ULTRAPAR HOLDINGS INC
Form 20-F
April 29, 2016

As filed with the Securities and Exchange Commission on April 29, 2016

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

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

For the fiscal year ended December 31, 2015

OR

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

OR

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

For the transition period from to

Commission file number: 001-14950

ULTRAPAR PARTICIPAÇÕES S.A.

(Exact name of Registrant as specified in its charter)

ULTRAPAR HOLDINGS INC.

(Translation of Registrant s name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Av. Brigadeiro Luis Antônio, 1343, 9º Andar

São Paulo, SP, Brazil 01317-910

Telephone: 55 11 3177 6695

(Address of principal executive offices)

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

Title of each class	**Name of each exchange on which registered**
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, 2015.

Title of Class	Number of Shares Outstanding
Common Stock	**556,405,096**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). ¨ Yes x No

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

Large Accelerated Filer x Accelerated Filer ¨ Non-accelerated Filer ¨

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

U.S. GAAP ¨ International Financial Reporting Standards as issued by the International Accounting Standards Board x other ¨

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 x

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 x No

TABLE OF CONTENTS

INTRODUCTION

Ultrapar is a Brazilian company with almost 80 years of history, with leading positions in the markets in which it operates: specialized distribution and retail through Ultragaz, Ipiranga and Extrafarma, production of specialty chemicals through Oxiteno and liquid bulk storage services through Ultracargo. Ultragaz is the leader in LPG distribution in Brazil with a 23% market share in 2015 and one of the largest independent LPG distributors in the world in terms of volume sold. We deliver LPG to an estimated 11 million households through a network of approximately 5,100 independent retailers in the bottled segment and to approximately 50 thousand customers in the bulk segment. Ipiranga is the second largest fuel distributor in Brazil, with a network of 7,230 service stations and 22% market share in 2015. 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. Oxiteno has twelve industrial units in Brazil, Mexico, the United States, Uruguay and Venezuela and commercial offices in Argentina, Belgium, China and Colombia. Ultracargo has a leading position in its sector, being the largest provider of storage for liquid bulk in Brazil, with six terminals and a storage capacity of 630 thousand cubic meters as of December 31, 2015. Extrafarma is one of the leading drugstore chains in the North and Northeast of Brazil, with 254 drugstores and two distribution centers operating in December 2015. The Extrafarma Transaction closed on January 31, 2014 and, accordingly, Extrafarma s results of operations were consolidated into Ultrapar s results of operations as from February 1, 2014. See Item 4.A. Information on the Company History and Development of the Company Extrafarma Transaction.

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:

ABIHPEC are to Associação Brasileira da Indústria de Higiene Pessoal, Perfumaria e Cosméticos, the Brazilian association of personal care products;

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

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

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

ADRs are to the American Depositary Receipts evidencing our ADSs;

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;

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 de 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;

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

Aqces are to Aqces Logística Internacional Ltda.;

BM&FBOVESPA are to the BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias e Futuros, the São Paulo Stock Exchange;

Braskem are to Braskem S.A.;

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, and by Law No. 12,431 enacted in June 2011;

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

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;

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

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

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.;

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;

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 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 merger of Extrafarma with Ultrapar on January 31, 2014, as described in Item 4.A. Information on the Company History and Development of the Company Extrafarma Transaction.

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;

2

IAS are to International Accounting Standard;

IFRS are to International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB);

IGP-M are to General Index of Market Prices of Brazilian inflation, calculated by the Getulio Vargas Foundation;

IMS Health are to IMS Health Holdings, Inc.;

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;

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

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

LPG are to liquefied petroleum gas;

LPG International are to LPG International Inc.;

Maxfácil are to Maxfácil Participações S.A., a company that was split between the partners in proportion to their shareholdings and subsequently merged by each partner in November 2012;

NYSE are to the New York Stock Exchange;

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

Novo Mercado are to *Novo Mercado* listing segment of BM&FBOVESPA;

Selic are to the Brazilian base interest rate;

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

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

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

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

Oxiteno Overseas are to Oxiteno Overseas Co.;

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

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

Oxiteno are to Oxiteno 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;

Petrobras are to Petrobras Petróleo Brasileiro S.A.;

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

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

PFIC are to Passive Foreign Investment Company;

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 Ultragaz in October 2011 and was merged into Cia Ultragaz 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;

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;

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;

Sindigás are to the Brazilian association of LPG distributors;

Sindicom are to the Brazilian association of fuel distributors;

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 agengy of the Northeast of Brazil;

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., Ultrapar 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. Prior to the Conversion, Ultra S.A. owned 66% of the voting capital of Ultrapar;

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;

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

2014 Ultra S.A. 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 Sindicom and ANP, (iv) the liquid bulk storage industry were obtained from ABTL, and (v) the retail pharmacy business were obtained from ABRAFARMA, IMS Health, ABIHPEC and Sindusfarma.

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial statements included in Item 18 were prepared in accordance with IFRS and include our consolidated balance sheets as of December 31, 2015 and 2014 and the related consolidated income statements, statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2015, 2014 and 2013, as well as notes thereto.

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

On January 31, 2014, Ultrapar acquired Extrafarma, one of Brazil s top ten drugstore chains, marking our entry in the retail pharmacy business. The results of operations of the business acquired were consolidated into Ultrapar s financial statements as from February 1, 2014. Ultrapar s financial statements as of and for the periods prior to February 1, 2014 do not reflect any financial information of the acquired businesses. Accordingly, unless otherwise stated, 2014 financial and operational information for Extrafarma presented in this annual report relates to and refers to the 11-month period from February 1, 2014 to December 31, 2014 only. See Item 4.A. Information on the Company History and Development of the Company Extrafarma Transaction.

On April 25, 2016 the exchange rate for *Reais* into U.S. dollars was R$3.547 to US$1.00, based on the commercial selling rate as reported by the Central Bank. The commercial selling rate was R$3.905 to US$1.00 on December 31, 2015, and R$2.656 to US$1.00 on December 31, 2014. 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 Information and elsewhere in this annual report from *Reais* into U.S. dollars using the commercial selling rate as reported by the Central Bank at December 31, 2015 of R$3.905 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. The *Real*/dollar exchange rate has presented significant volatility since December 31, 2015 and as of the date of this annual report is considered materially different from the rate used to perform the translations throughout this document.

Segment information for our businesses is presented on an unconsolidated basis. 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 Sindicom and ANP, (iii) the liquid bulk storage industry was obtained from ABTL and (iv) the retail pharmacy business was obtained from ABRAFARMA. 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.

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;

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 20-F 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.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

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* in accordance with IFRS. The consolidated balance sheets as of and for the years ended December 31, 2015 and 2014 and the consolidated income statements and cash flows as of and for the years ended December 31, 2015, 2014 and 2013 are derived from our audited consolidated financial statements included in this annual report. 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					
	2015[1]	2015	2014	2013	2012	2011
	(in millions, except per share data)					
Income statements data:	**US$**	**R$**	**R$**	**R$**	**R$**	**R$**
Net revenue from sales and services	**19,374.9**	**75,655.3**	**67,736.3**	**60,940.2**	**53,868.9**	**48,628.7**
Cost of products and services sold	(17,653.6)	(68,933.7)	(62,304.6)	(56,165.4)	(49,768.1)	(45,124.3)
Gross profit	**1,721.4**	**6,721.6**	**5,431.7**	**4,774.9**	**4,100.8**	**3,504.4**
Operating income (expenses)						
Selling and marketing	(644.5)	(2,516.6)	(2,158.7)	(1,756.4)	(1,579.6)	(1,348.6)
General and administrative	(338.4)	(1,321.3)	(1,130.3)	(1,012.3)	(891.1)	(773.7)
Gain on disposal of property, plant and equipment and intangibles	7.0	27.3	37.0	40.3	3.7	21.4
Other operating income, net	13.0	50.6	106.9	97.6	74.1	52.2
Operating income before financial income (expenses) and share of profit of joint ventures and associates	**758.4**	**2,961.5**	**2,286.6**	**2,144.0**	**1,707.9**	**1,455.7**
Financial income	109.2	426.4	366.0	240.6	208.2	309.1
Financial expenses	(289.3)	(1,129.8)	(811.4)	(578.2)	(478.5)	(616.6)
Share of profit (loss) of joint ventures and associates	(2.8)	(10.9)	(16.5)	(5.0)	10.5	13.9
Income before income and social contribution taxes	**575.5**	**2,247.3**	**1,824.7**	**1,801.4**	**1,448.0**	**1,162.0**
Income and social contribution taxes						
Current	(205.4)	(802.0)	(615.1)	(534.5)	(356.3)	(238.6)
Deferred	(3.8)	(14.8)	(21.7)	(91.0)	(108.4)	(91.3)
Taxes incentives	21.1	82.4	63.4	52.8	43.4	28.2
	(188.1)	**(734.3)**	**(573.5)**	**(572.7)**	**(421.3)**	**(301.7)**
Net income for the year	**387.5**	**1,513.0**	**1,251.2**	**1,228.7**	**1,026.8**	**860.3**
Net income for the year attributable to:						
Shareholders of the Company	385.0	1,503.5	1,241.6	1,225.1	1,019.9	854.3
Non-controlling interests in subsidiaries	2.4	9.5	9.7	3.6	6.9	6.0
Earnings per share[2]						
Basic	0.71	2.76	2.28	2.29	1.91	1.60
Diluted	0.70	2.74	2.26	2.28	1.90	1.59

Dividends per share	0.41	1.60	1.42	1.37	1.17	0.98
Other financial data						
Cash flows from operating activities	819.9	3,201.7	2,650.7	2,120.7	2,443.7	1,673.7
Cash flows from investing activities	(205.3)	(801.8)	(1,540.2)	(1,287.9)	(1,565.0)	(1,445.2)
Cash flows from financing activities	(645.5)	(2,520.7)	(539.3)	(578.9)	(622.7)	(1,093.7)
Depreciation and amortization(3)	256.8	1,002.6	887.8	778.9	693.1	578.0
EBITDA(4)	**1,012.4**	**3,953.3**	**3,157.9**	**2,918.0**	**2,411.4**	**2,047.5**
Net debt(5)	(1,262.2)	(4,928.4)	(3,975.1)	(3,425.9)	(3,084.0)	(2,882.8)
Number of common shares (in thousands)(6)	556,405.1	556,405.1	556,405.1	544,384.0	544,384.0	544,384.0

(1) The figures in *Reais* for December 31, 2015 have been converted into U.S. dollars using the exchange rate of US$1.00 = R$3.905, 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) 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. Earnings per share for 2011 have been retroactively adjusted for the 1:4 stock split approved in the extraordinary general shareholders meeting held on February 10, 2011 described under Item 4.A. Information on the Company History and Development of the Company.

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

(4) EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is presented in this document in accordance with ICVM 527/12 and represents our net income before (i) income and social contribution taxes, (ii) net financial expense (income) and (iii) depreciation and amortization. The purpose of including EBITDA information is to provide a measure used by management for internal assessment of our operating results, and because a portion of our employee profit sharing plan is linked directly or indirectly to 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 in connection with covenants related to some of our financing, as described in Note 14 to our consolidated financial statements. We believe EBITDA allows 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 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 excludes net financial expense (income), income and social contribution taxes and depreciation and amortization, it provides 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 is not a measure of financial performance under IFRS, and it should not be considered in isolation, or as a substitute for net income, as a measure of operating performance, as a substitute for cash flows from operations or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company s overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as

financial expense (income), income and social contribution taxes, depreciation and amortization. The tables below provide a reconciliation of net income and operating income to EBITDA for Ultrapar and a reconciliation of operating income to EBITDA for Ultragaz, Ipiranga, Oxiteno and Ultracargo for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, and the reconciliation of operating income to EBITDA for Extrafarma for the year ended December 31, 2015 and for 2014, related to the period from February 1 to December 31, 2014:

	Ultrapar Reconciliation of net income to EBITDA Years ended December 31				
	2015	2014	2013	2012	2011
	(in millions of *Reais*)				
Net income	1,513.0	1,251.2	1,228.7	1,026.8	860.3
Depreciation and amortization	1,002.6	887.8	778.9	693.1	578.0
Net financial expenses	703.3	445.4	337.6	270.3	307.6
Income and social contribution taxes	734.3	573.5	572.7	421.3	301.7
EBITDA(4)	**3,953.3**	**3,157.9**	**2,918.0**	**2,411.4**	**2,047.5**

	Ultrapar Reconciliation of operating income to EBITDA Years ended December 31				
	2015	2014	2013	2012	2011
	(in millions of *Reais*)				
Operating income before financial income (expenses) and share of profit (loss) of joint-ventures and associates	2,961.5	2,286.6	2,144.0	1,707.9	1,455.7
Depreciation and amortization	1,002.6	887.8	778.9	693.1	578.0
Share of profit (loss) of joint-ventures and associates	(10.9)	(16.5)	(5.0)	10.5	13.9
EBITDA(4)	**3,953.3**	**3,157.9**	**2,918.0**	**2,411.4**	**2,047.5**

	Ultragaz Reconciliation of operating income to EBITDA Years ended December 31				
	2015	2014	2013	2012	2011
	(in millions of *Reais*)				
Operating income before financial income (expenses) and share of profit (loss) of associates	213.9	169.0	147.0	114.3	163.4
Depreciation and amortization	143.2	136.4	133.5	131.4	117.5
Share of profit (loss) of associates	(0.1)	0.2	0.0	0.0	0.0
EBITDA(4)	**357.0**	**305.5**	**280.5**	**245.7**	**280.9**

	Oxiteno Reconciliation of operating income to EBITDA Years ended December 31				
	2015	2014	2013	2012	2011
	(in millions of *Reais*)				
Operating income before financial income (expenses) and share of profit (loss) of associates	579.5	264.2	308.6	228.8	156.0
Depreciation and amortization	158.3	138.5	131.9	123.1	106.3

Share of profit (loss) of associates	2.0	1.0	0.1	(0.1)	0.0
EBITDA[4]	**739.8**	**403.7**	**440.6**	**351.8**	**262.3**

	Ultracargo Reconciliation of operating income to EBITDA Years ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
	(in millions of *Reais*)				
Operating income before financial income (expenses) and share of profit of joint-ventures and associates	(16.1)	117.3	108.9	105.5	87.4
Depreciation and amortization	41.7	49.4	47.3	36.6	28.2
Share of profit of joint-ventures and associates	0.7	0.2	1.3	0.6	1.2
EBITDA(4)	**26.3**	**166.9**	**157.5**	**142.7**	**116.8**

	Ipiranga Reconciliation of operating income to EBITDA Years ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
	(in millions of *Reais*)				
Operating income before financial income (expenses) and share of profit of joint-ventures and associates	2,154.6	1,758.1	1,574.7	1,254.4	1,042.4
Depreciation and amortization	612.7	529.0	454.2	390.7	316.2
Share of profit of joint-ventures and associates	1.5	1.0	0.8	7.4	7.9
EBITDA(4)	**2,768.8**	**2,288.0**	**2,029.6**	**1,652.6**	**1,366.4**

	Extrafarma Reconciliation of operating income to EBITDA Years ended December 31				
	2015	**2014(7)**	**2013**	**2012**	**2011**
	(in millions of *Reais*)				
Operating income before financial income (expenses)	5.0	16.9			
Depreciation and amortization	23.7	12.8			
EBITDA(4)	**28.7**	**29.8**			

The reconciliation of EBITDA to cash flows from operating activities for the years ending December 31, 2015, 2014, 2013, 2012 and 2011 is presented in the table below:

	2015	2014	2013	2012	2011
		(in millions of *Reais*)			
Net income for the year	**1,513.0**	**1,251.2**	**1,228.7**	**1,026.8**	**860.3**
Adjustments to reconcile net income to EBITDA:					
Depreciation and amortization	1,002.6	887.8	778.9	693.1	578.0
Net financial expenses	703.3	445.4	337.6	270.3	307.6
Income and social contribution taxes	734.3	573.5	572.7	421.3	301.7
EBITDA(4)	**3,953.3**	**3,157.9**	**2,918.0**	**2,411.4**	**2,047.5**
Adjustments to reconcile EBITDA to cash provided by operating activities:					
Financial result that affected the cash flow from operating activities	879.2	519.4	274.5	345.2	424.4
Current income and social contribution taxes	(802.0)	(615.1)	(534.5)	(356.3)	(238.6)
Tax incentives (income and social contribution taxes)	82.4	63.4	52.8	43.4	28.2
PIS and COFINS credits on depreciation	12.1	12.7	12.4	11.6	10.1
Assets retirement obligation	(3.9)	(4.0)	(5.4)	(2.5)	(3.0)
Others	0.3	(14.5)	(31.1)	(2.9)	(20.3)
(Increase) decrease in current assets					
Trade receivables	(615.4)	(212.3)	(8.4)	(247.8)	(316.0)
Inventories	(615.4)	(184.3)	(298.9)	48.5	(180.2)
Recoverable taxes	(60.1)	(106.8)	(2.0)	(4.5)	(117.4)
Other receivables	13.6	(8.2)	1.1	1.3	(2.7)
Prepaid expenses	(14.2)	8.1	(11.4)	(10.6)	(4.8)
Increase (decrease) in current liabilities					
Trade payables	181.0	192.1	(328.8)	198.3	153.2
Salaries and related charges	109.7	(19.6)	45.1	(18.4)	38.6
Taxes payable	30.0	19.1	8.6	(2.5)	(42.1)
Income and social contribution taxes	504.5	437.1	350.8	208.2	93.1
Post-employment benefits		(0.5)	1.9	(1.7)	1.9
Provision for tax, civil and labor risks	(18.8)	(5.1)	19.8	8.5	1.7
Other payables	29.2	(21.0)	36.6	(0.2)	26.2
Deferred revenue	1.0	0.6	(0.3)	(1.7)	5.2
(Increase) decrease in non-current assets					
Trade receivables	(8.4)	(19.3)	13.0	(19.6)	(21.0)
Recoverable taxes	(60.0)	(38.0)	11.7	32.3	(26.4)
Escrow deposits	(44.0)	(80.6)	(81.2)	(64.5)	(88.7)
Other receivables	(10.7)	0.8	2.2	(9.7)	(0.6)
Prepaid expenses	(15.4)	0.5	(18.2)	1.5	(27.9)
Increase (decrease) in non-current liabilities					
Post-employment benefits	10.9	9.5	8.3	8.8	(4.8)
Provision for tax, civil and labor risks	61.4	(12.0)	18.8	38.6	41.7
Other payables	20.1	(10.8)	(21.8)	(3.1)	25.0
Deferred revenue	3.3	(1.4)	(0.7)	1.1	2.8

Income and social contribution taxes paid	(422.0)	(416.6)	(312.1)	(169.1)	(131.5)
Net cash provided by operating activities	**3,201.7**	**2,650.7**	**2,120.7**	**2,443.7**	**1,673.7**

(5) Net debt is included in this document 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. The table below provides a reconciliation of our consolidated balance sheet data to the net debt positions shown in the table, as of December 31, 2015, 2014, 2013, 2012 and 2011:

	Ultrapar Reconciliation of consolidated balance sheets to net debt As of December 31				
	2015	2014	2013	2012	2011
	(in millions of *Reais*)				
Cash and cash equivalents	2,702.9	2,827.4	2,276.1	2,021.1	1,765.5
Current financial investments	803.3	1,441.8	1,149.1	961.2	819.3
Non-current financial investments	467.0	130.9	118.5	149.5	74.4
Current loans and finance leases	(1,050.5)	(2,557.5)	(1,769.6)	(1,575.0)	(1,302.5)
Current debentures	(47.4)	(884.9)	(60.4)	(53.0)	(1,002.5)
Non-current loans and finance leases	(5,604.9)	(3,533.9)	(3,740.6)	(3,192.6)	(3,237.1)
Non-current debentures	(2,198.8)	(1,399.0)	(1,399.0)	(1,395.3)	
Net debt position	(4,928.4)	(3,975.1)	(3,425.9)	(3,084.0)	(2,882.8)

(6) The number of shares corresponds to the totality of shares issued by the Company, including those held in treasury. The number of shares for the year ended December 31, 2011 were retroactively adjusted for the 1:4 stock split approved in the extraordinary general shareholders meeting held on February 10, 2011 described under Item 4.A. Information on the Company History and Development of the Company.

(7) 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.

The following tables present our consolidated balance sheet in accordance with IFRS as of the dates indicated.

			As of December 31			
	2015[1]	2015	2014	2013	2012	2011
			(in millions)			
Consolidated balance sheets data:	**US$**	**R$**	**R$**	**R$**	**R$**	**R$**
Current assets						
Cash and cash equivalents	692.2	2,702.9	2,827.4	2,276.1	2,021.1	1,765.5
Financial investments	205.7	803.3	1,441.8	1,149.1	961.2	819.3
Trade receivables, net	811.1	3,167.2	2,604.1	2,321.5	2,306.5	2,023.4
Inventories, net	639.0	2,495.2	1,925.0	1,592.5	1,290.7	1,303.5
Recoverable taxes, net	161.0	628.8	593.5	480.0	478.0	466.5
Other receivables	8.3	32.5	43.3	19.4	20.5	20.2
Prepaid expenses, net	20.9	81.5	67.3	65.2	53.8	39.9
Total current assets	**2,538.2**	**9,911.4**	**9,502.4**	**7,903.9**	**7,133.0**	**6,438.4**
Non-current assets						
Financial investments	119.6	467.0	130.9	118.5	149.5	74.4
Trade receivables, net	39.0	152.2	143.8	124.5	137.4	117.7
Related parties	0.1	0.5	10.9	10.9	10.9	10.1
Deferred income and social contribution taxes	143.2	559.0	462.6	376.1	469.3	511.0
Recoverable taxes, net	34.7	135.4	75.4	37.4	49.1	81.4
Escrow deposits	189.7	740.8	696.8	614.9	533.7	469.2
Other receivables	4.2	16.5	5.8	6.6	11.0	1.3
Prepaid expenses, net	37.6	146.7	131.2	97.8	79.7	67.9
	568.1	2,218.1	1,657.5	1,386.7	1,440.5	1,333.0
Investments						
In joint-ventures	20.3	79.4	54.5	44.4	28.2	120.8
In associates	5.5	21.5	13.1	11.7	12.7	12.6
Other	0.7	2.8	2.8	2.8	2.8	2.8
Property, plant and equipment, net	1,392.9	5,438.9	5,092.0	4,860.2	4,667.0	4,250.9
Intangible assets, net	843.6	3,293.9	3,158.1	2,168.8	1,965.3	1,539.1
	2,263.0	8,836.6	8,320.5	7,087.9	6,676.0	5,926.2
Total non-current assets	**2,831.1**	**11,054.7**	**9,978.0**	**8,474.6**	**8,116.5**	**7,259.3**
TOTAL ASSETS	**5,369.3**	**20,966.0**	**19,480.4**	**16,378.5**	**15,249.6**	**13,697.7**
Current liabilities						
Loans	268.4	1,048.1	2,554.7	1,767.8	1,573.0	1,300.3
Debentures	12.1	47.4	884.9	60.4	53.0	1,002.5

Finance leases	0.6	2.4	2.7	1.8	2.0	2.2
Trade payables	374.0	1,460.5	1,279.5	969.0	1,297.7	1,066.8
Salaries and related charges	103.5	404.3	294.6	297.7	252.5	267.2
Taxes payable	43.2	168.8	138.8	116.3	107.7	109.2
Dividends payable	76.5	298.8	218.4	242.2	222.4	163.8
Income and social contribution taxes payable	55.5	216.9	134.4	113.9	75.2	36.2
Post-employment benefits	3.5	13.7	11.4	11.9	10.0	11.7
Provision for assets retirement obligation	1.3	5.2	4.6	3.4	3.7	7.3
Provision for tax, civil and labor risks	11.6	45.3	64.2	69.3	49.5	41.0
Other payables	25.0	97.5	80.4	93.0	56.5	55.4
Deferred revenue	6.3	24.4	23.5	17.7	18.1	19.7
Total current liabilities	**981.7**	**3,833.4**	**5,692.1**	**3,764.5**	**3,721.3**	**4,083.2**

13

	As of December 31					
	2015[1]	**2015**	**2014**	**2013**	**2012**	**2011**
Consolidated balance sheets data:	**US$**	**R$**	**R$**	**R$**	**R$**	**R$**
Non-current liabilities						
Loans	1,424.2	5,561.4	3,489.6	3,698.0	3,151.7	3,195.7
Debentures	563.1	2,198.8	1,399.0	1,399.0	1,395.3	
Finance leases	11.1	43.5	44.3	42.6	40.9	41.4
Related parties	1.1	4.4	4.4	3.9	3.9	4.0
Subscription warrants indemnification	28.7	112.2	92.1			
Deferred income and social contribution taxes	68.1	266.0	152.8	101.5	84.9	37.4
Provision for tax, civil and labor risks	175.3	684.7	623.3	569.7	551.0	512.2
Post-employment benefits	28.9	112.8	108.4	99.4	118.5	97.5
Provision for assets retirement obligation	17.8	69.5	66.2	66.2	66.7	60.3
Other payables	24.1	94.1	74.0	77.7	99.6	90.6
Deferred revenue	2.8	11.0	7.7	9.1	9.9	8.7
Total non-current liabilities	**2,345.5**	**9,158.5**	**6,061.7**	**6,067.2**	**5,522.2**	**4,047.8**
TOTAL LIABILITIES	**3,327.2**	**12,991.9**	**11,753.8**	**9,831.7**	**9,243.5**	**8,131.0**
Shareholder s equity						
Share capital	983.1	3,838.7	3,838.7	3,696.8	3,696.8	3,696.8
Capital reserve	140.0	546.6	547.5	20.2	20.2	9.8
Revaluation reserve	1.4	5.6	5.8	6.1	6.7	7.1
Profit reserves	973.7	3,802.0	3,169.7	2,706.6	2,224.5	1,831.8
Treasury shares	(125.7)	(490.9)	(103.0)	(114.9)	(114.9)	(118.2)
Additional dividends to the minimum mandatory dividends	40.2	157.2	189.0	161.6	147.2	122.2
Valuation adjustments	4.9	19.0	7.1	5.4	(12.6)	(4.4)
Cumulative translation adjustments	17.1	66.9	43.2	38.1	12.6	(4.4)
Shareholders equity attributable to:						
Shareholders of the Company	2,034.7	7,945.0	7,698.0	6,520.0	5,980.6	5,540.5
Non-controlling interest in subsidiaries	7.4	29.1	28.6	26.9	25.5	26.2
TOTAL SHAREHOLDER S EQUITY	**2,042.1**	**7,974.1**	**7,726.6**	**6,546.9**	**6,006.1**	**5,566.7**
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**5,369.3**	**20,966.0**	**19,480.4**	**16,378.5**	**15,249.6**	**13,697.7**

(1) The figures in *Reais* for December 31, 2015 have been converted into dollars using the exchange rate of US$1.00 = R$3.905, 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

Before March 14, 2005, there were two principal foreign exchange markets in Brazil, in which notes were freely negotiated but could be strongly influenced by Central Bank intervention:

- the commercial rate exchange market dedicated principally to trade and financial foreign exchange transactions such as the buying and selling of registered investments by foreign entities, the purchase or sale of shares, or the payment of dividends or interest with respect to shares; and

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

On March 4, 2005, the National Monetary Council enacted Resolution No. 3,265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. This resolution allowed, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *Reais* by a person or legal entity, without limitation of the amount involved; provided, however, the transaction is legal. Foreign currencies may only be purchased through financial institutions domiciled in Brazil authorized to operate in the exchange market. Resolution No. 3,265 was revoked by Resolution No. 3,568, effective as of July 1, 2008; however, the main directives provided by Resolution No. 3,265 were maintained.

