

ULTRAPAR HOLDINGS INC

Form 20-F

April 23, 2019

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As filed with the Securities and Exchange Commission on April 22, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

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

OR

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

For the fiscal year ended December 31, 2018

OR

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

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 001-14950

ULTRAPAR PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

ULTRAPAR HOLDINGS INC.

(Translation of Registrant's name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Av. Brigadeiro Luis Antônio, 1343, 9º Andar

São Paulo, SP, Brazil 01317-910

Telephone: 55 11 3177 3820

(Address of principal executive offices)

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

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

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

None

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

None

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

The number of outstanding shares of each class as of December 31, 2018.

Title of Class	Number of Shares Outstanding
Common Stock	543,014,947

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer	Accelerated Filer
Non-accelerated Filer	Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

International Financial Reporting Standards as issued

U.S. GAAP

by the International Accounting Standards Board

other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 Item 18

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

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INTRODUCTION

Ultrapar is a Brazilian company with more than 80 years of history, with leading positions in the markets in which it operates: specialized distribution and retail through Ultragas, Ipiranga and Extrafarma, production of specialty chemicals through Oxiteno and liquid bulk storage services through Ultracargo.

Ultragas is the leader in LPG (as defined below) distribution in Brazil, which is one of the largest markets worldwide. Ultragas had a 23.6% market share as of December 31, 2018 according to ANP and was one of the largest independent LPG distributors in the world in terms of volume sold. Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Competition. As of December 31, 2018, we delivered LPG to an estimated 11 million households through a network of approximately 5.4 thousand independent retailers in the bottled segment and to approximately 54 thousand customers in the bulk segment.

Ipiranga is one of the largest fuel distributors in Brazil, with a network of 7,218 service stations and 20.2% market share as of December 31, 2018 according to ANP. See Item 4.B. Information on the Company Business Overview Fuel Distribution Ipiranga Competition.

Oxiteno is one of the largest producers of ethylene oxide and its main derivatives in Latin America, a major producer of specialty chemicals and the sole producer of fatty-alcohols and related by-products in Latin America, according to IHS Chemical. Oxiteno has twelve industrial units: six in Brazil, three in Mexico, one in the United States, one in Uruguay and one in Venezuela and commercial offices in Argentina, Belgium, China and Colombia.

Ultracargo has a leading position in its sector, being the largest provider of liquid bulk storage in Brazil in terms of number of terminals and storage capacity according to ABTL, with six terminals and a storage capacity of 700 thousand cubic meters as of December 31, 2018.

Extrafarma is the fifth largest drugstore chain in Brazil, according to ABRAFARMA, with 433 drugstores and 2 distribution centers as of December 31, 2018.

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

ABIQUIM are to *Associação Brasileira da Indústria Química*, the Brazilian association of chemical industries;

ABRAFARMA are to *Associação Brasileira de Redes de Farmácias e Drogarias*, the Brazilian association of pharmacy and drugstore chains;

ABTL are to *Associação Brasileira de Terminais de Líquidos*, the Brazilian association of liquid bulk terminal operators;

ADSs are to our American Depositary Shares, each representing (i) one common share, with respect to any period on or after August 17, 2011; or (ii) one non-voting preferred share, with respect to any period prior to August 17, 2011;

Alesat are to Alesat Combustíveis S.A.;

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

American Chemical are to American Chemical I.C.S.A., a company that was acquired by Oxiteno in November 2012, currently Oxiteno Uruguay;

ANFAVEA are to *Associação Nacional dos Fabricantes de Veículos Automotores*, the Brazilian association of vehicle producers;

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

ANVISA are to the *Agência Nacional de Vigilância Sanitária*, the Brazilian health surveillance agency;

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Aqces are to Aqces Logística Internacional Ltda.;

Arch Andina are to Arch Química Andina, C.A., a company that was acquired by Oxiteno in September 2007, currently Oxiteno Andina;

ARLA are to Automotive Liquid Reducing Agent;

B3 are to the B3 S.A. Brasil, Bolsa, Balcão, the São Paulo Stock Exchange;

Braskem are to Braskem S.A.;

Brazil are to the Federative Republic of Brazil;

Brazilian Corporate Law are to Law No. 6,404 enacted in December 1976, as amended by Law No. 9,457 enacted in May 1997, by Law No. 10,303 enacted in October 2001, by Law No. 11,638 enacted in December 2007, by Law No. 11,941 enacted in May 2009, by Law No. 12,431 enacted in June 2011, by Law No. 12,810 enacted in May 2013, and by Law No. 13,129 enacted in May 2015;

Brazilian GAAP are accounting practices adopted in Brazil that comprise the Brazilian Corporate Law and the Pronouncements, Guidelines and Interpretations issued by the Accounting Pronouncements Committee (CPC) and approved by the Federal Accounting Council (CFC) and the Brazilian Securities and Exchange Commission (CVM);

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

CADE are to *Conselho Administrativo de Defesa Econômica*, the Brazilian Antitrust Authority;

Canamex are to the chemical business formerly owned by the Berci Group, a company that was acquired by Oxiteno in December 2003, currently Oxiteno Mexico;

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

CBLSA are to Chevron Brasil Lubrificantes S.A., now called Iconic;

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

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

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

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

Cia. Ultragaz are to Companhia Ultragaz S.A.;

Code are to the U.S. Internal Revenue Code of 1986, as amended;

Commodity Exception are to gains derived from qualified active sales of commodities and qualified hedging transactions involving commodities, within the meaning of the applicable U.S. Treasury regulations;

Conab are to the National Supply Company (*Companhia Nacional de Abastecimento*), a public company responsible for managing agricultural and supply policies;

CONAMA are to *Conselho Nacional do Meio Ambiente* the National Council of the Environment;

ConectCar are to ConectCar Soluções de Mobilidade Eletrônica S.A., a joint-venture initially formed by Ipiranga and OTP (Odebrecht Transport S.A.), which started its operations in November 2012. In January 2016, Redecard S.A. acquired OTP's interest in ConectCar;

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

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CVM are to *Comissão de Valores Mobiliários*, the Securities and Exchange Commission of Brazil;

ICVM 527/12 are to CVM Instruction No. 527/12, issued by the CVM on October 4, 2012, which governs the voluntary disclosure by listed companies in Brazil of EBITDA Earnings Before Interest, Taxes, Depreciation and Amortization, and EBIT Earnings Before Interest and Taxes, for the results disclosed from January 1, 2013 onwards;

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

DNP are to Distribuidora Nacional de Petróleo Ltda., a company that was acquired by Ipiranga in October 2010 and was merged into IPP in February 2011;

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

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

Extrafarma are to Imifarma Produtos Farmacêuticos e Cosméticos S.A.;

Extrafarma Transaction are to the exchange of shares of Extrafarma for Ultrapar's shares on January 31, 2014, as described in Item 4.A. Information on the Company History and Development of the Company Extrafarma ;

FGTS are to *Fundo de Garantia do Tempo de Serviço*, the Brazilian government severance indemnity fund;

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

IAS are to International Accounting Standard;

IASB are to International Accounting Standards Board;

Iconic are to Iconic Lubrificantes S.A., formerly CBLSA, an association formed by Ipiranga and Chevron, which started its operations in December 2017;

IFRS are to International Financial Reporting Standards, as issued by IASB;

IGP-M are to General Index of Market Prices of Brazilian inflation (*Índice Geral de Preços Mercado*), calculated by the Getulio Vargas Foundation;

IpiLubs are to Ipiranga Lubrificantes S.A., a company that was merged into CBLSA in November 2018;

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

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

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

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

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

IQVIA , are to the merger of Quintiles and IMS Health, Inc.;

IRS are to U.S. Internal Revenue Service;

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

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

Liquigás are to Liquigás Distribuidora S.A.;

LPG are to liquefied petroleum gas;

LPG International are to LPG International Inc.;

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

NAFTA are to North American Free Trade Agreement, formed by the United States, Canada and Mexico. A revised version of NAFTA has been agreed to by all three countries for approval under a new name, the United States Mexico Canada Agreement, or USMCA, and is awaiting legislative approval before it comes into force;

Novo Mercado are to *Novo Mercado* listing segment of B3;

NYSE are to the New York Stock Exchange;

Oleoquímica are to Oleoquímica Indústria e Comércio de Produtos Químicos Ltda.;

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

Oxitenos Andina are to the business of Oxitenos carried out in Venezuela;

Oxitenos Mexico are to the business of Oxitenos carried out in Mexico;

Oxitenos Nordeste are to Oxitenos Nordeste S.A. Indústria e Comércio;

Oxitenos Uruguay are to the business of Oxitenos carried out in Uruguay;

Oxitenos USA are to the business of Oxitenos carried out in the United States;

Parth are to Parth do Brasil Participações Ltda., an investment company controlled by Mrs. Daisy Igel's family and owner of 8% of Ultrapar's capital stock;

Petrobras are to Petrobras - Petróleo Brasileiro S.A.;

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

PFIC are to passive foreign investment company;

PIS and COFINS taxes are to *Programa de Integração Social* (Integration Program Taxes) and *Contribuição para o Financiamento da Seguridade Social* (Contribution for the Financing of Social Security Taxes), respectively;

Plural, formerly Sindicom, are to the Brazilian association of fuel distributors;

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

Repsol are to Repsol Gás Brasil S.A., a company that was acquired by Ultragas in October 2011 and was merged into Cia. Ultragas in December 2012;

RPR are to Refinaria de Petróleo Riograndense S.A. (formerly Refinaria de Petróleo Ipiranga S.A.), a joint-venture owned by Petrobras, Braskem and Ultrapar;

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

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

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

Selic are to the Brazilian base interest rate;

Serma are to *Associação dos Usuários de Equipamentos de Processamento de Dados e Serviços Correlatos*, our wholly owned company, responsible for providing IT services to Ultrapar and its subsidiaries;

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

Sindicás are to the Brazilian association of LPG distributors;

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Sindusfarma are to *Sindicato da Indústria de Produtos Farmacêuticos no Estado de São Paulo*, the Brazilian association of the industry of pharmaceutical products in the state of São Paulo;

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

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

SUDENE are to Superintendência do Desenvolvimento do Nordeste, the development agency of the Northeast of Brazil;

TEAS are to TEAS Terminal Exportador de Álcool de Santos Ltda., a company acquired by Ultracargo in March 2018;

Temmar are to Terminal Marítimo do Maranhão S.A., a company that was acquired by Ultracargo in August 2012 and was merged into Tequimar in December 2013;

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

Texaco are to the Texaco-branded fuels marketing business in Brazil, previously carried-out by CBL and Galena, companies that were acquired by Ipiranga in March 2009;

Tropical are to Tropical Transportes Ipiranga Ltda.;

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

Ultra S.A. are to Ultra S.A. Participações, a holding company owned by members of the founding family and senior management of Ultrapar. Ultra S.A. is the largest shareholder of Ultrapar, holding 22% of its total capital stock;

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

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

Ultrapar International are to Ultrapar International S.A.;

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

União Vopak are to União Vopak Armazéns Gerais Ltda., a joint venture in which Ultracargo has a 50% stake;

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

U.S. Holder has the meaning given in Item 10. Additional Information E. Taxation U.S. Federal Income Tax Considerations ;

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

2018 Shareholders Agreement has the meaning given in Item 4.A. Information on the Company History and Development of the Company , Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Material Contracts.

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

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PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial statements included in Items 17 and 18 were prepared in accordance with IFRS as issued by the IASB and include our consolidated Statements of Financial Position, as of December 31, 2018 and 2017 and the related Statements of Profit or Loss, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, as well as notes thereto.

The following standards became effective on January 1, 2018.

IFRS 9 Financial instrument classification and measurement that includes new requirements for the classification and measurement of financial assets and liabilities, derecognition requirements, new impairment methodology for financial instruments, and new hedge accounting guidance.

IFRS 15 Revenue from contracts with customers, which establishes the principles of nature, amount, timing and uncertainty of revenue and cash flow arising from a contract with a customer.

These adoptions impacted our consolidated financial statements. Thus, the information for the years ended December 31, 2017 and 2016, presented in this annual report, has been retrospectively restated to reflect the changes resulting from the adoption of IFRS 9 and 15 as the Company adopted the full retrospective method. For further information about the adoption of these standards with respect to our Statements of Financial Position as of December 31, 2017 and January 1, 2017 and Statements of Profit or Loss and Statements of Cash Flows for the years ended December 2017 and 2016 see Note 2.x of our audited consolidated financial statements. For the years ended December 31, 2015 and 2014, presented in this annual report, the information was the same as previously reported in the respective years, without retrospective restatement.

The financial information presented in this annual report should be read in conjunction with our consolidated financial statements.

On April 11, 2019 the exchange rate for *Reais* into U.S. dollars was R\$3.840 to US\$1.00, based on the commercial selling rate as reported by the Central Bank. The commercial selling rate was R\$3.875 to US\$1.00 on December 31, 2018, R\$3.308 to US\$1.00 on December 31, 2017, and R\$3.259 to US\$1.00 on December 31, 2016. The *Real*/dollar exchange rate fluctuates widely, and the current commercial selling rate may not be indicative of future exchange rates. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates for information regarding exchange rates for the Brazilian currency. Solely for the convenience of the reader, we have translated some amounts included in Item 3.A. Key Information Selected Consolidated Financial Data and elsewhere in this annual report from *Reais* into U.S. dollars using the commercial selling rate as reported by the Central Bank at December 31, 2018 of R\$3.875 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *Real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Segment information for our businesses is presented on an unconsolidated basis. See Note 32 to our consolidated financial statements for further information on segment information. Consequently, intercompany transactions have not been eliminated in segment information, and such information may differ from consolidated financial information provided elsewhere in this annual report. See Item 7.B. Major Shareholders and Related Party Transactions Related Party Transactions for more information on intercompany transactions.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables and charts may not be an arithmetic aggregation of the figures that precede them.

Market share and economic information

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

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FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act subject to risks and uncertainties, including our estimates, plans, forecasts and expectations regarding future events, strategies and projections. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or revise any forward-looking statements after we distribute this annual report because of new information, future events and other factors. Words such as believe , expect , may , will , plan , strategy , p foresee , estimate , project , anticipate , can , intend and similar words are intended to identify forward-looking statements. We have made forward-looking statements with respect to, among other things, our:

strategy for marketing and operational expansion;

capital expenditures forecasts; and

development of additional sources of revenue.

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

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

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

competition;

ability to produce and deliver products on a timely basis;

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

changes in official regulations;

receipt of official authorizations and licenses;

political, economic and social events in Brazil and the other countries in which we have operations;

access to sources of financing and our level of indebtedness;

ability to integrate acquisitions;

regulatory issues relating to acquisitions;

instability and volatility in the financial markets;

availability of tax benefits; and

other factors contained in this annual report under Item 3.D. Key Information Risk Factors.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

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We have selected the following consolidated financial data from our audited consolidated financial statements, for the periods indicated. You should read our selected consolidated financial data in conjunction with Item 5. Operating and Financial Review and Prospects and our audited consolidated financial statements and notes thereto included in this annual report. Our consolidated financial statements are prepared in *Reais* and in accordance with IFRS. The consolidated Statements of Financial Position as of December 31, 2018 and 2017 and January 1, 2017 and the Statements of Profit or Loss and Statements of Cash Flows as of and for the years ended December 31, 2018, 2017 and 2016 are derived from our audited consolidated financial statements included in this annual report. For the years ended December 31, 2015 and 2014, the information is derived from our audited consolidated financial statements as previously reported in the respective years, without retrospective restatement. See Presentation of Financial Information and Item 5.A. Operating and Financial Review and Prospects Operating Results Critical accounting policies. The following table presents our selected financial information in accordance with IFRS at the dates and for each of the periods indicated.

	Years Ended December 31,					
	2018 ⁽¹⁾	2018	2017	2016	2015	2014
			Restated ⁽²⁾		As previously reported ⁽²⁾	
	(in millions, except per share data)					
Statements of Profit or Loss data:	US\$	R\$	R\$	R\$	R\$	R\$
Net revenue from sales and services	23,407.1	90,698.0	79,230.0	76,740.0	75,655.3	67,736.3
Cost of products and services sold	(21,817.2)	(84,537.4)	(72,431.5)	(70,196.9)	(68,933.7)	(62,304.6)
Gross profit	1,589.9	6,160.6	6,798.5	6,543.1	6,721.6	5,431.7
Operating income (expenses)						
Selling and marketing	(689.3)	(2,670.9)	(2,486.4)	(2,220.2)	(2,516.6)	(2,158.7)
General and administrative	(419.6)	(1,625.8)	(1,576.5)	(1,445.9)	(1,321.3)	(1,130.3)
Gain (loss) on disposal of property, plant and equipment and intangibles	(5.7)	(22.1)	(2.2)	(6.1)	27.3	37.0
Other operating income, net	14.8	57.5	59.4	199.0	50.6	106.9
Financial result, net	(29.3)	(113.5)	(474.3)	(842.6)	(703.3)	(445.4)
Share of profit (loss) of joint-ventures and associates	(3.8)	(14.8)	20.7	7.5	(10.9)	(16.5)
Income before income and social contribution taxes	457.1	1,771.0	2,339.1	2,234.8	2,247.3	1,824.7
Income and social contribution taxes						
Current	(122.9)	(476.3)	(922.5)	(800.5)	(719.5)	(551.7)
Deferred	(41.9)	(162.4)	109.2	112.5	(14.8)	(21.7)
	(164.8)	(638.7)	(813.3)	(688.0)	(734.3)	(573.5)
Net income for the year	292.2	1,132.3	1,525.9	1,546.8	1,513.0	1,251.2

Net income for the year attributable to:						
Shareholders of the Company	296.9	1,150.4	1,526.5	1,537.8	1,503.5	1,241.6
Non-controlling interests in subsidiaries	(4.7)	(18.1)	(0.6)	9.0	9.5	9.7
Earnings per share ⁽³⁾						
Basic	0.28	1.06	1.41	1.42	1.38	1.14
Diluted	0.27	1.05	1.40	1.41	1.37	1.13
Dividends per share ⁽⁴⁾						
	0.33	1.26	1.75	1.67	1.60	1.42

- (1) The figures in *Reais* for December 31, 2018 have been converted into U.S. dollars using the exchange rate of US\$1.00 = R\$3.8748, which is the commercial rate reported by the Central Bank on that date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this annual report as a statement that the amounts in *Reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *Reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates.
- (2) See Presentation of Financial Information.
- (3) Earnings per share are calculated based on the net income attributable to Ultrapar's shareholders and the weighted average shares outstanding during each of the years presented. The earnings per share was adjusted retrospectively due to the approval of the stock split on April 10, 2019. See Item 4.A. Information on the Company History and Development of the Company Recent Development and Notes 31 and 35 to our consolidated financial statements for further information on earnings per share.
- (4) Dividends per share does not consider the approval of the stock split on April 10, 2019, which is scheduled to become effective on April 24, 2019.

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The following table presents other financial data information at the dates and for each of the periods indicated.

	Years Ended December 31,					
	2018 ⁽¹⁾	2018	2017	2016	2015	2014
	US\$	R\$	R\$	R\$	R\$	As previously reported ⁽²⁾
Other financial data	Restated⁽²⁾					
	(in millions, except per share data)					
	US\$	R\$	R\$	R\$	R\$	R\$
Net cash provided by operating activities	745.6	2,889.0	1,739.0	1,988.9	3,201.7	2,650.7
Net cash used in investing activities	(820.1)	(3,177.6)	(1,371.8)	(1,324.0)	(801.8)	(1,540.2)
Net cash provided by (used in) financing activities	(206.7)	(801.0)	340.3	928.4	(2,520.7)	(539.3)
Depreciation and amortization ⁽³⁾	209.7	812.5	704.5	628.2	1,002.6	887.8
Amortization of contractual assets with customers – exclusive rights (Ipiranga) ⁽⁴⁾	96.0	371.8	463.0	463.5		
Adjusted EBITDA⁽⁵⁾	792.0	3,068.9	3,981.0	4,169.0	3,953.3	3,157.9
Net debt ⁽⁶⁾	(2,119.3)	(8,211.7)	(7,220.7)	(5,715.3)	(4,928.4)	(3,975.1)
Number of common shares (in thousands) ⁽⁷⁾	556,405.1	556,405.1	556,405.1	556,405.1	556,405.1	556,405.1

(1) The figures in *Reais* for December 31, 2018 have been converted into U.S. dollars using the exchange rate of US\$1.00 = R\$3.8748, which is the commercial rate reported by the Central Bank on that date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this annual report as a statement that the amounts in *Reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *Reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates.

(2) See Presentation of Financial Information.

(3) Represents depreciation and amortization expenses included in cost of products and services sold and in selling, marketing, general and administrative expenses.

(4) Represents amortization of contractual assets with customers – exclusive rights (Ipiranga) included in revenues reduction as a consequence of adoption of IFRS 15. See Presentation of Financial Information. In 2015 and 2014, the amortization of contractual assets with customers – exclusive rights (Ipiranga) was classified as amortization from intangible assets. See Note 2.a, 2.f and 11 to our consolidated financial statements for further information.

(5) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and Adjusted EBITDA (adjusted for amortization of contractual assets with customers – exclusive rights) are presented in this annual report in accordance with ICVM 527/12. The purpose of including EBITDA and Adjusted EBITDA information is to provide a measure used by management for internal assessment of our operating results, and because part of our employee profit sharing plan is linked directly or indirectly to EBITDA and Adjusted EBITDA performance. It is also a financial indicator widely used by investors and analysts to measure our ability to generate cash from operations and our operating performance. We also calculate EBITDA and Adjusted EBITDA in connection with covenants related to some of our financing, as described in Note 15 to our consolidated financial statements. We believe

EBITDA and Adjusted EBITDA allow a better understanding not only of our financial performance but also of our capacity of meeting the payment of interest and principal from our debt and of obtaining resources for our investments and working capital. Our definition of EBITDA and Adjusted EBITDA may differ from, and, therefore, may not be comparable with similarly titled measures used by other companies, thereby limiting its usefulness as a comparative measure. Because EBITDA and Adjusted EBITDA exclude net financial expense (income), income and social contribution taxes, depreciation and amortization (and, in the case of Adjusted EBITDA, also excludes amortization of contractual assets with customers' exclusive rights), they provide an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or changes in income and social contribution taxes, depreciation and amortization. EBITDA and Adjusted EBITDA are not measures of financial performance under IFRS and should not be considered in isolation, or as substitutes for net income, as measures of operating performance, as substitutes for cash flows from operations or as measures of liquidity. EBITDA and Adjusted EBITDA have material limitations that impair their value as a measure of a company's overall profitability since they do not address certain ongoing costs of our business that could significantly affect profitability such as financial expense (income), income and social contribution taxes, depreciation and amortization, (and in the case of Adjusted EBITDA, also excludes amortization of contractual assets with customers' exclusive rights).

- (6) Net debt is included in this annual report in order to provide the reader with information relating to our overall indebtedness and financial position. Net debt is not a measure of financial performance or liquidity under IFRS. In managing our businesses, we rely on net debt as a means of assessing our financial condition. We believe that this type of measurement is useful for comparing our financial condition from period to period and making related management decisions. Net debt is also used in connection with covenants related to some of our financings.
- (7) The number of shares corresponds to the all of shares issued by the Company, including those held in treasury and does not consider the approval of the stock split on April 10, 2019, which is scheduled to become effective on April 24, 2019.

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The tables below provide a reconciliation of net income and operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates to EBITDA and Adjusted EBITDA for Ultrapar and a reconciliation of operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates to Adjusted EBITDA for Ipiranga and to EBITDA for Ultragaz, Oxiteno, Ultracargo and Extrafarma for the years ended December 31, 2018, 2017, 2016, 2015 and 2014.

Ultrapar					
Reconciliation of net income to EBITDA and Adjusted EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014	
		Restated⁽¹⁾		As previously reported⁽¹⁾	
(in millions of Reais)					
Net income	1,132.3	1,525.9	1,546.8	1,513.0	1,251.2
Net financial expenses	113.5	474.3	842.6	703.3	445.4
Income and social contribution taxes	638.7	813.3	688.0	734.3	573.5
Depreciation and amortization	812.5	704.5	628.2	1,002.6	887.8
EBITDA⁽²⁾	2,697.1	3,518.0	3,705.5	3,953.3	3,157.9
Adjustment					
Amortization of contractual assets with customers exclusive rights (Ipiranga)	371.8	463.0	463.5		
Adjusted EBITDA⁽²⁾	3,068.9	3,981.0	4,169.0	3,953.3	3,157.9

Ultrapar					
Reconciliation of operating income to Adjusted EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014	
		Restated⁽¹⁾		As previously reported⁽¹⁾	
(in millions of Reais)					
Operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates	1,899.4	2,792.7	3,069.9	2,961.5	2,286.6
Depreciation and amortization	812.5	704.5	628.2	1,002.6	887.8
Share of profit (loss) of joint-ventures and associates	(14.8)	20.7	7.5	(10.9)	(16.5)
EBITDA⁽²⁾	2,697.1	3,518.0	3,705.5	3,953.3	3,157.9
Adjustment					
	371.8	463.0	463.5		

Amortization of contractual assets with
customers exclusive rights (Ipiranga)

Adjusted EBITDA⁽²⁾	3,068.9	3,981.0	4,169.0	3,953.3	3,157.9
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	Ultragaz				
	Reconciliation of operating income to EBITDA				
	Years ended December 31,				
	2018	2017	2016	2015	2014
		Restated⁽¹⁾		As previously	reported⁽¹⁾
		(in millions of Reais)			
Operating income before financial income (expenses) and share of profit (loss) of associates	35.6	255.9	267.3	213.9	169.0
Depreciation and amortization	222.5	182.8	158.2	143.2	136.4
Share of profit (loss) of associates	0.0	1.2	(0.0)	(0.1)	0.2
EBITDA⁽²⁾	258.1	440.0	425.4	357.0	305.5

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Oxitenó					
Reconciliation of operating income to EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014	
			As previously reported⁽¹⁾		
		Restated⁽¹⁾			
		(in millions of Reais)			
Operating income before financial income (expenses) and share of profit (loss) of associates	457.1	141.4	311.5	579.5	264.2
Depreciation and amortization	167.4	153.1	149.7	158.3	138.5
Share of profit (loss) of associates	0.9	1.4	1.0	2.0	1.0
EBITDA⁽²⁾	625.4	295.9	462.2	739.8	403.7

Ultracargo					
Reconciliation of operating income to EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014	
			As previously reported⁽¹⁾		
		Restated⁽¹⁾			
		(in millions of Reais)			
Operating income (expenses) before financial income (expenses) and share of profit (loss) of joint-ventures and associates	124.7	75.0	127.7	(16.1)	117.3
Depreciation and amortization	52.4	47.7	43.4	41.7	49.4
Share of profit (loss) of joint-ventures and associates	1.3	1.6	(0.0)	0.7	0.2
EBITDA⁽²⁾	178.5	124.3	171.1	26.3	166.9

Ipiranga					
Reconciliation of operating income to Adjusted EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014	
			As previously reported⁽¹⁾		
		Restated⁽¹⁾			
		(in millions of Reais)			
Operating income before financial income (expenses) and share of profit (loss) of associates	1,396.6	2,357.1	2,364.0	2,154.6	1,758.1
Depreciation and amortization	283.4	245.4	220.3	612.7	529.0
Share of profit (loss) of associates	0.6	1.2	1.2	1.5	1.0
EBITDA⁽²⁾⁽³⁾	1,680.6	2,603.8	2,585.5	2,768.8	2,288.0

Adjustment					
Amortization of contractual assets with customers exclusive rights	371.8	463.0	463.5		
Adjusted EBITDA⁽²⁾⁽³⁾	2,052.4	3,066.8	3,049.0	2,768.8	2,288.0

Extrafarma					
Reconciliation of operating income to EBITDA					
Years ended December 31,					
2018	2017	2016	2015	2014⁽⁴⁾	
	Restated⁽¹⁾			As previously reported⁽¹⁾	
	(in millions of Reais)				
Operating income (expenses) before financial income (expenses)	(118.3)	(37.7)	(3.8)	5.0	16.9
Depreciation and amortization	71.6	60.8	42.7	23.7	12.8
EBITDA⁽²⁾	(46.8)	23.1	38.8	28.7	29.8

(1) See Presentation of Financial Information.

(2) See footnote 5 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of EBITDA and Adjusted EBITDA and its reconciliation to information in our financial statements.

(3) EBITDA and Adjusted EBITDA for Ipiranga do not include losses related to ConectCar in the amount of R\$18.7 million, R\$21.0 million, R\$24.4 million, R\$23.2 million and R\$18.7 million in 2018, 2017, 2016, 2015 and 2014, respectively.

(4) Reflects results of operations for the 11-month period from February 1, 2014, the date on which Extrafarma's results of operations were consolidated into our financial statements, through December 31, 2014. For additional information, see Presentation of Financial Information.

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The reconciliation of Adjusted EBITDA to cash flows from operating activities for the years ending December 31, 2018, 2017, 2016, 2015 and 2014 is presented in the table below:

	2018	2017	2016	2015	2014
		Restated ⁽¹⁾		As previously reported ⁽¹⁾	
	(in millions of Reais)				
Net income for the year	1,132.3	1,525.9	1,546.8	1,513.0	1,251.2
Adjustments to reconcile net income to Adjusted EBITDA:					
Depreciation and amortization	812.5	704.5	628.2	1,002.6	887.8
Amortization of contractual assets with customers exclusive rights	371.8	463.0	463.5		
Financial result, net	113.5	474.3	842.6	703.3	445.4
Income and social contribution taxes	638.7	813.3	688.0	734.3	573.5
Adjusted EBITDA⁽²⁾	3,068.9	3,981.0	4,169.0	3,953.3	3,157.9
Adjustments to reconcile Adjusted EBITDA to cash provided by operating activities:					
Financial result that affected the cash flow from operating activities	913.0	380.4	(78.8)	879.2	519.4
Current income and social contribution taxes	(476.3)	(922.5)	(800.5)	(719.5)	(551.7)
PIS and COFINS credits on depreciation	15.7	13.1	12.6	12.1	12.7
Assets retirement obligation				(3.9)	(4.0)
Others	109.3	129.0	85.9	0.3	(14.5)
(Increase) decrease in current assets					
Trade receivables and reseller financing	(355.9)	(725.2)	(372.9)	(615.4)	(212.3)
Inventories	168.7	(606.5)	(267.5)	(615.4)	(184.3)
Recoverable taxes	(11.5)	(334.2)	87.0	(60.1)	(106.8)
Dividends received from subsidiaries and joint-ventures	42.4	29.4	7.9		
Insurance and other receivables	(14.5)	358.7	(309.7)	13.6	(8.2)
Prepaid expenses	(37.5)	(23.0)	(40.0)	(14.2)	8.1
Increase (decrease) in current liabilities					
Trade payables	576.2	412.4	249.1	181.0	192.1
Salaries and related charges	40.1	7.1	(41.6)	109.7	(19.6)
Taxes payable	46.5	33.1	4.0	30.0	19.1
Income and social contribution taxes	166.5	783.7	567.3	504.5	437.1
Post-employment benefits	15.6	5.1	11.2		(0.5)
Provision for tax, civil and labor risks	13.3	11.9	7.4	(18.8)	(5.1)
Insurance and other payables	(59.2)	(49.4)	54.0	29.2	(21.0)
Deferred revenue	8.2	(3.9)	(2.1)	1.0	0.6
(Increase) decrease in non-current assets					
Trade receivables and reseller financing	(99.6)	(102.9)	(74.8)	(8.4)	(19.3)
Recoverable taxes	(539.5)	(130.2)	(47.2)	(60.0)	(38.0)

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Escrow deposits	(58.8)	(39.8)	(37.9)	(44.0)	(80.6)
Other receivables	6.4	(4.4)	13.8	(10.7)	0.8
Prepaid expenses	(58.7)	(116.7)	(65.8)	(15.4)	0.5
Increase (decrease) in non-current liabilities					
Post-employment benefits	(8.5)	(0.8)	(7.7)	10.9	9.5
Provision for tax, civil and labor risks	11.8	(68.2)	42.4	61.4	(12.0)
Other payables	(4.4)	88.0	(19.3)	20.1	(10.8)
Deferred revenue	(1.0)	0.4	1.5	3.3	(1.4)
Payments of contractual assets with customers exclusive rights	(390.2)	(529.7)	(514.3)		
Income and social contribution taxes paid	(197.9)	(836.8)	(644.2)	(422.0)	(416.6)
Net cash provided by operating activities	2,889.0	1,739.0	1,988.9	3,201.7	2,650.7

(1) See Presentation of Financial Information.

(2) See footnote 5 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of EBITDA and Adjusted EBITDA and its reconciliation to information in our financial statements.

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The table below provides a reconciliation of our consolidated balance sheet data to the net debt positions shown in the table:

Ultrapar					
Reconciliation of consolidated statements of financial position to net debt					
As of December 31,					
2018	2017	2016	2015	2014	
	Restated⁽¹⁾		As previously reported⁽¹⁾		
(in millions of Reais)					
Current loans and hedging instruments and finance leases	(2,010.3)	(1,822.5)	(1,824.0)	(1,050.5)	(2,557.5)
Current debentures	(263.7)	(1,681.2)	(651.6)	(47.4)	(884.9)
Non-current loans and hedging instruments and finance leases	(6,530.6)	(6,159.4)	(6,846.2)	(5,604.9)	(3,533.9)
Non-current debentures	(6,401.5)	(3,927.6)	(2,095.3)	(2,198.8)	(1,399.0)
Gross debt position	(15,206.1)	(13,590.6)	(11,417.1)	(8,901.6)	(8,375.2)
Cash and cash equivalents	3,939.0	5,002.0	4,274.2	2,702.9	2,827.4
Current financial investments	2,853.1	1,283.5	1,412.6	803.3	1,441.8
Non-current financial investments	202.3	84.4	15.1	467.0	130.9
Net debt	(8,211.7)	(7,220.7)	(5,715.3)	(4,928.4)	(3,975.1)

⁽¹⁾ See Presentation of Financial Information.

The following tables present our consolidated statements of financial position in accordance with IFRS as of the dates indicated.

	As of December 31,					
	2018⁽¹⁾	2018	2017	2016	2015	2014
			Restated⁽²⁾		As previously reported⁽²⁾	
(in millions)						
Consolidated Statements of Financial Position Data:						
	US\$	R\$	R\$	R\$	R\$	R\$
Current assets						
Cash and cash equivalents	1,016.6	3,939.0	5,002.0	4,274.2	2,702.9	2,827.4
Financial investments and hedging instruments	736.3	2,853.1	1,283.5	1,412.6	803.3	1,441.8
Trade receivables	1,050.2	4,069.3	3,861.3	3,177.1	3,167.2	2,604.1
Reseller financing	94.8	367.3	286.6	211.1		
Inventories	865.7	3,354.5	3,513.7	2,781.4	2,495.2	1,925.0

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Recoverable taxes	165.1	639.7	665.0	382.4	628.8	593.5
Recoverable income and social contribution taxes	66.4	257.2	216.6	159.4		
Other receivables	15.4	59.6	55.2	395.9	32.5	43.3
Prepaid expenses	48.4	187.6	150.0	123.9	81.5	67.3
Contractual assets with customers exclusive rights	125.0	484.5	456.2	448.3		
Total current assets	4,183.9	16,211.7	15,490.1	13,366.1	9,911.4	9,502.4
Non-current assets						
Financial investments and hedging instruments	52.2	202.3	84.4	15.1	467.0	130.9
Trade receivables	21.1	81.6	46.3	49.6	152.2	143.8
Reseller financing	89.9	348.3	283.7	177.5		
Related parties	0.1	0.5	0.5	0.5	0.5	10.9
Deferred income and social contribution taxes	132.7	514.2	614.1	459.6	306.0	311.8
Recoverable taxes, net	192.8	747.2	234.7	146.8	135.4	75.4
Recoverable income and social contribution taxes	27.3	105.6	78.5	35.9		
Escrow deposits	227.5	881.5	822.7	778.8	740.8	696.8
Indemnity asset business combination	50.3	194.7	202.4			
Other receivables	0.4	1.4	7.9	2.7	16.5	5.8
Prepaid expenses	103.0	399.1	346.9	222.5	146.7	131.2
Contractual assets with customers exclusive rights	266.9	1,034.0	1,046.1	989.8		
	1,164.0	4,510.4	3,768.2	2,878.6	1,965.2	1,506.7

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	2018 ⁽¹⁾	2018	As of December 31,		2015	2014
			2017	2016		
			Restated ⁽²⁾ (in millions)			
US\$	R\$	R\$	R\$	R\$	R\$	
Investments						
In joint-ventures	26.3	102.0	122.1	116.1	79.4	54.5
In associates	6.3	24.3	25.3	22.7	21.5	13.1
Other	0.7	2.8	2.8	2.8	2.8	2.8
Property, plant and equipment, net	1,878.5	7,278.9	6,637.8	5,796.4	5,438.9	5,092.0
Intangible assets, net	611.5	2,369.4	2,238.0	1,891.6	3,293.9	3,158.1
	2,523.3	9,777.3	9,026.1	7,829.7	8,836.6	8,320.5
Total non-current assets	3,687.3	14,287.7	12,794.2	10,708.4	10,801.7	9,827.3
TOTAL ASSETS	7,871.2	30,499.4	28,284.3	24,074.5	20,713.1	19,329.6

	2018 ⁽¹⁾	2018	As of December 31,		2015	2014
			2017	2016		
			Restated ⁽²⁾ (in millions)			
US\$	R\$	R\$	R\$	R\$	R\$	
Consolidated Statements of Financial Position Data:						
Current liabilities						
Loans and hedging instruments	518.1	2,007.4	1,819.8	1,821.4	1,048.1	2,554.7
Debentures	68.1	263.7	1,681.2	651.6	47.4	884.9
Finance leases	0.7	2.8	2.7	2.6	2.4	2.7
Trade payables	705.0	2,731.7	2,155.5	1,709.7	1,460.5	1,279.5
Salaries and related charges	110.5	428.2	388.1	362.7	404.3	294.6
Taxes payable	69.2	268.0	221.5	168.4	168.8	138.8
Dividends payable	73.3	284.0	338.8	320.9	298.8	218.4
Income and social contribution taxes payable	14.3	55.5	86.8	140.0	216.9	134.4
Post-employment benefits	11.8	45.7	30.1	24.9	13.7	11.4
Provision for asset retirement obligation	1.1	4.4	4.8	4.6	5.2	4.6
Provision for tax, civil and labor risks	20.1	77.8	64.6	52.7	45.3	64.2
Other payables	36.4	141.0	197.4	202.6	97.5	80.4
Deferred revenue	6.9	26.6	18.4	22.3	24.4	23.5
Total current liabilities	1,635.4	6,336.8	7,009.7	5,484.3	3,833.4	5,692.1
Non-current liabilities						
Loans and hedging instruments	1,674.3	6,487.4	6,113.5	6,800.1	5,561.4	3,489.6
Debentures	1,652.1	6,401.5	3,927.6	2,095.3	2,198.8	1,399.0
Finance leases	11.2	43.2	45.8	46.1	43.5	44.3

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Related parties	1.1	4.1	4.2	4.3	4.4	4.4
Deferred income and social contribution taxes	2.4	9.3	83.6	7.6	13.0	2.1
Provision for tax, civil and labor risks	223.3	865.2	861.2	727.1	684.7	623.3
Post-employment benefits	52.7	204.2	207.5	119.8	112.8	108.4
Provision for assets retirement obligation	13.0	50.3	60.0	73.0	69.5	66.2
Subscription warrants indemnification	31.8	123.1	171.5	153.4	112.2	92.1
Other payables	41.9	162.4	162.8	74.9	94.1	74.0
Deferred revenue	3.1	11.9	12.9	12.5	11.0	7.7
Total non-current liabilities	3,706.7	14,362.6	11,650.6	10,114.2	8,905.5	5,910.9
TOTAL LIABILITIES	5,342.0	20,699.4	18,660.3	15,598.5	12,738.9	11,603.0

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	2018 ⁽¹⁾	2018	As of December 31,		2015	2014	
			2017	2016			As previously reported ⁽²⁾
			Restated ⁽²⁾ (in millions)				
US\$	R\$	R\$	R\$	R\$	R\$		
Equity							
Share capital	1,334.7	5,171.8	5,171.8	3,838.7	3,838.7	3,838.7	
Equity instrument granted	1.1	4.3	0.5				
Capital reserve	140.0	542.4	549.8	552.0	546.6	547.5	
Treasury shares	(125.3)	(485.4)	(482.3)	(483.9)	(490.9)	(103.0)	
Revaluation reserve on subsidiaries	1.2	4.7	4.9	5.3	5.6	5.8	
Profit reserves	1,057.9	4,099.1	3,629.9	4,384.0	3,802.0	3,169.7	
Additional dividends to the minimum mandatory dividends	28.2	109.4	163.7	165.5	157.2	189.0	
Valuation adjustments	(16.5)	(64.0)	154.8	(24.0)	19.0	7.1	
Cumulative translation adjustments	17.0	65.9	53.1	7.5	66.9	43.2	
Equity attributable to:							
Shareholders of the Company	2,438.3	9,448.1	9,246.2	8,445.2	7,945.0	7,698.0	
Non-controlling interest in subsidiaries	90.8	351.9	377.8	30.9	29.1	28.6	
TOTAL EQUITY	2,529.2	9,800.0	9,624.0	8,476.1	7,974.1	7,726.6	
TOTAL LIABILITIES AND EQUITY	7,871.2	30,499.4	28,284.3	24,074.5	20,713.1	19,329.6	

(1) The figures in *Reais* for December 31, 2018 have been converted into dollars using the exchange rate of US\$1.00 = R\$3.8748, which is the commercial rate reported by the Central Bank on that date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this annual report as a statement that the amounts in *Reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *Reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates.

