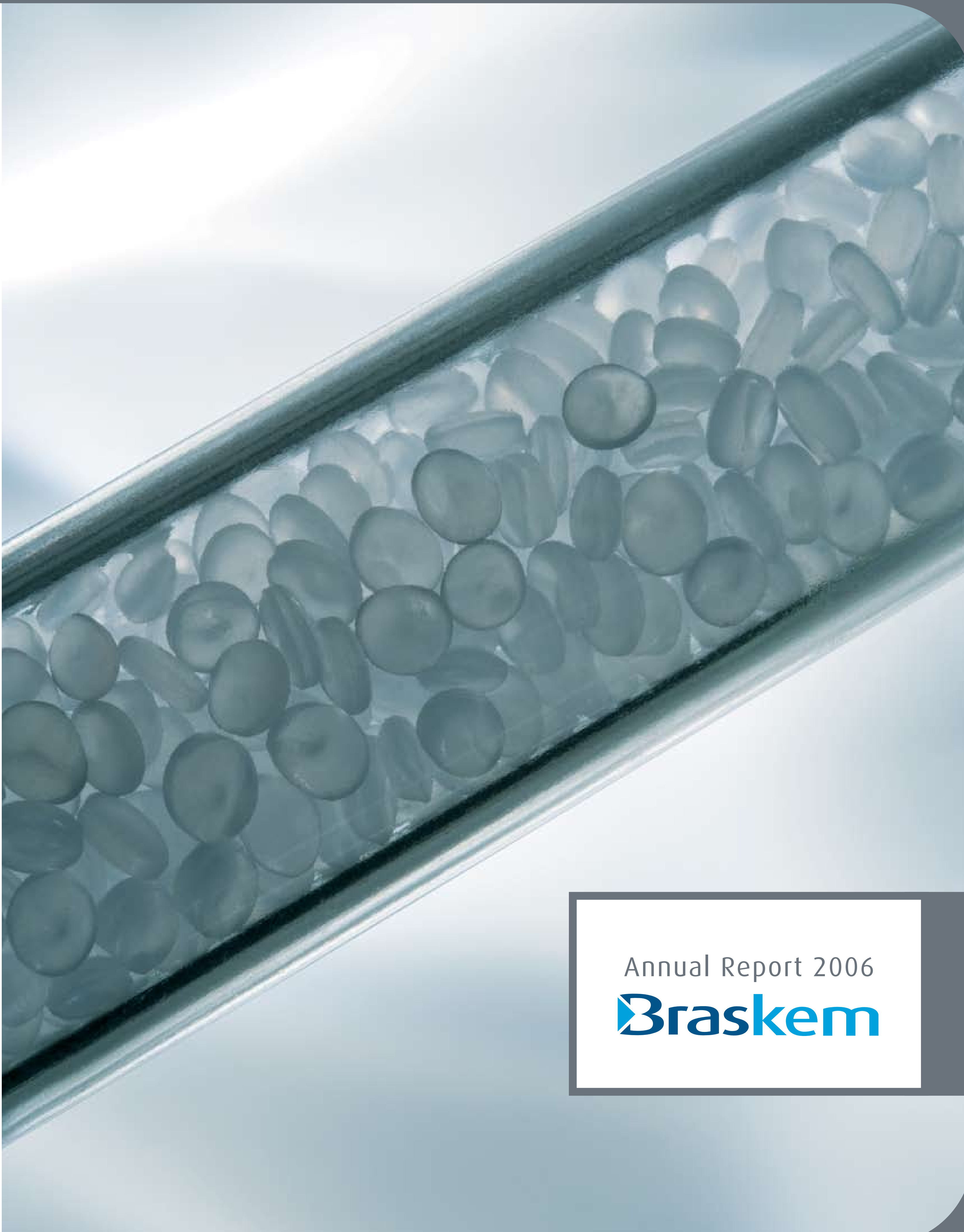
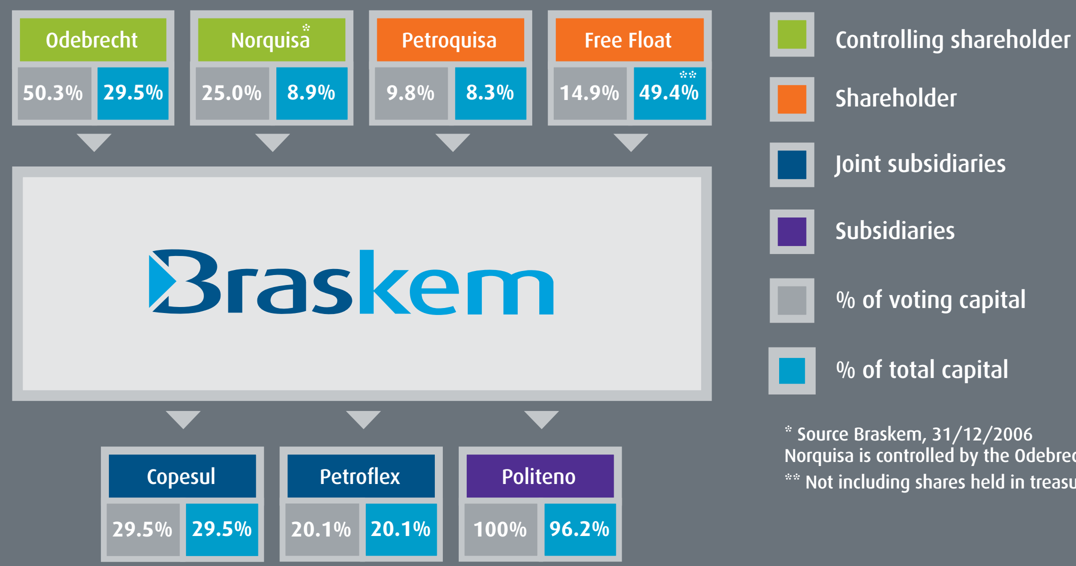


Annual Report 2006

Braskem

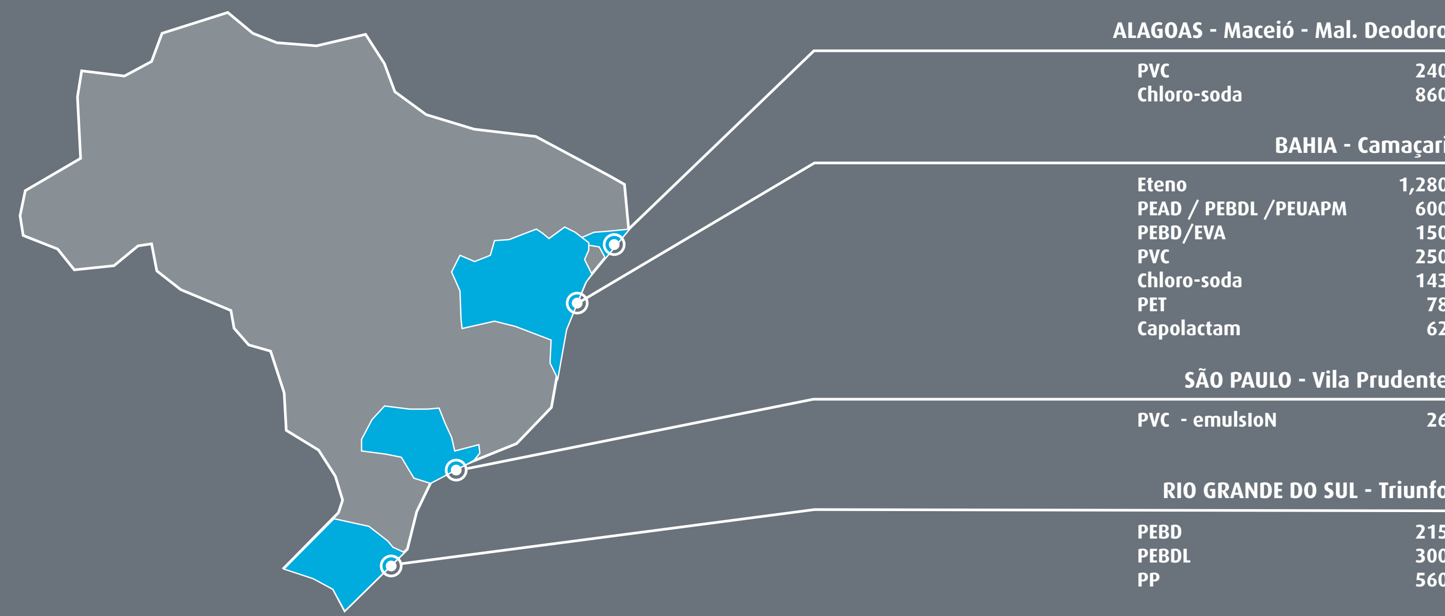
Alignment of Shareholders Interests

Shareholding Structure (12/31/2006)



* Source Braskem, 31/12/2006
Norquisa is controlled by the Odebrecht Group
** Not including shares held in treasury

Modern and Competitive Industrial Assets



Main Indicators

OPERATIONAL (TONS)	2002	2003	2004	2005	2006	Var 2005/2006 (%)
Production Volume[1]	2,514,837	2,609,675	2,804,198	2,980,074	3,062,290	2.8%
Thermoplastics[2]	1,525,561	1,568,817	1,698,588	1,814,755	1,958,321	7.9%
Polyethylene	652,443	676,682	741,698	772,166	971,484	25.8%
Polypropylene	412,243	438,747	463,077	528,980	542,781	2.6%
PVC	401,844	396,827	421,619	447,376	444,056	-0.7%
Ethylene	989,276	1,040,858	1,105,610	1,165,319	1,103,969	-5.3%
Sales Volume[1]	2,527,354	2,610,533	2,766,521	2,957,829	2,265,738	-23.4%
Thermoplastics[2]	1,532,528	1,563,208	1,667,639	1,788,023	1,957,876	9.5%
Polyethylene	660,165	667,977	704,677	768,167	995,178	29.6%
Polypropylene	411,437	441,066	460,974	517,502	529,944	2.4%
PVC	399,588	397,856	427,740	441,940	432,754	-2.1%
Ethylene	994,826	1,047,325	1,098,882	1,169,806	307,862	-73.7%

* Includes 236,000 tons of production from Politeno
** Reduced in 2006 to 232,186 tons due to a transfer to Politeno between April and December

ECONOMIC AND FINANCIAL DATA (R$ MILLION)	2002	2003	2004	2005	2006	Var 2005/2006 (%)
Gross Revenues	8,858	11,284	14,342	15,200	14,991	-1%
Net Revenues	6,991	9,191	11,044	11,615	11,719	1%
EBITDA*	1,335	1,777	2,549	2,088	1,645	-21%
Net Financial Result	(2,805)	(656)	(1,181)	(652)	(902)	38%
Net Income	(794)	215	691	680	82	-88%
Investments	364	176	374	717	719	0%
Net Debt	6,815	6,258	3,868	3,404	4,515	33%
Net Debt (US$ million)	1,929	2,166	1,457	1,454	2,112	45%
Net Debt/EBITDA	5,1	3,5	1,5	1,6	2,7	68%

Excluding the effects of proportional consolidation (CVM-247) including effects of CVM instruction 408
* Earnings Before Interest, Tax, Depreciation and Amortization

Highlights

Financial and Economic Performance

NET REVENUES (R$ MILLION)
11,719 2006
11,615 2005
+1%

GROSS REVENUES (R$ MILLION)
14,991 2006
15,200 2005
-1%

EBITDA (R$ MILLION)
1,645 2006
2,088 2005
-21%

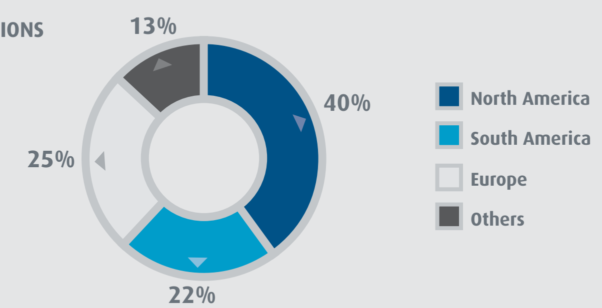
NET EARNINGS(R$ MILLION)
82 2006
680 2005
-88%

EVOLUTION IN NET DEBT (R$ MILLION)
4,515 2006
3,404 2005
+33%

NET DEBT/EBITDA (UDM - LAST 12 MONTHS)
2.7 2006
1.6 2005
+68%

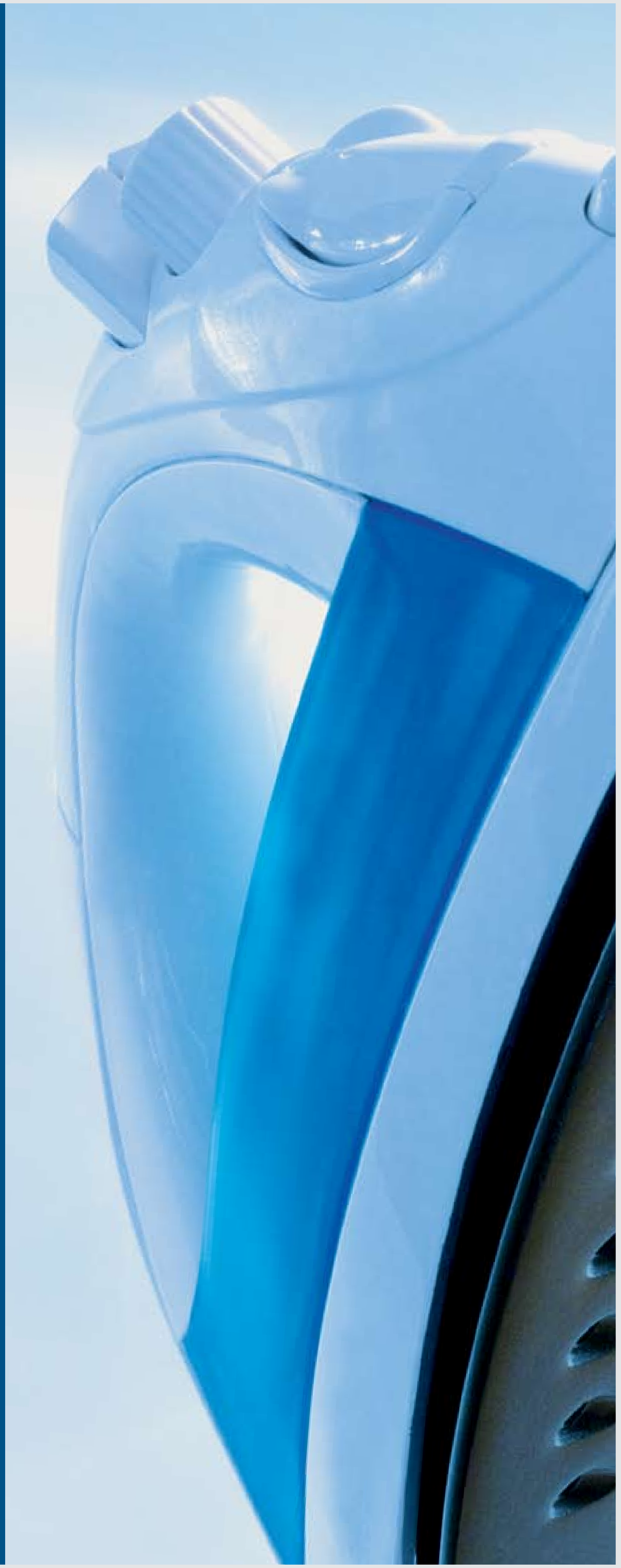
EXPORT PATTERN (US$ MILLION)
1,382 2006
959 2005
+44%

EXPORT DESTINATIONS



Annual Report 2006

Braskem



Index

Message from the Management

The performance of Braskem and 2006 confirmed the Company's capacity to overcome an adverse scenario, with oil prices reaching record levels. Gross revenue in US dollars, the benchmark currency for the petrochemical market, amounted to US$ 6.9 billion, 10% higher than in 2005. Net earnings amounted to R$ 82 million.

Lightness

Nature offers a countless of finished products to mankind, outstanding for their lightness not only in the literal sense, but also in terms of the harmony of their lines, as in the case of feathers. These attributes are present in modern office organizers made out of plastic, which have great advantages over the old-fashioned and heavy boxes made out of traditional materials, such as wood and metal.

CHAPTER
01

In 2006 Braskem confirmed its inherent talent to grow, making substantial progress towards becoming one of the world's 10 largest petrochemical companies in the world.

In addition to speeding up its programs focused on improving competitiveness and productivity, such as Braskem+ and "Fórmula Braskem", the Company continued with the implementation of its expansion strategy – which combines organic growth in the regional market, through the increase of its production capacity and strategic acquisitions, access to competitive sources of raw material, as well as opportunities for internationalization, the focus always being on creating value.

The acquisition of Politeno in 2006 was an important step for the Company in the consolidation of Brazil's petrochemical sector, essential for strengthening and improving the competitiveness of the industry. Through this transaction, Braskem increased its annual polyethylene production capacity by 360,000 tons – strengthening its leadership in the regional market for this resin, as well as improving its portfolio of products and clients. This acquisition represents potential synergy savings of US$ 143 million, in terms of net present value. The approval given by CADE, Brazil's anti-trust authority, in a unanimous decision without restrictions, reinforces the belief that the international market is of major importance for the petrochemical sector.

The beginning of the construction of Petroquímica Paulínia, a joint venture with Petroquisa in which Braskem has a stake of 60%, is in line with the Company's organic growth strategy. The project consists of a new polypropylene production unit in Paulínia, in the state of São Paulo, with an annual capacity of 350,000 tons and estimated investment of around R$ 700 million. The new plant will operate on a global scale, using cutting-edge technology and access to competitively priced raw material, as well as being located at the heart of Brazil's main consumer market. The project's implementation is right on schedule, with operational start-up programmed for the first half of 2008.

"In addition to accelerating its programs focusing on improving competitiveness and productivity, Braskem has continued with its expansion strategy, which combines organic growth in the regional market, access to new sources of competitive raw material and opportunities for internationalization, always focusing on value creation."

Aiming at ensuring access to new types of competitive raw material and achieving another step towards the Company's internationalization, Braskem is analyzing two important investment projects in Venezuela, in partnership with Pequiven: a polypropylene unit, with an annual production capacity of 450,000 tons, designed to begin operations from the end of 2009; and an integrated petrochemical complex using natural gas in the Jose region in the state of Anzoátegui, consisting of a basic petrochemicals center with the capacity to produce 1.3 million tons of ethylene, integrated with polyethylene production units and units for the manufacture of other petrochemical products, with operational start-up envisaged for the end of 2011.

The Jose complex combines all the requirements to become the most competitive petrochemical project in the Americas, with conditions similar to those found in the best petrochemical projects in the Middle East. In addition to the technical characteristics of the project – such as production scale, technology and access to one of the world's largest gas reserves – it also has a very favorable location and excellent logistics, which will enable it to supply both the Venezuelan market and countries on the eastern coast of South America, as well as exporting to the markets of North America and Europe. To speed up the implementation of the project, Braskem set up an operational base in Venezuela in 2006, with a highly experienced and competent team.

With the aim of establishing an increasingly close relationship with its international clients and providing them with a better service, in 2006 Braskem opened up an operational base for the development of markets in Europe – with head offices in Holland and a distribution center in Belgium, as well as strengthening its operations in the United States and Argentina. This strategy contributed to record exports in 2006 – of US$ 1.4 billion in net revenue terms, 44% higher than that achieved in 2005.

Braskem's performance in 2006 confirmed the Company's ability to cope with and overcome an extremely adverse economic scenario – with oil prices reaching record highs and the entry of a new player into the domestic polyethylene market, in the first half of the year. In this context, the Company's gross revenues amounted to R$ 15 billion. Expressed in US dollars, the benchmark currency for the petrochemical sector, gross revenues amounted to US$ 6.9 billion – up 10% on the previous year. EBITDA amounted to US$ 758 million, compared to US$ 851 million in 2005, reflecting the impact of the increase in the price of naphtha. Net earnings in 2006 amounted to R$ 82 million.

In 2006 Braskem became even more efficient as a result of the implementation and the consolidation of programs focused on increasing competitiveness and productivity. "*Fórmula Braskem*" simplified the business process and provided a new system of integrated management, offering a higher quality of information, as well as more flexibility in decision-making and serving its clients. While the operational excellence program Braskem+ was concluded one year ahead of schedule, which will enable the Company to fully capture the benefits of this program as of 2007, with annualized recurring gains of R$ 437 million, 4% higher than the initial estimates. Opportunities for further gains are also being identified, strengthening the Company's culture of continually improving and developing its processes.

The Company gives priority to maintaining its self-sufficiency in technology and its capacity for innovation through a policy of consistently investing in research and development, aimed at meeting clients' demands, ensuring their loyalty and guaranteeing the supply of products with a differentiated performance. As a result of this strategy, the sales of new resins launched in the last three years represented approximately 20% of the net revenue obtained from resin products in 2006. The Company's position as an innovator was strengthened during the period due to the opening – in the state of Bahia – of a center for the development of ultra high molecular weight polyethylene – UTEC®, a resin with a high aggregate value of which the Company is one of the world's largest producers.

José Carlos Grubisich | CEO

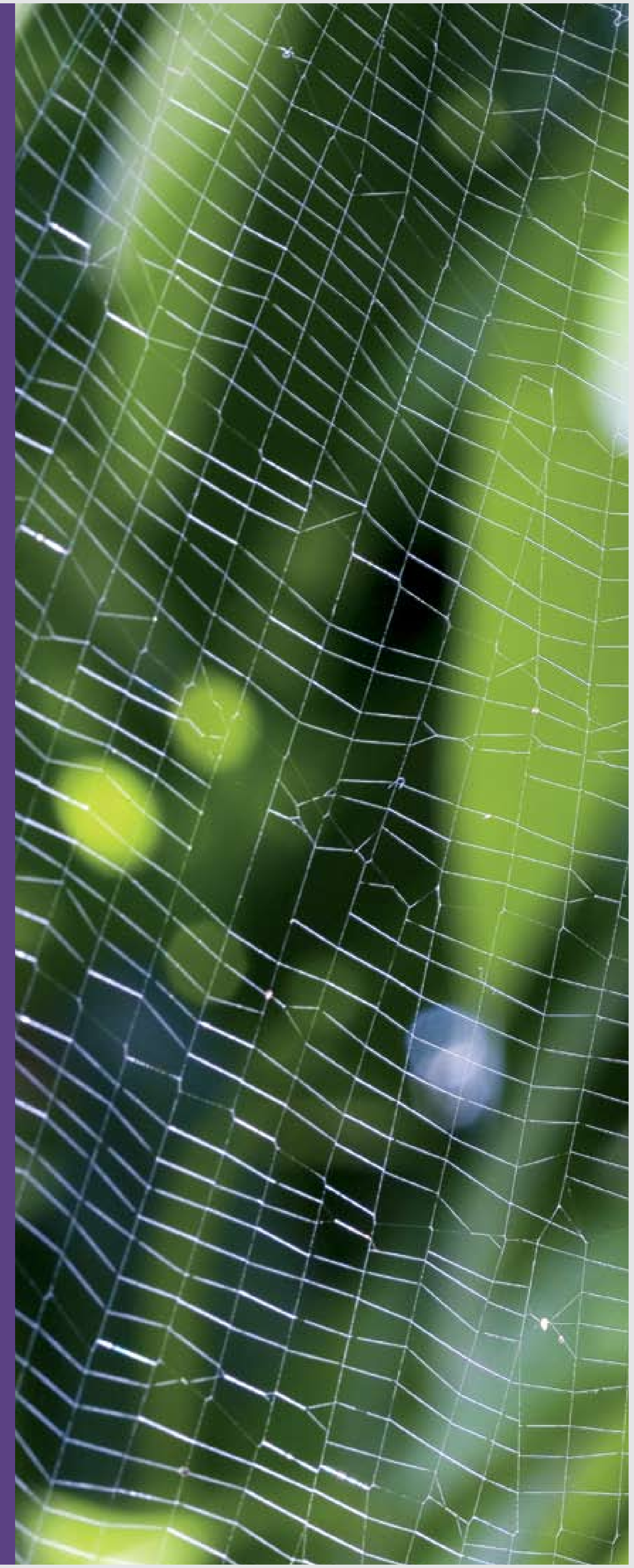
"Transparency in management, commitment to the best corporate governance practices and the alignment of all shareholders interests, are priorities in our strategy for value creation."

Inherent talent to lead the market

Braskem intends to reach its strategic objectives through access to competitive raw material and the organic growth of its operations through consolidation opportunities in the regional petrochemical sector, expanding its current production capacity and the construction of new units in Brazil, as well as selective internationalization projects.

Strength

Braskem has developed a resin for the production of UTEC® fibers, a material which is outstanding for its strength and resistance, imbuing it with natural qualities found in spider webs and recommended for use in bullet-proof clothing and the armor plating of military vehicles.



CHAPTER
02

PROFILE

Braskem is the leader on the Latin American thermoplastic resin market, with a focus on polyethylene, polypropylene and PVC.

In accordance with the principles of publicly owned companies, the Company is committed to the creation of value for all its shareholders, guided by its strategy of expanding its market leadership, increasing competitiveness in terms of cost, and technological self-sufficiency.

With gross annual revenue of R$ 15 billion, Braskem produces more than 6 million tons a year of first and second generation chemical and petrochemical products in its 14 plants in Brazil. For its operations, the Company has a capable and technically competent team of 3400 employees, as well as being responsible for a further 5000 indirect jobs.

As part of its expansion plans, Braskem has been strengthening its experience in international markets. With commercial and distribution operations in Argentina, the United States and Europe, the company has established itself as one of Brazil's largest exporters, with international sales of US$ 1.4 billion. With a view to gaining access to alternative sources of raw material on competitive terms, and broadening its strategic flexibility, Braskem has been making progress on the internationalization front, its strategy including investment opportunities in Venezuela.
Committed to sustainable development and the best corporate governance practices, the Company has been part of the Bovespa ISE (corporate sustainability index) since its creation in 2005. Having one of the highest trading volumes in the market, Braskem's average daily volume is around R$ 25 million, with shares listed on the New York Stock and Madrid Stock Exchanges.

GROWTH AND COMPETITIVENESS

Braskem's strategy is aligned with its vision of positioning itself among the top 10 petrochemical companies in the world, in terms of market capital, combining growth in the regional market, carrying out investment in new projects with a high rate of return and expanding its operations in the international market. The Company has been implementing continuous efficiency and productivity improvement projects, as well as carrying out selective expansion to its production, and the use of innovative technology as an efficient lever to create value for its shareholders and customers. All these initiatives are aimed at ensuring that Braskem's operations have a higher return than its cost of capital, at any point in the petrochemical cycle.

Organic growth and internationalization

Braskem intends to reach its strategic objectives through access to competitive raw material and organic growth in its operations through consolidation opportunities in the regional petrochemical sector, expanding its current production capacity and constructing new units in Brazil, as well as selective internationalization projects. The initiatives currently being developed by the Company are capable of doubling the production capacity of its main resins – polyethylene, polypropylene and PVC – over the next five years, to approximately 5 million tons a year.

In Braskem's view, the continuing process of consolidation in Brazil's petrochemical sector is necessary to improve the competitiveness of the sector. With the acquisition of complete control of Politeno, in 2006, the Company took another important step in this direction, increasing its leadership in the polyethylene market. In order to better serve its customers, the Company plans to invest in the expansion of its facilities located at Camaçari (BA), which will involve an initial increase of 20,000 tons a year to the current production capacity of 360,000 tons.

The setting up of Petroquímica Paulínia, in partnership with Petroquisa, is an important part of the Company's strategy. With 60% of the joint venture, Braskem will have control of this business, which is located in Paulínia, in the state of São Paulo. The unit will have the capacity to produce up to 350,000 tons a year of polypropylene based on competitive raw material supplied by Petrobras. The implementation of this project is proceeding on schedule, with the unit expected to begin operations in the first half of 2008. The modern technology being used, which has a very low environmental impact, is being supplied by Braskem itself.

Braskem is evaluating other expansion projects in its industrial facilities. One of these involves expansion of 150,000 tons of PVC production capacity in its plants in Bahia and Alagoas. This initiative will allow the Company to meet growing demand for resin in the domestic market, associated with the good performance in the construction and infrastructure sectors.

The Company is also examining expansion projects in the production of polypropylene, a thermoplastic resin which has been showing the highest consumption growth rates – of approximately 10% a year. To keep pace with the dynamic expansion in this market, Braskem plans to construct a new

In Braskem's view, continuing consolidation in the Brazilian petrochemical industry is necessary for improving competitiveness in the sector.

resin plant in Camaçari, in Bahia, with a production capacity of approximately 300,000 tons a year, expected to start operations at the beginning of the next decade.

In line with its goal of increasing competitiveness and flexibility through access to competitive and diversified raw material, Braskem is evaluating investment opportunities in Venezuela, which has one of the highest reserves of oil and gas in the world, in partnership with Pequiven. With the guarantee of gas supplies from Venezuela under preferential conditions, Braskem will have access to an alternative raw material to naphtha for the manufacture of resins at a more competitive cost, achieving a better balance among its sources of raw material. This initiative should be able to establish a new level of competitiveness for petrochemicals in Latin America.

The two projects being analyzed by Braskem in Venezuela, to be installed in the Jose Industrial Complex in partnership with the Venezuelan state-owned company Pequiven, are the construction of a unit for the production of polypropylene with an annual production capacity of 450,000 tons and an ethylene production unit with a capacity of 1.3 million tons, integrated to polyethylene plants and other petrochemical products. The polypropylene unit should begin operations at the end of 2009, while the complex integrated with polyethylene production should be complete by the end of 2011. Investments for both projects are estimated at approximately US$ 3.0 billion.

The decision to integrate the two projects in the same complex provides additional potential for synergy savings in their implementation and operation, further increasing their competitiveness. The Jose complex has logistics and infrastructure facilities which will allow the business to supply the Venezuelan market and countries on the Andean coast, as well as serving as an export base to North America and Europe, under very attractive conditions. Braskem is working together with a group of customers interested in participating in the project with investment in the installation of companies in the conversion industry, integrated with the complex, for the manufacture of plastics.

In the context of its internationalization strategy, in 2006 Braskem expanded its global presence with the inauguration of a base for operations and business development in Europe, headquartered in Rotterdam, in Holland, which has Europe's largest port, and a distribution center in Antwerp, in Belgium. The Company has also strengthened its operations in Argentina and the United States and plans to open an affiliate company in Asia, to take advantage of business opportunities in this dynamic market. These investments aim to meet customer demands with greater flexibility, increasing the profitability of the Company's operations and deepening its knowledge of strategic markets.