In 2011, the unstable international economic environment, especially in the second half of the year as a result of the effects of the European crisis, contributed to a 13% depreciation of the *Real* against the U.S. dollar for the year, reversing the appreciation trend in the first half of the year. In 2012, the Brazilian government adopted counter-cyclical measures to foster economic growth. Such measures included the reduction of the base interest rate (SELIC) and the reduction of federal taxes on the automotive sector. The effects of the lower economic growth, the lower interest rate and the unstable international environment contributed to a 9% depreciation of the *Real* against the U.S. dollar. In 2013, the *Real* depreciated 15% against the U.S. dollar due to the performance of the Brazilian economy, the economic rebound in the United States and the economic instability in the international markets. 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.

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 25, 2016, the exchange rate for *Reais* into U.S. dollars was R$3.547 to US$1.00, based on the commercial selling rate as reported by the Central Bank. The following table sets forth information on prevailing commercial foreign exchange selling rates for the periods indicated, as published by the Central Bank on its electronic information system, SISBACEN, using PTAX 800, Option 5.

	Exchange rates of nominal *Reais* per US$1.00			
	High	**Low**	**Average**	**Period-Ended**
Year Ended				
December 31, 2011	1.902	1.535	1.671(1)	1.876
December 31, 2012	2.112	1.702	1.959(1)	2.044
December 31, 2013	2.446	1.953	2.174(1)	2.343
December 31, 2014	2.740	2.197	2.360(1)	2.656
December 31, 2015	4.195	2.575	3.388(1)	3.905
Month Ended				
November 30, 2015	3.851	3.701	3.776(2)	3.851
December 31, 2015	3.983	3.748	3.865(2)	3.905
January 31, 2016	4.156	3.986	4.071(2)	4.043
February 29, 2016	4.049	3.865	3.957(2)	3.980
March 31, 2016	3.991	3.559	3.775(2)	3.559
April 25, 2016	3.692	3.513	3.602(2)	3.547

(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 of 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 Ultragaz, 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 Ultragaz 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, Ultragaz and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragaz s net revenue from sales and services represented 6% of our consolidated net revenue from sales and services for the year ended December 31, 2015. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors including Ultragaz. For more details, see Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz Supply of LPG.

With respect to fuel distribution, Petrobras also supplied nearly all of Ipiranga and other distributors oil-based fuel requirements in 2015. 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 86% of our consolidated net revenue from sales and services for the year ended December 31, 2015.

The last significant interruption in the supply of oil derivatives by Petrobras to LPG and fuel distributors occurred during the 1995 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.

Petrobras is currently under investigation by the CVM, the SEC, the U.S. Department of Justice (DOJ), 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. In addition, Petrobras is subject to securities litigation (including class actions) in the United States. Such investigations and litigation have had a destabilizing effect on Petrobras, and it is difficult to ascertain what impact the investigations and litigation will have on Petrobras supply of LPG and oil-based fuels to market players.

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 Ultragaz 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 on the international market. The logistics infrastructure for LPG and oil-based fuels imports in Brazil is limited and is substantially all controlled by Petrobras. As a result, any such interruption could increase our purchase costs and, consequently, adversely affect our operating margins.

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 Ultragaz 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 1990 s, after the market was deregulated, which further increased competition in such market.

In addition, 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.

Anticompetitive practices by our competitors 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 on the part of some fuel distributors has been prevalent, allowing them to lower the prices they charge. As the final prices for the products sold by these 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 affect 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.

These practices have enabled certain distributors to supply fuel products at prices lower than those offered by the major distributors, including Ipiranga.

Although the Brazilian government has been taking measures to inhibit these practices, if such practices become more prevalent, Ipiranga could suffer from a reduction in sales volume and in margins, which could have a material adverse effect on the results of our operations.

17

LPG and oil-based fuels competes 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 against which we compete. Natural gas is currently less expensive than LPG for industrial consumers who purchase large volumes, but more expensive for the vast majority 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 Ultragaz Competition.

Ethylene, the principal raw material used in our petrochemical operations, comes from limited supply sources. Any reduction in the supply of ethylene would have an immediate impact on 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 that require ethylene in 2015. 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 supplies all of our ethylene requirements at our plants located at Camaçari and at 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 at Braskem for its supply. For the year ended December 31, 2015, Brazil s ethylene imports totaled 19 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 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.

The price of ethylene and palm kernel oil, Oxiteno s main raw materials, is 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. 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 palm kernel oil 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, lowering 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.

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 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.

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.

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

We are subject to extensive federal and state 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.

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 Unites 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.

In 2007, a legislation entitled REACH (Registration Evaluation Authorization of Chemicals) was established by the European Union, focusing on controlling the production, imports and utilization of chemical products in the region. According to REACH, all the chemical products sold in the European Economic Area (EEA) must be registered, through the submission of information regarding properties, uses and safety of each product that will be analyzed by the European Regulatory Agency. In 2015, 2% of the volume sold by Oxiteno was exported to this region. Oxiteno is in compliance with the current legislative requirements for the products it currently exports in the EEA. As REACH is now an established regulation and has been well accepted by multilateral trade organizations, such as the World Trade Organization, it is possible that other countries may adopt similar procedures in the future. We cannot guarantee the effect that amendments to this new legislation could have on any product we export to the EEA, or whether similar legislation will come into force in other regions.

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.

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 the cause of such accident and its impacts are still being investigated, including the extent of operational losses, damage to assets, potential environmental damages and other liabilities and reputational harm. See Item 4.A. Information on the Company History and Development of the Company Ultracargo Fire at storage facilities in Santos.

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 believe that current insurance levels are adequate, the occurrence of losses or other liabilities that are not covered by insurance or that exceed the limits of our insurance coverage could result in significant unexpected additional costs.

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

We are entitled to federal tax benefits providing for income tax exemption or reduction for our activities in the northeast region of Brazil. These benefits have defined terms and may be cancelled or suspended at any time if we distribute to our shareholders the amount of income tax that was not paid as a consequence of tax benefits or if the relevant tax authorities decide to suspend or cancel our benefits. As a result, we may become liable for the payment of related taxes at the full tax rates. If we are not able to renew such benefits, or if we are only able to renew them under terms that are substantially less favorable than expected, our results of operations may be adversely affected. Income tax exemptions amounted to R$82.4 million and R$63.4 million, respectively, for the years ended December 31, 2015 and 2014. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz 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., 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. These individuals are party to a shareholders agreement executed on February 24, 2014. 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., may exercise significant influence over all matters requiring shareholder approval, including the election of our directors. Although our Board of Directors is responsible for nominating the slate of directors to be elected by our shareholders at our annual shareholders meetings, some of the current members of our Board of Directors, who were elected at our April 15, 2015 shareholders meeting, are the same as those who previously served as members of our Board of Directors elected by Ultra S.A. on April 27, 2011, which, at that time, held approximately 66% of our voting shares.

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 will expire in the annual general shareholders meeting to be held in 2017.

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.

21

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 transactions and certain liabilities of the businesses acquired and all the risks related to those liabilities.

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.

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.

In February 2014, we started operating in the retail pharmacy business, a new business unit in which we have limited experience and that could subject us to additional and unknown business and operating risks.

In February, 2014 we started to operate in the retail pharmacy business through Extrafarma, our wholly-owned subsidiary operating in the sector, after the approval of the merger of shares by the extraordinary general meetings of Ultrapar and Extrafarma. Prior to this transaction, we were not involved in the drugstore business. The drugstore business is complex and involves assets and operations in which we have limited operating experience. Our ability to succeed in this business unit will depend upon our ability to address and overcome limitations in our experience. The difficulties of integrating new business activities with our existing operations include, among other things, operating distinct business segments that require different operating strategies and different managerial expertise, necessity of coordinating organization systems and facilities in different locations and integrating personnel with diverse backgrounds and organizational cultures. Failure to overcome these limitations and difficulties may have an adverse effect on our business, financial condition and results of operations.

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 accelerated opening of new drugstores in Brazil. It includes the opening of stores by leveraging our access to Ipiranga and Ultragaz resellers sites (service stations and LPG shops). 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.

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) limited knowledge about the new regions where we may open new drugstores and (iii) 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, 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, 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 laws, we may be subject to breaches of our Code of Ethics and Conduct, anti-corruption policies and business conduct protocols and to instances of fraudulent behavior, corrupt practices and dishonesty by our employees, contractors or other agents. 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.

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, 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;

price 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.

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 us and our businesses.

Brazil faced a series of economic and political difficulties in 2015. These adversities included increasing unemployment rates, decreasing consumer and business confidence, falling industrial output, a deficit in Brazil s primary accounts, shrinking gross domestic product, rising inflation above recently observed ceilings, increasing uncertainties with regards to Congressional decisions, political instability and the significant devaluation of the *Real*. Moreover, the political crisis in recent months could worsen economic conditions in Brazil. All these factors contributed to Brazil s loss of its investment grade rating and an economic recession.

Brazilian president Dilma Rousseff was reelected for a second four-year term in October 2014, which began in January 2015. Uncertainty regarding future policies and appointments to influential governmental positions following the reelection as well as ongoing investigations into allegations of corruption in state-controlled enterprises or otherwise may also affect the confidence of investors and the general public. In addition, widescale protests throughout Brazil have called for the impeachment of Dilma Rousseff and impeachment proceedings are ongoing. On April 17, 2016, Brazil s lower house of Congress voted in favour of sending an impeachment motion against Mrs. Rousseff to the Brazilian Senate. 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* investigation, being conducted by Law Courts in Paraná and the Office of the Brazilian Federal Prosecutor, and its impact on the Brazilian economy and political environment. 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.

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 last several years, 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 inflation of 10.5% in 2015, 3.7% in 2014, 5.5% in 2013, 7.8% in 2012 and 5.1% in 2011. From January 2016 to March 2016, IGP-M index was 3.0%. 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 10.7% in 2015, 6.4% in

2014, 5.9% in 2013, 5.8% in 2012 and 6.5% in 2011.

Brazil may continue to experience high levels of inflation in the future. In 2015, Brazil experienced the highest levels of inflation since 2002 and the Brazilian government is already introducing policies aimed at reducing inflationary pressures, which could have the effect of reducing overall performance of the Brazilian economy. There can be no assurance that the lower levels of inflation experienced in Brazil throughout 2014 will return or that inflation going forward will not continue the upward trend experienced in 2015. 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 2011, the unstable international economic environment, especially in the second half of the year as a result of the effects of the European crisis, contributed to a 13% depreciation of the *Real* against the U.S. dollar for the year. In 2012, the effects of the lower economic growth, the lower interest rate and the unstable international environment contributed to a 9% depreciation of the *Real* against the U.S. dollar. In 2013, the *Real* depreciated 15% against the U.S. dollar due to the performance of the Brazilian economy, the economic rebound of the United States and the economic instability in the international markets. 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. From December 31, 2015 to April 25, 2016 the *Real* appreciated by 9% 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.

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 Disclosure about Market Risk.

Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect the results of our operations and the market price of the shares and ADSs.

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises such as the global financial crisis started in 2008 may diminish investor interest in securities of Brazilian issuers, including our shares and ADSs. This could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

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.

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 income. However, our net income may be capitalized, 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. However, 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.

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 you exchange your ADSs for shares, you 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, you will not be able to remit abroad non-Brazilian currency unless you obtain your own certificate of foreign capital registration or you qualify under National Monetary Council Resolution 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 you do not qualify under Resolution 4,373 (which replaced Resolution 2,689), you 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 you may be affected by future legislative or regulatory changes, and additional Brazilian law restrictions applicable to your investment in the ADSs may be imposed in the future. For a more complete description of Brazilian tax regulations, see Item 10.E. Additional Information Taxation Brazilian Tax Consequences.

27

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

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

- changes to the regulatory, tax, economic and political environment that may affect the ability of investors to receive payments, in whole or in part, in respect of their investments; and

- restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities market is substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States. This may limit your ability to sell the shares underlying your ADSs at the price and time at which you wish to do so. The BM&FBOVESPA, the only Brazilian stock exchange, had a market capitalization of US$0.5 trillion as of December 31, 2015 and an average monthly trading volume of US$42 billion for 2015. In comparison, the NYSE had a market capitalization of US$18.4 trillion as of December 31, 2015 and an average monthly trading volume of US$0.9 trillion for 2015.

There is also a large concentration in the Brazilian securities market. The ten largest companies in terms of market capitalization represented 51% of the aggregate market capitalization of the BM&FBOVESPA as of December 31, 2015. Ultrapar s average daily trading volume on both stock exchanges in 2015, 2014 and 2013 was R$136.7 million, R$88.4 million and R$69.9 million, respectively.

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., which own 22% of our outstanding shares, have the right to exchange their shares of Ultra S.A. 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.

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

If we were characterized as a PFIC, in any year during which a U.S. Holder holds 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, we do not believe that we were a PFIC in 2015 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 own tax advisors regarding the likelihood and consequences if we were 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 Ultragaz 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.

In 1966, the market demand for high-quality and safe transportation services led to the entrance in the transportation of chemicals, petrochemicals and LPG segments. In 1978, Tequimar, was founded for the specific purpose of operating the storage business.

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 1997, through Ultragaz, we introduced UltraSystem a small bulk distribution system to residential, commercial and industrial segments, and we started the process of geographical expansion through the construction of new LPG filling and satellite plants. We also concluded the capacity expansion of Oxiteno s industrial unit in Camaçari Petrochemical Complex, in the state of Bahia.

On October 6, 1999, we concluded our initial public offering, listing our shares simultaneously on BM&FBOVESPA and NYSE.

In 2000, Ultragaz started the construction of four new filling plants, therefore covering a large portion of the Brazilian territory. Still in 2000, the first of the four new plants, located in Goiânia, in the state of Goiás, started operations. In 2001, Ultragaz started two new plants: in Fortaleza, in the state of Ceará, and in Duque de Caxias, in the state of Rio de Janeiro. In 2002, the company started operations at a filling plant in Betim, in the state of Minas Gerais.

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 stipulated that any transfer of control of Ultrapar, either direct or indirect, 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 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 from 97% to 98.9% for R$4.4 million.

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. into Ultrapar, increasing our ownership in Ultragaz to 100% and (ii) the exchange of shares issued by Oxiteno for shares issued by Ultrapar.

In August 2003, Ultragaz acquired Shell Gás, Royal Dutch Shell plc s LPG operations in Brazil, for a total amount of R$170.6 million. With this acquisition, Ultragaz became the Brazilian market leader in LPG, with a 24% share of the Brazilian market on that date.

In December 2003, we concluded the acquisition of Canamex, 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. Since July 2007, Canamex has been renamed Oxiteno Mexico S.A. de C.V., or Oxiteno Mexico.

In April 2005, we concluded a primary and secondary offering of our preferred shares and in July 2005, at an extraordinary general shareholders meeting held, our shareholders approved a reverse stock split of all our issued common and preferred shares.

In July 2005, Ultracargo started up a new terminal in Santos, its second port terminal that integrates road, rail and maritime transportation systems. The new terminal had a storage capacity of 33.5 thousand cubic meters for chemical products, 40 thousand cubic meters for ethanol and 38 thousand cubic meters for vegetable oil at the time.

In August 2006, Ultrapar announced the signing of an agreement between its subsidiary Oxiteno Nordeste and Braskem, for the supply of ethylene, with a 15-year term.

Also in August 2006, Oxiteno opened its first commercial office outside Brazil, in Buenos Aires, Argentina Oxiteno Argentina S.R.L.

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 constituting of 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. 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 April 2007, Ultrapar acquired the sulfate and sulfonate assets of Unión Química S.A. de C.V., in San Juan del Río, Mexico through its subsidiary Oxiteno Mexico.

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 amount paid for the acquisition was US$7.6 million. The company was renamed Oxiteno Andina. Also in September 2007, Oxiteno announced the opening of a sales office in the United States.

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, the BM&FBOVESPA index.

In June 2008, Ultrapar announced that its subsidiary Ultracargo signed the sale and purchase agreement for the acquisition of 100% of the shares of União Terminais held by Unipar. In October 2008, Ultrapar completed the acquisition in relation to the port terminals in Santos and Rio de Janeiro. In November 2008, it completed the acquisition of 50% of the total capital stock held by Unipar of 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 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 August 2008, Ultrapar announced that its subsidiary SBP entered into a sale and purchase agreement with Chevron for the acquisition of 100% of the shares of CBL and Galena. Prior to the closing, Chevron s lubricant and oil exploration activities in Brazil were spun-off from CBL and Galena to other Chevron s legal entities. In March 2009, Ultrapar completed the acquisition and paid R$1,106 million to Chevron, in addition to a US$38 million deposit that it had made to Chevron in August 2008. In August 2009, Ultrapar also paid R$162 million related to the expected working capital adjustment, reflecting the increased working capital effectively received by Ultrapar on the closing date of the acquisition (as set forth in the sale and purchase agreement). The combination with Texaco created a nationwide fuel distribution business, strengthening its competitiveness through a larger operational scale. After completion of the acquisition, Ultrapar 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, Ultrapar had also converted all the acquired Texaco branded stations into the Ipiranga brand. Under the terms of the Ipiranga Group Transaction Agreements, Petrobras had the exclusive right to use Ipiranga s brand in the operating regions of the Northern Distribution Business for five years from the date of the acquisition of Ipiranga Group, which expired in March 2012. Until then, Ipiranga operated under the Texaco brand in those regions.

Also in August 2008, Ultrapar announced the execution of a supply contract between Oxiteno and Braskem for the supply of ethylene to the Mauá unit, in the state of São Paulo, effective through 2023. At the same time, Oxiteno sold the equity interest it owned in Quattor, equivalent to 2,803,365 shares, for R$46 million.

In October 2008, certain production capacity expansions at Oxiteno were completed, including (i) the operational start-up of the oleochemicals plant with an annual production capacity of approximately 100 thousand tons of fatty alcohols and by-products; (ii) the expansion of the ethylene oxide unit at Mauá, adding 38 thousand tons to the annual production capacity of this product; and (iii) the expansion of the ethoxylate and ethanolamine production at Camaçari, adding 120 thousand tons to the annual capacity of these products.

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 now retains an equity interest of 33% in RPR.

In December 2009, Ultrapar, through Ultracargo, paid R$44 million for the acquisition of Puma Storage do Brasil Ltda., a storage terminal for liquid bulk with 83 thousand cubic meters capacity located at the port of Suape, in the state of Pernambuco.

In March 2010, Ultrapar entered into a sale and purchase agreement to sell Ultracargo s in-house logistics, solid bulk storage and road transportation businesses for R$82 million. The sale was closed in July 2010.

In August 2010, Oxiteno concluded the expansion of the ethoxylate unit at Camaçari, which added 70 thousand tons per year to its production capacity.

In October 2010, Ultrapar, through Ipiranga, entered into a sale and purchase agreement for the acquisition of 100% of the shares of DNP. The total value of the acquisition was R$73 million. DNP distributes 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, and was the fourth largest fuel distributor in this geographic area.

In February 2011, the extraordinary general shareholders meeting approved a stock split of the shares issued by Ultrapar resulting in each share converting into four shares of the same class and type, with no modification in the shareholders financial position or interest in the Company. After the stock split, the 1:1 ratio between preferred shares and ADSs was maintained, and each ADS consequently continued to represent one share.

In April 2011, our Board of Directors approved a proposal to (a) convert any and all shares of preferred stock issued by the Company into shares of common stock, 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.

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 August 2011, we completed the expansion of the ethylene oxide plant in Camaçari, increasing the production capacity by 90 thousand tons per year.

In August 2011, Oxiteno opened a commercial office in Bogota, Colombia Oxiteno Colombia S.A.S.

In September 2011, Ultracargo s expanded terminal in Suape started operations, increasing its storage capacity by 26 thousand cubic meters. This project was part of Ultracargo s expansion plan that began in 2010.

In October 2011, Ultrapar acquired, through Ultragaz, Repsol s LPG distribution business in Brazil for a total value of R$50 million, which included R$2 million related to the net cash of the acquired company.

In April 2012, Oxiteno acquired a specialty chemicals plant in the United States for US$15 million, with no debt assumption. 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. During 2012 and 2013, Oxiteno invested R$42 million in capital expenditures to retrofit the plant for its product line of specialty surfactants. The total production capacity is 32 thousand tons per year and operations started in late 2012. See Item 4.A. Information on the Company History and Development of the Company Investments for more information.

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 May 2012, Oxiteno opened a commercial office in Shanghai, China Oxiteno Shanghai Trading LTD.

In July 2012, Ultracargo acquired Temmar from Temmar Netherlands B.V. and Noble Netherlands B.V., subsidiaries of Noble Group Limited for R$68 million, in addition to the assumption of net debt in the amount of R$91 million. In December 2013, in order to simplify our corporate structure, the subsidiary Temmar was merged into Tequimar.

Temmar owned a terminal in the port of Itaqui, which added 55 thousand cubic meters to Ultracargo s capacity.

In September 2012, we concluded an expansion in the terminal of Santos, adding 30 thousand cubic meters to Ultracargo s storage capacity. This expansion, together with the expansion in the same terminal concluded in January 2012, which added 12 thousand cubic meters to its capacity, and with the expansion in the terminal of Aratu concluded in June 2012, which added approximately 4 thousand cubic meters to its capacity, represented combined additional storage capacity of 46 thousand cubic meters to Ultracargo. This project was part of Ultracargo s expansion plan started in 2010, to increase its total storage capacity by 15%.

In November 2012, Oxiteno acquired American Chemical (currently Oxiteno Uruguay), a Uruguayan specialty chemicals company, for R$107 million, in addition to the assumption of R$33 million in net debt. Oxiteno Uruguay s production capacity is 81 thousand tons per year, particularly sulfonate and sulfate surfactants for the home and personal care industries, as well as products for the leather industry. With the acquisition of Oxiteno Uruguay, Oxiteno continued the expansion of its international activities, initiated in 2003 and based on its deep knowledge of the technology for the production and application of surfactants and specialty chemicals and on a strong relationship with its customers.

In November 2012, Ipiranga entered the segment of electronic payment for tolls, parking and fuels through ConectCar. This initiative was driven by new rules implemented in 2012 to incentivize competition in this segment and combines the experience and complementarity of its partners, each with a 50% interest in the company. 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. ConectCar started operations in April 2013 and operates in markets that have strong growth perspectives.

In May 2013, Ultracargo concluded an expansion in the terminal of Aratu, adding 22 thousand cubic meters, and in the terminal of Santos, adding 4 thousand cubic meters, totaling 26 thousand cubic meters of additional storage capacity.

In September 2013, Ultrapar and the former shareholders of Extrafarma entered into an agreement to acquire Extrafarma, one of Brazil s top ten drugstores chains, marking our entry in the retail pharmacy business. See Extrafarma Transaction below.

In February 2014, Ultra S.A. s shareholders executed a new shareholders agreement which became effective as of that date and replaced the 2011 Ultra S.A. shareholders agreement. The Ultra S.A. shareholders agreement s main terms are substantially related to (i) the decision process of Ultra S.A. s vote at Ultrapar s shareholders meetings and (ii) procedures to exchange any party s shares in Ultra S.A. into shares of Ultrapar. The terms and conditions of the new shareholders agreement are substantially the same as the previous shareholder s agreement among the same parties effective since 2011, except, mainly, for the replacement of preliminary meetings among the agreeing parties for extraordinary shareholders meetings of Ultra S.A. to decide upon the vote of Ultra S.A. regarding certain matters in general shareholders meetings of Ultrapar. See Item 7.A. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements.

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 October 2015, Redecard entered into an agreement with OTP to acquire 50% of ConectCar, for R$170 million. This new partner will provide opportunities to ConectCar expand its services to new markets, continuing with its purpose of offering customers mobility, convenience, flexibility and, above all, differentiated benefits.

33

Extrafarma Transaction

Summary. On September 30, 2013, Ultrapar entered into an association agreement with Extrafarma, one of Brazil s ten largest drugstore chains. According to the terms of the agreement, Ultrapar and Extrafarma entered into an *incorporação de ações* (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. The Extrafarma Transaction closed on January 31, 2014 with the approval of the merger of shares by the Extraordinary General Meetings of Ultrapar and Extrafarma and, consequently, 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.

Structure of the Extrafarma Transaction. Ultrapar acquired from the former seven shareholders of Extrafarma (who are the heirs of Extrafarma s founder) 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 in the future, 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 based on working capital adjustments and 3,205,622 shares based on absence of indemnification obligations.

On June 30, 2014, after assessing Extrafarma s working capital and indebtedness, we have determined that the subscription warrants related to working capital will not be exercised by the former shareholders of Extrafarma and, accordingly, we have reversed the full provision for the issuance of 801,409 shares related to such warrants, corresponding to R$42.1 million. In addition, we also recorded R$12.2 million in receivables under other receivables in current assets as of December 31, 2014 to reflect additional amounts payable to us by the former Extrafarma shareholders. On June 22, 2015, the agreement related to the final adjustment of working capital and net debt of the transaction was executed by and between the parties in the amount of R$26.0 million, that was received by Ultrapar in the third quarter of 2015. The indemnification subscription warrants may still be exercised beginning in 2020, the value of which will be determined based on variations to provisions for fiscal, civil and labor risks and contingent liabilities related to the period prior to January 31, 2014. See Note 3.a to our consolidated financial statements for further information on the Extrafarma Transaction, including information on the business combination and goodwill, and Exhibit 4.18. Protocol and Justification of *Incorporação de Ações* (merger of shares).

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 February 2015 and the remaining shares to be unlocked in five annual tranches of 8.3% from 2016 to 2020, with a final tranche of 25% to be released from the lock-up on 2020, which is in the sixth year after the closing.

Extrafarma became a wholly-owned subsidiary of Ultrapar, and the former shareholders of Extrafarma became long-term shareholders of Ultrapar, which we believe evidences their confidence in the growth potential of the sector and in the project to be developed by Ultrapar and Extrafarma.

Ultracargo Fire at storage facilities in Santos

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. The six tanks represented 4% of Ultracargo s overall capacity in Brazil as of December 31, 2014. There were no casualties in this accident and the cause of such accident and its impacts are still being investigated, including the extent of operational losses, damage to assets, potential environmental damages and other liabilities and reputational harm. We maintain insurance policies to cover certain risks to which we are exposed. See Item 4.B. Business Overview Insurance .

On April 9, 2015, the Santos municipal government suspended Ultracargo s activities in that city. Ultracargo s operations in Santos comprise two separate areas. On April 27, 2015, the authorization granted by the municipal government to Ultracargo to resume operations in the area not affected by the accident was published at the Santos Official Gazette (*Diário Oficial de Santos*). The still suspended operations correspond to 185 thousand cubic meters capacity, or 22.5% of Ultracargo s previous capacity in Brazil.

In addition to loss of revenues resulting from the partial interruption of Santos operations, Ultracargo incurred expenses related to the fire accident in the amount of R$92 million in the year ended December 31, 2015. A significant portion of such expenses are entitled to reimbursement under our insurance policies.

Ultracargo completed the preparation and started the implementation of the decommissioning plan, which consists of the removal of equipment and structures of the terminal affected by the fire. This process will allow the experts of the Criminalistics Institute (*Instituto de Criminalística*) to finalize the assessment to determine the causes of the incident.

Recent Developments

Renegotiation of financing

In February 2016, IPP renegotiated a loan with Banco do Brasil, which would mature in February 2016, with principal total amount of R$166.7 million, extending the maturity to February 2019, and changing the floating interest rate to 114% of CDI.

