and (iv) an 7% TJLP rate. See Debt and Note 12 to our consolidated financial statements for more information about the maturity of our debt and applicable interest rates. See Note 12 and Note 24 V (f) to our consolidated financial statements for more information on the maturity and the fair value of our swap agreements. See Note 23 to our consolidated financial statements for more information relating to our estimated planned funding of pensions and other postretirement benefit obligations.
- (2) Includes estimated interest payments on our short- and long-term debt.
- (3) The purchase obligation relates to a long-term contract, with Braskem under which we are committed to purchase at least 138,000 tons of ethylene annually through 2012. In the event that this commitment is not met, we are obliged to pay a fine of a maximum of 40% of the annual ethylene volume, multiplied by the price of ethylene. This contract does not establish the price of ethylene and for this reason the amount in *reais* is based on the purchase price as at December 31, 2005.
- (4) Our subsidiary company Terminal Químico de Aratu S.A. Indústria e Comércio has contracts with CODEBA Companhia Docas do Estado da Bahia, and Complexo Industrial Portuário Governador Eraldo Gueiros, related to the harbor facilities in Aratu and Suape, respectively. These contracts establish a minimum movement of products of 1,000,000 tons per year in Aratu effective through 2022 and 250,000 tons per year in Suape effective through 2027. If the annual movement is less than the minimum contractual movement, the subsidiary is liable to pay the difference between the effective movement and the minimum contractual movement based on the port tariff rates on the date established for payment. As of December 31, 2005, these rates were R\$3.67 for Aratu and R\$3.44 for Suape. The Company has been in compliance with the minimum movement of products since the inception of the contracts.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****A. Directors and Senior Management**

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

Name	Position	Years with the Company	Age
<i>Board of Directors</i>			
Paulo Guilherme Aguiar Cunha	Chairman	38	66
Lucio de Castro Andrade Filho	Vice Chairman	28	61
Ana Maria Levy Villela Igel	Director	8	63
Renato Ochman	Director	5	46
Nildemar Secches	Director	4	57
Paulo Vieira Belotti	Director	8	74
Olavo Egydio Monteiro de Carvalho	Director	3	64
<i>Executive Officers</i>			
Paulo Guilherme Aguiar Cunha	Chief Executive Officer	38	66
Lucio de Castro Andrade Filho	Vice-President	28	61
Fabio Schvartsman	Chief Financial and Investor Relations Officer, Ultrapar	21	52
Pedro Wongtschowski	Officer, Oxiten	28	60
Pedro Jorge Filho	Officer, Ultragaz	29	52
Eduardo de Toledo	Officer, Ultracargo	20	41

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

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

Lucio de Castro Andrade Filho. Mr. Andrade Filho is the vice chairman of our board of directors since 1998. He is also vice president of Ultrapar since 1982, director of Ultracargo since 1977, a member of the board of Ultra S.A. since 1982, a director of Tequimar since 1996, a director of Ultragaz since 1994 and a member of the board of directors of Oxiten Nordeste since 1997. He joined Ultrapar in 1977. Mr. Andrade Filho has held a number of positions with Ultrapar's subsidiaries in both the LPG as well as logistics, engineering and chemicals segments. Mr. Andrade Filho is also the chief executive officer of GLP Qualidade Compartilhada, an LPG industry association and a member of the board of directors of the Brazilian Petroleum Institute (Instituto Brasileiro de Petróleo IBP). Mr. Andrade Filho received degrees in civil engineering and in administration from Mackenzie University in São Paulo in 1968 and 1972, respectively.

Ana Maria Levy Villela Igel. Ms. Villela Igel joined us as a member of the board of directors in October 1998. She is also a member of the board of directors of Ultra S.A. since 1988. She has served as a secretary in the finance department at the United Nations and as a counselor for CIEE Centro de Integração Empresa Escola, an

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organization which assists students in transitioning to the professional environment, and as a counselor and member of the executive committee of Alumni Association Bi-National Cultural Center. She is also involved in several organizations that promote social welfare activities for children and the elderly throughout Brazil.

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

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

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

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

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

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

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Pedro Jorge Filho. Mr. Jorge is an officer of Ultrapar since April 2005. He has been with the company since 1977, and has held a number of positions with the company, including officer at Utingás and director of Engineering and Marketing at Ultragaz. Mr. Jorge was also responsible for the south-eastern and central-western regions. Mr. Jorge Filho became Ultragaz's chief operating officer in 2002. He holds a degree in Industrial and Chemical Engineering from Universidade Mackenzie. He also holds a certificate from the Advanced Management Program at INSEAD, in Fontainebleau, France in 1998, and from the program HR's Contribution to Continuous Improvement at Instituto IESE of Universidade de Navarra Barcelona, Spain in 1999.