(2) See Presentation of Financial Information.

Exchange Rates

In 2014, despite the weak performance of the Brazilian economy, and the recovery of the North American economy, the *Real* remained relatively stable against the dollar until September, when it started to devalue, closing the year with a depreciation of 13% against the U.S. dollar. In 2015, the political instability, the downgrade of Brazil's sovereign credit rating and the expectation for an interest rate rise by the Federal Reserve System contributed to a 47% depreciation of the *Real* against the U.S. dollar. In 2016, the *Real* appreciated 17% against the U.S. dollar, marking the first year that it has appreciated against the U.S. dollar since 2011, despite residual political instability and continuing signs that the Brazilian economy was shrinking. This was due mostly to improvements in the Brazilian political environment, following the impeachment of former president Dilma Rousseff and certain stabilizing measures proposed by former President Michel Temer as well as ongoing efforts by the government's economic team to curb public spending and debt. In 2017, the *Real* depreciated 2% against the U.S. dollar, reflecting the continued political instability and diminished expectations of the pension reform despite a slight improvement in the Brazilian

economic scenario. In 2018, the *Real* depreciated 17%, pressured mainly by the global instability, result of economic crises in developed countries, and the increase of interest rates by the Federal Reserve System. The domestic scenario, characterized by political instability due to the presidential elections and the slow progress of fiscal and pension reforms, also influenced the *Real* depreciation during the year.

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

On April 11, 2019, the exchange rate for *Reals* into U.S. dollars was R\$3.840 to US\$1.00, based on the commercial selling rate as reported by the Central Bank. The average *Real*-U.S. dollar of the monthly exchange rate in 2018 was R\$3.654 per US\$1.00 compared with R\$3.192 per US\$1.00 in 2017, a depreciation of 14%. The following table sets forth information on prevailing commercial foreign exchange selling rates for the periods indicated, as published by the Central Bank on its electronic information system, SISBACEN, using PTAX 800, Option 5.

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Year Ended	Exchange rates of nominal <i>Reais</i> per US\$1.00			
	High	Low	Average	Period-Ended
December 31, 2014	2.740	2.197	2.360 ⁽¹⁾	2.656
December 31, 2015	4.195	2.575	3.388 ⁽¹⁾	3.905
December 31, 2016	4.156	3.119	3.450 ⁽¹⁾	3.259
December 31, 2017	3.381	3.051	3.203 ⁽¹⁾	3.308
December 31, 2018	4.188	3.139	3.680 ⁽¹⁾	3.875
Month Ended				
November 30, 2018	3.893	3.697	3.795 ⁽²⁾	3.863
December 31, 2018	3.933	3.829	3.881 ⁽²⁾	3.875
January 31, 2019	3.860	3.652	3.756 ⁽²⁾	3.652
February 28, 2019	3.776	3.669	3.723 ⁽²⁾	3.739
March 31, 2019	3.968	3.776	3.872 ⁽²⁾	3.897
April 11, 2019	3.871	3.835	3.853 ⁽²⁾	3.840

(1) Average of the foreign exchange rates on the last day of each month in the period.

(2) Average of the high and low foreign exchange rates for each month.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

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

Risks Relating to Ultrapar and Its Industries

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

Prior to 1995, Petrobras held a constitutional monopoly for the production and importation of petroleum products in Brazil. Although this monopoly was removed from the Brazilian constitution, Petrobras effectively remains the main

provider of LPG and oil-based fuels in Brazil. Currently, Ultragas and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragas's net revenue from sales and services represented 8% of our consolidated net revenue from sales and services for the year ended December 31, 2018. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors including Ultragas. For more details, see Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Supply of LPG.

With respect to fuel distribution, Petrobras also supplied the majority of Ipiranga and other distributors' oil-based fuel requirements in 2018. Petrobras' supply to Ipiranga is governed by an annual contract, under which the supply volume is established based on the volume purchased in the previous year. Ipiranga's net revenue from sales and services represented 84% of our consolidated net revenue from sales and services for the year ended December 31, 2018.

The last significant interruption in the supply of oil derivatives by Petrobras to LPG and fuel distributors occurred during 1995 due to a 15-day strike by Petrobras employees. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview and Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview.

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Significant interruptions of LPG and oil-based fuel supply from Petrobras may occur in the future. Any interruption in the supply of LPG or oil-based fuels from Petrobras would immediately affect Ultragas or Ipiranga's respective ability to provide LPG or oil-based fuels to its customers. If we are not able to obtain an adequate supply of LPG or oil-based fuels from Petrobras under acceptable terms, we may seek to meet our demands through LPG or oil-based fuels purchased in the international market. The logistics infrastructure for LPG and oil-based fuel imports in Brazil is limited and is substantially all controlled by Petrobras. Any such interruption could increase our purchase costs and reduce our sales volume, consequently, adversely affecting our operating margins.

Petrobras is currently under investigation by the CVM, the Brazilian Federal Police and other Brazilian public authorities in connection with corruption allegations (so called *Lava Jato* investigations) consisting, among other things, of illegal payments made to officers, directors and other employees of Petrobras to influence commercial decisions. Petrobras was under investigation by the SEC and the US Department of Justice and announced a settlement of those investigations in September 2018. In addition, Petrobras was previously subject to a class action in the United States, which was also settled in 2018. Such investigations and litigation have had a destabilizing effect on Petrobras, and it is difficult to ascertain what further impact such matters will have on Petrobras' supply of LPG and oil-based fuels to market players.

In addition, Petrobras has made several changes to the composition of its management team and has undertaken a long-term divestment plan that may change the structure and long-term outlook of the fuel market. We cannot predict the outcome that the *Lava Jato* investigations will have on the fuel market and, specifically, on the availability of, and our ability to access, the LPG and oil-based fuel supply from Petrobras.

Intense competition is generally inherent to distribution markets, including the LPG, the fuel distribution and the retail pharmacy markets and may affect our operating margins.

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

The Brazilian fuel distribution market is highly competitive in both retail and wholesale segments. Petrobras, our supplier of oil-derivative products, and other major companies with significant resources participate in the Brazilian fuel distribution market. Intense competition in the fuel distribution market could lead to lower sales volumes and increased marketing expenses, which may have a material adverse effect on our operating margins. See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview The role of Petrobras and Item 4.B. Information on the Company Business Overview Fuel Distribution Ipiranga Competition. In addition, a number of small local and regional distributors entered the Brazilian fuel distribution market in the late 1990s, after the market was deregulated, which further increased competition in such market. Moreover, in 2018, some important international players entered the Brazilian fuel distribution market: (i) Glencore Oil Participações Ltda., a Swiss company, through the acquisition of 78% of Alesat; (ii) Total, a French company, through the acquisition of 100% of Zema; (iii) PetroChina, a Chinese company, through the acquisition of 30% of TT Work and (iv) Vitol, a Dutch company, acquired 50% of Rodoil and, subsequently, Rodoil acquired 100% of MegaPetro Petróleo Brasil S.A..

Likewise, the Brazilian drugstore market is highly competitive. Extrafarma competes with national, regional and local drugstore chains, independent drugstores, phone marketing services, direct marketing companies, prescription-only pharmacies, internet purveyors of pharmaceutical and beauty products, and other retailers such as supermarkets, beauty products stores and convenience stores. In addition, new retailers may enter the market and compete with us. Competition in the retail pharmacy market is shaped by a variety of factors, such as location, range of products, advertising, commercial practices, price, quality of services and strength of brand name, among others. If we are unable to anticipate, predict and meet the preferences of our customers, we may lose revenues and market share to our competitors.

Table of Contents***Anticompetitive practices in the fuel distribution sector may distort market prices.***

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

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

LPG and oil-based fuels compete with alternative sources of energy. Competition with and the development of alternative sources of energy in the future may adversely affect the LPG and oil-based fuels market.

LPG competes with alternative sources of energy, such as natural gas, wood, diesel, fuel oil and electricity. Natural gas is currently the principal source of energy that we compete with. Natural gas is currently less expensive than LPG for industrial consumers, but more expensive for most of residential consumers. Changes in relative prices or the development of alternative sources of energy in the future may adversely affect the LPG market and consequently our business, financial results and results of operations. Oil-based fuels also compete with alternative sources of energy, such as electricity. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Competition.

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

All second generation petrochemical producers in Brazil that use ethylene as their key raw material, including Oxiteno, purchase ethylene from Brazilian suppliers. Approximately 3% of our net revenue from sales and services were derived from the sale of chemical products manufactured in Brazil that require ethylene in 2018. Oxiteno purchases ethylene from two of Brazil's three naphtha cracker units, which are the sole sources of ethylene in Brazil. Pursuant to long-term contracts, Braskem is the sole supplier of all ethylene required at our plants located at Camaçari and Mauá. For more detailed information about these contracts see Item 5.F. Operating and Financial Review and Prospects Tabular Disclosure of Contractual Obligations. Given its characteristics, ethylene is difficult and expensive to store and transport, and cannot be easily imported to Brazil. Therefore, Oxiteno is almost totally dependent on ethylene produced by Braskem. For the year ended December 31, 2018, Brazil's ethylene imports totaled 15 tons, representing less than 0.01% of Brazil's installed capacity.

Due to ethylene's chemical characteristics, Oxiteno does not store any quantity of ethylene, and reductions or interruptions in supply from Braskem, Oxiteno's sole supplier of ethylene in Brazil, would have an immediate impact on our production and results of operations. See Item 4.A. Information on the Company History and Development of the Company Investments. If we further expand our production capacity, there is no assurance that we will be able to obtain additional ethylene from Braskem. In addition, Petrobras is the principal supplier of naphtha to crackers in Brazil, and any interruption in the supply of naphtha from Petrobras to the crackers could adversely impact their ability to supply ethylene to Oxiteno.

In addition, Brazilian markets have been experiencing heightened volatility due to the uncertainties derived from the ongoing *Lava Jato* and other corruption investigations, which are being conducted by the Office of the Brazilian Federal Prosecutor, and their impact on the Brazilian economy and political environment. Members of the Brazilian federal government and of the legislative branch, as well as former senior officers of Petrobras, have faced allegations of political corruption. These government officials and senior officers allegedly accepted bribes by means of kickbacks on contracts granted by Petrobras to several infrastructure, oil and gas and construction companies, including Odebrecht S.A., Braskem's controlling shareholder. We cannot currently predict how the investigations and any future decisions and actions by authorities in relation to Braskem's shareholders may impact Braskem or, consequently, Oxiten's supply of ethylene.

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The prices of ethylene and palm kernel oil, Oxiteno's main raw materials, are subject to fluctuations in international markets.

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

Palm kernel oil is one of Oxiteno's main raw materials, used to produce fatty alcohols and its by-products in the oleochemical unit. Oxiteno imports the palm kernel oil from the main producing countries, especially Malaysia and Indonesia, and therefore palm kernel oil prices are subject to the effects of foreign exchange rate variation. Palm kernel oil is a vegetable oil, also commonly used by the food industry. Consequently, palm kernel oil prices are subject to the effects of environmental and climatic variations that affect the palm plantations, fluctuations of harvest periods, economic environment in major producing countries and fluctuations in the demand for its use in the food industry. A significant increase in the price of palm kernel oil combined with foreign exchange rate variations of the *Real* could increase our costs, which could have a material adverse effect on Oxiteno's results of operations.

New natural gas reserves, primarily in North America, may reduce the global prices of natural gas-based ethylene, which could affect Oxiteno's competitiveness with imported petrochemical products.

The ethylene used in the chemical and petrochemical industries can be obtained either from ethane, which is derived from natural gas, or naphtha, which is derived from oil. During the last few years, naphtha-based ethylene has been more expensive than natural gas-based ethylene, as oil prices have been higher than those of natural gas. The discovery of new shale gas reserves in North America and improvements in the technology to extract natural gas from shale gas have intensified the difference between naphtha and natural gas-based ethylene prices. Most of the ethylene produced in Brazil is derived from naphtha. As Oxiteno competes in the Brazilian market largely with imported products, declining feedstock costs of international players could affect the competitiveness of Oxiteno, which could materially affect our results.

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

The international petrochemical market is cyclical by nature, with alternating periods typically characterized by tight supply, increased prices and high margins, or by overcapacity, declining prices and low margins. The decrease in Brazilian import tariffs on petrochemical products, the increase in demand for such products in Brazil, and the ongoing integration of regional and world markets for commodities have contributed to the increasing integration of the Brazilian petrochemical industry into the international petrochemical marketplace. As a consequence, events affecting the petrochemical industry worldwide could have a material adverse effect on our business, financial condition and results of operations.

The reduction in import tariffs on petrochemical products can reduce our competitiveness in relation to imported products.

Final prices paid by importers of petrochemical products include import tariffs. Consequently, import tariffs imposed by the Brazilian government affect the prices we can charge for our products. The Brazilian government's negotiation of commercial and other intergovernmental agreements may result in reductions in the Brazilian import tariffs on petrochemical products, which generally range between 12% and 14%, and may reduce the competitiveness of

Oxiteno's products *vis-à-vis* imported petrochemical products. Additionally, Oxiteno's competitiveness may also be reduced in case of higher import tariffs imposed by countries to which the company exports its products.

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Regulatory, political, economic and social conditions in the countries where we have operations or projects could adversely impact our business and the market price of our securities.

Our financial and operational performance may be negatively affected by regulatory, political, economic and social conditions in countries where we have operations or projects. In some of these jurisdictions, we are exposed to various risks such as potential renegotiation, nullification or forced modification of existing contracts, expropriation or nationalization of property, foreign exchange controls, changes in local laws, regulations and policies, trade controls and tariffs and political instability. We also face the risk of having to submit to the jurisdiction of a foreign court or arbitration panel or having to enforce a judgment against a sovereign nation within its own territory. Furthermore, we operate in labor-intensive industries that are subject to the effects of instabilities in the labor market, including strikes, work stoppages, protests and changes in employment regulations, increases in wages and the conditions of collective bargaining agreements that, individually or in the aggregate, could have a material adverse effect on our results. The industries in which we operate have experienced these types of instabilities in the past and we cannot assure you that these instabilities will not occur again.

Actual or potential political or social changes and changes in economic policy may undermine investor confidence, which may hamper investment and thereby reduce economic growth, and otherwise may adversely affect the economic and other conditions under which we operate in ways that could have a materially negative effect on our business.

Our business would be materially adversely affected if operations at our transportation and distribution facilities experienced significant interruptions.

The distribution of LPG, fuels, petrochemicals and pharmaceutical products are subject to inherent risks, including interruptions or disturbances in the distribution system which may be caused by accidents or force majeure events. Our operations are dependent upon the uninterrupted operation of our terminals, storage and distribution facilities and various means of transportation. We are also dependent upon the uninterrupted operation of certain facilities owned or operated by our suppliers. Operations at our facilities and at the facilities owned or operated by our suppliers could be partially or completely shut down, temporarily or permanently, as the result of any number of circumstances that are not within our control, such as:

catastrophic events, including hurricanes and floods;

environmental matters (including environmental licensing processes or environmental incidents, contamination, and others);

labor difficulties (including work stoppages, strikes and other events); and

disruptions in our means of transportation, affecting the supply of our products.

Any significant interruption at these facilities or inability to transport products to or from these facilities or to our customers for any reason could subject us to liability in judicial, administrative or other proceedings, including for disruptions caused by events outside of our control, which could materially affect our business and results.

For example, on May 21, 2018, Brazilian truck drivers announced a nationwide strike, which lasted 10 days, demanding a reduction in taxes imposed on diesel and an amendment to the fuel pricing methodology adopted by Petrobras. The nationwide strike also involved the blockage of some of our facilities, obstruction of highways and other public roadways all over the country which have affected the delivery of various types of cargos and prevented us from carrying out our activities and operations in a normal manner. Amongst the impacts caused by the nationwide strike, the ANP issued a series of exceptional measures to remain in effect while the strike was ongoing to avoid fuel shortages. The Brazilian Federal Government also announced the implementation of measures to meet the demands made by the truck drivers in an attempt to end the nationwide strike. It was announced that (i) the price of diesel at the pump would be reduced by R\$0.46 for 60 days and thereafter adjusted on a monthly basis until the end of 2018, (ii) no tariffs would be levied on vehicles with suspended axles at road tolls and (iii) certain provisional measures were amended to require Conab to hire 30% of the independent truck drivers for its freight and to establish a minimum value of the freight under the nationally used table. See [Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview](#) and [Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview](#).

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Ultrapar results of 2018 were impacted by the truck drivers' strike, mainly due to losses of sales volume during the period of the strike in Ipiranga, Oxiteno, Ultragaz and Extrafarma and inventory losses at Ipiranga due to the reduction of R\$0.46 on the price of diesel. At Ipiranga, blockades at the distribution terminals during the strike prevented delivery of products. At Oxiteno, the strike caused a temporary stoppage at four production units due to impossibility of delivering products. At Ultragaz, difficulties of product delivery centered round the bulk segment. At Extrafarma, there were logistical problems in receiving and distributing products.

We may be adversely affected by changes to specific laws and regulations in our operating sectors.

We are subject to extensive federal, state and local legislation and regulation by government agencies and sector associations in the industries we operate. Rules related to quality of products, days of product storage, staff working hours, among others, may become more stringent or be amended overtime, and require new investments or the increase in expenses to adequate our operations. Changes in specific laws and regulations in the sectors we operate may adversely affect the conditions under which we operate in ways that could have a materially negative effect on our business and our results.

For example, as a consequence of the nationwide truck drivers' strike, the ANP issued a series of exceptional measures to remain in effect while the strike was ongoing to avoid fuel shortages. The Brazilian Federal Government also announced the implementation of measures to meet the demands made by the truck drivers in an attempt to end the nationwide strike.

Ultrapar results of 2018 were impacted by the truck drivers' strike, mainly due to losses of sales volume during the period of the strike in Ipiranga, Oxiteno, Ultragaz and Extrafarma and inventory losses at Ipiranga due to the reduction of R\$0.46 on the price of diesel.

The nationwide strike and the measures adopted in response had a direct impact to our business and results. Further strikes and any additional measures to be implemented by the Brazilian Federal Government and regulatory agencies in response may also affect our operations and further adversely impact our results.

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

We are subject to extensive federal and state legislation and regulation by government agencies responsible for the implementation of environmental and health laws and policies in Brazil, Mexico, the United States, Uruguay and Venezuela. Companies like ours are required to obtain licenses for their manufacturing facilities from environmental authorities who may also regulate their operations by prescribing specific environmental standards in their operating licenses. Environmental regulations apply particularly to the discharge, handling and disposal of gaseous, liquid and solid products and by-products from manufacturing activities.

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

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

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

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For example, on April 2, 2015, part of the storage facilities operated by Ultracargo in Santos, in the State of São Paulo, endured a nine-day fire surrounding six ethanol and gasoline tanks. There were no casualties in this accident and, following an investigation by the Civil and Federal Police into the accident and its impact on the region, the cause of the accident was determined to be inconclusive. See Item 4.A. Information on the Company History and Development of the Company Ultracargo Fire at storage facilities in Santos.

Our level of indebtedness may require us to use a significant portion of our cash flow to service such indebtedness.

As of December 31, 2018, our consolidated gross debt (consisting of loan, debentures and finance leases recorded as current and non-current liabilities) totaled R\$15,206.1 million (US\$3,924.4 million), our consolidated net debt was R\$8,211.7 million (US\$2,119.3 million) and our cash flow generated from operating activities was R\$2,889.0 million (US\$745.6 million). See Selected Consolidated Financial Data. The level and composition of our indebtedness could have significant consequences for us, including requiring a portion of our cash flow from operations to be committed to the payment of principal and interest on our indebtedness, thereby reducing our available cash to finance our working capital and investments.

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

The operation of any chemical manufacturing plant and the specialized distribution and retail, as well as the operations of logistics of oil, chemical products, LPG, fuel and pharmaceuticals distribution involve substantial risks of property damage and personal injury and may result in material costs and liabilities. Although we maintain insurance policies, the occurrence of losses or other liabilities that are not covered by insurance or that exceed the limits of our insurance coverage could result in significant unexpected additional costs.

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

Currently, we are entitled to federal tax benefits providing for income tax reduction for our activities in the Northeast region of Brazil, subject to certain conditions. Conversely, if the corresponding tax authorities understand that we have not complied with any of the tax benefit requirements or if the current tax programs from which we benefit are modified, suspended, cancelled, not renewed or renewed under terms that are substantially less favorable than expected, we may become liable for the payment of related taxes at the full tax rates and our results of operations may be adversely affected. Income tax exemptions amounted to R\$107.7 million, R\$48.6 million and R\$98.9 million, for the years ended December 31, 2018, 2017 and 2016, respectively. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Income tax exemption status, Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Oxiteno Income tax exemption status and Item 4.B. Information on the Company Business Overview Storage services for liquid bulk Ultracargo Income tax exemption status.

Our founding family and part of our senior management, through their ownership interest in Ultra S.A. and Parth, own a significant portion of our shares and may influence the management, direction and policies of Ultrapar, including the outcome of any matter submitted to a vote of shareholders.

Although there is no controlling shareholder of Ultrapar, our founding family and part of our senior management, through their ownership interest in Ultra S.A., beneficially own 22% of our outstanding common stock. Ultra S.A., together with Parth, another branch of the Igel family, entered into a shareholders agreement on May 2, 2018. Such agreement binds a total of shares representing 31.25% of the Company's capital stock. See Item 4.A. Information on the Company History and Development of the Company and Item 7.A. Major Shareholders and Related Party

Transactions Major Shareholders Shareholders Agreements. Accordingly, these shareholders, acting together through Ultra S.A. and Parth, may exercise significant influence over all matters requiring shareholder approval, including the election of our directors.

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No single shareholder or group of shareholders holds more than 50% of our capital stock, which may increase the opportunity for alliances between shareholders and other events that may occur as a result thereof.

No single shareholder or group of shareholders holds more than 50% of our capital stock. Due to the absence of a controlling shareholder, we may be subject to future alliances or agreements between our shareholders, which may result in the exercise of a relevant influence over our Company by them. In the event a controlling group is formed and decides to exercise its influence over our Company, we may be subject to unexpected changes in our corporate governance and strategies, including the replacement of key executive officers. Any unexpected change in our management team, business policy or strategy, any dispute between our shareholders, or any attempt to acquire control of our Company may have an adverse impact on us. The term of office of our current members of our Board of Directors, who were elected at the annual general shareholders meeting held on April 10, 2019, will expire in the annual general shareholders meeting to be held in 2021.

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

As a holding company, we have no significant operating assets other than the ownership of shares of our subsidiaries. Substantially all of our operating income comes from our subsidiaries, and therefore we depend on the distribution of dividends or interest on shareholders equity from our subsidiaries. Consequently, our ability to pay dividends depends solely upon our receipt of dividends and other cash flows from our subsidiaries.

As a result of the significant acquisitions of Ipiranga, União Terminais, Texaco, the Extrafarma Transaction, as well as other smaller acquisitions and possible future acquisitions, Ultrapar has assumed and may assume in the future certain liabilities related to the businesses acquired or to be acquired and risks associated with the transactions, including regulatory risks.

Ultrapar has assumed certain liabilities of previously acquired businesses; therefore, certain existing financial obligations, legal liabilities or other known and unknown contingent liabilities or risks of the businesses acquired have become Ultrapar's responsibility. Ultrapar may acquire new businesses in the future and, as a result, it may be subject to additional liabilities, obligations and risks. See Item 4.A. Information on the Company History and Development of the Company for more information in connection with these acquisitions.

In addition, Ultrapar is subject to risks relating to acquisitions that it enters into from time to time. Such risks include that the approval of such transactions may ultimately be refused by the relevant regulatory bodies, including CADE. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings.

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

If we fail to successfully implement our organic growth strategy in Extrafarma, our future results of operations may not meet the expectations of investors, which could adversely affect the market price of our shares and ADSs.

Our main growth strategy for Extrafarma consists of the opening of new drugstores in Brazil. Our ability to open new drugstores could be affected if we are unable to find enough appropriate outlets for new drugstores, or if the necessary investments to adapt the property to our needs are too high. Stricter regulations, including those relating to land use and zoning laws in the regions in which we operate may also result in increased expenses and make it more difficult to find suitable outlets for opening our drugstores.

In addition, new or recently opened drugstores may not achieve maturity of its sales within the period we estimate. Also, our new or recently opened stores may adversely affect the profitability of our drugstores, what could adversely affect our business and our consolidated results.

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Moreover, personnel are a key success factor in the retail pharmacy business, and we may be adversely affected if we are unable to hire, train or retain employees. Our business strategy will require the opening of new drugstores, heightening the need to hire, train and retain employees. Failure to do so may impair the process of opening new stores and our operating and financial results. Additionally, a shortage of pharmacists in Brazil as a result of continued robust market growth may result in increased wages or limit our ability to retain or recruit new pharmacists and, consequently, limit our ability to open new drugstores in the long term.

Other risks associated with the opening of new drugstores include (i) entry of new competitors in the retail pharmacy business, (ii) greater competition with market leaders in the North and Northeast regions of Brazil, (iii) limited knowledge about the new regions where we may open new drugstores and (iv) decrease in demand for our products as a result of restrictions in consumer spending or other factors. Any of these risks could adversely affect our ability to implement our organic growth strategy with respect to Extrafarma and, therefore, our business and operating and financial results. This could lead to our failure to meet the expectations of investors and to meet our goals for the operating and financial results of our drugstore business.

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

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

Our governance and compliance processes may fail to prevent regulatory penalties and reputational harm.

We are committed to conduct our businesses in a legal and ethical manner in compliance with the local and international statutory requirements and standards applicable to our activities. However, our governance and compliance processes, which include the review of internal control over financial reporting, may not prevent future breaches of legal, regulatory (including applicable anti-corruption and antitrust laws), accounting or governance standards. Although we have implemented what we understand to be a robust compliance and anti-corruption program to detect and prevent violations of applicable anti-corruption and antitrust laws, we may be subject to breaches of our Code of Ethics, anti-corruption policies and business conduct protocols, and to instances of fraudulent behavior, corrupt or anticompetitive practices and dishonesty by our employees, contractors or other agents. In the recent past, anticompetitive practices have been one of the main problems affecting fuels and LPG distributors in Brazil, including Ipiranga and Ultragas. There are allegations of cartels involved in price fixing in the fuel distribution and LPG sectors, and CADE has been targeting players of these sectors in different regions of Brazil. CADE has recently been actively investigating these sectors and the outcome of the ongoing investigations, administrative proceedings and lawsuits could have a material adverse effect on Ipiranga and Ultragas. Our failure to comply with applicable laws and other standards could subject us to, among others, litigation, investigations, expenses, fines, loss of operating licenses and reputational harm.

Information technology failures could disrupt our operations.

We increasingly rely on information technology systems to process, transmit, and store electronic information. A significant portion of the communication between our personnel, customers, and suppliers depends on information technology. In addition, our billing systems rely heavily on technology infrastructure. As with all large systems, our information systems may be vulnerable to a variety of interruptions due to events beyond our control, including, but not limited to, natural disasters, terrorist attacks, telecommunications failures, computer viruses, hacker attacks or other security issues.

We depend on information technology to enable us to operate efficiently and interface with customers, as well as to maintain in-house management and control. We also collect and store non-public personal information that customers provide to purchase products or services, including personal information and payment information.

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In addition, the concentration of processes in shared services center means that any technology disruption could impact a large portion of our business within the operating regions we serve. Any transitions of processes to, from or within shared services centers as well as other transformational projects, could lead to business disruptions. If we do not allocate, and effectively manage, the resources necessary to build and sustain the proper technology infrastructure, we could be subject to transaction errors, processing inefficiencies, loss of customers, operations disruptions, or the loss of or damage to intellectual property through a security breach. As with all information technology systems, our system could also be penetrated by outside parties with the purpose of extracting information, corrupting information or disrupting business processes.

We take various actions with the aim of minimizing potential technology disruptions, such as tools, controls and procedures in the management and monitoring of internal and perimeter security, periodic analysis of vulnerabilities performed by an independent external company, an information security and cybersecurity awareness program, a secondary environment for disaster recovery and respective periodic tests, tools for continuous monitoring and correlation of events, a dedicated team responsible for maintaining and continuously improving the information security management system, currently certified by ISO 27001 (Information Security Management standards) and other best practices and tools, but all of these protections may be compromised as a result of third-party security breaches, burglaries, cyberattack, errors by employees or employees of third-party vendors, of contractors, misappropriation of data by employees, vendors or unaffiliated third parties, or other irregularities that may result in persons obtaining unauthorized access to company data or otherwise disrupting our business.

These or other similar interruptions could have a material adverse effect on our business, results of operations, cash flows or financial condition.

In addition, our management evaluated and concluded that our disclosure controls and procedures as of December 31, 2018, were not effective due to deficiencies that represent a material weakness in our internal control over financial reporting, in the design and maintenance of our controls regarding change management and privileged access to our Information Technology (IT) environment, as described in Item 15 of this Form 20-F.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. Brazilian political and economic conditions, including ongoing political instability and perceptions of these conditions in the international markets, could adversely affect our businesses and the market price of our shares and ADSs.

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

currency fluctuations;

inflation;

interest rates;

exchange rate policies;

liquidity available in the domestic capital, credit and financial markets;

oil and gas sector regulations, including price policies;

petrochemical and chemical sectors regulations;

retail pharmacy business regulations;

price instability;

social and political instability;

energy and water shortages and rationing;

liquidity of domestic capital and lending markets;

fiscal policy; and

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

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Uncertainty over whether the Brazilian government may implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers, as well as heightened volatility in the Brazilian *Real*. These and other future developments in the Brazilian economy and government policies may adversely affect us and our businesses and results of operations and may adversely affect the trading price of our ADSs and shares. Furthermore, the Brazilian government may enact new regulations that may adversely affect our businesses and us.

Political instability in Brazil has been growing in recent years and can adversely affect the economy.

Brazilian president Dilma Rousseff was reelected for a second four-year term in October 2014, which began in January 2015. Following the reelection, wide scale protests throughout Brazil called for the impeachment of Dilma Rousseff. On April 17, 2016, Brazil's lower house of Congress voted in favor of sending an impeachment motion against Mrs. Rousseff to the Brazilian Senate. In May 2016, the Brazilian Senate voted to approve the commencement of an impeachment trial, which was concluded on August 31, 2016 with approval by the Senate of the impeachment of Mrs. Rousseff. As a result, Michel Temer, the former Vice-President assumed the presidency of Brazil following Rousseff's ouster. In October 2018, Mr. Jair Messias Bolsonaro, a former member of the lower house of Congress, was elected president for a 4-year term, from 2019 to 2022.

We have no control over and cannot predict what policies or actions the Brazilian government may take in the future. Any of these factors may have an adverse impact on the Brazilian economy, our business, financial condition, results of operations and the market price of our ADSs and shares.

Currently, Brazilian markets are experiencing heightened volatility due to the uncertainties derived from the ongoing *Lava Jato* and similar corruption investigations, being conducted by Law Courts in Paraná and other states, and the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. Former members of the Brazilian federal government and of the legislative branch, as well as senior officers of large state-owned companies as well as privately held companies have faced allegations of political corruption, including through the alleged acceptance of bribes by means of kickbacks on contracts granted by the government to infrastructure, oil and gas and construction companies. The potential outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. We cannot predict whether such allegations will lead to further political and economic instability or whether new allegations against government officials will arise in the future. In addition, we cannot predict the outcome of any such allegations nor their effect on the Brazilian economy. The development of such unethical cases could adversely affect our business, financial condition and results of operations.

The Brazilian government may be subject to internal pressure to change its current macroeconomic policies in order to achieve higher rates of economic growth and has historically maintained a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. For example, Brazil's federal budget has been in deficit since 2014. Similarly, the governments of Brazil's constituent states are also facing fiscal concerns due to their high debt burdens, declining revenues and inflexible expenditures. While the Brazilian Congress has approved a ceiling on government spending that will limit primary public expenditure growth to the prior year's inflation for a period of at least 10 years, local and foreign investors believe that fiscal reforms, and in particular a reform of Brazil's pension system, will be critical for Brazil to comply with the spending limit. As of the date of this annual report, discussions in the Brazilian Congress relating to such reforms remain ongoing. Diminished confidence in the Brazilian government's budgetary condition and fiscal stance could result in downgrades of Brazil's sovereign debt by credit rating agencies, negatively impact Brazil's economy, lead to further depreciation of the *Real* and an increase in inflation and interest rates, thus adversely affecting our business, results of operations and financial

condition.

We cannot predict which policies will be adopted by the Brazilian government. Moreover, in the past, the Brazilian economy has been affected by the country's political events, which have also affected the confidence of investors and the public in general, thereby adversely affecting the performance of the Brazilian economy. Furthermore, any indecisiveness by the Brazilian government in implementing changes to certain policies or regulations may contribute to economic uncertainty in Brazil and heightened volatility for the Brazilian securities markets and securities issued abroad by Brazilian companies. We are not able to fully estimate the impact of global and Brazilian political and macroeconomic developments on our business. In addition, there is substantial uncertainty regarding future economic policies and we cannot predict which policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance. Recent economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which also may adversely affect our securities and us. Any continued economic instability and political uncertainty which results in reduced availability of credit and reduced economic growth may materially and adversely affect our business.

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

In the past, Brazil has experienced extremely high rates of inflation. Inflation and some of the Brazilian government's measures taken in an attempt to curb inflation have had significant negative effects on the Brazilian economy. Since the introduction of the *Real* in 1994, Brazil's inflation rate has been substantially lower than that in previous periods. However, during the recent past, the economy has experienced increasing inflation rates and actions taken in an effort to curb inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. According to the *Índice Geral de Preços-Mercado*, or IGP-M, an inflation index, the Brazilian general price inflation rates were 7.5% in 2018, -0.5% in 2017, 7.2% in 2016, 10.5% in 2015 and 3.7% in 2014. From January to March 2019, IGP-M index was 2.2%. According to the *Índice Nacional de Preços ao Consumidor Amplo*, or IPCA, an inflation index to which Brazilian government's inflation targets are linked, inflation in Brazil was 3.7% in 2018, 2.9% in 2017, 6.3% in 2016, 10.7% in 2015 and 6.4% in 2014.

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

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

During the last decades, the Brazilian government has implemented various economic plans and a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency has been generally correlated with the rate of inflation in Brazil, there have historically been observed shorter periods of significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies, in particular in the last 10 years.

In 2014, despite the weak performance of the Brazilian economy, and the recovery of the North American economy, the *Real* remained relatively stable against the dollar until September, when started to devalue, closing the year with a depreciation of 13%. In 2015, the political instability, the downgrade of Brazil's sovereign credit rating and the expectation for an interest rate rise by the Federal Reserve System contributed to a 47% depreciation of the *Real* against the U.S. dollar. In 2016, the *Real* appreciated 17% against the U.S. dollar, marking the first year that it has appreciated against the U.S. dollar since 2011, despite residual political instability and continuing signs of shrinking of the Brazilian economy. This was due mostly to improvements in the Brazilian political environment, following the impeachment of former president Dilma Rouseff and certain stabilizing measures proposed by current President Michel Temer as well as ongoing efforts by the government's economic team to curb public spending and debt. In 2017, the *Real* depreciated 2% against the U.S. dollar reflecting the continued political instability and deterioration of the expectation of the pension reform approval, despite the slight improvement in the Brazilian macroeconomic scenario. In 2018, the *Real* depreciated 17%, pressured mainly by the global instability, result of economic crises in developed countries and the increase of interest rates by the Federal Reserve System in the United States. The domestic scenario, characterized by political instability due to the presidential election and the slow progress of fiscal and pension reforms, also influenced the *Real* depreciation during the year. From December 31, 2018 to April 11, 2019, the *Real* appreciated 1% against the U.S. dollar. See Item 3.A. Key Information Selected Consolidated Financial Data Exchange Rates.

There are no guarantees that the exchange rate between the *Real* and the U.S. dollar will stabilize at current levels. Although we have contracted hedging instruments with respect to our existing U.S. dollar debt obligations, in order to reduce our exposure to fluctuations in the dollar/*Real* exchange rate, we cannot guarantee that such instruments will be adequate to protect us fully against further devaluation of the *Real*, and we could in the future experience monetary losses as a result. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Foreign Exchange Risk for information about our foreign exchange risk hedging policy.

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

Although a large part of our sales is denominated in *Reais*, prices and certain costs in the chemical business (including but not limited to ethylene and palm kernel oil, purchased by our subsidiary Oxiteno) are benchmarked to prices prevailing in the international markets. Therefore, we are exposed to foreign exchange rate risks that could materially adversely affect our business, financial condition and results of operations as well as our capacity to service our debt. See Item 11. Quantitative and Qualitative Disclosures about Market Risk.

