

ULTRAPAR HOLDINGS INC
Form 20-F
May 05, 2006
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As filed with the Securities and Exchange Commission on May 5, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark one)

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

OR

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

For the fiscal year ended December 31, 2005

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
Preferred Shares, without par value*	New York Stock Exchange

* Traded only in the form of American Depositary Shares (as evidenced by American Depositary Receipts) each representing 1 Preferred Share which are registered under the Securities Act of 1933.

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 May 5, 2006.

Title of Class	Number of Shares Outstanding
Common Stock	49,429,897

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Preferred Stock

31,895,512

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant 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

Accelerated Filer

Non-accelerated Filer

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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INTRODUCTION

Ultrapar is one of Brazil's leading corporate groups. We are engaged in the distribution of liquefied petroleum gas, or LPG, production of chemicals, and the provision of integrated logistics services. Our wholly-owned subsidiary, Ultragaz, is the largest LPG distributor in Brazil with a national market share of approximately 24%. In the chemicals business, our wholly-owned subsidiary, Oxiteno, is the sole producer of ethylene oxide and its principal derivatives in the Mercosur area (comprising Brazil, Argentina, Paraguay and Uruguay) and a major producer of specialty chemicals. Through our wholly-owned subsidiary, Ultracargo, we believe we are a leading provider of integrated road transport, storage and handling services for chemicals and fuels.

PRESENTATION OF INFORMATION

The audited consolidated balance sheets as of December 31, 2005 and 2004 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto, for the years ended December 31, 2005, 2004 and 2003, included herein, are our consolidated financial statements. The audited consolidated balance sheets as of December 31, 2003, 2002 and 2001 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity, including the notes thereto for the years ended December 31, 2002 and 2001 are not included in this annual report. The financial information presented in this annual report should be read in conjunction with our consolidated financial statements.

All references herein to the *real*, *reais*, or R\$ are to the Brazilian *real*, the official currency of Brazil. All references to U.S. dollars, dollars or U.S.\$ are to United States dollars.

On April 30, 2006 the exchange rate for *reais* into U.S. dollars was R\$2.089 to U.S.\$1.00, based on the commercial selling rate as reported by the Central Bank of Brazil (Banco Central do Brasil), or the Central Bank. The commercial selling rate was R\$2.341 to U.S.\$1.00 at December 31, 2005 and R\$2.654 to U.S.\$1.00 at December 31, 2004. The *real*/dollar exchange rate fluctuates widely, and the current commercial selling rate may not be indicative of future exchange rates. See Item 3A. 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 3A. 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, 2005 of R\$2.341 to U.S.\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Segment information for our businesses are presented on an unconsolidated basis. Consequently, intercompany transactions have not been eliminated in segment information and therefore this information will not sum to consolidated financial information provided. See Item 7B. Related Party Transactions for more information.

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

Brazilian GAAP and U.S. GAAP

Our consolidated financial statements are prepared in accordance with accounting practices adopted in Brazil (Brazilian GAAP), which include accounting principles emanating from the Brazilian corporate law and accounting standards and supplementary procedures established by the CVM (the Brazilian Securities and Exchange Commission) and the Brazilian Institute of Independent Auditors (Instituto dos Auditores Independentes do Brasil),

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or IBRACON. Such accounting practices differ in certain material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP. See Note 24 to our consolidated financial statements for a summary of the differences between Brazilian GAAP and U.S. GAAP, and a reconciliation of shareholders' equity as of December 31, 2005 and 2004 and net income for the years ended December 31, 2005, 2004 and 2003 from Brazilian GAAP to U.S. GAAP.

Market share and economic information

All market share information for the LPG business in Brazil is obtained from Sindigás, the Brazilian Association of LPG distributors. Unless otherwise specified, all macro economic data is obtained from Instituto Brasileiro de Geografia e Estatística - IBGE, Fundação Getúlio Vargas - FGV and the Central Bank.

FORWARD-LOOKING STATEMENTS

The statements contained in this annual report in relation to our plans, forecasts, expectations regarding future events, strategies, and projections, are forward-looking statements which involve risks and uncertainties and which are therefore not guarantees of future results. 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, prospect, foresee, estimate, project, anticipate, can, intend and similar words are intended to identify forward-looking statements. We have made forward-looking statements which cover, among other things, our:

strategy for marketing and operational expansion;

capital expenditures forecasts; and

development of additional sources of revenue.

