

PROSPECT CAPITAL CORP
Form 497
November 13, 2012

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PROSPECTUS SUPPLEMENT
(To Prospectus dated October 29, 2012)

Prospect Capital Corporation

Prospect Capital InterNotes®

We may offer to sell our Prospect Capital InterNotes® from time to time. The specific terms of the notes will be set prior to the time of sale and described in a pricing supplement. You should read this prospectus supplement, the accompanying prospectus and the applicable pricing supplement carefully before you invest. We may offer other debt securities from time to time other than the notes under our Registration Statement or in private placements.

We may offer the notes to or through agents for resale. The applicable pricing supplement will specify the purchase price, agent discounts and net proceeds of any particular offering of notes. The agents are not required to sell any specific amount of notes but will use their reasonable best efforts to sell the notes. We also may offer the notes directly. We have not set a date for termination of our offering.

The agents have advised us that from time to time they may purchase and sell notes in the secondary market, but they are not obligated to make a market in the notes and may suspend or completely stop that activity at any time. Unless otherwise specified in the applicable pricing supplement, we do not intend to list the notes on any stock exchange.

Investing in the notes involves certain risks, including those described in the "Risk Factors" section beginning on page S-8 of this prospectus supplement and page 11 of the accompanying prospectus.

This prospectus supplement and the accompanying prospectus contain important information you should know before investing in our securities. Please read it before you invest and keep it for future reference. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission, or the "SEC." This information is available free of charge by contacting us at 10 East 40th Street, 44th Floor, New York, NY 10016 or by telephone at (212) 448-0702. The SEC maintains a website at www.sec.gov where such information is available without charge upon written or oral request. Our internet website address is www.prospectstreet.com. Information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus.

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Neither the SEC nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

Obligations of Prospect Capital Corporation and any subsidiary of Prospect Capital Corporation are not guaranteed by the full faith and credit of the United States of America. Neither Prospect Capital Corporation nor any subsidiary of Prospect Capital Corporation is a government-sponsored enterprise or an instrumentality of the United States of America.

We may sell the notes to or through one or more agents or dealers, including the agent listed below.

Incapital LLC

Prospectus Supplement dated November 13, 2012.

®InterNotes is a registered trademark of Incapital Holdings LLC

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act," which involve substantial risks and uncertainties. Forward-looking statements predict or describe our future operations, business plans, business and investment strategies and portfolio management and the performance of our investments and our investment management business. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs, and our assumptions. Words such as "intends," "intend," "intended," "goal," "estimate," "estimates," "expects," "expect," "expected," "project," "projected," "projections," "plans," "seeks," "anticipates," "anticipated," "should," "could," "may," "will," "designed to," "foreseeable future," "believe," "believes" and "scheduled" and variations of these words and similar expressions are intended to identify forward-looking statements. Our actual results or outcomes may differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date the statement was made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

our future operating results,

our business prospects and the prospects of our portfolio companies,

the impact of investments that we expect to make,

our contractual arrangements and relationships with third parties,

the dependence of our future success on the general economy and its impact on the industries in which we invest,

the ability of our portfolio companies to achieve their objectives,

difficulty in obtaining financing or raising capital, especially in the current credit and equity environment,

the level and volatility of prevailing interest rates and credit spreads, magnified by the current turmoil in the credit markets,

adverse developments in the availability of desirable loan and investment opportunities whether they are due to competition, regulation or otherwise,

a compression of the yield on our investments and the cost of our liabilities, as well as the level of leverage available to us,

our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated investment company,

the adequacy of our cash resources and working capital,

the timing of cash flows, if any, from the operations of our portfolio companies,

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the ability of our investment adviser to locate suitable investments for us and to monitor and administer our investments,

authoritative generally accepted accounting principles or policy changes from such standard-setting bodies as the Financial Accounting Standards Board, the SEC, Internal Revenue Service,

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the NASDAQ Global Select Market, and other authorities that we are subject to, as well as their counterparts in any foreign jurisdictions where we might do business, and

the risks, uncertainties and other factors we identify in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, ability to obtain certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement and the accompanying prospectus, respectively, should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in "Risk Factors" and elsewhere in this prospectus supplement and the accompanying prospectus, respectively. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement or the accompanying prospectus, as applicable. These forward-looking statements do not meet the safe harbor for forward-looking statements pursuant to Section 27A of the Securities Act of 1933, as amended, or the "Securities Act."

You should rely only on the information contained in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus. We have not, and the agent(s) or dealer(s) has not, authorized any other person to provide you with information that is different from that contained in this prospectus supplement, including any pricing supplement included hereto, or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the agents are not, making an offer of these securities in any jurisdiction where the offer is not permitted. You should assume that the information appearing in this prospectus supplement, including any pricing supplement included hereto, and the accompanying prospectus is accurate only as of their respective dates and we assume no obligation to update any such information. Our business, financial condition and results of operations may have changed since those dates. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we any make directly to you or through reports that we have filed with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

This prospectus supplement, including any pricing supplement included hereto, supersedes the accompanying prospectus to the extent it contains information that is different from or in addition to the information in that prospectus.

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PROSPECTUS SUMMARY

This section summarizes the legal and financial terms of the notes that are described in more detail in "Description of Notes" beginning on page S-12. Final terms of any particular notes will be determined at the time of sale and will be contained in the pricing supplement, which will be included with this prospectus supplement, relating to those notes. The terms in that pricing supplement may vary from and supersede the terms contained in this summary and in "Description of Notes." In addition, you should read the more detailed information appearing elsewhere in this prospectus supplement, the accompanying prospectus and in that pricing supplement.

The terms "we," "us," "our" and "Company" refer to Prospect Capital Corporation; "Prospect Capital Management," "Investment Advisor" and "PCM" refer to Prospect Capital Management LLC; and "Prospect Administration" and the "Administrator" refer to Prospect Administration LLC.

The Company

Prospect Capital Corporation is a financial services company that primarily lends to and invests in middle market privately-held companies. In this prospectus, we use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$2 billion. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the "1940 Act." We invest primarily in senior and subordinated debt and equity of companies in need of capital for acquisitions, divestitures, growth, development and recapitalization. We work with the management teams or financial sponsors to seek investments with historical cash flows, asset collateral or contracted pro-forma cash flows.

We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt is subordinated to senior loans and is generally unsecured. Our investments have generally ranged between \$5 million and \$75 million each, although the investment size may be more or less than this range. Our investment sizes are expected to grow as our capital base expands.

We also acquire controlling interests in companies in conjunction with making secured debt investments in such companies. In most cases, companies in which we invest are privately held at the time we invest in them. We refer to these companies as "target" or "middle market" companies and these investments as "middle market investments."

We seek to maximize total returns to our investors, including both current yield and equity upside, by applying rigorous credit analysis and asset-based and cash-flow based lending techniques to make and monitor our investments. Many of our investments to date have been in energy-related industries, which consist of companies in the discovery, production, transportation, storage and use of energy resources as well as companies that sell products and services to, or acquire products and services from, these companies. We have made no direct investments to date in the real estate or mortgage industries, and we do not intend currently to focus on such investments.

We are currently pursuing multiple investment opportunities, including purchases of portfolios from private and public companies, as well as originations and secondary purchases of particular securities. There can be no assurance that we will successfully consummate any investment opportunity we are currently pursuing. Motivated sellers, including commercial finance companies, hedge funds, other business development companies, total return swap counterparties, banks, collateralized loan obligation funds, and other entities, are suffering from excess leverage, and we believe we are well positioned to capitalize as potential buyers of such assets at attractive prices. If any of these

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opportunities are consummated, there can be no assurance that investors will share our view of valuation or that any assets acquired will not be subject to future write downs, each of which could have an adverse effect on our stock price.

As of September 30, 2012, we held investments in 96 portfolio companies. The aggregate fair value as of September 30, 2012 of investments in these portfolio companies held on that date is approximately \$2.7 billion. Our portfolio across all our long-term debt had an annualized current yield of 13.3% as of September 30, 2012. The yield includes interest as well as dividends.

Recent Developments

Dividends

On November 7, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101675 per share for November 2012 to holders of record on November 30, 2012 with a payment date of December 20, 2012;

\$0.101700 per share for December 2012 to holders of record on December 31, 2012 with a payment date of January 23, 2013; and

\$0.101725 per share for January 2013 to holders of record on January 31, 2013 with a payment date of February 20, 2013.

Recent Investment Activity

On October 3, 2012, we made a senior secured investment of \$21.5 million to support the acquisition of CP Well Testing, LLC, a leading provider of flowback services to oil and gas companies operating in Western Oklahoma and the Texas Panhandle.

On October 5, 2012, Northwestern Management Services, LLC repaid the \$15.1 million loan receivable to us and we sold our 50 shares of Northwestern common stock for total proceeds of \$2.2 million, realizing a gain of \$1.9 million.

On October 11, 2012, we made a secured second lien investment of \$12.0 million in Deltek, Inc., an enterprise software and information solutions provider for professional services firms, government contractors, and government agencies.

On October 12, 2012, we made a senior secured investment of \$42.0 million to support the acquisition of Gulf Coast Machine and Supply Company, a preferred provider of value-added forging solutions to energy and industrial end markets.

On October 16, 2012, Blue Coat Systems, Inc. repaid the \$25.0 million loan receivable to us.

On October 18, 2012, we made a follow-on equity investment of \$20.0 million to First Tower Holdings of Delaware LLC, to support seasonal growth in finance receivables due to increased holiday borrowing activity among its customer base.

On October 18, 2012, Hi-Tech Testing Service, Inc. and Wilson Inspection X-Ray Services, Inc. repaid the \$7.2 million loan receivable to us.

On October 19, 2012, Mood Media Corporation repaid the \$15.0 million loan receivable to us.

On October 24, 2012, we made an investment of \$7.8 million to acquire an industrial real estate property occupied by Filet-of-Chicken, a chicken processor in Georgia.

On October 31, 2012, Shearer's Foods, Inc. repaid the \$38.0 million loan receivable to us.

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On November 5, 2012, we made an investment of \$39.5 million to purchase 95.0% of the subordinated notes in ING IM CLO 2012-4, LTD.

On November 7, 2012, we redeemed our membership interests in Mistral Chip Holdings, LLC, Mistral Chip Holdings 2, LLC and Mistral Chip Holdings 3, LLC in connection with the sale of Shearer's Foods, Inc., receiving \$6.0 million of net proceeds and realizing a gain of approximately \$2.0 million on the redemption.

On November 8, 2012, Potters Holdings II, L.P. repaid the \$15.0 million loan receivable to us.

On November 9, 2012 we made a secured second lien investment of \$22.0 million to support the recapitalization of EIG Investors Corp. Concurrent with the financing, we received a repayment of the \$12.0 million loan previously outstanding.

Shelf Registration

On October 29, 2012, our Registration Statement on Form N-2 was declared effective by the SEC. Under this Shelf Registration Statement, we can issue up to \$3.0 billion of additional securities.

Debt Issuance

On October 4, 2012, we issued \$7.2 million in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of approximately \$7.0 million.

Common Stock Issuances

During the period from October 1, 2012 to October 9, 2012, we sold 1,245,655 shares of our common stock at an average price of \$11.53 per share, and raised \$14.4 million of gross proceeds, under our at-the-market offering program (the "ATM Program"). Net proceeds were \$14.2 million after 1% commission to the broker-dealer on shares sold and offering costs.

On October 24, 2012 we issued 83,200 shares of our common stock in connection with the dividend reinvestment plan.

On November 7, 2012, we issued 35,000,000 shares of our common stock at \$11.10 per share (or \$10.96 per share net proceeds excluding expenses), raising \$383.6 million of net proceeds.

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The Offering

Issuer	Prospect Capital Corporation
Purchasing Agent	Incapital LLC
Agents	From time to time, we may sell the notes to or through additional agents.
Title of Notes	Prospect Capital InterNotes®
Amount	We may issue notes from time to time in various offerings up to \$500,000,000, the aggregate principal amount authorized by our board of directors for notes as well as all other publicly-offered senior debt securities of the Company. As of November 12, 2012, \$95,689,000 aggregate principal amount of notes has been issued. There are no limitations on our ability to issue additional indebtedness in the form of Prospect Capital InterNotes® or otherwise other than under the 1940 Act.
Denominations	The notes will be issued and sold in denominations of \$1,000 and multiples of \$1,000 (unless otherwise stated in the pricing supplement).
Status	The notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.
Maturities	Each note will mature 12 months or more from its date of original issuance.
Interest	<p>Each note will bear interest from its date of original issuance at a fixed rate per year.</p> <p>Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and on the stated maturity date. Interest also will be paid on the date of redemption or repayment if a note is redeemed or repurchased prior to its stated maturity in accordance with its terms.</p> <p>Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.</p>
Principal	The principal amount of each note will be payable on its stated maturity date at the corporate trust office of the paying agent or at any other place we may designate.
Redemption and Repayment	Unless otherwise stated in the applicable pricing supplement, a note will not be redeemable at our option or be repayable at the option of the holder prior to its stated maturity date. The notes will not be subject to any sinking fund.
Survivor's Option	Specific notes may contain a provision permitting the optional repayment of those notes prior to stated maturity, if requested by the authorized representative of the beneficial owner of those notes, following the death of the beneficial owner of the notes, so long as the notes were owned by the beneficial owner or his or

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her estate at least six months prior to the request. This feature is referred to as a "Survivor's Option." Your notes will not be repaid in this manner unless the pricing supplement for your notes provides for the Survivor's Option. The right to exercise the Survivor's Option is subject to limits set by us on (1) the permitted dollar amount of total exercises by all holders of notes in any calendar year, and (2) the permitted dollar amount of an individual exercise by a holder of a note in any calendar year. Additional details on the Survivor's Option are described in the section entitled "Description of Notes Survivor's Option" on page S-15.

Sale and Clearance

We will sell notes in the United States only. Notes will be issued in book-entry only form and will clear through The Depository Trust Company. We do not intend to issue notes in certificated form.

Trustee

The trustee for the notes is U.S. Bank National Association, under an indenture dated as of February 16, 2012, as amended and as supplemented from time to time.

Selling Group

The agents and dealers comprising the selling group are broker-dealers and securities firms. The Purchasing Agent entered into an Amended and Restated Selling Agent Agreement with us dated November 13, 2012 (the "Selling Agent Agreement"). Additional agents appointed by us from time to time in connection with the offering of the notes contemplated by this prospectus supplement will become parties to the Selling Agent Agreement. Dealers who are members of the selling group have executed a Master Selected Dealer Agreement with the Purchasing Agent. The agents and the dealers have agreed to market and sell the notes in accordance with the terms of those respective agreements and all other applicable laws and regulations. You may contact the Purchasing Agent at info@incapital.com for a list of selling group members.

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You should read the condensed consolidated financial information below with the Consolidated Financial Statements and notes thereto included in this prospectus supplement and the accompanying prospectus. Financial information below for the years ended June 30, 2012, 2011, 2010, 2009 and 2008 has been derived from the financial statements that were audited by our independent registered public accounting firm. The selected consolidated financial data at and for the three months ended September 30, 2012 and 2011 has been derived from unaudited financial data. Interim results for the three months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. Certain reclassifications have been made to the prior period financial information to conform to the current period presentation. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" starting on page S-18 for more information.

	For the Three Months Ended September 30,			For the Year/Period Ended June 30,				
	2012	2011	2012	2011	2010	2009	2008	
	(in thousands except data relating to shares, per share and number of portfolio companies)							
Performance Data:								
Interest income	\$ 78,310	\$ 42,387	\$ 219,536	\$ 134,454	\$ 86,518	\$ 62,926	\$ 59,033	
Dividend income	36,208	7,050	64,881	15,092	15,366	22,793	12,033	
Other income	9,118	5,905	36,493	19,930	12,675	14,762	8,336	
Total investment income	123,636	55,342	320,910	169,476	114,559	100,481	79,402	
Interest and credit facility expenses	(13,511)	(8,960)	(35,836)	(17,598)	(8,382)	(6,161)	(6,318)	
Investment advisory expense	(31,735)	(15,180)	(46,671)	(46,051)	(30,727)	(26,705)	(20,199)	
Other expenses	(4,363)	(3,325)	(51,719)	(11,606)	(8,260)	(8,452)	(7,772)	
Total expenses	(49,609)	(27,465)	(134,226)	(75,255)	(47,369)	(41,318)	(34,289)	
Net investment income	74,027	27,877	186,684	94,221	67,190	59,163	45,113	
Realized and unrealized gains (losses)	1,775	(14,607)	4,220	24,017	(47,565)	(24,059)	(17,522)	
Net increase in net assets from operations	\$ 47,249	\$ 39,900	\$ 190,904	\$ 118,238	\$ 19,625	\$ 35,104	\$ 27,591	
Per Share Data:								
Net increase in net assets from operations(1)	\$ 0.29	\$ 0.37	\$ 1.67	\$ 1.38	\$ 0.33	\$ 1.11	\$ 1.17	
Distributions declared per share	\$ (0.30)	\$ (0.30)	\$ (1.22)	\$ (1.21)	\$ (1.33)	\$ (1.62)	\$ (1.59)	
Average weighted shares outstanding for the period	162,492,894	108,959,489	114,394,554	85,978,757	59,429,222	31,559,905	23,626,642	
Assets and Liabilities Data:								
Investments	\$ 2,846,123	\$ 2,212,590	\$ 2,094,221	\$ 1,463,010	\$ 748,483	\$ 547,168	\$ 497,530	
Other assets	66,474	42,664	161,303	86,307	84,212	119,857	44,248	
Total assets	2,912,597	2,255,254	2,255,524	1,549,317	832,695	667,025	541,778	
Amount drawn on credit facility		96,000	96,000	84,200	100,300	124,800	91,167	
Senior Convertible Notes	647,500	447,500	447,500	322,500				
2022 Notes	100,000	100,000	100,000					
InterNotes®	88,517	20,638	20,638					
	12,045	8,571	8,571	7,918	9,300	6,713	6,641	

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Amount owed to related parties							
Other liabilities	181,209	70,571	70,571	20,342	11,671	2,916	14,347
Total liabilities	1,029,271	743,280	743,280	434,960	121,271	134,429	112,155
Net assets	\$ 1,883,326	\$ 1,511,974	\$ 1,511,974	\$ 1,114,357	\$ 711,424	\$ 532,596	\$ 429,623

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	For the Three Months Ended September 30,		For the Year/Period Ended June 30,				
	2012	2011	2012	2011	2010	2009	2008
	(in thousands except data relating to shares, per share and number of portfolio companies)						
Investment Activity Data:							
No. of portfolio companies at period end	96	76	85	72	58	30	29(2)
Acquisitions	\$ 747,937	\$ 222,575	\$ 1,120,659	\$ 953,337	\$ 364,788(3)	\$ 98,305	\$ 311,947
Sales, repayments, and other disposals	\$ 158,123	\$ 46,055	\$ 500,952	\$ 285,562	\$ 136,221	\$ 27,007	\$ 127,212
Weighted-Average Yield at end of period(4)	13.3%	12.4%	13.6%	12.8%	16.2%	14.6%	15.5%

- (1) Per share data is based on average weighted shares for the period
- (2) Includes a net profits interest in Charlevoix Energy Trading LLC ("Charlevoix"), remaining after loan was paid.
- (3) Includes \$207,126 of acquired portfolio investments acquired from Patriot Capital Funding, LLC.
- (4) Excludes equity investments and non-performing loans.

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RISK FACTORS

Your investment in the notes will involve certain risks. This prospectus supplement and the accompanying prospectus do not describe all of those risks.

You should, in consultation with your own financial and legal advisors, carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you. The notes will not be an appropriate investment for you if you are not knowledgeable about significant features of the notes or financial matters in general. You should not purchase the notes unless you understand, and know that you can bear, these investment risks.

Our amount of debt outstanding will increase as a result of this offering. Our current indebtedness could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

As of November 12, 2012, we and our subsidiary had approximately \$853.2 million of senior indebtedness outstanding, \$10.0 million of which was secured indebtedness and \$843.2 million of which was unsecured indebtedness.

The use of debt could have significant consequences on our future operations, including:

making it more difficult for us to meet our payment and other obligations under the notes and our other outstanding debt;

resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements, which event of default could result in all of our debt becoming immediately due and payable;

reducing the availability of our cash flow to fund investments, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our amended senior credit facility; and

limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations and our ability to meet our payment obligations under the notes and our other debt.

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flow in the future. This, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flow from operations, or that future borrowings will be available to us under our existing or amended senior credit facility or otherwise, in an amount sufficient to enable us to meet our payment obligations under the notes and our other debt and to fund other liquidity needs. If we are not able to generate sufficient cash flow to service our debt obligations, we may need to refinance or restructure our debt, including any notes sold, sell assets, reduce or delay capital investments, or seek to raise additional capital. If we are unable to implement one or more of these alternatives, we may not be able to meet our payment obligations under the notes and our other debt.

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The notes will be effectively subordinated to any existing and future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our subsidiaries.

The notes will be our general, unsecured obligations and will rank equally in right of payment with all of our existing and future unsubordinated, unsecured senior indebtedness, including without limitation, the \$150 million aggregate principal amount of 6.25% Convertible Senior Notes due 2015 (the "2015 Notes"), the \$168 million aggregate principal amount of 5.50% Convertible Senior Notes due 2016 (the "2016 Notes"), the \$130 million aggregate principal amount of Convertible Senior Notes due 2017 (the "2017 Notes"), the \$200 million aggregate principal amount of 5.75% Convertible Senior Notes due 2018 (the "2018 Notes") and the \$100 million aggregate principal amount of 6.95% Senior Notes due 2022 (the "2022 Notes"). As a result, the notes will be effectively subordinated to our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness and structurally subordinated to any existing and future liabilities and other indebtedness of our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. The notes do not restrict us or our subsidiaries from incurring indebtedness, including senior secured indebtedness in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment to the notes. As of November 12, 2012, we had \$10 million outstanding under our credit facility. Our credit facility is secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the notes to the extent of the value of such assets.

Each of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes and the 2022 Notes may be due prior to the notes. We do not currently know whether we will be able to replace any of the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes or the 2022 Notes upon their respective maturities, or if we do, whether we will be able to do so on terms that are as favorable as such notes. In the event that we are not able to replace the 2015 Notes, the 2016 Notes, the 2017 Notes, the 2018 Notes or the 2022 Notes at the time of their respective maturities, this could have a material adverse effect on our liquidity and ability to fund new investments, our ability to make distributions to our stockholders, our ability to repay the Notes and our ability to qualify as a regulated investment company, or "RIC."

The indenture and supplemental indentures under which the notes will be issued will contain limited protection for holders of the notes.

The indenture and supplemental indentures (collectively, the "indenture") under which the notes will be issued offer limited protection to holders of the notes. The terms of the indenture and the notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the notes. In particular, the terms of the indenture and the notes will not place any restrictions on our or our subsidiaries' ability to:

issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions;

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pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the notes;

sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);

enter into transactions with affiliates;

create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;

make investments; or

create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

In addition, the indenture will not require us to offer to purchase the notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the notes do not protect holders of the notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow, or liquidity.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the notes may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes or negatively affecting the trading value of the notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the notes. See in the accompanying prospectus "Risk Factors Risks Relating to Our Business The Notes present other risks to holders of our common stock, including the possibility that the Notes could discourage an acquisition of the Company by a third party and accounting uncertainty" and " In addition to regulatory restrictions that restrict our ability to raise capital, our credit facility contains various covenants which, if not complied with, could accelerate repayment under the facility, thereby materially and adversely affecting our liquidity, financial condition and results of operations." In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the notes.

Our credit ratings may not reflect all risks of your investment in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes and our access to the capital markets. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency's rating should be evaluated independently of any other agency's rating.

We may choose to redeem notes when prevailing interest rates are relatively low.

If your notes will be redeemable at our option, we may choose to redeem your notes from time to time, especially when prevailing interest rates are lower than the rate borne by the notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the notes being

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redeemed. Our redemption right also may adversely impact your ability to sell your notes as the optional redemption date or period approaches.

Survivor's Option may be limited in amount.

We will have a discretionary right to limit the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the outstanding principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes subject to the Survivor's Option that may be exercised in such calendar year on behalf of any individual deceased beneficial owner of notes. Accordingly, no assurance can be given that exercise of the Survivor's Option for the desired amount will be permitted in any single calendar year.

We cannot assure that a trading market for your notes will ever develop or be maintained.

In evaluating the notes, you should assume that you will be holding the notes until their stated maturity. The notes are a new issue of securities. We cannot assure you that a trading market for your notes will ever develop, be liquid or be maintained. Many factors independent of our creditworthiness affect the trading market for and market value of your notes. Those factors include, without limitation:

the method of calculating the principal and interest for the notes;

the time remaining to the stated maturity of the notes;

the outstanding amount of the notes;

the redemption or repayment features of the notes; and

the level, direction and volatility of interest rates generally.

There may be a limited number of buyers when you decide to sell your notes. This may affect the price you receive for your notes or your ability to sell your notes at all.

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes being offered supplements and, to the extent inconsistent with or to the extent otherwise specified in an applicable pricing supplement, replaces the description of the general terms and provisions of the debt securities set forth under the heading "Description of Our Debt Securities" in the accompanying prospectus. Unless otherwise specified in an applicable pricing supplement, the notes will have the terms described below. Capitalized terms used but not defined below have the meanings given to them in the accompanying prospectus and in the indenture relating to the notes.

The notes being offered by this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will be issued under an indenture, dated as of February 16, 2012, as amended and as supplemented from time to time. U.S. Bank National Association was appointed as trustee, as successor to American Stock Transfer & Trust Company, LLC, pursuant to an Agreement of Resignation, Appointment and Acceptance dated as of March 9, 2012. The indenture is more fully described in the accompanying prospectus. The indenture does not limit the aggregate amount of debt securities that may be issued under it and provides that the debt securities may be issued under it from time to time in one or more series. The following statements are summaries of the material provisions of the indenture and the notes. These summaries do not purport to be complete and are qualified in their entirety by reference to the indenture, including for the definitions of certain terms. From time to time we may offer other debt securities either publicly or through private placement having maturities, interest rates, covenants and other terms that may differ materially from the terms of the notes described herein and in any pricing supplement.

The notes constitute a single series of debt securities for purposes of the indenture and are unlimited in aggregate principal amount under the terms of the indenture. Our board of directors has authorized the issuance and sale of the Company's publicly-offered senior debt securities, including the issuance and sale of the notes from time to time in various offerings, up to an aggregate principal amount of \$500,000,000. As of November 12, 2012, \$95,689,000 aggregate principal amount of notes has been issued.

Notes issued in accordance with this prospectus supplement, the accompanying prospectus and the applicable pricing supplement will have the following general characteristics:

the notes will be our direct unsecured senior obligations and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding;

the notes may be offered from time to time by us through the Purchasing Agent and each note will mature on a day that is at least 12 months from its date of original issuance;

each note will bear interest from its date of original issuance at a fixed rate per year;

the notes will not be subject to any sinking fund; and

the minimum denomination of the notes will be \$1,000 (unless otherwise stated in the pricing supplement).

In addition, the pricing supplement relating to each offering of notes will describe specific terms of the notes, including:

the price, which may be expressed as a percentage of the aggregate initial public offering price of the notes, at which the notes will be issued to the public;

the date on which the notes will be issued to the public;

the stated maturity date of the notes;

the rate per year at which the notes will bear interest;

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the interest payment frequency;

the purchase price, Purchasing Agent's discount and net proceeds to us;

whether the authorized representative of the holder of a beneficial interest in the notes will have the right to seek repayment upon the death of the holder as described under "Description of Notes Survivor's Option" on page S-15;

if the notes may be redeemed at our option or repaid at the option of the holder prior to its stated maturity date, the provisions relating to any such redemption or repayment;

any special U.S. federal income tax consequences of the purchase, ownership and disposition of the notes; and

any other significant terms of the notes not inconsistent with the provisions of the indenture.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the trustee for cancellation.

Payment of Principal and Interest

Principal of and interest on beneficial interests in the notes will be made in accordance with the arrangements then in place between the paying agent and The Depository Trust Company (referred to as "DTC") and its participants as described under "Registration and Settlement The Depository Trust Company" on page S-50. Payments in respect of any notes in certificated form will be made as described under "Registration and Settlement Registration, Transfer and Payment of Certificated Notes" on page S-52.

Interest on each note will be payable either monthly, quarterly, semi-annually or annually on each interest payment date and at the note's stated maturity or on the date of redemption or repayment if a note is redeemed or repaid prior to maturity. Interest is payable to the person in whose name a note is registered at the close of business on the regular record date before each interest payment date. Interest due at a note's stated maturity or on a date of redemption or repayment will be payable to the person to whom principal is payable.

We will pay any administrative costs imposed by banks in connection with making payments in immediately available funds, but any tax, assessment or governmental charge imposed upon any payments on a note, including, without limitation, any withholding tax, is the responsibility of the holders of beneficial interests in the note in respect of which such payments are made.

Interest and Interest Rates

Each note will accrue interest from its date of original issuance until its stated maturity or earlier redemption or repayment. The applicable pricing supplement will specify a fixed interest rate per year payable monthly, quarterly, semi-annually or annually. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months. If the stated maturity date, date of earlier redemption or repayment or interest payment date for any note is not a business day, principal and interest for that note will be paid on the next business day, and no interest will accrue on the amount payable from, and after, the stated maturity date, date of earlier redemption or repayment or interest payment date.

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Payment of Interest

Interest on the notes will be paid as follows:

Interest Payment Frequency	Interest Payment Dates
Monthly	Fifteenth day of each calendar month, beginning in the first calendar month following the month the note was issued.
Quarterly	Fifteenth day of every third month, beginning in the third calendar month following the month the note was issued.
Semi-annually	Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the note was issued.
Annually	Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the note was issued.

The regular record date for any interest payment date will be the first day of the calendar month in which the interest payment date occurs, except that the regular record date for interest due on the note's stated maturity date or date of earlier redemption or repayment will be that particular date.

Interest on a note will be payable beginning on the first interest payment date after its date of original issuance to holders of record on the corresponding regular record date.

"Business day" means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions are authorized or required by law or regulation to close in The City of New York.

Redemption and Repayment

Unless we otherwise provide in the applicable pricing supplement, a note will not be redeemable or repayable prior to its stated maturity date.

If the pricing supplement states that the note will be redeemable at our option prior to its stated maturity date, then on such date or dates specified in the pricing supplement, we may redeem those notes at our option either in whole or from time to time in part, upon not less than 30 nor more than 60 days' written notice to the holder of those notes.

If the pricing supplement states that your note will be repayable at your option prior to its stated maturity date, we will require receipt of notice of the request for repayment at least 30 but not more than 60 days prior to the date or dates specified in the pricing supplement. We also must receive the completed form entitled "Option to Elect Repayment." Exercise of the repayment option by the holder of a note is irrevocable.

Since the notes will be represented by a global note, DTC or its nominee will be treated as the holder of the notes; therefore DTC or its nominee will be the only entity that receives notices of redemption of notes from us, in the case of our redemption of notes, and will be the only entity that can exercise the right to repayment of notes, in the case of optional repayment. See "Registration and Settlement" on page S-50.

To ensure that DTC or its nominee will timely exercise a right to repayment with respect to a particular beneficial interest in a note, the beneficial owner of the interest in that note must instruct the broker or other direct or indirect participant through which it holds the beneficial interest to notify DTC or its nominee of its desire to exercise a right to repayment. Because different firms have different cut-off times for accepting instructions from their customers, each beneficial owner should consult the broker or other direct or indirect participant through which it holds an interest in a note to

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determine the cut-off time by which the instruction must be given for timely notice to be delivered to DTC or its nominee. Conveyance of notices and other communications by DTC or its nominee to participants, by participants to indirect participants and by participants and indirect participants to beneficial owners of the notes will be governed by agreements among them and any applicable statutory or regulatory requirements.

The redemption or repayment of a note normally will occur on the interest payment date or dates following receipt of a valid notice. Unless otherwise specified in the pricing supplement, the redemption or repayment price will equal 100% of the principal amount of the note plus unpaid interest accrued to the date or dates of redemption or repayment.

We may at any time purchase notes at any price or prices in the open market or otherwise. We may also purchase notes otherwise tendered for repayment by a holder or tendered by a holder's duly authorized representative through exercise of the Survivor's Option described below. If we purchase the notes in this manner, we have the discretion to either hold, resell or surrender the notes to the trustee for cancellation.

Survivor's Option

The "Survivor's Option" is a provision in a note pursuant to which we agree to repay that note, if requested by the authorized representative of the beneficial owner of that note, following the death of the beneficial owner of the note, so long as the note was owned by that beneficial owner or the estate of that beneficial owner at least six months prior to the request. The pricing supplement relating to each offering of notes will state whether the Survivor's Option applies to those notes.

If a note is entitled to a Survivor's Option, upon the valid exercise of the Survivor's Option and the proper tender of that note for repayment, we will, at our option, repay or repurchase that note, in whole or in part, at a price equal to 100% of the principal amount of the deceased beneficial owner's interest in that note plus unpaid interest accrued to the date of repayment.

To be valid, the Survivor's Option must be exercised by or on behalf of the person who has authority to act on behalf of the deceased beneficial owner of the note (including, without limitation, the personal representative or executor of the deceased beneficial owner or the surviving joint owner with the deceased beneficial owner) under the laws of the applicable jurisdiction.

The death of a person holding a beneficial ownership interest in a note as a joint tenant or tenant by the entirety with another person, or as a tenant in common with the deceased holder's spouse, will be deemed the death of a beneficial owner of that note, and the entire principal amount of the note so held will be subject to repayment by us upon request. However, the death of a person holding a beneficial ownership interest in a note as tenant in common with a person other than such deceased holder's spouse will be deemed the death of a beneficial owner only with respect to such deceased person's interest in the note.

The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial ownership interests in a note will be deemed the death of the beneficial owner of that note for purposes of the Survivor's Option, regardless of whether that beneficial owner was the registered holder of that note, if entitlement to those interests can be established to the satisfaction of the trustee. A beneficial ownership interest will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Transfers to Minors Act or Uniform Gifts to Minors Act, community property or other joint ownership arrangements between a husband and wife. In addition, a beneficial ownership interest will be deemed to exist in custodial and trust arrangements where one person has all of the beneficial ownership interests in the applicable note during his or her lifetime.

We have the discretionary right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from authorized representatives of all

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deceased beneficial owners in any calendar year to an amount equal to the greater of \$2,000,000 or 2% of the principal amount of all notes outstanding as of the end of the most recent calendar year. We also have the discretionary right to limit to \$250,000 in any calendar year the aggregate principal amount of notes as to which exercises of the Survivor's Option shall be accepted by us from the authorized representative of any individual deceased beneficial owner of notes in such calendar year. In addition, we will not permit the exercise of the Survivor's Option except in principal amounts of \$1,000 and multiples of \$1,000.

An otherwise valid election to exercise the Survivor's Option may not be withdrawn. Each election to exercise the Survivor's Option will be accepted in the order that elections are received by the trustee, except for any note the acceptance of which would contravene any of the limitations described in the preceding paragraph. Notes accepted for repayment through the exercise of the Survivor's Option normally will be repaid on the first interest payment date that occurs 20 or more calendar days after the date of the acceptance. For example, if the acceptance date of a note tendered through a valid exercise of the Survivor's Option is September 1, 2012, and interest on that note is paid monthly, we would normally, at our option, repay that note on the interest payment date occurring on October 15, 2012, because the September 15, 2012 interest payment date would occur less than 20 days from the date of acceptance. Each tendered note that is not accepted in any calendar year due to the application of any of the limitations described in the preceding paragraph will be deemed to be tendered in the following calendar year in the order in which all such notes were originally tendered. If a note tendered through a valid exercise of the Survivor's Option is not accepted, the trustee will deliver a notice by first-class mail to the registered holder, at that holder's last known address as indicated in the note register, that states the reason that note has not been accepted for repayment.

With respect to notes represented by a global note, DTC or its nominee is treated as the holder of the notes and will be the only entity that can exercise the Survivor's Option for such notes. To obtain repayment pursuant to exercise of the Survivor's Option for a note, the deceased beneficial owner's authorized representative must provide the following items to the broker or other entity through which the beneficial interest in the note is held by the deceased beneficial owner:

a written instruction to such broker or other entity to notify DTC of the authorized representative's desire to obtain repayment pursuant to exercise of the Survivor's Option;

appropriate evidence satisfactory to the trustee (a) that the deceased was the beneficial owner of the note at the time of death and his or her interest in the note was owned by the deceased beneficial owner or his or her estate at least six months prior to the request for repayment, (b) that the death of the beneficial owner has occurred, (c) of the date of death of the beneficial owner, and (d) that the representative has authority to act on behalf of the beneficial owner;

if the interest in the note is held by a nominee of the deceased beneficial owner, a certificate satisfactory to the trustee from the nominee attesting to the deceased's beneficial ownership of such note;

written request for repayment signed by the authorized representative of the deceased beneficial owner with the signature guaranteed by a member firm of a registered national securities exchange or of the Financial Industry Regulatory Authority, Inc. or a commercial bank or trust company having an office or correspondent in the United States;

if applicable, a properly executed assignment or endorsement;

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tax waivers and any other instruments or documents that the trustee reasonably requires in order to establish the validity of the beneficial ownership of the note and the claimant's entitlement to payment; and

any additional information the trustee reasonably requires to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership or authority to make the election and to cause the repayment of the note.

In turn, the broker or other entity will deliver each of these items to the trustee, together with evidence satisfactory to the trustee from the broker or other entity stating that it represents the deceased beneficial owner.

The death of a person owning a note in joint tenancy or tenancy by the entirety with another or others shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment, together with interest accrued thereon to the repayment date. The death of a person owning a note by tenancy in common shall be deemed the death of a holder of a note only with respect to the deceased holder's interest in the note so held by tenancy in common; except that in the event a note is held by husband and wife as tenants in common, the death of either shall be deemed the death of the holder of the note, and the entire principal amount of the note so held shall be subject to repayment. The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of a note, shall be deemed the death of the holder thereof for purposes of this provision, regardless of the registered holder, if such beneficial interest can be established to the satisfaction of the trustee and us. Such beneficial interest shall be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, the Uniform Transfers to Minors Act, community property or other joint ownership arrangements between a husband and wife and trust arrangements where one person has substantially all of the beneficial ownership interest in the note during his or her lifetime.

We retain the right to limit the aggregate principal amount of notes as to which exercises of the Survivor's Option applicable to the notes will be accepted in any one calendar year as described above. All other questions regarding the eligibility or validity of any exercise of the Survivor's Option will be determined by the trustee, in its sole discretion, which determination will be final and binding on all parties.

The broker or other entity will be responsible for disbursing payments received from the trustee to the authorized representative. See "Registration and Settlement" on page S-50.

Forms for the exercise of the Survivor's Option may be obtained from the Trustee at 100 Wall Street, Suite 1600, New York, NY 10005, Attention: General Counsel.

If applicable, we will comply with the requirements of Section 14(e) of the Exchange Act, and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders or beneficial owners thereof.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

(All figures in this item are in thousands except share, per share and other data)

References herein to "we," "us" or "our" refer to Prospect Capital Corporation and its subsidiary unless the context specifically requires otherwise.

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus supplement and accompanying prospectus. Historical results set forth are not necessarily indicative of our future financial position and results of operations.

Overview

We are a financial services company that primarily lends to and invests in middle market privately-held companies. We are a closed-end investment company that has filed an election to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We invest primarily in first and second lien senior loans and mezzanine debt, which in some cases includes an equity component. First and second lien senior loans generally are senior debt instruments that rank ahead of subordinated debt of a given portfolio company. These loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of or be junior to other security interests. Mezzanine debt and our investments in collateralized loan obligation ("CLOs") is subordinated to senior loans and is generally unsecured.

We seek to be a long-term investor with our portfolio companies. The aggregate value of our portfolio investments was \$2,663,965 and \$2,094,221 as of September 30, 2012 and June 30, 2012, respectively. During the three months ended September 30, 2012, our net cost of investments increased by \$598,297 or 28.5%, as a result of sixteen new investments, one follow-on investment and two revolver advances of \$737,105, accrued of payment-in-kind interest of \$1,873, structuring fees of \$8,959 and amortization of discounts and premiums of \$6,708, while we received full repayment on five investments, sold one investment for which we realized a gain of \$1,775, and received several partial prepayments, amortization payments and a revolver repayment totaling \$158,123.

Compared to the end of last fiscal year (ended June 30, 2012), net assets increased by \$371,352 or 24.6% during the three months ended September 30, 2012, from \$1,511,974 to \$1,883,326. This increase resulted from the issuance of new shares of our common stock (less offering costs) in the amount of \$371,452, dividend reinvestments of \$4,031, and another \$47,249 from operations. These increases, in turn, were offset by \$51,380 in dividend distributions to our stockholders. The \$47,249 increase in net assets resulting from operations is net of the following: net investment income of \$74,027, net realized gain on investments of \$1,775, and a decrease in net assets due to changes in net unrealized depreciation of investments of \$28,553.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ, and these differences could be material.

First Quarter Highlights

Investment Transactions

On July 5, 2012, we made a senior secured debt investment of \$28,000 to support the acquisition of Material Handling Services, LLC, d/b/a/ Total Fleet Solutions ("TFS"), a provider of forklift and

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other material handling equipment fleet management and procurement services, by funds managed by CI Capital Partners, LLC. The senior secured term loan bears interest in cash at the greater of 10.5% or Libor plus 8.50% and has a final maturity of July 5, 2017.

On July 16, 2012 we provided \$15,000 of secured second lien financing to Pelican Products, Inc. ("Pelican"), a leading provider of unbreakable, watertight protective cases and technically advanced professional lighting equipment. The second lien term loan bears interest in cash at the greater of 11.5% or Libor plus 10.0% and has a final maturity of June 14, 2019.

On July 20, 2012, we provided \$12,000 of senior secured financing to EIG Investors Corp. ("EIG"), a provider of an array of online services such as web presence, domain hosting, e-commerce, e-mail and other related services to small- and medium-sized businesses. The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of October 22, 2018.

On July 20, 2012, we provided \$10,000 of senior secured financing to FPG, LLC ("FPG"), a supplier of branded consumer and commercial products sold to the retail, foodservice, and hospitality sectors. The note payable bears interest in cash at the greater of 12.0% or Libor plus 11.0% and has a final maturity of January 20, 2017.

On July 24, 2012, we sold our 3,821 shares of Iron Horse Coiled Tubing, Inc. ("Iron Horse") common stock in connection with the exercise of an equity buyout option, receiving \$2,040 of net proceeds and realizing a gain of approximately \$1,772 on the sale.

On July 27, 2012, we provided \$85,000 of subordinated financing to support the acquisition of substantially all the assets of Arctic Glacier Income Funds by funds affiliated with H.I.G. Capital, LLC ("H.I.G."). The new company, Arctic Glacier U.S.A., Inc. ("Arctic"), will continue to conduct business under the "Arctic Glacier" name and be a leading producer, marketer, and distributor of high-quality packaged ice to consumers in Canada and the United States. The unsecured subordinated term loan bears interest in cash at 12.0% and interest in kind of 3.0% and has a final maturity of July 27, 2019.

On August 2, 2012, we provided a \$27,000 secured loan to support the acquisition of New Star Metals, Inc. ("New Star"), a provider of specialized processing services to the steel industry, by funds managed by Insight Equity Management Company. The senior subordinated note bears interest in cash at greater of 11.5% or Libor plus 8.5% and interest in kind of 1.0% and has a final maturity of February 2, 2018.

On August 3, 2012, we provided \$120,000 senior secured financing, of which \$110,000 was funded at closing, to support the acquisition of InterDent, Inc. ("InterDent"), a leading provider of dental practice management services to dental professional corporations and associations in the United States, by funds managed by H.I.G. The Term Loan A note bears interest in cash at the greater of 8.0% or Libor plus 6.5% and has a final maturity of August 3, 2017. The Term Loan B note bears interest in cash at the greater of 13.0% or Libor plus 10.0% and has a final maturity of August 3, 2017. The senior secured revolver bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of February 3, 2013.

On August 3, 2012, we provided \$44,000 of secured subordinated financing to support the refinancing of New Century Transportation, Inc. ("New Century"), a leading transportation and logistics company. The senior subordinated loan bears interest in cash at the greater of 12.0% or Libor plus 10.0% and interest in kind of 3.0% and has a final maturity of February 3, 2018.

On August 3, 2012, we provided \$10,000 of senior secured financing to Pinnacle (US) Acquisition Co Limited ("Pinnacle Acquisition"), the largest multi-national software company focused on the delivery of analytical and information management solutions for the discovery and extraction of

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subsurface natural resources. The second lien term loan bears interest in cash at the greater of 10.5% or Libor plus 8.25% and has a final maturity of August 3, 2020.

On August 3, 2012, Pinnacle Treatment Centers, Inc. ("Pinnacle Treatment") repaid the \$17,475 loan receivable to us.

On August 6, 2012, we made an investment of \$22,210 to purchase 62.9% of the subordinated notes in Halcyon Loan Advisors Funding 2012-I, Ltd. ("Halcyon").

On August 7, 2012, we made an investment of \$36,798 to purchase 95.0% of the subordinated notes in ING IM CLO 2012-II, Ltd. ("ING 2012-II").

On August 10, 2012, U.S. HealthWorks Holding Company, Inc. ("U.S. Healthworks") repaid the \$25,000 loan receivable to us.

On August 17, 2012, we made a secured second lien investment of \$38,500 to support the recapitalization of American Gilsonite Company ("AGC"). The secured note bears interest in cash at 11.5% and has a final maturity of September 1, 2017. After the financing, we received repayment of the \$37,732 loan previously outstanding on August 28, 2012.

On September 14, 2012, we invested an additional \$10,000 in Hoffmaster Group, Inc. ("Hoffmaster"). The second lien term loan bears interest in cash at the greater of 11.0% or Libor plus 9.5% and has a final maturity of January 3, 2019.

On September 14, 2012, we made a secured investment of \$135,000 to support the recapitalization of Progrexion Holdings, Inc. ("Progrexion"). Concurrent with the financing, we received repayment of the \$62,680 loans that were previously outstanding. The senior secured loan bears interest in cash at the greater of 10.5% or Libor plus 8.5% and has a final maturity of September 14, 2017.

On September 20, 2012, Fischbein, LLC ("Fischbein") repaid the \$3,425 loan receivable to us.

On September 27, 2012, we made an investment of \$45,746 to purchase 95% of the subordinated notes in ING IM CLO 2012-III, Ltd ("ING 2012-III").

On September 28, 2012, we made an unsecured investment of \$10,400 to support the acquisition of Evanta Ventures, Inc. ("Evanta"), a diversified event management company. The subordinated note bears interest in cash at 12.0% and interest in kind of 1.0% and has a final maturity of September 28, 2018.

On September 28, 2012, we made a secured second lien investment of \$100,000 to support the recapitalization of United Sporting Companies, Inc. ("USC"), a national distributor of hunting, outdoor, marine and tackle products. The secured loan bears interest in cash at the greater of 12.75% or Libor plus 11.0% and has a final maturity of May 16, 2018.

Equity Issuance

During the period from July 2, 2012 to July 12, 2012, we sold 2,247,275 shares of our common stock at an average price of \$11.59 per share, and raised \$26,040 of gross proceeds, under the ATM Program. Net proceeds were \$25,779 after 1% commission to the broker-dealer on shares sold and offering costs.

On July 16, 2012, we issued 21,000,000 shares of our common stock at \$11.15 per share (or \$11.05 per share net proceeds excluding expenses), raising \$234,150 of gross proceeds.

On July 27, 2012, we issued 3,150,000 shares in connection with the exercise of an option granted with the July 12, 2012 offering of 21,000,000 shares which were delivered July 16, 2012, raising an additional \$35,123 of gross proceeds and \$34,808 of net proceeds.

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On July 24, 2012, August 24, 2012 and September 21, 2012, we issued 205,834, 75,543 and 74,494 shares of our common stock in connection with the dividend reinvestment plan, respectively.

On July 30, 2012, we amended our charter to increase the shares of common stock authorized for issuance by us from 200,000,000 to 500,000,000 in the aggregate.

During the period from September 13, 2012 to September 28, 2012, we sold 6,764,702 shares of our common stock at an average price of \$11.86 per share, and raised \$80,249 of gross proceeds, under the ATM Program. Net proceeds were \$79,446 after 1% commission to the broker-dealer on shares sold and offering costs.

Dividend

On August 21, 2012, we announced the declaration of monthly dividends in the following amounts and with the following dates:

\$0.101625 per share for September 2012 to holders of record on September 28, 2012 with a payment date of October 24, 2012; and

\$0.101650 per share for October 2012 to holders of record on October 31, 2012 with a payment date of November 22, 2012.

Credit Facility

On July 27, 2012 and September 26, 2012, we closed an increase of \$15,000 and \$10,000 to our commitments to our credit facility, respectively. The commitments to the credit facility now stand at \$517,500.

Debt Issuance

During the period from July 6, 2012 to September 27, 2012, we issued approximately \$67,879 in aggregate principal amount of Prospect Capital InterNotes® for net proceeds of \$66,691, as follows:

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
July 6, 2012	\$ 2,778	6.45%	July 15, 2019
July 12, 2012	5,673	6.35%	July 15, 2019
July 19, 2012	6,810	6.30%	July 15, 2019
July 26, 2012	5,667	6.20%	July 15, 2019
August 2, 2012	3,633	6.15%	August 15, 2019
August 9, 2012	2,830	6.15%	August 15, 2019
August 16, 2012	2,681	6.10%	August 15, 2019
August 23, 2012	8,401	6.05%	August 15, 2019
September 7, 2012	5,981	6.00%	September 15, 2019
September 13, 2012	5,879	5.95%	September 15, 2019
September 20, 2012	8,600	5.90%	September 15, 2019
September 27, 2012	8,946	5.85%	September 15, 2019

On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.14 per share of common stock, subject

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to adjustment in certain circumstances. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.1016 per share.

Investment Holdings

As of September 30, 2012, we continue to pursue our diversified investment strategy. At September 30 2012, approximately \$2,663,965 or 141.4% of our net assets are invested in 96 long-term portfolio investments and 9.7% of our net assets are invested in money market funds.

During the three months ended September 30, 2012, we originated \$747,937 of new investments. Our origination efforts are focused primarily on secured lending, to reduce the risk in the portfolio, investing primarily in first lien loans, and subordinated notes in CLOs, though we also continue to close selected junior debt and equity investments. In addition to targeting investments senior in corporate capital structures with our new originations, we have also increased our origination business mix of third party private equity sponsor owned companies, which tend to have more third party equity capital supporting our debt investments than non-sponsor transactions. Our performing loan's annualized current yield decreased from 13.6% as of June 30, 2012 to 13.3% as of September 30, 2012 across all performing debt investments. Monetization of other equity positions that we hold is not included in this yield calculation. In many of our portfolio companies we hold equity positions, ranging from minority interests to majority stakes, which we expect over time to contribute to our investment returns. Some of these equity positions include features such as contractual minimum internal rates of returns, preferred distributions, flip structures and other features expected to generate additional investment returns, as well as contractual protections and preferences over junior equity, in addition to the yield and security offered by our cash flow and collateral debt protections.

We classify our investments by level of control. As defined in the 1940 Act, control investments are those where there is the ability or power to exercise a controlling influence over the management or policies of a company. Control is generally deemed to exist when a company or individual possesses or has the right to acquire within 60 days or less, a beneficial ownership of 25% or more of the voting securities of an investee company. Affiliated investments and affiliated companies are defined by a lesser degree of influence and are deemed to exist through the possession outright or via the right to acquire within 60 days or less, beneficial ownership of 5% or more of the outstanding voting securities of another person.

As of September 30, 2012, we own controlling interests in AIRMALL USA, Inc. ("AIRMALL"), Ajax Rolled Ring & Machine, Inc. ("Ajax"), AWCNC, LLC, Borga, Inc., Energy Solutions Holdings, Inc. ("Energy Solutions"), First Tower Holdings of Delaware LLC ("First Tower Delaware"), Integrated Contract Services, Inc. ("ICS"), Manx Energy, Inc. ("Manx"), NMMB Holdings, Inc. ("NMMB"), R-V Industries, Inc. ("R-V") and Wolf Energy Holdings, Inc. ("Wolf"). We also own an affiliated interest in BNN Holdings Corp. f/k/a Biotronic NeuroNetwork ("Biotronic"), Boxercraft Incorporated ("Boxercraft") and Smart, LLC.

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The following is a summary of our investment portfolio by level of control at September 30, 2012 and June 30, 2012, respectively:

Level of Control	Cost	September 30, 2012		Percent of Portfolio	Cost	June 30, 2012		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Control	\$ 515,055	19.1%	\$ 529,785	19.9%	\$ 518,015	24.7%	\$ 564,489	27.0%
Affiliate	44,589	1.7%	45,255	1.7%	44,229	2.1%	46,116	2.2%
Non-control/Non-affiliate	2,137,966	79.2%	2,088,925	78.4%	1,537,069	73.2%	1,483,616	70.8%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

The following is our investment portfolio presented by type of investment at September 30, 2012 and June 30, 2012, respectively:

Type of Investment	Cost	September 30, 2012		Percent of Portfolio	Cost	June 30, 2012		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Revolving Line of Credit	\$ 7,195	0.3%	\$ 6,871	0.3%	\$ 1,145	0.1%	\$ 868	0.0%
Senior Secured Debt	1,341,583	49.7%	1,282,198	48.1%	1,146,454	54.6%	1,088,019	52.0%
Subordinated Secured Debt	727,239	26.9%	670,628	25.1%	536,900	25.6%	480,147	22.9%
Subordinated Unsecured Debt	168,699	6.3%	169,258	6.4%	72,617	3.5%	73,195	3.5%
CLO Debt	27,358	1.0%	28,831	1.1%	27,258	1.3%	27,717	1.3%
CLO Residual Interest	325,424	12.1%	331,780	12.5%	214,559	10.2%	218,009	10.4%
Preferred Stock	31,323	1.2%	24,845	0.9%	31,323	1.5%	29,155	1.4%
Common Stock	61,191	2.3%	113,223	4.3%	61,459	2.9%	137,198	6.6%
Membership Interests	5,437	0.1%	12,247	0.4%	5,437	0.2%	13,844	0.7%
Overriding Royalty Interests		%	1,562	0.1%		%	1,623	0.1%
Escrows Receivable		%	14,183	0.5%		%	17,686	0.8%
Warrants	2,161	0.1%	8,339	0.3%	2,161	0.1%	6,760	0.3%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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The following is our investments in debt securities presented by type of security at September 30, 2012 and June 30, 2012, respectively:

Level of Control	Cost	September 30, 2012		Percent of Debt Securities	Cost	June 30, 2012		Percent of Debt Securities
		Percent of Debt Securities	Fair Value			Percent of Debt Securities	Fair Value	
First Lien	\$ 1,348,778	59.4%	\$ 1,289,069	59.7%	\$ 1,147,599	64.3%	\$ 1,088,887	65.2%
Second Lien	727,239	32.0%	670,628	31.2%	536,900	30.1%	480,147	28.7%
Unsecured	168,699	7.4%	169,258	7.8%	72,617	4.1%	73,195	4.4%
CLO Debt	27,358	1.2%	28,831	1.3%	27,258	1.5%	27,717	1.7%
Total Debt Securities	\$ 2,272,074	100.0%	\$ 2,157,786	100.0%	\$ 1,784,374	100.0%	\$ 1,669,946	100.0%

The following is our investment portfolio presented by geographic location of the investment at September 30, 2012 and June 30, 2012, respectively:

Geographic Location	Cost	September 30, 2012		Percent of Portfolio	Cost	June 30, 2012		Percent of Portfolio
		Percent of Portfolio	Fair Value			Percent of Portfolio	Fair Value	
Canada	\$ 100,316	3.7%	\$ 100,447	3.8%	\$ 15,134	0.7%	\$ 17,040	0.8%
Cayman Islands	352,782	13.1%	360,611	13.5%	241,817	11.5%	245,726	11.7%
Ireland	14,920	0.6%	15,000	0.6%	14,918	0.7%	15,000	0.7%
Midwest US	502,573	18.7%	455,960	17.1%	427,430	20.4%	377,139	18.0%
Northeast US	327,285	12.1%	349,785	13.1%	293,181	14.0%	313,437	15.0%
Southeast US	737,440	27.3%	722,306	27.2%	642,984	30.6%	634,945	30.4%
Southwest US	202,944	7.5%	219,410	8.2%	193,627	9.2%	234,433	11.2%
Western US	459,350	17.0%	440,446	16.5%	270,222	12.9%	256,501	12.2%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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The following is our investment portfolio presented by industry sector of the investment at September 30, 2012 and June 30, 2012, respectively:

Industry	September 30, 2012				June 30, 2012			
	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio	Cost	Percent of Portfolio	Fair Value	Percent of Portfolio
Aerospace and Defense	\$ 56	0.0%	\$	%	56	0.0%	\$	%
Automobile / Auto Finance	32,920	1.2%	33,151	1.2%	32,806	1.6%	32,478	1.6%
Business Services	31,040	1.2%	31,148	1.2%	3,164	0.2%	3,288	0.2%
Chemicals	57,855	2.1%	57,855	2.2%	58,104	2.8%	58,104	2.8%
Commercial Services	90,818	3.4%	90,818	3.4%	80,418	3.8%	80,407	3.8%
Consumer Finance	305,521	11.3%	305,521	11.5%	305,521	14.6%	305,521	14.6%
Consumer Services	218,755	8.1%	220,905	8.3%	146,335	7.0%	147,809	7.1%
Contracting	15,949	0.6%		%	15,949	0.8%		%
Diversified Financial Services	371,254	13.8%	379,083	14.2%	260,219	12.3%	264,128	12.6%
Diversified / Conglomerate Service		%		%		%	35	0.0%
Durable Consumer Products	287,980	10.7%	288,538	10.8%	153,327	7.3%	152,862	7.3%
Ecological	141	0.0%	269	0.0%	141	0.0%	240	0.0%
Electronics		%	148	0.0%		%	144	0.0%
Energy	63,245	2.3%	95,195	3.6%	63,245	3.0%	126,868	6.1%
Food Products	187,803	7.0%	181,377	6.8%	101,975	4.9%	96,146	4.5%
Healthcare	213,483	7.9%	216,554	8.2%	141,990	6.8%	143,561	6.9%
Insurance	83,242	3.1%	83,242	3.1%	83,461	4.0%	83,461	4.0%
Machinery	1,271	0.0%	3,126	0.1%	4,684	0.2%	6,485	0.3%
Manufacturing	94,936	3.5%	127,104	4.8%	95,191	4.5%	127,127	6.1%
Media	162,187	6.0%	156,990	5.9%	165,866	7.9%	161,843	7.7%
Metal Services and Minerals	27,043	1.0%	27,043	1.0%		%		%
Oil and Gas Equipment Services	7,202	0.3%	7,400	0.3%	7,188	0.3%	7,391	0.4%
Oil and Gas Production	130,749	4.8%	38,413	1.4%	130,928	6.2%	38,993	1.9%
Personal and Nondurable Consumer Products	39,351	1.5%	40,384	1.5%	39,351	1.8%	39,968	1.9%
Production Services		%		%	268	0.0%	2,040	0.1%
Property Management	51,620	1.9%	50,527	1.9%	51,770	2.5%	47,982	2.2%
Retail	63	0.0%	116	0.0%	63	0.0%	129	0.0%
Software & Computer Services	75,506	2.8%	76,719	2.9%	53,908	2.6%	54,711	2.6%
Specialty Minerals	38,500	1.4%	42,386	1.6%	37,732	1.8%	44,562	2.1%
Textiles and Leather	15,483	0.6%	15,949	0.6%	15,123	0.7%	17,161	0.8%
Transportation	93,637	3.5%	94,004	3.5%	50,530	2.4%	50,777	2.4%
Total Portfolio	\$ 2,697,610	100.0%	\$ 2,663,965	100.0%	\$ 2,099,313	100.0%	\$ 2,094,221	100.0%

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Portfolio Investment Activity

During the three months ended September 30, 2012, we acquired \$728,914 of new investments, completed follow-on investments in existing portfolio companies, totaling approximately \$10,000, funded \$7,150 of revolver advances, and recorded PIK interest of \$1,873, resulting in gross investment originations of \$747,937 as discussed in the *First Quarter Highlights*.

In addition to the repayments noted in the *First Quarter Highlights*, during the three months ended September 30, 2012 we received principal amortization payments of \$3,388 on several loans, and \$5,100 of partial prepayments primarily related to Cargo Airport Services USA, LLC, NMMB and Northwestern Management Services, LLC ("Northwestern").

During the quarters ended September 30, 2012 and September 30, 2011, we recognized \$284 and \$837 of interest income due to purchase discount accretion from the assets acquired from Patriot, respectively. There was no accelerated accretion during the three months ended September 30, 2012 and September 30, 2011, respectively. We expect to recognize \$295 of normal accretion during the three months ended December 31, 2012.

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The following is a quarter-by-quarter summary of our investment activity:

Quarter-End	Acquisitions(1)	Dispositions(2)
September 30, 2012	\$ 747,937	\$ 158,123
June 30, 2012	573,314	146,292
March 31, 2012	170,073	188,399
December 31, 2011	154,697	120,206
September 30, 2011	222,575	46,055
June 30, 2011	312,301	71,738
March 31, 2011	359,152	78,571
December 31, 2010	140,933	67,405
September 30, 2010	140,951	68,148
June 30, 2010	88,973	39,883
March 31, 2010	59,311	26,603
December 31, 2009(3)	210,438	45,494
September 30, 2009	6,066	24,241
June 30, 2009	7,929	3,148
March 31, 2009	6,356	10,782
December 31, 2008	13,564	2,128
September 30, 2008	70,456	10,949
June 30, 2008	118,913	61,148
March 31, 2008	31,794	28,891
December 31, 2007	120,846	19,223
September 30, 2007	40,394	17,949
June 30, 2007	130,345	9,857
March 31, 2007	19,701	7,731
December 31, 2006	62,679	17,796
September 30, 2006	24,677	2,781
June 30, 2006	42,783	5,752
March 31, 2006	15,732	901
December 31, 2005		3,523
September 30, 2005	25,342	
June 30, 2005	17,544	
March 31, 2005	7,332	
December 31, 2004	23,771	32,083
September 30, 2004	30,371	
Since inception	\$ 3,997,250	\$ 1,315,800

(1) Includes new deals, additional fundings, refinancings and PIK interest.

(2) Includes scheduled principal payments, prepayments and refinancings.

(3) The \$210,438 of acquisitions for the quarter ended December 31, 2009 includes \$207,126 of portfolio investments acquired from Patriot.

Investment Valuation

In determining the fair value of our portfolio investments at September 30, 2012 the Audit Committee considered valuations from the independent valuation firm and from management having an aggregate range of \$2,601,090 to \$2,776,523, excluding money market investments.

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In determining the range of value for debt instruments, management and the independent valuation firm generally shadow rated the investment and then based upon the range of ratings, determined appropriate yields to maturity for a loan rated as such. A discounted cash flow analysis was then prepared using the appropriate yield to maturity as the discount rate, yielding the ranges. For equity investments, the enterprise value was determined by applying EBITDA multiples for similar recent investment sales. For stressed equity investments, a liquidation analysis was prepared.

The Board of Directors looked at several factors in determining where within the range to value the asset including: recent operating and financial trends for the asset, independent ratings obtained from third parties and comparable multiples for recent sales of companies within the industry. The composite of all these analysis, applied to each investment, was a total valuation of \$2,663,965, excluding money market investments.

Our portfolio companies are generally lower middle market companies, outside of the financial sector, with less than \$150,000 of annual EBITDA. We believe our market has experienced less volatility than others because we believe there are more buy and hold investors who own these less liquid investments.

Control investments offer increased risk and reward over straight debt investments. Operating results and changes in market multiples can result in dramatic changes in values from quarter to quarter. Significant downturns in operations can further result in our looking to recoveries on sales of assets rather than the enterprise value of the investment. Several control investments in our portfolio are under enhanced scrutiny by our senior management and our Board of Directors and are discussed below.

AIRMALL USA, Inc.

AIRMALL is a leading developer and manager of airport retail operations. AIRMALL has developed and presently manages all or substantially all of the retail operations and food and beverage concessions at Baltimore/Washington International Thurgood Marshall Airport (BWI), Boston Logan International Airport (BOS), Cleveland Hopkins International Airport (CLE) and Pittsburgh International Airport (PIT). AIRMALL does so pursuant to long-term, infrastructure-like contracts with the respective municipal agencies that own and operate the airports.

On July 30, 2010, we invested \$52,420 of combined debt and equity as follows: \$30,000 senior term loan, \$12,500 senior subordinated note and \$9,920 preferred equity. We own 100% of AIRMALL's equity securities. AIRMALL's financial performance has been consistent since the acquisition and we continue to monitor the medium to long-term growth prospects for the company.

The Board of Directors increased the fair value of our investment in AIRMALL to \$50,527 as of September 30, 2012, a discount of \$1,093 from its amortized cost, compared to the \$3,788 unrealized depreciation recorded at June 30, 2012.

Ajax Rolled Ring & Machine, Inc.

Ajax forges large seamless steel rings on two forging mills in the company's York, South Carolina facility. The rings are used in a range of industrial applications, including in construction equipment and power turbines. Ajax also provides machining and other ancillary services.

We acquired a controlling equity interest in Ajax in a recapitalization of Ajax that was closed on April 4, 2008. We funded \$22,000 of senior secured term debt, \$11,500 of subordinated term debt and \$6,300 of equity as of that closing. During the fiscal year ended June 30, 2010, we funded an additional \$3,530 of secured subordinated debt to refinance a third-party revolver provider and provide working capital. Ajax repaid \$3,461 of this secured subordinated debt during the quarter ended September 30, 2010. As of September 30, 2012, we control 78.01% of the fully-diluted common and preferred equity.

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The principal balance of our senior debt to Ajax was \$20,057 and new debt was \$15,035 as of September 30, 2012.

The Board of Directors increased the fair value of our investment in Ajax to \$45,587 as of September 30, 2012, a reduction of \$4,438 from its amortized cost, compared to the \$11,151 unrealized appreciation recorded at June 30, 2012.

Energy Solutions Holdings Inc. (f/k/a Gas Solutions Holdings, Inc.)

Energy Solutions owns interests in other companies operating in the energy sector. These include operating offshore supply vessels and ownerships of a non-operating biomass plant and several coal mines. Energy Solutions subsidiaries formerly owned interests in a gas gathering and processing system in the East Texas.

In December 2011, we completed a reorganization of Gas Solutions Holdings, Inc. renaming the company Energy Solutions and transferring ownership of other operating companies owned by us and operating within the energy industry with the intent of strategically expanding Energy Solutions operations across energy sectors. As part of the reorganization, we transferred our equity interests in CCEHI, CCEI, Freedom Marine and Yatesville to Energy Solutions. On December 28, 2011, we made a follow-on investment of \$4,750 to support the acquisition of a new vessel by Vessel Holdings LLC, a subsidiary of Freedom Marine.

On January 4, 2012, Energy Solutions sold its gas gathering and processing assets ("Gas Solutions") for a sale price of \$199,805, adjusted for the final working capital settlement, including a potential earnout of \$28,000 that may be paid based on the future performance of Gas Solutions. Our loans to and investment in Energy Solutions remain outstanding as Energy Solutions and will continue as a portfolio company of Prospect managing other energy-related subsidiaries. The cash balances of Energy Solutions continue to collateralize our loan positions. As of September 30, 2012, these cash balances were \$82,301.

In determining the value of Energy Solutions, we have utilized two valuation techniques to determine the value of the investment. Our Board of Directors has determined the value to be \$95,195 for our debt and equity positions at September 30, 2012 based upon a combination of a current value method for the cash balances of Energy Solutions and a liquidation analysis for our interests in CCEHI, CCEI, Freedom Marine and Yatesville. At September 30, 2012 and June 30, 2012, Energy Solutions, including the underlying portfolio companies affected by the reorganization, was valued at \$31,950 and \$63,623 above its amortized cost, respectively. We received a distribution of \$33,250 from Energy Solutions which was recorded as dividend income during the quarter ended September 30, 2012.

First Tower Holdings of Delaware LLC

First Tower is a multiline specialty finance company based in Flowood, Mississippi with over 150 branch offices.

On June 15, 2012, we acquired 80.1% of First Tower, LLC ("First Tower") businesses for \$110,200 in cash and 14,518,207 unregistered shares of our common stock. Based on our share price of \$11.06 at the time of issuance, we acquired our 80.1% interest in First Tower for approximately \$270,771. As consideration for our investment, First Tower Delaware, which is 100% owned by us, recorded a secured revolving credit facility to us of \$244,760 and equity of \$43,193. First Tower Delaware owns 80.1% of First Tower Holdings LLC, the holding company of First Tower. The assets of First Tower acquired include, among other things, the subsidiaries owned by First Tower, which hold finance receivables, leaseholds, and tangible property associated with First Tower's businesses. During the three months ended June 30, 2012, we received \$8,075 in structuring fee income. As of September 30, 2012, First Tower had total assets of \$467,394 including \$413,377 of finance receivables net of unearned

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charges. As of September 30, 2012, First Tower's total debt outstanding to parties senior to us was \$239,924.