Economic and market conditions in other countries, including in the United States and emerging market countries, may materially and adversely affect the Brazilian economy and, therefore, our financial condition and the market price of the shares and ADSs.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and, to varying degrees, market conditions in other countries, including the United States, other Latin American and emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or conditions in other countries, including the United States and other emerging market countries, have at times significantly affected the availability of credit in the Brazilian economy and resulted in considerable outflows of funds and declines in the amount of foreign currency invested in Brazil, as well as limited access to international capital markets, all of which may materially and adversely affect our ability to borrow funds at an acceptable interest rate or to raise equity capital when and if we should have such a need.

In 2016, 2017 and 2018, there was an increase in volatility in all Brazilian markets due to, among other factors, uncertainties about how monetary policy adjustments in the United States would affect the international financial markets, the increasing risk aversion to emerging market countries, and the uncertainties regarding Brazilian macroeconomic and political conditions. These uncertainties adversely affected us and the market value of our securities.

In addition, we continue to be exposed to disruptions and volatility in the global financial markets because of their effects on the financial and economic environment, particularly in Brazil, such as a slowdown in the economy, an increase in the unemployment rate, a decrease in the purchasing power of consumers and the lack of credit availability.

Disruption or volatility in the global financial markets could further increase negative effects on the financial and economic environment in Brazil, which could have a material adverse effect on our business, results of operations and financial condition.

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

The turmoil of the global financial markets and the scarcity of credit in 2008 and 2009, and to a lesser extent, the European crisis deteriorated in 2011, led to lack of consumer confidence, increased market volatility and widespread reduction of business activity. An economic downturn could materially adversely affect the liquidity, businesses

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

Table of Contents***Holders of our ADSs may face difficulties in serving process on or enforcing judgments against us and other relevant persons.***

We are a company incorporated under the laws of Brazil. All members of our Board of Directors, executive officers and experts named in this annual report are residents of Brazil or have business address in Brazil. All or a substantial part of the assets pertaining to these individuals and to Ultrapar are located outside the United States. As a result, it is possible that investors may not be able to effect service of process upon these individuals or us in the United States or other jurisdictions outside Brazil, or enforce judgments against us or these other persons obtained in the United States or other jurisdictions outside Brazil, including for civil liability based upon United States federal securities laws or otherwise. In addition, because judgments of United States courts for civil liabilities based upon the United States federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions against us or our Board of Directors or executive officers than would shareholders of a United States corporation.

Risks Relating to the Shares and the American Depositary Shares***Asserting limited voting rights as a holder of ADSs may prove more difficult than for holders of our common shares.***

Under the Brazilian Corporate Law, only shareholders registered as such in our corporate books may attend shareholders meetings. All common shares underlying the ADSs are registered in the name of the depositary bank. A holder of ADSs, accordingly, is not entitled to attend shareholders meetings. A holder of ADSs is entitled to instruct the depositary bank as to how to exercise the voting rights of its common shares underlying the ADSs in accordance with procedures provided for in the Deposit Agreement, but a holder of ADSs will not be able to vote directly at a shareholders meeting or appoint a proxy to do so. In addition, a holder of ADSs may not have sufficient or reasonable time to provide such voting instructions to the depositary bank in accordance with the mechanisms set forth in the Deposit Agreement and custody agreement, and the depositary bank will not be held liable for failure to deliver any voting instructions to such holders.

Holders of our shares or ADSs may not receive dividends.

Under our bylaws, unless otherwise proposed by the Board of Directors and approved by the voting shareholders at our annual shareholders meeting, we must generally pay our shareholders a mandatory distribution equal to at least 50% of our adjusted net profit, after the allocation of 5% of the net profit to the legal reserve. However, our net income may be used to increase our capital stock, used to set off losses and/or otherwise retained in accordance with the Brazilian Corporate Law and may not be available for the payment of dividends, including in the form of interest on shareholders equity. Therefore, whether or not you receive a dividend depends on the amount of the mandatory distribution, if any, and whether the Board of Directors and the voting shareholders exercise their discretion to suspend these payments. See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Dividend and Distribution Policy Dividend Policy for a more detailed discussion of mandatory distributions.

Holders of our shares may be unable to exercise preemptive rights with respect to the shares.

In the event that we issue new shares pursuant to a capital increase or offer rights to purchase our shares, shareholders would have preemptive rights to subscribe for the newly issued shares or rights, as the case may be, corresponding to their respective interest in our share capital, allowing them to maintain their existing shareholder percentage.

However, our bylaws establish that the Board of Directors may exclude preemptive rights to the current shareholders or reduce the time our shareholders have to exercise their rights, in the case of an offering of new shares to be sold on a registered stock exchange or otherwise through a public offering.

The holders of our shares or ADSs may be unable to exercise their preemptive rights in relation to the shares represented by the ADSs, unless we file a registration statement for the offering of rights or shares with the SEC pursuant to the United States Securities Act or an exemption from the registration requirements applies. We are not obliged to file registration statements in order to facilitate the exercise of preemptive rights and, therefore, we cannot assure ADS holders that such a registration statement will be filed. As a result, the equity interest of such holders in our Company may be diluted. If the rights or shares, as the case may be, are not registered as required, the depositary will try to sell the preemptive rights held by holder of the ADSs and you will have the right to the net sale value, if any. However, the preemptive rights will expire without compensation to you should the depositary not succeed in selling them.

Table of Contents***If shareholders exchange ADSs for shares, they may lose certain foreign currency remittance and Brazilian tax advantages.***

The ADSs benefit from the depositary's certificate of foreign capital registration, which permits the depositary to convert dividends and other distributions with respect to the shares into foreign currency and remit the proceeds abroad. If the shareholders exchange the ADSs for shares, they will only be entitled to rely on the depositary's certificate of foreign capital registration for five business days from the date of exchange. Thereafter, the shareholders will not be able to remit abroad non-Brazilian currency unless they obtain their own certificate of foreign capital registration or they qualify under National Monetary Council Resolution 4,373 of September 29, 2014 (which replaced Resolution 2,689, of January 26, 2000) which entitles certain investors to buy and sell shares on Brazilian stock exchanges without obtaining separate certificates of registration. If the shareholders do not qualify under Resolution 4,373 (which replaced Resolution 2,689), they will generally be subject to less favorable tax treatment on distributions with respect to the shares. The depositary's certificate of registration or any certificate of foreign capital registration obtained by the shareholders may be affected by future legislative or regulatory changes, and additional Brazilian law restrictions applicable to their investment in the ADSs may be imposed in the future. For a more complete description of Brazilian tax regulations, see Item 10.E. Additional Information Taxation Brazilian Tax Consequences.

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

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

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

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-resident to either a Brazilian resident or a non-resident is subject to taxation in Brazil, regardless of whether the disposal occurs outside or within Brazil. In the event that the disposal of assets is interpreted to include a disposal of our ADSs, this tax law could result in the imposition of the withholding income tax on a disposal of our ADSs between non-residents of Brazil. See Item 10.E. Additional Information Taxation Brazilian Tax Consequences Taxation of Gains.

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

Shareholders of Ultra S.A. and Parth, which own 31% of our outstanding shares, have the right to exchange their shares of Ultra S.A. and Parth for shares of Ultrapar and freely trade them in the market as more fully described under

Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements. Other shareholders, who may freely sell their respective shares, hold a substantial portion of our remaining shares. A sale of a significant number of shares could negatively affect the market value of the shares and ADSs. The market price of our shares and the ADSs could drop significantly if the holders of shares or the ADSs sell them or the market perceives that they intend to sell them.

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There may be adverse U.S. federal income tax consequences to U.S. Holders if we are or become a PFIC under the Code.

If we were characterized as a PFIC, in any year during which a U.S. Holder holds our shares or ADSs, certain adverse U.S. federal tax income consequences could apply to that person. Based on the manner in which we currently operate our business, the projected composition of our income and valuation of our assets, and the current interpretation of the PFIC rules, including the Commodity Exception, we do not believe that we were a PFIC in 2018 and we do not expect to be a PFIC in the foreseeable future. However, because PFIC classification is a factual determination made annually and is subject to change and differing interpretations, there can be no assurance that we will not be considered a PFIC for the current taxable year or any subsequent taxable year. U.S. Holders should carefully read Item 10.E. Additional Information Taxation U.S. Federal Income Tax Considerations for a description of the PFIC rules and consult their tax advisors regarding the likelihood and consequences of us being treated as a PFIC for U.S. federal income tax purposes.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

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

With more than 80 years of history, Ultrapar occupies positions of leadership in the five business segments in which it operates: specialized distribution and retail through Ultragas, Ipiranga and Extrafarma, production of specialty chemicals through Oxiteno and liquid bulk storage services through Ultracargo.

We are a company incorporated under the laws of Brazil. Our principal executive office is located at Avenida Brigadeiro Luis Antônio, 1343, 9th Floor, 01317-910, São Paulo, SP, Brazil. Our telephone number is +55 (11) 3177 7014. Our internet website address is <http://ri.ultra.com.br>. Unless expressly incorporated by reference into this annual report, including the exhibits and schedules filed herewith, the contents of our website are not incorporated by reference into this annual report. Our agent for service of process in the United States is C.T. Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Ultragas

When Ultragas began its operations, it served only the Southeast region of Brazil. Currently, 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 may sell bottled LPG through independent dealers. Bulk LPG is serviced through Ultragas own infrastructure.

In 1995, Ultragas introduced UltraSystem a small bulk distribution system to residential, commercial and industrial segments, and started the process of geographical expansion through the construction of new LPG filling and satellite plants.

In August 2003, Ultragas acquired Shell Gás, Royal Dutch Shell plc's LPG operations in Brazil. With this acquisition, Ultragas became the Brazilian market leader in LPG, with a 24% share of the Brazilian market on that date. In October 2011, Ultragas acquired Repsol's LPG distribution business in Brazil.

Oxiteno

We were also one of the pioneers in developing the Brazilian petrochemicals industry with the creation of Oxiteno in 1970, whose first plant was located in the Mauá petrochemical complex in São Paulo metropolitan area. In 1974, Oxiteno inaugurated its second industrial unit, in the Camaçari petrochemical complex in Bahia. In 1986, Oxiteno established its own research and development center in order to respond to specific customer needs. In April 2002, Oxiteno completed a tender offer for the acquisition of the shares of its subsidiary Oxiteno Nordeste, through the acquisition of approximately 73.3% of the shares held by minority shareholders. Oxiteno increased its share ownership in Oxiteno Nordeste from 97% to 98.9%.

In December 2003, we concluded the acquisition of Canamex, later renamed Oxiteno Mexico, a Mexican specialty chemicals company. In June 2004, we acquired the operational assets of Rhodia Especialidades S.A. de C.V. in Mexico. Both acquisitions had the target of establishing a stronger presence in the Mexican petrochemical market and to create a production and distribution platform to serve the United States market.

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In September 2007, Oxiteno acquired Arch Andina, a subsidiary of the U.S. company Arch Chemicals, Inc. At such time, Arch Andina was the sole producer of ethoxylates in Venezuela, which had been the only ethylene oxide producing country in Latin America where Oxiteno did not have operations. The company was later renamed Oxiteno Andina.

In April 2012, Oxiteno acquired a specialty chemicals plant in the United States. The plant is located in Pasadena, Texas, one of the most important chemical hubs in the world, benefiting from attractive feedstock conditions, including competitive natural gas-based raw materials, and highly efficient logistics infrastructure. In September 2018, Oxiteno completed the construction of the new alkoxylation unit in the same site in Texas, US. The unit expands Oxiteno's footprint in the United States, focusing on local markets of agrochemicals, personal care, household and industrial cleaning, coatings and oil and gas.

In November 2012, Oxiteno acquired American Chemical (currently Oxiteno Uruguay), a Uruguayan specialty chemicals company. Oxiteno Uruguay's production capacity is 81 thousand tons per year, particularly sulfonate and sulfate surfactants for the home and personal care industries.

Oxiteno continued the expansion of its international activities, initiated in 2003 with the opening of commercial offices outside Brazil. In August 2006, Oxiteno opened its first commercial office outside Brazil, in Buenos Aires, Argentina – Oxiteno Argentina S.R.L. In July 2008, Oxiteno inaugurated its first sales office in Europe and the third outside Brazil in Brussels, Belgium, as part of Oxiteno's internationalization strategy. In May 2012, Oxiteno opened a commercial office in Shanghai, China – Oxiteno Shanghai Trading LTD.

Ultracargo

The market demand, in the decade of 1960, for high-quality and safe transportation services led to our entrance in the transportation of chemicals, petrochemicals and LPG segment. In 1978, Tequimar was founded for the specific purpose of operating the storage business. Later, Tequimar was acquired by Ultracargo, which is currently the largest provider of liquid bulk storage in Brazil.

In July 2005, Ultracargo started up a new terminal in Santos, its second port terminal that integrates road, rail and maritime transportation systems. In June 2008, Ultracargo signed the sale and purchase agreement for the acquisition of 100% of the shares of União Terminais held by Unipar. In October 2008, the acquisition of the port terminals in Santos and Rio de Janeiro were concluded. In November 2008, Ultracargo completed the acquisition of 50% of the total capital stock held by Unipar in União Vopak, which owned a port terminal in Paranaguá. The combination of its operations with those of União Terminais doubled the size of Ultracargo in terms of EBITDA and made it the largest liquid bulk storage company in Brazil, strengthening its operating scale. With this acquisition, Ultracargo increased its presence at the port of Santos, the largest Brazilian port, and is now strategically positioned in the ports of Rio de Janeiro and Paranaguá, where the company did not previously have operations.

In December 2009, Ultracargo acquired Puma Storage do Brasil Ltda., a storage terminal for liquid bulk located at the port of Suape, in the state of Pernambuco. In July 2012, Ultracargo acquired Temmar from Temmar Netherlands B.V. and Noble Netherlands B.V., subsidiaries of Noble Group. Temmar owned a terminal in the port of Itaqui, in the state of Maranhão.

In January 2018, Tequimar entered into a sale and purchase agreement for the acquisition of 100% of the quotas of TEAS, owned by Raízen Energia S.A. and Raízen Araraquara Açúcar e Álcool Ltda., whose assets had already been operated by Tequimar in the port of Santos. On March 29, 2018, the acquisition was concluded.

Ipiranga

In March 2007, Ultrapar, Petrobras and Braskem announced their intent to acquire the Ipiranga Group, and Ultrapar entered into, and Petrobras and Braskem acknowledged, the Ipiranga Group SPA with the Key Shareholders of the principal companies comprising the Ipiranga Group. In April 2007, Ultrapar acquired the control of the Southern Distribution Business, EMCA and a one-third stake in RPR, in connection with the acquisition of the Ipiranga Group. Following the acquisition, Ultrapar, which was already Brazil's largest LPG distributor, became the second largest fuel distributor in the country, with a 14% market share in 2007, according to ANP.

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After the completion of the acquisition of Ipiranga Group, its businesses were divided among Petrobras, Ultrapar and Braskem. Ultrapar retained the fuel and lubricant distribution businesses located in the South and Southeast regions of Brazil; Petrobras received the fuel and lubricant distribution businesses located in the North, Northeast and Midwest regions of Brazil; Petrobras and Braskem received the Petrochemical Business, in the proportion of 60% for Braskem and 40% for Petrobras. For a more detailed discussion of the acquisition of Ipiranga Group, see our Form F-4 filed with the Commission on December 17, 2007.

In August 2008, Ipiranga entered into a sale and purchase agreement with Chevron for the acquisition of 100% of the shares of CBL and Galena. The combination with Texaco created a nationwide fuel distribution business, strengthening its competitiveness through a larger operational scale. After completion of the acquisition, Ipiranga implemented its business plan, which consisted of two main work streams (i) the integration of operations, administrative and financial functions of Texaco, and (ii) the implementation of Ipiranga's business model in the expanded network, with a wider range of products and services and a differentiated approach to its resellers. As of December 31, 2012, Ipiranga had also converted all the acquired Texaco branded stations into the Ipiranga brand.

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

In October 2010, Ipiranga acquired 100% of the shares of DNP. DNP distributed fuels in the states of Amazonas, Rondônia, Roraima, Acre, Pará and Mato Grosso through a network of 110 service stations, with 4% market share in 2009 in the North of Brazil.

In November 2012, Ipiranga entered the segment of electronic payment for tolls, parking and fuels through ConectCar. ConectCar fits into Ipiranga's strategy of differentiation, offering more products and services in its service station network focused on convenience and practicality, generating benefits for its clients, retailers and for the company itself. In October 2015, Redecard S.A. acquired 50% of ConectCar from a former partner. This new partner provided opportunities to ConectCar expand its services to new markets, continuing with its purpose of offering customers mobility, convenience, flexibility and, above all, differentiated benefits.

In August 2016, Ipiranga entered into an association agreement with Chevron to create a new company in the lubricants business, Iconic; of which Ipiranga and Chevron hold 56% and 44%, respectively. Operations commenced on December 1, 2017.

Extrafarma

Benefitting from over 50 years of activity in the wholesale and retail of pharmaceutical products, Extrafarma is a leading drugstore chain in the main regions in which it operates. In September 2013, Ultrapar and the former shareholders of Extrafarma entered into an association agreement with Extrafarma, one of Brazil's top ten drugstores chains, marking our entry in the retail pharmacy business. According to the terms of the agreement, Ultrapar and Extrafarma entered into a merger of shares, pursuant to which Ultrapar acquired 100% of the shares of Extrafarma in exchange for up to 2.9% of shares issued by Ultrapar to Extrafarma's shareholders. Extrafarma became a wholly-owned subsidiary of Ultrapar from February 1, 2014 onwards. The total consideration of the Extrafarma Transaction consisted of the issuance of up to 16,028,131 shares of Ultrapar and the assumption by Ultrapar of Extrafarma's net debt of R\$106 million as of December 31, 2012.

Ultrapar received from the former seven shareholders of Extrafarma all of the shares of Extrafarma in exchange for 12,021,100 newly issued shares of Ultrapar, in accordance with Art. 252 of the Brazilian Corporate Law, increasing our issued share capital to 556,405,096 shares. In addition, as a mechanism for possible adjustments related to contingencies whose triggering events occurred prior to the closing of the transaction, we issued subscription warrants to the former Extrafarma shareholders that, if exercised, could potentially lead to the issuance of up to 4,007,031 shares until 2020, subject to adjustment based on numerous factors. Of the total possible shares that could be issued to the former Extrafarma shareholders upon exercise of the subscription warrants, Extrafarma's shareholders could receive up to 801,409 additional shares of Ultrapar based on working capital adjustments and 3,205,622 shares of Ultrapar based on absence of indemnification obligations. In 2015, after a final agreement between Ultrapar and Extrafarma, the subscription warrants related to the working capital adjustments were cancelled. Therefore, currently, the exercise of subscription warrants by the former Extrafarma shareholders could potentially lead to the issuance of up to 3,205,622 shares of Ultrapar until 2020, none of which have been exercised at the date of this annual report.

Ultrapar's 12,021,100 shares received by the former shareholders of Extrafarma are subject to lock-up agreements and will become available for trading in phases. Of the total shares, 33.5% were immediately available for trading after the closing, 8.3% became available in each of February 2015, February 2016, February 2017, February 2018 and February 2019 with the final tranche of 25% to be released from the lock-up in 2020, which will mark the sixth year after the closing.

Table of Contents***Corporate events***

On October 6, 1999, we concluded our initial public offering, listing our shares simultaneously on B3 and NYSE. In March 2000, Ultra S.A.'s shareholders signed an agreement, assuring equal treatment of all shareholders (holders of both common and/or preferred shares) in the event of any change in control tag along rights. The agreement determined that any transfer of control of Ultrapar, either directly or indirectly, would only be executed in conjunction with a public offer by the acquiring entity to purchase the shares of all shareholders in the same proportion and under the same price and payment terms as those offered to the controlling shareholders. In December 2002, we completed a corporate restructuring process that had begun in October 2002. The effects of the corporate restructuring were (i) the merger of Gipóia Ltda., a company which held a 23% direct stake in Ultragas and was owned by Ultra S.A., into Ultrapar, increasing our ownership in Ultragas to 99.6% and (ii) the exchange of shares issued by Oxiteno for shares issued by Ultrapar.

In January 2008, Ultrapar significantly increased the liquidity of its shares through the issuance of 55 million preferred shares, as a consequence of the Share Exchange. The Share Exchange increased Ultrapar's free float from 32 million shares to 87 million shares, with the free float reaching 64% of the Company's total capital. The significant increase in the size of the free float helped Ultrapar to become part of Ibovespa, one of B3 index.

In April 2011, our Board of Directors approved the submission to our shareholders a proposal to (a) convert any and all shares of preferred stock issued by the Company into common shares, on a 1:1 conversion ratio; (b) amend the Company's bylaws, modifying several of its provisions, aiming to strengthen the Company's corporate governance; and (c) adhere to the *Novo Mercado* segment rules. Our shareholders approved all the proposals and, in August 2011, Ultrapar's shares began trading on the *Novo Mercado* under ticker symbol UGPA3. Simultaneously, Ultrapar's ADSs, formerly represented by preferred shares, began representing Ultrapar's common shares and began trading on the NYSE under this new format.

In May 2018, Ultra S.A.'s and Parth's shareholders entered into a new shareholders' agreement which became effective as of that date and replaced the shareholders' agreement that was executed in 2014. The abovementioned companies are holding companies of the two branches of the Igel family, as well as of former executives of the Company. The agreement sets forth a set of rules to govern the relationship between these two shareholders and binds a total of shares representing 31.25% of the Company's capital stock. The agreement aims to reinforce, without any change, the principles that have been governing the actions of two reference shareholders of Ultrapar, in favor of all shareholders interests and the guarantee that the Company is managed in a professional and independent manner. See Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements.

Leadership

In May 2012, the Board of Directors approved the nomination of Thilo Mannhardt to succeed Pedro Wongtschowski as Chief Executive Officer starting January 1, 2013. Pedro Wongtschowski replaced Thilo Mannhardt on the Board of Directors consistent with Ultrapar's philosophy of adequately planning changes in its management.

In June 2015, Ultrapar announced changes in its executive board approved by its Board of Directors. After eight years as Chief Financial and Investor Relations Officer of Ultrapar, André Covre took over as Chief Executive Officer of Extrafarma. André Covre succeeded Paulo Lazera, who continued involved with Ultrapar as a shareholder and special consultant to Extrafarma. The Chief Financial and Investor Relations Officer position was assumed by André Pires de Oliveira Dias.

In June 2017, Ultrapar announced changes to its executive officers approved by its Board of Directors. As of October 2017, Frederico Curado replaced Thilo Mannhardt and assumed the position of Chief Executive Officer.

As part of a planned succession process and consistent with the Company's governance, in May 2018, Paulo Guilherme Aguiar Cunha, after three decades of contributions, was nominated Chairman Emeritus of the Board of Directors, an honorary and life time position. To succeed him, Pedro Wongtschowski, Vice-Chairman of the Board of Directors and Chief Executive Officer of Ultrapar between 2007 and 2012, was elected Chairman. Mr. Lucio de Castro Andrade Filho, who joined the Company in 1977 and has been a member of the Board of Directors since 1998, was appointed for the position of Vice-Chairman of the Board of Directors.

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Other important succession movements took place at the senior management level, with the nomination of Mr. Rodrigo de Almeida Pizzinato, Mr. Tabajara Bertelli Costa and Mr. Marcelo Pereira Malta de Araújo as Presidents of Extrafarma, Ultragas and Ipiranga, respectively, equally aligned to a planned succession process which blended internal promotions with the attraction of external talents.

Ultracargo Fire at storage facilities in Santos

In April 2015, a fire occurred in six ethanol and gasoline tanks operated by Ultracargo in Santos, which represented 4% of the subsidiary's overall capacity as of December 31, 2014. The Civil and Federal Police investigated the accident and its impacts, and concluded that it was not possible to determine the cause of the accident or to individualize active or passive conduct related to the cause, and there was no criminal charge against either any individual or Ultracargo, by both authorities. Notwithstanding, on February 21, 2018, the Federal Public Court accepted a criminal indictment filed by the Public Prosecutor's Office against Tequimar, which has already presented its defense against these charges, after being summoned in June, 2018. As of the date of this annual report, a stay of proceedings is in effect while the parties attempt to reach a settlement agreement regarding certain civil damages alleged by the Public Prosecutor's Office.

In June 2017, Ultracargo obtained the licensing required for the return to operation of 67.5 thousand cubic meters of the total of 151.5 thousand cubic meters affected by the fire. The remaining tanks are still non-operational and the process to obtain licensing to restart operations is currently underway as of the date of this annual report.

As a result of the evolution of the regulation process with insurers, as of December 31, 2016, the Company recorded insurance receivables in the amount of R\$366.7 million and indemnities to customers and third parties in the amount of R\$99.9 million in its balance sheet. In the first quarter of 2017, Ultracargo received the full amount from the insurers. The remaining amount for indemnities to customers and third parties recorded in its balance sheet was R\$3.5 million and R\$72.2 million for the years ended December 31, 2018 and 2017, respectively. In addition, on December 31, 2018, there were contingent liabilities not recognized related to lawsuits and extrajudicial lawsuits in the amount of R\$62.9 million and R\$3.4 million, respectively (R\$88.1 million and R\$25.9 million as of December 31, 2017).

See Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings.

Recent Developments***Port concessions***

On March 22, 2019, Ultrapar, through its subsidiary Ipiranga, won the port concessions of three areas located with minimum storage capacity of 64 thousand cubic meters at the port of Cabedelo, in the state of Paraíba, and one area with minimum storage capacity of 66 thousand cubic meters at the port of Vitória, in the state of Espírito Santo, which will be designated for handling, storage and distribution of fuels. These concessions were carried out by two consortia of which Ipiranga holds one third of the total participation. The total investment to be made in respect of Ipiranga's stake in the consortia is R\$160 million, to be disbursed throughout the next five years, for a concession term of 25 years.

On April 5, 2019, Ultrapar, through its subsidiaries Ipiranga and Ultracargo, also won other three port concessions. Ipiranga won two areas located at the port of Miramar, in Belém, state of Pará: (i) BEL02A area, through a consortium 50% owned by Ipiranga, that shall have minimum storage capacity of 41 thousand cubic meters, and (ii) BEL04A area, which is currently operated by Ipiranga with minimum storage capacity of 23 thousand cubic meters. Such areas

will be operated for at least 15 years, according to the auction notice. Ultracargo won the concession of VDC12 area in the port of Vila do Conde, in Barcarena, state of Pará. The minimum storage capacity will be 59 thousand cubic meters. The area will be operated by Ultracargo for at least 25 years, according to the auction notice. The estimated investments regarding these port concessions up to approximately R\$450 million, to be disbursed throughout the next five years.

Table of Contents*IPP administrative process*

On April 10, 2019, CADE concluded the administrative proceeding involving IPP that discussed alleged non-competitive conduct in the fuel-distribution and resale market in the cities of Belo Horizonte, Contagem and Betim, in the state of Minas Gerais, between October 2006 and July 2008. Despite IPP's assertion as to the good standing of its conducts demonstrated throughout the proceeding, the CADE administrative award ruled against IPP for allegedly influencing uniform commercial conduct among fuel resellers, while the charges against IPP for participating in the formation of a cartel among fuel distributors were dismissed. The award requires IPP to pay a fine of R\$40.7 million.

Approval of stock split

On April 10, 2019, the Company's extraordinary and annual general meeting approved the stock split of common shares issued by Ultrapar, at a ratio of one currently existing share to two shares of the same class and type. The stock split approved shall not imply in any change in the Ultrapar's capital stock. The new shares and ADRs resulting from the stock split approved will be of the same class and will grant to its holders the same rights of the current shares and ADRs.

Investments

We have made substantial investments in our operations over the last three fiscal years. Investments at Ipiranga have been directed to (i) the expansion of the Ipiranga network of service stations, convenience stores and lubricant service shops, (ii) the expansion of its logistics infrastructure to support the growing demand, and (iii) the maintenance of its operations. Oxiteno has invested in the maintenance of its production units, mainly for specialty chemicals in Brazil, Mexico and the United States, the commencement of operations in the United States, and the modernization of its industrial plants. At Ultragas, we have invested mainly in small bulk LPG distribution (UltraSystem) and the purchase and renewal of LPG bottles and tanks. We have also invested in the consolidation of our national coverage over the past three years. Ultracargo has mainly invested in the expansion and maintenance of its storage facilities in response to strong demand for logistics infrastructure in Brazil, including investments in modernization of safety systems of its terminals. Extrafarma has invested mainly in the opening and maintenance of its drugstores. See Item 4.A. Information on the Company History and Development of the Company.

The following table shows our total additions to property, plant, equipment, and intangible assets for the years ended December 31, 2018, 2017 and 2016:

	Year ended December 31,		
	2018	2017	2016
		Restated ⁽¹⁾	Restated ⁽¹⁾
	(in millions of Reais)		
Ipiranga	387.6	519.5	367.5
Oxiteno	466.6	462.6	288.4
Ultragas	225.0	214.9	225.5
Ultracargo	161.8	86.4	78.9
Extrafarma	118.0	170.5	142.8
Others ⁽²⁾	18.3	22.6	9.9

Total	additions to property, plant, equipment and intangible assets	1,377.3	1,476.5	1,113.1
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(1) See Presentation of Financial Information.

(2) Includes mainly capital expenditures related to corporate information technology.

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In 2018, Ultrapar's investments net of divestments and repayments were R\$1,947 million.

Ipiranga invested R\$957 million, practically 50% allocated to the expansion of the service stations network (through branding unbranded stations, opening new stations and capturing new customers), am/pm and Jet Oil franchises and logistics facilities. The remaining 50% was invested in network renovation, maintenance and logistics infrastructure. Out of the total investment, R\$388 million were related to property, plant and equipment and additions to intangible assets, R\$390 million to contractual assets with clients' exclusive rights (exclusive rights disbursement provided in Ipiranga's agreements for resellers and major consumers which are recognized as contractual assets when paid and amortized according to the conditions established in the agreements) and R\$179 million to financing to clients and leasing advances, net of repayments.

Oxiteno invested R\$467 million, principally allocated to the construction of the plant in the United States and in the expansion and maintenance of its industrial units as a whole.

Ultragas invested R\$225 million, mainly in the bulk segment, replacement and acquisition of gas bottles and information technology.

Ultracargo invested R\$162 million, mainly allocated to the expansion of the Itaquí and Santos terminals and adjustments and maintenance to existing infrastructure.

Extrafarma invested R\$118 million, largely allocated to the opening of new stores and the new information systems platform.

Ultrapar's investment plan for 2019 totals R\$1,762 million and is indicative of the Company's commitment to the sustainable growth of its businesses and operating excellence.

At Ipiranga, the approved limit for investments is R\$824 million, approximately 50% being allocated to expansion of the resellers network with the addition of fueling stations and am/pm and Jet Oil franchises and the expansion of logistics infrastructure with the construction of two bases and expansion of three others. The remaining 50% will be invested in maintenance and modernization of Ipiranga's activities, principally the renewal of reseller contracts and information to support the operations.

The investment of R\$319 million approved for Oxiteno will be used mainly for technological modernization of its productive units, in addition to investments in safety, with a view to efficiency gains and increased productivity.

At Ultragas, investments of R\$279 million were approved for the: (i) capture of new clients in both the bottled and bulk segments; (ii) replacement and acquisition of gas bottles; (iii) expansion and maintenance of the filling plants; and (iv) investments in information technology to achieve efficiency gains and as part of

the innovation strategy.

Ultracargo is expected to invest R\$161 million in increased tankage at the Itaquí and Santos terminals, adding 16% to its total capacity over the course of the second half of 2019, and in the continuing improvement in safety and infrastructure at the terminals.

Extrafarma plans to invest R\$158 million for expanding the store network with the rollout of new stores as well as expanding its logistical infrastructure and IT capability.

Table of Contents**Equity investments**

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

Equity investments consist of acquisition of subsidiaries and capital increases, net of capital reductions in subsidiaries, joint-ventures and associates. The table below shows our equity investments for the years ended December 31, 2018, 2017 and 2016:

	Year ended December 31,		
	2018	2017	2016
	(in millions of Reais)		
Ipiranga ⁽¹⁾	31.9	16.0	47.3
Oxiteno			
Ultragas			
Ultracargo ⁽²⁾	103.4		
Extrafarma			
Others	(1.2)		
Total equity investments(3)	134.0	16.0	47.3

(1) Capital invested in ConectCar.

(2) Acquisition of 100% of quotas of TEAS.

(3) Equity investments consist of acquisition of subsidiaries and capital increases, net of capital reductions in joint-ventures and associates.

B. Business Overview

Ultrapar is a Brazilian company with more than 80 years of history, with leading positions in the markets in which it operates: specialized distribution and retail through Ultragas, Ipiranga and Extrafarma, production of specialty chemicals through Oxiteno and liquid bulk storage services through Ultracargo.

Ultragas is the leader in LPG distribution in Brazil, which is one of the largest markets worldwide. Ultragas had a 23.6% market share as of December 31, 2018 according to ANP and was one of the largest independent LPG distributors in the world in terms of volume sold. Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragas Competition. As of December 31, 2018, we delivered LPG to an estimated 11 million households through a network of approximately 5.4 thousand independent retailers in the bottled segment and to approximately 54 thousand customers in the bulk segment.

Ipiranga is one of the largest fuel distributors in Brazil, with a network of 7,218 service stations and 20.2% market share as of December 31, 2018 according to ANP. See Item 4.B. Information on the Company Business Overview Fuel Distribution Ipiranga Competition.

Oxiteno is one of the largest producers of ethylene oxide and its main derivatives in Latin America, a major producer of specialty chemicals and the sole producer of fatty-alcohols and related by-products in Latin America, according to IHS Chemical. Oxiteno has twelve industrial units: six in Brazil, three in Mexico, one in the United States, one in Uruguay and one in Venezuela and commercial offices in Argentina, Belgium, China and Colombia.

Ultracargo has a leading position in its sector, being the largest provider of liquid bulk storage in Brazil in terms of number of terminals and storage capacity, with six terminals and a storage capacity of 700 thousand cubic meters as of December 31, 2018.

Extrafarma is the fifth largest drugstore chain in Brazil, according to ABRAFARMA, with 433 drugstores and 2 distribution centers as of December 31, 2018.

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

Our Strengths***Leading market positions across all businesses***

Ultragaz is the largest LPG distributor in Brazil. In 2018, Ultragaz's national market share was 23.6% according to ANP, and served approximately 11 million homes in the bottled segment and 54 thousand customers in the bulk segment. For the year ended December 31, 2018, Ultragaz's total volume of LPG sold was 1.7 million tons.

Ipiranga is one of the largest fuel distributors in Brazil with a 20.2% market share in 2018 according to ANP and a network of 7,218 service stations as of December 31, 2018. See Item 4.B. Information on the Company Business Overview Fuel Distribution Ipiranga Competition. In addition to the service stations, Ipiranga's network has 2,493 am/pm convenience stores and 1,772 Jet Oil franchises. In 2018, Ipiranga focused on its strategy of expansion of its network (branding unbranded stations, opening new stations and new customers). The implementation of Ipiranga's business model including its network of convenience stores and loyalty programs in its service station network allows it to offer a broad range of products and services, which benefits consumers and resellers. The volume of fuel sold by Ipiranga in 2018 was 23.7 million cubic meters.

Oxiteno is a major producer of specialty chemicals and one of the largest producers of ethylene oxide and its principal derivatives in Latin America, according to IHS Chemical. Our chemical operations supply a broad range of market segments, particularly crop protection chemicals, food, cosmetics, detergents, packaging for beverages, thread and polyester filaments, brake fluids, petroleum and paints and coatings. For the year ended December 31, 2018, Oxiteno sold 769 thousand tons of chemical products. In Brazil, Oxiteno competes principally against imports.

Ultracargo is the largest provider of liquid bulk storage in Brazil, with six terminals and storage capacity of 700 thousand cubic meters as of December 31, 2018, and leading positions in the main ports in Brazil in which it operates.

Extrafarma is the fifth largest drugstore network in the country, according to ABRAFARMA's ranking, with 433 drugstores and 2 distribution centers as of December 31, 2018.

Robust business portfolio

Our operations encompass LPG and fuel distribution, operation of a drugstore chain, the production of ethylene oxide and its derivatives and liquid bulk storage services. We believe our businesses provide us with increased financial capability and flexibility. Our business mix makes us less vulnerable to economic fluctuations and allows us to pursue growth opportunities as they arise in any of our business segments.

Ultrapar's businesses are simultaneously resilient and leveraged on Brazilian economic growth. Certain of Ultrapar's businesses, such as the sale of LPG for residential use and fuels for light vehicles, are resilient due to their inelastic demand profile and, therefore, are less volatile in economic downturns. Bottled LPG is an essential good, as it is mainly used for cooking, and, therefore, is not as correlated to economic performance. Volume of fuels for light

vehicles tends to grow linked to the number of light vehicles in Brazil. The Brazilian light vehicle fleet grew at rates ranging from 1% to 6% per year during the last five years, despite the volatility in the economic growth during this period, leading to a similar level of growth in the volume of fuels for light vehicles.

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On the other hand, other of Ultrapar's businesses, such as sales of diesel fuel, specialty chemicals and bulk LPG are linked to economic performance and tend to experience higher sales volumes during periods of strong economic growth. Sales growth of these products have been historically correlated to the performance of the Brazilian economy.

Highly efficient LPG distribution network

Ultragas maintains an exclusive network of independent dealers, which has enabled Ultragas to control the quality and productivity of its dealers leading to a recognition that we believe is associated with quality, safety and efficiency, and also to have frequent contact with LPG customers. This network constituted approximately 5,400 dealers that sell Ultragas LPG bottles. In addition, in April 1995, Ultragas was the first player to introduce LPG small bulk delivery in Brazil, with lower distribution costs than bottled distribution. Over the years, it has built a strong client base in this segment.

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

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

Distinguished positioning in the fuel distribution sector

We believe that Ipiranga differentiates itself from its competition in the sector by having a more diverse array of products and services and thereby being a more convenient choice for customers. These services and products include convenience stores, lubricant-changing service shops, electronic payment, bakeries, loyalty program, Ipiranga-branded credit cards, and a set of initiatives that aim at enhancing customer's convenience and loyalty.

Flexibility across the petrochemical cycle

Oxiteno is one of the largest producers of ethylene oxide and its principal derivatives in Latin America. In 2018, 98% of its ethylene oxide production was used internally in the production of ethylene oxide derivatives, which can be roughly classified in two groups: specialty and commodity chemicals. Oxiteno is a major producer of specialty chemicals, which have traditionally higher margins and less exposure to petrochemical cycles than commodity chemicals. Oxiteno has also been heavily investing in the development of products derived from renewable raw materials, aiming at reducing its dependence on oil-based feedstock and expanding its product portfolio.

