ULTRAPAR HOLDINGS INC
Form 6-K
February 24, 2005
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report Of Foreign Private Issuer

Pursuant To Rule 13a-16 Or 15d-16 Of

The Securities Exchange Act Of 1934

For the month of February, 2005

Commission File Number: 001-14950

ULTRAPAR HOLDINGS INC.

(Translation of Registrant s Name into English)

Avenida Brigadeiro Luis Antonio, 1343, 9º Andar

São Paulo, SP, Brazil 01317-910

(Address of Principal Executive Offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Indicate by check mark whether by furnishing the information contained in this Form, the Registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

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ULTRAPAR HOLDINGS INC.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Ultrapar Participações S.A.

São Paulo - SP - Brazil

1. We have audited the accompanying consolidated balance sheets of Ultrapar Participações S.A. and subsidiaries (Ultrapar) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders equity, and changes in financial position for each of the three years in the period ended December 31, 2004, all expressed in Brazilian reais. These 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 audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

3. In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ultrapar Participações S.A. as of December 31, 2004 and 2003, and the results of its operations, changes in its stockholders equity and its financial position for each of the three years in the period ended December 31, 2004 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 (U.S. GAAP). The Company has presented the nature and effect of such differences in Note 25 to the consolidated financial statements.

February 4, 2005, except for Notes 24 and 25

as to which the date is February 16, 2005

DELOITTE TOUCHE TOHMATSU

Auditores Independentes

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Ultrapar Participações S.A. and Subsidiaries

ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In millions of Brazilian reais R$)

	2004	2003
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	624.5	568.8
Short-term investments	22.4	41.0
Trade accounts receivable, net	369.3	322.3
Inventories	206.0	137.7
Recoverable taxes	100.1	115.5
Other	17.1	30.6
Prepaid expenses	5.5	2.8
	1,344.9	1,218.7
LONG-TERM ASSETS		
Long-term investments	38.8	
Related companies	3.1	2.8
Deferred income and social contribution taxes	63.3	61.4
Escrow deposits	14.1	9.9
Recoverable taxes	9.5	
Trade accounts receivable	11.9	8.8
Other	2.6	2.0
	143.3	84.9
PERMANENT ASSETS		
Investments:		
Subsidiary and affiliated companies	5.9	5.7
Other	25.9	27.4
Property, plant and equipment, net	1,047.4	968.6
Deferred charges, net	99.8	102.7
	1,179.0	1,104.4
TOTAL	2,667.2	2,408.0

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Ultrapar Participações S.A. and Subsidiaries

ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In millions of Brazilian reais R$)

	2004	2003
LIABILITIES		
CURRENT LIABILITIES		
Financing	381.6	381.6
Suppliers	102.0	90.3
Payroll and related charges	94.1	74.7
Taxes	11.8	12.7
Dividends payable	74.7	41.7
Income and social contribution taxes	3.0	6.6
Other	17.9	25.2
	685.1	632.8
LONG-TERM LIABILITIES		
Financing	258.1	306.3
Related companies	8.8	9.0
Deferred income and social contribution taxes	32.1	28.7
Other taxes and contributions contingent liabilities	52.1	40.9
Other	2.3	1.4
	353.4	386.3
MINORITY INTEREST	28.2	32.2
STOCKHOLDERS EQUITY		
Capital	664.0	664.0
Capital reserve	0.1	
Revaluation reserve	16.4	17.8
Profit reserves	929.0	677.4
Treasury shares	(9.0)	(2.5)
	1,600.5	1,356.7
TOTAL	2,667.2	2,408.0

The accompanying notes are an integral part of these financial statements.

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Ultrapar Participações S.A. and Subsidiaries

ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(In millions of Brazilian reais R$, except per share data)

	2004	2003	2002
GROSS SALES AND SERVICES	5,250.6	4,603.8	3,795.3
Deductions	(466.4)	(603.5)	(800.8)
NET SALES AND SERVICES	4,784.2	4,000.3	2,994.5
Cost of sales and services	(3,669.9)	(3,196.4)	(2,247.1)
GROSS PROFIT	1,114.3	803.9	747.4
OPERATING INCOME (EXPENSES)			
Selling	(193.7)	(163.7)	(130.2)
General and administrative	(232.1)	(188.6)	(165.6)
Management compensation	(5.4)	(5.2)	(4.7)
Depreciation and amortization	(124.7)	(101.4)	(81.8)
Other operating income, net	5.5	6.6	0.4
	(550.4)	(452.3)	(381.9)
OPERATING INCOME BEFORE FINANCIAL ITEMS	563.9	351.6	365.5
Financial income (expenses), net	(45.0)	(57.2)	28.5
Nonoperating income (expenses), net	(16.0)	1.0	(44.1)
	(61.0)	(56.2)	(15.6)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES, EQUITY IN LOSSES OF AFFILIATED COMPANIES AND MINORITY INTEREST	502.9	295.4	349.9
INCOME AND SOCIAL CONTRIBUTION TAXES			
Current	(175.0)	(113.0)	(110.1)
Deferred	(1.5)	15.7	(4.8)
Benefit of tax holidays	93.5	52.4	43.5
	(83.0)	(44.9)	(71.4)
INCOME BEFORE EQUITY IN LOSSES OF AFFILIATED COMPANIES AND MINORITY INTEREST	419.9	250.5	278.5
Equity in losses of affiliated companies		(0.5)	(1.7)
Minority interest	(5.4)	(3.6)	(54.5)
NET INCOME	414.5	246.4	222.3
NET EARNINGS PER THOUSAND SHARES (BASED ON ANNUAL WEIGHTED AVERAGE OF SHARES OUTSTANDING) R$	5.95	3.54	3.62

The accompanying notes are an integral part of these financial statements.