The Board of Directors set the fair value of our investment in First Tower to \$287,953 as of September 30, 2012 and June 30, 2012, respectively, equal to its amortized cost.

Integrated Contract Services, Inc.

ICS is a company that was created to purchase the assets of ESA Environmental Specialists, Inc. ("ESA") out of bankruptcy in April 2007. ESA was a contract management company with core expertise in construction, environmental and engineering services and competed in the market for government contracts. Prior to January 2009, ICS owned the assets of ESA and 100% of the stock of The Healing Staff ("THS"). THS is a contractor focused on providing outsourced medical staffing solutions primarily to government agencies.

ESA originally defaulted under our contract governing our investment in ESA, prompting us to commence foreclosure actions with respect to certain ESA assets in respect of which we have a priority lien. In response to our actions, ESA filed voluntarily for reorganization under the bankruptcy code on August 1, 2007. On September 20, 2007, the U.S. Bankruptcy Court approved a Section 363 Asset Sale from ESA to us. To complete this transaction, we contributed our ESA debt to a newly-formed entity, ICS, and provided funds for working capital on October 9, 2007. In return for the ESA debt, we received senior secured debt in ICS of equal amount to our ESA debt, preferred stock of ICS, and 49% of the ICS common stock. ICS subsequently ceased operations and assigned the collateral back to us. ICS is in default of both payment and financial covenants. During September and October 2007, we provided \$1,170 to THS for working capital.

In January 2009, we foreclosed on the real and personal property of ICS. Through this foreclosure process, we gained 100% ownership of THS and certain ESA assets. THS provides outsourced medical staffing and security staffing services to governmental and commercial enterprises. In November 2009, THS was informed that the U.S. Air Force would not exercise its option to renew its contract. THS continues to solicit new contracts to replace the revenue lost when the Air Force contract ended. As part of its strategy to recovery from the loss of the Air Force contract, in 2010 THS started a new business, Vets Securing America, Inc. ("VSA"), to provide out-sourced security guards staffed primarily using retired military veterans. During the year ended June 30, 2011 and the six months ended December 31, 2011, we made follow-on secured debt investments of \$1,708 and \$874, respectively, to support the ongoing operations of THS and VSA. In early May 2012, we made short-term secured debt investments of \$118 and \$42, respectively, to support the operations of THS and VSA, which short term debt was repaid in early June 2012. There were no additional fundings during the six months ended June 30, 2012. In October 2011, we sold a building acquired from ESA for \$894. In January 2012, we received \$2,250 towards an ESA litigation settlement. The proceeds from both of these transactions were used to reduce the outstanding loan balance due to us. In May 2012, in connection with the implementation of accounts receivable based funding programs for THS and VSA with a third party provider we agreed to subordinate our first priority security interest in all of the accounts receivable and other assets of THS and VSA to the third party provider of that accounts receivable based funding.

Based upon an analysis of the liquidation value of the ESA assets and the enterprise value of THS/VSA, our Board of Directors determined the fair value of our investment in ICS to be zero at September 30, 2012 and June 30, 2012, respectively, a reduction of \$15,949 from its amortized cost.

Manx Energy, Inc.

Manx was formed for the purpose of rolling up the assets of two existing Prospect portfolio companies, Coalbed, LLC ("Coalbed") and Appalachian Energy Holdings, LLC ("AEH"), bringing

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them under new management, restructuring the outstanding debt, and infusing additional capital to allow for future growth. Coalbed is the owner of 100% of the outstanding equity interests of Coalbed Pipelines, LLC and Coalbed Operator, LLC. Coalbed was formed in October 2009 to acquire our outstanding senior secured loan and assigned interests in Conquest Cherokee, LLC ("Conquest"). Conquest's assets consisted primarily of coalbed methane reserves in the Cherokee Basin. AEH was formed in 2006 and is the owner of 100% of the outstanding equity interests of East Cumberland L.L.C., a provider of outsourced mine site development and construction services for coal production companies operating in Southern Appalachia, and C&S Oilfield and Pipeline Construction, a provider of support services to companies engaged in the exploration and production of oil and natural gas.

On January 19, 2010, we modified the terms of our senior secured debt in AEH and Coalbed in conjunction with the formation of Manx, a new entity consisting of the assets of AEH, Coalbed and Kinley Exploration LLC. The assets of the three companies were combined under new common management. We funded \$2,800 at closing to Manx to provide for working capital. A portion of our loans to AEH and Coalbed was exchanged for Manx preferred equity, while our AEH equity interest was converted into Manx common stock. There was no change to fair value at the time of restructuring, and we continue to fully reserve any income accrued for Manx. During the year ended June 30, 2011, we made a follow-on secured debt investments of \$750 in Manx to support ongoing operations. On June 30, 2012, Manx assigned the membership interests of Coalbed and AEH to Wolf Energy Holdings, Inc. ("Wolf"), a newly-formed company owned by us.

The Board of Directors decreased the fair value of our investment in Manx to zero as of September 30, 2012 and June 30, 2012, respectively, a reduction of \$11,027 from its amortized cost.

Wolf Energy Holdings, Inc.

Wolf Energy Holdings, Inc. ("Wolf") is a holding company formed to hold 100% of the outstanding membership interests of each of Coalbed and AEH. The membership interests of Coalbed and AEH, which were previously owned by Manx, were assigned to Wolf effective June 30, 2012. The purpose of assignment was to remove those activities from Manx deemed non-core by the Manx convertible debt investors who were not interested in funding those operations. In addition, effective June 29, 2012 C&J Cladding Holding Company, Inc. ("C&J") merged with and into Wolf, with Wolf surviving. At the time of the merger, C&J held the remaining undistributed proceeds from the sale of its membership interests in C&J Cladding, LLC. The merger was effectuated in connection with the broader simplification of our energy investment holdings.

The Board of Directors set the fair value of our investment in Wolf to zero as of September 30, 2012 and June 30, 2012, a reduction of \$7,991 from its amortized cost.

Equity positions in the portfolio are susceptible to potentially significant changes in value, both increases as well as decreases, due to changes in operating results. Two of our portfolio companies experienced such volatility and experienced meaningful fluctuations in valuation during the three months ended September 30, 2012 Ajax and R-V. The valuation of Ajax decreased due to declining operating results. The value of our equity position in Ajax has decreased to \$10,495 as of September 30, 2012, a premium of \$4,438 to its cost, compared to the \$11,151 unrealized gain recorded at June 30, 2012. The valuation of R-V has increased due to improved operating results. The value of our equity position in R-V has increased to \$29,030 as of September 30, 2012, a premium of \$22,261 to its cost, compared to the \$17,087 unrealized gain recorded at June 30, 2012. Six of the other controlled investments have been valued at discounts to the original investment. Four of the control investments are valued at the original investment amounts or higher. Overall, at September 30, 2012, the control investments are valued at \$14,730 above their amortized cost.

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We hold three affiliate investments at September 30, 2012. The affiliate investments reported strong operating results with valuations remaining relatively consistent from June 30, 2012. Overall, at September 30, 2012, affiliate investments are valued \$666 above their amortized cost.

With the Non-control/Non-affiliate investments, generally, there is less volatility related to our total investments because our equity positions tend to be smaller than with our control/affiliate investments, and debt investments are generally not as susceptible to large swings in value as equity investments. For debt investments, the fair value is limited on the high side to each loan's par value, plus any prepayment premia that could be imposed. Many of the debt investments in this category have not experienced a significant change in value, as they were previously valued at or near par value. Non-control/Non-affiliate investments did not experience significant changes in valuation and are generally performing as expected or better than expected. As of September 30, 2012 and June 30, 2012, two of our Non-control/Non-affiliate investments are valued at a significant discount to amortized cost H&M Oil & Gas, LLC ("H&M") and Stryker Energy, LLC ("Stryker") due to significant decreases in the operating results of the operating companies. Overall, at September 30, 2012, other Non-control/Non-affiliate investments are valued \$11,066 above their amortized cost, excluding our investments in H&M and Stryker.

Capitalization

Our investment activities are capital intensive and the availability and cost of capital is a critical component of our business. We capitalize our business with a combination of debt and equity. Our debt currently consists of a revolving credit facility availing us of the ability to borrow debt subject to borrowing base determinations and Senior Convertible Notes which we issued in December 2010, February 2011, April 2012 and August 2012, Senior Unsecured Notes, and Prospect Capital InterNotes®, which we may issue from time to time, and our equity capital, which is comprised entirely of common equity. The following table shows the Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® amounts and outstanding borrowings at September 30, 2012 and June 30, 2012:

	As of September 30, 2012		As of June 30, 2012	
	Maximum Draw Amount	Amount Outstanding	Maximum Draw Amount	Amount Outstanding
Revolving Credit Facility	\$ 517,500	\$	\$ 492,500	\$ 96,000
Senior Convertible Notes	\$ 647,500	\$ 647,500	\$ 447,500	\$ 447,500
Senior Unsecured Notes	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
InterNotes®	\$ 88,517	\$ 88,517	\$ 20,638	\$ 20,638

The following table shows the contractual maturity of our Revolving Credit Facility, Senior Convertible Notes, Senior Unsecured Notes and InterNotes® at September 30, 2012:

	Total	Payments Due by Period			
		Less than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
Revolving Credit Facility	\$	\$	\$	\$	\$
Senior Convertible Notes	647,500			317,500	330,000
Senior Unsecured Notes	100,000				100,000
InterNotes®	88,517				88,517
Total contractual obligations	\$ 836,017	\$	\$	\$ 317,500	\$ 518,517

We have and expect to continue to fund a portion of our cash needs through borrowings from banks, issuances of senior securities, including secured, unsecured and convertible debt securities and

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preferred stock, or issuances of common equity. For flexibility, we maintain a universal shelf registration statement that allows for the public offering and sale of our debt securities, common stock, preferred stock and warrants to purchase such securities in an amount up to \$3,000,000 less issuances to date (See *Recent Developments*). We may from time to time issue securities pursuant to the shelf registration statement or otherwise pursuant to private offerings. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

Revolving Credit Facility

On June 11, 2010, we closed an extension and expansion of our existing credit facility with a syndicate of lenders through PCF (the "2010 Facility"). The 2010 Facility, which had \$325,000 total commitments as of June 30, 2011, included an accordion feature which allowed the Syndicated Facility to accept up to an aggregate total of \$400,000 of commitments, a limit which was met on September 1, 2011. Interest on borrowings under the 2010 Facility was one-month Libor plus 325 basis points, subject to a minimum Libor floor of 100 basis points. Additionally, the lenders charged a fee on the unused portion of the 2010 Facility equal to either 75 basis points if at least half of the credit facility is used or 100 basis points otherwise.

On March 27, 2012, we renegotiated the Syndicated Facility and closed on an expanded five-year \$650,000 revolving credit facility (the "2012 Facility"). The lenders have extended commitments of \$517,500 under the 2012 Facility as of June 30, 2012. The 2012 Facility includes an accordion feature which allows commitments to be increased up to \$650,000 in the aggregate. The revolving period of the 2012 Facility extends through March 2015, with an additional two year amortization period (with distributions allowed) after the completion of the revolving period. During such two year amortization period, all principal payments on the pledged assets will be applied to reduce the balance. At the end of the two year amortization period, the remaining balance will become due, if required by the lenders.

The 2012 Facility contains restrictions pertaining to the geographic and industry concentrations of funded loans, maximum size of funded loans, interest rate payment frequency of funded loans, maturity dates of funded loans and minimum equity requirements. The 2012 Facility also contains certain requirements relating to portfolio performance, including required minimum portfolio yield and limitations on delinquencies and charge-offs, violation of which could result in the early termination of the 2012 Facility. The 2012 Facility also requires the maintenance of a minimum liquidity requirement. At September 30, 2012, we were in compliance with the applicable covenants.

Interest on borrowings under the 2012 Facility is one-month Libor plus 275 basis points with no minimum Libor floor. Additionally, the lenders charge a fee on the unused portion of the 2012 Facility equal to either 50 basis points if at least half of the credit facility is drawn or 100 basis points otherwise. The 2012 Facility requires us to pledge assets as collateral in order to borrow under the credit facility. As of September 30, 2012 and June 30, 2012, we had \$397,166 and \$451,252, respectively, available to us for borrowing under our 2012 Facility, of which the amount outstanding was zero and \$96,000, respectively. As additional investments that are eligible are transferred to PCF and pledged under the 2012 Facility, PCF will generate additional availability up to the commitment amount of \$517,500. At September 30, 2012, the investments used as collateral for the 2012 Facility had an aggregate market value of \$706,605, which represents 37.5% of our net assets. These assets have been transferred to PCF, a bankruptcy remote special purpose entity, which owns these investments and as such, these investments are not available to our general creditors. PCF holds all of these investments at market value as of September 30, 2012. The release of any assets from PCF requires the approval of the facility agent.

Concurrent with the extension of our 2012 Facility, in March 2012, we wrote off \$304 of the unamortized debt issue costs associated with the previous credit facility, in accordance with ASC

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470-50, *Debt Modifications and Extinguishments*. In connection with the origination and amendments of the 2012 Facility, we incurred \$10,220 of fees, including \$1,319 of fees carried over from the previous facility, which are being amortized over the term of the facility in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$8,537 remains to be amortized.

During the three months ended September 30, 2012 and September 30, 2011, we recorded \$2,168 and \$3,610 of interest costs, unused fees and amortization of financing costs on our credit facility as interest expense, respectively.

Senior Convertible Notes

On December 21, 2010, we issued \$150,000 in aggregate principal amount of our 6.25% senior convertible notes due 2015 ("2015 Notes") for net proceeds following underwriting expenses of approximately \$145,200. Interest on the 2015 Notes is paid semi-annually in arrears on June 15 and December 15, at a rate of 6.25% per year, commencing June 15, 2011. The 2015 Notes mature on December 15, 2015 unless converted earlier. The 2015 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 88.0902 and 88.1030 shares of common stock, respectively, per \$1 principal amount of 2015 Notes, which is equivalent to a conversion price of approximately \$11.35 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (December 21, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2015 Notes will be increased if monthly cash dividends paid to common shares exceed the rate of \$0.101125 cents per share, subject to adjustment.

On February 18, 2011, we issued \$172,500 in aggregate principal amount of our 5.50% senior convertible notes due 2016 ("2016 Notes") for net proceeds following underwriting expenses of approximately \$167,325. Between January 30, 2012 and February 2, 2012, we repurchased \$5,000 of our 2016 Notes at a price of 97.5, including commissions. The transactions resulted in our recognizing \$10 of loss in the year ended June 30, 2012. Interest on the remaining \$167,500 of 2016 Notes is paid semi-annually in arrears on February 15 and August 15, at a rate of 5.50% per year, commencing August 15, 2011. The 2016 Notes mature on August 15, 2016 unless converted earlier. The 2016 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2012 of 78.3699 and 78.3835 shares, respectively, of common stock per \$1 principal amount of 2016 Notes, which is equivalent to a conversion price of approximately \$12.76 per share of common stock, subject to adjustment in certain circumstances. The conversion price in effect at June 30, 2012 was last calculated on the anniversary of the issuance (February 14, 2011) and will next be adjusted on the next anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2016 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.101150 per share.

On April 16, 2012, we issued \$130,000 in aggregate principal amount of our 5.375% senior convertible notes due 2017 ("2017 Notes") for net proceeds following underwriting expenses of approximately \$126,035. Interest on the 2017 Notes is paid semi-annually in arrears on October 15 and April 15, at a rate of 5.375% per year, commencing October 15, 2012. The 2017 Notes mature on October 15, 2017 unless converted earlier. The 2017 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at June 30, 2012 of 85.8442 shares of common stock per \$1 principal amount of 2017 Notes, which is equivalent to a conversion price of approximately \$11.65 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (April 16, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2017 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.10150 per share.

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On August 14, 2012, we issued \$200,000 in aggregate principal amount of our 5.75% senior convertible notes due 2018 ("2018 Notes") for net proceeds following underwriting expenses of approximately \$193,600. Interest on the 2018 Notes is paid semi-annually in arrears on March 15 and September 15, at a rate of 5.75% per year, commencing March 15, 2013. The 2018 Notes mature on March 15, 2018 unless converted earlier. The 2018 Notes are convertible into shares of common stock at an initial conversion rate and conversion rate at September 30, 2012 of 82.3451 shares of common stock per \$1 principal amount of 2018 Notes, which is equivalent to a conversion price of approximately \$12.14 per share of common stock, subject to adjustment in certain circumstances. The conversion price has not been adjusted since the issuance (August 14, 2012) and will next be adjusted on the first anniversary, unless the exercise price shall have changed by more than 1% before the anniversary. The conversion rate for the 2018 Notes will be increased when monthly cash dividends paid to common shares exceed the monthly dividend rate of \$0.1016 per share.

In no event will the total number of shares of common stock issuable upon conversion exceed 96.8992 per \$1 principal amount of the 2015 Notes (the "conversion rate cap"), except that, to the extent we receive written guidance or a no-action letter from the staff of the Securities and Exchange Commission (the "Guidance") permitting us to adjust the conversion rate in certain instances without regard to the conversion rate cap and to make the 2015 Notes convertible into certain reference property in accordance with certain reclassifications, business combinations, asset sales and corporate events by us without regard to the conversion rate cap, we will make such adjustments without regard to the conversion rate cap and will also, to the extent that we make any such adjustment without regard to the conversion rate cap pursuant to the Guidance, adjust the conversion rate cap accordingly. We will use our commercially reasonable efforts to obtain such Guidance as promptly as practicable.

Prior to obtaining the Guidance, we will not engage in certain transactions that would result in an adjustment to the conversion rate increasing the conversion rate beyond what it would have been in the absence of such transaction unless we have engaged in a reverse stock split or share combination transaction such that in our reasonable best estimation, the conversion rate following the adjustment for such transaction will not be any closer to the conversion rate cap than it would have been in the absence of such transaction.

Upon conversion, unless a holder converts after a record date for an interest payment but prior to the corresponding interest payment date, the holder will receive a separate cash payment with respect to the Notes surrendered for conversion representing accrued and unpaid interest to, but not including the conversion date. Any such payment will be made on the settlement date applicable to the relevant conversion on the 2015 Notes and 2016 Notes (collectively, "Senior Convertible Notes").

No holder of Senior Convertible Notes will be entitled to receive shares of our common stock upon conversion to the extent (but only to the extent) that such receipt would cause such converting holder to become, directly or indirectly, a beneficial owner (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder) of more than 5.0% of the shares of our common stock outstanding at such time. The 5.0% limitation shall no longer apply following the effective date of any fundamental change. We will not issue any shares in connection with the conversion or redemption of the Notes which would equal or exceed 20% of the shares outstanding at the time of the transaction in accordance with NASDAQ rules.

Subject to certain exceptions, holders may require us to repurchase, for cash, all or part of their Notes upon a fundamental change at a price equal to 100% of the principal amount of the Notes being repurchased plus any accrued and unpaid interest up to, but excluding, the fundamental change repurchase date. In addition, upon a fundamental change that constitutes a non-stock change of control we will also pay holders an amount in cash equal to the present value of all remaining interest payments (without duplication of the foregoing amounts) on such Senior Convertible Notes through and including the maturity date.

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In connection with the issuance of the Senior Convertible Notes, we incurred \$20,927 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$17,278 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended September 30, 2012 and September 30, 2011, we recorded \$8,667 and \$5,350 of interest costs and amortization of financing costs on the Senior Convertible Notes as interest expense, respectively.

Senior Unsecured Notes

On May 1, 2012, we issued \$100,000 in aggregate principal amount of 6.95% senior unsecured notes due 2022 for net proceeds net of offering expenses of \$97,000 (the "2022 Notes"). Interest on the 2022 Notes is paid quarterly in arrears on August 15, November 15, February 15 and May 15, at a rate of 6.95% per year, commencing on August 15, 2012. The 2022 Notes mature on November 15, 2022. These notes will be our direct unsecured obligations and rank equally with all of our unsecured senior indebtedness from time to time outstanding.

In connection with the issuance of the 2022 Notes, we incurred \$3,200 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$3,111 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended September 30, 2012, we recorded \$1,807 of interest costs and amortization of financing costs on the 2022 Notes as interest expense.

Prospect Capital InterNotes®

On February 16, 2012, we entered into a Selling Agent Agreement (the "Selling Agent Agreement") with Incapital LLC, as purchasing agent for our issuance and sale from time to time of up to \$500,000 of Prospect Capital InterNotes® (the "InterNotes Offering"). Additional agents appointed by the Company from time to time in connection with the InterNotes Offering may become parties to the Selling Agent Agreement.

These notes will be our direct unsecured senior obligations and will rank equally with all of our unsecured senior indebtedness from time to time outstanding. Each series of notes will be issued by a separate trust. These notes bear interest at fixed interest rates and offer a variety of maturities no less than twelve months from the original date of issuance.

In connection with the issuance of the Prospect Capital InterNotes®, we incurred \$2,184 of fees which are being amortized over the term of the notes in accordance with ASC 470-50, *Debt Modifications and Extinguishments*, of which \$2,139 remains to be amortized and is included within deferred financing costs on the consolidated statements of assets and liabilities.

During the three months ended September 30, 2012, we issued \$67,879 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of approximately \$66,691.

As of September 30, 2012, we have issued \$88,517 in aggregate principal amount of our Prospect Capital InterNotes® for net proceeds of \$86,893. These notes were issued with stated interest rates ranging from 5.85% to 7.00% with a weighted average rate of 6.20%. These notes mature between June 15, 2019 and June 15, 2022. We issued an additional \$7,172 in aggregate principal amount of our Prospect Capital InterNotes® subsequent to September 30, 2012. (See *Recent Developments*.)

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The following table shows our issuances to date:

Date of Issuance	Gross Proceeds	Interest Rate	Maturity Date
March 1, 2012	\$4,000	7.00%	March 15, 2014 Oxiteno is investing in research and development of specialty chemicals in order to optimize its sales mix across petrochemical cycles. Oxiteno's research and development have resulted in the introduction of 76 new applications for its products during the last three years. Oxiteno continues 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 in the local 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 investment in our company. Our net debt position for the year ended December 31, 2008 was R\$1,538 million. On May 21, 2008, the credit rating agency Moody's assigned Ultrapar its Baa3 credit rating, which is equivalent to investment grade. We have been consistently distributing dividends to our shareholders. During the last five years we have declared yearly dividends representing an average of approximately 60% of our net income.

Continue to grow our business

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, such as the acquisitions of Ipiranga, União Terminais and Texaco, and we intend to continue this strategy.

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We have also made several investments in the expansion of our existing operations which have already resulted in an increase of approximately 12% and 37% in our ethylene oxide and specialty chemicals production capacities in Brazil, respectively. We constantly analyze acquisition opportunities in the segments in which we operate and in complementary segments that could add value to our company.

Key Financial Information

The table below sets forth certain financial information for us and our principal business segments.

	2008	Year ended December 31, (in millions of reais)			2007	2006	2005	2004
Net sales and services(1)								
Ultrapar	28,268.0	19,921.3	4,794.1	4,693.8	4,794.1	4,693.8	4,693.8	4,693.8
Ultragaz	3,339.4	3,112.9	3,067.0	2,902.4	2,902.4	2,902.4	2,902.4	2,902.4
Ipiranga(2)	22,676.4	14,869.9						
Oxitenos(2)	1,926.1	1,764.8	1,549.6	1,610.1	1,610.1	1,610.1	1,610.1	1,610.1
Ultracargo	283.4	229.1	226.1	234.2	234.2	234.2	234.2	234.2
Adjusted EBITDA(3)								
Ultrapar	1,079.5	779.4	516.2	546.0	546.0	546.0	546.0	546.0
Ultragaz	210.8	251.8	280.5	195.1	195.1	195.1	195.1	195.1
Ipiranga(2)	603.2	321.7						
Oxitenos(2)	210.0	157.4	191.6	300.2	300.2	300.2	300.2	300.2
Ultracargo	50.6	43.0	38.0	44.3	44.3	44.3	44.3	44.3
Net Income								
Ultrapar	390.3	181.9	282.1	299.2	299.2	299.2	299.2	299.2
Net cash (debt)(4)								
Ultrapar	(1,538.2)	(1,434.1)	120.7	191.2	191.2	191.2	191.2	191.2

- (1) Segment information for Ultragaz, Ipiranga, Oxitenos and Ultracargo is presented on an unconsolidated basis. See Presentation of Financial Information for more information.
- (2) Since January 1, 2008, EMCA has been consolidated into Oxitenos, reflecting the effective management responsibility for the business. The financial information of Oxitenos and Ipiranga in this annual report prior to January 1, 2008 reflects the current consolidation retrospectively, which differs from those previously reported.
- (3) See footnote 7 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of adjusted EBITDA and its reconciliation to information in our financial statements.
- (4) See footnote 9 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements.

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

LPG is a fuel derived from the oil and natural gas refining process. In Brazil, approximately 85% of local demand in 2008 was produced by local refineries and the remaining 15% was imported. LPG has the following primary uses in Brazil:

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

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

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The following chart shows the process of LPG distribu

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 small. In addition, because LPG is not used to a significant extent for domestic heating in Brazil, overall consumption of LPG per capita is lower in Brazil compared to countries where domestic heating is a major element of LPG demand, making low distribution costs a major competitive differential in the Brazilian LPG market.

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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 liquified natural gas and ethane. However, due to Petrobras' monopoly over the production and import of petroleum and petroleum products until the end of 2001, Petrobras is currently the de facto sole supplier of LPG in Brazil.

Currently, the LPG distribution industry in Brazil consists of 16 LPG distribution companies or groups of companies, and is regulated by ANP. The LPG distribution industry includes purchasing LPG from Petrobras, filling LPG bottles and bulk delivery trucks at filling stations, selling LPG to dealers and end users, controlling product quality and providing technical assistance to LPG consumers. See Item 7, Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview for more information on the ANP. LPG produced by Petrobras, which represented approximately 85% of total LPG sold in Brazil in 2008, is transported in pipelines and by trucks from Petrobras' production and storage facilities to filling stations maintained by LPG distributors. The balance is imported from other countries. Petrobras imports LPG from abroad and stores it in large storage facilities maintained by Petrobras. The imported LPG is then transported from the storage facilities by pipeline and truck to the LPG distributors' filling stations.

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

- home delivery of LPG bottles; and

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

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

Bulk delivery is the principal delivery method to large volume consumers, such as residential buildings, hospitals, small- and medium-sized businesses and industries. In the case of bulk delivery, LPG is pumped directly into tanker trucks at filling stations, transported to customers' premises 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 geographic areas in which each LPG distributor could operate, regulation of the services offered by distributors and governmental quotas for the amount of 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 by new distribution companies, reducing certain administrative burdens and removing restrictions on the areas in which distributors could conduct their business and on sales quotas. There are currently no restrictions on foreign ownership of LPG companies in Brazil.

Since 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 from January 2002, Petrobras started to freely price LPG in the domestic market by adopting the international price plus surcharges as its benchmark. However, the Petrobras refinery price of LPG is still subject to government influence when the government deems appropriate. Prices of LPG in *reais* remained unchanged from May 2003 to December 2007. In 2008, Petrobras' average refinery price was approximately US\$541 per ton compared with the average international price of US\$747 per ton. In 2008, Petrobras increased the LPG refinery price for commercial and industrial usage by 15% in January, an additional 10% in April and 6% in July. LPG refinery prices for residential use remained unchanged in 2008.

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

In November 1995, Petrobras' monopoly was removed from the federal constitution by a constitutional amendment approved by the Brazilian Congress. According to this amendment, other state and private companies would be able to compete with Petrobras in virtually all fields in which Petrobras operated. This amendment was implemented through Law No. 9,478, dated August 6, 1997, which effectively allowed Petrobras' monopoly to continue for a maximum period of three years. Law No. 9,478 prescribed that

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termination of Petrobras' monopoly would be accompanied by the deregulation of prices for oil, gas and oil products, and created a 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 2003.

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, including product quality standards, minimum storage capacities required to be maintained by distributors, and other requirements.

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

- maintenance of sufficient LPG storage capacity;

- maintenance of an adequate quantity of LPG bottles;

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

- possession of its own filling plant;

- appropriate maintenance of LPG filling units;

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

- full compliance with the Unified Suppliers Registration System – Sistema Único de Cadastramento Unificado de Fornecedores – SICAUF.

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 bottles and infrastructure owned by the distributor. Based on the information provided by the distributors, Petrobras supplies the volume of LPG ordered, provided its production and imports of LPG are sufficient to meet the demand.

LPG distribution to the end consumer may be carried out directly by the LPG distribution companies or by independent dealers. Each 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, barge manufacturers, LPG transportation companies and certain LPG retail stores, under the supervision of the Brazilian government, entered into a statement of intent regarding the establishment of a program for requalifying LPG bottles (a process under which they undergo safety quality checks) and other safety procedures, known as the Self-Regulatory Code or Código de Auto-Regulamentação. See [Table of Contents](#).

Information on the Company – Business Overview – Distribution of Liquefied Petroleum Gas – Ultrazul – Bottle swapping center
4.B. Information on the Company – Business Overview – Distribution of Liquefied Petroleum Gas – Ultrazul – Requalification center
Before the Self-Regulatory Code came into effect, certain LPG distributors, not including Ultrazul, would fill bottles stamped with and

distributor's brand. This practice resulted in a low level of investment in new bottles, giving rise to concerns regarding the safety of bottles. The Self-Regulatory Code provides, among other things,

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

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

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

Under the Ministry of Mines and Energy Normative Ruling No. 334 of November 1, 1996, or Ruling 334, any party that defaults on 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 operation.

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

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

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

by November 1, 2011, the requalification of 12.8 million bottles manufactured between 1992 and 1996. Ultragas itself was required to requalify 13.8 million bottles before November 2006 and an additional 10.7 million bottles by November 2011. In 2008, Ultragas requalified 2.2 million bottles. For 2009, it is required to requalify another 2.8 million bottles.

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

Brazilian federal and state environmental laws and regulations require LPG distributors to obtain operating permits from the environmental agencies and from the fire department. In order to obtain such permits, distributors must satisfy regulatory authorities that their operation, maintenance and repair of facilities are in compliance with regulations and are not prejudicial to the environment. In addition, regulations establish standard procedures for transporting, delivering and storing LPG and for testing and requalification of LPG bottles. Civil, administrative and criminal sanctions, including fines and the revocation of licenses, may apply to violations of environmental regulations. Under applicable law, distributors are strictly liable for environmental damage.

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.

Ultragas

We distribute LPG through Ultragas. Founded in 1937, we were the first LPG distributor in Brazil. At that time, Brazilians used wood stoves and, to a lesser extent, alcohol, kerosene and coal stoves. Ultragas was the leading company by sales volume in the Brazilian LPG market as of December 31, 2002.

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

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

Ultragas has three operating subsidiaries:

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

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

Utingás Armazenadora S.A., or Utingás, a storage services provider that operates two facilities in São Paulo and Paraná. Utingás was incorporated in 1967 when Ultragas and other LPG distributors joined to construct LPG storage facilities based in the states of São Paulo and Paraná. Ultragas currently controls 56% of the storage operations. See [Storage of LPG](#).

Markets and marketing. When Ultragas began its operations, it served only the Southeast region of Brazil. Currently, Ultragas is present in almost all of Brazil's significant population centers. In 2008, Ultragas strengthened its presence in the North and Northeast of Brazil, specifically in the states of Pará and Maranhão, where it did not have significant operations and where LPG consumption has been growing faster than Brazil's national average. Distribution of bottled LPG includes direct home delivery and retail stores, both carried out by Ultragas's dealership network using 13 kg ANP approved bottles. In the case of Ultragas, the bottles are painted blue, which we believe is an important element in recognizing the Ultragas brand. Ultragas's operating margins for bottled LPG vary from region to region and reflect market conditions and the distribution channel in the region.

Before Shell Gas's acquisition, Ultragas's sales strategy for bottled LPG delivery was to increase market share through geographical expansion, as well as protecting and incrementing market participation in regions where it already operated. With the acquisition of Shell Gás, Ultragas became the Brazilian market leader in LPG, and the focus of its strategy evolved to investing in

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brand, protecting market share and strengthening its position in certain regions where it does not have a significant presence. The bottled market in Brazil is a mature one and Ultragas believes that growth in demand will be a function of an increasing number of households consuming the product as well as an increasing level of household income.

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

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

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

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

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

Client category	Year ended December		
	2008	2007	2006
	(in thousands of tons)		
Bottled LPG			
Residential delivery by Ultragas	74.3	74.5	101.2
Ultragas owned retail stores	2.1	2.2	2.1
Independent dealers(1)	1,007.8	978.5	985.3
Total bottled LPG	1,084.2	1,055.1	1,088.6
Total bulk LPG	516.8	517.1	485.2
Total tons delivered	1,601.0	1,572.2	1,573.8

- (1) Includes residential deliveries and distribution through retailers' stores. Residential delivery has evolved during the last few years from primarily door-to-door to a primarily scheduled or phone-order delivery.

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

Maintaining its innovative profile, in 2008 Ultragas took another pioneering step in the LPG market with the launching of multi-brand mobile credit card payment terminals, which enable customers to pay for the purchase of bottles using any brand of credit card at the time of residential delivery. The project also aims to develop new functions for the terminals, such as receiving and printing orders made by phone, validation of electronic gas vouchers and bank check consultation.

Distribution infrastructure. Ultragas' s distribution strategy includes having its own distribution infrastructure, since it believes proximity to customers is a significant factor in successful distribution and sales strategies. The services associated with Ultragas' s home delivery strongly influence the ranking of the Ultragas' brand name in the bottled market. Ultragas seeks to expand its home delivery service by having its delivery personnel provide safety recommendations to household customers and by scheduling deliveries on the same weekday for each covered area. For both bottled and bulk LPG, deliveries are made by employees wearing Ultragas uniforms and driving vehicles branded with the Ultragas' s logo.

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Ultragas delivers bottled LPG using a distribution network, which in 2008 included 75 company-owned retail stores, and more than 4 independent dealers. In 2008, Ultragas had a fleet of 500 vehicles for delivering gas bottles to homes and 255 to commercial establishments.

Ultragas also maintains a call center which centralizes all LPG bottle orders made through phone orders.

Bottled sales capacity derives from the number of bottles owned by Ultragas and the number of bottles owned by its independent dealers.

Ultragas estimates that as of December 31, 2008, there were some 20 million 13kg Ultragas bottles in the market.

Independent dealers. Ultragas's independent distribution network ranges from large dealers, which carry out extensive home deliveries, to single retail stores, which sell small quantities of LPG bottles. Until the enactment of ANP Rule 297 on November 18, 2003, independent dealers needed only to be registered with ANP for the sale of LPG bottles. No licenses were required except for those required by the department and the municipal authorities. Rule 297 established that the independent dealers must be registered with ANP and comply with a list of prerequisites contained in such rule, as well as those required by law for the storage of bottles up to 90 kg. Also, each municipality sets forth its own safety regulations applicable to stores that sell LPG, including a minimum distance from certain locations, such as schools.

For the year ended December 31, 2008, approximately 90% of Ultragas's bottled LPG sales were made through independent dealer agreements entered into between Ultragas and independent dealers require the use of the Ultragas brand and the display of the Ultragas logo in the delivery vehicles and on the uniforms worn by delivery personnel. Proprietary rights in the trademark and logo are retained by Ultragas and are duly registered with the National Institute of Industrial Property (INPI - *Instituto Nacional de Propriedade Industrial*). Contracted dealers are Ultragas's exclusive representatives. Under the terms of the respective contracts, each dealer agrees not to distribute non-Ultragas LPG bottles.

In order to strengthen the relationship with its network of independent dealers, Ultragas has created Project SOMAR (Marketing Solution 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 in improving the profitability of the distribution chain of LPG.

In order to improve the efficiency of its network of independent dealers, in 2008 Ultragas launched the Retailer Qualification Program, which aims at establishing guidelines of best practices for its network focusing on operational excellence.

Distribution channels to bulk consumers. Large bulk distribution, classified by Ultragas as consumption of more than five tons per month and constituted almost exclusively of industrial users, is made by tanker trucks that deliver the LPG directly to the storage tanks located at the customers' premises. Small bulk distribution, classified by Ultragas as consumption of between 0.5 and five tons per month, is constituted 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 of transportation provided by Ultracargo and by third-party transportation companies.

Payment terms. Ultragas's sales through its retail stores and through home delivery are made on a cash basis. Ultragas's sales to independent dealers and to industrial and commercial users have payment terms of 22 days on average.

Bottle swapping centers. Pursuant to the Self-Regulatory Code, the LPG distributors have established nine operating swapping centers to facilitate the return of third-party bottles to the appropriate distributor. Under the Self-Regulatory Code, while LPG distributors may pick up any empty LPG bottles tendered by customers in exchange for full LPG bottles, whether or not such empty bottles were put in circulation by that distributor, after October 1997, LPG distributors were not permitted to refill third-party bottles. Accordingly, LPG distributors deliver third-party bottles to a swapping center where such bottles may be exchanged for bottles placed in circulation by such distributor. The swapping centers currently charge a fee of R\$0.25 per exchanged LPG bottle. In areas where only one LPG distributor has a sizable market share, it is customary to use the facilities of that distributor as an unofficial swapping center for which that distributor does not charge an additional fee.

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

Requalification of bottles. The useful life of a bottle varies depending on a number of factors, the two most important of which are the extent to which the bottle has been exposed to corrosion from the atmosphere and whether the bottle has been damaged. The Self-Regulatory Code provides that all bottles must be requalified after their first 15 years' use, and every ten years thereafter. Each bottle

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 bottles which pass the quality and safety checks, several procedures are followed before the bottles are stamped with the year of requalification and the next term in which they are due for requalification.

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

Storage of LPG. In 2008, Ultragaz's storage capacity was approximately 17,200 tons, including Utingás's storage capacity. Based on its average LPG sales, Ultragaz could store approximately two days' supply of LPG. Petrobras maintains approximately two days' supply of LPG at its refineries and other facilities. Accordingly, any interruption in the production of LPG can result in shortages, such as the one that occurred during the Petrobras strike in 1995.

Ultragaz stores its LPG in large tanks at each of its filling plants located throughout the regions in which it operates. Primary filling plants receive LPG directly from Petrobras by pipeline; secondary filling plants are supplied by truck; and satellite plants primarily hold LPG which is used to fill bob-tail trucks for 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 4.D. Information on the Company's Property, Plants and Equipment.

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

Nacional Gás, 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,		
	2008	2007	2006
Ultragaz	23.6%	23.7%	23.1%
SHV Gas	22.9%	23.1%	23.1%
Liquigás	22.2%	21.8%	21.1%
Nacional Gás	18.3%	18.4%	18.1%
Others	13.0%	13.0%	12.5%
Total tons delivered	100.0%	100.0%	100.0%

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 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 attrition by LPG distributors to increase market share at the expense of their competitors. LPG distributors in the bottled market compete primarily on brand awareness and reliability of delivery and the service provided to customers. Ultragaz believes that it is competitive in these aspects. Since per capita consumption is small, low distribution cost is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in distribution and delivery as all LPG distributors currently purchase 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 Recife, contain heavy concentration of residential consumers and therefore distribution

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 UltraSys.

In addition to competing with other LPG distributors, Ultragaz competes with companies that offer alternative energy sources to industrial consumers, 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, that use 13-kg bottles. In addition, supply of natural gas requires significant investments in pipeline infrastructure. While fuel oil is less expensive than LPG, LPG has performance and environmental advantages over fuel oil in industrial applications.

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In 2006, the Brazilian LPG market grew by 1%, substantially as a result of the intensification by the Brazilian government of social programs, which contributed to an increase in Brazilian income. Additionally, the nationalization of the natural gas reserves in Bolivia generated uncertainties related to the natural gas supply from Bolivia to Brazil. The same factors that were present in the market in 2006 combined with a 5.4% growth in GDP, led to a 2.6% growth in the Brazilian LPG market in 2007. In 2008, the 5.1% GDP growth contributed to the 2.5% increase in the LPG market, mainly concentrated in the first nine months of the year, before the worsening of the global financial crisis.

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

Source: Sinagra

Income tax exemption status. Pursuant to legislation which provides tax relief for industries located in the northeast region of Brazil, Ultragaz benefits from a 75% income tax reduction at the Mataripe and Caucáia filling plants, expiring in 2013 and 2012, respectively, and a 12.5% reduction at the filling plants in Aracaju, valid through 2013. In December 2007, an income tax exemption at the Suape plant expired and a request was filed with ADENE (Northeast Development Agency), which manages the incentive program, seeking a 75% income tax reduction until 2017. No response to this request has been received to date. If the income tax reduction is approved, Ultragaz should wait for the Federal Tax Authorities to issue its opinion, which has a period of 120 days to occur. Only after this period Ultragaz can account for the amount of the income tax benefit in its results, retrospectively to January 1, 2008. In December 2008, another request was filed with ADENE, due to an upgrade of the Aracaju base, for an increase in income tax reduction from 25% to 75% until 2017. In case the request is not approved, Ultragaz is entitled to a 12.5% income tax reduction at Suape and Aracaju plants until 2013. Income tax exemptions amounted to R\$7.6 million, R\$9.8 million and R\$8.8 million for the years ended December 31, 2008, 2007 and 2006 respectively. We cannot guarantee that there will be no amendments to the current tax legislation. For further information see Note 22(d) to our consolidated financial statements.

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

Fuel Distribution

Industry and Regulatory Overview

The Brazilian fuels market comprises the distribution and marketing of gasoline, ethanol, diesel, fuel oil, kerosene and natural gas for vehicles (NGV). In 2008, diesel represented 49.3% of the fuels distributed in Brazil, followed by gasoline, ethanol, fuel oils, NGV and kerosene, each of which represented 27.7%, 14.6%, 5.7%, 2.7% and 0.1%, respectively.

Growth in the fuel distribution sector is directly influenced by GDP growth rates and size of light vehicle fleet. GDP growth is the main driver for diesel volume, given that diesel in Brazil is highly used for buses, trucks and agricultural engines. The size of the light vehicle fleet influences the growth in the combined volumes of gasoline, ethanol and NGV, which are basically used for light vehicle. The growth in the size of the car fleet in turn, is highly correlated with credit availability and disposable income. Since 2005, the Brazilian economy has been passing through a structural change with the creation of a well-established credit market for consumer goods. Credit in Brazil in December 2008 reached 41% of GDP compared to 35% in December 2007, 31% in December 2006 and 28% in December 2005, which combined with an increase in disposable income in Brazil, has had a positive effect on the sales of vehicles. According to ANFAVEA (Brazilian Association of Vehicle Producers), the number of new vehicles registered in Brazil increased by 15% to 2.8 million in 2008 compared to 2007, with buses and trucks increasing by 23% and light vehicles increasing by 14%. Among the total vehicles sold in 2008, including trucks and buses, 82% were flex-fuel vehicles, which have engines adapted to run on gasoline or ethanol.

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function using either gasoline or ethanol, or by a combination of the two, 8% were gasoline only fueled vehicles and the remaining were powered by diesel. In 2008, there were approximately 1,583 thousand vehicles using NGV, a 6% increase compared to 2007. Since launching of flex-fuel vehicles in Brazil in 2003, 7.0 million flex-fuel cars were sold in Br

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

According to ANP information for 2008, the distribution of fuels is made mainly through three channels as follows:

Service stations (76% of the market), which serve final retail consumers;

Large consumers (18% of the market), mainly industries, fleets, etc.; and

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

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

The following chart shows the ethanol distribution process in Br

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

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

All gasoline sold in Brazil must contain a certain proportion of anhydrous ethanol that can vary from 20% to 25% anhydrous ethanol. Currently, the Brazilian Minister of Agriculture sets this level at 25%. Gasoline A, as it is known in its unmixed form, is mixed with anhydrous ethanol at primary storage terminals or at secondary storage terminals. Gasoline A, mixed with anhydrous ethanol, is gasoline C, which is delivered directly to service stations and large consumers by truck. Since January 2008, under the Biodiesel Program, distributors have been required to include 2% of biodiesel in the volume of diesel sold, in order to reduce greenhouse gas emissions. In addition, this program has also the social purpose of encouraging and developing small agriculture producers of biodiesel raw materials. Since July 1, 2008, the biodiesel mix requirement was increased to 3%. From July 1, 2009 on, this requirement will increase to 4%, further increasing to 5% from 2013 onwards.

As of December 31, 2008, there were approximately 226 oil-derivative product distributors authorized by ANP to operate in Brazil.

Supply. Petrobras is currently the only relevant supplier of oil derivatives in Brazil. There are currently 14 oil refineries in Brazil, of which Petrobras owns 11. Brazil's total refining capacity is 324 thousand cubic meters per day, of which Petrobras accounts for 98%. Brazil's refineries are located predominantly in the South and Southeast regions of Brazil. The overall product yield for these refineries in 2008 was 39% diesel, 19% gasoline, 14% fuel oil, 8% liquefied petroleum gas and 20% other products, including naphtha.

Ethanol is purchased from various producers. In 2008, there were more than 400 distilleries in Brazil, which produced more than 25 million cubic meters of ethanol, 33% of which was anhydrous ethanol and the rest of which was hydrated ethanol. Brazil's supply of anhydrous ethanol is seasonal and depends on the sugarcane harvest, 90% of which comes from Central and Southern Brazil, between September and December, and the remainder of which comes from Northern Brazil, between September and March.

Biodiesel is purchased from the many producers of biofuels in Brazil, and can come from soy and tallow. Since January, 2008, which was the first year of the Biodiesel Program, Petrobras was required to purchase biofuels in auctions promoted by ANP and supply distributors with amounts of biodiesel corresponding to the proportional volume of diesel purchased. This policy aims to prevent distributors from selling diesel without including the required 3% of biodiesel.

The role of the Brazilian government. The Brazilian government has historically regulated the pricing of oil and oil-derivative products, ethanol, natural gas and electric energy. Until the adoption of the Oil Law (*Lei do Petróleo*) in 1997, the government maintained strict control over the prices that could be charged by (i) refineries to distributors, (ii) distributors to service stations and through other channels and (iii) service stations to end-users. After 1990, the Brazilian oil and gas sector was significantly deregulated and the Brazilian government changed its price regulation policy.

Currently there is no legislation or regulation in force giving the Brazilian government power to set oil-derivative and ethanol fuel prices. However, given that Petrobras is a state-controlled company, prices of oil-derivative fuels are still subject to indirect government influence, resulting in potential differences between international prices and internal oil-derivative prices. Until 2005, the prices of certain oil-derivative products, especially gasoline and diesel, were periodically updated by Petrobras to minimize the differences between Brazilian and international prices. From September 2005 to May 2008, gasoline and diesel prices remained unchanged. In May 2008, Petrobras increased diesel and gasoline prices by 15% and 10%, respectively, in order to adjust internal prices for the successive increases in international oil prices. In order to minimize the effects of the increase in oil-derivative fuels on the inflation rate, the Brazilian government simultaneously announced a reduction in CIDE tax from R\$0.28 per litre to R\$0.18 per litre for gasoline and from R\$0.07 per litre to R\$0.03 per litre for diesel. As a result of CIDE's reductions, the increase in the prices charged to the distributors was 9% for diesel and the price remained unchanged for gasoline, as CIDE's reduction compensated such increase. However, with the worsening of the global financial crisis and the consequent slowdown in the global economy, prices of commodities fell sharply, including oil prices. As a consequence, prices of gasoline and diesel in international markets as of December 31, 2008, were lower than those in Brazil. In June 2009, Petrobras reduced diesel and gasoline prices by 15% and 4.5%, respectively. The Brazilian government simultaneously announced an increase in CIDE tax from R\$0.18 per litre to R\$0.23 per litre for gasoline and from R\$0.03 per litre to R\$0.07 per litre for diesel. As a result of CIDE increases, the decrease in the prices charged to the distributors was 10% for diesel and the price remained unchanged for gasoline, as CIDE increase compensated such reduction.

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Ethanol prices are freely charged by the ethanol producers. In order to curb unfair competitive practices in the ethanol sales, some measures have been taken by the government, supported by Sindicom members. In April 2008, it became mandatory for fuel producers and distributors, as well as retail wholesale resellers - TRRs, to issue electronic tax invoices in all the states of Brazil. In addition, in June 2008, the government, through the Brazilian Congress, enacted the Law 11,727/08, based on the Provisional Measure 425 (*Medida Provisória 425*) which came into force in October 2008. Under this law two initiatives were imposed to prevent tax evasion: (i) increasing the proportion of collection of Social Integration Program Taxes (*Programa de Integração Social - PIS*) and Contribution for the Financing of Social Security Taxes (*Contribuição para o Financiamento da Seguridade Social - Cofins*) at distilleries from 25% to 40%, which was currently in place and (ii) requiring distilleries to install flow meters (*medidores de vazão*) to control the output of ethanol, which was awaiting the definition of certain technical aspects to be implemented.

The role of Petrobras. Since its establishment in 1953, Petrobras maintained a legal monopoly in the exploration, production, refining, importing and transporting of crude oil and oil products in Brazil and its continental waters. This monopoly was confirmed in Brazil's federal constitution enacted in 1988. As a result, Petrobras has historically been the sole supplier of oil-derivatives in Brazil. In November 1999, Petrobras' monopoly was removed from the federal constitution by a constitutional amendment approved by the Brazilian Congress. According to this amendment, other state and private companies are permitted to compete against Petrobras in virtually all fields in which Petrobras operates. This amendment was also reflected in Law No. 9,478, dated August 6, 1997, which limited Petrobras' monopoly to a maximum period of three years. Law No. 9,478 prescribed that the termination of Petrobras' monopoly would be accompanied by the deregulation of oil, gas and oil-derivative product prices, and created a new regulatory agency, the ANP, to oversee all oil-related activities. However, in practice, Petrobras still remains basically the sole oil-derivative supplier of oil and oil-related products, including naphtha, and oil-derivative fuels in Brazil, even though there are no legal restrictions on the operations of other suppliers and importers.

Since 1971, Petrobras has acted in the Brazilian fuels distribution market through its subsidiary BR Distribuidora. BR Distribuidora is the leader in the fuels distribution market and in 2008 its market share reached 34%, according to ANP data.

The role of the ANP. The ANP is responsible for the control, supervision and implementation of the government's policies related to the natural gas and biofuels. The ANP regulates all aspects of the industry, from the exploration and/or production to the sale of these products, including product quality standards and to the minimum storage capacities required to be maintained by distributors with respect to oil and oil products in Brazil. Prior to 1999, there were no formal requirements imposed by the Brazilian government on the fuels distribution segment. Distributors were only required to register with the national department of fuels or the national Petroleum Agent or the National Agency prior to starting operations. On December 30, 1999, the ANP established through Portaria No. 202, a number of requirements, which all distributors must comply. In order to operate in Brazil, a fuels distributor must be licensed with the ANP and must meet certain minimum operating requirements, including:

- minimum paid-in capital of R\$1,000,000;

- proof of financial capacity equivalent to expected volumes to be sold (proof of such capacity may include proof of ownership of assets, insurance or a bank guarantee).

The ANP is also responsible for establishing the limits of oil-based fuel volume purchased by distributors based on their storage capacity. Distributors are required to provide the ANP with monthly reports showing their previous month sales and the volume of oil derivative purchased from Petrobras for the following four months.

Fuel distribution for service stations and large consumers must be carried out by a registered distributor or retail wholesale resellers - TRRs, the latter being allowed to trade only diesel, lubricants and grease. Each distributor must provide the ANP with information regarding contracted independent dealers on a monthly basis. The construction of storage facilities and approval for new retail sellers to operate are subject to the prior approval of the ANP. Service stations and storage facilities may only begin operations after ANP inspection.

Regulation. Distributors are prohibited from operating service stations, other than for training purposes, and for the development and testing of new products and services. Three types of arrangements between distributors and service station operators are generally used in the industry: (i) the distributor owns land, equipment and buildings for a service station that it leases to an operator, (ii) a third party owns land and leases it to a distributor who constructs a service station facility or makes improvements to an existing facility and leases the station to the operator and (iii) the operator or a third party owns the land and constructs a service station facility or makes improvements to an existing facility, which is typically financed by the distributor (the most common practice in Brazil). Agreements between distributors and operators of service stations are generally exclusive for a given period. In exchange for being an exclusive supplier, the operator is granted the right to

operate under the distributor's brand name. The agreement might also include provisions related to the leasing of pumps, layout standards, tanks, training, quality control, technical and financial support, marketing and advertising support and franchises for complementary services, such as convenience stores (am/pm) and oil servicing franchises (Jet

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Sindicom represents the interests of major Brazilian fuels distributors, which control approximately 80% of the Brazilian fuels market as of December 31, 2008. Sindicom was formed in 1941 and its primary purpose is to promote uniform standards for industry regulation and to provide a forum in which members can discuss matters affecting the industry. Sindicom represents its members in discussions before federal and state governmental bodies and presents its members perspectives on relevant laws and regulations, including those relating to taxation, labor operations, industrial and occupational safety and environmental protection.

During the 1990s, when the process of deregulation began in the fuels distribution sector in Brazil, a number of parties entered the market with a business model based on cost advantages derived from anticompetitive practices through fuel adulteration and tax evasion, including (i) diluting gasoline by mixing solvents or adding anhydrous ethanol in an amount greater than the 25% permitted by applicable regulations (anhydrous ethanol is not taxed and is cheaper than gasoline), (ii) non-payment of federal taxes on fuels, taxes on gross revenues and value-added taxes and (iii) selling anhydrous ethanol mixed with water as hydrated ethanol. Such practices have enabled these players, along with non-Sindicom distributors, to increase their market share by charging artificially lower prices based on artificially lower costs. Sindicom distributors, including Ipiranga, have taken, individually and collectively, a number of actions targeted at reducing or eliminating the effects of these anticompetitive and illegal practices. Among the actions taken were: (i) significant interaction with the Brazilian judiciary, including holding seminars for judges and prosecutors concerning the problems facing the industry and directly participating in tax litigation involving distributors that are not Sindicom members, (ii) sponsorship of the development of a chemical coloring solvent according to ANP Resolution N° 36 must be added to anhydrous ethanol in order to prevent the addition of water (and later to be sold as hydrated ethanol), (iii) support of ANP resolution No. 5 that restricts the sale of hydrated ethanol by producers to distributors and prohibits sales by producers to resellers or end-consumers, (iv) supporting ANP resolution N° 7 that forbids distributors to sell fuels to resellers operating under another brand, except for white-flag dealers, who operate without a brand, (v) contribution to the development of CODIN, a system that electronically controls the collection of value-added taxes on fuel sales, (vi) support in the implementation of electronic invoicing at the federal level, concluded in 2008, (vii) support for ANP resolution n° 33, which established brand definition and the obligation of disclosing the origin of the fuels in order to inhibit certain distributors from using a fake brand (known as cloned stations) and (viii) suggestion of several other measures, including focusing the collection of PIS/COFINS - Social Integration Program Taxes and Contributions for the Financing of Social Security Taxes at distilleries and the installation of flow meters, which were included in Law 11,727/2008. As a result of these efforts, the more regulated market is leading to the weakening of the business model of lower prices based on artificially lower costs and unfair practices, creating a level playing field and increasing sales volumes of the formal market. In 2008, the share of ethanol volume sold by Sindicom members over the total market was 60%, compared to 56% in 2007.

Environmental, health and safety standards. Fuel distributors are subject to Brazilian federal, state and local laws and regulations relating to environmental protection, occupational health and safety licensing by the fire department and transportation. The National Environmental Council - CONAMA - is the principal regulator responsible for ruling, consulting and accepting matters with respect to the environment. Environmental agencies are also responsible for establishing and supervising complementary laws and regulations.

Fuel distributors must obtain licenses from federal and regional environmental agencies and fire departments to implement and operate storage facilities. They are required to develop programs to control air and water pollution and hazardous waste. Oil spill response and facility emergency plans involving communities, public companies and other private companies must also be implemented. Fuel distributors must also comply with federal laws from the Ministry of Labor, which prescribes occupational health and safety standards. To maintain a safe and healthy workplace, companies must carry out comprehensive industrial hygiene and safety programs.

Fuels may be transported only under special conditions. In Brazil, transportation of dangerous products is regulated by federal transportation agencies and the regulations cover all modes of transport. These agencies establish several requirements for fuel transport based on UN Recommendations on the Transport of Dangerous Goods.

Ipiranga

Ipiranga was founded in 1937 and is currently the largest private player in the Brazilian fuel distribution market, with approximately 22% market share as of December 31, 2008. With the acquisition of Texaco, Ipiranga increased its market share to approximately 22% in Brazil. See Item 4.A. Information on the Company - History and Development of the Company - Recent Developments.

In 2008, Ipiranga distributed diesel, gasoline, ethanol, NGV, fuel oil, kerosene and lubricants in the South and Southeast of Brazil. In addition to a traditional fuels distribution business, Ipiranga has a significant and growing convenience store business, branded as Ampla, as well as a lubricant servicing business, branded as Jet Oil, and other related products and services.

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Markets and marketing. The South and Southeast regions in which Ipiranga operated in 2008 represented 67% of total consumption in Brazil in 2008 and include the most highly populated states in Brazil, including São Paulo, Rio de Janeiro and Minas Gerais. However, Ipiranga brand is also well known throughout other regions of Brazil once Ipiranga operated nationally prior to the acquisition of Ipiranga Group. Under the terms of the Ipiranga Group Transaction Agreements, Petrobras has the exclusive right to use Ipiranga's brand in the operating regions of the Northern Distribution Business for five years from the date of the acquisition of Ipiranga Group. After the acquisition of Texaco, Ipiranga became a nationwide distributor as it began to operate in the Northeast, North and Mid-West regions of Brazil. See Item 4.A. Information on the Company History and Development of the Company Recent Developments Description of the Acquisition of Texaco

Growth in the fuel distribution sector is directly influenced by GDP growth rates and by the size of car fleet. Vehicle sales in Brazil have been increasing at a fast pace due to higher disposable income and increased availability of credit in Brazil. GDP in Brazil increased 5.1% in 2008 and 5.4% in 2007, which together with greater availability of credit, resulted in record levels of vehicle sales. In 2008 more than 2.7 million light vehicles were sold, a 14% increase compared to 2007, with most of the sales concentrated in the first nine months of 2008, presenting a 27% increase compared to the first nine months of 2007. However, since the fourth quarter of 2008, the deepening of the global financial crisis has resulted in a strong slowdown in global economic growth, also affecting Brazil. In order to minimize the effects of the crisis, the government reduced taxes levied on car sales to encourage an increase in demand in the sector. This measure has had positive effects in the automotive sector. See Item 5.D. Operating and Financial Review and Prospects Trend Information. See Item 4.B. Information on the Company Business Overview Fuels Distribution Industry and Regulatory Overview. Furthermore, recent legislative changes in the fuel distribution sector have progressively curbed unfair competition, creating a level playing field in the Brazilian fuel distribution market. These improvements should benefit the formal market by capturing the volume from the grey market.

In 2008, approximately 2.7 million new light vehicles were registered according to ANFAVEA, an increase of 14% from 2007, with new fuel cars increasing by 16%. The total light vehicles fleet in Brazil as of December 31, 2007, according to the last available data, was 24.3 million, according to Sindipeças (Brazilian Association of Autoparts Manufacturers). In 2008, the volume sold by Ipiranga grew by 11% compared to 2007, with (i) the combined sales volume of gasoline, ethanol and NGV increasing by 11% (453,000 cubic meters) driven by the growth in vehicle fleet and improvements to legislation implemented in the fuel distribution sector, with a 48% increase in ethanol sales as a result of the expansion in the number of flex-fuel vehicles and the increase of the volume sold by Sindicom members and (ii) diesel sales volume increasing by 7% in the period (454,000 cubic meters), as a result of increased economic activity until September 2008.

Ipiranga's sales through its service stations accounted for 65% of total sales in 2008. As of December 31, 2008, there were 3,469 service stations operating under the Ipiranga brand in the South and Southeast of Brazil, of which 530 had the land either owned by us or under a long term lease to us and 2,939 owned by third parties. In 2008, 87% of these service stations were located in urban, high population density areas, with the remaining 13% being highway service stations.

Distribution to large consumers represented 27% of Ipiranga's sales in 2008. Ipiranga directly sold to approximately 3,310 customers in 2008, including state and municipal governments and transportation fleet owners.

Ipiranga also sells diesel, lubricants, fuel oil and kerosene to approximately 150 independent TRRs that redistribute petroleum products to small and medium-sized companies throughout Brazil. Ipiranga's TRR clients consist mostly of companies that have large fixed tankage at their facilities. These clients represented 7% of Ipiranga's sales volume in 2008.

The relationship between Ipiranga and its clients is generally governed by exclusive supply contracts with terms ranging from 1 to 10 years. The types of contracts change according to the distribution channel. For service stations, contracts usually have longer terms (5 to 10 years) and may provide for the installation of pumps and tanks on the client's premises and for the offering of financing and pre-payment discounts. Supply to large consumers and TRRs is rarely made under contracts and is mostly provided on a spot basis. When contracts are entered into with these clients, the terms range from 1 to 3 years.

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The table below shows Ipiranga's sales by product

Client category	Year ended December 31 (in thousand cubic meters)		
	2008	2007(1)	2006
Diesel			
Service station	3,100.4	2,890.9	2,700.0
Large consumers	3,097.0	2,903.0	2,700.0
Retail wholesale resellers - TRR	846.4	796.1	800.0
Total Diesel	7,043.8	6,590.0	6,300.0
Gasoline	3,039.2	3,039.4	3,000.0
Ethanol	1,424.5	961.0	500.0
Others	567.2	578.1	500.0
Total volume sold	12,074.7	11,168.5	10,500.0

(1) Figures were prepared with the purpose of providing a comparison basis for the analysis of the evolution in the performance of Ipiranga. Figures for operations acquired are consolidated into Ultrapar since the second quarter of 2007.

Distribution infrastructure. Ipiranga had 38 storage terminals as of December 31, 2008 that were strategically located to facilitate fast economic delivery of its products. There are two types of facilities: primary storage terminals, generally located near the coast and major cities, which are supplied by refineries through pipelines, and secondary storage terminals, which are mainly located inland, and are supplied by primary terminals by railroad or through road transportation for locations not accessible by railroad. Ethanol is supplied to terminals, by road. Ipiranga has its own fleet of trucks, which is responsible for transportation of approximately 60% of the volume of products sold by Ipiranga, with the remaining portion of the transportation provided by third parties.

Resellers. Ipiranga generally enters into three types of arrangements with resellers: (i) we own land, equipment and buildings for a service station that we lease to an operator, (ii) a third party owns land, and leases it to us and we construct a service station facility or make improvements to an existing facility and lease the station to an operator and (iii) the operator or a third party owns the land and constructs a service station facility or makes improvements to an existing facility that is typically financed by us. For all of these arrangements Ipiranga not only owns, but is also responsible for installing the storage tanks and service pumps at the service stations. Under the terms of our contracts and in accordance with applicable law, each reseller operating under Ipiranga's brand must purchase fuels exclusively from us. In the year ended December 31, 2008, approximately 65% of Ipiranga's volume sold was through resellers.

In order to strengthen its relationship with its reseller network and differentiate itself from its competitors, Ipiranga has created incentive programs aiming at strengthening loyalty to Ipiranga's brand. As part of these incentive programs Ipiranga provides yearly rewards to service station owners with free trips abroad through the relationship program *Clube do Milhão* (Million Club) upon the accomplishment of pre-established targets. Ipiranga also establishes relationship programs with service stations' employees, such as *Clube Vip* (VIP Club) in order to encourage the sale of added-value products and services, including credit cards, such as *Cartão Ipiranga* (Ipiranga private label credit card), *Cartão Ipiranga Carbono Zero* (Ipiranga Zero Carbon Card) and premium gasoline. Training programs are given to terminal employees focusing on developing their knowledge about the business and their capacity for selling products and services. Following this strategy of innovation in the retail segment and providing differentiated customer service, in 2008 Ipiranga launched Ipirangashop.com, a service which maximizes potential business from the large flow of consumers at its fuel service stations and combines two sales channels: the sale of car-related products in its fuel service stations, and the offering of some 18,000 items in a website. Ipirangashop.com is a partnership with Grupo Hermes, a large retailer in Brazil, which is in charge of the operational aspects of this service, including the purchase, inventory and delivery of the goods sold. Ipiranga, in turn, is responsible for marketing campaigns and for the implementation of Ipirangashop.com in its service station network and website.

In addition, we monthly analyze our service stations and franchises' results and compare them to established marketing plans in order to recognize and implement improvements for our resellers network, as well as to identify resellers who surpassed their individual targets. These resellers should be awarded under the incentive programs.

Supply of fuels. Currently, Ipiranga and its competitors purchase all or nearly all oil-derivative fuels from Petrobras under a formal supply contract that establishes the volume and the terms for supply. The contract is renewed annually and the volume contracted for is based on the volume purchased in the previous year. The procedures for ordering and purchasing fuels from Petrobras are generally common to all distributors, including Ipiranga. There have been no significant interruptions in the supply of fuels by Petrobras to the distributors, with the exception of an interruption in 1995 due to a 15-day strike by Petrobras employees.

The ethanol fuel market in Brazil consists of more than 400 independent distilleries, producing sugar and ethanol from sugarcane. Ethanol production occurs approximately seven months per year. A portion of the production is stored in the distilleries to meet demand during the inter-harvest season. Distilleries produce two types of ethanol: (i) anhydrous ethanol, which must be blended with gasoline and (ii) hydrous ethanol, which is essentially used for flex fuel vehicles.

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Prices of ethanol are determined by the market in Brazil with no governmental intervention. Producers and distributors mostly transact on a spot basis and rarely enter into long-term supply contracts (with set volume and price terms).

Ethanol in Brazil is substantially based on sugarcane, that can either be used to produce ethanol or sugar. From an ethanol production perspective the production ratio between ethanol and sugar is determined based on the respective prices of ethanol in the Brazilian market and of sugar in the international markets, such choice being fundamental for leveraging the profitability of their plant. Although ethanol production is subject to favorable climate conditions, the risk of interruptions in supply is primarily confined to the end of the harvest season.

Storage of fuels. Ipiranga stores its fuels in large tanks at each of its facilities located throughout the regions in which it operates. Primary facilities receive fuels directly from Petrobras by pipeline and from distilleries by road transportation and secondary facilities are supplied by railroad and truck. See Item 4.D. Information on the Company Property, Plant and Equipment. In 2008, Ipiranga's storage capacity was 272,406 cubic meters. Based on its 2008 average sales, Ipiranga can store approximately six-days of fuel supply, in line with the average of the fuel distribution industry. Accordingly, an interruption in the production of oil-based fuels for longer than that time period could result in shortages, such as the one that occurred during the Petrobras strike in 1997.

Competition. Ipiranga's main competitors in 2008 were:

BR, a subsidiary of Petrobras, which has been operating in the Brazilian fuels distribution sector since 1971. BR is the Brazilian market leader and operates throughout the entire country.

Shell, a subsidiary of Royal Dutch Shell, which has a worldwide presence in more than 110 countries. In Brazil, Shell is the third largest fuel distributor and has been operating in the market since 1913.

Texaco, present in the market since 1915 and a former subsidiary of the Chevron Texaco Corporation, was the fourth largest fuel distributor in Brazil with over 2,000 service stations across the country. On March 31, 2009, Ultrapar closed the acquisition of Texaco. See Item 4.A. Information on the Company History and Development of the Company Recent Developments.

Esso has been operating in Brazil since 1912 and was a subsidiary of Exxon Mobil Corporation group until 2008, when Cosan S.A. Indústria e Comércio (Cosan) acquired Esso's fuel distribution business in Brazil. Cosan is the largest producer of sugar and ethanol in Brazil, but until the acquisition it did not operate in the fuel distribution market. The ethanol market is supplied by more than 400 distilleries, including Cosan.

Alesat, a domestic Brazilian fuel distributor created in 2006, as a consequence of the merger of Ale and Satellite, is present in all Brazilian states. In December 2008, Alesat acquired the fuel distribution business of Repsol YPF in Brazil, which had a 1% market share in 2008.

The following table sets forth the market share of Ipiranga and its competitors based on ANP's data:

Distributor (1)	Year ended December 31, 2008	
	2008	2007
Petrobras	34.4	34.6
Ipiranga	13.8	14.2
Shell	11.7	11.4
Texaco	8.2	8.8
Esso	5.3	5.7
Alesat(2)	3.7	4.1
Others	22.8	21.2

Total cubic meters

100.0 100.0 1

(1) Includes the volume sold of gasoline, ethanol and diesel.

(2) Includes Repsol.

The retail market for gasoline, diesel and ethanol in Brazil is highly competitive. Prices to retailers tend to be similar among competing distributors, particularly due to low margins in the sector. Therefore, our strategy is to differentiate ourselves in the market by offering value-added services to complement our main products, with the goal of becoming the preferred customer choice. In line with this strategy, in 2008 Ipiranga launched Ipirangashop.com, offering new products and services to the customers in its service area.