Loan agreement

In February 2016, Oxiteno USA entered into a loan agreement in the amount of US$40 million, due in February 2021 and bearing interest of LIBOR + 3% p.a., paid quarterly. The loan is guaranteed by Ultrapar and the subsidiary Oxiteno Nordeste and the proceeds of this loan will be used to fund the construction of a new alcoxylation plant in the state of Texas.

Ultracargo Fire at storage facilities in Santos

On March 16, 2016, Ultracargo decided to pay a fine in the amount of R$ 16 million to the CETESB (*Companhia Ambiental do Estado de São Paulo*, the São Paulo state environmental agency), as a result of an unfavorable decision at the administrative level.

Also in March 2016, Ultracargo received advances relating to certain rescue and containment expenses from the insurers in the amount of R$29.8 million and paid advances to a customer in the amount of R$30.0 million.

In addition, lawsuits and extrajudicial claims for third-party indemnification, claiming damages, presented until the date of this annual report, will be entitled to insurance coverage and are being analyzed by the insurers.

See notes 20.b.2.2, 26 and 32 to our consolidated financial statements.

Investments

We have made substantial investments in our operations over the last three fiscal years. At Ultragaz, we have invested in (i) small bulk LPG distribution (UltraSystem); (ii) the purchase and renewal of LPG bottles and tanks; and (iii) the strengthening and restructuring of our distribution logistics. We have also invested in the consolidation of our national coverage over the past three 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 (i) the expansion of production capacity, mainly for specialty chemicals in Brazil and Mexico, and the commencement of operations in the United States, (ii) the modernization of its industrial plants and (iii) the development of new products. Ultracargo has invested in the expansion and maintenance of its storage facilities in response to strong demand for logistics infrastructure in Brazil, including investments in capacity expansions at the Aratu and Santos terminals. In 2015, Extrafarma invested mainly in the opening and maintenance of its stores. See Item 4.A. Information on the Company History and Development of the Company. We have also invested in information technology at all our businesses for integrating processes, improving the quality of information, decreasing the response time in decision-making and improving our services.

The following table shows our organic investments (see definition in note 3 below) for the years ended December 31, 2015, 2014 and 2013:

	Year ended December 31,		
	2015	2014	2013
	(in millions of *Reais*)		
Ipiranga	853.9	810.0	758.3
Oxiteno	131.4	113.9	139.3
Ultragaz	219.9	180.5	150.9
Ultracargo	23.9	26.4	37.4
Extrafarma	80.8	57.1	
Others(1)	24.2	27.8	15.6
Total additions to property, plant, equipment and intangible assets	1,334.2	1,215.7	1,101.5
Financing and bonuses to our resellers(2)	18.1	4.6	(12.2)
Total organic investments(3), net of disposals	1,352.2	1,220.3	1,089.4

(1) Includes mainly capital expenditures related to corporate information technology and headquarters building maintenance.

(2) Financing and bonuses to our resellers, net of repayments. Bonuses are lump sum payments made by distributors to resellers. Resellers typically use these payments to improve their facilities or to invest in working capital. Financing for clients is included under working capital in the cash flow statement and bonuses are included under intangible assets.

(3) Organic investments consist of acquisitions of property, plant and equipment and intangible assets and financing and repayments to resellers, and do not include investments in acquisitions of subsidiaries and interest in other companies neither capital increases in joint ventures and associates.

In 2015, Ultrapar continued with an investment strategy focused on the continuing to generate economies of scale and increase competitiveness, better serving an increasing number of customers. Investments, net of disposals, totaled R$1,352 million in organic investments. At Ipiranga, R$872 million were invested, of which (i) R$374 million in the expansion of its service stations network (through the conversion of unbranded service stations, the opening of new gas stations and new customers) and am/pm and Jet Oil franchises, focused on the Midwest, Northeast and North regions of Brazil, (ii) R$115 million in expanding its logistics infrastructure to support the growing demand, through the construction and expansion of logistics facilities, (iii) R$86 million in modernization, mainly in logistics facilities, and (iv) R$297 million in the maintenance of its operations, mainly in the renewal of contracts of its distribution network and the renovation of service stations. Out of the total amount invested, R$854 million were related to property, plant, equipment and intangible assets and R$18 million were related to the financing to clients, net of repayments. At Oxiteno, the total investments in 2015 amounted to R$131 million, mainly in the maintenance of its production units and the completion of the expansion of its production capacity in Coatzacoalcos, Mexico. At Ultragaz, R$220 million were invested, mainly in new clients in the bulk segment, replacement of bottles and maintenance of its bottling facilities. In 2015, Ultracargo invested R$24 million, mainly directed towards modernization and maintenance of its terminals. Extrafarma invested R$81 million, mainly directed towards the opening of new drugstores, maintenance of existing stores and IT retail-facing projects.

Ultrapar s investment plan for 2016 amounts to R$1,809 million, which demonstrates the continuity of good opportunities to grow through increased scale and productivity gains, as well as modernization of existing operations. At Ipiranga, we plan to invest (i) R$354 million to maintain the pace of expansion of its distribution network (through the conversion of unbranded service stations and the opening of new gas stations) and of am/pm and Jet Oil franchises, focused on the Midwest, Northeast and North regions of Brazil, and in new distribution centers to supply the convenience stores, (ii) R$112 million in the expansion of its logistics infrastructure to support growth, mainly through the construction and expansion of logistics facilities, and (iii) R$421 million in the maintenance and modernization of its activities, mainly in the renewal of contracts of its distribution network and the renovation of service stations, as well as information systems to support its operations. Oxiteno s investment plan approved for 2016 totals R$460 million. This amount includes US$65 million to the construction of the new ethoxylation unit at its site in Texas (USA), which was announced in November 2015, and is expected to be concluded by the end of 2017. The new unit s capacity will be 170,000 tons per year at its final stage. The remaining amount will be focused in maintenance and modernization of its plants for higher productivity, as well as information systems. Ultragaz s investiment plan approved for 2016 totals R$208 million, which will be focused mainly (i) on capturing new clients in the bottled and bulk segment, (ii) on the replacement and purchase of LPG bottles, (iii) on the expansion and maintenance of filling plants, and (iv) on IT with focus on systems to support its operations. Ultracargo s investment plan approved for 2016 totals R$118 million, which will mainly be focused on (i) the modernization of safety systems of its terminals, (ii) the expansion of Itaqui terminal, which is expected to start operating in 2017, and (iii) the adjustment and maintenance of the infrastructure of its terminals. At Extrafarma, we plan to invest R$124 million mainly in the opening of new drugstores and in the maintenance of its activities.

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.

The Extrafarma Transaction closed on January 31, 2014 and, accordingly, Ultrapar started to consolidate the equity investment related to Extrafarma as from such date.

The table below shows our equity investments (see definition in note 7 below) for the years ended December 31, 2015, 2014 and 2013:

	Year ended December 31,		
	2015	**2014**	**2013**
Ipiranga	41.1(1)	28.5(1)	23.3(2)
Oxiteno			6.2(3)
Ultragaz			
Ultracargo			
Acquisition of Extrafarma		719.9	
Total equity investments(4)	41.1	748.4	29.5

(1) Capital invested in ConectCar.

(2) Capital invested in ConectCar (R$24.9 million), net of capital reduction in the affiliated Transportadora Sulbrasileira de Gás S.A. (R$1.5 million). See Item 4.A. Information on the Company History and Development of the Company.

(3) Working capital and net debt closing adjustments relating to the acquisition of American Chemical. See Item 4.A. Information on the Company History and Development of the Company.

(4) Equity investments consist of investments with acquisition of subsidiaries and interest in other companies and capital increases in joint ventures and associates.

We are a company incorporated under the laws of Brazil. Our principal executive office is located at Brigadeiro Luis Antônio Avenue, 1343, 9th Floor, 01317-910, São Paulo, SP, Brazil. Our telephone number is 55 11 3177 7014. Our Internet website address is http://www.ultra.com.br. Our agent for service of process in the United States is C.T. Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

B. Business Overview

Ultrapar is a Brazilian company with almost 80 years of history, with leading positions in the markets in which it operates: specialized distribution and retail through Ultragaz, Ipiranga and Extrafarma, production of specialty chemicals through Oxiteno and liquid bulk storage services through Ultracargo. Ultragaz is the leader in LPG distribution in Brazil with a 23% market share in 2015 and one of the largest independent LPG distributors in the world in terms of volume sold. We deliver LPG to an estimated 11 million households through a network of approximately 5,100 independent retailers in the bottled segment and to approximately 50 thousand customers in the bulk segment. Ipiranga is the second largest fuel distributor in Brazil, with a network of 7,230 service stations and 22% market share in 2015. 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. Oxiteno has twelve industrial units in Brazil, Mexico, the United States, Uruguay and Venezuela and commercial offices in Argentina, Belgium, China and Colombia. Ultracargo has a leading position in its sector, being the largest provider of storage for liquid bulk in Brazil, with six terminals and a storage capacity of 630 thousand cubic meters as of December 31, 2015. Extrafarma is one of the leading drugstore chains in the North and Northeast of Brazil, with 254 drugstores and two distribution centers in December 2015. The Extrafarma Transaction closed on January 31, 2014 and, accordingly, Extrafarma s results of operations were consolidated into Ultrapar s results of operations as from February 1, 2014. See Item 4.A. Information on the Company History and Development of the Company Extrafarma Transaction.

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 businesses

Ultragaz is the largest LPG distributor in Brazil. In 2015, Ultragaz s national market share was 23%, serving approximately 11 million homes in the bottled segment and approximately 50 thousand customers in the bulk segment. For the year ended December 31, 2015, Ultragaz s total volume of LPG sold was 1.7 million tons.

Ipiranga is the second largest fuel distributor in Brazil with a 22% market share in 2015, and a network of 7,230 service stations as of December 31, 2015. In addition to the service stations, Ipiranga s network has approximately 1.9 thousand am/pm convenience stores and 1.5 thousand Jet Oil franchises. In 2015, Ipiranga focused on its strategy of expansion to the North, Northeast and Midwest regions of Brazil, where the consumption growth rate has been above the national average and the market share of Ipiranga is lower than that in the South and Southeast. The implementation of Ipiranga s business model 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 2015 was 25.7 million cubic meters.

Oxiteno is a major producer of specialty chemicals and the largest producer of ethylene oxide and its principal derivatives in Latin America. 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 coatings. For the year ended December 31, 2015, Oxiteno sold 725 thousand tons of chemical products. In Brazil, Oxiteno competes principally against imports.

Ultracargo is the largest provider of storage for liquid bulk in Brazil, with six terminals and storage capacity of 630 thousand cubic meters as of December 31, 2015, with leading positions in the main ports in Brazil.

Extrafarma is the sixth largest drugstore network in the country according to Abrafarma s ranking, with 254 drugstores and 2 distribution centers as of December 31, 2015.

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 the Brazilian economic growth. Certain of Ultrapar s businesses, such as LPG for residential use and fuels for light vehicles, are of a resilient nature and, therefore, are less volatile to economic downturns. Other Ultrapar s businesses such as sales of diesel, specialty chemicals and bulk LPG are linked to economic performance and tend to boost volumes during periods of strong economic growth.

Bottled LPG is an essential good, as it is mainly used for cooking, and, therefore, has a lower correlation with 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 3% to 8% 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. On the other hand, diesel, specialty chemicals and bulk LPG sales growth have been historically correlated to the performance of the Brazilian economy.

Highly efficient LPG distribution network

Ultragaz is the only LPG distributor in Brazil with an exclusive network of independent dealers. This network is constituted of approximately 5,100 dealers who sell Ultragaz LPG bottles. This has enabled Ultragaz to control the quality and productivity of its dealers leading to a strong brand name recognition that we believe is associated with quality, safety and efficiency, and also to have frequent contact with LPG customers. In addition, Ultragaz 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 Ultragaz is complemented by Ipiranga s know-how in the same areas, thus maximizing efficiency and profitability at both companies.

Differentiated positioning in the fuel distribution sector

We believe that Ipiranga has a differentiated positioning in its sector, supported by a strong brand and ample coverage of products and services at its service stations to increase the convenience of the customer. 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 the largest producer of ethylene oxide and its principal derivatives in Latin America. In 2015, 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, such as those produced at its oleochemicals unit, 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. Ultragaz has significant market presence in densely populated areas, which allows it to operate its filling plants and distribution system with a high level of capacity utilization and efficiency. 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. Extrafarma also has a significant market presence in the regions it operates (North and Northeast of Brazil), allowing it to distribute more efficiently its products to its drugstores.

Strong operational track record

Our Company has exhibited a solid operational track record. Our EBITDA presented an average compound annual growth of 20% from 1998 to 2015, in spite of 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 23% from 1998 to 2015.

Experienced management team

We are led by a strong and experienced management team with a proven track record in the LPG and fuel distribution, petrochemical and specialized logistics industries. Our senior management team has on average almost 20 years of experience in the Company.

Alignment of interests

The members of Ultrapar s management are relevant shareholders of Ultrapar and have 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 right to all its shareholders, the separation of the roles of Executive Officer and Chairman of the Board of Directors and the constant and transparent interaction with the capital market. 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 its 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 the shareholders meeting, without (i) any limitation on voting rights, (ii) special treatment to current shareholders, (iii) required public tender offers for prices greater than the acquisition price of a controlling interest or (iv) any other poison pill provisions.

Our Strategy

Build on the strength of our brands

Ultrapar is a multi-business company engaged in specialized distribution and retail (Ipiranga / Ultragaz / Extrafarma), specialty chemicals (Oxiteno) and storage for liquid bulk (Ultracargo). Our businesses have a high brand recognition associated with quality, safety and efficiency. We intend to reinforce this market perception by continuing to supply high-quality products and services and 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 Ultragaz 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 Ultragaz and Ipiranga.

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

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 programs to revise Ultragaz s distribution structure.

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, focusing on the Midwest, Northeast and North regions of Brazil, where we have lower market share and where consumption growth is higher than the national average, given the lower car penetration and faster-growing household income in these regions. 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.

Enhance retail network

Ipiranga s strategy is strongly focused on differentiation and innovation. 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; the reseller has a more attractive business; and the service station has 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 involves 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 2015 with 1,159 eco-efficient services stations operating and over 226 service stations under constructions.

In another pioneering initiative, Ipiranga launched in 2009 the program *Km de Vantagens*, a loyalty program in the fuel industry that grants rewards and benefits to customers and resellers that has strengthened as an important platform for customer relationship and for other initiative of Ipiranga, currently with around 21 million participants, up 15% compared to 2014.

In 2010, also as part of its differentiation strategy, Ipiranga opened bakeries within its am/pm stores and became Brazil s largest bakery franchise chain. Over the year, it developed a new image, further strengthening the perception of being a convenience center always close to its consumer.

In 2011, Ipiranga was the first distributor to launch online sales of fuel. This initiative allows clients to purchase credits of fuel through its website. With these credits, clients are able to purchase fuel at any of the Ipiranga s accredited service stations. Participants of the *Km de Vantagens* program who purchase credits online can get a discount on the credit price, which represents another benefit for client loyalty.

In 2012, among the initiatives of Ipiranga, we highlight the strengthening of *Posto Virtual* and 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 at lower costs through a prepaid system with free enrollment. In addition, the tag may be used to purchase fuel as well as accumulate and redeem points of the *Km de Vantagens* program, points which will be acquired by ConectCar from Ipiranga. The client can buy the tag at Ipiranga s service stations, using the points of the loyalty program *Km de Vantagens*. At the end of 2015, ConectCar reached approximately 600 thousand customers, and is now available in almost all toll roads in Brazil.

In 2013, Ipiranga developed Ipiranga Frotas , a service for the remote control of the fleet, allowing Ipiranga s business customers to control and monitor better their vehicle fleet. Another pioneering initiative in 2013 was the app *Posto Ipiranga na Web*, the first of its kind to be launched in Brazil. The app allows the user with a smartphone to purchase fuels credit, which was already possible through the Ipiranga website.

In order to create value to its am/pm convenience stores clients and franchisees, Ipiranga launched in 2014 its own supply solution. This solution concentrates logistic, selling and service to am/pm convenience stores in one single structure. This initiative aims to facilitate am/pm operations, improve the competitiveness of franchisees and ensure a higher quality product assortment. In 2015, am/pm supply solution handled products from suppliers of the main categories, except tobacco and ice cream, and supplied stores in the states of Rio de Janeiro, Espírito Santo, São Paulo, Paraná and Santa Catarina.

Also in 2014, Ipiranga launched a new beer purchase experience at am/pm convenience stores. The Beer Cave is a refrigerated container that stores more than 100 national and international brands of cold beers, ready to be taken away. In December 31, 2015, there were 237 Beer Caves installed in its franchisees premises. In 2015, the convenience stores am/pm increased its private label lines in 20 items, including ready to drink juice category.

In addition, in 2015, Ipiranga presented in São Paulo new configurations of the am/pm store concept, the am/pm Super Store , which increases the offer of convenience in urban service stations by offering fresh products fruits, vegetables, meats and a broader range of fast foods. It was also launched in Sao Paulo a flagship store of the am/pm Estação , a model developed for highway service stations, with a broader offer of convenience and personal care for long distances drivers and travelers.

Expand our operations in regions that grow above the national average

Extrafarma s organic expansion plan is primarily focused on the consolidation of the presence on the North and Northeast regions of Brazil, where GDP and household income have grown above the Brazilian average, consequently increasing population s access to health care programs, to medicines and to personal care and beauty products.

Ipiranga s expansion strategy is focused on the Midwest, Northeast and North regions of Brazil, where we have lower market share and where consumption growth has been higher than the national average, given the lower car penetration and faster-growing household income in these regions.

Take advantage of opportunities in the retail pharmacy business to expand our growth

On January 31, 2014, we concluded the Extrafarma Transaction, which marked our entry into Brazil s retail pharmacy business. The Brazilian retail pharmacy segment is a relevant market in Brazil and during the last several years has presented significant growth. We believe the outlook of the retail pharmacy business in Brazil remains favorable mainly due to (i) the aging population; (ii) higher levels of disposable income among consumers; (iii) greater access to medicines, especially due to the growing prominence of generic drugs; and (iv) growing demand for personal care and beauty products. In addition, consolidation of the sector, supported by increasing formalization and consequent investments, is still in the incipient stages, and we intend to participate in this process.

We intend to accelerate Extrafarma s expansion plan through (i) increasing its investment capacity, (ii) expanding its distribution network through the potential opening of drugstores at Ipiranga s service stations and Ultragaz s resellers, which together have over 12 thousand retail outlets; and (iii) strengthening its management structure through the implementation of Ultrapar s recognized corporate governance practices and incentives-based model aimed at the alignment of interests. Through the integration of sites and product, service and convenience offering we intend to develop business models that are continuously more attractive to Extrafarma s, Ipiranga s and Ultragaz s consumers, thus increasing differentiation potential in each of these businesses.

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, such as Pará and Maranhão, where it did not use to 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 localized heating, such as pre-heating of industrial furnaces, especially in steel and metallurgical plants, and in new applications in agribusiness, such as drying grains and plague control, 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, on the basis of agile and convenience services.

Expand capacity at Oxiteno

We intend to maintain Oxiteno s production capacity ahead of demand in Brazil. 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 (TX), in the U.S., by building an ethoxylation unit at its current site, which is expected to be concluded by the end of 2017. 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 total investment, estimated at US$113 million, will expand Oxiteno s footprint in the U.S., focusing on local markets of agrochemicals, personal care, household and industrial cleaning, coatings and oil and gas. The new unit s capacity will be 170,000 tons per year at its final stage.

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 70 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.

Maintain financial strength

We seek to maintain a sound financial position to allow us to pursue investment opportunities and enhance our shareholders return on their investment in our Company. Our net debt (consisting of loans, debentures and financial leases recorded as current and non-current liabilities, net of cash and cash equivalents and financial investments) as of December 31, 2015 was R$4,928 million, representing a 1.2 times net debt (consisting of loans, debentures and financial 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, 2015, we have declared yearly dividends representing an average of 60% of our net income.

43

Continue to grow our businesses

Our principal corporate goals are to enhance shareholder value and to strengthen our market presence by growing our businesses. Historically, we have grown our businesses organically and through acquisitions, such as the acquisitions of Shell Gás, Ipiranga, União Terminais, Texaco, DNP, Repsol, Temmar, American Chemical and Extrafarma, and we intend to continue this strategy.

We have also made several investments in the expansion of our existing operations. In Oxiteno, in the last five years ended December 31, 2015, we invested in the expansion of our production capacity focusing on specialty chemicals including investments outside Brazil in Mexico, the United States and Uruguay. In Ipiranga, organic investments were mainly directed to the expansion of our resellers network and logistics infrastructure. In Ultracargo, investments were made to increase the capacity of our terminals in Suape, Santos and Aratu. We constantly analyze acquisition opportunities in the segments in which we operate and in complementary segments that could add value to our Company.

Key Financial Information

The table below sets forth certain financial information for us and our principal businesses:

	Year ended December 31,				
	2015	**2014**	**2013**	**2012**	**2011**
	(in millions of *Reais*)				
Net revenue from sales and services[1]					
Ultrapar	75,655.3	67,736.3	60,940.2	53,868.9	48,628.7
Ultragaz	4,621.2	4,091.3	3,982.3	3,847.1	3,776.8
Ipiranga	65,349.8	58,830.1	53,384.1	46,829.4	42,221.6
Oxiteno	4,082.5	3,413.6	3,277.8	2,928.8	2,408.6
Ultracargo	315.5	346.5	332.1	293.6	259.9
Extrafarma[2]	1,336.3	1,101.3			
EBITDA[3]					
Ultrapar	3,953.3	3,157.9	2,918.0	2,411.4	2,047.5
Ultragaz	357.0	305.5	280.5	245.7	280.9
Ipiranga	2,768.8	2,288.0	2,029.6	1,652.6	1,366.4
Oxiteno	739.8	403.7	440.6	351.8	262.3
Ultracargo	26.3	166.9	157.5	142.7	116.8
Extrafarma[2]	28.7	29.8			
Net income attributable to Ultrapar s shareholders	1,503.5	1,241.6	1,225.1	1,019.9	854.3
Net debt[4]					
Ultrapar	(4,928.4)	(3,975.1)	(3,425.9)	(3,084.0)	(2,882.8)

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

(2) In 2014, 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.

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

(4) 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.

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, 76% of local demand in 2015 was produced in local refineries and the remaining 24% 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.

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 monopoly over the production and import of petroleum and petroleum products until the end of 2001, Petrobras is currently the *de facto* sole supplier of LPG in Brazil.

Currently, the LPG distribution industry in Brazil consists of 15 LPG distribution companies or groups of companies, and is regulated by the 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 Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Industry and Regulatory Overview The role of the ANP. LPG produced by Petrobras, which represented 76% of total LPG sold in Brazil in 2015, 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 2002, the Brazilian government abolished subsidies to refinery prices and in January 2002, 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. However, since 2008 Petrobras has increased LPG refinery prices for commercial and industrial usage sporadically, as shown below:

(% increase)	Jan/08	Apr/08	Jul/08	Jan/10	Dec/14	Sep/15	Dec/15
Commercial and industrial LPG	15%	10%	6%	6%	15%	11%	4%

The LPG refinery price for residential use remained unchanged from May 2003 to September 2015, when Petrobras increased prices by 15%. In the last few years, Petrobras practice has been not to immediately reflect in its oil derivatives prices in Brazil the volatility of international prices of oil and oil derivatives.

In 2013 and 2014, Petrobras average refinery price was US$457 per ton and US$425 per ton, respectively, compared with the average international price of US$575 per ton and US$544 per ton, respectively. In 2015, Petrobras average refinery price was US$331 per ton compared with the average international price of US$254 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 a constitutional amendment approved by the Brazilian Congress. According to this amendment, other state and private companies would be able to compete with Petrobras in virtually all fields in which Petrobras operated. This amendment was implemented through Law No. 9,478, dated August 6, 1997, which effectively allowed Petrobras monopoly to continue for a maximum period of three years. Law No. 9,478, also known as *Lei do Petróleo*, 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 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.

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;
- possession of its own filling plant;
- appropriate maintenance of LPG filling units;
- distribution of LPG exclusively in areas where it can provide technical assistance to the consumer either directly or indirectly through an authorized dealer; and
- full compliance with the Unified Suppliers Registration System Sistema Único de Cadastramento Unificado de Fornecedores SICAF.

LPG distributors are required to provide the ANP with monthly reports showing their 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 directly by the LPG distribution companies or by independent dealers. Each LPG distributor must provide the ANP with information regarding its contracted independent dealers on a monthly basis. The construction of LPG filling plants and storage facilities is subject to the prior approval of the ANP, and filling plants and storage facilities may only begin operations after ANP inspection.

The self-regulatory code/ANP Resolution 15/2005. 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 Auto-Regulamentação*. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz Bottle swapping centers and Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas 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 Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz Bottle swapping centers and Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas 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 15/2005, which regulates the distribution of LPG activities.

Ultragaz itself was required to requalify 13.8 million bottles before November 2006 and an additional 10.7 million bottles by November 2011. Ultragaz requalified 3.0 million bottles, 3.8 million bottles and 3.1 million bottles in 2013, 2014 and 2015, respectively. In 2016, Ultragaz expects to requalify approximately 2.5 million bottles.

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 National Council of the Environment, or *Conselho Nacional do Meio Ambiente* CONAMA, the Ministry of Labor, or *Ministério do Trabalho*, and the Ministry of Transport, or *Ministério dos Transportes*, are the primary regulators of LPG distribution at the federal level.

ANP and Brazilian federal and state environmental laws and regulations require LPG distributors to obtain operating permits from the state environmental agencies, from municipal authorities and from the fire department. In order to obtain such permits, distributors must satisfy regulatory authorities that the operation, maintenance and repair 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 liable for environmental damages.

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

Ultragaz

We distribute LPG through Ultragaz. Founded in 1937, we were the first LPG distributor in Brazil. At that time, Brazilians used wood stoves and, to a lesser extent, alcohol, kerosene and coal stoves. Ultragaz was the leading company by sales volume in the Brazilian LPG market as of December 31, 2015.

Ultragaz 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 its own retail stores, through independent dealers as well as through its own truck fleet, which operates on a door-to-door basis or on a scheduled delivery basis. Bulk LPG is serviced through Ultragaz own truck fleet.

In August 2003, Ultragaz 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, selling 287.4 thousand tons of LPG in 2002. With this acquisition, Ultragaz became the national market leader in LPG, with a 24% share of the Brazilian market in 2003. In October, 2011, Ultragaz acquired Repsol, which sold approximately 22 thousand tons of LPG in 2011. See Item 4.A. Information on the Company History and Development of the Company

Ultragaz is comprised of the following operating subsidiaries:

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

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

Utingás Armazenadora S.A., or Utingás, a storage services provider that operates two facilities in São Paulo and Paraná. Utingás was incorporated in 1967 when Ultragaz and other LPG distributors joined to construct LPG storage facilities based in the states of São Paulo and Paraná. Ultragaz currently owns 57% of Utingás. See Item 4.B. Information on the Company Business Overview Distribution of Liquefied Petroleum Gas Ultragaz Storage of LPG .

Markets and marketing. When Ultragaz began its operations, it served only the Southeast region of Brazil. Currently, Ultragaz is present in almost all of Brazil s significant population centers. In the last four years, Ultragaz strengthened its presence in the North and Northeast of Brazil, selling LPG in the states of Pará and Maranhão, 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 direct home delivery and retail stores, both carried out by Ultragaz or its dealership network mainly using 13 kg ANP approved bottles. In the case of Ultragaz, the bottles are painted blue, which we believe is an important element in recognizing the Ultragaz brand. Ultragaz s operating margins for bottled LPG vary from region to region and reflect market share and the distribution channel in the region.