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Ultrapar Participações S.A. and Subsidiaries

ULTRAPAR PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(In millions of Brazilian reais R$)

	Capital	Capital reserve	Revaluation reserve of subsidiary and affiliated companies	Profit reserves: Legal	Profit reserves: Retention of profits	Profit reserves: Unrealized profits	Retained earnings	Treasury shares	Total
BALANCES AT DECEMBER 31, 2001	433.9		25.9	17.4	322.7				799.9
Capital increase due to merger	230.1								230.1
Acquisition of treasury shares								(0.3)	(0.3)
Revaluation due to merger			5.1						5.1
Realization of revaluation reserve			(5.1)				4.4		(0.7)
Income and social contribution taxes on realization of revaluation reserve of subsidiaries			0.1				(0.4)		(0.3)
Net income							222.3		222.3
Appropriation of net income:									
Legal reserve				11.1			(11.1)		
Interim dividends (R$0.37 and R$0.40 per thousand common and preferred shares, respectively)							(20.0)		(20.0)
Proposed dividends payable (R$0.63 and R$0.69 per thousand common and preferred shares, respectively)							(45.0)		(45.0)
Reserve for unrealized profits						40.6	(40.6)		
Retention of profit reserves					109.6		(109.6)		
BALANCES AT DECEMBER 31, 2002	664.0		26.0	28.5	432.3	40.6		(0.3)	1,191.1
Acquisition of treasury shares								(2.2)	(2.2)
Realization of revaluation reserve			(8.2)				1.7		(6.5)
Income and social contribution taxes on realization of revaluation reserve of subsidiaries							(0.1)		(0.1)
Realization of profit reserves						(40.6)	40.6		
Net income							246.4		246.4
Appropriation of net income:									
Legal reserve				12.3			(12.3)		
Interim dividends (R$0.46 and R$0.51 per thousand common and preferred shares, respectively)							(33.0)		(33.0)
Proposed dividends payable (R$0.55 and R$0.60 per thousand common and preferred shares, respectively)							(39.0)		(39.0)
Reserve for unrealized profits						85.6	(85.6)		

Retention of profit reserves					118.7		(118.7)		
BALANCES AT DECEMBER 31, 2003	664.0		17.8	40.8	551.0	85.6		(2.5)	1,356.7
Acquisition of treasury shares, net of sales		0.1						(6.5)	(6.4)
Realization of revaluation reserve			(1.4)				1.4		
Income and social contribution taxes on realization of revaluation reserve of subsidiaries							(0.1)		(0.1)
Realization of profit reserve						(85.6)	85.6		
Net income							414.5		414.5
Appropriation of net income:									
Legal reserve				20.8			(20.8)		
Reserve for unrealized profits						118.3	(118.3)		
Retention of profit reserves					198.1		(198.1)		
Interim dividends (R$1.33 per thousand common and preferred shares)							(92.4)		(92.4)
Proposed dividends payable (R$1.03 per thousand common and preferred shares)							(71.8)		(71.8)
BALANCES AT DECEMBER 31, 2004	664.0	0.1	16.4	61.6	749.1	118.3		(9.0)	1,600.5

The accompanying notes are an integral part of these financial statements.

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Ultrapar Participações S.A. and Subsidiaries

ULTRAPAR PARTICIPAÇÕES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

(In millions of Brazilian reais R$)

	2004	2003	2002
SOURCES OF FUNDS			
Operations:			
Net income	414.5	246.4	222.3
Items not affecting working capital:			
Equity in losses of affiliated companies		0.5	1.7
Depreciation and amortization	172.7	146.9	121.8
PIS and COFINS credit on depreciation	3.0	0.8	
Long-term interest and monetary variations	22.6	(30.3)	98.3
Deferred income and social contribution taxes	1.5	(15.7)	4.8
Minority interest	5.4	3.6	54.5
Net book value of permanent assets written off	24.1	22.7	29.9
Other long-term taxes	8.0	3.9	8.6
Gain on change in ownership percentage			(3.6)
Amortization of negative goodwill on investments			(0.4)
Allowance (realization of provision) for losses on permanent assets	(1.3)	(0.4)	40.6
	650.5	378.4	578.5
Stockholders:			
Disposal of treasury shares	0.4		
Third parties:			
Increase in long-term liabilities		2.8	
Decrease in long-term assets			0.6
Dividends and interest on capital (gross)			0.4
Working capital from merger			0.1
Long-term financing	293.0	258.6	68.7
	293.0	261.4	69.8
Total sources	943.9	639.8	648.3
USES OF FUNDS			
Permanent assets:			
Investments	0.2	1.7	
Property, plant and equipment	227.2	299.5	171.5
Deferred charges	48.3	87.2	51.3
	275.7	388.4	222.8
Dividends and interest on capital	165.2	72.9	76.3
Transfer from long-term to current liabilities	354.6	280.4	86.0
Decrease in long-term liabilities			51.2

Increase in long-term assets	59.1	27.7	
Acquisition of treasury shares	6.8	2.2	0.3
Acquisition of shares from minority stockholders	8.5		212.5
Taxes on realization of revaluation reserve	0.1	0.2	0.8
Decrease in minority interest		0.8	1.0
	429.1	311.3	351.8
Total uses	870.0	772.6	650.9
INCREASE (DECREASE) IN WORKING CAPITAL	73.9	(132.8)	(2.6)
REPRESENTED BY			
Current assets:			
At end of year	1,344.9	1,218.7	1,186.9
At beginning of year	1,218.7	1,186.9	1,045.2
	126.2	31.8	141.7
Current liabilities:			
At end of year	685.1	632.8	468.2
At beginning of year	632.8	468.2	323.9
	52.3	164.6	144.3
INCREASE (DECREASE) IN WORKING CAPITAL	73.9	(132.8)	(2.6)

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

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

1. Operations

Ultrapar Participações S.A. (the Company or Ultrapar) is a holding company organized under the laws of the Federative Republic of Brazil, which, through its operating subsidiaries, is engaged in the distribution of Liquefied Petroleum Gas (LPG) in Brazil (Ultragaz), the production and sale of chemicals (Oxiteno), and logistic services of chemicals and fuels (Ultracargo).