Cost-efficient operations

Oxiteno's operations have a high degree of production efficiency derived from a scale that we believe is similar to that of the largest producers in the world. Ultragas has significant market presence in densely populated areas, which allows it to operate its filling plants and distribution system with a high level of capacity utilization and efficiency with depth and capillarity. Ipiranga also has a significant market presence in the South and Southeast regions of Brazil, which allows it to operate its extensive network of primary and secondary storage terminals and its distribution system in a cost-efficient manner. After the consolidation of Texaco and DNP and the network expansion through the opening of new gas stations and the conversion of unbranded service stations, the increased scale of Ipiranga allowed improved efficiency and competitiveness in the distribution and sales processes, dilution of advertising, marketing and new product development expenses, and gains from economies of scale in administrative functions. Ultracargo is the largest independent liquid bulk storage company in Brazil and the only player in the liquid bulk storage sector present in more than three major ports. Such position provides Ultracargo with increased operational flexibility, operational efficiency and economies of scale.

Strong operational track record

Our Company has exhibited a solid operational track record. Our EBITDA presented an average compound annual growth of 15% from 1998 to 2018, despite the overall macroeconomic volatility in Brazil and in the world during this same period. See [Item 3.A. Key Information Selected Consolidated Financial Data](#) for more information about EBITDA. Our net income attributable to shareholders of the Company presented average compound annual growth of 18% from 1998 to 2018.

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Experienced management team

We are led by a strong and experienced management team with a proven track record in the LPG and fuel distribution, retail, petrochemical and specialized logistics industries. Our senior management team has on average more than 15 years of experience in the Company. In addition, among the ten members of our Board of Directors, three have more than 15 years with the Company and the new members bring relevant experience and knowledge to Ultrapar, providing a renewed vision and contributing to the development of the Company.

Alignment of interests

Members of Ultrapar's management are shareholders of Ultrapar and receive variable compensation linked to performance and value generation to shareholders measured by Economic Value Added (EVA[®]) growth targets. Moreover, Ultrapar has consistently implemented improvements in corporate governance, such as being the first Brazilian company to grant 100% tag along rights to all its shareholders, the segregation of the roles of Chief Executive Officer and Chairman of the Board of Directors and its emphasis on maintaining transparency and consistency in its interactions with investors. Ultrapar is also a founding member of the Latin American Corporate Governance Roundtable Companies Circle, a group dedicated to promoting corporate governance in Latin America.

In 2011, Ultrapar completed the implementation of a new corporate governance structure, further aligning our shareholders' interests by converting all preferred shares into common voting shares. The conversion resulted in all of our shares having identical voting rights, which allows our shareholders to actively participate in the decisions of shareholders' meetings, without (i) any limitations on voting rights, (ii) special treatment to current shareholders, (iii) mandatory public tender offers at a premium to market prices once a certain beneficial ownership threshold is crossed or (iv) any other poison pill provisions.

Our Strategies

Build on the strength of our brands

We believe that our businesses have a high brand recognition associated with quality, safety and efficiency that we continually strive to deliver. We intend to reinforce this market perception by continuing to supply high-quality products and services and to introduce new services and distribution channels.

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

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

Continuously improve cost and capital efficiency in the LPG and fuel distribution business

We plan to continue to invest in the cost and capital efficiency of our distribution systems. Current initiatives include enhanced discipline with respect to our capital allocations and other programs designed to control our costs in both the LPG and fuel distribution business units.

Increase market share in fuel distribution

Our sales strategy is to increase Ipiranga's market share by converting unbranded stations to Ipiranga's brand and by opening new service stations. In the Midwest, Northeast and North regions of Brazil, we have lower market share and consumption growth is higher than the national average, given the lower car penetration and faster-growing household income in these regions, which we believe presents opportunities for growth. Ipiranga's strategy also includes expanding its logistics infrastructure to support the growing demand for fuels in Brazil and initiatives aiming at differentiating our products and services.

Promote and benefit from the formalization of the fuel distribution market

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

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Enhance retail network

Ultrapar's strategy for its retail operations is strongly focused on differentiation and innovation. At Ipiranga, this focus has translated to the creation of new market niches through its reseller network characterized by customer service and convenience, thus contributing to high levels of customer loyalty. We believe these initiatives result in a better value proposition for customers and resellers, creating benefits for the whole chain – the client has access to differentiated, more convenient products and services; the reseller has a more attractive business; and the service station has a differentiated positioning, contributing to the evolution of the company's results.

Ipiranga's *Posto Ecoeficiente* project (Eco-Efficient service station) is one of the initiatives that reflect Ultrapar's innovation philosophy. It aggregates, in a single project, innovative solutions and sustainable technologies, in harmony with the profitability of the service station for the reseller. This project offers solutions in the construction and operation of service stations that result in better use of resources, such as water and electricity, and reduction of wastage and residues. Ipiranga ended 2018 with 1,182 eco-efficient services stations.

In 2009, Ipiranga launched *Km de Vantagens* (KMV), a loyalty program through which customers and resellers may redeem rewards and benefits in areas of entertainment, tourism, magazines, airline tickets, car rental and others. With over 29 million participants in 2018, KMV has served as an important platform, strengthening relationships with Ipiranga's customers and resellers.

Also, as part of its differentiation strategy, Ipiranga launched in 2010 bakeries within its am/pm stores and became Brazil's largest bakery franchise chain. Our bakeries serve fresh products – like bread, coffee, snacks and hot meals through more than 100 items, including am/pm branded products. As of December 31, 2018, there were 930 bakeries.

In 2012, among the initiatives of Ipiranga, we highlight the entrance in the segment of electronic payment for tolls, parking and fuels through ConectCar. Once installed on a vehicle's windshield, ConectCar's tag automatically opens toll gates through a monthly payment system. At the end of 2018, ConectCar reached 392 thousand active customers and is available in all toll roads in Brazil, as well as in several malls, parking lots and airports.

In 2014, Ipiranga launched a verticalized and integrated supply solution, concentrating logistics, sales and service of am/pm convenience stores under a single umbrella structure: *am/pm Suprimentos*. This initiative aims to streamline am/pm operations, improve the franchisees' competitiveness and ensure a higher quality product assortment, creating value for clients and franchisees. As of December 31, 2018, *am/pm Suprimentos* operated four distribution centers located in the states of Rio de Janeiro, São Paulo, Paraná and Rio Grande do Sul, which supply am/pm convenience stores in those states with the main categories of products, except tobacco and ice cream.

Also in 2014, Ipiranga launched Beer Cave, a new beer purchase experience at its am/pm convenience stores. The Beer Cave is a walk-in refrigerated container aimed at the retail consumer that stores more than 100 national and international brands of cold beers ready for consumption. As of December 31, 2018, there were 545 Beer Caves installed in Ipiranga's franchisees premises.

In addition, in 2015, Ipiranga opened a new configuration of am/pm in São Paulo: an expanded concept of convenience comparable to small neighborhood supermarkets for urban service stations, with supply of fresh products – like fruits, vegetables, meats, flowers and a wider range of fast meals. Ipiranga also launched a flagship store, *am/pm Estação*, in the State of São Paulo, a model developed for highway service stations to provide long distances travelers with a broader array of convenience and personal care products distances drivers and travelers.

In 2016, Ipiranga developed and launched *Abastece Aí* (Portuguese for Fill Up Here), a mobile payment service app that seeks to maximize advantages from the integration of platforms to offer even greater convenience and benefits to customers. Through the *Abastece Aí* app, customers can obtain discounts in exchange for KMV points. In addition, they can receive rewards of their preference and finalize the refueling process by using a unique KMV password in a safe payment method. In 2018, more than 1.4 million customers used the app as a mean of payment and nine times more payments were made through *Abastece Aí* as compared to 2017.

Ipiranga also launched a new gasoline called DT Clean in 2016, using one of the most modern fuel additive technologies that aims to restore the engine's performance to its original state, while at the same time increasing the car's useful life and efficiency. In addition, in 2017, Ipiranga launched Octapro, a high-octane gasoline that features a combination of cutting-edge additives and, among other benefits, helps engines reach their top power and improves driving performance.

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In 2017, Ipiranga further strengthened the products offered at its am/pm stores with the launch of Wine Cave. In an air-conditioned wine cellar, customers can find a wide variety of wines, from 60 to 80 different labels, at the right temperature. As of December 31, 2018, there were 15 Wine Cave units installed in the states of Minas Gerais, São Paulo, Rio de Janeiro, Santa Catarina, Paraná and Amazonas.

Invest in niche segments for LPG distribution

Ultragaz is strengthening its presence in the North and Northeast regions of Brazil by focusing on expanding to states where it previously did not have significant operations and where LPG consumption has historically grown faster than Brazil's national average rate.

For the bulk segment, Ultragaz strategy is focused on two areas. The first one is offering its clients mainly in industrial and agribusiness segments new applications for LPG. As a result, Ultragaz aims at expanding its participation in the use of LPG for home and personal care and localized heating, such as preheating of industrial furnaces, especially in steel, lead, asphalt manufacturing and metallurgical plants, and in new applications in agribusiness, such as drying grains and seeds, with greater operational and economic efficiency.

The second one is to invest in the expansion of the bulk LPG distribution to small- and medium-sized businesses, such as laundry shops, restaurants, bakeries, residential condominiums and steam car wash, on the basis of agile and convenience services.

Expand capacity at Oxiteno to maintain our capacity ahead of domestic demand

We intend to maintain Oxiteno's production capacity ahead of demand in Brazil. Between 2008 and 2011, Oxiteno invested heavily to significantly increase its production capacity, thereby allowing it to maintain production capacity ahead of domestic demand. We also plan to continue our efforts to apply the best global practices to Oxiteno's plants and production processes with a view to remain technologically competitive.

On November 4, 2015, Ultrapar's Board of Directors approved the expansion of Oxiteno's specialty chemicals capacity in Pasadena (Texas) in the United States, by building an alkoxylation unit at its current site, which started operating in September 2018. The plant is located in one of the world's most important chemical hubs, taking advantage of attractive conditions of raw materials, as well as highly efficient logistics infrastructure. The investment expands Oxiteno's footprint in the United States, focusing on local markets of agrochemicals, personal care, household and industrial cleaning, coatings and oil and gas. The new unit's capacity is 120,000 tons per year at its initial stage. Until December 31, 2018, the total amount invested in this plant was US\$185 million.

Continue to enhance product mix at Oxiteno

We increased Oxiteno's capacity to produce a variety of value-added ethylene oxide derivatives and other specialty chemicals in order to optimize its sales mix across petrochemical cycles. Oxiteno's investments in research and development have resulted in the introduction of 72 new products during the last three years. Oxiteno will continue to invest in research and development focused on developing new products to meet clients' needs. In addition, we intend to continue to focus Oxiteno's sales in the Brazilian market, which allows us to continuously add value to our products. In 2018, Oxiteno's research and development expenditures were R\$57 million.

Maintain financial strength

We seek to maintain a solid financial position to allow us to pursue investment opportunities and enhance our shareholders' return on their investment in our Company. Our net debt (consisting of loans, debentures and finance leases recorded as current and non-current liabilities, net of cash and cash equivalents and financial investments) as of December 31, 2018 was R\$8,211.7 million, representing a 2.68 times net debt (consisting of loans, debentures and finance leases recorded as current and non-current liabilities, net of cash and cash equivalents and financial investments) to EBITDA ratio. We have been consistently distributing dividends to our shareholders. During the five years ended December 31, 2018, we have declared yearly dividends representing an average of 59% of our net income.

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The table below sets forth certain financial information for us:

	2018	Year ended December 31,			2014
		2017	2016	2015	
		Restated ⁽¹⁾	As previously reported ⁽¹⁾		
	(in millions of Reais)				
Net revenue from sales and services	90,698.0	79,230.0	76,740.0	75,655.3	67,736.3
Net income attributable to Ultrapar's shareholders	1,150.4	1,526.5	1,537.8	1,503.5	1,241.6
Gross debt	(15,206.1)	(13,590.6)	(11,417.1)	(8,901.6)	(8,375.2)
Cash, cash equivalents and financial investments	6,994.4	6,369.9	5,701.8	3,973.2	4,400.1
Net debt ⁽²⁾	(8,211.7)	(7,220.7)	(5,715.3)	(4,928.4)	(3,975.1)

(1) See Presentation of Financial Information.

(2) See footnote 6 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of net debt and its reconciliation to information in our financial statements.

The table below sets forth the net revenue from sales and services for our principal businesses:

	2018	Year ended December 31,			2014
		2017	2016	2015	
		Restated ⁽¹⁾	As previously reported ⁽¹⁾		
	(in millions of Reais)				
Net revenue from sales and services⁽²⁾	90,698.0	79,230.0	76,740.0	75,655.3	67,736.3
Ultragaz	7,043.2	6,071.0	5,365.1	4,621.2	4,091.3
Ipiranga	76,473.4	66,950.5	65,793.7	65,349.8	58,830.1
Oxiteno	4,748.4	3,959.4	3,701.4	4,082.5	3,413.6
Ultracargo	493.6	438.4	355.4	315.5	346.5
Extrafarma ⁽³⁾	2,028.0	1,868.9	1,578.6	1,336.3	1,101.3

(1) See Presentation of Financial Information.

(2) Segment information for Ultragaz, Ipiranga, Oxiteno, Ultracargo and Extrafarma is presented on an unconsolidated basis. See Presentation of Financial Information for more information.

(3) In 2014, reflects net revenue for the 11-month period from February 1, 2014, the date on which Extrafarma's results of operations were consolidated into our financial statements, through December 31, 2014. For additional information, see Presentation of Financial Information.

The tables below set forth Adjusted EBITDA for Ipiranga and EBITDA for Ultragaz, Oxiteno, Ultracargo and Extrafarma:

Year ended December 31,

	2018	2017	2016	2015	2014
		Restated ⁽¹⁾		As previously reported ⁽¹⁾	
	(in millions of Reais)				
Adjusted EBITDA⁽²⁾					
Ipiranga	2,052.4	3,066.8	3,049.0	2,768.8	2,288.0
EBITDA⁽²⁾					
Ultragaz	258.1	440.0	425.4	357.0	305.5
Oxitenó	625.4	295.9	453.9	739.8	403.7
Ultracargo	178.5	124.3	171.1	26.3	166.9
Extrafarma ⁽³⁾	(46.8)	23.1	38.8	28.7	29.8

(1) See Presentation of Financial Information.

(2) See footnote 5 under Item 3.A. Key Information Selected Consolidated Financial Data for a more complete discussion of EBITDA and Adjusted EBITDA and its reconciliation to information in our financial statements.

(3) In 2014, reflects EBITDA for the 11-month period from February 1, 2014, the date on which Extrafarma's results of operations were consolidated into our financial statements, through December 31, 2014. For additional information, see Presentation of Financial Information.

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Distribution of Liquefied Petroleum Gas

Industry and Regulatory Overview

Liquefied petroleum gas (LPG) is a fuel derived from the oil or natural gas refining process. In Brazil, 71% of local demand in 2018 was produced in local refineries and the remaining 29% was imported. LPG has the following primary uses in Brazil:

Bottled LPG used primarily by residential consumers for cooking; and

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

The following chart shows the process of LPG distribution:

Historically, bottled LPG has represented a substantial portion of the LPG distributed in Brazil and is primarily used for cooking. The use of LPG for domestic heating in Brazil is immaterial compared with its use in other developed and emerging countries, primarily because of Brazil's generally warm climate. Consequently, demand seasonality throughout the year is relatively 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 liquefied natural gas and oil. However, due to Petrobras' market dominance over the production and import of petroleum and petroleum products, a result of its legal monopoly that was abolished only in 1997, following Constitutional Amendment No. 09/1995 and the enactment of Federal Law No. 9,478/97, Petrobras is currently the *de facto* sole supplier of LPG in Brazil.

Currently, the LPG distribution industry in Brazil consists of 15 LPG distribution companies or groups of companies and is regulated by the National Petroleum Agency (ANP). The LPG distribution industry includes purchasing nearly all its LPG requirements from Petrobras, filling LPG bottles and bulk delivery trucks at filling stations, selling LPG to dealers and end users, controlling product quality and providing technical assistance to LPG consumers. See *Industry and Regulatory Overview* – The role of the ANP. LPG produced by Petrobras, which represented 71% of total LPG sold in Brazil in 2018, is transported in pipelines and by trucks from Petrobras' production and storage facilities to filling stations maintained by LPG distributors. The balance is imported by Petrobras into Brazil and stored in large storage facilities mostly maintained by Petrobras. The imported LPG is then transported from the storage facilities by pipeline and truck to the LPG distributors' filling stations.

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

home delivery of LPG bottles; and

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

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

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

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

Since 2001, distributors have been allowed to freely establish retail prices, which were previously set by the Brazilian government. Until the end of 2001, the LPG refinery price charged by Petrobras to all LPG distributors was determined by the Brazilian government and was the same for all LPG distributors in all regions of Brazil.

Historically, refinery prices have been subsidized by the Brazilian government. In January 2002, the Brazilian government abolished subsidies to refinery prices and Petrobras started to freely price LPG in the domestic market, adopting the international price plus surcharges as its benchmark. However, the Petrobras refinery price of LPG is still subject to the Brazilian government influence when the government deems appropriate. Refinery prices of LPG in *Reais* remained unchanged from May 2003 to the end of 2007, despite increases in oil and LPG 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. From 2008 to 2016, Petrobras increased LPG refinery prices for commercial and industrial usage sporadically. In 2017 and 2018, LPG refinery prices were adjusted more frequently, as shown below:

	Jan-08	Apr-08	Jul-08	Jan-10	Dec-14	Sep-15	Dec-15	Dec-16	Apr-17	Jul-17	Aug-17
Commercial and Industrial LPG (% adjustment)	15%	10%	6%	6%	15%	11%	4%	12%	-4.0%	-5.2% and 8.0%	7.2%

	Sep-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	May-18	Jul-18	Sep-18	Nov-18
Commercial and Industrial (% adjustment)	2.3% and 7.9%	6.5%	5.3%	-6.3%	-4.6%	-4.2% and 4.7%	7.1% and 3.6%	4.4%	5.0%	-5.6% and -9.2%

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The LPG refinery price for residential use remained unchanged from May 2003 to September 2015, when Petrobras increased prices by 15%. In the recent past, Petrobras' practice was not to immediately reflect in its oil derivatives prices in Brazil the volatility of international prices of oil and oil derivatives. However, in June 2017, the dynamic of LPG prices supplied to the distributors was modified to reflect international price volatility and exchange rate variation, as shown below:

	Mar-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Residential LPG (% adjustment)	9.8%	6.7%	-4.5%	6.9%	10.7% and 6.9%	12.9%	4.5%	8.9%

In January 2018, the price dynamic for LPG acquisition at refineries was adjusted to soften the transfer of price volatility in the international market to the domestic price. The period for verification of international prices and currency rates, which dictate the percentages of price adjustment, will be the average of the preceding twelve months and no longer the monthly variation and price movement will now become quarterly and not monthly. The following table shows residential LPG adjustments:

	Jan-18	Apr-18	Jul-18	Nov-18
Residential LPG (% adjustment)	-5.0%	-4.4%	4.4%	8.5%

In 2016 and 2017, Petrobras' average refinery price was US\$356 per ton and US\$484 per ton, respectively, compared with the average international price of US\$273 per ton and US\$409 per ton, respectively. In 2018, Petrobras' average refinery price was US\$560 per ton compared with the average international price of US\$459 per ton.

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

In November 1995, Petrobras' monopoly was removed from the federal constitution by the aforementioned Constitutional Amendment No. 09/1995 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 over the prices for oil, gas and oil products to continue for a maximum period of three years. Law No. 9,478, also known as *Lei do Petróleo*, (the Petroleum Law), prescribed that the termination of Petrobras' monopoly would be accompanied by the deregulation of prices for oil, gas and oil products, and created a new regulatory agency, the ANP, to oversee oil-related activities. However, in practice, Petrobras still remains the sole LPG supplier in Brazil, even though there are no legal restrictions to the operation of other suppliers or to imports.

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

With the discovery of the pre-salt reservoirs, the Brazilian Government created an inter-ministerial committee to analyze the various alternatives and suggest modifications to Brazil's exploration and production concession regime, which has been in force since the enactment of the Petroleum Law. The Brazilian Government decided to develop the oil and natural gas deposits in the pre-salt region by means of production sharing contracts (PSC), resulting in the new regulatory regime for the pre-salt reservoirs, which was finally implemented through Federal Law No. 12,351/2010

(the Pre-salt Law).

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

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

maintenance of sufficient LPG storage capacity;

maintenance of an adequate quantity of LPG bottles;

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

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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 de Cadastramento Unificado de Fornecedores* - SICAF).

LPG distributors are required to provide the ANP with monthly reports showing their sales in the previous month and the volume of LPG ordered from Petrobras for the next four months. The ANP limits the volume of LPG that may be ordered by each distributor based on the number of bottles and infrastructure owned by the distributor. Based on the information provided by the distributors, Petrobras supplies the volume of LPG ordered, provided its production and imports of LPG are sufficient to meet the demand.

LPG distribution to the end consumer may be carried out by independent dealers or exclusive dealers, according to ANP Resolution 49/2016 and 51/2016. Each LPG distributor must provide the ANP with information regarding its contracted independent dealers on a monthly basis. The construction of LPG filling plants and storage facilities is subject to the prior approval of the ANP, and filling plants and storage facilities may only begin operations after ANP inspection.

The self-regulatory code/ANP Resolution 49/2016 and 51/2016. In August 1996, most of the Brazilian LPG distributors, representing more than 90% of the market, bottle manufacturers, LPG transportation companies and certain LPG retail stores, under the supervision of the Brazilian government, entered into a statement of intent regarding the establishment of a program for requalifying LPG bottles (a process under which they undergo safety and quality checks) and other safety procedures, known as the Self-Regulatory Code or *Código de Autorregulamentação*. See *Ultragaz* Bottle swapping centers and *Ultragaz* Requalification of bottles. Before the Self-Regulatory Code came into effect, certain LPG distributors, not including *Ultragaz*, would fill bottles stamped with another distributor's brand. This practice resulted in a low level of investment in new bottles, giving rise to concerns regarding the safety of older bottles. The Self-Regulatory Code provides, among other things, that:

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

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

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

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

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

the construction of at least 15 bottle swapping centers, starting in November 1996 (see [Ultragaz Bottle swapping centers](#) and [Ultragaz Requalification of bottles](#));

the filling of third-party bottles which ceased in October 1997;

the requalification of 68.8 million bottles manufactured up to 1991 starting in November 1996; and

the requalification of 12.8 million bottles manufactured between 1992 and 1996 starting in November 1996. The Self-Regulatory Code was replaced by ANP Resolution 49/2016 and 51/2016, which regulates the distribution of LPG activities.

Ultragaz had to requalify 2.5 million bottles, 2.6 million bottles and 2.4 million bottles in 2016, 2017 and 2018, respectively. In 2019, Ultragaz expects to requalify approximately 2.9 million bottles.

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Environmental, health and safety standards. LPG distributors are regulated by ANP and subject to Brazilian federal, state and local laws and regulations relating to the protection of the environment, public health and safety. The CONAMA, the Ministry of Economy (*Ministério da Economia*), and the Ministry of Infrastructure (*Ministério da Infraestrutura*) are the primary regulators of LPG distribution at the federal level.

The Brazilian regulations require LPG distributors to obtain operating permits from the environmental agencies, from municipal authorities and from the fire department. In order to obtain and maintain the validity of such permits, distributors must satisfy regulatory authorities that the operation of facilities are in compliance with regulations and are not prejudicial to the environment and the community. 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 regulations. Under applicable law, distributors are strictly and jointly liable for environmental damages.

The LPG industry and market are also subject to occupational health and safety standards, including labor laws, social security laws and consumer protection laws. In addition, the company also has a sustainability policy that describes the good management practices for health, safety and the environment (HSE). Ultragas annually conducts audits in its HSE related processes to verify the performance and compliance with HSE legislation, HSE internal standards and sustainability policy.

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, 2018, according to ANP.

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 may sell bottled LPG through independent dealers. Bulk LPG is serviced through Ultragas own infrastructure.

In August 2003, Ultragas acquired Shell Gás, Royal Dutch Shell's LPG operations in Brazil, for a total price of R\$171 million. Shell Gás had about a 4.5% market share in Brazilian LPG distribution according to ANP, selling 287.4 thousand tons of LPG in 2002. With this acquisition, Ultragas became the national market leader in LPG, with a 24% share of the Brazilian market in 2003. In October 2011, Ultragas acquired Repsol, which sold approximately 22 thousand tons of LPG in 2011.

Ultragas is comprised of the following operating subsidiaries:

Cia. Ultragas, the company that pioneered our LPG operations;

Bahiana, which primarily operates in the Northeast region of Brazil; and

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 indirectly owns 57% of Utingás. 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 recent years, Ultragas strengthened its presence in the North and Northeast of Brazil, where it did not have significant operations and where LPG consumption has historically grown faster than Brazil's national average growth rate. Distribution of bottled LPG includes mainly retail stores, carried out by Ultragas's dealership network mainly using 13 kg ANP approved bottles. In the case of Ultragas, the bottles are painted blue. Ultragas's operating margins for bottled LPG vary from region to region and reflect the distribution channel in the region.

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

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Distribution of bulk LPG is largely carried out through 190 kg storage tanks installed on the clients' premises. Since 1995, Ultragas operates small- and medium-sized bulk delivery facilities with bob-tail trucks, known together as UltraSystem, which deliver LPG in bulk mainly to residential buildings, commercial and industrial clients. Ultragas's clients in the commercial sector include shopping centers, hotels, residential buildings, restaurants, laundries and hospitals. Ultragas's trucks supply clients' stationary tanks using a system that is quick, safe and cost effective.

Ultragas's bulk sales include large industrial clients, including companies in the food, metallurgical, steel and home and personal care sectors that have large fixed tanks at their plants. In the case of large volume consumers, Ultragas is competing with other highly competitive energy sources such as natural gas, diesel, wood, fuel oil and electricity.

Ultragas supplies its bulk clients on the basis of supply contracts with terms ranging typically 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. Ultragas has a team to identify the needs of each bulk LPG client and to develop technical solutions for using LPG as an energy source. Furthermore, in 2015 Ultragas started operating under a new concept for the small and medium business clients, named *Ultrapronto*. As an innovative concept in the LPG industry, *Ultrapronto* represents a more agile and complete service to the client, including prospecting of clients, setup of equipment, logistics and after-sale service. It permeates the entire value chain of the bulk segment, based on: (i) differentiated value proposition for the client, (ii) standardization of processes, in order to enable the service to client, and (iii) rationalization of the installation process.

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

Client category	Year ended December 31,		
	2018	2017	2016
	(in thousands of tons)		
Bottled LPG			
Residential delivery by Ultragas / Ultragas owned retail stores	56.3	61.1	60.4
Independent dealers ⁽¹⁾	1,141.5	1,139.8	1,137.0
Total bottled LPG	1,197.7	1,201.0	1,197.5
Total bulk LPG	527.2	544.8	562.8
Total tons delivered	1,724.9	1,745.7	1,760.3

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

Residential delivery has evolved during the last years from primarily door-to-door to a scheduled, order by phone or app.

LPG distribution is a very dynamic retail market where consumers habits change constantly, thus creating opportunities for the company. In order to more closely track market developments and differentiate itself from its competitors, Ultragas has developed and enhanced sales channels and payment methods. In the last decade, the company expanded the participation of Disk Gás (sale of LPG bottles by telephone) and, more recently, introduced ordering through a smartphone app (Ultragas Connect) and through a website (*Pedido Online*). These initiatives provide customers with greater convenience, add further value and generate logistic optimization to Ultragas. The same principles have been extended to the bulk segment, in which Ultragas is a pioneer and has a leading position. Ultragas has been developing new usages for its products, such as localized heating for the ignition of industrial furnaces, mainly in lead, iron and steel industries. Ultragas has also expanded LPG uses portfolio to agribusiness, such as a solution for coffee roasting and for cotton ginning. Lastly, tracking consumption trends in the bulk segment, Ultragas intensified its unique account billing service in residential condominiums, through which it provides individual gas bills.

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Given Ultragas' s network and reach to the most remote communities in Brazil, it has engaged in a series of initiatives and partnerships to promote social inclusion, education and culture. The table below shows the most relevant ones:

Project	Year of launch	Brief description
Ultragas Cultural	2000	Series of shows, movies, theater, literature, music and educational workshops 2008 – 2018: served more than 268 thousand children in 22 states in Brazil
Partnership with Ministry of Health	2008	Awareness and educational campaigns to address diseases prevention, such as dengue, Zika virus, H1N1 and yellow fever, as well as other basic health concerns 2009 – 2018: reached more than 140 million people
United Nations Partnership	2009	Ultragas is a signatory of the UN Global Compact In 2016, Ultragas joined the 17 Objectives of Sustainable Development
Junior Achievement	2009	The largest and oldest organization in Brazil dedicated to educating youth in business 2018: 290 volunteers were involved in 13 states in Brazil, benefiting more than 2,400 students
<i>Pega Pilhas, Baterias e Celulares</i>	2012	Collection and disposal of used batteries in Ultragas' s consumers households 2018: almost 1 ton of batteries collected in 10 states in Brazil
<i>Campanha Junte Óleo: Ultragas Coleta e Soya Recicla</i>	2013	Cooking oil recycle campaign to avoid its disposal into drinkable water sources 2015: the project won the Marketing Best Sustainability Award 2018: over 1 million liters of oil collected, reaching 610,000 Brazilian households with approximately 400 resellers involved
<i>Somar Sustentabilidade</i>	2014	A project that aims to foster sustainability concept and practices among its resellers By the end of 2018, more than 480 resellers had participated
Ultragas Sustainable Shop	2014	A LPG Shop constructed according to USGBC (United States Green Building Council) criteria, seeking to be accredited by LEED (Leadership in Energy and Environmental Design) and AQUA (High Environmental Quality) certifications The first store was launched in 2014 in São Paulo, and the second one in 2016 in Ceará
CDP Partnership	2015	

		<p>With the support of CDP, Ultragaz promotes training with its critical suppliers about CO₂ emissions, encouraging them to develop inventories for greenhouse gas emissions</p> <p>2018: 45 suppliers were involved</p>
Ultragaz Volunteer Portal	2016	A corporate social network to foster volunteer projects
Female Empowerment	2018	<p>2018: more than 550 employees registered on the website</p> <p>Partnership with the Feminine Association for Social and University Studies (Afesu) focused in supporting socially vulnerable women by offering training schemes for entry into the labor market. 2018: 70 girls (between 12-17 years old) were benefited</p> <p>With the support of Woman Entrepreneur Network (<i>Rede Mulher Empreendedora</i>), Ultragaz offers opportunities and fosters entrepreneurship and redeeming self-esteem among women who are victims of domestic violence. 2018: 120 women were involved</p>

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Distribution infrastructure. Ultragas' s distribution strategy includes having its own distribution infrastructure for bulk LPG, since it believes proximity to customers is a significant factor in successful distribution and sales strategies. Ultragas also maintains a large independent dealer network for the bottled LPG. See Independent dealers. For both bottled and bulk LPG, deliveries are made by a staff wearing Ultragas uniforms and driving vehicles with Ultragas' s logo. Ultragas has also invested in information technology for improving its process, such as logistics optimization and production efficiency. Ultragas delivers bottled LPG, using a distribution network, which included 5.4 thousand independent dealers and a fleet of 41 vehicles for the delivery of gas bottles and 287 for bulk delivery as of December 31, 2018. Bottled sales capacity derives from the number of bottles bearing Ultragas' s brands. Ultragas estimates that, as of December 31, 2018, there were 26.1 million 13 kg bottles stamped with Ultragas' s brands in the market.

Independent dealers. Ultragas' s independent distribution network ranges from large dealers, which carry out extensive home delivery, to single retail stores, which sell small quantities of LPG bottles. ANP Rule 51, enacted on November 30, 2016, that repealed the ANP Rule 297, sets 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, 2018, 95% of Ultragas' s bottled LPG sales were made through independent dealers. The agreements entered into between Ultragas and independent dealers require the use of the Ultragas brand and the display of the Ultragas logo in the delivery vehicles and on the uniforms worn by delivery personnel. Proprietary rights of the trademark and the logo are retained by Ultragas and are duly registered with the National Institute of Industrial Property (INPI *Instituto Nacional de Propriedade Industrial*). All contracted dealers are Ultragas' s exclusive representatives. Under the terms of the respective contracts, each dealer agrees not to deliver non-Ultragas LPG bottles.

Ultragas understands that investing in the efficiency of its reseller network is key for staying ahead of competition and at the same time aligned with market demand for LPG. Accordingly, Ultragas has developed several programs aimed at improving resellers' management quality and standards.

The main tool is the *Programa de Qualificação de Revendas* (Reseller Qualification Program), which seeks to standardize Ultragas' s resellers' best management practices, including brand standardization, management quality, and strict compliance with the laws applicable to the industry. Through an assessment process, resellers are classified into categories (blue diamond, diamond, golden, bronze and opportunity), allowing the participants to check their performance compared to Ultragas' s excellence standards and stimulating constant improvement. In 2018, approximately 4.5 thousand resellers participated in the program – a significant increase compared to 2008, when the program began with approximately 750 resellers evaluated. Out of the resellers that participated in the program in 2018, 74% (or 3.3 thousand) were qualified as bronze or above, in line with 2017 (72%) and 2016 (73%), attesting their compliance with most of Ultragas' s quality requirements. In addition to the Reseller Qualification Program, Ultragas has been deploying new initiatives to improve the efficiency of its resellers, such as the pre-operation training programs, aiming to accelerate their maturing process and anticipate financial results, increasing success rates among the new resellers, comprised of courses focused on key aspects of LPG operations, marketing and cash flows, among others.

Ultragas also has invested in the development of training programs offered to its dealers. The first of them is Project SOMAR (Marketing Solutions Applied to Dealers), a program that includes replication of best practices and recommendations of changes to dealers' operating procedures aiming at improving the efficiency of their operations.

The main initiative carried out since 2007 is *Academia Revenda* (Reseller' s Academy), which includes the training programs *Formação em Gestão de Revenda* (Reseller Management Education), *O Especialista em Atendimento* (The

serving specialist) and *Disk Especialista* (Disk specialist). In addition, in 2016, Ultragaz launched *Ultratop*, a program for the reseller's employees, including online trainings and campaigns focused on customer services. These programs seek to provide its resellers and their employees with critical skills to ensure an effective management in the LPG retail market and strengthen the qualification of the resellers' network.

Distribution channels to bulk consumers. Large bulk distribution, constituted mostly 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, comprised of residential buildings and commercial users, and smaller industrial users, is made primarily by bob-tail trucks. Ultragaz uses the UltraSystem trade name in connection with its small bulk distribution through bob-tail trucks. Ultragaz makes bulk sales directly to customers using its own infrastructure and transportation provided by third-party transportation companies.

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

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Bottle swapping centers. Pursuant to the Self-Regulatory Code, established in 1996 and approved by ANP, the LPG distributors have established 9 operating swapping centers to facilitate the return of the bottles to the appropriate distributor. Under the Self-Regulatory Code, while LPG distributors may pick up any empty LPG bottles tendered by customers in exchange for full LPG bottles, whether or not such empty bottles were put in circulation by that distributor, after October 1997, LPG distributors were not permitted to refill third-party bottles. Accordingly, LPG distributors may deliver third-party bottles to a swapping center where such bottles may be exchanged for bottles placed in circulation by such LPG distributor. The swapping centers currently charge a fee of R\$0.56 per exchanged LPG bottle.

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

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

Since 2001, distributors have been allowed to freely establish retail prices, which were previously set by the Brazilian government. Until the end of 2001, the LPG refinery price charged by Petrobras to all LPG distributors was determined by the Brazilian government and was the same for all LPG distributors in all regions of Brazil. Historically, refinery prices have been subsidized by the Brazilian government. In January 2002, the Brazilian government abolished subsidies to refinery prices and Petrobras started to freely price LPG in the domestic market, adopting the international price plus surcharges as its benchmark. However, the Petrobras refinery price of LPG is still subject to the Brazilian government influence when the government deems appropriate. Refinery prices of LPG in *Reais* remained unchanged from May 2003 to the end of 2007, despite increases in oil and LPG 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. From 2008 to 2016, Petrobras increased LPG refinery prices for commercial and industrial usage sporadically. In 2017 and 2018, LPG refinery prices were adjusted more frequently, as shown below:

	Jan-08	Apr-08	Jul-08	Jan-10	Dec-14	Sep-15	Dec-15	Dec-16	Apr-17	Jul-17	Aug-17
Commercial and Industrial LPG (% adjustment)	15%	10%	6%	6%	15%	11%	4%	12%	-4.0%	-5.2% and 8.0%	7.2%
	Sep-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	May-18	Jul-18	Sep-18	Nov-18	Dec-18
	2.3% and	6.5%	5.3%	-6.3%	-4.6%		7.1% and	4.4%	5.0%	-5.6% and	-4.7%

Commercial and Industrial LPG (% adjustment)	7.9%	-4.2% and 4.7%	3.6%	-9.2%
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The LPG refinery price for residential use remained unchanged from May 2003 to September 2015, when Petrobras increased prices by 15%. In the last years, Petrobras practice was not to immediately reflect in its oil derivatives prices in Brazil the volatility of international prices of oil and oil derivatives. However, in June 2017, the dynamic of LPG prices supplied to the distributors was modified to reflect international price volatility and exchange rate variation, as shown below:

	Mar-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Residential LPG (% adjustment)	9.8%	6.7%	-4.5%	6.9%	10.7% and 6.9%	12.9%	4.5%	8.9%

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In January 2018, the price dynamic for LPG acquisition at refineries was adjusted to soften the transfer of price volatility in the international market to the domestic price. The period for verification of international prices and currency rates which dictate the percentages of price adjustment will be the average of the preceding twelve months and no longer the monthly variation and price movement will now become quarterly and not monthly. The following table shows residential LPG adjustments:

	Jan-18	Apr-18	Jul-18	Nov-18
Residential LPG (% adjustment)	-5.0%	-4.4%	4.4%	8.5%

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

In 2016 and 2017, Petrobras' average refinery price was US\$356 per ton and US\$484 per ton, respectively, compared with the average international price of US\$273 per ton and US\$409 per ton, respectively. In 2018, Petrobras' average refinery price was US\$560 per ton compared with the average international price of US\$459 per ton. See [Industry and Regulatory Overview](#) The role of the Brazilian government.

Storage of LPG. On December 31, 2018, Ultragas's storage capacity was approximately 19.7 thousand tons, including Utingás' storage capacity. Based on its 2018 average LPG sales, Ultragas could store approximately 3.4 days of LPG supply. Accordingly, an interruption in the production of LPG may result in shortages, such as the one that occurred during the Petrobras strike in 1995.

Ultragas stores its LPG in large tanks at each of its filling plants located throughout the regions in which it operates. Primary filling plants receive LPG directly from Petrobras by pipeline; secondary filling plants are supplied by truck; and satellite plants primarily hold LPG which is used to fill bob-tail trucks for small bulk distribution to customers that are not located near a primary or secondary filling plant. See [Item 4.D. Information on the Company Property, Plants and Equipment](#).