These forward-looking statements are subject to risks and uncertainties, which could mean that our actual results and performance could differ significantly from those anticipated and that anticipated events or circumstances might not occur. The risks and uncertainties include, but are not limited to:

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 industry, 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;

approval of Brazilian antitrust authorities of the Shell Gás acquisition;

access to sources of financing and our level of debt;

ability to integrate acquisitions;

regulatory issues relating to acquisitions;

availability of tax benefits and

other factors contained in this 20-F under Item 3D. Risk Factors

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIME TABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data

We have selected the following consolidated financial data from our audited consolidated annual financial statements, for the periods indicated. You should read our selected financial data in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements and notes to the consolidated financial statements included in this annual report.

Our consolidated financial statements are prepared in Brazilian *reais* in accordance with accounting practices adopted in Brazil, which differ in certain material respects from accounting principles generally accepted in the United States of America, or U.S. GAAP. See Note 24 to our consolidated financial statements for a summary of the differences between the accounting practices adopted in Brazil, and U.S. GAAP.

The following table presents our selected financial information at the dates and for each of the periods indicated in Brazilian GAAP, and U.S. GAAP where indicated. The consolidated balance sheet information as of December 31, 2005 and 2004 and the consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2005, 2004 and 2003 are derived from our audited consolidated financial statements included in this annual report. The consolidated balance sheet information as of December 31, 2003, 2002 and 2001 and the related consolidated statements of income, cash flows, changes in financial position and changes in shareholders' equity for the years ended December 31, 2002 and 2001 are derived from our audited consolidated financial statements that are not included in this annual report.

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	Year Ended December 31,					
	2005(1)	2005	2004	2003	2002	2001
	(in millions of U.S.dollars or reais, where indicated, except per share data)					
Consolidated Income Statement Data:						
	US\$	R\$	R\$	R\$	R\$	R\$
Gross sales and services	2,203.6	5,158.0	5,250.6	4,603.8	3,795.3	2,862.5
Taxes on sales and services, rebates, discounts and returns	(198.3)	(464.2)	(466.4)	(603.5)	(800.8)	(577.8)
Net Sales and Services	2,005.3	4,693.8	4,784.2	4,000.3	2,994.5	2,284.7
Cost of sales and services	(1,616.4)	(3,783.4)	(3,669.9)	(3,196.4)	(2,247.1)	(1,698.3)
Gross profit	388.9	910.4	1,114.3	803.9	747.4	586.4
Operating (expenses) income						
Selling, general and administrative expenses	(235.7)	(551.7)	(555.9)	(458.9)	(382.3)	(317.7)
Other operating income, net	(0.2)	(0.4)	5.5	6.6	0.4	10.2
Total operating expenses	(235.9)	(552.1)	(550.4)	(452.3)	(381.9)	(307.5)
Operating income before financial items	153.0	358.3	563.9	351.6	365.5	278.9
Financial (expenses) income, net	(11.7)	(27.3)	(45.0)	(57.2)	28.5	(31.1)
Nonoperating (expenses) income, net	(0.8)	(1.8)	(16.0)	1.0	(44.1)	(17.0)
Income before income and social contribution taxes, equity in earnings (losses) of affiliated companies and minority interest	140.5	329.2	502.9	295.4	349.9	230.8
Income and social contribution taxes	(12.3)	(28.8)	(83.0)	(44.9)	(71.4)	(27.5)
Income before equity in earnings (losses) of affiliated companies and minority interest	128.2	300.4	419.9	250.5	278.5	203.3
Equity in earnings (losses) of affiliated companies	0.7	1.6		(0.5)	(1.7)	1.9
Minority interest	(1.2)	(2.8)	(5.4)	(3.6)	(54.5)	(73.0)
Net income	127.7	299.2	414.5	246.4	222.3	132.2
Net earnings per share (2)	1.59	3.73	5.95	3.54	3.62	2.49
Dividends per common share (3)	0.82	1.93	2.36	1.01	1.00	4.20
Dividends per preferred share (3)	0.82	1.93	2.36	1.11	1.09	4.63
Other financial data (4)						
Cash flows from operating activities (5)	175.2	410.0	539.6	331.2	425.2	339.7
Cash flows from investing activities (5)	(288.9)	(676.3)	(303.1)	(391.3)	(427.2)	(206.7)
Cash flows from financing activities (5)	325.5	762.0	(176.8)	10.8	(59.7)	(339.2)
Depreciation and Amortization(6)	80.2	187.7	172.7	146.9	121.8	102.4
Adjusted EBITDA(7)	233.3	546.0	736.6	498.5	487.3	372.5
Net cash (debt) (8)	81.7	191.2	46.0	(78.1)	54.5	241.3
Number of common shares (in thousands) (9)	49,429.9	49,429.9	51,264.6	51,264.6	51,264.6	37,984.0
Number of preferred shares (in thousands) (9)	31,895.5	31,895.5	18,426.6	18,426.6	18,426.6	15,016.0
U.S. GAAP:						
Net income	124.8	292.1	414.3	288.3	143.9	123.0
Basic and diluted earnings per common share (10)	1.54	3.61	5.18	3.48	1.97	1.94
Basic and diluted earnings per preferred share (10)	1.54	3.61	5.18	3.82	2.16	2.14
Depreciation and amortization	58.7	137.4	126.6	98.5	85.4	74.9