2. Presentation of the Financial Statements and Significant Accounting Policies

These financial statements were prepared in accordance with accounting practices adopted in Brazil. 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 them more closely to reporting practices prevailing in the United States of America.

3. Summary of Significant Accounting Policies

The accounting practices adopted in Brazil to record transactions and prepare the financial statements comply with those prescribed by Brazilian corporate law and specific standards established by the Brazilian Securities Commission (CVM), which differ in certain respects from accounting principles generally accepted in the United States of America (U.S. GAAP). See Note 25 for further discussions of these differences and a reconciliation of stockholders equity and net income under both sets of principles.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

The following is a summary of significant accounting policies followed in the preparation of the financial statements:

a) Consolidation principles

The consolidated financial statements include the accounts of the Company and all of the subsidiaries in which the Company directly or indirectly controls more than 50% of the voting share capital, as listed below. Intercompany investments, asset and liability balances, income and expenses, as well as the effects arising from significant intercompany transactions, have been eliminated. Minority interest in subsidiaries is presented separately in the financial statements.

	Ownership %			
	2004		2003	
	Direct	Indirect	Direct	Indirect
Ultragaz Participações Ltda.	100		100	
Companhia Ultragaz S.A.		94		86
SPGás Distribuidora de Gás Ltda.		94		86
Bahiana Distribuidora de Gás Ltda.		100		100
Utingás Armazenadora S.A.		56		56
LPG International Inc.		100		100
Ultracargo Operações Logísticas e Participações Ltda.	100		100	
Melamina Ultra S.A. Indústria Química		99		93
Transultra Armazenamento e Transporte Especializado Ltda.		100		100
Terminal Químico de Aratu S.A. Tequimar		99		99
Oxiteno S.A. Indústria e Comércio	100		100	
Oxiteno Nordeste S.A. Indústria e Comércio		99		99
Oleoquímica Indústria e Comércio de Produtos Químicos Ltda.		100		
Barrington S.L.		100		100
Canamex Químicos S.A. de C.V.		100		100
Oxiteno International Co.		100		100
Oxiteno Overseas Co.		100		100
Imaven Imóveis e Agropecuária Ltda.	100		100	

On August 8, 2003, the Company acquired, through its subsidiary Companhia Ultragaz S.A., the LPG distribution business of Shell Petroleum N.V. in Brazil (SPGás Distribuidora de Gás Ltda.). This acquisition amounted to R$170.6, for the purchase of 100% of the company s shares and the extinguishment of its debt. The financial statements include the account balances and transactions of the acquired business since August

2003. The goodwill of R$24.4 on this acquisition is based on its expected future profitability and is being amortized over five years, beginning August 2003.

On December 4, 2003, the Company acquired, through its subsidiary Barrington S.L., the chemical business of the Berci Group in Mexico (CANAMEX Canamex Químicos S.A. de C.V.). This acquisition amounted to US$10.3 million, without assumption of any debt. The financial statements include the account balances and transactions of the acquired business since December 2003.

On December 31, 2003, in order to reduce costs, the Company merged the subsidiaries Ultratecno Participações Ltda. into Ultragaz Participações Ltda., Ultracargo Participações Ltda. into Oleoquímica do Nordeste Ltda., and the latter into Ultracargo Operações Logísticas e Participações Ltda.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

On December 29, 2004, the Company acquired, through its subsidiary Ultragaz Participações Ltda., an additional 7.31% of Companhia Ultragaz S.A. total share capital. This acquisition amounted to R$10.0, with a goodwill of R$1.8 based on its expected future profitability to be amortized over five years, beginning January 2005.

b) Cash and cash equivalents

Cash and cash equivalents comprise highly-liquid temporary cash investments (with maturities of three months or less when acquired and readily convertible to cash).

c) Short-term investments

Short-term investments are stated at the lower of cost plus accrued income earned or market value.

d) Trade accounts receivable

Trade accounts receivable are stated at estimated net realizable values. The allowance for doubtful accounts is based on estimated losses and is considered by management to be sufficient to cover probable losses on accounts receivable.

e) Inventories

Inventories are stated at the lower of average cost of acquisition or production or net realizable value.

f) Long-term investments

Long-term investments are stated at cost plus accrued income earned.

g) Investments in affiliated companies

Investments in operative companies not controlled by the Company, but over which it has significant influence, are accounted for using the equity method (see Note 9).

h) Other investments

Other investments are recorded at cost less provision for losses, if expected to be other than temporary.

i) Property, plant and equipment

Property, plant and equipment are stated at historical cost, monetarily restated through December 31, 1995, and revaluation adjustments based on appraisal reports issued by independent appraisers, less accumulated depreciation. Revaluation increases are credited to the revaluation reserve component of stockholders equity and subsequently transferred to retained earnings as the related assets are depreciated or disposed of.

Depreciation is calculated on a straight-line basis at the annual rates described in Note 10, and is based on the estimated useful lives of the corresponding assets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

j) Deferred charges

Deferred charges consist mainly of costs incurred in the installation of equipment at customers facilities, projects to modernize information systems, and goodwill arising from acquisition of subsidiaries, as mentioned in Note 11.

k) Income and social contribution taxes

Income and social contribution taxes (the latter of which is a federally mandated tax based on income) are accrued on taxable income at the applicable rates.