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stations and increasing the sources of revenues for itself and its resellers. In 2007 Ipiranga invested in the marketing campaign *Gasolina Original* (Original Gasoline) aiming at reinforcing the quality and reliability of Ipiranga's gasoline. In 2007, Ipiranga also launched *Gasolina Original Aditivada*, a premium gasoline, with a higher added value. Media campaigns were made for the launch of this product and the stations of this premium gasoline were included as targets of our incentive programs, such as *Clube Vip* and *Clube do Milhão*. In order to add value to the diesel sold, Ipiranga offers complementary programs to facilitate control of the product sold to large consumers allowing them to reduce their fuels costs, such as the Freight Monitor (*Controle Teleprocessado de Frotas*) and Digital Freight (*Frete Digital*). The following graph shows sales volumes for the Brazilian market and Ipiranga for the periods indicated.

(1) Figures were prepared with the purpose of providing a comparison basis for the analysis of the evolution in the performance of Ipiranga. Figures for operations acquired are consolidated into Ultrapar since second quarter of 2007.

(2) Includes diesel, gasoline, ethanol and natural gas for vehicles, fuel oils (Source: ANP, Brasil Energia and Sindicom).

Quality. In 1998, Ipiranga Londrina Terminal received the first ISO 14001 (Environmental Management System) certificate for a distribution terminal in Latin America. In addition, our Rio de Janeiro lubricant factory obtained an ISO 9001 (Quality Management System) certificate in 1998. In 1999, Ipiranga's Betim Terminal obtained ISO 9001 and ISO 14001 certifications and OHSAS 18001 in

Petrochemicals and Chemicals

Industry and Regulatory Overview

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 (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 major 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 xylene. Braskem, with two plants, one located in Camaçari and another one in Triunfo, is the largest producer of ethylene in Brazil.

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Petroquímica União, known as PQU (a subsidiary of Quattor) Brazil's three naphta crackers sell these basic petrochemicals to first 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. This sector passed through a restructuring process during the last few years, with the emergence of Braskem and Quattor as consolidators, with the participation of Petrobras as a relevant minority shareholder in the companies.

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 2008, 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 the second 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 bottles, 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, located in the municipality of Santo André and Mauá 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 Oxiten. PQU has an ethylene production capacity of 720,000 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 cracked by Braskem, and includes seven second generation companies. Braskem's plant in Triunfo has an ethylene production capacity of 1.2 million tons per annum. Oxiten does not purchase ethylene from Braskem in Triunfo, but purchases C4, a raw material used in the production of Methyl-ethyl-ketone, or MEK.

In December 2005, RioPol, a subsidiary of Quattor 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 for 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 most important naphtha supplier in Brazil, even though its legal monopoly ended in August 2000. See 4.B. Information on the Company Business Overview 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 Brazil between Petrobras and its customers.

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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 their operations by prescribing specific environmental standards in their 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 stricter standards, higher fines, and greater exposure to liability for increased operating costs and capital expenditures. In addition, civil, administrative and criminal sanctions, including fines and revocation of licenses may apply to violations of environmental regulations. Under applicable law, Oxiteno is strictly liable for environmental damage.

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 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. Oxiteno is the only Brazilian producer of ethylene oxide, ethylene glycols, ethanalamines, glycol ethers and methyl-ethyl-ketone. Oxiteno is also a major producer of specialty chemicals. Besides a 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 cosmetics, detergents, crop protection chemicals polyester, packaging, paints and varnishes. During the year ended December 31, 2008, Oxiteno sold 567 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 the 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 prod

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

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 2008, Oxiteno used approximately 97% of its ethylene oxide production in the production of derivatives and sold the remainder, 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-ethylene glycol 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 use in 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. Oxitenol's principal commodity chemical not produced from ethylene oxide. MEK is used as a fast evaporation solvent for thinners, primers, lacquers and adhesives and also as an active solvent for several resins such as cellulose, acrylics, polyesters, polyurethanes, PVC, neoprene and many other materials.

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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, sulphosuccinates, block copolymers EO/PO	Used in detergents, the specialty chemicals are added mainly to improve cleaning power and foaming and to reduce skin irritability.
Crop protection 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 crop protection chemical, such as herbicides. Increases their efficiency, by improving penetration and adherence of the product on plant surfaces.
Cosmetics	Alkylsulfates, 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, and 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.
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 to cool the motor and maintain the correct operating temperature.

Domestic sales. The Brazilian petrochemicals industry seeks to prioritize demand from the domestic market, where there is greater volume added, although sales are also made to the overseas market. While Oxiteno sells the larger part of its commodities and specialty chemicals in Brazil, production capacity exceeds domestic market demand, with Oxiteno exporting surplus production to more than 40 countries in Latin America, Europe and North America. Oxiteno maintains production capacity above local demand for strategic reasons. For the years ended December 31, 2008, 2007 and 2006, 29%, 30% and 28% of Oxiteno's net sales, respectively, were from exports. For the years ended December 31, 2008, 2007 and 2006, 30%, 29% and 29% of Oxiteno's volume, respectively, were from exports. In the Brazilian market, mono-ethylene glycol, or MEG, produced by Oxiteno, 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 manufacture packaging, such as soft drink bottles.

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The following table shows Oxitenos domestic market sales volume by market segment for the period indicated.

Market sector	Year Ended December 31,		
	2008	2007(1)	2006
	(in thousand metric tons)		
Polyester (fabrics and PET)	18.5	75.3	
Paints and varnishes	33.0	32.7	
Chemical industries	44.6	56.9	
Detergents	46.3	55.1	
Hydraulic fluids	31.1	31.1	
Crop protection chemical	61.6	54.7	
Resins	31.6	28.3	
Cosmetics	29.1	19.6	
Leather	8.4	8.2	
Textiles	5.4	5.8	
Food	3.7	3.3	
Distributors	57.9	60.4	
Others(2)	25.5	27.0	
Total Brazilian market	396.8	458.3	300.0

- (1) Figures in 2007 were reclassified to reflect the consolidation of EMCA into Oxitenos from the second quarter of 2007 onwards, reflecting the effective management responsibility for the business.
- (2) Includes catalysts, civil construction, pharmaceutical and veterinary product manufacturers.
- Many of Oxitenos 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 sometimes made pursuant to long-term contracts. Specialty chemicals are designed to meet specific customer needs and are less exposed to replacement by imported products. Accordingly, specialty chemicals have a higher value added and Oxitenos has more flexibility in pricing for these products.

Sales outside Brazil. Oxitenos export sales are made mainly to customers in Europe, in the Far East and in the Mercosur region. In Europe, Oxitenos exports mainly to Belgium, Italy and Netherlands. In the Far East, Oxitenos exports to South Korea, China and Taiwan.

The following table sets forth Oxitenos sales by volume for each geographic market served by Oxitenos in the periods indicated.

Breakdown of sales volume outside Brazil	Year Ended December 31,					
	2008		2007		2006	
	(in thousand metric tons and percentage of the total sales)					
From Oxitenos Brazil						
Mercosur (not including Brazil)	38.6	23%	53.2	28%	59.4	30%
Europe	27.4	16%	37.3	20%	24.6	13%
Far East	19.4	11%	25.5	13%	18.8	10%
NAFTA	11.0	6%	20.7	11%	13.7	7%
Other	9.0	5%	12.7	7%	12.4	6%
Sub-Total	105.4	62%	149.4	79%	128.9	66%
From Oxitenos Mexico						
Mexico	24.4	14%	20.2	11%	18.0	10%
USA	15.7	9%	8.7	5%	6.7	4%
Other	6.1	4%	5.9	3%	3.8	2%
Sub-Total	46.2	27%	34.8	19%	28.5	16%

From Oxiteno Andina

Venezuela	17.0	10%	4.7	2%
Other	1.9	1%	0.3	0%
Sub-Total	18.9	11%	5.0	2%

Total	170.5	100%	189.2	100%	157.4	100%
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Oxiteno exports a wide variety of chemical products including glycols, MEK, ethoxylated alkylphenols, glycol ether acetates, glycol ether ethanolamines, ethoxylated fatty amines and other ethoxylated products.

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With the acquisition in December 2003 of Oxiten Mexico (formerly CANAMEX), a Mexican specialty chemicals company, Oxiten has been focusing on establishing a growing presence in the Mexican market for specialty chemicals and create a distribution platform for product sales to the United States. At that time, Oxiten Mexico had 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 Oxiten Mexico. Currently, most of Oxiten Mexico's production is sold to the domestic Mexican market, largely for the food, agrichemical, oil and other segments. The remaining sales volume is exported, mainly to the United States. In April 2007, Oxiten acquired the operating assets of Unión Química SA de CV, in San Juan Del Rio, Mexico, adding 8,600 tons/year to Oxiten Mexico's production capacity of sulfonated sulfates. See Item 4.A. Information on the Company History and Development of the Company.

For the year ended December 31, 2008, Oxiten Mexico's sales volume totaled 46,183 tons (including the sales volume from Unión Química). Oxiten Mexico experienced strong growth in 2008, with 33% year-over-year growth in volume sold. We believe Oxiten Mexico's success represents a positive step in our expansion outside Brazil, and also strengthens Oxiten Mexico's presence in the domestic market.

In September 2007, Oxiten acquired 100% of the shares of Arch Química Andina in Santa Rita, Venezuela (renamed Oxiten Andina). With this acquisition, Oxiten increased its ethoxylates production capacity by 70,000 tons/year. For the year ended December 31, 2008, Oxiten Andina's sales volume totaled 18,869 tons.

As part of our strategy to grow outside of Brazil we opened commercial offices in Buenos Aires, Argentina in 2006, in New Jersey, United States in 2007 and in Brussels, Belgium in 2008.

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

Customers. Oxiten's most important customers for its commodity chemicals are chemical companies, surface coating producers and polyester producers. In turn, the customers for specialty chemicals constitute a variety of industrial and commercial enterprises including brake fluid distributors, agrochemical producers, manufacturers of food additives and manufacturers of detergents and cosmetics. Oxiten 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.

Oxiten's principal customers in the domestic market include Monsanto, which mainly purchases ethanolamines, Clariant S.A., which mainly purchases ethylene oxide and ethoxylated products, and Indústrias Gessy Lever Ltda (Unilever), which mainly purchases surfactants. In the international market, Oxiten sells both to industrial customers, including Manufacturas de Fibras Sintéticas S.A. (Mafisa), Syngenta S.A. and Procter & Gamble Chemicals Europe, as well as trading companies and other third-party distributors. Oxiten's largest customer in the international market is Oxyde Chemicals, Inc., a major trading company for glycol, which accounted for approximately 28% of Oxiten's total revenues in 2008. In 2008, Oxiten's ten largest customers accounted for 28% of its net sales. No single customer accounted for more than 5% of Oxiten's net sales in such period.

Competition. Oxiten 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 more competitive for 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, Oxiten believes it has a particular competitive advantage over imports with regard to timely delivery and reliability of supply.

In the case of specialty chemicals, pricing is a less decisive competitive factor than with true commodity chemicals, while conformity to specifications, product performance and reliability of service are comparatively more important. Access to technology, technical assistance and research and development are important factors with regard to conformity to specifications and product performance, especially in the development of new products to meet customers' needs. Oxiten's strategy involves ensuring access to technology through its own research and development activity, licensing and joint ventures, if appropriate opportunities become available.

Oxiteno's principal competitors are Shell Brasil Ltda., Exxon Mobil Química Ltda., Dow Brasil S.A., Lyondell Química do Brasil S.A., 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, 2008, 114 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2008, 2007 and 2006 were R\$18.4 million, R\$19.4 million and R\$18.4 million, respectively. In 2004, Oxiteno founded its own Science and Technology Council, with 15 members, including the world's major specialists in surfactants being members. The Council, which first met from December 7 to 10, 2004 and again in September 2005, October 2006, September 2007 and September 2008, analyzes critically the company's research and development 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 companies.

Raw materials. Oxiteno's principal raw material is ethylene. For the year ended December 31, 2008, ethylene was responsible for 40% of Oxiteno's variable costs of production and approximately 34% of its total cost of sales and services. Among Oxiteno's other raw materials, the principal materials include butenes, ethyl, butyl and lauryl alcohols, oxygen and acetic acid. Supply of ethylene constitutes an economic barrier for new ethylene oxide producers in the country since the current production capacity of ethylene by Brazilian crackers is commensurate with 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 (-120 degrees Celsius) during transportation and storage, therefore importing and exporting of ethylene is generally uneconomical. According to 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 cost of delivery of ethylene and helping to ensure the reliability of supply. See Item 4.B. Information on the Company Business Overview, Petrochemicals and Chemicals Industry and Regulatory Overview.

Oxiteno has a long term contract with Braskem governing the conditions for the supply of ethylene from Braskem to Oxiteno. Under the terms of the agreement, Oxiteno is currently required to purchase at least 190,000 tons of ethylene per year and for 2010 will be required to purchase at least 210,000 ton. After the conclusion of the ethylene oxide production capacity expansion at Oxiteno's Camaçari plant in 2011, Braskem will be required to supply Oxiteno with up to 265,000 tons of ethylene per year until 2021. The supply price is indexed to ethylene prices on international markets and on the volume purchased by Oxiteno.

In August 2008, Oxiteno signed an ethylene supply agreement with PQU, valid until 2023. The contract establishes and regulates the conditions for the supply of ethylene to Oxiteno based on the international market for this product. The minimum purchase is 19,800 tons of ethylene semiannually.

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. Oxiteno also uses these planned stoppages for regular maintenance work on its own plants or eventual substitution of catalysts for expansion of installed capacity. Braskem and PQU's last scheduled downtime was in June 2008 and August 2008, respectively 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 indexed to ethylene prices on international markets as from August 2006. Until July 2006, the price of ethylene supplied by Braskem was 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.

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The following table shows the prices paid to Braskem and PQU for ethylene per metric ton for the periods indicated (period averages except for maximum and minimum prices)

	Braskem (R\$/ton)	PQU (R\$/ton)
<u>2008</u>		
First Quarter	2,806.46	3,124.40
Second Quarter	2,961.27	3,240.63
Third Quarter	3,124.40	3,390.64
Fourth Quarter	3,420.63	3,570.64
Maximum Price in Year	3,460.64	3,570.64
Minimum Price in Year	2,664.57	3,100.64
Year Average	3,078.19	3,320.64
<u>2007</u>		
First Quarter	2,628.90	2,790.64
Second Quarter	2,621.28	2,870.64
Third Quarter	2,603.29	2,860.64
Fourth Quarter	2,651.25	2,990.64
Maximum Price in Year	2,777.41	3,070.64
Minimum Price in Year	2,517.65	2,760.64
Year Average	2,626.18	2,880.64
<u>2006</u>		
First Quarter	2,502.33	2,610.64
Second Quarter	2,479.67	2,660.64
Third Quarter	2,703.05	2,820.64
Fourth Quarter	2,688.65	2,820.64
Maximum Price in Year	2,730.49	2,840.64
Minimum Price in Year	2,335.00	2,550.64
Year Average	2,593.42	2,730.64

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 adversely affect Oxiteno's competitiveness in the petrochemical market. See Item 3.D. Key Information Risk Factors Risks Relating to Ultra-High Purity Ethylene.

Other raw materials. For the year ended December 31, 2008, other raw materials, principally oxygen, lauryl alcohol, palm kernel oil, ethanol, C4, butyl alcohol, acetic acid, nonene, phenol, primary fatty amine, fuel oil and LAB accounted for approximately 29% of Oxiteno's variable costs and 25% of its total costs of sales and services.

Oxiteno generally obtains these other raw materials from a variety of sources, except for phenol, which Oxiteno purchases principally from a single supplier, Rhodia Poliamida Especialidades Ltda., and for C4, which is supplied by Braskem in Triunfo.

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

Income tax exemption status. Pursuant to legislation that provides tax relief for industries located in the northeast region of Brazil, Oxiteno benefited from an income tax exemption on operating profits from sales of its products at the Camaçari plant until December 31, 2006. In December 2006, the Camaçari plant's income tax exemption expired and a request was filed with ADENE (Northeast Development Agency) for the agency in charge of managing this incentive program, seeking a 75% income tax reduction until 2016. The income tax reduction was approved by ADENE in May 2007. Income tax exemptions amounted to R\$31.1 million, R\$24.1 million and R\$40.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. We cannot guarantee that there will be no amendments to the current legislation. For further information see Note 22(d) 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 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

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maintenance for a period of approximately 20 days every 36 to 48 months. Braskem and PQU's last scheduled stoppages lasted for 15 and 10 days, respectively. The same happens to the Triunfo plant, which receives butane from Braskem. In the case of the other production units, such as 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 environmental nature. See Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Industrial 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 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 Chemical Industry 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

Ultracargo

Ultracargo is the largest provider of storage for liquid bulk in South America. Ultracargo's main differentiating characteristic is the strategic location of its facilities, located at port terminals and rail junctions for providing services that require special handling. Transportation services at Ultracargo 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. In 2007, after the acquisition of Petrolog, Ultracargo increased the internal logistics services it is able to offer at its customers' facilities. Ultracargo is one of the few companies in the Brazilian market to offer transport, storage services for liquid bulk and internal logistics services. Ultracargo's ten largest clients accounted for 65% of its revenues in 2008, with its three largest clients, Braskem, Ultragaz and Oxiteno accounting for 26%, 6% and 6%, 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 available data shows that Ultracargo accounted for approximately 74% 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 25% of the Brazilian foreign trade in 2007 (US\$281 billion in 2007), according to available data. The Santos Intermodal Terminal (TIS) is the second largest storage facility operated by Ultracargo and was inaugurated in mid-2008.

As of December 31, 2008, Ultracargo operated a fleet of approximately 580 trucks and storage facilities with a capacity of 530,062 cubic meters, including 169,775 cubic meters derived from the acquisition of União Terminais, and an area of 30,700 square meters. See Item 4.B. Information on the Company History and Development of the Company Description of the Acquisition of União Terminais. Ultracargo's history is one of pioneering logistics solutions in the Brazilian market.

Transportation. Ultracargo's principal market for transportation is the chemical industry, for which transportation is provided by 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 service on a negotiated basis with each individual customer.

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Ultracargo, through a fleet of tanker trucks, offers transportation services for chemical products, fuels and other special bulk cargo in several major industrial regions in Brazil. In 2008, Ultracargo operated a fleet of approximately 580 trucks and, in the years ended December 31, 2008, 2007 and 2006, transported approximately 2.2 million, 2.1 million and 2.1 million tons, respectively.

In the LPG distribution industry, Ultracargo provides bulk transportation from Petrobras' facilities to filling stations of the distributors, between the distributors and their final industrial clients.

In 1997, Ultracargo began operating in the market for bulk transportation of solid chemical products, an important sector of the transportation business in the domestic market in which products are transported utilizing special silos and semi-trailers. Ultracargo believes that it has a competitive advantage to offer to clients in certain segments that require outstanding quality and safety standards. For the year ended December 31, 2008, Ultracargo transported approximately 720,8 tons of solid chemical products, which accounted for approximately 10% of Ultracargo's revenues in this period.

Transportation regulation. Ultracargo's principal market for transportation is the chemical industry. Therefore, besides the general Brazilian transport 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, Portaria 204 of the Ministry of Transportation and Resolution 420/04 of the National Agency of Road Transportation. According to these regulations, a vehicle transporting hazardous materials must have clear indication of what type of products are being transported as well as carry symbols identifying whether the material is inflammable. The vehicle is also subject to inspection by 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 product transportation.

Storage. Ultracargo primarily provides storage services for liquid bulk, especially chemicals, fuels and vegetable oil. 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 2008, 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 late 2004, Ultracargo completed construction of an intermodal terminal in Montes Claros, in the state of Minas Gerais.

Ultracargo completed the construction of another intermodal terminal in Santos (TIS) in mid-2005. This project is Ultracargo's second 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 ethanol and 38,000 cubic meters for vegetable oils. The terminal was built in partnership with Crystalsev and Cargill/ Coin.

In December 2006, Ultracargo completed the expansion of its terminal in Suape, adding 11,260 cubic meters to the previous capacity.

In 2007, Ultracargo added 9,300 square meters to its solid products storage area through: (i) Suape's Logistics Terminal (TLS), in Suape, Pernambuco, with a 3,300 square meter area; (ii) Mauá's Logistic Terminal (TLM) in Mauá, São Paulo, with a 4,800 square meter area; and (iii) the expansion of Camaçari Terminal adding 1,200 square meters. Ultracargo also expanded its liquid storage capacity with the addition of 10,000 cubic meters to Aratu.

In 2008, Ultracargo added 183,925 cubic meters to its liquid bulk storage capacity through: (i) the acquisition of União Terminais w, adding 169,775 cubic meters and (ii) the expansion of its terminal in Aratu, adding 14,150 cubic meters. Ultracargo also expanded its storage capacity with an additional 10,200 square meters in its Mauá Logistic Terminal.

Income 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, and a 75% reduction in income tax on operating profits from acetic acids and butadiene product storage activities at the Suape Terminal, valid through 2015. For the years ended December 31, 2008, 2007 and 2006, tax breaks totaled R\$1.6 million, R\$0.8 million and R\$1.0 million, respectively. We cannot assure that there will be no amendments to the current legislation. For further information see Note 22(d) to the consolidated financial statements.

Quality. In 2007, Ultracargo's main terminal in Aratu obtained an ISO 14,000 certification. In 2006, Ultracargo completed its ISO 9001:2000 recertification process. The evaluation process occurred under a unified Quality Management System for the entire country. In 2005, Ultracargo was the first Brazilian company to go through the recertification process by SASSMAQ (Safety, Health, Environment and Quality).

Quality Evaluation System), a program from ABIQUIM, the Brazilian Chemical Industries Association. The purpose of the system ensure that service providers in this industry comply with the technical standards required by the chemical industry, reducing, therefore risks in transportation and distribution. Paulínia Intermodal Terminal (TIP) obtained the ISO 14000 certification in 2

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Oil Refi

RPR consists of a refinery in the city of Rio Grande, in the state of Rio Grande do Sul, in the Southern region of Brazil. The refinery's nominal capacity is 17,000 barrels per day, and its principal products include gasoline, diesel, naphtha, fuel oil, LPG, kerosene, marine bunker and asphalt. RPR's capacity corresponds to 1% of the total Brazilian refining capacity. During 2006, the Ipiranga Group experienced difficulties in keeping its refinery operating at full capacity, due to an increase in international oil prices, to which the refinery is closely linked, without a corresponding increase in oil derivatives prices in Brazil. This led the Ipiranga Group to suspend its operations for several months during that year. In 2008, the average production of the refinery was 9,064 barrels per day, which represented 53% of the refinery's nominal capacity, and less than 1% of the total Brazilian oil refining capacity, according to ANP data. Ultrapar currently owns approximately one third of the capital of RPR. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group and Item 4.A. Information on the Company History and Development of the Company Recent Developments. RPR's results have been proportionally consolidated into Ultrapar's financial statements since the acquisition of the Ipiranga Group. Results generated by the oil refining operations are not significant to Ultrapar.

From the last quarter of 2007 to December 2008, RPR faced a challenging operating scenario, due to costly raw material and market prices below international benchmarks. Although raw materials prices have decreased since late 2008, leading to improved margins in the first quarter of 2009, no assurance can be given that the company will continue to operate throughout this year. See Item 4.A. Information on the Company History and Development of the Company Recent Developments.

Insur

We maintain insurance policies covering all the facilities of our wholly owned subsidiaries, 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, theft, electrical damage. Our insurance policies provide coverage of up to a maximum of US\$852 million, including business interruption, as of December 31, 2008.

We have additional insurance that covers all our wholly owned subsidiaries with coverage of up to a maximum of US\$400 million for loss and damage incurred by third parties as a result of any accidents that occur in connection with our commercial/industrial operations and 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 our 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.

The following chart shows our organizational structure for our principal subsidiaries as of December 31, 2019.

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- (1) Percentages represent approximate ownership of voting share capital and total capital (voting capital/total capital).
- (2) Minority participations in Utingás are mainly held by Liquigás Distribuidora S.A. and SHV Gas (31% and 8% of voting capital, respectively).
- (3) RPR was a wholly owned subsidiary of Ultrapar Participações S.A. as of December 31, 2008, jointly managed by Petrobras, Ultrapar and Braskem since the acquisition of Ipiranga Group pursuant to the Ipiranga Group Transaction Agreements. The percentages presented in the chart above represent the effective management of RPR. See Item 4.B. Information on the Company Business Overview Oil Refining and See Item 4.A. Information on the Company History and Development of the Company Recent Developments .

We conduct LPG distribution through Ultragaz. Ultragaz operates through three primary subsidiaries, Companhia Ultragaz, Bahiana, Utingás. The first two companies operate in the filling and distribution of LPG bottles. Bahiana operates primarily in the Northeast region of Brazil and Companhia Ultragaz serves South, Southeast and Mid-West regions of Brazil. Utingás is an LPG storage company, with storage facilities in the states of São Paulo and Paraná.

We conduct our fuel distribution business through Ipiranga, represented by our wholly owned subsidiary CBPI, except for CBPI's subsidiaries that operates in the LPG distribution business. See Item 4.A. Information on the Company History and Development of the Company. Ipiranga covers the distribution and marketing of petroleum products, fuel ethanol and NGV in the Southeast and South regions of Brazil. CBPI also controls am/pm, the master franchisor of the am/pm brand in Brazil and Tropical Transportes, which provides transportation services for Ipiranga and other fuel distributors.

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, Oleoquímica, EMCA, Oxiten Mexico and Oxiten Andina. Oxiten directly operates plants located in the state of São Paulo. Oxiten Nordeste operates plants located in Camaçari, in the state of Bahia, and in Triunfo, in the state of Rio Grande do Sul. Oleoquímica and EMCA also operate in the Camaçari plant. Oxiten Mexico operates three plants in Mexico, including the acquired plant of Unión Química. Oxiten Andina operates one plant located in Venezuela. Oleoquímica is the subsidiary through which we built a fatty alcohol plant in Camaçari.

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

D. Property, Plants and Equipment

Ultrapar

Plants. Ultragaz's LPG distribution network includes 15 filling plants. LPG is carried to the filling plants either via gas pipelines or Petrobras' installations, or by tanker trucks. 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, supplying our bulk trucks. Ultragaz maintains storage facilities for LPG bottles and satellite bulk distribution plants at strategic locations in order to maintain supplies close to its customer bases and thus to reduce transportation costs. Part 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 filling plants in large LPG storage tanks with a typical 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 bottles, the LPG is pumped from the storage tanks into a number of filling heads, which deliver the LPG bottles.

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The following table sets forth the total storage capacity, total filling capacity (assuming one 8-hour shift per day) during 2008 and the 2008 average filling utilization for each of Ultragas's primary and secondary filling stations and satellite stations.

Base	Type	Total storage capacity (in tons)	Filling capacity (in tons per month)	2008 average filling utilization rate
Capuava	Primary	720	13,136	9%
Santos	Primary	960	3,727	7%
São José dos Campos	Primary	960	4,725	8%
Rio de Janeiro	Primary	500	8,029	9%
Barueri	Secondary	1,500	4,100(1)	12%
Araraquara	Satellite	60		
Mauá	Satellite	720		
Pouso Alegre	Satellite	60		
Paulínia	Primary	1,500	9,827	9%
Araucária	Primary	240	9,677	7%
Canoas	Secondary	600	4,694	8%
Betim	Secondary	882	7,658	8%
Ribeirão Preto	Secondary	180	4,679(1)	10%
Goiânia	Secondary	360	3,512	7%
São José do Rio Preto	Satellite	60		
Araçatuba	Satellite	180		
Bauru	Satellite	120		
Cascavel	Satellite	120		
Londrina	Satellite	60		
Blumenau	Satellite	60		
Chapecó	Satellite	60		
Florianópolis	Satellite	60		
Joinville	Satellite	60		
Caxias do Sul	Satellite	60		
Ponta Grossa	Satellite	57		
Sorocaba	Satellite	115		
Mataripe	Primary	1,140	13,512(1)	10%
Suape	Primary	500	3,620(1)	13%
Caucáia	Secondary	420	4,304(1)	11%
Aracajú	Secondary	240	4,246	8%
Juazeiro	Satellite	60		
João Pessoa	Satellite	30		
Pirajá	Satellite	60		
Total		12,704	99,446	9%

(1) These bases operated with more than one 8-hour shift per day.

In addition, Ultragas maintains headquarters in the city of São Paulo and regional offices in the areas in which it operates. Ultragas also maintains 75 retail stations.

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Ipiranga

Distribution of fuels is carried out through an extensive network of primary and secondary storage terminals. Primary storage terminals are generally located near refineries and are used as storage terminals for products to be transported either to secondary storage terminals or to large customers and retail wholesale resellers - TRRs. Distributors own their own storage terminals (Owned), lease space in third party storage terminals (Third Party Agreement - TPA) or participate in pools (Joint-Operated terminals - JO) that serve two or more distributors. The following table sets forth the total storage capacity and ownership structure for each of Ipiranga's primary and secondary facilities in Brazil.

Base	Type	Ownership structure of Storage Terminal	Storage Capacity
Barueri	Primary	TPA (1)	4
Bagé	Secondary	Owned	5
Canoas	Primary	Owned	41
Cascavel	Secondary	Owned	2
Caxias	Primary	Owned	33
Cruz Alta	Secondary	Owned	4
Governador Valadares	Secondary	Owned	2
Guarapuava	Secondary	Owned	3
Itaguaí	Secondary	MRS (3)	
Ourinhos	Secondary	Owned	4
Paulínia	Primary	Owned	7
Santa Maria	Secondary	Owned	6
São Caetano	Primary	Owned	16
Uruguaiana	Secondary	Owned	1
São José dos Campos	Secondary	MRS (3)	
São Brás do Suaçui	Secondary	MRS (3)	2
São José do Rio Preto	Secondary	Owned	5
Biguaçu	Primary	TPA (1)	2
Cubatão	Primary	TPA (1)	1
Guaramirim	Primary	TPA (1)	
Maríngá	Secondary	TPA (1)	3
Montes Claros	Secondary	TPA (1)	
Araucária	Primary	JO operated by others (2)	41
Bauru	Secondary	JO operated by Ipiranga (2)	3
Betim	Primary	JO operated by Ipiranga (2)	9
Embiruçu	Primary	JO operated by Ipiranga (2)	3
Campos	Secondary	JO operated by Ipiranga (2)	1
Itajaí	Primary	JO operated by Ipiranga (2)	6
Londrina	Secondary	JO operated by Ipiranga (2)	2
Passo Fundo	Primary	JO operated by Ipiranga (2)	8
Paulínia	Primary	JO operated by Ipiranga (2)	14
Ribeirão Preto	Primary	JO operated by others (2)	9
São José dos Campos	Primary	JO operated by others (2)	6
Uberlândia	Primary	JO operated by others (2)	3
Pres. Prudente	Secondary	TPA (1)	1
Rio Grande	Secondary	TPA (1)	1
Uberaba	Primary	TPA (1)	
Vitória	Primary	TPA (1)	5
		Total	272

(1) Third party agreements.

- (2) Joint-operated with other distributors.
- (3) Storage terminal owned by MRS, a Brazilian logistic company, and operated by Ipiranga.

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Oxi

Oxiteno has five 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 and Suzano plants in the state of São Paulo.

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

Units	Capacity (in tons per year)
Camaçari	260
Mauá	90
Tremembé	
Triunfo	
Suzano	
Total	350

Ethylene oxide is primarily an intermediate material used in the production of ethylene oxide derivatives. Only approximately 10% of Oxitenos sales volume in the year ended December 31, 2008 were ethylene oxide. Therefore, Oxitenos total production output may be determined by adding the capacities of ethylene oxide and its derivatives.

As Oxitenos capacity for ethylene oxide derivatives exceeds its ethylene oxide production capacity, Oxitenos 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. The production capacity of ethylene oxide derivatives is 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.

Camaçari plant. The Camaçari plant, located in the Northeast Complex, was built by Oxitenos and commenced production in 1978.

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.

In October 2008, Oxitenos began operations of its oleochemicals unit in Camaçari, with a processing capacity of 100,000 tons of vegetable oil per year (especially palm kernel oil), for the production of approximately 100,000 tons of fatty alcohols and co-production of fatty acids and glycerin. In addition, Oxitenos also completed the capacity expansions of the ethoxylate and ethanolamine production at Camaçari, adding 120,000 tons to the capacity of these products. See Item 4.A. Information on the Company History and Development for more information. Company Investment

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
Ethylene glycols	285
Ethanolamines	110
Glycol ethers	25
Ethoxylated derivatives	200
White Mineral Oils	60
Fatty Alcohols	77

Fatty Acids
Glycerin

7
11

In 2008, the Camaçari plant operated at approximately 81% of its production capacity.

Mauá plant. The Mauá plant, located in the São Paulo Complex, was the first plant built by Oxiteno and it commenced production in 1991. The Mauá plant has process units for ethylene oxide, ethylene glycols, glycol ethers, glycol ether acetates, and glycol ether acetates.

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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	90
Ethylene Glycols	40
Glycol Ethers	40
Acetates	32
C4+C5 Alcohols	10
Ethoxylated Derivatives	106
Alkylation	17
Esterification	4
Emulsification	3
Hydraulic fluids	30

In 2008, the Mauá plant operated at approximately 72% 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 1999.

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

Units	Capacity (in metric tons per year)
Esterification	10
Specialties	15
Sulfonation/Sulfation	30
Betaines	10
Hydraulic fluids	3
Naphthalenes Sulfonates	9
Agricultural Blends	11

In 2008, the Tremembé plant operated at approximately 68% of its production capacity.

Suzano plant. In 2007, Oxiten began operating a sulfonation and sulfation plant in Suzano, with a production capacity of 13,300 tons per year. This plant is managed by the Tremembé plant staff. In 2007, the Suzano plant operated at approximately 81% of its production capacity.

Triunfo plant. The Triunfo plant is located in the Southern Complex. The Triunfo plant was built by Oxiten 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 Methyl Ethyl Ketone.

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

Units	Capacity (in metric tons per year)
Oxygenated solvents	42

In 2008, the Triunfo plant operated at approximately 85% of its production capacity.

With the acquisition of Oxiteno Mexico (formerly CANAMEX) in December 2003 and Unión Química in 2007, Oxiteno acquired specialty chemical plants in Mexico. As of December 31, 2008, the Coatzacoalcos plant had a production capacity of 54,000 tons per year of ethoxylates and 8,000 tons per year of alkyphenols; the Guadalajara plant had a production capacity of 32,000 tons per year of specialty chemicals and San Juan del Rio had a production capacity of 11,000 tons per year of specialty chemicals. In 2008, the Guadalajara Coatzacoalcos and San Juan del Rio plants operated at an average rate of approximately 57%, 84% and 74% of their production capacity respectively. With the acquisition of Oxiteno Andina in September 2007, Oxiteno acquired a specialty chemical plant in Venezuela. As of December 31, 2008, the Santa Rita plant had a production capacity of 70,000 tons per year of ethoxylates.

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The following table sets forth Oxiteno's production plants located outside of Brazil:

Units	Capacity (in metric tons per year)
Ethoxylated derivatives - Coatzacoalcos plant	54
Alkylation - Coatzacoalcos plant	11
Ethoxylated derivatives - Guadalajara plant	19
Esterification - Guadalajara plant	13
Sulfonation/Sulfation - San Juan del Rio	8
Alkoxyated derivatives - Santa Rita	70
Ultracargo	

The following tables set forth the principal products stored at, and the storage capacity operated by, Ultracargo's facilities at December 31, 2008, and the average utilization of Ultracargo's facilities during 2008:

Facility	Capacity (in cubic meters)	Average utilization %	Product Lines
Aratu (Bahia)	180,600	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, PKO and Estear
Montes Claros (Minas Gerais)	4,400	121%	Fuels
Suape (Pernambuco)	48,610	92%	Fuels, VAM, acetic acid, styrene, butadiene glycols
Santos (São Paulo)	4,696	100%	Vinyl Chloride Monomer
Santos - TIS I (São Paulo) (including third-party facilities operated by Ultracargo)	111,500	60%	Styrene monomer, mineral oil, EDC, linear alkyl benzene (LAB), alcohols (including ethanol), vegetable oil.
Santos - TIS II (1) (2)	122,900	88%	Chemicals, fuels, lubricants and ethanol
Rio de Janeiro (1) (2)	16,920	94%	Chemicals and lubricants
Paranaguá (1) (2)	29,955	70%	Chemicals and vegetable oils
Paulínia Solid Bulk (São Paulo)	1,881	15%	PET
Paulínia Liquid (São Paulo)	8,600	50%	Phenol, LAB, LAS, Ethanol
Total	530,062	85%	

(1) Terminals acquired through the acquisition of União Terminais

(2) Consider average utilization in the fourth quarter of 2008

Facility	Area (in square meters)	Average utilization %	Product Lines
Paulínia (São Paulo)	6,000	64%	Chemicals and special bulk cargo
Tatuí (São Paulo)	2,400	41%	Chemicals and special bulk cargo
Camaçari (Bahia)	4,000	73%	Chemicals and special bulk cargo
Mauá (São Paulo)	15,000	79%	Chemicals and special bulk cargo
Suape (Pernambuco)	3,300	52%	Chemicals and special bulk cargo
Total	30,700	70%	Chemicals and special bulk cargo

For more information about further investments to our property, plant and equipment, see Item 4.A. Information on the Company and Development of the Company - Investments

As of December 31, 2008, R\$66.7 million of our consolidated debt was secured by property, plant and equipment.

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ITEM 4A. UNRESOLVED STAFF COMMENTS

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Review

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 3.A. Information Selected Consolidated Financial Information. Our consolidated financial statements are prepared in *reais* accordance with Brazilian GAAP and the accompanying notes contain a description of the principal differences between such practices and U.S. GAAP. A reconciliation to U.S. GAAP of net income for each of the three years in the period ended December 31, 2008, and shareholders' equity for the periods ended December 31, 2008 and 2007. Our consolidated financial statements for the years ended December 31, 2008 and 2007 were audited by the independent registered public accounting firm, KPMG Auditores Independentes, and our consolidated financial statements for the year ended 2006 was audited by the independent registered public accounting firm Deloitte Touche Tohmatsu Auditores Independentes.

Our consolidated financial statements for the year ending December 31, 2008 were prepared in accordance with accounting policies derived from the Brazilian GAAP. Law 11,638/07 was enacted on December 28, 2007 and Provisional Measure 449/08 on December 3, 2008, amending the accounting policies adopted in Brazil. These amendments were adopted for the first time by Ultrapar in the fiscal year 2008. The financial statements referring to the fiscal years ending December 31, 2007, 2006, 2005 and 2004 are shown as previously released without the changes introduced by the new legislation, as allowed by CVM. See Note 3 to our consolidated financial statements for more information.

Overview

Our four principal businesses are:

- the LPG distribution business, conducted by Ultragaz;

- the fuels distribution business, conducted by Ipiranga;

- the chemical and petrochemical business, conducted by Oxitenor; and

- logistics services for special bulk cargo, conducted by Ultracargo.

Ultragaz sells LPG to residential, commercial and industrial market segments. Ipiranga distributes gasoline, ethanol, diesel, NGV, fuel kerosene and lubricants through a network of 3,469 service stations and directly to large customers. Oxitenor produces ethylene oxide and principal derivatives, and is also a significant producer of specialty chemicals, particularly surfactants. It manufactures approximately 100 products used in various industrial sectors such as cosmetics, detergents, crop protection chemicals, packaging, textiles, paints and varnishes. Ultracargo is the largest provider of storage for liquid bulk in South America, with 28% market share in Brazil after the acquisition of União Terminais closed in November 2007.

In April 2007, Ultrapar acquired control of various companies in the Ipiranga Group, whereby Ultrapar acquired the Southern Distribution Business, EMCA and a one-third stake in RPR. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group. The financial statements of Ultrapar consolidate all the businesses acquired from April 2007. Since January 1, 2008, EMCA has been consolidated into Oxitenor, reflecting the effective management responsibility for this business. The financial information of Oxitenor and Ipiranga in this annual report prior to January 1, 2008 reflects the current consolidated results retrospectively, which differ from those previously reported. The references to the term "Ipiranga" consequently refer duly to the Southern Distribution Business.

In June 2008, Ultrapar signed a sale and purchase agreement for the acquisition of 100% of the shares of União Terminais, a company engaged in the storage and handling of liquid bulk. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of União Terminais. In October 2008, Ultrapar closed the acquisition in relation to the port terminal in Santos and Rio de Janeiro. In November 2008 it closed the acquisition of the 50% stake that Unipar held in União/Vopak, which owned a port terminal in Paranaguá (in the state of Paraná). The results of the businesses acquired were consolidated into Ultrapar's financial statements after their respective closing dates. Ultrapar's financial statements in periods prior to fourth quarter 2008 do not include the results of the businesses acquired.

In August 2008, Ultrapar announced the signing of the sale and purchase agreement for the acquisition of Texaco's fuel distribution business in Brazil; the acquisition closed on March 31, 2009. The results of the businesses acquired began to be consolidated into Ultrapar's financial statements after its closing date. Ultrapar's financial statements in periods prior to second quarter 2009 do not include the results of the businesses acquired. See Item 4.A. Information on the Company History and Development of the Company Recent Developments Description of the Acquisition of Texaco's Fuel Distribution Business in Brazil.

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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. In 2002, Brazil's GDP grew by 2.7%, as a result of the political instability surrounding the presidential election in October 2002, which caused foreign exchange rate devaluation, increase in interest rates, and undermined consumer confidence. In 2003, the GDP grew 1.1%, 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 the government became more confident regarding inflation trends, interest rates were lowered. In 2004, Brazilian GDP grew by 5.7% in 2004. However, in order to meet inflation targets, the Central Bank increased interest rates again in 2005 and GDP growth decreased to 2.9% in the year ended December 31, 2005. During 2006, the Brazilian economy presented the same trend as shown in the previous year and GDP grew by 3.8%. In 2007 Brazilian GDP increased by 5.4%, after several years of smaller growth. The economic and operational environment in 2008 was marked by two distinct moments. In the first three quarters of 2008, Brazil's economy recorded a strong growth of 6.4% compared to the same period in 2007. However in the fourth quarter the deepening of the global financial crisis reversed this growth trend, resulting in a 3.6% quarter on quarter GDP reduction in the fourth quarter of 2008, and a 5.1% in 2008 growth in 2008 overall. Increased consumer income in Brazil combined with a reduction in Brazil's basic interest rates, stable inflation and greater credit availability have resulted in the growth of services, industrial and agricultural sectors of the economy, particularly in construction and automotive industries. Our operations are significantly impacted by Brazilian GDP growth, specifically, sales of LPG to the commercial and industrial customers, sales of diesel, Oxiten's sales to the domestic market and Ultracargo's logistics operations. In addition, sales of LPG to residential customers and sales of gasoline and ethanol are ultimately 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. In 2002, the inflation rate as measured by the Índice Geral de Preços – Mercado, or 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 18.2% 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 and 2006, the *real* continued to appreciate against the U.S. dollar, which, together with the increased average interest rates, resulted in an inflation rate of 1.2% and 3.9%, respectively, as measured by the IGP-M. In 2007, the IGP-M was 7.8%, double the inflation rate in 2006, mainly due to an increase in food prices despite the 17% appreciation of the *real* against the U.S. dollar in 2007. In 2008, the IGP-M was 9.8% due to high inflationary pressures until September, mainly the economic growth and high commodity prices. In 2008 foreign direct investment in Brazil peaked the record level of US\$ 45 billion, significantly increasing capital inflow, contributing to the appreciation of the *real* until September and to the assignment of the investment-grade rating to Brazil in April. However, the deepening of the global financial crisis led to a reversal of the appreciation trend in the *real* of the previous five years resulting in a 32% depreciation of the *real* against the U.S. dollar in 2008.

The principal foreign exchange risk we face arises from certain U.S. dollar denominated costs and expenses. Although a substantial portion of our debt is dollar-denominated, it is currently hedged against currency devaluation through the use of various derivative instruments and 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 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,		
	2008	2007	2006
General Price Index – IGP-M	9.8%	7.8%	3.9%
Devaluation (appreciation) of the <i>real</i> against the U.S. dollar	31.9%	(17.2)%	(8.7)%

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We manage the foreign exchange risk associated with the scheduled payments under the terms of our U.S. dollar indebtedness by investing in U.S. dollar-denominated securities and foreign currency/interest swap contracts, under which we pay variable interest in *reais* based on the interbank certificate of deposit rate, or CDI, and receive fixed interest in U.S. currency. As of December 31, 2008 our total obligations denominated in foreign currency were R\$1,181.4 million, including import payables. At the same date our total asset position in foreign currency was R\$1,070.0 million, comprised of investments indexed to U.S. dollars and hedging instruments used to manage fluctuations in exchange rates and foreign currency receivables exposures. See Item 11. Quantitative and Qualitative Disclosures About Market Risk under Foreign Exchange Risk for information about our foreign exchange risk hedging policy and Notes 14 and 19 to our consolidated financial statements.

Critical accounting policies and estimates

The presentation of our financial condition and results of operations requires our management to make judgments regarding the effect of certain 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 five of our accounting policies as 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 in selling expenses; no adjustment is made to net sales and services revenue. In order to establish the allowance for doubtful accounts, 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 6 and 19 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 carryforwards, temporary add-backs, revaluation of property, plants 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 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. In order to 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 22 to our consolidated financial statements for additional information on taxes.

Contingent liabilities. We are currently involved in certain legal and administrative proceedings that arise from our normal course of business as described in Note 20 to our consolidated financial statements and Item 8.A. Financial Information Consolidated Statements.

Other 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. Contingencies that could have a material adverse impact on the result of our operations or our financial condition, to the extent not covered by insurance, that are likely to occur in the opinion of our management, based on information available to us including information obtained from legal advisors. Future results of operations for any particular quarterly or annual period may vary significantly from the results of operations for any other period.

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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 the matters.

Fair value of financial instruments. Our financial instruments are classified as follows:

Measured at fair value through income: financial assets held for trading, that is, purchased or created primarily for the purpose of sale or repurchase in the short term and derivatives. Changes in fair value are recorded as income, and the balances are stated at fair value.

Held to maturity: non-derivative financial assets with fixed payments or determinable payments with fixed maturities for which the entity has the positive intention and ability to hold to maturity. The interest earned is recorded as income, and balances are stated at acquisition cost plus the interest earned.

Available for sale: non-derivative financial assets that are designated as available for sale or were not classified into other categories. The interest earned is recorded as income, and the balances are stated at fair value. Differences between fair value and acquisition cost plus the interest earned are recorded in a specific account of the shareholders' equity. Gains and losses recorded in the shareholders' equity are included in income, in case of prepayment.

Loans and receivables: non-derivative financial instruments with fixed payments or determinable payments not quoted in active markets, except: (i) those which the entity intends to sell immediately or in the short term and which the entity classified as measured at fair value through income; (ii) those classified as available for sale; or (iii) those the holder of which cannot substantially recover its initial investment for reasons other than credit deterioration. The interest earned is recorded as income, and balances are stated at acquisition cost plus the interest earned.

Certain derivative financial instruments used to hedge against changes in interest rates were designated as cash flow hedges for purposes of measuring their fair value. The difference between the fair value of the financial instrument and its value plus interest earned is recognized as a valuation adjustment in shareholders' equity, not affecting the income statement. Gains and losses recorded in the shareholders' equity are included in income, in case of prepayment.

For further detail on financial instruments of Ultrapar and its subsidiaries, see Notes 4.c), 5, and 19 to our consolidated financial statements.

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 BM&FBovespa. We believe BM&FBovespa 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 financial instruments and the amount of gains and losses recorded in the income statement.

Pension and other post-retirement benefits. In August 2001, Ultrapar and its subsidiaries (except subsidiaries acquired in connection with the acquisition of Ipiranga) began to offer their employees a defined contribution pension plan, managed by Ultraprev - Associação Previdência Complementar. Under the terms of the plan, the basic contribution of each participating employee is defined annually by the participant between 0% and 11% of his or her salary. The sponsoring companies provide a matching contribution to the basic contribution. As participants retire, they may opt to receive monthly: (i) a percentage varying between 0.5% and 1.0% of the fund accumulated in their names at Ultraprev, or (ii) a fixed amount that will extinguish the fund accumulated in their names in a period between 5 and 25 years. In such, neither Ultrapar nor its subsidiaries assume responsibility for guaranteeing amounts or periods of benefits for the participants.

Until September 2008, Ipiranga sponsored the pension fund *Fundação Francisco Martins Bastos* through which it offered its employees a multi-employer defined benefit plan. In September 2008, participation of the companies EMCA, DPPI, CBPI and their subsidiaries in

Ultraprev plan was approved. Thus, from that date, the companies started to make contributions to Ultraprev and requested the removal of sponsorship from *Fundação Francisco Martins Bastos*. Ultrapar also recognized a provision for post-employment benefits relating to seniority bonus, payment of Severance Pay Fund (FGTS), and health and life insurance plan for eligible personnel and retired employees. See Note 23(b) to our consolidated financial statements.

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.

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The following table shows a summary of our results of operations for the years ended December 31, 2008 and 2007.

	Year ended December 31, 2008	Percentage of net sales and services	Year ended December 31, 2007	Percentage of net sales and services	Percent change
(in millions of reais, except percentages)					
Net sales and services	28,268.0	100%	19,921.3	100%	42%
Cost of sales and services	(26,152.3)	93%	(18,224.2)	91%	44%
Gross profit	2,115.7	7%	1,697.1	9%	23%
Selling, general and administrative expenses	(1,424.4)	5%	(1,223.3)	6%	16%
Other operating income (expense), net	22.1	0%	12.3	0%	80%
Operating income before financial items	713.4	3%	486.1	2%	47%
Financial income (expense), net	(168.8)	1%	(119.4)	1%	41%
Other income (expense), net	11.2	0%	8.8	0%	27%
Income and social contribution taxes	(151.6)	(1%)	(85.9)	0%	76%
Minority interest/equity in earnings of affiliates	(4.5)	0%	(100.4)	1%	(96%)
Employees Statutory Interest	(9.4)	0%	(7.3)	0%	29%
Net income	390.3	1%	181.9	1%	115%
Adjusted EBITDA(1)	1,079.5	4%	779.4	4%	39%

- (1) See footnote 7 under Item 3.A. Key Information – Selected Consolidated Financial Data for additional discussion of adjusted EBITDA and its reconciliation to other information in our financial statements.

Net sales and services. Net sales and services for the year ended December 31, 2008 increased by 42% to R\$28,268.0 million from R\$19,921.3 million for the year ended December 31, 2007, essentially as a consequence of the consolidation of Ipiranga's net sales and services from the second quarter of 2007, and the growth in all the company's business segments.

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

	Year ended December 31, Percent change		
	2008	2007	change
(in millions of reais)			
Ultragas	3,339.4	3,112.9	7%
Ipiranga(1)(2)	22,676.4	14,869.9	52%
Oxiteno(2)	1,926.1	1,764.8	9%
Ultracargo	283.4	229.1	24%

- (1) The financial statements of Ultrapar consolidate the Southern Distribution Business from the second quarter of 2007 onwards. See Item 4.A. Information on the Company – History and Development of the Company – Description of the Acquisition of Ipiranga. Except where otherwise mentioned, Ultrapar's financial statements for periods prior to the second quarter of 2007 do not include Ipiranga, EMCA and RPR. In order to provide a comparison basis for the analysis of the evolution in the performance of Ipiranga, unaudited financial statements for this business have been prepared for periods prior to the second quarter of 2007 as presented in the discussion below.

- (2)

Since January 1, 2008, EMCA has been consolidated into Oxitenó, reflecting the effective management responsibility for the business. The financial information of Oxitenó and Ipiranga in this annual report prior to January 1, 2008 reflects the current consolidation retrospectively, which differ from those previously reported.

Ultrazul's net sales and services increased by 7% to R\$3,339.4 million for the year ended December 31, 2008 compared to R\$3,119.4 million for the year ended December 31, 2007. The increase was driven by a 2% increase in sales volume and the 34% rise in the cost of LPG used in the bulk segment in 2008, partially offset by weaker prices related to increased competition in the Brazilian LPG market.

Ipiranga's net sales increased by 17% to R\$22,676.4 million for the year ended December 31, 2008 compared to R\$19,393.9 million for the year ended December 31, 2007. The increase was driven by an 8% growth in sales volume and a 9% rise in diesel costs in 2008.

Oxitenó's net sales and services increased 9% to R\$1,926.1 million for the year ended December 31, 2008 compared to R\$1,764.8 million for the year ended December 31, 2007. The increase in Oxitenó's net sales and services was mainly due to a 34% recovery in average prices, due to the improved sales mix and commercial initiatives introduced by the company over the last 12 months. This improvement in average dollar price was partially offset by a 6% appreciation in the *real* and a 14% drop in sales volume, due to scheduled maintenance expansion stoppage.

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Ultracargo's net sales and services increased 24% to R\$283.4 million for the year ended December 31, 2008, compared to R\$229.1 million for the year ended December 31, 2007. The increase in Ultracargo's net sales and services was mainly due to the 20% increased sales volumes, specially derived from the consolidation of União Terminais from fourth quarter of 2008, and new integrated transport services and in-house logistics operations.

Cost of sales and services. Cost of sales and services increased by 44% to R\$26,152.3 million for the year ended December 31, 2008, compared to R\$18,224.2 million for the year ended December 31, 2007, primarily as a consequence of the consolidation of Ipiranga's cost of sales and services from second quarter 2007, the 9% rise in the cost of diesel and the 34% rise in the cost of LPG used in the bulk segment.

Ultragaz's cost of sales and services increased by 10% to R\$2,898.4 million for the year ended December 31, 2008 compared to R\$2,634.2 million for the year ended December 31, 2007, essentially as a consequence of higher sales volume and successive increases, in the price of LPG charged by Petrobras for use in the bulk segment, totalling 34% in 2008.

Ipiranga's cost of sales and services increased by 17% to R\$21,492.2 million for the year ended December 31, 2008 compared to R\$18,224.2 million for the year ended December 31, 2007, as a consequence of an 8% increase in sales volume, the increase in the diesel cost, derived from the 9% increase in the diesel price charged by Petrobras in May 2008 and the mandatory increase in the percentage of biodiesel from 2% to 3%. Biodiesel purchase price in 2008 was higher than that of diesel.

Oxiteno's cost of sales and services increased by 7% to R\$1,526.8 million for the year ended December 31, 2008 compared to R\$1,424.4 million for the year ended December 31, 2007. This increase was due to higher raw material unit costs in dollar, as a consequence of higher average oil prices, and the cost of R\$18 million related to scheduled maintenance stoppages at the production units during 2008.

Ultracargo's 2008 cost of sales and services increased from R\$144.8 million in 2007 to R\$187.4 million in 2008, as a result of a 20% increase in storage volume, specially due to the consolidation of União Terminais from fourth quarter of 2008, new integrated in-house transport services, logistics operations, and the increase in diesel price.

Gross profit. Gross profit increased by 25% to R\$2,115.7 million for the year ended December 31, 2008, compared to R\$1,697.1 million for the year ended December 31, 2007, as a consequence of the increase in gross profit at Ipiranga, Oxiteno and Ultracargo and the consolidation of Ipiranga from the second quarter 2007 onwards. Ultragaz's gross profit was R\$440.9 million for the year ended December 31, 2008, a 6% decrease compared to R\$469.2 million for the year ended December 31, 2007. Ipiranga's gross profit was R\$1,184.2 million for the year ended December 31, 2008, a 13% increase compared to R\$1,045.3 million for the year ended December 31, 2007. Oxiteno's gross profit was R\$399.3 million for the year ended December 31, 2008, a 16% increase compared to R\$342.9 million for the year ended December 31, 2007. Ultracargo's gross profit was R\$96.0 million for the year ended December 31, 2008, a 14% increase compared to R\$84.3 million for the year ended December 31, 2007.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased by 16% to R\$1,424.4 million for the year ended December 31, 2008 from R\$1,223.3 million for the year ended December 31, 2007. The increase was a result of (i) the impact of inflation on expenses, (ii) the consolidation of sales, general and administrative expenses of Ipiranga from second quarter 2007 onwards, (iii) the increase in the cost of diesel, which had an impact on freight expenses and (iv) an 8% increase in sales volume at Ipiranga.

Ultragaz's selling, general and administrative expenses increased by 3% to R\$348.3 million for the year ended December 31, 2008 compared to R\$337.6 million for the year ended December 31, 2007, despite the 2% increase in sales volume and the effects of inflation on personnel costs, as a consequence of expenses reduction initiatives implemented during 2008 and the higher advertising and marketing expenses related to the company's 70th anniversary campaign in 2008.

Ipiranga's selling, general and administrative expenses decreased by 6% to R\$682.0 million for the year ended December 31, 2008 compared to R\$722.6 million for the year ended December 31, 2007, as a result of organizational optimization implemented since the acquisition of the end of CPMF tax, partially offset by (i) an 8% increase in sales volume, (ii) an increase in diesel costs, with an impact on freight expenses, (iii) higher expenses with advertising and marketing, including those related to the campaign of the Texaco acquisition and the launch of Ipirangashop.com and incentive programs such as *Clube VIP* and *Clube do Milhão* and (iv) higher personnel expenses as a result of annual collective wage agreements and the increase in variable compensation in line with the improvement in earnings.

Oxiteno's selling, general and administrative expenses increased by 3% to R\$245.9 million for the year ended December 31, 2008 compared to R\$237.7 million for the year ended December 31, 2007, as a result of higher freight expenses due to the increase in diesel prices and the rise in personnel expenses, as a result of annual collective wage agreement and higher variable compensation, in line with the progression of the company's results.

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Ultracargo's selling, general and administrative expenses increased to R\$91.9 million for the year ended December 31, 2008 from R\$85.9 million for the year ended December 31, 2007, as a result of the impact of inflation on expenses, the goodwill amortization related to the acquisition of União Terminais of R\$8 million, and the addition of sales, general and administrative expenses from União Terminais in the fourth quarter 2008.

Operating income before financial items and other income. Operating income before financial items increased by 47% to R\$713.4 million for the year ended December 31, 2008 compared to R\$486.1 million for the year ended December 31, 2007, as a consequence of the increase in operating income before financial items at Ipiranga and Oxitenos and the consolidation of Ipiranga from the second quarter 2007 onwards. Ultragas's operating income before financial items for the year ended December 31, 2008 was R\$87.9 million, a 33% decrease compared to R\$132.1 million for the year ended December 31, 2007. Ipiranga's operating income before financial items was R\$334.2 million for the year ended December 31, 2008, a 54% increase compared to R\$216.8 million for the year ended December 31, 2007. Oxitenos's operating income before financial items was R\$154.2 million for the year ended December 31, 2008, a 43% increase compared to R\$108.1 million for the year ended December 31, 2007. Ultracargo's operating income before financial items was R\$7.3 million for the year ended December 31, 2008, a 51% decrease compared to the R\$14.8 million for the year ended December 31, 2007.

Financial income (expense), net. We reported net financial expense of R\$168.8 million for the year ended December 31, 2008, compared to a net financial expense of R\$119.4 million for the year ended December 31, 2007. The increase in net financial expenses in 2008 mainly reflects the increase of Ultrapar's average net debt as a result of investments made during 2008, including the acquisition of União Terminais and the expansions in Oxitenos's production capacity, higher interest rates and the effect of the 32% *real* depreciation over our share of foreign currency exposure during 2008, compared to an appreciation of 17% during 2007.

As of December 31, 2008, we had a net debt position of R\$1,538.2 million and a short net foreign currency exposure of R\$ 111.4 million.

As of December 31, 2008, our total liabilities denominated in foreign currency was R\$1,181.4 million. At the same date our total net position in foreign currency was R\$1,070.0 million, consisting of investments indexed to the U.S. dollar and hedging instruments used to manage exchange rate fluctuations and exposure to foreign currency receivables. See footnote 9 under Item 3.A. Key Information in our Consolidated Financial Data for a more complete discussion of net cash (debt) and its reconciliation to information in our financial statements, as well as Notes 5, 14 and 19 to our consolidated financial statements included in this annual report.

Other income (expense), net (Former Non-operating income (expense), net). We reported other income, net, of R\$11.2 million for the year ended December 31, 2008 compared to other income, net, of R\$8.8 million for the year ended December 31, 2007. Other income for 2008 is primarily attributable to the result from the sale of assets, notably the stake in PQU held by Oxitenos, which generated a R\$11.2 million gain in the period and the income from the sale of Ipiranga's office building in São Paulo, which generated a R\$5 million gain in the period, partially offset by the write-off of deferred assets related to project studies. In 2007 the other income derived from the sale of property, plant and equipment, particularly Ipiranga's railroad cars in the amount of R\$11.1 million, which was partially offset by expenses related to expansion projects.

Income and social contribution taxes. Income and social contribution tax expenses, net of benefits from tax holidays, totalled R\$185.9 million for the year ended December 31, 2008, a 76% increase from R\$85.9 million for the year ended December 31, 2007, primarily due to an increase in pre-tax income, as a result of the growth in Ipiranga, Oxitenos and Ultracargo.

Minority interest/equity in earnings of affiliates. Minority interest and equity in earnings of affiliates was R\$4.5 million for the year ended December 31, 2008, compared to R\$100.4 million for the year ended December 31, 2007. This reduction reflects the transitory effect of minority interest related to the acquisition of Ipiranga Group in 2007. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group.

Net income. Net income for the year ended December 31, 2008 was R\$390.3 million, an increase of 115% compared to R\$181.9 million for the year ended December 31, 2007, as a consequence of the 39% rise in adjusted EBITDA at Ultrapar and the transitory effects of minority interest related to the acquisition of Ipiranga in 2007 and the consolidation of Ipiranga from the second quarter 2007 onwards.

Adjusted EBITDA. Adjusted EBITDA increased by 39% to R\$1,079.5 million for the year ended December 31, 2008 from R\$779.4 million for the year ended December 31, 2007, as a consequence of EBITDA growth at Ipiranga and Oxitenos, as well as the consolidation of results of Ipiranga and União Terminais, respectively, from the second quarter 2007 and fourth quarter 2008 on. Ultragas reported adjusted EBITDA of R\$210.8 million for the year ended December 31, 2008, a 16% decrease compared to 2007, basically due to the increase in competition in the bottled gas segment in the first half of 2008. Ipiranga's adjusted EBITDA to

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R\$603.2 million for the year ended December 31, 2008, a 45% increase compared to 2007, as a result of the 8% increase in sales volume with a consequent increase in operational leverage due to the dilution of fixed costs and expenses, and a 6% reduction in sales, general and administrative expenses. Oxitenor's adjusted EBITDA totaled R\$210.0 million for the year ended December 31, 2008, a 33% increase compared to 2007, as a result of a recovery in average dollar prices driven by an improved sales mix and commercial initiatives developed by the company over the last 12 months, as well as the depreciation in the *real* in the last quarter of the year. Ultracargo reported adjusted EBITDA of R\$50.6 million for the year ended December 31, 2008, basically as a consequence of the acquisition of União Terminals operations in the fourth quarter of 2008, the expansion to the Aratu terminal and an increase in the volumes of products handled at Santos terminal.

Year ended December 31, 2007 compared to the year ended December 31, 2006

The following table shows a summary of our results of operations for the years ended December 31, 2007 and 2006.

	Year ended December 31, 2007	Percentage of net sales and services (in millions of reais, except percentages)	Year ended December 31, 2006	Percentage of net sales and services	Percentage change
Net sales and services	19,921.3	100%	4,794.1	100%	316%
Cost of sales and services	(18,224.2)	91%	(3,859.9)	81%	372%
Gross profit	1,697.1	9%	934.2	19%	82%
Selling, general and administrative expenses	(1,223.3)	6%	(605.1)	13%	102%
Other operating income (expense), net	12.3	0%	1.3	0%	840%
Operating income before financial items	486.1	2%	330.4	7%	47%
Financial income (expense), net	(119.4)	1%	30.6	1%	(490)%
Other income (expense), net	8.8	0%	(18.5)	0%	(144)%
Income and social contribution taxes	(85.9)	0%	(56.1)	1%	53%
Minority interest/equity in earnings of affiliates	(100.4)	1%	(4.3)	0%	
Employees Statutory Interest	(7.3)	0%		0%	2,235%
Net income	181.9	1%	282.1	6%	(30)%
Adjusted EBITDA(1)	779.4	4%	516.2	11%	51%

(1) See footnote 7 under Item 3.A. Key Information – Selected Consolidated Financial Data for additional discussion of adjusted EBITDA and its reconciliation to other information in our financial statements.

Net sales and services. Net sales and services for the year ended December 31, 2007 increased by 316% to R\$19,921.3 million from R\$4,794.1 million for the year ended December 31, 2006, primarily as a result of the inclusion of Ipiranga's net sales from the second quarter of 2007 following the acquisition of Ipiranga Group. The following table shows the change in sales for each of our segments:

	Year ended December 31, 2007	Year ended December 31, 2006	Percentage change
	(in millions of reais)		
Ultragas	3,112.9	3,066.9	n.a.
Ipiranga(1)(2)	14,869.9	n.a.	n.a.
Oxitenor(2)	1,764.8	1,549.5	14%
Ultracargo	229.1	226.1	1%

(1) The financial statements of Ultrapar consolidate the Southern Distribution Business from the second quarter of 2007 onwards. See Item 4.A. Information on the Company – History and Development of the Company – Description of the Acquisition of Ipiranga Group.

Except where otherwise mentioned, Ultrapar's financial statements for periods prior to the second quarter of 2007 do not include Ipiranga, EMCA and RPR. In order to provide a comparison basis for the analysis of the evolution in the performance of Ipiranga, unaudited financial statements for this business have been prepared for periods prior to the second quarter of 2007 as presented in the discussion below.

- (2) Since January 1, 2008, EMCA has been consolidated into Oxitenio, reflecting the effective management responsibility for the business. The financial information of Oxitenio and Ipiranga in this annual report prior to January 1, 2008 reflects the current consolidation retrospectively, which differ from those previously reported.

Ultragas's net sales and services increased by 2% to R\$3,112.9 million for the year ended December 31, 2007 compared to R\$3,050.0 million for the year ended December 31, 2006. The increase was driven by a 2% growth in sales volume, which was partially offset by weaker prices related to increased competition in the Brazilian LPG market in the second half of the year.

Ipiranga's net sales increased by 2% in 2007. The increase was driven by a 6% growth in sales volume and the effects of favorable regulatory changes, including increased enforcement, with respect to the Brazilian fuels sector and was partially offset by a decrease in ethanol prices due to a record high sugarcane harvest in 2007 and a reduction in ICMS taxes in Rio Grande do Sul State.

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Oxiteno's net sales and services increased 14% to R\$1,764.8 million for the year ended December 31, 2007 compared to R\$1,549.5 million for the year ended December 31, 2006. The increase in Oxiteno's net sales and services was mainly due to a 14% increase in sales volume and a recovery in prices of specialty chemicals, partially offset by a 10% appreciation of the *real* during the period.

Ultracargo's net sales and services increased 1% to R\$229.1 million for the year ended December 31, 2007, compared to R\$226.1 million for the year ended December 31, 2006. The volume of products stored by Ultracargo levels terminals was 17% higher than in 2006, mainly due to Santos, Suape and Aratu terminals and total kilometers traveled recorded by Ultracargo decreased by 21% from 2006, as a result of the company's having concentrated its operations on providing higher value-added services.

Cost of sales and services. Cost of sales and services increased by 372% to R\$18,224.2 million for the year ended December 31, 2007, compared to R\$3,859.9 million for the year ended December 31, 2006, mainly as a result of the inclusion of Ipiranga's costs as from the second quarter of 2007 following the acquisition of Ipiranga.

Ultragaz's cost of sales and services increased by 3% to R\$2,643.7 million for the year ended December 31, 2007 compared to R\$2,562.0 million for the year ended December 31, 2006, mainly as a result of a 2% increase in sales volume.

Ipiranga's cost of sales and services increased by 2% to R\$18,348.6 million for the year ended December 31, 2007 compared to R\$18,000.0 million for the year ended December 31, 2006, as a result of a 6% increase in volume, partially offset by a decrease in the cost of ethanol due to a record level sugarcane harvest in 2007 and a reduction in ICMS taxes in the state of Rio Grande do Sul.

Oxiteno's cost of sales and services increased by 19% to R\$1,421.9 million for the year ended December 31, 2007 compared to R\$1,190.0 million for the year ended December 31, 2006. This increase was primarily due to a 14% increase in sales volume at higher unit costs due to successive oil price increases and was partially offset by a 10% appreciation of the *real*.

Ultracargo's 2007 cost of sales and services increased slightly from R\$143.6 million in 2006 to R\$144.8 million in 2007, a reduction of 0.8%.