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- (1) The *real* amounts for December 31, 2005 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$2.341, which is the commercial rate reported by the Central Bank on this 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 3A. Selected Consolidated Financial Data Exchange Rates.

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- (2) Net earnings per share are calculated on the weighted average shares outstanding during each of the periods presented. Under Brazilian GAAP, net earnings per share are not retroactively adjusted for the stock dividend but are retroactively adjusted for the reverse stock split described under Item 4B. Business Overview.
- (3) See Item 8A. Consolidated Statements and Other Financial Information Dividend and Distribution policy for information regarding declaration and payment of dividends. Dividends per share do not reflect any adjustments related to the stock dividend described under Item 4B. Business Overview
- (4) Cash flow information has been derived from our consolidated financial statements prepared in accordance with Brazilian GAAP.
- (5) See Note 24(V)(i) to our consolidated financial statements.
- (6) Represents depreciation and amortization expenses included in cost of sales and services and in selling, general and administrative expenses.
- (7) The inclusion of adjusted EBITDA information is to provide a measure of assessing our ability to generate cash from our operations. Adjusted EBITDA is equal to operating income before financial items plus depreciation and amortization. In managing our business we rely on adjusted EBITDA as a means of assessing our operating performance and a portion of our management's compensation and employee profit sharing plan is linked to adjusted EBITDA performance. Because adjusted EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indicator of general economic performance that is not affected by debt restructurings, fluctuations in interest rates or effective tax rates, or levels of depreciation and amortization. Accordingly, we believe that this type of measurement is useful for comparing general operating performance from period to period and making certain related management decisions. We also calculate adjusted EBITDA in connection with covenants related to some of our financings. We believe that adjusted EBITDA enhances the understanding of our financial performance and our ability to satisfy principal and interest obligations with respect to our indebtedness as well as to fund capital expenditures and working capital requirements. Adjusted EBITDA is not a measure of financial performance under U.S. GAAP or Brazilian GAAP. Adjusted EBITDA should not be considered in isolation, or as a substitute for net income, as a measure of operating performance or as a substitute for cash flows from operations or as a measure of liquidity. Adjusted 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 expenses and income taxes, depreciation or capital expenditures and associated charges. The adjusted EBITDA presented herein relates to Brazilian GAAP, which is used in the primary financial statements included in this filing. This adjusted EBITDA calculation is expressly permitted by the Brazilian regulators that establish the accounting principles generally accepted for use in such financial statements and is included in the financial statements published in Brazil.

The tables below provide a reconciliation of net income to adjusted EBITDA and of operating income before financial items to adjusted EBITDA for the years ended December 31, 2005, 2004, 2003, 2002 and 2001:

	Ultrapar				
	Reconciliation of net income to				
	adjusted EBITDA				
	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of reais)				
Net income	299.2	414.5	246.4	222.3	132.2
Minority interest	2.8	5.4	3.6	54.5	73.0
Equity in (earnings) losses of affiliated companies	(1.6)		0.5	1.7	(1.9)
Income and social contributions taxes	28.8	83.0	44.9	71.4	27.5
Non-operating expenses (income), net	1.8	16.0	(1.0)	44.1	17.0
Financial (income) expenses, net	27.3	45.0	57.2	(28.5)	31.1
Depreciation and amortization	187.7	172.7	146.9	121.8	102.4
Non-cash operating income included in Operating income (expenses), net					(8.8)
Adjusted EBITDA	546.0	736.6	498.5	487.3	372.5