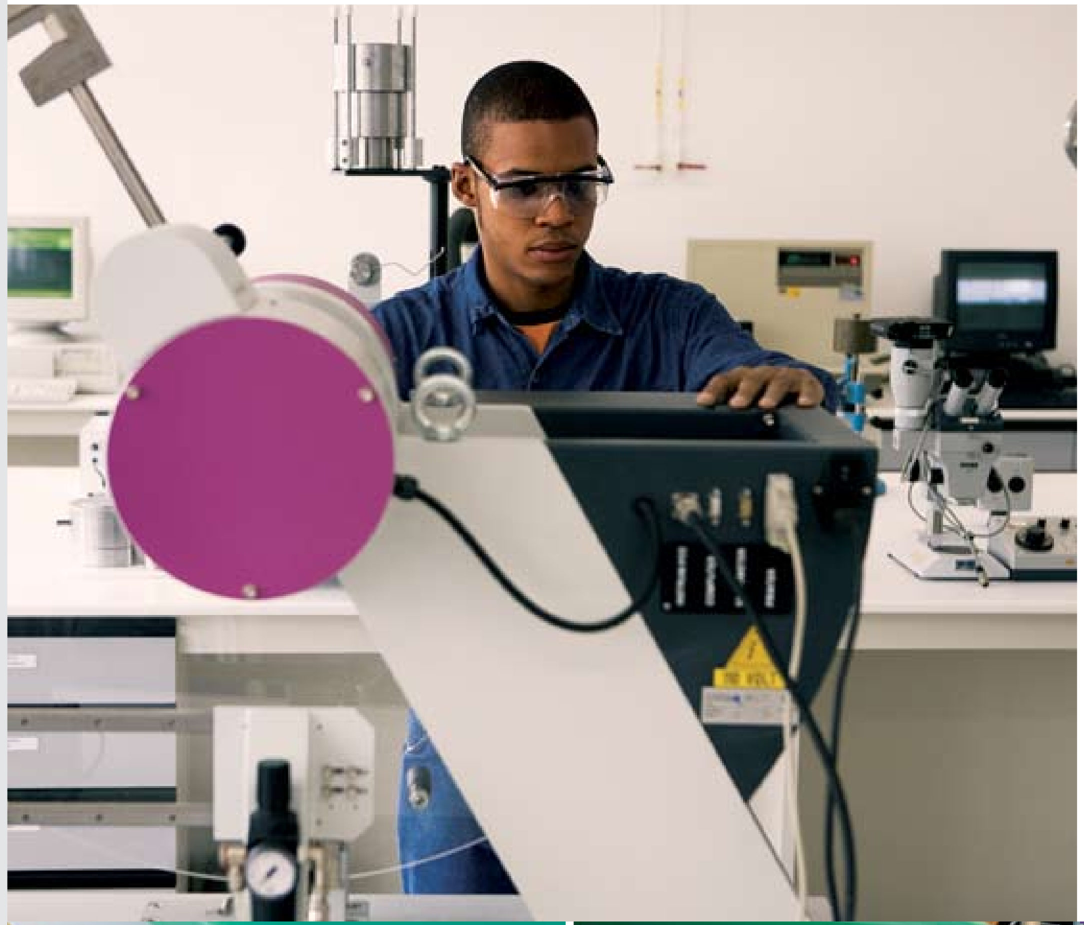
Innovation & Technology

Since its creation, in 2002, Braskem has made technological self-sufficiency central to its strategy, which is reflected in the priority given to the area of research and development. This positioning is aligned to the commitment of creating value for all the Company's shareholders and contributing to the improved competitiveness of its customers and the entire petrochemical and plastic production chain.

Braskem's Innovation and Technology Center plays an important role in the Company's innovation strategy. With assets of more than R$ 330 million and annual investment of approximately R$ 50 million, it is the most modern and complete research and development center in Latin America, its main base of operations being the Triunfo Complex, in the state of Rio Grande do Sul. The center has more than 170 highly qualified researchers and seven pilot plants for the development of processes and new resins. The Company maintains partnerships with well-known national and international entities and works alongside customers identifying business opportunities and offering products, services and innovative solutions with a high added value.

The new resins developed by Braskem in the last three years, including the 10 launched last year, represented approximately 20% of net revenue obtained by Braskem through the sale of thermoplastic resins in 2006.

Braskem's Technology and Innovation Center performs an important role in the Company's strategy. With assets of R$ 330 million and annual investment of R$ 50 million, it is the most modern and complete research and development center in the sector in Latin America. It has more than 170 researchers and seven pilot plants for the development of processes and new resins



In 2006 Braskem inaugurated a UTEC® resin development center (ultra-high molecular weight polyethylene) at the Camaçari Complex, in Bahia (adjacent photograph). UTEC® (shown in detail, below left) is a resin with great resistance to impact, abrasion and low temperatures, with applications in the mining and automotive industries. There is great demand for this resin in the United States and Europe. The photo below shows a detail of the Camaçari Complex in Bahia.

The innovation projects initiated this year have a net present value of approximately US$ 100 million, which can be added to the other US$ 150 million related to previous projects under development. The Company has a total of 151 patents – 14 of them registered in 2006.

Braskem expanded its activities in this area in 2006, with the modernization of its PVC development center in São Paulo and the inauguration of a UTEC® resin research centre (ultra-high molecular weight polyethylene) in the Camaçari Complex in Bahia. With a high resistance to impact, abrasion and low temperatures, UTEC® has a wide application in the mining and automotive industry, and strong demand in the United States and Europe.

Its performance in innovation and technology gained recognition for Braskem in 2006 in the sector, such as the Finep Award for Technology and Innovation – Southern Region, for the innovative management system developed by the company, and the Anísio Teixeira Award, granted by the Amparo Research Foundation in Bahia, in the category of "Innovative Company".

New frontiers in innovation

Successful technological breakthroughs have enabled Braskem to offer its customers resins with outstanding properties, creating additional value and competitiveness for its products. Nanotechnology is a good example of this. After being the first Brazilian petrochemical company to file a patent in this area of knowledge, which constitutes one of the most promising frontiers in polymer science, the company maintained its supremacy by launching a resin with nano-particles in the local market in 2006.

This polypropylene formula has a much higher resistance to impact, among other properties, and is already being tested by Braskem's customers. This resin offers significant advantages for application in machine parts for the packaging, automotive and electro-electronic industries. The potential market estimated for this product is of the order of 100,000 tons a year, which could generate an additional US$ 150 million in additional revenues over the next 10 years.

Braskem already has three patents in the area of nanotechnology. To speed up the maturing of the projects in this area, the company has created a group of specialists dedicated to developing processes and products with this technology.

The Company is also the leader in Brazil in research for the obtaining of resins from renewable raw materials, such as sugarcane and biomass. Brazil has significant advantages in the production of renewable resources and could become an international benchmark in the manufacture of biopolymers.

COMPETITIVENESS PROGRAMS

With a view to ensuring levels of competitiveness, productivity and operational reliability that are compatible with a world-class company, Braskem focuses on continually evolving its processes. Its "*Fórmula Braskem*" and Braskem+ programs are examples of initiatives aimed at improving the profitability of the company at any point in the international petrochemical cycle. Thanks to the successful implementation of these projects, the company will feel the full benefit of their effects from 2007.

With the management program 'Fórmula Braskem', the Company has improved its efficiency, competitiveness and quality of service throughout the production chain, based on better integration with the various aspects of the Company and its customers.

Fórmula Braskem

With the operational start-up of a new integrated management system in October 2006, right on schedule, "Fórmula Braskem" achieved the initial objectives of the program: the simplification of the Company's business processes, greater reliability and flexibility in decision-making and an increase in management transparency through the use of a single common information database. The implementation of this program should be completed in 2007, enabling the Company to capture gains of R$ 260 million in net present value, for an investment of R$ 130 million.

The system combines the most advanced technological tools available to the international petrochemical industry for the control of processes. The greater integration between the various aspects of the Company and its customers should result in more efficiency, competitiveness and quality of service throughout the production chain, with particular benefits in the area of logistics and supply.

As a way of increasing its efficiency, in 2006 Braskem signed an outsourced management agreement for its infrastructure in the area of information technology, which will allow the Company to focus more on the performance of its operations.

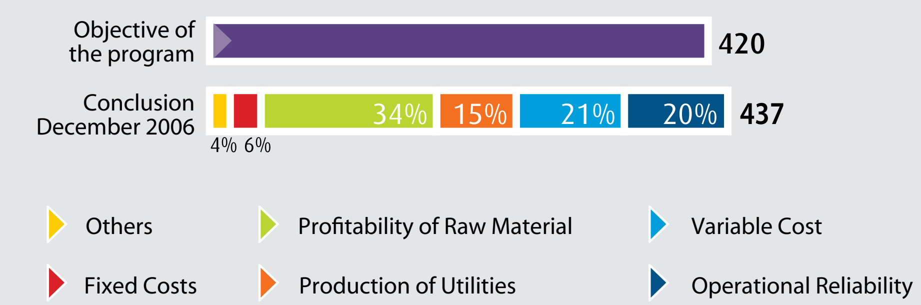
Braskem+

In 2006 Braskem completed the implementation of its operational excellence program Braskem+, a year ahead of schedule, which combines a series of initiatives aimed at positioning the Company among the most competitive petrochemical companies in the world. The resulting gains in productivity and operational efficiency amounted to R$ 437 million, on an annualized recurring basis, a result that was 4% higher than that originally estimated, which will have its full effect on the Company's performance from 2007.

With the Braskem+ program, the Company has increased its levels of industrial efficiency, improving the management of its processes, as well as its eco-efficiency.

With Braskem+, the Company has increased its level of industrial efficiency, improving the management of its processes, as well as its eco-efficiency. Among the initiatives included in the program, of particular note is the increase in the efficiency of the production of basic chemical products such as ethylene and propylene, as well as the generation of steam, and a reduction in the consumption of steam in the aromatics and utilities industrial unit. In keeping with its commitment to continually improving its productivity, through the program Braskem has identified additional new gains in competitiveness that can be achieved over the next few years. ■

Braskem+ gains by category (R$ million/year)



Focus on results

Braskem acquired Politeno, an important step in the consolidation of Brazil's petrochemical sector, adding 360,000 tons a year to its polyethylene production capacity. The Company also began construction of Petroquímica Paulínia, in partnership with Petroquisa.

Integrity

The primitive concept of packaging as a means of preserving the original characteristics of food, guaranteeing its integrity and prolonging its life, was presented by nature itself to man, who only had the work of improving its application over time. Plastic has become the material most used for this purpose and Braskem, through investing in technology and innovation, has further expanded its use.

CHAPTER 03

The full use of installed production capacity is essential for the competitiveness of the petrochemical industry and is directly related to the operational excellence of its assets and commercial flexibility, in the sense of giving priority to either the domestic or international market, in accordance with demand and profitability, among other factors.

Braskem invests on a continuing basis in the modernization and expansion of its 14 industrial units, in order to widen its margins and improve its operational reliability. In addition to this, the Company maintains its operational focus on the more profitable segments of the domestic market, which enables it to optimize the return on investment in innovation and technology, as well as seeking to increase its presence with international strategic customers.

Financial management is basically influenced by the constant search for reducing the cost of capital and adjusting Braskem's debt profile to its capacity generation. Strategic flexibility is also an important point in this area, particularly with regard to additional possible opportunities for consolidation in the petrochemical sector in the region.

MANAGEMENT OF THE BUSINESSES

The Company's central strategic element is the customer. For this reason, in Braskem's corporate culture the customer is as close as possible to the decision-making centers, so that his demands can be perceived and met with a maximum of efficiency and flexibility. To achieve these objectives, the Company uses a management model based on business units, where which each unit is responsible for the complete cycle of its business development and has complete autonomy to decide the best way to achieve the results and targets agreed upon in the planning cycle.

The business units are prepared to operate at full load in 2007, a condition which is fundamental in order to maximize the financial return in a capital intensive business such as the petrochemical industry. In 2006, these business units had to overcome significant challenges in the face of an adverse scenario, particularly on the question of raw material costs, using an industrial management and commercial policy to achieve growth in margins over the period and a new export record for the Company.

Basic Petrochemicals Business Unit

With industrial plants in Camaçari, in Bahia, Braskem's Basic Petrochemicals Unit is responsible for the management of naphtha, the businesses involving basic petrochemicals used in the production of thermoplastic resins, such as ethylene and propylene, as well as a vast range of products such as aromatics, solvents and fuels.

The Basic Petrochemicals Unit implemented significant operational improvements during 2006, which will enable it to produce an even better performance in 2007. The Unit took advantage of the natural slowdown in the market at the end of the year to carry out a short stoppage for the maintenance of one of its main industrial plants, Olefins 1, which produces ethylene and propylene.

This move enabled a better approach to the shutdown, which had been scheduled for 2007, to be postponed to 2008. As a result, the unit will be able to operate with a full load and make the most of opportunities arising from the positive scenario predicted for the petrochemical sector this year. On the other hand, the short stoppage in December resulted in a 5% drop in the volume of ethylene and propylene produced, compared to 2005.

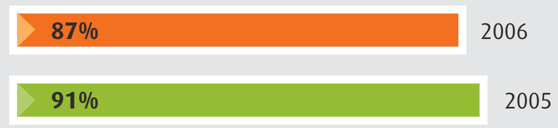
In line with the Company's strategy of broadening access to competitively priced raw material and diversifying its sources of supply in order to improve productivity and flexibility, in 2006 the unit began to receive naphtha from the Venezuelan company PDVSA, as part of a contract which is able to supply up to 50,000 tons of the product a month.

In December expansion to the isoprene unit was completed, this being a product with a higher aggregate value used in the manufacture of special adhesives. This investment enabled Braskem, the only producer of isoprene in Latin America to increase its capacity by 48%, to 26,000 tons a year.

The unit is also evaluating an investment project for the conversion of MTBE (a fuel additive subject to restrictions for environmental reasons) to ETBE, using a source of renewable raw material, ethanol. This project is in keeping with the Company's commitment to creating value for all its shareholders.

ETHYLENE

Industrial Performance – capacity utilization rate



Polyolefin Business Unit

With plants at Camaçari and Triunfo, the Polyolefin Unit is responsible for polypropylene and polyethylene operations, which have wide applications in the packaging industry, for domestic groups and electrical appliances, hygiene and beauty products, automotive products and many others. After the acquisition of Politeno, the Company increased its leadership in the domestic polyethylene market, increasing its market share from 30% to 37%.

In 2006, the unit achieved a production volume 16% higher than the previous year, with a 26% increase in polyethylene production despite the entry of a new resin producer in the Brazilian market. Politeno added approximately 236,000 tons of polyethylene production in the period from April to December. With the acquisition, Braskem's resins sales increased by 30% for the year as a whole. In 2007, the Company plans to expand the production of this plant by 20,000 tons a year, which should end the year with an overall capacity of 380,000 tons.

The good operability of the polypropylene units contributed to the high capacity utilization rate achieved of 97% – a Company record. The sales performance of this resin in the domestic market – which increased by 8% in volume terms – enabled Braskem to increase its market share in this segment and consolidate its leadership position.

In 2006, the Polyolefin Unit achieved a new export record, with particular emphasis on resins with a high technological content, such as Flexus® and UTEC®. The opening of Braskem Europe should bring the Company still closer to its customers in international markets and widening the margins of its operations on that continent.

To continuously innovate, offering new products to its customers, is one of the Unit's goals. One of the most important products launched in 2006 was the Idealis® resin, a high molecular weight polyethylene, initially developed for the European market. This new resin has outstanding profitability and application in the food and automotive industry.

It is also worth mentioning the commercial launch of a new polypropylene based on nanotechnology, four times more resistant than a resin manufactured using traditional technology. The product, a first in Latin America, was developed with an investment of R$ 5 million in a partnership with the Federal University of Rio Grande do Sul.

POLYETHYLENE

Industrial Performance – capacity utilization rate

89%	2006
94%	2005

POLYPROPYLENE

Industrial Performance – capacity utilization rate

97%	2006
94%	2005

The market share of polypropylene resin in the disposable cup segment, although recent, has been growing rapidly under Braskem's segment leadership, which developed a project for this purpose, receiving an award from Finep for Technology and Innovation in 2005.

Vinyl Business Unit

Responsible for operations associated with PVC – a resin with wide applications in the basic sanitation and building segments, as well as uses in the manufacture of hospital items, toys and shoes, among others – and for the soda and chlorine businesses, in 2006 the Vinyl Unit continued to invest in improving its productivity and competitiveness, as well as maintaining its operational excellence.

Positively influenced by sales in the building sector, which accounts for approximately 65% of resin production, the unit achieved a 6% increase in sales in the domestic market. If the good performance in the sanitation and building sectors continues, Braskem may implement two projects to increase its PVC production by 150,000 tons a year, being 80,000 tons/year at the Alagoas industrial plant and 70,000 tons at the Camaçari unit.

As a way of stimulating new resin applications in the market, replacing other materials, Braskem has been investing in its Neo PVC program, with the objective of developing innovation projects in partnership with university institutions. With this aim in mind, last year agreements were signed with the Federal University of São Carlos, the Educational Society of Santa Catarina and the Polytechnic School of the University of São Paulo (USP).

Offering innovative solutions on a regular basis to its customers is one of the priorities of the Unit, which in 2006 launched the new Norvic® SP 767 Processa+ resins. Aimed at the infrastructure segment, this product allows the manufacture of high-strength pipe, with the potential to serve both the domestic as well as the export market. Another breakthrough was the development of a new compound used in carpets for the automotive industry.

PVC

Industrial Performance – capacity utilization rate

International Business Development Unit

Created in 2006, the Unit is responsible for the identification of new opportunities in the international market. The Unit has been developing two projects in Venezuela, with the support of a highly experienced and competent team which Braskem set up in Caracas at the end of the year to speed up negotiations.

An agreement was signed last year with Pequiven for the development of feasibility studies for the construction of an industrial plant with a production capacity of 450,000 tons a year of polypropylene. The Company expects to set up a joint venture in 2007 on an equal corporate and economic basis with Pequiven, to begin the contracting of the engineering project for the unit.

The Company has signed another agreement with Pequiven which could result in the building of the most competitive petrochemical project in the Americas. In addition to having an abundant source of raw material, natural gas, at preferential prices, the complex for the production of 1.3 million tons a year of ethylene integrated to the polyethylene units and the other petrochemical industries will be able to take advantage of the logistics and infrastructure already available at the Jose Complex, where the project is located. By the same token, due to its privileged location on the Venezuelan coast, the complex will have easy access to export markets in the US and Europe

For 2007, the Company expects to conclude the contracts regarding the base project. Braskem has been making efforts to attract Company customers interested in investing in the Jose Complex, to set up plastic manufacturing industries, which would stimulate the economic and social development of the region and increase the competitiveness of the project.

Supply Management

Braskem continually seeks to diversify access to its main raw material, naphtha, as a way of increasing its competitiveness and productivity. Most of the naphtha used by the Company is bought from Petrobras, which accounts for approximately 70% of the acquisition of this raw material by Braskem.

Additional demand is supplied through contracts with suppliers located mainly in North Africa. In 2006, the Company started to purchase naphtha from Venezuela, under a strategic agreement entered into with PDVSA, the Venezuelan state oil company. This partnership could meet up to 15% of Braskem's requirements.

With the support of programs focused on supply management, Braskem has managed to achieve a better return in its naphtha processing, combining raw material from different sources and variations in its composition, in accordance with the Company's industrial planning and the mix of products that it wishes to obtain.

Logistics

In order to optimize the management of its main raw material, Braskem plans to increase its naphtha storage capacity at Camaçari from 160,000 m³ to 220,000 m³, so as to better segregate products from different sources and with different specifications, as well as providing greater operational flexibility. This initiative will also allow the importing of naphtha in greater quantities per shipping, with more competitive maritime freight rates.

Improvement to its logistics network is a point of constant concern for the Company. In 2006, the greatest progress was made in managing to increase the proportion of bulk solid products carried out through coastal shipping, with a resulting improvement in competitiveness. Braskem also signed a contract for the renewal of its fleet of ships which provide its bulk liquid transport coastal shipping needs.

With regard to highway transport the regular use of reverse tenders in the contracting of services has enabled the Company to achieve significant competitive gains. In addition to this, in combination with partner companies, Braskem inaugurated two logistics centers – *Celogs* – one in Triunfo, in Rio Grande do Sul, and the other in Alagoas, with the aim of offering freight companies a better support infrastructure in the loading and unloading areas. Camaçari, in Bahia, will also have its own *Celog* from 2007. ■

Braskem's distribution system operates in a flexible and adaptable manner to meet the needs of its customers and those of the markets, independently of size. The "big bags" (shown in the photograph on the right), for example, are for customers who process large volumes all who prefer to receive supplies in bulk.

Performance and Value Creation

Technological autonomy has been a key element of Braskem's strategy since its creation in 2002. Investment in research and development is in line with the Company's commitment to create value for its shareholders and customers.

Creativity

With patience and good taste, Nature has taken years to create bold and aesthetically inspired shapes, which touch the sensitivity of an observer, studying for example, a sea shell. The innovative products developed by Braskem are raw material for artists, and the creative design of practical items, such as chairs.

CHAPTER 04

OPERATIONAL PERFORMANCE AND FINANCIAL MANAGEMENT

In 2006 Braskem made significant progress in its financial results. Even in the face of a complex scenario, characterized by a strong increase in raw material and energy prices, the Company's gross revenue amounted to R$ 15 billion, in line with the result obtained in 2005.

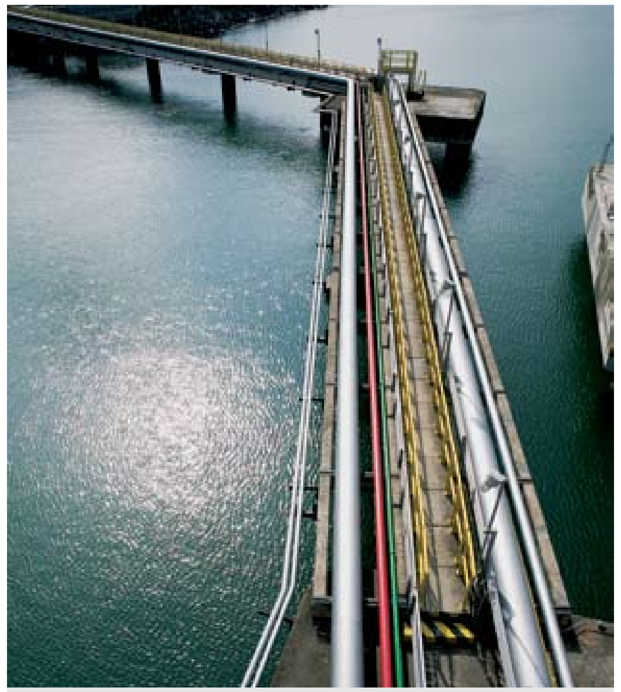
Expressed in US dollars, the currency of reference for the petrochemical sector, net revenue was up 13%, amounting to US$ 5.4 billion. Taking the period that began in 2002, with the Company's creation, to 2006, Braskem's average net revenue growth has amounted to 3%.

Exports increased by 44% in 2006, compared to the previous year, setting another consecutive new record. With sales of US$ 1.4 billion – more than three times higher than the US$ 415 million reported in 2002 –, Braskem has consolidated its position as one of Brazil's largest exporters. In the last four years, the Company has achieved average annual export sales growth of 35%.

Braskem maintains a competitive strategy of reducing its cost of capital and continually improving its debt profile. In 2006 there was a reduction in exchange-rate exposure. Debt denominated in foreign currency dropped to 49% of the total – well below the 75% in 2002. There was also an improvement in the Company's debt profile, whose average term increased from 11 to 16 years. To achieve this objective, the Company carried out a series of major operations in financial markets.

After being Brazil's first industrial company to launch perpetual bonds – which have no due date – with an issue carried out in 2005 of US$ 150 million, Braskem returned to the market last year to raise a further US$ 200 million from these type of bonds. Demand for the bonds was substantial, particularly in the Asian market, which has been a source of financing for the Company since the end of 2005. These operations attest to the market's confidence in the future of Braskem.

In 2006, the Company achieved another consecutive export record, with an increase of 44%. With sales of 1.4 billion, Braskem consolidated its position as one of Brazil's largest exporters. In the last four years the Company has achieved annual average export sales growth of 36%.



In order to further improve its already solid financial structure, in 2006 the Company issued US$ 275 million in notes, with a term of 10 years, and raised R$ 500 million in debentures with a term of five years in the Brazilian market.

As a result of its successful strategy of constantly improving its financial fundamentals, the Company made progress in terms of the credit rating attributed to its debt. The international credit rating agency S&P increased its rating in local currency from "brAA-positive outlook" to "brAA stable outlook". Fitch increased its credit rating the Company's foreign currency denominated debt from "BB" positive outlook to "BB+" stable outlook. In foreign currency, the Company's credit rating was increased from AA- (bra) to AA (bra).

PERFORMANCE IN CAPITAL MARKETS

Braskem has maintained its position as one of the most traded shares on Bovespa – ranking 16th in the Bovespa index theoretical portfolio for the first four-month period of 2007 – with an average daily volume of approximately R$ 24 million and a participation of 1.85% on the index. The size of the Company's free float increased by 2 percentage points to 49%. In New York, average daily volume amounted to US$ 3 million. The company's market capitalization in 2006 amounted to US$ 2.6 billion – 13 times higher than the US$ 200 million in 2002.

The adverse scenario for the petrochemical sector, particularly in the first half of this year, affected the Company's performance in 2006. Up to June, the rise in the oil price, which reached record levels, and the adjustment in the domestic market, with the entry of a new player in the sector, affected demand and prices, so squeezing the Company's margins.

In the second half of the year, with the drop in the average oil price, growth began to pick up in the domestic market, with a consequent rebound in prices. In this scenario, the shares of the Company ended 2006 at R$ 15.00 – higher than the average price in R$ 13.88. Contributing to this share appreciation, Braskem carried out a share buyback program in 2006, paying out a total of R$ 182 million, in an initiative in accordance with the Company's aim of capturing significant potential for the creation of value for its shareholders.

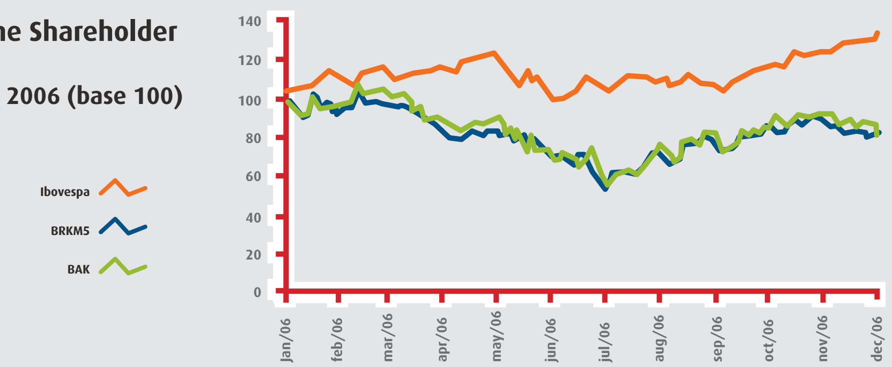
The Board of Directors of Braskem, in accordance with the Company's dividend policy, approved the distribution of R$ 36.9 million, or R$ 0.159 per share, in dividends, just for Preferred Class A and B and holders of American Depositary Receipts (ADRs). In this latter case, the distribution amounted to R$ 0.318 per ADR.

Value Added

Braskem creates value for a wide variety of sectors in society, contributing to the development of Brazil. In 2006, the value added by the Company was distributed as follows:

Creation of Value for the Shareholder

Braskem's performance in 2006 (base 100)



	Parent Company		Consolidated	
	2006	2005	2006	2005
DISTRIBUTION OF VALUE ADDED	1,773,654	3,230,623	1,836,373	3,856,322
STAFF AND CHARGES	413,882	442,096	517,885	544,541
Salary and charges	318,497	335,122	406,933	419,469
Management fees	9,186	10,469	12,946	13,911
Other benefits	86,199	96,505	98,006	111,161
TAXES AND CONTRIBUTIONS	432,878	1,521,669	176,377	2,006,106
Federal	475,488	1,260,685	535,988	1,612,866
State	(35,663)	305,611	(340,617)	472,200
Municipal	4,882	7,412	9,041	10,853
(-) incentives	(11,829)	(52,039)	(28,035)	(89,813)
INTEREST AND EQUITY INCOME	837,312	529,044	1,011,135	646,208
Interest	725,175	465,945	897,228	581,165
Equity Income	112,137	63,099	113,907	65,043
MINORITY SHAREHOLDER PARTICIPATION IN RETAINED EARNINGS			1,593	(54,068)
RETAINED EARNINGS FOR THE YEAR	52,649	412,071	92,450	387,792
Legal reserve	3,888	34,289	3,888	34,289
Profit reserve	36,932	325,743	60,527	265,805
Tax incentives	11,829	52,039	28,035	87,698

Ropes, packaging for oils and foods: the variety of the applications for Braskem's products present in the day-to-day lives of the Brazilian population. For investors, the Company has one of the most liquid shares on Bovespa. In 2006, Braskem's market capitalization amounted to approximately US$ 2.6 billion – 13 times higher than the figure of US$ 200 million in 2002.

OUTLOOK

Expectations for continuing solid global economic performance for the next few years is beneficial for the petrochemical industry and provides an incentive for Braskem to speed up its expansion rate, with the creation of value.

The global balance between the demand and supply of thermoplastic resins in the international market continues to be very fine, seeing that no significant new production capacity is scheduled to come on stream in the near term. As a result, prospects indicate that capacity utilization rates are likely to remain close to their limits. This scenario strengthens expectations that the prices of Braskem's main products, thermoplastic resins, are likely to remain high. In 2007, it is expected that average oil prices will be lower than in 2006, which indicates that there is likely to be less pressure on the cost of energy and naphtha.

In Brazil, the strong growth expected in the building, infrastructure and agribusiness sectors is likely to stimulate resin consumption.

improving competitiveness and productivity, particularly Braskem+ and *Fórmula Braskem*, should have a full impact on the Company's results in 2007, combined with less capital expenditure. In this context, the Company expects to see an increase in the profitability of its operations, compared with the average in 2006.

In the domestic market, the higher levels of disposable income among Brazil's families and the strong growth expected in the building, infrastructure and agribusiness segments, are likely to stimulate resin consumption – which historically has risen two to three times faster than Brazil's annual GDP growth.

Annual plastics consumption in Brazil is approximately 25 kg per inhabitant, according to data from Abiplast, the Brazilian Plastics Industry Association, three times smaller than the figure for developed countries and also lower than countries such as Argentina and Chile. This indicates that over the next few years there is considerable potential for the replacement of traditional materials with plastic products with a differentiated performance and high technological value.

In addition to this positive scenario, Braskem has some of the best resources available and highly competent teams of employees to successfully implement its growth strategy:

- Proven ability to maintain the alignment of prices practiced in the domestic market, with those in international markets, producing a higher return from its operations than its capital cost.

- Privileged access to the most dynamic consumer market in the country, with the start-up of operations at Petroquímica Paulínia from 2008.

Brazil's annual plastics consumption is around 25 kg per inhabitant, three times less than that in developed countries and also lower than in Argentina and Chile.

- Access facilitated to markets in the northern hemisphere, through highly competitive projects in Venezuela, which also envisage diversification of the Company's raw material sources, ensuring greater flexibility.

- New affiliates in foreign markets make it possible to achieve higher resins sales margins in the international market, with the potential to improve the profitability of its exports.