The accrual for income tax includes the effects of tax holidays, where applicable. Deferred income and social contribution taxes on temporary differences are recognized in accordance with CVM Resolution No. 273/98, as mentioned in Note 21.

l) Compensated absences

The liability for future compensation for employee vacations is fully accrued as earned.

m) Assets and liabilities denominated in foreign currency or subject to indexation

Assets and liabilities denominated in foreign currencies are translated into Brazilian reais at the exchange rate reported by the Brazilian Central Bank (BACEN) at each balance sheet date. Transaction gains and losses are recognized in income.

Assets and liabilities denominated in reais and contractually or legally subject to indexation are restated to the balance sheet date by applying the corresponding index, with related gains and losses recognized in income.

n) Revenues and expenses

Revenues from sales are recognized when products are delivered to the customer or services are performed, and the transfer of risks, rights and obligations associated with the ownership of products takes place. Expenses are recognized on the accrual basis. Advertising expenses, which are expensed as incurred, amounted to R$6.3, R$6.7 and R$8.8 for the years ended December 31, 2004, 2003 and 2002, respectively. Shipping and handling costs, classified as selling expenses and expensed as incurred, amounted to R$63.4, R$66.5 and R$45.0 for the years ended December 31, 2004, 2003 and 2002, respectively.

o) Cost of sales and services

Cost of sales and services provided includes raw materials (mainly LPG and chemicals) and production, distribution, storage and filling costs.

p) Earnings per share

Earnings per share are calculated based on the annual weighted average of shares outstanding during each of the years presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

q) Use of estimates

The preparation of financial statements in accordance with accounting practices adopted in Brazil requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet dates and the reported amounts of revenues, costs and expenses for the years presented. Although these estimates are based on management s best available knowledge of current and expected future events, actual results could differ from those estimates.

r) Basis for translation of the financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries are translated into Brazilian reais at the current exchange rate. The criteria for preparation of the financial statements have been adapted to conform to accounting practices adopted in Brazil.

s) Reclassification

The balance sheet information of 2003 related to other current assets has been reclassified for better year to year comparison.

4. Cash and Cash Equivalents

Cash equivalents consist of investments, contracted with banks of good standing, substantially represented by fixed-income securities and funds linked to the Brazilian interbank certificates of deposit (CDI) rate, as well as by foreign investments, and are stated at cost plus accrued income (on a pro rata temporis basis).

	2004	2003
Fixed income securities and funds	536.3	489.5
Foreign investments (a)	46.9	32.6
Cash	41.3	46.7

Total	624.5	568.8

(a) Investments made by the indirect subsidiary Oxiteno Overseas Co. mainly in money market funds and debt securities.

5. Short and Long-term Investments

Short-term investments relate to the amount invested by the indirect subsidiary Oxiteno Overseas Co. in debt securities of U.S. and Brazilian corporations.

Long-term investments are mainly represented by a debt security of an European corporation denominated in U.S. dollars, bearing interest of six-month LIBOR plus interest of 3.25% per annum and maturing on September 27, 2009.

Short-term investments are classified as available for sale. Long-term investments are classified as held to maturity.

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Ultrapar Participações S.A. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

6. Trade Accounts Receivable, Net

	2004	2003
Domestic customers	353.9	299.8
Foreign customers	91.5	71.3
(-) Advances on foreign exchange contracts	(55.5)	(31.5)
(-) Allowance for doubtful accounts	(20.6)	(17.3)
Total	369.3	322.3

7. Inventories

	2004	2003
Finished products	115.9	78.4
Liquefied Petroleum Gas (LPG)	23.0	22.7
Raw materials	49.3	25.4
Supplies and cylinders for resale	17.8	11.2
Total	206.0	137.7

8. Recoverable Taxes

Represented, substantially, by credit balances of ICMS (State VAT), IPI (Federal excise tax), PIS and COFINS (taxes on revenue), as well as prepaid income and social contribution taxes, which can all be offset against future taxes payable.

	2004	2003
Income and social contribution taxes	57.2	64.2
State Value-Added Tax (ICMS)	31.1	40.7
Federal Excise Tax (IPI)	0.2	2.8
PIS and COFINS	7.3	2.4

Other, mainly VAT of Canamex Químicos S.A. de C.V.	4.3	5.4
Total	100.1	115.5

9. Investments in Affiliated Companies

A summary of financial information for the Company s equity investments is as follows:

	December 31, 2004	
	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.
Number of shares or quotas held	156	3,174,501
Adjusted net equity R$	5.3	10.1
Net income for the year R$	0.7	
Ownership %	25.00	45.56

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Ultrapar Participações S.A. and Subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Years Ended December 31, 2004, 2003 and 2002

(Amounts in millions of Brazilian reais R$, unless otherwise stated)

	2004			
	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.	Other	Total
Changes in investments:				
Balance at the beginning of year	0.9	4.6	0.2	5.7
Capital increase	0.2			0.2
Write-off			(0.2)	(0.2)
Equity pick-up	0.2			0.2
Balance at the end of year	1.3	4.6		5.9

	December 31, 2003	
	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.
Number of shares or quotas held	125	3,174,501
Adjusted net equity R$	3.8	10.1
Net income for the year R$	1.4	
Ownership %	25.00	45.56

	2003			
	Oxicap Indústria de Gases Ltda.	Química da Bahia Indústria e Comércio S.A.	Other	Total
Changes in investments:				
Balance at the beginning of year	0.6	4.6	1.9	7.1
Equity pick-up	0.3			0.3
Write-off			(1.7)	(1.7)
Balance at end of year	0.9	4.6	0.2	5.7

	December 31, 2002		
	Oxicap Indústria de Gases Ltda.	Nordeste Química S.A. Norquisa	Química da Bahia Indústria e Comércio S.A.
Number of shares or quotas held	125	60,426,077	3,174,500
Adjusted net equity R$	2.5		10.1
Loss for the year R$	(0.3)		
Ownership %	25.00	8.73	45.56