Eduardo de Toledo. Mr Toledo is an officer of Ultrapar since April 2005. He joined the company in 1987 at Ultrapar controlling area. Mr. Toledo was responsible for the treasury department between 1990 and 1996. From 1996 to 2003, he has held the position of Administrative and Controlling Officer at Oxiten. Mr. Toledo has been Ultracargo's Chief Operating Officer since 2003. He is also member of the board of directors of Odontoprev S.A. He holds Bachelor of Science degrees in Industrial Engineering (Escola Politécnica da Universidade de São Paulo) and Economics (Faculdade de Economia e Administração da Universidade de São Paulo). Mr. Toledo received a degree in the International Executive Program at INSEAD, in Fontainebleau, France in 1995. He taught, for 4 years, the subject of Introduction to Accounting and Expense at Fundação Carlos Alberto Vanzolini Universidade de São Paulo.

B. Compensation

For the year ended December 31, 2005, the aggregate compensation of our directors and executive officers was approximately R\$11.8 million. A portion of such amount is represented by variable compensation, dependent on business performance as measured by metrics such as Economic Value Added EVA and adjusted EBITDA. Except for the expenses related to Ultraprev Associação de Previdência Complementar, known as Ultraprev, which manages our pension plan, we have not set aside or accrued any additional amounts for pension, retirement or similar benefits for our directors and executive officers. See Employees.

On April 27, 2001, the General Shareholders Meeting approved a plan for granting stock options (The Stock Option Plan) to members of management and employees in executive positions in the Company and its subsidiaries. On November 26, 2003, the Extraordinary General Shareholders Meeting approved certain amendments to the original plan of 2001 (the Deferred Stock Plan). In the Deferred Stock Plan, certain members of management have the voting and economic rights of preferred shares held as treasury stock and the ownership of these shares is retained by Ultrapar. The Deferred Stock Plan provides for the transfer of the ownership of the shares to those eligible members of management after ten years from the initial concession of the rights subject to uninterrupted employment of the Deferred Stock Plan participant by the Company during the period. The Board of Directors determines the number of shares to which each eligible participant shall have rights. The total number of shares to be used for the Deferred Stock Plan is subject to the availability in treasury of such shares. It is incumbent on Ultrapar's executive officers to select the members of management eligible for the plan and propose the number of shares in each case for approval by the Board of Directors. As of December 31, 2005, the amount granted to the Company's executives, including tax charges, totaled R\$8.9 million. This amount is amortized over a ten year period, the amortization for 2005 amounts to R\$776 thousand and is recorded as an operational expense for 2005.

C. Board Practices

We are managed by our board of directors (i.e., *Conselho de Administração*) and by our executive officers (i.e., *Diretoria*). Prior to December 20, 2002, our Board of Directors was limited to six members. Pursuant to our amended by-laws, our Board of Directors must consist of a minimum of four and a maximum of seven members. Our Board of Directors consists of seven members, of which four are independent, non-executive members and two are executive officers. Our Board of Directors generally meets quarterly or whenever called by its chairman or by any two directors. During 2005, fourteen board meetings were held. Each meeting of the Board of Directors requires a quorum of a minimum of three members, including the chairman or the vice-chairman. The Board of Directors is responsible for our general policies, for electing our executive officers and supervising their management, and for

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deliberating on capital increases up to the authorized capital, distributions of dividends and interest on shareholders' equity, investments in other companies, our dissolution or incorporation and the appointment of independent auditors. Pursuant to Brazilian law, each member of the Board of Directors must hold at least one of our common or preferred shares and be elected by the holders of our common shares at the General Shareholders' Meeting.

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

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

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

Executive Officers

Our executive officers include our chief executive officer and a minimum of three and a maximum of five other members. Each of our current executive officers has been appointed by the Board of Directors for a one-year term, which began on April 27, 2006, and they may remain in office until the Board of Directors meeting that will appoint the executive officers in 2007. Sitting members can be reelected for additional one-year terms.