Competition. Ultragas's main competitors are:

Liquigás, which was acquired by Petrobras in June 2004 from the ENI Group and has been operating in the Brazilian LPG distribution sector for more than 60 years;

Supergasbras, formed by the merger of Minasgás S.A., founded in 1955, and Supergasbras S.A., founded in 1946, and controlled by SHV Energy, a major multinational LPG distributor, which operates through its two separate brands, Minasgás and Supergasbras; and

Nacional Gás Butano, a Brazilian LPG distributor, which has been present in the market for more than 60 years.

The following table sets forth the market share of Ultragas and its competitors in terms of volume according to ANP:

LPG Distributor	Year ended December 31,		
	2018⁽¹⁾	2017	2016
Ultragaz	23.7%	23.6%	23.8%
Liquigás	21.3%	21.6%	21.7%
Supergasbras	20.0%	20.1%	20.5%
Nacional Gás Butano	19.5%	19.5%	19.3%
Others	15.4%	15.1%	14.7%
Total	100.0%	100.0%	100.0%

⁽¹⁾ Data from January to September 2018, since the information for the 12-month period is not available, except for Ultragaz.

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

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Considering that the bottled market for LPG is a mature market with relatively low consumption growth, the competition is largely based upon attempts by LPG distributors to increase market share at the expense of their competitors. Since *per capita* consumption is small, low distribution cost is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in distribution and delivery as all LPG distributors currently purchase nearly all of their LPG requirements from Petrobras, and as Petrobras refinery price charged to the distributors is the same to all LPG distributors. Ultragaz's principal markets, including the cities of São Paulo, Salvador and Recife, are highly populated areas and therefore distribution to this market can be carried out with great economies of scale resulting in lower distribution costs to Ultragaz. Additionally, Ultragaz enjoys low bulk LPG distribution costs through UltraSystem.

In addition to competing with other LPG distributors, Ultragaz competes with companies that offer alternative energy sources to LPG, mainly natural gas, and other sources such as wood, diesel, fuel oil and electricity. Natural gas is currently the principal source of energy against which we compete. The supply of natural gas requires significant investments in pipelines. While fuel oil is less expensive than LPG, LPG has performance and environmental advantages over fuel oil in most uses.

In 2015, the Brazilian LPG market decreased by 1.5% compared to 2014, mainly driven by the decrease of 5.4% in the bulk segment compared to 2014, mostly due to the continued worsening of the economic environment in Brazil. In 2016, the Brazilian LPG market increased by 1.2% compared to 2015, driven by an increase in both segments. The bottled segment grew by 1.2% over 2015, given its resilient nature as an essential good and the bulk segment grew by 1.1% compared to 2015, due to new clients entering this market in 2016. In 2017, the Brazilian LPG market remained stable compared to 2016. The bottled segment increased by 0.6%, and the bulk segment decreased by 1.8%. In 2018, the Brazilian LPG market decreased by 1.0% compared to 2017, mainly driven by the decrease of 1.4% in the bottled segment.

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

Source: ANP (volume for 2007 according to Sindigás)

Income tax exemption status. Brazilian legislation provides a 75% income tax reduction for businesses located in the Northeast region of Brazil, which depends of SUDENE's formal and previous approval. Ultragaz is entitled to this tax benefit at its filling plants located at Mataripe, Caucaia, Juazeiro and Aracaju until 2024, 2025, 2026 and 2028, respectively. Suape's plant obtained an extension of its tax benefit in January 2019 for a 10-year period, based on the modernization of the facilities, and a benefit appraisal report was sent on January 23, 2019 to the Brazilian Federal Revenue Service for approval within 120 days. The total amount of SUDENE's income tax exemption for Ultragaz for the years ended December 31, 2018 and 2017 was R\$12.8 million and R\$3.0 million, respectively. For further information, see Note 9.c to our 2018 consolidated financial statements.

Quality. We were the first Brazilian LPG distributor to receive ISO (International Standards Organization) certification for excellence in quality management. We were also the first LPG distributor in Brazil to be awarded with *Prêmio Paulista de Qualidade*, a well-recognized quality award in Brazil. Ultragaz is implementing the Management Excellence Model (*Modelo de Excelência da Gestão*® MEG), of the National Quality Foundation (FNQ). This system standardizes and certifies the main working processes in four areas: Quality Management (ISO

9001), Environmental Management (ISO 14001), Occupational Health and Safety Management (OHSAS 18001) and Social Responsibility Management (SA 8000). Also, in the last 3 years Ultragas has received several awards related to quality and management quality in different states in which it operates.

Table of Contents**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 2018, diesel represented 47% of the fuels distributed in Brazil, followed by gasoline, ethanol, fuel oils, NGV and kerosene, each of which represented 33%, 16%, 2%, 2% and less than 0.01%, respectively.

Growth in the fuel distribution sector has been directly influenced by GDP growth rates and size of light vehicle fleet. GDP growth is the main driver for diesel volume, given that diesel in Brazil is highly used for buses, trucks and agricultural engines. The size of the light vehicle fleet influences the growth in the combined volumes of gasoline, ethanol and NGV, which are basically used for light vehicles. 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 larger credit market for consumer goods. However, in recent years, the economic recession has affected the credit availability and levels of disposable income in Brazil.

In December 2018, credit in Brazil reached 47% of GDP, compared to 47% in December 2017, 49% in December 2016, 54% in December 2015 and 52% in December 2014, which, combined with a growth in disposable income in Brazil in 2018 (although with continued high unemployment rates), had a positive effect on the sales of vehicles in the year. According to ANFAVEA, approximately 2.5 million new light vehicles were registered in Brazil in 2018, an increase of 14% compared to 2017. The average light vehicle fleet increased by 1.6% in 2018, reaching 42 million at the end of the year. Among the total vehicles sold in 2018, 88% were flex-fuel vehicles, which have engines adapted to operate using either gasoline or ethanol, or by any combination of the two, 3% were gasoline-only fueled vehicles, 9% were diesel-only and less than 0.2% were electric vehicles. Since the launching of flex-fuel vehicles in Brazil in 2003, 32.6 million flex-fuel cars were sold in Brazil.

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

According to ANP, the distribution of fuels (gasoline, ethanol and diesel) is made mainly through three channels, as follows:

Service stations, which serve final retail consumers;

Large consumers, mainly industries and fleets; and

Retail wholesale resellers TRR, specialized resellers that distribute diesel to medium and small volume end-users.

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

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The following chart shows the ethanol distribution process in Brazil:

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

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

All gasoline sold in Brazil must contain a certain proportion of anhydrous ethanol that can vary from 18% to 27%. In May 2013, the Brazilian Mines and Energy Ministry increased the required percentage of anhydrous ethanol mixed with gasoline again to 25%. In March 2015, the Brazilian Agriculture Ministry increased the required percentage of anhydrous ethanol mixed with gasoline from 25% to 27%. Currently, the percentage of anhydrous ethanol mixed with gasoline is 27%. The Brazilian Sugar and Alcohol Interministerial Council (*Conselho Interministerial do Açúcar e Alcool*) establishes the percentage of anhydrous ethanol that must be used as an additive to gasoline (currently, at 27% in regular gasoline and 25% in additive/premium gasoline).

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, forms gasoline C, which is delivered directly to service stations and large consumers by truck.

Since January 2008, under the Biodiesel Program, distributors have been required to include a percentage 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. From January 2008 to June 2008, the biodiesel mix requirement was 2%. On July 1, 2008 and 2009, the biodiesel mix requirement was increased to 3% and to a further 4%, respectively. On January 1, 2010, the biodiesel mix requirement was increased to 5%, on July 1, 2014 to 6% and on November 1, 2014 to 7%. In March 2016, the government enacted Law No. 13,263, which increased the required percentage of biodiesel mix to diesel to 8% until March 2017, reaching 10% up to 2019. On March 1, 2017, the biodiesel mix was 8% and since March 1, 2018, the biodiesel mix requirement is 10%. On October 29, 2018, the National Council of Energy Policy published CNPE 16/2018 Resolution authorizing ANP to increase the biodiesel mix requirement to 15% until 2023, subject to technical testing of engines. As of January 31, 2019, there were 156 fuel distributors authorized by the ANP to operate in Brazil.

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Supply. Petrobras is currently the only relevant domestic supplier of oil derivatives, accounting for 99% of Brazilian production. There are currently 17 oil refineries in Brazil, of which Petrobras owns 13. Petrobras's total refining capacity in 2018 was 375 thousand cubic meters per day. Brazilian refineries are located predominantly in the South and Southeast regions of Brazil. The overall product yield for these refineries in 2018 was 40% diesel, 23% gasoline, 10% fuel oil, 7% LPG and 20% other products, including naphtha. In 2018, 81% of oil derivatives was supplied by local refineries and the remaining 19% was imported.

Ethanol is purchased from various producers. In 2018, there were 367 mills in Brazil, which produced approximately 33 million cubic meters of ethanol, 29% of which was anhydrous ethanol and the rest of which was hydrated ethanol. Brazil's supply of anhydrous and hydrated ethanol is seasonal and depends mostly on the sugarcane harvest. Since July 2017, six corn-based ethanol plants have been operating in the Midwest region of Brazil. In 2018, 93% of such supply came from Central and Southern Brazil and the remainder of which came from Northern Brazil.

Biodiesel is purchased from the many producers of biofuels in Brazil, and its main raw materials are tallow and soy seeds. As of December 31, 2018, there were 52 biodiesel producers, located predominantly in the Midwestern region. Brazil's biodiesel production in 2018 was 65% of its total production capacity. Since January 2008, which was the first year of the Biodiesel Program, Petrobras has been required to purchase biofuels in auctions promoted by ANP and supply distributors with amounts of biodiesel corresponding to the proportional volume of diesel purchased. This policy aims to prevent distributors from selling diesel without including the minimum required amount 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. From 1990 onwards, the Brazilian oil and gas sector has been significantly deregulated. Until the adoption of the Petroleum Law, the Brazilian government maintained strict control over the prices that could be charged by (i) refineries to distributors, (ii) distributors to service stations and other channels and (iii) service stations to end-users.

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 and the dominant supplier in this market, prices of oil-derivative fuels are still subject to indirect government influence, resulting in potential differences between international prices and domestic 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 prices practiced in Brazil and in the international markets. From September 2005 to May 2008, gasoline and diesel prices remained unchanged.

From 2008 to 2010, Petrobras changed the prices of gasoline and diesel charged by refineries twice, and the Brazilian government simultaneously changed the CIDE tax in order to partially or fully offset the effect of the change in prices to the end consumer.

In October 2011, the Brazilian government reduced the percentage of anhydrous ethanol mixed into gasoline from 25% to 20%, due to a shortage of ethanol production. To avoid the gasoline price increase to the end consumer, the Brazilian government decided to simultaneously reduce the CIDE tax of gasoline A from R\$230 per cubic meter to R\$193 per cubic meter. In November 2011, Petrobras increased gasoline and diesel prices by 10% and 2%, respectively and, simultaneously, the Brazilian government reduced once more the CIDE tax of gasoline A to R\$91 per cubic meter and that of diesel from R\$70 per cubic meter to R\$47 per cubic meter, therefore without affecting final consumer prices.

In June 2012, as a consequence of its increased requirements for importing oil products at prices above those practiced in Brazil, Petrobras increased gasoline and diesel prices by 3.9% and 7.8%, respectively, and the CIDE tax of both

products was simultaneously reduced to zero by the Brazilian government, offsetting the effect of the increase in prices. In July 2012, Petrobras further increased its refinery price for diesel by 6.2%.

Due to the *Real* depreciation and to the fact that the average cost of oil derivatives imported from the international markets was higher than the price practiced by Petrobras in the Brazilian market, (i) in January 2013, Petrobras increased gasoline and diesel prices by 6.6% and 5.4%, respectively; (ii) in March 2013, Petrobras announced a new adjustment in diesel price, of 4.9%; and (iii) in November 2013, Petrobras increased gasoline and diesel prices by 4.0% and 8.0%, respectively. In November 2014, Petrobras announced another increase in the gasoline and diesel prices by 3.0% and 5.0%, respectively.

In January 2015, the Brazilian government announced the return of the CIDE tax and the increase in the PIS and COFINS taxes on fuel, with an impact of R\$220 per cubic meter for gasoline and R\$150 per cubic meter for diesel, valid from February 1, 2015. On September 30, 2015, Petrobras announced a new increase in gasoline and diesel prices of 6.0% and 4.0%, respectively.

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In October 2016, a new pricing for gasoline and diesel was established with the objective of, among other aspects, controlling fluctuating prices according to international references on a monthly basis. Therefore, gasoline and diesel prices became directly influenced by the international prices and the *Real*/U.S. dollar exchange rate. Under the new pricing dynamic, gasoline prices were reduced by 3.2% and 3.1% and increased by 8.1% in October, November and December 2016, respectively. On the same occasions, diesel prices were reduced by 2.7% and 10.4% and increased by 9.5%.

In July 2017, the new price dynamic was updated in order to make daily price adjustments based on international references and the *Real*/U.S. dollar exchange rates. Also, in July 2017, Brazilian Government announced an increase in PIS and COFINS taxes for gasoline and diesel. On gasoline the taxes levied increased from R\$381.6 to R\$792.5 per cubic meter, while for diesel it jumped from R\$248.0 to R\$461.5 per cubic meter.

In 2018, fuel costs increased in Brazil as oil prices rose globally and the *Real* depreciated. As a consequence, at the end of May 2018, the truck drivers started a nationwide strike claiming for a decrease on diesel prices, exemption from tolls on passages without goods, a legal reform among others demands. The strike caused fuels and other consumer goods shortages all over the country. Therefore, the Brazilian government reacted by establishing emergency measures, such as minimum freight price table, reduction of R\$460 per cubic meter (or R\$0.46 per liter) in diesel price, being R\$160 per cubic meter (or R\$0.16 per liter) in CIDE and PIS and COFINS tax exemptions and R\$300 per cubic meter (or R\$0.30 per liter) by the subvention program up to December 31, 2018. Initially, prices were maintained for 60 days, and after this period, they were monthly adjusted according to a parametric formula established by the ANP. The program ended on December 31, 2018 and Petrobras returned to the previous adjustment policy according to the international market.

The following graphs show the price volatility of fuels acquired by the distributors from the refineries:

Source: Petrobras

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Ethanol prices are deregulated, being 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 Plural members. In April 2008, it became mandatory for fuel producers and distributors, as well as TRRs, to issue electronic tax invoices in all the states of Brazil. In addition, in June 2008 the government, through the Brazilian Congress, enacted Law No. 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 PIS and COFINS taxes at distilleries from 25% to 40% and (ii) requiring distilleries to install flow meters (*medidores de vazão*) to control the output of ethanol, however this initiative was not implemented due to technical aspects. In 2009, ANP started to track sales of methanol. The blending of methanol with ethanol is an example of product adulteration practiced by certain distributors or gas station owners, mainly in the State of São Paulo. On May 7, 2013, the government adopted the Provisional Measure 613 (*Medida Provisória 613*), which, among other resolutions, granted tax incentives to ethanol producers and to chemical producers through PIS and COFINS tax credits and reductions. As a result, all PIS and COFINS taxes levied on ethanol, which corresponded to R\$120 per cubic meter as of December 31, 2013, were collected by the producers, and they received a R\$120 per cubic meter tax credit to offset the increased PIS and COFINS taxes levied on ethanol. However, in January 2017, PIS and COFINS taxes for ethanol producers were reestablished at R\$120 per cubic meter, without any corresponding credit.

In July 2017, the Brazilian Government announced an increase in PIS and COFINS taxes for ethanol. For ethanol producers, taxes levied increased from R\$120.0 to R\$130.9 per cubic meter and for ethanol distributors went from zero to R\$110.9 per cubic meter.

In accordance with the publication of Law No. 11,097 on January 13, 2005, the National Biodiesel Program (*Programa Nacional de Biodiesel*) was created. Since 2008, a certain amount of biodiesel has been required to be added to diesel. In addition, some changes were required in the distributors' facilities, as well as the restructuring of its logistics. In March 2016, the government enacted Law No. 13,263, which increased the required percentage of biodiesel mix to diesel to 8% until March 2017, reaching 10% up to 2019. On March 1, 2017, the biodiesel mix was 8% and since March 1, 2018, the biodiesel mix requirement is 10%. On October 29, 2018, the National Council of Energy Policy published CNPE 16/2018 Resolution authorizing the ANP to increase the biodiesel mix requirement to 15% until 2023, subject to technical testing of engines.

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 and oil-derivatives 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 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 largest domestic oil-derivative supplier of oil and oil-related products, including naphtha, LPG and oil-derivative fuels in Brazil, even though there are no legal restrictions on the operations of other suppliers or to imports.

Since 1971, Petrobras has acted in the Brazilian fuel distribution market through its subsidiary BR. BR is the leader in the fuel distribution market, with market share of 26.3% in 2018, according to ANP.

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

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The role of the ANP. The ANP is responsible for the control, supervision and implementation of the Brazilian government's policies with respect to activities related to oil, natural gas and biofuels. The ANP regulates all aspects of the industry, from the exploration and/or production, transportation 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 fuel 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 Resolution No. 202, a number of requirements, with which all distributors must comply. In October 2014, the ANP Resolution No. 202 was replaced by Resolution ANP No 58/2014. Under the new rules, a fuel distributor, in order to operate in Brazil, must obtain an operating authorization and meet certain minimum requirements of operation, including:

minimum paid-in capital of R\$4,500,000.00; and

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).

ANP is also responsible for establishing the limits of oil-based fuel volume purchased by distributors based on their storage capacity. Fuel distributors are required to provide the ANP with monthly reports showing their previous month sales.

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

Regulation. Distributors are prohibited from operating service stations, other than for training purposes or for the development and testing of new products and services, and therefore, service stations are operated by independent resellers. Three types of arrangements between distributors and service station operators are generally used in the fuels 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, leases it to a distributor who constructs a service station facility or makes improvements to an existing facility and leases 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, 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 reseller, 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 and tanks, layout standards, training, quality control, technical and financial support, marketing and advertising support and franchises for complementary services, such as convenience stores (am/pm) and lubricant servicing franchises (Jet Oil).

Plural (formerly, Sindicom) is the association that represents the interests of major Brazilian fuel distributors, with its members controlling 67.1% of the Brazilian fuel market in 2018. The association 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. Plural 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,

operations, industrial and occupational safety and environmental protection.

During the 1990s, when the process of deregulation began in the fuel 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 permitted by applicable law (anhydrous ethanol has its taxation incorporated into gasoline and is historically cheaper than gasoline), (ii) non-payment of federal taxes on fuels, taxes on gross revenues and state value-added taxes and (iii) selling anhydrous ethanol mixed with water as hydrated ethanol. Such practices have enabled these players, all of them non-Plural distributors, to increase their market share by charging artificially lower prices also based on artificially lower costs. Plural 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.

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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 Plural members, (ii) sponsorship of the development of a chemical coloring solvent that is 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 that restricts the sale of hydrated ethanol by producers to distributors and prohibits sales by producers to resellers or end-consumers; (iv) support of ANP resolution 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 CODIF, a system that electronically controls the collection of value-added taxes on fuel sales, (vi) support in the implementation of electronic invoices at the federal level, concluded in 2008, (vii) support for ANP regulation 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) the suggestion of several other measures, supported by ANP, including focusing the collection of PIS and COFINS on distilleries and the installation of flow meters, which were included in Law No. 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 volume of the formal market.

Environmental, health and safety standards. Fuel distributors are subject to Brazilian federal, state and local laws and regulations relating to environmental protection, safety and occupational health and safety licensing by the fire department and transportation. The CONAMA is the principal responsible for ruling and accepting matters with respect to the environment. Environmental state agencies and municipal departments are also responsible for establishing and supervising complementary laws and regulations within its areas of operation.

Fuel distributors must obtain authorizations and/or licenses from federal, state and/or municipal environmental agencies and fire departments to implement and operate their facilities. They are required to develop programs to control air and water pollution and hazardous waste. Emergency plans for its plants and headquarters, involving communities, public companies and other private companies must also be implemented. Additionally, fuel distributors must also comply with laws from the Ministry of Economy, which prescribes occupational health and safety standards. To maintain a safe and healthy workplace, companies must carry out comprehensive occupational health and safety programs.

Fuels may be transported only under special conditions. In Brazil, transportation of dangerous products is regulated and the regulations cover all modes of transport.

Ipiranga

Ipiranga was founded in 1937 and is one of the largest fuel distributors in Brazil, with 20.2% market share in terms of sales volume in 2018, according to ANP. Ipiranga distributes diesel, gasoline, ethanol, NGV, fuel oil, kerosene, ARLA (liquid agent to reduce nitrogen oxides emissions from heavy vehicles), lubricants and greases nationwide through its network of 7,218 service stations and 87 storage terminals as of December 31, 2018.

Ipiranga has implemented a differentiation strategy by offering a broad range of products and services throughout its service station network. This strategy has led to a significant and growing convenience store business, branded am/pm, including the expansion of the bakery network and private label products under the same brand, as well as lubricant servicing businesses, Jet Oil and Jet Oil Motos (for motorcycles), and the consolidation of other related products and services.

Ipiranga conducts its commercial operations through five businesses units, as follows:

Retail fuel distribution through retail service stations;

Business to business large consumers and TRRs;

am/pm convenience store;

Jet Oil oil change service centers; and

Digital products responsible for developing and marketing Ipiranga's loyalty program, KMV, and Ipiranga's digital products.

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Post the acquisition by Ultrapar, Ipiranga only operated in the South and Southeast regions of Brazil. In March 2009, Ipiranga acquired Texaco gas stations network in Brazil and became a nationwide distributor, operating in all regions of Brazil, including the Northeast, North and Midwest regions where the fuel consumption grows above the national average rate, given the lower car penetration and faster-growing household income compared to other regions. In November 2010, Ipiranga closed the acquisition of DNP, which distributed fuel in the states of Amazonas, Rondônia, Roraima, Acre, Pará and Mato Grosso through a network of 110 service stations, with 4% market share in the North region of Brazil in 2009 and was the fourth largest fuel distributor in this geographic area.

In August 2016, Ipiranga entered into a joint venture agreement with Chevron to create a new company in the lubricants business, Iconic, of which Ipiranga and Chevron hold 56% and 44%, respectively. Operations commenced on December 1, 2017. The JV combines two complementary and experienced companies in this business, aiming at value creation by sharing best practices and strengthening its position in the competitive Brazilian lubricants market. The combination of the two businesses increases the capillarity of the sales channels in Brazil through Ipiranga's network, as well as through Ipiranga's and Chevron's lubricant distributors network. Currently, Iconic attends more than 100 thousand retailers in Brazil through approximately 50 authorized distributors. The company operates three plants, two in the state of Rio de Janeiro and one in São Paulo. Iconic sells lubricants, greases, additives and coolants under Ipiranga and Chevron brands. For the year ended December 31, 2018, Iconic's sales volume was 292 thousand cubic meters. As of December 31, 2018, Iconic had 619 employees.

Fuel distribution

Ipiranga operates in the retail segment of the fuels distribution market through a network of service stations operating under the Ipiranga brand throughout Brazil. Sales volume from service stations network accounted for 76% of the total sales in 2018. Ipiranga also operates in the business-to-business (B2B) segment with almost seven thousand clients, such as state and municipal governments, industries and cargo and passenger transportation fleet owners. Distribution to B2B represented 24% of Ipiranga's sales in 2018.

In 2018, the fuel volume sold by Ipiranga grew 1%, with sales volume of diesel increasing 2%, in line with the gradual recovery of the economy. Conversely, the volume of gasoline, ethanol and NGV was 1% less year-over-year, declining until July before resuming growth during the second half of the year. Large ethanol production in 2018 contributed to the reduction in its prices and, consequently, drove the 45% increase in sales, while gasoline sales volume recorded a decline of 14%.

Growth in the fuel distribution sector is directly influenced by GDP growth rates and by the size of the car fleet. See Item 5.D. Operating and Financial Review and Prospects Trend Information. Legislative changes and inspection in the fuel distribution sector in recent years have progressively curbed unfair competition, creating a level playing field in the Brazilian distribution market. Overtime, these improvements should benefit the formal market by capturing the volume from the grey market. See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview.

In 2018, 2.5 million new light vehicles were registered according to ANFAVEA, an increase of 13.8% compared to 2017, with flex fuel cars representing 88% of the total light vehicles registered in 2018. According to ANFAVEA, the average light vehicles fleet in Brazil as of December 31, 2018 was more than 42 million, an increase of 1.6% from 2017, as a consequence of the 2.5 million new cars registered and a scrapping of 1.7 million cars in 2018.

The table below shows Ipiranga's sales of fuels by products:

	Year ended December 31,		
	2018	2017	2016
	(in thousand cubic meters)		
Diesel (by client category)			
Retail (service station)	6,377.9	6,317.3	6,330.0
B2B (large consumers and TRR)	5,586.6	5,426.1	5,602.2
Total diesel	11,964.5	11,743.4	11,932.2
Gasoline	7,589.0	8,791.6	8,493.3
Ethanol	3,375.5	2,321.6	2,453.8
Lubricants	292.4	156.5	204.3
Others ⁽¹⁾	458.2	410.7	423.3
Total volume sold	23,679.6	23,458.5	23,506.9

⁽¹⁾ Includes NGV, fuel oil, kerosene and ARLA.

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Retail. Accounting for 76% of the total sales in 2018, the retail segment of the fuels distribution market has a network of 7,218 service stations operating under the Ipiranga brand throughout Brazil.

In 2018, Ipiranga continued its strategy to increase its scale of operations, adding 399 service stations through the conversion of unbranded service stations and the opening of new gas stations. As of December 31, 2018, there were 7,218 service stations, of which 881 had the land either owned by us or under a long-term lease to us and 6,337 owned by third parties. In 2018, 90% of these service stations were located in urban areas, with the remaining 10% located in highways. Furthermore, Ipiranga ended 2018 with 1,182 eco-efficient service stations (*Posto Ecoeficiente* service stations with a set of solutions that reduce the consumption of materials, natural resources and energy of these service stations, including the reduction of waste generated during the construction).

Ipiranga generally enters into three types of arrangements with resellers in which: (i) Ipiranga owns the land, the service station and its equipment and leases it to an operator, (ii) a third party owns the land and leases it to Ipiranga and it constructs a service station facility or make improvements to an existing facility and further leases 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 Ipiranga. Under the terms of the contracts and in accordance with applicable law, each reseller operating under Ipiranga's brand must purchase fuels exclusively from us.

Ipiranga has created incentive programs over the years in order to strengthen brand loyalty and its relationship with its resellers' network, in order to differentiate itself from its competitors. These incentive programs include annual rewards to its resellers, such as international trips through the relationship program *Clube do Milhão* (Million Club), upon the accomplishment of pre-established goals.

Ipiranga also establishes relationship programs with resellers' employees, such as *Clube Vip* (VIP Club), 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), premium gasoline and lubricants. Training programs are provided to these employees focusing on developing their knowledge about the business and their capacity for selling products and services.

B2B. Ipiranga operates in the B2B segment with almost seven thousand clients, such as state and municipal governments, industries and cargo and passenger transportation fleet owners. In 2018, Ipiranga's ten largest clients in B2B segment accounted for 16% of its revenue and no single customer accounted for more than 4%. Distribution to B2B represented 24% of Ipiranga's sales in 2018.

Contracts. 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 bonuses. Our commercial strategy includes the concession of bonuses agreements, which can be paid upfront (received on the signing of the contract) and/or post-paid (through the achievement of certain targets defined in contract). For the B2B segment, Ipiranga may sell fuels in the spot market or under exclusive supply contracts, with the terms ranging from 1 to 3 years on average. Ipiranga has been working to increase the percentage of supply of fuels in the B2B segment under exclusive supply contracts by providing additional services and generating value to its clients.

Distribution infrastructure. Ipiranga operated through 87 storage terminals as of December 31, 2018 that were strategically located to facilitate fast and efficient 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 the terminals mostly by road.

Ipiranga has its own fleet of trucks through its transportation company, Tropical, which was responsible for transporting 25% of the volume of fuels sold by Ipiranga in 2018, with the remaining portion of the transportation provided by third parties.

Supply of fuels. Currently, Ipiranga and its competitors purchase the majority of oil-derivative fuels from Petrobras under a formal supply contract that establishes the volume and the terms of supply. The contract with Petrobras is renewed annually and the volume contracted 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. In 2018, 81% of oil derivatives was supplied by local refineries and the remaining 19% was imported.

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The ethanol fuel market in Brazil consists of 367 sugarcane mills, producing sugar and ethanol from sugarcane. Ethanol production occurs approximately eight 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) hydrated ethanol, which is essentially used for flex fuel vehicles.

Ethanol in Brazil is substantially based on sugarcane that can either be used to produce ethanol or sugar. There are also six corn-based ethanol plants currently operating in the Midwest region of Brazil. From an ethanol producer's 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.

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 railroad and road transportation, while secondary facilities are supplied by railroad and trucks. See Item 4.D. Information on the Company Property, Plant and Equipment. In 2018, Ipiranga's storage capacity was 818.8 thousand cubic meters. Based on its 2018 average sales, Ipiranga can store approximately eleven days of fuel supply. 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 1995. See The role of Brazilian government.

am/pm

am/pm convenience store is the second largest franchise network in the country, according to ABF's (Brazilian franchising association) ranking, with 2,493 stores, a penetration of 35% in the total service stations as of December 31, 2018.

Through its am/pm convenience stores, Ipiranga has been developing initiatives to increase product offerings. In 2010, we announced the launch of private label products, including energy drinks and snacks, and the expansion of the am/pm bakeries, providing to resellers an additional source of income, as well as strengthening the am/pm brand.

With nationwide presence, our bakeries serve fresh products such as bread, coffee, snacks and hot meals through more than 100 items, including am/pm branded products. A convenience store with a bakery has the potential to increase revenues by 100% compared to a regular am/pm by offering more products of daily consumption and increasing the flow of costumers in the store. Ipiranga ended 2018 with 930 bakeries.

In 2014, Ipiranga launched a new beer purchase experience through its Beer Cave, which is a walk-in refrigerated container that stores more than 100 brands of beer. Ipiranga ended 2018 with 545 Beer Caves.

In order to strengthen the am/pm convenience stores' product offerings and operations, Ipiranga launched in 2014 its own supply solution. The *am/pm Suprimentos* concentrates logistics, sales and customer service of the convenience store main products in just one structure covering 45% of the products basket and serving approximately 1.5 thousand stores. This initiative aims to streamline the am/pm convenience store's operation, increase the competitiveness of franchisees and ensure higher-quality product range and higher standardization of products assortment and availability.

At the end of 2018, *am/pm Suprimentos* operated four distribution centers located in Rio de Janeiro, São Paulo, Paraná and Rio Grande do Sul states, which supply the stores in those states with the main categories of products, except

tobacco and ice cream.

Ipiranga presented in São Paulo new configurations of the am/pm store concept in 2015. The new am/pm store models increase the options for complementary revenues to resellers. As of December 31, 2018, there were four stores with these new concepts installed in the states of Santa Catarina, São Paulo and Rio de Janeiro.

In 2018, Ipiranga further strengthened the products offered at its am/pm stores with the launch of Wine Cave. An air-conditioned wine cellar that customers can find a wide variety of wines, from 60 to 80 different labels, at the right temperature. As of December 31, 2018, there were 15 Wine Cave units installed in the states of Minas Gerais, São Paulo, Rio de Janeiro, Santa Catarina, Paraná and Amazonas.

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The table below shows the highlights of am/pm stores:

2018

Number of gas station	7,218
Number of stores	2,493
Penetration	35%
Market share in terms of number of stores	31%
Revenues (in millions of Reais)	2,152.8
Market share in terms of revenues	12%
Weighted monthly revenues store (in Reais)	110,899
Number of transactions (in millions of transactions)	185.1
Average ticket (in Reais)	11.63
Average area (in square meters)	58.4

am/pm revenues include a fixed franchising fee and a percentage of total revenues, which generally range between 4% and 8%. We also receive merchandising fees linked to contracts with suppliers, which establish trade agreements for the convenience stores. The model of convenience stores integrated with service stations is complementary, increasing fuel sales by 18%, on average.

Service stations convenience stores revenues in the Brazilian markets were R\$7.4 billion in 2017 (last data available), a 3% growth compared to 2016, according to Plural. We believe the sector has potential for continued growth, mainly due to the shifts in cultural and household habits, such as (i) higher participation of women in the labor market; (ii) the increase of single-person households and smaller apartments; (iii) urbanization, increasing population density and logistical complexity; among others. Moreover, penetration of convenience stores in service stations in Brazil is below international standards. Only 19% of gas stations in Brazil have associated convenience stores, compared to 80% in the USA, 88% in the UK, and 75% in Argentina.

The convenience proposal increasingly adapts to the needs of consumers who seek practicality and speed in their routine, trying to solve their demands in a single stop. Thus, convenience stores fit the ideal model, adapting a complete service in one place.

These strategic differentiation initiatives implemented by Ipiranga resulted in a better value proposition for customers and resellers, generating benefits for the whole chain – the consumer gets access to differentiated products and services, the reseller earns higher revenues, and the service station obtains a differentiated positioning, turning Ipiranga into a convenience business platform for facilitating people's daily routine and mobility.

Jet Oil

The Jet Oil business unit, Ipiranga's lubricant-changing and automotive specialized service network, is the biggest franchise of automotive services in Brazil and the fifth in ABF (*Associação Brasileira de Franquias* – Brazilian Franchise Association) ranking among all kind of franchises. Jet Oil ended 2018 with 1,772 franchises, including 240 Jet Oil Motos, the first specialized lubricant-changing and service network for motorcycles.

More than seven thousand oil changes are made at Jet Oil units per day and 65% of the products sold are premium products. Jet Oil units offer an oil change service that features technology and safety, unifying quality products and expert services. These attributes translate Jet Oil's slogan for consumers: "The full care that your car deserves". Since 2015, we have modernized 27% of units into an innovative and more technological model, the Jet Oil Digital, a

higher-selling version that offers consumers a new digital consumption experience.

Digital products

Digital products area is responsible for developing and marketing Ipiranga's loyalty program, KMV, and Ipiranga's digital products, focused on three pillars: innovation, intelligence and transformation.

KMV was created in 2009 and is a pioneer customer loyalty program in the fuel industry through which customers and resellers may redeem rewards and benefits in areas of entertainment, tourism, magazines, airline tickets, car rental and others. With over 29 million participants, KMV has served as an important platform, strengthening relationships with Ipiranga's customers.

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In 2018, more than 22 million products were redeemed at KMV loyalty platform and 28% of customers that filled-up at Ipiranga's service stations collected points. Also, in 2018, the result of an analysis by Mastercard Advisors that assessed the fuel purchases in credit / debit card of more than 176 thousand customers comparing the behavior six months before and six months after the registration in the KMV loyalty program pointed to an average of 85% growth in total expenditures at Ipiranga's service stations after joining the loyalty program. Each year, Ipiranga seeks new initiatives to add further value to the program, maintain current participants and increase the number of new participants.

Ipiranga developed and launched *Abastece Aí* (Portuguese for Fill Up Here) in 2016, a mobile payment service app, that seeks to maximize advantages from the integration of platforms to offer even greater convenience and benefits to customers. Through the *Abastece Aí* app, customers can obtain discounts in exchange for KMV points. In addition, they can receive rewards of their preference and finalize the refueling process by using a unique KMV password in a safe payment method. In 2018, more than 1.4 million customers used the app as a mean of payment and nine times more payments were made through *Abastece Aí* compared to 2017.

Ipiranga is a well-known and relevant brand in Brazil being considered Top of Mind by Kantas TNS 2018 in the segment. The marketing campaign *Ipiranga: um lugar completo esperando por você* (Portuguese for Ipiranga: a complete place waiting for you) was created with the concept of creating a place where customers can find a broader range of products and services to meet their needs. This concept is stimulated on Ipiranga's communications, especially its TV ads, which includes the catchphrase *Pergunta lá no Posto Ipiranga* (Portuguese for Ask there at the Ipiranga service station), commonly used by many Brazilians as a jargon in its daily conversation.

Competition. Ipiranga's main competitors in 2018 were:

Petrobras Distribuidora S.A. (BR), a subsidiary of Petrobras, which has been operating in the Brazilian fuel distribution sector since 1971. BR is the Brazilian market leader and operates throughout the entire country. In December 2017, BR concluded its initial public offering, listing the shares on B3.

Raízen Combustíveis S.A. (Raízen), a joint venture between Cosan S.A. (Cosan) and Shell International Petroleum Company Limited (Shell), a subsidiary of Royal Dutch Shell. Cosan, through its subsidiaries, is the largest producer of sugar and ethanol in Brazil, having entered the fuel distribution market in 2008, when it acquired Esso's fuel distribution business in Brazil. In June 2011, Cosan established Raízen, a joint venture with Shell by combining certain of their respective assets, including their respective distribution businesses.

Alesat, a domestic Brazilian fuel distributor created in 2006, as a result of the merger of Ale and Satelite, is present in 21 states. In December 2008, Alesat acquired the fuel distribution business of Repsol YPF in Brazil. In August 2017, the company decided to disassociate from Plural. In 2018, Glencore acquired 78% of Alesat fuel distribution.

The following table sets forth the market share of Ipiranga and its competitors based on volume of gasoline, ethanol and diesel sold, according to ANP and Plural data:

Year ended December 31,

Distributor⁽¹⁾	2018	2017	2016
Petrobras	26.3%	26.8%	28.2%
Ipiranga	20.2%	20.3%	20.4%
Raízen	20.6%	20.6%	19.9%
Alesat ⁽²⁾			3.8%
Others	32.9%	32.3%	27.6%
Total cubic meters	100.0%	100.0%	100.0%

(1) Volume sold of gasoline, ethanol and diesel.

(2) No data is available in 2017 and 2018 because Alesat dissociated with Plural. Since 2017, Alesat's market share is included in Others.

The retail market for gasoline, diesel and ethanol in Brazil is highly competitive, with similar products and relatively low margins. 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 choice of customers. For more information on Ipiranga's strategy see Item 4.B. Information on the Company Business Overview Our Strategy Enhance retail network.

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The following graphs show sales volumes for the Brazilian market and Ipiranga for the periods indicated:

- ¹ Diesel, gasoline, ethanol (Source: ANP and Plural) and NGV (Source: Abegás). Information provided by ANP and Plural are subject to retroactive adjustments and, therefore, can differ from the information contained herein.

Socio-environmental responsibility and quality. Since 2013, Ipiranga is a signatory of the UN Global Compact, an initiative sponsored by the United Nations formed by companies, institutions and the society. Its main goal is to mobilize the international business community to adopt internationally accepted business practices in the areas of human rights, labor relations, environment and anti-corruption intended to promote sustainable growth and civic awareness. Ipiranga annually publishes a Communication of Progress COP showing projects and actions taken during the year to comply with the UN Global Compact.

Since 2002, Ipiranga has adopted its own environmental management system through a program named SIGA, which applies what we believe to be the highest international standards to its policies and practices. Initially focused only on environmental initiatives, in 2009 the program expanded its scope to include areas such as safety, health, quality and social responsibility, in order to align the operations of its terminals to a broader vision of sustainability, becoming SIGA+ (Ipiranga's management system applied to health, safety, environment, quality and social responsibility). The program included audits in 2010 to verify the results of its implementation and to identify areas of improvement. Since then, SIGA+ grew from 23 operational units audited in 2010 to 56 in 2018, including some offices and all owned storage terminals and joint operated terminals.