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	2002					
	Oxicap Indústria de Gases Ltda.	Fábrica Carioca de Catalizadores S.A. FCC	Nordeste Química S.A. Norquisa	Química da Bahia Indústria e Comércio S.A.	Imaven II Agropecuária S.A.	Total
Changes in investments:						
Balance at the beginning of the year	0.7	15.4	42.3	4.6		63.0
Write-off of revaluation reserve		(2.7)				(2.7)
Dividends received		(0.4)				(0.4)
Equity pick-up	(0.1)	(1.0)				(1.1)
Cost of investment sold		(11.3)				(11.3)
Business combination					0.2	0.2
Allowance for loss			(40.6)			(40.6)
Balance at the end of the year	0.6		1.7	4.6	0.2	7.1

The investment of Oxiteno S.A. Indústria e Comércio in the affiliated company Oxicap Indústria de Gases Ltda. is carried under the equity method based on Oxicap s financial statements as of November 30, 2004. The investment of Oxiteno Nordeste S.A. Indústria e Comércio in the affiliated company Química da Bahia Indústria e Comércio S.A. is not based on the equity method, since the affiliated company s operations are dormant and management evaluates that its carrying value is adequate.

10. Property, Plant and Equipment, Net

		2004			2003		
	Annual depreciation rates %	Cost, including revaluation	Accumulated depreciation	Net	Cost, including revaluation	Accumulated depreciation	Net
Land		46.3		46.3	46.9		46.9
Buildings	4 to 5	380.3	(136.6)	243.7	356.8	(123.1)	233.7
Machinery and equipment	5 to 10	688.5	(326.6)	361.9	610.0	(286.2)	323.8
Gas tanks and cylinders	10	328.5	(161.5)	167.0	380.3	(192.3)	188.0
Vehicles	20 to 30	146.8	(101.4)	45.4	127.4	(86.1)	41.3
Furniture and fixtures	10	18.3	(6.7)	11.6	15.5	(5.4)	10.1
Construction in progress		96.9		96.9	46.3		46.3
Other	2.5 to 30	128.8	(54.2)	74.6	117.6	(39.1)	78.5

Total	1,834.4	(787.0)	1,047.4	1,700.8	(732.2)	968.6

Property, plant and equipment include net capitalized interest cost of R$5.4 and R$6.0 as of December 31, 2004 and 2003, respectively.

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Construction in progress refers mainly to the construction of the Santos Intermodal Terminal (TIS) of subsidiary Terminal Químico de Aratu S.A. Tequimar, as well as improvements of other subsidiaries plants.

Other comprises computer equipment in the amount of R$17.2 (2003 R$19.6), software in the amount of R$27.7 (2003 R$29.9) and commercial property rights, mainly those described below.

- On July 11, 2002, the indirect subsidiary Terminal Químico de Aratu S.A. Tequimar signed a contract for use of the site on which it operates its Aratu Terminal for 20 years, renewable for another 20 years. The amount of R$12.0 paid by Tequimar is being amortized over 40 years, equivalent to an annual amortization of R$0.3.

- Further, Terminal Químico de Aratu S.A. Tequimar has a 20-year lease of an area adjacent to the Santos harbor which allows it to build, operate and exploit the terminal, intended for the distribution of liquid bulk. The price paid by Tequimar was R$3.8 and will be amortized until December 31, 2022, as from the beginning of its operations, expected to occur in April 2005.

11. Deferred Charges, Net

Deferred charges are substantially represented by costs incurred in the implementation of information systems in the amount of R$2.0 (2003 R$3.2), amortized over five to ten years, and by costs related to the installation of Ultrasystem equipment at customers premises in the amount of R$56.0 (2003 R$56.8), amortized over the term of the LPG supply contracts with these customers. Deferred charges also include the goodwill from acquisitions mentioned in Note 3.a).

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12. Financing

a) Composition

Description	2004	2003	Index/ Currency	Annual interest rate %	Maturity and amortization
Foreign currency:					
Eurobonds	151.5		US$	3.5	Semiannually to 2005
Working capital loan	0.5	0.5	MX$ + TIIE (*)	1.4	Monthly to 2005
Syndicated loan		173.6	US$	4.25	Semiannually to 2004
Foreign financing	32.2		US$ + LIBOR	2.0	Semiannually to 2009
Financing for inventories and property additions	8.8	11.4	MX$ + TIIE (*)	2.0	Semiannually to 2009
Advances on foreign exchange contracts	3.3	24.9	US$	From 2.0 to 2.86	Maximum of 58 days
National Bank for Economic and Social Development (BNDES)	20.8	23.2	UMBNDES (**)	10.91	Monthly to 2009
Export prepayments	129.8	205.1	US$	From 4.22 to 6.85	Monthly, semiannually and annually to 2008
Subtotal	346.9	438.7			
Unrealized losses on swap transactions	88.6	55.7			
Subtotal	435.5	494.4			
Local currency:					
National Bank for Economic and Social Development (BNDES)	130.2	142.2	TJLP	From 3.0 to 3.85	Monthly to 2009
National Bank for Economic and Social Development (BNDES)	15.5	17.1	IGP-M	6.5	Semiannually until 2008
FINAME	34.1	28.9	TJLP	From 1.8 to 4.85	Monthly to 2009
FINEP	24.4	5.3	TJLP	(2.0)	Monthly to 2009
Subtotal	204.2	193.5			
Total financing	639.7	687.9			

Current liabilities	(381.6)	(381.6)
Long-term liabilities	258.1	306.3

(*) MX$ = Mexican pesos, TIIE = Mexican break-even interbank interest rate.

(**) UMBNDES = BNDES monetary unit. This is a basket of currencies representing the composition of BNDES debt in foreign currency, 84% of which is linked to the U.S. dollar.

TJLP long-term interest rate.

IGP-M general market price index.

FINAME government agency for machinery and equipment financing.