Before Shell Gás acquisition, Ultragaz 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, Ultragaz became the Brazilian market leader in LPG, and the focus of its marketing strategy evolved to investing in the brand, 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 Ultragaz 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.

Distribution of bulk LPG is largely carried out through 190 kg storage tanks installed on its clients premises. Since 1997, Ultragaz operates small- and medium-sized bulk delivery facilities with bob-tail trucks, known together as UltraSystem, which deliver LPG in bulk to residential buildings, commercial and industrial clients. Ultragaz s clients in the commercial sector include shopping centers, hotels, residential buildings, restaurants, laundries and hospitals. Ultragaz s trucks supply clients stationary tanks using a system that is quick, safe and cost effective.

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

Ultragaz 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 Ultragaz, and any change in supplier would imply the client s reimbursing Ultragaz s investments. The contract also requires that any tank supplied by Ultragaz 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 Ultragaz, it seeks to achieve a return on its investment within the term of the contract.

Ultragaz s strategy for bulk LPG distribution is to continue its process of product and service innovation and to increase the profile of its trademark. Ultragaz also 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 Ultragaz 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 client prospection, setup of equipment, logistics and after-sale service, and 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, (iii) substantially increase the generation of new business, and (iv) rationalization of the installation process (30% of time reduction on average).

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

Client category	**Year ended December 31,**		
	2015	**2014**	**2013**
	(in thousands of tons)		
Bottled LPG			
Residential delivery by Ultragaz / Ultragaz owned retail stores	63.2	65.9	64.4
Independent dealers[1]	1,104.5	1,089.6	1,069.6
Total bottled LPG	1,167.8	1,155.4	1,134.0
Total bulk LPG	528.8	555.8	562.3
Total tons delivered	**1,696.6**	**1,711.2**	**1,696.3**

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

Residential delivery has evolved during the last years from primarily door-to-door to a primarily scheduled or phone-ordered delivery.

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, Ultragaz 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 (*Ultragaz Connect*). These initiatives provide customers with greater convenience, add further value and generate logistic optimization to Ultragaz. The same principles have been extended to the bulk segment, in which Ultragaz is a pioneer and has a leading position, and where it has been developing new usages for its products, such as localized heating for the ignition of industrial furnaces, mainly in iron and steel industries. Ultragaz also began offering new solutions that make it an alternative or supplement for companies located in areas supplied with natural gas. Lastly, tracking consumption trends in the bulk segment, Ultragaz intensified its unique account billing service in residential condominiums, through which it provides individual gas bills.

Given Ultragaz s capillarity and outreach of 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
Ultragaz Cultural	2000	ü Series of shows, movies, theater, literature and educational workshops ü 2008 2014: attended 22 states in Brazil and 125,000 children ü 2015: benefited more than 12,000 children in 13 states in Brazil
Partnership with Ministry of Health	2008	ü Awareness and educational campaigns to address diseases prevention, such as dengue, and H1N1, as well as other basic health concerns
UN Global Compact	2009	ü Ultragaz is a signatory of the UN Global Compact
Junior Achievement	2009	ü The largest and oldest organization in Brazil dedicated to educating youth in business ü 2015: benefited more than 300,000 students in 13 states in Brazil
Pega Pilhas, Baterias e Celulares	2012	ü Collection and disposal of used batteries in Ultragaz s consumers households ü 2015: more than 1 ton of batteries collected in 10 states in Brazil
Campanha Junte Óleo: Ultragaz Coleta e Soya Recicla Partnership with Bunge and Triângulo Institute, a NGO	2013	ü Cooking oil recycle campaign to avoid its disposal into drinkable water sources ü 2015: over 300,000 liters of oil collected, reaching 180,000 Brazilian households ü 2015: the project won the 14th Marketing Best Sustainability Award
Partnership with BNDES	2014	ü Improvement of the infrastructure of Brazilian cooperatives of recyclable materials and training of the cooperative members in basic management tools ü 2014 2015: carried out in six cities in Brazil
Somar Sustentabilidade	2014	ü A project that aims to foster sustainability concept and practices among its resellers

Also, in 2014, Ultragaz developed its first 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. It has recyclable materials collectors, rainwater utilization system, saving light bulbs, LPG heater and green wall . The first store was launched in 2014 in São Paulo, and there are expansion projects in progress in Ceará and Salvador.

Distribution infrastructure. Ultragaz 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. Ultragaz also maintains a large independent dealers network for the bottled LPG. See Independent dealers . The services associated with Ultragaz s home deliveries strongly influence the ranking of the Ultragaz brand name in the bottled market. Ultragaz seeks to expand its home delivery services, including faster delivery, quality and comfort for its customers, having delivery personnel that provide safety recommendations to household customers. For both bottled and bulk LPG, deliveries are made by a staff wearing Ultragaz uniforms and driving vehicles with Ultragaz s logo. Ultragaz has also invested in information technology for improving its process, such as logistics optimization and production efficiency.

Ultragaz delivers bottled LPG, using a distribution network, which as of December 31, 2015 included 52 company-owned points of sales, and approximately 5,100 independent dealers. As of December 31, 2015 Ultragaz had a fleet of 93 vehicles for the delivery of gas bottles and 281 for bulk delivery. Ultragaz also maintains a call center, which centralizes LPG bottle orders made through phone calls.

Bottled sales capacity derives from the number of bottles bearing Ultragaz s brands. Ultragaz estimates that, as of December 31, 2015, there were 23.2 million 13 kg bottles stamped with Ultragaz s brands in the market.

Independent dealers. Ultragaz 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. Until the enactment of ANP Rule 297 on November 18, 2003, independent dealers needed only to be registered with ANP for the sale of LPG bottles. No licenses were required except for those required by the fire department and the municipal authorities. Rule 297 established that the independent dealers must be registered with ANP and comply with a list of prerequisites contained in such rule, as well as those required by law for the storage of 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, 2015, 95% of Ultragaz s bottled LPG sales were made through independent dealers. The agreements entered into between Ultragaz and independent dealers require the use of the Ultragaz brand and the display of the Ultragaz logo in the delivery vehicles and on the uniforms worn by delivery personnel. Proprietary rights in the trademark and logo are retained by Ultragaz and are duly registered with the National Institute of Industrial Property (INPI *Instituto Nacional de Propriedade Industrial*). All contracted dealers are Ultragaz s exclusive representatives. Under the terms of the respective contracts, each dealer agrees not to deliver non-Ultragaz LPG bottles.

Ultragaz understands that investing in the efficiency if its resellers network is key for staying ahead of competition and at the same time aligned with market demand for LPG. Accordingly, Ultragaz 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 Ultragaz 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 Ultragaz s excellence standards and stimulating constant improvement. In 2015, approximately 4.7 thousand resellers participated in the program a significant increase compared to 2008, when the program began with approximately 700 resellers evaluated. Out of the resellers that participated in the program in 2015, 74% (or 3.5 thousand) were qualified as bronze or above, in line with 2014 (75%) and 2013 (74%), attesting their compliance with most of Ultragaz s quality requirements. In addition to the Reseller Qualification Program, Ultragaz 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.

Ultragaz 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).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, classified by Ultragaz as consumption of more than five tons per month and 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, classified by Ultragaz as consumption under five tons per month and 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 fleet 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 18 days on average.

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$0.48 per exchanged LPG bottle. In areas where only one LPG distributor has a sizable market share, it is customary to use the facilities of that distributor as an unofficial swapping center.

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 15 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, Ultragaz and all other LPG distributors in Brazil purchase all or nearly all LPG from Petrobras. Ultragaz has a formal contract with Petrobras for the supply of LPG. The procedures for ordering and purchasing LPG from Petrobras are generally common to all LPG distributors, including Ultragaz, which basically 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.

Petrobras freely prices 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. However, since 2008 Petrobras has increased LPG refinery prices for commercial and industrial usage sporadically, as shown below:

(% increase)	**Jan/08**	**Apr/08**	**Jul/08**	**Jan/10**	**Dec/14**	**Sep/15**	**Dec/15**
Commercial and industrial LPG	15%	10%	6%	6%	15%	11%	4%

The LPG refinery price for residential use remained unchanged from May 2003 to September 2015, when Petrobras increased prices by 15%. In the last few years, Petrobras practice has been not to immediately reflect in its oil derivatives prices in Brazil the volatility of international prices of oil and oil derivatives. We cannot guarantee that this trend will continue. Any sharp increase in LPG prices charged to LPG distributors could have an impact on Ultragaz s results if it is unable to maintain its operational margins or sales volume.

In 2013 and 2014, Petrobras average refinery price was US$457 per ton and US$425 per ton, respectively, compared with the average international price of US$575 per ton and US$544 per ton, respectively. LPG refinery prices for residential use have remained unchanged since 2003. In 2015, Petrobras average refinery price was US$331 per ton compared with the average international price of US$254 per ton. 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.

Storage of LPG. On December 31, 2015, Ultragaz s storage capacity was approximately 19.4 thousand tons, including Utingás storage capacity. Based on its 2015 average LPG sales, Ultragaz could store approximately 3.5 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.

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

Competition. Ultragaz 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 Ultragaz and its competitors in terms of volume:

	Year ended December 31,		
LPG Distributor	**2015**	**2014**	**2013**
Ultragaz	23.2%	23.0%	23.1%
Liquigás	22.6%	22.5%	22.6%
Supergasbras	20.4%	21.1%	21.1%
Nacional Gás Butano	19.2%	18.8%	18.8%
Others	14.6%	14.6%	14.3%
Total	**100.0%**	**100.0%**	**100.0%**

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.

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. LPG distributors in the bottled market compete primarily on brand awareness and reliability of delivery and the service provided to customers. Ultragaz believes that it is competitive in these aspects. Since *per capita* consumption is small, low distribution cost is the critical factor in dictating profitability. Therefore, LPG distributors largely compete on the basis of efficiencies in distribution and delivery as all LPG distributors currently purchase 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, contain heavy concentration of residential consumers and therefore distribution to this market can be carried out with great economies of scale resulting in lower distribution costs to Ultragaz. Additionally, Ultragaz enjoys low bulk LPG distribution costs through UltraSystem.

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

In 2013, the Brazilian LPG market increased by 2.7% compared to 2012, mainly driven by the growth of 5.8% in the bulk segment due to the country s economic growth. In 2014, the Brazilian LPG market increased by 1.2% compared to 2013. The bulk segment grew by 1.4% over 2013, a lower growth compared to the previous year mainly due to the worsening of the economic environment in Brazil. 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.

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

Source: ANP (volume for 2005, 2006, 2007 and 2008 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 consent. The tax benefits that Ultragaz s filling plant located at Caucaia benefited from expired in 2012. On December 2015, a new request for the incentive was filled, without response until the date of this report. Mataripe s plant has renewed its 75% income tax reduction up to December 2024, based on investments made to increase production capacity and on the modernization of the facility. Also, Aracaju s and Suape s plants are entitled to this tax benefit up to 2017 and 2018, respectively. The total amount of SUDENE s income tax exemption for Ultragaz for the years ended December 31, 2015 and 2014 was R$5.3 million and R$3.9 million, respectively. For further information, see Note 9(c) to our 2015 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 2014, Ultragaz received several awards related to quality and management quality in different states in which it operates.

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 2015, diesel represented 47% of the fuels distributed in Brazil, followed by gasoline, ethanol, fuel oils, NGV and kerosene, each of which represented 33%, 15%, 4%, 1% 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.

In December 2015, credit in Brazil reached 54% of GDP, compared to 59% in December 2014, 56% in December 2013, 54% in December 2012 and 49% in December 2011, which, combined with an increase in disposable income in Brazil, had a positive effect on the sales of vehicles in those years. According to ANFAVEA, approximately 2.5 million new light vehicles were registered in Brazil in 2015, a decrease of 26% compared to 2014. The light vehicle fleet was estimated to have grown by 3% in 2015, reaching 40 million at the end of the year. Among the total vehicles sold in 2015, 88% were flex-fuel vehicles, which have engines adapted to operate using either gasoline or ethanol, or by any combination of the two, 5% were gasoline-only fueled vehicles and the remaining 6% were diesel-only. Since the launching of flex-fuel vehicles in Brazil in 2003, 26.8 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 (78% of the market in terms of volume in 2014, last available data), which serve final retail consumers;

- Large consumers (16% of the market in terms of volume in 2014, last available data), mainly industries and fleets; and

- Retail wholesale resellers TRR (6% of the market in terms of volume in 2014, last available data), specialized resellers that distribute diesel to medium and small volume end-users.

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

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 to primary storage terminals via pipelines and coastal or river shipment. 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 27.5%. In October, 2011, the Brazilian Agriculture Ministry reduced the required percentage of anhydrous ethanol mixed with gasoline from 25% to 20%. 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 27.5%.

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 the Law 13,263 which rises the required percentage of biodiesel mix to diesel to 8% until 2017, reaching 10% in 2019.

As of December 31, 2015, there were 188 fuel distributors authorized by ANP to operate in Brazil.

Supply. Petrobras is currently the only relevant supplier of oil derivatives in Brazil, accounting for 99% of the domestic production. There are currently 17 oil refineries in Brazil, of which Petrobras owns 13. Petrobras s total refining capacity in 2015 was 367 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 2015 was 42% diesel, 22% gasoline, 12% fuel oil, 6% LPG and 18% other products, including naphtha.

Ethanol is purchased from various producers. In 2015, there were nearly 400 distilleries in Brazil, which produced approximately 30 million cubic meters of ethanol, 39% 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 on the sugarcane harvest. In 2015, 92% 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, 2015, there were 51 biodiesel producers, located predominantly in the Midwestern region. Brazil s biodiesel production in 2015 was about half 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 Law No. 9,478 in 1997, 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 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.

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 Sindicom 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 the Law 11,727/08, based on the Provisional Measure 425 (*Medida Provisória 425*), which came into force in October 2008. Under this law, two initiatives were imposed to prevent tax evasion: (i) increasing the proportion of collection of 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, which is still awaiting the definition of certain technical aspects to be implemented. 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, are collected by the producers, and they receive a R$120 per cubic meter tax credit to offset the increased PIS and COFINS taxes levied on ethanol.

In accordance with the publication of the 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 the Law 13,263 which rises the required percentage of biodiesel mix to diesel to 8% until 2017, reaching 10% in 2019.

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 sole 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 33% in 2014, 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.

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;

- 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 supplier, the operator is granted the right to operate under the distributor s brand name. The agreement might also include provisions related to the leasing of pumps 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).

Sindicom represents the interests of major Brazilian fuel distributors, which controlled 77% of the Brazilian fuel market in 2015. Sindicom was formed in 1941 and its primary purpose is to promote uniform standards for industry regulation and to provide a forum in which members can discuss matters affecting the industry. Sindicom represents its members in discussions before federal and state governmental bodies and presents its members perspectives on relevant laws and regulations, including those relating to taxation, 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 A 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-Sindicom distributors, to increase their market share by charging artificially lower prices also based on artificially lower costs. Sindicom distributors, including Ipiranga, have taken, individually and collectively, a number of actions targeted at reducing or eliminating the effects of these anticompetitive and illegal practices.

Among the actions taken were:

(i) significant interaction with the Brazilian judiciary, including holding seminars for judges and prosecutors concerning the problems facing the industry and directly participating in tax litigation involving distributors that are not Sindicom members, (ii) sponsorship of the development of a chemical coloring solvent 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 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. In 2015, share of ethanol volume sold by Sindicom members over the total market was 62%, an increase compared to 58% in 2011, as a result of the practices mentioned above and investments made by the branded distributors in converting unbranded service stations.

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 National Environment Council 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 Labor, 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 currently the largest private player in the Brazilian fuel distribution market, with 22% market share in terms of volume in 2015 and 7,230 service stations as of December 31, 2015.

Ipiranga distributes diesel, gasoline, ethanol, NGV, fuel oil, kerosene, ARLA (liquid agent to reduce nitrogen oxides emissions from heavy vehicles), lubricants and greases nationwide. In addition to a traditional fuel distribution business, Ipiranga has implemented a differentiation strategy, by offering other 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, and the consolidation of other related products and services. In 2014 Ipiranga launched its own supply solution for its am/pm convenience stores, the *am/pm Suprimentos*. At the end of 2015, *am/pm Suprimentos* operated three distribution centers in Brazil (Rio de Janeiro, Paraná and São Paulo).

In 2015, Ipiranga launched in São Paulo new configurations of the am/pm store concept, the am/pm Super Store , for urban service stations, and am/pm Estação , for service station in highways. The newly launched am/pm models increased the offer of convenience by adding new services and products to the traditional ones: health and beauty space, grocery store, full meals and a new fast food concept appropriate to each type of client. For more information see Item 4.B. Information on the Company Business Overview Our Strategy Enhance retail network.

Among the other related products and services, we highlight Ipiranga s loyalty program, *Km de Vantagens*, which has reached 21 million participants as of December 31, 2015, and the online service station, *Posto Ipiranga na Web* , where customers can acquire fuel credits online and use them to purchase fuel at our accredited fuel stations.

Markets and marketing. Until March 2009, Ipiranga only operated in the South and Southeast regions of Brazil. After the acquisition of Texaco, Ipiranga became a nationwide distributor and started to operate in the Northeast, North and Midwest regions of Brazil, 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. Under the terms of the Ipiranga Group Transaction Agreements, Petrobras had the exclusive right to use Ipiranga s brand in the operating regions of the Northern Distribution Business for five years from the date of the acquisition of Ipiranga Group, which expired in April 2012. Until then, Ipiranga operated under the Texaco brand in those regions. In November 2010, Ultrapar closed the acquisition of DNP, which distributes 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 2010. See Item 4.A. Information on the Company History and Development of the Company. In 2015, Ipiranga continued its strategy to increase its scale of operations, adding 174 service stations through the conversion of unbranded service stations and the opening of new gas stations. Furthermore, Ipiranga ended 2015 with 1,159 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 is also focusing on the expansion of Jet Oil and am/pm franchises to enhance the service and convenience of consumers at the Ipiranga service stations.

Growth in the fuel distribution sector is directly influenced by GDP growth rates and by the size of the car fleet. In 2010, 2011 and 2012, the automotive sector reached new records of new light vehicles registered, mainly as a result of the increased disposable income and credit availability. See Item 5.D. Operating and Financial Review and Prospects Trend Information. See Item 4.B. Information on the Company Business Overview Fuel Distribution Industry and Regulatory Overview. Furthermore, legislative changes and inspection in the fuel distribution sector occurred in the last 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.

In 2015, 2.5 million new light vehicles were registered according to ANFAVEA, a decrease of 26% in relation to 2014, with flex fuel cars representing 88% of the total light vehicles registered in 2015.

According to ANFAVEA, the estimated total light vehicles fleet in Brazil as of December 31, 2015 was 40 million, an increase of 3% from 2014, as a consequence of the 2.5 million new cars registered and an estimated scrapping of 1.4 million cars in 2015.

In 2015, the fuel volume sold by Ipiranga slightly increased by 0.4% compared to 2014, with (i) the combined sales volume of gasoline, ethanol and NGV increasing by 2.5 driven by the growth in light vehicle fleet and investments made to expand its service station network, partially offset by the effects of higher unemployment rates over the year and the consequent impact on household consumption, and (ii) diesel sales volume decreased 1.6% in the period, as a result of the economic downturn, partially offset by the investments made to capture new clients.

Ipiranga s sales volume from its service station network accounted for 75% of its total sales in 2015. As of December 31, 2015, there were 7,230 service stations operating under the Ipiranga brand, of which 795 had the land either owned by us or under a long term lease to us and 6,435 owned by third parties. In 2015, 90% of these service stations were located in urban areas, with the remaining 10% located in highways.

Distribution to large consumers represented 18% of Ipiranga s sales in 2015. Ipiranga directly sold to 5,630 customers in 2015, including state and municipal governments, industries and cargo and passenger transportation fleet owners.

Ipiranga also sells diesel, lubricants, fuel oil and kerosene to 281 independent TRRs that redistribute these products to small and medium-sized companies throughout Brazil. Ipiranga s TRR clients consist mostly of companies that have large fixed tanks at their facilities. These clients represented 7% of Ipiranga s sales volume in 2015.

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. Supply to large consumers and TRRs is rarely made under contracts. When contracts are entered into with these clients, the terms range from 1 to 3 years.

The table below shows Ipiranga s sales by product:

	Year ended December 31, (in thousand cubic meters)		
	2015	**2014**	**2013**
Diesel (by client category)			
Service station	6,982.9	7,226.2	7,003.5
Large consumers	4,379.5	4,386.0	4,619.1
Retail wholesale resellers (TRR)	1,733.8	1,696.4	1,709.7
Total Diesel	**13,096.2**	**13,308.6**	**13,332.3**
Gasoline	**8,554.4**	**9,204.1**	**8,580.9**
Ethanol	**3,444.8**	**2,478.5**	**2,194.6**
Others[(1)]	**629.5**	**622.3**	**650.1**
Total volume sold	**25,724.8**	**25,613.5**	**24,757.9**

(1) Includes NGV, fuel oil, kerosene, arla and lubricants.

Distribution infrastructure. Ipiranga operated through 91 storage terminals as of December 31, 2015 that were strategically located to facilitate fast and economic delivery of its products. There are two types of facilities: primary storage terminals, generally located near the coast and major cities, which are supplied by refineries through pipelines, and secondary storage terminals, which are mainly located inland, and are supplied by primary terminals by railroad or through road transportation for locations not accessible by railroad. Ethanol is supplied to the terminals by road.

Ipiranga has its own fleet of trucks through its transportation company, Tropical, which was responsible for transportation of 28% of the volume of fuels sold by Ipiranga in 2015, with the remaining portion of the transportation provided by third parties.

Resellers. Ipiranga generally enters into three types of arrangements with resellers in which: (i) it owns land, equipment and buildings for a service station that it leases to an operator, (ii) a third party owns land, and leases it to Ipiranga and it constructs a service station facility or make 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 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. For the year ended December 31, 2015, 75% of Ipiranga s volume sold was through resellers.

Ipiranga has created incentive programs over the years in order to strengthen brand loyalty and its relationship with its reseller network, as well as to differentiate itself from its competitors. These incentive programs include annual rewards to its resellers with 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.

In 2009, Ipiranga created *Km de Vantagens*, a pioneer customer loyalty program in the fuel industry that provides awards and benefits to customers and resellers. Ipiranga developed strategic partnerships to broaden the scope of the program and the benefits for its clients and resellers, including partnerships in areas of entertainment, tourism, magazines and airline tickets, among others. By the end of 2015, *Km de Vantagens*, the largest loyalty program in Brazil, had more than 21 million clients registered. Each year, Ipiranga seeks new initiatives to add further value to the program, maintain current participants and increase the number of new participants.

In 2010, through its am/pm convenience stores, the largest convenience store network in Brazil, Ipiranga began launching initiatives to increase product offerings through 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. In 2014, Ipiranga launched a new beer purchase experience through its Beer Cave, which is a refrigerated container that stores more than 100 brands of beer. Ipiranga ended 2015 with 1,910 am/pm stores, 521 bakeries and 237 Beer Caves.

In November 2012, Ipiranga launched ConectCar. See Item 4.A. Information on the Company History and Development of the Company and Item 4.B. Information on the Company Business Overview Our Strategy Enhance retail network.

The Jet Oil units, Ipiranga s lubricant-changing and automotive service specialized network, ended 2015 with 1,466 franchises, including 251 Jet Oil Motos, the first specialized lubricant-changing and service network for motorcycles.

In 2014, we entered into partnerships with Shoptime, the first Brazilian home shopping television channel, which also operates via the Internet and catalog. The customers are offered more than 100 thousand products, from home care to electronics.

In order to strengthen the am/pm convenience stores product offering and operations, Ipiranga launched in 2014 its own supply solution. The *am/pm Suprimentos* concentrates logistics, sales and customer service of the convenience stores main products in just one structure. This initiative aims to streamline the am/pm s convenience store operation, increase the competitiveness of franchisees and ensure higher quality product range. At the end of 2015, *am/pm Suprimentos* supplied the stores of Rio de Janeiro, Espírito Santo, São Paulo, Paraná and Santa Catarina states with the main categories of products, except for tobacco and ice cream.

In 2015, Ipiranga presented in São Paulo new configurations of the am/pm store concept, as previously described. The new am/pm store models increase the options for complementary revenues to resellers.

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, the reseller earns higher revenues, and the service station obtains a differentiated positioning, thus contributing for an increase in the company s income.

In line with this strategy, Ipiranga created the marketing campaign *Ipiranga: um lugar completo esperando por você* (Ipiranga: a complete place waiting for you). The concept consists of creating a place where customers can find a broader range of products and services to meet their consumption needs. This concept is stimulated on Ipiranga s communications, especially its TV ads, which includes the catchphrase *Pergunta lá no Posto Ipiranga* (Ask there at the Ipiranga service station), commonly used by many Brazilians in other contexts than purchasing fuels.

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.

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

The ethanol fuel market in Brazil consists of nearly 400 distilleries, 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. 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 and secondary facilities are supplied by railroad and truck. See Item 4.D. Information on the Company Property, Plant and Equipment. In 2015, Ipiranga s storage capacity was 576,211 cubic meters. Based on its 2015 average sales, Ipiranga can store approximately eight days of fuel supply, in line with the average stock period of the fuel distribution industry. Accordingly, an interruption in the production of oil-based fuels for longer than that time period could result in shortages, such as the one that occurred during the Petrobras strike in 1995.

Competition. Ipiranga s main competitors in 2015 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.

- 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 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 in June 2011 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.

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

	Year ended December 31,		
Distributor[1]	**2015**	**2014**	**2013**
Petrobras	31.3%	32.8%	33.3%
Ipiranga	21.6%	21.3%	21.8%
Raízen	19.3%	18.8%	18.2%
Alesat	3.7%	4.1%	4.1%
Others	24.1%	23.0%	22.7%
Total cubic meters	**100.0%**	**100.0%**	**100.0%**

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

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.

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

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

Quality. 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. Furthermore, 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 54 in 2015, including some offices and all owned storage terminals and joint operated terminals.

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 feedstocks, 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, or PVC, each produced from ethylene;
- polypropylene, oxo-alcohols and acrylonitrile, each produced from propylene;
- styrene butadiene rubber, or SBR, and polybutadiene, each produced from butadiene;
- caprolactam, produced from benzene; and

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

In 2015, there were about 50 second generation companies operating in Brazil, including Oxiteno. The intermediate petrochemicals are produced in solid form (as plastic pellets or powders) and in liquid form and are transported through roads, railroads or by ship to third generation companies.

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

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

- plastics produced from polyethylene, polypropylene and PVC;

- elastomers produced from butadiene;

- acrylic fibers produced from acrylonitrile; and

- nylon produced from caprolactam.

Third generation companies produce a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents and paints as well as automobile parts, toys and consumer electronic goods. There are over 11,500 third generation companies operating in Brazil.

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

The northeast complex, located in the municipality of Camaçari in the state of Bahia, began operations in 1978. It consists of approximately 15 second generation companies, including Oxiteno, situated around Braskem. Braskem currently has an ethylene production capacity of 1.3 million tons per annum.

The São Paulo complex, located in the municipality of Santo André and Mauá in the state of São Paulo, was created in 1972 and is the oldest petrochemical complex in Brazil. Braskem, supplies first generation petrochemicals to 25 second generation companies including Oxiteno. 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, and includes six second generation companies. Braskem s plant in Triunfo has an ethylene production capacity of 1.5 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, or 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 Labor.

