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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 that the transaction is legal.

Under Brazilian law, whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restriction on the remittance of foreign currency abroad and on the conversion of Brazilian currency into foreign currencies. Such restrictions may hinder or prevent the custodian or holders who have exchanged ADSs for underlying preferred shares from converting distributions or the proceeds from any sale of such shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad.

### **E. Taxation**

This description does not purport to be a comprehensive description of all of the tax considerations that may be relevant to any particular investor, including tax considerations that arise from rules of general application to all taxpayers or to certain classes of investors or that are generally assumed to be known by investors.

This summary is based upon tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change, possibly with retroactive effect, and to differing interpretations. You should consult your own tax advisors as to the Brazilian, United States or other tax consequences of the purchase, ownership and disposition of preferred shares or ADSs, including, in particular, the effect of any non U.S., state or local tax laws.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of preferred shares or ADSs.

### **Brazilian Tax Consequences**

**General.** The following discussion summarizes the main Brazilian tax consequences of the acquisition, ownership and disposition of our preferred shares or ADSs, as the case may be, by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of preferred shares, has registered its investment in such securities with the Central Bank as a U.S. dollar investment (in each case, a Non-Brazilian Holder). The following discussion does not address all of the Brazilian tax considerations applicable to any particular Non-Brazilian Holder. Therefore, each Non-Brazilian Holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in our preferred shares or ADSs.

**Taxation of dividends.** Dividends paid by us, including stock dividends and other dividends paid in property, to the depositary in respect of the preferred shares, or to a Non-Brazilian Holder in respect of preferred shares, are currently exempted from withholding tax in Brazil to the extent that the dividends are paid out of profits after January 1, 1996. Dividends relating to profits generated prior to January 1, 1996 may be subject to Brazilian withholding tax at varying rates, depending on the year the profits were generated.

**Payments of Interest on Capital.** Law No. 9,249, dated as of December 26, 1995, as amended, permits Brazilian corporations to make distributions to shareholders of interest on net equity, or interest attributed to shareholders' equity. These distributions may be paid in cash. Such payments represent a deductible expense from the payor's income tax and social contribution tax basis. This interest is limited to the daily pro rata variation of the Federal Government's long-term interest rate, as determined by the Central Bank from time to time, and cannot exceed the greater of:

- 50% of net income (before taxes for social contribution on net profits, income tax, and the deduction of the interest attributable to shareholders' equity) for the period in respect of which the payment is made; or

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- 50% of retained earnings as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest on capital to shareholders (including holders of ADSs in respect of preferred shares) is subject to a withholding tax at a rate of 15%. These payments may be included, at their net value, as part of any mandatory dividend.

To the extent that payments of interest on capital are included as part of a mandatory dividend, we are required to distribute an additional amount to ensure that the net amount received by shareholders, after payment of the applicable withholding tax is at least equal to the mandatory dividend.

Distributions of interest on net equity to foreign holders may be converted into U.S. dollars and remitted outside Brazil, subject to applicable exchange controls, to the extent that the investment is registered with the Central Bank.

We cannot assure you if our Board of Directors will determine that future distributions should be made by means of dividends or interest on capital.

**Taxation of gains.** For purposes of Brazilian taxation, there are two types of Non-Brazilian Holders of ADSs or preferred shares:

- market investors, which represent those non-Brazilian residents who register with the Central Bank and the CVM to invest in Brazil, in accordance with Resolution No. 2,689 of the National Monetary Council; and
- ordinary Non-Brazilian Holders, which include any and all non-residents in Brazil who invest in the country through any other means.

The comments contained below are applicable to all Non-Brazilian Holders, including Non-Brazilian Holders investing under Resolution No. 2,689, except where otherwise noted.

Resolution No. 2,689 grants favorable tax treatment to all Non-Brazilian Holders of preferred shares, provided the relevant disposal of the shares occurs on the Brazilian stock exchange and the following conditions are met:

- such holder appoints a representative in Brazil with powers to take action relating to their investment;
- such holder appoints an authorized custodian in Brazil for their investments;
- such holder registers as a foreign investor with the CVM; and
- such holder registers their investment with the Central Bank.

As mentioned, the sale of preferred shares by U.S. market investors carried out on the Brazilian stock exchange is exempted from tax on gains. We cannot assure you that the current preferential treatment for U.S. market investors under Resolution No. 2,689 will continue in the future.

The sale of preferred shares that occurs outside of the Brazilian stock exchange will be subject to the same tax treatment applicable to U.S. Holders. The redemption or distribution of proceeds deriving from the liquidation of preferred shares will be treated as a sale carried outside of the Brazilian stock exchange.