- A portfolio of products that is even more complete and differentiated after the acquisition of Politeno.

- Promising projects in the area of innovation and technology, especially in nanotechnology and biopolymers, indicating major additional potential for the value creation.

- Inauguration of a center for the development of UTEC® resin at Camaçari, further strengthening Braskem's position in this specialty market, where it is already one of the world's leaders.

- The Company's program to improve competitiveness – "Fórmula Braskem" – starting to show results.

- New opportunities for increased competitiveness already identified under the Braskem+ program.

- Greater financial flexibility as a result of a more balanced capital structure.

- Consolidation of strategy to continually improve processes and eco-efficiency through the program "Always Excellence in Health, Safety and the Environment".

- Greater emphasis on programs to continually train employees, develop leadership qualities and keep teams motivated and prepared to support the Company's expansion projects.

Corporate Sustainability

Committed to the best corporate governance practices, Braskem was one of the only three Brazilian companies to comply, a year ahead of the legal requirement, with the Sarbanes-Oxley Act.

Flexibility

Mankind is a testimony to how the ability to adapt is essential for the survival of a species, and nature demonstrates other innumerable similar examples of this, such as bamboo which resists the strongest winds by bending. Flexibility and resistance are also attributes which make PVC pipe a product increasingly used in the building and infrastructure sector.

CHAPTER 05

Braskem believes that sustainable development is a fundamental condition for the creation of more value for its shareholders, in keeping with the long-term outlook of its business.

Therefore, the Company has a commitment to ensure that its vision of becoming one of the world's leading petrochemical companies goes hand-in-hand with its ambition to become a global benchmark in socio-environmental sustainability.

The application and dissemination of sustainable management practices in relationships with the entire productive chain, are integrated with the Company's strategic objectives. Guided by the commitment to transparency in all its actions, Braskem publishes a Corporate Sustainability Report on an annual basis, reporting on its initiatives in this area and future prospects.

In 2006, Braskem again obtained recognition for the success of its policies in the area, being selected for the second time to be part of Bovespa's ISE corporate sustainability index, created in 2005. The Company thus confirmed its participation in a select group of listed Brazilian companies which stand out in the promotion of sustainable development, on questions of social responsibility and corporate governance, considering this recognition as another indication that it is on the right path to corporate excellence.

CORPORATE GOVERNANCE

Braskem is committed to good corporate governance practices, ethical and transparent management, values which play a major part in its corporate culture and create value for its shareholders. It is a priority for the Company to maintain a long-term relationship with all its 20,000 shareholders, of which approximately 16,000 are individual private investors.

Braskem grants for tag-along rights to all its shareholders, which guarantees equal treatment to minority shareholders in the event of a change of shareholder control. This goes beyond the requirements for companies listed on Level 1 Bovespa's corporate governance, such as Braskem. The Company's shares are also traded on the New York Stock Exchange (NYSE) and Latibex, the Latin American section on the Madrid Stock Exchange.

One of the objectives of the corporate governance policy adopted by the Company is to continually improve its decision-making and control processes, aiming to achieve greater management transparency. In 2006 Braskem made consistent progress in this area, becoming one of just three Brazilian companies, and the only industrial company, to comply with the Sarbanes-Oxley Act (SOx) a year ahead of the legal requirement.

Management control instruments were improved with expanded powers given to the Fiscal Council, as determined by SOx, and the creation of an Ethics Committee, whose function is to evaluate denouncements of deviation from acceptable conduct received through the Ethics Line – a strictly anonymous communications channel open to criticisms and suggestions. The Company's Code of Conduct was expanded and revised, placing more emphasis on the inspection role among company employees, with regard to the fulfillment of legal and ethical requirements.

An additional significant step in the evolution of corporate governance – set out in the different levels of corporate governance requirements on Bovespa, as well as the Sarbanes-Oxley Act – was the election, in 2006, of two additional independent executives to Braskem's Board of Directors, so doubling the amount of independent board members.

The alignment of the interests of all shareholders is an important part of the Company's commitment to modern corporate governance. In this context, it is worth drawing attention to the successful incorporation and absorption of Polialden into the Company, carried out in May, which marked the end of the process of integration of the six companies from which Braskem was formed in 2002.

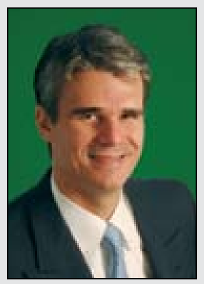
Braskem uses talent incentive initiatives, aligning the interests of its management to the Company's expansion plans. Since the beginning of 2006 a program has been a force which links part of the remuneration of the Company's main executives to the appreciation in its shares over the long term.

With a view to strengthening its relationship with investors and financial market professionals, Braskem continually invests in making improvements to its Investor Relations Department. In addition to holding conference calls on a regular basis, quarterly meetings with market analysts and meetings with investors in Brazil and other countries, the Company makes detailed information on its performance available on its website, as a way of keeping all interested parties permanently updated and informed about its corporate strategy. Braskem's investor relations website has been rated among the five best in Latin America, according to an assessment by IR Global Rankings.

The continual improvement in its relationship with capital markets was recognized by the agency GovernanceMetrics International, which in 2006 cited Braskem as the Company with the best classification in the sector, of all Brazilian companies. Braskem's global rating – 6.0 – was 88% higher than the average of other Brazilian companies analyzed and 40% higher than the average of companies in emerging markets. Braskem was also evaluated by the international organization, the Reputation Institute, as among the 200 companies with the best reputation in the world.

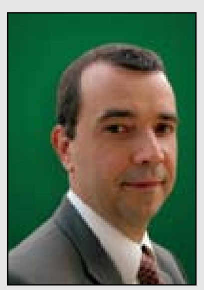
EXECUTIVE COMMITTEE

José Carlos Grubisich Filho
Chief Executive Officer of Braskem since its creation in 2002. He was formerly Chief Executive Officer of Rhodia in Brazil and Latin America and Vice President of the Rhodia Group Worldwide, as well as a member of the Executive Committee. A graduate in chemical engineering from the Escola Superior de Química Oswaldo Cruz, he also completed an Advanced Management Program at INSEAD, in France.

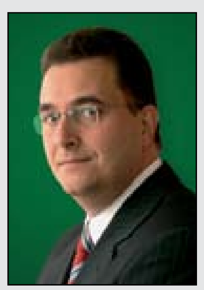


Bernardo Afonso de Almeida Gradin
Vice President Executive Officer and Head of the Basic Petrochemicals Unit, and a member of the Board of Directors of Cetrel. He is a graduate in civil engineering from the Federal University of Bahia, with a Masters Degree in international politics from Pennsylvania University and an MBA from the Wharton School of Business.

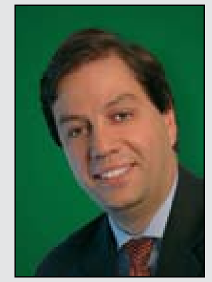
Carlos José Fadigas de Souza Filho
CFO and Investor Relations Director. He held various roles at OPP and Trikem, companies which merged in the formation of Braskem. In the period from 2002 to 2006, he acted as CFO of the construction firm Norberto Odebrecht S.A. A graduate in business administration from Unifacs, he has MBA from the Institute for Management Development – IMD, in Switzerland.



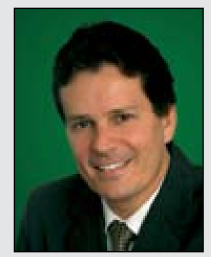
José Augusto Cardoso Mendes
Vice President Executive Officer and responsible for Planning, Organization and Personnel. He was previously director of planning, organization and personnel at Odebrecht. He also worked at Mckinsey & Company and Diamond Cluster International Inc. He is a graduate in metallurgical engineering from the Polytechnic School of São Paulo, with a Masters Degree in metallurgical engineering from the same school.



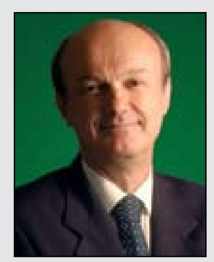
Luis Fernando Sartini Felli
Vice President Executive Officer and Head of the Vinyls Unit, he is also a member of the Board of Directors of Cetrel. He joined Braskem in 2002, having been commercial director of the Polyolefins Unit up to 2006. Previously he was director of marketing and sales at FMC do Brasil and global business manager of the FMC Corporation in the United States. He is a graduate in Agronomic Engineering from the University of São Paulo – ESALQ and has an MBA from Columbia University, NY.



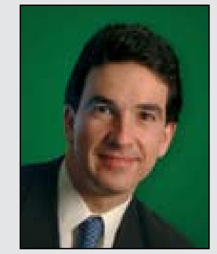
Luiz de Mendonça
Vice President Executive Officer and Head of the Polyolefins Unit. He is also a member of the board of directors of Copesul and Petroquímica Paulínia SA. Mendonça also worked for 15 years at Rhodia SA. as an officer in the chemical division (Latin America) and as vice president of Rhodia SA. He holds a bachelor´s degree in production engineering from Escola Politécnica da Universidade de São Paulo and a MBA degree on INSEAD – France.



Marcelo Lyra do Amaral
Vice President Executive Officer and responsible for Institutional Relations. Formerly media business director at Rede Bahia de Comunicação, in Bahia and relationships director with affiliates of the Rede Globo television network in São Paulo. He is a graduate in electrical and electronic engineering from the Federal University of Bahia, and has a postgraduate in marketing from Unifacs.



Roberto Prisco Paraíso Ramos
Vice President Executive Officer and Head of the International Business Development Unit and a member of the Board of Directors of Petroflex, as well as being on the Board of Directors of Cetrel and Cinal. A graduate in mechanical engineering from the Federal University of Rio de Janeiro, he has a postgraduate degree in management development from Harvard Business School and a Masters in finance from Leicester University, in England.



Mauricio Roberto de Carvalho Ferro
Vice President Executive Officer and responsible for Braskem's legal affairs. He was previously a lawyer with the law firm of Carlos Eduardo Paladini Cardoso de Bulhões Pedreira, Bulhões Carvalho e Advogados Associados. A graduate in law from the Pontific Catholic University of Rio de Janeiro (PUC), he has a Masters degree from the University of London and the London School of Economics.

Roberto Lopes Pontes Simões
Vice President Executive Officer and responsible for Corporate Competitiveness, he also is on the Board of Directors of Petroflex and Cetrel. He was responsible for Braskem's Vinyl Unit between 2004 and 2006. Previously he was president of the Internet Group and Opoortrans Concessão Metroviária. A graduate in mechanical engineering from the Federal University of Bahia and in maintenance engineering from CEMANT (program offered by the Federal University of Bahia and Petrobras/Petroquisa).

Board of Directors
Pedro Augusto R. Novis – Chairman
Álvaro Fernandes da Cunha – Deputy Chairman
Álvaro Pereira Novis
Antonio Britto Filho
Francisco Teixeira de Sá
José de Lima de Andrade Neto
José de Freitas Mascarenhas
Luiz Fernando Cirne Lima
Masatoshi Furuhashi
Newton Sergio de Souza
Patrick Horbach Fairon

Fiscal Council
Ismael Campos de Abreu – Presidente
Janildo Dantas de Souza
Manoel Mota Fonseca
Marcos Antonio Silva Meneses
Walter Murilo Melo de Andrade

MANAGING PEOPLE

Conscious of the fact that the quality of its teams represents an important differential in the competitiveness and sustainability of its businesses, Braskem focuses on the continual evolution of its staff management, aiming to attract, motivate and retain the best talent and develop the necessary skills for the growth of the Company. Projects such as the construction of Petroquímica Paulínia and advances made in Braskem's internationalization process open opportunities for professional development for its 3400 employees, making the work environment still more challenging and stimulating.

In support of its growth projects, Braskem has been expanding its employee training programs. One of its initiatives was the creation, in 2006, of the Businessman Development Program, with the aim of accelerating the training of people with a leadership profile, through the exchange of knowledge and experience with the three generations of leaders in the organization, greater depth in corporate culture and Braskem's strategic vision, and with the Company's stakeholders, such as customers, investors and the community. The Company maintains differentiated programs for the development of skills, open to all employees, such as MBA Braskem.

The Company seeks to attract young people with leadership potential through its trainee and graduate trainee programs, offering professional and human growth opportunities for students and recent graduates in various areas. The programming and content are developed in accordance with the individual needs of each employee, which are constantly monitored by a company leader through the coaching process. Braskem's programs focus on young talent and are among the most sought-after in the Brazilian market. In 2006 more than 30,000 candidates applied for the vacancies offered, which demonstrates the degree of interest that these young people have in linking their professional future to the growth of the Company.

The high rate of talent retention achieved by the Company is another important indicator of the quality of the work environment created for its employees. In the trainee program for 2006, which had more than 13,000, all 24 candidates selected continued on the Company's workforce after the end of the program. Since the start of the program in 2004, the rate of talent retention has been as high as 94%. For its consistency, in 2006 the Company's trainee program was awarded the *Human Resources Top Award* in Bahia.

Braskem believes in the importance of a corporate culture based on values such as confidence in its people and in their capacity to evolve, operating in a decentralized manner based on planned delegation, strengthening relationships between leaders and those led, in a partnership with employees with a focus on customer satisfaction and the practice of sharing the results generated. All employees are encouraged to participate in the conception of their work, as part of an annual planning cycle, with the ability to influence the setting of targets and results to be achieved by the Company. Based on planned delegation and an approach guided by results achieved, each employee reaches agreement with their respective leaders on the challenges to be met and the funds and resources which they can count on to achieve this.

At the end of the period, the contribution of each employee is evaluated, recognized and incentivated through competitive variable remuneration – a differential which rewards the business ability and self development of each individual. The encouragement of internal mobility is another attraction for the employee to assume new challenges, maintaining a high performance and motivated environment.

This broad combination of initiatives was again highlighted by Guia Exame Você S/A, which classified Braskem for the second time running as one of the best companies to work for in Brazil. The Company's presence in this ranking reflects the degree of satisfaction that employees have with the Company, seeing that the Company classifications are the result of a collection of completed questionnaires received from employees.

For the continual training of its professional staff, in a manner consistent with its corporate culture, Braskem put into practice its educational concepts through work and for work. In the first case, the employee learns through work, through a series of challenges which form part of his or her career planning. Education for work takes place through development programs which add abilities and skills, with the aim of training employees for the performance needed in their activities within the company. Below we highlight some of Braskem's programs:

- **Graduate Program:** every year this aims to select young university students, offering them the opportunity of professional development for a period of two years.

Braskem selects young people from all over Brazil for its trainee program. In 2006 there were more than 13,000 applicants by young people throughout Brazil. To train its professional staff, Braskem also uses educational concepts through work and for work.

• **Trainee Program:** recent school leavers throughout Brazil are selected to participate in a program for integration into the Company's culture and the development of skills. In the selection carried out at the end of 2006, more than 15,000 applicants subscribe for 14 vacancies.

• **Businessman Development Program:** aimed at professionals with leadership potential, seeking to provide a complete view of the business cycle, as well as strategy and management with a focus on the petrochemical sector. Begun in 2006, the program will be strengthened over the next few years.

• **MBA Braskem:** postgraduate course begun in 2003 in partnership with the Getúlio Vargas Foundation of São Paulo and focused on the petrochemical sector, aimed at employees with high professional growth potential. Approximately 70 people have already participated in this program.

• **Competences Development Programs:** aimed at improving specific skills needed in the different areas of operation of the participants. Braskem offers one program focused on Commercial Excellence, in partnership with the Dom Cabral foundation; one for Logistics and Supply Chain, in partnership with Coppead/UFRJ; and another on Quality and Productivity with the Vanzolini foundation, from USP.

HEALTH, SAFETY AND THE ENVIRONMENT – HSE

The health and well-being of its employees, partners and neighboring communities is crucial to Braskem. In 2006, the Company consolidated its actions, practices and strategies in the area of health, safety and the environment, launching the program "Always excellence in HSE". To standardize knowledge in this area among all employees and partners, Braskem has listed 16 Strategic Elements, which will guide the organization towards becoming a global benchmark in this field.

Braskem has made significant investment in this area, spending R$ 153 million in 2006 – approximately 20% of the Company's entire investment budget – enabling it to maintain its HSE indicators at levels compatible with the best international standards, and higher than those in Brazil's chemical and petrochemical industry.

The Company continuously disseminates a philosophy of accident prevention among its employees and partners. About 85% of Braskem's managers have already participated in Behavioral Dialogues, which aims to disseminate preventative practices with regard to safety in the workplace.

The programs in this area have consistently increased the Company's level of industrial efficiency, improving the management of its processes and its eco-efficiency. In 2006, initiatives in the area of energy reduced consumption by 3% compared to the previous year, while the generation of solid residues was also reduced by 3%. These figures are even more significant, bearing in mind that from April the Company integrated Politeno into its industrial complex.

Water consumption was down 2%. A program for reutilizing this resource, which was implemented in the industrial units in Alagoas, was granted an award by "Ecomagination", a distinction granted by General Electric to the most modern innovative solutions aimed at environmental preservation. All Braskem's industrial units carry ISO 14001 environmental certification. In 2006, the Company obtained its first application under the OHSAS 18001 for health and safety management.

Aiming at creating additional value through eco-efficiency, the Company carried out an inventory of gases emitted associated with the greenhouse effect in the Earth's atmosphere in its 14 production plants, and implemented 25 projects aimed at reducing these emissions. The initiatives should also generate carbon credits, which may be sold in the next few years.

Braskem acts jointly with the communities close to its units, pointing out the importance of health and safety concepts, as well as preservation of the environment. Of particular note is the Community Defense Program, which aims to raise environmental awareness among inhabitants in the regions in which the Company operates, as well as offering reading and writing courses.

Braskem also has a policy of identifying all risks and impacts involved in its processes, in line with its quest for excellence and operational reliability. The Company uses a modern system for the management of changes, whose aim is to ensure that any changes to a given process is carried out in a controlled manner, with the impacts of this change being analyzed so they can be properly controlled.

Braskem did not register any occupational diseases in 2006. The safety frequency rate among its staff both with and without lost workday cases, including employees and partners, amounted to 1.7 per million man-hours worked last year. This indicator is almost 50% below the average of Brazil's chemical industry and is in line with the best performance of international companies in the sector. In addition to this, it represents a rate which is two and a half times less than the Company's rate at the time of its inception in 2002.

The Company continuously disseminates a philosophy of accident prevention among its employees and partners: 85% of Braskem's management have participated in programs which spread this practice.

Emission of liquid effluents

1.7 m^3/t	2006
1.7 m^3/t	2005

Water consumption

5 l/t	2006
5.1 l/t	2005

-2%

Energy consumption

11.5 (GJ/t)	2006
11.8 (GJ/t)	2005

-3%

In 2006, the Company invested R$ 10 million in projects of a social, environmental or cultural nature, and promoted extensive reciprocal exchange between them. Another practice adopted by the company is the continual encouragement given to employees to volunteer for social projects.

SOCIAL RESPONSIBILITY

It is part of Braskem's sustainability policy to continually invest in programs which contribute to the quality of life of the communities close to its facilities, and preserve the environment in neighboring areas. In managing these initiatives, Braskem encourages interaction between its social programs, replicating successful experiments in other states, in such a way as to capture synergies and optimize results.

Based on its Social Responsibility Policy, the Company invests in projects for social inclusion, environmental education and cultural promotion, giving priority to initiatives in keeping with the specific needs of each location where Braskem operates. All initiatives which rely on the Company's support evaluated from time to time, in such a way as to constantly improve their application, with results being published on an annual basis, in keeping with the Company's commitment to transparency in the management of its processes.

In 2006, the Company invested R$ 10 million in projects of a social, environmental or cultural nature, and promoted extensive reciprocal exchange between successful initiatives – a practice which will be intensified in the next few years. An example of this is "Braskem em Cena" (*Braskem on Stage*) a project implemented last year which sponsors plays in Porto Alegre and which was created based on the successful "Prêmio Braskem de Teatro" (Braskem Theatre Award) experiment in Bahia. This initiative was also taken to regions where access to this type of entertainment is difficult, such as Vila Pinto, on the outskirts of Porto Alegre, where the Company has a plastic recycling program.

Braskem adopts a policy of continual encouragement of voluntary participation by its employees in social projects. The Company wishes to increases this interaction, encouraging employees to participate in initiatives focused on development of the communities in which it operates. Braskem's Voluntary Corporate Program offers technical training to employees to enable them to optimize the results of initiative supported by the Company. In 2006, the first year of the setting up of this program, 3.5% of Braskem's employees took part. For 2007, the target is to more than double the number of participants.

Here are some of the main social initiatives which the Company supports, with the aim of contributing to the development of the regions in which it operates:

- **"Centro de Educação Ambiental Vila Pinto":** located in the outskirts of Porto Alegre (RS), the project encourages the selective collection and sale of plastic residues, providing additional income and social inclusion to the inhabitants participating in this activity. Thanks to the partnership between Braskem and the Federal Technology Education Center (Cefet-RS), the group involved in recycling receives technical orientation but the separation of the different types of plastics and the efficiency of the process, in such a way as to increase the sale value of the material. In addition to activities linked to income generation, the project offers a cultural center with computers, cinema and library – equipment used for the education of needy youngsters.

- **"Arte com Plástico":** created in 1996, the program has the aim of developing environmental awareness among children, which in art workshops and seminars learn in an enjoyable way to transform plastic objects into toys or ornaments. More than 20,000 pupils have already undergone this experience. The program also operates in schools in a public network for the training of teachers on environmental issues.

- **"Cinturão Verde":** this program is focused on the preservation of environmental areas surrounding the vinyl plants in Alagoas, also aiming to reintroduce native animal fauna. As well as disseminating concepts of environmental preservation among visitors, the initiative offers professional courses to the local community, as a way of helping to create a source of sustainable income for the local population. Courses are offered on Hydroponics and Bee-keeping, among others. In Bahia, Braskem maintains a Conservationist Nursery, also aimed at environmental education.

- **"Lagoa Viva":** Aimed at the community which lives around the lakes of Mundaú and Manguaba, in Alagoas,

"Braskem em Cena" (shown left), started in 2006 awards prizes to plays produced in Porto Alegre and was created based on the successful "Prêmio Braskem de Teatro", in Bahia. Below, Hydroponic course, in of the environmental education and sustainable development activities in the "Lagoa Viva" program in Alagoas. And the "Cinturão Verde", reserved for the preservation of flora and fauna around Braskem's plant in Maceió.

Volunteer Program

Offers technical training for its employees, optimizing the results of initiatives supported by the Company. In 2006, 3.5% of the workforce took part.

the initiative aims to train teachers in environmental education and sustainable development, and offers technical courses, such as filet lace weaving, a traditional form of lace making which was disappearing in the region, but through the program, has started to come back. There are also free English language workshops for youngsters and adults who work in commerce and tourism in the region.

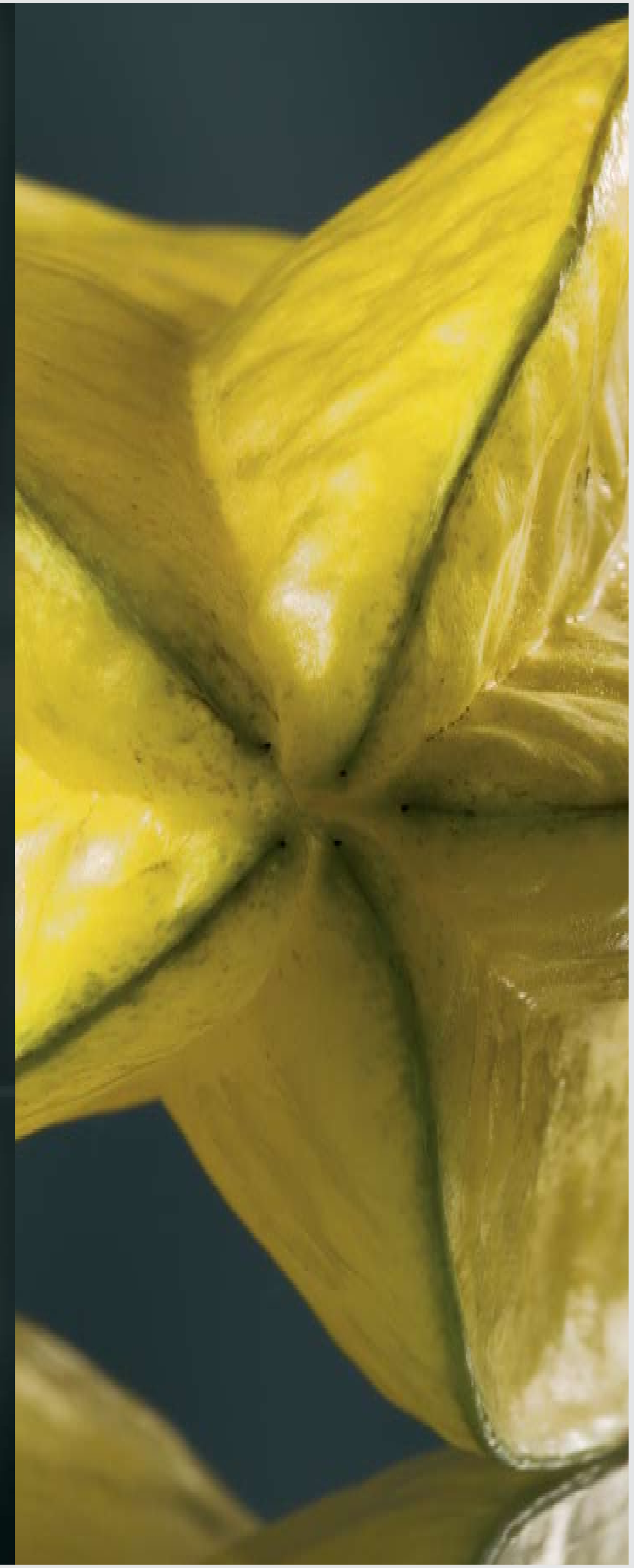
• **"Prêmio Braskem Cultura e Arte":** has for 10 years provided awards for and sponsored new artistic productions in the fields of Art, Cinema, Music and Literature. Since 1996, more than 2000 works have been submitted. In 2006, about 300 works were analyzed.

• **"Prêmio Braskem de Teatro":** each year grant awards to the best theatre productions in Bahia and performance highlights in various categories.

• **"Braskem em Cena":** the company sponsors "Porto Alegre em Cena", one of the most important artistic events in the State of Rio Grande do Sul, which brings together representation from theatre groups from various countries. In addition to sponsorship, in 2006 Braskem created a special awards ceremony to celebrate the best local productions.

• **"Prêmio Abeq":** aimed at the scientific community and carried out in partnership with the Brazilian Chemical Engineering Association, the award is made to studies which could improve the development of the petrochemical and plastics production chain in Brazil.

• **"Opera Prima":** one of the most traditional competitions in architecture, the awards have a special category "Designing with PVC", which awards prizes for the best projects which used the resin in building works. ■



Financial Statements

Transparency

ISBM technology (Injection Stretch Blow Molding), and innovation by Braskem, made it possible to produce polypropylene bottles for non-carbonated drinks, allowing them to be filled hot.

1 – Operational Performance

1.1 – Industrial Performance

Braskem's operating strategy is based on the optimization of assets by maintaining high capacity utilization rates at the industrial units, giving priority to the sale of higher value-added products in more profitable markets and segments.

In 2006, this strategy coupled with increased production capacity on account of the acceleration of the Braskem + program and investments in capacity additions, allowed the Company to maintain its production levels compared to 2005, in spite of certain negative events that affected the utilization rates during the period.

Production Volume Tons	2006 (D)	2005 (E)	Chg. % (D)/(E)
Polyolefins Unit			
PE's – Polyethylene*	971,484*	772,166	26
PP – Polypropylene	542,781	528,980	3
Total (PE's + PP)	1,514,265	1,301,146	16
Vinyls Unit			
PVC – Polyvinyl Chloride	444,056	447,376	(1)
Caustic Soda	449,847	459,676	(2)
Basic Petrochemical Unit			
Ethylene	1,103,969	1,165,319	(5)
Propylene	520,413	562,048	(7)
BTX**	639,898	673,854	(5)

* Includes 236 thousand tons of Propiteno's production
** BTX – Benzene, Toluene, Ortho-xylene and Para-xylene

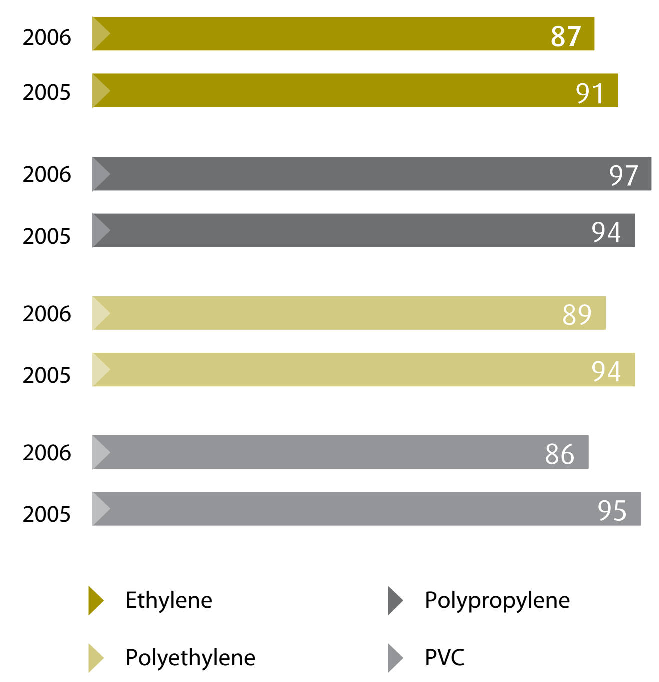
In 2006, the **Polyolefins Unit** recorded a 16% production volume increase year-on-year, with a 26% growth in PE, mostly due to the acquisition of the control of Politeno, which added approximately 236 thousand tons from April to December 2006. In addition, the good operability of the PP units, which reached a 97% utilization rate, was an important contribution for the 3% production increase over the previous year.

The PVC production at the **Vinyls Unit** was in line with 2005, despite the limited supply of ethylene as a result of a non-scheduled stoppage of the Basic Petrochemicals Unit in 2Q06.

In 2006, the **Basic Petrochemicals Unit** recorded a 5% decline in the production of its main products, ethylene and propylene compared to the prior year. This reduction resulted from certain operating difficulties, as discussed below:

- scheduled and/or early maintenance stoppages at the ethylene, PE and PVC units;
- operating problems of important ethylene and propylene customers during the first half of 2006; and
- the PE supply/demand balance in the domestic market.

Taxa de Utilização de Capacidade (%)



On the grounds of potential improved profitability on a short-term basis, the maintenance stoppage at the Olefinas I unit, previously scheduled for early 2007, was divided into two. A mini-stoppage was performed in December 2006, for priority services, and another stoppage will be carried out in 2008.

The implementation of this strategy allows for projecting higher capacity utilization rates and higher production volumes in 2007.

1.2 – Commercial Performance

In 2006, Braskem reaffirmed its focus on developing higher value added products and solutions, based on a differentiated structure of innovation and technology, which resulted in an increase in the profitability derived from its commercial performance.