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

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

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

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

Oxiteno

We operate in the chemical sector through the second generation company, Oxiteno, a wholly owned subsidiary of Ultrapar and major producer of specialty chemicals. Oxiteno 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, Oxiteno is the only ethylene oxide producer in South America. Its products are used in a broad range of industrial sectors, such as cosmetics, detergents, crop protection chemicals, polyester, packaging, coatings and oil industry. During the year ended December 31, 2015, Oxiteno sold 725 thousand tons of chemical and petrochemical products.

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

Products and markets. Although a portion of Oxiteno s products could be classified as either a commodity or a specialty chemical depending on the use of each product by our customer, for ease of understanding, Oxiteno s products are here divided into two principal groups: (i) commodity chemicals, which are generally higher-volume products, with standard specifications, and (ii) specialty chemicals, which tend to be lower-volume products sold on the basis of chemical features and suitability to meet a particular end-use requirement. Oxiteno s principal commodity chemicals are ethylene oxide and ethylene glycol. Oxiteno 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 Oxiteno and their intermediate and final products.

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.

73

Major Markets	Specialty Chemicals	Examples of uses and effects
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 and refining, each one with specific characteristics.
Coatings	Acetates, alcohols, glycols ethers, glycols, ketones, alkyl ether sulfates, ethoxylated alkylphenols, ethoxylated fatty alcohols, block copolymers EO/PO	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.

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 2015, 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 40 countries in Asia, Latin America, Europe and North America. Oxiteno maintains production capacity above local demand for strategic reasons. For the years ended December 31, 2015, 2014 and 2013, 33%, 29% and 31% of Oxiteno s net revenue from sales and services, respectively, were from sales outside Brazil. For the years ended December 31, 2015, 2014 and 2013, 28%, 29% and 30% 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:

	Year Ended December 31,		
Market sector	**2015**	**2014**	**2013**
	(in thousand tons)		
Polyester	103.3	101.9	84.0
Cosmetics and detergents	123.1	121.5	115.4
Crop protection	91.2	98.4	104.6
Distributors	53.5	56.7	58.8
Coatings	45.2	54.6	54.7
EO / DOT (brake fluids)	33.0	38.1	38.7
Performance Products[1]	26.1	28.6	27.7
Glycols	19.6	19.8	24.2
Oil and Gas	20.1	30.2	28.5
Others[2]	6.7	7.7	8.8
Total Brazilian market	**521.8**	**557.3**	**545.5**

(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, Germany, Italy, Belgium and Spain. In the Far East, Oxiteno exports its products mainly to China, Taiwan, Japan and South Korea.

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[1]	Year Ended December 31, 2015		2014		2013	
	(in thousand metric tons and percentage of the total)					
From Oxiteno Brazil						
Mercosur (not including Brazil)	40.7	19%	43.4	18%	42.1	17%
NAFTA	11.0	5%	13.2	5%	22.3	9%
Asia	16.8	8%	19.8	8%	18.7	8%
Europe	12.2	6%	13.7	6%	13.4	6%
Other	17.1	7%	14.6	7%	16.6	7%
Sub-Total	**97.8**	**46%**	**104.6**	**43%**	**113.1**	**46%**

Current portion of long-term borrowings and capital lease obligations	$6.2	$7.4
Accounts payable	50.7	50.5
Customer deposits	12.1	11.2
Accrued liabilities:		
Compensation and withholding taxes	28.2	25.7
Other current liabilities	40.2	35.4
Current liabilities of discontinued operations	1.7	2.4
Total current liabilities	139.1	132.6
Long-term borrowings and capital lease obligations	44.0	84.7
Long-term pension and other post-retirement benefit liabilities	63.5	36.9
Deferred gain	14.6	16.5
Other long-term liabilities	20.9	17.0
Long-term liabilities of discontinued operations	5.0	6.1
Total liabilities	287.1	293.8
Stockholders' equity:		
Common stock, $1 par value per share, 90.0 shares authorized, 64.2 and 63.8 shares issued, respectively	64.2	63.8
Capital in excess of par value	187.0	177.0
Retained earnings	227.0	168.9
Treasury stock, at cost, 1.7 million and 1.0 million shares, respectively	(27.1)	(16.8)
Accumulated other comprehensive loss	(79.5)	(41.9)
Total stockholders' equity	371.6	351.0
Total liabilities and stockholders' equity	$658.7	$644.8

See notes to consolidated financial statements.
42

Table of Contents

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
(in millions)	2014	2013	2012
Operating activities:			
Net income (loss)	$63.7	$160.0	$(27.5)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
(Gain) loss on discontinued operations and disposal	(0.7)	0.2	49.5
Depreciation and amortization	15.0	14.2	13.2
Deferred financing costs	0.5	5.0	4.4
Deferred gain	(1.9)	(1.9)	(1.9)
Stock-based compensation expense	6.1	4.0	2.6
Excess tax benefit from stock-based compensation	(2.2)	—	—
Pension expense, net of funding	(5.7)	(1.3)	(5.7)
Deferred income taxes, including change in valuation allowance	19.3	(112.0)	(4.8)
Changes in operating assets and liabilities, net of effects of discontinued operations:			
Accounts receivable	(16.6)	2.6	9.3
Inventories	(20.0)	10.5	(14.5)
Other current assets	0.3	3.8	(1.4)
Accounts payable	1.9	(2.5)	2.6
Customer deposits	1.7	(2.1)	(1.5)
Accrued liabilities	9.9	(0.9)	17.3
Income taxes	(1.1)	(0.6)	8.6
Other	2.0	1.3	(1.0)
Net cash provided by continuing operating activities	72.2	80.3	49.2
Net cash provided by (used for) discontinued operating activities	0.1	(5.5)	(26.0)
Net cash provided by operating activities	72.3	74.8	23.2
Investing activities:			
Purchases of properties and equipment	(19.5)	(17.0)	(13.0)
Proceeds from sales of properties and equipment	0.5	0.1	1.8
Proceeds from sale of FSTech Group	7.4	—	82.1
Decrease (increase) in restricted cash	—	1.0	(1.0)
Net cash (used for) provided by continuing investing activities	(11.6)	(15.9)	69.9
Financing activities:			
(Decrease) increase in revolving lines of credit, net	(20.0)	17.5	(173.3)
Decrease in short-term borrowings, net	—	(0.3)	(9.5)
Proceeds from issuance of long-term borrowings	—	75.0	215.0
Payments on long-term borrowings	(21.6)	(153.6)	(99.5)
Payments of debt financing fees	—	(6.1)	(6.9)
Purchases of treasury stock	(10.3)	—	—
Cash dividends paid to stockholders	(5.6)	—	—
Proceeds from stock-based compensation activity	2.6	2.6	—
Excess tax benefit from stock-based compensation	2.2	—	—
Other, net	(1.0)	(0.7)	2.4

Net cash used for continuing financing activities	(53.7)	(65.6)	(71.8)
Net cash used for discontinued financing activities	—	—	(0.9)
Net cash used for financing activities	(53.7)	(65.6)	(72.7)
Effects of foreign exchange rate changes on cash and cash equivalents	(0.4)	0.8	(0.2)
Increase (decrease) in cash and cash equivalents	6.6	(5.9)	20.2
Cash and cash equivalents at beginning of year	23.8	29.7	9.5
Cash and cash equivalents at end of year	$30.4	$23.8	$29.7

See notes to consolidated financial statements.

Table of Contents

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions)	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2011	$63.1	$167.7	$36.4	$(16.1)	$ (76.4)	$174.7
Net loss			(27.5)			(27.5)
Total other comprehensive loss					(3.7)	(3.7)
Stock-based payments:						
Stock-based compensation		3.1				3.1
Stock option exercises and other	0.3	0.3		(0.3)		0.3
Balance at December 31, 2012	63.4	171.1	8.9	(16.4)	(80.1)	146.9
Net income			160.0			160.0
Total other comprehensive income					38.2	38.2
Stock-based payments:						
Stock-based compensation		3.6				3.6
Stock option exercises and other	0.4	2.0		(0.4)		2.0
Common stock canceled		0.3				0.3
Balance at December 31, 2013	63.8	177.0	168.9	(16.8)	(41.9)	351.0
Net income			63.7			63.7
Total other comprehensive loss					(37.6)	(37.6)
Cash dividends declared			(5.6)			(5.6)
Stock-based payments:						
Stock-based compensation		5.5				5.5
Stock option exercises and other	0.4	2.3				2.7
Excess tax benefit from stock-based compensation		2.2				2.2
Stock repurchase program				(10.3)		(10.3)
Balance at December 31, 2014	$64.2	$187.0	$227.0	$(27.1)	$ (79.5)	$371.6

See notes to consolidated financial statements.

Table of Contents

FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of the Business

Federal Signal Corporation was founded in 1901 and was reincorporated as a Delaware corporation in 1969. References herein to the "Company," "we," "our" or "us" refer collectively to Federal Signal Corporation and its subsidiaries. Products manufactured and services rendered by the Company are divided into three major operating segments: Environmental Solutions Group, Safety and Security Systems Group and Fire Rescue Group. The individual operating businesses are organized as such because they share certain characteristics, including technology, marketing, distribution and product application, which create long-term synergies. The Company's reportable segments are consistent with its operating segments. These segments are discussed in Note 13 – Segment Information.

Our fiscal year ends on December 31. All references to 2014, 2013 and 2012 relate to the fiscal year unless otherwise indicated.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements represent the consolidation of Federal Signal Corporation and its subsidiaries included herein and have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). Intercompany balances and transactions have been eliminated in consolidation. The operating results of businesses divested in prior years have been excluded since the date of sale, and have been reported as discontinued operations prior to sale. See Note 15 – Discontinued Operations for further details.

Certain prior year amounts have been reclassified to conform to the current year presentation.

Non-U.S. Operations

Assets and liabilities of non-U.S. subsidiaries, other than those whose functional currency is the U.S. dollar, are translated at current exchange rates with the related translation adjustments reported in stockholders' equity as a component of Accumulated other comprehensive loss. Accounts within the Consolidated Statements of Operations are translated at the average exchange rate during the period. Non-monetary assets and liabilities are translated at historical exchange rates.

Relating to transactions that are denominated in a currency other than the functional currency, the Company incurs foreign currency transaction gains or losses, which are recognized in the Consolidated Statement of Operations as incurred. For the years ended December 31, 2014, 2013 and 2012, the Company incurred foreign currency transaction losses, included in other expense, net in the Consolidated Statements of Operations, of \$1.5 million, \$0.3 million and \$0.6 million, respectively.

Fair Value Measurements

The Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about valuation based on the best information available in the circumstances. The three levels of inputs are classified as follows:

- Level 1 — quoted prices in active markets for identical assets or liabilities;
- Level 2 — observable inputs, other than quoted prices included in Level 1, such as quoted prices for markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and
- Level 3 — unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities, including certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less, when purchased, to be cash equivalents. The carrying amount of cash and cash equivalents approximates fair value because of the short-term maturity and highly liquid nature of these instruments.

Accounts Receivable

The Company carries accounts receivable at the face amount less an allowance for doubtful accounts for estimated losses as a result of a customer's inability to make required payments. Management evaluates the aging of the accounts receivable balances, the financial condition of its customers, historical trends and the time outstanding of specific balances to estimate the amount of accounts receivables that may not be collected in the future and records the appropriate provision.

Inventories

The Company's inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method. Included in the cost of inventories are raw materials, direct wages and associated production costs.

Properties and Equipment

Properties and equipment are stated at cost, net of depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Useful lives generally range from eight to 40 years for buildings and three to 15 years for machinery and equipment. Leasehold improvements are depreciated over the shorter of the remaining life of the lease or the useful life of the improvement. Depreciation expense is primarily included as a component of Cost of sales on the Consolidated Statements of Operations, with depreciation expense associated with certain assets used for administrative purposes being presented within Selling, engineering, general and administrative ("SEG&A") expenses. Depreciation expense was $14.9 million, $14.0 million and $12.1 million in the years ended December 31, 2014, 2013 and 2012, respectively.

Properties and equipment includes certain equipment that is manufactured by the Company and subsequently transferred to a rental fleet for the purpose of leasing to end customers. The related cash flow activity associated with these transactions is reflected within operating activities on the Consolidated Statements of Cash Flows. Non-cash transfers from Inventories to Properties and equipment totaled $4.1 million for the year ended December 31, 2014. The rental income associated with this activity is not considered material to the Company's consolidated results of operations.

Properties and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Goodwill

Goodwill represents the excess of the cost of an acquired business over the amounts assigned to its net assets. Goodwill is not amortized but is tested for impairment at a reporting unit level on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company performs its annual goodwill impairment test as of October 31.

In 2014 and 2013, the Company applied the qualitative assessment, outlined in Accounting Standards Codification ("ASC") 350, Intangibles — Goodwill and Other, to certain of its reporting units and concluded that it was not "more likely than not" that the fair values of these reporting units were less than their carrying values. As a result, the Company was not required to perform the two-step impairment test described below for these reporting units.

For the remaining reporting unit, goodwill was tested for impairment based on a two-step test in both 2014 and 2013. In 2012, goodwill for all reporting units was tested for impairment under the two-step approach. The first step in the two-step approach is used to identify potential impairment, by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The Company generally determines the fair value of its reporting units using two valuation methods: the "Income Approach — Discounted Cash Flow Analysis" method, and the "Market Approach — Guideline Public Company Method."

Under the "Income Approach — Discounted Cash Flow Analysis" method, the key assumptions consider projected sales, cost of sales and operating expenses. These assumptions were determined by management utilizing our internal operating plan, including growth rates for revenues and operating expenses and margin assumptions. An additional key assumption under this approach is the discount rate, which is determined by reviewing current risk-free rates of capital and current market interest rates and by evaluating the risk premium relevant to the business segment.
Under the "Market Approach — Guideline Public Company Method," the Company identified several publicly traded companies, including Federal Signal, which we believe have sufficiently relevant similarities. For these companies, the

46

Table of Contents

Company calculated the mean ratio of invested capital to revenues and invested capital to EBITDA. Similar to the income approach discussed above, sales, cost of sales, operating expenses and their respective growth rates are key assumptions utilized. The market prices of the Company's common stock and other guideline companies are additional key assumptions.

The results of these two methods are weighted based upon management's evaluation of the relevance of the two approaches. Consistent with the prior year, management used a combination of the income and market approaches to determine the reporting unit's fair value in 2014.

The fair value of the reporting unit that was tested for impairment under the two-step approach in the 2014 analysis exceeded its carrying value by more than 20%. Relatively small changes in the Company's key assumptions would not have resulted in the reporting unit failing the first step of the two-step test.

The Company had no goodwill impairments for its continuing operations in 2014, 2013 or 2012. See Note 4 – Goodwill to the accompanying consolidated financial statements for a summary of the Company's goodwill by segment.

Pensions

The Company sponsors domestic and foreign defined benefit pension plans. Key assumptions used in the accounting for these employee benefit plans include the discount rate, expected long-term rate of return on plan assets, rate of increase in employee compensation levels and estimates of future mortality of plan participants.

The weighted-average discount rate used to measure pension liabilities and costs is selected using a hypothetical portfolio of high-quality bonds that would provide the necessary cash flow to match the projected benefit payments of the plans. The discount rate represents the rate at which our benefit obligations could effectively be settled as of the year-end measurement date. The weighted-average discount rate used to measure pension liabilities decreased from 2013 to 2014. See Note 7 – Pensions for further discussion.

The expected long-term rate of return on plan assets is based on historical and expected returns for the asset classes in which the plans are invested.

In October 2014, the Society of Actuaries published new mortality tables and scales that project people will generally live longer than previously anticipated. The Company's projected benefit obligations as of December 31, 2014 were measured after taking the updated tables into consideration. The estimated impact of adopting these new tables was an increase of approximately 4% in the projected benefit obligation of the Company's U.S. defined benefit plan.

Stock-Based Compensation Plans

The Company has various stock-based compensation plans, described more fully in Note 11 – Stock-Based Compensation. The fair value of stock options is determined using a Black-Scholes option pricing model.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Warranty

Sales of many of the Company's products carry express warranties based on terms that are generally accepted in the Company's marketplaces. The Company records provisions for estimated warranty, which are included within Cost of sales, at the time of sale based on historical experience. The Company periodically adjusts these provisions to reflect actual experience. Infrequently, a material warranty issue can arise which is beyond the scope of the Company's historical experience. The Company records costs related to these issues as they become probable and estimable.

The Company also sells optional extended warranty contracts that extend coverage beyond the initial term of the express warranty period. At the time of sale, revenue related to the extended warranty contract is deferred and recognized as income over the life of the contract. As of December 31, 2014 and 2013, deferred revenue associated with extended warranty contracts was $2.4 million and $2.0 million, respectively, and was included within Other current liabilities and Other long-term liabilities on the Consolidated Balance Sheets. Costs under extended warranty contracts are expensed as incurred.

47

Table of Contents

Workers' Compensation and Product Liability Reserves

Due to the nature of the Company's products, the Company is subject to claims for workers' compensation and product liability in the normal course of business. The Company is self-funded for a portion of these claims. The Company establishes a reserve using a third-party actuary for any known outstanding matters, including a reserve for claims incurred but not yet reported. The amount and timing of cash payments relating to these claims are considered to be reliably determinable given the nature of the claims and historical claim volumes to support the actuarial assumptions and judgments used to derive the expected loss payment patterns. As such, the reserves recorded are discounted using a risk-free rate that matches the average duration of the claims.

The Company has not established a reserve for potential losses resulting from the firefighter hearing loss litigation (see Note 9 – Legal Proceedings). If the Company is not successful in its defense after exhausting all appellate options, it will record a charge for such claims, to the extent they exceed insurance recoveries, at the appropriate time.

Revenue Recognition

Net sales consist primarily of revenue from the sale of equipment, environmental vehicles, vehicle-mounted aerial platforms, parts, service and maintenance contracts.

The Company recognizes revenue for products when (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred, (iii) the sales price is fixed or determinable and (iv) collection is reasonably assured. A product is considered delivered to the customer once it has been shipped, and title and risk of loss have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped; however, occasionally title passes later or earlier than shipment due to customer contracts or letter of credit terms. If at the outset of an arrangement the Company determines the arrangement fee is not, or is presumed not to be, fixed or determinable, revenue is deferred and subsequently recognized as amounts become due and payable and all other criteria for revenue recognition have been met.

The Company enters into sales arrangements that may provide for multiple deliverables to a customer. These arrangements may include software and non-software components that function together to deliver the products' essential functionality. The Company identifies all goods and/or services that are to be delivered separately under the sales arrangement and allocates revenue to each deliverable based on relative fair values. Fair values are generally established using reliable third-party objective evidence, or management's best estimate of selling price, including prices charged when sold separately by the Company. In general, revenues are separated between hardware, integration and installation services. The allocated revenue for each deliverable is then recognized using appropriate revenue recognition methods.

Net sales are presented net of returns and allowances. Returns and allowances are calculated and recorded as a percentage of revenue based upon historical returns. Net sales include sales of products and billed freight related to product sales. Freight has not historically comprised a material component of Net sales.

Product Shipping Costs

Product shipping costs are expensed as incurred and are included within Cost of Sales.

Research and Development

The Company invests in research to support development of new products and the enhancement of existing products and services. Expenditures for research and development by the Company were $16.6 million in 2014, $11.0 million in 2013 and $10.0 million in 2012, and are included within SEG&A expenses.

Income Taxes

We file a consolidated U.S. federal income tax return for Federal Signal Corporation and its eligible domestic subsidiaries. Our non-U.S. subsidiaries file income tax returns in their respective local jurisdictions. We account for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and tax benefit carryforwards. Deferred tax assets and liabilities at the end of each period are determined using enacted tax rates expected to apply to taxable income in the period in which the deferred tax liability or asset is expected to be settled or realized. A valuation allowance is established or maintained when, based on currently available information and other factors, it is more likely than not that all or a portion of a deferred tax asset will not be realized.

Accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under the guidance on accounting for uncertainty in income taxes, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also outlines de-recognition and classification, as well as interest and penalties on income taxes.

Litigation Contingencies

The Company is subject to various claims, including pending and possible legal actions for product liability and other damages, and other matters arising in the ordinary course of the Company’s business. The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have an adverse effect on the Company’s financial position or results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company’s results of operations. Professional legal fees are expensed when incurred. We accrue for contingent losses when such losses are probable and reasonably estimable. In the event that estimates or assumptions of contingent losses are different from actual results, adjustments are made in subsequent periods to reflect more current information.

NOTE 2 — INVENTORIES

The following table summarizes the components of inventories:

(in millions)	2014	2013
Raw materials	$53.1	$46.1
Work in process	23.7	24.3
Finished goods	44.2	39.4
Total inventories	$121.0	$109.8

NOTE 3 — PROPERTIES AND EQUIPMENT, NET

The following table summarizes the components of properties and equipment, net:

(in millions)	2014	2013
Land	$0.3	$0.3
Buildings and improvements	29.1	27.0
Machinery and equipment	164.7	158.2
Total property and equipment, at cost	194.1	185.5
Less: Accumulated depreciation	124.6	121.7
Properties and equipment, net	$69.5	$63.8

In July 2008, the Company entered into sale-leaseback transactions for its Elgin and University Park, Illinois plant locations. Net proceeds received were $35.8 million, resulting in a deferred gain of $29.0 million. The deferred gain is being amortized over the 15-year life of the respective leases. The deferred gain balance was $16.5 million and $18.4 million at December 31, 2014 and 2013, respectively. Of these amounts, $1.9 million and $1.9 million, was included within Other current liabilities on the Consolidated Balance Sheets at December 31, 2014 and 2013, respectively.

The Company leases certain facilities and equipment under operating leases, some of which contain options to renew. Total rental expense on all operating leases was $8.2 million in 2014, $8.5 million in 2013 and $8.9 million in 2012. Sublease income and contingent rentals relating to operating leases were insignificant. At December 31, 2014, minimum future rental commitments under operating leases having non-cancelable lease terms in excess of one year aggregated $48.7 million and were payable as follows: $7.7 million in 2015, $7.1 million in 2016, $6.6 million in 2017, $5.1 million in 2018, $5.1 million in 2019 and $17.1 million thereafter.

NOTE 4 — GOODWILL

The following table summarizes the carrying amount of goodwill by segment:

(in millions)	Environmental Solutions	Fire Rescue	Safety & Security Systems	Total
Balance at December 31, 2012	$120.4	$33.8	$118.1	$272.3
Translation adjustments	—	—	1.5	1.5
Balance at December 31, 2013	120.4	33.8	119.6	273.8
Translation adjustments	—	(2.7)	(4.8)	(7.5)
Balance at December 31, 2014	$120.4	$31.1	$114.8	$266.3

NOTE 5 — DEBT

The following table summarizes the components of long-term debt and capital lease obligations, net:

(in millions)	2014	2013
Senior Secured Credit Facility:		
Revolving Credit Facility	$—	$20.0
Term Loan	49.2	70.8
Capital lease obligations	1.0	1.3
Total long-term borrowings and capital lease obligations, including current portion	50.2	92.1
Less: Current maturities	5.8	7.0
Less: Current capital lease obligations	0.4	0.4
Total long-term borrowings and capital lease obligations, net	$44.0	$84.7

As more fully described within Note 1 – Summary of Significant Accounting Policies, the Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The fair value of long-term debt is based on interest rates that we believe are currently available to us for issuance of debt with similar terms and remaining maturities (Level 2 input).

The following table summarizes the carrying amounts and fair values of the Company’s financial instruments:

(in millions)	2014 Notional Amount	2014 Fair Value	2013 Notional Amount	2013 Fair Value
Long-term debt [(a)]	50.2	50.2	92.1	92.1

(a) Long-term debt includes current portions of long-term debt and current portions of capital lease obligations of $6.2 million and $7.4 million as of December 31, 2014 and 2013, respectively.

On March 13, 2013, the Company entered into a Credit Agreement by and among the Company, as borrower, the lenders referred to therein, as lenders, Wells Fargo Bank, National Association, as administrative agent, swingline lender and issuing lender, General Electric Capital Corporation, as syndication agent, and Wells Fargo Securities, LLC and GE Capital Markets, Inc., as joint lead arrangers and joint book managers, providing the Company with a $225.0 million senior secured credit facility (the “Senior Secured Credit Facility”) comprised of a five-year fully funded term loan of $75.0 million and a five-year $150.0 million revolving credit facility under which borrowings may be made from time to time during the term of the Senior Secured Credit Facility.

The Company used the proceeds from the Senior Secured Credit Facility to (i) repay outstanding balances under its prior debt agreements, (ii) finance the ongoing general corporate needs of the Company and its subsidiaries, (iii) pay fees and expenses associated with repayment of amounts due under its prior debt agreements, including the payment of approximately $4.2 million in breakage fees and premiums and (iv) pay fees and expenses associated with the Senior Secured Credit Facility.

The Senior Secured Credit Facility is a five-year senior secured credit facility secured by a first priority security interest in all now or hereafter acquired domestic property and assets and the stock or other equity interests in each of the domestic subsidiaries and certain of the first-tier foreign subsidiaries, subject to certain exclusions. Beginning on

June 30, 2013, quarterly installment payments are required to be made against the $75.0 million term loan based on an amortization schedule that required 7.5% of the original term loan to be repaid in the first year, 10.0% of the original term loan to be repaid in each of the second and third years, 12.5% of the original term loan to be repaid in each of the fourth and fifth years, with the remaining balance to be repaid on the maturity date of March 13, 2018. The Company is allowed to prepay the term loan in whole or in part prior to maturity without premium or penalty. In the fourth quarter of 2014, the Company made a voluntary term loan prepayment of $15.0 million. The prepayments reduce the quarterly debt installment payments and the amount due on maturity on a pro-rata basis.

The Senior Secured Credit Facility provides for loans and letters of credit in an amount up to an aggregate availability under the revolving credit facility of $150.0 million, with a sub-limit of $50.0 million for letters of credit. Borrowings under the entire Senior Secured Credit Facility bear interest, at the Company's option, at a base rate or a LIBOR rate, plus, in each case, an applicable margin. The applicable margin ranges from 1.00% to 2.00% for base rate borrowings and 2.00% to 3.00% for LIBOR borrowings. The Company must also pay a commitment fee to the lenders equal to a range of 0.25% to 0.45% per annum on the unused portion of the $150.0 million revolving credit facility along with other standard fees. Letter of credit fees are payable on outstanding letters of credit in an amount equal to the applicable LIBOR margin plus other customary fees. The Company is allowed to prepay in whole or in part advances under the revolving credit facility portion without penalty or premium other than customary "breakage" costs with respect to LIBOR loans.

The Senior Secured Credit Facility requires the Company to comply with financial covenants related to the maintenance of a minimum fixed charge coverage ratio and maximum leverage ratio. The financial covenants are measured at each fiscal quarter-end. Restricted payments, including dividends, are permitted only if the pro-forma leverage ratio after giving effect to such payment is less than 3.25x, pro-forma compliance after giving effect to such payment is maintained for all other financial covenants and there are no existing defaults under the Senior Secured Credit Facility. The Company was in compliance with all of its debt covenants as of, and throughout the year ended, December 31, 2014.

In the first quarter of 2013, upon execution of the Senior Secured Credit Facility, the Company recorded $8.7 million of costs related to the termination of its prior debt agreements. The costs included a $4.2 million early termination penalty payment and a $4.5 million write-off of the remaining unamortized deferred financing costs related to the prior debt agreements.

The Company incurred $1.9 million of debt issuance costs associated with the execution of the Senior Secured Credit Facility. Financing costs incurred in connection with the Senior Secured Credit Facility are deferred and amortized over the remaining life of the new debt. Approximately $0.1 million of deferred financing fees were written off in connection with the voluntary debt prepayment in the fourth quarter of 2014.