Gross profit. Gross profit increased by 82% to R\$1,697.1 million for the year ended December 31, 2007, compared to R\$934.2 million for the year ended December 31, 2006. Ultragaz's gross profit was R\$469.2 million for the year ended December 31, 2007, a 5% decrease compared to R\$494.3 million for the year ended December 31, 2006. Ipiranga's gross profit was R\$1,045.3 for the year ended December 31, 2007, a 11% increase compared to R\$941.2 million for the year ended December 31, 2006. Oxiteno's gross profit was R\$342.9 million for the year ended December 31, 2007, a 4% decrease compared to R\$357.1 million for the year ended December 31, 2006. Ultracargo's gross profit was R\$84.2 million for the year ended December 31, 2007, a 2% increase compared with R\$82.5 million for the year ended December 31, 2006. Ipiranga added R\$801 million to Ultracargo's gross profit in 2007 after the acquisition of Ipiranga.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased by 102% to R\$1,223.3 million for the year ended December 31, 2007 from R\$605.1 million for the year ended December 31, 2006. The increase was primarily due to the addition of Ipiranga's selling, general and administrative expenses as from the second quarter of 2007 following the acquisition of Ipiranga.

Ultragaz's selling, general and administrative expenses increased by 3% to R\$337.6 million for the year ended December 31, 2007 compared to R\$327.0 million for the year ended December 31, 2006, primarily due to higher sales volume and increased expenses for advertising and marketing in connection with the company marketing campaign for its seventieth anniversary.

Ipiranga's selling, general and administrative expenses increased by 6% to R\$722.6 million for the year ended December 31, 2007 compared to R\$681.5 million for the year ended December 31, 2006, primarily due to: (i) an increase in sales volume primarily increasing fixed expenses and (ii) higher expenses for advertising and marketing, as a result of projects such as *Cartão Ipiranga Carbono Zero* (Ipiranga Zero Carbon Card), *Promoção 3,000 tanques* (3,000 Full Tanks campaign), *Clube VIP* (VIP Club) and *Clube do Milhão* (Million Club).

Oxiteno's selling, general and administrative expenses increased by 12% to R\$237.7 million for the year ended December 31, 2007 compared to R\$212.2 million for the year ended December 31, 2006, due to benefits from increased scale, the effect of an appreciation of the *real* on international freight and lower expenses from sales commissions due to the opening of sales offices in Argentina and the United States.

Ultracargo's selling, general and administrative expenses decreased slightly to R\$70.3 million for the year ended December 31, 2007 compared to R\$71.0 million for the year ended December 31, 2006.

Operating income before financial items and other income. Operating income before financial items increased by 47% to R\$486.1 million for the year ended December 31, 2007 compared to R\$330.4 million for the year ended December 31, 2006. Ultragaz's operating income before financial items for the year ended December 31, 2007 was R\$132.3 million, a 21% decrease compared to R\$167.3 million compared to the year ended December 31, 2006. Ipiranga's operating income before financial items was R\$334.2 million for the year ended December 31, 2007 compared to R\$163.1 million for the year ended December 31, 2006.

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ended December 31, 2007, a 23% increase compared to R\$272.5 million for the year ended December 31, 2006. Oxitenó's operating income before financial items was R\$108.1 million for the year ended December 31, 2007, a 26% decrease compared to R\$146.3 million for the year ended December 31, 2006. Ultracargo's operating income before financial items was R\$14.6 million for the year ended December 31, 2007, a 28% increase compared to the R\$11.4 million for the year ended December 31, 2006. The increase at Ultrapar was due to the inclusion of Ipiranga's operating income before financial items following the acquisition of Ipiranga Group.

Financial income (expense), net. We reported net financial expense of R\$119.4 million for the year ended December 31, 2007, compared to a net financial income of R\$30.6 million for the year ended December 31, 2006. The decrease primarily reflects a temporary increase in Ultrapar's net debt as a result of the acquisition of Ipiranga Group. On December 31, 2007, Ultrapar's total receivables from Petrobras and Braskem as a result of the acquisition of Ipiranga Group were R\$1.7 billion, corresponding to the stake of the petrochemical and distribution assets Ultrapar acquired from the former shareholders of the Ipiranga Group on behalf of Petrobras and Braskem. The billion related to the separation of the Petrochemical Business was paid to Ultrapar on February 27, 2008 and the remaining R\$0.7 billion corresponds to the Northern Distribution Business, paid on May 14, 2008. See Item 4.A. Information on the Company - History and Development of the Company - Description of the Acquisition of Ipiranga Group.

As of December 31, 2007, we had a net debt position of R\$1,434.1 million and a short net foreign currency exposure of R\$41.6 million. As of December 31, 2007, our total debt denominated in foreign currency was R\$1,002.9 million, including pre-export finance contracts and import payables. At the same date our total asset position in foreign currency was R\$961.3 million, consisting of investments indexed to U.S. dollar and swap arrangements used to manage exchange rate fluctuations and exposure to foreign currency receivables. See, footnote 10 under Item 3.A. Key Information - Selected Consolidated Financial Data for a more complete discussion of net cash (debt) reconciliation to information in our financial statements, as well as Notes 4, 14 and 19 to our consolidated financial statements included in this annual report.

Other income (expense), net (former non-operating income (expense), net). We reported a other income, net of R\$8.8 million for the year ended December 31, 2007 compared to other expense net of R\$18.5 million for the year ended December 31, 2006. This other income was primarily attributable to profit from the sale of property, plant and equipment, particularly Ipiranga's railroad cars in the amount of R\$10.5 million, which was partially offset by expenses related to expansion projects. In 2006, the expense corresponded primarily to a write-off of deferred assets related to project studies.

Income and social contribution taxes. Income and social contribution tax expenses, net of benefits from tax holidays, totaled R\$100.4 million for the year ended December 31, 2007, a 53% increase from R\$56.1 million for the year ended December 31, 2006, primarily due to an increase in pre-tax income, as a result of the acquisition of Ipiranga, and to a decrease in tax benefits to Oxitenó's plant in Camaçari as a result of a 100% income tax exemption as of December 31, 2006 to a 75% tax discount as of January 1, 2007. See Item 4.B. Information on the Company - Business Overview - Petrochemicals and Chemicals - Oxitenó - Income tax exemption.

Minority interest/equity in earnings of affiliates. Minority interest and equity in earnings of affiliates was R\$100.4 million for the year ended December 31, 2007, compared to R\$4.3 million for the year ended December 31, 2006. This increase reflects the addition of Ipiranga's minority interest prior to the Share Exchanges in December 2007, when RPR, DPPI and CBPI became Ultrapar's wholly owned subsidiaries. Since October 2007, minority interest has returned to its 2006 level.

Net income. As a result of the foregoing, net income for the year ended December 31, 2007 was R\$181.9 million, a decrease of R\$106.2 million compared to R\$282.1 million for the year ended December 31, 2006, primarily due to increased indebtedness and minority interests related to the acquisition of Ipiranga Group.

Adjusted EBITDA. Adjusted EBITDA increased by 51% to R\$779.4 million for the year ended December 31, 2007 from R\$516.2 million for the year ended December 31, 2006, due to the inclusion of Ipiranga's adjusted EBITDA as of April 2007. Ultracargo reported adjusted EBITDA of R\$251.7 million for the year ended December 31, 2007, a 10% decrease compared to 2006, primarily due to increased competition in the Brazilian LPG market in the second half of 2007. Ipiranga's adjusted EBITDA totaled R\$417.0 million for the year ended December 31, 2007, a 19% increase compared to 2006, due to (i) increased sales volume, (ii) favorable regulatory changes and (iii) effects of a record high sugar-cane harvest in 2007. Oxitenó's adjusted EBITDA totaled R\$157.4 million for the year ended December 31, 2007, an 18% decrease compared to 2006, as a result of a 10% appreciation of the *real* and an increase in the cost of raw materials, particularly ethylene. Ultracargo reported adjusted EBITDA of R\$43.0 million for the year ended December 31, 2007, a 13% increase compared to R\$38.0 million in 2006, as result of increased storage operations.

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.

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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 or 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\$373.5 million, R\$468.2 million and R\$384.3 million for 2008, 2007 and 2006, respectively. Our net cash flow from operations decreased by R\$94.7 million in 2008 compared to 2007, mainly reflecting an increase in working capital due to the growth of our businesses and increased by R\$83.9 million in 2007 compared to 2006, mainly reflecting the acquisition of Ipiranga in 2006.

Net cash flow from financing activities totaled R\$1,330.4 million, R\$1,061.7 million and R\$(183.6) million in the years ended December 31, 2008, 2007 and 2006, respectively, reflecting the increase in Ultrapar's net debt due to the investments in organic growth and acquisitions, partially offset by the receipt of R\$1.7 billion as a result of the transfer of the Petrochemical Business to Petrobras Braskem and the Northern Distribution Business to Petrobras. See Item 4.A. Information on the Company History and Development of the Company Acquisition of Ipiranga Group, Item 4.A. Information on the Company History and Development of the Company Recent Development of União Terminais, and Item 4.A. Information on the Company History and Development of the Company Recent Development of the Company.

Investing activities used cash of R\$1,299.0 million, R\$999.4 million and R\$915.5 million in the years ended December 31, 2008, 2007 and 2006, respectively. Acquisitions of property, plants and equipment and additions to intangible assets and deferred charges used R\$915.5 million, R\$728.4 million and R\$339.6 million in 2008, 2007 and 2006, respectively. For the year ended December 31, 2008, investing activities were mainly composed of expansion of production capacity for specialty chemicals and investments made in Ipiranga's operations related primarily to the addition of property, plants and equipment, expansion and renewal of our service stations network and leasehold improvements.

In addition to investing in the organic growth of its operations, in 2008 Ultrapar invested R\$432.4 million in acquisitions, net of dispositions, mostly for the acquisition of União Terminais. For more information on our investments and capital expenditures, see Item 5.B. Operations and Financial Review and Prospects Liquidity and Capital Resources Investments.

We believe we have sufficient working capital for our present requirements. We have R\$1,658.1 million in debt maturing from January 2009 through December 2009. Additionally we have a R\$496 million capital expenditures budget for 2009. As of December 2008, we have R\$2,133.7 million in cash, cash equivalents, short-and long-term investments.

In June 2009, Ultrapar completed its third issuance of debentures in Brazil, for a total amount of R\$1.2 billion for a three-year term, with proceeds were used to redeem the promissory notes originally maturing in December 2009. See Item 4.A. Information on the Company History and Development of the Company Recent Development of the Company.

We anticipate that we will spend approximately R\$6.0 billion in the next five years to meet long-term contractual obligations described in the Tabular Disclosure of Contractual Obligations 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 refinancing of some of our indebtedness as it becomes available.

The subsidiaries of Ultrapar use exchange rate hedging instruments (especially between the *real* and the U.S. dollar) available in the financial market to protect their assets, liabilities, receipts and disbursements in foreign currency, in order to reduce the effects of changes in exchange rates on their results and cash flows in *real* terms.

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Indebted

As of December 31, 2008, our consolidated short-and long-term debt was as follows:

Indebtedness	Currency	Interest Rate(1)	Principal amount of outstanding and accrued interest through December 31, 2008 2007 2006 (in millions of reais)		
			2008	2007	2006
Foreign currency-denominated loans:					
Notes due in 2015	US\$	7.2%	577.4	443.7	500.0
Advances on Foreign Exchange Contracts/ Export prepayment(2)	US\$	3.6% to 9.0%	184.2	135.2	100.0
Notes due in 2020	US\$	9.0%	140.3	106.6	100.0
Syndicated loan	US\$	LIBOR + 1.2%	140.0	106.4	100.0
Financial institutions	US\$	LIBOR + 1.1% to 2.1%	48.9	31.3	100.0
BNDES	US\$	5.7% to 8.9%	46.5	16.0	100.0
Financial institutions	MX\$(3)	TIIE(3) + 1.0% to 2.0%	19.8	23.1	100.0
Financial institutions	Bs(4)	19.0% to 28.0%	6.0		100.0
FINIMP(5) União Terminais/RPR	US\$	7.0% to 7.8%	4.8	13.2	100.0
BNDES	UMBND(6)	6.7% to 9.2%	3.5	6.0	100.0
Notes due in 2008	US\$	9.9%		106.8	100.0
Reais-denominated loans:					
Promissory notes	R\$	CDI + 3.6%	1,203.8		1,203.8
Banco do Brasil	R\$	91.0% to 95.0 of CDI	516.7	21.6	1,203.8
BNDES	R\$	TJLP(7) + 1.5% to 4.8%	401.8	256.0	1,203.8
Working capital loan MaxFácil	R\$	100% of CDI	108.4	102.2	1,203.8
BNB	R\$	FNE (8)(8.5% to 10.0%)	103.5	103.5	1,203.8
FINEP Research and Projects Financing	R\$	TJLP(7) -2.0% to 5.0%	60.4	61.5	1,203.8
FINAME Financing for Machines and Equipment	R\$	TJLP(7) + 2.0% to 5.1%	39.1	63.1	1,203.8
Working capital loan União Terminais/RPR	R\$	105.0% to 130.0% of CDI	37.2		1,203.8
Financial leasing floating rate	R\$	CDI + 0.3% to 1.6%	24.5		1,203.8
Financial leasing fixed rate	R\$	13.0% to 15.5%	1.0		1,203.8
Others	R\$	CDI + 0.3% to 0.5%	4.1	0.3	1,203.8
BNDES	R\$	IGPM(9) + 6.5%		2.5	1,203.8
Debentures	R\$	102.5% to 103.80% of CDI		1,578.8	1,203.8
Total loans			3,671.9	3,177.8	1,400.0
Unrealized losses on swaps transactions	R\$			84.8	1,203.8
Total			3,671.9	3,262.6	1,500.0

(1) Interest rate only as of 2008.

(2) Net of linked operations.

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

(4) Bs is the Bolivar from Venezuela.

(5) FINIMP is a short term loan used to finance the importation of general goods (whereby exporters receive payment immediately and importers pay the lender at the end of the loan term). The duration of these loans is generally one and a half years.

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

(7) TJLP (Long-Term Interest Rate) is a nominal rate of interest established quarterly. On December 31, 2008, TJLP was fixed at 6.25% p.a.

(8) FNE is Financing of Northeast Fund

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

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Our consolidated debt as of December 31, 2008 had the following maturity schedule:

Maturity	Amount (in millions of reais)
January 1, 2009 to December 31, 2009	1,6
January 1, 2010 to December 31, 2010	7
January 1, 2011 to December 31, 2011	2
January 1, 2012 to December 31, 2012	1
January 1, 2013 to December 31, 2013	
Thereafter	8
Total	3,6

As of December 31, 2008, R\$66.7 million of our consolidated debt was secured by fixed assets. The Company is responsible for guaranteeing the debt and securities provided to subsidiaries in the amount of R\$1,440.5 million as of December 31, 2008.

Ultraz notes and Syndicated Loan. In June 1997, Ultraz issued US\$60 million in notes (the "Original Notes") maturing in 2005. In 2005, maturity was extended to June 2020, with put/call options in June 2008 that were neither exercised by the subsidiary nor by financial institutions. The next put/call option will be in June 2012.

In June 2005, Oxiteno's subsidiary Oxiteno Overseas Corp., or Oxiteno Overseas, acquired the full amount of Original Notes issued by Ultraz, with funds from a syndicated loan in the amount of US\$60 million with maturity in June 2008 and interest rate of 5.05% per annum. The syndicated loan was guaranteed by Ultrapar and the subsidiary Oxiteno. In June 2008, the syndicated loan was renewed under the same conditions, at an interest rate of LIBOR plus 1.25% per annum. As a result of the issuance of the syndicated loan, some obligations of Oxiteno Overseas are more onerous than those in LPG international notes must be maintained by Ultraz.

Maintain a ratio between consolidated net debt and consolidated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) of no more than 3.5; and

Maintain a ratio between consolidated EBITDA and consolidated net financial expenses of at least 1.5.

In April 2006, Oxiteno Overseas sold the Original Notes to a financial institution. Concurrently, the subsidiary acquired from this financial institution a credit linked note backed by the Original Notes, as mentioned in Note 14(c) to our consolidated financial statements, obtaining an additional return on this investment. The transaction matures in 2020, and either Oxiteno or the financial institution can redeem it earlier, although the subsidiary has only an annual option of redemption (purchase) from June 2008 onward. In the event of insolvency of the financial institution, Ultraz would be required to settle the Original Notes, although Oxiteno Overseas would continue to be creditor of the credit linked note. Thus, Ultrapar no longer eliminates the Original Notes from its financial statements.

LPG International Notes. In December 2005, Ultraz's subsidiary, LPG International Inc., issued notes in the amount of US\$250 million maturing in December 2015, with annual interest rate of 7.25% paid semiannually, with the first payment made in June 2006. The issue price was 98.75% of the notes' face value, which represented a total yield for investors of 7.429% per year upon issuance. The notes are guaranteed by Ultrapar and Oxiteno.

As a result of the issuance of these notes, Ultrapar mentioned above are subject to covenants that, among other things,

limit transactions with shareholders that hold 5% or more of any class of Capital Stock of the company, except upon fair and reasonable terms no less favorable to the company than could be obtained in a comparable arm's-length transaction with a third-party;

require board approval for transactions with related parties totaling more than US\$15 million (except transactions with or between subsidiaries);

restrict the sale of all or substantially all assets of the company and its subsidiaries;

restrict encumbrances on assets in excess of US\$150 million or 15% of the value of consolidated tangible assets;

The restrictions imposed on Ultrapar are customary for transactions of this nature and have not limited their abilities to conduct businesses to

Debentures. To finance part of the acquisition of Ipiranga Group, in April 2007, we issued debentures in the aggregate principal amount of R\$889.0 million, in two series. The first series was issued on April 11, 2007, in the amount of R\$675.0 million. The second series was issued on October 22, 2007 in the amount of R\$214.0 million. The debentures had a term of one year from the issuance date and a coupon rate of 102.5% of CDI. In February 2008 Ultrapar redeemed these debentures. See Item 4.A. Information on the Company History and Development of the Company and Description of the Acquisition of Ipiranga Group.

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Promissory Notes. On March 3, 2008, Ultrapar issued a R\$1.2 billion promissory notes maturing on February 28, 2009 at a rate of 103.8% of CDI. Part of the proceeds from this promissory notes was used to redeem the R\$889 million debentures in February 2008. In December 2008 Ultrapar prepaid the first issuance of the R\$1.2 billion promissory notes and issued a new promissory note of R\$1.2 billion at a rate of 100% of CDI + 3.6% per annum maturing in December 2009. The increase in the cost of this issuance reflects the sharp tightening in credit markets in September 2008, as result of the worsening in the global financial crisis. The second promissory notes were redeemed by Ultrapar in June 2009. In June 2009, Ultrapar completed its third issuance of debentures in Brazil, for a total amount of R\$1.2 billion on a three-year term at a cost of 100% of the CDI +3.0% per annum. The proceeds from this issuance were used to redeem the promissory notes issued by Ultrapar in December 2008. This issuance allowed Ultrapar to extend its debt profile, reducing its debt financing costs and providing higher financial flexibility, and to increase its soundness and liquidity. See Item 4.A. Information on the Company History and Development of the Company Recent Development of the Company

CBPI Notes. On August 1, 2003, CBPI issued US\$135 million in notes in the international market. Part of these notes were redeemed in 2005 and 2006, in the amounts of US\$1.3 million (R\$3.1 million) and US\$79.6 million (R\$164.9 million), respectively. In July 2008, the remaining notes matured and were consequently settled.

CBPI Debentures. On April 18, 2006, CBPI registered with the CVM a public offering of 35,000 subordinated debentures, single series, non-convertible into shares, in the total amount of R\$350 million, maturing on April 1, 2011 at a rate of 103.8% of CDI. In the first quarter of 2008 CBPI redeemed these debentures.

Investments**Equity investments**

The table below shows our investments in shareholding stakes for the years ended December 31, 2008, 2007 and 2006. For more details on these acquisitions see Item 4.A. Information on the Company History and Development of the Company Investments

Company	Year ended December 31	
	2008	2007
	(in millions of reais)	
Ultragas		0.1
Ipiranga	(0.1)	
Oxiteno	(45.7) ⁽¹⁾	22.7
Ultracargo	478.2 ⁽²⁾	8.1
Others (4)	105.0	1,883.1 ⁽³⁾
Total	537.4	1,914.0

- (1) Sale of the stake in PQU held by Oxiteno
- (2) Investments made in connection with the acquisition of União Terminais. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of União Terminais.
- (3) Includes investments made in connection with the acquisition of Ipiranga Group, which also included the assumption of the existing net debt of Ipiranga of approximately R\$0.5 billion at the time of the acquisition in 2007. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group.
- (4) Share repurchase program included in our consolidated statement of cash flows under Cash flows from financing activities

Organic Investments

The following table sets forth our organic investments for the years ended December 31, 2008, 2007 and 2006.

Year ended December 31

	2008	2007	2006
	(in millions of reais)		
Ultraz	166.6	128.9	100.0
Ipiranga(1)	228.8	143.6	100.0
Oxiteno	515.8	453.0	100.0
Ultracargo	55.9	44.2	100.0
Others(2)(3)	11.2	3.4	100.0
Total capital expenditures, net of disposals	978.4	773.2	300.0

- (1) Includes financing and bonuses to our resellers, net of repayments, and assets acquired through leasing operations. Bonuses are lump sum payments made by distributors to resellers. Resellers typically use these payments to improve their facilities or to invest in working capital. Financing and bonuses for clients are included under working capital in the cash flow statement. In 2008 and 2007, assets acquired through leasing, financing and bonuses to clients amounted to R\$89 million and R\$79 million, respectively.

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- (2) Includes expenditures related to maintenance of our headquarters which is performed by our wholly owned subsidiary Imaven Imóveis Ltda.
- (3) In 2008 includes expenditures performed by Serma (*Associação dos Usuários de Equipamentos de Processamento de Dados e Serviços Correlatos*, responsible for providing IT services to Ultrapar), in accordance with Law 11,638 and Provisional Measure 499/08. See Note 3 to our consolidated financial statements for more information.

Following its growth plan, during 2008 Ultrapar invested R\$1,516 million in acquisitions and organic investments, aiming at consolidating its differentiated position in the markets in which it operates and strengthening its growth through increased scale, technological differentiation and costs and expenses optimization. Acquisitions amounted to R\$ 537 million in 2008 and R\$978 million was spent on organic investments.

At Ultragaz, our investment strategy has been to expand the small bulk delivery distribution, enhance our assets and to consolidate geographic coverage. During the years ended December 31, 2008, 2007 and 2006, investments focused on expanding the small bulk market segment (UltraSystem), on geographical expansion, on fleet renewal and on the purchase and replacement of bottling equipment.

At Ipiranga investments were allocated to the expansion of the service station network, renewal of contracts and improvement in fuel service stations and distribution facilities, as well as to investments related to information technology.

At Oxiteno, during the years ended December 31, 2008, 2007 and 2006, capital expenditures were largely focused on increasing industrial production capacity of specialty chemicals, in particular the construction of fatty alcohols plant in Camaçari, the expansion of production capacity of ethoxylates and ethonolamines in Camaçari and of ethylene oxide at Mauá, all of which came on stream in the fourth quarter of 2008, the modernization of industrial plants, and the development of new products.

At Ultracargo, during 2008 we have invested in the expansion of the Aratu terminal (Bahia) and in the maintenance of other terminals. During the years ended December 31, 2007 and 2006, Ultracargo's capital expenditures focused on expanding the Suape and the Paulínia terminals and the maintenance of our existing storage facilities and on fleet expansion.

The investment plan for 2009, excluding acquisitions, amounts to R\$496 million: R\$69 million to be invested at Ultragaz, R\$207 million at Ipiranga, R\$175 million at Oxiteno and R\$36 million at Ultracargo. At Ultragaz investments will mainly be allocated to the renewal of bottling equipment and tanks and in the strengthening of its operations in the North and Northeast regions of Brazil. At Ipiranga investments will mainly be allocated to expansion and renewal of its fuel distribution network and operational improvements. Investments at Oxiteno will generally be directed to expansion of ethylene oxide production capacity at Camaçari and the modernization of its facilities. At Ultracargo investments will be directed to operational improvements and expansion of its terminals in Santos and Aratu.

U.S. GAAP reconciliation

Our net income under Brazilian GAAP was R\$390.3 million, R\$181.9 million and R\$282.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. Under U.S. GAAP, we had net income of R\$415.2 million, R\$217.5 million and R\$280.5 million, respectively, for the years ended December 31, 2008, 2007 and 2006, respectively.

Our shareholders' equity under Brazilian GAAP as of December 31, 2008 and 2007 was R\$4,650.1 million and R\$4,600.9 million, respectively. Under U.S. GAAP, we had shareholders' equity of R\$4,696.8 million and R\$4,642.4 million, respectively, as of December 31, 2008 and 2007, respectively.

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:

assets retirement obligation;

pension plan;

accounting for refunds;

fixed assets revaluation reversal;

reversal of deferred charges;

restatement of property, plants 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 goodwill accounting;

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

reversal of dividends proposed; and

deferred tax effects on the foregoing adjustments, if applicable.

See Note 24 to our consolidated financial statements for a description of the differences above as they relate to us and a reconciliation of our U.S. GAAP of net income and total shareholders' equity.

C. Research and Development, Patents and Licenses,

Oxiteno carries on a wide range of research and development activities, principally related to the application of specialty chemicals and process improvements in production processes. As of December 31, 2008, 114 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2008, 2007 and 2006 were R\$18.5 million, R\$19.4 million and R\$18.4 million, respectively. In 2004, Oxiteno founded its own Science and Technology Council (the "Council") with six of its major specialists in surfactants being members. The Council, which first met from December 7 to 10, 2004, analyzed the company's research and development projects' portfolio, as well as the methodology used. Many of these recommendations will enable the company to improve its efficiency in research and development, as well as enlarge its partnerships with international entities. The Council met again in September 2005, October 2006, September 2007 and 2008. 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 licensing 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 100,000 tons/year of ethanolamines and 40,000 tons/year of ethoxylates.

Ipiranga owns the trademark for the brands used in its distribution business, including Ipiranga, *Rodo Rede*, Jet Oil, *Corrida Premium*, *Posto 24 Horas*, Atlantic, F1 Master, F1 Super, Ipiranga 4x4, *Lub Fácil*, Sintex, Moldax, *Rede Nota Dez*, Ipitrust, GP Super DPPISA, Ipiranga, Ipiflex, Ipilube, Ipitur, Isa, Marina 2T Plus, among several others. The trademark for *Gasolina Original Ipiranga* (Original Ipiranga Gasoline) has been requested to the Brazilian government. The trademarks for these brands expire between 2009 and 2018. CBPI also owns a supplying pump fuel and other patents. One of Ipiranga's subsidiaries, *am/pm Comestíveis Ltda.*, is the franchisor of the am/pm brand in Brazil.

As part of the acquisition of Ipiranga, we licensed the use of the Ipiranga brand in the Northeast, North and Mid-West regions of Brazil until Petrobras until April 2012. See Item 4.A. Information on the Company History and Development of the Company Description of the Acquisition of Ipiranga Group.

Under the terms of the acquisition of Texaco, we have the right to use the Texaco brand until March 2012 in the South and Southeast regions of Brazil and until March 2014 in the North, Northeast and Mid-West regions of Brazil. See Item 4.A. Information on the Company History and Development of the Company Recent Developments Description of the Acquisition of Texaco.

D. Trend Information

LPG business

Between 2003 and the end of 2007, LPG prices charged to LPG distributors in Brazil have been stable, despite increases in oil and natural gas prices in the international markets, which were partially offset by the appreciation of the *real* compared to the U.S. dollar, reducing the difference between LPG prices in Brazil and in the international markets. However, in 2008 Petrobras increased LPG refinery prices for commercial and industrial usage by 15% in January, an additional 10% in April and 6% in July. Since September 2008 the deepening of the global financial crisis has resulted in a sharp slowdown in global economic growth, leading to a drop in commodities prices, particularly oil, which ended 2008 at US\$ 42/barrel after having reached the record level of US\$ 150/barrel during 2008.

We cannot guarantee that this trend will continue. Any sharp increase in LPG prices charged to LPG distributors could have an impact on Ultragaz's results if it is unable to maintain its operational margins.

Chemical and petrochemical business

Oxitenó's revenues in 2007 and 2008 were negatively impacted by the appreciation of the *real* against the U.S. dollar that has persisted since 2003, as a large portion of Oxitenó's product prices are linked to the U.S. dollar. Oxitenó's specialty chemicals volume in the Brazilian market is correlated with the economic growth, therefore a slowdown in the Brazilian GDP may affect our sales volume, as sales of specialty chemicals in Brazil represent approximately 70% of the total volume sold by Oxitenó. Nevertheless,

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during the last few years, the demand for Oxitenos products was higher than its capacity to serve it, enabling an increase in the share of imports in Brazil. Given Oxitenos competitive advantages and completion of capacity expansions in late 2008, it may also grow its volume through displacements of imports. Since September 2008, the deepening of the global financial crisis has resulted in sharp reduction in capital inflow to Brazil reverting the appreciation of the *real* trend in place since 2003. However, since April 2009 the *real* resumed its appreciation, accumulating 14% from January 1, 2009 to June 23, 2009 against the U.S. dollar. See Item 3.A. Key Information – Summary of Consolidated Financial Data – Exchange Rates. A significant appreciation of the *real* compared to the U.S. dollar could have a negative impact on Oxitenos revenues in the future. Oxitenos main raw material is the ethylene, which is produced from naphtha in Brazil. Naphtha prices in Brazil fluctuate with oil prices, which sharply decreased in the international markets in late 2008. However, since March 2009 oil prices have been slowly recovering. We cannot predict whether oil and ethylene prices will keep this trend. A sharp increase in ethylene prices could have a negative impact on Oxitenos results of operations if Oxitenos is not able to pass on cost increases to its customers.

Fuels distribution business

IBGE indicators have shown an improvement in the Brazilian economy in 2008, with GDP having increased by 5.1% in 2008 and 5.4% in 2007. This, together with greater availability of credit, has resulted in record levels of vehicle sales. In 2008 more than 2.7 million vehicles were sold, a 14% increase compared to 2007, with the growth concentrated in the first nine months of 2008. However, since the fourth quarter of 2008, the deepening of the global financial crisis has resulted in a strong slowdown in global economic growth, affecting Brazil. The sales of new cars in Brazil consequently fell by 17% in the fourth quarter of 2008 compared to the fourth quarter of 2007. In order to minimize the effects of the crisis, the government reduced taxes levied on car sales to encourage an increase in demand in the sector. This measure has had positive effects in the automotive sector, keeping the same level of sales in the first five months of 2009 compared to the same period in 2008. We cannot guarantee that these incentives will continue. In addition, diesel sales are highly correlated with the growth of the economy, so a slowdown in Brazilian GDP may affect our volume sold, as diesel sales represent approximately 30% of the volume sold at Ipiranga.

Brazil's current fleet is small compared to that of other Latin American countries, with 8 inhabitants per vehicle, whereas Argentina and Mexico have 5 inhabitants per vehicle, according to ANFAVEA. Based on the potential expansion in the economy and credit availability going forward, together with the low ratio of inhabitants per vehicle, Ultrapar believes the outlook for increased Brazilian fuels consumption will be positive for the coming years. The increase in fuels consumption could have a positive effect on the future volume sold by Ultrapar company, but we cannot guarantee that this trend will continue.

Recent organic investments and acquisitions

During 2008 and the beginning of 2009, Ultrapar concluded important investments, especially in the capacity expansion of Oxitenos and the acquisitions of União Terminais and Texaco. See Item 4.A. Information on the Company – History and Development of the Company – Description of the Acquisition of União Terminais and see Item 4.A. Information on the Company – History and Development of the Company – Recent Developments. The investments made in expanding the capacity of Oxitenos will allow the company to increase volume sold in response to demand for Oxitenos products and increase its volume sold.

The results from União Terminais started to be consolidated into Ultrapar's results from the fourth quarter of 2008 onwards. The adjusted EBITDA from União Terminais in the first quarter of 2009 amounted to R\$12.5 million.

The acquisition of Texaco was closed on March 31, 2009, and the results from the acquired business will be consolidated in Ultrapar's results from the second quarter of 2009 on. Texaco sold approximately 7 million cubic meters of diesel, gasoline and ethanol in 2008, which represents close to 60% increase in Ipiranga's volume sold.

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 212 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, 2008, the maximum potential payment under these guarantees totaled R\$2.8 million, which represented a R\$2.8 million decrease over December 31, 2007. At December 31, 2008, in accordance with Brazilian GAAP, we did not record any losses or liability on our consolidated financial statements related to these guarantees.

Table of Contents**F. Tabular Disclosure of Contractual Obligations**

The following table summarizes our contractual obligations, as of December 31, 2008:

		Payment due by period				
			Up to 1 year	Between 1 and 3 years	Between 3 and 5 years	More than 5 years
Contractual obligations		Total	(in millions of reais)			
Financing(1)		3,671.9	1,658.1	1,014.6	184.4	814.8
Estimated interest payments on financing(2)(3)		1,018.4	312.7	357.3	142.7	205.7
Estimated planned funding of pension and other postretirement benefit obligations(4)		306.8	10.8	23.0	25.0	248.0
Purchase obligations	raw material(5)	4,819.5	312.1	693.2	727.7	3,086.5
Purchase obligations	utilities(6)	73.4	0.1	10.9	18.3	44.1
Operating leases(7)		84.4	5.9	11.8	11.8	55.9
Royalties(8)		5.7	0.8	1.6	1.6	2.7
Total contractual obligations		9,980.1	2,300.5	2,112.5	1,111.5	4,455.3

- (1) Considers our consolidated indebtedness, including financial leasing agreements of the subsidiaries CBPI, Serma and Tequimar primarily related to fuel distribution equipment, such as tanks, pumps, NGV compressors, computer equipment and vehicles. These contracts have terms between 36 and 60 months. See Note 14 (g) to our consolidated financial statements for more details on leasing agreements.
- (2) The estimated interest payment amount was calculated based on macro-economic assumptions including, on average for the period principally (i) an 11% CDI interest rate, (ii) a 3% variation in the *reais* to U.S. dollar exchange rate and (iii) a 6% TJLP rate. See 5.B. Operating and Financial Review and Prospect Liquidity and Capital Resources Indebtedness and Note 14 to our consolidated financial statements for more information about the maturity of our debt and applicable interest rates. See Note 14 and Note 24V (i) 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 post-retirement benefit obligations.
- (3) Includes estimated interest payments on our short- and long-term debt.
- (4) In September 2008, the participation of the companies CBPI, EMCA and their subsidiaries in the Ultraprev plan was approved. From that date, the companies started to make contributions to Ultraprev and requested the removal of sponsorship from *Fundação Francisco Martins Bastos*. The estimated payment amount was calculated based on a 4% inflation assumption.
- (5) The purchase obligation relates to long-term contracts with Braskem and PQU under which we are committed to purchase a minimum quantity of ethylene annually. In the event that the commitment with Braskem 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. Oxitenor has a long term contract with Braskem governing the conditions for its supply of ethylene. Under the terms of the agreement, Oxitenor is currently required to purchase at least 190,000 tons of ethylene per year and from 2010 it will be required to purchase at least 210,000 tons. After the conclusion of the ethylene oxide production capacity expansion at Oxitenor's Camaçari plant in 2010, Braskem will be required to supply Oxitenor with at least 235,000 tons of ethylene per year until 2021. The supply price is indexed to ethylene prices on international markets and on the volume purchased by Oxitenor. This contract does not establish the price of ethylene and for this reason the amount in reais is based on the purchase price as of December 31, 2008. On August 1, 2008, Oxitenor signed an ethylene supply agreement with PQU, valid until 2023, which establishes and regulates the conditions for supply of ethylene to Oxitenor based on the international market for this product. The minimum purchase is 19,800 tons of ethylene semiannually. In case of breach of the minimum purchase commitment, Oxitenor's subsidiary agrees to pay a penalty of 30% of the current ethylene price, to the extent of the shortfall.
- (6) The purchase obligation relates to long-term contracts under which Oxitenor is required to purchase a minimum amount of energy annually.
- (7) 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, in connection with its port facilities in Aratu and Suape, respectively. Such contracts establish a minimum cargo 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, 2008, these rates were R\$4.93 for

Aratu and R\$3.97 for Suape. The company has been in compliance with the minimum movement of products since the inception of contracts.

- (8) Corresponds to a franchise contract with am/pm under which Ipiranga is required to pay minimum royalty fees until 2015.

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.

Lender	Position	Years with the Company
Board of Directors		
Paulo Guilherme Aguiar Cunha	Chairman	42
Lucio de Castro Andrade Filho	Vice Chairman	32
Ana Maria Levy Villela Igel	Director	11
Renato Ochman	Director	8
Nildemar Secches	Director	7
Paulo Vieira Belotti	Director	11
Olavo Egydio Monteiro de Carvalho	Director	6
Luiz Carlos Teixeira	Director	1
Executive Officers		
Pedro Wongtschowski	Chief Executive Officer	31
André Covre	Chief Financial and Investor Relations Officer, Ultrapar	5
João Benjamin Parolin	Officer, Oxitenó	23
Pedro Jorge Filho	Officer, Ultragaz	31
Leocadio de Almeida Antunes Filho	Officer, Ipiranga	2

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

Paulo Guilherme Aguiar Cunha. Mr. Cunha has been the chairman of our board of directors since 1998 and was our Chief Executive Officer until January 2007. Mr. Cunha was also the chief executive officer of Oxitenó from 1981 to 2006 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 CMN – National Monetary Council, BNDESPAR, a subsidiary of BNDESPAR, president of the Brazilian Association of Technical Standards – ABNT, and President of IBP, the Brazilian Petroleum Institute. Mr. Cunha is a member of the consulting board 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 IPT – 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. Since 2008 Mr. Cunha has also been a board member of the Superior Strategic Council of FIESP. Mr. Cunha received a degree in industrial mechanical engineering from PUC – Catholic University in Rio de Janeiro in 1967. Mr. Cunha also was a Professor of Engineering at the Catholic University and at the Federal University of Rio de Janeiro from 1968 to 1972.

Lucio de Castro Andrade Filho. Mr. Andrade Filho is the vice chairman of our board of directors since 1998. He was also vice president of Ultrapar from 1982 to 2006. He joined Ultrapar in 1977. Mr. Andrade Filho has held a number of positions with Ultrapar – its subsidiary both the LPG as well as logistics, engineering and chemicals segments. Mr. Andrade Filho is also the chief executive officer of C – Qualidade Compartilhada, an LPG industry association and a member of the board of directors of the Brazilian Petroleum Institute (Instituto Brasileiro de Petróleo – IBP). Mr. Andrade Filho received degrees in civil engineering and in administration from Mackenzie University in São Paulo in 1968 and 1972, respectively.

Ana Maria Levy Villela Igel. Ms. Villela Igel joined us as a member of the board of directors in October 1998. She is also a member of the board of directors of Ultra S.A. since 1988. She has served as a secretary in the finance department at the United Nations and as a counselor for CIEE – Centro de Integração Empresa Escola, an organization which assists students in transitioning to the professional environment 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 of Carvalho, Eizirik, Ochman e 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 Grendice

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 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.

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Nildemar Secches. Mr. Secches joined us in April 2002 as a member of the board of directors. Mr. Secches is the chairman of the board of directors and former CEO of Empresas Perdigão. Mr. Secches is also chairman of the board of directors 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 1972 to 1990. From 1990 to 1994, Mr. Secches served as chief executive officer of Grupo Iochpe-Maxion. Mr. Secches was chief executive officer of ABEF – Brazilian Association of Chicken Producers and Exporters and vice-president of ABIPECS – Brazilian Association of 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 of Rio de Janeiro and a doctoral degree in economics from the University of Campinas (state of São Paulo).

Paulo Vieira Belotti. Mr. Belotti joined us in October 1998 as a member of our board of directors. Mr. Belotti has also served as chief executive officer of several companies including Petrobras Distribuidora S.A., Petrobras Mineração S.A., Petrobras Química S.A., Petrobras Comércio Internacional S.A., Petrobras Fertilizantes S.A. and Norcell S.A. He has also served as a member of the board of directors of Nordon Indústria Metalúrgica S.A. Mr. Belotti received a degree in civil engineering from the National School of Engineering at the University of Brazil, a bachelor's degree in mathematics from the University of Guanabara and a degree in nuclear engineering from the 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 *Associação Comercial de São Paulo de Janeiro*, a post for which he was reelected in 2007. He holds a mechanical engineering degree from Technische Hochschule in Munich.

Luiz Carlos Teixeira. Mr. Teixeira joined our company in April 2008 as a member of the board of directors. He is an officer of *União Geral de Trabalhadores* of the bank sector, member of the Board of Previ (Pension Fund of Banco do Brasil's employees) and *Federação Latinoamericana dos Trabalhadores Bancários*. He is also member of the Fiscal Council of *Instituto de Promoção Social* – IPROS. He holds a marketing degree from *Escola Superior de Propaganda e Marketing* and a master's degree in Political and Social Science from the Universidade Moura Lacerda.

Pedro Wongschowski. Mr. Wongschowski has served as an officer since 1985 and took over the Chief Executive Officer position in January 2007. Mr. Wongschowski was a member of the board of directors of Ultraprev from 1989 to 2006, and an officer of Oxitenor Oxitenor Nordeste from 1992 to 2006. Mr. Wongschowski was employed at our chemical fertilizer company from 1970 until 1972, when he rejoined Ultrapar in 1977. Mr. Wongschowski is a member of the Board of the Brazilian Association for Chemical Engineers, 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. Wongschowski 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. Wongschowski is the author of the book *Indústria Química: Riscos e Oportunidades* (Chemical Industry: Risks and Opportunities), published in 2002 (2nd edition).

André Covre. Mr. Covre joined Ultrapar in 2003 as Corporate Planning and Investor Relations Director. Mr. Covre has been the company's Chief Financial and Investor Relations Officer since March 2007. Mr. Covre has more than 15 years of experience in corporate finance, mergers & acquisitions and capital markets. In 2008 André Covre was elected the Chairman of the Latin American Corporate Governance Roundtable's Companies Circle, a study group sponsored by the Organization for Economic Co-operation and Development – OECD, in cooperation from the IFC (International Finance Corporation) and BM&FBovespa, aiming at developing corporate governance in Latin America. Mr. Covre began his career with Unisys Corp. in the United States, and was formerly a director of ABN AMRO Capital in Amsterdam, a private equity and venture capital fund. Mr. Covre holds an MBA from INSEAD, in France, and a bachelor's degree in government studies from *Fundação Getúlio Vargas* in São Paulo.

João Benjamin Parolin. Mr. Parolin joined the company in 1986, working in Oxitenor's commercial area prior to assuming the position of Oxitenor's Chief Operating Officer. Mr. Parolin formerly served as marketing manager from 1989 to 1992 and sales manager from 1992 to 2000. From 2000 to 2006 he held the Sales Director position at Oxitenor. Prior to joining Oxitenor, he worked in the commercial area at Petrobras Química S.A.. Mr. Parolin received a bachelor's degree in chemical engineering from *Escola Politécnica da Universidade de São Paulo* in 1980, a post-graduation degree in Marketing Administration at *Fundação Getúlio Vargas* and a master's degree in business administration from *Fundação Instituto de Administração* – Universidade de São Paulo in 2003. As a complement to his academic background he attended the STC – Skills, Tools and Competences from *Fundação Dom Cabral/J.L. Kellogg Graduate School of Management* (Northwestern University) in 2000 and the Advanced Management Program at Wharton University in 2001.

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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 responsible for the Southeastern and Mid-West regions. Mr. Jorge became Ultragaz's Chief Operating Officer in 2002. He earned a degree in Industrial and Chemical Engineering from Universidade Mackenzie. He also earned 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 Universidade de Navarra, Barcelona, Spain in 1999.

Leocadio de Almeida Antunes Filho. Mr. Antunes is an officer of Ultrapar since May 2008. He has held a number of positions at Ipiranga since 1987 when he joined as Commercial Officer at Fertisul S.A. and Officer at Ipiranga Serrana Fertilizantes S.A. In 1993 he served as executive officer at CBPI. Currently Mr. Antunes is Ipiranga's Chief Operating Officer and is also Vice-President of SINDICOM. He earned a degree in Economics from *Universidade Federal do Rio Grande do Sul* and post graduation and a master degree in Agricultural Economics at University of Reading (UK) and University of London, respectively. Furthermore, he has completed the Advanced Executive Program, from J.L. Kellogg Graduate School of Management in Northwestern University, U.S.A.

B. Compensation

For the year ended December 31, 2008, the aggregate compensation of our directors and executive officers was approximately R\$1.7 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 Item 6.D. Directors, Senior Management and Employees.

On April 27, 2001, the General Shareholders' Meeting approved a plan for granting stock options (the "Stock Option Plan") to 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 the 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 five to 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, 2008, the amount granted to the Company's executives, including the amortization charges, totaled R\$24.0 million. This amount is amortized over the period of the Deferred Stock Plan. The amortization for 2008 amounted to R\$1.7 million and is recorded as an operational expense for 2008.

Some of our executive officers are entitled to receive variable compensation dependent on the performance of our company stock over the course of 5 years, from 2006 to the end of 2011, payable as a cash bonus at the end of such period if the stock price appreciates above a pre-determined level. As of the date of this annual report, no compensation was paid to our executives based on such methodology.

C. Board Practices

We are managed by our board of directors (i.e., *Conselho de Administração*) and by our executive officers (i.e., *Diretoria*). Our Board of Directors consists of eight members, of whom four are independent, non-executive members, two were executive officers until December 2006 and one was appointed by a minority of preferred shareholders at the General Shareholders' Meeting on April 29, 2009. Our Board of Directors generally meets every 45 days or whenever called by its chairman or by any two directors. During 2008, 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 vice-chairman. The Board of Directors is responsible for our general policies, for electing our executive officers and supervising our management, and for deliberating on capital increases up to the authorized capital, distributions of dividends and interest on shareholder 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 common or preferred shares at the General Shareholders' Meeting.

Members of the Board of Directors are elected by the common or preferred 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. If minority holders of our voting and preferred shares do not reach the minimum percentage required, the election will be held by the common shareholders.

the right to elect a member of the Board of Directors in the manners described above, they

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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 was 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 2003.

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 to elect or to the election of directors.

Law 10,303/2001 granted members of the Board of Directors elected by minority holders of voting shares and/or preferred shareholders the right to 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 May 13, 2009, and they will remain in office until the Board of Directors meeting that will appoint the executive officers in 2010. Sitting members can be reelected for an additional one-year term.

Fiscal Council and Audit Committee Exemptions

Brazilian Corporate Law requires us to establish a Fiscal Council (*Conselho Fiscal*), which may have permanent or non-permanent operations. A Fiscal Council with non-permanent operations is required to be formed when requested by 10% of our voting shareholders.

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 Fiscal Council with non-permanent operations may be reconstituted by our shareholders.

In July 2005, our bylaws were revised to provide for a Fiscal Council with permanent operations. 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, provided they establish, according to their local law or regulations, another body that acts as an audit committee.

Our Fiscal Council consists of five members and their respective alternate members. The Fiscal Council is a separate corporate entity, 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 regular basis, and in 2008, they held ten 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 BM&FBOvespa; the rules of the SEC and the requirements for listing on the New York Stock Exchange. Our Fiscal 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 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 29, 2009, the General Shareholders' Meeting approved compensation for the members of the Fiscal Council of R\$8,000 per month for each effective (non-alternate) member, except for the President and the Secretary of the Fiscal Council, whose compensation was set at R\$8,600 per month.

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The following table lists the 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
Tania Maria Camilo (alternate)	2006
Edson Pena Júnior	2008
Waldenor Moreira Borges Filho (alternate)	2008
Flavio César Maia Luz	2005
Márcio Augustus Ribeiro (alternate)	2007
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 29, 2009, at which all members were reelected. 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 I 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 has certificates of continuing education programs in Finance, Marketing and Mergers & Acquisitions, from Harvard Business School, Stanford University and Wharton Business School, respectively.

Mario Probst. Mr. Probst served as partner at KPMG Auditores Independentes from 1991 to 2004, and is currently retired. Mr. Probst was a member of the board of directors at *Hospital Alemão Oswaldo Cruz*, a member of the Fiscal Council at Odontoprev S.A. and a member of the Fiscal Council at Companhia Brasileira de Distribuição. 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*.

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, 2002 respectively, and as a member of the Fiscal Council at Oxiteno 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, MATEC Tecnologia de Teleinformática S.A. and Oxiteno 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*.

Edson Pena Júnior. Mr. Pena is retired from Banco do Brasil. Mr. Pena also acted as Member of the Consultant Board of Cooperativa Vinícola Aurora, Assistant of Officer Board of Banco do Brasil, Member of Fiscal Council of Banco do Brasil - BI Kepler Web, Internal Audit Executive Manager of Banco do Brasil. Mr. Pena received a degree in accounting from UNICEUB - Brasília and a graduation degree in Internal Audit from *Universidade de São Paulo*.

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 of 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.

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 BM&FBovespa, introduced three special listing segments, known as Levels 1 and 2, 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 BM&FBovespa, by prompting such companies to follow good corporate governance practices.

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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 measures generally increase shareholders' rights and enhance the disclosure of information provided to shareholders.

In October 2005, we entered into an agreement with BM&FBovespa 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 or 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.

On February 20, 2008, Ultrapar's Board of Directors decided to join to Level 2 of BM&FBovespa's Special Corporate Governance after the completion of all steps of the acquisition of Ipiranga Group. In becoming a Level 2 company we are required to comply with the following, in addition to the requirements of Level 1: (i) giving voting rights to preferred shareholders for such matters as changing corporate type, mergers, spin-offs and consolidations, (ii) making a tender offer for the purchase of all outstanding shares, at their economic value, if the company goes private or in the event the company ceases to be a Level 2 company and (iii) adhering to the rules of an arbitration panel responsible for resolving any conflict and consisting of specialists in the relevant dispute areas. As it was already the case for Level 1, Ultrapar's corporate governance standards will continue to exceed certain requirements of Level 2, the most prominent of which is the 100% tag along rights for all shareholder classes, while the requirement of Level 2 is 80% for all shareholder classes.

D. Employees

As of December 31, 2008, we had 9,496 employees. The following table sets forth our number of employees per line of business at the end of the period indicated.

	Number of employees	
	2008	2007
Ultragas	4,109	4,467
Ipiranga	2,083	2,317
Oxiteno	1,565	1,441
Ultracargo	1,459	1,193
Others(1)	280	235
Ultrapar	9,496	9,653

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

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

All of 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 all of its subsidiaries. Participating employees have been contributing to this plan, managed by Ultraprev - *Associação de Previdência Complementar*, since August 2001. Under the terms of the plan, every year each participating employee chooses his or her level of contribution to the plan. Each sponsoring company provides a matching contribution in an amount equivalent to each basic contribution 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 amount or the duration of the benefits received by each employee that retires. The total number of participating employees as of December 31, 2007, was 7,000.

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In September 2008, participation of the companies CBPI, EMCA and DPPI and their subsidiaries in the Ultraprev plan was approved. T
from that date, the companies started to make contributions to Ultraprev and requested the removal of sponsorship from *Fund*
Francisco Martins Bastos, the former defined benefit plan sponsored by the companies that formerly formed the Ipiranga Group. See

4.A. Information on the Company History and Development of the Company for more information regarding the merger of DP

E. Share Owner

In accordance with our bylaws, there are two classes of capital stock authorized and outstanding, the common shares and the pref
shares, of which only the common shares have voting rights in any matter. See Item 6.B. Directors, Senior Management and Empl
Board Practices Corporate Govern

In connection with the Share Exchange, Ultrapar issued 54,770,590 new preferred shares. Each RPR, DPPI and CBPI preferred or com
share outstanding was exchanged for an Ultrapar preferred share at the rate of 0.79850, 0.64048 and 0.41846 Ultrapar shares per ta
company share, respectively. After the Share Exchange, our numbers of preferred shares and total shares increased to 86,666,102
136,095,999, respectiv

The table below sets forth the number of our total shares (common and preferred shares) beneficially owned by each of our directors
executive officers as of May 31, 2009, including through their participation in our controlling parent company Ultra S.A. Participa

	Common Shares	%	Preferred Shares	%	Total Shares	%
Board of directors						
Paulo Guilherme Aguiar Cunha(1)	3,928,206	8%	4,447	0%	3,932,654	
Lucio de Castro Andrade Filho(1)	1,392,038	3%	3	0%	1,392,041	
Ana Maria Levy Villela Igel(1)	9,039,644	18%	254,464	0%	9,294,108	
Olavo Egydio Monteiro de Carvalho	352,375	1%	68,126	0%	420,502	
Renato Ochman	15	0%	2	0%	17	
Nildemar Secches	15	0%	2	0%	17	
Paulo Vieira Belotti	15	0%	2	0%	17	
Luiz Carlos Teixeira		0%	1	0%	1	
Executive officers						
Pedro Wongtschowski(1)	592,246	1%		0%	592,246	
André Covre(2)		0%	50,400	0%	50,400	
Leocádio de Almeida Antunes Filho (2)		0%	75,298	0%	75,298	
João Benjamin Parolin(2)		0%	50,400	0%	50,400	
Pedro Jorge Filho(2)		0%	74,975	0%	74,975	
Board of directors and executive officers	15,304,556	31%	578,121	1%	15,882,676	1
Total	49,429,897		86,666,102		136,095,999	

- (1) Individuals who beneficially own shares primarily through their participation in the holding company Ultra S.A. Participações. See
Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders.
(2) Executives who were granted shares through the Deferred Stock Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Sharehol**

The table below shows the capital stock of Ultrapar as of May 31, 2

	Common Shares	%	Preferred Shares	%	Total Shares	%
Shareholders						
Ultra S.A. Participações	32,646,694	66%	12	0%	32,646,706	2%
Caixa de Previdência dos Funcionários do Banco do Brasil		0%	11,035,124	13%	11,035,124	
Dodge & Cox, Inc		0%	6,115,732	7%	6,115,732	
Parth Investments Company(1)	9,311,730	19%	1,396,759	2%	10,708,489	

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	Common		Preferred		Total	
	Shares	%	Shares	%	Shares	%
Monteiro Aranha S.A.	5,212,637	11%	1,007,788	1%	6,220,425	
Ultra-DI Participações S.A.(1)	490,095	1%	73,514	0%	563,609	
Others	1,768,741	4%	67,037,173	77%	68,805,914	5
Total	49,429,897	100%	86,666,102	100%	136,095,999	10

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

Ownership and Capital Structure of Ultra S.A. Participações

As of May 31, 2009, Ultra S.A. Participações, or Ultra S.A., owned approximately 66% of Ultrapar's voting shares. As of May 31, 2009, the capital stock of Ultra S.A. was beneficially owned as follows:

	Common		Preferred		Total	
	Shares	%	Shares	%	Shares	%
Shareholders						
Fabio Igel	7,518,770	12%	1,768,275	7%	9,287,045	1
Rogério Igel	4,634,187	7%	1,130,519	4%	5,764,706	
Joyce Igel de Castro Andrade	6,188,622	10%	2,062,989	8%	8,251,611	
Marcia Igel Joppert	6,201,602	10%	2,062,988	8%	8,264,590	
Christy Participações Ltda	6,425,199	10%	4,990,444	20%	11,415,643	1
Others	6,433,099	10%	932,571	4%	7,365,670	
Total Shareholders	37,401,479	59%	12,947,786	51%	50,349,265	5

	Common		Preferred		Total	
	Shares	%	Shares	%	Shares	%
Directors and officers						
Paulo Guilherme Aguiar de Cunha	10,654,109	17%			10,654,109	1
Ana Maria Levy Villela Igel	9,764,689	15%	12,395,100	49%	22,159,789	2
Lucio de Castro Andrade Filho	3,775,470	6%			3,775,470	
Pedro Wongschowski	1,606,301	3%			1,606,301	
Total Directors and Officers	25,800,569	41%	12,395,100	49%	38,195,669	4
Total	63,202,048	100%	25,342,886	100%	88,544,934	10

All of the securities are held in Brazil and there are 21 record holders of these securities in Brazil.

Shareholders' Agreement

On March 22, 2000, our controlling shareholders entered into a shareholders' agreement designed to ensure the equal treatment of all 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 bylaws to register tag along rights for all Ultrapar shareholders, at 100% of the offer price. The registration of the tag along rights in our bylaws is intended to improve on the rights already conceded through our shareholders' agreement.

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

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

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

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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 bylaws of either company, changes to our capital structure, mergers, acquisitions or sales of assets, and election of Board members) which require the vote of 66% of the common shares;

Chairman of our Board of Directors must convene a meeting of, and provide all requested information and available documents to, all parties to the 2004 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 2004 Shareholders' Agreement; and

any party to the 2004 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 business.

Utingás' bylaws provide for each of its shareholders to use a proportion of Utingás' 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' facilities reflecting Ultragaz's 56% ownership in Utingás. The amount of payments made by Ultragaz to Utingás in 2008 with respect to the storage capacity at Utingás' facilities totaled R\$4.5 million.

See Note 21 (a) to our consolidated financial statements for a detailed breakdown of related party transactions as of December 31, 2008.

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.

Dividend and Distribution Policy

Dividend Policy

The bylaws 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 bylaws provide for a mandatory distribution equal to 50% of the Distributable Amount (as defined below). In addition, until May 18, 2004, under our bylaws, 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 to our bylaws. The amendments were (i) the inclusion in our bylaws of tag along rights for all of the Company's shareholders, at 100% of the offer price, which was a provision that was 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% 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, after provisions for income tax and social contribution on the net profit for such fiscal year, and amounts allocated to employees' 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;

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amounts allocated to the income tax exemption 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 the legal reserve, when added to our capital reserves, exceeds 30% of our capital stock. Accumulated losses, if any, may be charged against the legal reserve. Other than that, the legal reserve can only be used to increase our capital.

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

Contingency reserves. Under Brazilian Corporate Law, our shareholders may decide, upon a proposal of our Board of Directors, to allocate a discretionary amount of our net profit to a contingency reserve for estimated future losses, which are deemed probable. The distributable amount may be further increased 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 profits for 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 any unrealized profits reserve. Brazilian Corporate Law defines realized net profits as the amount by which the Company's net profits exceed the sum of (1) its net positive results, if any, from the equity method of accounting for earnings and losses of the Company's subsidiaries and certain of its affiliates and (2) the profits, gains or returns that will be received by the Company after the end of the fiscal year. The distributable amount is increased by the profits that were allocated to such reserve when they are realized.

Income tax exemption reserve. Under Brazilian Corporate Law, the portion of the net profit derived from donations or government incentives directed to investments, can be excluded of the Distributable Amount.

Retained profits reserve. Under Brazilian Corporate Law, our shareholders may decide to retain a discretionary amount of 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 our installations and other investment projects. After the conclusion of the relevant investments, we may retain the reserve until our 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 subscribed 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 3.D. Key Information Risk Factors Risks Relating to the Preferred Shares and the American Depositary Shares. 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, 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 common shares. Payments of interest attributed to shareholders' equity, net of withholding tax, may be used to satisfy

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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, 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.

We declare and pay dividends and/or interest attributed to shareholders' equity, pursuant to Brazilian Corporate Law and our bylaws. 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 depends 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 2008 and 2007, we declared dividends to our shareholders in the amounts of R\$238 million and R\$241 million, corresponding to 122% and 132% 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.

Year declared	Dividend his			
	Common shares (in reais per share)	Preferred shares (in reais per share)	Common shares (in US\$ per share)	Preferred shares (in US\$ per share)
2004(2)	2.36	2.36	0.84	
2005	1.94	1.94	0.83	
2006	1.78	1.78	0.83	
2007	1.78	1.78	1.06	
2008	1.78	1.78	0.95	

(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 4.B. Information on the Company's 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 is 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 dividends.

Shareholders who are not residents of Brazil must register with the Central Bank to have dividends, sales proceeds or other amounts respect to their shares eligible to be remitted in foreign currency outside of Brazil. The preferred shares underlying the ADSs will be he

Brazil by the Custodian, Banco Itaú S.A., as agent for the Depositary. For purposes of the registration requirement, the Depositary will be deemed to be the stockholder of the preferred shares underlying the ADSs. The Depositary will register such preferred shares with the Central Bank of Brazil.

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Payments of cash dividends and distributions, if any, will be made in Brazilian currency to the Custodian on behalf of the Depositary. 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 Depositary Receipts in our Registration Statement filed on Form F-1, dated 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 3.A. Key Information Selected Consolidated Financial Data Exchange Rates and Item 3.D. Key Information Risk factors Risks Relating to Brazil. Dividends in respect of the profits 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 attributable to shareholders 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 3.A. Key Information Additional Information 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 the 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

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 and EMCA, demanding that Oxitenor Nordeste comply with salary adjustment 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 necessary as of December 31, 2008. See Note 20 (a) to our consolidated financial statements.

Civil claims

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

There are also approximately 100 claims filed by former employees of Ultrazul, 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 Ultrazul's estimates, our exposure in any individual suit ranges from R\$50,000 to R\$300,000. Such amounts are generally covered by Ultrazul'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.

Ultrazul is a defendant in lawsuits relating to damages caused by an explosion in 1996 in a shopping mall in the city of Osasco, State of São Paulo. These lawsuits involve: (i) individual suits filed by victims of the explosion claiming damages from Ultrazul for the loss of economic benefit and for pain and suffering, (ii) indemnifications of management of the shopping mall and its insurance company, and (iii) a class action lawsuit seeking indemnification for material damages and pain and suffering for all the victims injured and deceased. Of the lawsuits adjudicated through December 2008, 61 judgments were rendered in our favor, of which 25 have already been dismissed. The only unfavorable decision, which we may appeal, was for damages in the amount of R\$17,000. There are three actions yet to be decided. Ultrazul has insurance coverage for these lawsuits, and the uninsured contingent amount is R\$16.5 million. The Company has not recorded any provision for this amount, since it believes the probability of loss is remote. We believe that we have presented evidence that defective gas pipes in the shopping mall caused the accident and that Ultrazul's on-site LPG storage facilities did not contribute to the explosion.

Additionally, there were two lawsuits filed in the States of São Paulo and Rio de Janeiro by certain former minority shareholders of FIP, CBPI and DPPI (the Ipiranga Minority Shareholders) questioning the Share Exchange in connection with the acquisition of Ipiranga. At the time the company's shareholders' general meeting convened to approve the Share Exchange, the Ipiranga minority shareholders made certain legal instruments to impede the company's shareholders' meeting taking place. Decisions by administrative and judicial courts

that there were no legal grounds for the Ipiranga Minority Shareholders' request. Based on such court decisions, the Share Exchange was approved by the shareholders' meeting of the company on December 18, 2007. The lawsuit filed in the State of Rio de Janeiro terminated as a result of loss of interest to sue, due to the sale of

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correspondent shareholding at Ultrapar. Regarding the lawsuit filed in the state of São Paulo, the former Ipiranga Minority Shareholder appealed against the decision issued and to date there has been no final outcome of such appeal. This lawsuit is not accounted for in the financial statements of the company.

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, Ipiranga, 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. In 2007 final decisions were rendered for Ultrapar and its subsidiaries, resulting in the reversion of recorded accruals in the net amount of R\$12.8 million, net of attorney's fees, as financial income in the statement of income for the period. The company has other subsidiaries whose lawsuits have not yet been adjudicated in the amount of R\$32.8 million, net of attorney's fees. The company's subsidiary Utingás Armazenadora S.A. has challenged ISS (Service Tax) assessments issued by the municipal government of Santo André. Our legal counsel classifies the risk as low, given that a significant portion of the administrative appeal was favorable to us. Our argument is supported by the opinion of a renowned tax specialist. The unprovisioned amount of the contingency as of December 31, 2008 is R\$46.9 million. On October 7, 2005, Ultragaz's subsidiaries filed for and obtained an injunction to support the offset of PIS and COFINS credits against other federal taxes administered by the Federal Revenue Service (SRF), notably corporate income tax and social contribution taxes. According to the injunction, the subsidiaries had made escrow deposits for these debits in the amount of R\$117.7 million as of December 31, 2008 and recognized a corresponding liability for this purpose.

Our subsidiaries Cia. Ultragaz S.A., Utingás Armazenadora S.A., Terminal Químico de Aratu S.A., Tequimar, Transultra Armazenamento e Transporte Especializado Ltda. and Ultracargo Operações Logísticas e Participações Ltda., filed a request for injunction for the full and immediate use of supplementary monetary adjustment based on the Consumer Price Index (IPC)/National Treasury Bonds (BTN) for the period (Law No. 8.200/91). Reserves for potential losses on these proceedings have been recorded in the amount of R\$14.6 million.

On December 29, 2006, the subsidiaries Oxiteno S.A Indústria e Comércio, Oxiteno Nordeste S.A. Indústria e Comércio, Cia Ultragaz S.A. and Transultra Armazenamento e Transporte Especializado Ltda. filed for an injunction seeking the deduction of ICMS from their PIS and COFINS tax bases. Oxiteno Nordeste S.A Indústria e Comércio received an injunction and is paying judicial deposits, as well as recording an accrual in the amount of R\$24.3 million as of December 31, 2008. The other subsidiaries did not receive a similar injunction and are awaiting the judgment of an appeal to the Regional Federal Court - TRF of the third region. On August 19, 2008, the subsidiaries RPR, Tropical and EMCA also filed for injunctions seeking the same benefit, and are awaiting the judgment of these lawsuits.

The company and some of its subsidiaries filed a request for an injunction seeking not to be subject to the legislation that restricted the offset of corporate income tax (IRPJ) and social contribution (CSLL) tax loss carryforwards computed through December 31, 1994 to the amount of income for the year. As a result of the Supreme Court's ruling and based on the opinion of our legal counsel, a provision was recorded in the amount of R\$6.8 million. In 2007, in light of recent jurisprudence, the assessment of our legal advisors and an increase of amounts as interest on capital, the company and its subsidiaries reserved PIS and COFINS on credits from interest on capital. The total amount reserved as of December 31, 2008 is R\$21.9 million.

Regarding Ipiranga/RPR, the main provisions for contingencies are for: (a) the potential reversal of ICMS credits on transportation services taken pursuant to the freight reimbursement system established by the ANP's predecessor in the amount of R\$7.3 million; (b) the potential reversal of ICMS credits in the State of Minas Gerais for interstate outflows carried under Article 33 of ICMS Agreement 66/88, which was allowed for the credits and which was suspended by an injunction from the Supreme Court, in the amount of R\$28.4 million; (c) the potential reversal of a deduction from our ICMS tax basis in the State of Minas Gerais in the amount of R\$16.3 million; (d) litigation based on contracts with customers; (e) claims made by former employees and outsourced personnel regarding salary related amounts. The main tax contingencies of Ipiranga/RPR which present possible risk of loss, and for which, based in this evaluation, we have not made reserves involve ICMS, in the total amount of R\$147.6 million and relate mainly to (a) the potential reversal of credits on interstate outflows; (b) ICMS taxes on the purchases of basic oils; (c) the potential reversal of credits derived from excess taxes on the purchase of products from the petroleum refinery under the tax substitution system; (d) reversal of presumed credits from operations involving hydrated ethanol in the State of Santa Catarina; and (e) tax assessments resulting from operations of anhydrous ethanol loan devolutions. In addition, CBPI and its subsidiaries have tax assessments concerning non-homologation of IPI credits originating from acquisitions of products whose later sales were not taxed. The total provision as of December 31, 2008, was R\$40.4 million.

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The table below summarizes our provisions related to legal proceedings as of December 31, 2008, 2007 and 2006.

	2008	2007	2006
	(in millions of reais)		
Income and social contribution taxes	143.6	105.6	30.0
PIS and COFINS on other gains	48.8	33.6	1.0
ICMS	62.7	61.1	1.0
Other	29.0	22.7	0.0
(-) Escrow deposits	(148.1)	(96.1)	(3.0)
Total	136.0	126.9	3.0

Antitrust matters

Ultragaz in Minas Gerais. The subsidiary Companhia Ultragaz S.A. is party to an administrative proceeding at the CADE (*Conselho Administrativo de Defesa Econômica*), the Brazilian antitrust authority, in which it has been accused of engaging in anti-competitive practices in the State of Minas Gerais in 2001. Recently, the CADE entered a decision against Companhia Ultragaz S.A. imposing a penalty of 1% of the annual gross revenue for 2001 (which was R\$1,475 million), excluding taxes and adjusted by IPCA-e. This administrative decision has not yet become final and has been appealed administratively. If the adverse decision is administratively upheld, the execution may be stayed and the merits reconsidered in court. Based on the above elements and on the opinion of its legal counsel, the subsidiary did not record a provision for this liability.