### *Non-Brazilian Holders*

Non-Brazilian Holders are subject to income tax at a 15% rate, as of January 1, 2005, on gains realized on the sale, redemption or distribution of proceeds deriving from the liquidation of preferred shares.

With respect to the cost of acquisition used for calculating such gains, Brazilian law has conflicting provisions regarding the currency in which such amount must be determined. As a general rule, gains realized as a result of a disposition transaction of preferred shares or ADSs are the positive difference between the amount realized on the sale or exchange of the security and its acquisition cost. There is a controversy regarding the currency that should be considered for the purposes of determining the acquisition cost of the investment in Brazil. In sum, the controversy refers to whether the acquisition cost shall be determined based on the amount in foreign currency or the amount in local currency registered with the Central Bank.

As of January 1, 2005 the purchase price of preferred shares sold on the Brazilian stock exchange is subject to a withholding tax rate of 0.005%, except in case of Non-Brazilian Holders, which invest in Brazil pursuant to Resolution No. 2,689. This tax may be offset against the 15% income tax due on the gains realized upon the sale of the preferred shares. The withholding tax must be withheld by one of the following entities: (i) the agent receiving the sale or disposition order from the client; (ii) the stock exchange responsible for registering the transactions; or (iii) the entity responsible for the settlement and payment of the transactions.

Any exercise of preemptive rights relating to the preferred shares will not be subject to Brazilian taxation. Conversely, any gain on the sale or assignment of preemptive rights relating to the preferred shares by the depositary on behalf of the holders of ADSs or by a Non-Brazilian Holder of preferred shares will be subject to the same rules of taxation applicable to the sale or assignment of preferred shares. The maximum rate is currently 5%.

*Sale of ADS and preferred shares by U.S. Holders to other non-residents in Brazil*

Pursuant to Article 26 of Law No. 10,833, published on December 29, 2003, the sale of property located in Brazil involving non-resident investors is subject to Brazilian income tax as of February 1, 2004. Our understanding is that ADSs do not qualify as property located in Brazil and, thus, should not be subject to the Brazilian withholding tax. Insofar, as the regulatory norm referred to in Article 26, is recent and generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.

*Gains on the exchange of ADS for preferred shares*

The exchange of ADSs for preferred shares is not subject to Brazilian tax. Non-Brazilian Holders may exchange its ADSs for the underlying preferred shares, sell the preferred shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depositary's electronic registration), with no tax consequences.

Upon receipt of the underlying preferred shares in exchange for ADSs, Non-Brazilian Holders may also elect to register with the Central Bank the U.S. dollar value of such preferred shares as a foreign portfolio investment under Resolution No. 2,689, which will entitle them to the tax treatment discussed above under "Taxation of Gains" in connection with "U.S. market investors".

Alternatively, the Non-Brazilian Holder is also entitled to register with the Central Bank the U.S. dollar value of such preferred shares as a foreign direct investment under Law 4,131/62, in which case the respective sale would be subject to the tax treatment discussed above under "Taxation of Gains-Non-Brazilian Holders" in connection with ordinary Non-Brazilian Holders.

*Gains on the exchange of preferred shares for ADS*

The deposit of preferred shares in exchange for the ADSs may be subject to Brazilian income tax on capital gains if the amount previously registered with the Central Bank as a foreign investment in preferred shares or, in the case of other market investors under Resolution No. 2,689, the acquisition cost of the preferred shares, as the case may be, is lower than:

- the average price per preferred share on the Brazilian stock exchange on which the greatest number of such preferred shares were sold on the day of the deposit; or
- if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold during the 15 preceding trading sessions.

The difference between the amount previously registered, or the acquisition cost, as the case may be, and the average price of the preferred shares, calculated as set forth above, is considered a capital gain subject to income tax at a rate of 15%.

*Beneficiaries Residing or Domiciled in Tax Havens or Low-Tax Jurisdictions.*

Law No. 9,430, dated as of December 27, 1996 defines low-tax jurisdictions as those that do not tax income or impose a rate lower than 20%.

Law No. 9,779, dated as of January 19, 1999, states that, except under limited circumstances, any income derived from operations by a beneficiary that resides or is domiciled in a country considered to be a tax haven is subject to income tax to be withheld by the source at a rate of 25%.

Accordingly, if the distribution of interest attributed to shareholders' equity is made to a beneficiary residing or domiciled in a tax haven, the applicable income tax will be at a rate of 25% instead of 15%. The increased rate also applies for capital gains earned in transactions not carried out on the Brazilian stock exchange and which are paid to residents of low-tax jurisdictions as of February 2004. However, the increased rate does not apply to dividends distributions, which remain exempted even if the beneficiary resides in a low-tax jurisdiction.