In the second quarter of 2014, the Company executed an amendment to the Senior Secured Credit Facility. The changes resulting from the amendment were primarily administrative in nature, including modifications to facilitate the repurchase of the Company's common stock. No fees were incurred in connection with executing the amendment, nor were there any changes to financial covenant requirements.

As of December 31, 2014, there was no cash drawn and $23.9 million of undrawn letters of credit under the $150.0 million revolving credit facility portion of the Senior Secured Credit Facility, with $126.1 million of net availability for borrowings. As of December 31, 2014, no amounts were drawn against the Company's non-U.S. lines of credit which provide for borrowings up to $12.3 million.

For the years ended December 31, 2014, 2013 and 2012, gross borrowings under the Company's domestic revolving credit facility were $6.5 million, $123.7 million and $116.7 million, respectively. For the years ended December 31, 2014, 2013 and 2012, gross payments under the Company's domestic revolving credit facility were $26.5 million, $106.2 million and $290.0 million, respectively.

Aggregate maturities of total borrowings amount to approximately $6.2 million in 2015, $7.3 million in 2016, $7.4 million in 2017 and $29.3 million in 2018. The weighted average interest rate on long-term borrowings was 2.2% at December 31, 2014.

The Company paid interest of $3.0 million in 2014, $9.4 million in 2013 and $20.6 million in 2012.

Interest Rate Swap

On March 13, 2013, the Company entered into an interest rate swap (the "Swap") with a notional amount of $75.0 million, as a means of fixing the floating interest rate component on $75.0 million of its variable-rate debt under the Senior Secured Credit Facility. The Swap was designated as a cash flow hedge, with an original termination date of

March 13, 2018. In the fourth quarter of 2014, the Company terminated the Swap and received $0.2 million in connection with its settlement. The gain of $0.2 million has been included in Accumulated other comprehensive loss and will be reclassified into earnings over the remaining term of the Senior Secured Credit Facility. We do not use derivative instruments for trading or speculative purposes.

NOTE 6 — INCOME TAXES

The following table summarizes the income tax expense (benefit) from continuing operations:

(in millions)	2014	2013	2012
Current:			
Federal	$3.0	$—	$(1.8)
Foreign	0.6	2.4	3.2
State and local	1.3	1.0	0.1
Total current tax expense	4.9	3.4	1.5
Deferred:			
Federal	17.8	(112.1)	2.1
Foreign	(2.7)	0.2	0.3
State and local	4.3	1.3	—
Total deferred tax expense (benefit)	19.4	(110.6)	2.4
Total income tax expense (benefit)	$24.3	$(107.2)	$3.9

The following table summarizes the differences between the statutory federal income tax rate and the effective income tax rate from continuing operations:

	2014	2013	2012
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	3.6	2.7	1.0
Valuation allowance	(4.3)	(231.7)	41.3
Domestic production deduction	(2.0)	(1.2)	—
Bad debt deduction	—	—	(24.9)
Asset dispositions and write-offs	—	(3.0)	(29.5)
Repatriation effects	—	1.5	—
Tax reserves	(1.2)	—	(1.0)
R&D tax credits	(0.6)	(1.5)	—
Foreign tax rate effects	(2.5)	(4.4)	(7.2)
Other, net	(0.2)	0.3	0.4
Effective income tax rate	27.8 %	(202.3)%	15.1 %

The following table summarizes income from continuing operations before taxes:

(in millions)	2014	2013	2012
U.S.	$78.5	$38.9	$10.0
Non-U.S.	8.8	14.1	15.9
Income from continuing operations before taxes	$87.3	$53.0	$25.9

ASC Topic 740, Income Taxes, requires that the future realization of deferred tax assets depends on the existence of sufficient taxable income in future periods. Possible sources of taxable income include taxable income in carryback periods, the future reversal of existing taxable temporary differences recorded as a deferred tax liability, tax-planning strategies that generate future income or gains in excess of anticipated losses in the carryforward period and projected future taxable income. If, based upon all available evidence, both positive and negative, it is more likely than not such deferred tax assets will not be realized, a valuation allowance is recorded. Significant weight is given to positive and negative evidence that is objectively verifiable. A company’s three-year cumulative loss position is significant negative evidence in considering whether deferred tax assets are realizable and the accounting guidance restricts the amount of reliance the Company can place on projected taxable income to support the recovery of the deferred tax assets.

Throughout 2012, the Company was in a three-year cumulative domestic loss position and continued to maintain a valuation allowance, initially recorded in 2010, against domestic deferred tax assets due to the uncertainty of the realization of certain deferred tax assets. In 2012, the Company continued to adjust its valuation allowance as the deferred tax assets increased or decreased, resulting in effectively no tax expense or benefit being recorded for domestic operations. However, in 2012, the Company did record tax expense for the increase in the deferred tax liabilities of its domestic indefinite lived intangibles.

Table of Contents

Furthermore, an income tax provision was recorded in each of the three years in the period ended December 31, 2014 for foreign operations that were not in a cumulative loss position.

We continually evaluate the need to maintain a valuation allowance for deferred tax assets based on our assessment of whether it is more likely than not that deferred tax benefits will be realized through the generation of future taxable income. Appropriate consideration is given to all available evidence, both positive and negative, in assessing the need for a valuation allowance.

In the second quarter of 2013, this evaluation resulted in the determination that $102.4 million of our valuation allowance on U.S. deferred tax assets could be released. At that time, a qualitative and quantitative analysis of current and expected domestic earnings, industry and market trends, tax planning strategies and general business risks resulted in a conclusion that it was more likely than not that a significant portion of our U.S. deferred tax assets would be realized. Factors considered in reaching this determination included the return to profitability on a cumulative basis and improved market demand, with expectations that such improvement would continue into the foreseeable future. In addition, in 2012, we exited a business segment that had produced losses.

Upon releasing the significant portion of our valuation allowance on U.S. deferred tax assets in the second quarter of 2013, a valuation allowance of $10.4 million was maintained in accordance with the guidance provided in ASC 740-270-25-4 and was released through the effective tax rate as domestic income is recognized throughout the course of the year ended December 31, 2013. An additional $3.4 million reduction in deferred tax valuation allowances was recorded in the year ended December 31, 2013.

In the fourth quarter of 2013, the Company also executed a tax planning strategy that resulted in the release of $6.7 million of valuation allowance that was previously recorded against the Company's foreign tax credits, which would have begun to expire in 2015.

During the year ended December 31, 2013, changes in the United Kingdom ("U.K.") and Finland tax rates were enacted. As a result, the Company recognized income tax expense of $0.8 million and an income tax benefit of $0.8 million related to the decrease in deferred tax assets and liabilities in the U.K. and Finland, respectively.

As the Company no longer maintains a valuation allowance against most domestic tax assets, tax expense has been recognized on domestic earnings, as well as non-U.S. earnings, in the year ended December 31, 2014.

The Company recognized income tax expense of $24.3 million for the year ended December 31, 2014, compared to an income tax benefit of $107.2 million in the prior year. The Company's effective tax rate for the year ended December 31, 2014 was 27.8%, compared to (202.3)% in 2013.

In the fourth quarter of 2014, based on a qualitative and quantitative analysis, the Company determined that $3.5 million of valuation allowance previously recorded against deferred tax assets in Spain could be released. In reaching the conclusion that it was more likely that deferred tax assets would be realized, the Company evaluated current and expected earnings, the cumulative earnings position, industry and market trends, recent changes in Spanish tax legislation and general business risks.

The Company's effective tax rate for the year ended December 31, 2014 was also favorably impacted by a $1.0 million net reduction in unrecognized tax benefits and an income tax benefit of $0.4 million related to the decrease in foreign deferred tax liabilities resulting from a change in the enacted Spanish tax rate.

Table of Contents

The following table summarizes deferred income tax assets and liabilities:

(in millions)	2014	2013
Deferred tax assets:		
Depreciation and amortization	$11.1	$10.8
Accrued expenses	28.6	28.8
Net operating loss, alternative minimum tax, research and development and foreign tax credit carryforwards	44.6	62.8
Definite lived intangibles	1.6	1.7
Pension benefits	35.4	23.3
Other	1.0	1.1
Deferred revenue	0.1	0.1
Gross deferred tax assets	122.4	128.6
Valuation allowance	(3.8)	(9.8)
Total deferred tax assets	118.6	118.8
Deferred tax liabilities:		
Depreciation and amortization	(5.8)	(3.7)
Expenses capitalized for book	(1.4)	(1.0)
Pension benefits	(13.4)	(11.5)
Indefinite lived intangibles	(57.1)	(56.8)
Other	(0.5)	(0.3)
Gross deferred tax liabilities	(78.2)	(73.3)
Net deferred tax assets	$40.4	$45.5

The deferred tax asset for tax loss carryforwards at December 31, 2014, includes federal net operating loss carryforwards of $5.1 million, which begin to expire in 2027, state net operating loss carryforwards of $5.7 million, which will begin to expire in 2015, and foreign net operating loss carryforwards of $3.0 million, which have an indefinite life. The deferred tax asset for tax credit carryforwards includes U.S. research tax credit carryforwards of $5.0 million, which will begin to expire in 2019, U.S. foreign tax credits of $22.3 million, which will begin to expire in 2017, alternative motor vehicle credits of $0.2 million, which will begin to expire in 2029, and U.S. alternative minimum tax credit carryforwards of $3.3 million with no expiration.

The deferred tax asset for tax loss carryforwards at December 31, 2013, included federal net operating loss carryforwards of $7.5 million, state net operating loss carryforwards of $7.7 million, foreign net operating loss carryforwards of $5.2 million, U.S. research tax credit carryforwards of $7.9 million, U.S. foreign tax credits of $31.0 million, alternative motor vehicle credits of $0.2 million, and U.S. alternative minimum tax credit carryforwards of $3.3 million.

We continue to maintain a valuation allowance on certain state deferred tax assets that we believe, on a more likely than not basis, will not be realized. At December 31, 2014, the valuation allowance recorded against state net operating loss carryforwards totaled $3.8 million.

The $118.6 million of deferred tax assets at December 31, 2014, for which no valuation allowance is recorded, is anticipated to be realized through future taxable income or the future reversal of existing taxable temporary differences recorded as deferred tax liabilities at December 31, 2014. Should the Company determine that it would not be able to realize its remaining deferred tax assets in the future, an adjustment to the valuation allowance would be recorded in the period such determination is made.

Table of Contents

The net deferred tax asset is classified in the Consolidated Balance Sheets as follows:

(in millions)	2014	2013
Current net deferred tax assets	$19.9	$12.5
Current valuation allowance	(1.1)	(0.1)
Total current net deferred tax assets	$18.8	$12.4
Long-term net deferred tax assets	$28.0	$42.8
Long-term valuation allowance	(2.7)	(9.7)
Long-term net deferred tax assets	$25.3	$33.1

At December 31, 2014, $4.0 million of net deferred tax liabilities are included within Other long-term liabilities on the Consolidated Balance Sheet.

In the fourth quarter of 2013, in connection with the aforementioned tax planning strategy, the Company repatriated $24.3 million of previously undistributed earnings at one of the Company's foreign subsidiaries. As a result of this change, in 2013 the Company increased its deferred tax assets related to the $24.3 million repatriation by $9.9 million. The remainder of the foreign subsidiaries undistributed earnings are considered to be indefinitely reinvested.

Federal and state income taxes have not been provided on accumulated undistributed earnings of certain foreign subsidiaries aggregating approximately $40.9 million and $59.2 million at December 31, 2014 and 2013, respectively, as such earnings have been reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

The following table summarizes the activity related to the Company's unrecognized tax benefits:

(in millions)	2014	2013	2012
Balance at January 1	$4.8	$4.0	$4.3
Increases related to current year tax	0.4	1.4	0.2
Increases from prior period positions	0.3	0.4	0.1
Decreases from prior period positions	(0.1)	(0.2)	(0.2)
Decreases due to lapse of statute of limitations	(2.4)	(0.8)	(0.4)
Foreign currency translation	(0.2)	—	—
Balance at December 31	$2.8	$4.8	$4.0

The Company's continuing practice is to recognize interest and penalties related to income tax matters in income tax expense. At December 31, 2014 and 2013, accruals for interest and penalties amounting to $0.8 million and $0.1 million, respectively, are included in the Consolidated Balance Sheets but are not included in the table above. At December 31, 2014 and 2013, reserves for unrecognized tax benefits, including interest and penalties, of $3.3 million and $4.8 million, respectively, were included within other long-term liabilities on the Consolidated Balance Sheets. At December 31, 2014, unrecognized tax benefits of $0.3 million were included as a reduction of current deferred tax assets on the Consolidated Balance Sheet.

All of the unrecognized tax benefits of $2.8 million at December 31, 2014 would impact our annual effective tax rate, if recognized. We do not expect any significant change to our unrecognized tax benefits as a result of potential expiration of statute of limitations and settlements with tax authorities.

We file U.S., state and foreign income tax returns in jurisdictions with varying statutes of limitations. The 2012 through 2014 tax years generally remain subject to examination by federal tax authorities, whereas the 2011 through 2014 tax years generally remain subject to examination by most state tax authorities. In significant foreign jurisdictions, the tax years from 2010 through 2014 generally remain subject to examination by their respective tax authorities.

The Company paid income taxes of $8.2 million in 2014, $4.0 million in 2013 and $2.9 million in 2012.

NOTE 7 — PENSIONS

The Company and its subsidiaries sponsor a number of defined benefit pension plans covering certain salaried and hourly employees. Benefits under these plans are primarily based on final average compensation and years of service as defined within the provisions of the individual plans.

Table of Contents

The Company also participates in multi-employer pension plans that provide defined benefits to employees under U.S. collective bargaining agreements. None of these plans are considered individually significant to the Company. Contributions to these plans totaled $0.2 million, $0.2 million and $0.3 million for 2014, 2013 and 2012, respectively.

The following table summarizes net periodic pension expense for U.S. and non-U.S. benefit plans:

	U.S. Benefit Plan			Non-U.S. Benefit Plans		
(in millions)	2014	2013	2012	2014	2013	2012
Company-sponsored plans:						
Service cost	$—	$—	$—	$0.4	$0.3	$0.2
Interest cost	7.9	7.3	7.4	2.6	2.5	2.6
Expected return on plan assets	(9.1)	(8.8)	(8.1)	(3.6)	(2.6)	(2.6)
Amortization of actuarial loss	5.1	7.5	5.5	0.4	0.9	0.8
Total company-sponsored plans	3.9	6.0	4.8	(0.2)	1.1	1.0
Multi-employer plans	0.2	0.2	0.3	—	—	—
Net periodic pension expense	$4.1	$6.2	$5.1	$(0.2)	$1.1	$1.0

The following table summarizes the weighted-average assumptions used in determining pension costs:

	U.S. Benefit Plan			Non-U.S. Benefit Plans		
	2014	2013	2012	2014	2013	2012
Discount rate	5.1%	4.2%	5.0%	4.5%	4.1%	4.6%
Rate of increase in compensation levels	3.5%	3.5%	3.5%	—	—	—
Expected long-term rate of return on plan assets	7.6%	7.9%	8.1%	5.9%	5.1%	5.3%

The following table summarizes the changes in the projected benefit obligation and plan assets:

	U.S. Benefit Plan		Non-U.S. Benefit Plans	
(in millions)	2014	2013	2014	2013
Benefit obligation, beginning of year	$159.3	$179.7	$61.0	$65.6
Service cost	—	—	0.4	0.3
Interest cost	7.9	7.3	2.6	2.5
Actuarial loss (gain)	28.6	(17.6)	6.8	(5.3)
Benefits and expenses paid	(9.5)	(10.1)	(3.1)	(3.1)
Foreign currency translation	—	—	(4.1)	1.0
Benefit obligation, end of year	$186.3	$159.3	$63.6	$61.0
Accumulated benefit obligation, end of year	$184.4	$157.3	$63.1	$60.4

The following table summarizes the weighted-average assumptions used in determining benefit obligations:

	U.S. Benefit Plan		Non-U.S. Benefit Plans	
	2014	2013	2014	2013
Discount rate	4.2%	5.1%	3.5%	4.5%
Rate of increase in compensation levels	3.5%	3.5%	—	—

The following summarizes the changes in the fair value of plan assets:

	U.S. Benefit Plan		Non-U.S. Benefit Plans	
(in millions)	2014	2013	2014	2013
Fair value of plan assets, beginning of year	$129.4	$112.2	$62.4	$54.8
Actual return on plan assets	5.9	20.5	2.2	7.6
Company contribution	8.2	6.8	1.2	1.7
Benefits and expenses paid	(9.5)	(10.1)	(3.1)	(3.1)
Foreign currency translation	—	—	(3.7)	1.4
Fair value of plan assets, end of year	$134.0	$129.4	$59.0	$62.4

56

Table of Contents

As more fully described within Note 1 – Significant Accounting Policies, the Company uses a three-level fair value hierarchy that prioritizes the inputs used to measure fair value.

Following is a description of the valuation methodologies used for assets measured at fair value for the U.S. benefit plan:

- Cash and cash equivalents are comprised of cash on deposit and a money market fund, that invests principally in short-term instruments. The money-market fund is valued at the net asset value ("NAV") of the shares in the fund.
- Equity investments represent domestic and foreign securities, including common stock, which are publicly traded on active exchanges and are valued based on quoted market prices. Certain equity securities, which are valued using a model that takes the underlying security's "best" price, divides it by the applicable exchange rate and multiplies the result by a depository receipt factor, are categorized within Level 2 of the fair value hierarchy.
- Fixed income investments include corporate bonds, asset-backed securities and treasury bonds. Corporate bonds are valued using pricing models that include bids provided by brokers or dealers, benchmark yields, base spreads and reported trades. Asset-backed securities are valued using models with readily observable data as inputs. Treasury bonds are valued based on quoted market prices in active markets.
- Mutual funds are valued at the net asset value, based on quoted market prices in active markets, of shares held by the plan at year end.
- Real estate investments include public real estate investment trusts ("REIT") and exchange traded REIT funds, which are publicly traded on active exchanges and are valued based on quoted market prices.

Following is a description of the valuation methodologies used for assets measured at fair value for the non-U.S. benefit plan:

- Equity investments represent domestic and foreign securities, which are publicly traded on active exchanges and are valued based on quoted market prices. The inputs used to value certain other non-U.S. investments in equity securities both in the U.K. and other overseas markets are based on observable market information consistent with Level 2 of the fair value hierarchy inputs. Specifically, they are valued using the NAV as of the last business day of the year. The NAV is based on the underlying value of the assets owned by the fund minus its liabilities, and then divided by the number of shares outstanding. The value of the underlying assets is based on quoted prices in active markets.
- Fixed income investments include treasury securities, which are valued based on quoted market prices in active markets, and corporate bonds which are either valued based on quoted market prices in active markets or other readily observable market data.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents

The following summarizes the Company's pension assets in a three-tier fair value hierarchy for its benefit plans:

	U. S. Benefit Plan							
	2014				2013			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$2.5	$—	$—	$2.5	$2.9	$—	$—	$2.9
Equity securities:								
U.S. Large Cap	40.1	0.1	—	40.2	37.1	—	—	37.1
U.S. Small and Mid Cap	15.9	—	—	15.9	15.3	—	—	15.3
Federal Signal common stock	3.6	—	—	3.6	13.6	—	—	13.6
Developed international	9.9	4.5	—	14.4	9.6	0.1	—	9.7
Emerging markets	10.7	0.2	—	10.9	2.7	—	—	2.7
Fixed income:								
Government securities	1.1	—	—	1.1	6.8	—	—	6.8
Asset-backed securities	—	7.1	—	7.1	—	3.5	—	3.5
Corporate bonds	—	19.2	—	19.2	—	—	—	—
Mutual funds	1.2	—	—	1.2	18.0	—	—	18.0
Other investments:								
Mutual funds	13.9	—	—	13.9	19.8	—	—	19.8
Real estate	3.7	—	—	3.7	—	—	—	—
Total assets at fair value [(a)]	$102.6	$31.1	$—	$133.7	$125.8	$3.6	$—	$129.4

(a) Total assets at fair value at December 31, 2014 in the table above excludes a net receivable of $0.3 million.

	Non-U. S. Benefit Plans							
	2014				2013			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash	$11.5	$—	$—	$11.5	$10.7	$—	$—	$10.7
Equity securities	6.0	35.9	—	41.9	6.3	36.9	—	43.2
Fixed income:								
Government securities	2.9	—	—	2.9	4.0	—	—	4.0
Corporate bonds	1.6	1.1	—	2.7	4.5	—	—	4.5
Total assets at fair value	$22.0	$37.0	$—	$59.0	$25.5	$36.9	$—	$62.4

The Company maintains a structured derisking investment strategy for the U.S. pension plan to improve alignment of assets and liabilities that includes: (i) maintaining a diversified portfolio that can provide a near-term weighted-average target return of approximately 7.8% or more, (ii) maintaining liquidity to meet obligations and (iii) prudently managing administrative and management costs. The target asset allocations for the U.S. pension plan are (i) between 45% and 75% equity securities, (ii) between 15% and 45% fixed income securities and (iii) between 0% and 20% in other investments, with the remainder represented by cash and cash equivalents. Other investments may include real estate investments and mutual funds investing in real estate, commodities or hedge funds.

Plan assets for the non-U.S. benefit plans consist principally of a diversified portfolio of equity securities, U.K. government securities, company bonds and debt securities. The target asset allocations for the non-U.S. benefit plan assets are between 50% and 70% equity securities and between 30% and 50% debt securities.

During the year ended December 31, 2014, the Company repurchased $10.3 million of its common stock from its U.S. benefit plan. The repurchases were made under the stock repurchase program further outlined in Note 12 – Stockholders' Equity. As of December 31, 2014 and 2013, U.S. benefit plan assets included 0.2 million and 0.9 million shares of the Company's common stock valued at $3.6 million and $13.6 million, respectively. Dividends of $0.1 million were paid on the Company's common stock held in the U.S. benefit plan in the year ended December 31, 2014. No dividends were paid on the Company's common stock held in the U.S. benefit plan in the year ended December 31, 2013.

Table of Contents

The following summarizes the funded status of the Company-sponsored plans:

	U.S. Benefit Plan		Non-U.S. Benefit Plans	
(in millions)	2014	2013	2014	2013
Fair value of plan assets, end of year	$134.0	$129.4	$59.0	$62.4
Benefit obligation, end of year	186.3	159.3	63.6	61.0
Funded status, end of year	$(52.3)	$(29.9)	$(4.6)	$1.4

At December 31, 2014 and 2013, the Company's non-U.S. benefit plans where the accumulated benefit obligation was in excess of the fair value of plan assets reflected an underfunded status of $4.6 million and $1.1 million, respectively.
The following summarizes the amounts recognized within our Consolidated Balance Sheets:

	U.S. Benefit Plan		Non-U.S. Benefit Plans	
(in millions)	2014	2013	2014	2013
Amounts recognized in the balance sheet include:				
Deferred charges and other assets	$—	$—	$—	$2.5
Long-term pension and other post-retirement benefit liabilities	(52.3)	(29.9)	(4.6)	(1.1)
Net (liability) asset recorded	$(52.3)	$(29.9)	$(4.6)	$1.4
Amounts recognized in accumulated other comprehensive loss include:				
Net actuarial loss	$81.4	$54.7	$21.9	$15.6
Net amount recognized, pre-tax	$81.4	$54.7	$21.9	$15.6

The Company expects $7.2 million relating to amortization of the actuarial loss to be amortized from accumulated other comprehensive loss into net periodic benefit cost in 2015.
The Company expects to contribute up to $7.8 million to the U.S. benefit plan and up to $1.1 million to the non-U.S. benefit plans in 2015. Future contributions to the plans will be based on such factors as annual service cost, the financial return on plan assets, interest rate movements that affect discount rates applied to plan liabilities and the value of benefit payments made.
The following summarizes the benefits expected to be paid under the Company's defined benefit plans in each of the next five years, and in aggregate for the five years thereafter:

(in millions)	U.S. Benefit Plan	Non-U.S. Benefit Plans
2015	$8.9	$2.6
2016	8.4	2.7
2017	9.1	2.8
2018	9.3	2.8
2019	10.0	2.9
2020-2024	54.7	16.1

The Company also sponsors a defined contribution retirement plan covering a majority of its employees. Participation is via automatic enrollment and employees may elect to opt out of the plan. Company contributions to the plan are based on employees' age and service as well as a percentage of employee contributions. The cost of these plans was $7.1 million in 2014, $7.0 million in 2013 and $6.3 million in 2012.
Prior to September 30, 2003, the Company also provided medical benefits to certain eligible retired employees. These benefits are funded when the claims are incurred. Participants generally became eligible for these benefits at age 60 after completing at least 15 years of service. The plan provided for the payment of specified percentages of medical expenses reduced by any deductible and payments made by other primary group coverage and government programs. Effective September 30, 2003, the Company amended the retiree medical plan and effectively canceled coverage for all eligible active employees except for retirees and a limited group that qualified under a formula based on age and years of service. Accumulated post-retirement benefit liabilities of $0.5 million and $0.5 million at December 31, 2014 and 2013, respectively, were fully accrued. The net periodic post-retirement benefit costs have not been

significant during the three-year period ended December 31, 2014.

Table of Contents

NOTE 8 — COMMITMENTS AND CONTINGENCIES

Guarantees

The Company provides indemnifications and other guarantees in the ordinary course of business, the terms of which range in duration and often are not explicitly defined. Specifically, the Company is occasionally required to provide letters of credit and bid and performance bonds to various customers, principally to act as security for retention levels related to casualty insurance policies and to guarantee the performance of subsidiaries that engage in export and domestic transactions. At December 31, 2014, the Company had outstanding performance and financial standby letters of credit, as well as outstanding bid and performance bonds, aggregating $47.2 million. If any such letters of credit or bonds are called, the Company would be obligated to reimburse the issuer of the letter of credit or bond. The Company believes the likelihood of any currently outstanding letter of credit or bond being called is remote.

The Company issues product performance warranties to customers with the sale of its products. The specific terms and conditions of these warranties vary depending upon the product sold and country in which the Company does business, with warranty periods generally ranging from one to five years. The Company estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time the sale of the related product is recognized. Factors that affect the Company's warranty liability include (i) the number of units under warranty from time to time, (ii) historical and anticipated rates of warranty claims and (iii) costs per claim. The Company periodically assesses the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

The following table summarizes the changes in the Company's warranty liabilities:

(in millions)	2014	2013
Balance at January 1	$8.4	$6.8
Provisions to expense	8.8	10.1
Actual costs incurred	(8.1)	(8.5)
Balance at December 31	$9.1	$8.4

At December 31, 2014 and 2013, an accrual of $1.3 million and $0.8 million, respectively, was recorded in our Environmental Solutions Group in connection with a specific warranty matter. The accrual recorded represents management's best estimate of the probable liability. The Company's estimate may change as more information becomes available; however, the costs are not expected to have a material adverse effect on the Company's results of operations, financial position or cash flow.

Environmental Liabilities

Reserves of $1.3 million and $1.4 million related to the environmental remediation of the Pearland, Texas facility are included in liabilities of discontinued operations on the Consolidated Balance Sheets at December 31, 2014 and 2013, respectively. The facility was previously used by the Company's discontinued Pauluhn business and manufactured marine, offshore and industrial lighting products. The Company sold the facility in May 2012 and while the Company has not finalized its plans, it is probable that the site will require remediation. The recorded reserves are based on an undiscounted estimate of the range of costs to remediate the site, depending upon the remediation approach and other factors. The Company's estimate may change in the near term as more information becomes available; however, the costs are not expected to have a material adverse effect on the Company's results of operations, financial position or cash flow.