Fiscal Council and Audit Committee

Brazilian Corporate Law requires us to establish a Fiscal Council (*conselho fiscal*), which may be permanent or temporary. A permanent Fiscal Council is required to be formed when requested by 10% of our voting shareholders or 5% of our non-voting shareholders in a general shareholders' meeting. Once formed, a permanent Fiscal Council remains in place indefinitely without any further action required by our shareholders. A temporary Fiscal Council is also required to be formed when requested by 10% of our voting shareholders or 5% of our non-voting shareholders in a general shareholders' meeting, but remains in place only until the following general shareholders' meeting. At such general shareholders' meeting the temporary Fiscal Council may be reconstituted by our shareholders. In July 2005, following the request of the required percentage of shareholders, our by-laws were revised to provide for a Fiscal Council with permanent activities. Our Fiscal Council acts as an audit committee pursuant to the requirements of the Sarbanes-Oxley Act. Under Rule 10A-3(c)(3) of the Exchange Act, non-U.S. issuers, such as Ultrapar, are exempt from the audit committee requirements of Section 303A of the New York Stock Exchange Listed Company Manual if they establish, according to their local law or regulations, another body that acts as an audit committee.

Our Fiscal Council is comprised of five members and their respective alternate members. The Fiscal Council is a separate corporate body independent of our management and our external independent registered public accounting firm. According to the Brazilian Corporate Law, the Fiscal Council must meet at least four times per year. Since its establishment, in July 2005, our Fiscal Council has been meeting on a monthly basis, and in 2005, they held five meetings. Our Fiscal Council is responsible for reviewing the accuracy and integrity of quarterly and annual financial statements in accordance with applicable accounting, internal control and auditing requirements and in compliance with the provisions of Brazilian corporate law; the forms of the CVM and requirements for listing on the BOVESPA; the rules of the SEC and the requirements for listing on the New York Stock Exchange. Our Fiscal

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Council also (1) makes recommendations to our board of directors regarding the appointment, retention and oversight of our independent auditors, (2) discusses matters related to interim and annual financial statements with the management of the company and the independent auditors, (3) reviews and evaluates the performance of internal auditing and (4) discusses matters related to effectiveness of the internal controls of the company with management and independent auditors. Our Fiscal Council is supporting the implementation by the company of improved procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing matters. Our Fiscal Council may hire outside advisors to assist it with matters related to the course of their duties, and such expenses are covered by the company.

The members of our Fiscal Council are elected by our shareholders at the annual general shareholders' meeting for one-year terms and are eligible for reelection. The terms of the members of our Fiscal Council expire at the next annual general shareholders' meeting. Under the Brazilian Corporation Law, individuals who are members of our board of directors or our board of executive officers or are employees or spouses or relatives of any member of our management are not eligible to serve on the Fiscal Council. To be eligible to serve on our Fiscal Council, a person must be a resident of Brazil and either a university graduate or has been a company officer or Fiscal Council member of another Brazilian company for at least three years prior to election to our Fiscal Council.

On April 27, 2006, the General Shareholders' Meeting approved compensation for the members of the Fiscal Council of R\$6,000 per month for each effective (non-alternate) member.

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The following table lists the current members of our Fiscal Council and their alternates who served on the Fiscal Council during 2005:

Name	First Year of Appointment
Wolfgang Eberhard Rohrbach	2005
John Michael Pimenta de Moraes Streithorst	2005
Ricardo José Arruda de Negreiros (alternate)	2005
Flavio César Maia Luz	2005
Argemiro Pasetto Jr. (alternate)	2005
Mário Probst	2005
Katuyoshi Utiyama (alternate)	2005
Raul Murgel Braga	2005
Pedro Ozires Predeus (alternate)	2005

An election of the Fiscal Council was held on April 27, 2006, which reelected all the members and elected an alternate member for Wolfgang Eberhard Rohrbach, Miss Tânia Maria Camilo.

Summarized below is information regarding the business experience, areas of experience and principal outside business interests of the current members of our Fiscal Council.

Flavio César Maia Luz. Mr. Luz is our Fiscal Council member since 2005. Mr. Luz is corporate and finance vice-president of Cofra Latin America Ltda - C&A Group since 2001. From 1999 to 2001, Mr. Luz served as executive director and Vice-President of the board of directors at Eletropaulo. From 1976 to 1998, Mr. Luz worked at Duratex, where he occupied the Executive Vice-President position from 1993 to 1998. Mr. Luz received a degree in civil engineering from Escola Politécnica da Universidade de São Paulo and a post-graduate degree in business administration from Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas. He also holds certificates of continuing education programs in the Finance and Marketing areas, from Harvard Business School and Stanford University, respectively.

Mario Probst. Mr. Probst served as partner at KPMG Auditores Independentes from 1991 to 2004, and is currently retired. Mr. Probst is a counselor at Fundação Viconde de Porto Seguro and a member of Fiscal Council at Hospital Alemão Oswaldo Cruz. Mr. Probst received a degree in business administration from Escola de Administração de Empresas de São Paulo da Fundação Getúlio Vargas and accountancy from Faculdade de Ciências Políticas e Econômicas do Rio de Janeiro.