The Brazilian market for thermoplastic resins, confirming its historic elasticity to the GDP growth, increased by 9% in 2006 – 8% for PE, 12% for PP and 8% for PVC.

In the light of this growth scenario and its commercial strategy, the Company consolidated its leadership position in the regional market in 2006. In the domestic market, the sales volume of thermoplastic resins (PE, PP and PVC) reached 1.5 million tons, 12% above 2005, when 1.3 million tons was sold. The volume of resins exported by Braskem was 500 thousand tons, up 17% from 2005.

The table below shows volumes sold both in the domestic and foreign markets:

Sales Volume Tons	2006 (D)	2005 (E)	Chg. % (D)/(E)
Polyolefins Unit			
PE's – Polyethylene*	995,178	768,167	30
PP – Polypropylene	529,944	517,502	2
Total (PE's + PP)	**1,525,122**	**1,285,669**	**19**
Vinyls Unit			
PVC – Polyvinyl Chloride	432,754	441,940	(2)
Caustic Soda	430,074	464,620	(7)
Basic Petrochemical Unit			
Ethylene	307,862	581,070	(47)
Propylene	435,961	479,430	(9)
BTX**	529,544	594,442	(11)

* Reduced by 232,186 tons due to the transfer to Politeno from April to December 2006.
** BTX – Benzene, Toluene, Ortho-xylene and Para-xylene

For the **Polyolefins Unit**, domestic sales of PP grew by 8% in 2006 compared to 2005. The volume of Brazilian imports of PP also increased by 23%, in particular during the first half, as a result of the appreciation of the real. With more sales channeled to the local market, PP exports declined by 21%. On the other hand, total sales of PE rose by 30% compared to 2005, driven by the acquisition of Politeno's control, which, from April through December, added approximately 220 thousand tons sold to the domestic and export markets, in spite of the momentary imbalance between supply and demand of the product due to the entry of a new player in the region as from 2Q06.

For the **Vinyls Unit**, domestic sales of PVC grew by 6% in 2006, boosted by the growth in the civil construction sector (tubes, connections and profiles). Given the maintenance of volumes produced and higher channeling of sales to the domestic market, PVC exports declined in 2006. The total PVC volume sold in 2006 decreased 2% when compared to 2005.

Ethylene volumes sold by the **Basic Petrochemicals Unit** were impacted by 232 thousand tons due to the transfers to Politeno after its acquisition by Braskem occurred in April 2006, as this volume was previously considered as volume sold. Excluding this transfer, the decrease would have reached 7%. On the other hand, the volume of propylene sold decreased by 9%. The reduced sales of these products are also a consequence of the lower volume produced due to scheduled and/or early maintenance stoppages, as well as operating problems with customers.

1.3 – Competitiveness Management

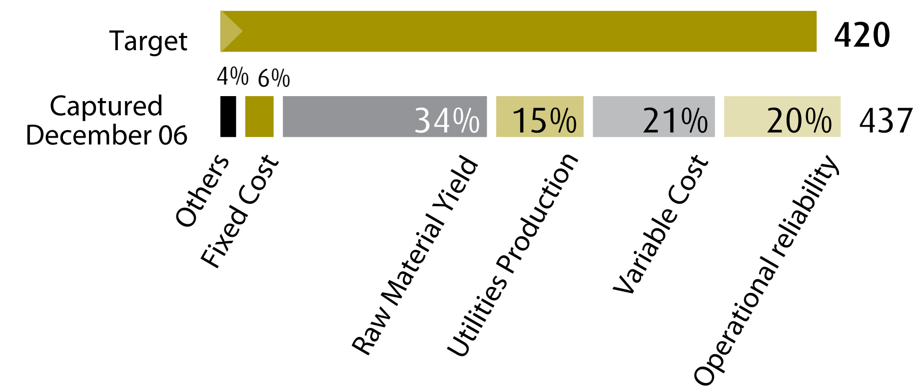
1.3.1 – Early Completion by 1 Year of Braskem + Program

Results obtained by Braskem one year before scheduled will allow the Company, as from 2007, to take full advantage of annual, recurring gains of R$ 437 million arising from several program initiatives. The purpose of the Braskem + program, implemented in 2004, is to position the Company among the most competitive players in the international petrochemical industry. Braskem + increases the Company's ability to create value in all stages of the petrochemical cycle.

Benefits from the Braskem + for the individual industrial units include, among others:

- Increase in the production efficiency of ethylene/propylene, with annual savings of R$ 46 million;
- Increase in the energy efficiency of steam generation, with savings of R$ 29 million/year;
- Increase in the yield of PVC units due to the optimization of reaction cycles, with annual gains of R$ 31 million;
- Reduction in the consumption of steam at the aromatics and utilities plant, with annual gains of R$ 74 million;
- Implementation of software to improve production planning and scheduling, with annual gains of R$ 48 million;
- Increase in the efficiency of chlorine liquefaction, with annual gains of R$ 10 million.

R$ million/year



1.3.2 – Implementation of the Fórmula Braskem Project

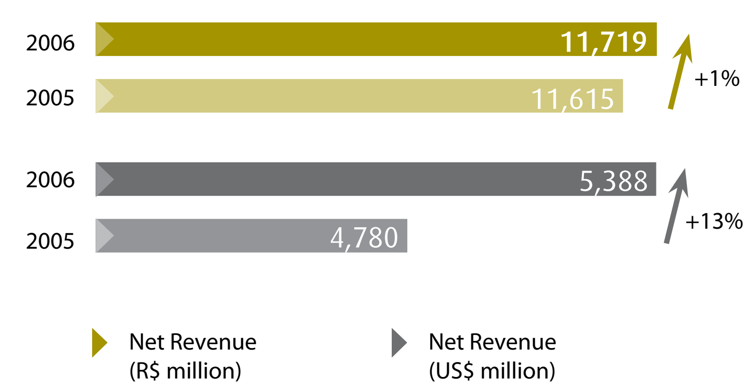
From October 2005 to September 2006, Braskem worked in the implementation of a new integrated management system, named Fórmula Braskem, using a software which is a benchmark in the petrochemical industry globally. The system was implemented on October 1, 2006, after one year of dedicated efforts of a team comprising some 120 members, who reviewed all business processes. Key to the success of the project success was the management of change which led to a high synergy level among all areas of the Company. Investments in the project, the second phase of which will be implemented in August 2007, amount to R$ 130 million, of which R$ 91 million were disbursed in 2006. With the implementation of the system, the Company has already started to earn benefits, concentrated in the commercial, logistic and supply areas.

2 – Economic and Financial Performance

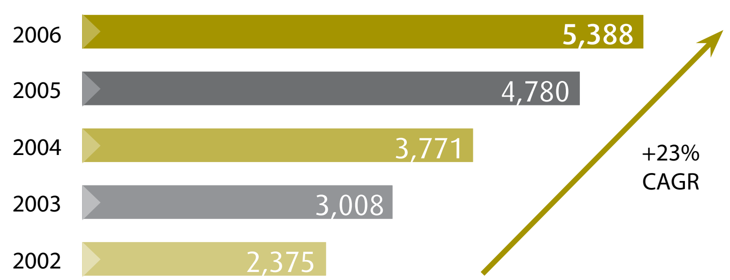
2.1 – Net Revenue

With the growing market environment combined with the increase in PE capacity resulting from the acquisition of Politeno's control, the volume of thermoplastic resins sold by Braskem increased by 13%, or 230 thousand tons.

Net Revenue



Net Revenue (US$ million)



This scenario, coupled with higher prices in the international market as of May 2006, brought about an increase in the average Braskem resins prices for 2006 of 10% (quoted in U.S. dollars, benchmark currency for petrochemical prices). In the domestic market, prices increased as of the second half of the year.

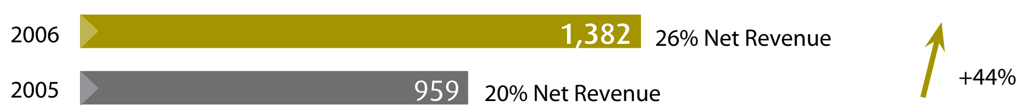
Accordingly, Braskem recorded net revenue of US$ 5.4 billion in 2006, up 13% from US$ 4.8 billion in 2005. With the 10.6% average appreciation of the real against the U.S. dollar in 2006, net revenue in reais amounted to R$ 11.7 billion, compared to R$ 11.6 billion in 2005.

Since its formation in 2002, Braskem has steadily increased its net revenues in U.S. dollars at a compound rate of 23% per year. Such increase arises from investments made in productivity and competitiveness improvements, capacity additions and acquisitions, which expanded the scale and complemented the Company product portfolio. When translated into reais, due to the exchange rate appreciation, Braskem's net revenues grew at a compound rate of 14%.

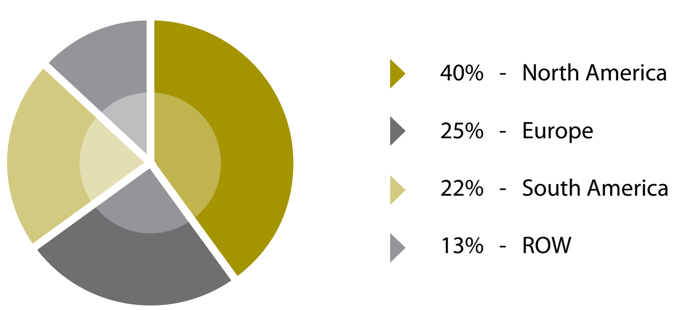
2.1.1 – Export Sales

Braskem has consistently expanded its investments since 2005, aiming at strengthening its international presence. As part of this strategy, the Company opened commercial and distribution operations in Europe, USA and Argentina. As a result, the volume of exports increased and revenue from exports significantly rose by 44% in 2006, to reach US$ 1.4 billion (26% of net revenue), compared to US$ 1.0 billion in 2005 (20% of net revenue).

Exports (US$ million)

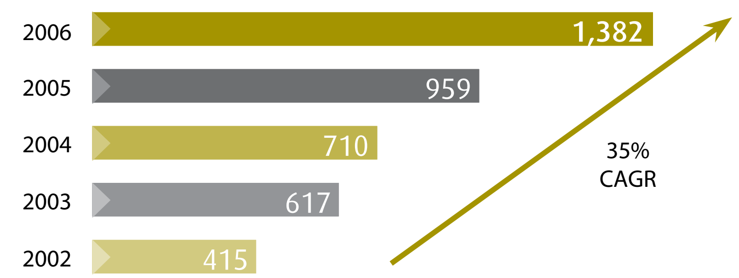


Destination of Exports (2006)



Exports evolved at a compound rate of 35% per year since the foundation of the Company in 2002, increasing by almost US$ 1 billion over the past 5 years. Even increasing its exports, Braskem maintained its leading position in all segments and has always aimed at meeting customers' needs.

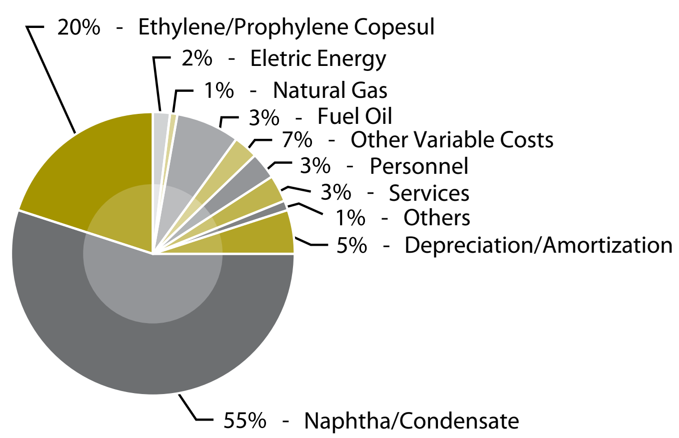
Exports (US$ million)



2.2 – Cost of Goods Sold (COGS)

In 2006, COGS totaled R$ 9.9 billion, a 6% increase compared to R$ 9.3 billion in 2005.

COGS 2006



The Company COGS in 2006 was impacted by R$ 756 million relating to raw material and energy cost rises. Of this amount, R$ 720 million refer to increased costs of naphtha, given the 19% growth in the international benchmark price – naphtha ARA (Antwerp, Rotterdam and Amsterdam) – in the period, as a result of the substantial increase in oil prices. The remaining R$ 36 million relate to higher costs of electricity, natural gas, fuel oil and other utilities, due to both higher prices of electricity and stronger utilization of fuel oil given lower availability of natural gas to the Basic Petrochemicals Unit. The average real appreciation of 10.6% in the year, however, partially offset this impact by R$ 630 million.

During 2006, Braskem purchased 4,168 thousand tons of naphtha, of which 3,123 thousand tons (75%) from Petrobras – its main raw material supplier. The remaining 1,045 thousand (25%) was imported directly by the Company, mostly from Northern African countries and Venezuela.

Depreciation and amortization expenses added up to R$ 525 million in 2006, 28% above the R$ 410 million recorded in 2005. The change arises chiefly from the start-up of projects completed in 2006 and 1H06, as well as from the revised periods for depreciation of scheduled maintenance stoppages. Effective January 2006, the Company, pursuant to IBRACON (Brazilian Institute of Accountants) Technical Interpretation 0001/2006, adopted the accounting policy of recording scheduled maintenance stoppage expenses as additions to property, plant and equipment. These expenses were previously deferred and are now depreciated until the beginning of the next stoppage, thus affecting the depreciation for the period.

2.3 – Selling, General and Administrative Expenses

During 2006, Selling, General and Administrative (SG&A) expenses totaled R$ 874 million, compared to R$ 688 million in 2005.

General and administrative expenses grew by R$ 45 million, of which R$ 26 million relate to Politeno expenses, consolidated as from April 2006, when Braskem acquired the company control, and R$ 15 million represent non-recurring expenses associated with the integration of Politeno and restructuring of Polyolefins, PET and caprolactam businesses.

Selling expenses recorded the highest growth – R$ 142 million – due to: (i) increased export expenses, in the amount of R$ 25 million; (ii) a R$ 59 million increase in the provision for doubtful accounts, including R$ 16 million for provision adjustment criterion at Politeno, and R$ 39 million for a non-recurring credit recovery in 2005; (iii) expenses of R$ 21 million related to Politeno's sales, consolidated from April to December; (iv) higher expenses related to distribution logistics and storage in the amount of R$ 30 million; and (iv) the R$ 5 million increase in fixed costs mostly on account of the opening of sales and distribution offices in Argentina, Europe and US.

2.4 – Other Operating Income (Expenses)

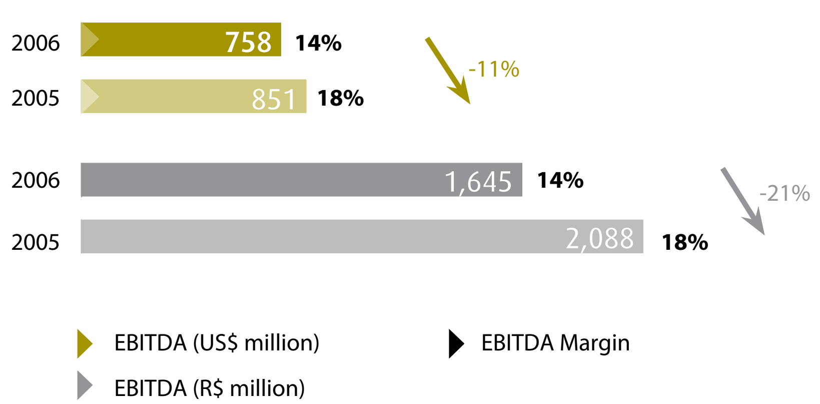
During 2006, other operating income equaled R$ 157 million, compared to R$ 70 million in 2005. The change is attributable to non-recurring operating income arising from the reversal of the provision for PIS/Cofins as a consequence of a final and unappealable judicial suit, in the amount of R$ 112 million, in the first quarter of 2006.

2.5 – EBITDA

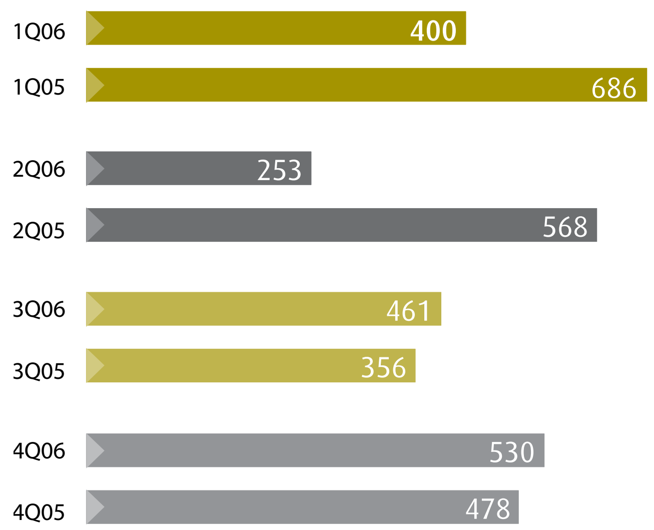
In 2006, EBITDA amounted to R$ 1.6 billion, or 21% below the R$ 2.1 billion EBITDA recorded in 2005. When translated into U.S. dollars, the annual EBITDA showed a 11% decline year-on-year, reaching approximately US$ 758 million in 2006 and US$ 851 million in 2005.

The main drivers of the reduced EBITDA were (i) the significant increase in the prices of naphtha, the Company's main raw material, following the upward trend in oil prices; and (ii) the 10.6% appreciation of the real against the U.S. dollar during the year, as 100% of the Company's revenue are denominated in U.S. dollars, while only 80% of the costs are expressed in this currency.

EBITDA



EBITDA – Quarterly Evolution (R$ million)



Results for 2006 started to improve in the beginning of the second half of the year, driven by the recovery of resins prices. This scenario was even stronger in the fourth quarter, with EBITDA of R$ 530 million, equal to one third of annual results, and EBITDA margin of 18%, twice the margin recorded in the second quarter of the year.

2.6 – Investments in Subsidiary and Associated Companies

Braskem's results from investments in subsidiaries and associated companies amounted to R$ 198 million, 8% less than R$ 215 million recorded in 2005, excluding the effects of amortization of goodwill arising mostly from investments in Copesul. The change is partly due to the full consolidation of Politeno in 2006, given the acquisition of the company control by Braskem in April 2005. The 34% equity stake in Politeno in 2005 led to gains of R$ 29 million.

It is worth pointing out Copesul's good operational and financial performance in 2006, with an impact of R$ 182 million on Braskem's results, R$ 20 million over 2005. Copesul, in which the Company holds 29.46% of its total capital, is jointly controlled by Braskem and Ipiranga.

By the end of the second quarter of 2006, Polialden was merged into Braskem. This corporate action had certain effects on results, including: (i) write-off of negative goodwill in the amount of R$ 53 million; (ii) transfer of amortization of goodwill on this investment to the amortization and depreciation expenses line, as from June 2006; and (iii) income tax credit of R$ 76 million relating to the incorporation of goodwill from the time of the acquisition of Polialden through the merger. Items (i) and (ii) are the most important drivers of the 62% decrease in amortization of goodwill/negative goodwill in 2006 compared to 2005.

R$ thousand		
Investments in Subsidiaries and Affiliated Companies	2006	2005
Equity Results – Affiliated Companies	195,911	212,377
Copesul	181,467	161,963
Others	14,444	50,414
Exchange Variation	(1,382)	3,629
Others	3,383	(582)
Subtotal (before amortization)	197,912	215,424
Amortization of goodwill/negative goodwill	(57,757)*	(152,539)
Total	140,155	62,885

* Includes R$ 53 million of Polialden's negative goodwill write-off

2.7 – Financial Results, Net

The increase in net debt affected Braskem's net financial results, which was an expense of R$ 902 million in 2006 compared to an expense of R$ 652 million in 2005. The strengthening of the Real favored the financial result in 2005 and 2006. The effect was more marked in 2005, when the Real appreciated by 16.8% in average, versus only 10.6% in 2006. This was the main reason for the R$ 139 million difference in exchange rate variation between the two periods.

Excluding the effects of foreign exchange and monetary variations, Braskem recorded expenses of R$ 781 million, corresponding to an 18% increase compared to the financial results of 2005, which amounted to expenses of R$ 663 million.

The R$ 118 million increase arises from: (a) increase in expenses derived from structured financial transactions during the year; (b) results of hedge contracts – currency, interest rate and operational; (c) increase in interest on operating working capital, and (d) increase in the base of tax provisions bearing interest at the SELIC rate.

R$ million	2006	2005
Net Financial Result	(902)	(652)
Foreign Exchange Variation (FXV)	101	240
Monetary Variation (MV)	(222)	(229)
Financial Result Excluding FX and Monetary Variation	**(781)**	**(663)**

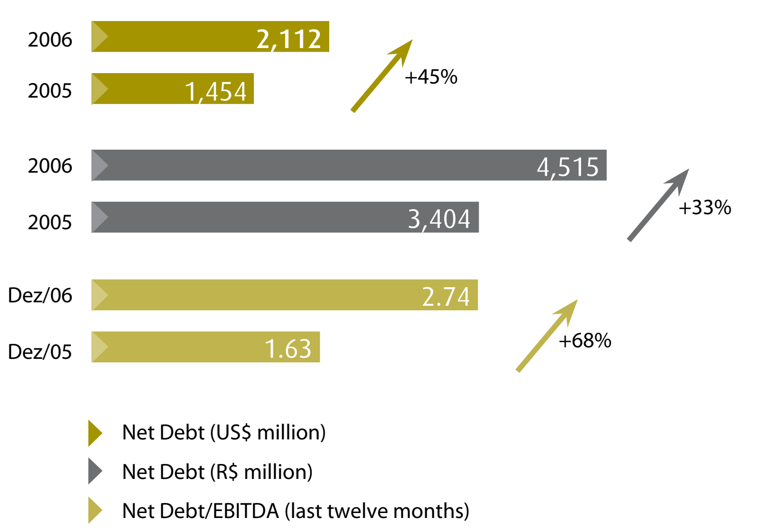
2.8 – Net Income

Net income amounted to R$ 82 million in 2006, compared to R$ 680 million in 2005, mostly as a result of decreased operating income and financial results.

2.9 – Capital Structure, Liquidity and Rating

Braskem's risk rating was upgraded in 2006, contributing to lower funding and financial transaction structuring costs, which ensured the accomplishment of important targets relating to the improvement of its debt profile and lengthening of the debt amortization average maturity. The credit rating agency Standard & Poors upgraded Braskem, in local scale, from 'brAA-' with positive outlook to 'brAA' with stable outlook. The agency Fitch Ratings upgraded the Company in global scale from "BB", with positive outlook, to "BB+", with stable outlook for local and foreign currency; and upgraded the rating in long-term national scale from "AA-(bra)" to "AA(bra)", both with stable outlook.

Net Debt



Net debt for 2005 differs by R$ 570 million from net debt published in the 2005 management report due to the adoption of CVM Instruction 408 and CVM/SNC/SEP Circular Letter 01/2006, which prescribe that Creditory Rights Investment Fund (FDIC) be recognized as debt.

As part of its commitment to maintaining capital discipline and carrying out investments with return above its capital cost, in 2006 Braskem disbursed R$ 869 million, including operating investments and business competitiveness programs, in the amount of R$ 719 million, and scheduled maintenance stoppages, which totaled R$ 150 million. Additionally, the Company paid dividends and interest on equity to its shareholders in the amount of R$ 326 million, acquired Politeno's control for the initial amount of R$ 238 million, and carried out a share buyback program for R$ 182 million.

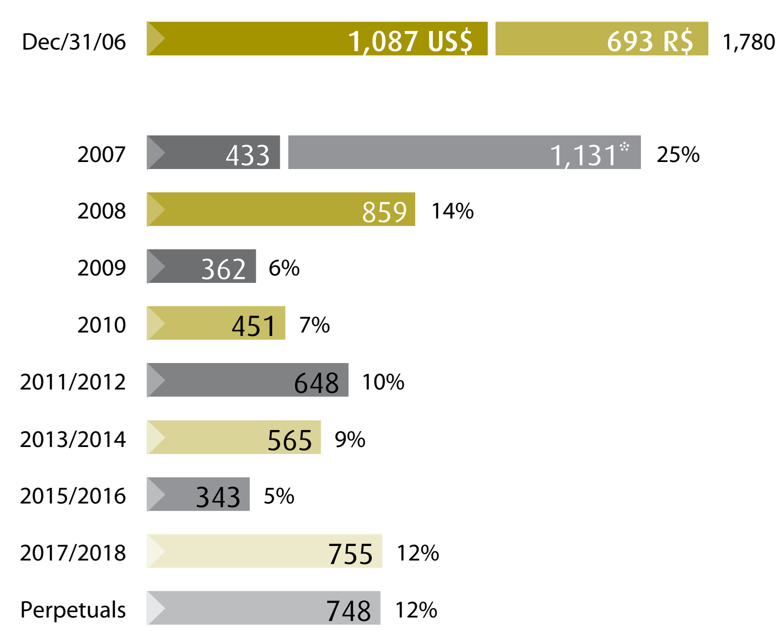
In this context, net debt at the end of 2006 was R$ 4.5 billion, compared to net debt of R$ 3.4 billion as of December 2005. In U.S. dollar terms, Braskem's net debt went from US$ 1.5 billion in 2005 to US$ 2.1 billion at December 31, 2006. Braskem's financial leverage ratio, measured by the ratio "Net debt/EBITDA", went from 1.63 in 2005 to 2.74 at December 31, 2006.

During 2006, the Company focused its efforts on extending the average maturity of its debts, which now reaches 16 years, thus ensuring the adequacy of the profile of its annual maturities, as well as higher efficiency in the allocation of funds to operating working capital, besides reducing its foreign exchange exposure. At the end of 2006, the Company debt linked to the U.S. dollar corresponded to 49%, compared to 54% at the end of 2005.

Currently, all operating and financial maturities in U.S. dollars are covered by foreign exchange hedge for the next 24 months. They comprise cash balances invested in U.S. dollars, projected export and import balance and, when necessary, derivative instruments that protect it from exchange rate fluctuations.

The graph below depicts the Company repayment schedule as of December 31, 2006:

Debt Amortization Schedule (R$ million) – 12/31/2006

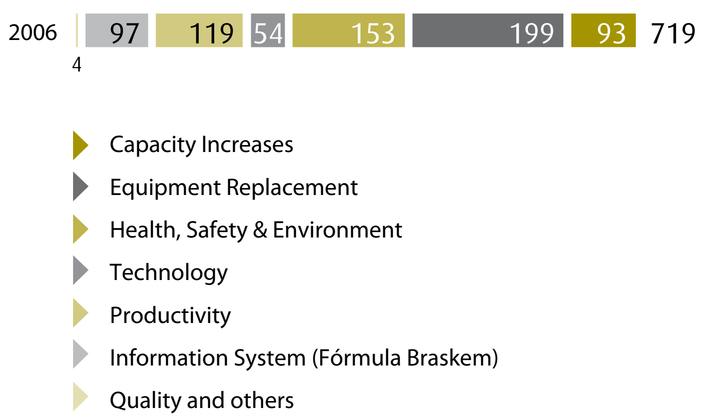


* Convertible debentures with payment of interest and principal scheduled for July 2007, fully subscribed by the controlling shareholder.

3 – Capital Expenditures

In 2006, the Company capital expenditures totaled R$ 719 millions (not including capitalized interest in the amount of R$ 83 million) compared to R$ 717 million in 2005. The resources were invested in projects providing attractive returns, such as: (1) capacity addition at plants (debottleneck), (2) business competitiveness programs, Braskem + and Fórmula Braskem, and (3) technology upgrades. Furthermore, significant investments were made in health, safety and environment.

Investments (R$ million)



The major investments in production capacity increases during 2006 were:

- R$ 80 million in the Basic Petrochemicals Unit – expansion of the production capacity of isoprene, with start-up in November 2006 and addition of 8 thousand tons, or 48% of the existing production capacity;
- R$ 10 million in the debottlenecking of a PE plant, with capacity addition of 30 thousand tons of higher value-added PE, in particular in the production line of Braskem Flexus®, with start-up in September 2006.

In addition, investments in information systems and the Fórmula Braskem program amounted to R$ 97 million.

Furthermore, the Company disbursed R$ 150 million for scheduled maintenance stoppages, to ensure the operation of its plants at high levels of reliability.

As part of the consolidation process underway in the Brazilian petrochemical industry, in April 2006 Braskem acquired the control of Politeno and now holds 100% of the voting and 96.2% of the total capital of this company. The initial amount paid was equal to US$ 111 million. The final value will be calculated in accordance with Politeno's performance within the next 18 months, reflecting the evolution of polyethylene and ethylene spreads in the Brazilian market, through a formula agreed among the parties.

Given the completion of the competitiveness programs (Braskem + and Fórmula Braskem) and investments in capacity additions at existing units (debottlenecking), Braskem will continue to look for projects which support its growth coupled with value creation. To this end, the Company plans to invest approximately R$ 550 million in 2007. This sum includes, besides investments to maintain the competitiveness of its plants, investments to increase the capacity of the Basic Petrochemicals Unit, such as the conversion of MTBE into ETBE, using a renewable source of raw material (ethanol) with higher value added, and studies to launch hydrocarbonic resins at the end of this decade with emphasis on available process streams targeting the adhesives, as well as plastic and rubber compounds, paints and varnishes.

In connection of scheduled maintenance stoppages, expenditures estimated for 2007 amount to approximately R$ 150 million.

Braskem S.A. and Subsidiaries

Financial Statements at December 31, 2006 and 2005 and Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Shareholders
Braskem S.A.

1 We have audited the accompanying balance sheets of Braskem S.A. and the consolidated balance sheets of Braskem S.A. and its subsidiaries as of December 31, 2006 and 2005, and the related statements of income, of changes in shareholders' equity and of changes in financial position of Braskem S.A., as well as the related consolidated statements of income and of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The audits of the financial statements of the jointly-controlled entities Petroflex Indústria e Comércio S.A. as of December 31, 2006 and 2005, and of Politeno Indústria e Comércio S.A. as of December 31, 2005, representing investments which are recorded under the equity method, were conducted by other independent auditors. Our opinion, insofar as it relates to the amounts of these investments and the profits generated by them, in the amounts of R$ 61,117 thousand and R$ 3,528 thousand, respectively, in 2006, and R$ 223,783 thousand and R$ 45,560 thousand, respectively, in 2005, is based solely on the reports of these other auditors.

2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

3 In our opinion, based on our audit and on the reports issued by other independent auditors, the financial statements audited by us present fairly, in all material respects, the financial position of Braskem S.A. and of Braskem S.A. and its subsidiaries at December 31, 2006 and 2005, and the results of operations, the changes in shareholders' equity and the changes in financial position of Braskem S.A., as well as the consolidated results of operations and of changes in financial position, for the years then ended, in accordance with accounting practices adopted in Brazil.