FINEP research and projects financing

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b) Annual maturities of long-term financing

	2004
2006	109.3
2007	57.3
2008	36.9
2009	54.6
Total	258.1

c) Eurobonds

In June 1997, the subsidiary Companhia Ultragaz S.A. issued Eurobonds in the total amount of US$60 million, maturing in 2005, with put/call options in 2002, and guaranteed by Ultrapar and Ultragaz Participações Ltda. In June 2002, the subsidiary LPG International Inc. exercised the call option for these securities using funds from a loan in the same amount, that matured in August 2004. However, in January 2004 LPG International Inc. issued Eurobonds in the total amount of US$60 million, maturing in June 2005 and with an annual interest rate of 3.5%. The proceeds from the issuance were used to settle the loan.

The Eurobonds are subject to covenants that provide for restrictions on, among other things, Ultrapar s ability to incur indebtedness, pay dividends and other distributions, and conduct merger and acquisition transactions. None of these covenants have restricted the Company s ability to conduct its business to date.

d) 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 and by minority stockholders, as shown below:

	2004	2003

Amount of financing secured by:		
Property, plant and equipment	39.0	34.3
Shares of investee	15.5	17.1
Minority stockholders guarantees	15.5	17.6
Total	70.0	69.0

The Company is responsible for sureties and guarantees offered on behalf of its subsidiaries, amounting to R$533.1 (2003 R$571.4). Financing and advances on exports are guaranteed by the future flow of exports.

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 such payments are made, the subsidiaries may recover such amounts paid directly from their customers. Maximum future payments related to these

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guarantees amount to R$45.2 (2003 R$19.8), with terms ranging up to 210 days. As of December 31, 2004, the Company and its subsidiaries have not suffered any losses related to these guarantees, neither recorded any liability related to them.

13. Stockholders Equity

a) Capital

The Company is a listed corporation with shares traded on the São Paulo and New York Stock Exchanges NYSE. According to the Company s bylaws, its Board of Directors is authorized to approve capital increases up to R$1,000. As of December 31, 2004 and 2003 subscribed and paid-up capital is represented by 69,691,268,828 shares without par value, comprising 51,264,621,778 common and 18,426,647,050 preferred shares. As of December 31, 2004 and 2003 outstanding shares is represented by 69,501,952,709 and 69,687,169,068 shares, respectively, comprising 51,258,005,419 and 51,264,621,778 common shares, respectively, and 18,243,947,290 and 18,422,547,290 preferred shares, respectively.

As of December 31, 2004, 4,984 million 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, without premium, in the event of liquidation of the Company.

Until May 18, 2004, preferred shares entitled their holders to dividends at least 10% higher than those attributable to common shares. On that date a Special Meeting of Preferred Stockholders and an Extraordinary Stockholders Meeting of Ultrapar approved equalizing the dividends of common and preferred shares.

b) Treasury shares

The Company was authorized to acquire its own shares at market price, without capital reduction, to be held in treasury for subsequent sale or cancellation, in accordance with the provisions set forth by Brazilian Securities Commission (CVM) Instructions No. 10 of February 14, 1980 and No. 268 of November 13, 1997.

In 2004, 219,600 thousand preferred shares were acquired at the average cost of R$30.19 (whole Brazilian reais), with a minimum cost of R$27.5 (whole Brazilian reais) and a maximum cost of R$34.8 (whole Brazilian reais) per thousand shares.

As of December 31, 2004, the Company and its subsidiaries held 327,700 thousand preferred shares (182,700 thousand preferred shares, net of shares provided to certain executives of these subsidiaries as described in Note 22) and 6,616 thousand common shares in treasury, which had been acquired at the average cost of R$28.08 (whole Brazilian reais) and R$19.30 (whole Brazilian reais) per thousand shares, respectively.

The market price of shares issued by the Company as of December 31, 2004 on the São Paulo Stock Exchange (BOVESPA) was R$51.00 (whole Brazilian reais) per thousand preferred shares.

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c) Capital reserve

The capital reserve in the amount of R$0.1 reflects the result of the sale of shares from the Company to certain subsidiaries, at the price of R$38.27 (whole Brazilian reais) per thousand shares. These shares were provided to certain executives of these subsidiaries as described in Note 22.

d) Revaluation reserve

This reserve reflects the revaluation write-up of assets of subsidiaries and is realized based on depreciation, write-off or sale of these revalued assets, including the related tax effects.

In some cases, taxes on the revaluation reserve of certain subsidiaries are recognized only on realization of this reserve since the revaluation occurred prior to the publication of CVM Resolution No. 183/95. Deferred tax charges on these reserves total R$7.8 (2003 R$7.6).

e) Profit reserves

Legal reserve

Under 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.

Reserve for retention of profits

This reserve is supported by the Company s investment program, in conformity with article 196 of Brazilian corporate law, and includes both a portion of net income and the realization of the revaluation reserve.

Unrealized profit reserve

This reserve is established in conformity with article 197 of 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

According to the Company s bylaws, stockholders are entitled to a minimum annual dividend of 50% of adjusted net income, calculated under the terms of accounting practices adopted in Brazil.

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Proposed dividends as shown in the Company s financial statements, subject to approval at the Stockholders Annual Meeting, are as follows:

	2004
Net income	414.5
Legal reserve	(20.8)
Retention of profits	(196.8)
Realization of unrealized profit reserve	85.6
Compulsory dividends	282.5
Reserve for unrealized profits	(118.3)
Interim dividends (R$1.33 (whole Brazilian reais) per thousand common and preferred shares)	(92.4)
Proposed dividends (R$1.03 (whole Brazilian reais) per thousand common and preferred shares)	(71.8)

Management proposes to retain the balance of net income in the retention of profits reserve, in order to support the business expansion project established in its investment plan.