John Michael Pimenta de Moraes Streithorst. Mr. Streithorst manages the private equity department at Neo Gestão de Recursos Ltda. Mr. Streithorst has formerly served as partner-director of Icatu Equity Partners, which main partners are Icatu Group, Prudential Insurance, Banco Alfa S.A., Unibanco S.A. and the IFC. Mr. Streithorst has also served as member of the board of directors and the Fiscal Council of many companies such as Brazil Fast Food (controlling shareholder of Bob's Fast Food and listed at NASDAQ), American Glass Products, Refrigerantes Frevo and Biscoitos Mabel. He was executive officer at Idéiasnet S.A. and has formerly worked with the Capital Markets and Mergers and Acquisition departments at Banco Icatu and Banco Pactual, respectively. Mr. Streithorst received a degree in Computer Science from Universidade de Campinas - Unicamp.

Raul Murgel Braga. Mr. Braga served as legal consultant at Ultrapar until 1992 and at Getec Group until 1997. He also served as President of Ultraprev, President of the Fiscal Council at Copene - Petroquímica do Nordeste S.A. and Globex, until March, 2002 and April, 2005, respectively, and as a member of the Fiscal Council at Oxiten S.A. until December 2002. Mr. Braga received a law degree from Faculdade Nacional de Direito da Universidade do Brasil, in Rio de Janeiro.

Wolfgang Eberhard Rohrbach. Mr. Rohrbach is the investment controller at Monteiro Aranha Group, and a member of the Fiscal Council of its affiliates, including Klabin S.A. Mr. Rohrbach also served as member of the Fiscal Council at Ericsson, Volkswagen do Brasil, Matel Tecnologia de Teleinformática S.A. - MATEC and Oxiten S.A. Indústria e Comércio. As member of the Fiscal Council of Ericsson do Brasil he introduced the Audit Committee in the company. Mr. Rohrbach received a degree in economics from Universidade de São Paulo.

Table of Contents**Corporate Governance**

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

In 2000, the São Paulo Stock Exchange, or the BOVESPA, introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and New Market (Novo Mercado), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the disclosure of information provided to shareholders.

In October 2005, we entered into an agreement with the BOVESPA and have complied with the requirements to become a Level 1 company. In becoming a Level 1 company, we have:

ensured that shares representing at least 25% of our total share capital are available for trading;

adopted offering procedures that favor widespread ownership of our shares whenever making a public offering;

complied with minimum quarterly disclosure standards;

followed stricter disclosure policies with respect to transactions involving our securities made by our controlling shareholder and our directors and executive officers;

disclosed any existing shareholders' agreements and stock option plans; and

made a schedule of corporate events available to our shareholders.

D. Employees

As of December 31, 2005, we had 6,992 employees.

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

	Number of employees		
	2005	2004	2003
Ultraz	4,424	4,438	4,381
Oxiteno	1,210	1,121	1,078
Ultracargo	1,151	966	815

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Others ⁽¹⁾	207	199	191
Ultrapar	6,992	6,724	6,465

(1) Includes headquarters personnel from the maintenance, IT, finance and accountant departments.

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

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

In February 2001, our Board of Directors approved the adoption of a defined contribution pension plan to be sponsored by Ultrapar and each of its subsidiaries. Participating employees have been contributing to this plan, managed by Ultraprev - Associação de Previdência Complementar, known as Ultraprev, since August 2001. Under the terms of the plan, every year each participating employee chooses his or her basic contribution to the plan. Each sponsoring company provides a matching contribution in an amount equivalent to each basic contribution, up to a limit of 11% of the employee's reference salary, according to the rules of the plan. As participating employees retire, they may choose to receive either (i) a monthly sum ranging between 0.5% and 1.0% of their respective contribution in Ultraprev or (ii) a fixed monthly amount which will exhaust their respective contribution over a period of 5 to 25 years. The sponsoring company does not guarantee the amounts or the duration of the benefits received by each employee that retires. The total number of participating employees as of December 31, 2005 was 5,975.

E. Share Ownership

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

The table below sets forth the number of our total shares (common and preferred shares) beneficially owned by each of our directors and executive officers as of April 30, 2006, including through their participation in our controlling parent company Ultra S.A. Participações.