Acquisition of Ipiranga Group. On April 17, 2007, the CADE issued a writ of prevention to ensure the reversibility of the acquisition of Braskem and Petrobras under the acquisition of Ipiranga Group. On April 25, 2007, CADE's plenary assembly approved a Transferring Reversibility Preservation Agreement (*Acordo de Preservação de Reversibilidade da Operação*), or APRO, with Braskem, that set forth that all the assets acquired by Braskem in the acquisition of Ipiranga Group will be preserved. With regard to the Ipiranga Group's distribution business, Petrobras and Ultrapar were requested to present to CADE an alternative management model that would preserve competition in the sector. On May 16, CADE approved an APRO with Petrobras regarding the fuel distribution business that replaced and revoked the writ of prevention issued on April 17, 2007. The APRO requested the nomination of an independent manager to administer the distribution business that Petrobras acquired and established guidelines for operating the business. The APRO also imposed restrictions on Petrobras including limitations on asset sales, business reorganizations, changes in commercial policies and lay-offs. The exchange of commercial and strategic data between Ultrapar and Petrobras regarding the fuel distribution business is also restricted in order to preserve free competition in the segment. On May 14, 2008 the Northern Distribution Business was segregated and delivered to Petrobras. On December 2008, CADE approved the acquisition of the Southern Distribution Business by Ultrapar and on December 17, 2008 approved the acquisition of the Northern Distribution Business by Petrobras. As a result of these approvals, APRO is no longer in force.

Acquisition of União Terminais and Texaco. The acquisitions of União Terminais and Texaco were duly submitted to the relevant antitrust authorities and are currently under review by the Secretariat of Economic Monitoring of the Ministry of Finance (SEAE/MF). SEAE will issue a non-binding opinion about the acquisitions that will then be analyzed by CADE, the highest antitrust administrative authority in Brazil. No further opinion related to such acquisitions has been issued by the antitrust authorities to the date of this document.

B. Significant Changes**ITEM 9. THE OFFER AND LISTING****A. Offer and Listing Description**

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

Year ended	New York Stock Exchange			São Paulo Stock Exchange		
	High	Low	Volume(1)	High	Low	Volume
	(in US\$ per ADS)			(in reais per preferred share)		
December 31, 2004	20.00	8.70	21,409	53.50	27.10	71
December 31, 2005	19.01	13.53	57,368	48.60	31.70	79
December 31, 2006	23.27	13.93	57,658	49.66	31.77	64
December 31, 2007	41.72	22.95	73,433	75.40	49.29	119
December 31, 2008	40.50	14.92	117,105	67.20	32.79	360

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	New York Stock Exchange			São Paulo Stock Exchange		
	High	Low	Volume(1)	High	Low	Volume
	(in US\$ per ADS)			(in reais per preferred share)		
Year ended December 31, 2007						
First quarter	29.40	22.95	65,473	60.90	49.29	124,000
Second quarter	33.26	29.14	126,358	65.31	58.89	132,000
Third quarter	38.73	28.58	64,725	71.05	61.00	111,000
Fourth quarter	41.72	32.52	37,316	75.40	59.95	108,000
Year ended December 31, 2008						
First quarter	38.95	31.28	114,010	65.40	54.41	409,000
Second quarter	40.50	33.57	95,167	67.20	57.33	305,000
Third quarter	38.43	24.42	105,599	60.50	47.50	340,000
Fourth quarter	26.58	14.92	153,501	52.83	32.79	388,000
Quarter ended March 31, 2009						
First quarter	25.67	21.39	124,180	59.85	50.85	309,000
Month ended						
November 30, 2008	23.85	19.16	202,393	52.00	41.99	399,000
December 31, 2008	23.30	20.33	117,780	52.83	48.79	265,000
January 31, 2009	24.11	21.40	83,731	54.30	50.85	219,000
February 29, 2009	24.72	21.72	161,487	57.40	52.85	334,000
March 31, 2009	25.67	21.39	128,731	59.85	52.25	376,000
April 30, 2009	28.34	24.30	83,020	62.15	55.39	343,000
May 31, 2009	32.81	28.65	68,415	64.49	60.34	375,000
June 30, 2009 (through June 23)	34.96	29.98	73,649	66.00	61.40	303,000

(1) Average daily trading volume.

The prices and volumes are retroactively adjusted for the reverse stock split described under Item 4.A. Information on the Company and Development of the Company.

B. Plan of Distribution

Not applicable.

C. Market

Our preferred shares are listed on the São Paulo Stock Exchange under the ticker symbol UGPA4 and the ADSs are listed on the New York Stock Exchange under the symbol UGPA.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issuance

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Cap

Not applic

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B. Memorandum and Bylaws

We are registered with the commercial registry of the state of São Paulo under the registration number 35,300,109,724. Pursuant to chapter I, article 3 of our bylaws, our main corporate purpose is the investment of our capital in the trade, industry and agriculture sectors and in companies providing services, upon the subscription for or acquisition of shares or quotas in companies.

More detailed information with respect to our shares, shareholder rights, and limitations on share ownership is incorporated herein by reference to our Registration Statement on Form F-1, Registration Number 333-122496, declared effective by the Securities and Exchange Commission on April 12, 2005.

C. Material Contracts

US\$60 million 9% Ultragaz Notes

In June 1997, Ultragaz issued US\$60 million in notes (the "Original Notes") maturing in 2005. In June 2005, maturity was extended to 2020, with put/call options in June 2008 that were not exercised by the subsidiary nor the financial institutions. The next put/call option will be in June 2012.

In June 2005, Oxiten's subsidiary Oxiten Overseas Corp., or Oxiten Overseas, acquired the full amount of Original Notes issued by Ultragaz, with funds from a syndicated loan in the amount of US\$60 million with maturity in June 2008 and interest rate of 5.05% per annum. The syndicated loan was guaranteed by Ultrapar and the subsidiary Oxiten Overseas.

In April 2006, Oxiten Overseas sold the Original Notes to a financial institution. Concurrently, the subsidiary acquired from this financial institution a credit linked note backed by the Original Notes, as mentioned in Note 14 to our consolidated financial statements, obtaining an additional return on this investment. The transaction matures in 2020, and either Oxiten or the financial institution can redeem it earlier, although the subsidiary has only an annual option of redemption (purchase) from June 2008 onward. In the event of insolvency of the financial institution, Ultragaz would be required to settle the Original Notes, although Oxiten Overseas would continue to be creditor of the credit linked note. Thus, Ultrapar is no longer eliminating the Original Notes from its financial statements.

In June 2008, the syndicated loan was renewed under the same conditions, at an interest rate of LIBOR plus 1.25% per annum. See Item 5.B. Operating and Financial Review and Prospects - Liquidity and Capital Resources - Indebtedness.

March 22, 2000 shareholders agreement

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

September 22, 2004 shareholders agreement

On September 22, 2004, the shareholders of Ultra S.A. entered into the 2004 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 2004 Shareholders' Agreement has a five-year term, starting on December 16, 2004. For information regarding the shareholders agreements, see Item 5. Major Shareholders and Related Party Transactions - Major Shareholders.

US\$250 million 7.25% LPG Notes due 2015

On December 20, 2005, Ultragaz's subsidiary LPG International Inc. issued US\$250 million in notes in the international market, with the aim of lengthening the company's debt profile, financing possible acquisitions and other corporate purposes. The notes mature in December 2015, have a coupon of 7.25% per annum paid semiannually and were priced at 98.75% of par value, resulting in a yield to maturity of 7.429% per annum upon issuance. Standard & Poor's assigned its BB+ credit rating on a global scale for the company and the securities issued. The notes are listed on the New York Stock Exchange.

are unsecured unsubordinated obligations of LPG International Inc., ranking equally in right of payment with all existing and future unsecured unsubordinated obligations of LPG International Inc.;

are issued in an original aggregate principal amount of US\$250,000,000 in minimum denominations of US\$100,000 of original principal amount and integral multiples of US\$1,000 above such amount;

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bear interest commencing the date of issue at 7.25% per annum on the outstanding principal amount, payable semiannually on each June 20 and December 20 of each year, commencing June 20, 2006 to holders of record on June 5 or December 5 immediately preceding the interest payment date; and

bear interest on overdue principal, and pay interest on overdue interest, at 1% per annum higher than the per annum rate set forth on the cover of the offering memorandum for the notes.

The notes will be redeemable at the option of LPG International Inc. at any time or from time to time prior to their maturity, upon no more than 60 and not less than 30 days' notice to the noteholders by mail. LPG International Inc. may redeem the notes either as a whole or in part at a redemption price equal to the greater of (i) 100% of the principal amount of the notes being redeemed and (ii) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of any such interest accrued to the date of redemption) discounted (for purposes of determining present value) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the treasury rate plus 50 basis points, plus accrued interest thereon to the date of redemption.

The guarantees for the notes are unsecured unsubordinated obligations of Ultrapar and Oxiteno, ranking equally in right of payment with the existing and future unsecured unsubordinated obligations of Ultrapar and Oxiteno. For information about the covenants the company is subject to due to the LPG notes, see Item 5.B. Operating and Financial Review and Prospects—Liquidity and Capital Resources—Indebtedness.

The notes and the guarantees have the benefit of registration rights pursuant to a Registration Rights Agreement dated as of December 20, 2005, under which the notes and the guarantees will be required to be exchanged for notes and guarantees identical in terms to the original notes and guarantees except for restrictions on transfer, in a transaction registered with the Securities and Exchange Commission, prior to September 30, 2008.

The registration statement of the notes was filed on May 15, 2006 and was declared effective by the U.S. Securities and Exchange Commission on May 23, 2006. Ultrapar carried out an exchange offer for its outstanding US\$250,000,000 7.25% Notes due 2015, issued on December 20, 2005, which expired at 5:00 p.m. New York City time on June 22, 2006. At the close of the exchange offer, Ultrapar International, Ultrapar and Oxiteno were advised by the exchange agent that an aggregate amount of US\$246,000,000 of the old notes had been tendered in exchange for an equivalent amount of new notes. All old notes tendered in exchange for new notes have been accepted and new notes have been issued to the tendering holders of such old notes. The remaining outstanding aggregate amount of old notes is US\$4,000,000.

Ipiranga Group Transaction Agreements

In March 2007, Ultrapar entered into the Ipiranga Group Transaction Agreements that together effected its acquisition, along with Petrobras and Braskem, of the Ipiranga Group. Each Ipiranga Group Transaction Agreement is incorporated by reference to Exhibits 2.6, 2.7, 2.8, 4.5, 4.6 and 4.7 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007.

CBPI Notes

On August 1, 2003, CBPI issued US\$135 million in notes internationally. Part of these notes were redeemed in 2005 and 2006, in an aggregate amount of US\$1.3 million (R\$3.1 million) and US\$79.6 million (R\$164.9 million), respectively. In July 2008, these notes matured and will be paid in US dollars, consequently set off against the company's US dollar cash and investments.

Sale and Purchase Agreement Related to the Acquisition of União Terminais

On June 6, 2008 Ultrapar, through its subsidiary Tequimar, entered into a sale and purchase agreement which sets forth the conditions for the acquisition of 100% of the shares of União Terminais formerly held by Unipar ("SPA União Terminais"). See Item 4.A. Information about the Company—History and Development of the Company—Description of the Acquisition of União Terminais. See Exhibit 4.1, the Sale and Purchase Agreement between Ultrapar Participações S.A.'s subsidiary Terminal Químico de Aratu S.A. and Unipar, dated June 6, 2008, and its English Summary.

Sale and Purchase Agreement Related to the Acquisition of Tequimar

On August 8, 2008 Ultrapar, through its subsidiary SBP, entered into a sale and purchase agreement which sets forth the conditions for the acquisition of 100% of the shares of CBL and Galena formerly held by Chevron ("SPA Texaco"). The acquisition was closed on March 2009. The total acquisition value was R\$1,190 million. See Item 4.A. Information on the Company History and Development Company Recent Developments Description of the Acquisition of Texaco. and see Exhibit 4.9 Securities Purchase Agreement by and among Chevron, CBL, Galena and SBP, dated August 14, 2008.

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Promissory Note

On March 3, 2008 Ultrapar issued a R\$1.2 billion Promissory Note maturing on February 28, 2009 at a rate of 103.15% of CDI. In December 2008 Ultrapar prepaid the first issuance of R\$1.2 billion Promissory Notes and issued a new Promissory Note of R\$1.2 billion at a rate of 100% of CDI + 3.6% maturing in December 2009. The new Promissory Notes were redeemed by Ultrapar in June 2009. See Item 4.A. Information on the Company History and Development of the Company Recent Developments and Item 5.B. Operating and Financial Review and Prospects Liquidity and Capital Reserves Indebtedness

Other material contracts are described in other sections of this report.

For information regarding the acquisition of Shell Gás, see Item 4.A. Information on the Company History and Development of the Company Investments Equity Investments. For information regarding our contract with Braskem and PQU relating to the production of ethylene, see Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Oxiteno Raw materials and Item 5.F. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations

D. Exchange Control

There are no restrictions on ownership of our preferred shares by individual or legal entities domiciled outside Brazil. However, the right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts abroad is subject to restrictions under foreign investment legislation which generally require, among other things, that the relevant investment be registered with the Central Bank and the CVM.

Foreign investors may register their investment in our shares under Law 4,131 of September 3, 1962 or Resolution 2,689 of January 10, 2000, both as amended. Registration under Resolution 2,689 affords favorable tax treatment to non-Brazilian investors who are not residing in a tax haven jurisdiction (i.e. countries that do not impose income tax or where the maximum income tax rate is lower than 20% as defined by Brazilian tax law).

Under Resolution 2,689, non-Brazilian investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution 2,689, the definition of non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled outside Brazil and headquartered abroad.

Under Resolution 2,689, a non-Brazilian investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;

- appoint an authorized custodian in Brazil for its investment;

- register as a non-Brazilian investor with the CVM; and

- register its foreign investment with the Central Bank.

Securities and other financial assets held by non-Brazilian investors pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transactions resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will. See Item 10.E. Additional Information Taxation Brazilian Tax Consequences for more information.

Foreign investors must be registered with the Brazilian internal revenue service (*Receita Federal*) pursuant to the Regulatory Instructions 748, dated as of June 28, 2007. This registration process is undertaken by the investor's legal representative in Brazil.

Resolution 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. Accordingly, the proceeds from the sale of ADSs by holders of American Depositary Receipts outside Brazil are free from Brazilian foreign investment controls and holders of ADSs who are not resident in a tax haven jurisdiction will be entitled to favorable tax treatment.

The right to convert dividend payments and proceeds from the sale of our shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent the custodian for the preferred shares represented by ADSs, or holders who have exchanged ADSs for preferred shares, from converting dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars and remitting such dollars abroad. Delays in, or refusal to, granting the required government approval for conversions of Brazilian currency payments and remittances abroad could adversely affect holders of ADSs.

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We have obtained a certificate of registration in the name of The Bank of New York, the depositary. Pursuant to this certificate, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by ADSs into foreign currency and to remit the proceeds outside Brazil. If a holder exchanges ADSs for preferred shares, such holder may continue to rely on the depositary's certificate of capital registration for only five business days after such exchange. After that, such holder must separately register its investment directly with the Central Bank. Thereafter, unless the holder has registered its investment with the Central Bank, such holder may not convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares. Such holder generally will be subject to less favorable Brazilian tax treatment than a holder of ADRs.

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. These markets were:

- 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 and interest with respect to shares; and

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

On March 4, 2005, the National Monetary Council enacted Resolution No. 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 allowed, 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 lawful.

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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 from 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 of 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 advisers 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 such consequences on non U.S., state or local tax liability.

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 and 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 disposal of 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 direct investment (in each case as 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 advisers 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 as of January 1, 1996. Dividends relating to profits generated prior to January 1, 1996, may be subject to Brazilian withholding income 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 or in kind. Such payments represent a deductible expense from the payor's corporate 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 (after the social contribution on net profits and before the provision for corporate income tax, and the amounts attributable to shareholders as interest on net equity) for the period in respect of which the payment is made; or

- 50% of the sum of retained profits and profits reserves 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 income tax at a rate of 15%, or 25% if the Non-Brazilian Holder is domiciled in a jurisdiction that does not impose income tax or where the maximum income tax rate is lower than 20% or where the local legislation imposes restrictions on disclosing the shareholding composition or the ownership of the investment (Tax Haven Holder). These payments may be included, at their net value, as part of any maximum dividend.

On June 24, 2008, Law 11,727 was enacted, which provides that, as of January 1, 2009, a tax haven will also include

(1) jurisdictions or countries whose local legislation imposes restrictions on the access of information relating to the ownership of shares in a Brazilian entity or a given investment;

(2) any privileged tax regime. Under this new law, a privileged tax regime is a tax regime that meets any one of the following requirements:

(i) does not tax income or taxes income at a maximum rate of less than 20%; (ii) grants tax advantages to a non-resident entity or individual, without requiring substantial economic activity in the jurisdiction of such non-resident entity.

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individual or (b) to the extent such non-resident entity or individual does not conduct substantial economic activity in the jurisdiction of such non-resident entity or individual; (iii) does not tax income generated abroad, or imposes tax on income generated abroad at a maximum rate of less than 20%, or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out by the entity or individual.

Since Law 11,727 has only recently been enacted, regulations by the Brazilian Revenue Service are likely to be issued, and such regulations might affect the analysis of what constitutes a tax haven for purposes of the Brazilian regulations.

Specifically with respect to the part of the new Law 11,727 described in clause (2) above, our Brazilian counsel has advised that although this part of the new law should apply only to determining what constitutes a tax haven for purposes of Brazilian transfer pricing because several Brazilian regulations utilize the privileged tax regime concept when referencing tax haven jurisdictions, there is a possibility that the privileged tax regime concept may impact the definition of what constitutes a tax haven for purposes of the Brazilian regulations.

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 income tax, is at least equivalent 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 of Brazil.

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. According to Law no. 10,833/03, the gains recognized on a disposal of assets located in Brazil, such as our preferred shares, by a Non-Brazilian Holder, are subject to withholding income tax in Brazil. This rule is applicable regardless of whether the disposal is conducted in Brazil or abroad and/or if the disposal is or is not made to an individual or entity resident or domiciled in Brazil.

As a general rule, capital gains realized as a result of a disposal transaction are the positive difference between the amount realized on disposal of the preferred shares and the respective acquisition cost.

Capital gains realized by Non-Brazilian Holders on the disposal of preferred shares sold on the Brazilian stock exchange (which includes transactions carried out on the organized over-the-counter market) are subject to the withholding income tax at a zero percent rate when realized by a Non-Brazilian Holder that (i) has registered its investment in Brazil before the Central Bank under the rules of the Brazilian Monetary Council (Registered Holder) and (ii) is not a Tax Haven Holder; and

are subject to the withholding income tax at a zero percent rate when realized by a Non-Brazilian Holder that (i) has registered its investment in Brazil before the Central Bank under the rules of the Brazilian Monetary Council (Registered Holder) and (ii) is not a Tax Haven Holder; and

are subject to income tax at a rate of 15% with respect to gains realized by a Non-Brazilian Holder that is not a Registered Holder (including a Non-Brazilian Holder who qualifies under Law No. 4,131/62) and gains earned by Tax Haven Holders that are Registered Holders. In this case, a withholding income tax of 0.005% shall be applicable and can be offset against any income tax due on the capital gain.

Any other gains realized on the disposal of preferred shares that are sold on the Brazilian stock exchange are subject to income tax at a rate of 15% when realized by any Non-Brazilian Holder that is not a Tax Haven Holder, no matter if a Registered Holder or not; and

are subject to income tax at a rate of 15% when realized by any Non-Brazilian Holder that is not a Tax Haven Holder, no matter if a Registered Holder or not; and

are subject to income tax at a rate of 25% when realized by a Tax Haven Holder, no matter if a Registered Holder or not.

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In the cases above, if the gains are related to transactions conducted on the Brazilian non-organized over-the-counter market intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against any income tax due on the ca

Any exercise of preemptive rights relating to preferred shares will not be subject to Brazilian income tax. Gains realized by a Non-Brazilian Holder on the disposal of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposal of preferred shares.

There can be no assurance that the current favorable tax treatment of Registered Holders will continue in the future.

Pursuant to Section 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 Section 26 is recent, generic and has not been tested through the administrative or judicial courts, we are unable to assure the final outcome of such discussion.

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Gains on the exchange of ADS for preferred shares

Although there is no clear regulatory guidance, the exchange of ADSs for preferred shares should not be subject to Brazilian income tax. Non-Brazilian Holders may exchange their 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 election to register the sale with the Brazilian stock exchange). Our understanding is that the exchange of ADSs for the underlying preferred shares and sale of preferred shares within the period mentioned above by a Non-Brazilian Holder that (i) is a Registered Holder and (ii) is not a Tax Haven Holder should not be subject to the withholding income tax.

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 the rules of the Brazilian Monetary Council, which will entitle them to the tax treatment referred above in connection with Registered Holders.

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 of Non-Brazilian Holders that are not Registered Holders.

Gains on the exchange of preferred shares for ADSs

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 (Direct investment registered under Law 4,131) or, in the case of Registered Holders, 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

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%, or 25% for Tax Haven Holders.

Taxation of Foreign Exchange Transactions (IOF/Exchange). IOF/Exchange is imposed on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais*. Currently, the IOF/Exchange rate for almost all foreign currency exchange transactions is 0.38%. In the case of transactions on a stock exchange or under the regulations issued by the Monetary Council of Brazil, the applicable rate is zero. The Brazilian Federal Government is permitted to increase the rate at any time, up to 25%. However, any increase in rates applies to future transactions.

Taxation of Bonds and Securities Transactions: (IOF/Bonds). Law No. 8,894, dated as of June 21, 1994, created the IOF/Bonds, which may be imposed on any transaction involving bonds and securities, even if the transaction includes Brazilian stock, futures or commodities. The rate of IOF/Bonds 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 during 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 domiciled or residing in Brazil to individuals or entities domiciled or residing within such states. There are no Brazilian stamp, registration, or similar taxes or duties payable by holders of preferred shares or ADSs.

U.S. Federal Income Tax Consequences

The following is a discussion of the material U.S. federal income tax consequences of the 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 holders of preferred shares or ADSs, and does not address state, local, foreign or other tax laws. The discussion applies only to a U.S. Holder (as defined below).

that holds preferred shares or ADSs as capital assets for tax purposes and does not address special classes of holders, such as dealers, traders in securities; certain financial institutions; insurance companies; tax-exempt entities; persons owning, directly, indirectly or constructively, 10% or more of our voting shares; persons holding preferred shares or ADSs as part of a hedging transaction, wash straddle, conversion transaction or integrated transaction; persons entering into a constructive sale with respect to preferred shares or persons whose functional currency for U.S. federal income tax purposes is not the U.S. dollar; persons liable for the alternative minimum tax; partnerships or other entities classified as partnerships for

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federal income tax purposes; persons who have ceased to be United States citizens or to be taxed as resident aliens; persons who acquired our ADSs or preferred shares pursuant to the exercise of any employee stock option or otherwise as compensation; or persons holding ADSs or preferred shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal tax income tax purposes holds preferred shares or ADSs, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding preferred shares or ADSs and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the preferred shares or ADSs.

You should consult your tax advisers 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 Internal Revenue Code of 1986, as amended (the Code), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof and changes to any of which may affect the 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 relevant 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 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. This discussion assumes that we were not a passive foreign investment company in 2008 (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, no gain or loss will be recognized if a U.S. Holder exchanges ADSs for the underlying shares represented by the ADSs.

The U.S. Treasury has expressed concerns that parties to whom ADSs are released prior to delivery of shares to the depositary (pre-release) 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 reduced rate applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of Brazilian taxes and the availability of the reduced rate for dividends 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 distributions. Distributions paid on ADSs or 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. Because the Company does not maintain calculations of its earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations and the discussion above regarding concerns expressed by the U.S. Treasury, under current law, dividends paid to non-corporate U.S. Holders may be taxed at favorable rates, up to a maximum rate of 15%, in taxable years beginning before January 1, 2011. U.S. Holders should consult their tax advisers regarding the availability of this lower tax rate in their particular circumstances. For purposes of these rules, the amount of distribution of property other than cash will be the fair market value of such property on the date of distribution. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's or in the case of ADSs, the Depositary's receipt of the dividend. 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 distribution paid in *reais* will be calculated 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. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income. 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 dividend received deduction generally allowed to U.S. corporations under the Code. Subject to applicable limitations that may vary depending on the U.S. Holder's circumstances and the discussion above regarding concerns expressed by the U.S. Treasury, Brazilian withholding taxes, 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 taxes may be taken as a deduction. The limitation on foreign taxes eligible for credit is calculated separately with respect to passive income.

U.S. Holders should consult their tax advisors concerning the availability of the foreign tax credit in their particular circumstances.

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Taxation of sale, exchange or disposition of preferred shares or ADSs. For U.S. income tax purposes, gain or loss realized by a Holder upon the sale, exchange or other disposition of a preferred share or ADS will be 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 disposed of, in each case as determined in U.S. dollars. 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 tax is withheld on the sale or disposition of preferred shares or ADSs, a U.S. Holder's amount realized will include the gross amount of the proceeds of such sale or disposition less the deduction of the Brazilian tax. See **Brazilian Tax Consequences – Taxation of Gains** for a description of when a disposition may be subject to taxation by Brazil. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. Consequently, if Brazilian tax is imposed on the sale or disposition of preferred shares or ADSs, the U.S. Holder may not be able to credit the Brazilian tax against its U.S. income tax. U.S. Holders should consult their tax advisers as to whether the Brazilian tax on gains may be creditable against its U.S. income tax or foreign-source income from other sources.

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 (PFIC). In general, a foreign corporation is a PFIC in a particular taxable year if:

75% or more of its gross income consists of passive income, such as dividends, interest, rents and royalties; or

50% or more of its 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 for our 2008 taxable year. However, since PFIC status depends upon the composition of a company's income and assets and the market value of its assets at the time to time (including, among others, less than 25 percent equity investments), there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder held preferred shares or ADSs, gain recognized by such U.S. Holder on the sale or other disposition (including certain pledges) of the preferred shares or ADSs would be allocated ratably over the U.S. Holder's holding period for the preferred shares or ADSs. The amounts allocated to the taxable year of the sale or other disposition and to any other taxable year before we became a PFIC would be taxable as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for that year for individuals or corporations, as appropriate, and an interest charge would be imposed on the amount allocated to that taxable year. Similar rules would apply to any distributions in respect of the preferred shares or ADSs to the extent 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. Certain elections may be available to U.S. persons that would result in alternative treatments (such as mark-to-market treatment) of the preferred shares or ADSs. U.S. Holders should consult their tax advisers to determine whether any of these elections would be available and if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we are a PFIC in a taxable year in which we pay a dividend or in the prior taxable year, the 15% dividend rate discount will apply above with respect to dividends paid to non-corporate holders will not apply in that 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 may be 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 correct taxpayer identification number on a properly completed Internal Revenue Service Form W-9 or a substitute form and certifies that it is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder 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 timely furnished to the Internal Revenue Service.

F. Dividends and Paying Agent

Not applicable.

G. Statement by Experts

H. Documents on Dis

Statements contained in this annual report as to the contents of any contract or other document referred to are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit hereto.

A copy of the complete annual report including the exhibits and schedules filed herewith may be inspected without charge at the public reference facilities maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C.

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20549, and at the SEC's regional offices located at 233 Broadway, New York, N.Y. 10279 and North Western Atrium Center, 500 Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials may be obtained by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports and other information may also be inspected at the offices of the New York Stock Exchange, 11 Wall Street, New York, New York 10005, on which ADSs are listed. In addition the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed over the Internet at <http://www.sec.gov>.

We are subject to the information and periodic reporting requirements of the Securities Exchange Act of 1934 as amended, and in accordance therewith, file periodic reports and other information with the SEC. However, as a foreign private issuer, we are exempt from the rules under the Exchange Act relating to the furnishing and content of proxy statements and relating to short-swing profits reporting.

We furnish to The Bank of New York, as depositary, copies of all reports we are required to file with the SEC under the Exchange Act, including our annual reports in English, containing a brief description of our operations and our audited annual consolidated financial statements which are prepared in accordance with accounting practices adopted in Brazil and include a reconciliation to U.S. GAAP. In addition, we are required under the Deposit Agreement to furnish the depositary with copies of English translations to the extent required under the rules of the SEC of all notices of meetings of holders of preferred shares and other reports and communications that are generated and made available to holders of preferred shares. Under certain circumstances, the depositary will arrange for the mailing, at our expense, of these notices, other reports and communications to all ADS holders.

We also file financial statements and other periodic reports with the CVM located as Rua Sete de Setembro, 111, Rio de Janeiro, Brazil 20159-900. In addition the CVM maintains a website that contains information in Portuguese filed electronically with the CVM, which can be accessed over the internet at <http://www.cvm.gov.br>.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main risks to which Ultrapar is exposed reflect strategic/operational and economic/financial aspects. Operational/strategic risks (including, but not limited to, demand behavior, competition, technological innovation, and material changes in the industry structure) are addressed by Ultrapar's management model. Economic/financial risks primarily reflect default of customers, behavior of macroeconomic variables, such as exchange and interest rates, as well as the characteristics of the financial instruments used by Ultrapar and by its counterparties. These risks are managed through control policies, specific strategies, and establishment of limits.

Ultrapar has a conservative policy for the management of financial resources, instruments and risks approved by its Board of Directors (the "Policy"). In accordance with the Policy, the main objectives of financial management is to preserve the value and liquidity of financial resources and ensure financial resources for the proper conduct of business, including expansions. The main financial risks considered in the Policy are risks associated with currencies, interest rates, credit and selection of financial instruments. Governance of the management of financial risks and financial instruments follows the segregation of duties between the financial area and the treasury area.

Management of financial assets, instruments and risks is the responsibility of the financial area, through its treasury, with the assistance of the tax and accounting areas;

Supervision and monitoring of compliance with the principles, guidelines and standards of the Policy is the responsibility of the Risk and Investment Committee, set up more than 10 years ago and composed of members of the Executive Board of Ultrapar (the "Committee"). The Committee holds regular meetings and is in charge, among other responsibilities, of discussing and monitoring the financial strategies, existing exposures, and significant transactions involving investment, fund raising, or risk mitigation. The Committee monitors the risk standards established by the Policy through a monitoring map on a monthly basis;

Changes in the Policy or revisions of its standards are subject to the approval of Board of Directors of Ultrapar;

Continuous enhancement of the Policy is the joint responsibility of the Board of Directors, the Committee, and the financial department.

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Most operations of Ultrapar are located in Brazil and, therefore, the reference currency for currency risk management is the *real*. Currency risk management is guided by neutrality of currency exposures and considers the transactional, accounting, and operational risks of Ultrapar to changes in exchange rates. Ultrapar considers as its main currency exposures the assets and liabilities in foreign currency and short-term net sales in foreign currency of Oxipar.

The subsidiaries of Ultrapar use exchange rate hedging instruments (especially between the *real* and the U.S. dollar) available in financial markets to protect their assets, liabilities, receipts and disbursements in foreign currency, in order to reduce the effects of changes in exchange rates on its results and cash flows in *reais* within the exposure limits under its Policy.

Such foreign exchange hedging instruments have amounts, periods, and rates substantially equivalent to those of assets, liabilities, receipts and disbursements in foreign currency to which they are related. Assets and liabilities in foreign currency are stated below, translated in *reais* as of December 31, 2008 and December 31, 2007.

Asset and liabilities in foreign currency

	2008	2007
	(Amounts in millions of <i>reais</i>)	
Assets in foreign currency		
Financial investments	565.3	640.0
Investments in foreign subsidiaries	111.9	50.0
Foreign trade receivables, net of advances on export contract		
and provision for doubtful debt	52.0	30.0
Cash	9.7	8.0
Others(1)	89.1	0.0
	828.0	738.0
Liabilities in foreign currency		
Financing	1.171.4	980.0
Accounts payable for imports, net of advances to		
foreign suppliers	10.0	14.0
	1.181.4	1,000.0
Currency hedging instruments(2)	242.0	22.0
Net long (short) position	(111.4)	(4.0)

(1) Deposit made to Chevron for the acquisition of Texaco in Brazil.

(2) Measured at fair value in 2008 and notional value plus interest earned in 2007.

Based on the net short position of R\$111.4 million in foreign currency shown above, we estimate that a 10% devaluation of the *real* would produce a financial expense of R\$11.1 million.

See Notes 5, 19 and 24 I (i) to our consolidated financial statements for a discussion of the accounting policies for derivative instruments and information with respect to financial instruments.

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Ultrapar adopts conservative policies for fund raising and use of financial resources and capital cost minimization. The financial investments of Ultrapar are primarily held in transactions linked to the CDI. Fund raising primarily results from financing from BNDES and development agencies, promissory notes and funds raised in foreign currency. Ultrapar does not actively manage risks associated with changes in the level of interest rates and attempts to maintain its financial assets and liabilities at floating rates. See Note 5 and 14 to the consolidated financial statements.

The table below provides information as of December 31, 2008 about our debt obligations in foreign currency and in *reais* that are subject to variable and fixed rates of interest. The table summarizes information on instruments and transactions that are sensitive to foreign currency exchange rates and interest rates.

Debt	Average interest rate	Fair value	Outstanding debt R\$ (in millions of reais)	Principal by year of maturity*				2013 thereon
				2009	2010	2011	2012	
U.S. dollar borrowings	6.7%	1,091.7	1,142.1	231.6	15.2	154.8	8.9	7
Borrowings indexed to the UMBNDES	8.4%	3.5	3.5	2.9	0.6			
Borrowings indexed to the TIEE + MX\$	1.2%	19.8	19.8	9.6	3.7	3.3	1.2	
Borrowings indexed to the TJLP	2.2%	506.7	501.4	121.6	108.8	90.1	83.8	
Borrowings indexed to the Bs	19.6%	6.0	6.0	5.7	0.1	0.1	0.1	
Borrowings indexed to the CDI	115.8%							
	of							
	CDI	1,894.1	1,894.4	1,280.0	611.1	3.3		
Borrowings indexed to the FNE(1)	10.0%	103.5	103.5	6.4	11.4	11.4	11.4	
Others		1.2	1.2	0.3	0.3	0.2	0.2	
Subtotal		3,626.5	3,671.9	1,658.1	751.3	263.3	105.6	8
Unrealized losses (gains) on swaps transactions		(37.9)		(11.5)		(26.4)		
Total		3,588.6	3,671.9	1,646.6	751.3	236.9	105.6	8

* Figures in 2009 include interest accrued until December 31, 2008.

(1) Accounts for a 15% reduction in the interest rate as a premium for complying with established payment dates.

Credit

The financial instruments that would expose Ultrapar to credit risks of the counterparty are basically represented by cash and cash equivalents, financial investments and accounts receivable.

Customer credit risk Such risks are managed by each business unit through specific criteria for acceptance of customers and credit limits and are additionally mitigated by diversification of sources.

Credit risk of financial institutions Such risk results from the inability of financial institutions to comply with their financial obligations to Ultrapar due to insolvency. Ultrapar regularly conducts a credit review of the institutions with which it holds cash and cash equivalents, financial investments, and hedging instruments through various methodologies that assess liquidity, solvency, leverage, portfolio quality, etc. Cash and cash equivalents, financial investments, and hedging instruments are held only with institutions with a solid credit history chosen based on safety and soundness. The volumes of cash and cash equivalents, financial investments, and hedging instruments are subject to maximum limits by institution and, therefore, require diversification of counterparties.

Government credit risk Ultrapar has financial investments in federal government bonds of Brazil and countries rated AAA or A by specialized credit rating agencies. The volume of financial investments are subject to maximum limits imposed by each country therefore, require diversification of counterparty

Table of Contents**Selection and use of financial instruments**

In selecting financial investments and hedging instruments, an analysis is conducted to estimate rates of return, risks involved, liquidity, and calculation methodology for the carrying value and fair value, and documentation applicable to the financial instruments. The financial instruments used to manage the financial resources of Ultrapar and its subsidiaries are intended to preserve value and liquidity. The Policy contemplates the use of derivative financial instruments only to cover identified risks and in amounts consistent with the risk (limited to 100% of the identified risk). The risks identified in the Policy and briefly described above are the subject of risk management. In accordance with the Policy, Ultrapar and its subsidiaries can use forward contracts, swaps, options, and futures contracts to manage identified risks. Leveraged derivative instruments or instruments with a margin call are not permitted. Because the use of derivative financial instruments is limited to the coverage of identified risks, Ultrapar and its subsidiaries use the term "hedging instruments" to refer to derivative financial instruments.

The Committee monitors compliance with the risk standards established by the Policy through a risk monitoring map, including the use of hedging instruments, on a monthly basis.

The table below summarizes the position of hedging instruments adopted by the company and its subsidiaries (in R\$ million, except where otherwise stated).

			Initial notional amounts *		Fair value		Amounts payable/receivable for the period (Dec 31, 2008)	
			2008	2007	2008	2007	Amount receivable	Amount payable
Swap contracts								
a Exchange rate swaps receivable in U.S. dollars								
Receivables in U.S. dollars	Bradesco, Citibank,		123.5	170.0	291.6	316.4	291.6	
Payables in CDI interest rate	Goldman Sachs,		123.5	156.0	236.4	380.6		2
Receivable in Mexican Pesos	HSBC, Itaú,			14.0		25.1		
	Santander/Real,	Jan 2009 to						
	UBS Pactual	Jun 2011						
Total result					55.2	(89.3)	291.6	2
b Exchange rate swaps payable in U.S. dollars								
Receivables in CDI interest rate	Bradesco, HSBC,	Jan 2009 to	18.3	41.3	44.1	74.5	44.1	
Payables in U.S. dollars	Itaú, Santander/Real	Mar 2009	18.3	41.3	42.9	73.1		
Total result					1.2	1.4	44.1	
c Interest rate swaps								
Receivables in LIBOR interest rate in U.S. dollars			60.0		133.8		133.8	
Payables in fixed interest rate in U.S. dollars			60.0		140.5			1
	Itaú	Jun 2011						
Total result					(6.7)		133.8	1
Total Gross result					49.7	(87.9)	469.5	4
Income tax					(11.8)	(0.3)	(11.8)	
Total net result					37.9	(88.2)	457.7	4

* In U.S.\$ million

The purposes and the receiving or payable rates of each category of hedging instruments included in the table above are described as follows:

- a. *Exchange rate swaps receivable in U.S. dollars* – the purpose of these contracts is to offset the effect of variations in exchange rates on our liabilities in U.S. dollars by converting it into a liability in *reais* linked to CDI. The table below presents our position in this category of swaps as of December 31, 2019.

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Swap	2009	2010 and thereafter
Notional amount of swaps (in millions of <i>reais</i>)(1)	148.3	140.2
Notional amount of swaps (in millions of dollars)	63.5	60.0
Average receiving rate	US\$ + 5.44%	US\$ + 4.1%
Average payment rate(2)	97.84% CDI	99.50% CDI

(1) Notional amount converted according to the commercial selling rate reported by the Central Bank (PTAX) as of December 31, 2009.

(2) CDI Interbank Certificate of Deposit Rate.

b *Exchange rate swaps payable in U.S. dollars* the purpose of these contracts is to protect Oxitenio against variations between the exchange rate used to convert the dollar denominated costs of certain products to *reais* and the exchange rate used to convert the dollar denominated price of such products. The table below presents our position in this category of swaps as of December 31, 2009.

Swap	2009
Notional amount of swaps (in millions of <i>reais</i>)(1)	42.8
Notional amount of swaps (in millions of dollars)	18.3
Average receiving rate(2)	59.78%
Average payment rate	US\$ + 4.1%

(1) Notional amount converted according to the commercial selling rate reported by the Central Bank (PTAX) as of December 31, 2009.

(2) CDI Interbank Certificate of Deposit Rate

c *Interest rate swap* the purpose of this contract is to convert the interest rate on a syndicated loan in the principal amount of \$10 million from floating into fixed rate. The table below presents our position on this category of swaps as of December 31, 2009.

Swap	2009
Notional amount of swaps (in millions of <i>reais</i>)(1)	140.2
Notional amount of swaps (in millions of dollars)	60.0
Average receiving rate(2)	Libor + 1.0%
Average payment rate	US\$ + 4.1%

(1) Notional amount converted according to the commercial selling rate reported by the Central Bank (PTAX) as of December 31, 2009.

(2) CDI Interbank Certificate of Deposit Rate

All of Ultrapar's hedging instruments were properly registered with CETIP S.A. (the Brazilian over-the-counter clearing house), except for the interest rate swap, which is an over-the-counter contract governed by ISDA (International Swap Dealers Association, Inc.) executed with the counterparty Banco Itaú BBA S.A. Nassau Bank.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

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ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

At the Special Meeting of the Preferred Shareholders of Ultrapar held on May 18, 2004, our preferred shareholders approved a change in dividend rights to make the dividend right of preferred shareholders equal to those of common shareholders by abolishing the right of preferred shareholders to receive dividends that are at least 10% higher than those received by common shareholders.

On May 18, 2004, we held an Extraordinary Shareholders Meeting which approved amendments of our bylaws. The amendments included (i) the registration in our bylaws of tag along rights for all Company shareholders, at 100% of the offer price, a provision that was previously provided for in our 2000 shareholders agreement; and (ii) to make the dividend right of preferred shareholders equal to that of common shareholders as described above.

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On September 22, 2004, the shareholders of Ultra S.A., a holding company that controls Ultrapar, signed a shareholders' agreement that is primarily aimed at maintaining the controlling shareholder block in Ultrapar. For more information, see Item 7.A. Major Shareholders and Related Party Transactions. Major Shareholders

ITEM 15. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

As of December 31, 2008, under management's supervision and with its participation, including our chief executive officer and chief financial officer, we performed an evaluation of our disclosure controls and procedures for the period relating to the information contained in this 20F report. Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective as of December 31, 2008 at the reasonable assurance level for the purpose of collecting, analyzing and disclosing the information that we are required to disclose in the reports we file under the Securities Exchange Act of 1934, within the time period specified in the SEC's rules and forms. Our management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures.

(b) Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15 and 15d-15(f) of the Exchange Act). Ultrapar's internal control system was designed to provide reasonable assurance as to the integrity and reliability of the published financial statements. All internal control systems, no matter how well designed, have inherent limitations and provide only reasonable assurance that the objectives of the control system are met.

Management evaluated the internal control over financial reporting under the supervision of our Chief Executive Officer, or CEO and Chief Financial Officer, or CFO as of December 31, 2008. Management evaluated the effectiveness of our internal control over financial reporting based on the criteria set out in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Ultrapar's management concluded that as of December 31, 2008, our internal control over financial reporting were adequate and effective, based on those criteria.

Our independent registered public accounting firm, KPMG Auditores Independentes, has issued an attestation report on management's assessment of our internal controls over financial reporting as of December 31, 2008. The report on the audit of our internal control over financial reporting is included below.

(c) Report of the Registered Public Accounting Firm on Internal Control over Financial Reporting

The Report of independent registered public accounting firm on internal control over financial reporting issued by our independent registered public accounting firm, KPMG Auditores Independentes, is presented below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Ultrapar Participações

We have audited Ultrapar Participações S.A. and its subsidiaries (the Company) internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). The standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the company are made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Ultrapar Participações S.A. and its subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Ultrapar Participações S.A. and its subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, cash flows and value added for the years then ended, and our report dated March 11, 2009 (except for the note 24 and 25, as to which the date is June 26, 2009) expressed an unqualified opinion on those consolidated financial statements.

São Paulo, SP - Brazil

March 11, 2009, except for the controls over notes 24 and 25, as to which the date is June 26, 2009.

/s/ KPMG Auditores Independentes

(d) Changes in Internal Control over Financial Reporting

We have made no change to our internal control over financial reporting for the year ended 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

In July 2005, our bylaws were revised to provide for the establishment of a Fiscal Council with permanent operations constituted of not more than three and no more than 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.

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 Securities 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.

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Ultrapar has determined that it will not appoint an audit committee financial expert. We believe that more than one of our Fiscal Council members have the skills, experience and education that qualify them to be an audit committee financial expert, as defined by current

ITEM 16B. CODE OF ETHICS

In 2004 we established a code of ethics which covered (i) the Board of Directors; (ii) the Executive Board (including the chief executive officer and the chief financial officer); (iii) the Fiscal Council of Ultrapar; (iv) the Board of Directors and Executive Board of subsidiaries; and (v) remaining bodies with technical or advisory functions that are directly subordinated to the Board of Directors, to Executive Board or to the Fiscal Committee of Ultrapar. Our code of ethics was amended on June 17, 2009 to (i) improve certain existing items of the code by including examples of acceptable or unacceptable behavior and clarifying the language to avoid misunderstanding such item and (ii) provide an additional channel for reporting non-compliance with the code. For the complete amended Code of Ethics please see our 6-K filed on June 19, 2009. The objective of this code is (i) to reduce the subjectivity of personal interpretations of ethical principles; (ii) to be a formal and institutional benchmark for the professional conduct of the employees, including the ethical handling of actual or apparent conflicts of interests, becoming a standard for the internal and external relationship of Ultrapar with its stakeholders namely: shareholders, clients, employees, partners, suppliers, service providers, labor unions, competitors, society, government and communities in which it operates; and (iii) to ensure that the daily concerns with efficiency, competitiveness and profitability do not override ethical behavior.

You can obtain a copy of our code of ethics, free of charge, at our website (www.ultra.com.br), or by requesting a copy from the Investor Relations Department (e-mail: invest@ultra.com.br).

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The relationship with our independent auditors in respect to the contracting of services unrelated to the external audit is based on principles that preserve the independence of the auditor. Our board of directors approves our financial statements, the performance by our auditors of audit and permissible non-audit services, and associated fees, supported by our Fiscal Council, which acts as an audit committee pursuant to the requirements of the Sarbanes-Oxley Act. See Item 6.C. Directors, Senior Management and Employees Board Practices Fiscal Council and Audit Committee Exemption for more information about the responsibilities of the Fiscal Council. Our consolidated financial statements for the years ended December 31, 2008 and 2007 were audited by the independent registered public accounting firm, KPMG Auditores Independentes, and our consolidated statements for the years ended 2006, 2005 and 2004 were audited by the independent registered public accounting firm, Deloitte Touche Tohmatsu Auditores Independentes.

The following table describes the total amount billed to us by KPMG for services performed in 2008 and 2007 and the respective compensation for these services:

	2008 (in thousands of r)	2007 (in thousands of r)
Audit Fees	2,997.0	2,997.0
Audit Related Fees	165.0	50.0
Tax Fees		
All Other Fees		
Total Consolidated Audit Fees	3,162.0	3,447.0

Audit Fees are the aggregate fees billed by independent registered public accounting firms for the audit of our consolidated and interim financial statements, reviews of interim financial statements and attestation services that are provided in connection with statutory regulatory filings or engagements. Audit-Related Fees are fees charged by KPMG for assurance and related services. For the year ended December 31, 2008 Ultrapar and its subsidiaries did not contract for any service from their independent auditors that was not directly related to the auditing of financial statements.

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ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

In July 2005, our bylaws were revised to provide for the establishment of a Fiscal Council with permanent operations. Our Fiscal Council also meets the requirements for exemption from audit committee independence pursuant to the requirements of the Sarbanes-Oxley Act of 2002.

Under Rule 10A-3(c)(3) of the Exchange Act, non-U.S. issuers, such as Ultrapar, are exempt from the audit committee independence requirements of Section 303A of the New York Stock Exchange Listed Company Manual if they establish, according to their local law, regulations, another body that meets certain requirements. See Item 6.C. Directors, Senior Management and Employees Board Practices and Procedures, Fiscal Council and Audit Committee Exemption.

The Fiscal Council meets the following requirements of the general exemption contained in Rule 10A-3(c)(3) of the Exchange Act:

the Fiscal Council is established pursuant to Brazilian Corporate Law and our bylaws;

under the requirements of Brazilian Corporate Law, our Fiscal Council is a separate body from our board of directors;

the Fiscal Council is not elected by Ultrapar's management and no executive officer of Ultrapar is a member of the Fiscal Council;

all of the members of the Fiscal Council meet the independence requirements from Ultrapar, the management and the auditors set forth by Brazilian Corporate Law and/or listing provisions in Brazil;

the Fiscal Council makes recommendations to our board of directors regarding the appointment, retention and oversight of the work of the independent auditors engaged for the purpose of preparing or issuing audit reports for Ultrapar;

the Fiscal Council adopted a complaints procedure in accordance with Rule 10A-3(b)(3) of the Exchange Act;

the Fiscal Council is authorized to engage independent counsel and other advisers, as it deems appropriate; and

Ultrapar has provided for appropriate funding, as determined by the Fiscal Council, for the payment of (i) compensation to Ultrapar's auditors engaged for the purpose of issuing audit reports, (ii) compensation to independent counsel and other advisers engaged by the Fiscal Council, and (iii) ordinary administrative expenses of the Fiscal Council in carrying out its duties.

Ultrapar's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its Fiscal Council to operate independently and to satisfy the other requirements of Rule 10A-3(c)(3).

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In August 2007, the Board of Directors approved a share repurchase program with a 12-month term under which we can acquire our preferred shares at market price and hold them in treasury for subsequent sale or cancellation. The maximum number of shares that could be repurchased is 2,362,131 shares. The total shares repurchased through December 31, 2008 under this program, were 1,759,100 preferred shares, as follows:

Period

	Total number of shares repurchased	Average price per share in reais	Total number of shares repurchased as part of publicly announced plans or programs	Maximum number of shares that yet be repurchased under the p or program
January 1, 2008 – January 31, 2008	167,500	58.36	167,500	2,159
February 1, 2008 – February 29, 2008	13,200	64.32	180,700	2,146
March 1, 2008 – March 31, 2008	434,200	61.09	614,900	1,712
April 1, 2008 – April 30, 2008	1,144,200	59.31	1,759,100	567
Total shares repurchased during 2008	1,759,100	59.70	1,759,100	567

* Our last share repurchase program began on August 8, 2007 and expired on August 8, 2008.

ITEM 16G. CORPORATE GOVERNANCE

Under the rules of the New York Stock Exchange (NYSE), foreign private issuers are subject to a more limited set of corporate governance requirements than are U.S. domestic issuers. As a foreign private issuer, we must comply with four principal NYSE corporate governance rules: (i) we must satisfy the requirements of Exchange Act Rule 10A-3 relating to audit committees; (ii) our Chief Executive Officer must promptly notify the NYSE after any executive officer becomes aware of any material noncompliance with the applicable NYSE rules; (iii) we must provide the NYSE with annual and interim written affirmations; and (iv) we must provide a brief description of any significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards.

The significant differences between our corporate governance practices and the NYSE corporate governance standards are as follows:

Independence of Directors

NYSE rules require that a majority of the Board of Directors must consist of independent directors as defined under NYSE rules. Under Brazilian Corporate Law we are not required to have a majority of independent directors. The Brazilian Corporate Law requires that all directors be elected by our shareholders at a general shareholders meeting. Our current Board of Directors consists of eight members, of whom five are independent non-executive members and three are shareholders of Ultra S.A., our controlling shareholder. Two of these three board members were executive officers of Ultrapar until December 2007.

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No member of the Board has any material relationship with the company, either directly or as a partner or officer of an organization that has a material relationship with Ultrapar. The Brazilian Corporate Law and CVM establish rules relating to the qualification of the members of our Board of Directors and our executive officers, including their compensation, duties and responsibilities. We believe these rules provide adequate assurances that our directors are independent according to the independence tests established by the NYSE.

Executive Sessions

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Such provision does not apply to Ultrapar given that none of our directors is currently an executive officer of the company.

Committees

NYSE rules require that U.S. domestic listed companies have a nominating/corporate governance committee and a compensation committee, both composed entirely of independent directors and governed by a written charter addressing the committee's purpose and responsibilities. Under the Brazilian Corporate Law, we are not required to have, and accordingly we do not have, a nominating committee, a corporate governance committee or a compensation committee.

Fiscal Council and Audit Committee

U.S. domestic listed companies must have an audit committee with a minimum of three independent directors who are financially literate and who satisfy the independence requirements of Rule 10A-3 of the Securities Exchange Act of 1934 (the "Exchange Act"), with a written charter addressing the committee's purpose and responsibilities. However, as the Brazilian Corporate Law requires the establishment of a corporate body whose duties are similar to those established by the Exchange Act (the Fiscal Council), we may be exempt from the requirements of Rule 10A-3 if we satisfy the conditions of Rule 10A-3(c)(3) of the Exchange Act.

Our Fiscal Council satisfies the requirements of Rule 10A-3(c)(3) of the Exchange Act. The Fiscal Council consists of five members, including three independent members and their respective alternate members, and it is a separate corporate body independent from our management. 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. Under the Brazilian Corporate Law, individuals who are members of the Board of Directors or are executive officers or employees or spouses or immediate relatives of any member of the company's management are not eligible to serve on the Fiscal Council.

For more information see Item 6.C. Directors, Senior Management and Employees' Board Practices' Fiscal Council and Audit Committee' Exemption.

Shareholder Approval of Equity Compensation Plans

NYSE rules require that equity compensation plans for U.S. domestic listed companies be subject to shareholder approval, with limited exceptions. In November, 2003, our shareholders approved the Deferred Stock Plan. In accordance with the Deferred Stock Plan, the Board of Directors determines the eligible participants and the number of shares to which each participant shall have rights. See Item 6.C. Directors, Senior Management and Employees' Compensation.

Corporate Governance Guidelines

NYSE rules require that U.S. domestic listed companies adopt and disclose corporate governance guidelines. We have adopted corporate governance guidelines set out by our Board of Directors or required by the Brazilian Corporate Law and which we believe are consistent with best practices, such as the 100% tag along rights to all shareholders, the implementation of a code of ethics, a Fiscal Council with responsibilities equivalent to those of an audit committee, and the adoption of the Policy of Disclosure of Material Acts or Facts, which deals with the public disclosure of all relevant information and the trading of shares issued by Ultrapar as per CVM Instruction No. 358.

Code of Business Conduct and Ethics

NYSE rules require that U.S. domestic listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees. In 2004 we established a code of ethics which was amended on June 17, 2009. For the complete amended code of ethics please see our 6K filed on June 19, 2009. The main objectives of this code is to reduce the subjectivity of personal interpretations of ethical principles and to be a formal and institutional benchmark for the professional conduct of our employees, including the ethical handling of confidential information.

actual or apparent conflicts of interests, becoming a standard for the internal and external relationship of the Company with its stakeholders.
See Item 16.B. Code of Ethics

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PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this I

ITEM 18. FINANCIAL STATEMENTS

We file the following consolidated financial statements together with the reports of independent registered public accountants firms, as of this annual re

Report of Independent Registered Public Accounting Firm

Consolidated balance sheets as of December 31, 2008 and 2007

Consolidated statements of income for the years ended December 31, 2008, 2007 and 2006

Consolidated statements of changes in shareholders' equity for the years ended December 31, 2008, 2007 and 2006

Consolidated statements of cash flow for the years ended December 31, 2008, 2007 and 2006

Statements of value added

Notes to the consolidated financial statements for the years ended December 31, 2008, 2007 and 2006

ITEM 19. EXHIBITS

We are filing the following documents as part of this Annual Report Form

- 1.1 Bylaws of Ultrapar, dated as of April 28, 2008.
- 2.1 Shareholders' Agreement dated March 22, 2000 (incorporated by reference to Exhibit 2.1 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 2.2 Shareholders' Agreement dated September 22, 2004 (incorporated by reference to Exhibit 10.3 to Form F-1 of Ultrapar Participações S.A. filed on February 2, 2005, as amended).
- 2.3 Indenture in respect of the 1st issue of simple, non-convertible debentures, unsecured and without special privileges, in a single series, for public distribution, dated of February 16, 2005 (incorporated by reference our report on Form 6-K filed on March 1, 2005).
- 2.4 Indenture, dated as of December 20, 2005, among LPG International Inc., as Issuer, Ultrapar Participações S.A. and Oxiteno S.A. Indústria e Comércio, as Guarantors, JPMorgan Chase Bank, N.A., as Trustee, Transfer Agent and Registrar, J.P. Morgan Trust Bank LTD., as Principal Payment Agent and J.P. Morgan Bank Luxembourg S.A., as Luxembourg Paying Agent, Luxembourg Transfer Agent and Luxembourg Listing Agent (incorporated by reference to Exhibit 2.2 to Form 20-F of Ultrapar Participações S.A. filed on May 5, 2006).
- 2.5 Amendment dated as of March 31, 2006 to the Indenture dated as of December 20, 2005 (incorporated by reference to Exhibit 2.3 to Form 20-F of Ultrapar Participações S.A. filed on May 5, 2006).
- 2.6 Indenture regarding first tranche of the issuance of debentures in Brazil totaling R\$675 million in connection with the acquisition of Ipiranga - English Translation (incorporated by reference to Exhibit 2.6 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 2.7

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- Ipiranga Group Shareholders Agreement entered into by and among Ultrapar, Petrobras and Braskem, dated April 18, 2007 English Translation (incorporated by reference to Exhibit 2.7 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 2.8 RPR Shareholders Agreement entered into by and among Ultrapar, Petrobras and Braskem, dated April 18, 2007 English Translation (incorporated by reference to Exhibit 2.8 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 4.1 Share Sale and Purchase Agreement related to the sale and purchase of the entire share capital of Shell Gás (LPG) Brasil S.A. (incorporated by reference to Exhibit 10.2 to Form F-1 of Ultrapar Participações S.A. filed on February 2, 2005).

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- 4.2 Form of agreement between Ultragas and independent dealers (incorporated by reference to Exhibit 10.4 to Form F-1 of Ultrapar Participações S.A. filed on February 2, 2005, as amended).
- 4.3 Take or pay agreement between Tequimar and CODEBA (incorporated by reference to Exhibit 10.5 to Form F-1 of Ultrapar Participações S.A. filed on February 2, 2005, as amended).
- 4.4 The Investment Agreement entered into by and among Ultrapar, Petrobras and Braskem dated March 18, 2007 English translation as amended by the Amendment to Investment Agreement entered into by and among Ultrapar, Petrobras and Braskem dated April 18, 2007 English Summary (incorporated by reference to Exhibit 4.4 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 4.5 Share Purchase Agreement entered into by and among Ultrapar, Petrobras, Braskem and the Key Shareholders of RPR, DPPI and CBPI, dated April 18, 2007 English Summary (incorporated by reference to Exhibit 4.5 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 4.6 Braskem/Petrobras Asset Security Agreement entered into by and among Ultrapar, Petrobras and Braskem, dated April 18, 2007 English Summary (incorporated by reference to Exhibit 4.6 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 4.7 Petrobras Asset Security Agreement entered into by and among Ultrapar, Petrobras and Braskem, dated April 18, 2007 English Summary (incorporated by reference to Exhibit 4.7 to Form 20-F of Ultrapar Participações S.A. filed on June 7, 2007).
- 4.8 Share Purchase Agreement between Ultrapar Participações S.A.'s subsidiary Terminal Químico de Aratu S.A. and Unipar, dated June 6, 2008, including Amendment dated September 22, 2008 English Summary.
- 4.9 Securities Purchase Agreement entered into by and among Chevron, CBL, Galena and SBP, dated August 14, 2008.
- 4.10 Amendment No. 1 to Securities Purchase Agreement entered into by and among Chevron, CBL, Galena and SBP, dated March 2009.
- 6.1 Statement regarding computation of per share earnings (incorporated by reference to Note 24(V)(a) to our consolidated financial statements included in this annual report).
- 8.1 List of subsidiaries of Ultrapar (incorporated by reference to Note 4(a) to our consolidated financial statements included in this annual report).
- 11.1 Code of Ethics, amended on June 17, 2009 (incorporated by reference to Form 6-K of Ultrapar Participações S.A. filed on June 2009).
- 12.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 12.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 15.1 Documentation with respect to our corporate restructuring of 2002 (incorporated by reference in Forms 6-K, filed with the SEC on October 15, 2002, November 1, 2002 and December 6, 2002).
There are omitted from the exhibits filed with or incorporated by reference into this annual report certain promissory notes and other instruments and agreements with respect to long-term debt of our company, none of which authorizes securities in a total amount that exceeds 10% of the total assets of our company. We hereby agree to furnish to the Securities and Exchange Commission copies of any omitted promissory notes or other instruments or agreements as the Commission requires.

Table of Contents**GLOSSARY OF PETROCHEMICAL INDUSTRY TERMS**

Acetates	Chemical substances derived from acetic acid, which are used as solvents in the production of paints and coatings.
Acetic Acid	One of the largest produced organic acids and is used in the production of acetates.
Acrylates	Derivatives from acrylic acid, that are used in the plastic industry.
Acrylonitrile	Derivative compounds from propylene having a nitrile group.
Alcohol	Flammable liquid obtained by fermentation of sugary substances, or by synthetics operations.
Alcohol Sulfates	Fatty alcohol-derived sulfates, with surfactant characteristics, mainly used in the production of detergents.
Alkanolamides	Substances produced by reaction of fatty acids with alkanolamines, mainly used as emulsifiers in cosmetic preparation.
Alkyl Benzene	Substance with an aromatic ring and an aliphatic chain.
Aromatics	A major group of organic chemical compounds with a ring shaped carbon chain. Aromatics are derived chiefly from petroleum and coal tar, and used to make a broad range of downstream chemical products.
Butadiene	By-product of the cracking process; used primarily as a feedstock for synthetic rubber, elastomers and fibers.
Butyl Alcohol	An alcohol used primarily in the production of solvents and plasticizers.
Commodity Chemicals	A term applied to chemical substances, which are sold on a generic basis and, unlike specialty chemicals, are not generally manufactured to meet specific end-use performance characteristics.
Condensed Naphthalene	Polymer mainly used as a super-fluidizer and curing agent for cement preparation.
Crackers	First generation companies that thermally breakdown or crack ethane, naphtha and gas oil into basic petrochemicals, such as ethylene and propylene.
Dispersants	Class of chemicals whose main property is to maintain the stability of a mixture by preventing particles from settling out of the mixture.
EDC	Ethylene Dichloride, raw material of VCM.
Elastomer	Broad category of rubber polymers which may be natural or synthetic, such as natural rubber, nitrile rubber and styrene-butadiene rubbers.
Emulsifiers	A class of chemical generally used to promote the dispersion of materials throughout a solution or mixture.
Ethanol	Flammable liquid obtained by fermentation of sugary substances, largely used as fuel for vehicles.
Ethanolamines	Ethanolamines, comprising mono-, di-, and tri-ethanolamines, are clear, non-flammable, liquids at atmospheric pressure and room temperature conditions, and are produced from ethylene oxide and ammonium.
Ethers	Organic compound with one oxygen atom interpolated between two carbon atoms.
Ethoxylated Alcohol	Produced by reaction of ethylene oxide with alcohols. Ethoxylated alcohols are used mainly as surfactants.
Ethoxylated Alkylphenols	Ethoxylated alkylphenols range from clear liquids to colored solids and is produced by the reaction of ethylene oxide with alkylphenol.
Ethoxylated Fatty Alcohols	Substances produced by reaction of ethylene oxide with fatty alcohols and are used mainly as a raw material for detergent production.
Ethoxylated Fatty Amines	

	Substances produced by reaction of ethylene oxide with fatty amines and are used mainly as emulsifiers for crop protection chemicals.
Ethoxylated Fatty Esters	Substances produced by reaction of ethylene oxide with hydroxylated fatty esters and are used mainly as emulsifiers in the cosmetic industry.

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Ethoxylated Sorbitan Esters	Substances produced by reaction of ethylene oxide with sorbitan esters and are mainly used as food emulsifiers, especially for bakery products.
Ethyl Alcohol	A flammable liquid known as ethanol. It is used as automotive fuel, alone or in mixture with gasoline and as a solvent in personal care products, such as aftershave lotion and mouthwashes.
Ethylene	A chemical substance, mainly derived from thermal cracking of ethane, gas oil and naphtha, and used to make polyethylene and many organic chemical intermediates, such as ethylene oxide, vinyl chloride, styrene and acetaldehyde.
Ethylene Glycols	Includes mono-, di-, tri- and other ethylene glycols. Mono-ethylene glycol or MEG is a clear, non-flammable, non-volatile liquid at room temperature and atmospheric pressure. Ethylene glycols are produced from ethylene oxide.
Ethylene Oxide	Ethylene oxide is a colorless and highly flammable gas at room temperature and atmospheric pressure and is produced by catalytic partial oxidation of ethylene by oxygen, at high temperature and pressure.
Fatty Alcohols	Fatty alcohols are alcohols derived from fat or vegetable oil (natural fatty alcohol) or petrochemical sources (synthetic fatty alcohol), largely used in the cosmetics and detergents production.
First Generation Company	A petrochemical cracker.
Fuels	Any substance that produces energy in a chemical reaction.
Glycol Ether Acetate	Flammable liquids at room temperature and atmospheric pressure produced by reaction with acetic acid and glycol ether.
Glycols	Alcohols containing two hydroxyl groups.
Glycol Ethers	Substances produced by reaction of ethylene oxide and an alcohol, or methyl, ethyl and butyl alcohols.
Hydraulic Fluids	Mixture of high molecular weight glycols and glycol ethers used as cooling medium and mechanical action transmitters in automotive braking systems.
Lauryl Alcohol	Substance of twelve-carbon fatty alcohol raw material for ethoxylated fatty alcohol, alcohol sulfate and ethoxylated alcohol sulfate production, which are intermediates for detergent production.
Linear Alkyl Benzene (LAB)	Straight chain alkyl benzene used as surfactant intermediate.
Linear Alkyl Sulphonate (LAS)	Straight chain alkyl benzene sulfate used as surfactant intermediate.
Lubricants	Broad class of chemicals which are generally used to provide a film between the moving parts of machines and engines.
Methyl Ethyl Ketone (MEK)	A clear, volatile, flammable liquid at room temperature and atmospheric pressure and is mainly used as a solvent.
Metric Ton	Equal to 1,000 kilograms (2,204.62 pounds).
Naphtha	A by-product of crude oil refining which is used by crackers as feedstock.
Nitrile	Organic compound containing CN group.
Normal Paraffins	Class of aliphatic hydrocarbons with a single carbon chain.
Olefin	Hydrocarbons with double bonds with the general chemical formula C_nH_{2n} . Olefins, along with aromatics, are produced mainly in crackers and are regarded as the building blocks of the petrochemical industry.
Paraxylene	Organic compound with two methyl radicals in p-position.
PET	Polyethylene terephthalate, a polymer produced by polycondensation of ethylene glycol with either Dimethyl Terephthalate, or terephthalic acid. Used to produce fibers, resins and packaging such as carbonated soft drink bottles (PET bottle grade).

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Phosphate Esters	Phosphoric acid derived esters, used primarily as detergent builders in powder detergent production.
Polyethylene	Intermediate petrochemical produced by second generation companies from ethylene; used in many plastic applications.
Polyethylene Glycols	Ethylene oxide derived polymers used in many applications, including as fillers, lubricants and viscosifiers.
Polystyrene	Intermediate petrochemical produced by second generation companies from styrene.
Polyvinyl Chloride	Intermediate petrochemical produced by companies from basic petrochemicals.
Propylene	A chemical substance, mainly derived as a co-product with ethylene through the cracking process of oil or naphtha, often used to make polypropylene, which is a common plastic.
Raffinate II	A by-product of naphtha cracking mainly composed of butane and used in the production of MEK.
Sec-Butanol	A secondary four-carbon atom alcohol obtained by the hydration of butanes, contained in raffinate II. Sec-butanol is the raw material for methyl-ethyl-ketone production.
Second Generation Company	A producer of intermediate chemical products based largely on raw materials purchased from upstream first generation companies, also known as crackers.
Softeners	A class of surfactant products mainly used as co-agents in the textile industry and domestic laundries.
Solvents	Chemical compounds, usually in liquid form, capable of dissolving another substance; often used as a medium in which other chemical reactions may take place.
Sorbitan Esters	Substances produced by the reaction of sorbitan with fatty acids used as a raw material for ethoxylated sorbitan esters.
Soybean Oil	Oil from soy beans.
Styrene	Aromatic compound with ethylene group. Monomer of polystyrene.
Specialty Chemicals	Chemicals which are usually produced in smaller quantities than commodity chemicals and which performances are more relevant than the specification.
Stabilizers	Chemicals which are used to prevent chemical degradation of a product or chemical compound.
Sulfonates/Sulfates	Class of sulfur trioxide modified surfactants, used as a raw material for detergent production.
Surfactants	Generally defines a group of chemicals which, when dissolved in a solvent, modify the liquid properties at a liquid/liquid or liquid/solid interface, including increased solubilization, foaming, frothing, emulsification, dispersing or wetting; a major end-use market for surfactants is the detergent market.
TDI	Toluene diisocyanate used as raw material of polyurethane.
Third Generation Company	A producer that transforms intermediate products into end products such as films, piping and containers.
Tons	Metric tons.
VAM	Vinyl acetate monomer. Monomer of PVA - polyvinyl acetate.
VCM	Vinyl chloride monomer.

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SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

ULTRAPAR PARTICIPAÇÕES S.A.

By: /s/ Pedro Wongtschowski
Name: Pedro Wongtschowski
Title: Chief Executive Officer

By: /s/ André Covre
Name: André Covre
Title: Chief Financial and Investor Relations Officer
Date: June 29, 2011

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Consolidated statements of income for the years ended December 31, 2008, 2007 and 2006

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

Ultrapar Participações

We have audited the accompanying consolidated balance sheets of Ultrapar Participações S.A. and its subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity and comprehensive income, cash flows and value added for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The accompanying consolidated statements of income, shareholders' equity and comprehensive income, cash flows and value added of the year ended December 31, 2006, were audited by other auditors whose report thereon dated January 31, 2007 (except for notes 24 and 25, as to which the date is May 24, 2007), expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ultrapar Participações S.A. and its subsidiaries as of December 31, 2008 and 2007, and the results of their operations, changes in shareholders' equity, cash flows and value added for the year then ended, in conformity with generally accepted accounting principles in Brazil.