4 As described in Notes 17(c) and 21 to the financial statements, Braskem S.A. and certain subsidiaries are parties to significant lawsuits including those which seek exemption from paying social contribution on net income and a lawsuit regarding the validity of Clause 4 of the Collective Labor Agreement of Union of the Employees of Petrochemical, Plastic Chemicals and Related Companies of the State of Bahia (SINDIQUÍMICA). Based on the opinion of its external legal advisors and the Company's management, no material losses are expected from these lawsuits. Accordingly, these financial statements do not include any provisions to cover the possible effects of these lawsuits.

5 Based on the decision of the Federal Supreme Court (STF), the management of the former indirect subsidiary OPP Química S.A., merged into Braskem S.A. in March 2003, recorded an Excise Tax (IPI) credit in the amount of R$ 1,030,125 thousand in the results for the year ended December 31, 2002. Although the National Treasury has filed an appeal of certain aspects of this decision, as described in Note 9(a), management, based on the opinion of its legal advisors, still believes that there are no material changes in the receivable recorded by the former subsidiary.

6 As described in Notes 11, 12 and 13 to the financial statements, the Company and some of its subsidiaries recognized in their financial statements goodwill on the acquisition of investments based on the fair values of fixed assets and the expected future profitability of the investees. These goodwill balances are being amortized in accordance with the period of return defined in the independent valuation reports and the financial projections prepared by management. The maintenance of the goodwill balances, and the current amortization criteria in the financial statements of future years will depend upon the realization of the projected cash flows and income and expenses used by the valuers in determining the realizable value as well as the future profitability of the investments.

7 At December 31, 2006, a recoverable Value-Added Tax on Sales and Services (ICMS) balance, in the amount of R$ 675,428 thousand (2005 – R$ 412,865 thousand) was recorded in the parent company, and R$ 936,333 thousand (2005 – R$ 556,917 thousand) in the consolidated financial statements, which considers the implementation of the actions described in Note 9(b).

8 Our audits were conducted for the purpose of forming an opinion on the basic financial statements, referred to in the first paragraph, taken as a whole. The statements of cash flows and added value, presented in Attachments I and II, to provide supplementary information about the Company and its subsidiaries, are not a required part of the basic financial statements, in accordance with accounting practices adopted in Brazil. This information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Salvador, February 7, 2007

PricewaterhouseCoopers
Independent Auditors
CRC 2SP000160/O-5 "F" BA

Marco Aurélio de Castro e Melo
Accountant CRC 1SP153070/O-3 "S" BA

Braskem S.A. and Subsidiaries

Balance Sheet at December 31

In thousands of reais

Assets	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
Current assets				
Cash and cash equivalents (Note 4)	1,125,925	1,461,090	1,547,061	2,135,740
Marketable securities (Note 5)	849,006	3,503	413,891	145,794
Trade accounts receivable (Note 6)	891,794	963,333	1,594,858	1,493,312
Inventories (Note 7)	1,443,876	1,250,072	1,767,275	1,567,453
Taxes recoverable (Note 9)	336,350	263,677	408,082	324,868
Deferred income tax and social contribution (Nota 17)	19,573	19,573	20,625	21,979
Dividends and interest on capital receivable	71,908	43,979	-	-
Advances to suppliers	63,104	37,255	64,719	40,038
Prepaid expenses	76,049	41,622	84,586	48,800
Other accounts receivable	31,440	51,004	49,899	59,474
	4,909,025	**4,135,108**	**5,950,996**	**5,837,458**
Non-current				
Long-term receivables				
Marketable securities (Note 5)	63,460	636,303	1,628	325
Trade accounts receivable (Note 6)	51,766	47,479	52,542	49,676
Inventories (Note 7)	22,946	71,817	22,946	75,783
Taxes recoverable (Note 9)	698,497	395,975	953,102	559,423
Deferred income tax and social contribution (Note 17)	361,089	257,677	377,041	273,027
Judicial deposits and compulsory loan (Note 10)	70,610	34,899	90,516	36,522
Related parties (Note 8)	229,308	57,181	40,733	40,560
Other accounts receivable	49,292	22,328	58,653	27,257
	1,546,968	**1,523,659**	**1,597,161**	**1,062,573**
Permanent assets				
Investments in subsidiaries and jointly-controlled entities (Note 11)	1,813,326	2,024,713	6,528	6,206
Investments in associated companies (Note 11)	25,604	25,761	26,187	25,761
Other investments	8,367	8,364	14,056	34,212
Property, plant and equipment (Note 12)	5,994,130	5,675,397	6,688,699	6,364,361
Intangible assets (Note 12)	129,126	28,060	129,450	28,395
Deferred charges (Note 13)	1,325,286	1,486,879	1,891,245	2,231,785
	9,295,839	**9,249,174**	**8,756,165**	**8,690,720**
Total assets	**15,751,832**	**14,907,941**	**16,304,322**	**15,590,751**

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

Balance Sheet at December 31 – *continuation*

In thousands of reais

Liabilities and shareholders' equity	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
Current liabilities				
Suppliers	2,907,312	2,529,824	3,022,085	2,580,173
Loans and financing (Note 14)	675,674	612,227	653,898	1,120,391
Debentures (Note 15)	1,157,356	9,295	1,157,687	9,295
Salaries and social charges	122,115	100,603	148,935	135,961
Taxes, charges and contributions	86,670	167,131	122,840	192,169
Income tax and social contribution (Note 17)	-	10,810	14,425	19,002
Dividends and interest on capital payable (Note 20)	40,221	290,953	41,425	299,202
Advances from customers	11,845	34,784	26,740	42,027
Related parties (Note 8)	-	-	-	3,081
Insurance premiums payable	48,822	2,638	50,039	3,203
Other provisions and accounts payable (Note 1(c))	244,039	27,820	268,878	39,593
	5,294,054	**3,786,085**	**5,506,952**	**4,444,097**
Non-current liabilities				
Long-term liabilities				
Suppliers	21,426	29,746	21,426	29,746
Loans and financing (Note 14)	3,591,687	3,331,415	3,935,794	3,261,594
Debentures (Note 15)	950,000	1,599,347	982,190	1,599,347
Taxes and contributions (Note 16)	1,279,698	1,158,471	1,321,961	1,324,358
Related parties (Note 8)	7,050	3,372	4,791	3,044
Provision for loss on investments (Note 11)	-	199,797	-	9,280
Long-term incentives (Note 19)	2,272	-	2,272	-
Deferred income tax and social contribution (Note 17)	7,935	8,525	17,274	10,445
Private pension plans (Note 28)	58,554	58,554	64,205	65,116
Other accounts payable	70,582	59,873	83,398	98,785
	5,989,204	**6,449,100**	**6,433,311**	**6,401,715**
Deferred income				
Negative goodwill on the purchase of investments	**21,060**	**25,655**	**30,405**	**87,941**
Minority interests	-	-	**21,767**	**121,232**
Shareholders' equity (Note 20)				
Capital	3,508,272	3,402,968	3,508,272	3,402,968
Capital reserves	408,650	396,821	408,650	396,821
Treasury shares	(194,555)	(1,905)	(255,554)	(15,015)
Revenue reserves	725,147	849,217	650,519	750,992
	4,447,514	**4,647,101**	**4,311,887**	**4,535,766**
Total liabilities and shareholders' equity	**15,751,832**	**14,907,941**	**16,304,322**	**15,590,751**

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

Statement of Income

Years Ended December 31

In thousands of reais, except for net income per share

	Parent company		Consolidated	
	2006	**2005**	**2006**	**2005**
Gross sales				
Domestic market	11,831,709	12,736,053	13,028,432	14,099,136
Foreign market	2,424,362	2,395,862	3,516,846	2,944,199
Taxes, freights and returns on sales	(3,324,628)	(3,639,630)	(3,552,582)	(3,968,255)
Net sales revenues	**10,931,443**	**11,492,285**	**12,992,696**	**13,075,080**
Cost of sales and/or services rendered	(9,303,288)	(9,276,273)	(10,792,056)	(10,361,716)
Gross profit	**1,628,155**	**2,216,012**	**2,200,640**	**2,713,364**
Operating expenses (income)				
Selling	283,847	199,638	398,953	261,880
General and administrative	464,847	437,909	539,515	510,082
Directors' fees	9,186	10,469	12,946	15,092
Depreciation and amortization	371,329	370,389	385,093	355,563
Other operating income, net (Note 24)	(131,885)	(69,891)	(186,142)	(22,753)
	997,324	**948,514**	**1,150,365**	**1,119,864**
Operating profit before equity accounting and financial income (expenses)	**630,831**	**1,267,498**	**1,050,275**	**1,593,500**
Equity accounting				
Equity in the results of investees	172,783	222,129	801	1,287
Amortization of (goodwill) negative goodwill, net	(61,648)	(385,717)	(57,758)	(152,539)
Exchange variation	2,709	21,341	(1,423)	3,629
Tax incentives	-	-	20,504	39,225
Reversal of provision for losses of subsidiaries	6,469	280,702	-	-
Other	1,092	(1,844)	8,979	(1,423)
	121,405	**136,611**	**(28,897)**	**(109,821)**
Financial income (expenses) (Note 23)				
Financial expenses	(836,255)	(552,804)	(1,097,927)	(675,757)
Financial income	54,948	(62,109)	159,519	(33,619)
	(781,307)	**(614,913)**	**(938,408)**	**(709,376)**
Operating profit (loss)	**(29,071)**	**789,196**	**82,970**	**774,303**
Non-operating income (expenses), net (Note 25)	7,748	(24,865)	7,120	(25,156)
Income (loss) before income tax and social contribution	**(21,323)**	**764,331**	**90,090**	**749,147**
Provision for income tax and social contribution (Note 17)	(444)	(54,869)	(88,054)	(147,737)
Deferred income tax and social contribution (Note 17)	99,520	(23,687)	100,906	(29,641)
Income before minority interests	**77,753**	**685,775**	**102,942**	**571,769**
Minority interests	-	-	(1,593)	54,068
Net income for the year	**77,753**	**685,775**	**101,349**	**625,837**
Shares outstanding at the end of the year (thousands)	**356,039**	**362,056**	-	-
Net income per share at year end – R$	**0.218**	**1.894**	-	-

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

Statement of Changes in Shareholders' Equity

In thousands of reais

		Capital reserves		Revenue reserves				
	Capital	**Tax incentives**	**Other**	**Legal reserve**	**Retention of profits**	**Treasury shares**	**Retained earnings (accumulated deficit)**	**Total**
December 31, 2004	**3,402,968**	**344,225**	**557**	**34,634**	**454,551**	**(1,905)**	**-**	**4,235,030**
Tax incentives	-	52,039	-	-	-	-	-	52,039
Net income for the year	-	-	-	-	-	-	685,775	685,775
Appropriation of net income:								
Legal reserve	-	-	-	34,289	-	-	(34,289)	-
Dividends proposed (Note 20(e))	-	-	-	-	-	-	(55,743)	(55,743)
Retention of profits	-	-	-	-	325,743	-	(325,743)	-
Interest on capital (Note 20(f))	-	-	-	-	-	-	(270,000)	(270,000)
December 31, 2005	**3,402,968**	**396,264**	**557**	**68,923**	**780,294**	**(1,905)**	**-**	**4,647,101**
Capital increase (Note 1(c))	105,304	-	-	-	-	-	-	105,304
Tax incentives	-	11,829	-	-	-	-	-	11,829
Repurchase of shares (Note 20 (c))	-	-	-	-	-	(192,650)	-	(192,650)
Effect of change in accounting practice (Note 12)	-	-	-	-	-	-	(164,890)	(164,890)
Transfer from reserve to offset prior year adjustments	-	-	-	-	(164,890)	-	164,890	-
Net income for the year	-	-	-	-	-	-	77,753	77,753
Appropriation of net income:								
Legal reserve	-	-	-	3,888	-	-	(3,888)	-
Dividends proposed (Nota 20(e))	-	-	-	-	-	-	(36,933)	(36,933)
Retention of profits	-	-	-	-	36,932	-	(36,932)	-
December 31, 2006	**3,508,272**	**408,093**	**557**	**72,811**	**652,336**	**(194,555)**	**-**	**4,447,514**

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

Statement of Changes in Financial Position

Years Ended December 31

In thousands of reais

	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
Financial resources were provided by:				
Operations				
Net income for the year	77,753	685,775	101,349	625,837
Expenses (income) not affecting working capital:				
Depreciation, amortization and depletion	865,255	766,340	962,399	841,493
Equity accounting				
Equity in the results of investees	(172,783)	(222,129)	(801)	(1,287)
Amortization of goodwill (negative goodwill), net	61,648	385,717	57,758	152,539
Reversal of provision for losses on investments	(6,469)	(280,702)	-	-
Exchange variation	(2,709)	(21,341)	1,423	(3,629)
Tax incentives	-	-	(20,504)	(39,225)
Gains (losses) on interests in investments and other	(1,092)	2,293	(11,437)	2,188
Net book value of permanent assets sold	963	1,067	4,403	5,056
Long-term interest, monetary and exchange variations, net	64,137	(42,513)	90,393	(54,369)
Deferred income tax and social contribution	(99,520)	23,687	(100,906)	29,641
Minority interests	-	-	1,593	(54,068)
Assignment of right to use	-	(58,240)	(19,657)	(3,640)
Recovery of tax credits, net	(94,352)	-	(94,491)	-
Other	(16,643)	(27,031)	(16,107)	(26,088)
Total funds provided from operations	**676,188**	**1,212,923**	**955,415**	**1,474,448**
Shareholders				
Capital payment	105,304	-	110,860	2,531
Advance for future capital increase	-	-	-	157
	105,304	-	**110,860**	**2,688**
Third parties				
Loans and financing in long-term liabilities	2,119,979	1,206,300	2,234,789	1,606,197
Transfer from long-term receivables to current assets	364,668	30,093	168,344	66,423
Decrease in long-term receivables	21,968	59,618	28,389	123,347
Increase in long-term liabilities	10,686	58,266	55,296	429,911
Dividends	175,970	336,681	2,000	2,000
Tax incentives	11,829	52,039	32,430	91,422
Working capital of merged/acquired companies	300,529	1,010,274	84,043	-
Other	-	2,289	-	5,821
	3,005,629	**2,755,560**	**2,605,291**	**2,325,121**
Total funds provided	**3,787,121**	**3,968,483**	**3,671,566**	**3,802,257**

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

Statement of Changes in Financial Position – *(continued)*

Years Ended December 31

In thousands of reais

	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
Financial resources were used for:				
Dividends proposed and interest on capital payable	36,933	325,743	66,236	331,300
Transfer from long-term to current liabilities	3,227	21,915	24,869	316,070
Settlement of financing in long-term liabilities	619,652	-	634,000	617,228
Decrease in current account – liabilities, net	182,315	-	4,295	117,823
Repurchase of shares / debentures	192,650	-	192,650	9,068
Transfer from long-term to current financing	1,757,673	481,145	1,767,783	504,231
Decrease in long-term liabilities	138,283	3,078	148,741	3,141
Increase in long-term receivables	121,783	976,908	202,437	507,647
Permanent assets				
Investments	523,278	121,739	483,013	22,463
Property, plant, equipment and intangible assets	910,166	855,436	1,056,547	965,285
Deferred charges	35,213	82,477	40,312	87,589
Total funds used	**4,521,173**	**2,868,441**	**4,620,883**	**3,481,845**
Increase (decrease) in working capital	**(734,052)**	**1,100,042**	**(949,317)**	**320,412**
Changes in working capital				
Current assets				
At the end of the year	4,909,025	4,135,108	5,950,996	5,837,458
At the beginning of the year	4,135,108	4,690,295	5,837,458	5,668,249
	773,917	**(555,187)**	**113,538**	**169,209**
Current liabilities				
At the end of the year	5,294,054	3,786,085	5,506,952	4,444,097
At the beginning of the year	3,786,085	5,441,314	4,444,097	4,595,300
	1,507,969	**(1,655,229)**	**1,062,855**	**(151,203)**
Increase (decrease) in working capital	**(734,052)**	**1,100,042**	**(949,317)**	**320,412**

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

Notes to the Financial Statements

at December 31, 2006 and 2005

In thousands of reais

1 Operations

(a) Braskem S.A. ("Braskem" or "Company"), with headquarters in Camaçari - BA, and 14 production units located in the States of Alagoas, Bahia, São Paulo and Rio Grande do Sul, engages in the production of basic petrochemicals such as ethene, propene, benzene, and caprolactam, in addition to gasoline and LPG (cooking gas). The thermoplastic resine segment includes polyethilene, polypropilene, PVC and Polyethilene Teraphtalate ("PET"). The Company also engages in the import and export of chemicals, petrochemicals, fuels, as well as the production and supply of utilities such as steam, water, compressed air and electric power to the companies in the Camaçari Petrochemical Complex in Bahia ("Northeast Petrochemical Complex"), and the rendering of services to those companies. The Company also invests in other companies, either as a partner or shareholder.

The Company operations are organized into four business units: Basic Petrochemicals, Polyolefins, Vynils and Business Development. Each unit is responsible for managing its full business cycle.

(b) As a result of convertible debentures due to shareholder ODPAR Investimentos S.A. ("ODBPAR INV") in the amount of R$ 1,130,752 (Note 15), at December 31, 2006, the Company has negative working capital of R$ 385,029.

(c) Corporate reorganization

Since its inception on August 16, 2002, the Company has undergone a major corporate restructuring process, disclosed to the market through relevant event notices. The main developments in 2005 and 2006 can be summarized as follows:

- In February 2005, through a Share Purchase and Sale Agreement entered into with Petrobras Química - Petroquisa S.A. ("Petroquisa"), the Company acquired 23,465,165 shares representing 13.74% of the capital of Companhia Alagoas Industrial ("CINAL"), for R$ 13,402. The Company recognized goodwill of R$ 433 on this transaction, fully amortized since it is grounded in other economic reasons.

- The Extraordinary General Meeting held on March 31, 2005 approved the merger of the subsidiary Odebrecht Química S.A ("Odequi") based on the appraisal report of the value of shareholders' equity, issued by independent appraisers, at December 31,2004, in the amount of R$ 1,340,749. Odequi's equity variations during the 1st quarter of 2005 were taken to the statement of income of Braskem, as equity in the earnings.

- On April 25, 2005, the capital of Braskem Incorporated Limited ("Braskem Inc") was increased by the Company in the amount of US$ 40,000 thousand (equal to R$ 101,400), from US$ 95 thousand to US$ 40,095 thousand, with the issue of 40,000,000 quotas. The capitalization was carried out through cash contributions. This transaction gave rise to: (i) goodwill of R$ 6,579, fully amortized in the income for the year since it is grounded in other economic reasons and (ii) reversal of the provision for losses on the investee, for the same amount as amortized goodwill.

- On April 29, 2005, as disclosed in a Relevant Event notice, Odebrecht S.A. ("Odebrecht"), Nordeste Química S.A. ("Norquisa"), ODBPAR Investimentos S.A. and Petrobras Química S.A ("Petroquisa") executed the Second Amendment to Braskem Shareholders' Agreement, with the Company and Petróleo Brasileiro S.A. – Petrobras ("Petrobras"), as intervening parties. Under this amendment, Petroquisa was granted an option to increase its share in the voting capital of the Company by up to 30%, through the subscription of new shares in the following companies: (i) petrochemical companies located in the Petrochemical Complex at Triunfo, State of Rio Grande do Sul, and (ii) other petrochemical companies considered by the Company as strategic. On March 31, 2006, as there was no consensus on the previously agreed-upon terms and conditions, Petroquisa chose not to exercise the option to increase its percentage holding in the voting capital of the Company.

- At a meeting held on June 22, 2005, the Boards of Directors of the Company and Petroquisa approved capital expenditures of US$ 240 million to build a plant for the production of polypropilene in the city of Paulínia – SP. The investment will be made by the joint venture formed at the time of the organization of Petroquímica Paulínia S.A. ("Petroquímica Paulínia"), on September 16, 2005. On June 5, 2006, the Board of Directors of the Company approved an upward review in the investment amount to US$ 356 million.

- At a meeting held on November 8, 2005, the Board of Directors of the Company approved the organization of an entity in Argentina, named Braskem Argentina S.R.L. ("Braskem Argentina"), as a limited partnership, having as partners the Company and Braskem Distribuidora, holding 98% and 2% of the capital, respectively.

- On November 30, 2005, the Company increased the capital of Braskem Distribuidora from R$ 3,542 to R$ 316,490, by the utilization of credits held by the Company with the subsidiary, in the amount of R$ 312,948. The Company recorded goodwill of R$ 223,467 on this transaction, fully amortized in income for the year, since it is grounded in other economic reasons.

- On April 4, 2006, as disclosed in a Relevant Event notice, Braskem acquired 66.04% of the common and 15.33% of the preferred shares of the capital of Politeno Indústria e Comércio S.A. ("Politeno"). With the acquisition, Braskem now holds 100% of the voting capital and 96.16% of the total capital of Politeno, a company located in the Northeast Petrochemical Complex, with an annual production capacity of 360 thousand metric tons of polyethilene. The initial amount paid by Braskem was R$ 237,500, equal to US$ 111,300 thousand, including a negative goodwill of R$ 73,404.

  The final amount to be paid by the Company for the shares so acquired will be computed in November 2007, based on Politeno's average performance over the 18 months subsequent to the execution of the purchase and sale agreement, in accordance with the difference between the prices of polyethilene and ethylene in the Brazilian market, audited by an independent firm appointed by Braskem and the former shareholders. In order to record the commitment to pay for this acquisition, the Company projected the variables that will define the final price of the shares and, at December 31, 2006, recognized a provision to supplement the estimated price, stated in current liabilities, under "Other provisions and accounts payable". This gave rise to the reversal of negative goodwill and the recording of a goodwill of R$ 79,788. The provision is subject to changes on account of the fluctuation of market prices and conditions up to the actual payment date.

- The Extraordinary General Meeting held on May 31, 2006 approved the merger of Polialden Petroquímica S.A. ("Polialden") into the Company, based on the book value of shareholders' equity as of March 31, 2006, in the amount of R$ 289,941. The exchange ratio of Polialden shares for Braskem shares was determined based on the book value of shareholders' equity of the companies, at market values, as of March 31, 2006, according to appraisal reports issued by a specialized firm.

  In order to encourage shareholders to engage in the exchange, Polialden shares held by third parties were replaced with class "A" preferred shares in the Company at the ratio of 33.62 shares in Braskem for each 1,000 shares in Polialden, which corresponds to a 6.76% increase on the replacement ratio derived from the Appraisal Reports of the Market Value of Shareholders' Equity, as shown below:

	Braskem	Polialden
Number of shares issued	362,523,521	645,253,380
Book value of shareholders' equity (in R$)	4,650,559,014.63	289,940,899.44
Value per share based on the book value of shareholders' equity (in R$)	12.828	0.449
Market value of shareholders' equity (in R$)	8,202,482,686.96	459,721,902.03
Value per share based on the market value of shareholders' equity (in R$)	22.626	0.713
Exchange ratio – market value of shareholders' equity	31.49	1,000
Exchange ratio of replacement of Polialden preterred share with Braskem class "A" preferred share under the merger	33.62	1,000

  The equity variations in Polialden determined during the period from the merger base date and the actual merger were taken to the statement of income of the Company, as equity in the earnings. The balance of goodwill as of the merger date, R$ 337,328, justified based on future profitability, was transferred to deferred charges.

  Upon the merger of Polialden, the Company's capital was increased by R$ 105,304, through the issue of 7,878,725 class A preferred shares, to total R$ 3,508,272, consisting of 123,492,142 common, 246,107,138 class A preferred shares, and 803,066 class B preferred shares (Note 20(a)).

- The Extraordinary Shareholders' Meeting held on July 20, 2006 approved the proposal to merge the net assets spun off from Companhia Alagoas Industrial – CINAL, a subsidiary of the Company.

  Pursuant to the Valuation Report of CINAL's Shareholders' Equity issued by independent experts as of March 31, 2006, the book value of the spun-off assets assigned to Braskem is R$ 58,212. Equity variations between the transaction base date and the spin-off approval date were recognized by the Company as equity in earnings. As a result of the spin-off, the capital of CINAL was reduced by R$ 58,212 and 57,657,265 preferred shares were cancelled.

- At a meeting held on September 29, 2006, the Board of Directors of the Company approved the constitution of an entity in the Netherlands, named Braskem Europe B.V. ("Braskem Europa"), organized as a limited liability partnership, having the Company as partner holding 100% of the capital.

  The Company and its subsidiaries, as participants in the corporate restructuring process, may be affected by economic and/or corporate aspects as a result of the outcome of this process.

(d) Administrative Council for Economic Defense – CADE

On September 14, 2005, CADE approved by unanimous vote, with no restrictions, the change in control of the Company, which in 2002 had given rise to a notice of potential economic concentration.

On July 19, 2006, CADE approved, by unanimous vote, the acquisition of Politeno by the Company (Note 1(c)), on the grounds that the relevant market for the petrochemical industry has international scope and therefore the transaction does not represent a threat to competition.

(e) Share reverse split and American Depositary Shares ("ADS") split

To make trading easier and increase the liquidity of Braskem shares, the Extraordinary General Meeting held on March 31, 2005, approved the reverse split of shares, including all types and classes at the ratio of 250 shares for each share. As a result, also the split of Braskem ADSs was approved, at the ratio of 2 ADS's for each existing ADS.

Shareholders were given a 30-day period from April 5, 2005 to adjust their positions. Following this period, the remaining share fractions were grouped into round numbers and auctioned as a whole on the São Paulo Stock Exchange ("Bovespa"). The auction proceeds were transferred on to the shareholders through current account deposits on a pro rata basis.

As from May 16, 2005, the shares are quoted and traded in unit batches on Bovespa and the New York Stock Exchange ("NYSE"), as a reverse split and split of shares, respectively.

(f) Corporate governance

Braskem enrolled in Level 1 of Differentiated Corporate Governance of Bovespa, which mainly commits the Company to improvements in providing information to the market and in the dispersion of shareholdings. The Company maintains its intention of reaching Level 2 of Bovespa's Corporate Governance in due time.

2 Presentation of the Financial Statements

The financial statements were prepared in accordance with the accounting practices adopted in Brazil and also in compliance with the standards and procedures determined by the Brazilian Securities Commission – CVM, Brazilian Institute of Independent Auditors – IBRACON, and Federal Accounting Council – CFC.

Pursuant to the adoption of CVM Deliberation 488/05 and IBRACON Technical Interpretation 01, the Company made certain reclassifications in the prior year's financial statements, as shown below.

Parent company

Assets	Published 2005	Reclassification	Reclassified 2005
Current assets			
Deferred income tax and social contribution	-	19,573	19,573
Long-term receivables			
Deferred income tax and social contribution	277,250	(19,573)	257,677
Permanent assets			
Property, plant and equipment	5,279,334	396,063	5,675,397
Intangible assets	-	28,060	28,060
Deferred charges	1,911,002	(424,123)	1,486,879

Consolidated

Assets	Published 2005	Reclassification	Reclassified 2005
Current assets			
Deferred income tax and social contribution	2,406	19,573	21,979
Long-term receivables			
Deferred income tax and social contribution	292,600	(19,573)	273,027
Permanent assets			
Property, plant and equipment	5,964,156	400,205	6,364,361
Intangible assets	-	28,395	28,395
Deferred charges	2,660,385	(428,600)	2,231,785

When comparing the financial statements for the year ended December 31, 2006 to the financial statements of the prior year, the full consolidation of Politeno, effective April 1, 2006, and the merger of Polialden (Note 1 (c)), effective May 31, 2006, should be taken into account. The financial statements of Polialden and Politeno are presented in Note 3 (g) and below, respectively:

Assets	2005	Liabilities and shareholders' equity	2005
Current assets		**Current liabilities**	
Cash and cash equivalents	176,884	Suppliers	21,383
Trade accounts receivable	51,100	Loans and financing	991
Taxes recoverable	25,717	Salaries and social charges	3,686
Inventories	93,537	Income tax payable	6,530
Prepaid expenses	735	Taxes and contributions	1,442
Other accounts receivable	3,098	Other accounts payable	1,703
		Dividends proposed and payable	14,559
	351,071		50,294
Non-current		**Non-current**	
Long-term receivables		Long-term liabilities	
Judicial deposits	21,980	Loans and financing	1,409
Taxes recoverable	81,721	Taxes and contributions	177,830
Inventories	3,966	Dividends payable	5,698
Other accounts receivable	616	Other accounts payable	921
	108,283		185,858
Permanent assets			
Investments			
Subsidiary and associated companies	5,586	Shareholders' equity	
Other investments	4	Capital	200,000
Property, plant and equipment	58,385	Capital reserves	66,676
Deferred charges	7,428	Revenue reserves	27,929
	71,403		294,605
Total assets	**530,757**	**Total liabilities and shareholders' equity**	**530,757**

	2005	January to May 2006
Gross sales		
Domestic market	361,082	119,468
Foreign market	133,248	41,518
Taxes, freights and returns	(123,751)	(35,177)
Net sales	370,579	125,809
Cost of sales	(351,051)	(121,632)
Gross profit	**19,528**	**4,177**
Operating expenses (income)		
Selling	11,060	333
General and administrative	11,343	5,671
Directors' fees	1,795	216
Depreciation and amortization	743	371
Other operating expenses (income), net	792	(115)
	25,733	**6,476**
Equity in subsidiary and associated companies		
Equity in the earnings	1,461	889
Exchange variation	(221)	(90)
Other	100	-
	1,340	**799**
Financial income (expenses)		
Financial expenses	(25,914)	(14,244)
Financial income	51,055	14,632
	25,141	**388**
Operating profit (loss)	**20,276**	**(1,112)**
Non-operating expenses, net	(13)	-
Income (loss) before income tax	**20,263**	**(1,112)**
Income tax	(7,057)	4,585
Net income for the year / period	**13,206**	**3,473**

To provide the market with supplementary information, the Company presents its statement of cash flows, prepared in accordance with IBRACON NPC 20, and statement of value added, prepared in accordance with CFC NBCT 3.7 (Attachments I and II).

3 Significant Accounting Practices

These financial statements were approved by the Board of Directors of the Company on February 7, 2007.

(a) Use of estimates

In the preparation of the financial statements, it is necessary to use estimates to record certain assets, liabilities and transactions. The financial statements of the Company and its subsidiaries include, therefore, various estimates regarding the selection of the useful lives of property, plant and equipment, deferred charges amortization periods, as well as provisions for contingencies, income tax and other similar amounts.

(b) Determination of net income

Net income is determined on the accrual basis of accounting.

Sales revenues are recognized when the risk and product title are transferred to customers. This transfer occurs when the product is delivered to customers or carriers, depending on the type of sales.

The provisions for income tax and Value-Added Tax on Sales and Services (ICMS) expenses are recorded gross of the tax incentive portions, with the amounts related to tax exemption and reduction recorded in a capital reserve.

In accordance with the requirements of CVM Deliberation 273 and Instruction 371, the deferred income tax is stated at probable realizable value, expected to occur as described in Note 17 (b).

Monetary and foreign exchange variations on assets and liabilities are classified in "Financial income" and "Financial expenses", respectively.

The Company has recognized in results for the year the market value of derivative contracts relating to cash flows and liabilities indexed to foreign currency or international interest rates.

Earnings per share are calculated based on the number of outstanding shares on the balance sheet date.