	Common Shares	%	Preferred Shares	%	Total Shares	%
Board of directors						
Paulo Guilherme Aguiar Cunha(1) (2)	4,414,893	10%	4,448	0%	4,419,341	5%
Lucio de Castro Andrade Filho(1) (2)	1,392,038	3%	2	0%	1,392,040	2%
Ana Maria Levy Villela Igel(1)	9,039,645	18%	846,708	3%	9,886,353	12%
Olavo Egydio Monteiro de Carvalho	406,779	1%	78,965	0%	485,744	1%
Renato Ochman	15	0%	2	0%	17	0%
Nildemar Secches	15	0%	2	0%	17	0%
Paulo Vieira Belotti	15	0%	2	0%	17	0%
Executive officers						
Fabio Schvartsman(1)	592,246	1%		0%	592,246	1%
Pedro Wongtschowski(1)	592,246	1%		0%	592,246	1%
Pedro Jorge Filho		0%	69,975	0%	69,975	0%
Eduardo de Toledo		0%	69,975	0%	69,975	0%
Board of directors and Executive officers	16,437,894	33%	1,070,078	3%	17,507,972	22%
Total	49,429,897		31,895,512		81,325,409	

- (1) Individuals who beneficially own shares primarily through their participation in the holding company Ultra S.A. Participações. See Item 7. Major Shareholders and Related Party Transactions - Major Shareholders.
- (2) These individuals are also executive officers.

Table of Contents**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The table below shows the current capital stock of Ultrapar, after giving effect to the transactions below:

	Common Shares	%	Preferred Shares	%	Total Shares	%
Shareholders						
Ultra S.A. Participações	32,646,696	66%	12	0%	32,646,708	40%
Parth Investments Company ⁽¹⁾	9,311,730	19%	1,396,759	4%	10,708,489	13%
Monteiro Aranha S.A.	5,212,637	11%	1,011,888	3%	6,224,525	8%
Ultra-DI Participações S.A. ⁽¹⁾	490,095	1%	73,514	0%	563,609	1%
Others	1,768,739	3%	29,413,339	93%	31,182,078	38%
Total	49,429,897	100%	31,895,512	100%	81,325,409	100%

(1) Parth Investments Company and Ultra-DI Participações S.A., which together hold 19.8% of our common shares, are controlled by Daisy Igel.

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

At an extraordinary shareholders meeting held on February 22, 2005, our shareholders approved the issuance of additional 1,838,728,517 preferred shares by us to permit certain shareholders, including Ultra, to exchange common shares of Ultrapar held indirectly by them into preferred shares at a ratio of one common share for one preferred share according to the provisions of the Ultra S.A. Shareholders Agreement. Common shares tendered for exchange into preferred shares were cancelled.

On April 27, we concluded the primary and secondary distribution of our preferred shares. The distribution comprised the secondary public distribution 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 new preferred shares issued by the company and object of the primary distribution. At the end of the primary and secondary offering total capital amounted to 81,325,410 thousand shares, being 49,429,897 thousand common shares and 31,895,513 thousand preferred shares.

At a special meeting of our shareholders 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 1 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 1 ADS representing 1,000 preferred shares to 1 ADS representing 1 preferred share. This reverse stock split and ratio change became effective on August 23, 2005. As a result of the stock split, we have amended our by-laws. As of April 30, 2006, we had 81,325,409 shares outstanding, with 49,429,897 common shares and 31,895,512 preferred shares.

Ownership And Capital Structure Of Ultra S.A. Participações

As of April 30, 2006, Ultra S.A. Participações, or Ultra S.A., owned approximately 66% of Ultrapar's voting shares. Historically, the voting stock of Ultra S.A. was owned primarily by two holding companies, Igel Participações S.A. and Avaré Participações S.A., owned primarily by members of the Igel family and certain members of our senior management, respectively. Igel Participações S.A. and Avaré Participações S.A. were dissolved on December 16, 2004, and the shares of Ultra owned by these companies were distributed to their respective shareholders.

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As of April 30, 2006, the capital stock of Ultra S.A. was owned as follows:

	Common Shares	%	Preferred Shares	%	Total Shares	%
<i>Shareholders</i>						
Fabio Igel	5,912,469	9%	1,768,275	7%	7,680,744	9%
Rogério Igel	4,634,187	7%	1,130,519	4%	5,764,706	7%
Joyce Igel de Castro Andrade	6,876,246	11%	2,062,989	8%	8,939,235	10%
Marcia Igel Joppert	6,876,246	11%	2,062,988	8%	8,939,234	10%
Christy Participações Ltda	6,425,199	10%	4,990,444	20%	11,415,643	13%
Others	3,750,831	6%	932,571	4%	4,683,402	5%
Shareholders	34,475,178	55%	12,947,786	51%	47,422,964	54%
<i>Directors and officers</i>						
Paulo Guilherme Aguiar de Cunha	11,974,109	19%			11,974,109	14%
Ana Maria Levy Villela Igel	9,764,689	15%	12,395,100	49%	22,159,789	25%
Lucio de Castro Andrade Filho	3,775,470	6%			3,775,470	4%
Fabio Schwartsman	1,606,301	3%			1,606,301	2%
Pedro Wongtschowski	1,606,301	3%			1,606,301	2%
Directors and Officers	28,726,870	45%	12,395,100	49%	41,121,970	46%
Total	63,202,048	100%	25,342,886	100%	88,544,934	100%

All of the securities are held in Brazil and there are 18 record holders of these securities in Brazil.