In accordance with Law No. 9,959, Non-Brazilian Holders of ADSs or preferred shares which are resident in tax havens are also excluded from the tax incentives granted to holders of ADSs and investors under Resolution No. 2,689 as of January 1, 2000 and will be subject to the same tax treatment applicable to holders that are resident or domiciled in Brazil in case of transactions not carried out on the Brazilian stock exchange.

**Taxation of Foreign Exchange Transactions.** A financial transaction tax is imposed on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Although the current applicable rate for almost all foreign currency exchange transactions is zero, the Ministry of Finance may increase the rate at any time, up to 25%. However, it may only do so with respect to future transactions.

**Taxation of Bonds and Securities Transactions.** Law No. 8,894, dated as of June 21, 1994, created the Tax on Financial Transactions, or IOF, which may be imposed on any transaction involving bonds and securities, even if the transaction includes Brazilian stock, futures or commodities exchanges. The rate of IOF/Títulos with respect to transactions of preferred shares and ADSs is currently zero, although the executive branch may increase the rate up to 1.5% per day of the terms of the securities, but only with respect to future transactions relating to preferred shares or ADSs.

**Other Brazilian Taxes.** Some Brazilian states impose gift and inheritance tax on gifts or bequests made by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

Contribuição Provisória sobre Movimentação Financeira, or CPMF, is imposed on bank account debits at 0.38%. Constitutional Amendment No. 42/2003 approved the continued imposition of the CPMF tax until December 31, 2007. The responsibility for the collection of the CPMF tax is borne by the financial institution that carries out the relevant financial transaction.

Additionally, when the Non-Brazilian Holder transfers the proceeds from the sale or assignment of preferred shares by a currency exchange transaction, the CPMF tax will be levied on the amount to be remitted abroad in *reais*. If we perform any exchange transaction in connection with ADSs or preferred shares, we will bear the CPMF tax.

Non-Brazilian Holders investing in the Brazilian stock exchange are granted a CPMF exemption upon the entrance of funds into Brazil and the remittance abroad.

## **U.S. Federal Income Tax Consequences**

The following is a discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to preferred shares or ADSs, and does not address state, local or other tax laws. The discussion applies only to holders that hold preferred shares or ADSs as capital assets for tax purposes, and does not address special classes of holders, such as dealers and traders in securities or foreign currencies, financial institutions, insurance companies, tax exempt entities, persons owning, directly, indirectly or

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constructively, 10% or more of our voting shares, persons holding preferred shares or ADSs as part of a hedging or conversion transaction or straddle, persons entering into a "constructive sale" with respect to preferred shares or ADSs, persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar, persons liable for alternative minimum tax, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, or persons who have ceased to be United States citizens or to be taxed as resident aliens, or persons who acquired our ADSs or preferred shares pursuant to the exercise of any employee stock option or otherwise as compensation.

You are advised to consult your own tax advisors concerning the overall tax consequences to you, including the consequences under foreign, state and local laws, of the acquisition, ownership and disposition of preferred shares or ADSs.

This discussion is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as currently in effect and changes to any of which may affect the tax consequences described herein, possibly with retroactive effect. In addition, this discussion is based in part on representations of the depositary and assumes that each obligation provided for in or otherwise contemplated by the Deposit Agreement and any other related document will be performed in accordance with its terms.

This discussion applies to you only if you are a "U.S. Holder." For purposes of this discussion, a "U.S. Holder" is a beneficial owner of preferred shares or ADSs that is for U.S. federal income tax purposes (i) a citizen or resident of the United States of America, (ii) a corporation, or other entity taxable as a corporation, organized under the laws of the United States of America or any political subdivision thereof, or (iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source. We believe, and this discussion assumes, that we are not, and will not become, a passive foreign investment company (as discussed below).

In general, U.S. Holders of ADSs will be treated for U.S. federal income tax purposes as owners of the preferred shares underlying the ADSs. Accordingly, except as noted, the U.S. federal income tax consequences discussed below apply equally to U.S. Holders of ADSs and preferred shares, and references to preferred shares should also be treated as references to ADSs. Exchanges of preferred shares for ADSs and ADSs for preferred shares will not be subject to U.S. federal income tax.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Such actions would also be inconsistent with claiming the 15% rate applicable to non-corporate holders. Accordingly, the analysis of the creditability of Brazilian taxes and the availability of the 15% rate received by certain non-corporate holders, each as described below, could be affected by actions that may be taken by the parties to whom ADSs are pre-released.