(c) Current and non-current assets

Cash and cash equivalents comprise primarily cash deposits and marketable securities with immediate liquidity or maturing within 90 days (Note (4).

Marketable securities are valued at the lower of cost or market, including accrued income earned to the balance sheet date. Derivative instruments are valued at their adjusted fair values, based on market quotations for similar instruments in relation to future exchange and interest rates.

The allowance for doubtful accounts is set up at an amount considered sufficient to cover estimated losses on the realization of the receivables, taking into account the Company's loss experience. For a better calculation of the doubtful accounts the Company analyzes, on a monthly basis, the amounts and characteristics of trade accounts receivable.

Inventories are stated at average purchase or production cost, which is lower than replacement cost or realization value. Imports in transit are stated at the accumulated cost of each import. Inventories of maintenance materials ("Warehouse") are classified in current assets or long-term receivables, considering their history of consumption.

Deferred income tax is recognized upon favorable scenarios for its realization. Periodically, the amounts recorded are reassessed in accordance with CVM Deliberation 273/98 and CVM Instruction 371/02.

Judicial deposits are stated net of the related contingent liabilities, pursuant to CVM Deliberation 489/05.

Other assets are shown at realizable values, including, where applicable, accrued income and monetary variations, or at cost in the case of prepaid expenses.

(d) Permanent assets

These assets are stated at cost plus restatements for inflation through December 31, 1995 considering the following:

- investments in subsidiaries, jointly-controlled entities and associated companies are accounted for using the equity method, plus/less unamortized goodwill/negative goodwill. Goodwill is calculated as the difference between the amount paid and the book value of net assets acquired. Goodwill is based on the expected future profitability of the investees and appreciation of the assets, and is amortized over a period of up to 10 years. Goodwill in merged companies is transferred to property, plant and equipment and deferred charges, when based on asset appreciation and future profitability of the investees, respectively. Other investments are carried at the cost of acquisition.

- interests in foreign subsidiaries are accounted for using the equity method and foreign exchange variances on net assets is recorded in a separate account under operating profits. Balance sheet and income statement accounts are converted into Brazilian currency at the exchange rates ruling as of the financial statement date, according to CVM Deliberation 28 of February 5, 1986.

- property, plant and equipment is shown at acquisition or construction cost and, as from 1997, includes capitalized interest incurred during the construction period. Capitalized interest is added to assets and depreciated as from the date they become operational.

- depreciation of property, plant and equipment is recorded on the straight-line basis at the rates mentioned in Note 12.

- amortization of deferred charges is recorded over a period of up to ten years, as from the time benefits begin to accrue.

- as from January 2006, in accordance with IBRACON Technical Interpretation 01/2006, the Company records all programmed maintenance shutdown expenses in property, plant and equipment, as "Machinery, equipment and facilities". Such stoppages occur at scheduled periods at intervals from two to six years and the related expenses are amortized until the beginning of the next maintenance shutdown (Note 12).

(e) Current and non-current liabilities

These are stated at known or estimated amounts, including accrued charges and monetary and exchange adjustments, as applicable.

The provision for loss in subsidiaries is recorded based on the net unsecured liabilities (excess of liabilities over assets) of these companies, and is recorded as a long-term liability against the equity earnings.

Defined benefit pension plans are accounted for based on the calculations made by independent actuaries, which in turn are based on assumptions provided by the Company and mentioned in Note 28.

The provisions for contingencies are recorded based on (i) current legislation (even when management believes that this legislation may be considered unconstitutional); (ii) the need to eliminate contingent gains upon credit offsetting as a result of judicial claims; and (iii) estimated payments of indemnities considered probable.

(f) Deferred income

Deferred income includes negative goodwill of merged companies, supported by the expected future profitability.

(g) Consolidated financial statements

The consolidated financial statements were prepared in accordance with the consolidation principles set forth in the Brazilian corporate law and supplementary standards of CVM and include the financial statements of the Company and its subsidiaries, jointly-controlled entities, and Special Purpose Entities ("SPE's") in which the Company has direct or indirect share or management control, as shown below:

			Interest in total capital – %	
		Head office (country)	2006	2005
Subsidiaries				
Braskem Argentina	(i)	Argentina	98.00	98.00
Braskem America Inc. ("Braskem America")	(ii)	USA	100.00	-
Braskem Distribuidora		Brazil	100.00	100.00
Braskem Europa	(iii)	Holland	100.00	-
Braskem Inc		Cayman Islands	100.00	100.00
Braskem Participações		Brazil	100.00	100.00
Braskem International Ltd. ("Braskem International")	(iv)	Bahamas	-	100.00
CINAL	(v)	Brazil	100.00	86.82
CPP – Companhia Petroquímica Paulista ("CPP")		Brazil	79.70	79.70
Polialden	(vi)	Brazil	-	63.68
Politeno	(vii)	Brazil	96.16	-
Tegal Terminal de Gases Ltda. ("Tegal")	(viii)	Brazil	95.83	90.79
Jointly-controlled entities	(ix)			
CETREL S.A. – Empresa de Proteção Ambiental ("CETREL")	(x)	Brazil	49.03	48.02
Companhia Petroquímica do Sul ("COPESUL")		Brazil	29.46	29.46
Petroflex		Brazil	20.12	20.12
Petroquímica Paulínia	(xi)	Brazil	60.00	60.00
Politeno	(vii)	Brazil	-	33.96

(continuación)			Interest in total capital – %	
		Head office (country)	2006	2005
Special-purpose entities ("SPE's")	(xii)			
Chemical Fundo de Investimento em Direitos Creditórios ("Fundo Chemical")	(xiii)	Brazil	100.00	11.58
Chemical Fundo de Investimento em Direitos Creditórios ("Fundo Chemical II")	(xiii)	Brazil	9.19	9.09
Fundo Parin		Guernsey	100.00	100.00
Guardian-Protected Cell Company ("Guardian")	(xvii)	Guernsey	-	100.00
Sol – Fundo de Aplicação em Cotas de Fundos de Investimento ("FIQ Sol")		Brazil	100.00	100.00
Direct subsidiary of Poliaden				
Braskem America		USA	-	100.00
Direct subsidiary of Braskem Participações				
Investimentos Petroquímicos Ltda. ("IPL")	(xv)	Brazil	-	100.00
Direct subsidiary of Copesul				
COPESUL International Trading Inc.		Bahamas	100.00	100.00
Direct subsidiary of IPL				
Braskem Importação		Brazil	-	100.00
Direct subsidiaries of Braskem Distribuidora				
Braskem Argentina		Argentina	2.00	2.00
Braskem Cayman Ltd.		Cayman Islands	100.00	100.00
Braskem Importação	(xiv)	Brazil	100.00	-
Direct subsidiaries of Cayman				
Overseas	(xvi)	Cayman Islands	100.00	100.00
Lantana		Bahamas	100.00	100.00
Direct subsidiary of Politeno				
Politeno Empreendimentos Ltda. ("Politeno Empreendimentos")		Brazil	99.99	33.96
Direct subsidiary of Politeno Empreendimentos				
Santeno Irrigações do Nordeste Ltda. ("Santeno")		Brazil	99.99	33.96

(i) Including the interest of the subsidiary Braskem Distribuidora, Braskem's interest is equal to 100.00%.
(ii) Direct subsidiary following the merger of Polialden (Note 1(c)).
(iii) Company set up in September 2006 (Note 1(c)).
(iv) Company wound up in March 2006.
(v) Interest increase in July 2006 (Note 1(c)).
(vi) Investment merged in May 2006 (Note 1(c)).
(vii) Interest increase in April 2006 (Note 1(c)).
(viii) Interest acquired from the subsidiary.
(ix) Investments consolidated on a pro rata basis, pursuant to CVM Instruction 247/96.
(x) Including the interest of subsidiary CINAL, Braskem's interest amounts to 53.61%. Jointly-controlled entity pursuant to the provisions of the by-laws.
(xi) Jointly-controlled entity pursuant to the provisions of the stockholders' agreement.
(xii) Investments consolidated in accordance with CVM Instruction 408/04.
(xiii) Interest corresponding to subordinated quotas held by Braskem.
(xiv) Upon the merger of IPL, the investment in Braskem Importadora is held by Braskem Distribuidora.
(xv) Investment merged into Braskem Distribuidora in September 2006.
(xvi) Company in process of winding up.
(xvii) Fund wound up in October 2006.

In the consolidated financial statements, the intercompany investments and equity in the earnings, as well as the intercompany assets, liabilities, income, expenses and unrealized gains arising from transactions between consolidated companies, were eliminated.

Minority interest in the equity and in the results of subsidiaries has been segregated in the consolidated balance sheet and statement of income for the consolidated years, respectively. At December 31, 2006, minority interest corresponds to the respective participations in the capital of CPP, Politeno and Tegal.

Goodwill not eliminated on consolidation is reclassified to a specific account in permanent assets according to its nature, in accordance with CVM Instruction 247/96. Negative goodwill is reclassified to "Deferred income".

Pursuant to paragraph 1, article 23 of CVM Normative Instruction CVM 247/96 and authorization by CVM Letter SNC 004/2007, the Company has not consolidated on a pro rata basis the financial statements of the jointly-controlled subsidiary Companhia de Desenvolvimento Rio Verde – CODEVERDE. This subsidiary is in a pre-operating stage. Its information does not show significant changes and does not lead to distortions in the Company consolidated financial statements.

CODEVERDE balance sheet (unaudited) is summarized as follows:

	2006	2005
Assets		
Current assets	304	405
Non-current assets	102	88
Permanent assets	45,019	43,480
Total assets	45,425	43,973
Liabilities and shareholders' equity		
Current liabilities	100	100
Non-current liabilities	1,438	1,059
Shareholders' equity	43,887	42,814
Total liabilities and shareholders' equity	45,425	43,973

For a better presentation of the consolidated financial statements, the cross-holding between the Company and the subsidiaries Braskem Participações and Politeno was reclassified as "Treasury shares". Total shares held by the subsidiaries, as well as their shareholding in the Company's total capital are stated below:

	Braskem Participações	Politeno
Common shares	580,331	-
Class A preferred shares	290,165	2,186,133
Interest in total capital	0.24%	0.60%

The reconciliation between the parent company and consolidated shareholders' equity and the net income for the year is as follows:

	Shareholders' equity		Net income for the year	
	2006	2005	2006	2005
Parent company	4,447,514	4,647,101	77,753	685,775
Cross-holding classified as treasury shares	(60,999)	(13,110)	-	-
Effects of the consolidation of SPE's	-	-	-	3,830
Exclusion of profits in subsidiaries' inventories	(6,587)	(5,188)	(1,400)	758
Exclusion of the gain on the sale of investment between related parties	(38,476)	(38,476)	-	-
Exclusion of results of financial transactions between related parties	(12,829)	(14,044)	1,215	(14,044)
Reversal of amortization of goodwill on the sale of investments between related parties	18,206	14,085	4,121	4,120
Exclusion of the gain on the assignment of right of use between related parties	(34,942)	(54,602)	19,660	(54,602)
Consolidated	4,311,887	4,535,766	101,349	625,837

Los balances generales y los estados de resultados de las empresas controladas en conjunto y de las EPE, ajustados a los criterios contables de la controladora, pueden resumirse del siguiente modo:

	Copesul		CETREL (i)		Petroflex (i)	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	1,261,805	907,875	25,509	24,337	604,958	499,468
Long-term receivables	154,618	154,906	12,298	15,007	31,373	29,121
Permanent assets	1,050,182	1,125,823	131,221	111,503	436,975	384,339
Total assets	**2,466,605**	**2,188,604**	**169,028**	**150,847**	**1,073,306**	**912,928**
Liabilities and shareholders' equity						
Current liabilities	840,694	701,645	20,309	20,911	390,661	474,929
Long-term liabilities	325,751	246,450	39,245	31,945	375,828	159,108
Shareholders' equity	1,300,160	1,240,509	109,474	97,991	306,817	278,891
Total liabilities and shareholders' equity	**2,466,605**	**2,188,604**	**169,028**	**150,847**	**1,073,306**	**912,928**
Statement of income						
Net sales	6,299,224	5,552,571	106,191	98,218	1,361,549	1,373,204
Cost of goods sold and services rendered	(5,292,355)	(4,610,378)	(73,970)	(79,561)	(1,197,017)	(1,088,881)
Gross profit	**1,006,869**	**942,193**	**32,221**	**18,657**	**164,532**	**284,323**
Operating expenses, net	(117,468)	(151,133)	(19,674)	(11,129)	(131,371)	(160,756)
Non operating income (expenses), net	(4,295)	5,406	198	270	945	(1,503)
Income before income tax and social contribution	885,106	796,466	12,745	7,798	34,106	122,064
Income tax and social contribution	(269,921)	(230,503)	(2,557)	(725)	(8,061)	(33,742)
Net income for the year	**615,185**	**565,963**	**10,188**	**7,073**	**26,045**	**88,322**

(i) Financial statements excluding the revaluation reserve.

	Politeno	Petroquímica Paulínia (*)	
	2005	2006	2005
Assets			
Current assets	287,040	102,474	7,500
Long-term receivables	158,983	1	-
Permanent assets	191,251	115,461	58,240
Total assets	**637,274**	**217,936**	**65,740**
Liabilities and shareholders' equity			
Current liabilities	141,704	3,814	-
Long-term iabilities	5,967	83,984	17,740
Shareholders' equity	489,603	130,138	48,000
Total liabilities and shareholders' equity	**637,274**	**217,936**	**65,740**
Statement of income			
Net Sales	1,127,943	-	-
Cost of goods sold and services rendered	(950,170)	-	-
Gross profit	177,773	-	-
Operating expenses, net	(80,615)	-	-
Income before income tax and social contribution	97,158	-	-
Income tax and social contribution	(33,787)	-	-
Net income for the year	63,371		-

(*) In pre-operating stage

	Fundo Parin		Guardian	FIQ Sol		Fundo Chemical		Fundo Chemical II	
	2006	2005	2005	2006	2005	2006	2005	2006	2005
Assets	537,965	560,575	1,002,769	395,242	545,649	6,133	228,373	442,557	444,550
Liabilities	-	187	469	12	7	200	339	44	33
Shareholders' equity	537,965	560,388	1,002,300	395,230	545,642	5,933	228,034	442,513	444,517
Total liabilities and shareholders' equity	537,965	560,575	1,002,769	395,242	545,649	6,133	228,373	442,557	444,550
Net income (loss) for the year	(14,839)	9,300	48,497	37,026	70,580	(19,033)	39,024	68,555	4,518

4 Cash and Cash Equivalents

	Parent company		Consolidated	
	2006	2005	2006	2005
Cash and banks	130,128	110,759	140,179	141,953
Financial investments				
Domestic	602,748	641,285	751,533	740,552
Foreign	393,049	709,046	655,349	1,253,235
	1,125,925	1,461,090	1,547,061	2,135,740

Domestic investments are mainly represented by quotas of a Braskem exclusive fund, which holds quotas of domestic investment funds, such as fixed income investment funds, multiportfolio funds, investment fund quotas in credit rights, and other fixed-income securities. Foreign investments mainly comprise highly liquid government securities.

The Company maintains cash and cash equivalents sufficient to cover: (i) its working capital needs; (ii) investments anticipated in the business plan; and (iii) adverse conditions that may reduce the available funds.

Such funds are allocated in order to: (i) have a return compatible with the maximum volatility determined by the investment and risk policy; (ii) obtain a high spread of the consolidated portfolio; (iii) avoid the credit risk arising from the concentration in a few securities; and (iv) follow the market interest rate changes both in Brazil and abroad.

5 Marketable Securities

	Parent company		Consolidated	
	2006	2005	2006	2005
Current assets				
Derivative transactions	-	3,466	27,576	19,792
Government securities issued abroad	311,080	-	311,080	
Investment fund	537,926	-	63,960	122,089
Subordinated quotas of investment fund – credit rights and other	-	37	11,275	3,913
	849,006	3,503	413,891	145,794
Long-term receivables				
Investment funds	-	551,235	-	-
Debentures with share in profit	6,826	7,305	-	-
Subordinated quotas of investment fund – credit rights	46,612	66,791	-	-
Other	10,022	10,972	1,628	325
	63,460	636,303	1,628	325
Total	912,466	639,806	415,519	146,119

Braskem is the only quotaholder of the investment fund recorded in current assets. The portfolio comprises time deposits at Banco Credit Suisse First Boston ("CSFB"), maturing in June 2007.

6 Trade Accounts Receivable

	Parent company		Consolidated	
	2006	2005	2006	2005
Customers				
Domestic market	833,045	602,783	1,514,346	1,300,926
Foreign market	324,864	480,974	421,880	360,564
Discounted trade bills	(110,873)	-	(119,652)	-
Advances on bills of exchange delivered	(2)	-	(15,824)	(31,243)
Allowance for doubtful accounts	(103,474)	(72,945)	(153,350)	(87,259)
	943,560	1,010,812	1,647,400	1,542,988
Non-current assets	(51,766)	(47,479)	(52,542)	(49,676)
Current assets	891,794	963,333	1,594,858	1,493,312

The Company adopts an additional policy for realizing domestic trade accounts, by selling its receivables to investment funds with credit rights (Chemical and Chemical II funds – Note 3 (g)).

In December 2006, the Company carried out a trade bill discount transaction with a financial institution, undertaking to reimburse it in the event of default of the customers.

Changes in the allowance for doubtful accounts are as follows:

	Parent company		Consolidated	
	2006	2005	2006	2005
At the beginning of the year	72,945	46,201	87,259	54,997
Addition for the full consolidation of Politeno	-	-	15,525	-
Additions classified as selling expenses	78,993	33,322	99,301	38,878
Recovery of credits provided for	(48,464)	(6,663)	(48,615)	(6,730)
Write-off of bad debts	-	-	(112)	(14)
Exchange variation	-	85	(8)	128
At the end of the year	103,474	72,945	153,350	87,259

7 Inventories

	Parent company		Consolidated	
	2006	2005	2006	2005
Finished products and work-in-process	870,257	717,313	986,949	848,503
Raw materials, production inputs and packaging	249,083	265,614	393,437	407,946
Warehouse (*)	298,779	303,749	344,566	347,233
Advances to suppliers	48,034	43,715	64,009	47,333
Imports in transit and other	16,758	8,430	17,555	10,166
Provision for adjustment to realization value	(16,089)	(16,932)	(16,295)	(17,945)
Total	1,466,822	1,321,889	1,790,221	1,643,236
Long-term receivables (*)	(22,946)	(71,817)	(22,946)	(75,783)
Current assets	1,443,876	1,250,072	1,767,275	1,567,453

(*) Based on its turnover, part of the maintenance materials inventory was reclassified to long-term.

Advances to suppliers and expenditures for imports in transit mainly relate to the acquisition of petrochemical naphtha, which is the main raw material of the Company.

8 Related Parties

(a) Parent company

	Balances						
	Current assets			Non-current assets		Current liabilities	
	Cash and cash equivalents	Marketable securities	Trade accounts receivable	Marketable securities	Related parties	Suppliers	Debentures
Subsidiaries							
Braskem América	-	-	27,838	-	-	294	-
Braskem Argentina	-	-	-	-	-	2,101	-
Braskem Distribuidora	-	-	-	-	126	-	-
Braskem Inc.	-	-	10,054	-	-	-	-
Braskem Importação	-	-	-	-	-	-	-
Braskem Participações	-	-	-	-	-	-	-
Cayman	-	-	13	-	53	-	-
CINAL	-	-	1,916	-	2,390	1,596	-
CPP (i)	-	-	-	-	38	-	-
Lantana	-	-	13,301	-	-	-	-
Politeno	-	-	25,177	-	180,974	1,996	-
Tegal (i)	-	-	-	-	4,859	5,913	-
Jointly-controlled entities							
CETREL (i)	-	-	70	-	135	1,302	-
Copesul	-	-	2,440	-	-	508,262	-
Petroflex	-	-	21,426	-	-	-	-
SPE´s							
Fundo Parin	-	537,926	-	-	-	-	-
Fundo Sol	395,230	-	-	-	-	-	-
FIDIC I	-	-	-	5,933	-	-	-
FIDIC II	-	-	-	40,679	-	-	-
Associated company							
Borealis	-	-	2,798	-	-	-	-
Related parties							
ODBPAR INV (ii)	-	-	-	-	-	-	1,130,752
Construtora Norberto Odebrecht ("CNO")	-	-	7,687	-	-	6,666	-
Petróleo Brasileiro S.A. ("Petrobras")	-	-	48,741	-	38,868	604,758	-
Petrobras Distribuidora S.A.	-	-	-	-	-	6,317	-
Other	-	-	-	-	1,865	-	-
At December 31, 2006	395,230	537,926	161,461	46,612	229,308	1,139,205	1,130,752
At December 31, 2005	1,005,591		156,987	618,026	57,181	604,176	-

(i) Amounts stated under "Related parties", in long-term receivables, refer to advances for future capital increase.
(ii) Debentures issued by Braskem (Note 15).

Parent company (*continued*)

	Balances			Transactions			
	Non-current liabilities						
	Suppliers	Debentures	Related parties	Product sales	Raw materials, services and utilities purchases	Financial Income (iii)	Financial Expenses
Controladas							
Braskem América	-	-	-	33,465	-	-	-
Braskem Argentina	-	-	-	-	2,960	-	-
Braskem Distribuidora	-	-	-	-	-	10	-
Braskem Inc.	-	-	-	41,218	-	-	-
Braskem Importação	-	-	1,361	-	-	-	179
Braskem Participações	-	-	5,689	-	-	-	539
Cayman	-	-	-	9,308	-	-	-
CINAL	-	-	-	1,003	29,505	4	89
Lantana	-	-	-	228,112	-	-	-
Polialden	-	-	-	136,983	-	-	-
Politeno	-	-	-	993,769	15,565	7,325	143
Politeno Empreendimentos	-	-	-	-	-	-	65
Tegal	-	-	-	-	20,005	114	14
Jointly-controlled entities							
CETREL	-	-	-	1,320	24,256	-	-
Copesul	-	-	-	17,227	2,752,867	-	824
Petroflex	-	-	-	457,541	-	2,011	-
SPE´S							
Fundo Parin	-	-	-	-	-	25,544	-
Fundo Sol	-	-	-	-	-	37,027	-
FIDIC I	-	-	-	-	-	(2,441)	22,993
FIDIC II	-	-	-	-	-	3,563	51,761
Associated company							
Borealis	-	-	-	122,061	-	-	-
Related parties							
ODBPAR INV (ii)	-	-		-	-	-	131,405
Construtora Norberto Odebrecht ("CNO")	-	-	-	-	136,218	-	-
Petróleo Brasileiro S.A. ("Petrobras")	-	-		71,422	4,902,758	3,371	6,202
Petrobras Distribuidora S.A.	17,644	-		-	295,167	-	9
At December 31, 2006	17,644	-	7,050	2,113,429	8,179,301	76,528	214,223
At December 31, 2005	23,110	999,347	3,372	2,960,039	7,371,333	184,081	221,996

(iii) Included interest on capital.

(b) Consolidated

	Balances				
	Non-current assets	Current liabilities	Non-current liabilities		
	Trade accounts receivable	Related parties	Suppliers	Debentures	Related parties
Jointly-controlled entities					
CETREL	32	-	604	-	-
Copesul	1,721	-	358,523	-	-
Petroflex	17,115	-	-	-	-
Associated company					
Borealis	2,798	-	-	-	-
Related parties					
Alberto Pasqualini – REFAP S.A (related party to Copesul)	1,161	-	5,757	-	-
Ipiranga Petroquímica S.A. (related party to Copesul)	4,564	-	986	-	-
CNO	7,687	-	6,666	-	-
Monsanto Nordeste S.A. (related party to CETREL)	248	-	-	-	-
ODBPAR	-	-	-	1,130,752	-
Petrobras	49,657	38,868	615,759	-	-
Petrobras Distribuidora S.A.	18	-	6,453	-	-
Petroquímica União S.A. (related party to Petroflex)	-	-	3,136	-	-
Unipar Comércio e Distribuidora S.A. (related party to Petroflex)	75	-	-	-	-
Other	-	1,865	-	-	-
At December 31, 2006	85,076	40,733	997,884	1,130,752	-
At December 31, 2005	90,193	40,560	447,187	-	3,081

Consolidado (*continued*)

	Balances			Transactions			
	Non-current liabilities						
	Suppliers	Debentures	Related parties	Product sales	Raw materials, services and utilities purchases	Financial Income	Financial expenses
Subsidiary							
Politeno	-	-	-	166,752	-	-	-
Jointly-controlled entities							
CETREL	-	-	1,983	612	11,253	-	-
Copesul	-	-	-	12,152	1,941,845	-	824
Petroflex	-	-	-	365,488	-	1,606	-
Associated company							
Borealis	-	-	-	122,061	-	-	-
Related parties							
Alberto Pasqualini – REFAP S.A. (related party to Copesul)	-	-	-	22,767	264,904	-	-
Ipiranga Petroquímica S.A. (related party to Copesul)	-	-	-	555,543	5,735	175	57
CNO	-	-	-	-	136,218	-	-
Monsanto Nordeste S.A. (related party to CETREL)	-	-	2,808	3,684	-	-	-
ODBPAR	-	-	-	-	-	-	131,405
Petrobras	-	-	-	78,899	5,390,504	3,371	6,202
Petrobras Distribuidora S.A.	17,644	-	-	-	298,095	-	9
Petroquímica União S.A. (related party to Petroflex)	-	-	-	-	22,881	-	-
Unipar Comércio e Distribuidora S.A. (related party to Petroflex)	-	-	-	2,474	-	-	-
Otros	-	-	-	-	-	-	-
At December 31, 2006	17,644	-	4,791	1,330,432	8,071,435	5,152	138,497
At December 31, 2005	23,110	999,347	3,044	2,425,814	7,910,850	5,012	133,185

"Trade accounts receivable" and "Suppliers" include the balances resulting from transactions with related parties, arising mainly from the following sales and purchases of goods and services:

Sales of Braskem:

Company	Products/inputs
Borealis / Cayman / Lantana / Braskem America	Thermoplastic resins
Braskem Inc.	Basic petrochemicals
Polialden / Politeno	Ethylene and utilities
Petroflex	Butadiene
Petrobras	Gasoline

Purchases of Braskem:

Company	Products/inputs/services
CINAL / Cetrel	Utilities, treatment and incineration of waste
Copesul	Ethylene, propane and utilities
Petrobras	Naphtha
Petrobras Distribuidora	Fuel
Polialden	Thermoplastic resins
CNO	Construction and maintenance services
Tegal	Gas storage services

Transactions with related parties are carried out at normal market prices and conditions, considering (i) for purchase and sale of ethylene, the margin allocation process with the second-generation companies, and (ii) for purchases of naphtha from Petrobras, the European market prices. During the year ended December 31, 2006, the Company also imported naphtha at a volume equal to 25 % of its consumption (year ended December 31, 2005 – 31%).

The related parties balance includes current account balances with group companies, remunerated at 100% of CDI. The current accounts are used by the Company and its direct and indirect subsidiaries to centralize available cash in a central pool for settlement of their obligations.

9 Taxes Recoverable

	Parent company		Consolidated	
	2006	2005	2006	2005
Excise tax (IPI) (standard operations)	61,040	65,102	63,014	69,221
Value-added Tax on Sales and Services (ICMS)	675,428	412,865	936,333	556,917
Social Integration Program (PIS) and Social Contribution on Revenues (Cofins)	105,577	25,983	118,495	40,772
Import duty	21,944	17,962	22,413	18,183
Social Investment Fund (Finsocial)	11,813	14,221	12,070	14,478
PIS – Decreees-Law 2445 and 2449/88	55,194	52,215	61,971	60,186
Income tax and social contribution	37,193	38,666	56,863	62,306
Tax on Net Income – ILL	1,589	12,675	17,411	27,814
Other	65,069	19,963	72,614	34,414
Total	**1,034,847**	**659,652**	**1,361,184**	**884,291**
Current assets	**(336,350)**	**(263,677)**	**(408,082)**	**(324,868)**
Non-current assets	**698,497**	**395,975**	**953,102**	**559,423**

(a) IPI

In the 1st quarter of 2005, the Company used up its IPI credits from acquisition of raw materials taxed at a zero rate, when related to transactions involving the establishments of merged company OPP Química S.A. (OPP Química) located in the State of Rio Grande do Sul. This excise tax credit derived from a lawsuit filed by OPP Química in July 2000 for full adoption of the non-cumulative tax principle to said establishments.

On December 19, 2002, the Federal Supreme Court (STF), based on past determinations of its Full Bench, judged an extraordinary appeal lodged by the National Treasury and affirmed the decision of the Regional Federal Court (TRF), 4th Circuit, recognizing the entitlement to an IPI tax credit from said acquisitions during a 10-year period prior to the filing date, plus monetary restatement and accrual of interest at the SELIC benchmark rate until actual use of these credits.

The STF determination was challenged by the National Treasury via special appeal known as agravo regimental, which is pending judgment by the 2nd Panel of STF. In this special appeal, the National Treasury is no longer challenging the Company's entitlement to the IPI tax credit from acquisition of raw materials taxed at a zero rate, but rather alleging some inaccuracies in the court determination as to non-taxed inputs and raw materials, the restatement of tax credits, and the respective calculation rate. According to the opinion of the Company's legal advisors, all these aspects have already been settled in the STF and TRF court decisions favorably to OPP Química, or even in the STF full-bench precedents. For this reason, the special appeal referred to above poses no risk of changes in the Company's entitlement to the tax credit, even though the STF itself is revisiting this matter in a similar lawsuit involving another taxpayer (this judgment is currently on hold).

In December 2002, OPP Química recorded the related tax credit of R$ 1,030,125, which was offset by the Company with IPI itself and other federal tax debts.

On September 28, 2006, the Company received four tax assessment notices based on the offset of those IPI tax credits at the Rio Grande do Sul establishments of merged company OPP and has filed its defense at the administrative level.

Two of these notices were issued solely to avoid forfeiture of the tax authorities' right to dispute the use of tax credits for ten years before the filing of a lawsuit by the Company R$ 308,629. However, the Company's offset of tax credits is protected by the STF final and conclusive determination, which voids the content of said notices.

The other two notices, in the amount of R$ 791,371, allege that there is no favorable court decision supporting the Company's use of tax credits deriving from future acquisition of raw materials. However, those court rulings did recognize the Company's ongoing entitlement to offset its tax credits. In the opinion of its external legal advisors, it is probable that the Company will prevail against these four notices.

Similar lawsuits have also been filed by the Company's branches located in the States of São Paulo, Bahia and Alagoas (Note 16 (ii)).

(b) ICMS

Braskem has accumulated ICMS credits, basically arising from the significant volume of exports that are exempt from this tax, as well as local sales which, under State legislations, can be deferred (to the next cycle step).

Management is giving priority to a number of actions to maximize the use of these credits. At this time, no losses are anticipated with respect to their realization.