In 1998, Ipiranga's terminal in Londrina (PR), received the first ISO 14001 (Environmental Management System) certificate for a fuel distribution terminal in Latin America. In the same year, Ipiranga's lubricant factory located in Rio de Janeiro obtained an ISO 9001 (Quality Management System). One year later, Ipiranga's Betim terminal obtained ISO 9001 and ISO 14001 certifications and in 2008 the OHSAS 18001 (Safety and Occupational Health Management System) certificate. These certifications are reaffirmed every three years.

Table of Contents**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 materials. The companies that operate in these different stages are known as first, second and third generation companies.

First generation companies. Brazil's first-generation companies, which are referred to as crackers, break down or crack naphtha (a by-product of the oil refining process), their principal feedstock, into basic petrochemicals. In Brazil, the crackers supply their naphtha requirements from Petrobras and through imports. Currently, Petrobras is the 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 xylenes. Braskem has three naphtha-cracker plants, located in Camaçari, in Triunfo and in Mauá. Brazil's naphtha cracker units sell these basic petrochemicals to second generation companies. The basic petrochemicals, which are in the form of either gases or liquids, are transported to the second-generation companies through pipelines for further processing. This sector passed through a restructuring process, with the emergence of Braskem as the main player and Petrobras as a relevant minority shareholder.

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 (PVC), each produced from ethylene;

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

styrene butadiene rubber (SBR), and polybutadiene, each produced from butadiene;

caprolactam, produced from benzene; and

purified terephthalic acid (PTA), produced from p-xylene.

The intermediate petrochemicals are produced in solid form (as plastic pellets or powders) and in liquid form and are transported through roads, railroads or by ship to third generation companies.

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

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

plastics produced from polyethylene, polypropylene and PVC;

elastomers produced from butadiene;

acrylic fibers produced from acrylonitrile; and

nylon produced from caprolactam.

Third generation companies produce a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents and paints as well as automobile parts, toys and consumer electronic goods.

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. Braskem currently has an ethylene production capacity of 1.28 million tons per annum.

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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. Braskem has an ethylene production capacity of 700 thousand tons per annum.

The Southern complex, located in the municipality of Triunfo in the state of Rio Grande do Sul, is based around the raw materials cracker, Braskem. Braskem's plant in Triunfo has an ethylene production capacity of 1.25 million tons per annum. Oxiteno does not purchase ethylene from Braskem in Triunfo, but purchases C4, a raw material used in the production of Methyl-ethyl-ketone (MEK).

In December 2005, Rio Polímeros S.A. (RioPol), a subsidiary of Braskem 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 thousand tons per year. All of RioPol's ethylene production is used in its own polyethylene production.

Role of Petrobras. Naphtha is the raw material used in Brazil for the production of basic petrochemicals such as ethylene and propylene. Petrobras is still the most important naphtha supplier in Brazil, even though its legal monopoly ended in August 2000. See Item 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.

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 Economy.

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. In order to obtain and maintain valid such 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. Technical 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 and increased operating costs and capital expenditures. In addition, civil, administrative and criminal sanctions, including fines and the revocation of licenses may apply to violations of environmental regulations. Under the Brazilian environmental law, companies are strictly and jointly liable for environmental damages.

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

Due to the use of controlled products, petrochemical companies are also subject to regulation and surveillance by the Army and Civil and Police Forces. In accordance with the applicable laws and regulations, they shall obtain from governmental authorities permits, licenses and certificates to use controlled substances in their activities. Decree No. 3,665, dated November 20, 2000, regulates the Brazilian Army control over explosive substances and/or substances that could be used to prepare explosives and establishes that those that manufacture, store or sell such substances are required to obtain a registration certificate, which must be periodically renewed. Law No. 10,357, dated December 27, 2001, sets forth that those that manufacture, store, handle, use and distribute chemical substances that could be employed in the manufacture of narcotics or psychotropic substances are subject to control by the Federal Police Department and shall obtain the required certificates, which must be periodically renewed. The sanctions that can be imposed in case of noncompliance with the applicable regulations concerning controlled substances include warnings, fines, pre-interdiction fines, interdiction, apprehension of products, suspension, cancellation or forfeiture of the corresponding certificates and licenses.

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We operate in the chemical sector through the second-generation company, Oxitenó, a wholly owned subsidiary of Ultrapar and major producer of specialty chemicals. Oxitenó is the only producer of ethylene oxide, ethylene glycols, ethanolamines, glycol ethers and methyl-ethyl-ketone in Brazil, as well as the only producer of fatty alcohol in Latin America. Besides a plant in Venezuela, Oxitenó 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, coatings and oil industry. During the year ended December 31, 2018, Oxitenó sold 769 thousand tons of chemical and petrochemical products.

Oxitenó's strategic focus is to provide a broad coverage of the ethylene oxide and derivatives, maintaining a leading position in these markets that strengthens its market positioning in Brazil. We intend to maintain Oxitenó's production capacity ahead of demand in Brazil. Oxitenó's strategy is to increase its specialty chemical production capacity and its geographic reach.

Products and markets. Although a portion of Oxitenó'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, Oxitenó'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. Oxitenó's principal commodity chemicals are ethylene oxide and ethylene glycol. Oxitenó's principal specialty chemicals include a wide variety of products that are used as surfactants, softeners, dispersants, emulsifiers and hydraulic fluids.

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

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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.
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.
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 soil penetration and adherence of the products to plant surfaces.
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.
Hydraulic fluids	Ethylene glycol ethers, ethylene glycols, corrosion inhibitors.	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.
Oil field chemicals	Additives, emulsion breaker, mutual solvent, surfactant, antifouling, glycols, ethanolamines and dispersants.	Chemical inputs applied in all stages of the production of oil and gas, such as drilling, cementing, completion, stimulation, production

Coatings	Acetates, alcohols, glycols ethers, glycols, ketones, alkyl ether sulfates, ethoxylated alkylphenols, ethoxylated fatty alcohols, block copolymers EO/PO.	and refining, each one with specific characteristics. Solvents and surfactants are used in the preparation of paints and coatings, adhesives and inks. Solvents serve multiple functions in solvent borne paints and coatings: solubilization of the resin or polymer forming the continuous coating phase, pigment wetting and viscosity reduction to facilitate the application of the coating. Surfactants are used in emulsion polymerization and also as additive: thickeners, antifoaming agents, additives used to control rheological properties and others.
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Commodity products. The following are Oxiteno's principal commodity products and their principal uses and markets:

Ethylene oxide. Ethylene oxide is a colorless and highly flammable gas at room temperature and atmospheric pressure. Ethylene oxide is produced in a continuous production process by gaseous phase catalytic partial oxidation of ethylene by oxygen at high temperature and pressure. In 2018, Oxiteno used 98% of its ethylene oxide production in the production of derivatives and sold the remaining 2% to other chemical companies.

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

Domestic sales. The Brazilian petrochemicals industry seeks to prioritize demand from the domestic market, where there is greater value added, although sales are also made to the overseas market. While 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 50 countries in Asia, America, Europe, Africa and Oceania. Oxiteno maintains production capacity above local demand for strategic reasons. For the years ended December 31, 2018, 2017 and 2016, 29%, 29% and 29% of Oxiteno's net revenue from sales and services, respectively, were from sales outside Brazil. For the years ended December 31, 2018, 2017 and 2016, 28%, 28% and 28% of Oxiteno's sales volume, respectively, were from sales outside Brazil.

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

Market sector	Year Ended December 31,		
	2018	2017	2016
	(in thousand tons)		
Polyester	150.5	139.3	117.7
Cosmetics and detergents	108.9	109.8	111.6
Crop protection	86.5	99.9	97.9
Distributors	50.6	55.6	51.6
Coatings	46.7	46.6	44.6
EO / DOT (brake fluids)	31.0	37.4	32.8
Performance Products ⁽¹⁾	27.4	26.9	27.2
Glycols	24.3	22.3	19.7
Oil and Gas	25.9	26.1	20.3
Others ⁽²⁾	5.4	6.6	6.1
Total Brazilian market	557.3	570.5	529.4

(1) Includes food, civil construction, textiles, leather and paper.

(2) Includes mineral oils and polymers.

Many of Oxiteno's commodity product prices in the Brazilian market are set by reference to international contract prices in U.S. dollars, although the prices are denominated in *Reais*. For specialty products, sales are individually negotiated and sometimes made pursuant to 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 Oxiteno has more flexibility in pricing for these products.

Sales outside Brazil. Oxiteno's export sales are made mainly to customers in the Mercosur, Far East, Europe and NAFTA. In Europe, Oxiteno exports its products mainly to the Netherlands, Belgium, Italy, Germany and Spain. In the Far East, Oxiteno exports its products mainly to China, Japan, Taiwan and Thailand.

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

Breakdown of sales volume outside Brazil	Year Ended December 31,					
	2018		2017		2016	
	(in thousand metric tons and percentage of the total)					
From Oxiteno Brazil						
Mercosur (not including Brazil)	37.1	18%	48.0	22%	43.6	21%
Asia	24.1	11%	20.2	9%	19.1	9%
Europe	17.3	8%	15.9	7%	17.2	8%
NAFTA	14.0	7%	24.9	11%	12.4	6%
Other	15.5	7%	17.8	8%	19.9	10%
Sub-Total	108.0	51%	126.9	58%	112.2	54%
From Oxiteno Mexico						
Mexico	36.8	17%	41.6	19%	38.3	18%
USA	19.1	9%	15.9	7%	13.7	7%
Other	5.0	2%	5.4	2%	6.7	3%
Sub-Total	60.9	29%	62.9	29%	58.7	28%
From Oxiteno Andina						
Venezuela	1.2	1%	1.4	1%	2.1	1%
Other	0.6	0%	3.3	2%	4.2	2%
Sub-Total	1.8	1%	4.7	2%	6.3	3%
From Oxiteno Uruguay						
Brazil	16.2	8%	17.9	8%	16.8	8%
Uruguay	9.4	4%	11.9	5%	11.4	5%
USA	1.1	1%	0.7	0%	0.7	0%
Other	19.2	9%	20.2	9%	20.4	10%
Sub-Total	45.9	22%	50.7	23%	49.3	24%
From Oxiteno USA						
USA	31.8	15%	23.0	10%	13.2	6%
Other	1.2	1%	2.7	1%	2.8	1%
Sub-Total	33.0	16%	25.7	12%	16.0	8%
Total⁽¹⁾	211.5	100%	219.7	100%	208.7	100%

⁽¹⁾ Does not include intercompany sales volume.

Oxiteno exports a wide variety of chemical products including glycols, MEK, ethoxylated alkylphenols, glycol ether acetates, glycol ethers, ethanolamines and surfactants.

Since 2003, Oxiteno has focused on expanding its presence in Americas, and on increasing its specialty chemicals sales, creating a closer relationship with its customers. As a first step, in December 2003, Oxiteno acquired Canamex a Mexican specialty chemicals company (renamed Oxiteno Mexico). In April 2007, Oxiteno acquired the operating assets of Unión Química SA de CV, in San Juan del Río, Mexico. For the year ended December 31, 2018, Oxiteno Mexico's sales volume totaled 40,043 tons, which represented an 11% decrease compared to the year ended December 31, 2017. See Item 4.A. Information on the Company History and Development of the Company.

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In September 2007, Oxiteno acquired 100% of the shares of Arch Andina in Santa Rita, Venezuela (renamed Oxiteno Andina). For the year ended December 31, 2018, Oxiteno Andina's sales volume totaled 1,842 tons, representing a decrease of 37% compared to the year ended December 31, 2017. See Item 4.A. Information on the Company History and Development of the Company.

In April 2012, Oxiteno acquired a specialty chemicals plant in Pasadena, Texas. In September 2018, Oxiteno completed the construction of the new alkoxylation unit in its site in Texas, US. The new facility reaches a production capacity of 120 thousand tons per year in its initial stage. For the year, ended December 31, 2018, sales volume from the plant totaled 32,569 tons, representing an increase of 38% compared to the year ended December 31, 2017. See Item 4.A. Information on the Company History and Development of the Company.

In November 2012, Oxiteno acquired 100% of the shares of American Chemical (renamed Oxiteno Uruguay), a Uruguayan specialty chemicals company. For the year ended December 31, 2018, Oxiteno Uruguay's sales volume totaled 43,070 tons, which represented a 9% decrease compared to the year ended December 31, 2017. See Item 4.A. Information on the Company History and Development of the Company.

As part of our strategy to grow outside of Brazil, we opened commercial offices in Argentina in 2006, in Belgium in 2008, in Colombia in 2011 and in China in 2012.

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

Customers. Oxiteno'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. Oxiteno believes that by distributing specialty chemical products to a variety of markets, it is thereby able to protect itself, to a certain extent, from the effects of a decrease in economic activity in any particular market.

In 2018, Oxiteno's main customers in the domestic market included Monsanto, which mainly purchases ethanolamines, Syngenta, Indústrias Gessy Lever Ltda. (Unilever), which mainly purchase surfactants and MEGlobal, which mainly purchases glycols. In the international market, Oxiteno sells both to industrial customers, including Unilever and Procter&Gamble, as well as trading companies and other third-party distributors. In 2018, Oxiteno's ten largest customers accounted for 36% of its net revenue from sales and services. No single customer accounted for more than 7% of Oxiteno's net sales in such year.

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

it is a local producer, Oxiteno believes it has a particular competitive advantage over imports with regard to timely delivery and reliability of supply.

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

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Oxiteno's main competitors are Shell Chemical, Dow Chemical, Clariant, BASF S.A., Solvay and Stepan.

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, 2018, 155 employees of Oxiteno were engaged in research and development and engineering activities. Oxiteno's research and development expenditures in 2018, 2017 and 2016 were R\$57 million, R\$53 million and R\$50 million, respectively.

Oxiteno's investments in research and development have resulted in the introduction of 72 new applications for its products during the last three years. Oxiteno will continue to invest in research and development focused on developing new product applications to meet clients' needs.

Raw materials. Oxiteno's principal raw material is ethylene. For the year ended December 31, 2018, ethylene was responsible for 33% of Oxiteno's variable costs of production and 27% of its total cost of sales and services. Among Oxiteno's other raw materials, the principal materials include palm kernel oil, C4, butyl alcohol, primary fatty amine and phenol. Supply of ethylene constitutes an entry barrier for new ethylene oxide producers in Brazil since the current production capacity of ethylene by Brazilian crackers is committed to existing second-generation companies, including Oxiteno, and significant investments are needed for the construction of a new cracker. Additionally, ethylene's transport and storage is complex and expensive because it must be kept at a temperature below -200 degrees Fahrenheit (-100 degrees Celsius) during transportation and storage, therefore importing and exporting of ethylene is generally uneconomical. Accordingly, the naphtha crackers, such as Braskem, are largely dependent for their sales upon the second-generation petrochemical companies, such as Oxiteno, located in the respective petrochemical complexes.

Ethylene supply. Ethylene is used for the production of ethylene oxide at the Camaçari plant and the Mauá plant. Braskem supplies all of Oxiteno's ethylene requirements for the Camaçari plant and Mauá plant, through pipelines, thus minimizing the costs 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 supply agreement with Braskem, which establishes a minimum annual consumption level of ethylene and conditions for the supply of ethylene until 2021 at the Camaçari plant. The minimum purchase commitment clause is 205 thousand tons of ethylene per year. Should the minimum purchase commitment not be met, Oxiteno would be liable for a penalty of 40% of the current ethylene price for the quantity not purchased. The minimum purchase commitment is subject to proportional reduction in the case of scheduled shutdowns in the supplier's and/or Oxiteno's facilities.

In addition, Oxiteno has a supply agreement with Braskem that expires in 2023 at the Mauá plant. 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 commitment clause is 44,100 tons of ethylene annually. Should the minimum purchase commitment not be met, Oxiteno would be liable for a penalty of 30% of the current ethylene price for the quantity not purchased. The minimum purchase commitment is subject to proportional reduction in the case of scheduled shutdowns in the supplier's and/or Oxiteno's facilities.

Oxiteno does not maintain storage of ethylene and any unexpected interruptions in supply from the crackers would have an immediate impact on Oxiteno's production.

First generation petrochemical companies undergo scheduled maintenance shutdowns. Oxiteno anticipates these shutdowns by building up inventory. Oxiteno also uses these planned shutdowns for regular maintenance work on its

own plants or eventual substitution of catalysts or for expansion of installed capacity.

Price of ethylene. The price of ethylene supplied by Braskem to Oxiteno for the production of goods to be sold in Brazil is linked to ethylene contract prices referenced to the North-Western Europe (NWE) markets as from August 2006 to our plant in Camaçari and as from August 2008 to our plant in Mauá.

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The following table shows the average ethylene prices referenced to the North-Western Europe (NWE) contract prices:

	(US\$/ton)	NWE Equivalent to (R\$/ton) ⁽¹⁾
2018		
First Quarter	1,308	5,069
Second Quarter	1,291	5,001
Third Quarter	1,319	5,111
Fourth Quarter	1,248	4,837
Maximum Price in Year	1,354	5,245
Minimum Price in Year	1,120	4,340
Year Average	1,292	5,005
2017		
First Quarter	1,086	3,592
Second Quarter	1,139	3,768
Third Quarter	1,149	3,801
Fourth Quarter	1,212	4,009
Maximum Price in Year	1,249	4,132
Minimum Price in Year	1,049	3,470
Year Average	1,147	3,794
2016		
First Quarter	926	3,018
Second Quarter	1,024	3,337
Third Quarter	1,039	3,386
Fourth Quarter	1,025	3,341
Maximum Price in Year	1,051	3,425
Minimum Price in Year	903	2,943
Year Average	1,004	3,272

⁽¹⁾ The figures in U.S. dollars have been converted into *Reais* using the exchange rate of US\$1.00 = R\$3.875, US\$1.00 = R\$3.308 and US\$1.00 = R\$3.259 for 2018, 2017 and 2016, respectively, which is the commercial rate reported by the Central Bank on that date. This information is presented solely for the convenience of the reader. As naphtha is the main raw material for the production of ethylene in Brazil, fluctuations in the price of naphtha strongly influence fluctuations in the price of ethylene. Because the main determinant of the price of naphtha is the price of crude oil, the price of naphtha, and thus ethylene, is subject to fluctuations based on changes in the international oil price. The increases in the price of ethylene could affect Oxitenos competitiveness in the petrochemical market. See Item 3.D. Key Information Risk Factors Risks Relating to Ultrapar and Its Industry.

In April 2013, the Brazilian government announced a reduction in the PIS and COFINS taxes levied on certain raw materials for the petrochemical industry (first and second generation), including ethylene. The PIS and COFINS paid on raw material procurement, including ethylene, was reduced from 9.25% to 1%. The lower tax rate became effective in May 2013 and has been increasing gradually since then. In 2018, Provisional Measure No. 836/2018 revoked the incentive. However, this Provisional Measure was not converted into ordinary law and the incentive became effective again. The level of PIS and COFINS taxes levied on the acquisition of ethylene in 2018 was 5.6%.

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Other raw materials. For the year ended December 31, 2018, other raw materials, such as palm kernel oil, C4, butyl alcohol, acetic acid, nonene, phenol, primary fatty amine, ethanol, oxygen, base oils, ammonium and other accounted for approximately 42% of Oxiteno's variable costs and 35% 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. Electric power, steam 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. In 2018, electric power represented 2% of Oxiteno's variable costs.

Income tax exemption status. Brazilian legislation provides a 75% income tax reduction for businesses located in the Northeast region of Brazil, which depends of SUDENE's formal and previous approval. Oxiteno is entitled to this tax benefit at Oxiteno Nordeste and EMCA until 2026 and Oleoquímica until 2021. The total amount of SUDENE's income tax reduction for Oxiteno for the years ended December 31, 2018 and 2017 was R\$80.1 million and R\$36.7 million, respectively. For further information, see Note 9.c to our 2018 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 shutdowns due to the maintenance program usually take place at the same time as the shutdowns for the change of the ethylene oxide catalyst. In the case of the ethylene oxide and ethylene glycol units at the Mauá and Camaçari plants, which have continuous production processes, maintenance is preferably scheduled for periods when the relevant cracker, which supplies ethylene to the plant, is scheduled to be shut down for maintenance. Each cracker is typically shut down for maintenance for a period of approximately 20 days every 36 to 48 months. The same happens to the Triunfo plant, which receives C4 from Braskem. In the case of the other production units at such plants and the Tremembé plants, maintenance is performed during scheduled breaks in production, and the frequency and period for maintenance vary depending on the nature of the product. 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 and jointly liable for losses and damages of an environmental nature. See Item 4.B. Information on the Company Business Overview Petrochemicals and Chemicals Industry and Regulatory Overview.

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

Waste products from Oxiteno's industrial plants are discharged in accordance with legal requirements. Effluents are discharged and treated in Oxiteno's own treatment centers or by petrochemical complexes where it has activities. Oxiteno seeks to reprocess solid waste products in cement furnaces. Where reprocessing is not possible, these products are mainly incinerated.

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

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

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Oxiteno developed an important project to increase the use of renewable raw materials, the oleochemical unit, which uses palm kernel oil, extracted from the palm seed, to produce fatty alcohols and its by-products. After the start-up of the oleochemical unit, the share of renewable raw materials in Oxiteno's raw materials total costs reached 27% in 2018. In 2010, Oxiteno joined the Roundtable on Sustainable Palm Oil, an organization that works to regulate the sustainable plantation of palm, aiming to strengthen its regional leadership and its sustainability practices.

Storage services for liquid bulk***Ultracargo***

Ultracargo is the largest provider of liquid bulk storage in Brazil. Ultracargo stores and handles liquid bulk, mainly chemicals, fuels and vegetable oil. Ultracargo also offers ship loading and unloading services, the operation of pipelines, logistics programming and installation engineering. Ultracargo's ten largest clients accounted for 70% of its revenues in 2018, with its three largest clients, Braskem, Petrobras and Ipiranga (a related party) accounting for 15%, 12% and 10%, 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. As of December 31, 2018, Ultracargo operated storage facilities with a capacity of 700 thousand cubic meters. Ultracargo's history is one of pioneering logistics solutions in the Brazilian market. As of December 31, 2018, Ultracargo accounted for 67% of all tank capacity for liquids at the Aratu port 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 27% of the Brazilian foreign trade in 2018. The Santos terminal, which started operating in mid-2005, has become the largest storage facility operated by Ultracargo after the integration of the terminals acquired from União Terminais in 2008. In December 2009, with the acquisition of Puma, a storage terminal for liquid bulk located at the port of Suape, in the state of Pernambuco, Ultracargo added 83.4 thousand cubic meters to its current capacity. In July 2012, Ultracargo acquired Temmar from Temmar Netherlands B.V. and Noble Netherlands B.V., subsidiaries of Noble Group Limited. This terminal is located in the port of Itaqui, which added 55 thousand cubic meters to Ultracargo's capacity. In January 2018, Ultracargo, through its subsidiary Tequimar, entered into a sale and purchase agreement for the acquisition of 100% of the quotas of TEAS, owned by Raízen Energia S.A. and Raízen Araraquara Açúcar e Álcool Ltda., whose assets had already been operated by Ultracargo in the port of Santos. The purchase price of the acquisition was R\$103 million. Closing of the acquisition took place on March 29, 2018.

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 Oxiteno. Transactions between Ultracargo and Oxiteno are carried out strictly on an arm's-length basis.

At the end of 2003, Ultracargo maintained four liquid bulk storage terminals in Aratu 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, which was sold to Ipiranga in 2012. With the acquisition of União Terminais in 2008, Ultracargo also started to operate in Paranaguá, in the state of Paraná, and in Rio de Janeiro, in the state of Rio de Janeiro. Since August 2012, Ultracargo has been operating in Itaqui, in the State of Maranhão. In August 2015, Ultracargo's terminal in Paulínia was permanently closed and, in June 2017, it was sold to a third party.

Ultracargo completed the construction of another intermodal terminal in Santos in mid-2005. This project is Ultracargo's second port installation to integrate road, rail and maritime transportation systems, the first being Aratu.

The terminal occupies an area of approximately 64 thousand square meters that hosts 38 thousand cubic meters of tankage space for chemical products, 40 thousand cubic meters for ethanol and 38 thousand cubic meters for vegetable oils. In 2007, Ultracargo also expanded its liquid storage capacity with the addition of 10 thousand cubic meters to Aratu.

In 2008, Ultracargo added 184 thousand cubic meters to its liquid bulk storage capacity through: (i) the acquisition of União Terminais, which added 170 thousand cubic meters and (ii) the expansion of its terminal in Aratu, adding 14 thousand cubic meters. In 2009, Ultracargo added 95 thousand cubic meters to its liquid bulk storage capacity through (i) the acquisition of Puma's assets in Suape, adding 83 thousand cubic meters and (ii) the expansion of its terminal in Aratu, adding 12 thousand cubic meters.

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In 2010, Ultracargo added 16 thousand cubic meters to its liquid bulk storage in the terminal of Santos. Additionally, in July 2010, Ultrapar sold Ultracargo's in-house logistics, solid bulk storage and road transportation businesses, with the transfer of shares of AGT and Petrolog to Aqces. See Item 4.A. Information on the Company History and Development of the Company. In 2011, Ultracargo added 26 thousand cubic meters to its liquid bulk storage capacity in the Suape terminal. In 2012, Ultracargo added 55 thousand cubic meters to its liquid bulk storage capacity through the acquisition of a terminal in Itaquí. In 2013, Ultracargo concluded an expansion in the terminal of Santos, adding 46 thousand cubic meters (42 thousand cubic meters in 2012 and 4 thousand cubic meters in 2013), and in the terminal of Aratu, adding 26 thousand cubic meters (4 thousand cubic meters in 2012 and 22 thousand cubic meters in 2013). This project was part of Ultracargo's expansion plan started in 2010 and increased its total storage capacity by 15%.

Income tax exemption status. Brazilian legislation provides a 75% income tax reduction for businesses located in the Northeast region of Brazil, which depends on SUDENE formal and previous approval. Ultracargo's terminals at Aratu, Suape and Itaquí are entitled to the tax benefit up to 2022, 2020 and 2025, respectively. The total amount of SUDENE's income tax exemption for the years ended on December 31, 2018 and 2017 was R\$14.8 million and R\$8.8 million, respectively. For further information, see Note 9.c to our 2018 consolidated financial statements.

Quality. In 2007, Ultracargo's terminal in Aratu obtained an ISO 14001 certification and, since then, has undergone several re-certification processes, most recently in 2018. The evaluation process occurred under a unified Quality Management System for the entire country. In 2002, Santos terminal obtained the ISO 14001 certification and OHSAS 18001 in 2003. In 2011, Suape terminal obtained an ISO 14001 certification. In 2012, Suape and Aratu terminals obtained OHSAS 18001 certification. In 2014 and 2016, the Aratu terminal was recognized for its performance in Health, Safety and the Environment by Industrial Development Committee of Camaçari (Cofic). In 2015, Itaquí terminal obtained an ISO 14001 and OHSAS 18001 certification.

Retail Pharmacy***Industry Overview***

The retail pharmacy business in Brazil is responsible for the purchase, distribution and resale of medicines to end consumers through drugstores. It is also a common practice in this industry to sell beauty and personal care products as well as certain convenience products at drugstores. Its main suppliers are pharmaceutical producers and beauty and personal care producers.

The retail pharmacy business is a highly regulated industry. In Brazil, the regulation of the sector is executed by the Federal Government, the State and Municipalities. The Federal Government enacts laws and regulations of general applicability, which are enforced and complemented by actions of the States and Municipalities. At the federal level, the health and pharmaceutical sectors are regulated and supervised by the Ministry of Health, through ANVISA, a public agency established by Federal Law No. 9,782/99 and regulated by Decree No. 3,029/99.

In addition, pursuant to Law No. 10,742/03 and Decree No. 4,766/03, the regulation of standards and criteria for setting and adjusting the prices of medicines in Brazil is established by the Drug Market Regulation Chamber (CMED), which fixes a capped price for sales from pharmaceutical companies to their distributors, and for final sales to consumers. This capped-price is based on the mechanism which comprises essentially: (i) an inflation rate measured by the IPCA; (ii) factor of productiveness, which is a percentage calculated based on future earnings of productivity by the pharmaceutical industry; and (iii) factor of price adjustments, which is a percentage calculated based on the input costs applicable among market sector prices and to intra-sector prices. The medicines are readjusted in April of every year. However, some pharmaceutical products, such as herbal and homeopathic medicines are not currently subject to CMED's price regulation. In Brazil, the front-store area occupied by drugstores is usually smaller

than 300 square meters.

Brazilian drugstores' total revenues, according to data from IQVIA, were R\$113 billion in 2018, a 5% growth compared to 2017. We believe the sector has potential for continued growth, mainly due to the aging population, greater access to medicines, especially due to the growing prominence of generic drugs, the growing demand for personal care, wellness and beauty products in drugstores, and higher levels of disposable income among consumers in the longer term. In addition, consolidation of the sector, supported by increasing market formalization and consequent investments, is in its early stages, with the top five drugstore chains in Brazil accounting for only 28% of the overall market revenues in 2018, according to ABRAFARMA. According to IQVIA, there were approximately 78 thousand drugstores in Brazil in 2018.

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The main types of pharmaceutical products sold in Brazil are listed below:

Branded medicine Innovative products, registered at the federal agency responsible for sanitary surveillance and marketed in the country whose efficacy, safety and quality have been scientifically proven by the federal competent body upon registration.

Generic medicine Contain the same active ingredient, in the same strength and dosage form, being administered by the same route and with the same therapeutic indication as the reference drug in the country, showing the same safety as the reference drug in the country, and which can be interchangeable with the latter.

Similar medicine Contain the same active ingredients, has the same concentration, pharmaceutical form, method of administration, dosage and therapeutic instructions, and is equivalent to a medicine registered with the Federal agency responsible for sanitary surveillance, differing only as regard the characteristics of size and form of the product, period of validity, packaging, labelling, excipients and vehicle.

OTC medicines Over the Counter (OTC) medicines that do not need a prescription to be sold.

According to ABRAFARMA, the sale of medicines accounted for 68% of the total sales of its members in the retail pharmacy business in Brazil in September 2018 (the latest available data as of the date of this annual report), and products other than medicines accounted for the remaining 32% of the sales. Sales of OTC products during the winter are usually higher than in warmer seasons, while sales of personal care products during the summer are usually higher than in other seasons.

The following chart shows the supply process of retail pharmacy in Brazil:

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Extrafarma

Benefitting from over 50 years of activity in the wholesale and retail of pharmaceutical products, Extrafarma is a leading drugstore chain in the regions in which it operates. Extrafarma operates in areas where recent sales growth rates have been above the national average, which we believe presents attractive potential for future growth.

As of December 31, 2018, Extrafarma operated 433 drugstores in thirteen states of Brazil (123 in Pará, 11 in Amapá, 7 in Tocantins, 92 in Ceará, 56 in Maranhão, 36 in Pernambuco, 18 in Rio Grande do Norte, 17 in Bahia, 10 in Paraíba, 9 in Piauí, 5 in Sergipe, 3 in Alagoas and 46 in São Paulo). Extrafarma operates two distribution centers in Benevides, in the state of Pará, and in Aquiraz, in the state of Ceará, which are responsible for supplying all of our stores.

Extrafarma operates both in the retail and wholesale of pharmaceutical products. In 2018, Extrafarma's gross revenues reached R\$2.1 billion, of which the retail business represented 94% and the wholesale business represented 6%.

Extrafarma's main strategy is focused on the retail business, which is responsible for the larger share of its revenues. Within this business, Extrafarma's product mix consists of all the main types of pharmaceutical products (branded medicine, generic medicine, similar medicine and OTC) in addition to personal care products and convenience products. In 2018, out of Extrafarma's revenues in the retail business, branded medicines represented 39%, generic/similar medicines represented 15%, OTC 10%, personal care products represented 22% and convenience products represented 14%.

On the wholesale side, Extrafarma operates as a distributor of both pharmaceutical and personal care products. It purchases the products from manufacturers and sells them to other drugstore chains and independent retailers, which are serviced through Extrafarma's own and leased truck fleet. As of December 31, 2018, the average payment term of Extrafarma's sales to independent retailers was 74 days.

In January 2016, Extrafarma remodeled its loyalty program and renamed it *Clube Extrafarma*. The program provides immediate discounts on purchases, in addition to accumulating 1 point for each R\$1 spent. Points received by Extrafarma's customers may be exchanged during the period of 6 months for significant discounts in store products, pre-paid mobile phone credits, Ipiranga's KMV and *Multiplus Fidelidade*. As of December 31, 2018, *Clube Extrafarma* had 8.4 million clients registered.

Competition. The consolidation process of the retail pharmacy business is in its early stages.

The drugstore chains associated to ABRAFARMA represented an estimated 41% of the total revenues in the sector in 2018. There were more than 20 drugstore chains associated to ABRAFARMA in 2018. According to ABRAFARMA the main players in Brazil are Raia Drogasil, DPSP, Pague Menos, Araujo and Panvel.

Table of Contents**Oil Refining**

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, special oils, pentanes and solvents. In 2018, the average production of the refinery was 14,345 barrels per day, which represented 84% of its 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. RPR's results are accounted for using the equity method, as share of profit of joint-ventures and associates. Results generated by the oil refining operations are not significant to Ultrapar. In 2018, the share of profits from RPR operations recognized into Ultrapar's results amounted to R\$1.1 million, corresponding to less than 1% of Ultrapar's consolidated net income for the year.

In August 2014, there was a sharp reduction in the international crude oil prices, reaching in December 2015 the lowest level since December 2008 (US\$36 per barrel). Despite the reduction in oil prices, the prices of oil-based fuels in Brazil have increased during the same period, helping improve RPR's margins. In October 2016, a new price dynamic for gasoline and diesel was established with the objective of, amongst other aspects, fluctuating prices according to international references. Therefore, gasoline and diesel prices became directly influenced by the international prices and the *Real*/U.S. dollar exchange rate. In July 2017, the new price dynamic was updated in order to make daily price adjustments based on international references and the *Real*/U.S. dollar exchange rates. In the fourth quarter of 2017, operating margins for refining activities were negatively impacted by the increase in crude oil prices internationally, as a reflection of the reduction of oil production by OPEC countries. As a result of the truck drivers' strike in May 2018, the Brazilian Government announced, among other measures, a significant drop in diesel prices, a combination of tax reduction and a subvention program that lasted until December 31, 2018. These measures resulted in a narrowing margins in the refining activity in 2018.

Insurance

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 but not limited to loss and damage from fire, lightning, explosion of any nature, windstorm, plane crash and electrical damage. The maximum compensation values based on the maximum possible loss that could result from specific location, as of December 31, 2018, are shown below:

	Maximum compensation value^(*)
Oxiteno	US\$1,142
Ipiranga	R\$1,032
Ultracargo	R\$949
Ultragaz	R\$266
Extrafarma	R\$160

^(*) In millions. In accordance with our policies terms and conditions.

We maintain general liability insurance that covers all our wholly-owned subsidiaries with a maximum coverage of US\$400 million for losses and damage incurred by third parties as a result of any accidents that occur in connection with our commercial/industrial operations and/or the distribution and sale of our products and services.

We maintain Directors & Officers Liability insurance policies to indemnify members of the Board of Directors, fiscal council and executive officers of Ultrapar and its subsidiaries (insured persons) in the total amount of US\$80 million, which covers any insured liabilities resulting from wrongful acts, including any act or omission or any matter claimed against them solely by reason of his or her serving in such capacity, except if the act, omission or the claim is consequence of gross negligence or willful misconduct.

In addition, we also take out group life and personal accident, health, national and international transportation and other insurance policies.

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

C. Organizational Structure

The following chart shows our organizational structure⁽¹⁾ for our principal subsidiaries as of December 31, 2018:

- (1) Percentages represent approximate ownership of voting share capital and total capital (voting capital/total capital).
- (2) Non-controlling interests in Utingás are mainly held by Liquigás Distribuidora S.A. and SHV Gas (31% and 8% of total capital, respectively).
- (3) Other shareholders of RPR are Petrobras and Braskem, each holding 1/3 of the voting shares.
- (4) União Vopak a company jointly owned by Tequimar and Vopak Brasil S.A.
- (5) Iconic an association between Ipiranga and Chevron.

We conduct our LPG distribution business through Ultragaz, composed of Cia. Ultragaz, Bahiana and Utingás. Cia. Ultragaz operates in the business of distribution of LPG, primarily in the South, Southeast and Midwest regions of Brazil. Bahiana operates in the business of distribution of LPG, primarily in the Northeast regions of Brazil. Utingás is an LPG storage company, with facilities in the states of São Paulo and Paraná.

We conduct our fuel distribution business through Ipiranga, represented by our wholly-owned subsidiary IPP, except for IPP's subsidiaries that operates in the LPG distribution business, as described above and Extrafarma as described below. Ipiranga covers the distribution and marketing of petroleum products, fuel ethanol and NGV throughout Brazil. IPP also, through its subsidiaries, owns am/pm brand in Brazil and Tropical, which provides transportation services for Ipiranga and other fuel distributors.

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We conduct petrochemical and chemical activities through our wholly-owned subsidiary, Oxiteno. Oxiteno operates in the petrochemical and chemical sector directly and through its subsidiaries, Oxiteno Nordeste, Oleoquímica, EMCA, Oxiteno Mexico, Oxiteno Andina and Oxiteno Uruguay. Oxiteno directly operates plants located in the state of São Paulo. Oxiteno 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. Oxiteno Mexico operates three plants in Mexico and one plant in the United States through Oxiteno USA. Oxiteno Andina operates one plant located in Venezuela. Oleoquímica is the subsidiary through which we built a fatty alcohol plant in Camaçari. Oxiteno Uruguay, acquired in November 2012, operates one plant located in Uruguay.

We conduct liquid bulk storage business through our wholly-owned subsidiary, Ultracargo, which operates through its subsidiary Tequimar. Tequimar maintains storage facilities at six terminals, of which two are located near the main petrochemical complexes in Brazil, Camaçari and São Paulo.

On January 31, 2014, we closed the Extrafarma Transaction, pursuant to which Extrafarma became our wholly owned subsidiary. Extrafarma operates a retail and wholesale pharmacy business in the North, Northeast and Southeast regions of Brazil. See Item 4.A. Information on the Company History and Development of the Company Extrafarma.

On August 4, 2016, the Company, through its subsidiary IPP, entered into an association agreement with Chevron to create a new company in the lubricants market. The association is formed by IPP and Chevron's lubricants operations in Brazil. On December 1, 2017, the association process was concluded, with the contribution of the subsidiary IpiLubs to CBLSA pursuant to which IPP obtained direct control of CBLSA. Ipiranga and Chevron hold 56% and 44%, respectively, of CBLSA. In order to simplify the corporate structure and join companies with similar activities, IpiLubs was merged with and into CBLSA on November 1, 2018. In that same shareholders' meeting, the subsidiary changed its corporate name to Iconic.