NOTE 9 — LEGAL PROCEEDINGS

The Company is subject to various claims, including pending and possible legal actions for product liability and other damages, and other matters arising in the ordinary course of the Company's business. On a quarterly basis, the Company reviews uninsured material legal claims against the Company and accrues for the costs of such claims as appropriate in the exercise of management's best judgment and experience. However, due to a lack of factual information available to the Company about a claim, or the procedural stage of a claim, it may not be possible for the Company to reasonably assess either the probability of a favorable or unfavorable outcome of the claim or to reasonably estimate the amount of loss should there be an unfavorable outcome. Therefore, for many claims, the Company cannot reasonably estimate a range of loss.

The Company believes, based on current knowledge and after consultation with counsel, that the outcome of such claims and actions will not have a material adverse effect on the Company’s results of operations. However, in the event of unexpected future developments, it is possible that the ultimate resolution of such matters, if unfavorable, could have a material adverse effect on the Company’s results of operations, financial position or cash flow.

Table of Contents

Hearing Loss Litigation

The Company has been sued by firefighters seeking damages claiming that exposure to the Company's sirens has impaired their hearing and that the sirens are therefore defective. There were 33 cases filed during the period of 1999 through 2004, involving a total of 2,443 plaintiffs, in the Circuit Court of Cook County, Illinois. These cases involved more than 1,800 firefighter plaintiffs from locations outside of Chicago. In 2009, six additional cases were filed in Cook County, involving 299 Pennsylvania firefighter plaintiffs. During 2013, another case was filed in Cook County involving 74 Pennsylvania firefighter plaintiffs.

The trial of the first 27 of these plaintiffs' claims occurred in 2008, when a Cook County jury returned a unanimous verdict in favor of the Company.

An additional 40 Chicago firefighter plaintiffs were selected for trial in 2009. Plaintiffs' counsel later moved to reduce the number of plaintiffs from 40 to nine. The trial for these nine plaintiffs concluded with a verdict against the Company and for the plaintiffs in varying amounts totaling $0.4 million. The Company appealed this verdict. On September 13, 2012, the Illinois Appellate Court rejected this appeal. The Company thereafter filed a petition for rehearing with the Illinois Appellate Court, which was denied on February 7, 2013. The Company sought further review by filing a petition for leave to appeal with the Illinois Supreme Court on March 14, 2013. On May 29, 2013, the Illinois Supreme Court issued a summary order declining to accept review of this case. On July 1, 2013, the Company satisfied the judgments entered for these plaintiffs, which has resulted in final dismissal of these cases.

A third consolidated trial involving eight Chicago firefighter plaintiffs occurred during November 2011. The jury returned a unanimous verdict in favor of the Company at the conclusion of this trial.

Following this trial, on March 12, 2012 the trial court entered an order certifying a class of the remaining Chicago Fire Department firefighter plaintiffs for trial on the sole issue of whether the Company's sirens were defective and unreasonably dangerous. The Company petitioned the Illinois Appellate Court for interlocutory appeal of this ruling. On May 17, 2012, the Illinois Appellate Court accepted the Company's petition. On June 8, 2012, plaintiffs moved to dismiss the appeal, agreeing with the Company that the trial court had erred in certifying a class action trial in this matter. Pursuant to plaintiffs' motion, the Illinois Appellate Court reversed the trial court's certification order.

Thereafter, the trial court scheduled a fourth consolidated trial involving three firefighter plaintiffs, which began in December 2012. Prior to the start of this trial, the claims of two of the three firefighter plaintiffs were dismissed. On December 17, 2012, the jury entered a complete defense verdict for the Company.

Following this defense verdict, plaintiffs again moved to certify a class of Chicago Fire Department plaintiffs for trial on the sole issue of whether the Company's sirens were defective and unreasonably dangerous. Over the Company's objection, the trial court granted plaintiffs' motion for class certification on March 11, 2013 and scheduled a class action trial to begin on June 10, 2013. The Company filed a petition for review with the Illinois Appellate Court on March 29, 2013 seeking reversal of the class certification order.

On June 25, 2014, a unanimous three-judge panel of the First District Illinois Appellate Court issued its opinion reversing the class certification order of the trial court. Specifically, the Appellate Court determined that the trial court's ruling failed to satisfy the class-action requirements that the common issues of the firefighters' claims predominate over the individual issues and that there is an adequate representative for the class. During a status hearing on October 8, 2014, plaintiffs represented to the Court that they would again seek to certify a class of firefighters on the issue of whether the Company's sirens were defective and unreasonably dangerous. On January 12, 2015, plaintiffs filed motions to amend their complaints to add class action allegations with respect to Chicago firefighter plaintiffs as well as the approximately 1,800 firefighter plaintiffs from locations outside of Chicago. The Company's response to these motions was filed on February 13, 2015. The Company intends to continue its objections to any attempt at certification.

The Company has also been sued on this issue outside of the Cook County, Illinois venue. Many of these cases have involved lawsuits filed by a single attorney in the Court of Common Pleas, Philadelphia County, Pennsylvania. During 2007 and through 2009, this attorney filed a total of 71 lawsuits, involving 71 plaintiffs in this jurisdiction. Three of these cases were dismissed pursuant to pretrial motions filed by the Company. Another case was voluntarily dismissed. Prior to trial in four cases, the Company paid nominal sums, which included reimbursements of expenses, to obtain dismissals.

Three trials occurred in Philadelphia involving these cases filed in 2007 through 2009. The first trial involving one of these plaintiffs occurred in 2010, when the jury returned a verdict for the plaintiff. In particular, the jury found that the Company’s siren was not defectively designed, but that the Company negligently constructed the siren. The jury awarded damages in the amount of $0.1 million, which was subsequently reduced to $0.08 million. The Company appealed this verdict. Another trial, involving nine Philadelphia firefighter plaintiffs, also occurred in 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial. The third trial, also involving nine Philadelphia firefighter plaintiffs, was completed during 2010 when the jury returned a defense verdict for the Company as to all claims and all plaintiffs involved in that trial.

Following defense verdicts in the last two Philadelphia trials, the Company negotiated settlements with respect to all remaining filed cases in Philadelphia at that time, as well as other firefighter claimants represented by the attorney who filed the Philadelphia cases. On January 4, 2011, the Company entered into a Global Settlement Agreement (the "Settlement Agreement") with the law firm of the attorney representing the Philadelphia claimants, on behalf of 1,125 claimants the firm represented (the "Claimants") and who had asserted product claims against the Company (the "Claims"). Three hundred eight of the Claimants had lawsuits pending against the Company in Cook County, Illinois. The Settlement Agreement, as amended, provided that the Company pay a total amount of $3.8 million (the "Settlement Payment") to settle the Claims (including the costs, fees and other expenses of the law firm in connection with its representation of the Claimants), subject to certain terms, conditions and procedures set forth in the Settlement Agreement. In order for the Company to be required to make the Settlement Payment: (i) each Claimant who agreed to settle his or her claims had to sign a release acceptable to the Company (a "Release"), (ii) each Claimant who agreed to the settlement and who was a plaintiff in a lawsuit, had to dismiss his or her lawsuit with prejudice, (iii) by April 29, 2011, at least 93% of the Claimants identified in the Settlement Agreement must have agreed to settle their claims and provide a signed Release to the Company and (iv) the law firm had to withdraw from representing any Claimants who did not agree to the settlement, including those who filed lawsuits. If the conditions to the settlement were met, but less than 100% of the Claimants agreed to settle their Claims and sign a Release, the Settlement Payment would be reduced by the percentage of Claimants who did not agree to the settlement.

On April 22, 2011, the Company confirmed that the terms and conditions of the Settlement Agreement had been met and made a payment of $3.6 million to conclude the settlement. The amount was based upon the Company's receipt of 1,069 signed releases provided by Claimants, which was 95.02% of all Claimants identified in the Settlement Agreement.

The Company generally denies the allegations made in the claims and lawsuits by the Claimants and denies that its products caused any injuries to the Claimants. Nonetheless, the Company entered into the Settlement Agreement for the purpose of minimizing its expenses, including legal fees, and avoiding the inconvenience, uncertainty and distraction of the claims and lawsuits.

During April through October 2012, 20 new cases were filed in the Court of Common Pleas, Philadelphia County, Pennsylvania. These cases were filed on behalf of 20 Philadelphia firefighters and involve various defendants in addition to the Company. Five of these cases were subsequently dismissed. The first trial involving these new Philadelphia cases occurred during December 2014 and involved three firefighter plaintiffs. The jury returned a verdict in favor of the Company. Following this trial, all of the parties agreed to settle cases involving seven firefighter plaintiffs set for trial during January 2015 for nominal amounts per plaintiff. In January 2015, plaintiffs' attorneys filed two new complaints in the Court of Common Pleas, Philadelphia, Pennsylvania on behalf of approximately 70 additional firefighter plaintiffs. The vast majority of the firefighters identified in these complaints are located outside of Pennsylvania.

During April through July 2013, additional cases were filed in Allegheny County, Pennsylvania. These cases involve 247 plaintiff firefighters from Pittsburgh and various defendants, including the Company. After the Company filed pretrial motions, the Court dismissed claims of 38 Pittsburgh firefighter plaintiffs. During March 2014, an action was brought in the Court of Common Pleas of Erie County, Pennsylvania on behalf of 61 firefighters. This case likewise involves various defendants in addition to the Company. After the Company filed pretrial motions, 32 Erie County firefighter plaintiffs voluntarily dismissed their claims. On September 17, 2014, 20 lawsuits, involving a total of 193 Buffalo Fire Department firefighters, were filed in the Supreme Court of the State of New York, Erie County. Several product manufacturers, including the Company, have been named as defendants in these cases. All of the cases filed in Erie County, New York have been removed to federal court in the Western District of New York. Defendants have filed various pretrial motions seeking dismissal of these cases.

From 2007 through 2009, firefighters also brought hearing loss claims against the Company in New Jersey, Missouri, Maryland and Kings County, New York. All of those cases, however, were dismissed prior to trial, including four cases in the Supreme Court of Kings County, New York that were dismissed upon the Company's motion in 2008. On appeal, the New York appellate court affirmed the trial court's dismissal of these cases. Plaintiffs' attorneys have threatened to file additional lawsuits. The Company intends to vigorously defend all of these lawsuits, if filed.

The Company's ongoing negotiations with its insurer, CNA, over insurance coverage on these claims have resulted in reimbursements of a portion of the Company's defense costs. These reimbursements are recorded as a reduction of corporate operating expenses. In the years ended December 31, 2014, 2013 and 2012, the Company recorded reimbursements from CNA of $0.3 million, $0.5 million and $0.7 million, respectively, related to legal defense costs.

Latvian Commercial Dispute

On June 12, 2014, a Latvian trial court issued a summary ruling against the Company's Bronto Skylift Oy Ab ("Bronto") subsidiary in a lawsuit relating to a commercial dispute. The dispute involves a transaction for the 2008 sale of three Bronto units that were purchased by a financing company for lease to a Latvian fire department. The lessor and the Latvian fire department sought to rescind the contract after delivery, despite the fact that an independent third party, selected by the lessor, had certified that the vehicles satisfied the terms of the contract. The adverse judgment requires Bronto to refund the purchase price and pay interest and attorneys' fees. The trial court denied the lessor's claim against Bronto for alleged damages relating to lost lease income.

The Company continues to believe that the claims against Bronto are invalid and that Bronto fully satisfied the terms of the subject contract. Accordingly, on July 30, 2014, the Company filed an appeal with the Civil Chamber of the Supreme Court of Latvia seeking a reversal of the trial court's ruling. The appeal hearing with the Supreme Court is currently scheduled for April 2016.

As of December 31, 2014, the Company has not accrued any liability within its consolidated financial statements for this lawsuit. In evaluating whether a charge to record a reserve was necessary, the Company analyzed all of the available information, including the legal reasoning applied by the judge of the trial court in reaching its decision. Based on the Company's analysis, and consultations with external counsel, the Company has assessed the likelihood of a successful appeal to be more likely than not and therefore does not believe that a probable loss has been incurred. In the event that the Company's appeal of the initial judgment is unsuccessful or not fully successful, the Company would expect to record a charge that could range from zero to approximately $5 million. This range includes estimates of interest that will continue to accrue throughout the appeal process.

NOTE 10 — EARNINGS (LOSS) PER SHARE

The Company computes earnings (loss) per share ("EPS") in accordance with ASC 260, Earnings per Share, which requires that non-vested restricted stock containing non-forfeitable dividend rights should be treated as participating securities pursuant to the two-class method. Under the two-class method, net income is reduced by the amount of dividends declared in the period for common stock and participating securities. The remaining undistributed earnings are then allocated to common stock and participating securities as if all of the net income for the period had been distributed. The amounts of distributed and undistributed earnings allocated to participating securities for the years ended December 31, 2014, 2013 and 2012 were insignificant and did not materially impact the calculation of basic or diluted EPS.

Basic EPS is computed by dividing income or loss available to common stockholders by the weighted average number of shares of common stock and non-vested restricted stock awards outstanding for the year.

Diluted EPS is computed using the weighted average number of shares of common stock and non-vested restricted stock awards outstanding for the year plus the effect of dilutive potential common shares outstanding during the year. The dilutive effect of common stock equivalents is determined using the more dilutive of the two-class method or alternative methods. We use the treasury stock method to determine the potentially dilutive impact of our employee stock options and restricted stock units, and the contingently issuable method for our performance-based restricted stock unit awards.

For the years ended December 31, 2014, 2013 and 2012, options to purchase 0.5 million, 0.9 million and 2.3 million shares of the Company's common stock, respectively, had an anti-dilutive effect on EPS, and accordingly, are excluded from the calculation of diluted EPS.

Table of Contents

The following table reconciles net income (loss) to basic and diluted EPS:

(in millions, except per share data)	2014	2013	2012
Income from continuing operations	$63.0	$160.2	$22.0
Gain (loss) from discontinued operations and disposal, net of tax	0.7	(0.2)	(49.5)
Net income (loss)	$63.7	$160.0	$(27.5)
Weighted average shares outstanding — Basic	62.7	62.6	62.3
Dilutive effect of common stock equivalents	0.9	0.6	0.4
Weighted average shares outstanding — Diluted	63.6	63.2	62.7
Basic earnings (loss) per share:			
Earnings from continuing operations	$1.00	$2.56	$0.35
Gain (loss) from discontinued operations and disposal, net of tax	0.01	—	(0.79)
Net earnings (loss) per share	$1.01	$2.56	$(0.44)
Diluted earnings (loss) per share:			
Earnings from continuing operations	$0.99	$2.53	$0.35
Gain (loss) from discontinued operations and disposal, net of tax	0.01	—	(0.79)
Net earnings (loss) per share	$1.00	$2.53	$(0.44)

NOTE 11 — STOCK-BASED COMPENSATION

The Company’s stock compensation plans, approved by the Company’s stockholders and administered by the Compensation and Benefits Committee of the Board of Directors of the Company, provide for the grant of incentive and non-incentive stock options, restricted stock and other stock-based awards or units to key employees and directors. The plans, as amended, authorize the grant of up to 7.8 million shares or units through April 2020. At December 31, 2014, approximately 1.9 million shares were available for future issuance under the plans. These share or unit amounts exclude amounts that were issued under predecessor plans.

Stock Options

Stock options vest equally over the three years from the date of the grant. The cost of stock options, based on their fair value at the date of grant, is charged to expense over the respective vesting periods. Stock options normally become exercisable at a rate of one-third annually and in full on the third anniversary date. Under the plans, all options and rights must be exercised within ten years from date of grant. At the Company’s discretion, vested stock option holders are permitted to elect an alternative settlement method in lieu of purchasing common stock at the option price. The alternative settlement method permits the employee to receive, without payment to the Company, cash, shares of common stock or a combination thereof equal to the excess of market value of common stock over the option purchase price. The Company has historically settled all such options in common stock and intends to continue to do so. Stock options do not have voting or dividend rights until such time that the options are exercised and shares have been issued.

The weighted average fair value of options granted during 2014, 2013 and 2012 was $7.16, $4.56 and $2.73, respectively.

The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2014	2013	2012
Dividend yield	0.8 %	— %	0.7 %
Expected volatility	57 %	59 %	59 %
Risk free interest rate	1.9 %	1.0 %	0.9 %
Weighted average expected option life in years	5.8	5.8	5.6

The expected life of options represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules and the Company’s historical exercise patterns. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant for periods corresponding with the expected life of the options. Expected volatility is based on historical volatility of the Company’s common stock.

Dividend yields are based on historical dividend payments.

Table of Contents

The following summarizes stock option activity:

	Option Shares			Weighted Average Exercise Price		
(in millions)	2014	2013	2012	2014	2013	2012
Outstanding, at beginning of year	2.1	2.3	2.0	$8.63	$8.93	$10.16
Granted	0.3	0.5	0.6	14.36	8.50	5.52
Exercised	(0.3)	(0.3)	—	7.49	7.47	—
Canceled or expired	(0.1)	(0.4)	(0.3)	14.33	10.94	9.88
Outstanding, at end of year	2.0	2.1	2.3	$9.28	$8.63	$8.93
Exercisable, at end of year	1.2	1.2	1.3	$8.64	$9.85	$11.22

The following table summarizes information for stock options outstanding as of December 31, 2014 under all plans:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares (in millions)	Weighted Average Remaining Life (in years)	Weighted Average Exercise Price	Shares (in millions)	Weighted Average Exercise Price
$0.00 — $5.00	—	6.7	$4.47	—	$4.47
5.01 — 10.00	1.3	7.1	6.75	0.8	6.44
10.01 — 15.00	0.5	7.0	13.08	0.2	10.99
15.01 — 20.00	0.2	1.3	16.46	0.2	16.46
	2.0	6.6	$9.28	1.2	$8.64

The aggregate intrinsic value of stock options outstanding and exercisable at December 31, 2014 was $8.5 million. The total compensation expense related to all stock option compensation plans was $1.7 million, $1.5 million and $1.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. Also, as of December 31, 2014, there was $2.3 million of total unrecognized compensation cost related to stock options that is expected to be recognized over the weighted-average period of approximately 1.9 years.

Restricted Stock

Restricted stock awards and restricted stock units (collectively, "restricted stock") are granted to employees at no cost. Restricted stock primarily cliff vests at the third anniversary from the date of grant, provided the recipient is still employed by the Company on the vesting date. The cost of restricted stock, based on the fair market value of the underlying shares at the date of grant, is charged to expense over the respective vesting periods. Shares associated with non-vested restricted stock awards have the same voting rights as the Company's common stock and have non-forfeitable rights to dividends. Shares associated with non-vested restricted stock units do not have voting or dividend rights.

The following table summarizes restricted stock activity for the year ended December 31, 2014:

	Number of Restricted Shares (in millions)	Weighted Average Price per Share
Outstanding and non-vested, at December 31, 2013	0.2	$ 6.85
Granted	0.1	14.61
Vested	—	15.03
Forfeited	—	8.53
Outstanding and non-vested, at December 31, 2014	0.3	$ 8.63

The total compensation expense related to all restricted stock compensation plans was $1.0 million, $1.1 million and $0.8 million for the years ended December 31, 2014, 2013 and 2012, respectively. Also, as of December 31, 2014, there was $0.8 million of total unrecognized compensation cost related to restricted stock that is expected to be recognized over the weighted-average period of approximately 1.9 years.

Performance Awards

In each of the three years in the period ended December 31, 2014, the Company granted performance-based restricted stock unit awards (“PSUs”) to certain executives and other non-executive officers. Performance targets associated with PSUs are set

65

Table of Contents

annually and approved by the Compensation and Benefits Committee of the Board of Directors. At the Company's discretion, actual payment of the awards earned shall be in cash or in common stock of the Company, or in a combination of both. The Company intends to settle all such awards by issuing shares of its common stock. The number of shares of common stock that the Company may issue in connection with these PSUs can range from 0% to 200% of target, depending upon achievement against the performance targets. Shares associated with non-vested PSUs do not have voting or dividend rights until issuance. The Company assesses the probability of vesting, based on expected achievement against these performance targets, on a quarterly basis.

The cost of PSUs, based on their fair market value at the date of grant, is charged to expense over the respective vesting periods, which is the three-year period ended December 31, 2014 for the 2012 grants, the three-year period ended December 31, 2015 for the 2013 grants and the three-year period ended December 31, 2016 for the 2014 grants. The PSUs granted in 2014 have a two-year performance period ending December 31, 2015, in which the Company must achieve certain cumulative EPS from continuing operations and a certain average return on invested capital, which are performance conditions per ASC 718, followed by a one-year service requirement (i.e., if earned, these shares would vest in full on December 31, 2016).

The PSUs granted in 2013 and 2012 have a one-year performance period ending December 31 of each year, in which the Company must achieve certain EPS from continuing operations, followed by a two-year service requirement. The EPS threshold associated with both the 2012 and 2013 grants was achieved at the maximum level, and 200% of the target shares were earned. The PSUs granted in 2012 became fully vested on December 31, 2014, and the PSUs granted in 2013 will vest on December 31, 2015, provided that the requisite service requirement is satisfied.

Compensation expense included in the Consolidated Statements of Operations for the PSUs in the years ended December 31, 2014, 2013 and 2012 was $3.4 million, $1.4 million and $0.6 million, respectively.

As of December 31, 2014 and 2013, there was $3.6 million and $3.2 million of total unrecognized compensation cost related to PSUs, respectively, that is expected to be recognized over the weighted-average period of 1.7 years and 1.8 years, respectively.

The following table summarizes PSU activity for the year ended December 31, 2014:

	Number of PSUs	Weighted Average Price per Share
	(in millions)	
Outstanding and non-vested, at December 31, 2013	0.5	$7.05
Granted [(a)]	0.4	8.97
Vested	(0.5)	5.50
Forfeited	—	8.47
Outstanding and non-vested, at December 31, 2014	0.4	$10.89

(a) Includes 0.2 million PSUs, representing the effect of the PSUs granted in 2012 being earned at 200% of target. The PSUs granted in 2012 vested on December 31, 2014.

Excess Tax Benefits

For income tax purposes, stock-based compensation expense is deductible in the year of exercise or vesting based on the intrinsic value of the award on the date of exercise or vesting. For financial reporting purposes, stock-based compensation expense is based upon grant-date fair value and amortized over the vesting period. Excess tax benefits represent the excess tax deduction received by the Company resulting from the difference between the stock-based compensation expense deductible for income tax purposes and the stock-based compensation expense recognized for financial reporting purposes. Excess tax benefits are recorded to Capital in excess of par value on the Consolidated Statements of Stockholders' Equity. Excess tax benefits for the year ended December 31, 2014 were $2.2 million, and are presented as a cash outflow from operating activities and as a cash inflow from financing activities on the Consolidated Statements of Cash Flows.

NOTE 12 — STOCKHOLDERS' EQUITY

The Company’s Board of Directors (the “Board”) has the authority to issue 90.0 million shares of common stock at a par value of $1 per share. The holders of common stock (i) may receive dividends subject to all of the rights of the holders of preference stock, (ii) shall be entitled to share ratably upon any liquidation of the Company in the assets of the Company, if any, remaining after payment in full to the holders of preference stock, and (iii) receive one vote for each common share held and shall vote together share for share with the holders of voting shares of preference stock as one class for the election of directors and for all other purposes. The Company has 64.2 million and 63.8 million common shares issued as of December 31, 2014 and 2013,

66

respectively. Of those amounts, 62.5 million and 62.8 million common shares were outstanding as of December 31, 2014 and 2013, respectively.

The Board is also authorized to provide for the issuance of 0.8 million shares of preference stock at a par value of $1 per share. The authority of the Board includes, but is not limited to, the determination of the dividend rate, voting rights, conversion and redemption features and liquidation preferences. The Company has not designated or issued any preference stock as of December 31, 2014.

Dividends

In the second quarter of 2014, the Board reinstated the Company's quarterly cash dividend by declaring a dividend of $0.03 per common share. Similar dividends were also declared and paid in the third and fourth quarters of 2014. In the aggregate, the Company declared and paid dividends totaling $5.6 million during 2014.

On February 20, 2015, the Board declared a quarterly cash dividend of $0.06 per common share payable on March 27, 2015 to holders of record at the close of business on March 9, 2015.

Stock Repurchase Program

In April 2014, the Board authorized a stock repurchase program (the "April 2014 program") of up to $15.0 million of the Company's common stock. The April 2014 program is intended primarily to facilitate a reduction in the investment in Company stock within the Company's U.S. defined benefit pension plan portfolio and to reduce dilution resulting from issuances of stock under the Company's employee equity incentive programs. During the year ended December 31, 2014, the Company repurchased 696,263 shares for a total of $10.3 million under the April 2014 program.

In November 2014, the Board authorized an additional stock repurchase program (the "November 2014 program") of up to $75.0 million of the Company's common stock. The November 2014 program supplements the prior $15.0 million authorization under the April 2014 program, which remains in effect. The November 2014 program is intended primarily to facilitate opportunistic purchases of Company stock as a means to provide cash returns to stockholders, enhance stockholder returns and manage the Company's capital structure. There were no stock repurchases under the November 2014 program during the year ended December 31, 2014.

Under the stock repurchase programs, the Company is authorized to repurchase, from time to time, shares of its outstanding common stock in the open market or through privately negotiated transactions. Stock repurchases by the Company are subject to market conditions and other factors and may be commenced, suspended or discontinued at any time.

Accumulated Other Comprehensive Loss

The following tables summarize the changes in each component of Accumulated other comprehensive loss, net of tax:

(in millions) [a]	Actuarial Losses	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Total
Balance at January 1, 2014	$(58.1)	$16.0	$0.2	$(41.9)
Other comprehensive loss before reclassifications	(24.6)	(15.8)	(0.1)	(40.5)
Amounts reclassified from accumulated other comprehensive loss	2.9	—	—	2.9
Net current-period other comprehensive loss	(21.7)	(15.8)	(0.1)	(37.6)
Balance at December 31, 2014	$(79.8)	$0.2	$0.1	$(79.5)

(in millions) [a]	Actuarial Losses	Foreign Currency Translation	Unrealized Gain (Loss) on Derivatives	Total
Balance at January 1, 2013	$(91.0)	$10.8	$0.1	$(80.1)
Other comprehensive income before reclassifications	23.9	4.5	0.2	28.6
Amounts reclassified from accumulated other comprehensive loss	9.0	0.7	(0.1)	9.6

Net current-period other comprehensive income	32.9	5.2	0.1	38.2
Balance at December 31, 2013	$(58.1)	$16.0	$0.2	$(41.9)

(a) Amounts in parenthesis indicate debits.

67

Table of Contents

The following table summarizes the amount of actuarial losses reclassified from Accumulated other comprehensive loss, net of tax, and the affected line item in the Consolidated Statements of Operations:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss 2014	2013	Affected Line Item in Consolidated Statements of Operations
	(in millions) [a]		
Amortization of actuarial losses of defined benefit pension plans	$(5.5)	$(8.4)	(b)
Amortization of actuarial gains of retiree medical plans	0.2	—	SEG&A expenses
Total before tax	(5.3)	(8.4)	
Income tax (expense) benefit	2.4	(0.6)	Income tax (expense) benefit
Total reclassifications for the period, net of tax	$(2.9)	$(9.0)	

(a) Amount in parenthesis indicate debits to profit/loss.

(b) The actuarial loss components of Accumulated other comprehensive loss are included in the computation of net periodic pension cost for the period, as disclosed in Note 7 – Pensions.