**Taxation of dividends.** Distributions paid with respect to preferred shares will be includable in the income of a U.S. Holder as ordinary dividend income to the extent paid out of current or accumulated earnings and profits of Ultrapar, as determined for U.S. federal income tax purposes. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, dividends received by non-corporate U.S. Holders on preferred shares or ADSs may be subject to U.S. federal income tax at lower rates (generally 15%) than other types of ordinary income. U.S. Holders should consult their own tax advisors regarding the implications of this new legislation in their particular circumstances. For purposes of these rules, the amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution. In addition, the taxable amount of any distribution will include the amount of Brazilian tax withheld on the amount distributed, if any, and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the depositary, in the case of ADSs, or the U.S. Holder, in the case of preferred shares directly held by a U.S. Holder. The U.S. Holder may have foreign currency gain or loss if the amount of such dividend is not converted into U.S. dollars on the date of its receipt.

Dividends paid by us generally will be treated as foreign source dividend income to U.S. Holders and will not be eligible for the dividends received deduction. Subject to certain limitations, and the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian withholding tax, if any, paid in connection with any distribution with respect to preferred shares may be claimed as a credit against the U.S. federal income tax liability of a U.S.

Holder if such U.S. Holder elects for that year to credit all foreign income taxes; otherwise, such Brazilian withholding tax may be taken as a deduction. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. U.S. Holders should consult their own tax advisors concerning the availability and utilization of the foreign tax credit.

**Taxation of capital gains.** Gain or loss realized by a U.S. Holder upon the sale, exchange or other disposition of a preferred share or ADS will be subject to United States federal income tax as U.S. source capital gain or loss in an amount equal to the difference between the amount realized on the disposition of the preferred share or ADS and the U.S. Holder's tax basis in the preferred share or ADS. The gain or loss will be long term capital gain or loss if the U.S. Holder's holding period in the preferred share or ADS exceeds one year. If a Brazilian income tax is imposed on the sale or disposition of preferred shares or ADS, and the U.S. Holder does not receive significant foreign source income from other sources, the U.S. Holder may not be able effectively to credit such Brazilian tax against its U.S. tax liability. U.S. Holders should consult their tax advisors regarding the United States federal tax treatment of capital gains, which may be taxed at lower rates than ordinary income for individuals, and losses, the deductibility of which is subject to limitations.

**Passive foreign investment company.** Special U.S. tax rules apply to U.S. Holders that own shares or ADSs in a passive foreign investment company, known as a PFIC. In general, we will be classified as a PFIC in a particular taxable year if either:

- 75% or more of our gross income consists of passive income, such as dividends, interest, rents and royalties; or
- 50% or more of our assets, by value, determined on the basis of a quarterly average, consists of assets that produce, or are held for the production of, passive income.

Based on a review of our income and assets, we believe that we are not a PFIC for U.S. federal income tax purposes and we do not expect to be a PFIC in the foreseeable future. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets (including, among others, less than 25 percent equity investments) from time to time, there can be no assurance that we will not be considered a PFIC for any taxable year.

If we are treated as a PFIC in any taxable year during which a U.S. Holder owns preferred shares or ADSs, gain recognized by such U.S. Holder on the sale or other disposition of the preferred shares or ADSs will be allocated ratably over the U.S. Holder's holding period for the preferred shares. The amounts allocated to the taxable year of the sale or other exchange and to any year before we become a PFIC will be taxable as ordinary income. The amount allocated to each other taxable year will be subject to tax at the highest rate in effect for that year for individuals or corporations, as appropriate, and an interest charge will be imposed on the amount allocated to such taxable year. Further, any distribution in respect of the preferred shares or ADSs in excess of 125 percent of the average of the annual distributions on preferred shares or ADSs received by the U.S. Holder during the preceding three years or the U.S. Holder's holding period, whichever is shorter, will be subject to taxation as described above. Certain elections may be available (including a mark-to-market election) to U.S. persons that may mitigate the adverse consequences resulting from PFIC status.

In addition, if we are treated as a PFIC in a taxable year in which we pay a dividend or the prior taxable year, the 15% dividend rate discussed above with respect to dividends paid to non-corporate holders will not apply in that year or the next year.

**United States backup withholding and information reporting.** Payment of dividends and other proceeds in connection with the preferred shares or ADSs made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting and maybe subject to backup withholding unless the U.S. Holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (ii) in the case of backup withholding, provides a taxpayer identification number on a properly completed Internal Revenue Service Form W-9 or a substitute form and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding is creditable against the U.S. Holder's federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is furnished to the Internal Revenue Service.