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Reconciliation of operating income****before financial items to adjusted EBITDA
Year ended December 31,****2005 2004 2003 2002 2001**
(in millions of reais)

Operating income before financial items	358.3	563.9	351.6	365.5	278.9
Depreciation and amortization	187.7	172.7	146.9	121.8	102.4
Non-cash operating income included in Operating income (expenses), net					(8.8)

Adjusted EBITDA	546.0	736.6	498.5	487.3	372.5
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**Ultragaz
Reconciliation of operating income****before financial items to adjusted EBITDA
Year ended December 31,****2005 2004 2003 2002 2001**
(in millions of reais)

Operating income before financial items	77.8	152.7	113.2	143.2	101.1
Depreciation and amortization	117.3	116.2	95.0	76.6	61.9

Adjusted EBITDA	195.1	268.9	208.2	219.8	163.0
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**Oxiteno
Reconciliation of operating income****before financial items to adjusted EBITDA
Year ended December 31,****2005 2004 2003 2002 2001**
(in millions of reais)

Operating income before financial items	257.9	382.9	207.0	199.9	146.6
Depreciation and amortization	42.3	38.1	36.2	32.8	30.2

Adjusted EBITDA	300.2	421.0	243.2	232.7	176.8
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**Ultracargo
Reconciliation of operating income****before financial items to adjusted EBITDA
Year ended December 31,****2005 2004 2003 2002 2001**
(in millions of reais)

Operating income before financial items	17.2	23.0	24.7	17.6	27.4
Depreciation and amortization	27.1	17.5	15.3	11.6	9.5
Non-cash operating income included in Operating income (expenses), net					(8.8)

Adjusted EBITDA	44.3	40.5	40.0	29.2	28.1
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- (8) Net cash (debt) is included in this document in order to provide the reader with information relating to our overall indebtedness and financial position. Net cash (debt) is not a measure of financial performance or liquidity under U.S. GAAP or Brazilian GAAP. The table below provides a reconciliation of our consolidated balance sheet data to the net cash (debt) positions shown in the table, for the years ended December 2005, 2004, 2003, 2002 and 2001.

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	Ultrapar				
	Reconciliation of cash and cash equivalents to net cash (debt)				
	Year ended December 31,				
	2005	2004	2003	2002	2001
	(in millions of reais)				
Short-term investments	184.8	22.4	41.0		
Long-term investments	372.7	38.8			
Short-term financing	(184.0)	(381.6)	(381.6)	(219.8)	(124.5)
Short-term debentures	(17.9)				
Long-term financing	(978.6)	(258.1)	(306.3)	(363.6)	(290.2)
Long-term debentures	(300.0)				
Net cash (debt) position	191.2	46.0	(78.1)	54.5	241.3

(9) The number of shares is retroactively adjusted for the reverse stock split.

(10) The calculation of earnings per share is retroactively adjusted for stock dividend and reverse stock split for all the periods presented.