Accounting principles generally accepted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States. Information relating to the nature and effect of such differences is presented in Note 24 to the consolidated financial statements.

As discussed in note 3 to the consolidated financial statements, the Company changed some of its accounting principles due to the introduction of Law No. 11.638/07 Provisional Executive Act No. 449.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Ultrapar Participações S.A. and its subsidiaries' internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Our report dated March 11, 2009 (except for the controls over notes 24 and 25, as to which date is June 26, 2009) expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

São Paulo, SP - Brazil

March 11, 2009, except for notes 24 and 25, as to which the date is June 26, 2009.

KPMG Auditores Independentes

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Ultrapar Participações

São Paulo - SP - Brazil

1. We have audited the accompanying consolidated statements of operations, changes in shareholders' equity, cash flows and value added of Ultrapar Participações S.A. and subsidiaries ("Ultrapar") for the year ended December 31, 2006. These consolidated financial statements are the responsibility of Ultrapar's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.
3. In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated results of its operations, changes in its stockholders' equity, its cash flows and value added on its operations for the year ended December 31, 2006, in conformity with accounting practices adopted in Brazil.
4. Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Ultrapar has presented the nature and effect of such differences in Note 24 to the consolidated financial statements.
5. As discussed in Note 3 to the consolidated financial statements and as prescribed by CVM Resolution N° 565, Ultrapar has set the transition date for the adoption of the new accounting practices introduced by Law 11.638/07 as of January 1, 2008. Accordingly, the consolidated financial statements for the year ended December 31, 2006 have not been adjusted to reflect the changes in the accounting practices adopted in Brazil, except for the substitution of the consolidated statement of changes in financial position with the consolidated statement of cash flows and the inclusion of the statement of value added.

January 31, 2007, except for Note 24 as to which the date is May 24, 2007.

Deloitte Touche Tohmatsu Auditores Independentes

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Table of Contents**ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007**

(In millions of Brazilian Reals - R\$)

	Note	2008	2007
<u>ASSETS</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	1,275.1	861.4
Short-term investments	5	851.4	841.2
Trade accounts receivable, net	6	1,429.3	1,344.5
Inventories	7	1,033.7	631.2
Recoverable taxes	8	311.9	201.1
Deferred income tax and social contribution	22.a)	111.8	109.1
Other	4.a)	103.6	1,771.2
Prepaid expenses	3.b) and 9	19.0	13.1
		5,135.8	5,781.8
NON-CURRENT			
LONG-TERM ASSETS			
Long-term investments	5	7.2	121.1
Trade accounts receivable, net	6	210.1	170.1
Related companies	21.a)	5.6	11.2
Deferred income tax and social contribution	22.a)	408.7	119.1
Recoverable taxes	3.d) and 8	43.0	61.2
Escrow deposits		56.1	31.1
Other		0.5	1.1
Prepaid expenses	3.b) and 9	24.6	30.1
		755.8	574.9
Investments			
Affiliated companies	10	12.9	11.2
Other		21.0	31.1
Property, plant and equipment, net	3.c), 3.d), 11 and 14.g)	3,131.5	2,261.2
Intangible assets, net	3.a), 3.c) and 12	594.6	611.1
Deferred charges, net	3.a), 3.c) and 13	15.6	57.1
		3,775.6	2,951.7
		4,531.4	3,528.5
TOTAL		9,667.2	9,309.3
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
CURRENT LIABILITIES			
Loans and financing	3.b) and 14	1,645.5	671.1

Debtures	3.b) and 14		1,222.0
Finance leases	14	12.6	
Trade payables		614.2	58.0
Payroll and related charges		164.6	12.0
Taxes payable		89.0	9.0
Dividends payable		127.0	28.0
Income tax and social contribution		17.4	2.0
Deferred income tax and social contribution	22.a)	14.7	0.0
Post-employment benefits	23.b)	8.8	0.0
Provision for contingencies	20.a)	32.5	1.0
Other		21.4	5.0
		2,747.7	3,09.0
NON-CURRENT			
LONG-TERM LIABILITIES			
Loans and financing	3.b) and 14	2,000.9	1,000.0
Debtures	14		350.0
Finance leases	14	12.9	
Related companies	21.a)	4.4	0.0
Deferred income tax and social contribution	22.a)	18.2	
Provision for contingencies	20.a)	103.5	11.0
Post-employment benefits	23.b)	77.7	8.0
Other		13.6	1.0
		2,231.2	1,570.0
MINORITY INTEREST			
		38.2	3.0
SHAREHOLDERS' EQUITY			
Share capital	15.a)	3,696.8	3,690.0
Capital reserve	15.c)	0.9	0.0
Revaluation reserve	15.d)	10.3	1.0
Profit reserves	15.e)	1,078.9	92.0
Treasury shares	15.b)	(138.9)	(3.0)
Valuation adjustment	3, 4.c) and 15.g)	(6.2)	
Cumulative translation adjustments	3, 4.t) and 15.h)	8.3	
		4,650.1	4,600.0
TOTAL		9,667.2	9,300.0

The accompanying notes are an integral part of these financial statements.

Table of Contents**ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

(In millions of Brazilian Reais - R\$, except for earnings per share)

	Note	2008	2007	2006
GROSS SALES AND SERVICES	4.p)	29,536.4	20,841.1	5,222.1
Deductions		(1,268.4)	(919.8)	(431.2)
NET SALES AND SERVICES		28,268.0	19,921.3	4,790.9
Cost of sales and services	4.q)	(26,152.3)	(18,224.2)	(3,851.5)
GROSS PROFIT		2,115.7	1,697.1	939.4
OPERATING (EXPENSES) INCOME				
Selling		(584.2)	(472.6)	(201.1)
General and administrative		(553.0)	(522.2)	(271.5)
Depreciation and amortization		(287.2)	(228.5)	(121.2)
Other operating income, net		22.1	12.3	1.1
		(1,402.3)	(1,211.0)	(600.7)
OPERATING INCOME BEFORE FINANCIAL ITEMS AND OTHER REVENUES		713.4	486.1	338.6
Financial income (expenses), net	16	(168.8)	(119.4)	30.1
Other income (expense), net	17	11.2	8.8	(11.2)
		(157.6)	(110.6)	18.9
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION, EQUITY IN EARNINGS OF AFFILIATED COMPANIES, EMPLOYEES STATUTORY INTEREST AND MINORITY INTEREST		555.8	375.5	347.5
INCOME TAX AND SOCIAL CONTRIBUTION				
Current	22.b)	(204.6)	(207.8)	(111.1)
Deferred	22.b)	12.7	86.7	1.1
Benefit of tax holidays	22.b) and 22.c)	40.3	35.2	50.1
		(151.6)	(85.9)	(59.9)
INCOME BEFORE EQUITY IN EARNINGS OF AFFILIATED COMPANIES, EMPLOYEES STATUTORY INTEREST AND MINORITY INTEREST		404.2	289.6	287.6
Equity in earnings of affiliated companies	10		0.6	
Employees statutory interest		(9.4)	(7.3)	(3.1)
Minority interest		(4.5)	(101.0)	(3.1)
NET INCOME		390.3	181.9	281.5

EARNINGS PER SHARE (BASED ON ANNUAL WEIGHTED AVERAGE OF
SHARES OUTSTANDING) - R\$

15.f)

2.87

2.19

3.

The accompanying notes are an integral part of these financial statements.

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Table of Contents**ULTRAPAR PARTICIPAÇÕES****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(In millions of Brazilian Reals - R\$)

				Revaluation reserve of subsidiary and affiliated companies	Legal	Retention of profits	Unrealized profits	Valuation adjustment	Cumulative translation adjustments	Retained earnings	Treasury shares	Total
BALANCES	Note	Share capital	Capital reserve									
AT												
DECEMBER												
31, 2005		946.0	0.3	15.0	76.7	657.5	103.3				(8.7)	1,072.8
Acquisition of												
treasury shares	15.b)										(1.1)	
Sale of treasury												
shares	15.b)		0.3								0.5	
Realization of												
revaluation												
reserve	15.d)			(2.0)						2.0		
Income and												
social												
contribution												
taxes on												
realization of												
revaluation												
reserve of												
subsidiaries.	15.d)									(0.5)		
Retention of												
realization of												
profit reserve												
net of income												
tax and social												
contribution	15.e)					1.6				(1.6)		
Net income										282.1		
Reversal of												
allowance for												
plant												
maintenance												
shutdown by the												
subsidiary, net												
of income taxes										6.3		
Appropriation												
of net income:												
Legal reserve	15.e)				14.3					(14.3)		
Interim												
dividends (R\$												
0.89 per share)	15.f)									(72.0)		

Proposed dividends payable (R\$ 0.89 per share)	15.f)					(68.2)		(4.0)	
Reserve for unrealized profits	15.e)					61.0		(61.0)	
Retention of profit reserves	15.e)				137.0			(137.0)	
BALANCES AT DECEMBER									
31, 2006		946.0	0.6	13.0	91.0	796.1	96.1		(9.3) 1, 2,
Capital increase	15.a)	2,750.8							
Acquisition of treasury shares	15.b)							(25.2)	
Sale of treasury shares			0.3					0.6	
Realization of revaluation reserve	15.d)			(1.4)				1.4	
Income tax and social contribution on realization of revaluation reserve of subsidiaries	15.d)							(0.2)	
Transfer to retained earnings						1.2		(1.2)	
Net income								181.9	
Appropriation of net income: Legal reserve	15.e)				9.1			(9.1)	
Proposed dividends payable (R\$ 1.78 per share)	15.f)						(96.1)	(144.7)	(
Reserve for retention of profits	15.e)					28.1		(28.1)	
BALANCES AT DECEMBER									
31, 2007		3,636.8	0.9	11.6	100.1	825.4			(33.9) 4,
Initial implementation of Law 11638/07	3							(0.3)	
Acquisition of treasury shares	15.b)							(105.0)	(
Realization of revaluation reserve	15.d)			(1.3)				1.3	
Income tax and social contribution on realization of revaluation	15.d)							(0.1)	

reserve of subsidiaries										
Transfer to retained earnings					0.9				(0.9)	
Valuation adjustments for financial instruments	15.g)						(6.2)			
Currency translation of foreign subsidiaries	15.h)							8.3		
Net income									390.3	
Appropriation of net income										
Legal reserve	15.e)				19.5				(19.5)	
Interim dividends (R\$ 0.89 per share)	15.f)								(119.0)	(
Proposed dividends payable (R\$ 0.89 per share)	15.f)								(118.8)	(
Reserve for retention of profits	15.e)				133.0				(133.0)	
BALANCES AT DECEMBER 31, 2008		3,696.8	0.9	10.3	119.6	959.3	(6.2)	8.3	(138.9)	4,

The accompanying notes are an integral part of these financial statements.

Table of Contents**ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(In millions of Brazilian Reals - R\$)

	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	390.3	181.9	283.1
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	375.5	300.6	183.2
PIS and COFINS credit on depreciation	5.1	3.0	2.1
Loss on disposals of fixed assets and investments	(20.8)	(7.6)	13.4
Interest, monetary and exchange variation (gains)	318.8	(75.0)	(33.2)
Allowance (reversal of provision) for losses on fixed assets	(1.9)	(2.8)	3.1
Equity in losses of affiliated companies		(0.6)	(0.1)
Deferred income tax and social contribution	(12.7)	(92.2)	(9.3)
Minority interest	4.5	101.0	3.1
Other	1.6	0.9	0.1
Decrease (increase) in operating assets:			
Trade accounts receivable	(120.2)	(102.4)	(10.1)
Recoverable taxes	(80.0)	(24.5)	(7.3)
Inventories	(387.1)	(64.3)	(2.1)
Prepaid expenses	(4.3)	0.7	0.1
Other	(74.5)	(7.4)	0.1
Increase (decrease) in operating liabilities:			
Trade payables	26.9	130.6	2.1
Accrued interest	(24.4)	17.3	(3.1)
Payroll and related charges	38.2	9.3	13.4
Taxes	26.5	73.2	13.1
Income tax and social contribution	(16.3)	8.6	0.1
Other	(71.7)	17.9	(0.1)
Net cash provided by operating activities	373.5	468.2	383.1
CASH FLOWS FROM INVESTING ACTIVITIES			
Financial investments, net of redemptions	34.0	423.2	(57.1)
Additions to investments	(432.4)	(889.6)	(0.1)
Cash acquisition from subsidiaries	11.4	166.7	0.1
Purchase of Companies, net of cash acquired	(421.0)	(722.9)	(0.1)
Additions to escrow deposits	(22.5)	(5.0)	(2.1)
Additions to property, plant and equipment	(891.7)	(658.8)	(25.1)
Additions to intangible assets	(37.9)	(6.2)	(1.1)
Additions to deferred charges	(4.9)	(63.4)	(7.1)
Acquisition of minority interests		(0.1)	(0.1)
Proceeds from sales of property, plant and equipment	45.0	33.8	20.1
Net cash used in investing activities	(1,299.0)	(999.4)	(91.1)

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Table of Contents**ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

(In millions of Brazilian Reals - R\$)

	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term debt, net	(705.4)	865.4	(171.1)
Long-term debt, net	824.6	260.8	141.1
Payment of financial leases	(10.5)		
Loans from affiliated companies, net	(5.7)	26.4	(4.1)
Dividends paid	(398.9)	(65.7)	(141.1)
Acquisition of treasury shares	(105.0)	(25.2)	(1.1)
Payment from Petrobras and Braskem for delivery of Petrochemical and Distribution Assets	1,731.3		
Net cash provided by (used in) financing activities	1,330.4	1,061.7	(181.1)
Effect of exchange rate changes on cash and cash equivalents	7.8	(53.2)	(1.1)
Net increase (decrease) in cash and cash equivalents	412.7	477.3	(72.1)
Cash and cash equivalents at the beginning of the period	862.4	385.1	1,114.1
Cash and cash equivalents at the end of the period	1,275.1	862.4	381.1
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for:			
Interest, net of amounts capitalized	180.3	160.5	91.1
Income taxes	126.6	70.6	31.1
Nonecash investing and financing activities:			
Capital increase in subsidiaries with receivable dividends		2,750.8	
Accounts receivable from merger of share concerning Petrobras and Braskem assets (see Note 4.a)		(1,751.7)	
Capital increase due to merger of share		999.1	
Debt from subsidiaries acquired	43.5	677.0	
Finance leases	15.5		

Table of Contents**ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES****STATEMENTS OF VALUE ADDED****FISCAL YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

(In millions of Brazilian Reais, except percentages)

	Note	2008	%	2007	%	2006
Revenues						
Gross revenue from sales and services, except rents and royalties	4.p)	29,504.1		20,818.4		5,229.9
Rebates, discounts and returns		(145.9)		(114.5)		(23.7)
Allowance for doubtful accounts - Release (creation)		7.2		4.1		5.1
Other income		11.2		8.8		(18.5)
		29,376.6		20,716.8		5,192.8
Materials purchased from third parties						
Raw materials used	4.q)	(1,805.7)		(1,546.4)		(1,344.9)
Cost of goods, products and services sold		(24,276.3)		(16,552.2)		(2,160.3)
Third-party materials, energy, services and others		(932.1)		(869.1)		(608.2)
Recovery (loss) of asset value		3.0		(0.7)		7.9
		(27,011.1)		(18,968.4)		(4,105.5)
Gross value added		2,365.5		1,748.4		1,087.3
Deductions						
Depreciation and amortization		(380.6)		(303.6)		(187.9)
Net value added by the company		1,984.9		1,444.8		899.4
Value added received in transfer						
Equity in affiliates	10			0.6		1.0
Dividends and interest on equity at cost		2.8		1.8		1.0
Rents and royalties		32.3		22.8		
Financial revenues	16	257.3		163.2		155.9
		292.4		188.4		157.9
Total value added available for distribution		2,277.3	100	1,633.2	100	1,057.3
Distribution of value added						
Labor and benefits		699.9	31	645.2	40	444.8
Taxes, fees and contributions		694.5	30	416.8	25	142.8
Financial expenses and rents		488.1	21	288.4	18	182.4
Dividends and interest on equity		239.3	11	146.3	9	146.1
Retained earnings		155.5	7	136.5	8	141.2
Value added distributed		2,277.3	100	1,633.2	100	1,057.3

The accompanying notes are an integral part of these financial statements

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ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

1. OPERATIONS

Ultrapar Participações S.A. (the "Company"), with headquarters in the City of São Paulo, is engaged in the investment of its own capital in commercial and industrial activities and related businesses, including the subscription or acquisition of shares of other companies.

Through its subsidiaries, it operates in the segment of liquefied petroleum gas (LPG) distribution (Ultragaz), light fuel & lubricants distribution, and related business in Southern and Southeastern Brazil (Ipiranga), production and marketing of chemicals (Oxiteno), provision of integrated logistics solution services for special bulk cargo (Ultracargo). The Company also operates in the petroleum refining business through its investment in Refinaria de Petróleo Riograndense S.A., formerly known as Refinaria de Petróleo Ipiranga (Refinaria de Petróleo Ipiranga).

2. PRESENTATION OF THE FINANCIAL STATEMENTS

These financial statements were prepared in accordance with accounting policies derived from the Brazilian Corporate Law and the Brazilian Securities Commission (CVM). They have been translated into English from the original financial statements issued in Portuguese. In addition, certain terminology changes have been made and the notes to the financial statements have been adjusted to conform more closely to reporting practices prevailing in the United States of America.

In 2008, significant modifications were made to accounting policies adopted in Brazil as part of the convergence project with the International Financial Reporting Standards (IFRS). Such changes became effective for the fiscal year ended December 31, 2008, as described below. Moreover, other changes will be introduced in 2009 and 2010.

3. INITIAL IMPLEMENTATION OF LAW 11,638/07 AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHANGES

Law 11,638/07 was enacted on December 28, 2007 and Provisional Measure 449/08 was issued on December 3, 2008, both amending and repealing existing provisions and adding new provisions to Law 6,404/76 (Brazilian Corporate Law) to adapt the accounting policies adopted in Brazil to the IFRS issued by the International Accounting Standards Board (IASB). In order to regulate these changes, the Brazilian Securities Commission (CVM) issued a set of Resolutions during 2008, whose main effects on the financial statements of the Company and its subsidiaries are summarized below.

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Resolution CVM 565 of December 17, 2008 deals with the initial implementation of Law 11,638/07 and Provisional Measure (MP) 466 of December 15, 2007.

As permitted by this Resolution, the Company decided to adopt January 1st, 2008 as the date of transition applying all accounting adjustments and reclassifications prospectively from such date, except for the substitution of the consolidated statement of changes in financial position with the consolidated statement of cash flows and the inclusion of the statement of value added for the years ended December 31, 2007 and 2006. In addition, the Company and its subsidiaries started to use the equity method of accounting for the companies Metalúrgica Plus S/A. and consolidate the company SERMA - Associação dos Usuários de Equipamentos de Processamento de Dados e Serviços Correlatos in their financial statements (see Notes 4 and 10). The table below shows the balances at December 31, 2007, in accordance with Law 11,638/07. The Company had reclassified under Law 11,638/07:

		Balances at December 31, 2007, as reported	Balances at December 31, 2007 reclassified under Law 11,638/07
Deferred charges	a), c)	570.1	
Intangible assets	a), c)	66.9	576.0
Prepaid expenses - current	b)	13.2	
Prepaid expenses - non-current	b)	36.9	
Financing - current	b)	674.7	674.7
Debentures - current	b)	1,228.7	1,228.7
Financing - non-current	b)	1,009.2	1,009.2
Fixed assets	c), d)	2,268.9	2,335.8
Other investments	c)	34.1	
Recoverable taxes - non-current	d)	68.7	

- (a) Reclassification of goodwill, from deferred charges to intangible assets, in accordance with Resolution CVM 553/08.
 (b) Reclassification of transaction costs for issuance of bonds and securities, from prepaid expenses to a reduction of loans and financing, in accordance with Resolution CVM 556/08.
 (c) Reclassification of pre-operating costs incurred in facilities of Ultrasystem customers, implementation of systems, and acquisition of companies, from deferred charges to fixed assets, intangible assets, and investment in progress, respectively, in accordance with Resolution CVM 553/08.
 (d) Recognition of the adjustment to present value of ICMS credit balances on fixed assets, in accordance with Resolution CVM 564/07.

Resolution CVM 534 of January 29, 2008 deals with effects of the changes in exchange rates and of the translation of financial statements.

The Company and its subsidiaries analyzed their investments in foreign entities and combined with the investor the investees lack of autonomy and independent management, in accordance with item 41(a) of the Resolution. Foreign subsidiaries with autonomy were booked as provided for in item 41(b) of the Resolution, and the changes in exchange rates of the net investment in these subsidiaries were recorded as cumulative translation adjustments in the investor's shareholders' equity. See Note 10.

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Resolution CVM 547 of August 13, 2008 deals with the Statement of Cash Flows

The Company and its subsidiaries classified as cash equivalents, the short-term investments that are readily convertible into known amounts of cash and are subject to insignificant risk of change in value. The statement of cash flows shows the activity in the accounts: (i) Cash and cash equivalents in banks and (ii) Financial investments considered as cash equivalents in the fiscal year. See Notes 4.b) and 4.c).

Resolution CVM 566 of December 17, 2008 deals with recognition, measurement, and evidence of financial instruments

The financial instruments of the Company and its subsidiaries were classified, according to their characteristics and the Company's intent to hold them, into: (i) measured at fair value through income; (ii) held to maturity; (iii) available for sale; and (iv) loans and receivables. See Notes 4.d), 4.e), 4.f) and 4.g).

Resolution CVM 553 of November 12, 2008 deals with intangible assets

The Company and its subsidiaries reclassified to intangible assets the goodwill on the acquisitions of companies, which were previously shown as deferred charges in the financial statements. See Notes 4.j), 4.k) and 4.l).

Resolution CVM 554 of November 12, 2008 deals with financial lease contracts

Certain financial lease contracts where substantially all the risks and benefits associated with the ownership of an asset are transferred to the Company and its subsidiaries were recorded in the financial statements as finance leases, net of tax effects. The items recognized as assets were depreciated at the depreciation rates applicable to each of the group of assets into which they were classified, and the financial charges under the leases were allocated over the contract terms, based on the amortized cost method. See Notes 4.i) 14.g) and 20.

Resolution CVM 556 of November 12, 2008 deals with transaction costs and premiums on issuance of bonds and securities

Transaction costs and issue premiums associated with funding transactions by the Company and its subsidiaries were reclassified and added to the values of the respective funds raised, and the effective interest rate of each issuance was calculated. See Note 14.h).

Resolution CVM 564 of December 17, 2008 deals with adjustment to present value of assets and liabilities

The Company's subsidiaries recorded the adjustment to present value of ICMS credit balances on acquisition of fixed assets (CIAP). The Company and its subsidiaries reviewed all other long-term items and, where relevant, short-term assets and liabilities and did not identify the need to adjust these items to present value. See Notes 4.v) and 4.w).

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The chart below shows the effects of the implementation of Law 11,638/07 and MP 449/08 on consolidated net income and shareholders' equity as of December 31, 2008:

	CVM Resolution	Net income	2008 Shareholders' equity
Values before the implementation of Law 11,638/07 and MP 449/08		388.0	4,648.0
Effects of the implementation of Law 11,638/07 and MP 449/08:			
Finance leases	554	2.4	2.4
Cost of funding	556	0.9	0.9
Marking-to-market of currency and interest rate hedging instruments	566	7.3	7.3
Marking-to-market of short-term investments available for sale	566		
Equity in income of Metalplus	565		
Cumulative translation adjustments	534	(8.3)	(8.3)
Total		2.3	2.3
Values in financial statements of December 31, 2008		390.3	4,650.3

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements were prepared in conformity with the accounting policies adopted in Brazil, which include Brazilian Corporate Law, the Standards, Guidelines and Interpretations issued by the Accounting Standards Committee and the rules issued by the Brazilian Securities Commission (CVM), which differ in certain respects from generally accepted accounting principles in the United States of America (U.S. GAAP). See Note 24 for further discussions of these differences and a reconciliation of shareholders' equity and net income under both sets of principles.

The following is a summary of significant accounting policies followed in the preparation of the financial statements:

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a) Consolidation principles

The consolidated financial statements were prepared following the basic principles of consolidation established by the Brazilian Corporate Law and CVM rules, including the following direct and indirect subsidiaries. Investments of one company in another, balances of assets and liabilities accounts and revenues and expenses were eliminated, as well as the effects of other significant transactions conducted between companies. The interest of minority shareholders in the subsidiaries is indicated in the financial statements.

		% interest in the shares of the subsidiary	
		capital 31 December 2008	December 31, 2007
	Location	Direct control	Indirect control
Ultracargo - Operações Logísticas e Participações Ltda.	Brazil	100	
Transultra. - Armazenamento e Transporte Especializado Ltda.	Brazil		
Petrolog Serviços e Armazéns Gerais Ltda.	Brazil		
Terminal Químico de Aratu S.A. Tequimar	Brazil		
União Vopak Armazéns Gerais Ltda.	Brazil		
Melamina Ultra S.A. Indústria Química	Brazil		
Oxiten S.A. Indústria e Comércio	Brazil	100	
Oxiten Nordeste S.A. Indústria e Comércio	Brazil		
Oxiten Argentina Sociedad de Responsabilidad Ltda.	Argentina		
Oleoquímica Indústria e Comércio de Produtos Químicos Ltda.	Brazil		
Barrington S.L.	Spain		
Oxiten México S.A. de C.V.	Mexico		
Oxiten Servicios Corporativos S.A. de C.V.	Mexico		
Oxiten Servicios Industriales S.A. de C.V.	Mexico		
Oxiten USA LLC	United States		
Oxiten International Corp.	British Virgin Islands		
Oxiten Overseas Corp.	British Virgin Islands		
Oxiten Andina, C.A.	Venezuela		
Oxiten Europe SPRL	Belgium		
U.A.T.S.P.E. Empreendimentos e Participações Ltda.	Brazil		
Empresa Carioca de Produtos Químicos S.A.	Brazil		
Companhia Brasileira de Petróleo Ipiranga (*)	Brazil	100	
am/pm Comestíveis Ltda. (*)	Brazil		
Centro de Conveniências Millennium Ltda. (*)	Brazil		
Conveniência Ipiranga Norte Ltda.	Brazil		
Ipiranga Trading Limited	British Virgin Islands		
Tropical Transportes Ipiranga Ltda.	Brazil		
Ipiranga Imobiliária Ltda.	Brazil		
Ipiranga Logística Ltda.	Brazil		
Maxfácil Participações S.A. (**)	Brazil		
Isa-Sul Administração e Participações Ltda.	Brazil		
Comercial Farroupilha Ltda.	Brazil		

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Companhia Ultragaz S.A.	Brazil	
Bahiana Distribuidora de Gás Ltda.	Brazil	
Utingás Armazenadora S.A.	Brazil	
LPG International Inc.	Cayman Islands	
Imaven Imóveis Ltda.	Brazil	
Refinaria de Petróleo Riograndense S.A. (***)	Brazil	100
Sociedade Brasileira de Participações Ltda. (****)	Brazil	100
SERMA - Ass. dos usuários equip. proc. de dados	Brazil	

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		% interest in the share capital December 31, 2008	Indirect control
	Location	Direct control	
Ultragas Participações Ltda.	Brazil	100	
Companhia Ultragas S.A.	Brazil		
Bahiana Distribuidora de Gás Ltda.	Brazil		
Utingás Armazenadora S.A.	Brazil		
LPG International Inc.	Cayman Islands		
Ultracargo - Operações Logísticas e Participações Ltda.	Brazil	100	
Transultra - Armazenamento e Transporte Especializado Ltda.	Brazil		
Petrolog Serviços e Armazéns Gerais Ltda.	Brazil		
Terminal Químico de Aratu S.A. - Tequimar	Brazil		
Melamina Ultra S.A. Indústria Química	Brazil		
Oxiten S.A. Indústria e Comércio	Brazil	100	
Oxiten Nordeste S.A. Indústria e Comércio	Brazil		
Oxiten Argentina Sociedad de Responsabilidad Ltda.	Argentina		
Oleoquímica Indústria e Comércio de Produtos Químicos Ltda.	Brazil		
Barrington S.L.	Spain		
Oxiten México S.A. de C.V.	Mexico		
Oxiten Servicios Corporativos S.A. de C.V.	Mexico		
Oxiten Servicios Industriales S.A. de C.V.	Mexico		
Oxiten USA LLC	United States		
Oxiten International Corp.	British Virgin Islands		
Oxiten Overseas Corp.	British Virgin Islands		
Oxiten Andina, C.A.	Venezuela		
Imaven Imóveis Ltda.	Brazil	100	
UPB Consultoria e Assessoria S.A.	Brazil	100	
Ultracargo Terminais Ltda.	Brazil	100	
Distribuidora de Produtos de Petróleo Ipiranga S.A.	Brazil	100	
Isa-Sul Administração e Participações Ltda.	Brazil		
Comercial Farroupilha Ltda.	Brazil		
Sociedade Brasileira de Participações Ltda. (****)	Brazil		
Maxfácil Participações S.A. (**)	Brazil		
Companhia Brasileira de Petróleo Ipiranga (*)	Brazil	100	
am/pm Comestíveis Ltda. (*)	Brazil		
Centro de Conveniências Millennium Ltda. (*)	Brazil		
Empresa Carioca de Produtos Químicos S.A.	Brazil		
Ipiranga Comercial Importadora e Exportadora Ltda.	Brazil		
Ipiranga Trading Limited	British Virgin Islands		
Tropical Transportes Ipiranga Ltda.	Brazil		
Ipiranga Imobiliária Ltda.	Brazil		
Ipiranga Logística Ltda.	Brazil		
Maxfácil Participações S.A. (**)	Brazil		
Refinaria de Petróleo Riograndense S.A. (***)	Brazil	100	

- (*) Fuel and lubricant distribution business and related activities of these companies were divided between Ultrapar (South and Southeast) and Petrobras (North, Northeast, and Mid-West) until April 2008.
- (**) Control shared by DPPI (16%), CBPI (34%), and União de Bancos Brasileiros S.A. - UNIBANCO (50%). From December 2008 on, the subsidiary CBPI acquired 50% of control in Maxfácil Participações S.A. after merging DPPI.
- (***) According to Material Event of March 19, 2007 and Material Event of April 18, 2007, the control of assets related to oil refining operations held by Refinaria de Petróleo Riograndense S.A. are equally shared by Petrobras, Ultrapar, and Braskem and were proportionally consolidated as specified in Article 32 of Instruction CVM 247/96.
- (****) On August 6, 2008, the indirect subsidiary Ipiranga Administração de Bens Móveis Ltda. changed its name to Sociedade Brasileira de Participações Ltda. and became a direct subsidiary of the Company.

On April 18, 2007, the Company, together with Petróleo Brasileiro S.A. (Petrobras) and Braskem S.A. (Braskem) acquired the controlling interest in the Ipiranga Group, according to the Material Event disclosed on that date. Under the Investment Agreement signed by the three acquiring companies, the Company acted as a commission agent for the interests acquired by Braskem and Petrobras and acquired for itself the fuel and lubricant distribution business and related activities located in the South and Southeast of Brazil and Empresa Carioca de Produtos Químicos S.A. (EMCA), maintaining the Ipiranga brand. Petrobras held control of the fuel and lubricant distribution business located in the North, Northeast, and Mid-West regions (North Distribution Assets), and Braskem holds control of the petrochemical assets represented by Ipiranga Química S.A., Ipiranga Petroquímica S.A. and by its interest in Copesul - Companhia Petroquímica do Sul (Petrochemical Assets).

The transaction was composed of 4 steps, namely:

- (i) acquisition of shares from the families holding the controlling block of the Ipiranga Group (effected on April 18, 2007);
- (ii) tender offer, for the acquisition of common shares held by minority shareholders in Companhia Brasileira de Petróleo Ipiranga (CBPI) in Refinaria de Petróleo Riograndense S.A. (RPR) and in Distribuidora de Produtos de Petróleo Ipiranga S.A. (DPPI) (effected on October 22, 2007 for DPPI and RPR and on November 8, 2007 for CBPI);
- (iii) exchange of the remaining shares of CBPI, RPR, and DPPI for Ultrapar shares (effected on December 18, 2007), which resulted in the elimination of accounts receivable from Braskem and Petrobras;
- (iv) separation of the assets acquired among the Company, Petrobras, and Braskem (split and removal of the Petrochemical Assets of Ipiranga Química S.A. from the Company, split of CBPI and separation of the North Distribution Assets on April 2008), with the receipt of accounts receivable generated in step (iii).

The assets, liabilities, and income of Ipiranga/Refining have been reflected in the Company's accounting information since April 2008.

Since January 2008, Empresa Carioca de Produtos Químicos S.A. (EMCA) is no longer a subsidiary of CBPI and is now a separate U.A.T.S.P.E. Empreendimentos e Participações Ltda., controlled by Oxitenio S.A. Indústria e Comércio, for allocation in the Company's petrochemical business.

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In May 2008, the subsidiary Oxiteno S.A. Indústria e Comércio, through Barrington S.L., constituted Oxiteno Europe SPRL, based in Brussels, as part of the subsidiary's internationalization process.

In June 2008, the Company, through its subsidiary Terminal Químico de Aratu S.A. (Tequimar), entered into a Sale and Purchase Agreement for 100% of the capital of União Terminais e Armazéns Gerais Ltda. (União Terminais), a company that had port terminal storage and handling of bulk liquids in Santos, Rio de Janeiro, and Paranaguá (the last through its 50% interest in União Vopak Armazéns Gerais Ltda.). The Company disclosed a Material Event on June 6, 2008 containing information on the transaction. In October 2008, the Company announced the closing of the purchase of the terminals in Santos and Rio de Janeiro. In November 2008, the Company announced the completion of the acquisition of Paranaguá terminal. The total amount disbursed was R\$ 487 million, and Tequimar assumed the debt of União Terminais in the amount of R\$ 32 million. The goodwill breaks down into R\$ 326.6 based on expected future profitability of R\$ 75.4 based on the difference between the market value and the carrying value of the assets. In December 2008, for corporate simplification and capture of operational synergies, União Terminais was merged into Tequimar.

In August 2008, the Company, through its subsidiary Sociedade Brasileira de Participações Ltda., entered into a purchase agreement with Chevron Latin America Marketing LLC and Chevron Amazonas LLC (collectively, Chevron) for the purchase of 100% of the shares of Chevron Brasil Ltda. and by Sociedade Anônima de Óleo Galena Signal, subsidiaries of Chevron that hold Texaco fuel distribution business in Brazil (Texaco). The acquisition value totaled R\$ 1,161 million, subject to adjustments to working capital and net debt at closing. The subsidiary deposited US\$ 38 million to Chevron on the date of signing. The payment of the rest of the acquisition value, denominated in Brazilian Reais and, therefore, was not subject to changes in exchange rates. The Company disclosed a Material Event on August 14, 2008 and Market Announcement on March 31, 2009 containing information on the transaction. See Note 25.b) for further details about the closing.

In October 2008, the companies Isa-Sul Administração e Participações Ltda. and am/pm Comestíveis Ltda. were split, and the split portion represented by real estate, was transferred to the company Imaven Imóveis Ltda. Consolidating the same business into a single company aimed to obtain administrative and economic gains.

In November 2008, the name of Ipiranga Comércio Importadora e Exportadora Ltda. was changed to Conveniência Ipiranga Norte Ltda.

In November 2008, in order to simplify the corporate structure, eliminate duplicated structures, enhance logistics efficiency, and capture synergies, CBPI merged Ultragaz Participações S.A. (formerly known as Ultragaz Participações Ltda.) and DPPI, thus consolidating all natural gas and LPG distribution businesses.

b) Cash and cash equivalents

Include short-term highly liquid investments that are readily convertible into a known amount of cash and are subject to an insignificant risk of change in value. See Note 5 for further detail on cash equivalents of the Company and its subsidiaries.

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c) Financial instruments

In accordance with Resolution CVM 566/08, the financial instruments of the Company and its subsidiaries were classified into the following categories:

Measured at fair value through income: financial assets held for trading, that is, purchased or created primarily for the purpose of sale or repurchase in the short term, and derivatives. Changes in fair value are recorded as income, and balances are stated at fair value.

Held to maturity: non-derivative financial assets with fixed payments or determinable payments with fixed maturities for which the entity has the positive intention and ability to hold to maturity. The interest earned is recorded as income, and balances are stated at acquisition cost plus interest earned.

Available for sale: non-derivative financial assets that are designated as available for sale or were not classified into other categories. The interest earned is recorded as income, and the balances are stated at fair value. Differences between fair value and acquisition cost plus the interest earned are recorded in a specific account of the shareholders' equity. Gains and losses recorded in the shareholders' equity are included in income, in case of prepayment.

Loans and receivables: non-derivative financial instruments with fixed payments or determinable payments not quoted in active markets, except: (i) those which the entity intends to sell immediately or in the short term and which the entity classified as measured at fair value through income; (ii) those classified as available for sale; or (iii) those the holder of which cannot substantially recover its initial investment for reasons other than credit deterioration. The interest earned is recorded as income, and balances are stated at acquisition cost plus the interest earned.

Certain derivative financial instruments used to hedge against changes in interest rates were designated as cash flow hedge for purposes of measuring their fair value. The difference between the fair value of the financial instrument and its value plus interest earned is recognized as a valuation adjustment in the shareholders' equity, not affecting the income statement of the Company and its subsidiaries. Gains and losses recorded in the shareholders' equity are included in income, in case of prepayment.

For further detail on financial instruments of the Company and its subsidiaries, see Notes 5, 14, and 15.

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d) Trade accounts receivable

Trade accounts receivable are stated at estimated net realizable values. Allowance for doubtful accounts is calculated based on estimated losses and is set at an amount deemed by Management to be sufficient to cover any loss on realization of accounts receivable.

e) Inventories

Inventories are stated at the lower of average acquisition or production cost, and replacement cost or market value.

f) Investments in affiliated companies

Investments in companies on which Management has a significant influence or in which it holds 20% or more of the voting stock, or that are part of a group under common control are also valued by the equity method of accounting (see Note 10).

g) Other investments

The other investments are stated at acquisition cost less provision for loss, unless the loss is considered temporary, and also include investments in progress.

h) Property, plant and equipment

Recorded at acquisition or construction cost, including financial charges incurred on fixed assets under construction, as well as significant maintenance costs resulting from scheduled plant outages. The Company will maintain the revaluation balances until their realization. The Company will not record new revaluations. Such revaluation balances were included in the cost value of the property, plant and equipment.

Depreciation is calculated by the straight-line method, at the annual rates stated in Note 11, over the useful/economic life of the property, plant and equipment.

Leasehold improvements in service stations are depreciated over the shorter of the contract term and useful/economic life of the property, plant and equipment.

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i) Leases

Finance leases

Certain financial lease contracts transfer substantially all the risks and benefits associated with the ownership of an asset to the Company and its subsidiaries. These contracts are characterized as finance leases, and assets thereunder are stated at fair value or present value of minimum payments under the relevant contracts. The items recognized as assets are depreciated at the depreciation rates applicable to the group of assets in accordance with Note 11. Financial charges under the finance lease contracts are allocated to income over the contract term, based on the amortized cost and actual interest rate method (see Note 12).

Operating leases

Are lease transactions where the risks and benefits associated with the ownership of the asset are not transferred and where the purchase option at the end of the contract is equivalent to the market value of the leased asset. Payments made under an operating lease contract are recognized as expenses in the income statement on a straight-line basis over the term of the lease contract, in accordance with Note 12.

j) Intangible assets

Intangible assets include assets acquired by the Company and its subsidiaries from third parties, according to the following criteria (see Note 13):

Goodwill is carried at the original value less accumulated amortization as of December 31, 2008.

Other intangible assets acquired from third parties are measured at the total acquisition cost less accumulated amortization and impairment expenses.

The Company and its subsidiaries do not have intangible assets that were created internally or that have an indefinite useful life.

k) Deferred charges

Deferred charges include restructuring costs that will produce benefits in future years (see Note 13). The Company and its subsidiaries decided to maintain the balances until they are fully amortized and will not defer new restructuring charges.

- l) Income tax and social contribution on income
Current and deferred income tax (IRPJ) and social contribution (CSLL) are calculated based on the current rates of income tax and social contribution on profit, including the value of tax incentives, as stated in Note 2

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m) Provision for contingencies

The provision for contingencies is created for contingent risks with a probable chance of loss in the opinion of Management and internal legal counsel, and the values are recorded based on evaluation of the outcomes of the legal proceedings (see Note 2)

n) Actuarial obligation for post-employment benefits

Reserves for actuarial liabilities for post-employment benefits granted and to be granted to employees, retirees, and pensioners are based on an actuarial calculation prepared by an independent actuary, using the projected unit credit method, as described in Note 2

o) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned

p) Revenues and expenses

Income is recognized on the accrual basis. Revenues from sales and costs are recognized as income when all risks and benefits associated with the products are transferred to the purchaser. Revenues from services provided and their costs are recognized as income when services are performed. Advertising expenses, which are expensed as incurred, amounted to R\$ 63.3, R\$ 42.0 and R\$ 3.4 for the years ended December 31, 2008, 2007 and 2006, respectively. Shipping and handling costs, classified as selling expenses and expensed as incurred, amounted to R\$ 221.8, R\$ 177.8 and R\$ 66.6 for the years ended December 31, 2008, 2007 and 2006, respectively.

q) Cost of sales and services

Cost of sales and services provided includes raw materials (mainly fuels/lubricants, LPG and chemicals) and production, distribution, storage and filling costs

r) Earnings per share

Earnings per share are calculated based on the annual weighted average of shares outstanding during each of the years presented, giving retroactive effect to stock splits. Stock dividends are not included in such retroactive earnings per share calculation

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s) Use of estimates

The preparation of financial statements requires the Company's Management to make estimates and assumptions that affect the values of assets and liabilities presented as of the date of the financial statements, as well as the values of revenues, costs and expenses for the years presented. Although these estimates are based on the best information available to Management about present and future events, actual results may differ from these estimates.

t) Basis for translation of the financial statements of foreign subsidiaries

Assets and liabilities of the subsidiaries Oxiten México S.A. de C.V. and its subsidiaries, located in Mexico (functional currency: Mexican Peso), and Oxiten Andina, C.A., located in Venezuela (functional currency: Bolivar), denominated in currencies other than that of the Company (functional currency: Brazilian Real), are translated at the exchange rate in effect on the date of the financial statements. Gains and losses resulting from changes in these foreign investments are directly recognized in the shareholders' equity as cumulative translation adjustments and are recognized as income when these investments are disposed of. The amount recognized in the shareholders' equity for cumulative translation adjustments in 2008 was R\$ 1.2 million.

Assets and liabilities of the other foreign subsidiaries, which do not have autonomy, are considered activities of their investor and are translated at the exchange rate in effect on the date of the financial statements. Gains and losses resulting from changes in these foreign investments are directly recognized as income. The gain recognized as income in 2008 amounted to R\$ 0.5 million.

u) Impairment of assets

The Company reviews, at least annually, the carrying value of assets for impairment and whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use or disposal. In cases where future expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount which the carrying value exceeds the fair value of these assets. The factors considered by the Company in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

No impairment was recorded in the consolidated financial statements as of December 31, 2008.

v) Adjustment to present value

The subsidiaries booked the adjustment to present value of ICMS credit balances on fixed assets (CIAP - see Note 8). As of December 31, 2007, the balances of CIAP were recorded at their nominal values. The Company and its subsidiaries reviewed all items classified as long-term and, where relevant, short-term assets and liabilities and did not identify the need to adjust other balances to present value.

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5. FINANCIAL ASSETS

Financial investments are substantially represented by money invested: (i) in Brazil, in certificates of deposit of first-rate financial institutions linked to the Interbank Certificate of Deposit (CDI) and in Federal government bonds; (ii) abroad, in certificates of deposit of first-rate financial institutions and in short-term investment funds with a portfolio composed of bonds issued by the U.S. Government; and (iii) currency and interest rate hedging instruments.

	2008	2007
Financial investments		
In local currency		
Fixed-income securities and funds	1,366.0	568.0
Austrian notes		424.2
In foreign currency		
Linked notes (a)	140.7	128.3
Structured deposit (b)		440.9
Fixed-income securities and funds	424.7	64.0
Income from currency and interest hedging instruments (c)	37.9	
Total financial investments	1,969.3	1,625.4
Current	1,962.1	1,504.6
Non-current	7.2	120.8

(a) Represents US\$ 60 million in notes linked (Linked Notes) to notes issued by the subsidiary Companhia Ultragaz S.A. in the foreign market in 1997 (Original Notes). In April 2006, the subsidiary Oxiten Overseas Corp., the then owner of the Original Notes, sold such notes to a foreign financial institution. Simultaneously, the subsidiary purchased the Linked Notes from that financial institution. Such transaction enables a financial gain to the subsidiary corresponding to the difference between the interest rate paid on Linked Notes and Original Notes, as remarked in Note 14.c). This financial instrument was classified as loans and receivables for measurement purposes (see Note 4.c).

(b) Short-term investment of the subsidiary Oxiten Overseas Corp., with return in either U.S. dollars or Reais, depending on the U.S. dollar exchange rate on the maturity date.

(c) Accumulated gains or losses, net of income tax (see Note 19).

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In accordance with Resolution CVM 566/08, the financial assets of the Company and its subsidiaries were classified, according to their characteristics and the Company's intention, into: (i) measured at fair value through income; (ii) held to maturity; (iii) available for sale; and (iv) loans and receivables, as shown on the table below:

	2008
Measured at fair value through income	1,148.6
Held to maturity	7.2
Available for sale	672.8
Loans and receivables	140.7
	1,969.3

For the preparation of the Company's Statements of cash flows, cash and cash equivalents mean the balances of the accounts: (i) Cash and banks and (ii) Short-term investments classified as measured at fair value through income, excluding currency and interest rate hedging instruments, as shown below:

	2008	2007
Cash and banks	164.4	203.1
Short-term investments measured at fair value through income (except currency and interest rate hedging instruments) in Brazil	1,052.8	385.2
Short-term investments measured at fair value through income (except currency and interest rate hedging instruments) in foreign investees	57.9	274.1
	1,275.1	862.4

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6. TRADE ACCOUNTS RECEIVABLE, NET

	2008	2007
Domestic customers	1,294.9	1,249.2
Financing to customers - Ipiranga	351.3	298.9
Foreign customers	106.1	125.2
(-) Advances on foreign exchange contracts	(53.2)	(89.9)
(-) Allowance for doubtful accounts	(59.7)	(62.1)
	1,639.4	1,521.3
Current portion	1,429.3	1,344.4
Non-current portion	210.1	176.9

Financing to customers is directed to the reimbursement of reforms and modernizations of gas stations, acquisition of products and materials for the development of Ipiranga.

The changes in the allowance for doubtful accounts are shown below:

Balance as of December 31, 2006	21.8
Initial balance of Ipiranga/Refining	41.2
Addition	19.4
Write-off	(20.3)
Balance as of December 31, 2007	62.1
Addition	16.7
Write-off	(19.1)
Balance as of December 31, 2008	59.7

Allowance for doubtful accounts in the amount of R\$ 53.6 and R\$ 39.9 is recorded in current trade accounts receivable as of December 31, 2008 and 2007, and R\$ 6.1 and R\$ 22.2 is recorded in long-term trade accounts receivable as of December 31, 2008 and 2007, respectively.

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7. INVENTORIES

	Cost	2008 Provision for losses	Net	Cost	2007 Provision for losses	Net
Finished products	333.1	(16.7)	316.4	143.7	(4.3)	139.4
Work in process	1.3		1.3	1.3		1.3
Raw materials	248.1		248.1	104.7		104.7
Liquefied Petroleum Gas (LPG)	29.5		29.5	24.2		24.2
Fuel, lubricants and grease	333.7	(0.9)	332.8	265.0	(0.4)	264.6
Supplies and cylinders for resale	36.5	(1.4)	35.1	33.7	(2.6)	31.1
Advances to suppliers	55.7		55.7	65.8		65.8
Properties for resale	14.8		14.8			
Total	1,052.7	(19.0)	1,033.7	638.4	(7.3)	631.1

The changes in the provision for losses on inventories are shown below:

Balance as of December 31, 2006	2.1
Additions	6.5
Write offs	(1.3)
Balance as of December 31, 2007	7.3
Additions	11.7
Balance as of December 31, 2008	19.0

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8. RECOVERABLE TAXES

Represented, substantially, by credit balances of ICMS (State Value Added Tax - VAT), PIS and COFINS (social contribution taxes on revenue), and income tax and social contribution

	2008	2007
Income tax and social contribution	112.8	105.0
ICMS	174.1	167.7
Adjustment to present value of ICMS on fixed assets - CIAP (see Notes 3.d) and 4.v)	(5.5)	
Provision for losses - ICMS (*)	(42.3)	(46.9)
PIS and COFINS	76.6	31.3
VAT of the subsidiaries Oxitenó México S.A. de C.V. and Oxitenó Andina, C.A.	13.3	4.0
Manufacturing Tax - IPI	22.2	8.7
Other	3.7	1.5
Total	354.9	271.3
Current portion	311.9	202.6
Non-current portion	43.0	68.7

(*) The provision refers to credit balances that the subsidiaries estimate they will not be able to offset in the future.

The changes in the provision for losses on ICMS are shown below:

Balance as of December 31, 2006	31.4
Initial balance of Ipiranga/Refining	6.0
Addition	9.5
Balance as of December 31, 2007	46.9
Reversal of provision	(3.5)
Write-off	(1.1)
Balance as of December 31, 2008	42.3

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The balance of ICMS includes credits of the Camaçari (State of Bahia) plant of the subsidiary Oxitenor Nordeste S.A. Indústria e Comércio in the amount of R\$ 68.5 as of December 31, 2008 (R\$ 76.8 as of December 31, 2007), which were approved and released by the authorities for sale/transfer. The allowance for loss of the plant's credits was recognized on the basis of the maximum discount expected from their commercialization. The IPI, PIS, and COFINS credits are being utilized to offset other federal taxes.

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9. PREPAID EXPENSES

	2008	2007
Rents	23.3	31.3
Advertising and publicity	3.1	0.2
Insurance premium	5.7	1.5
Purchases of meal and transportation tickets	3.9	3.3
Taxes and other prepaid expenses	7.6	3.6
Expenses with bond issuances		10.2
	43.6	50.1
Current portion	19.0	13.2
Non-current portion	24.6	36.9

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10. INVESTMENTS IN AFFILIATED COMPANIES

A summary of financial information for the Company's equity investments is as follows:

	December 31, 2008				
	Transportadora Sulbrasileira de Gás S.A.	Metalúrgica Plus S.A.	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.	Plenogás Distribuidora de Gás S/A.
Number of shares or quotas held	20,125,000	3,000	156	1,493,120	1,384,308
Net equity - R\$	29.6	(0.1)	7.8	7.3	(1.9)
Net income (loss) for the year - R\$	0.1	(0.2)	0.6	(0.3)	0.2
Ownership interest - %	25.00	33.33	25.00	50.00	33.33

	2008			
	Transportadora Sulbrasileira de Gás S.A.	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.	Total
Changes in investments:				
Balance at beginning of year	7.3	1.8	3.8	12.9
Equity pick-up	0.1	0.1	(0.2)	
Balance at end of year	7.4	1.9	3.6	12.9

	December 31, 2007		
	Transportadora Sulbrasileira de Gás S.A.	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.
Number of shares or quotas held	20,125,000	156	1,493,120
Net equity - R\$	29.5	7.2	7.6
Net income for the year - R\$	(0.5)	0.5	0.6
Ownership interest - %	25.00	25.00	50.00

	2007		
	Transportadora Sulbrasileira de Gás S.A.	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.
Changes in investments:			
			Total

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Balance at beginning of year		1.8	3.5	5.3
Acquisition of Ipiranga	9.5			9.5
Goodwill write-off	(2.4)			(2.4)
Refund advance for future capital increase		(0.1)		(0.1)
Equity pick-up	0.2	0.1	0.3	0.6
Balance at end of year	7.3	1.8	3.8	12.9

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	December 31, 2006	
	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.
Number of shares or quotas held	156	1,493,120
Net equity as of December 31, 2006 - R\$	7.2	6.9
Net income for the year - R\$	1.0	1.4
Ownership interest - %	25.00	50.00

	Oxicap Indústria de Gases Ltda.	2006 Química da Bahia Indústria e Comércio S.A.	Total
Changes in investments:			
Balance at beginning of year	1.4	2.8	4.2
Equity pick-up	0.3	0.7	1.0
Advance for future capital increase	0.1		0.1
Balance at end of year	1.8	3.5	5.3

In the consolidated financial statements, the investment of the subsidiary Oxiten S.A. Indústria e Comércio in the affiliated company Oxicap Indústria de Gases Ltda. is carried under the equity method based on the affiliate's financial statements as of November 30, 2006. Other subsidiaries are valued based on the financial statements as of December 31, 2006.

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11. PROPERTY, PLANT AND EQUIPMENT, NET

	Annual depreciation average rates - %	Cost, including revaluation	2008 Accumulated depreciation/ allowance for realization	Net amount	2007 Net amount
Land		192.5	(0.2)	192.3	192.3
Buildings	4	778.9	(315.5)	463.4	315.5
Leasehold improvements	6	224.1	(90.5)	133.6	133.6
Machinery and equipment	10	2,230.6	(801.5)	1,429.1	5,386.3
Equipment and fixtures for the distribution of fuels / lubricants	10	911.2	(522.7)	388.5	388.5
Gas tanks and LPG cylinders	10	315.0	(188.1)	126.9	126.9
Vehicles	21	241.8	(176.2)	65.6	65.6
Furniture and fixtures	10	70.2	(39.6)	30.6	30.6
Construction in progress		184.0		184.0	184.0
Advances to suppliers		76.1		76.1	76.1
Imports in transit		3.4		3.4	3.4
IT equipment	20	158.5	(120.5)	38.0	38.0
Other					
Total		5,386.3	(2,254.8)	3,131.5	2,254.8

Property, plant and equipment include net capitalized interest cost of R\$ 30.1 and R\$ 11.5 as of December 31, 2008 and 2007, respectively.

Construction in progress refers substantially to: (i) the expansions and renovations of plants; and (ii) the construction and upgrade of stations and terminals for fuel distribution.

Advances to suppliers refer basically to purchases of equipment for expansion of plants.

As permitted by Law 11,638/07 and Resolution CVM 565/08, the Company decided to maintain the revaluation balances until realization, whether through depreciation or write-off, and they became part of the cost value of goods. As of December 31, 2008, the revaluation balance of fixed assets was R\$ 22.8 (R\$ 25.4 as of December 31, 2007).

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12. INTANGIBLE ASSETS, NET

	Annual amortization average rates - %	Cost	2008 Accumulated amortization/ allowance for realization	Net book value	2007 Net book value
Goodwill		599.8	(103.1)	496.7	
Software	20	196.3	(130.6)	65.7	33.1
Technology	20	18.1	(3.6)	14.5	15.0
Commercial property rights	3	16.3	(2.7)	13.6	14.1
Commercial funds	20	16.6	(13.0)	3.6	4.2
Other	10	1.8	(1.3)	0.5	0.5
		848.9	(254.3)	594.6	66.9

Changes in intangible assets in 2008 are as follows:

	Goodwill	Software	Technology	Commercial property rights	Commercial funds	Other	Total
Balance at December 31, 2007		33.1	15.0	14.1	4.2	0.5	66.9
Reclassification of initial implementation of Law 11,638/07 (see Note 3)	462.8	14.0	0.3				477.1
Balance at December 31, 2007 reclassified under Law 11,638/07 (see Note 3.a) e 3.c)	462.8	47.1	15.3	14.1	4.2	0.5	544.0
Consolidation of SERMA (see Note 3)		10.7					10.7
Additions	342.4	29.1			1.3		372.8
Write-offs		(0.1)					(0.1)
Amortization	(62.1)	(21.1)	(0.8)	(0.5)	(1.9)		(86.4)
Deferred IRPJ/CSLL	(246.4)						(246.4)
Balance at December 31, 2008	496.7	65.7	14.5	13.6	3.6	0.5	594.6

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Average annual amortization
rate - %

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Aggregate amortization expense for the above intangible assets amounted to R\$ 86.4, R\$ 16.3 and R\$ 12.9 for the years ended December 31, 2008, 2007 and 2006, respectively.

In the income for the year, the amount of R\$ 86.4 was recorded as amortization of intangible assets, of which R\$ 82.0 was classified as selling expenses and the rest was allocated to production and service expenses.

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The estimated aggregate amortization expense for the next five years is as follows:

Until 1 year	24.7
From 1 to 2 years	22.1
From 2 to 3 years	18.2
From 3 to 4 years	13.7
From 4 to 5 years	7.4
Thereafter	11.8
Total	97.9

Goodwill from acquisition of companies was amortized until December 31, 2008, when its amortization ceased, and the net remaining balance is tested for impairment annually.

The Company has the following balances of goodwill as of December 31, 2008, net of tax effect:

Goodwill on the acquisition of:	
Ipiranga	276.7
União Terminais	211.1
Others	8.9
	496.7

Software includes user licenses and costs for the implementation of the various systems used by the Company and its subsidiaries, such as integrated management and control, financial management, foreign trade, industrial automation, operational transportation and storage management, accounting information and other systems.

The Company records as technology certain rights held by the subsidiaries Oxiten S.A. Indústria e Comércio, Oxiten Nordeste Indústria e Comércio, and Oleoquímica Indústria e Comércio de Produtos Químicos Ltda. Such licenses cover the production of ethylene oxide, ethylene glycols, ethanalamines, glycol ethers, ethoxylates, solvents, fatty acids from vegetable oils, fatty alcohols, and specialty chemicals, which products are supplied to various industries.

Commercial property rights, refer mainly to those described below:

On July 11, 2002, the subsidiary Terminal Químico de Aratu S.A. - Tequimar signed a contract with CODEBA - Companhia Docas do Estado da Bahia for use of the site where the Aratu Terminal is located for 20 years, renewable for the same period. The price paid by Tequimar amounted to R\$ 12.0 and is being amortized from August, 2002 to July 2042.

Further, the subsidiary Terminal Químico de Aratu S.A. - Tequimar has a lease agreement for an area adjacent to the Port of Santos for 20 years, effective December 2002 and renewable for another 20 years, for building and operating a terminal for receiving, tanking, handling and distribution of bulk liquids. The price paid by Tequimar was R\$ 4.3 and is being amortized from August 2005 until December 2022.

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Research & development expenses amounted to R\$ 19.1, R\$ 23.5 and R\$ 18.4 in the income for the year ended December 31, 2008, 2007 and 2006, respectively.

13. DEFERRED CHARGES, NET

	Average annual amortization rate - %	Cost	2008 Accumulated amortization	Net book value	2007 Net book value
Restructuring costs	26	25.9	(10.3)	15.6	45.6
Pre-operating expenses					3.4
Installation of Ultrasystem equipment at customers facilities					62.4
Goodwill					457.3
Others					1.4
		25.9	(10.3)	15.6	570.1

Restructuring costs relate to the LPG distribution business, namely: (i) costs for expansion projects involving new regions of activity and (ii) costs for restructuring the home distribution network to increase the contribution margin and expand the bottled gas business through new dealers. Costs will be maintained in this group until they are fully amortized, which will occur in December 2010.

As informed in Note 3.a) and 3.c) the Company reclassified some balances of deferred charges to intangible assets and fixed assets in January 1st, 2009.

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14. LOANS, FINANCING AND DEBENTURES**a) Composition**

Description	2008	2007	Index/Currency	Annual financial charges 2008 - %	Maturity
Foreign currency:					
Notes in the foreign market (b)	577.4	443.7	US\$	+7.2	2015
ACC/Prepayment of exports	184.2	135.2	US\$	+3.6 to 9.0	<251 days
Notes in the foreign market (c)	140.3	106.6	US\$	+9.0	2020
Syndicated loan (c)	140.0	106.4	US\$ + LIBOR (vii)	+1.2	2011
Financial institutions	48.9	31.3	US\$ + LIBOR (vii)	+1.1 to 2.1	2009 to 2011
BNDES	46.5	16.0	US\$	+5.7 to 8.9	2010 to 2011
Financial institutions	19.8	23.1	MX\$ + TIIE (i)	+1.0 to 2.0	2009 to 2011
Financial institutions	6.0		Bs (ii)	+19.0 to 28.0	2013
FINIMP - União Terminais/RPR	4.8	13.2	US\$	+7.0 to 7.8	2009 to 2011
BNDES	3.5	6.0	UMBNDDES (iii)	+6.7 to 9.2	2009 to 2011
Notes in the foreign market (d)		106.8	US\$	+9.9	2008
Subtotal	1,171.4	988.3			
Unrealized losses on swap transactions		84.8			
Subtotal	1,171.4	1,073.1			
Local currency:					
Promissory notes (e)	1,203.8		CDI	+3.6	2009
Banco do Brasil	516.7	21.6	CDI	91.0 to 95.0	2009 to 2011
BNDES	401.8	256.0	TJLP (iv)	+1.5 to 4.8	2009 to 2011
Working capital loan - MaxFácil	108.4	102.2	CDI	100.0	2010
Banco do Nordeste do Brasil	103.5	103.5	FNE (vi)	8.5 to 10.0	2018
FINEP	60.4	61.5	TJLP (iv)	-2.0 to +5.0	2009 to 2011
FINAME	39.1	63.1	TJLP (iv)	+2.0 to 5.1	2009 to 2011
Working capital loan - União Terminais/RPR	37.2		CDI	105.0 to 130.0	2009 to 2011
Floating finance lease (g)	24.5		CDI	+0.3 to 1.6	2009 to 2011
Fixed finance lease (g)	1.0		R\$	+13.0 to 15.5	2010 to 2011
Others	4.1	0.3	CDI	+0.3 to 0.5	2009 to 2011
BNDES		2.5	IGP-M (v)	+6.5	2008
Debentures		1,219.4	CDI	102.5	2008
Debentures		359.4	CDI	103.8	2011
Subtotal	2,500.5	2,189.5			

Total of financing, debentures and finance lease	3,671.9	3,262.6
Current	1,658.1	1,903.4
Non-current	2,013.8	1,359.2

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- (i) MX\$ = Mexican peso; THIE = Mexican interbank balance interest rate.
- (ii) Bs = Venezuelan Bolivar.
- (iii) UMBNDES = monetary unit of BNDES (Banco Nacional de Desenvolvimento Econômico e Social) is a basket of currencies representing the composition of foreign currency debt obligations of BNDES. As of December 2008, 93% of this composition reflected the U.S. dollar.
- (iv) TJLP = set by the National Monetary Council, TJLP is the basic financing cost of BNDES.
- (v) IGP-M = General Market Price Index, calculated by Fundação Getúlio Vargas.
- (vi) FNE = Northeast Constitutional Financing Fund.
- (vii) LIBOR = London Interbank Offered Rate.

Annual maturities of long-term financing

	2008	2007
From 1 to 2 years	751.3	282.4
From 2 to 3 years	263.3	204.0
From 3 to 4 years	105.7	182.1
From 4 to 5 years	78.7	55.7
More than 5 years	814.8	635.0
	2,013.8	1,359.2

As provided in Resolution CVM 556/08, transaction costs and issue premiums associated with fund raising by the Company and its subsidiaries were added to their financial liabilities, and the effective interest rate of each fund raised was calculated. Such changes had no significant effect on the financial statements of the Company and its subsidiaries.

b) Notes in the foreign market

In December 2005, the subsidiary LPG International Inc. issued notes in the amount of US\$ 250 million, maturing in December 2015, with an annual interest rate of 7.25% paid semiannually, with the first payment scheduled for June 2006. The issuance price was 98.75% of the notes' face value, which represented a total return for investors of 7.429% per annum upon issuance. The notes were guaranteed by the Company and by Oxiteno S.A.- Indústria e Comércio.

As a result of the issuance of notes and the syndicated loan, the Company and its subsidiaries are subject to covenants that limit, among other things, the Company's ability to incur additional debt.

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Limitation of transactions with shareholders that hold amounts of 5% or more of any class of Capital Stock of the Company except upon fair and reasonable terms no less favorable to the Company than could be obtained in a comparable arm's-length transaction with a third party.

Obligation of obtaining the Board of Directors resolution for transactions with related parties in excess of US\$ 15 million (except transactions by the Company with subsidiaries and between subsidiaries).

Restriction of disposal of all or substantially all the assets of Company and subsidiaries.

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Restriction of encumbrances on assets in excess of US\$ 150 million or 15% of the value of consolidated tangible assets. The restrictions imposed on the Company and its subsidiaries are usual in transactions of this nature and have not limited their ability to conduct their business to

The Company is in compliance with all covenants at December 31, 2008

c) Notes in the foreign market and syndicated loan

In June 1997, the subsidiary Companhia Ultragaz S.A. issued US\$ 60 million in notes, (Original Notes) maturing in 2005. In June 2008, maturity was extended to June 2020 with put/call options in June 2008, which were not exercised by the subsidiary and financial institutions. The next put/call option will be on June 2010.

In June 2005, the subsidiary Oxitenio Overseas Corp. acquired the full amount of Original Notes issued by Companhia Ultragaz S.A., funds from a syndicated loan in the amount of US\$ 60 million with maturity in June 2008 and interest rate of 5.05% per year. In June 2008, the syndicated loan was renewed under the same conditions, but the financial charges have been changed to LIBOR + 1.25% per annum. The syndicated loan was guaranteed by the Company and the subsidiary Oxitenio S.A. Indústria e Comércio.

As a result of the issuance of the syndicated loan, additional covenants other than those in Note 14.b) must be maintained by the Company.

Maintenance of a financial index, determined by the ratio between net debt and consolidated Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), less than or equal to 3.5.

Maintenance of a financial index, determined by the ratio between consolidated EBITDA and consolidated net financial expenses, greater than or equal to 1.5.

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In April 2006, the subsidiary Oxitenno Overseas Corp. sold the Original Notes to a financial institution. Concurrently, the subsidiary acquired from this financial institution a credit linked note backed by the Original Notes, as mentioned in Note 5, thus obtaining an additional return on this investment. The transaction matures in 2020, and the subsidiary as well as the financial institution may redeem it early. In the event of insolvency of the financial institution, Companhia Ultragaz S.A. would be required to settle the Original Notes, although Oxitenno Overseas Corp. would continue to be the creditor of the credit linked note.

The Company is in compliance with all covenants at December 31, 2008.

d) Notes in the foreign market

In August 2003, the subsidiary Companhia Brasileira de Petróleo Ipiranga issued US\$ 135 million in notes in the international market. On August 1, 2005, when the interest levied increased from 7.875% per annum to 9.875% per annum, these securities were partly redeemed in the amount of US\$ 1.3 million or R\$ 3.1 million. In the fiscal year of 2006, there was a partial redemption in the amount of US\$ 79.6 million or R\$ 164.9 million. In 2008, these notes matured and were consequently settled.

e) Promissory Notes

In December 2008, the Company prepaid the first issuance of 120 Commercial Promissory Notes in the amount of R\$ 1,200,000 and issued 120 new registered Commercial Promissory Notes in the amount of R\$ 1,200,000, with the following characteristics:

Face value of each:	R\$ 10,000,000.00 (ten million Brazilian Reais)
Final maturity:	December 18, 2009
Payment of the face value:	Lump sum at final maturity
Interest:	100% CDI + 3.60% per annum
Payment of interest:	Lump sum at final maturity

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f) Collateral

A portion of the financing is collateralized by liens on property, plant and equipment, shares of investee and guarantees provided by the Company and its subsidiaries, as shown below:

	2008	2007
Amount of financing secured by:		
Property, plant and equipment	66.7	63.0
Shares of affiliates and guarantees of minority shareholders		2.5
Total	66.7	65.5

Other loans are collateralized by guarantees issued by Company and by the future flow of exports. The Company is responsible for such guarantees and guarantees offered on behalf of its subsidiaries, amounting to R\$ 1,440.5 (R\$ 986.2 as of December 31, 2007).

Certain subsidiaries have issued guarantees to financial institutions related to amounts owed to those institutions by certain of their customers (vendor financing). There are no recourse provisions or collaterals that would enable the Company or its subsidiaries to recover any amounts paid to the financial institutions under these agreements. In the event that such payments are made, the subsidiaries recover such amounts paid directly from their customers. Maximum future payments related to these guarantees amount to R\$ 18.8 (R\$ 18.8 as of December 31, 2007), with terms of up to 212 days. As of December 31, 2008, the Company and its subsidiaries have not incurred any loss or recorded any liability related to these guarantees.