In September 2016, subsidiary Ultrapar International S.A. was created and subsequently issued an aggregate principal amount of US\$750 million of notes in the foreign capital markets.

On January 30, 2018, the Company through its subsidiary Tequimar entered into a sale and purchase agreement for the acquisition of 100% of the quotas of TEAS, owned by Raízen Energia S.A. and Raízen Araraquara Açúcar e Álcool Ltda., which were operated by the subsidiary Tequimar in the port of Santos. Closing of the acquisition took place on March 29, 2018.

Except for Oxiteno Mexico, Oxiteno Andina, Oxiteno USA and Oxiteno Uruguay, all of our material subsidiaries are incorporated under the laws of Brazil.

For further information, see Item 4.A. Information on the Company History and Development of the Company.

D. Property, Plant and Equipment**Ultragas**

Ultragas's LPG distribution network includes 18 filling plants. LPG is carried to the filling plants either via gas pipelines from 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. Ultragas also operates LPG storage bases, known as satellite bases for supplying our bulk trucks. Ultragas 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. LPG is stored in the 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 fills the LPG bottles.

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The following table sets forth the total storage capacity, total filling capacity during 2018 and the 2018 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)	2018 average filling utilization rate
Aracajú	Secondary	240	4,388	80%
Araçatuba	Satellite	180		
Aracruz	Secondary	120	4,388	30%
Araraquara	Satellite	60		
Araucária	Primary	240	8,776	85%
Barra de São Francisco	Secondary	360	2,498	37%
Barueri	Secondary	1,500	5,363	74%
Bauru	Satellite	60		
Betim	Secondary	480	8,776 ⁽¹⁾	53%
Blumenau	Satellite	60		
Canoas	Secondary	600	4,388 ⁽²⁾	89%
Capuava	Primary	720	13,164	45%
Cascavel	Satellite	120		
Caucaia	Secondary	420	8,776 ⁽¹⁾	66%
Caxias do Sul	Satellite	60		
Chapecó	Satellite	60		
Florianópolis	Satellite	60		
Goiânia	Secondary	360	5,363	75%
Imbiruçu	Primary	372		
João Pessoa	Satellite	60		
Joinville	Satellite	60		
Juazeiro	Secondary	180	4,388	52%
Londrina	Satellite	60		
Mataripe	Primary	1,025	20,341 ⁽¹⁾	71%
Mauá	Satellite	720		
Paulínia	Primary	2,260	8,776	83%
Pirajá Salvador	Satellite	60		
Ponta Grossa	Satellite	60		
Pouso Alegre	Satellite	60		
Ribeirão Preto	Secondary	180	4,388	80%
Rio de Janeiro	Primary	720	5,363 ⁽¹⁾	108%
Santos	Primary	2,400	3,500	46%
São José do Rio Preto	Satellite	60		
São José dos Campos	Primary	960	5,363	62%
Sorocaba	Satellite	120		
Suape	Primary	480	5,363	136%
Total		15,537	126,653	69%

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

(2) Canoas facilities operated with one 8-hour shift per day in 2018.

Note: Facilities with more than 100% average filling utilization rate operated during and outside of normal business hours.

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

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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 TRRs. Distributors own their storage terminals (Owned), lease space in third parties' 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 2018.

Base	Type	Owner Structure of Storage Terminal	Storage Capacity (cubic meters)
Açailândia	Secondary	JO operated by others ⁽²⁾	4,449
Araucária	Primary	TPA ⁽¹⁾	850
Araucária	Primary	JO operated by others ⁽²⁾	53,898
Bagé	Secondary	Owned	4,721
Barcarena	Primary	Owned	8,202
Barueri	Primary	TPA ⁽¹⁾	6,100
Bauru	Secondary	Owned	3,288
Belém	Primary	Owned	19,674
Belém	Primary	TPA ⁽¹⁾	1,200
Betim	Primary	JO operated by Ipiranga ⁽²⁾	13,462
Betim	Primary	JO operated by others ⁽²⁾	7,258
Biguaçu	Primary	TPA ⁽¹⁾	2,313
Brasília	Primary	JO operated by others ⁽²⁾	6,931
Cabedelo	Primary	TPA ⁽¹⁾	7,344
Campo Grande	Secondary	Owned	5,870
Campos	Secondary	JO operated by Ipiranga ⁽²⁾	3,728
Canoas	Primary	Owned	40,577
Canoas	Primary	TPA ⁽¹⁾	200
Cascavel	Secondary	Owned	3,930
Caxias	Primary	Owned	36,284
Caxias	Primary	JO operated by others ⁽²⁾	9,640
Chapecó	Secondary	TPA ⁽¹⁾	640
Cruz Alta	Secondary	Owned	5,480
Cubatão	Primary	Owned	9,588
Cubatão	Primary	TPA ⁽¹⁾	1,890
Cuiabá	Secondary	Owned	1,598
Cuiabá	Secondary	TPA ⁽¹⁾	440
Fortaleza	Primary	TPA ⁽¹⁾	4,560
Goiânia	Primary	TPA ⁽¹⁾	2,185
Goiânia	Primary	JO operated by others ⁽²⁾	8,179
Governador Valadares	Secondary	Owned	4,745
Guamaré	Primary	JO operated by others ⁽²⁾	2,790
Guaramirim	Primary	TPA ⁽¹⁾	402
Guarapuava	Secondary	Owned	5,625
Guarulhos	Primary	TPA ⁽¹⁾	3,080

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Imbiruçu	Primary	JO operated by Ipiranga ⁽²⁾	5,241
Itabuna	Primary	TPA ⁽¹⁾	145
Itacoatiara	Primary	TPA ⁽¹⁾	250
Itaituba	Secondary	Owned	1,350
Itajaí	Primary	TPA ⁽¹⁾	923
Itajaí	Primary	JO operated by Ipiranga ⁽²⁾	10,539
Jequié	Primary	JO operated by others ⁽²⁾	4,710
Juazeiro	Secondary	JO operated by others ⁽²⁾	1,818
Lages	Secondary	TPA ⁽¹⁾	1,310
Londrina	Secondary	JO operated by Ipiranga ⁽²⁾	6,233
Luis Eduardo Magalhães	Secondary	TPA ⁽¹⁾	306
Macapá	Primary	JO operated by Ipiranga ⁽²⁾	4,284
Maceió	Primary	JO operated by Ipiranga ⁽²⁾	6,895
Manaus	Primary	Owned	6,664
Manaus	Primary	TPA ⁽¹⁾	700
Marabá	Secondary	TPA ⁽¹⁾	1,183
Maringá	Secondary	TPA ⁽¹⁾	7,453
Miritituba	Secondary	TPA ⁽¹⁾	2,200
Montes Claros	Secondary	Owned	904
Munguba	Secondary	Owned	12,377

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Base	Type	Owner Structure of Storage Terminal	Storage Capacity (cubic meters)
Ourinhos	Secondary	Owned	10,011
Paranaguá	Primary	TPA ⁽¹⁾	90,000
Passo Fundo	Primary	JO operated by Ipiranga ⁽²⁾	8,983
Paulínia	Primary	Owned	7,994
Paulínia	Primary	JO operated by Ipiranga ⁽²⁾	30,603
Porto Nacional	Secondary	TPA ⁽¹⁾	2,790
Porto Velho	Secondary	Owned	8,318
Pres. Prudente	Secondary	Owned	3,381
Ribeirão Preto	Primary	JO operated by others ⁽²⁾	12,810
Rio Grande	Primary	TPA ⁽¹⁾	3,466
Rondonópolis	Secondary	Owned	7,609
Santa Maria	Secondary	Owned	5,224
Santarém	Secondary	Owned	3,221
Santos	Primary	TPA ⁽¹⁾	80,000
São Caetano	Primary	Owned	21,605
São Francisco do Conde	Primary	TPA ⁽¹⁾	4,846
São José do Rio Preto	Secondary	JO operated by others ⁽²⁾	1,685
São José do Rio Preto	Secondary	Owned	6,491
São José do Rio Preto	Secondary	Owned	1,029
São José dos Campos	Primary	JO operated by others ⁽²⁾	13,640
São José dos Campos	Primary	TPA ⁽¹⁾	1,570
São Luis	Primary	TPA ⁽¹⁾	33,570
São Luis	Primary	JO operated by Ipiranga ⁽²⁾	15,152
Sinop	Secondary	TPA ⁽¹⁾	95
Suape	Primary	TPA ⁽¹⁾	30,450
Suape	Primary	JO operated by others ⁽²⁾	13,630
Teresina	Secondary	JO operated by others ⁽²⁾	4,395
Uberaba	Primary	TPA ⁽¹⁾	740
Uberlândia	Primary	JO operated by others ⁽²⁾	11,005
Vila Velha	Primary	TPA ⁽¹⁾	9,170
Vilhena	Secondary	Owned	884
Vitória	Primary	TPA ⁽¹⁾	7,836
Total			818,810

(1) Third party agreements.

(2) Joint-operated with other distributors.

Oxitenó

Oxitenó has six plants in Brazil: Camaçari plants in the Northeast complex, Mauá plant in the São Paulo complex, Triunfo plant in the Southern complex and Tremembé and Suzano plants in the state of São Paulo.

The following table sets forth the current ethylene oxide production capacity of Oxitenó's plants in Brazil as of December 31, 2018.

Units	Capacity (in tons per year)
Camaçari	350,000
Mauá	90,000
Tremembé	
Triunfo	
Suzano	
Total	440,000

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Ethylene oxide is primarily an intermediate material used in the production of ethylene oxide derivatives – only 2% of Oxiteno's sales volume in the year ended December 31, 2018 were ethylene oxide. Therefore, Oxiteno's total production output may not be determined by adding the capacities of ethylene oxide and its derivatives.

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

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

Camaçari plants. The first Camaçari plant, located in the Northeast Complex, was built by Oxiteno and commenced production in 1978. The Camaçari plants produce ethylene oxide and ethylene oxide derivatives, such as ethylene glycols, ethanolamines, glycol ethers and ethoxylated derivatives.

In 2007, in connection with the acquisition of Ipiranga Group by Ultrapar, Oxiteno started to operate a mineral oils production plant, EMCA.

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

Units	Capacity (in tons per year)
Ethylene oxide	350,000
Ethylene glycols	285,000
Ethanolamines	110,000
Glycol ethers	25,000
Ethoxylated derivatives	270,000
White Mineral Oils	60,000
Fatty Alcohols	77,000
Fatty Acids	7,000
Glycerin	11,000

In 2018, the Camaçari plant operated at 52% of its production capacity. The plant had planned stoppages for regular maintenance.

Mauá plant. The Mauá plant, located in the São Paulo Complex, was the first plant built by Oxiteno and it commenced production in 1974. The Mauá plant has process units for ethylene oxide, ethylene glycols, glycol ethers, glycol ether acetates, natural alcohols and ethoxylated derivatives. In addition to the production units, the plant has drumming, storage, warehouse and maintenance facilities and also houses Oxiteno'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 tons per year)
Ethylene Oxide	90,000
Ethylene Glycols	40,000
Glycol Ethers	40,000
Acetates	72,000
C4+C5 Alcohols	13,500
Ethoxylated Derivatives	106,000
Alkylation	17,000
Esterification	4,000
Hydraulic fluids	30,000

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In 2018, the Mauá plant operated at 35% of its production capacity.

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

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

Units	Capacity (in tons per year)
Esterification	10,000
Specialties	15,000
Sulfonation/Sulfation	16,000 ⁽¹⁾
Betaines	10,000
Hydraulic fluids	3,200
Naphthalenes Sulfonates	9,000
Agricultural Blends	15,000

⁽¹⁾ Capacity adjusted for 100% active matter.

In 2018, the Tremembé plant operated at 43% of its production capacity.

Suzano plant. In 2007, Oxiteno began operating a sulfonation and sulfation plant in Suzano, with a production capacity of 13.5 thousand tons per year. In 2012, Oxiteno added 11.5 thousand tons per year to its capacity. As a result, production capacity at the Suzano plant increased to 26.5 thousand tons per year.

Units	Capacity (in tons per year)
Sulfonation/Sulfation	13,500
Esterification	11,500
Betaines	1,500

In 2018, the Suzano plant operated at 50% of its production capacity.

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

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

Units	Capacity (in tons per year)
Oxygenated solvents	42,000

In 2018, the Triunfo plant operated at 56% of its production capacity.

With the acquisition of Oxiteno Mexico (formerly Canamex) in December 2003 and Unión Química in 2007, Oxiteno acquired three specialty chemical plants in Mexico. As of December 31, 2018, the Coatzacoalcos plant had a production capacity of 86 thousand tons per year of ethoxylates and 8 thousand tons per year of alkyphenols; the Guadalajara plant had a production capacity of 32 thousand tons per year of specialty chemicals and San Juan del Río had a production capacity of 8 thousand tons per year of specialty chemicals. In 2018, the Guadalajara, the Coatzacoalcos and San Juan del Río plants operated at an average rate of 48%, 44% and 79% of their production capacity, respectively.

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With the acquisition of Oxiteno Andina in September 2007, Oxiteno acquired a specialty chemical plant in Venezuela. As of December 31, 2018, the Santa Rita plant had a production capacity of 70 thousand tons per year of ethoxylates and operated with 4% of its production capacity in 2018.

Oxiteno acquired a specialty chemical plant in Pasadena, Texas in April 2012. As of December 31, 2018, the Pasadena plant had a production capacity of 120 thousand tons per year of specialty and agricultural blends. In 2018, Pasadena plant operated at an average rate of 19% of its production capacity.

With the acquisition of Oxiteno Uruguay in November 2012, Oxiteno acquired a specialty chemical plant in Montevideo, Uruguay. As of December 31, 2018, the Montevideo plant had a production capacity of 63 thousand tons per year of specialty chemicals and operated with 33% of its production capacity.

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

Units	Capacity (in tons per year)
Ethoxylated derivatives Coatzacoalcos plant	86,000
Alkylation Coatzacoalcos plant	7,860
Ethoxylated derivatives Guadalajara plant	19,000
Esterification Guadalajara plant	13,000
Sulfonation/Sulfation San Juan del Río	8,400
Alkoxyated derivatives Santa Rita	70,000
Specialties/Agricultural Blends Pasadena	32,000
Alkoxylation Pasadena	120,000
Sulfonation/Sulfation Montevideo	45,000
Fatty Acid Sulfate (FAS) Montevideo	10,000
Betaines/Amides Montevideo	6,000
Fatliquor oils Montevideo	2,000

Ultracargo

The following tables set forth the principal products stored at, and the storage capacity operated by, Ultracargo's facilities at December 31, 2018, and the average utilization of Ultracargo's facilities during 2018.

Facility	Capacity (in cubic meters)	Average utilization %⁽²⁾	Product Lines
Aratu (Bahia)	218,190	105%	Chemicals, ethanol, vegetable oils, corrosives, and fuels
Suape (Pernambuco)	157,910	141%	Chemicals, ethanol, corrosives, and fuels
Itaqui (Maranhão)	55,280	138%	Ethanol and fuels
Santos (São Paulo) ⁽¹⁾	222,775	86%	Chemicals, ethanol, lubricants, fuels, and corrosives
Rio de Janeiro (Rio de Janeiro)	17,247	105%	Corrosives and lubricants
Paranaguá (Paraná)	28,262	70%	Corrosives and vegetable oils
Total	699,664	108%	

- (1) 152 thousand cubic meters of effective capacity at our Santos facilities have been interrupted due to the fire accident in April 2015. In June 2017, Ultracargo resumed operations with 67.5 thousand cubic meters. Please see Item 4.A. Information on the Company History and Development of the Company Ultracargo Fire at storage facilities in Santos.
- (2) Based on an estimated turnover of products for each terminal.

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As of December 31, 2018, Extrafarma operated 433 drugstores and 2 distribution centers in the North and Northeast regions of Brazil.

The following tables set forth the breakdown per region of Extrafarma's drugstores and the capacity for each of Extrafarma's distribution centers as of December 31, 2018:

Location	# of stores
North	141
Pará	123
Amapá	11
Tocantins	7
Northeast	246
Ceará	92
Maranhão	56
Pernambuco	36
Rio Grande do Norte	18
Bahia	17
Paraíba	10
Piauí	9
Sergipe	5
Alagoas	3
Southeast	46
São Paulo	46
Total	433

Distribution center	Area (in square meters)	Height (in meters)
Benevides (Pará)	9,777	13.0
Aquiraz (Ceará)	7,500	12.3
Total	17,277	

Collateral

As of December 31, 2018, Ultrapar had no debt secured by property, plant and equipment.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

You should read this discussion together with our audited 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. Key Information Selected Consolidated Financial Data.

Our audited consolidated financial statements included herein were prepared in accordance with IFRS and include our consolidated Statements of Financial Position as of December 31, 2018 and 2017 and January 1, 2017, and Statements of Profit or Loss, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016, as well as notes thereto.

Overview

With more than 80 years of history, Ultrapar occupies positions of leadership in the five business segments in which it operates:

LPG distribution, conducted by Ultragas;

fuel distribution, conducted by Ipiranga;

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chemicals production, conducted by Oxiteno;

storage services for liquid bulk, conducted by Ultracargo; and

retail pharmacy business, conducted by Extrafarma.

Ultragaz distributes LPG to residential, commercial and industrial market segments. Ipiranga distributes gasoline, ethanol, diesel, NGV, fuel oil, kerosene and lubricants through a network of 7,218 service stations and directly to large customers. Oxiteno produces ethylene oxide and its principal derivatives, and is also a significant producer of specialty chemicals, particularly surfactants. It manufactures approximately 1,000 products used in various industrial sectors such as cosmetics, detergents, crop protection chemicals, packaging, textiles and coatings. Ultracargo is the largest provider of storage for liquid bulk in Brazil, with six terminals and storage capacity of 700 thousand cubic meters. As of December 31, 2018, Extrafarma operated 433 drugstores in twelve Brazilian states.

Brazilian economic background

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

Gross domestic product. In 2014, inflation remained at high levels, reaching 6.4% at the end of the year, and the Brazilian government raised again the economy's basic interest rate from 10.00% at the end of 2013 to 11.75% at the end of 2014. Brazil's GDP grew 0.5% in 2014. In 2015, Brazilian GDP decreased 3.5%, influenced by a challenging domestic environment with a combination of economic slowdown, higher unemployment levels, inflationary pressure and a higher economy's basic interest rate (from 11.75% at the end of 2014 to 14.25% at the end of 2015). In 2016, Brazil's GDP further contracted 3.3%, reflecting the worsening of the crisis on both political and economic fronts, with a combination of weak economic activity and a deterioration in disposable income and employment rates, thus curbing consumption levels and creating a challenging business environment. However, the inflation rates have been gradually declining since the second half of 2016, paving the way for a reduction in basic interest rate (from 14.25% at the end of 2015 to 13.75% at the end of 2016). In 2017, GDP grew 1.1% backed by falling inflation and interest rate (from 13.75% at the end of 2016 to 7.00% at the end of 2017). In 2018, Brazilian GDP grew 1.1%, driven by a recovery in demand, consumption and investment, supported by the resumption of several sectors in the economy, the IPCA index rate below government's target and the consequent lower level of interest rate (from 7.00% in the end of 2017 to 6.50% in the end of 2018). The growth for 2018 was negatively impacted due to the disruptions caused by the nationwide strike by truck drivers. Our operations are significantly impacted by Brazilian GDP growth, principally sales of LPG to commercial and industrial customers; sales of diesel; Oxiteno's sales to the domestic market; and Ultracargo's logistics operations.

Inflation and currency fluctuations. Our cash operating activities are substantially in *Reais* and tend to increase with inflation. However, some of our costs of sales and services sold 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 2014, the weak performance of the Brazilian economy and the recovery of the North American economy contributed to a 13% depreciation of *Real* against the U.S. dollar. In 2014, the IGP-M and the IPCA index rates were 3.7% and 6.4%, respectively. In 2015, the IGP-M and the IPCA index rates were 10.5% and 10.7%, respectively, impacted by the adjustment of regulated prices, such as fuels and electric energy, and the *Real* depreciated 47% against the U.S. dollar influenced by the downgrade of Brazil's sovereign credit rating and the expectation for an interest rate rise by the Federal Reserve System. In 2016, the IGP-M and the IPCA index rates

were, respectively, 7.2% and 6.3%. In 2016, the *Real* appreciated 17% against the U.S. dollar. In 2017, the *Real* depreciated 2% against the U.S. dollar and the IPCA index rate was 2.9%. The IGP-M index rate was -0.5%, the lowest rate since 2009. In 2018, the *Real* depreciated 17% against the U.S. dollar, pressured by the rise of the interest rate by the Federal Reserve System and the unstable economic political environment in Brazil (Presidential election and discussion on economic reforms). The IGP-M index rate was 7.5%, influenced by global commodities prices and the *Real* depreciation. The IPCA index rate was 3.7%, impacted by the adjustment of prices, such as food and beverages, fuels and electric energy. From December 31, 2018 to April 11, 2019, the *Real* appreciated 1% against the U.S. dollar. The principal foreign exchange risk we face arises from certain U.S. dollar denominated costs and expenses. Although a substantial part of our debt is dollar-denominated, it is currently hedged against currency devaluation through the use of various derivative instruments or matching assets in the same currency. Additionally, a significant part of our raw materials is also denominated or indexed to the U.S. dollar. A large part of our sales is denominated in *Reais*, although prices in the chemical business are benchmarked to prices prevailing in the international markets, which in turn are linked to 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.

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

Index	Year ended December 31,		
	2018	2017	2016
IGP-M	7.5%	(0.5%)	7.2%
IPCA	3.7%	2.9%	6.3%
Devaluation (appreciation) of the Real against the U.S. dollar	17.1%	1.5%	(16.5%)

We manage 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 CDI, and receive fixed interest in U.S. currency. As of December 31, 2018, our total obligations denominated in foreign currency were R\$6,083.3 million (US\$1,570.0 million), including debts, payables arising from imports and net of advances to foreign suppliers. At the same date, our total asset position in foreign currency was R\$4,357.2 million (US\$1,124.5 million), comprised of investments indexed to U.S. dollars and hedging instruments used to manage fluctuations of exchange rates and foreign currency receivables exposures. As of December 31, 2018, Ultrapar had a net exposure in foreign currency of R\$1,726.1 million (US\$445.5 million), comprised of a net short term position in U.S. dollars of R\$407.4 million (US\$105.1 million), a net long term position in U.S. dollars of R\$2,260.5 million (US\$583.4 million), a net short term position in other currencies of R\$9.2 million (US\$2.4 million) and a net long term position in other currencies, principally the Mexican Peso of R\$136.2 million (US\$35.1 million), due to the company's operations in this country. For the purposes of this paragraph, U.S. dollar values were calculated based on the December 31, 2018 *Real*/U.S. dollar exchange rate. See Item 11. Quantitative and Qualitative Disclosures About Market Risk Foreign Exchange Risk for information about our foreign exchange risk hedging policy and Notes 15 and 33 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 effects of matters that are inherently uncertain on the carrying value of our assets and liabilities and may affect the reported amount of them as well as our revenues and expenses. Actual results may differ from those estimated under different variables, assumptions or conditions, even though our management believes that its accounting estimates are reasonable. The following paragraphs review the critical accounting estimates that management considers most important for understanding our financial condition, results of operations and cash flows. An accounting estimate is considered a critical accounting estimate if it meets the following criteria:

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

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

We have identified the following accounting policies as critical.

Use of estimates, assumptions and judgments. The preparation of the financial statements requires the use of estimates, assumptions, and judgments for the accounting and disclosure of certain assets, liabilities, and income. Therefore, the Company and subsidiaries management use the best information available at the date of preparation of the financial statements, as well as the experience of past and current events, also considering assumptions regarding future events. The estimates and assumptions are reviewed periodically.

Judgments: Information on the judgments is included: in the determination of control in subsidiaries, the determination of joint control in joint venture and the determination of significant influence in associates.

Uncertainties related to the assumptions and estimates: The information regarding uncertainties related to the assumptions and estimates are included: in determining the fair value of financial instruments, the determination of the estimated losses on doubtful accounts, the determination of provisions for losses of inventories, the determination of deferred IRPJ and CSLL amounts, the determination of exchange rate used to translation of Oxiteno Andina information, the useful lives of property, plant, and equipment, the useful lives of intangible assets, and the determination of the recoverable amount of goodwill, provisions for assets retirement obligations, provisions for tax, civil, and labor risks, estimates for the preparation of actuarial reports and the determination of fair value of subscription warrants indemnification. The actual result of the transactions and information may differ from their estimates.

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Estimates of credit losses. The estimated losses take into account, at the initial recognition of the contract, the expected losses for the next 12 months and for the lifetime of the contract when the deterioration or improvement of the customers' credit quality, considering the customers' characteristics in each business segment. The amount of the allowance for estimated losses on doubtful accounts is deemed by management to be sufficient to cover any probable loss on realization of trade receivables. The credit policy establishes the analysis of the profile of each new customer individually regarding their financial condition. The review carried out by the subsidiaries of the Company includes the evaluation of external ratings, when available, financial statements, credit bureau information, industry information and, when necessary, bank references. Credit limits are established for each customer and reviewed periodically, more often when the risk is higher. In cases of sales that exceed these limits, the approval of the responsible area is required. In monitoring credit risk, customers are grouped according to their credit characteristics and depending on the business the grouping takes into account, for example, whether they are individuals or companies, whether they are wholesalers, resellers or final customers, considering also the geographic area. The estimates of credit losses are calculated based on the probability of default rates. Loss rates are calculated on the basis of the average probability of a receivable amount to advance through successive stages of default until full write-off. The probability of default calculation takes into account a credit risk score for each exposure, based on data considered to be capable of foreseeing the risk of loss (external classifications, audited financial statements, cash flow projections, customer information available in the press, for example), with addition of the credit assessment based on experience. Such credit risks are managed by each business unit through specific criteria for acceptance of customers and their credit rating and are additionally mitigated by the diversification of sales. For further information see Notes 5 and 33.d.3 to our consolidated financial statements.

Provisions for inventory losses. If net realizable values are below inventory costs, a provision corresponding to this difference is recognized. Provisions are also made for obsolescence of products, materials or supplies that (i) do not meet our subsidiaries' specifications, (ii) have exceeded their expiration date, or (iii) are considered slow-moving inventory. This classification is made by management with the support of its industrial and operations teams. A significant decrease in net realizable value below inventory costs on a higher level of obsolete, slow-moving or expired products could impact our cost of goods sold and our gross and operating margins. See Note 6 to our consolidated financial statements for additional information about our provisions for inventory losses.

Deferred income and social contribution taxes. We recognize deferred tax assets and liabilities, which do not expire, arising from tax loss carry forwards, temporary add-backs, revaluation of property, plant and equipment and other procedures. The deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized. We periodically review the deferred tax assets for recoverability considering historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. In the event we or one of our subsidiaries operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we reduce all or a significant portion of our deferred tax assets, resulting in an increase in our effective tax rate, thereby decreasing net income. A high degree of management judgment is required in determining the recoverability of deferred tax assets. 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 reduce the deferred tax assets, resulting in a negative impact of future results. See Note 9 to our consolidated financial statements for additional information on taxes.

Investments in subsidiaries, associates and joint-ventures. A subsidiary is an investee in which the investor is entitled to variable returns on investment and has the ability to interfere in its financial and operational activities. Usually the equity interest in a subsidiary is more than 50%. See Note 3.b to our consolidated financial statements for additional information on our investments in subsidiaries. Investments in associates and joint-ventures are accounted for under the equity method of accounting in consolidated financial statements. An associate is an investment, in

which an investor has significant influence, that is, has the power to participate in the financial and operating decisions of the investee but does not exercise control. A joint venture is an investment in which the shareholders have the right to net assets on behalf of a joint control. Joint control is the agreement which establish that decisions about the relevant activities of the investee require the consent from the parties that share control. See Note 12 to our consolidated financial statements for additional information on our investments in associates and joint-ventures.

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Provisions for tax, civil and labor risks. We are currently involved in certain legal and administrative proceedings that arise from our normal course of business as described in Item 8.A. Financial Information Consolidated Statements and Other Financial Information Legal Proceedings and Note 21 to our consolidated financial statements. We believe that the provisions for such proceedings in our consolidated financial statements are adequate. It is our policy to record provisions in regard to lawsuits when the probability of an existing obligation is considered more-likely-than-not to occur in the opinion of our management, based on information available to us, including information obtained from our internal and external legal counsel. Future results of operations could be materially affected by changes in our assumptions, by the effectiveness of our strategies relating to these proceedings, by future developments in each matter being discussed or by changes in approach, such as a change in settlement strategy in dealing with these matters.

Property, plant and equipment. Property, plant and equipment is recognized at acquisition or construction cost, including financial charges incurred on property, plant and equipment under construction, as well as maintenance costs resulting from scheduled plant outages and estimated costs to remove, to decommission or to restore assets (see Note 20 to our consolidated financial statements). Depreciation is calculated using the straight-line method, for the periods mentioned in Note 13 to our consolidated financial statements, taking into account the useful lives of the assets, which are reviewed annually. Leasehold improvements are depreciated over the shorter of the lease contract term and useful life of the property. Changes to the useful lives of property, plant and equipment could impact our depreciation expenses and results.

Intangible assets. Intangible assets include assets acquired by us from third parties, according to the criteria below (see Note 14 to our consolidated financial statements):

Goodwill is shown as intangible assets corresponding to the positive difference between the amount paid or payable to the seller and the fair value of the identified assets and liabilities assumed of the acquired entity. Goodwill is tested annually for impairment. Goodwill is allocated to the business segments, which represent the lowest level that goodwill is monitored for impairment testing purposes.

Other intangible assets acquired from third parties, such as software, technology and commercial property rights, are measured at the total acquisition cost and amortized using straight-line method, for the periods mentioned in Note 14 to our consolidated financial statements, taking into account their useful lives, which is reviewed annually.

The Company and its subsidiaries have not recognized intangible assets that were generated internally. The Company and its subsidiaries have goodwill and brands acquired in business combinations, which are evaluated as intangible assets with indefinite useful life (see Note 14 items a and e to our consolidated financial statements).

Changes to the useful lives of the definite useful lives intangibles could impact our selling expenses and results.

Impairment of assets. The Company and its subsidiaries review, in every report period, the existence of any indication that an asset may be impaired and annually test intangible assets with undefined useful life. If there is an indication, the Company and its subsidiaries estimate the recoverable amount of the asset. Assets that cannot be evaluated individually are grouped in the smallest group of assets that generate cash inflow from continuous use and that are largely independent of cash flows of other assets (cash generating units - CGU). The recoverable amount of assets or CGUs corresponds to the greater of their fair value net of applicable direct selling costs and their value in use.

The fair value less costs of disposal is determined by the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, net of costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale, legal costs, and taxes.

To assess the value in use, the projections of future cash flows, trends, and outlooks, as well as the effects of obsolescence, demand, competition, and other economic factors were considered. Such cash flows are discounted to their present values using the discount rate before tax that reflects market conditions for the period of impairment testing and the specific risks of the asset or CGU being evaluated. In cases where the expected discounted future cash flows are less than their carrying amount, an impairment loss is recognized for the amount by which the carrying value exceeds the fair value of these assets. Losses for impairment of assets are recognized in profit or loss. In case goodwill has been allocated to a CGU, the recognized losses are first allocated to reduce the corresponding goodwill. If the goodwill is not enough to absorb such losses, the surplus is allocated to the assets on a pro-rata basis. An impairment of goodwill cannot be reversed. For other assets, impairment losses may be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if the impairment had not been recognized.

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We tested annually the balances of goodwill shown in the table of Note 14 to our consolidated financial statements for impairment. The determination of value in use involves assumptions, judgments, and estimates of cash flows, such as growth rates of revenues, costs and expenses, estimates of investments and working capital, and discount rates. The assumptions about growth projections and future cash flows are based on our business plan of its operating segments, as well as comparable market data, and represent management's best estimate of the economic conditions that will exist over the economic life of the various CGUs, to which goodwill is related.

The evaluation of the value in use is calculated for a period of five years (except the Extrafarma segment), after which we calculate the perpetuity, considering the possibility of carrying the business on indefinitely. For the Extrafarma segment, a period of ten years was used due to the fact that a four-year period to maturity of new stores was considered.

On December 31, 2018, the discount and real growth rates used to extrapolate the projections ranged from 8.4% to 13.9% and from 0% to 1% p.a., respectively, depending on the CGU analyzed.

The goodwill impairment tests and net assets of the Company and its subsidiaries resulted in the recognition of impairment in the amount of R\$5.6 million for subsidiary Oxiteno Andina for the year ended December 31, 2018. See Note 2.s.1.ii to our consolidated financial statements. For the year ended December 31, 2017, the Company's tests did not result in the recognition of impairment. For the year ended December 31, 2016, the Company recognized an impairment loss in the amount of R\$ 2.1 million, which correspond to R\$ 1.7 million related to goodwill and R\$ 0.4 million related to other intangible assets, from the subsidiary Oxiteno Andina. The main reason for the impairment recognized is the worsening of the political and economic situation in Venezuela.

Changes to the significant assumptions and economic conditions could impact the value in use of the assets and could result in impairment losses and impact our results.

Contractual assets with customers exclusive rights. Exclusive rights disbursements as provided in Ipiranga's agreements with reseller service stations and major consumers are recognized as contractual assets when paid and amortized according to the conditions established in the agreements (amortization in weighted average term of five years), being reviewed as changes occur under the terms of the agreements. (see Note 2.a and 11 to our consolidated financial statements). Changes under the terms of the agreements could impact our revenues and results.

Provisions for assets retirement obligations fuel tanks. We make provisions for assets retirement obligations that correspond to the legal obligation to remove Ipiranga's underground fuel tanks located at Ipiranga-branded service stations after a certain period. The estimated cost of the obligation to remove these fuel tanks is recognized as a liability when the tanks are installed. The estimated cost is recognized in property, plant, and equipment and depreciated over the respective useful life of the tanks. The amounts recognized as a liability accrue interest using the IPCA until the respective tank is removed. An increase in the estimated cost of the obligation to remove the tanks could result in negative impact in future results. The estimated removal cost is reviewed and updated annually or when there are significant changes in its amount, and changes in the estimated costs are recognized in statements of profit or loss when they become known. For further detail on provisions for assets retirement obligations of Ipiranga, see Note 20 to our consolidated financial statements.

Exchange rate used in translation of Oxiteno Andina's financial statements. According to the definition and general guidance of IAS 29, the characteristics of the economic environment of Venezuela indicate that this country is a hyperinflationary economy. As a result, the financial information of Oxiteno Andina was adjusted by the Venezuelan Consumer Price Index. On August 20, 2018, the Venezuelan Central Bank put into effect the currency conversion (elimination of five zeros of the currency) and the creation of the Bolivar Soberano (VES). This implies a

change in the monetary scale to simplify commercial transactions and accounting records, being the Bolivar Soberano traded as of December 31, 2018 at the variable exchange rate of 636.58 VES/US\$ for sale and 638.18 VES/US\$ for purchase. Changes in the exchange rates, the currency market on Venezuela's economic and political situation could impact our results. For further detail, see Note 2.s.1.ii to our consolidated financial statements.

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Subscription warrants indemnification fair value determination. Subscription warrants are valued at fair value according to Ultrapar's share price (UGPA3) as of each closing date of financial statements, reduced by the dividend yield, once the subscription warrants' exercise is only possible from 2020 onward, without dividends rights until then. The number of shares of the subscription warrants' indemnification is also adjusted according to the variation of the amounts of provisions and of tax, civil and labor risks contingent liabilities, in relation to the period before January 31, 2014. For further detail, see Notes 24 and 33 to our consolidated financial statements. Changes to the significant assumptions used to measure to the fair value, including Ultrapar's share prices, could impact our results.

Financial assets. The Company and its subsidiaries evaluated the classification and measurement of financial assets based on its business model as follows:

Amortized cost: financial assets held in order to collect contractual cash flows, solely principal and interest. The interest earned and the foreign currency exchange variation are recognized in profit or loss, and balances are stated at acquisition cost plus the interest earned, using the effective interest rate method. Financial investments in guarantee of loans are classified as amortized cost.

Measured at fair value through other comprehensive income: financial assets that are acquired or originated for the purpose of collecting contractual cash flows or selling financial assets. The balances are stated at fair value, and the interest earned and the foreign currency exchange variation are recognized in profit or loss. Differences between fair value and initial amount of financial investments plus the interest earned are recognized in equity in other comprehensive income in the Valuation adjustments. Accumulated gains and losses recognized in equity are reclassified to profit or loss at the time of their settlement. Substantially the financial investments in Bank Certificates of Deposit (CDB) and repurchase agreements are classified as measured at fair value through other comprehensive income.

Measured at fair value through profit or loss: financial assets that were not classified as amortized cost or measured at fair value through other comprehensive income. The balances are stated at fair value and both the interest earned and the exchange variations and changes in fair value are recognized in the income statement. Investment funds and derivatives are classified as measured at fair value through profit or loss.

We and our subsidiaries use derivative financial instruments for hedging purposes, applying the concepts described below:

Hedge accounting fair value hedge: financial instruments used to hedge exposure to changes in the fair value of an item, attributable to a particular risk, which can affect the entity's profit or loss. In the initial designation of the fair value hedge, the relationship between the hedging instrument and the hedged item is documented, including the objectives of risk management, the strategy in conducting the transaction, and the methods to be used to evaluate its effectiveness. Once the fair value hedge has been qualified as effective, the hedge item is also measured at fair value. Gains and losses from hedge instruments and hedge items are recognized in profit or loss. The hedge accounting must be discontinued when the hedge becomes ineffective.

Hedge accounting cash flow hedge: financial instruments used to hedge the exposure to variability in cash flows that is attributable to a risk associated with an asset or liability or highly probable transaction or firm commitment that may affect the statements of profit or loss. The portion of the gain or loss on the hedging instrument that is determined to be effective relating to the effects of exchange rate effect, is recognized directly in equity in accumulated other comprehensive income as Valuation adjustments while the ineffective portion is recognized in profit or loss. Gains or losses on the hedging instrument relating to the effective portion of this hedge that had been recognized directly in accumulated other comprehensive income shall be recognized in profit or loss in the period in which the hedged item is recognized in profit or loss or as initial cost of non-financial assets, in the same line of the statement that the hedged item is recognized. The hedge accounting shall be discontinued when (i) the hedging relationship is canceled; (ii) the hedging instrument expires; and (iii) the hedging instrument no longer qualifies for hedge accounting. When hedge accounting is discontinued, gains and losses recognized in equity in other comprehensive income are reclassified to profit or loss in the period which the hedged item is recognized in profit or loss. If the transaction hedged is canceled or is not expected to occur, the cumulative gains and losses in equity in other comprehensive income shall be recognized immediately in profit or loss.

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Hedge accounting hedge of net investments in foreign operation: financial instruments used to hedge exposure on net investments in foreign subsidiaries due to the fact that the local functional currency is different from the functional currency of the Company. The portion of the gain or loss on the hedging instrument that is determined to be effective, referring to the exchange rate effect, is recognized directly in equity in accumulated other comprehensive income as cumulative translation adjustments, while the ineffective portion and the operating costs are recognized in profit or loss. The gain or loss on the hedging instrument that has been recognized directly in accumulated other comprehensive income shall be recognized in income when the disposal of the foreign subsidiary occurs.