NOTE 13 — SEGMENT INFORMATION

The Company has three operating segments as defined under ASC Topic 280, Segment Reporting. The Company's reportable segments are consistent with its operating segments. Business units are organized under each segment because they share certain characteristics, such as technology, marketing, distribution and product application, which create long-term synergies. The principal activities of the Company's operating segments are as follows:

Environmental Solutions — Our Environmental Solutions Group is a leading manufacturer and supplier of a full range of street sweeper vehicles, sewer cleaner and vacuum loader trucks, hydro-excavation trucks and high-performance waterblasting equipment. Products are sold to both municipal and industrial customers under the Elgin®, Vactor®, Guzzler® and Jetstream™ brand names. The Group manufactures vehicles and equipment in the U.S.

Safety and Security Systems — Our Safety and Security Systems Group is a leading manufacturer and supplier of comprehensive systems and products that law enforcement, fire rescue, emergency medical services, campuses, military facilities and industrial sites use to protect people and property. Offerings include systems for campus and community alerting, emergency vehicles, first responder interoperable communications and industrial communications, as well as command and municipal networked security. Specific products include vehicle lightbars and sirens, public warning sirens, general alarm systems, public address systems and public safety software. Products are sold under the Federal Signal™, Federal Signal VAMA™ and Victor™ brand names. The Group operates manufacturing facilities in the U.S., Europe and South Africa.

Fire Rescue — Our Fire Rescue Group is a leading manufacturer and supplier of sophisticated, vehicle-mounted, aerial platforms for fire fighting, rescue and industrial applications. End customers include fire departments, industrial fire services, electric utilities and maintenance rental companies for applications such as fire fighting and rescue, transmission line maintenance and installation and maintenance of wind turbines. In addition to equipment sales, the Group sells parts, service and training as part of a complete offering to its customers. The Group manufactures in Finland and sells globally under the Bronto Skylift® brand name.

Corporate contains those items that are not included in our operating segments.

Net sales by operating segment reflect sales of products and services to external customers, as reported in the Company's Consolidated Statements of Operations. Intersegment sales are insignificant. The Company evaluates performance based on operating income of the respective segment. Operating income includes all revenues, costs and expenses directly related to the segment involved. In determining operating segment income, neither corporate nor interest expenses are included. Operating segment depreciation expense, identifiable assets and capital expenditures relate to those assets that are utilized by the respective operating segment. Corporate assets consist principally of cash and cash equivalents, deferred tax assets and fixed assets. The accounting policies of each operating segment are the

same as those described in Note 1 – Summary of Significant Accounting Policies.
Revenues attributed to customers located outside of the U.S. aggregated $324.8 million in 2014, $301.1 million in 2013 and $310.5 million in 2012, of which sales exported from the U.S. aggregated $152.5 million, $131.1 million and $127.9 million, respectively.

Table of Contents

The following tables summarize the Company's continuing operations by segment, including net sales, operating income, depreciation and amortization, total assets and capital expenditures:

(in millions)	2014	2013	2012
Net sales:			
Environmental Solutions	$536.6	$474.0	$427.8
Safety and Security Systems	242.5	238.9	240.3
Fire Rescue	139.4	138.4	135.1
Total net sales	$918.5	$851.3	$803.2
Operating income:			
Environmental Solutions	$81.9	$58.2	$42.0
Safety and Security Systems	32.1	26.1	27.9
Fire Rescue	3.9	9.0	8.9
Corporate and eliminations	(25.3)	(22.7)	(27.3)
Total operating income	92.6	70.6	51.5
Interest expense	3.8	8.8	21.4
Debt settlement charges	—	8.7	3.5
Other expense, net	1.5	0.1	0.7
Income before income taxes	$87.3	$53.0	$25.9

(in millions)	2014	2013	2012
Depreciation and amortization:			
Environmental Solutions	$6.8	$6.1	$5.4
Safety and Security Systems	4.5	4.2	4.3
Fire Rescue	3.5	3.2	2.6
Corporate	0.2	0.7	0.9
Total depreciation and amortization	$15.0	$14.2	$13.2

(in millions)	2014	2013	2012
Total assets:			
Environmental Solutions	$254.2	$236.0	$237.5
Safety and Security Systems	208.3	213.4	209.5
Fire Rescue	124.0	116.4	122.5
Corporate and eliminations	68.0	73.6	41.7
Total assets of continuing operations	654.5	639.4	611.2
Total assets of discontinued operations	4.2	5.4	2.0
Total assets	$658.7	$644.8	$613.2

(in millions)	2014	2013	2012
Capital expenditures:			
Environmental Solutions	$6.2	$4.5	$6.4
Safety and Security Systems	6.3	5.4	2.7
Fire Rescue	5.8	5.4	3.1
Corporate	1.2	1.7	0.8
Total capital expenditures	$19.5	$17.0	$13.0

Table of Contents

The following table summarizes net sales by geographic region based on the location of the end customer:

(in millions)	2014	2013	2012
Net sales:			
U.S.	$593.7	$550.2	$492.7
Europe/Other	257.7	244.6	259.0
Canada	67.1	56.5	51.5
Total net sales	$918.5	$851.3	$803.2

The following table summarizes long-lived assets (excluding deferred tax and intangible assets) by geographic region based on the location of the Company's subsidiaries:

(in millions)	2014	2013	2012
Long-lived assets (excluding deferred tax and intangible assets):			
U.S.	$53.5	$46.1	$54.5
Europe	19.3	21.9	16.8
Other	0.4	0.4	0.5
Total long-lived assets	$73.2	$68.4	$71.8

NOTE 14 — RESTRUCTURING

2013 Plan

During the fourth quarter of 2013, the Company recorded expenses of $1.2 million and $0.3 million related to severance costs in the Safety and Security Systems Group and Corporate, respectively.

2012 Plan

During the first quarter of 2012, the Company recorded expenses of $0.9 million related to severance costs in the Safety and Security Systems Group. These actions were completed in the fourth quarter of 2013.

During the fourth quarter of 2012, the Company recorded an additional $0.6 million related to severance costs within corporate expense. Based upon further developments, it was determined during the second quarter of 2013 that these costs were not required and the $0.6 million charge was reversed.

Restructuring reserves are included within Other current liabilities on the Company's Consolidated Balance Sheets. The
following table summarizes the changes in the Company's restructuring reserves:

(in millions)	Severance (2012 Plan)	Severance (2013 Plan)	Total
Balance at December 31, 2012	$1.0	$—	$1.0
Charges to restructuring expenses	—	1.5	1.5
Adjustments	(0.8)	—	(0.8)
Cash payments	(0.2)	—	(0.2)
Balance at December 31, 2013	$—	1.5	1.5
Cash payments		(1.4)	(1.4)
Balance at December 31, 2014		$0.1	$0.1

NOTE 15 — DISCONTINUED OPERATIONS

There were no new discontinued operations in 2014 or 2013.

For the year ended December 31, 2014, the Company recorded a net gain from discontinued operations and disposal of $0.7 million. The gain primarily related to adjustments of estimated product liability obligations of previously discontinued businesses, resulting from updated actuarial valuations.

For the year ended December 31, 2013, the Company recorded net losses from discontinued operations and disposal of $0.2 million. The losses primarily included expenses associated with special termination benefits provided to certain employees of the former FSTech Group that were retained to assist with transition services with the acquirer. Upon conclusion of these

70

Table of Contents

transition services, management initiated a voluntary separation plan ("VSP"), which resulted in expense of approximately $0.6 million being recognized in the year ended December 31, 2013 when the employees accepted the terms of the VSP. The net loss from discontinued operations and disposal for the year ended December 31, 2013 also includes certain adjustments relating to assets of other previously discontinued operations.

The following table summarizes the operating results of the Company's discontinued operations:

(in millions)	2012
Federal Signal Technologies:	
Net sales	$87.0
Interest allocated to discontinued operations	4.8
Other costs and expenses	100.6
Loss before income taxes	(18.4)
Income tax benefit	3.6
Loss from discontinued operations	$(14.8)

On June 21, 2012, the Company announced that it had signed a definitive agreement to sell the FSTech Group for $110.0 million, subject to working capital adjustments. In accordance with ASC Topic 360, Impairment and Disposal of Long-Lived Assets, the Company met held for sale criteria during the second quarter of 2012 and the FSTech Group was reported as a discontinued operation in the Company's condensed consolidated financial statements. In accordance with ASC 360-10, net assets held for sale with a carrying value of $121.1 million were written down to fair value less cost to sell or $97.6 million (fair value of $101.0 million and costs to sell of $3.4 million). This write-down resulted in a $23.5 million loss for the six months ended June 30, 2012. The valuation methodology for the net assets held for sale was based upon a contract price which is an observable input (Level 2).

On September 4, 2012, the Company completed the disposition of the assets of the FSTech Group for $110.0 million in cash, subject to working capital adjustments in favor of the buyer of $5.9 million. The Company received $82.1 million in cash at closing and the remaining $22.0 million was placed into escrow as security for indemnification obligations provided by the Company pursuant to the sale agreement. Additionally, in the third quarter of 2012, the Company recognized an additional loss related to a change in its estimate of total proceeds to be received from escrowed amounts of $5.0 million, an increase in the carrying value of the FSTech Group through the date of divestiture of $0.8 million and additional costs to sell of approximately $0.5 million. The working capital adjustment, the additional loss related to the change in estimated proceeds to be received from escrowed amounts, the increase in the carrying value of the FSTech Group and the additional costs to sell resulted in an additional loss of $12.2 million for the third quarter of 2012. The Company recorded a total loss of $34.7 million on disposal for the year ended December 31, 2012.

A significant portion of the escrow identified for general indemnification obligations was held for a period of 18 months following the sale date with the remaining general escrow funds to be held for 36 months following the sale date.

During the year ended December 31, 2014, the Company received $7.4 million from the escrow identified for general indemnification obligations, which represents the full settlement of that component of the escrow. The net carrying amount of the escrow receivable, classified in other current assets, was $7.8 million at December 31, 2013. A loss of $0.4 million was recorded within gain (loss) from discontinued operations for the year ended December 31, 2014 upon settling a claim from the buyer.

If and when any additional amounts are received from the remaining general escrow funds, which totaled $4.0 million at December 31, 2014, the Company may recognize an adjustment to the gain (loss) from discontinued operations within its consolidated financial statements.

In accordance with ASC 205-20-45-6, Allocation of Interest to Discontinued Operations, the Company has allocated interest on debt that is required to be repaid as a result of a disposal transaction to discontinued operations. The consolidated financial statements for all periods presented have been recast to present the operating results of the FSTech Group and previously divested or exited businesses as discontinued operations.

The Company retains certain liabilities for discontinued operations prior to January 1, 2011, primarily for environmental remediation and product liability. Included in liabilities of discontinued operations at December 31, 2014 and 2013 is $1.3 million and $1.4 million, respectively, related to environmental remediation at the Pearland, Texas facility, and $3.0 million and $3.6 million, respectively, relating to estimated product liability obligations of the discontinued North American refuse truck body business.

Table of Contents

NOTE 16 — NEW ACCOUNTING PRONOUNCEMENTS

In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-04, Liabilities (Topic 405), Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date. This update provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this update is fixed at the reporting date, except for obligations addressed within existing U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The new requirements are effective for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. Retrospective presentation for all comparative periods presented is required. The Company's adoption of the guidance on January 1, 2014 did not have an impact on its results of operations, financial position or cash flow.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830), Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This guidance clarifies the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. The new requirements are effective prospectively for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The Company's adoption of the guidance on January 1, 2014 did not have an impact on its results of operations, financial position or cash flow.

In July 2013, the FASB issued ASU No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This update clarifies that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the consolidated financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward if such settlement is required or expected in the event the uncertain tax position is disallowed. The new requirements are effective prospectively for fiscal years beginning on or after December 15, 2013, and for interim periods within those fiscal years. The Company's adoption of the guidance on January 1, 2014 did not have a material impact on its results of operations, financial position or cash flow.

In September 2013, the Internal Revenue Service ("IRS") released final tangible property regulations under Sections 162(a) and 263(a) of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the deduction and capitalization of expenditures related to tangible property. The final regulations replaced temporary regulations that were issued in December 2011. The IRS also released proposed regulations under Section 168 of the Code regarding dispositions of tangible property. These final and proposed regulations are effective for the Company's fiscal year ended December 31, 2014. The Company's adoption of the regulations on January 1, 2014 did not have a material impact on its results of operations, financial position or cash flow.

In April 2014, the FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360), Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. This update revises the required criteria for reporting disposals as discontinued operations, whereby such disposals must represent strategic shifts that had (or will have) a major effect on an entity's operations and financial results. The guidance also requires additional disclosures about discontinued operations, including expanded disclosure of any significant ongoing involvement. The new requirements are effective prospectively for all disposals that occur within fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. The Company continues to review the requirements, but does not believe there will be a material impact on its results of operations, financial position or cash flow when they are adopted.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. This ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flow arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This new guidance is effective for annual reporting periods beginning on or after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated financial statements. No other new accounting pronouncements issued or effective during 2014 have had or are expected to have a material impact on the Company's results of operations, financial position or cash flow.

Table of Contents

NOTE 17 — SELECTED QUARTERLY DATA (UNAUDITED)

The Company reports its interim quarterly periods on a 13-week basis ending on a Saturday with the fiscal year ending on December 31. The effects of this practice are not material and exist only within a reporting year. For convenience purposes, the Company uses “March 31,” “June 30,” “September 30” and “December 31” to refer to its results of operations for the quarterly periods then ended. In 2014, the Company’s interim quarterly periods ended March 29, June 28, September 27 and December 31. In 2013, the Company’s interim quarterly periods ended March 30, June 29, September 28 and December 31, respectively.

The following table summarizes the quarterly results of operations, including income per share:

	2014			
(in millions, except per share data)	March 31	June 30	September 30	December 31[(a)]
Net sales	$200.2	$234.6	$219.3	$ 264.4
Gross profit	46.8	58.9	58.4	69.2
Income from continuing operations	7.6	17.0	15.2	23.2
Gain (loss) from discontinued operations and disposal, net	(0.2)	0.1	0.2	0.6
Net income	7.4	17.1	15.4	23.8
Diluted earnings per share:				
Earnings from continuing operations	$0.12	$0.27	$0.24	$ 0.36
Earnings from discontinued operations	—	—	—	0.01
Net earnings per share	$0.12	$0.27	$0.24	$ 0.37

(a) Income from continuing operations includes a tax benefit of $3.5 million relating to the release of valuation allowance previously recorded against the Company’s foreign deferred tax assets.

	2013			
(in millions, except per share data)	March 31[(a)]	June 30 [(b)]	September 30	December 31[(c)]
Net sales	$199.8	$222.6	$209.3	$ 219.6
Gross profit	46.8	51.8	50.5	56.0
Income (loss) from continuing operations	(1.1)	117.8	16.8	26.7
Gain (loss) from discontinued operations and disposal, net	0.5	(0.3)	(0.8)	0.4
Net (loss) income	(0.6)	117.5	16.0	27.1
Diluted earnings (loss) per share:				
Earnings (loss) from continuing operations	$(0.02)	$1.87	$0.26	$ 0.42
Earnings (loss) from discontinued operations	0.01	—	(0.01)	—
Net earnings (loss) per share	$(0.01)	$1.87	$0.25	$ 0.42

(a) (Loss) from continuing operations includes $8.7 million of debt settlement charges associated with the Company's debt refinancing in March 2013.

(b) Income from continuing operations includes $102.4 million of valuation allowance release and income of $0.6 million associated with restructuring activity.

(c) Income from continuing operations includes a tax benefit of $6.7 million associated with the release of valuation allowance previously recorded against the Company’s foreign tax credits, which would have begun to expire in 2015, following the completion of a tax planning strategy, as well as $1.2 million of restructuring charges.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's "disclosure controls and procedures" (as defined in the Exchange Act Rule 13a-15(e)) as of December 31, 2014.

Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2014.

(b) Management's Annual Report on Internal Control over Financial Reporting and Attestation Report of the Registered Public Accounting Firm

The Company's management is responsible for establishing and maintaining an adequate system of internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management conducted an assessment of the Company's internal control over financial reporting based on the framework established by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). Based on the assessment, management concluded that, as of December 31, 2014, the Company's internal control over financial reporting is effective.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report on Form 10-K and, as part of their audit, has issued its report, included herein, on the effectiveness of the Company's internal control over financial reporting. See "Report of Independent Registered Public Accounting Firm" under Item 8 of Part II of this Form 10-K.

(c) Changes in Internal Control over Financial Reporting

From time to time, the Company may make changes aimed at enhancing the effectiveness of the controls and to ensure that the systems evolve with the business. There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information.

On March 2, 2015, the Company issued a press release announcing its financial results for the three months and year ended December 31, 2014. In addition, the presentation slides for the 2014 fourth quarter earnings call were posted on the Company's website at that time. The full text of the press release and earnings presentation is included as Exhibits 99.1 and 99.2, respectively, to this Form 10-K.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

A list of our executive officers and biographical information appears in Item 1 of Part I of this Form 10-K.

Information regarding directors and nominees for directors is set forth in the Company's definitive proxy statement for its 2015 Annual Meeting of Stockholders and is incorporated herein by reference.

Information regarding Compliance with Section 16(a) of the Exchange Act is set forth in the Company's 2015 definitive proxy statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" and is incorporated herein by reference. Information regarding the (i) Audit Committee, (ii) Nominating and Governance Committee and (iii) Compensation and Benefits Committee of the Company's Board of Directors is set forth in the Company's 2015 definitive proxy statement under the caption "Information Concerning the Board of Directors" and is incorporated herein by reference.

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer. This code of ethics and the Company's corporate governance policies are posted on the Company's website at www.federalsignal.com. The Company intends to satisfy its disclosure requirements regarding amendments to or waivers from its code of ethics by posting such information on this website. The charters of the (i) Audit Committee, (ii) Nominating and Governance Committee and (iii) Compensation and Benefits Committee of the Company's Board of Directors are available on the Company's website and are also available in print free of charge.

Item 11. Executive Compensation.

The information contained under the captions "Information Concerning the Board of Directors," "Compensation Committee Interlocks and Insider Participation," "Compensation Discussion and Analysis," "Compensation and Benefits Committee Report" and "Executive Compensation" of the Company's 2015 definitive proxy statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding security ownership of (i) certain beneficial owners, (ii) all directors and nominees, (iii) named executive officers and (iv) directors and executive officers as a group is set forth in the Company's 2015 definitive proxy statement under the caption "Ownership of Our Common Stock" and is incorporated herein by reference.

Information regarding our equity compensation plans is set forth in the Company's 2015 definitive proxy statement under the caption "Equity Compensation Plan Information" and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships is hereby incorporated by reference from the Company's 2015 definitive proxy statement under the headings "Information Concerning the Board of Directors" and "Certain Relationships and Related Party Transactions."

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services is incorporated by reference from the Company's 2015 definitive proxy statement under the heading "Accounting Fees."

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules.

1. Financial Statements

The following consolidated financial statements of the Company and the “Report of the Independent Registered Public Accounting Firm” contained under Item 8 of Part II this Form 10-K are incorporated herein by reference:

(a) Consolidated Statements of Operations for the Years Ended December 31, 2014, 2013 and 2012;
(b) Consolidated Statements of Comprehensive Income (Loss) for the Years Ended December 31, 2014, 2013 and 2012;
(c) Consolidated Balance Sheets as of December 31, 2014 and 2013;
(d) Consolidated Statements of Cash Flows for the Years Ended December 31, 2014, 2013 and 2012;
(e) Consolidated Statements of Stockholders’ Equity for the Years Ended December 31, 2014, 2013 and 2012; and
(f) Notes to Consolidated Financial Statements.

2. Financial Statement Schedules

Schedule II — Valuation and Qualifying Accounts of the Company for the three years ended December 31, 2014 is filed as a part of this Annual Report in response to Item 15(a)(2):

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore, have been omitted.

3. Exhibits

See Exhibit Index.

Table of Contents

SCHEDULE II
FEDERAL SIGNAL CORPORATION AND SUBSIDIARIES
Valuation and Qualifying Accounts
For the years ended December 31, 2014, 2013 and 2012

(in millions)	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions Accounts Written off Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year Ended December 31, 2014	$2.3	$0.3	$(1.3)	$1.3
Year Ended December 31, 2013	2.4	—	(0.1)	2.3
Year Ended December 31, 2012	2.4	0.6	(0.6)	2.4
Income tax valuation allowances:				
Year Ended December 31, 2014	$9.8	$—	$(6.0)	$3.8
Year Ended December 31, 2013	131.8	2.5	(124.5)	9.8
Year Ended December 31, 2012	123.9	17.3	(9.4)	131.8

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDERAL SIGNAL CORPORATION

By: /s/ Dennis J Martin
Dennis J. Martin
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 2, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities indicated, as of March 2, 2015.

/s/ Dennis J. Martin Dennis J. Martin	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Brian S. Cooper Brian S. Cooper	Senior Vice President, Chief Financial Officer (Principal Financial Officer)
/s/ Ian A. Hudson Ian A. Hudson	Vice President, Corporate Controller (Principal Accounting Officer)
/s/ James E. Goodwin James E. Goodwin	Chairman and Director
/s/ Paul W. Jones Paul W. Jones	Director
/s/ Bonnie C. Lind Bonnie C. Lind	Director
/s/ Richard R. Mudge Richard R. Mudge	Director
/s/ William F. Owens William F. Owens	Director
/s/ Brenda L. Reichelderfer Brenda L. Reichelderfer	Director
/s/ John L. Workman John L. Workman	Director

Table of Contents

EXHIBIT INDEX

The following exhibits, other than those incorporated by reference, have been included in the Company's Form 10-K filed with the Securities and Exchange Commission. The Company shall furnish copies of these exhibits upon written request to the Corporate Secretary at the address given on the cover page.

3.	a.	Restated Certificate of Incorporation of the Company. Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K filed April 30, 2010.
	b.	Amended and Restated By-laws of the Company. Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q for the quarter ended September 30, 2014.
10.	a. *	Supplemental Pension Plan. Incorporated by reference to Exhibit 10.C to the Company's Form 10-K for the year ended December 31, 1995.
	b. *	Executive Disability, Survivor and Retirement Plan. Incorporated by reference to Exhibit 10.D to the Company's Form 10-K for the year ended December 31, 1995.
	c. *	Savings Restoration Plan, as amended and restated January 1, 2007. Incorporated by reference to Exhibit 10.FF to the Company's Form 10-K for the year ended December 31, 2008.
	d. *	First Amendment of the Federal Signal Corporation Savings Restoration Plan. Incorporated by reference to Exhibit 10.MM to the Company's Form 10-K for the year ended December 31, 2008.
	e. *	Second Amendment to Federal Signal Corporation Savings Restoration Plan. Incorporated by reference to Exhibit 10.NN to the Company's Form 10-K for the year ended December 31, 2008.
	f. *	Third Amendment to Federal Signal Corporation Savings Restoration Plan. Incorporated by reference to Exhibit 10.OO to the Company's Form 10-K for the year ended December 31, 2008.
	g. *	Executive General Severance Plan, as amended and restated August 2012. Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2012.
	h. *	Form of 2008 Executive Change-In-Control Severance Agreement (Tier 1) with certain executive officers. Incorporated by reference to Exhibit 10.HH to the Company's Form 10-K for the year ended December 31, 2008.
	i. *	Form of 2008 Executive Change-In-Control Severance Agreement (Tier 2) with certain executive officers. Incorporated by reference to Exhibit 10.II to the Company's Form 10-K for the year ended December 31, 2008.
	j. *	Form of 2010 Executive Change-In-Control Severance Agreement with certain executive officers (Tier 1). Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2010.
	k. *	Form of 2010 Executive Change-In-Control Severance Agreement with certain executive officers (Tier 2). Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2010.
	l. *	2005 Executive Incentive Compensation Plan (2010 Restatement). Incorporated by reference to Appendix B to the Company's Definitive Proxy statement filed on Schedule 14A filed March 25, 2010.
	m. *	Federal Signal Corporation Executive Incentive Performance Plan, as amended and restated. Incorporated by reference to Appendix C to the Company's Definitive Proxy Statement filed on Schedule 14A filed March 25, 2010.
	n.	Asset Purchase Agreement dated as of June 20, 2012, by and among 3M Company, a Delaware corporation, the Company, and certain subsidiaries of the Company identified on the signature pages thereto. Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed June 25, 2012.
	o.	Amendment No. 1, dated as of August 3, 2012, to the Asset Purchase Agreement dated as of June 20, 2012, by and among the Company, and certain subsidiaries of the Company identified therein, in favor of 3M Company, a Delaware corporation, and one or more subsidiaries of 3M Company

identified therein. Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed September 7, 2012.

p. Amendment No. 2, dated as of September 4, 2012, to the Asset Purchase Agreement dated as of June 20, 2012, by and among the Company, and certain subsidiaries of the Company identified therein, in favor of 3M Company, a Delaware corporation, and one or more subsidiaries of 3M Company identified therein. Incorporated by reference to Exhibit 10.2 to the Company's Form 8-K filed September 7, 2012.

q. * Short Term Incentive Bonus Plan. Incorporated by reference to Exhibit 10.hh to the Company's Form 10-K for the year ended December 31, 2012.

r. Credit Agreement dated as of March 13, 2013, by and among the Company, as Borrower, the Lenders referred to therein, as Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, General Electric Capital Corporation, as Syndication Agent, Wells Fargo Securities, LLC, and GE Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Managers. Incorporated by reference to Exhibit 10.ii to the Company's Form 10-K for the year ended December 31, 2012.

	s.	Amendment No. 2, dated April 18, 2014, to the Credit Agreement dated as of March 13, 2013, by and among the Company, as Borrower, the Lenders referred to therein, as Lenders, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender, General Electric Capital Corporation, as Syndication Agent, Wells Fargo Securities, LLC, and GE Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Managers. Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2014.
	t. *	Employment Letter executed April 10, 2013 between the Company and Brian S. Cooper. Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed April 12, 2013.
	u. *	Federal Signal Corporation Retirement Savings Plan and First Amendment to the Federal Signal Corporation Retirement Savings Plan. Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarter ended September 30, 2013.
	v. *	Second Amendment to Federal Signal Corporation Retirement Savings Plan.
	w. *	Employment Letter executed August 1, 2013 between the Company and Ian A. Hudson. Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed August 13, 2013.
	x. *	Separation agreement executed February 15, 2014 between the Company and Joseph W. Wilson. Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed February 21, 2014.
	y. *	Form of Equity Award Agreements. Incorporated by reference to Exhibits 10.1, 10.2, 10.3, 10.4 and 10.5 to the Company's Form 10-Q for the quarter ended June 30, 2014.
14.		Code of Ethics for Chief Executive Officer and Senior Financial Officers, as amended. Incorporated by reference to Exhibit 14 to the Company's Form 10-K for the year ended December 31, 2003.
21.		Subsidiaries of the Registrant.
23.1		Consent of Independent Registered Public Accounting Firm.
23.2		Consent of Independent Registered Public Accounting Firm.
31.1		CEO Certification under Section 302 of the Sarbanes-Oxley Act.
31.2		CFO Certification under Section 302 of the Sarbanes-Oxley Act.
32.1		CEO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act.
32.2		CFO Certification of Periodic Report under Section 906 of the Sarbanes-Oxley Act.
99.1		Press Release.
99.2		Q4 Earnings Call Presentation Slides.
101.INS		XBRL Instance Document.
101.SCH		XBRL Taxonomy Extension Schema Document.
101.CAL		XBRL Taxonomy Calculation Linkbase Document.
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB		XBRL Taxonomy Label Linkbase Document.
101.PRE		XBRL Taxonomy Presentation Linkbase Document.

* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(a)(3) of Form 10-K.