Shareholders Agreements

On March 22, 2000, our controlling shareholders entered into a shareholders agreement designed to ensure the equal treatment of all non-controlling shareholders in the event of any change in control. On May 18, 2004, the Extraordinary General Shareholders Meeting and the Special Meeting of Preferred Shareholders approved an amendment of our by-laws to register tag along rights for all Company shareholders, at 100% of the offer price. The registration of the tag along rights in our by-laws is intended to improve on the rights already conceded through the Shareholders Agreement.

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

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

all shares of Ultrapar that are held by Ultra will be voted as a block;

the Ultra S.A. shares will be voted in accordance with the instructions of the absolute majority of its common shares except for certain significant matters (including changes to the by-laws of either company, changes to our capital structure, mergers, material acquisitions or sales of assets, and election of Board members) which require the vote of 66% of the common shares.

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the Chairman of our Board of Directors must convene a meeting of, and provide all requested information and available documents to, all parties to the New Shareholders' Agreement before or after any meeting of our Board of Directors considering key issues such as our strategic plan and general policies, our organizational structure, the election of executive officers, our dividend policy, and any other material decisions as determined by the Board of Directors.

any party purchasing shares of Ultra S.A. must agree to be bound by the terms of the New Shareholders' Agreement; and

any party to the New Shareholders' Agreement may exchange his or her shares in Ultra S.A. into our preferred shares at an exchange ratio necessary to obtain the same percentage of our capital stock as was held in Ultra S.A., unless the exchange would result in (i) Ultra S.A. no longer having more than the majority of our voting shares or (ii) a violation of the number of preferred shares as a percentage of total capital stock legally permitted to be issued by us or by Ultra S.A.

B. Related Party Transactions

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

Utingás's by-laws provide for each of its shareholders to use a proportion of Utingás's total storage capacity equal to such shareholder's proportionate ownership of Utingás. Accordingly, Ultragaz is entitled to use 4.2 thousand tons of LPG storage capacity at Utingás's facilities, reflecting Ultragaz's 56% ownership in Utingás. The amount of payments made by Ultragaz to Utingás in 2005 with respect to the use of storage capacity at Utingás's facilities totaled R\$2.8 million.

See Note 20 to our consolidated financial statements for a detailed breakdown of related party transactions as of December 31, 2005.

C. Interests of Expert and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

For our consolidated financial statements and notes thereto see Item 18. Financial Statements.

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Dividend and Distribution Policy

Dividend policy

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

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

amounts allocated to the legal reserve;

amounts allocated to the statutory reserve, if any;

amounts allocated to the contingency reserve, if required;

amounts allocated to the unrealized profit reserve;

amounts allocated to the retained profit reserve;

reversions of reserves registered in prior years, in accordance with Brazilian GAAP; and

reversions of the amounts allocated to the unrealized profit reserve, when realized and not absorbed by losses.

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

Statutory reserves. Under Brazilian corporate law, any corporation may create statutory reserves, in which case it shall be provided in its respective by-laws. In this case, the by-laws must also indicate the reserve purpose, allocation criteria and maximum amount of reserve. Our by-laws do not provide for, and thus we do not maintain, a statutory reserve.

Contingency reserves. Under Brazilian corporate law, our shareholders may decide, upon a proposal of our Board of Directors, to allocate a discretionary amount of our net profit to a contingency reserve for estimated future losses which are deemed probable. The distributable amount may be further increased by the reversal of such reserve in the fiscal year when the reasons that justified the creation of such reserve cease to exist or in which the anticipated loss occurs. Accordingly, there is no specific percentage of net profit allocable to this type of reserve.

Unrealized profits reserves. Under Brazilian corporate law, when the mandatory dividend amount exceeds the realized net profit in a given fiscal year, our shareholders may elect, upon a proposal of our Board of Directors, to allocate some or all of the excess dividend amount to an unrealized profits reserves. Brazilian corporate law defines realized net profit as the amount by which the Company's net profits exceed the sum of (1) its net positive results,

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if any, from the equity method of accounting for earnings and losses of the Company's subsidiaries and certain of its affiliates and (2) the profits, gains or returns that will be received by the Company after the end of the next fiscal year. The distributable amount is increased by the profits that were allocated to such reserve when they are realized.