14. Financial Income and (expenses), Net

	2004	2003	2002
Interest on cash and cash equivalents, short and long-term investments	72.1	105.7	102.7
Interest on trade accounts receivables	4.9	5.4	3.9
Interest on financings	(45.2)	(56.9)	(49.3)
Bank charges	(12.2)	(6.7)	(7.5)
Monetary and exchange variation, including financial expenses from currency swap transactions	(37.2)	(67.9)	8.7
CPMF, PIS, COFINS and IOF, taxes on financial transactions	(26.3)	(35.1)	(32.9)
Other	(1.1)	(1.7)	2.9
Total	(45.0)	(57.2)	28.5

15. Nonoperating Income (expenses), Net

The amounts included in this caption principally refer to the results of the disposal of permanent assets, especially LPG cylinders, for the years ended December 31, 2004 and 2003. Included in 2004 is also the write-off of the investment in the affiliated company Extracta Moléculas Naturais S.A. The amount for the year ended December 31, 2002 mainly refers to the write-off in the amount of R$40.6, of the investment in the affiliated company Nordeste Química S.A. Norquisa.

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16. Reconciliation of Ebitda

As expressly permitted by the CVM in its annual orientation guide for the preparation of financial statements, the Company is presenting its method for calculating EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), as shown in the table below:

	2004					2003	2002
	Ultragaz	**Oxiteno**	**Ultracargo**	**Other**	**Consolidated**	**Consolidated**	**Consolidated**
Operating income before financial items	152.7	382.9	23.0	5.3	563.9	351.6	365.5
(+) Depreciation and amortization	116.2	38.1	17.5	0.9	172.7	146.9	121.8
EBITDA	268.9	421.0	40.5	6.2	736.6	498.5	487.3

17. Segment Information

The Company has three reportable segments: gas, chemical and logistics. The gas segment distributes LPG to residential, commercial and industrial consumers mainly in the South, Southeast and Northeast regions of Brazil. The chemical segment primarily produces ethylene oxide derivatives. Operations in the logistics segment include storage and transportation of chemicals and fuels, mainly in the Southeast and Northeast regions of the country. Reportable segments are strategic business units that provide different products and services. Intersegment sales are transacted at prices that are freely negotiated and approximate those that the selling entity is able to obtain with third parties.

The principal financial information about each of the Company s reportable segments is as follows:

	2004					2003	2002
	Ultragaz	**Oxiteno**	**Ultracargo**	**Other**	**Consolidated**	**Consolidated**	**Consolidated**
Net sales, net of intercompany transactions	2,967.7	1,662.9	153.6		4,784.2	4,000.3	2,994.5
Operating income before financial items	152.7	382.9	23.0	5.3	563.9	351.6	365.5
EBITDA	268.9	421.0	40.5	6.2	736.6	498.5	487.3

Total assets	1,008.2	1,296.8	331.6	30.6	2,667.2	2,408.0	2,127.9

Disclosures of segments in accordance with U.S. GAAP are made in Note 25.V.j).

18. Risks and Financial Instruments

The main risk factors to which the Company and its subsidiaries are exposed reflect strategic-operating and economic-financial aspects. Strategic-operating risks (such as behavior of demand, competition, technological innovation and significant structural changes in industry, among others) are addressed by the Company s management model. Economic-financial risks mainly reflect customer default and macroeconomic variables such as exchange and interest rates, as well as the characteristics of the

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financial instruments used by the Company. These risks are managed through control policies, specific strategies and the determination of limits, as follows:

Ø Customer default These risks are managed by specific policies for accepting customers and analyzing credit and are mitigated by diversification of sales. As of December 31, 2004, the Company and its subsidiaries maintained R$26.2 (2003 R$21.8) as an allowance for doubtful accounts receivable.

Ø Interest rates The Company and its subsidiaries adopt conservative policies to obtain and invest funds and to minimize the cost of capital. The temporary cash investments of the Company and its subsidiaries substantially comprise transactions linked to the interbank deposit (CDI) rates, as described in Note 4. Funds obtained originate from BNDES and foreign currency financing, as mentioned in Note 12.

Ø Exchange rate The Company s subsidiaries use foreign currency swap instruments (mainly U.S. dollar to CDI) available in the financial market to cover assets and liabilities in foreign currency, so as to reduce the exchange rate variation effects on their results. Such swap instruments have amounts, periods and indexes equivalent to the assets and liabilities in foreign currency, to which they are linked. The following summary shows assets and liabilities in foreign currency, translated into Brazilian reais at December 31, 2004 and 2003 at the corresponding year end exchange rates:

	Book value	
	2004	**2003**
Assets:		
Investments abroad and swap instruments	266.6	395.3
Foreign cash and cash equivalents, short and long-term investments	109.0	77.6
Receivables from foreign customers, net of advances on foreign exchange contracts	35.0	28.0
Total	410.6	500.9
Liabilities:		
Foreign currency financing	346.9	438.7
Import transactions payable	12.2	10.0
Total	359.1	448.7
Net asset position	51.5	52.2

The exchange rate variation related to cash and cash equivalents and financial investments in foreign currencies was recorded as financial expense in the consolidated statement of income for the year ended December 31, 2004, in the amount of R$11.0 (2003 financial expense of R$24.3 and 2002 financial income of R$44.1).

19. Contingencies and Commitments

a) Labor, civil and tax lawsuits

The Petrochemical Industry Labor Union, of which the employees of Oxiteno Nordeste S.A. Indústria e Comércio are members, filed a lawsuit against the subsidiary in 1990, demanding compliance with the adjustments established in collective labor agreements, in lieu of the salary policies effectively followed. At the same time, the employers association proposed a collective labor dispute for the interpretation

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and clarification of the fourth clause of the agreement. Based on the opinion of its legal counsel, who analyzed the last decision of the Federal Supreme Court (STF) in the collective bargaining as well as the status of the individual lawsuit of the subsidiary, management believes that a reserve for a potential loss is not necessary as of December 31, 2004.