The Company and its subsidiaries have in some loans, financing and debentures cross default clauses that oblige them to pay the contractual debt in case of default of any other debt in an amount equal to or greater than US\$ 10 million. As of December 31, 2008, no default has occurred in relation to the Company and its subsidiaries.

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g) Finance leases

The subsidiaries CBPI, Serma, and Tequimar have finance lease contracts primarily related to fuel distribution equipment, such as tanks, pumps, VNG compressors, computer equipment and vehicles. These contracts have terms between 36 and 60 months.

The subsidiaries have the option to purchase the assets at a price substantially lower than the fair price on the date of option. Management intends to exercise such option. No restrictions are imposed on these agreements.

The amounts of the fixed assets, net of depreciation, and of the liabilities corresponding to such equipment, recorded in the financial statements as of December 31, 2008, are shown below:

	Fuel distribution equipment	Computer equipment and vehicles
Fixed assets net of depreciation	25.4	3.7
Financing	23.3	2.2
Current	11.3	1.3
Non-current	12.0	0.9

The future disbursements (installments), assumed under these contracts, total approximately:

	Fuel distribution equipment	Computer equipment and vehicles
Up to 1 year	11.7	1.4
More than 1 year	12.2	1.1
	23.9	2.5

The above installments include the amounts of ISS (service tax) payable on the monthly installments.

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15. SHAREHOLDERS' EQUITY

a) Capital

The Company is a listed corporation with shares traded on the São Paulo and New York Stock Exchanges. Subscribed and paid-up capital is represented by 136,095,999 shares without par value, comprised of 49,429,897 common shares and 86,666,102 preferred shares.

As of December 31, 2008, 13,445,233 preferred shares were outstanding abroad, in the form of American Depositary Receipts - ADRs.

Preferred shares are not convertible into common shares, do not entail voting rights, and have priority in capital redemption, with a 10% premium, in the event of liquidation of the Company.

At the beginning of 2000, the Company granted, through a shareholders agreement, tag-along rights, which assure to non-controlling shareholders identical conditions to those negotiated by the controlling shareholders in case of disposal of shareholding control of the Company. The tag-along rights guarantee 100% of the offer price for all types of shares issued by the Company. On May 18, 2004, the Company included the tag-along rights in its bylaws.

The Company is authorized to increase its capital, regardless of amendment to the bylaws, through a resolution of the Board of Directors, until it reaches R\$ 4,500,000, by means of issuance of common or preferred shares, without keeping the existing ratio, subject to the limit of 2/3 of preferred shares, to the total of the shares issued.

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b) Treasury shares

The Company acquired its own shares at market prices, without capital reduction, for holding in treasury and subsequent disposal or cancellation, in accordance with the provisions of the Brazilian Securities Commission (CVM) Instructions No. 10 of February 14, 1980 and No. 268 of November 13, 1997.

During 2008, 1,759,100 preferred shares were acquired at the average cost of R\$ 59.70 per share under the share repurchase program approved at the Board of Directors Meeting of August 2, 2006 and extended through the Board of Directors Meeting of August 8, 2007.

As of December 31, 2008, the Company and its subsidiaries held 2,592,247 preferred shares (2,201,272 preferred shares, net of shares provided to certain executives of these subsidiaries as described in Note 21.c) and 6,617 common shares in treasury, which had been acquired at the average cost of R\$ 54.22 (whole Brazilian Reais) and R\$ 19.30 (whole Brazilian Reais) per share, respectively. The average acquisition cost was adjusted to reflect the stock dividends and reverse stock splits.

The market price of preferred shares issued by the Company as of December 31, 2008 on the BM&FBovespa (São Paulo Stock Exchange) was R\$ 50.00.

c) Capital reserve

The capital reserve reflects the goodwill on the sale of shares at market price to be held in treasury in the Company's subsidiaries, at an average price of R\$ 41.55 (whole Brazilian Reais) per share. These shares were provided to certain executives of these subsidiaries as described in Note 21.c).

d) Revaluation reserve

This reserve reflects the revaluation write-up of assets of subsidiaries and is realized based upon depreciation, write-off or disposal of revalued assets, including the related tax effects.

In some cases, taxes on the revaluation reserve of certain subsidiaries are recognized only upon the realization of this reserve since revaluations occurred prior to the publication of CVM Resolution No. 183/04.

e) Profit reserves

Legal reserves

Under the Brazilian corporate law, the Company is required to appropriate 5% of annual earnings to a legal reserve, until the balance reaches 20% of capital stock. This reserve may be used to increase capital or absorb losses, but may not be distributed as dividends.

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Reserve for retention of profits

This reserve is supported by the investment program in a capital budget, mainly for expansion, productivity, and quality, acquisitions and new investments, in conformity with article 196 of the Brazilian corporate law, and includes both a portion of net income and the realization of the revaluation reserve, and in 2008, the portion of initial adjustments to Law 11,638/07 and MP 449/06.

Unrealized profit reserve

This reserve is established in conformity with Article 197 of the Brazilian corporate law, based on the equity pick-up in subsidiaries and affiliated companies. The realization of this reserve usually occurs on receipt of dividends, sale and write-off of investments.

f) Dividends and appropriation of net income (Company)

According to the Company's bylaws, shareholders are entitled to a minimum annual dividend of 50% of adjusted net income, calculated under the terms of accounting practices adopted in Brazil.

Proposed dividends as stated in the Company's financial statements, subject to approval at the Annual Shareholders' Meeting, are as follows:

	2008
Net income	390.3
Legal reserve	(19.5)
Retention of profits reserve	(133.0)
Dividends balance	237.8
Interim dividends (R\$ 0.89 (whole Brazilian Reais) per share)	(119.0)
Proposed dividends payable (R\$ 0.89 (whole Brazilian Reais) per share)	(118.8)

g) Valuation adjustment

The differences between the fair value and adjusted cost (i) of financial investments classified as available for sale and (ii) of financial instruments designated as a cash flow hedge are directly recognized in the shareholders' equity as Valuation adjustment. Gains and losses recorded in the shareholders' equity are included in income, in the case of prepayment.

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h) Cumulative translation adjustments

The change in exchange rates on foreign investees with administrative autonomy denominated in a currency other than the currency of the Company is directly recognized in the shareholders' equity. This accumulated effect is reflected in income for the year as a gain or loss in case of disposal or write-off of the investment.

16. FINANCIAL INCOME (EXPENSES), NET

	2008	2007	2006
Financial income:			
Interest on financial investments	232.1	145.1	163.2
Interest on trade accounts receivables	22.5	19.2	5.3
Other income	2.6	(0.9)	1.8
	257.2	163.4	170.3
Financial expense:			
Interest on loans and financing	(304.1)	(97.3)	(85.5)
Interest on debentures	(22.1)	(123.9)	(44.8)
Interest on finance leases	(2.9)		
Amortization of costs for issuance of bonds and securities	(0.6)		
Bank charges	(21.1)	(18.7)	(14.7)
Monetary and exchange variation, net of income from hedging instruments	(46.3)	10.6	(15.7)
PIS/COFINS/CPMF/IOF/other financial expenses (*)	(2.8)	(38.7)	29.0
Adjustment for provisions and other expenses	(26.1)	(14.8)	(8.0)
	(426.0)	(282.8)	(139.7)
Financial (expenses) income, net	(168.8)	(119.4)	30.6

(*) In 2006, includes R\$ 49.7 referring to the recovery of credits as mentioned in Note 20.a).

17. OTHER INCOME

Other income is primarily composed of R\$ 11.2 (revenue) (R\$ 12.7 (revenue) in 2007 and R\$ 4.8 (expense) in 2006) of proceeds from sale of fixed assets, especially LPG bottles, land, vehicles, and tank wagons. It also includes the gain on the disposal of all interest held in the subsidiary Oxiten S.A. Indústria e Comércio in Petroquímica União S.A., which occurred in 2006.

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18. SEGMENT INFORMATION

The company operates four main business segments: gas distribution, fuel distribution, chemicals, and logistics. The gas distribution segment distributes LPG to residential, commercial, and industrial consumers, especially in the South, Southeast, and Northeast Regions of Brazil. The fuel distribution segment operates the distribution of fuels and lubricants and related activities in the South and Southeast Regions of Brazil. The chemicals segment produces ethylene oxide and its derivatives, which are the raw materials for the textile, food, cosmetics & detergent, agrochemical, paint & varnish, and other industries. The logistics segment provides transportation and storage services, especially in the Southeast, and Northeast Regions of Brazil. The segments shown in the financial statements are strategic business units supplying different products and services. Inter-segment sales are at prices similar to those that would be charged to third parties.

The main financial information on each segment of the Company can be stated as follows (excluding inter-segment transactions):

	Ultragaz	Oxiteno	Ultracargo	2008 Ipiranga	Other	Consolidated	2007 Consolidated	2006 Consolidated
Net sales, net of intercompany transactions	3,336.8	1,926.1	237.4	22,676.4	91.3	28,268.0	19,921.3	4,794.1
Operating income before financial items and equity in subsidiary and affiliated companies	87.9	154.2	7.3	515.7	(51.7)	713.4	486.1	330.4
Total assets, net of related parties	1,081.8	3,308.8	862.5	3,256.6	1,157.5	9,667.2	9,309.3	3,902.1
On the table above, the column "Other" is composed mainly of the parent company Ultrapar Participações S.A., Imaven Imóveis Ltda., interest in the oil refining business and, in 2008, by Sete								

Disclosures of segments in accordance with U.S. GAAP are made in Note 24.

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19. RISKS AND FINANCIAL INSTRUMENTS

Risk management and financial instruments - Governance

The main risk factors to which the Company and its subsidiaries are exposed reflect strategic/operational and economic/financial aspects. Operational/strategic risks (including, but not limited to, demand behavior, competition, technological innovation, and material changes in the industry structure) are addressed by the Company's management model. Economic/financial risks primarily reflect default of customers, behavior of macroeconomic variables, such as exchange and interest rates, as well as the characteristics of the financial instruments used by the Company and its subsidiaries and by their counterparties. These risks are managed through control policies, specific strategies, and the establishment of limits.

The Company has a conservative policy for the management of financial assets, instruments and financial risks approved by its Board of Directors (the "Policy"). In accordance with the Policy, the main objectives of financial management are to preserve the value and liquidity of financial assets and ensure financial resources for the proper conduct of business, including expansions. The main financial risks considered in the Policy are risks associated with currencies, interest rates, credit and selection of financial instruments. Governance of the management of financial risks and financial instruments follows the segregation of duties between the Board of Directors, the Risk and Investment Committee, and the Financial Area.

Implementation of the management of financial assets, instruments and risks is the responsibility of the Financial Area, through the treasury, with the assistance of the tax and accounting areas.

Supervision and monitoring of compliance with the principles, guidelines and standards of the Policy is the responsibility of the Risk and Investment Committee, set up more than 10 years ago and composed of members of the Company's Executive Board (the "Committee"). The Committee holds regular meetings and is in charge, among other responsibilities, of discussing and monitoring the financial strategies, existing exposures, and significant transactions involving investment, fund raising, or risk mitigation. The Committee monitors the risk standards established by the Policy through a monitoring map on a monthly basis.

Changes in the Policy or revisions of its standards are subject to the approval of the Company's Board of Directors.

Continuous enhancement of the Policy is the joint responsibility of the Board of Directors, the Committee, and the Financial Area.

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Currency

Most operations of the Company and its subsidiaries are located in Brazil and, therefore, the reference currency for currency management is the Brazilian Real. Currency risk management is guided by neutrality of currency exposures and considers the transaction accounting, and operational risks of the Company to changes in exchange rates. The Company considers as its main currency exposure assets and liabilities in foreign currency and the short-term net sales in foreign currency of Oxipar.

The subsidiaries of the Company use exchange rate hedging instruments (especially between the Brazilian Real and the U.S. dollar) available in the financial market to protect their assets, liabilities, receipts and disbursements in foreign currency, in order to reduce the effects of changes in exchange rates on its results and cash flows in Brazilian Reais within the exposure limits under its Policy. Such foreign exchange hedging instruments have amounts, periods, and rates substantially equivalent to those of the assets, liabilities, receipts and disbursements in foreign currency to which they are related. Assets and liabilities in foreign currency are stated below, translated into Brazilian Reais as of December 31, 2008 and December 31, 2007.

Assets and liabilities in foreign currency	2008	2007
Assets in foreign currency		
Financial investments in foreign currency	565.3	640.8
Investments in foreign subsidiaries	111.9	55.9
Foreign trade receivables, net of advances on export contract and provision for doubtful accounts	52.0	35.1
Foreign currency cash and cash equivalents	9.7	8.0
Others (1)	89.1	
	828.0	739.8
Liabilities in foreign currency		
Financing in foreign currency	1,171.4	988.3
Accounts payable for imports, net of advances to foreign suppliers	10.0	14.6
	1,181.4	1,002.9
Currency hedging instruments (2)	242.0	221.5
Net asset (liability) position	(111.4)	(41.6)

- (1) Deposit made to Chevron for the acquisition of Texaco in Brazil, as described in Note 4.
- (2) Measured at fair value in 2008 and notional value plus accrued interest in 2007.

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Based on the net liability position of R\$ 111.4 in foreign currency shown above, we estimate that a 10% devaluation of the Brazilian Real would produce a financial expense of R\$ 11.1.

Interest rate risk

The Company and its subsidiaries adopt conservative policies for fund raising and use of financial resources and capital cost minimization. The financial investments of the Company and its subsidiaries are primarily held in transactions linked to the interest rate for Interbancária Certificate of Deposit (CDI), as set forth in Note 5. Fund raising primarily results from financing from BNDES and other development agencies, promissory notes and funds raised in foreign currency, as shown in Note 6.

The Company does not actively manage risks associated with changes in the level of interest rates and attempts to maintain its financial interest assets and liabilities at floating rates. As of December 31, 2008, the Company and its subsidiaries did not have derivative financial instruments for interest rate risk management linked to domestic loans.

Credit risk

The financial instruments that would expose the Company and its subsidiaries to credit risks of the counterparty are basically represented by cash and cash equivalents, financial investments, and accounts receivable.

Credit risk of financial institutions - Such risk results from the inability of financial institutions to comply with their financial obligations to the Company and its subsidiaries due to insolvency. The Company and its subsidiaries regularly conduct a credit review of the institutions with which they hold cash and cash equivalents, financial investments, and hedging instruments through various methodologies that assess liquidity, solvency, leverage, portfolio quality, etc. Cash and cash equivalents, financial investments, and hedging instruments are held only with institutions with a solid credit history, chosen for safety and soundness. The volumes of cash and cash equivalents, financial investments, and hedging instruments are subject to maximum limits by institution and, therefore, require diversification of counterparties.

Government credit risk - The Company and its subsidiaries have financial investments in federal government bonds of Brazil and countries rated AAA or Aaa by specialized credit rating agencies. The volumes of financial investments are subject to maximum limits by country and, therefore, require diversification of counterparties.

Customer credit risk - Such risks are managed by each business unit through specific criteria for acceptance of customers and credit ratings and are additionally mitigated by diversification of sales. Oxiteno S.A. Indústria e Comércio and its subsidiaries maintained, as of December 31, 2008, R\$ 2.3 (R\$ 2.2 in 2007), the subsidiaries Bahiana Distribuidora de Gás Ltda. and Companhia Ultragaz S.A. maintained R\$ 9.0 (R\$ 16.7 in 2007), Ipiranga/Refining maintained R\$ 46.9 (R\$ 42.7 in 2007), and the subsidiaries of Ultracargo Operações Logísticas e Participações Ltda. maintained R\$ 1.5 (R\$ 0.3 in 2007) as a provision for potential loss on their accounts and assets receivable.

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Selection and use of financial instruments

In selecting financial investments and hedging instruments, an analysis is conducted to estimate rates of return, risks involved, liquidity, and calculation methodology for the carrying value and fair value, and documentation applicable to the financial instruments. The financial instruments used to manage the financial resources of the Company and its subsidiaries are intended to preserve value and liquidity.

The Policy contemplates the use of derivative financial instruments only to cover identified risks and in amounts consistent with the risk management policy (limited to 100% of the identified risk). The risks identified in the Policy are described in the above sections of this Note 19 and, therefore, are subject to risk management. In accordance with the Policy, the Company and its subsidiaries can use forward contracts, swaps, options, and futures contracts to manage identified risks. Leveraged derivative instruments or instruments with a margin call are not permitted. Because the use of derivative financial instruments is limited to the coverage of identified risks, the Company and its subsidiaries use the term "hedging instruments" to refer to derivative financial instruments.

As mentioned in the section Risk management and financial instruments - Governance of this Note 19, the Committee monitors compliance with the risk standards established by the Policy through a risk monitoring map, including the use of hedging instruments, on a monthly basis.

The table below summarizes the position of hedging instruments adopted by the Company and its subsidiaries.

	Counterparty	Maturity	Initial notional amount *		Fair value		Amounts payable or receivable for the period (Dec. 31, 2008)	
			2008	2007	2008	2007	Amount receivable	Amount payable
<u>Swap contracts</u>								
a - Exchange rate swaps receivable in U.S. dollars								
Receivables in U.S. dollars	Bradesco, Citibank,		123.5	170.0	291.6	316.4	291.6	
Payables in CDI interest rate	Goldman Sachs, HSBC, Itaú,	Jan 2009 to Jun 2011	123.5	156.0	236.4	380.6		236.4
Payables in Mexican pesos				14.0		25.1		
Total result	Santander/Real, UBS Pactual				55.2	(89.3)	291.6	236.4
b - Exchange rate swaps payable in U.S. dollars								
Receivables in CDI interest rates	Bradesco, HSBC, Itaú	Jan 2009 to Mar 2009	18.3	41.3	44.1	74.5	44.1	
Payables in U.S. dollars	Santander /Real		18.3	41.3	42.9	73.1		42.9

Total result				1.2	1.4	44.1	42.9
c - Interest rate swaps							
Receivables in LIBOR interest rate in U.S. dollars			60.0	133.8		133.8	
Payables in fixed interest rate in U.S. dollars	Itaú	Jun 2011	60.0	140.5			140.5
Total result				(6.7)		133.8	140.5
Total gross result				49.7	(87.9)	469.5	419.8
Income tax				(11.8)	(0.3)	(11.8)	
Total net result				37.9	(88.2)	457.7	419.8

* In millions of USD

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All transactions mentioned above were properly registered with CETIP S.A., except for the interest rate swap, which is an over-the-counter contract governed by ISDA (International Swap Dealers Association, Inc.) executed with the counterparty Banco Itaú BBA S.A. - N.º 1.000.000.000-0, registered with the Central Bank of Brazil.

Hedging instruments existing as of December 31, 2008 are described below, according to their category, risk, and protection strategy.

- a - Hedging against foreign exchange exposure of liabilities in foreign currency - The purpose of these contracts is to offset the effect of change in exchange rates of a debt in U.S. dollars by converting it into a debt in Brazilian Reais linked to CDI. As of December 31, 2008, the Company and its subsidiaries had outstanding swap contracts totaling US\$ 123.5 in notional amount, with an asset position of US\$ 5.19% per annum and a liability position of 98.55% of CDI.
- b - Hedging against foreign exchange exposure of operations - The purpose of these contracts is to make the exchange rate of the turnover of the subsidiaries of Oxiten S.A. Indústria e Comércio and Oxiten Nordeste S.A. Indústria e Comercial equal to the exchange rate of the cost of their raw materials. As of December 31, 2008, these swap contracts totaled US\$ 18.3 and, on average, had an asset position of 59.78% of CDI and a liability position of US\$ + 0.0% per annum.
- c - Hedging against floating interest rate in foreign currency - The purpose of this contract is to convert the interest rate on the syndicated loan in the principal of US\$ 60.0 from floating into fixed. As of December 31, 2008, the subsidiary Oxiten Overseas Corp. had a swap contract with a notional amount of US\$ 60.0, with an asset position of US\$ + LIBOR + 1.25% per annum and a liability position of US\$ 4.93% per annum.

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Fair value of financial instruments

The fair values and the carrying values of the financial instruments, including currency and interest rate hedging instruments, as of December 31, 2008 and December 31, 2007 are stated below:

	2008		2007	
	Book value	Market value	Book value	Market value
Financial assets:				
Cash and cash equivalents	1,275.1	1,275.1	862.4	862.8
Short-term investments (excluding assets swaps)	813.5	813.5	845.3	864.5
Long-term investments	7.2	7.2	120.8	121.1
Swaps (assets)	37.9	37.9		
	2,133.7	2,133.7	1,828.5	1,848.4
Financial liabilities:				
Current and long-term financing (excluding liabilities swaps)	3,646.4	3,601.1	1,599.1	1,616.7
Current and long-term debentures			1,578.7	1,578.6
Finance leases	25.5	25.5		
Swaps (liabilities)			84.8	88.2
	3,671.9	3,626.6	3,262.6	3,283.5
Investment:				
Other investments in affiliated companies	3.1	3.1	34.1	47.4

The fair value of financial instruments, including currency and interest hedging instruments, was determined as follows:

The fair values of cash on current account are identical to the carrying values.

Financial investments in investment funds are valued at the value of the fund unit as of the date of the financial statements which correspond to their fair value.

Financial investments in CDBs and similar investments offer daily liquidity through repurchase in the yield curve and, therefore, the Company believes their fair value corresponds to their carrying value.

The fair value of other financial investments and financing was determined using calculation methodologies commonly used for marking-to-market, which consist of calculating future cash flows associated with each instrument adopted and adjusting them to present value at the market rates as of December 31, 2008 and December 31, 2007. For some cases where there is no active market for the financial instrument, the Company and its subsidiaries used quotes provided by the transaction counterparties.

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In 2007, the fair value of permanent investments in other companies, represented by the shares of Petroquímica União S.A. disposed of in 2008, was calculated based on the price of such shares quoted on BM&FBovespa. The interpretation of market information on the choice of calculation methodologies for the fair value requires considerable judgment and the use of estimates to obtain a value deemed appropriate to each situation. Consequently, the estimates presented do not necessarily indicate the amounts that may be realized in the current market.

Sensitivity analysis

The Company and its subsidiaries use derivative financial instruments only to hedge against identified risks and in amounts consistent with the risk (limited to 100% of the identified risk). Thus, for purposes of sensitivity analysis of market risks associated with financial instruments, the Company analyzes the hedging instrument and the hedged item together, as shown on the charts below.

For the sensitivity analysis of foreign exchange hedging instruments, Management adopted as a likely scenario the Brazilian Real/dollar exchange rates at maturity of each swap, projected by dollar futures contracts quoted on BM&FBovespa as of December 31, 2008. As a reference, the exchange rate for the last maturity of foreign exchange hedging instruments is R\$ 2.8 in the likely scenario. Scenarios II and III were estimated with a 25% and 50% additional devaluation, respectively, of the Brazilian Real in the likely scenario.

Based on the balances of the hedging instruments and hedged items as of December 31, 2008, the exchange rates were replaced, and the changes between the new balance in Brazilian Reais and the balance in Brazilian Reais as of December 31, 2008 were calculated in each of the three scenarios. The table below shows the change in the values of the main derivative instruments and their hedged items, considering the changes in the exchange rate in the different scenarios.

	Risk	Scenario I (likely)	Scenario II	Scenario III
Currency swaps receivable in U.S. dollars				
(1) Dollar / Real swaps	Dollar	55.9	223.9	627.0
(2) Debts in dollars	<i>appreciation</i>	(55.9)	(223.9)	(626.9)
(1)+(2)	<i>Net Effect</i>			0.1
Currency swaps payable in U.S. dollars				
(3) Real / Dollar swaps	Dollar	(8.5)	(34.0)	(95.3)
(4) Gross margin of Oxitenio	devaluation	8.5	34.0	95.2
(3)+(4)	Net Effect			(0.1)

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For the sensitivity analysis of the interest rate hedging instrument, the Company used the future LIBOR curve (BBA - British Bankers' Association) as of December 31, 2008 at maturity of the swap and of the syndicated loan (hedged item), which occurs in 2011, in order to define the likely scenario. Scenarios II and III were estimated with a 25% and 50% deterioration, respectively, in the estimate of the likely LIBOR rate.

Based on the three interest rate scenarios, Management estimated the values of its loan and of the hedging instrument by calculating the future cash flows associated with each instrument adopted according to the projected scenarios and adjusting them to present value by the discount rate in effect on December 31, 2008. The result is stated on the table below:

	Risk	Scenario I (likely)	Scenario II	Scenario III
Interest rate swap (in dollars)				
(1) LIBOR / fixed rate swap	Increase in	(2.4)	(1.2)	
(2) LIBOR Debt	LIBOR	2.4	1.2	
(1)+(2)	<i>Net Effect</i>			

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20. CONTINGENCIES AND COMMITMENTS

a) Labor, civil and tax lawsuits

In 1990, the Union of Workers in Petrochemical Plants, of which the employees of the subsidiaries Oxiteno Nordeste S.A. Indústria e Comércio and Empresa Carioca de Produtos Químicos S.A. are members, filed an action against the subsidiaries to enforce adjustments established under a collective labor agreement, in lieu of the salary policies actually implemented. At the same time, the Employees Association proposed a collective bargaining for interpretation and clarification of Clause Four of the agreement. Based on the opinion of legal counsel, who reviewed the latest decision of the Federal Supreme Court (STF) in the collective bargaining and the position of individual action of the subsidiary Oxiteno Nordeste S.A. Indústria e Comércio, Management of the subsidiaries did not deem it necessary to record a provision as of December 31, 2008.

The subsidiary Companhia Ultragaz S.A. is facing an administrative case pending before the Administrative Council for Economic Defense (CADE) for alleged anticompetitive practice in cities in the Triângulo Mineiro region in 2001. Recently, the CADE entered a decision against Companhia Ultragaz S.A. imposing a penalty of 1% of the annual gross revenue for 2001 (which was R\$ 1,475), excluding tax and adjusted by IPCA-e. This administrative decision has not yet become final and can still be appealed administratively. If the administrative decision is administratively upheld, then its execution may be stayed and the merits reconsidered in court. Based on the above elements and on the opinion of its legal counsel, the subsidiary's Management did not record a provision as of December 31, 2008.

The subsidiary Companhia Ultragaz S.A. is the defendant in legal proceedings for damages arising from an explosion in 1996 in a shopping mall located in the City of Osasco, State of São Paulo. Such proceedings involve: (i) individual proceedings brought by victims of the explosion seeking compensation for loss of income and pain and suffering (ii) request for compensation for expenses of the shopping mall administrator and its insurer; and (iii) class action seeking economic and non-economic damages for all victims injured and dead. The subsidiary believes that it produced evidence that the defective gas pipelines in the shopping mall caused the accident, and Ultragaz's LPG storage facilities did not contribute to the explosion. Out of the 62 actions decided to date, 61 were favorable, of which 25 are already shelved; only 1 was adverse in the second instance, which can still be appealed, and if such decision is upheld, the value is R\$ 0.017. There are 3 actions yet to be decided. The subsidiary has insurance coverage for these legal proceedings, and the value not insured is R\$ 16.5. The Company did not record any provision for this value because it considers the chances of realization of this contingency as essential to the financial statements.

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The Company and its subsidiaries obtained injunctions to pay PIS and COFINS contributions without the changes introduced by Law 9,718/98 in its original version. The ongoing questioning refers to the levy of these taxes on sources other than revenues. In 2005, the Superior Court of Justice decided the question in favor of the taxpayer. Although it has set a precedent, the effect of this decision does not automatically apply to all companies, since they must await judgment of their own legal lawsuits. In the first half of 2007, the Company and its subsidiaries reversed previously recorded accruals in the amount of R\$ 12.8 (in 2006 R\$ 23.5 of accrual reversal and R\$ 26.2 of recovery of amounts paid in previous periods), net of attorney's fees. The Company has other subsidiaries whose lawsuits have not yet been decided. If all outstanding lawsuits are finally decided in favor of the subsidiaries, the Company estimates that the total positive effect on income before income tax and social contribution will reach R\$ 32.8, net of attorney's fees.

Based on the favorable jurisprudence and the opinion of its legal counsel, the subsidiaries Oxiteno Nordeste S.A. Indústria e Comércio and Oxiteno S.A. Indústria e Comércio filed, on September 16 and October 1, 2008, respectively, lawsuits to obtain preliminary injunctions to exclude export revenues from the tax base for Social Contribution on Profit; such preliminary injunctions were denied, and the subsidiaries await the outcome of the appeals lodged.

The subsidiary Utingás Armazenadora S.A. is defending itself against notices of assessment of Service Tax (ISS) issued by the Municipality of Santo André. The position of the subsidiary's legal counsel is that the risk is low since a significant portion of the administrative decisions were favorable to the subsidiary. The thesis defended by the subsidiary is supported by the opinion of a renowned tax specialist. The unprovided for contingency, adjusted as of December 31, 2008, is R\$ 46.9 (R\$ 42.9 in 2007).

On October 7, 2005, the subsidiaries Companhia Ultragraz S.A. and Bahiana Distribuidora de Gás Ltda. filed for and obtained an injunction to offset PIS and COFINS credits against other taxes administered by the Federal Revenue Service, notably IRPJ and CSLL. The decision was confirmed by a trial court judgment on May 16, 2008. Under the injunction obtained, the subsidiaries have been making judicial deposits for these debits in the accumulated amount of R\$ 117.7 as of December 31, 2008 (R\$ 81.2 in 2007) and have recorded corresponding liabilities.

The subsidiaries Companhia Ultragraz S.A., Utingás Armazenadora S.A., Terminal Químico de Aratu S.A. - Tequimar, Transultramar Armazenamento e Transporte Especializado Ltda. and Ultracargo Operações Logísticas e Participações Ltda. have filed actions with the Superior Court of Justice for injunction seeking full and immediate utilization of the supplementary monetary adjustment based on the Consumer Price Index (IPC)/National Treasury Bonds (BTN) for 1990 (Law 8200/91) and maintain a provision of R\$ 14.6 (R\$ 13.6 in 2007) to cover contingencies if they lose such actions.

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On December 29, 2006, the subsidiaries Oxitenos S.A. Indústria e Comércio, Oxitenos Nordeste S.A. Indústria e Comércio, Companhia Ultragaz S.A. and Transultra Armazenamento e Transporte Especializado Ltda. filed for an injunction seeking the deduction of ICMS from the PIS and COFINS tax basis. Oxitenos Nordeste S.A. Indústria e Comércio obtained an injunction and is paying the disputed amounts, judicial deposits, as well as recording the respective provision in the amount of R\$ 24.3 (R\$ 10.7 in 2007). The other subsidiaries did not obtain an injunction and are awaiting the outcome of an appeal lodged with Federal Regional Court (TRF) for the 3rd Region. On August 19, 2008, the subsidiaries Companhia Brasileira de Petróleo Ipiranga, Refinaria de Petróleo Riograndense S.A., Tropical Transportes Ipiranga Ltda. and Empresa Carioca de Produtos Químicos S.A. also filed for injunctions seeking the same benefit and are awaiting the resolution of these lawsuits.

The Company and some of its subsidiaries have filed actions with a motion for injunction against the application of the law restricting the use of tax losses (IRPJ) and negative tax bases (CSLL) determined as of December 31, 1994 to 30% of the income for the year. As a result of the position of the SFT and based on the opinion of its legal counsel, a provision was recorded for this contingency in the amount of R\$ 6.6 in 2007.

In 2007, based on recent case law, the position of its legal counsel, and the increase in the amounts involved in transactions, the Company and its subsidiaries began to record a provision for PIS and COFINS on credits of interest on capital. The total amount accrued on December 31, 2008 is R\$ 21.9 (R\$ 20.7 in 2007).

Regarding Ipiranga/Refining, the main additional contingencies provided for, relate to: (i) requirement for the reversal of ICMS credits on transportation services taken during the freight reimbursement system established by the DNC (currently ANP - National Petroleum, Natural Gas and Biofuel Agency), R\$ 7.3; (b) requirement for the reversal of ICMS credits, in the State of Minas Gerais, on interstate outflows carried under Article 33 of ICMS Convention 66/88, which allowed maintenance of credits and was suspended by an injunction issued by the STF, R\$ 28.4; (c) assessments for deduction of unconditional discounts from the tax base for ICMS due to tax substitution, in the State of Minas Gerais, R\$ 16.3; (d) litigation on clauses of contracts with customers; and (e) claims made by former employees and subcontractors on salary allowances.

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The main tax contingences of Ipiranga/Refining that were considered to pose a possible risk of loss relate to ICMS and total R\$ 147.6, based on this position, have not been provided for in the financial statements, consisting primarily of: (a) requirement for the reversal of credits resulting from excess taxation on acquisition of products in the petroleum refinery under the tax substitution regime; (b) requirement for the ICMS on acquisition of basic oils; (c) assessments in the State of Rio de Janeiro requiring reversal of ICMS credits on intercompany outflows made under Article 33 of ICMS Convention 66/88, which allowed maintenance of credits and was suspended by an injunction issued by the STF; (d) requirement for the reversal of presumed credit on interstate transfers of hydrated fuel ethanol in the State of Santa Catarina; (e) notices of assessment issued in Minas Gerais for alleged miscalculation of the tax base for ICMS, since the amount of the tax itself on interstate transactions with petroleum byproducts to end consumer was not included in such tax base; and (f) notice of assessment regarding transactions for return of anhydrous ethanol.

In addition, the subsidiary CBPI and its subsidiaries have tax assessments concerning denial of IPI credits originated in acquisition of products whose subsequent sales had no taxation. The amount of the unprovided for contingency, adjusted as of December 31, 2008, is R\$ 40.4 (R\$ 31.2 in 2007).

The Company and its subsidiaries have other pending administrative and legal proceedings, which were estimated by their legal counsel as a possible and/or remote risk, and the related potential losses were not provided for by the Company and its subsidiaries based on their legal opinions. The Company and its subsidiaries also have litigations for recovery of taxes and contributions, which were not recorded in the financial statements due to their contingent nature.

Movements in provisions, net of amounts in escrow, are as follows:

	Balance in 2007	Additions	Write-offs	Interest	Balance in 2008
Provisions					
Income tax and social contribution	105.6	26.9	(0.2)	11.3	143.6
PIS and COFINS	33.6	12.1	(0.5)	3.6	48.8
ICMS	61.1	0.3	(0.9)	2.2	62.7
INSS	2.4	5.9	(0.8)	0.6	8.1
Civil lawsuits	4.5		(0.6)		3.9
Labor claims	13.8	0.1	(2.5)		11.4
Other	2.0	2.9		0.7	5.6
(-) Escrow deposits	(96.1)	(41.2)	1.1	(11.9)	(148.1)
Total	126.9	7.0	(4.4)	6.5	136.0

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b) Take or pay commitments

The subsidiary Terminal Químico de Aratu S.A. (Tequimar) has contracts with CODEBA and Complexo Industrial Portuário Governador Eraldo Gueiros, in connection with their port facilities in Aratu and Suape, respectively. Such contracts establish minimum cargo movement of 1,000,000 tons per year for Aratu, effective through 2022, and 250,000 tons per year for Suape, effective through 2027. If actual movement is less than the established minimum, the subsidiary is required to pay the difference between the actual movement and minimum contractual movement using the port rates in effect at the date of payment. As of December 31, 2008, such rates were R\$ 4.93 per ton for Aratu and R\$ 3.97 per ton for Suape, respectively. The subsidiary has met the minimum cargo movement limits since inception of these contracts. At December 31, 2008, future minimum lease payments under these operating leases are: R\$ 5.9 in 2009, R\$ 5.9 in 2010, R\$ 5.9 in 2011, R\$ 5.9 in 2012, R\$ 5.9 in 2013 and thereafter R\$ 54.9. A substantial part of these leases are paid directly to the port authorities by Tequimar's customers. The part of such lease expenses paid by Tequimar amounted to R\$ 2.6 in 2008, R\$ 2.3 in 2007 and R\$ 2.2 in 2006.

The subsidiary Oxitenor Nordeste S.A. Indústria e Comércio has a supply contract with Braskem S.A., which establishes a minimum annual consumption level of ethylene per year and establishing conditions for the supply of ethylene until 2021. The minimum purchase commitment and the actual demand for the years ended December 31, 2008 and 2007, expressed in tons of ethylene, are summarized below. Should the minimum purchase commitment not be met, the subsidiary would be liable for a fine of 40% of the current ethylene price for the quantity not purchased.

	Minimum purchase commitment		Actual demand	
	2008	2007	2008	2007
In tons of ethylene	173,005 (*)	180,000	173,049	197,242

(*) Adjusted for the maintenance stoppages carried out by Braskem in the period.

At December 31, 2008, future minimum purchase commitment fines under this contract, based on the price prevailing at that date, are: R\$ 262.2 in 2009, R\$ 289.8 in 2010, R\$ 303.6 in 2011, R\$ 310.5 in 2012, R\$ 317.4 in 2013 and R\$ 2,587.5 between 2014 and 2021. Total purchases made under this contract were R\$ 697.9 in 2008, R\$ 700.6 in 2007 and R\$ 621.5 in 2006.

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On August 1, 2008, the subsidiary Oxiten S.A. Indústria e Comércio signed an Ethylene Supply Agreement with Quattor Química S.A., valid until 2023, which establishes and regulates the conditions for supply of ethylene to Oxiten based on the international market for this product. The minimum purchase is 19,800 tons of ethylene semiannually. In case of breach of the minimum purchase commitment, the subsidiary agrees to pay a penalty of 30% of the current ethylene price, to the extent of the shortfall. At December 31, 2008, future minimum purchase commitments under this contract, based on the price prevailing at that date, are: R\$ 49.9 in 2009, R\$ 49.9 in 2010, R\$ 49.9 in 2011, R\$ 49.9 in 2012, R\$ 49.9 in 2013 and R\$ 499.0 between 2014 and 2023.

c) Insurance coverage for subsidiaries

The Company has insurance policies to cover various risks, including loss and damage from fire, lightning, explosion of any nature, windstorm, plane crash and electrical damage, among others, protecting the plants and other branches of all subsidiaries except Refinaria de São Paulo, which maintains its own insurance. The maximum compensation value, including Loss of Profits, based on the risk analysis of maximum possible loss possible at a site is US\$ 852 million.

A civil liability insurance program covers the Company and its subsidiaries, with global coverage of US\$ 400 million, for losses and damages from accidents caused by third parties, related to the commercial and industrial operations and/or distribution and sale of products and services.

Group life insurance, personal accident insurance, health insurance, and domestic and international transportation insurance and all risks of transportation, also contracted.

The coverage and limits insured by the policies are based on a detailed study of risks and losses, prepared by local insurance consultants. Management considers the type of insurance contracted sufficient to cover possible claims, in view of the nature of the activities of the company.

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d) Operating lease contracts

The subsidiaries Tropical, Sociedade Brasileira de Participações and Serma have operating lease contracts for the use of fuel transport equipment (trucks) and computer equipment.

These contracts have terms between 12 and 36 months. The subsidiaries have the option to purchase the assets at a price equal to the price on the date of option, and Management does not intend to exercise such option.

The future disbursements (installments), assumed under these contracts, total approximately:

	2008
Up to 1 year	0.7
More than 1 year	0.8
	1.5

The total payments of operating lease recognized as expenses for the period was R\$ 2.2 in 2008.

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21. RELATED PARTIES**a) Related companies**

The balances and transactions with related parties are as follows:

	2008			
	Assets	Loans Liabilities	Trade accounts Receivable	Payable
Química da Bahia Indústria e Comércio S.A.		3.4		
Quattor Químicos Básicos S.A.				4.2
Oxicap Indústria de Gases Ltda.	5.3			0.8
Liquigás Distribuidora S.A.			0.2	
Petróleo Brasileiro S.A. - Petrobras				184.1
Copagaz Distribuidora de Gás S.A.			0.4	
Braskem S.A.				17.1
SHV Gás Brasil Ltda.			0.1	
Plenogás - Distribuidora de Gás S.A.		1.0		
Other	0.3		0.1	
Total at December 31, 2008	5.6	4.4	0.8	206.2
Total at December 31, 2007	12.9	4.7	16.9	220.0

	2008		Financial expenses
	Sales	Purchases	
Quattor Químicos Básicos S.A.	2.4	139.8	
Liquigás Distribuidora S.A.	3.6		
Petróleo Brasileiro S.A. - Petrobras	27.0	18,853.5	
Copagaz Distribuidora de Gás Ltda.	2.1		
Braskem S.A.	5.7	697.9	
SHV Gás Brasil Ltda.	1.7		
Refinaria de Petróleo Riograndense S.A. (*)	0.1	162.4	
Other	0.7	12.2	
Total 2008	43.3	19,865.8	

Total 2007	35.3	14,444.7	1.5
Total 2006	57.1	2,796.5	(0.3)

(*) Relates to the non-eliminated portion of the transactions between RPR and CBPI, since RPR is proportionally consolidated and CBPI is fully consolidated.

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Purchase and sale transactions refer, substantially, to purchases of raw materials, other materials and storage and transportation services carried out at market prices and conditions, considering suppliers and customers with equal operating capacity. Borrowing agreements are for an indeterminate period and do not contain interest clauses. In the opinion of the Company's Management, transactions with related parties are not subject to settlement risk, which is why no allowance for doubtful accounts or collaterals are provided for. Guarantees provided by the Company in borrowings and financing of subsidiaries and affiliates are mentioned in Note 14.f.). The transactions of the Company and its subsidiaries related to post-employment benefits are described in Note 2.

b) Key Management personnel - Compensation

In 2008, the Company and its subsidiaries recorded expenses for compensation of its key personnel (Company's directors and executive officers) in the amount of R\$ 21.8 (R\$ 17.4 in 2007). Out of this total, R\$ 18.3 relates to short-term compensation (R\$ 16.4 in 2007), R\$ 2.1 to share compensation (R\$ 0.9 in 2007), and R\$ 2.1 to post-employment benefits.

c) Share compensation plan

The Extraordinary Shareholders' Meeting held on November 26, 2003 approved a compensation plan for management of the Company and its subsidiaries, which provides for: (i) the initial grant of usufruct of shares issued by the Company and held in treasury by the subsidiaries in which the beneficiaries are employed, and (ii) the transfer of the beneficial ownership of the shares between five and ten years of the initial concession provided that the professional relationship between the beneficiary and the Company and its subsidiaries is not interrupted. The total value granted to executives until December 31, 2008, including taxes, was R\$ 24.0 (R\$ 16.3 as of December 31, 2007). Such value is being amortized over a period of five to ten years, and the amortization related to the year ended December 31, 2008, the amount of R\$ 1.7 (R\$ 1.3 in 2007 and R\$ 0.9 in 2006), was recorded as an operating expense for the period. The values of the awards were determined on the date of award based on the market value of these shares on BM&FBOVESPA.

The chart below summarizes the information on the shares awarded to executives of the Company:

Grant date	Restricted shares granted	Fair value of shares (whole Brazilian Reais)	Total compensation costs, including taxes	Accumulated recognized compensation costs	Unrecognized compensation costs
October 7, 2008	174,000	39.97	9.6	(0.1)	9.5
December 12, 2007	40,000	64.70	3.8	(0.6)	3.2
November 9, 2006	51,800	46.50	3.3	(0.7)	2.6
December 14, 2005	23,400	32.83	1.1	(0.4)	0.7
October 4, 2004	41,975	40.78	2.4	(1.0)	1.4
December 17, 2003	59,800	30.32	3.8	(2.0)	1.8
	390,975		24.0	(4.8)	19.2

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22. INCOME TAX AND SOCIAL CONTRIBUTION**a) Deferred income tax and social contribution**

The Company and its subsidiaries recognize tax assets and liabilities, which do not expire, arising from tax loss carryforwards, temporary differences, tax credit carryforwards, tax loss add-backs, revaluation of property, plant and equipment and other procedures. Tax credits are based on the continuing profitability of operations. Deferred income tax and social contribution are presented in the following principal categories:

	2008	2007
Assets - Deferred income tax and social contribution on:		
Provision for losses in assets	25.8	26.5
Provision for contingencies	59.0	48.3
Provision for post-employment benefits (see Note 23.b)	23.7	26.8
Provision for interest on capital		45.1
Provision for differences of cash basis versus accrual basis	0.2	29.4
Provision for goodwill on investment (*)	320.4	
Other provisions	26.5	17.8
Income tax and social contribution on tax loss carryforwards	64.9	34.7
Total	520.5	228.6
Current portion	111.8	109.0
Non-current portion	408.7	119.6
Liabilities - Deferred income tax and social contribution on:		
Revaluation of property, plant and equipment	0.5	0.6
Accelerated depreciation	0.1	0.1
Provision for adjustments between cash and accrual basis	29.0	
Temporary differences of foreign subsidiaries	1.3	1.2
Implementation of Law 11,638/07 (**)	2.0	
Total	32.9	1.9
Current portion	14.7	0.1
Non-current portion	18.2	1.8

(*) Relate to income tax and social contribution as specified in Instruction CVM 319/99, resulting from the corporate reorganization occurred in the fiscal year of 2008 involving the subsidiaries Ultragas Participações S.A., CBPI, and DPPI, see Note 4.a).

(**) The Company and its subsidiaries adopted the Transition Tax Regime (RTT) provided by MP 449/08.

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The estimated recovery of deferred income tax and social contribution assets is shown below:

Until 1 year	111.8
From 1 to 2 years	94.5
From 2 to 3 years	77.2
From 3 to 4 years	130.0
From 5 to 7 years	83.0
From 8 to 10 years	24.0
	520.5

b) Reconciliation of income tax and social contribution to statutory tax rates substantially related to domestic operation.

	2008	2007	2006
Income before taxes, equity in subsidiaries and affiliated companies and minority interest, after employees statutory interest	546.4	368.2	342.5
Official tax rates - %	34.0	34.0	34.0
Income tax and social contribution at official rates	(185.8)	(125.2)	(116.4)
Adjustments to the effective tax rate:			
Operating provisions and nondeductible expenses/nontaxable income	(11.6)	(5.5)	7.7
Adjustments to estimated income	9.8	9.6	1.8
Employees Meal Program (PAT)	0.4	1.7	0.4
Other adjustments	(4.7)	(1.7)	0.1
Income tax and social contribution before tax benefits	(191.9)	(121.1)	(106.4)
Benefits of tax holidays - ADENE	40.3	35.2	50.3
Income tax and social contribution per statement of income	(151.6)	(85.9)	(56.1)
Current	(204.6)	(207.8)	(111.8)
Deferred	12.7	86.7	5.4
Benefits of tax holidays - ADENE	40.3	35.2	50.3

c) Tax loss carryforwards

The total amount of R\$ 190.9 related to tax loss carryforwards may be used to offset up to 30% of future taxable income and does not exceed the amount of R\$ 190.9.

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d) Tax exemption

The following subsidiaries have partial or total exemption from income tax in connection with a government program for the development of the Northeast Region of Brazil.

Subsidiary	Unit	Incentive - %	Expiration date
Oxiteno Nordeste S.A. Indústria e Comércio	Camaçari plant	75	2016
Bahiana Distribuidora de Gás Ltda.	Mataripe plant	75	2013
	Suape plant (*)	100	2007
	Aracaju plant (**)	12.5	2013
	Caucaia plant	75	2012
Terminal Químico de Aratu S.A. - Tequimar	Aratu terminal	75	2012
	Suape terminal	75	2015

(*) Tax exemption of the Suape base expired in December 2007, and a request was filed with the Agency for the Development of the Northeast (ADENE), responsible for managing this incentive plan, asking for 75% tax relief until 2017. If this 75% relief is not granted, the subsidiary will file another request with ADENE for 12.5% relief until 2013, to which it is entitled because it is located in an incentive area and is considered a priority economic activity for the development of the region.

(**) Due to the upgrade of the Aracaju base, the Agency for the Development of the Northeast (ADENE) approved an increase in the income tax relief from 25% to 75% until 2017, through a report issued on December 19, 2008. On January 20, 2009, the tax benefit report was submitted to the Federal Revenue Service for approval within 120 days. If this 75% benefit is not approved, the subsidiary will continue to be entitled to a 12.5% relief until 2013.

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23. EMPLOYEE BENEFITS AND PRIVATE PENSION PLAN

a) ULTRAPREV - Associação de Previdência Complementar

In August 2001, the Company and its subsidiaries (except subsidiaries acquired from the Ipiranga Group) began to offer their employees a defined contribution pension plan, managed by Ultraprev - Associação de Previdência Complementar. Under the terms of the plan, the basic contribution of each participating employee is defined annually by the participant between 0% and 11%, of his/her salary. The sponsoring companies provide a matching contribution to the basic contribution. As participants retire, they may opt to receive monthly: (i) a percentage varying between 0.5% and 1.0% of the fund accumulated in his/her name at Ultraprev, or (ii) a fixed amount that will extinguish the fund accumulated in his/her name in a period between 5 and 25 years. As such, neither the Company nor its subsidiaries assume responsibility for guaranteeing amounts or periods of receipt for the participants that retire. In 2008, the Company and its subsidiaries contributed R\$ 5.4 (R\$ 3.5 in 2007 and R\$ 3.3 in 2006) to Ultraprev, which was charged to income for the year. The total number of employee participants as of December 31, 2008 was 7,153, with 19 participants retired to date. Additionally, Ultraprev has 1 active participant and 30 former employees receiving benefits according to the policies of a previous plan.

In September 2008, participation of the companies EMCA, DPPI, CBPI and their subsidiaries in the Ultraprev plan was approved. From that date, the companies started to make contributions to Ultraprev and requested the removal of sponsorship from Fundação Francisco de Assis Martins Barreto.

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b) Post-employment benefits

Ipiranga/Refining recognized a provision for post-employment benefits related to seniority bonus, payment of Severance Pay Fund, health and life insurance plan for eligible retirees.

Ipiranga/Refining's net liabilities for such benefits recorded as of December 31, 2008 are R\$ 86.5 (R\$ 93.9 as of December 31, 2007), of which R\$ 8.8 (R\$ 8.8 as of December, 2007) are recorded as current liabilities and R\$ 77.7 (R\$ 85.1 as of December 31, 2007) as long-term liabilities.

The amounts related to such benefits were determined based on a valuation conducted by an independent actuary and are recorded in the consolidated financial statements in accordance with Resolution CVM 371/2003.

Significant actuarial assumptions adopted include:

Economic Factors

Discount rate for the actuarial obligation at present value - 10.24% per annum

Expected long-term rate of return on assets - 10.24% per annum

Average projected salary growth rate - 6.08% per annum

Inflation rate (long term) - 4.0% per annum

Growth rate of medical services - 8.16% per annum

Demographic factors

Mortality Table - AT 1983 Basic decreased by 10% (*)

Disabled Mortality Table - RRB 1983

Disability Table - RRB 1944 modified

Inflation rate (long term) - 4.0% per annum

Growth rate of medical services - 8.16% per annum

-

(*) CSO-80 mortality table was used for the life insurance ben

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24. SUMMARY AND RECONCILIATION OF THE DIFFERENCES BETWEEN ACCOUNTING PRACTICES ADOPTED IN BRAZIL AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA (U.S. GAAP)
I - Description of GAAP differences

The consolidated financial statements of the Company are prepared in accordance with accounting practices adopted in Brazil, which generally comply with those prescribed by the Brazilian corporate law and specific standards established by the Brazilian Securities Commission (CVM). Note 4 to the consolidated financial statements summarizes the accounting policies adopted by the Company.

In 2008, significant modifications were made to accounting policies adopted in Brazil as part of the convergence project with IFRS. Due to these changes, some practices adopted in Brazil and U.S. GAAP were converged, as mentioned in Notes 2, 3, 4 and 24. Accounting policies, which differ significantly from U.S. GAAP, are summarized below:

a) Inflation accounting

The Company accounted for the effects of inflation in its consolidated financial statements through December 31, 1995. Under U.S. GAAP, Brazil was considered to be a highly inflationary economy until July 1, 1997, and the effect of inflation was recognized until December 31, 1995.

In determining amounts under U.S. GAAP, the effects of inflation for the years ended December 31, 1996 and 1997 were determined using the Índice Geral de Preços - Disponibilidade Interna - IGP-DI index, which is widely-accepted and respected index published monthly by the Fundação Getúlio Vargas.

Through December 31, 1995, the Company used indexes established by the government to restate balances and transactions for purposes of its corporate law financial statements. Such indexes do not necessarily represent changes in general price levels, as would be required under U.S. GAAP.

Because the Company's management believes that the Índice Geral de Preços - Disponibilidade Interna - IGP-DI is an appropriate and consistent measurement of the general price inflation in Brazil and because of its availability, for U.S. GAAP purposes the Company adopted the IGP-DI for restatement of its financial statements through December 31, 1995, replacing the government-mandated index. This procedure is consistent with the recommendation by the Brazilian Task Force (organized under the AICPA International Practices Committee) and the Task Force to review the issue of the appropriate index to be used for preparing price-level adjusted financial statements of Brazilian companies filing with the SEC) of using the IGP-M or IGP-DI for such purposes. Thus, all non-monetary assets and liabilities were restated using the IGP-DI since the inception of the Company, through December 31, 1995.

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b) Reversal of fixed asset revaluations and related deferred tax liabilities

For U.S. GAAP reconciliation purposes, the revaluation of fixed assets and the related deferred income tax effects recorded in the financial statements prepared in accordance with accounting practices adopted in Brazil have been eliminated in order to present fixed assets at historical cost less accumulated depreciation. Accordingly, depreciation on such revaluation charged to income has also been eliminated for U.S. GAAP reconciliation purposes.

c) Deferred charges

Until 2007, accounting practices adopted in Brazil permitted the deferral of research and development costs and pre-operating expenses incurred in the construction or expansion of a new facility until the facility begins commercial operations.

In order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the new Brazilian accounting practices in 2008 (prospectively), as mentioned in Notes 2 and 3.

In 2008, the balance of deferred charges only includes restructuring costs that will produce benefits in future years (see Note 13). The Company and its subsidiaries decided to maintain the balances until they are fully amortized.

For U.S. GAAP reconciliation purposes, such amounts do not meet the conditions established for deferral and, accordingly, have been charged to income, and the related amortization under accounting practices adopted in Brazil has been reversed.

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d) Investments in affiliated companies

As from 1996 to 2007, the Brazilian corporate law allowed certain less than 20% owned affiliated companies in which an investor owned more than 10% of voting stock to be accounted for under the equity method. In addition, certain more than 20% and less than 50% owned affiliated companies deemed not significant in relation to their parent company were accounted for at cost.

In order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the new Brazilian accounting practices in 2008 (prospectively), as mentioned in Notes 2 and 3, that resulted in the convergence of the accounting policies adopted in Brazil with U.S. GAAP.

For U.S. GAAP reconciliation purposes, less than 20% owned affiliated companies have been accounted for on the basis of cost, and more than 20% and less than 50% owned affiliated companies have been accounted for on the equity method for all years presented.

The Brazilian corporate law allows certain jointly controlled corporate entities to be consolidated on a pro rata basis. U.S. GAAP requires these entities to be reported under the equity method. The Company's investment in Refining is consolidated using the pro rata method and its accounting practices adopted in Brazil.

e) Capitalization of interest in relation to construction in progress

Under accounting practices adopted in Brazil, prior to January 1, 1996 the Company was not required to capitalize the interest on borrowed funds as part of the cost of the related asset. Under U.S. GAAP, capitalization of borrowed funds during construction of new facilities is recognized as part of the cost of the related asset.

Under U.S. GAAP, interest on construction-period financing denominated in foreign currencies is capitalized using contractual interest rates, exclusive of foreign exchange or monetary correction gains or losses. Interest on construction-period financing denominated in Brazilian Reais is capitalized.

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f) Acquisitions and business combinations

Under accounting practices adopted in Brazil, assets and liabilities of acquired entities are reflected at book values. Goodwill is represented by the excess of purchase price paid over the value of net assets and until 2008 was amortized on a straight-line basis over the period estimated to be benefited. After 2008, goodwill will cease to be amortized and will continue to be tested for impairment.

Under U.S. GAAP, business combinations are accounted for by the purchase method utilizing fair values. Goodwill is not amortized and should be tested for impairment. An impairment test of goodwill is performed annually or more frequently if events or changing circumstances indicate that the goodwill might be impaired. Such impairment test is performed utilizing a two-step method. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the implied fair value of reporting unit goodwill is lower than the carrying amount of such goodwill, an impairment loss is recognized.

Under accounting practices adopted in Brazil, purchases by subsidiaries of their own stock from minority shareholders are initially recorded at cost. Upon cancellation of these shares, the difference between cost and the related book value of the subsidiary's shareholders' equity is recorded by the parent company and in the consolidated financial statements as a capital gain or loss. Direct purchases by the parent company of the subsidiaries' stock from minority shareholders are recorded at cost, with the difference between cost and the related value of the subsidiaries' shareholders' equity recorded as positive or negative goodwill by the parent company and in the consolidated financial statements.

Under U.S. GAAP, purchases of treasury stock by subsidiaries from minority shareholders and direct purchases by the parent company of the subsidiaries' stock from minority shareholders are recorded as step acquisitions under the purchase method, with assignment of purchase price to the underlying assets and liabilities based on their fair values and recording of goodwill to the extent that the purchase price exceeds the proportionate amount of the net fair value of the assets and liabilities. No gain or loss is recognized upon either purchase or cancellation of the shares.

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Acquisition of União Term

As mentioned in Note 4.a), the Company acquired, through its subsidiary Terminal Químico de Aratu S.A. - Tequimar, the company
Terminais e Armazéns Gerais Ltda. for the amount of R\$ 48.0 million.

Under accounting practices adopted in Brazil, the goodwill breaks down into R\$ 326.6 based on expected future profitability and R\$ 31.6
based on the difference between the market value and the carrying value of the assets acquired.

Under U.S. GAAP, the Company recorded the acquisition based on the fair value of the assets acquired and liabilities assumed.
determined goodwill in accordance with the purchase method of accounting prescribed by Statement of Financial Accounting Standards
(SFAS) 141, Business Combinations . This allocation is completed and resulted in the identification of goodwill as shown below:

Goodwill recorded under accounting practices adopted in Brazil based on expected future profitability	326.6
Goodwill difference between U.S. GAAP and accounting practices adopted in Brazil	
Intangible assets (*)	(31.6)
Deferred taxes effects on intangible assets	10.8
Intangible assets, net	(20.8)
Deferred taxes effects on difference between market value and carrying value of assets	25.6
Goodwill recorded under U.S. GAAP	331.4
Difference between the market value and the carrying value of the assets (treated similarly between accounting practices adopted in Brazil and U.S. GAAP)	75.4

(*) The goodwill difference between U.S. GAAP and accounting practices adopted in Brazil in the amount of R\$ 31.6 are intangible assets
referring to customers agreements. Under U.S. GAAP, this amount is being amortized in accordance with the period of customer
agreements. In 2008, the amortization amount in the income statement was R\$ 4.0.

The estimated amortization expense for the next period is as follows:

Until 1 year	10.6
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From 1 to 2 years	7.2
From 2 to 3 years	2.8
From 3 to 4 years	2.0
From 4 to 5 years	1.4
Thereafter	3.6
Total	27.6

The goodwill generated under accounting practices adopted in Brazil is normally for tax purposes, upon incorporation of the acq
ent.

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The following summary presents the Company's unaudited pro forma consolidated results of operations for the periods ended December 31, 2008 and 2007, in accordance with accounting practices adopted in Brazil, as if the acquisition had been completed at the beginning of the period. The pro forma information is only presented for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition actually been made at such dates, nor is it necessarily indicative of future operating results.

Amounts under accounting practices adopted in Brazil	2008	2007
Net sales and services	28,326.3	24,809.2
Operating income before financial items	732.6	607.7
Net income	408.1	225.9
Net earnings per thousand shares - whole R\$	3.00	1.67

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Acquisition of Ipiranga

As mentioned in Note 4.a), on April 18, 2007, the Company acquired the controlling interest of Ipiranga and of Refining, management of which is equally shared among Petrobras, Ultrapar, and Braskem. The results of Ipiranga and Refining have been included in the consolidated financial statements since April 2007. Following the transaction, Ultrapar, already the largest LPG distributor in Brazil, became the second largest group in the fuel distribution business in Brazil, with approximately 15% market share. Ultrapar believes that fuel distribution is a natural extension of LPG distribution because it has similar profitability drivers: logistics efficiency, management efficiency, dealer network, and leveraging of a renowned brand.

The cost of acquisition was R\$ 1,857.9 million.

Under U.S. GAAP, the Company recorded the acquisition based on the fair value of the assets acquired and liabilities assumed. The Company determined goodwill in accordance with the purchase method of accounting prescribed by Statement of Financial Accounting Standards (SFAS) 141, Business Combinations. This allocation is completed and resulted in the identification of goodwill as shown below:

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the conclusion of the acquisition:

	R\$
Current assets	1,649.6
Non-current assets	431.5
Property, plant and equipment	456.3
Intangible assets	95.3
Goodwill	413.7
Total assets acquired and goodwill	3,046.4
Current liabilities	814.7
Non-current liabilities	373.8
Net assets	1,857.9

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Goodwill recorded under accounting practices adopted in Brazil	484.0
Goodwill difference between U.S. GAAP and accounting practices adopted in Brazil	(70.3)
Goodwill recorded under U.S. GAAP	413.7
Intangible assets:	
Trademark acquired - Ipiranga	83.4
Franchise agreement - am/pm	11.9
	95.3

Of the R\$ 95.3 of acquired intangible assets, R\$ 83.4 was assigned to a registered trademark that is not subject to amortization. The remaining R\$ 11.9 of acquired intangible assets has a useful life of approximately 8 years.

The goodwill was assigned to the fuel/lubricant distribution segment.

The goodwill generated under accounting practices adopted in Brazil is normally deductible for tax purposes, upon incorporation of the acquired entities.

The carrying amount of goodwill by the company for the year ended December 31, 2008 are as follows:

Balance as of December 31, 2007	413.7
Write-off of FIN 48	(1.1)
Tax benefit applied to reduce goodwill	(1.8)
Balance as of December 31, 2008	410.8

The following summary presents the Company's unaudited pro forma consolidated results of operations for the periods ended December 31, 2007 and 2006, in accordance with accounting practices adopted in Brazil, as if the fuel/lubricant distribution acquisition had been completed at the beginning of each period. The pro forma information is only presented for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition actually been made on such dates, nor is it necessarily indicative of future operating results.

Amounts under accounting practices adopted in Brazil	2007	2006
Net sales and services	24,743.8	24,894.4
Operating income before financial items	586.7	689.9

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Net income	210.2	407.8
Net earnings per thousand shares - whole R\$	1.55	5.03

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Acquisition of Petrolog

On April 30, 2007 the Company acquired, through its subsidiary Transultra - Armazenamento e Transporte Especializado Ltda., the company Petrolog Serviços e Armazéns Gerais Ltda. for the amount of R\$ 8.1, recording goodwill in the amount of R\$ 6.5, amortized over 10 years, based on its expected future profitability. The Company has not identified any other significant differences between accounting practices adopted in Brazil and U.S. GAAP in relation to this acquisition. The goodwill is not amortized for U.S. GAAP purposes.

Acquisition of Oxitenio Andina, S.A.

On September 13, 2007 the Company acquired, through its subsidiary Barrington S.L., the company Oxitenio Andina, C.A. for the amount of R\$ 15.0, recording goodwill in the amount of R\$ 0.2, amortized over 10 years, based on its expected future profitability. The Company has not identified any other significant differences between accounting practices adopted in Brazil and U.S. GAAP in relation to this acquisition. The goodwill is not amortized for U.S. GAAP purposes.

g) Earnings per share

Under accounting practices adopted in Brazil, it is permitted to determine earnings per share based upon the weighted average number of shares outstanding during each year that earnings are reported. Subsequent changes in the Company's share capital, such as stock dividends, are not retroactively reflected in the disclosure of the number of shares outstanding and in the calculation of earnings per share under accounting practices adopted in Brazil, except for the reverse stock split.

Under U.S. GAAP, earnings per share are determined based upon the weighted average number of shares outstanding during the period, giving retroactive effect to stock dividends and stock splits. Non-vested shares granted to certain executives of the Company as disclosed in Note 24.I.k) are not included in the computation of basic earnings per share even though the shares are legally issued, since such shares are contingently returnable. These non-vested shares are included in diluted earnings per share applying the treasury stock method. The calculation of earnings per share under U.S. GAAP is shown in Note 24.

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h) Available-for-sale securities

Equity securities

Until 2007, under accounting practices adopted in Brazil, available-for-sale equity securities were generally carried at cost, less provisions for impairment, charged to the statement of income if a loss in value was considered to be other than temporary.

For U.S. GAAP reconciliation purposes, the available-for-sale equity security had been recorded at estimated fair value, and the resulting accumulated adjustment, net of deferred tax effect, had been recognized as a separate component of shareholders' equity. During 2008, an equity security classified as available-for-sale was disposed of, resulting in a loss of R\$ 11.2 recognized in net income.

Debt securities

Until 2007, under accounting practices adopted in Brazil, available-for-sale debt securities were generally carried at cost, plus interest income earned less provisions, when applicable, charged to the statement of income to reduce its carrying value to market value. As of 2008, in order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the Brazilian accounting practices, as mentioned in Notes 2 and 3. Thus in 2008, debt securities are treated similarly under accounting practices adopted in Brazil and U.S. GAAP (see Note 3).

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i) Accounting for derivative financial instruments

Until 2007, the Company's financial statements were prepared in accordance with accounting practices adopted in Brazil where derivative financial instruments were recorded at net settlement price as determined on each balance sheet date. As from 2008, in order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the new Brazilian accounting practices mentioned in Notes 2 and 3. Thus in 2008, under accounting practices adopted in Brazil and for U.S. GAAP derivative financial instruments are treated similarly (see Note 3).

In 2008, the Company has a hedging derivative instrument accounted for using hedge accounting in the amount of R\$ 6.5 negative, which is not recognized in the shareholders' equity (see Note 3).

The following table provides a detail of our derivative financial instruments outstanding at the end of each period for which information is presented in the consolidated financial statement is being presented.

Description	Notional amount		Receiving side Interest rate	2008		Book value Gain (loss)	Fair value - U.S. GAAP Gain (loss)	Adjusted Gain (loss)
	Receive currency	Pay currency		Paying side Interest rate				
Swap	US\$ 60.0	R\$ 97.7	4.9% fixed	99.5% of CDI - variable		33.1	33.1	
Swap	US\$ 60.0	US\$ 60.0	Libor + 1.25% - floating	4.9% - fixed		(6.7)	(6.7)	
Swap	US\$ 3.1	R\$ 7.4		75.9% to 86.8% of CDI - variable		(0.2)	(0.2)	
Swap	R\$ 44.0	US\$ 18.3	44.7% to 68.0% of CDI - variable			0.9	0.9	
Swap	US\$ 0.8	R\$ 2.4	7.0% fixed	105.9% of CDI - variable		(1.9)	(1.9)	
Swap	US\$ 59.5	R\$ 122.4	4.1% to 7.5% fixed	76.5% to 105.0% of CDI - variable		12.7	12.7	
Total						37.9	37.9	

(*) As informed above, from 2008 on, in accordance with accounting practices adopted in Brazil, hedges are measured at fair value.

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2007									
Description	Notional amount		Receiving side Interest rate	Paying side Interest rate	Book value Gain (loss)	Fair value - U.S. GAAP Gain (loss)	A	C	D
	Receive currency	Pay currency							
Swap	US\$ 53.3	R\$ 128.9	5.1% fixed	101.7% to 102.0% of CDI - variable	(76.7)	(77.1)			
Swap	US\$ 14.0	MXN 153.6		3.6% - fixed	(0.3)	(0.3)			
Swap	US\$ 1.9	R\$ 3.4		15.5% of CDI - variable	(0.0)	(0.0)			
Swap	R\$ 57.3	US\$ 31.8	8.9 to 49.5% of CDI - variable		0.9	0.9			
Swap	R\$ 17.0	US\$ 9.5	38.0 to 48.0% of CDI - variable		0.2	0.2			
Swap	US\$ 69.3	R\$ 126.6	5.0 to 7.0% of CDI fixed	81.4% to 99.9% of CDI - variable	(4.5)	(4.4)			
Swap	US\$ 1.4	R\$ 4.1	6.2% fixed	90.7% of CDI - variable	(4.4)	(4.4)			
Total					(84.8)	(85.1)			
2006									
Description	Notional amount		Receiving side Interest rate	Paying side Interest rate	Book value Gain (loss)	Fair value - U.S. GAAP Gain (loss)	A	C	D
	Receive currency	Pay currency							
Swap	US\$ 56.0	R\$ 135.5	5.1% fixed	101.7% to 102.0% of CDI -variable	(42.8)	(45.1)			
Zero Cost Collar	US\$ 13.0	MXN 143.6		Below MXN 11.1140	(0.4)	(0.4)			
Swap	US\$ 7.7	R\$ 16.7		41.0 to 61.0% of CDI - variable	(0.2)	(0.3)			
Swap	R\$ 28.3	US\$ 13.2	51.5 to 58.6% of CDI - variable		0.3	0.5			
Swap	R\$ 12.8	US\$ 6.0	51.1 to 61.0% of CDI - variable		0.1	0.2			
Swap	R\$ 44.9	US\$ 20.9	96.4 to 105.0% of CDI - variable	5.3% fixed	0.5	1.0			
Swap	R\$ 17.9	US\$ 8.4	98.3 to 101.0% of CDI - variable	5.3% fixed	0.1	0.4			
Swap	US\$ 4.3	R\$ 12.6	6.2% fixed	93.0% of CDI - variable	(9.9)	(9.8)			
Total					(52.3)	(53.5)			

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j) Income tax and social contribution - FIN 48

On January 1, 2007, the Company adopted Financial Accounting Board Interpretation No. 48 (FIN 48) - Accounting for Uncertain Income Taxes for U.S. GAAP purposes. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken, or expected to be taken, in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transaction. A reconciliation of the beginning and ending amounts of the unrecognized tax benefits is as follows:

Balance at January 1, 2007	0.9
Increase related to current year tax positions	19.4
Increase from business combination of Ipiranga/Refinery	5.9
Balance at December 31, 2007	26.2
Decrease related to current year tax positions	(0.8)
Balance at December 31, 2008	25.4

If recognized, the total amount of R\$ 20.6 of unrecognized tax benefits would have a positive impact on the Company's effective tax rate.