The most significant actions adopted by management include:

- Obtaining from the Rio Grande do Sul state authorities an authorization for transfer of these credits to third parties, as prescribed by the Agreement TSC 036 of 2006 (published in the Official Gazette on October 19, 2006).
- Authorization from the State of Bahia Government to expand the percentage of reduction in the calculation basis of ICMS levied on imported petrochemical naphtha from 40% to 60%, pursuant to paragraphs 9 and 10, article 347 of the State of Bahia ICMS Regulation (Decree 9681/2005).
- Increasing the ICMS tax base in connection with the sale of fuel to refiner (from 40% to 100%), as per article 347 of the Bahia State ICMS Regulations.
- Replacing the exports of co-products by domestic market transactions with identified clients.
- Starting feedstock imports under specific customs prerogatives, thus ensuring a lower generation of ICMS credits.

Based on management's projection of the term for realization of these credits, which total R$ 675,428 on December 31, 2006 (2005 – R$ 412,865) – parent company, R$ 936,333 (2005 – R$ 556,917) – consolidated, the amounts of R$ 539,033 (2005 – R$ 221,819) – parent company and R$ 596,640 (2005 – R$ 349,203) – consolidated were classified as non-current assets.

10 Judicial Deposits and Compulsory Loan – Long-term Receivables

	Parent company		Consolidated	
	2006	2005	2006	2005
Judicial deposits				
Tax contingencies	16,268	13,325	29,713	12,697
Labor and other claims	35,362	9,476	41,254	11,571
Compulsory loan				
Eletrobrás	18,980	12,098	19,549	12,254
	70,610	34,899	90,516	36,522

11 Investments

(a) Information on investments

	Number of shares of quotas held (thousands)								
				2006	2005	Interest in total capital (%)		Interest in voting capital (%)	
	Common shares	Pref. shares	Quotas	Total	Total	2006	2005	2006	2005
Affiliated Companies									
Braskem America (i)	40	-	-	40	-	100.00	-	100.00	-
Braskem International	-	-	-	-	5	-	100.00	-	100.00
Braskem Inc.	40,095	-	-	40,095	40,095	100.00	100.00	100.00	100.00
Braskem Participações	6,500,000	-	-	6,500,000	6,500,000	100.00	100.00	100.00	100.00
Braskem Distribuidora	-	-	31,649	31,649	31,649	100.00	100.00	100.00	100.00
Braskem Argentina (i)	-	-	19,600	19,600	-	98.00	98.00	98.00	98.00
Braskem Europa (i)	-	-	500	500	-	100.00	-	100.00	-
CINAL	92,587	-	-	92,587	130,446	100.00	86.82	100.00	86.82
CPP	8,465	-	-	8,465	8,465	79.70	79.70	79.70	79.70
Polialden	-	-	-	-	410,904	-	63.68	-	100.00
Politeno	62,422,578	1,190,136	-	63,612,714	-	96.16	-	100.00	-
Tegal	-	-	23,157	23,157	21,938	95.83	90.79	95.83	90.79
Jointly-controlled entities									
CETREL	730	-	-	730	715	49.03	48.02	49.03	48.02
CODEVERDE	9,755	-	-	9,755	9,639	35.55	35.52	35.55	35.52
Copesul	44,255	-	-	44,255	44,255	29.46	29.46	29.46	29.46
Petroflex	4,759	2,321	-	7,080	7,080	20.12	20.12	20.14	20.14
Petroquímica Paulínia	67,582	-	-	67,582	45,000	60.00	93.75	60.00	93.75
Politeno	-	-	-	-	22,466,167	-	33.96	-	33.96
Associated companies									
Borealis	18,949	-	-	18,949	18,949	20.00	20.00	20.00	20.00
Rionil	-	-	3,061	3,061	3,061	33.33	33.33	33.33	33.33
Sansuy	-	-	271	271	271	20.00	20.00	20.00	20.00

(continued)	Number of shares of quotas held (thousands)								
				2006	2005	Interest in total capital (%)		Interest in voting capital (%)	
	Common shares	Pref. shares	Quotas	Total	Total	2006	2005	2006	2005
Information on investments of subsidiaries									
Braskem Distribuidora									
Cayman	900	-	-	900	900	100.00	100.00	100.00	100.00
Braskem Argentina (i)	-	-	400	400	-	2.00	2.00	2.00	2,00
Braskem Importação	-	-	252,818	252,818	-	100.00	-	100.00	-
Braskem Participações									
IPL	-	-	-	-	295	-	100.00	-	100.00
IPL									
Braskem Importação	-	-	-	-	252,818	-	100.00	-	100.00
Cayman									
Overseas (i)	1	-	-	1	1	100.00	100.00	100.00	100.00
Lantana	5	-	-	5	5	100.00	100.00	100.00	100.00
Polialden									
Brasken America	-	-	-	-	40	-	100.00	-	100.00
Cinal									
CETREL	68	-	-	68	68	4.58	4.58	4.58	4.58
Politeno									
Politeno Empreendimentos	-	-	24	24	24	99.99	99.99	99.99	99.99
Politeno Empreendimentos									
Santeno	-	-	2,966	2,966	2,966	99.99	99.99	99.99	99.99

(i) Number of shares or quotas expressed in units.

(a) Information on investments (*continued*)

	Adjusted net income (loss) for the year		Adjusted shareholders' equity (unsecured liabilities)	
	2006	2005	2006	2005
Subsidiaries				
Braskem América	879	-	5,668	-
Braskem Europa	(139)	-	1,217	-
Braskem Inc.	(58,386)	23,951	53,512	122,509
Braskem International	-	84,419	-	(190,517)
Braskem Participações	1,189	(17)	21,749	20,560
Braskem Argentina	2,069	-	2,209	-
Braskem Distribuidora	22,544	(239,102)	99,932	77,388
CINAL	2,209	(3,697)	24,782	80,784
CPP	-	-	10,621	10,621
Polialden	-	13,206	-	294,608
Politeno	13,678	-	495,447	-
Tegal	(1,562)	(3,413)	14,143	15,705
Jointly-controlled entities				
CETREL	10,188	7,073	109,474	97,991
CODEVERDE	-	-	43,887	42,814
Copesul	615,185	565,963	1,300,160	1,240,509
Petroflex	26,045	88,322	306,817	278,891
Petroquímica Paulínia	-	-	130,138	48,000
Politeno	-	63,371	-	489,603
Associated companies				
Borealis	13,725	13,423	117,906	114,115
Rionil	254	72	6,070	5,838
Sansuy	(10,214)	(12,701)	(25,359)	4,962
Information on investments of subsidiaries				
Braskem Distribuidora				
Cayman	25,625	(250,621)	5,539	(21,990)
Braskem Argentina	2,069	-	2,209	-
Braskem Importação	147	-	526	-
Braskem Participações				
IPL	-	85	-	391
IPL				
Braskem Importação	-	161	-	379
Cayman				
Lantana	(165,067)	(2,952)	(202,973)	(17,730)
Overseas	186,404	(826)	-	(87,186)
Cinal				
CETREL	10,188	7,073	109,474	97,991
Polialden				
Braskem America	-	1,424	-	5,238
Politeno				
Politeno Empreendimentos	930	-	14,185	-
Politeno Empreendimentos				
Santeno	287	-	1,693	-

Dividends proposed in the period

	2006	2005
Subsidiaries		
Politeno	12,951	-
Jointly-controlled entities		
Copesul	556,311	464,062
Petroflex	2,362	9,450
Politeno	-	46,561
Associated companies		
Borealis	-	10,000

Quotation of related parties listed on the São Paulo Stock Exchange:

			Quotation (R$)		
	Type	Code	Dec/2006	Dec/2005	Trading unit
Politeno	PNA	PLTO5	10.50	19.18	1,000 shares
	PNB	PLTO6	5.45	5.01	1,000 shares
Copesul	ON	CPSL3	38.10	27.90	1 share
Petroflex	ON	PEFX3	14.40	16.61	1 share
	PNA	PEFX5	14.85	16.26	1 share

(b) **Investment activity in subsidiaries, jointly-controlled entities and associated companies**

Subsidiaries and jointly-controlled entities									2006
	Braskem Distribuidora	Braskem America	Braskem Inc.	Braskem Participações	Braskem Europa	CETREL	CINAL	COPESUL	Polialden (iii)
At January 1	77,388	-	122,509	20,560	-	60,476	61,428	556,512	487,735
Addition through exchange/ purchase of shares/ merger (i)	-	6,013	-	-	-	2,296	10,911	-	-
Addition through capital increase / constitution	-	-	-	-	1,376	-	-	-	-
Reduction through transfer/ sale/ merger/ spin-off	-	-	-	-	-	-	(58,212)	-	(188,777)
Dividends (provision) / reversa	-	-	-	-	-	-	-	(163,893)	-
Equity in the earnings	22,544	14	(58,386)	1,189	(139)	5,557	2,023	181,467	1,168
Recording of goodwill (negative goodwill)	-	-	-	-	-	-	-	-	-
Amortization of (goodwill)/ negative goodwill	-	-	-	-	-	(2,795)	(78)	(32,274)	37,202
Exchange variation on foreign investment	-	(359)	(10,611)	-	(20)	-	-	-	-
Transfer of goodwill on merger (ii)	-	-	-	-	-	-	-	-	(337,328)
Other	-	-	-	-	-	-	(21)	-	-
At December 31	99,932	5,668	53,512	21,749	1,217	65,534	16,051	541,812	-

Investment activity in subsidiaries, jointly-controlled entities and associated companies (*continued*)

Subsidiaries and jointly-controlled entities

	2006						2005
	Petroquímica Paulínia	Petroflex	Politeno (iii)	Tegal	Other	Total	Total
At January 1	45,000	55,497	508,679	14,258	14,671	2,024,713	3,474,144
Addition through exchange/purchase of shares/merger (i)	-	-	310,908	757	138	331,023	163,906
Addition through capital increase /constitution	73,582	-	-	-	-	74,958	442,307
Reduction through transfer/sale/ merger/spin-off	(40,500)	-	-	-	-	(287,489)	(1,515,880)
Dividends (provision)/reversa	-	2,092	(12,169)	-	-	(173,970)	(334,681)
Equity in the earnings	-	3,528	11,412	(1,462)	2,025	170,940	221,357
Recording of goodwill (negative goodwill)	-	-	79,788	2,917	-	82,705	
Amortization of (goodwill)/negative goodwill	-	-	(60,751)	(2,917)	(35)	(61,648)	(385,717)
Exchange variation on foreign investment	-	-	-	-	-	(10,990)	(43,044)
Transfer of goodwill on merger (ii)	-	-	-	-	-	(337,328)	-
Other	-	-	-	-	433	412	2,321
At December 31	78,082	61,117	837,867	13,553	17,232	1,813,326	2,024,713

(i) Additions through merger arise mainly from the corporate restructuring described in Note 1(b).
(ii) Goodwill on the merger of Polialden transferred from investments to deferred charges, pursuant to CVM Instruction 319/99.
(iii) Equity in the results includes the effect of the distributions of dividends for preference shares with incentives.

Associated companies

	2006				2005
	Borealis	Rionil	Sansuy	Total	Total
At January 1	22,823	1,946	992	25,761	4,851
Transfer of investment					22,138
Equity in the earnings	2,758	77	(992)	1,843	772
Dividends	(2,000)	-	-	(2,000)	(2,000)
At December 31	23,581	2,023	-	25,604	25,761

Goodwill and negative goodwill underlying the investments

Parent company

	2006							2005
	Cetrel (i)	Cinal	Copesul (ii)	Polialden (ii)	Politeno (ii)	Other	Total	Total
Goodwill cost	15,622	-	309,121	510,674	492,270	2,917	1,330,604	1,327,624
Goodwill on the acquisition of shares (iii)	-	-	-	-	79,788	-	79,788	-
(-) Accumulated amortization	(3,763)	-	(150,347)	(173,346)	(212,628)	(2,917)	(543,001)	(429,673)
Transfer through merger	-	-	-	(337,328)	-	-	(337,328)	-
Negative goodwill value	-	(8,731)	-	-	-	(2,114)	(10,845)	(63,787)
Goodwill (negative goodwill), net	11,859	(8,731)	158,774	-	359,430	(2,114)	519,218	834,164

(i) Goodwill based on the appreciation of property, plant and equipment, and amortized over up to 2015.
(ii) Goodwill based on future profitability, amortized up to 2011.
(iii) Estimated goodwill on shares purchased in April 2006 (Note 1 (c)), the final price of which will be determined in November 2007.

In the consolidated financial statements, goodwill is stated in property, plant and equipment or deferred charges, while negative goodwill is stated in deferred income, in accordance with CVM Instruction 247/96.

Provision for loss on investments

Parent company – Provision for loss on investments – Long-term liabilities

	2006			2005
	Braskem International	Other	Total	Total
At the beginning of the year	190,517	9,280	199,797	535,604
Provision increase/(reversal)				
Winding-up	(170,349)	-	(170,349)	-
Operating result	(6,469)	-	(6,469)	(280,702)
Non-operating result	-	-	-	4,154
Exchange variation on shareholders' equity	(13,699)	-	(13,699)	(64,385)
Other	-	(9,280)	(9,280)	5,126
At the end of the year	-	-	-	199,797

(c) Information on the main investees with operating activities

Copesul

COPESUL is engaged in the manufacture, sale, import and export of chemical, petrochemical and fuel products, as well as providing various services used by the companies in the Triunfo Petrochemical Complex in the State of Rio Grande do Sul and management of logistic services related to its waterway and terrestrial terminals.

Polialden

Polialden, merged into the Company on May 31, 2006 (Note 1(c)) was engaged in the manufacture, processing, sale, import and export and any other activities related to the production or sale of high-density polyethylene and other chemical and petrochemical products. The main raw material for all of its products is ethylene, which was supplied by Braskem. Polialden operated an industrial plant in Camaçari – Bahia.

Politeno

Politeno is engaged in the manufacture, processing, direct or indirect sale, consignment, export, import and transportation of polyethylene and by-products, as well as the participation in other companies. The main raw material for all of its products is ethylene, which is supplied by Braskem. Politeno operates an industrial plant in Camaçari - Bahia. On April 4, 2006, the Company acquired common and preferred shares in Politeno, and now holds 100% and 96.16% of Politeno's voting and total capital, respectively (Note 1(c)).

CETREL

The activities of CETREL are to supervise, coordinate, operate and monitor environmental protection systems; carry out research in the environmental control area and in the recycling of waste and other materials recoverable from industrial and urban emissions; monitor the levels of environmental pollution of air quality, water resources and other vital elements; perform environmental diagnostics; prepare and implement projects of environmental engineering solutions; develop and install environmental management systems and those relating to quality, laboratory analyses, training, environmental education and also specification, monitoring and intermediation in the acquisition of materials of environmental protection systems.

CINAL

Until July 2006, CINAL was engaged in the implementation of the Basic Industrial Nucleus of the Alagoas Chlorinechemical Complex and the production and sale of goods and several services, such as steam, industrial water, industrial waste treatment and incineration of organochlorine waste for the companies located in the mentioned Industrial Nucleus. In July 2006, the assets associated with the production of steam, industrial water and other industrial inputs were spun-off and merged into the Company (Note 1(c)).

Petroquímica Paulínia

On September 16, 2005, Braskem and Petroquisa formed Petroquímica Paulínia, which will be responsible for the implementation and operation of a new polypropylene unit to be built at Paulínia – São Paulo, using as raw material polymer-grade propylene supplied by Petrobras. Operations are scheduled to start by early 2008, using last-generation Braskem technology. The assignment of the right to use this technology gave rise to a gain of R$ 58,240 for the Company. Start-up of this venture is scheduled for the first half of 2008.

12 Property, Plant and Equipment, and Intangible Assets

	Parent company				Consolidated				
	2006			2005	2006			2005	Average annual depreciation rates (%)
	Cost	Accumulated Depreciation	Net	Net	Cost	Accumulated Depreciation	Net	Net	
Property, plant and equipment									
Land	21,267	-	21,267	21,264	61,341	-	61,341	43,379	-
Buildings and improvements	896,296	(388,829)	507,467	471,254	1,067,114	(475,011)	592,103	554,621	2.4
Machinery, equipment and facilities	7,306,514	(3,405,634)	3,900,880	4,151,173	9,086,296	(4,789,421)	4,296,875	4,609,654	7.6
Mines and wells	27,634	(23,008)	4,626	3,800	28,519	(23,704)	4,815	3,917	10.9
Furniture and fixtures	44,005	(34,377)	9,628	5,544	59,949	(43,508)	16,441	6,936	10.0
Information technology equipment	63,268	(49,864)	13,404	7,183	85,652	(63,806)	21,846	12,811	20.0
Maintenance stoppages in progress	77,843	-	77,843	103,115	77,843	-	77,843	103,115	-
Projects in progress	1,376,339	-	1,376,339	852,352	1,523,781	-	1,523,781	960,027	-
Other	128,411	(45,735)	82,676	59,712	173,843	(80,189)	93,654	69,901	11.2
	9,941,577	**(3,947,447)**	**5,994,130**	**5,675,397**	**12,164,338**	**(5,475,639)**	**6,688,699**	**6,364,361**	-
Intangible assets									
Brands and patents	512	(500)	12	22	692	(515)	177	22	10.0
Technology	45,806	(32,048)	13,758	17,740	45,806	(32,048)	13,758	18,075	10.0
Rights of use	131,452	(16,096)	115,356	10,298	131,660	(16,145)	115,515	10,298	10.0
	177,770	**(48,644)**	**129,126**	**28,060**	**178,158**	**(48,708)**	**129,450**	**28,395**	-
	10,119,347	**(3,996,091)**	**6,123,256**	**5,703,457**	**12,342,496**	**(5,524,347)**	**6,818,149**	**6,392,756**	-

Projects in progress relate mainly to projects for expansion of the industrial units capacities, operating improvements to increase the useful lives of machinery and equipment, excellence projects in maintenance and production, as well as programs in the areas of health, technology and security, and capitalized interest in the amount of R$ 104,566, determined based on the average rate on outstanding financing.

At December 31, 2006, property, plant and equipment includes the appreciation, in the form of goodwill arising from the merger of subsidiaries, in conformity with CVM Instruction 319/99, in the net amount of R$ 819,754 (2005 - R$ 878,857).

As from January 2006, in accordance with IBRACON (Brazilian Institute of Independent Auditors) Technical Interpretation 01/2006, the Company records all programmed maintenance shutdown expenses in property, plant and equipment, as "Machinery, equipment and facilities". Such expenses, which arise from the partial or full production stoppage, occur at scheduled intervals from two to six years and are amortized to production cost until the beginning of the next maintenance shutdown. Until December 2005, such expenses were recorded in Deferred charges and amortized to production cost through the beginning of the next shutdown.

Also because of the adoption of Technical Interpretation 01/2006, in the first quarter of 2006, the Company recorded additional depreciation of machinery and equipment in the amount of R$ 164,890. As this is a change in accounting criterion and depreciation in relation to years prior to 2006, this amount was recorded in Shareholders' equity, as retained earnings (accumulated deficit), as required by Technical Interpretation 01/2006 and article 186 of the Brazilian corporate law.

13 Deferred Charges

	Parent company				Consolidated				
	2006			2005	2006			2005	Average annual amortization rates (%)
	Cost	Accumulated amortization	Net	Net	Cost	Accumulated amortization	Net	Net	
Organization and system implementation expenses	323,762	(206,297)	117,465	138,300	381,886	(247,960)	133,926	163,372	20.0
Expenditures for structured transactions	314,443	(169,834)	144,609	195,877	382,473	(223,796)	158,677	223,827	20.0
Goodwill on consolidated/ merged investments (i)	1,865,551	(848,478)	1,017,073	1,099,231	2,379,498	(848,478)	1,531,020	1,768,852	14.2
Research and development	59,798	(24,982)	34,816	40,411	102,652	(54,762)	47,890	56,572	11.8
Pre-operating expenses and other items	17,507	(6,184)	11,323	13,060	25,916	(6,184)	19,732	19,162	13.5
	2,581,061	**(1,255,775)**	**1,325,286**	**1,486,879**	**3,272,425**	**(1,381,180)**	**1,891,245**	**2,231,785**	-

(i) The goodwill on merged or consolidated investments is based on expected future profitability and is being amortized in up to ten years, according to the appraisal reports issued by independent experts. The recording of this goodwill in deferred charges is in conformity with CVM Instruction 319/99.

14 Loans and Financing

			Parent company		Consolidated	
		Annual financial charges	**2006**	**2005**	**2006**	**2005**
Foreign currency						
Eurobonds		Nota 14(a)	2,218,789	1,294,005	1,715,792	743,217
Advances on foreign exchange contracts	2006	USD exchange variation + interest of 5.60% or fixed interest of 7.11%	-	-	63,013	-
	2005	USD exchange variation + interest of 5.00% or fixed interest of 11.75%	-	-	-	36,251
Export prepayment		Nota 14(b)	312,457	592,044	324,899	595,934
Medium-Term Notes		Nota 14(c)	763,523	1,277,405	763,523	1,277,405
Raw material financing	2006	YEN exchange variation + fixed interest of 6.70%	1,302	-	1,302	-
	2005	YEN exchange variation + fixed interest of 6.90%	-	-	-	2,399
	2006	USD exchange variation + average interest of 5.73%	3,397	-	20,870	-
	2005	USD exchange variation + average interest of 6.68%	-	28,682	-	45,329
	2006	EUR exchange variation + average interest of 2.00% above six-month LIBOR	-	-	1,799	-
Permanent asset financing	2006	USD exchange variation + interest of 9.73%	8,022	-	8,832	
	2005	USD exchange variation + interest of 8.81%	-	17,560	-	20,203
	2006/2005	USD exchange variation + fixed interest of 7.14%	613	12,651	613	13,079
BNDES	2006	Average fixed interest of 10.00% + post-fixed restatement (UMBNDES)	39,558	-	40,934	-
	2005	Fixed interest of 10.43%+ post-fixed restatement (UMBNDES)	-	43,946	-	43,946
	2006	USD exchange variation + average interest of 8.70%	-	-	3,120	2,481
Capital circulante	2006	USD exchange variation + interest of 8.10%	168,678	-	168,678	-
	2006	USD exchange variation + interest of 6.91%	3,988	-	3,988	-
	2005	USD exchange variation + average interest of 6.49%	-	-	-	10,348

(continued)			Parent company		Consolidated	
		Annual financial charges	**2006**	**2005**	**2006**	**2005**
Local currency						
Working capital	2006/2005	Fixed interest of 13.42% + post-fixed restatement (CDI)	-	-	6,689	73,752
Investment fund in credit rights	2006/2005	Note 14(g)	-	-	422,288	646,322
FINAME	2006/2005	Fixed interest of 7.50% + TJLP	-	-	12,955	30,175
BNDES	2006/2005	Fixed interest of 4.00% +TJLP	263,248	-	345,977	-
		Fixed interest of 3.94% +TJLP	-	134,931	-	145,130
BNB	2006	Fixed interest of 11.81%	125,273	-	135,004	-
	2005	Fixed interest of 11.90%	-	60,270	-	62,887
FINEP	2006/2005	USD exchange variation + post-fixed restatement (TJLP)	76,630	22,191	83,648	31,513
Purchase of shares	2005	Fixed interest of 4.00% + post-fixed restatement (TJLP)	-	176,339	-	176,339
Project financing (NEXI)	2006/2005	YEN exchange variation + interest of 0.95% above TIBOR	281,883	283,618	281,883	283,618
Vendor			-	-	183,885	141,657
Total			4,267,361	3,943,642	4,589,692	4,381,985
Less: Current liabilities			(675,674)	(612,227)	(653,898)	(1,120,391)
Non-current liabilities			3,591,687	3,331,415	3,935,794	3,261,594

(i) UMBNDES = BNDES monetary unit.

(a) Eurobonds

In April 2006, the Company completed the issue of US$ 200,000 thousand perpetual bonds. The bonds are redeemable at the option of the Company in 360 months, and quarterly as from 2011. Funds raised were used for working capital purposes and acquisition of Politeno shares.

In September 2006, the Company approved the issue of US$ 275,000 thousand in Bonds, with an 8% coupon and maturity in ten years. Funds raised were used mainly to repurchase part of the Medium-Term Notes ("MTN") of the 3rd tranche (Note 14(c)).

Composition of transactions:

				Parent company		Consolidated	
Issue date	**Issue amount US$ thousand**	**Maturity**	**Interest % p.a.**	**2006**	**2005**	**2006**	**2005**
Jun/1997	150,000	Jun/2007	9.00	321,101	351,632	321,101	351,632
Jul/1997	250,000	Jun/2015	9.38	538,537	589,747	35,540	38,959
Jun/2005	150,000	None	9.75	321,990	352,626	321,990	352,626
Apr/2006	200,000	None	9.00	435,175	-	435,175	-
Sep/2006	275,000	Jan/2017	8.00	601,986	-	601,986	-
				2,218,789	**1,294,005**	**1,715,792**	**743,217**

(b) Prepayments of exports

Composition of transactions:

				Controladora		Consolidado	
Date	**Amount US$ thousand**	**Settlement date**	**Charges (% p.a)**	**2006**	**2005**	**2006**	**2005**
Dec/2002	97,200	Jun/2006	1.25 + 6-month LIBOR	-	37,289	-	37,289
Mar/2003	15,000	Mar/2006	2.10 + 6-month LIBOR	-	9,443	-	9,443
Jun/2004	200,000	Jun/2009	1.45 + 6-month LIBOR	268,160	410,656	268,160	410,656
Aug/2004	50,000	Oct/2006	3.00 + 3-month LIBOR	-	47,477	-	47,477
Jan/2005	45,000	Jan/2008	1.55 + 3-month LIBOR	44,297	87,179	44,297	87,179
Jan/2005	28,000	Jan/2008	1.66 + 6-month LIBOR	-	-	12,442	3,890
				312,457	**592,044**	**324,899**	**595,934**

(c) Medium-Term Notes ("MTN") program

Composition of transactions:

Parent company and consolidated						
Issue	**Amount US$ thousand**	**Issue date**	**Maturity**	**Interest p.a.**	**2006**	**2005**
3rd tranche	275,000	Nov/2003	Nov/2008	12.50%	197,522	657,742
4th tranche	250,000	Jan/2004	Jan/2014	11.75%	566,001	619,663
					763,523	**1,277,405**

To restructure its debt, the Company repurchased, in September 2006, part of the notes of the 3rd tranche, in the amount of US$ 184,600 thousand, corresponding to 67% of the original issue. The Company paid the note holders, in addition to the principal, the amount relating to accrued and future interest, brought to present value.

(d) FINAME, BNDES and BNB

These loans relate to various transactions aiming at increasing production capacity, as well as environmental programs, operating control centers, laboratory and waste treatment stations. Principal and charges are payable monthly up to June 2016.

In June 2005, a further BNDES credit line was approved, in the amount of R$ 384,600, of which R$ 295,335 was released up to December 31, 2006.

(e) Acquisition of shares

This loan refers to the acquisition from BNDESPAR of one billion shares of Braskem Participações, made in September 2001, by the merged company Nova Camaçari Participações S.A. The loan principal was fully paid in August 2006.

(f) Project finance

In March and September 2005, the Company obtained loans in Japanese currency from Nippon Export and Investment Insurance ("NEXI"), in the amount of YEN 5,256,500 thousand – R$ 136,496, and YEN 6,628,200 thousand – R$ 141,529, respectively. The principal is payable in 11 installments as from March 2007, with final maturity in June 2012.

As part of its risk management policy (Note 22), the Company entered into a swap contracts in the total amount of these loans, which, in effect, change the annual interest rate to 101.59% of CDI for the tranche drawn down in March 2007, and 104.29% and 103.98% of CDI for the tranches drawn down in September 2005. The swap contract was signed with a leading foreign bank and its maturity, currencies, rates and amounts are perfectly matched to the financing contracts. The effect of this swap contract is recorded in financial results, under monetary variation of financing (Note 23).

(g) Investment funds in credit rights

This financing arises from the consolidation of investment funds in credit rights ("FIDC"), named Chemical and Chemical II. The FIDCs raise funds by selling senior quotas, the remuneration of which is linked to the variation of CDI. FIDCs' charter also provide for the issue of subordinated quotas in order to maintain the respective asset balance. These quotas are remunerated in accordance with the funds' profitability. At December 31, 2006, the subordinated quotas were owned by the Company. With the resources made available, the funds purchase trade bills issued by Braskem, taking into account the selection criteria prescribed by the FIDC manager (Note (6)).

In December 2006, the Chemical fund redeemed its senior quotas (December 31, 2005 – R$ 201,639) and their remuneration was 113.5% of CDI.

The Chemical II fund issued the first tranche of senior quotas in December 2005, remunerated at 103.75% of CDI and redemption anticipated for December 2008. At December 31, 2006, the balance of these quotas amounted to R$ 401,384 (2005 – R$ 404,122).

(h) Repayment schedule and guarantees

Long-term loans mature as follows:

	Parent company		Consolidated	
	2006	2005	2006	2005
2007	-	596,949	-	348,516
2008	456,129	857,428	876,842	1,284,137
2009	211,522	147,555	260,296	157,263
2010	150,603	89,037	193,324	86,280
2011	109,697	61,847	127,813	49,448
2012 and thereafter	2,663,736	1,578,599	2,477,519	1,335,950
	3,591,687	**3,331,415**	**3,935,794**	**3,261,594**

For short and long-term financing, the Company has given guarantees as stated below:

Parent company				
	Maturity	Total guaranteed	Loan Amount	Guarantees
BNB	Jan/2016	125,273	125,273	Machinery and equipment
BNDES	Jan/2012	302,806	302,806	Machinery and equipment
1st and 12nd series debentures	Jun/2009	1,282,481	2,107,356	Shares and credit rights
NEXI	Mar/2012	213,890	281,883	Insurance policy
FINEP	Mar/2012	76,630	76,630	Surety bond
Other institutions	Nov/2007 to Dec/2008	57,631	186,000	Surety/ endorsement and promissory notes
	Total	**2,058,711**	**3,079,948**	

At December 31, 2006, the Company had given direct guarantee under financing of the jointly-controlled entities Petroflex and Petroquímica Paulínia for R$ 6,406 (2005 – R$ 16,700) and R$ 339,720, respectively. These guarantees correspond to the maximum amount of potential future repayments (not discounted) that the Company may be required to make.

15 Debentures

At a meeting held on April 13, 2005, the Board of Directors approved the 13th issue of debentures comprising 30,000 simple, unsecured debentures, not convertible into shares, in a single series, for a total of R$ 300,000. The debentures were subscribed and paid up on June 30, 2005.

At a meeting held on August 2, 2006, the Board of Directors approved the 14th issue of 50,000 simple, unsecured debentures, not convertible into shares, in a single series, for a total of R$ 500,000. The debentures were subscribed and paid up on September 1, 2006.

At a meeting held on November 29, 2006, the Board of Directors approved the cancellation of 1,500 debentures of the 12th issue, to mature in June 2009.