The fair value of financial instruments, including currency and interest hedging instruments, was determined as follows:

The fair value of cash and bank deposit balances are identical to their 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 corresponds to their fair value.

Financial investments in CDBs and similar investments offer daily liquidity through repurchase at the yield curve and the Company calculates their fair value through methodologies commonly used for mark-to-market.

The fair value of trade receivables and trade payables are approximate to their carrying values.

The subscription warrants indemnification was measured based on the share price of Ultrapar (UGPA3) at the financial statements date and are adjusted to the Company's dividend yield, since the exercise is only possible starting in 2020 onwards and they are not entitled to dividends until then. The number of shares of subscription warrants indemnification is also adjusted according to the changes in the amounts of provision for tax, civil, and labor risks and contingent liabilities related to the period prior to January 31, 2014. (See Note 24 to our consolidated financial statements).

The fair value calculation of notes in the foreign market (see Note 15.b to our consolidated financial statements) is based on the quoted price in an active market.

The fair value of other financial investments and financing was determined using calculation methodologies commonly used for mark-to-market reporting, which consist of calculating future cash flows associated with each instrument adopted and adjusting them to present value at the market rates at the date of the reporting period. For some cases where there is no active market for the financial instrument, the Company and its subsidiaries can use quotes provided by the transaction counterparties.

The interpretation of market information on the choice of calculation methodologies for the fair value requires considerable judgment and estimates to obtain a value deemed appropriate to each situation. Consequently, the estimates presented do not necessarily indicate the amounts that may be realizable in the current market. Changes in the significant assumptions used to measure the fair value of financial assets and liabilities could impact our results.

For further detail on financial instruments of the Company, see Note 33 to our consolidated financial statements.

Financial liabilities. Financial liabilities are classified as financial liabilities at fair value through profit or loss or financial liabilities at amortized cost. The financial liabilities at fair value through profit or loss refer to derivative financial instruments, subscription warrants indemnification, and financial liabilities designated as hedged items in a fair value hedge relationship upon initial recognition (see Note 2.c Fair Value Hedge to our consolidated financial statements). The financial liabilities at amortized cost are stated at the initial transaction amount plus related charges and net of amortization and transaction costs. The charges are recognized in profit or loss using the effective interest rate method.

Transaction costs incurred and directly attributable to the activities necessary for contracting loans or for issuing bonds, as well as premiums and discounts upon issuance of debentures and other debt, are allocated to the instrument and amortized to profit or loss over its term, using the effective interest rate method (see Note 15.j to our consolidated financial statements).

Changes in the significant assumptions used to measure the fair value of financial assets and liabilities could impact our results.

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Post-employment benefits. Our subsidiaries recognized a provision for post-employment benefits mainly related to seniority bonus, payment of FGTS, and health, dental care, and life insurance plan for eligible retirees. The amounts related to such benefits were determined based on a valuation conducted by an independent actuary and reviewed by management as of December 31, 2018 and are recognized in the financial statements in accordance with IAS 19 (Revised 2011).

Significant actuarial assumptions adopted include:

Economic factors

	2018	2017
	% per year	% per year
Discount rate for the actuarial obligation at present value	9.00	9.51
Average projected salary growth rate	7.85	8.38
Inflation rate (long term)	4.00	4.50
Growth rate of medical services	8.16	8.68
Demographic factors		

Mortality Table for the life insurance benefit CSO-80

Mortality Table for other benefits AT 2000 Basic decreased by 10%

Disabled Mortality Table RRB 1983

Disability Table Weak light

For further information on our post-employment benefits, see Note 19.b to our consolidated financial statements.

Changes to the significant actuarial assumptions could impact our results.

Adoption of the Pronouncements Issued by IFRS as issued by the IASB. The Company and its subsidiaries disclosed the relevant information, known or reasonably estimated to the possible impacts on the adoption of IFRS 16 that were available in the preparation of these financial statements, and are subject to change until the first complete financial statements with the initial adoption in 2019. For further detail, see Note 2.x to our consolidated financial statements.

Standards and criteria adopted in preparing the information

The consolidated financial information presented below was prepared based on the consolidated Statements of Financial Position as of December 31, 2018 and 2017 and January 1, 2017, Statements of Profit or Loss and Statements of Cash Flows as of and for the years ended December 31, 2018, 2017 and 2016 that derived from our audited consolidated financial statements included in this annual report and prepared in accordance with IFRS. Ultrapar's financial information is presented on a consolidated basis. Financial information relating to Ipiranga,

Oxiteno, Ultragas, Ultracargo and Extrafarma is presented on an individual basis and does not reflect elimination of intercompany transactions. See Presentation of Financial Information. Accordingly, the sum of individual financial information of Ultrapar's subsidiaries may not correspond to the consolidated financial information of Ultrapar.

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

Year ended December 31, 2018 compared to the year ended December 31, 2017.

The following table shows a summary of our results of operations for the years ended December 31, 2018 and 2017:

	Year ended December 31, 2018 (R\$ million)	% of net revenue from sales and services	Year ended December 31, 2017 Restated	% of net revenue from sales and services	Percent change 2018 2017
Net revenue from sales and services	90,698.0	100%	79,230.0	100%	14%
Cost of products and services sold	(84,537.4)	-93%	(72,431.5)	-91%	17%
Gross profit	6,160.6	7%	6,798.5	9%	-9%
Selling, marketing, general and administrative expenses	(4,296.7)	-5%	(4,062.9)	-5%	6%
Other operating income, net	57.5	0%	59.4	0%	-3%
Gain (loss) on disposal of property, plant and equipment and intangibles	(22.1)	0%	(2.2)	0%	885%
Operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates	1,899.4	2%	2,792.7	4%	-32%
Net financial expenses	(113.5)	0%	(474.3)	-1%	-76%
Income and social contribution taxes	(638.7)	-1%	(813.3)	-1%	-21%
Share of profit (loss) of joint-ventures and associates	(14.8)	0%	20.7	0%	-171%
Net income	1,132.3	1%	1,525.9	2%	-26%
Net income attributable to:					
Shareholders of Ultrapar	1,150.4	1%	1,526.5	2%	-25%
Non-controlling shareholders of the subsidiaries	(18.1)	0%	(0.6)	0%	2729%

Net revenue from sales and services. Ultrapar's net revenue from sales and services increased 14%, from R\$79,230.0 million in 2017 to R\$90,698.0 million in 2018. Ultrapar's net revenue from sales and services generally includes revenues from fuel and gas sales by Ipiranga and Ultragas, respectively, pharmaceutical products sales by Extrafarma, specialty chemicals sales by Oxiteno and liquid bulk storage services provided by Ultracargo, reduced by sales taxes such as ICMS, PIS and COFINS and by discounts and sales returns.

The following table shows the change in net revenue from sales and services for each of our segments:

	2018	2017 Restated	Percent change 2018 2017
	(R\$ million)		
Ipiranga	76,473.4	66,950.5	14%
Oxiteno	4,748.4	3,959.4	20%
Ultragaz	7,043.2	6,071.0	16%
Ultracargo	493.6	438.4	13%
Extrafarma	2,028.0	1,868.9	9%

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Ipiranga's net revenue from sales increased by 14%, from R\$66,950.5 million in 2017 to R\$76,473.4 million in 2018, mainly due to (i) movements in the average costs of diesel and gasoline which recorded consecutive increases from January through September 2018, in line with international benchmark prices and the devaluation of the *Real* against the U.S. dollar (see Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview The role of the Brazilian government); (ii) an increase in taxes levied on gasoline, diesel and ethanol (PIS and COFINS taxes) in July 2017 (see Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview The role of the Brazilian government); and (iii) the strategy of constant innovation in fueling station services and convenience, to create greater customer satisfaction and loyalty. Ipiranga's sales volume rose 1% in 2018, from 23,458 thousand cubic meters in 2017 to 23,680 thousand cubic meters in 2018. In 2018, Ipiranga reported a decrease of 1% in sales volume of gasoline, ethanol and natural gas for light vehicles (Otto cycle) declining until July before resuming growth during the second half of the year. Large ethanol production in 2018 contributed to the reduction in its prices and, consequently, drove the 45% increase in sales, while gasoline sales volume recorded a decline of 14%. In line with gradual recovery in the economy, diesel volume increased by 2% year-over-year.

Oxitenó's net revenue from sales increased by 20%, from R\$3,959.4 million in 2017 to R\$4,748.4 million in 2018, largely due to (i) the increase of 14% in the average *Real*-U.S. dollar exchange rate (from R\$3.19 per US\$1.00 in 2017 to R\$3.65 per US\$1.00 in 2018), due to the fact that Oxitenó's sales are highly influenced by the foreign exchange rate, with the depreciation effectively increasing Oxitenó's net revenue in *Reais*; and (ii) the increase in the average price of our products in U.S. dollars of 8%, in line with the year-over-year increase in the cost of raw materials. These factors offset the effect of lower sales volumes. Sales volume at Oxitenó decreased 3% in 2018, from 790 thousand tons in 2017 to 769 thousand tons in 2018, primarily as a result of 5% decrease in the volume of specialty chemicals partially offset by an increase of 8% in the volume of commodities. Despite the increase in sales volume from the new alkoxylation unit at the plant in Texas, United States, following its startup in September 2018, export volumes fell 4% in 2018, due to lower demand from Mercosur countries, notably Argentina.

Ultragaz's net revenue from sales increased by 16%, from R\$6,071.0 million in 2017 to R\$7,043.2 million in 2018, mainly due to readjustments in bottled and bulk LPG costs in the refineries (see Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of the Brazilian government) and Ultragaz's differentiation and innovation strategy supporting Ultragaz's existing market position. Ultragaz's sales volume decreased by 1%, from 1,746 thousand tons in 2017 to 1,725 thousand tons in 2018, in line with the decline in sales overall in the Brazilian market. While volume was flat year-over-year in the bottled LPG category, the bulk category posted a reduction of 3%, principally due to the programmed LPG reduction of an industrial client.

Ultracargo's net revenue from services increased by 13%, from R\$438.4 million in 2017 to R\$493.6 million in 2018, due to the (i) increase of average storage following the partial resumption of activities at the Santos terminal, (ii) improvement productivity at Ultracargo, and (iii) contractual readjustments for inflation. Average storage posted an increase of 5% in 2018, mainly due to increased handling activity in Santos, reflecting a partial resumption in terminal activities in June 2017 and increased ethanol handling in Brazilian ports, notwithstanding the reduction in fuel imports in 2018.

Extrafarma's net revenue from sales increased by 9%, from R\$1,868.9 million in 2017 to R\$2,028.0 million in 2018, mainly due to an increase in retail sales, an expanded store network and the higher average number of stores. This growth was partially offset by a decline of 21% in revenues from the wholesale category and an increase in competition in the sector. In June 2018, Extrafarma replaced its retail IT system, temporarily affecting both retail and wholesale operations during the implementation and stabilization period. Extrafarma opened 68 new stores and closed 29 stores in 2018, resulting in a 10% expansion of the network, with a net increase of 39 stores.

Cost of products and services sold. Ultrapar's cost of products and services sold increased by 17%, from R\$72,431.5 million in 2017 to R\$84,537.4 million in 2018. Ultrapar main costs of products and services sold are related to the purchase of goods for resale, including diesel, gasoline and ethanol for Ipiranga, LPG for Ultragas and pharmaceutical products for Extrafarma, and raw material, substantially the ethylene for Oxiteno, and depreciation and amortization.

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The following table shows the change in cost of products and services sold for each of our segments:

	2018	2017 Restated	Percent change 2018 2017
	(R\$ million)		
Ipiranga	73,053.2	62,697.2	17%
Oxiteno	3,757.7	3,200.3	17%
Ultragaz	6,153.0	5,096.5	21%
Ultracargo	245.1	218.5	12%
Extrafarma	1,421.1	1,277.3	11%

Ipiranga's cost of goods sold increased by 17%, from R\$62,697.2 million in 2017 to R\$73,053.2 million in 2018, due mainly to changes in the costs of diesel and gasoline, which were adjusted by producers to reflect international benchmark prices and the increase in taxes levied on gasoline, diesel and ethanol (PIS and COFINS taxes) starting from June 2017.

Oxiteno's cost of goods sold increased 17%, from R\$3,200.3 million in 2017 to R\$3,757.7 million in 2018, due to (i) the increase in the cost of raw materials, principally ethylene; (ii) the 14% devaluation of the *Real* relative to the U.S. dollar; and (iii) costs relating to the startup of the new alkoxylation unit at the plant in Texas, United States.

Ultragaz's cost of goods sold increased 21%, from R\$5,096.5 million in 2017 to R\$6,153.0 million in 2018, due mainly to the readjustments in LPG costs over the course of 2018.

Ultracargo's cost of services sold increased by 12%, from R\$218.5 million in 2017 to R\$245.1 million in 2018, principally due to higher expenditures with rentals, payroll, contracting of third party services in Santos terminal and tankage maintenance services at the terminals, in line with the increased storage volume for the entire year of 2018, in addition to the payment of higher property taxes in 2018.

Extrafarma's cost of goods sold increased by 11%, from R\$1,277.3 million in 2017 to R\$1,421.1 million in 2018, due mainly to greater sales volume and the annual adjustment in pharmaceutical prices as authorized by the Medicine Market Regulation Chamber (CMED) by 2.4%.

Gross profit. For the reasons described above, Ultrapar's gross profit decreased by 9%, from R\$6,798.5 million in 2017 to R\$6,160.6 million in 2018, as a result of decreased gross profit in Ipiranga and Ultragaz. Ipiranga's gross profit decreased by 20%, from R\$4,253.3 million in 2017 to R\$3,420.2 million in 2018. Ultragaz's gross profit decreased by 9%, from R\$974.5 million in 2017 to R\$890.2 million in 2018. Oxiteno's gross profit increased by 30%, from R\$759.2 million in 2017 to R\$990.7 million in 2018. Ultracargo's gross profit increased by 13%, from R\$219.9 million in 2017 to R\$248.6 million in 2018. Extrafarma's gross profit increased by 3%, from R\$591.6 million in 2017 to R\$606.9 million in 2018.

Selling, marketing, general and administrative expenses. Ultrapar's selling, marketing, general and administrative (SG&A) expenses generally include personnel, freight, marketing and depreciation and amortization expenses. Ultrapar's SG&A expenses increased by 6%, from R\$4,062.9 million in 2017 to R\$4,296.7 million in 2018.

The following table shows the changes in SG&A expenses for each of our segments:

	2018	2017 Restated	Percent change 2018 2017
	(R\$ million)		
Ipiranga	2,149.8	2,018.0	7%
Oxiteno	735.5	668.0	10%
Ultragaz	575.7	644.5	-11%
Ultracargo	116.7	112.7	4%
Extrafarma	716.7	623.3	15%

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Ipiranga's SG&A expenses increased by 7% in 2018, from R\$2,018.0 million in 2017 to R\$2,149.8 million in 2018, principally due to the consolidation of expenses relating to Iconic (additional expenses from Chevron's lubricants operation and non-recurring expenses relating to the startup of the joint operation itself), which initiated in December 2017, partially offset by initiatives adopted to reduce expenses in the light of the unfavorable trading environment in 2018.

Oxiteno's SG&A expenses increased by 10% in 2018, from R\$668.0 million in 2017 to R\$735.5 million in 2018, due to the effect of the devaluation of the *Real* relative to the U.S dollar on expenses with international operations as well as higher payroll expenses.

Ultragaz's SG&A expenses decreased by 11% in 2018, from R\$644.5 million in 2017 to R\$575.7 million in 2018, as a result of initiatives to reduce expenses and improve efficiencies, such as lower marketing and freight expenses, mainly due to the gradual shift from CIF (Cost, Insurance and Freight) to FOB (Free on Board) delivery method among its clients, as well as lower expenses with strategic consultancies and lower expenses from estimated losses from doubtful accounts.

Ultracargo's SG&A expenses increased by 4% in 2018, from R\$112.7 million in 2017 to R\$116.7 million in 2018, due to (i) higher payroll expenses due to annual salary adjustments and increased variable remuneration, in line with improved results; and (ii) higher outlays with strategic consultancies and operational safety, partially offset by reimbursement of a port management fee related to previous fiscal years that was incorrectly charged by the competent authorities.

Extrafarma's SG&A expenses increased by 15% in 2018, from R\$623.3 million in 2017 to R\$716.7 million in 2018, mainly due to the 19% increase in the average number of stores, partially offset by the Extrafarma's initiatives implemented for productivity gains and reducing expenses, notably in payroll and travel expenses as well as acquiring fees.

Other operating income, net. Other operating income, net decreased from R\$59.4 million in 2017 to R\$57.5 million in 2018, mainly due to the break-up fee due after CADE's rejection of the proposed acquisition of Liquigás, partially offset by the recognition of tax credits in favor of Oxiteno with respect to the exclusion of the ICMS sales tax from the calculation base for PIS and COFINS taxes.

Income (expense) from disposal of assets. Ultrapar's expense from disposal of assets increased from a net expense of R\$2.2 million in 2017 to a net expense of R\$22.1 million in 2018, due to the writing down of IT assets at all the businesses and a more rigorous selection of non-performing drugstores at Extrafarma for closure, partially offset by the sale of real estate by Ipiranga.

Operating income before financial income (expenses) and share of profit of joint-ventures and associates. For the reasons described above, Ultrapar's operating income before financial income (expenses) and share of profit of joint-ventures and associates decreased by 32%, from R\$2,792.7 million in 2017 to R\$1,899.4 million in 2018, as a result of the decreased operating income before financial income (expenses) and share of profit of joint-ventures and associates in Ipiranga and Ultragaz. Ipiranga's operating income before financial income (expenses) and share of profit of joint-ventures and associates decreased by 41%, from R\$2,357.1 million in 2017 to R\$1,396.6 million in 2018. Oxiteno's operating income before financial income (expenses) and share of profit of associates increased by 223%, from R\$141.4 million in 2017 to R\$457.1 million in 2018. Ultragaz's operating income before financial income (expenses) and share of profit of associates decreased by 86%, from R\$255.9 million in 2017 to R\$35.6 million in 2018. Ultracargo's operating income before financial income (expenses) and share of profit of joint-ventures and associates increased by 66%, from R\$75.0 million in 2017 to R\$124.7 million in 2018. Extrafarma's operating income

before financial income (expenses) and share of profit of joint-ventures and associates decreased by 214%, from operating loss of R\$37.7 million in 2017 to operating loss of R\$118.3 million in 2018.

Net financial expenses. Net financial expenses include mainly income and expenses from interest on financial investments and financing and exchange rate variation. Ultrapar's net financial expenses decreased by 76%, from R\$474.3 million in 2017 to R\$113.5 million in 2018, due to (i) the lower average CDI rate during the period (6.4% in 2018 compared to 9.9% in 2017); (ii) the financial income from the constitution of tax credits at Oxitenó with the exclusion of the ICMS sales tax from the PIS and COFINS taxes calculation base; and (iii) lower expenses with the subscription warrants indemnification issued in the association with Extrafarma due to the depreciation of Ultrapar's share in the period (see item Critical accounting policies and estimates).

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Income and social contribution taxes. Ultrapar's income and social contribution taxes, net of benefits from income tax exemptions, decreased by 21%, from R\$813.3 million in 2017 to R\$638.7 million in 2018.

Net income for the year. Ultrapar's net income for 2018 reached R\$1,132.3 million, 26% lower compared to R\$1,525.9 million in 2017, mainly due to the decline in operating income before financial income (expenses) and share of profit of joint-ventures and associates between the periods, partially offset by the lower net financial expenses.

Adjusted EBITDA. Ultrapar's Adjusted EBITDA decreased 23%, from R\$3,981.0 million in 2017 to R\$3,068.9 million in 2018, as a result of lower EBITDA in Ipiranga, Ultragaz and Extrafarma.

The reconciliation of the EBITDA and Adjusted EBITDA starting from the net income is presented below:

R\$ million	2018	2017 Restated
Net income for the year	1,132.3	1,525.9
(+) Income and social contribution taxes	638.7	813.3
(+) Net financial expenses	113.5	474.3
(+) Depreciation and amortization	812.5	704.5
EBITDA⁽¹⁾	2,697.1	3,518.0
Adjustments		
(+) Amortization of contractual assets with customers – exclusive rights (Ipiranga) ⁽³⁾	371.8	463.0
Adjusted EBITDA⁽¹⁾	3,068.9	3,981.0

(1) See footnote 5 under Item 3.A. Key Information – Selected Consolidated Financial Data for a more complete discussion of EBITDA, Adjusted EBITDA and its reconciliation to information in our financial statements.

(2) See footnote 4 under Item 3.A. Key Information – Selected Consolidated Financial Data.

The following table shows the changes in Adjusted EBITDA for Ipiranga and EBITDA for Oxiteno, Ultragaz, Ultracargo and Extrafarma:

	2018	2017 Restated	Percent change 2018 2017
	(R\$ million)		
Ipiranga ⁽¹⁾	2,052.4	3,066.8	-33%
Oxiteno	625.4	295.9	111%
Ultragaz	258.1	440.0	-41%
Ultracargo	178.5	124.3	44%
Extrafarma	(46.8)	23.1	-302%

(1) Adjusted EBITDA does not include losses related to ConectCar in the amount of R\$18.7 million and R\$21.0 million in 2018 and 2017, respectively.

Ipiranga reported Adjusted EBITDA of R\$2,052.4 million in 2018, a 33% decrease compared to 2017, due mainly to (i) the truck drivers' strike and its impact on sales volumes, variation in margins and higher costs and non-recurring expenses in the period; (ii) extraordinary expenses with the consolidation and startup of the Iconic operations; and (iii) changes in fuel costs during 2018.

Oxiteno reported EBITDA of R\$625.4 million, an increase of 111% compared to 2017, in spite of lower sales volumes. The increase is largely explained by the constitution of tax credits from previous fiscal years, reflecting the exclusion of the ICMS sales tax from the PIS and COFINS tax calculation base, and the 14% devaluation of the *Real* relative to the U.S. dollar in 2018.

Ultragaz's EBITDA totaled R\$258.1 million, 41% lower than 2017, as a result of the break-up fee of R\$286 million paid to Petrobras on March 13, 2018 as a result of CADE's decision to block the acquisition of Liqueigás, partially offset by lower costs and expenses due to the cutting initiatives in 2018, while the fourth quarter of 2017 was affected by the Cease and Desist Agreement (*Termo de Compromisso de Cessação de Prática* - TCC) in the amount of R\$84 million.

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Ultracargo's EBITDA totaled R\$178.5 million in 2018, an increase of 44% compared to 2017, due to (i) greater handling activity at the terminals; (ii) contractual readjustments; and (iii) residual effects of the fire in April 2015 at the Santos Port terminal with a negative impact of R\$39 million in 2017. See Item 4.A. Information on the Company History and Development of the Company Ultracargo Fire at storage facilities in Santos.

Extrafarma reported EBITDA of R\$46.8 million negative compared with R\$23.1 million in 2017, because of (i) the substitution of the retail system in June 2018, which temporarily affected operations during the implementation and stabilization phases; (ii) a more rigorous selection of stores, that were not performing as planned, for closure in the third quarter of 2018; (iii) the greater number of new and still maturing stores; and (iv) increased competition in the sector, mainly by the entrance of competitors in the Extrafarma's operating regions.

For a reconciliation of our Adjusted EBITDA, the Adjusted EBITDA of Ipiranga and the EBITDA of Oxitenó, Ultragaz, Ultracargo and Extrafarma to information in our financial statements, see footnote 5 under Item 3.A. Key Information Selected Consolidated Financial Data.

Year ended December 31, 2017 compared to the year ended December 31, 2016.

The following table shows a summary of our results of operations for the years ended December 31, 2017 and 2016:

	Year ended December 31, 2017 Restated	% of net revenue from sales and services	Year ended December 31, 2016 Restated (R\$ million)	% of net revenue from sales and services	Percent change 2017 2016
Net revenue from sales and services	79,230.0	100%	76,740.0	100%	3%
Cost of products and services sold	(72,431.5)	-91%	(70,196.9)	-91%	3%
Gross profit	6,798.5	9%	6,543.1	9%	4%
Selling, marketing, general and administrative expenses	(4,062.9)	-5%	(3,666.1)	-5%	11%
Other operating income, net	59.4	0%	199.0	0%	-70%
Gain (loss) on disposal of property, plant and equipment and intangibles	(2.2)	0%	(6.1)	0%	-63%
Operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates	2,792.7	4%	3,069.9	4%	-9%
Net financial expenses	(474.3)	-1%	(842.6)	-1%	-44%
Income and social contribution taxes	(813.3)	-1%	(688.0)	-1%	18%
Share of profit (loss) of joint-ventures and associates	20.7	0%	7.5	0%	177%
Net income	1,525.9	2%	1,546.8	2%	-1%
Net income attributable to:					
Shareholders of Ultrapar	1,526.5	2%	1,537.8	2%	-1%

Non-controlling shareholders of the subsidiaries	(0.6)	0%	9.0	0%	-107%
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Net revenue from sales and services. Ultrapar's net revenue from sales and services increased 3%, from R\$76,740.0 million in 2016 to R\$79,230.0 million in 2017. Ultrapar's net revenue from sales and services generally includes revenues from fuel and gas sales by Ipiranga and Ultragaz, respectively, pharmaceutical products sales by Extrafarma, specialty chemicals sales by Oxiteno and liquid bulk storage services provided by Ultracargo, reduced by sales taxes such as ICMS, PIS and COFINS and by discounts and sales returns.

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The following table shows the change in net revenue from sales and services for each of our segments:

	2017	2016	Percent change
	Restated	Restated	2017 2016
	(R\$ million)		
Ipiranga	66,950.5	65,793.7	2%
Oxitenó	3,959.4	3,701.4	7%
Ultragas	6,071.0	5,365.1	13%
Ultracargo	438.4	355.4	23%
Extrafarma	1,868.9	1,578.6	18%

Ipiranga's net revenue from sales increased by 2%, from R\$65,793.7 million in 2016 to R\$66,950.5 million in 2017, mainly due to (i) an increase in diesel and gasoline prices, which were more frequently adjusted to reflect international benchmark prices in 2017 (See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview The role of the Brazilian government), (ii) the increase in taxes levied on gasoline, diesel and ethanol (PIS and COFINS taxes) from July 2017 (See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview The role of the Brazilian government), (iii) the greater share of gasoline in the 2017 sales breakdown from 36.1% in 2016 to 37.5% in 2017, and (iv) the strategy of constant innovation in services and convenience, generating improved customer satisfaction and loyalty. Ipiranga's sales volume in 2017 remained almost stable compared to total sales in 2016, from 23,507 thousand cubic meters in 2016 to 23,458 thousand cubic meters in 2017. In 2017, Ipiranga reported an increase of 1% in sales volume of gasoline, ethanol and natural gas for light vehicles (Otto cycle) influenced by the car fleet expansion (+1%). In line with the economy's performance, diesel volume decreased by 2% year on year, despite growth in the second half of 2017.

Oxitenó's net revenue from sales increased by 7%, from R\$3,701.4 million in 2016 to R\$3,959.4 million in 2017, largely due to the increased sales volume. On the other hand, the increase in Oxitenó's net revenue was partially offset by a 9% decrease in the average *Real*-U.S. dollar exchange rate (from R\$3.49 per US\$1.00 in 2016 to R\$3.19 per US\$ in 2017), due to the fact that Oxitenó's sales are highly influenced by the foreign exchange rate, with the appreciation effectively decreasing Oxitenó's net revenue in *Reais*. Sales volume at Oxitenó grew 7% in 2017, from 738 thousand tons in 2016 to 790 thousand tons in 2017, primarily as a result of 16% and 5% increases in the volumes of commodities and specialty chemicals, respectively, reflecting increased demand from United States due to pre-marketing sales in preparation for the start of the new plant in Pasadena, along with a growth of volume sold in Brazil as a result of the recovery of Brazil's economy.

Ultragas's net revenue from sales increased by 13%, from R\$5,365.1 million in 2016 to R\$6,071.0 million in 2017, mainly due to (i) the increase in the cost of bottled and bulk LPG at refineries, which were more frequently adjusted to reflect international benchmark prices in 2017 (See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of the Brazilian government), and (ii) Ultragas's differentiation and innovation strategy. The lower share of bulk LPG in the sales mix partly offset the revenues growth. Ultragas's sales volume decreased by 1%, from 1,760 thousand tons in 2016 to 1,746 thousand tons in 2017. Despite the stable sales volume in the bottled LPG category, due to investments to add new resellers, the bulk category posted a 3% reduction, explained primarily by the loss of some customers to natural gas and the planned reduction in the LPG demand by an industrial client.

Ultracargo's net revenue from services increased by 23%, from R\$355.4 million in 2016 to R\$438.4 million in 2017, due to increased volumes of fuel handled in Ultracargo's terminals leading to increased average storage volumes, improved productivity and the partial return to operations in June 2017 of 67.5 thousand cubic meters out of

151.5 thousand cubic meters in Santos that had been shut down since April 2015 incident. Average storage posted an increase of 8% in 2017, due mainly to an increase in the volume of fuels handling at the Santos, Suape and Itaqui terminals, explained primarily by the partial resumption of activities in its Santos terminal in 2017 and the higher demand for fuel handling at Brazilian ports.

Extrafarma's net revenue from sales increased by 18%, from R\$1,578.6 million in 2016 to R\$1,868.9 million in 2017, mainly due to an increase in retail sales resulting from an increase in the average number of stores coupled with 10% growth in same store sales (corresponding to sales in stores that have been operating for more than 12 months). This growth was partly offset by a 17% decrease in mobile phones revenues, and lower revenues from the wholesale business. Extrafarma opened 100 new stores and closed 21 stores in 2017, resulting in a 25% expansion of the network, with a net of 79 new stores.

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Cost of products and services sold. Ultrapar's cost of products and services sold increased by 3%, from R\$70,196.9 million in 2016 to R\$72,431.5 million in 2017. Ultrapar main costs of products and services sold are related to the purchase of goods for resale, including diesel, gasoline and ethanol for Ipiranga, LPG for Ultragas and pharmaceutical products for Extrafarma, and raw material, substantially the ethylene for Oxiteno, and depreciation and amortization.

The following table shows the change in cost of products and services sold for each of our segments:

	2017 Restated (R\$ million)	2016 Restated	Percent change 2017 2016
Ipiranga	62,697.2	61,737.8	2%
Oxiteno	3,200.3	2,779.0	15%
Ultragas	5,096.5	4,467.0	14%
Ultracargo	218.5	199.0	10%
Extrafarma	1,277.3	1,068.6	20%

Ipiranga's cost of products sold increased by 2%, from R\$61,737.8 million in 2016 to R\$62,697.2 million in 2017, due mainly to shifts in the costs of diesel and gasoline, which were more frequently adjusted by producers to reflect international benchmark prices in 2017 and to the increase in taxes levied on gasoline, diesel and ethanol (PIS and COFINS taxes) starting from June 2017.

Oxiteno's cost of products sold increased 15% compared to 2016, from R\$2,779.0 million in 2016 to R\$3,200.3 million in 2017, due mainly (i) to the higher sales volume, (ii) costs associated with the lengthy stoppage of the Oleoquímica plant due to technical problems in the restarting of the plant, and (iii) increased pre-operational costs (mainly personnel, maintenance and tax property) in preparation for the start of the new Pasadena plant, partially offset by a 9% appreciation of Brazilian *Real*.

Ultragas's cost of products sold increased 14%, from R\$4,467.0 million in 2016 to R\$5,096.5 million in 2017, due mainly to the higher cost of LPG at refineries, which were more frequently adjusted to reflect international benchmark prices in 2017.

Ultracargo's cost of services sold increased by 10%, from R\$199.0 million in 2016 to R\$218.5 million in 2017, due mainly to higher payroll and materials costs, in line with the increased storage volumes.

The cost of products sold by Extrafarma increased by 20%, from R\$1,068.6 million in 2016 to R\$1,277.3 million in 2017, due mainly to the greater sales volume and the annual adjustment in medicine prices as authorized by the Medicine Market Regulation Chamber (CMED) by 3%.

Gross profit. For the reasons described above, Ultrapar's gross profit increased by 4%, from R\$6,543.1 million in 2016 to R\$6,798.5 million in 2017, as a result of the increased gross profit in Ipiranga, Ultragas, Ultracargo and Extrafarma. Ipiranga's gross profit increased by 5%, from R\$4,055.9 million in 2016 to R\$4,253.3 million in 2017. Oxiteno's gross profit decreased by 18%, from R\$922.4 million in 2016 to R\$759.2 million in 2017. Ultragas's gross profit increased by 9%, from R\$898.1 million in 2016 to R\$974.5 million in 2017. Ultracargo's gross profit increased by 41%, from R\$156.4 million in 2016 to R\$219.9 million in 2017. Extrafarma's gross profit increased by 16%, from R\$510.0 million in 2016 to R\$591.6 million in 2017.

Selling, marketing, general and administrative expenses. Ultrapar's selling, marketing, general and administrative (SG&A) expenses generally include personnel, freight, marketing and depreciation and amortization expenses. Ultrapar's SG&A expenses increased by 11%, from R\$3,666.1 million in 2016 to R\$4,062.9 million in 2017.

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The following table shows the changes in SG&A expenses for each of our segments:

	2017 Restated	2016 Restated	Percent change 2017 2016
	(R\$ million)		
Ipiranga	2,018.0	1,803.2	12%
Oxiteno	668.0	616.4	8%
Ultragaz	644.5	636.5	1%
Ultracargo	112.7	99.8	13%
Extrafarma	623.3	513.0	21%

Ipiranga's SG&A expenses increased by 12% in 2017, from R\$1,803.2 million in 2016 to R\$2,018.0 million in 2017, due to (i) an increase in freight expenses, (ii) increased expenses with projects and strategic initiatives, particularly those relating to the lubricants joint venture with Chevron, and (iii) expenses incurred in connection with the expansion of the service stations and franchise networks.

Oxiteno's SG&A expenses increased by 8% in 2017, from R\$616.4 million in 2016 to R\$668.0 million in 2017, due to higher freight expenses resulting from the greater volumes sold and pre-operating expenses (mainly personnel, advertising and marketing and expenses with studies and projects) in preparation for the start of the new Pasadena plant.

Ultragaz's SG&A expenses increased by 1% in 2017, from R\$636.5 million in 2016 to R\$644.5 million in 2017, as result of the effects of a 2.9% inflation rate (measured by the IPCA) on expenses, which was partially offset by new cost-cutting initiatives in recent years.

Ultracargo's SG&A expenses increased by 13% in 2017, from R\$99.8 million in 2016 to R\$112.7 million in 2017, due mainly to (i) increased payroll expenses resulting from additional personnel, annual salary adjustment and increased variable compensation in line with operating indicators growth, and (ii) increased costs incurred with consultancies and legal advice.

Extrafarma's SG&A expenses increased by 21% in 2017, from R\$513.0 million in 2016 to R\$623.3 million in 2017, mainly due to the 23% increase in the average number of stores and R\$6 million to expenses resulting from the transfer of its distribution center from Belém to Benevides, and indemnity expenses with dismissals incurred in the first quarter of 2017, partially offset by initiatives to increase efficiency.

Other operating income, net. Other operating income, net decreased from R\$199.0 million in 2016 to R\$59.4 million in 2017, mainly due to (i) Ultracargo with the effects of the April 2015 fire in Santos, with a positive impact of R\$68 million in 2016 resulting mainly from recovery from insurers, and a negative impact of R\$39 million in 2017 resulting from expenses relating to the accident; and (ii) Ultragaz with the negative impact of the Cease and Desist Agreement entered into in November 2017 with CADE, which generated an expense of R\$84 million.

Income from disposal of assets. Ultrapar's income from disposal of assets is mainly composed of the sale of real estate at Ipiranga in both years and increased from net expenses of R\$6.1 million in 2016 to a net expense of R\$2.2 million in 2017, or an increase of 63%.

Operating income before financial income (expenses) and share of profit of joint-ventures and associates. For the reasons described above, Ultrapar's operating income before financial income (expenses) and share of profit of

joint-ventures and associates decreased by 9%, from R\$3,069.9 million in 2016 to R\$2,792.7 million in 2017, as a result of the decreased operating income before financial income (expenses) and share of profit of joint-ventures and associates in Oxiteno, Ultragaz, Ultracargo and Extrafarma. Ipiranga's operating income before financial income (expenses) and share of profit of joint-ventures and associates remained stable, from R\$2,364.0 million in 2016 to R\$2,357.1 million in 2017. Oxiteno's operating income before financial income (expenses) and share of profit of associates decreased by 53%, from R\$311.5 million in 2016 to R\$141.4 million in 2017. Ultragaz's operating income before financial income (expenses) and share of profit of associates decreased by 4%, from R\$267.3 million in 2016 to R\$255.9 million in 2017. Ultracargo's operating income before financial income (expenses) and share of profit of joint-ventures and associates decreased by 41%, from R\$127.7 million in 2016 to R\$75.0 million in 2017. Extrafarma's operating income before financial income (expenses) and share of profit of joint-ventures and associates decreased by 880%, from operating loss of R\$3.8 million in 2016 to operating loss of R\$37.7 million in 2017.

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Net financial expenses. Net financial expenses include mainly income and expenses from interest on financial investments and financing and exchange rate variation. Ultrapar's net financial expenses decreased by 44%, from R\$842.6 million in 2016 to R\$474.3 million in 2017, mainly due to (i) the lower average CDI rates during the period (9.9% in 2017 compared to 14.0% in 2016), and (ii) foreign exchange rate effects during the period, which were partially offset by an increase in net debt (from R\$5,715.3 million as of December 31, 2016 to R\$7,220.7 million as of December 31, 2017).

Income and social contribution taxes. Ultrapar's income and social contribution taxes, net of benefits from income tax exemptions, increased by 18%, from R\$688.0 million in 2016 to R\$813.3 million in 2017.

Net income for the year. Ultrapar's net income for 2017 reached R\$1,525.9 million, which was stable compared to R\$1,546.8 million for 2016, mainly due to the lower financial expenses incurred during the period, partially offset by the decrease in operating income before financial income (expenses) and share of profit of joint-ventures and associates between the periods, and higher amortization and depreciation, as a result of investments made during the period, all as described above.

Adjusted EBITDA. Ultrapar's Adjusted EBITDA decreased 4%, from R\$4,160.7 million in 2016 to R\$3,981.0 million in 2017, as a result of EBITDA decreases in Oxiteno, Ultracargo and Extrafarma. The reconciliation of the EBITDA and Adjusted EBITDA starting from the net income is presented below:

R\$ million	2017	2016
	Restated	Restated
Net income for the year	1,525.9	1,546.8
(+) Income and social contribution taxes	813.3	688.0
(+) Net financial expenses	474.3	842.6
(+) Depreciation and amortization	704.5	628.2
EBITDA⁽¹⁾	3,518.0	3,705.5
Adjustments		
(+) Amortization of contractual assets with customers exclusive rights (Ipiranga ⁽³⁾)	463.0	463.5
Adjusted EBITDA⁽¹⁾	3,981.0	4,169.0