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	As of December 31,					
	2005(1)	2005	2004	2003	2002	2001
	(in millions of U.S.dollars or reais, where indicated)					
Consolidated Balance Sheet Data:	US\$	R\$	R\$	R\$	R\$	R\$
Current assets						
Cash and cash equivalents	476.0	1,114.2	624.5	568.8	637.9	656.0
Short-term investment	79.0	184.8	22.4	41.0		
Trade accounts receivable	146.7	343.3	369.3	322.3	278.0	149.2
Inventories	81.9	191.7	210.3	137.7	106.3	94.5
Recoverable Taxes	26.9	62.9	73.0	115.5	115.1	121.2
Other	16.7	39.4	45.4	33.4	49.6	24.3
Total current assets	827.2	1,936.3	1,344.9	1,218.7	1,186.9	1,045.2
Long-term assets						
Long-term investments	159.2	372.7	38.8			
Related companies	1.6	3.7	3.1	2.8	2.6	1.7
Deferred income and social contribution taxes	26.1	61.0	36.3	61.4	33.3	27.3
Recoverable Taxes	20.0	46.8	36.6			
Other	23.6	55.4	28.5	20.7	11.5	13.0
Total long-term assets	230.5	539.6	143.3	84.9	47.4	42.0
Permanent assets						
Investments	13.8	32.3	31.8	33.1	33.0	88.8
Property, plant and equipment, net	458.3	1,072.7	1,047.4	968.6	779.5	707.9
Deferred charges, net	42.0	98.3	99.8	102.7	81.1	68.1
Total permanent assets	514.1	1,203.3	1,179.0	1,104.4	893.6	864.8
TOTAL ASSETS	1,571.8	3,679.2	2,667.2	2,408.0	2,127.9	1,952.0
Current liabilities						
Loans, financing and debentures	86.3	201.9	381.6	381.6	219.8	124.5
Trade accounts payable	38.8	90.9	102.0	90.3	104.4	88.4
Payroll and related charges	28.2	66.1	94.1	74.7	64.4	50.2
Dividends payable	44.4	103.9	74.7	41.7	49.0	33.6
Other	10.9	25.5	33.0	44.5	30.6	27.2
Total current liabilities	208.6	488.3	685.4	632.8	468.2	323.9
Long-term liabilities						
Loans, financing and debentures	546.2	1,278.6	258.1	306.3	363.6	290.2
Related companies	2.1	5.0	8.8	9.0	10.2	11.0
Other taxes and contributions	26.0	60.8	52.1	40.9	28.5	62.4
Other	11.5	26.8	34.1	30.1	35.3	24.8
Total long-term liabilities	585.8	1,371.2	353.1	386.3	437.6	388.4
TOTAL LIABILITIES	794.4	1,859.5	1,038.5	1,019.1	905.8	712.3
Minority Interest	12.6	29.6	28.2	32.2	31.0	439.8
Stockholder s equity						
Capital	404.2	946.0	664.0	664.0	664.0	433.9
Capital reserve	0.1	0.3	0.1			
Revaluation reserve	6.4	15.0	16.4	17.8	26.0	25.9
Reserves and retained earnings	354.1	828.8	920.0	674.9	501.1	340.1
TOTAL STOCKHOLDER S EQUITY	764.8	1,790.1	1,600.5	1,356.7	1,191.1	799.9

TOTAL LIABILITIES STOCKHOLDER S EQUITY	1,571.8	3,679.2	2,667.2	2,408.0	2,127.9	1,952.0
U.S.GAAP						
Total assets	1,544.9	3,616.1	2,595.9	2,343.6	2,004.2	1,892.0
Total stockholders equity	736.5	1,723.9	1,545.8	1,294.8	1,076.5	748.5

- (1) The *real* amounts for December 31, 2005 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$2.341, which is the commercial rate reported by the Central Bank on this 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 3A. Selected Consolidated Financial Data Exchange Rates.

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

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

On March 4, 2005, the National Monetary Council enacted Resolution No. 3265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified in a sole exchange market, effective as of March 14, 2005. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency and the international transfer of *reais* by a person or legal entity, without limitation of the amount involved, provided, however, the legality of the transaction. Foreign currencies may only be purchased through financial institutions domiciled in Brazil authorized to operate in the exchange market.

Following the introduction of the *real* in 1994 and through 1998, the Central Bank maintained a band system exchange rate, under which the exchange rate between the *real* and the U.S. dollar would fluctuate within a pre-established moving band. In January 1999, due to market pressures, the Central Bank abolished the band system and allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the exchange rate has been established by the market and has fluctuated considerably, reporting a maximum quotation of R\$3.955 per U.S.\$ 1.00 on October 22, 2002. Since the liberalization of the exchange rate, the Central Bank has intervened occasionally to control unstable movements in the foreign exchange rate. It is not possible to predict whether the Central Bank will continue to let the *real* float freely or whether the *real* will remain at its present level. Accordingly, it is not possible to predict what impact the Brazilian government's exchange rate policies may have on us. The Brazilian government could impose a band system in the future or the *real* could devalue or appreciate substantially. See Item 3D. Risk factors Risks Relating to Brazil.

On April 30, 2006, the exchange rate for *reais* into U.S. dollars was R\$2.089 to U.S.\$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.

Year Ended	Exchange rates of nominal <i>reais</i> per U.S.\$1.00			Period-End
	High	Low	Average	
December 31, 2001	2.801	1.936	2.353 ₍₁₎	