It is possible that the amount of unrecognized tax benefits will change in the next twelve months, however, an estimate of the range of possible change cannot be made at this time due to the long time usually required to reach a settlement agreement with the tax authorities.

The Company's policy is to record penalties and interest related to tax contingencies and obligations as financial expenses in its consolidated statements of income. Total interest and penalties expenses related to uncertain tax benefits amounted to R\$ 1.4 in 2008 and R\$ 1.3 in 2007. Total accrued interest and penalties as of December 31, 2008 and December 31, 2007 were R\$ 5.2 and R\$ 3.8, respectively, and were not included in the table above.

The Company files its tax returns for income tax and social contribution as prescribed by the applicable tax laws. The Company is subject to examination by fiscal authorities from 2003 to 2007.

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k) Accounting for share compensation plan

As mentioned in Note 21.c), the Company approved a share compensation plan on November 26, 2007.

Those shares were granted at no cost to the Company's executives. The grant-date fair values were determined based on the market value of these shares on the BM&FBovespa. These executives have the right to receive dividends on these shares provided that the professional relationship between them and the Company and its subsidiaries is not interrupted. These shares will cliff vest in five to ten years of the initial award. As of December 31, 2008, the total compensation cost related to non-vested awards not yet recognized amounts to R\$ 1.7 and 6.4 years is the weighted-average period over which this compensation cost is expected to be recognized.

Under accounting practices adopted in Brazil, the Company records compensation costs from its share compensation plan similarly to the requirements of SFAS 123 (R) - Share-Based Payment, using the fair value of the award. Compensation cost is charged to earnings on a straight-line basis. The fair value of the award equals its intrinsic value at the grant date.

No adjustments are included in the U.S. GAAP reconciliation related to the Company's stock compensation plan since the Company applied SFAS 123 (R) - Share-Based Payment to account for the plan for U.S. GAAP purposes.

For U.S. GAAP purposes, dividends declared under these non-vested restricted shares are accounted for initially as a charge to retained earnings. If the restricted shares do not vest, all previously declared dividends associated with the restricted shares are reversed from retained earnings and charged to compensation expense. As of December 31, 2008, accumulated dividends declared under all non-vested restricted shares outstanding amounted to R\$ 1.7 (R\$ 1.3 as of December 31, 2007).

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1) Fair value of guarantees under FIN 45

Under accounting practices adopted in Brazil, the Company is not required to record any liability related to guarantees given to third parties unless contingent obligations to make future payments under the guarantees are probable.

Under accounting practices adopted in Brazil, as of December 31, 2008, the Company has not recorded any liability related to the guarantees, as disclosed in Note 1.

Under U.S. GAAP, the Company recognizes, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing guarantees in accordance with FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Guarantees of Indebtedness of Others". In the event that, at inception of the guarantee, the Company is required to recognize a liability under SFAS 5, "Accounting for Contingencies", the liability initially recognized would be the greater of: (a) the amount of fair value of the obligation undertaken in issuing guarantee, or (b) the contingent liability amount required to be recognized at inception of the guarantee by applying SFAS 5.

Under U.S. GAAP, as of December 31, 2008 and 2007 the Company recorded a liability in the amount of R\$ 0.5 and R\$ 1.8, respectively, related to these guarantees based on their fair value. The respective offsetting entry of this liability was recorded as an expense. The effect of this matter in the income statement as per U.S. GAAP is R\$ 1.3 (income), R\$ 0.5 (income) and zero, per the year ended December 31, 2008, 2007 and 2006, respectively, at the time those guarantees were issued. The Company reduces the liability (by a credit to earnings) as it is released from risk under the guarantee.

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m) Translation adjustments

Until 2007, under accounting practices adopted in Brazil, assets and liabilities of foreign subsidiaries were translated into Brazilian Reais at the exchange rate in effect at the end of the reporting period, and revenues, expenses, gains and losses were translated into Brazilian Reais at the exchange rates prevailing in the end of each month. The net translation gain or loss is reported, net of tax, in the statement of income under accounting practices adopted in Brazil in the amount of R\$ 2.3 (loss) and R\$ 1.2 (loss) as of December 31, 2007 and 2006, respectively. Accumulated other comprehensive income (loss) in shareholders' equity under U.S. GAAP. Such difference has no total shareholder effect on net income or equity.

In order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the new Brazilian accounting practices in 2008 (prospectively), as mentioned in Notes 2 and 3. Thus, in 2008, under accounting practices adopted in Brazil and under U.S. GAAP, translation adjustment are treated similarly (see Note 3).

Under U.S. GAAP, the functional currency of Oxiteno México S.A. de C.V., is the Mexican Peso, and of Oxiteno Andina, C.A., is the Bolivian Boliviano. As a consequence, the financial statements of Oxiteno México are translated into Brazilian Reais in accordance with the criteria set forth in Statement of Financial Accounting Standards No. 52 (SFAS 52). Under these criteria, assets and liabilities are translated into Brazilian Reais at the exchange rate in effect at the end of the reporting period, and revenues, expenses, gains and losses are translated into Brazilian Reais at the average rates prevailing during the respective months. The net translation gain or loss resulting from this translation process is excluded from income and is presented as cumulative translation adjustments (CTA) in Other comprehensive income (loss), a separate component of shareholders' equity.

As a result of this difference, the net translation gain or loss, net of tax, reported in the statement of income under accounting practices adopted in Brazil in the amount of R\$ 2.3 (loss) and R\$ 1.2 (loss) as of December 31, 2007 and 2006, respectively was reclassified to Accumulated other comprehensive income (loss) in shareholders' equity under U.S. GAAP. Such difference has no total shareholder effect on net income or equity.

n) Classification of advances on foreign exchange contracts

Certain subsidiaries of the Company have discounted certain advances on foreign exchange contracts under recourse financing arrangements with financial institutions operating in Brazil. If the original debtors fail to pay their obligations when due, these subsidiaries would be required to repay the financed amounts. Under accounting practices adopted in Brazil, such transactions are classified as a reduction of accounts receivable as mentioned in Note 6. Under U.S. GAAP, these transactions are recorded gross as accounts receivable and bank loans. As a consequence, current assets and liabilities under U.S. GAAP would be increased by R\$ 53.2 and R\$ 89.9 at December 31, 2008 and 2007, respectively. This U.S. GAAP difference has no net income or equity effect.

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o) Escrow deposits

Under accounting practices adopted in Brazil, the balances of escrow deposits are offset against their respective provisions under the heading "Provision for contingencies" in non-current liabilities (as shown on the table of Contents).

Under U.S. GAAP, these balances are recorded gross as escrow deposits and provision for contingencies. As a consequence, non-current assets and liabilities under U.S. GAAP would be increased by R\$ 148.1 and R\$ 96.1 at December 31, 2008 and 2007, respectively.

U.S. GAAP difference has no net income or equity effect.

p) Accounting for asset retirement obligation

Under accounting practices adopted in Brazil, the Company expenses the amounts to be spent when certain assets are retired, as incurred.

Under U.S. GAAP, the Company adopts SFAS No. 143 - Accounting for Asset Retirement Obligations (SFAS 143). Asset retirement obligations correspond to the legally required obligation to remove fuel tanks upon retirement. Under SFAS 143, the fair value of asset retirement obligations are recorded as liabilities on a discounted basis when they are incurred, which is typically at the time the related assets are installed. Amounts recorded for the related assets will be increased by the amount of these obligations and depreciated over the related useful lives of such assets. Over time, the amounts recognized as liabilities will be accreted for the change in their present value until the related assets are retired or sold.

q) Financial statement note disclosures

Under accounting practices adopted in Brazil, a certain set of information is required to be disclosed in the notes to financial statements. Additional disclosures required by U.S. GAAP, which are relevant to the accompanying financial statements, are included here.

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r) Lease agreements for fuel distribution and IT equipment

The subsidiaries CBPI, Serma, and Tequimar have finance lease contracts primarily related to fuel distribution equipment, such as tanks, pumps, VNG compressors, computer equipment and vehicles. These contracts have terms between 36 and 60 months.

The subsidiaries have the option to purchase the assets at a price substantially lower than the fair price on the date of option. Management intends to exercise such option. No restrictions are imposed on these agreements.

Until 2007, under accounting practices adopted in Brazil, the lease for fuel distribution and IT equipment were treated as operating leases.

In order to comply with the changes promoted by Law 11,638/07 and Provisional Measure 449/08, the Company adopted the new Brazilian accounting practices in 2008 (prospectively), as mentioned in Notes 2 and 3, that resulted in the convergence accounting policies adopted in Brazil with U.S. GAAP. Thus in 2008, under accounting practices adopted in Brazil and under U.S. GAAP lease agreements are treated as similar to operating leases.

s) Pension and other post-employment benefits

s.1) Pension benefits

In September 2008, the subsidiaries EMCA, CBPI and their subsidiaries ceased their participation in the defined benefits plan sponsored by Fundação Francisco Martins Bastos (FFMB). See Note 23.a).

s.2) Other post-employment benefits

As explained in Note 23.b), under accounting practices adopted in Brazil the Company accounts for other post-retirement benefits following IBRACON NPC 26. Other post-retirement benefits are unfunded and are the sole responsibility of each Ipiranga company. Under IBRACON NPC 26 actuarial gains and losses are deferred and recognized in income over the estimated remaining service period of the employees to the extent that those actuarial gains and losses exceed 10% of the higher of the plan assets or the projected benefit obligation.

Under U.S. GAAP such benefits are accounted for following SFAS No. 106 - Employers' Accounting for Post-retirement Benefits Other Than Pensions and, as from December 31, 2006, following SFAS 158 - Employers' Accounting for Defined Benefit Pension and Post-retirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132 (R). Under SFAS 158, the funded status of the post-retirement benefits must be recognized as a liability with an offsetting amount in accumulated other comprehensive income. The provisions required by SFAS 158, provisions of SFAS 158 were applied effective on December 31, 2006.

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t) Accounting for refunds

The subsidiary CBPI offers to certain of its customers refunds in cash if they meet a specified cumulative volume of sales over a specified period of time. Under accounting practices adopted in Brazil, the refund is recognized as an expense when the cumulative volume of sales has been met. Such refunds are offered to a reduced group of customers and have begun to be offered recently.

Under U.S. GAAP, EITF 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products), a company should recognize a liability based on a systematic and rational allocation of the cost of honoring the commitment to each of the underlying transactions that result in progress toward earning the refund. Considering the reduced number of customers to whom the refund is offered and the reduced historical experience, the Company believes that it cannot reasonably estimate the ultimate amount of the refund that will be earned by customers. As a result, under U.S. GAAP a liability is recognized for the maximum potential amount of the refund.

u) Dividends and interest on shareholders' equity

Under accounting practices adopted in Brazil, at each year-end, management is required to propose a dividend distribution from earnings and accrue it in the financial statements. Under accounting practices adopted in Brazil, companies are permitted to distribute or capitalize a certain amount of interest, subject to certain limitations, calculated based on a government interest rate, on shareholders' equity. Such amounts are tax-deductible and are presented as a deduction from shareholders' equity.

Under U.S. GAAP, since proposed dividends may be ratified or modified at the annual Shareholders' Meeting, such dividends should not be considered as declared at the balance sheet date and therefore should not be accrued. However, interim dividends paid or interest credited to shareholders as interest attributable to shareholders' equity under Brazilian legislation should be considered as declared for U.S. GAAP purposes.

At December 31, 2008, the difference between accounting practices adopted in Brazil and U.S. GAAP for dividends and interest on shareholders' equity amounted to R\$ 52.4 (R\$ 58.3 at December 31, 2007).

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v) Fair value measurements

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements and provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. This pronouncement has been effective since January 1st, 2009.

Under SFAS 157, the inputs used to measure fair value must be classified into one of three levels as follows:

Level 1 - Quoted prices in an active market for identical assets or liabilities

Level 2 - Observable inputs other than Level 1, quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active, and model-derived prices whose inputs are observable or whose significant value drivers are observable

Level 3 - Assets and liabilities whose significant value drivers are unobservable

The valuation of financial assets, and swaps measured at fair value in the Company's balance sheet at December 31, 2008 is summarized below:

	Fair value as of December 31, 2008	Level 1	Level 2	Level 3
Financial assets:				
Cash and cash equivalents	1,275.1	1,275.1		
Short-term investments (excluding assets swaps)	813.5	115.2	698.3	
Long-term investments	7.2	7.2		
Swaps	37.9		37.9	
	2,133.7	1,397.5	736.2	

Fair Value Measurements - On January 1st, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a framework for measuring fair value and expands disclosures about fair value measurements. FASB Staff Position FAS 157-2, Effective Date of SFAS 157, delays the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. In accordance with FSP FAS 157-2, the Company has not applied the provisions of SFAS 157. On January 1st, 2009, the Company will be required to apply the provisions of SFAS 157 to fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company is in the process of evaluating the impact, if any, of applying these provisions on its financial position and results of operations.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active," which was effective immediately. FSP FAS 157-3 clarifies the application of SFAS 157 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Company has considered the guidance provided by FSP FAS 157-3 in its determination of estimated fair values due to the uncertainty of the market for the Company's common stock.

Fair Value Option - Effective January 1st, 2008, the Company adopted the provisions of SFAS No.159, "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS 159 gives the Company the irrevocable option to report most financial assets and financial liabilities at fair value on an instrument-by-instrument basis, with changes in fair value reported in earnings. Fair value option has not been elected for any of the Company's financial assets and liabilities.

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w) New pronouncements

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities and SFAS 107 Disclosures about Fair Value of Financial Instruments, establishing, among other things, the disclosure requirements for derivative instruments and for hedging activities. This Statement amends and expands the disclosure requirements of SFAS No. 133 and requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company disclosed the information required in Notes 19 and 24.

In May 2008, the FASB issued SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles, which identifies the source of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement is effective 60 days following the SEC's approval of the PCAOB amendments to AU Section 411, The Meaning of Accounting Principles Fairly in Conformity With Generally Accepted Accounting Principles. There is no impact on the Company's financial statements related to the adoption of this pronouncement.

In May 2008, the FASB issued SFAS No. 163 Accounting for Financial Guarantee Insurance Contracts an interpretation of SFAS No. 6 Accounting and Reporting by Insurance Enterprises, which clarifies how Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement of premium revenue and claim liabilities. This Statement also requires expanded disclosures about financial guarantee insurance contracts. This Statement is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years, except for some disclosures about the insurance enterprise's risk-management activities. This Statement requires that disclosures about the risk-management activities of the insurance enterprise be effective for the first period (including interim periods) beginning after issuance of this Statement. Except for those disclosures, early application is not permitted. There is no impact on the Company's financial statements related to the adoption of this pronouncement.

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II - Reconciliation of the differences between U.S. GAAP and accounting practices adopted in Brazil in net income

	Note	2008	2007	2006
	24.I.			
Net income as reported under accounting practices adopted in Brazil		390.3	181.9	282.1
Reversal of revaluation adjustments:	b)			
Depreciation of property, plant and equipment		1.7	2.3	3.3
Deferred tax effects		(0.1)	(0.3)	(0.3)
Minority interests			(0.1)	(0.1)
		1.6	1.9	2.9
Inflation accounting:	a)			
Property, plant and equipment - incremental depreciation		(2.8)	(2.2)	(3.6)
Other non-monetary assets		(2.6)		
		(5.4)	(2.2)	(3.6)
Deferred tax effects		2.0	0.8	1.2
Minority interests				
		(3.4)	(1.4)	(2.4)
Different criteria for:				
Cancellation of subsidiaries treasury stock	f)	0.9	0.9	0.8
Deferred charges expensed:	c)			
Cost		(25.4)	(59.7)	(61.7)
Amortization		19.4	49.5	44.1
Depreciation of interest costs capitalized during construction	e)		(0.7)	(0.5)
Fair value adjustments relating to accounting for derivative instruments and hedging activities	i)	0.3	0.9	1.4
Asset Retirement Obligation SFAS 143 depreciation of assets	p)	(0.4)	(0.1)	
Asset Retirement Obligation SFAS 143 in liabilities	p)	(2.1)	9.4	
Other post-employment benefits	s.2)	(8.6)	21.3	
Translation adjustments - Oxiteno México and Oxiteno Andina (see Note 4.t)	m)		3.5	1.8
Accounting for refunds	t)	(2.4)	1.1	
Other individually insignificant adjustments	d), l)	1.2	1.1	1.3
		(17.1)	27.2	(12.8)
Deferred tax effects		5.1	(8.3)	3.9
Minority interests		(0.1)	(16.6)	

		(12.1)	2.3	(8.9)
Fair value adjustments relating to business combinations (Ultraquímica Nova)	f)		(1.5)	(1.6)
Deferred tax effects			0.5	0.6
			(1.0)	(1.0)
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. - Indústria e Comércio	f)	4.5	4.5	4.5
Deferred tax effects		(0.9)	(0.9)	(1.0)
		3.6	3.6	3.5
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.	f)	1.4	1.5	1.5
Reversal of goodwill amortization	f)	3.2	4.9	4.9
Deferred tax effects		(1.5)	(2.2)	(2.1)
		3.1	4.2	4.3
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.	f)	0.2	0.2	0.1
Deferred tax effects			(0.1)	
		0.2	0.1	0.1

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	Note	2008	2007	2006
	24.I.			
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragas S.A.	f)	(0.5)	(0.6)	(0.5)
Reversal of goodwill amortization		0.4	0.3	0.4
Deferred tax effects			0.1	
		(0.1)	(0.2)	(0.1)
Fair value adjustments relating to the acquisition of Ipiranga and Refining	f)	(5.4)	(15.3)	
Deferred tax effects		1.5	5.2	
Reversal of goodwill amortization		44.6	34.8	
Tax benefit applied to reduce goodwill		(3.6)		
		37.1	24.7	
Reversal of goodwill amortization of União Terminalis	f)	6.8		
Amortization of intangible assets (customer contracts)		(4.0)		
Deferred tax effects		1.3		
Tax benefit applied to reduce goodwill		(1.4)		
		2.7		
Write-off of available-for-sale equity securities	h)	(11.2)		
Deferred tax effects		3.7		
		(7.5)		
Income tax and social contribution FIN 48	j)	(0.3)	(0.2)	
Lease contracts (see Note 14.g)	r)		2.5	
Deferred tax effects			(0.9)	
			1.6	
Net income under U.S. GAAP		415.2	217.5	280.5
Basic and diluted earnings per share under U.S. GAAP (in accordance with SFAS 128)				
- R\$:	g)			
Basic and diluted earnings per common share (*)		3.09	2.55	3.46
Basic and diluted earnings per preferred share (*)		3.09	2.55	3.46

(*) The calculation of basic and diluted earnings per share is summarized in Note 24.V.a).

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III - Reconciliation of the differences between U.S. GAAP and accounting practices adopted in Brazil in shareholders' equity

	Note	2008	2007
	24.I.		
Shareholders' equity as reported under accounting practices adopted in Brazil		4,650.1	4,600.9
Reversal of revaluation adjustments:	b)		
Property, plant and equipment		(23.3)	(25.0)
Deferred tax effects		0.5	0.6
Minority interests		0.4	0.4
		(22.4)	(24.0)
Inflation accounting:	a)		
Property, plant and equipment		17.5	20.3
Other non-monetary assets		0.2	2.8
		17.7	23.1
Deferred tax effects		(6.0)	(8.0)
Minority interests		(0.2)	(0.2)
		11.5	14.9
Different criteria for:			
Cancellation of subsidiaries' treasury stock	f)	(0.3)	(1.2)
Deferred charges:	c)		
Cost		(290.1)	(264.7)
Accumulated amortization		177.0	157.6
Reversal of goodwill amortization of SPGás acquisition under BR GAAP	f)	24.4	21.2
Reversal of net goodwill generated in the acquisition of Companhia Ultragaz S.A. shares from minority shareholders under BR GAAP	f)	(0.4)	(0.8)
Fair value adjustments relating to accounting for derivative instruments	i)		(0.3)
Asset Retirement Obligation - SFAS 143 - Assets	p)	4.7	2.2
Asset Retirement Obligation - SFAS 143 - Liabilities	p)	(83.2)	(78.3)
Other post-employment benefits	s.2)	6.4	17.8
Accounting for refunds	t)	(7.1)	(4.7)
Other individually insignificant adjustments	d), l)	1.5	
		(167.1)	(151.2)
Deferred tax effects		55.9	50.6
Minority interests		0.5	0.6

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	Note 24.I.	2008	2007
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. Indústria e Comércio	f)	(13.7)	(18.2)
Deferred tax effects		2.8	3.7
		(10.9)	(14.5)
Adjustments relating to the acquisition of Ipiranga and Refining :	f)		
Fair value adjustments		158.6	164.0
Deferred tax effects		(50.6)	(52.1)
Goodwill difference between U.S. GAAP and accounting practices adopted in Brazil		10.7	(33.9)
Tax benefit applied to reduce goodwill		(3.6)	
		115.1	78.0
Adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.:	f)		
Fair value adjustments		(2.6)	(4.0)
Deferred tax effects		0.9	1.4
Goodwill difference between U.S. GAAP and accounting practices adopted in Brazil		14.4	14.4
Minority interest		(0.2)	(0.2)
		12.5	11.6
Adjustments relating to the acquisition of Oxiteno México S.A. de C.V.:	f)		
Fair value adjustments		(1.4)	(1.6)
Deferred tax effects		0.5	0.5
Goodwill difference between U.S. GAAP and accounting practices adopted in Brazil		0.7	0.7
		(0.2)	(0.4)
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A.	f)	2.7	3.2
Deferred tax effects		(0.9)	(1.1)
		1.8	2.1
Reversal of goodwill amortization of União Terminais	f)	6.8	
Amortization of intangible assets (customer contracts)		(4.0)	
Deferred tax effects		1.3	
Tax benefit applied to reduce goodwill		(1.4)	
		2.7	

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Available-for-sale equity securities (temporary unrealized gain)	h)		11.2
Deferred tax effects			(3.7)
			7.5
Available-for-sale debt securities (temporary unrealized gain)	h)		19.5
Deferred tax effects			(6.7)
			12.8
Lease contracts (see Note 14.g)	r)		1.6
Deferred tax effects			(0.5)
			1.1
Income tax and social contribution FIN 48	j)	(5.1)	(5.9)
Reversal of dividends	u)	52.4	58.3
Shareholders' equity under U.S. GAAP		4,696.8	4,642.4

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IV - Statement of changes in shareholders' equity in accordance with U.S. GAAP

	2008	2007	2006
Shareholders' equity under U.S. GAAP as of beginning of the year	4,642.4	1,872.9	1,730.2
Additional paid-in capital	0.3	0.9	0.7
Net income	415.2	217.5	280.5
Dividends and interest on own capital - Note 15.f) and 24.I.u)	(243.7)	(182.5)	(144.2)
Acquisition of treasury shares - Note 15.b)	(105.0)	(25.2)	(1.1)
Unrealized gains (losses) on available-for-sale equity securities, net of tax - Note 24.I.h)		6.5	(1.0)
Write-off of available-for-sale debt securities, net of tax - previously recognized under U.S. GAAP - Note 24.I.h)	(12.8)		
Unrealized gains (losses) on available-for-sale debt securities, net of tax - Note 24.I.h)	0.3	3.8	9.0
Unrealized gains (losses) on designated hedges - Note 24.I.i)	(6.5)		
Translation adjustment - Oxitenó México and Oxitenó Andina, net of tax - Note 4.t) and 24.I.m)	8.3	(2.3)	(1.2)
Retained earnings - Note 3	(0.3)		
Other post-employment benefits - Note 24.I.s)	(1.4)		
Capital increase - Note 15.a)		2,750.8	
Shareholders' equity under U.S. GAAP as of the end of the year	4,696.8	4,642.4	1,872.9
Comprehensive income (under SFAS 130) (net of deferred taxes amounting R\$(1.0) in 2008, to R\$4.1 in 2007 and R\$3.5 in 2006):			
Net income	415.2	217.5	280.5
Other post-employment benefits - Note 24.I.s)	(1.4)		
Unrealized gains (losses) on available-for-sale equity securities, net of tax - Note 24.I.h)		6.5	(1.0)
Unrealized gains (losses) on available-for-sale debt securities, net of tax - Note 24.I.h)	0.3	3.8	9.0
Unrealized gains (losses) on designated hedges - Note 24.I.i)	(6.5)		
Translation adjustment - Oxitenó México and Oxitenó Andina - net of tax - Note 4.t) and 24.I.m)	8.3	(2.3)	(1.2)
Total comprehensive income	415.9	225.5	287.3
Accumulated other comprehensive income as of the end of the year	0.7	21.1	13.1
Of which:			
Available for sale equity securities, net of tax - Note 24.I.h)		10.6	4.1
Available for sale debt securities, net of tax - Note 24.I.h)	0.3	12.8	9.0
Unrealized gains (losses) on designated hedges - Note 24.I.i)	(6.5)		
Other post-employment benefits - Note 24.I.s)	(1.4)		
	8.3	(2.3)	

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Cumulative translation adjustment - Oxiteno México and Oxiteno Andina, net of tax -
Note 4.t) and 24.I.m)

0.7 21.1 13.1

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V - Additional disclosures required by U.S. GAAP

a) Earnings per share

The following table provides a reconciliation of the numerators and denominators used in computing earnings per share as required by SFAS 128. The calculation of earnings per share as summarized below is retroactively adjusted for the stock dividends and stock splits mentioned in Note 24.I.g). As discussed in Notes 21.c) and 24.I.k), the Company has a share compensation plan. For all periods presented, the impact of this share compensation plan on diluted earnings per share was minimal and, consequently, the Company has not presented a separate calculation of the diluted earnings per share amount.

	2008	2007	2006
Distributed income	243.7	182.5	144.2
Undistributed income	171.5	35.0	136.3
Net income under U.S. GAAP	415.2	217.5	280.5
Weighted average shares outstanding (in thousands)	134,173.4	85,449.8	81,129.7
Basic and diluted earnings per share - whole R\$	3.09	2.55	3.46

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b) Concentrations of credit risk

Financial instruments that potentially subject the Company to credit risk are cash and cash equivalents, financial investments and accounts receivables. Based on the factors described below, the Company considers the risk of counterparty default to be minimal.

The Company manages its credit risk with respect to cash equivalents and financial investments by investing only in liquid instruments issued by highly-rated financial institutions. In addition, investments are diversified in several institutions, and credit limits are established for each individual institution.

Credit risk from accounts receivable is managed following specific criteria for each of the segments in which the Company operates, as follows:

Chemical segment (Oxiteno)

Oxiteno's customers of commodity chemicals are principally chemical companies, surface coating producers and polyester resin producers, while customers of specialty chemicals comprise a variety of industrial and commercial enterprises. No single customer or group accounts for more than 10% of total revenue. Management 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 negative trends in any particular market. Oxiteno acts as a member of a Credit Committee of Brazilian chemical manufacturers, which meets monthly to review the financial position of clients showing past-due accounts.

Historically, the Company has not experienced significant losses on trade receivables.

Gas segment (Ultragas)

Ultragas sells its products to the residential, commercial and industrial markets.

Sales to the residential market are carried out directly by Ultragas using cash terms, from which no significant credit risk exists, or through outside distributors. Credit risk in sales to outside distributors is reduced due to the large customer base, the ongoing control procedures to monitor the creditworthiness of distributors, and by short payment terms (19 days on average) that permit continuous monitoring of distributors' compliance.

Sales to the commercial and industrial markets are usually made to customers that have signed a credit agreement with the Company and have provided guarantees or collateral. Periodic monitoring of these accounts is performed by specific staff with the support of financial information systems.

No single customer or group accounts for more than 10% of total revenue.

Historically, the Company has not experienced significant losses on trade receivables.

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Logistic segment (Ultracargo)

The main customers of Ultracargo are chemical companies. The average-term payment is 20 days.

Historically, the Company has not experienced significant losses on trade receivables.

Distribution segment (Ipiranga)

Ipiranga is engaged in the distribution of fuels/lubricants and related products.

Credit risk in sales is reduced due to the large customer base and by short payment terms (15 days on average). Periodic monitoring of trade receivable accounts is performed by specific staff with the support of financial information systems.

No single customer or group accounts for more than 10% of total revenue.

Historically, the Company has not experienced significant losses on trade receivables.

Company is dependent on few major suppliers

The Company is dependent on third-party manufacturers for all of its supply of ethylene, fuels/lubricants and LPG. In 2008, 2007 and 2006, the products purchased from the Company's three largest suppliers accounted for approximately 75%, 77% and 72% of cost of sales, respectively. The Company is dependent on the ability of its suppliers to provide products on a timely basis and on favorable pricing terms. The loss of certain principal suppliers or a significant reduction in product availability from principal suppliers could have a material adverse effect on the Company. The Company believes that its relationship with its suppliers is satisfactory.

c) Impairment of long-lived assets

The Company reviews the carrying value of property, plant, and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition, at least on an annual basis. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects, as well as the effects of obsolescence, demand, competition, and other economic factors.

No impairment has been recorded in the consolidated financial statements as of December 31, 2008, 2007, and 2006.

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d) Impairment of goodwill

Under U.S. GAAP financial statements, goodwill consists of the excess of the cost paid for the acquisitions of SPGás, Oxitenó México, Oxitenó Andina, Petrolog, Ipiranga and União Terminais over the net fair value assigned to assets acquired and liabilities assumed of the companies.

The Company has recorded the following amounts of goodwill under the U.S. GAAP financial statements:

Description	2008	2007
Gas segment (Ultraz):		
Goodwill on the acquisition of SPGás (merged into Companhia Brasileira de Petróleo Ipiranga) (see Note 4.a)	39.9	39.9
Chemical segment (Oxitenó):		
Goodwill on the acquisition of Oxitenó México S.A. de C.V.	2.6	2.6
Goodwill on the acquisition of Oxitenó Andina, C.A.	0.2	0.2
Cargo segment (Ultracargo):		
Goodwill on the acquisition of Petrolog	6.5	6.5
Goodwill on the acquisition of União Terminais	331.4	
Distribution segment (Ultrapar):		
Goodwill on the acquisition of Ipiranga (*)	410.8	413.7

(*) In 2008, the goodwill was adjusted due to write-off of FIN48 previously recorded in the acquisition date, as disclosure in Note 24.I.f). As mentioned in Note 24.I.f), goodwill is not amortized and is annually tested for impairment.

e) Fair value of financial instruments

The fair values of accounts receivables and trade suppliers approximate their book values. The fair value of financial assets and financial liabilities, including cash and cash equivalents, short and long-term investments, financing, debentures and swap instruments are disclosed in Note 24.I.g).

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f) Environmental issues

The Company and its subsidiaries are subject to federal, state and local laws and regulations relating to the environment. These laws and regulations generally provide for control of air and effluent emissions and require responsible parties to undertake remediation of hazardous waste and disposal sites. Civil penalties may be imposed for noncompliance. The Company provides for remediation costs and penalties when a loss is probable and the amount is reasonably determinable. It is not presently possible to estimate the amount of all remediation costs that may be incurred or penalties that may be imposed; however, management does not presently expect that such costs and penalties will have a material effect on the Company's consolidated financial position or results of operations. Recurring costs associated with management of hazardous substances and pollution in on-going operations, mainly composed of costs for treatment of effluents and for incineration, amounted to R\$ 23.2, R\$ 16.9 and R\$ 4.4 for the years ended December 31, 2008, 2007 and 2006, respectively. Capital expenditures to limit or monitor hazardous substances and pollutants amounted to R\$ 11.8, R\$ 8.9 and R\$ 5.0, for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company's subsidiary Ultracargo Operações Logísticas e Participações Ltda. has controlled environmental liabilities in two terminals, situated in Santos and Paulínia, which are in monitoring and remediation phases, respectively.

We have no historical mandated expenditures to remedy previously contaminated sites, and other infrequent or non-recurring clean-up expenditures that can be anticipated but which are not required in the present circumstances.

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g) Segment information

Financial information about each of the Company's reportable segments based on records in accordance with accounting practices adopted in Brazil is as follows:

	2008	2007	2006
Net revenue from sales to unassociated companies:			
Gas	3,336.8	3,111.2	3,066.0
Distribution of fuels/lubricants	22,676.4	14,915.6	
Chemical (1)	1,926.1	1,685.7	1,549.5
Logistics	237.4	186.0	178.6
Other (2)	91.3	22.8	
	28,268.0	19,921.3	4,794.1
Intersegment:			
Gas	2.6	1.7	1.0
Distribution of fuels/lubricants		11.4	
Chemical			0.1
Logistics	46.0	43.1	47.5
Other (2)	107.6	65.5	6.3
Elimination	156.2	121.7	54.9
Net revenues:			
Gas	3,339.4	3,112.9	3,067.0
Distribution of fuels/lubricants	22,676.4	14,927.0	
Chemical	1,926.1	1,685.7	1,549.6
Logistics	283.4	229.1	226.1
Other (2)	198.9	88.3	6.3
Elimination	(156.2)	(121.7)	(54.9)
	28,268.0	19,921.3	4,794.1
Operating profit before financial items:			
Gas	87.9	132.3	167.3
Distribution of fuels/lubricants	515.7	261.0	
Chemical	154.2	106.7	146.3
Logistics	7.3	14.6	11.4
Other (2)	(51.7)	(28.5)	5.4
	713.4	486.1	330.4

Financial income (expenses), net	(168.8)	(119.4)	30.6
Other income (expenses)	11.2	8.8	(18.5)
Income before income tax and social contribution, equity in earnings of affiliated companies and minority interest	555.8	375.5	342.5
Equity in earnings of affiliated companies		0.6	1.0
Employees statutory interest	(9.4)	(7.3)	
Income before taxes and minority interests	546.4	368.8	343.5

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- (1) An important portion of our products could be classified as a commodity and a specialty chemical, depending on the use of such products by our customers. As a consequence, we consider that an exact split of sales between commodity and specialty chemicals would be impractical.
- (2) On the table above, other is composed mainly by parent company Ultrapar Participações S.A., by Imaven Imóveis Ltda, by participation in the oil refining business and, in 2008, by Serma. Serma is an association of users of data processing equipment and related services, responsible for IT services for Ultrapar.

	2008	2007	2006
Additions to property, plant and equipment and intangible assets according to:			
Accounting practices adopted in Brazil:			
Gas	177.2	87.5	62.3
Distribution of fuels/lubricants	158.1	84.5	
Chemical	518.3	443.9	160.2
Logistics	62.5	45.5	41.0
Other (1)	13.5	3.6	1.2
	929.6	665.0	264.7
U.S. GAAP:			
Gas	177.2	87.5	62.3
Distribution of fuels/lubricants	158.1	84.5	
Chemical	518.3	443.9	160.2
Logistics	62.5	45.5	41.0
Other (1)	13.5	3.6	1.2
	929.6	665.0	264.7
Depreciation and amortization charges according to:			
Accounting practices adopted in Brazil:			
Gas	122.9	119.5	113.0
Distribution of fuels/lubricants	96.9	69.3	
Chemical	55.8	48.1	45.3
Logistics	43.3	28.4	26.6
Other (1)	56.6	35.3	0.9
	375.5	300.6	185.8
U.S. GAAP:			
Gas	77.4	66.7	66.6
Distribution of fuels/lubricants	102.0	75.9	
Chemical	59.7	47.2	47.4

Logistics	33.3	30.2	29.7
Other (1)	16.2	0.7	0.2
	288.6	220.7	143.9

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

	2008	2007	2006
Identifiable assets - accounting practices adopted in Brazil:			
Gas	1,081.8	841.9	961.4
Distribution of fuels/lubricants	3,256.6	2,874.8	
Chemical	3,308.8	2,814.0	2,307.8
Logistics	862.5	375.1	310.1
Other (1)	1,157.5	2,403.5	322.8
	9,667.2	9,309.3	3,902.1
Identifiable assets - U.S. GAAP:			
Gas	1,040.3	800.1	916.3
Distribution of fuels/lubricants	3,374.3	2,961.9	
Chemical	3,300.0	2,827.4	2,299.3
Logistics	866.0	375.0	311.2
Other (1)	1,145.9	2,390.5	316.7
	9,726.5	9,354.9	3,843.5

(1) On the table above, other is composed by parent company Ultrapar Participações S.A., by Imaven Imóveis Ltda, by the participation in the oil refining business and, in 2008, by Sete Lagoas.

Additional information about business segments can be found in Note 10.

	2008	2007
Investments in equity investees - accounting practices adopted in Brazil:		
Ipiranga	7.4	7.3
Chemical	5.5	5.6

See Note 10 for details of investment in equity investees.

h) Financial information for subsidiary guarantors and non-guarantor subsidiaries
 Ultrapar Participações S.A. (Company) and Oxiteno S.A. (a wholly-owned subsidiary of Ultrapar Participações) are guarantors of the Company's obligations in connection with the issuance of registered notes. The guarantees are full and unconditional and are secured by the assets of the guarantors and several. We are presenting, pursuant to Rule 3 - 10 of Regulation S-X, condensed consolidating financial statements, according to the accounting practices adopted in Brazil, of the guarantors and other Ultrapar subsidiaries, as follows:

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	2.3	778.9	113.1	892.0	380.8		1,272.8
Short-term investments			696.2	696.2	155.2		851.4
Trade accounts receivable, net			103.6	103.6	1,431.4	(105.7)	1,431.3
Inventories			154.1	154.1	886.8	(7.2)	1,087.7
Recoverable taxes		28.8	40.1	68.9	243.0		311.8
Deferred income tax and social contribution		0.1	10.4	10.5	101.3		111.8
Dividends receivable		98.3		98.3	2.1	(100.4)	98.2
Other		0.9	5.6	6.5	106.5	(9.4)	103.6
Prepaid expenses			0.6	0.6	20.4	(2.0)	18.6
	2.3	907.0	1,123.7	2,030.7	3,327.5	(224.7)	5,136.5
NON-CURRENT ASSETS							
Long term assets							
Long-term investments					7.2		7.2
Trade accounts receivable, net					210.1		210.1
Related companies	585.1	77.0	28.3	105.3	342.6	(1,027.4)	73.0
Deferred income tax and social contribution		0.1	13.1	13.2	395.5		408.8
Recoverable taxes		0.2	15.9	16.1	26.9		42.1
Escrow deposits			2.6	2.6	53.5		56.1
Other					0.5		0.5
Prepaid expenses			2.9	2.9	33.2	(11.5)	24.6
	585.1	77.3	62.8	140.1	1,069.5	(1,038.9)	728.0
Investments							
Subsidiary and affiliated companies		4,761.5	1,114.5	5,877.9	12.9	(5,877.9)	1,114.5
Other		0.1	7.8	7.9	13.1		28.9
Property, plant and equipment, net			389.8	389.8	2,742.1	(0.4)	3,131.3
Intangible assets, net		246.2	12.1	258.3	351.7	(15.4)	501.9
Deferred charges, net					15.6		15.6

		5,011.8	1,524.2	6,533.9	3,135.4	(5,893.7)	3,7
	585.1	5,089.1	1,587.0	6,674.0	4,204.9	(6,932.6)	4,5
TOTAL ASSETS UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	587.4	5,996.1	2,710.7	8,704.7	7,532.4	(7,157.3)	9,6

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
RECONCILIATION TO U.S.GAAP							
Reversal of revaluation adjustments			(1.0)	(1.0)	(22.3)		(23.3)
Inflation accounting			4.2	4.2	13.5		17.7
Different criteria for:							
Deferred charges			(18.3)	(18.3)	(94.8)		(113.1)
Reversal of goodwill amortization of SPGás acquisition under BR GAAP					24.4		24.4
Reversal of goodwill amortization of Companhia Ultragaz S.A. shares from minority shareholders					(0.4)		(0.4)
Reversal of goodwill amortization of Ipiranga/Refinery					10.7		10.7
Reversal of goodwill amortization of União Terminais under BR GAAP					6.8		6.8
Other individually insignificant adjustments					2.0		2.0
Amortization of intangible assets (customers contract)					(4.0)		(4.0)
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. - Indústria e Comércio		(13.7)		(13.7)			(13.7)
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					11.8		11.8
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.					(0.7)		(0.7)
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A.					2.7		2.7
Fair value adjustments relating to the acquisition of Ipiranga/Refinery					158.6		158.6
Assets retirement obligation - assets					4.7		4.7
Deferred tax effects		2.7	5.2	7.9	(32.8)		(24.9)

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Equity on U.S. GAAP adjustment		27.9	1.3	29.2		(29.2)	
TOTAL ASSETS UNDER U.S.GAAP	587.4	6,013.0	2,702.1	8,715.1	7,612.6	(7,186.5)	9,720.2

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets

as of December 31, 2008

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES							
CURRENT LIABILITIES							
Loans and financing		1,203.8	117.4	1,321.2	324.3		1,645.5
Finance leases					12.6		12.6
Trade payables		0.4	82.6	83.0	627.0	(95.8)	617.2
Payroll and related charges		0.1	26.9	27.0	137.6		163.6
Taxes payable		0.1	1.8	1.9	87.1		89.9
Dividends payable		119.9	19.9	139.8	87.6	(100.4)	136.8
Income tax and social contribution					17.4		17.4
Post-retirement benefits					14.7		14.7
Provision for contingencies					8.8		8.8
Deferred income tax and social contribution			1.6	1.6	30.9		32.5
Other		1.4	0.2	1.6	21.8	(2.0)	21.0
		1,325.7	250.4	1,576.1	1,369.8	(198.2)	2,747.1
NON-CURRENT							
Long-term liabilities							
Loans and financing	577.3		247.6	247.6	1,176.0		2,000.9
Finance leases					12.9		12.9
Related companies		1.8	647.2	649.0	390.6	(1,035.2)	4.1
Deferred income tax and social contribution			0.6	0.6	17.6		18.2
Provision for contingencies		4.9	20.2	25.1	78.4		108.6
Post-retirement benefits					77.7		77.7
Other			0.8	0.8	12.8		13.6
	577.3	6.7	916.4	923.1	1,766.0	(1,035.2)	2,230.3
MINORITY INTEREST					34.9	3.3	38.2
SHAREHOLDERS' EQUITY							
Share capital		3,696.8	665.1	4,361.9	4,137.4	(4,802.5)	3,699.7
Capital reserve		2.9		2.9	55.4	(57.4)	2.8

Revaluation reserve		10.3	1.0	11.3	19.5	(20.5)	10.3
Profit reserves		1,078.9	875.7	1,954.6	137.2	(1,012.9)	1,078.9
Treasury shares		(127.3)		(127.3)		(11.6)	(138.9)
Valuation adjustment		(6.2)	(6.2)	(6.2)			(6.2)
Cumulative translation adjustments		8.3	8.3	8.3			8.3
Retained earnings	10.1				12.2	(22.3)	
TOTAL SHAREHOLDERS' EQUITY UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	10.1	4,663.7	1,543.9	6,205.5	4,361.7	(5,927.2)	4,663.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	587.4	5,996.1	2,710.7	8,704.7	7,532.4	(7,157.3)	9,668.1

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2008**

SHAREHOLDERS EQUITY RECONCILIATION TO U.S.GAAP	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
Reversal of revaluation adjustments			(1.0)	(1.0)	(22.3)		
Inflation accounting			4.2	4.2	13.5		
Different criteria for:							
Cancellation of subsidiaries treasury stock					(0.3)		
Deferred charges			(18.3)	(18.3)	(94.8)		
Reversal of goodwill amortization of SPGás acquisition under BR GAAP					24.4		
Reversal of goodwill amortization of Companhia Ultragaz S.A. shares from minority shareholders					(0.4)		
Reversal of goodwill amortization of Ipiranga and Refinery					10.7		
Reversal of goodwill amortization of União Terminais under BRGAAP					6.8		
Other individually insignificant adjustments			(0.2)	(0.2)	1.7		
Amortization of intangible assets (customers contract)					(4.0)		
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. - Indústria e Comércio		(13.7)		(13.7)			
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					11.8		
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.					(0.7)		
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A					2.7		
Fair value adjustments relating to the acquisition of Ipiranga/Refinery					158.6		
Assets retirement obligation - assets					4.7		
Assets retirement obligation - liabilities					(83.2)		
Pension plan					6.4		
FIN 48		(0.2)			(5.2)		
Accounting for refunds					(7.1)		
Tax benefit applied to reduce goodwill					(5.0)		

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Deferred tax effects		2.8	5.3	8.1	(3.7)	
Minority interest					0.5	
Reversal of dividends		52.4		52.4		
Equity on U.S.GAAP adjustment		27.9	1.3	29.2		(29.2)
TOTAL SHAREHOLDERS EQUITY UNDER U.S.GAAP	10.1	4,732.9	1,535.2	6,266.2	4,376.9	(5,956.4)

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Statements of Income**for the year ended December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
GROSS SALES AND SERVICES			912.1	912.1	29,207.8	(583.5)	29,535.4
Deductions			(222.1)	(222.1)	(1,142.9)	96.6	(1,268.4)
NET SALES AND SERVICES			690.0	690.0	28,064.9	(486.9)	28,267.0
Cost of sales and services			(595.8)	(595.8)	(25,993.1)	436.6	(26,157.9)
GROSS PROFIT			94.2	94.2	2,071.8	(50.3)	2,115.7
OPERATING (EXPENSES) INCOME		(42.6)	(125.3)	(167.9)	(1,277.4)	43.0	(1,402.2)
Selling			(28.5)	(28.5)	(557.0)	1.3	(586.7)
General and administrative		(0.3)	(92.7)	(93.0)	(491.3)	31.3	(555.0)
Depreciation and amortization		(42.9)	(7.0)	(49.9)	(241.1)	3.8	(289.1)
Other operating income, net		0.6	2.9	3.5	12.0	6.6	25.0
OPERATING INCOME (LOSS) BEFORE FINANCIAL ITEMS		(42.6)	(31.1)	(73.7)	794.4	(7.3)	718.7
Financial income (expenses), net	(0.4)	(79.6)	(77.9)	(157.5)	16.9	(27.8)	(168.3)
Other income (expense), net		210.4	4.3	214.7	7.0	(210.5)	1.9
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION, EQUITY IN GAIN (LOSSES) OF AFFILIATED COMPANIES AND MINORITY INTEREST	(0.4)	88.2	(104.7)	(16.5)	818.3	(245.6)	555.7
INCOME TAX AND SOCIAL CONTRIBUTION		(30.6)	7.9	(22.7)	(199.1)	70.2	(154.3)

Current		(17.5)		(17.5)	(156.0)	(31.1)	(20)
Deferred		(13.1)	7.9	(5.2)	(52.3)	70.2	17
Benefit of tax holidays					9.2	31.1	40
INCOME (LOSS) BEFORE EQUITY IN GAIN (LOSSES) OF AFFILIATED COMPANIES AND MINORITY INTEREST	(0.4)	57.6	(96.8)	(39.2)	619.2	(175.4)	40
Equity in losses of affiliated companies		332.7	180.3	513.0	(122.4)	(390.6)	
Employees statutory interest					(9.4)		(9)
Minority interest					(5.0)	0.5	(4)
NET INCOME (LOSS) UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	(0.4)	390.3	83.5	473.8	482.4	(565.5)	39

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Statements of Income**for the year ended December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
RECONCILIATION TO U.S. GAAP							
Reversal of revaluation adjustments			0.1	0.1	1.7		
Inflation accounting			(2.5)	(2.5)	(2.9)		
Different criteria for:							
Cancellation of subsidiaries treasury stock					0.9		
Deferred charges		(0.8)	(0.6)	(1.4)	(4.5)		
Reversal of goodwill amortization					55.1		
Fair value adjustments relating to accounting for derivative instruments and hedging activities					0.3		
Amortization of intangible assets (customers contract)					(4.0)		
Other individually insignificant adjustments		(0.3)	0.2	(0.1)	1.4		
Assets retirement obligation - assets					(0.4)		
Assets retirement obligation - liabilities					(2.1)		
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. -Indústria e Comércio		4.5		4.5			
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					1.5		
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.					0.2		
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A					(0.6)		
Fair value adjustments relating to acquisition of Ipiranga/Refinery					(5.5)		
FIN 48		0.1		0.1	(0.4)		
Accounting for refunds					(2.4)		
			(11.2)	(11.2)			

Write-off of available-for-sale equity securities							
Pension plan				(8.6)			(8.6)
Tax benefit applied to reduce goodwill				(5.0)			(5.0)
Deferred tax effects	(0.6)	4.9	4.3	6.5			10.1
Minority interest				(0.1)			(0.1)
Equity on U.S. GAAP adjustment	33.9	(0.5)	33.4		(33.4)		
NET INCOME (LOSS) UNDER US GAAP	(0.4)	427.1	73.9	501.0	513.5	(598.9)	411.6

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Statements of Cash Flows**for the year ended December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES							
Net income	(0.4)	390.3	83.5	473.8	482.4	(565.5)	390.3
Adjustments to reconcile net income to cash provided by operating activities:							
Depreciation and amortization		42.9	26.1	69.0	310.3	(3.8)	377.4
PIS and COFINS credit on depreciation			1.1	1.1	4.0		6.2
Loss on disposals of fixed assets and investments		(210.5)	(11.8)	(222.3)	(9.0)	210.5	(20.3)
Interest, monetary and exchange variation (gains)	38.7	152.3	197.5	349.8	(97.5)	27.8	311.3
Allowance (reversal of provision) for losses on fixed assets					(1.9)		(1.9)
Equity in income (losses) of affiliated companies		(332.7)	(180.3)	(513.0)	122.4	390.6	(122.7)
Deferred income tax and social contribution		13.1	(7.7)	5.4	52.1	(70.2)	(1.4)
Minority interest					5.0	(0.5)	4.5
Other					0.6	1.0	1.6
Decrease (increase) in operating assets:							
Trade accounts receivable			(26.1)	(26.1)	(154.2)	60.1	(120.3)
Recoverable taxes		5.2	(4.5)	0.7	(80.7)		(79.3)
Inventories			(71.2)	(71.2)	(288.9)	(27.0)	(377.3)
Prepaid expenses	(1.1)		0.7	0.7	(9.1)	5.2	(4.3)
Dividends received		172.5	529.6	702.1		(702.1)	
Other		0.1	(3.5)	(3.4)	(71.1)		(74.5)
Increase (decrease) in operating liabilities:							
Trade payables		(1.7)	27.3	25.6	31.5	(30.2)	25.2
Accrued interest					(24.4)		(24.4)

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Payroll and related charges			10.9	10.9	27.3	37.2
Taxes	(12.2)	(1.0)	(13.2)	39.7	27.3	27.3
Income tax and social contribution	0.2	1.4	1.6	(17.9)	(17.9)	(17.9)
Other	(1.5)	(0.2)	(1.7)	(70.0)	(70.0)	(70.0)
Net cash (used in) provided by operating activities	37.2	218.0	571.8	789.8	250.6	(704.1)

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Statements of Cash Flows**for the year ended December 31, 2008**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM INVESTING ACTIVITIES							
Financial investments, net of redemptions			(59.8)	(59.8)	93.8		34.0
Disposal (acquisition) of investments, net		61.6	(34.4)	27.2	(478.8)	19.2	(435.8)
Cash acquisition from subsidiaries					11.4		11.4
Capital contributions to subsidiaries		(1,101.8)		(1,101.8)		1,101.8	
Capital reduction of subsidiaries		470.0		470.0		(470.0)	
Additions to escrow deposits			(0.1)	(0.1)	(22.4)		(22.5)
Additions to property, plant and equipment			(121.3)	(121.3)	(770.4)		(891.7)
Additions to intangible assets			(2.0)	(2.0)	(35.9)		(37.9)
Additions to deferred charges					(4.9)		(4.9)
Proceeds from sales of property, plant and equipment			0.7	0.7	44.3		45.0
Net cash (used in) provided by investing activities		(570.2)	(216.9)	(787.1)	(1,162.9)	651.0	(1,293.0)
CASH FLOWS FROM FINANCING ACTIVITIES							
Short-term debt, net	(36.1)	(167.1)	(143.6)	(310.7)	(358.6)		(706.5)
Long-term debt, net			168.7	168.7	655.9		824.6
Payment of financial leases					(10.5)		(10.5)
Loans from affiliated companies, net		(34.3)	(196.0)	(230.3)	237.0	(12.4)	(35.7)
Dividends paid		(396.0)	(30.3)	(426.3)	(674.7)	702.1	(399.0)
Payment from Petrobras and Braskem for delivery of Petrochemical and Distribution Assets		1,731.3		1,731.3			1,731.3
Sale of treasury shares to subsidiaries		4.4		4.4		(4.4)	
Capital decrease			408.4	408.4	693.4	(1,101.8)	
Capital increase			(470.0)	(470.0)		470.0	

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Acquisition of treasury shares		(105.0)		(105.0)			(105.0)
Net cash provided by (used in) financing activities	(36.1)	1,033.3	(262.8)	770.5	542.5	53.5	1,330.0
Effect of exchange rate changes on cash and cash equivalents					7.8		7.8
Net increase (decrease) in cash and cash equivalents	1.1	681.1	92.1	773.2	(362.0)	0.4	411.6
Cash and cash equivalents at the beginning of the year	1.2	97.8	21.0	118.8	742.8	(0.4)	861.2
Cash and cash equivalents at the end of the year	2.3	778.9	113.1	892.0	380.8	0.0	1,272.8

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YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiten - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS							
CURRENT ASSETS							
Cash and cash equivalents	1.2	97.8	21.0	118.8	742.4		879.4
Short-term investments					845.3		845.3
Trade accounts receivable, net			75.9	75.9	1,309.4	(40.9)	1,389.4
Inventories			83.1	83.1	549.5	(1.5)	631.1
Recoverable taxes		34.0	11.4	45.4	156.7	0.5	237.6
Deferred income tax and social contribution		4.2	3.7	7.9	101.1		113.2
Dividends receivable		170.6	1.3	171.9	15.6	(187.5)	1.3
Other		1,752.7	2.1	1,754.8	19.3	(1.6)	1,773.5
Prepaid expenses	0.8	0.7	1.2	1.9	11.7	(1.2)	12.4
	2.0	2,060.0	199.7	2,259.7	3,751.0	(232.2)	5,787.5
NON-CURRENT ASSETS							
Long term investments					120.8		120.8
Trade accounts receivable, net			0.1	0.1	176.8		176.9
Related companies	443.5	41.4	28.7	70.1	1,230.2	(1,730.9)	182.7
Deferred income tax and social contribution		11.3	10.4	21.7	97.9		130.3
Recoverable taxes			42.0	42.0	26.7		110.7
Escrow deposits		0.2	2.6	2.8	29.0		34.6
Other					8.3		8.3
Prepaid expenses	6.1		3.0	3.0	35.8	(8.0)	36.9
	449.6	52.9	86.8	139.7	1,725.5	(1,738.9)	507.9
Investments							
Subsidiary and affiliated companies		4,706.7	1,447.4	6,154.1	11.2	(6,152.4)	1,155.7
Other					34.1		34.1
Property, plant and equipment, net			288.1	288.1	1,981.4	(0.6)	2,268.6
Intangible assets, net			10.1	10.1	56.8		77.0
Deferred charges, net			18.1	18.1	102.1	449.9	608.1

		4,706.7	1,763.7	6,470.4	2,185.6	(5,703.1)	2,9
TOTAL ASSETS UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	451.6	6,819.6	2,050.2	8,869.8	7,662.1	(7,674.2)	9,3

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxitenó - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
RECONCILIATION TO U.S.GAAP							
Reversal of revaluation adjustments			(1.1)	(1.1)	(23.9)		(26.0)
Inflation accounting			6.7	6.7	16.4		23.8
Different criteria for:							
Deferred charges		0.8	(17.7)	(16.9)	(90.2)		(104.3)
Reversal of goodwill amortization of SPGás acquisition under BR GAAP					21.2		21.2
Reversal of goodwill amortization of Companhia Ultragaz S.A. shares from minority shareholders					(0.8)		(0.8)
Reversal of goodwill amortization of Ipiranga/Refinery					(33.9)		(33.9)
Other individually insignificant adjustments					1.8		1.8
Fair value adjustments relating to acquisition of minority interest in Oxitenó S.A. - Indústria e Comércio		(18.2)		(18.2)			(18.2)
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					10.4		10.4
Fair value adjustments relating to the acquisition of Oxitenó México S.A. de C.V.					(0.9)		(0.9)
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A.					3.2		3.2
Available-for-sale equity securities (temporary unrealized gain)			11.2	11.2			11.2
Available-for-sale debt securities (temporary unrealized gain)					19.5		19.5
Fair value adjustments relating to the acquisition of Ipiranga/Refinery					164.0		164.0
Assets retirement obligation - assets					2.2		2.2
Lease contracts - assets					19.2		19.2

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Deferred tax effects		3.3	0.4	3.7	(48.0)		(4
Equity on U.S.GAAP adjustment		(12.6)	1.8	(10.8)		10.8	
TOTAL ASSETS UNDER U.S.GAAP	451.6	6,792.9	2,051.5	8,844.4	7,722.3	(7,663.4)	9,35

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Consolidated Balance Sheets**as of December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES							
CURRENT LIABILITIES							
Loans and financing	0.9		88.7	88.7	585.1		674.7
Debentures		1,219.3		1,219.3	9.4		1,228.7
Trade payable		2.1	55.0	57.1	564.6	(39.0)	585.6
Payroll and related charges		0.1	16.0	16.1	107.1		123.2
Taxes payable		12.3	2.8	15.1	78.8		98.2
Dividends payable		278.1	30.4	308.5	164.1	(187.5)	285.1
Income tax and social contribution					26.7		26.7
Post-retirement benefits					8.8		8.8
Provision for contingencies					14.9		14.9
Deferred income tax and social contribution			0.1	0.1			0.1
Other		2.9	0.7	3.6	52.0	(0.6)	57.6
	0.9	1,514.8	193.7	1,708.5	1,611.5	(227.1)	3,095.4
NON-CURRENT							
LONG-TERM LIABILITIES							
Loans and financing	442.8		56.5	56.5	509.9		1,009.2
Debentures					350.0		350.0
Related companies		690.0	240.3	930.3	805.3	(1,730.9)	494.7
Deferred income tax and social contribution			0.3	0.3	1.5		2.1
Provision for contingencies		4.8	18.8	23.6	88.4		115.6
Post-retirement benefits					85.1		85.1
Other			0.9	0.9	16.1		17.0
	442.8	694.8	316.8	1,011.6	1,856.3	(1,730.9)	1,577.2
MINORITY INTEREST					31.5	3.3	34.8
SHAREHOLDERS' EQUITY							
Share capital		3,696.8	720.3	4,417.1	2,390.8	(3,111.1)	3,696.8
Capital reserve		3.7		3.7	64.8	(67.6)	3.7

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Revaluation reserve		11.6	1.2	12.8	20.8	(22.0)	1
Profit reserves	7.9	925.4	818.2	1,743.6	1,050.7	(1,876.7)	92
Treasury shares		(27.5)		(27.5)		(6.4)	(3
Retained earnings					635.7	(635.7)	
TOTAL SHAREHOLDERS' EQUITY UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	7.9	4,610.0	1,539.7	6,149.7	4,162.8	(5,719.5)	4,60
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	451.6	6,819.6	2,050.2	8,869.8	7,662.1	(7,674.2)	9,30

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Balance Sheets**as of December 31, 2007**

SHAREHOLDERS EQUITY RECONCILIATION TO U.S.GAAP	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno Wholly Owned Guarantor Subsidiary	Total Guarantors	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Reversal of revaluation adjustments			(1.1)	(1.1)	(23.9)		
Inflation accounting			6.7	6.7	16.4		
Different criteria for:							
Cancellation of subsidiaries treasury stock					(1.2)		
Deferred charges		0.8	(17.6)	(16.8)	(90.3)		
Reversal of goodwill amortization of SPGás acquisition under BR GAAP					21.2		
Reversal of goodwill amortization of Companhia Ultragaz S.A. shares from minority shareholders					(0.8)		
Reversal of goodwill amortization of Ipiranga and Refinery					(33.9)		
Fair value adjustments relating to accounting for derivative instruments and hedging activities					(0.3)		
Other individually insignificant adjustments			(0.1)	(0.1)	0.1		
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. - Indústria e Comércio		(18.2)		(18.2)			
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					10.4		
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.					(0.9)		
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A.					3.2		
Available-for-sale equity securities (temporary unrealized gain)			11.2	11.2			
Available-for-sale debt securities (temporary unrealized gain)					19.5		
Fair value adjustments relating to the acquisition of Ipiranga/Refinery					164.0		
Assets retirement obligation - assets					2.2		
Assets retirement obligation - liabilities							
Pension plan							
FIN 48		(0.3)					

Accounting for refunds							
Lease contracts, net							
Deferred tax effects		3.4	0.4	3.8	(19.1)		
Minority interest					0.6		
Reversal of dividends		58.3		58.3			
Equity on U.S.GAAP adjustment		(12.6)	1.8	(10.8)		10.8	
TOTAL SHAREHOLDERS EQUITY UNDER U.S.GAAP	7.9	4,641.4	1,541.0	6,182.7	4,230.0	(5,708.7)	4

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(Amounts in millions of Brazilian Reais - R\$, unless otherwise stated)

Consolidated Statements of Income**for the year ended December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
GROSS SALES AND SERVICES			808.7	808.7	20,438.8	(406.4)	20,841.0
Deductions			(190.3)	(190.3)	(792.7)	63.2	(912.1)
NET SALES AND SERVICES			618.4	618.4	19,646.1	(343.2)	19,922.3
Cost of sales and services			(553.8)	(553.8)	(18,002.4)	332.0	(18,224.2)
GROSS PROFIT			64.6	64.6	1,643.7	(11.2)	1,697.1
OPERATING (EXPENSES) INCOME		(33.6)	(113.5)	(147.1)	(1,073.3)	9.4	(1,214.4)
Selling			(27.2)	(27.2)	(445.4)		(472.6)
General and administrative		(2.1)	(80.9)	(83.0)	(445.5)	6.3	(525.2)
Depreciation and amortization		(34.0)	(7.6)	(41.6)	(186.9)		(229.5)
Other operating income, net		2.5	2.2	4.7	4.5	3.1	12.3
OPERATING INCOME (LOSS) BEFORE FINANCIAL ITEMS		(33.6)	(48.9)	(82.5)	570.4	(1.8)	488.2
Financial income (expenses), net	(0.2)	(92.3)	(5.9)	(98.2)	(104.0)	83.0	(117.4)
Other income (expense), net					8.8		8.8
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION, EQUITY IN GAIN (LOSSES) OF AFFILIATED COMPANIES AND MINORITY INTEREST	(0.2)	(125.9)	(54.8)	(180.7)	475.2	81.2	375.0
INCOME TAX AND SOCIAL CONTRIBUTION		(7.2)	17.1	9.9	(120.3)	24.5	(85.8)

Current		(19.5)		(19.5)	(188.3)		(20
Deferred		12.3	17.1	29.4	57.3		8
Benefit of tax holidays					10.7	24.5	3
INCOME (LOSS) BEFORE EQUITY IN GAIN (LOSSES) OF AFFILIATED COMPANIES AND MINORITY INTEREST	(0.2)	(133.1)	(37.7)	(170.8)	354.9	105.7	28
Equity in losses of affiliated companies		315.0	165.4	480.4	40.7	(520.5)	0
Employees statutory interest					(7.3)		(
Minority interest					(96.9)	(4.1)	(10
NET INCOME (LOSS) UNDER ACCOUNTING PRACTICES ADOPTED IN BRAZIL	(0.2)	181.9	127.7	309.6	291.4	(418.9)	18

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Consolidated Statements of Income**for the year ended December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
RECONCILIATION TO U.S.GAAP							
Reversal of revaluation adjustments			0.6	0.6	1.7		2.9
Inflation accounting			(0.3)	(0.3)	(1.9)		(2.5)
Different criteria for:							
Cancellation of subsidiaries' treasury stock					0.9		0.9
Deferred charges		0.8	(6.6)	(5.8)	(4.4)		(10.2)
Depreciation of interest costs capitalized during construction					(0.7)		(0.7)
Reversal of goodwill amortization		3.1		3.1	36.9		43.1
Fair value adjustments relating to accounting for derivative instruments and hedging activities			(0.8)	(0.8)	1.7		0.1
Translation adjustments					3.5		3.5
Other individually insignificant adjustments		0.2	(0.2)		1.1		1.1
Assets retirement obligation - assets					(0.1)		(0.1)
Assets retirement obligation - liabilities					9.4		9.4
Fair value adjustments relating to business combinations		1.0	(2.6)	(1.6)	0.1		(0.5)
Fair value adjustments relating to acquisition of minority interest in Oxiteno S.A. - Indústria e Comércio		4.5		4.5			4.5
Fair value adjustments relating to the acquisition of SPGás Distribuidora de Gás Ltda.					1.5		1.5
Fair value adjustments relating to the acquisition of Oxiteno México S.A. de C.V.					0.2		0.2
Fair value adjustments relating to acquisition of minority interest in Companhia Ultragaz S.A					(0.6)		(0.6)
Fair value adjustments relating to acquisition of Ipiranga/Refinery					(15.3)		(15.3)

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FIN48	(0.3)		(0.3)	0.1		(0.1)
Accounting for refunds				1.1		1.1
Lease contracts				2.5		2.5
Pension plan				21.3		21.3
Deferred tax effects	(1.6)	3.3	1.7	(7.8)		(1.6)
Minority interest				(16.7)		(16.7)
Equity on U.S.GAAP adjustment	27.5	2.9	30.3		(30.3)	
NET INCOME (LOSS) UNDER USGAAP	(0.2)	217.1	124.0	341.0	325.9	(449.2)

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Consolidated Statements of Cash Flows**for the year ended December 31, 2007**

	LPG Issuer	Ultrapar - Parent Company Guarantor	Oxiteno - Wholly Owned Guarantor Subsidiary	Total Guarantors	Non - Guarantor Subsidiaries	Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES							
Net income	(0.2)	181.9	127.7	309.6	291.4	(418.9)	181.8
Adjustments to reconcile net income to cash provided by operating activities:							
Depreciation and amortization		34.0	22.6	56.6	244.0		300.6
PIS and COFINS credit on depreciation			0.6	0.6	2.4		3.6
Loss on disposals of fixed assets and investments			(0.3)	(0.3)	(7.3)		(7.9)
Interest, monetary and exchange variation (gains)	32.0	98.7	3.9	102.6	(142.2)	(67.4)	(7.4)
Allowance (reversal of provision) for losses on fixed assets					(2.8)		(2.8)
Equity in income (losses) of affiliated companies		(315.0)	(165.4)	(480.4)	(40.7)	520.5	(380.6)
Benefit of tax holidays					24.5	(24.5)	
Deferred income tax and social contribution		(12.3)	(27.3)	(39.6)	(52.6)		(94.5)
Minority interest					96.9	4.1	101.0
Other		2.9		2.9	0.2	(2.2)	3.8
Decrease (increase) in operating assets:							
Trade accounts receivable			1.1	1.1	(84.5)	(19.0)	(102.3)
Recoverable taxes		12.3	(11.2)	1.1	(25.6)		(23.4)
Inventories			(13.7)	(13.7)	(55.2)	4.6	(61.8)
Prepaid expenses	0.2	0.1	(1.1)	(1.0)	(0.7)	2.2	0.7
Dividends received		10.6	190.1	200.7	43.2	(243.9)	100.7
Other		(0.6)	(0.3)	(0.9)	(6.5)		(8.3)
Increase (decrease) in operating liabilities :							
Trade payables		1.7	(1.6)	0.1	114.9	15.6	130.7

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Accrued interest					17.3		17.3
Payroll and related charges			(2.9)	(2.9)	12.2		9.3
Taxes		12.3	2.1	14.4	58.8		77.6
Income tax and social contribution		(4.6)	9.9	5.3	3.3		13.9
Other	2.1	2.8	0.3	3.1	12.7	(0.0)	18.9
Net cash (used in) provided by operating activities	34.1	24.8	134.5	159.3	503.7	(228.9)	463.7