Companhia Ultragaz S.A. 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. Such lawsuits involve: (i) individual lawsuits filed by victims of the explosion claiming damages from Ultragaz for the loss of economic benefit and for pain and suffering, (ii) reimbursement of expenses 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. Management believes that it has presented evidence that defective gas pipes in the shopping mall caused the accident and that Ultragaz s on-site LPG storage facilities did not contribute to the explosion. It has obtained a favorable judgment in all lawsuits which have been judged to date. The subsidiary has insurance for this contingency. As of December 31, 2004, the amount not covered by such insurance corresponds to R$36.7. Management believes that a reserve for a potential loss is not necessary as of December 31, 2004.

The Company and its subsidiaries have obtained injunctions to pay PIS and COFINS (taxes on revenues) without the changes introduced by Law No. 9,718/98 in its original version. The ongoing questioning refers to the levy of these taxes on income from sources other than revenues. The unpaid amounts were recorded in the financial statements of the Company and its subsidiaries, totaling R$33.7 (2003 R$30.5).

The main tax discussions of the Company and its subsidiaries refer to the taxation of PIS and COFINS (as detailed in the preceding paragraph) and the taxation of income earned abroad (as stated in Note 21.a)).

The potential losses on these discussions are accrued in long-term liabilities as other contributions and taxes and deferred income and social contribution taxes. In addition, Oxiteno S.A. Indústria e Comércio has accrued R$7.3 related to a potential loss on an ICMS (value-added tax) assessment presently under judgment at the administrative level. The subsidiary currently awaits a decision on its appeal filed in July 2004.

Utingás Armazenadora S.A. is challenging an ISS (service tax) assessment presently under judgment at the judicial level. The subsidiary s legal advisors classify the risk as being low, since a significant part of the decisions already announced were favorable to the subsidiary and its case supported by the opinion of a renowned tax specialist. The total amount at risk updated as of December 31, 2004 is R$25.4. Management believes that a reserve for a potential loss is not necessary as of December 31, 2004.

The Company and its subsidiaries have other ongoing administrative and judicial proceedings. Legal counsel classified the risks of these proceedings as possible or remote and, therefore, no reserves for potential losses on these proceedings have been recorded.

Although there is no assurance that the Company and its subsidiaries will prevail in all cases, management does not believe that the ultimate resolution of unaccrued tax, civil and labor contingencies would have a material effect on the Company s financial position or results of operations.

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Escrow deposits and provisions are summarized below:

	2004		2003	
	Escrow deposits	Provision made	Escrow deposits	Provision made
Social contribution taxes on net income		2.9		2.9
Labor claims	9.9	2.0	7.5	0.9
PIS and COFINS on other gains	0.1	33.7		30.5
ICMS	0.5	9.4		
Other	3.6	4.1	2.4	6.6
Total	14.1	52.1	9.9	40.9

b) Take or pay commitments

Terminal Químico de Aratu S.A. Tequimar has contracts with CODEBA Companhia Docas do Estado da Bahia and Complexo Industrial Portuário Governador Eraldo Gueiros, in connection with its harbor 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 annual movement is less than the established minimum, the subsidiary is required to pay the difference between the actual movement and the minimum contractual movement using the harbor rates in effect at the date of payment. As of December 31, 2004, such rates were R$3.67 and R$3.44 per ton for Aratu and Suape, respectively. The subsidiary has met the minimum cargo movement requirements since inception of the contracts. At December 31, 2004, future minimum lease payments under these operating leases are: 2005 R$4.5, 2006 R$4.5, 2007 R$4.5, 2008 R$4.5, 2009 R$4.5 and thereafter R$60.1. 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$1.6 in 2004, R$1.4 in 2003 and R$1.2 in 2002.

Oxiteno Nordeste S.A. Indústria e Comércio has a supply contract with Braskem S.A., effective through 2012, which establishes a minimum annual ethylene consumption level. The minimum purchase commitment and the actual demand for the years ended December 31, 2004 and 2003, expressed in tons of ethylene, are summarized below. If the minimum purchase commitment is not 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 2004 Unaudited	Actual demand 2003 Unaudited
In tons	137,900	192,439	188,850

At December 31, 2004, future minimum purchase commitments under this contract, based on the price prevailing at that date, are: 2005 R$200.2, 2006 R$200.2, 2007 R$200.2, 2008 R$200.2, 2009 R$200.2 and thereafter R$600.6. Total purchases made under this contract were R$576.9 in 2004, R$403.4 in 2003 and R$271.2 in 2002.

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c) Insurance coverage for subsidiaries

It is management s practice to maintain insurance policies in amounts considered sufficient to cover potential losses on assets, as well as for civil responsibility for involuntary and material damages and/or bodily harm caused to third parties arising from the Company s subsidiaries industrial and commercial operations, considering the nature of their activities and the advice of their insurance consultants.

20. Related Companies

The balances and transactions with related parties are as follows:

	2004			
	Loans		Trade accounts	
	Assets	Liabilities	Receivable	Payable
Química da Bahia Indústria e Comércio S.A.		7.7		
Serma Associação dos Usuários de Equipamentos de Processamentos de Dados e Serviços Correlatos	1.6			0.8
Petroquímica União S.A.				7.0
Oxicap Indústria de Gases Ltda.				0.7
Liquigás Distribuidora S.A.			0.1	
Petróleo Brasileiro S.A. Petrobras			1.4	
Braskem S.A.				32.8
Cia. Termelétrica do Planalto Paulista TPP	1.4			
Plenogás Distribuidora de Gás Ltda.		0.9		
Other	0.1	0.2		0.5
Total at December 31, 2004	3.1	8.8	1.5	41.8
Total at December 31, 2003	2.8	9.0		10.7