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

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

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

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

A company is permitted to allocate to the unrealized profits reserves all income from equity gains in subsidiaries that are not distributed to the company in the form of cash dividends. When such gains are distributed to the company in the form of cash dividends, the company is required to reverse the reserve. See Item 3D. Risk Factors Risks Relating to the Preferred Shares and ADSs. In addition to the mandatory distribution, the Board of Directors may recommend to the shareholders the payment of interim distributions from other funds that are legally available for such purposes. Any payment of an interim dividend may be set off against the amount of the mandatory dividend distribution for that fiscal year.

As an alternative form of payment of dividends, Brazilian companies may distribute interest attributed to shareholders' equity, which payments may be treated by a company as a deductible expense for income tax and social contribution purposes. Payments of interest attributed to shareholders' equity may be made at the discretion of our Board of Directors, subject to the approval of the holders of our common shares. Payments of interest attributed to shareholders' equity, net of withholding tax, may be used to satisfy a company's mandatory distribution obligation. This interest is calculated in accordance with the daily pro rata variation of the Brazilian government's long-term interest rate, (TJLP), as determined by the Central Bank from time to time, and cannot exceed the greater of:

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

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

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

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

For 2005 and 2004, we declared dividends to our shareholders in the amounts of R\$157 million and R\$164 million, corresponding to 53% and 40% of our net income for each period, respectively.

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

Dividend history

Year declared	Common shares (in reais per share)	Preferred shares (in U.S.\$ per share) ⁽¹⁾	Common shares (in reais per share)	Preferred shares (in U.S.\$ per share) ⁽¹⁾
2001 ⁽²⁾	4.20	4.63	1.61	1.77
2002 ⁽²⁾	1.00	1.09	0.30	0.33
2003 ⁽²⁾	1.01	1.11	0.34	0.38
2004 ⁽²⁾	2.36	2.36	0.84	0.84
2005	1.94	1.94	0.83	0.83

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

(2) Dividends per share were not retroactively adjusted for the stock dividend described under Item 4B. Business Overview.

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

Payment of dividends

Within the four months following the end of each fiscal year, our shareholders are required to hold an annual shareholders' meeting to decide, among other things, on the allocation of our net profits with respect to the fiscal year ended immediately prior to the shareholders' meeting and the payment of an annual dividend. Additionally, interim dividends may be declared by our Board of Directors. Under Brazilian corporate law, dividends are generally required to be paid within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which such dividend was declared. Unclaimed dividends revert to us three years after the date when we begin to pay such declared dividends.

Shareholders who are not residents of Brazil must register with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted in foreign currency outside of Brazil. The preferred shares underlying the ADSs will be held in Brazil by the Custodian, Banco Itaú S.A., as agent for the Depositary. For purposes of the registration requirement, the Depositary is deemed to be the stockholder of the preferred shares underlying the ADSs. The Depositary will register such preferred shares with the Central Bank.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian on behalf of the Depositary. The Custodian will then convert such proceeds into U.S. dollars and will cause such U.S. dollars to be delivered to the Depositary for distribution to holders of ADSs. See Description of American

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Depository Receipts in our Registration Statement filed on Form F-1, declared effective on April 12, 2005. In the event that the Custodian is unable to convert immediately the Brazilian currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that may occur before such dividends are converted and remitted. See

Item 3A. Selected Consolidated Financial Data Exchange Rates and Item 3D. Risk factors Risks Relating to Brazil. Dividends in respect of the preferred shares paid to shareholders who are not Brazilian residents, including holders of ADSs, are exempt from Brazilian withholding tax except for dividends declared based on profits generated prior to December 31, 1995. Distributions of interest on net worth are currently subject to withholding tax at a rate of 15%, or 25% in the case of a shareholder domiciled in a tax haven. See Item 10E. Taxation Brazilian Tax Consequences.

Legal proceedings

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

Labor matters

We are involved in legal proceedings with former and current employees mainly relating to overtime, health and safety premiums and job reintegration. Although we cannot estimate the exact amount involved in these labor claims, we believe in the event they are decided against us they would not, collective or individually, have a material adverse effect on our financial condition or results of operation. Our total payments relating to labor matters, charged as operational expenses to the consolidated statement of income, were R\$3.0 million in 2005, R\$4.2 million in 2004 and R\$3.5 million in 2003.

The Petrochemical Industry Labor Union, of which the employees of our indirect subsidiary Oxitenor Nordeste S.A. Indústria e Comércio are members, filed a lawsuit against Oxitenor Nordeste in 1990, demanding that Oxitenor Nordeste comply with salary adjustments set forth in applicable collective labor agreements, in lieu of the salary policies Oxitenor Nordeste effectively followed. The union also proposed a new collective bargaining agreement, which included an interpretation and clarification of the fourth clause of the previous collective bargaining agreement, which described the relevant salary policies that Oxitenor Nordeste was to follow. Based on the opinion of our legal counsel, who analyzed the last decision of the Federal Supreme Court (STF) on the collective bargaining agreement as well as the status of the individual lawsuit of our subsidiary regarding such agreement, our management believes that an accrual for a potential loss was not necessary as of December 31, 2005. See Note 19 (a) to our consolidated financial statements.

Civil claims

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

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

Ultragaz is a defendant in legal suits filed in the state of São Paulo relating to damages caused by an explosion in 1996 in a shopping mall in the city of Osasco. The largest single claim involving Ultragaz is an insurance subrogation claim filed with the 38° Civil Court of the City of São Paulo for approximately R\$9 million brought

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against Ultragaz, the builder of the shopping mall, the management of the shopping mall and the engineer responsible for the building's project. This claim is currently being reviewed by the superior courts of the State of São Paulo. Between 1996 and 2002, individual suits were filed by victims of the explosion claiming damages from Ultragaz for the loss of economic benefit and for pain and suffering. Of the 54 lawsuits which have resulted in judicial decisions as of December 31, 2005, 53 were judgments favorable to us. The one unfavorable decision, which we may appeal, was for a damage amount of seventeen thousands *reais*. The plaintiffs have appealed to the superior courts of the State of São Paulo. Only one of the cases was decided in the court of appeal against us on a non-unanimous basis and the court awarded a low indemnity to the plaintiff. We have already appealed this decision. The remaining suits are currently awaiting decisions in the superior courts. In June 2002, the management of the shopping mall filed a suit against Ultragaz with the 37^o Civil Court of the City of São Paulo for the reimbursement of medical and legal fees as well as expenses relating to the reconstruction of the mall. No ruling has yet been given on this suit. In 2003, a civil action was filed against Ultragaz and the management of the shopping mall by an association for the protection of the victims of the explosion. In March 2006, the judge of the 5^o Civil Court of the City of Osasco decided the claim in our favor based on the complete lack of evidence of any responsibility of Ultragaz in relation to the explosion. Ultragaz believes that it has produced evidence that defective gas pipes in the shopping mall caused the accident and that Ultragaz's on-site LPG storage facilities did not contribute to the explosion.

Tax matters

We filed suits challenging the constitutionality of several taxes applicable to us. Among the main tax matters are individual lawsuits filed by Ultragaz, Oxiteno and some of our subsidiaries against the Brazilian tax authorities contesting the increase in certain taxes introduced by Law 9,718 of November 28, 1998. We obtained injunctions to pay contributions to PIS and COFINS without the changes introduced by Law 9,718 of November 28, 1998 in its original version. The ongoing questioning refers to the levy of these taxes on sources of income other than revenues. The unpaid amounts were recorded in our financial statements, totaling R\$37.0 million as of December 31, 2005. Recently, the Federal Supreme Court (STF) decided a case with the same dispute in favor of the taxpayer. Although it is a favorable precedent, the decision does not automatically apply to lawsuits filed by other companies, since each company has to await judgment of its own lawsuit. In addition to the accrued amount, some of our subsidiaries have been unsuccessful in obtaining an injunction and, accordingly, have been paying the taxes. Thus, should there be final favorable outcomes for our subsidiaries in all lawsuits, we estimate that the total positive effect on income before income and social contribution taxes could reach R\$56.5 million, net of attorney's fees. In the event we lose these lawsuits, we would have to pay these provisioned amounts to the tax authorities, but this would not affect our statement of operations.

Utingás has been challenging an ISS (service tax) assessment issued by the municipal government of Santo André, in the state of São Paulo. Utingás's legal advisors classify the risk as being low, since a significant portion of the lower-court decision on this matter was favorable to Utingás. Utingás's position is supported by the opinion of a tax specialist. The updated unprovisioned amount of the contingency as of December 31, 2005 was R\$30.0 million. We believe that a reserve for a potential loss is not currently necessary.

Oxiteno and its subsidiary Oxiteno Nordeste accrued R\$14.5 million for ICMS tax assessments that were adjudicated by lower-level administrative courts. Oxiteno and Oxiteno Nordeste are currently awaiting decision on the appeal.

On October 7, 2005, through our indirect subsidiaries in the LPG business, we filed for and obtained an injunction to support the offset of PIS and COFINS credits against other federal taxes, notably income and social contribution taxes. In accordance with this injunction, these subsidiaries have been making escrow deposits for these debi