Composition of transactions:

Parent company						
Issue	Unit value	Maturity	Annual financial charees	Payment of annual financial charees	2006	2005
1st (i)	R$ 10	Jul/2007	TJLP variation + interest of 5% p.a.	Upon maturity	1,130,752	999,348
12th (ii)	R$ 100	Jun/2009	117,00% of CDI	Semi-annually from Dec/2004	151,729	304,920
13th (ii)	R$ 10	Jun/2009	104,10% of CDI	Semi-annually from Dec/2005	303,074	304,374
14th (ii)	R$ 10	Sep/2011	103,50% of CDI	Semi-annually from Mar/2007	521,801	-
					2,107,356	**1,608,642**

(i) Private issue of debentures convertible into class A preferred shares. At present, these securities are held by ODBPARINV (Note 8).
(ii) Public issues of debentures not convertible into shares.

The debenture activity can be summarized as follows:

Parent company		
	2006	2005
At January 1	1,608,642	1,172,839
Financial charges	248,622	229,448
Issue	500,000	300,000
Amortization/ cancellation	(249,908)	(93,645)
At the end of the year	**2,107,356**	**1,608,642**
Less: Current liabilities	(1,157,356)	(9,295)
Non-current liabilities	950,000	1,599,347

In January 2006, the jointly-controlled entity Petroflex approved the 4th issue for public distribution of simple, unsecured debentures, not convertible into shares, for a total of R$ 160,000, comprising 16,000 debentures with unit value of R$ 10,000, maturity in December 2010 and remuneration of 104.5% of CDI.

16 Taxes and Contributions Payable – Long-term Liabilities

		Parent company		Consolidated	
		2006	2005	2006	2005
IPI credits offset					
IPI – export credit	(i)	646,641	550,263	647,778	550,263
IPI – zero rate	(ii)	505,852	308,728	505,852	466,301
IPI – consumption materials and property, plant and equipment		44,593	37,673	54,746	37,673
Other taxes and contributions payable					
PIS /COFINS – Law 9718/98	(iii)	134,573	285,521	146,769	316,081
Education contribution, SAT and INSS		32,520	33,360	37,149	40,784
PAES-Law 10684	(iv)	36,596	43,151	36,596	43,151
Other		7,374	2,746	21,522	9,802
(-) Judicial deposits		(128,451)	(102,971)	(128,451)	(139,697)
		1,279,698	**1,158,471**	**1,321,961**	**1,324,358**

The Company is challenging in court changes in the tax legislation and maintains provision for the amounts in dispute, duly restated. Contingent assets are not recorded.

(i) IPI Tax Credit on Exports (Crédito – Prêmio)

The Company – by itself and through merged companies – challenges the term of effectiveness of the IPI tax credit (crédito-prêmio) introduced by Decree-law 491 of 1969 as an incentive to manufactured product exports. Most lower court decisions have been favorable, but such favorable decisions may still be appealed.

According to its external legal advisors, the Company stands possible chances of success in these suits. The Superior Court of Justice (STJ) is currently entertaining an identical lawsuit lodged by another taxpayer (judgment is currently on hold). Most of the STJ justices who have cast their votes to date recognized that such tax benefit continued after 1983.

(ii) IPI – Zero rate

Merged companies OPP Química, Trikem and Polialden have filed lawsuits claiming IPI tax credits from acquisition of raw materials and inputs that are exempt, non-taxed or taxed at a zero rate. Most lower court decisions have been favorable, but such favorable decisions may still be appealed. The Company's external legal advisors are of the opinion that it is possible that these cases will prevail; the STF itself is revisiting this matter as well.

(iii) PIS/COFINS – Law 9718 of 1998

The Company – by itself and through merged companies – has brought a number of lawsuits to challenge the constitutionality of the changes in the PIS and COFINS tax bases deriving from Law 9718 of 1998.

In February 2006, as court decisions favorable to the Company's cases initiated in March 1999 became final and conclusive, the Company reversed liabilities of R$89,622 (Note 24) to results.

As the STF Full Bench had ruled, in November 2005, that the increase in PIS and COFINS tax rates under said law was unconstitutional, the Company – also in reliance on the opinion of its legal advisors – believes that it will probably prevail in the other cases. The positive impact on the Company's results would be approximately R$106,941, considering the amounts provisioned at December 31, 2006.

Some of these lawsuits also challenged the increase of COFINS tax rates from 2% to 3%. In the opinion of its legal advisors, the Company stands remote chances in this specific regard. This fact, coupled with the recent unfavorable determination from the STF, led the Company to file for voluntary dismissal of this claim in most suits and settle the debt in cash. This procedure has translated into a positive result of R$ 13,768 on account of the reduction in the fine and interest payments that had been provisioned (Note 24).

(iv) Special Installment Program – PAES – Law 10684/03

In August 2003, merged company Trikem opted to file for voluntary dismissal of its lawsuit against the COFINS rate increase from 2% to 3% under Law 9718 of 1998, thus qualifying for the favorable payment conditions under the PAES program instituted by Federal Law 10684 of 2003. The amount due is being paid in 120 monthly installments. The outstanding debt is R$ 43,151 as of December 31, 2006, being R$ 6,555 in current liabilities and R$ 36,596 in non-current liabilities (2005 – R$ 49,706, being R$ 6,555 in current liabilities and R$ 43,151 in non-current liabilities).

Even though the Company had met all legal requirements and payments were being made as and when due, the National Treasury Attorney's Office (PFN) disqualified the Company for PAES on two different occasions, and the Company obtained a court relief reinstating it to PAES in these two events. In reliance on the opinion of its legal advisors, management believes that the Company's eligibility for these installment payments will be upheld as originally requested.

17 Income Tax and Social Contribution on Net Income

(a) Current income tax – parent company

	2006	2005
Income /(loss) before income tax	(21,323)	764,331
Adjustments to net income / (loss) for the year		
Permanent additions	34,134	67,519
Temporary additions	259,109	477,375
Permanent exclusions	(215,985)	(252,889)
Temporary exclusions	(260,363)	(459,479)
Interest on capital	-	(270,000)
Taxable income / (tax loss) before offset of tax loss carryforward	(204,428)	326,857
Utilization of tax losses (30%)	-	(98,057)
Taxable income / (tax loss) for the year	(204,428)	228,800
Income tax (15%) and surcharge (10%)	-	57,176
Other	(444)	(2,307)
Income tax expense for the year	(444)	54,869

As the Company recorded tax losses in 2006, it is not entitled to income tax exemption/ abatement benefits (2005 – R$ 44,244)..

(b) Deferred income tax

(i) Composition of deferred income tax – parent company

In accordance with the provisions of CVM Deliberation 273/98, which approved the Institute of Independent Auditors of Brazil (IBRACON) standard on the accounting for income tax, supplemented by CVM Instruction 371/02, the Company has the following accounting balances of deferred income tax:

Composition of calculated deferred income tax:	2006	2005
Tax loss carryforwards	648,848	441,068
Amortized goodwill on investments in merged companies	401,659	151,163
Temporarily non-deductible expenses	485,743	534,469
Potential calculation basis of deferred income tax	**1,536,250**	**1,126,700**
Potential deferred income tax (25%)	384,062	281,675
Unrecorded portion of deferred income tax	(3,400)	(4,425)
Deferred income tax – assets	**380,662**	**277,250**
Current assets	(19,573)	(19,573)
Non-current assets	361,089	257,677
Activity:		
Opening balance	277,250	301,527
Addition of Polialden balance	4,482	-
Deferred income tax on tax loss carryforwards	51,945	(24,672)
Income tax on amortized goodwill of merged company Polialden	75,875	-
Deferred income tax on amortized goodwill of merged companies	(12,227)	(3,374)
Deferred income tax on temporary provisions	(16,663)	3,769
Closing balance	380,662	277,250
Deferred income tax (liability) on accelerated depreciation:		
Opening blance for the year	(8,525)	(9,115)
Realization of deferred income tax	590	590
Closing balance for the year	(7,935)	(8,525)
Deferred income tax in income statement	99,520	(23,687)

Deferred income tax assets arising from tax losses and temporary differences are recorded taking into account analyses of future taxable profits, supported by studies prepared based on internal and external assumptions and current macroeconomic and business scenarios approved by the Company's management.

In accordance with CVM Instruction 371/02, the Company reversed the income tax on the effects of Technical Interpretation 01/2006, recorded in the first quarter of 2006.

(ii) Estimated timing of the utilization of deferred income tax assets

Deferred income tax assets recorded are limited to the amounts whose offsetting is supported by projections of taxable income, brought to present value, earned by the Company in up to 10 years, also taking into account the limit for offsetting tax losses of 30% of the net income for the year before income tax and tax exemption and reduction benefits.

Considering the price, foreign exchange, interest rate, market growth assumptions and other relevant variables, the Company prepared its business plan for the base date of December 31, 2006, anticipating the generation of future taxable income. The studies show that the income tax credit from tax losses, in the amount of R$ 162,212, will be fully utilized between 2009 and 2012.

The realization of income tax credits on tax losses is expected to occur as follows::

2009	13,875
2010	47,100
2011	95,325
2012	5,912
	162,212

Deferred income tax credits on temporary differences, mainly comprised of goodwill, fully amortized, in the amount of R$ 97,015 and provisions in the amount of R$ 121,435, are justified by their full utilization due to the accounting realization of goodwill and provisions.

The realization of income tax credits on goodwill is expected to occur as follows:

2007	19,573
2008	19,573
2009	20,126
2010	20,126
2011	11,224
2012 to 2014	4,343
2015 to 2016	2,050
	97,015

The accounting for deferred income tax assets does not consider the portion of amortized goodwill on investments in merged companies, the realization term of which exceeds 10 years (R$ 13,600).

Concerning temporarily non-deductible expenses, deferred income tax was calculated on tax expenses which are currently being challenged in court and other operating expenses, as is the case of the excess provision for doubtful accounts.

As the income tax taxable basis is determined not only by the potential future profits, but also the existence of non-taxable revenues, non-deductible expenses, fiscal incentives and other variables, there is no immediate correlation between the Company's net income and the income tax results. Accordingly, the expectation of using tax credits should not be construed as an indication of the Company's future results.

(c) Social Contribution on Net Income ("CSL")

In view of the discussions over the constitutionality of Law 7689 of 1988, the Company and its merged companies OPP Química, Trikem and Polialden filed civil lawsuits against payment of CSL. The resulting court decision favorable to these companies became final and conclusive.

However, the Federal Government filed a suit on the judgment (ação rescisória) challenging the decisions on the lawsuits filed by the Company, Trikem and Polialden, on the argument that – after the final decision favorable to those companies – the Full Bench of STF declared the constitutionality of this tax except for 1988. As the Federal Government did not file a suit on the judgment in the case of OPP Química, the first final and conclusive decision remained in force.

The suit on the judgment is pending the STJ and STF review of a number of appeals concerning this specific matter. Even though the suit on the judgment and tax payments are still on hold, the Federal Revenue Office has issued tax infraction notices against the Company and its merged companies, and administrative defenses have been filed against such notices.

Based on the opinion of its external legal advisors, the Company believes that the following is likely to occur: (i) the courts will eventually release the Company from paying this tax; and (ii) even if the rescission action is held valid, it cannot be applied retroactively to enactment of the law, and thus the Company has made no provisions for this tax.

If retrospective payment is required by court order (contrary to the opinion of its external legal advisors), the Company believes that the possibility of a fine is remote. Accordingly, the amount payable, restated based on Brazil's SELIC benchmark rate, would be approximately R$ 743,000 (2005 – R$ 652,000), excluding the fine.

18 Tax Incentives

(a) Corporate income tax

Until calendar year 2011, the Company has the right to reduce by 75% the income tax on the profit arising from the sale of basic petrochemical products and utilities. The two polyethylene plants at Camaçari have the same right until calendar years 2011 and 2012. The PVC plant at Camaçari has the same right to reduction until 2013. The PVC plants in Alagoas and the PET plant at Camaçari are exempt from corporate income tax calculated on the results of their industrial operations until 2008.

Productions of caustic soda, chloride, ethylene dichloride and caprolactam enjoy the benefit of the 75% decrease in the income tax rate up to 2012.

At the end of each fiscal year, in the case of taxable profit resulting from the benefited operations, the income tax amount is recorded as expense for the year and credited to a capital reserve account, which can only be used to increase the capital or absorb losses.

(b) Value-added tax – ICMS

The Company has ICMS tax incentives granted by the States of Rio Grande do Sul and Alagoas, through the Company Operation Fund – FUNDOPEM and State of Alagoas Integrated Development Program – PRODESIN, respectively. Such incentives are designed to foster the installation and expansion of industrial facilities in those States. The incentive determined for the year ended December 31, 2006 was R$ 12,909 (2005 – R$ 7,795).

19 Long-term Incentives

Braskem has developed a Long-term Incentive Plan, under which the employees involved in strategic programs can acquire Investment Units (Alfa Unit).

The unit value of each Alfa Investment Unit corresponds to the average closing price of quotations of Braskem class A preferred shares on Bovespa between October 2005 and March 2006, equal to R$ 18.14.

As an incentive to purchase Alfa Investment Units by those employees entitled to the program, Braskem granted 1 Investment Unit for each Investment Unit already purchased (Beta Unit). Beta Units are redeemable as from the fifth year at the ratio of 20% in the first year and 10% in subsequent years. Beta Units not redeemed within the stipulated terms are converted into Alfa Units. The value of these units was determined based on the projected value of the Company class A preferred share.

Alfa Units will have a return equivalent to the amount of dividends and/or interest on capital paid to the holders of Braskem class A preferred shares.

The composition and cost of Investment Units at December 31, 2006 are as follows:

	Number	Value
Investment Units		
Issued (Alfa Units)	95,710	1,736
Granted as bônus (Beta Units)	95,710	536
Total	**191,420**	**2,272**

20 Shareholders' Equity

(a) Capital

At December 31, 2006, the Company's subscribed and paid-up capital is R$ 3,508,272, divided into 123,492,142 common, 246,107,138 class A preferred, and 803,066 class B preferred shares, all of them with no par value. At the same date, the Company's authorized capital comprises 488,000,000 shares, of which 175,680,000 are common, 307,440,000 are class A preferred, and 4,880,000 are class B preferred shares.

The Extraordinary General Meeting held on May 31, 2006 approved the Company's capital increase by R$ 105,304 as a result of the merger of subsidiary Polialden (Note 1(c)), through the issue of 7,878,725 class A preferred shares. On that same date, the conversion of 2,632,043 class A preferred shares into common shares, at the ratio of 1:1, was also approved.

(b) Share rights

Preferred shares are non-voting but ensure priority to the receipt of a non-cumulative dividend of 6% p.a on their unit value, in accordance with the net income available for distribution. Only Class "A" preference shareholders share equally with the common shares in the remaining net income, and common shares are entitled to dividends only after priority dividends have been paid to the holders of preference shares . Only Class "A" preference shareholders share equally with common shares in the distribution of shares resulting from the incorporation to capital of other reserves. Class "B" preference shares are not convertible into common shares. However, at the end of the non-transfer period provided for in the applicable law, they can be converted into Class "A" preference shares at any time, at the ratio of 2 Class "B" preference shares for each Class "A" preference shares.

Class "A" and "B" preferred shares have priority to the return of capital in the case of liquidation.

Shareholders are ensured a mandatory dividend of 25% of net income for the year, adjusted in accordance with the Brazilian Corporation Law.

Pursuant to the Understanding Memoranda for the Execution of Shareholders' Agreement, the Company must distribute dividends corresponding to not less than 50% of the net income for the year, as long as the required reserve amounts are sufficient to allow for the efficient operation and development of the Company's businesses.

As agreed at the time of issuance of Medium-Term Notes (Note 14(c)), the payment of dividends or interest on capital is capped at twice the minimum dividends accorded to preferred shares under the Company's by-laws. Further, pursuant to the 12th debentures indenture (Note 15), the payment of dividends or interest on capital is capped either at 50% of the net profits for the year, or at 6% of the unit value of the Company's Class "A" and "B" preferred shares, whichever is higher.

(c) Treasury shares

The Board of Directors meeting held on May 3, 2006 approved a Share Buyback Program. This program was closed on October 23, 2006 and was intended to acquire common and class A preferred shares to be held in treasury and subsequently sold and/or cancelled, with no reduction in capital. Under the program, the Company acquired 13,131,054 class A preferred shares at the average cost of R$ 13.88. The low and high quotations during this period were R$ 9.97 and R$ 15.89 per share, respectively.

In July 2006, the Company also acquired 765,079 class A preferred shares from dissenting Polialden shareholders.

At December 31, 2006, shares held in treasury comprised 14,363,480 class A preferred shares (2005 – 467,347 shares) for a total of R$ 194,555. The total value of these shares, based on the average quotation of Bovespa's last session in 2006, is R$ 218,469.

(d) Retention of profits reserve

This refers to retention of the balance of retained earnings, to fund expansion projects included in the business plan, as provided in the capital budget proposed by management and submitted to the approval of the Shareholders' Meeting, in accordance with article 196 of the Brazilian corporate law. It should be pointed out that, in compliance with IBRACON Technical Interpretation 01/2006, as well as article 196 of the Brazilian Corporate Law, in the first quarter of 2006 the Company recorded additional depreciation in the Retained earnings (accumulated deficit) line (Note 12), and reversed a portion of this reserve, in the amount of R$ 164,890, to absorb the effects of this adjustment arising from prior years.

(e) Appropriation of net income

In accordance with the Company's by-laws, net income for the year, adjusted as provided by Law 6.404/76, will be appropriated as follows: (i) 5% for constitution of the legal reserve, not exceeding 20% of capital; (ii) 25% for payment of non-cumulative mandatory dividends, observing the legal and statutory advantages of the preference shares. When the priority dividend amount paid to the preference shares is equal to or higher than 25% of the net income for the year, calculated in accordance with Article 202 of Brazilian Corporate Law, the mandatory dividend is considered as paid in full. If there is a remaining mandatory dividend after the payment of the priority dividend, it will be distributed as follows: i) in the payment to common shares of a dividend up to the limit of the priority dividend of preference shares; ii) if there is a remaining balance in the distribution of an additional dividend to common shares and Class A preference shares, under the same conditions, so as each common share or preference share of this class receive the same dividend.

Dividends proposed by management, subject to approval by the shareholders' meeting, are as follows:

	2006	2005
Net income for the year	77,753	685,775
Portion appropriated to legal reserve	(3,888)	(34,289)
Adjusted net income for the calculation of dividends	73,865	651,486
Distribution of profits:		
Interest on capital (Note 20(f))		
Common shares – R$ 0.746	-	90,179
Class A preferred shares – R$ 0.746	-	179,368
Class B preferred shares – R$ 0.563	-	453
	-	**270,000**
Dividends proposed		
Common shares – (2005 – R$ 0.154)	-	18,649
Class A preferred shares – R$ 0.159 (2005 – R$ 0.154)	36,805	37,094
Class B preferred shares – R$ 0.159	128	-
Total dividends proposed	36,933	55,743
Total interest on capital and dividends	36,933	325,743
Amount appropriated to revenue reserve	36,932	325,743
Minimum mandatory dividends – 25%	18,466	162,872

The amount appropriated to the revenue reserve in 2006 is linked to a capital budget approved by the Board of Directors at a meeting held on December 14, 2006, subject to the ratification of the Annual Stockholders' Meeting to be held in 2007.

(f) Interest on capital

On December 29, 2005, the Management Board approved the payment of interest on capital in the amount of R$ 270,000, of which (i) R$ 179,368 to holders of Class A preference shares and holders of American Depositary Receipts ("ADR"), corresponding to the gross amount of R$ 0.746145 per share and R$ 1.492290 per ADR; (ii) R$ 452 to the holders of Class B preference shares, corresponding to the gross amount of R$ 0.563940 per share, equal to 6% of the share unit value, as provided in Article 9 of the Company's by-laws and (iii) R$ 90,179 to the holders of common shares, corresponding to the gross amount of R$ 0.746145 per share. Payment started on April 18, 2006.

Interest on capital was determined based on the shareholding position at December 31, 2005, applyng such amount to priority and mandatory dividends for 2005, as prescribed by Law 9249/95 and paragraph 6, Article 44 of the by-laws. Withholding income tax on interest credited was R$ 35,515 and the benefit for the Company regarding income tax was R$ 67,500.

For disclosure purposes, the interest on capital expense was reversed in the statement of income for the year, in the group "Financial expenses (income)", and also reflected in the statement of changes in shareholders' equity, pursuant to CVM Deliberation CVM 207/96.

21 Contingencies

(a) Collective Bargaining Agreement - 4th Clause

The Petrochemical, Plastics, Chemicals and Related Companies Employees Union in the State of Bahia (SINDIQUÍMICA) and the Employers' Association of the Petrochemical and Synthetic Resins Industries in the State of Bahia (SINPEQ) are disputing in court the validity of a wage and salary indexation clause contained in the collective bargaining agreement (convenção coletiva de trabalho), given the matter of public policy involved, namely, the adoption of an economic plan in 1990 that put a limit on wage adjustments. The Company ran plants in the region in 1990, and is a member of SINPEQ.

The employees' labor union seeks retroactive adjustment of wages and salaries. In December 2002, the STF affirmed a previous decision from the Superior Labor Court (TST), determining that an economic policy legislation should prevail over collective bargaining agreements and, as such, no adjustment was due. SINDIQUÍMICA appealed this decision, but no final and conclusive decision has been rendered to date.

Based on the opinion of the Company's external legal advisors, management believes in a favorable outcome for SINPEQ, and no amount was thus provisioned for in connection with this case.

(b) Holders of incentive preferred shares

Some holders of Class "B" preferred shares issued by the Company under a tax incentive program claim that they are entitled to profit distribution on a par with the holders of common and Class "A" preferred shares.

The merged company Polialden faced an identical issue with CVM; on August 10, 2000, the CVM Board sided with the Polialden's stance that "the dividends payable to preferred shares should range from 6% to 8% of the value of such shares, or the equivalent to 25% of net profits for the year, whichever is higher, as the company has done over the last 10 years. Such shares are not entitled to remaining profits, as the by-laws have clearly set the maximum dividends attaching to such shares."

Most court decisions already rendered in this regard have been favorable to the Company and its merged company Polialden. For this reason, most of the judicial bonds posted by Polialden as security for preliminary injunctions entered favorably to some shareholders (in an amount corresponding to the shortfall asserted by those shareholders in connection with the dividends approved at the Annual General Meetings of 2002 and 2004) have already been released to the Company; there is only one judicial bond securing the 2004 dividends asserted by one single shareholder, at the historical value of R$ 804.

The Company's external legal advisors believe that the chances of success in these cases are probable, having also relied on opinions from renowned jurists and on recent court and CVM rulings on this specific issue; for this reason, the Company has abided by the rules set out in its by-laws as to payment of dividends to incentive preferred shares, limiting payments at 6% of their unit value and capped at 25% of the mandatory dividends set forth in the Company's by-laws.

(c) Offsetting of tax credits

From May through October 2000, the merged companies OPP Química and Trikem offset their own federal tax debts with IPI tax credits (créditos-prêmio) assigned by an export trading company ("Assignor"). These offsetting procedures were recognized by the São Paulo tax officials (DERAT/SP) through offset supporting certificates ("DCC's") issued in response to an injunctive relief entered in a motion for writ of mandamus ("MS SP"). Assignor also filed a motion for writ of mandamus against the Rio de Janeiro tax officials (DERAT/RJ) ("MS RJ") for recovery of IPI tax credits and their use for offsetting with third-party tax debts, among others. The MS SP was dismissed without prejudice, confirming the Rio de Janeiro administrative and jurisdictional authority to rule on Assignor's tax credits.

In June 2005, DERAT/SP issued ordinances (portarias) canceling the DCC's. Based on these ordinances, the Federal Revenue office unit in Camaçari/BA sent collection letters to the Company. Notices of dispute were presented by the Company, but the administrative authorities declined to process them. As a result, past-due federal tax liabilities (dívida ativa) at R$ 276,620 were posted by the Government in December 2005 concerning the Company's tax debts originating from purportedly undue offsetting procedures.

Both Assignor and the Company commenced a number of judicial and administrative proceedings to defend the lawfulness and validity of those offsetting procedures, and the legal counsels to both companies assessed the chances of success in those cases as probable, mostly in light of the indisputable validity and liquidity of those credits as confirmed in a specific audit conducted by DERAT/RJ.

On October 3, 2005, the Federal Supreme Court held the MS RJ favorably to Assignor in a final and conclusive manner, confirming Assignor's definite right to use the IPI tax credits from all its exports and their availability for offsetting with third-party debts. As a result, the legal counsels to Assignor and to the Company believe that the offsetting procedures carried out by the merged companies and duly recognized by DERAT/SP are confirmed, and for this reason they also hold that the tax liabilities being imputed to the Company are not due. Irrespective of the final and conclusive decision in MS RJ, the legal counsels to Assignor and to the Company, in addition to a jurist consulted on this specific issue, believe that the tax liabilities purportedly related to offsetting procedures carried out by the merged companies have become time-barred and, as such, can no longer be claimed by the tax authorities.

In January 2006, the Company was ordered to post bond in aid of execution of the tax claim referred to above; this bond was submitted in the form of a judicial bond insurance policy (seguro garantia).

The Company's external legal advisors have assessed the chances of success in all claims listed above as probable; nevertheless, if the Company is eventually defeated in all those cases, it will be entitled to full recourse against Assignor concerning all amounts paid to the National Treasury, as per the assignment agreement executed in 2000.

(d) National Social Security Institute – INSS

The Company is a party to several social security disputes in the administrative and judicial spheres, totaling approximately R$ 164,800 and R$ 169,800 as of December 31, 2006 and 2005, respectively. Out of these sums, the Company has made judicial deposits of R$ 15,100, and R$ 18,200 are secured by a portion of the Company's inventory.

In reliance on the external legal advisors' opinion that the Company stands possible chances of success in these cases, management believes that no amount is payable in connection with these cases and, as such, the corresponding sums have not been provisioned for.

(e) Other court disputes involving the Company and its subsidiaries

The Company is a defendant in civil lawsuits filed by the controlling person of a former caustic soda distributor and by a carrier that rendered services to the latter, totaling R$ 25,826 as of December 31, 2006 (2005 – R$169,854). The plaintiffs seek redress of damages caused by the Company's alleged non-fulfillment of the distributor agreement. In reliance on the opinion of legal advisors sponsoring the Company in these lawsuits, Management believes that the chances of these cases being rejected is possible, and for this reason the respective sums have not been provisioned for.

In the 2nd quarter of 2005, the Petrochemical and Chemicals Companies Employees Union in Triunfo (RS) and Camaçari (BA) lodged labor actions claiming overtime payment. The proper defense has been filed and management does not expect any loss on final judgment.

The Company acts as defendant in an arbitration commenced by a shipping company and underway in the City of Rio de Janeiro. Recently, the arbitrators asked for a technical expert opinion on the subject matter and extent of the dispute, which was estimated at R$ 29,000. However, in reliance on the opinion of legal advisors sponsoring the Company's interests in this arbitration, management believes that it is possible that the Company will prevail, and for this reason no amounts were provisioned for in this regard.

As of December 31, 2006, the Company is a defendant in approximately 1,200 labor claims (including those mentioned above), totaling approximately R$ 260,200 (2005 – R$ 223,400). According to the opinion of legal advisors, most claims are likely to be judged favorably for the Company.

For the civil and labor cases entailing a probable loss, the Company has provisioned for R$ 13,328 (R$ 21,886 consolidated) (2005 – R$ 7,930 parent company – R$12,262 consolidated).

22 Financial Instruments

(a) Risk management

Since the Company operates in the domestic and international financial markets, obtaining funds for its operations and investments, it is exposed to market risks mainly arising from changes in the foreign exchange and interest rates.

The Company's policy to manage risks has been approved and reviewed by management. These rules prohibit speculative trading and short sales, and provide for the diversification of instruments and counterparties. Counterparties' limits and creditworthiness are reassessed on a regular basis and set up in accordance with rules approved by management. Gains and losses on hedge transactions are taken to income on a monthy basis.

To cover the exposure to market risk, the Company utilizes various types of currency hedges, some involving the use of cash and others not. The most common types which use cash, as adopted by the Company, are financial applications abroad (Certificates of deposit, securities in U.S. dollars, foreign mutual funds, time deposits and overnight deposits) and put and call options. The types of currency hedge which do not involve the use of cash are swaps of foreign currency for CDI and forwards.

To hedge its exposure to exchange and interest risks arising from loan and financing agreements, the Company adopted the following methodology: hedging of the principal and interest falling due in the next 12 months in, at least (i) 60% of the debt linked to exports (trade finance), except for Advances on Exchange Contracts ("ACCs") of up to six months and Advances on Export Contracts ("ACEs"); and (ii) 75% of the debt not linked to exports (non-trade finance).

(b) Exposure to foreign exchange risks

The Company has long-term loans and financing to finance its operations, including cash flows and project financing. Part of the long-term loans is linked to the U.S. dollar (Note 14).

(c) Exposure to interest rate risks

The Company is exposed to interest rate risks on its debt. The debt in foreign currency, bearing floating interest rates, is mainly subject to LIBOR variation, while the domestic debt, bearing floating interest rates, is mainly subject to fluctuations in the Long-term Interest Rate (TJLP) and the Interbank Deposit Certificate (CDI) rate.

(d) Exposure to commodities risks

The Company is exposed to fluctuations in the price of several petrochemical commodities, especially its main raw material, naphtha. Since the Company seeks to transfer to its own selling prices the effect of price changes in its raw material, arising from changes in the naphtha international quotation, part of its sales may be carried out under fixed-price contracts or contracts stating maximum and/or minimum fluctuation ranges. Such contracts are commercial agreements or derivative contracts relating to future sales.

(e) Exposure to credit risk

The operations that subject the Company to concentration of credit risk are mainly bank accounts, financial investments and other accounts receivable, exposing the Company to the risk of the financial institution involved. In order to manage the credit risk, the Company keeps its bank accounts and financial investments with large financial institutions.

In relation to customer credit risk, the Company protects itself by performing detailed analyses before granting credit and by obtaining real and personal guarantees, when necessary.

(f) Derivative instrument transactions

As of December 31, 2006, the Company had the following derivative contracts:

			Market value (i)	
			Parent co.	Consolidated
Description	Maturity	Notional	Dec/06	Dec/06
Real / US$ – Option (Put US$)	Feb/2007	US$ 306,000 th.	(11,592)	(11,592)
Real + CDI / Yen + Tibor (swap)	Mar/2012	R$ 136,000	(45,203)	(45,203)
Real + CDI / Yen + Tibor (swap)	Jun/2012	R$ 143,000	(22,790)	(22,790)
Real + CDI / US$ (swap)	May/2007	US$ 100,000 th.	(24,311)	(24,311)
Real + CDI / US$ (swap)	Feb/2007	US$ 200,000 th.	(19,069)	(19,069)
Tax Sparing I	Jun/2007	US$ 134,000 th.	-	24
Tax Sparing II	Jun/2015	US$ 100,000 th.	-	120
Total Return Swap	Dec/2007	US$ 410,000 th.	-	10,155
Benzene	Jan/2007	146.7 th. tons	-	(6,921)

(i) The market value represents the amount receivable (payable) if the transactions were settled on December 31, 2006.

To determine the estimated market value of derivative financial instruments, the Company uses quotations for similar operations or public information available in the financial market, as well as valuation methodologies generally accepted and utilized by counterparties. These estimates do not necessarily guarantee that such operations could be realized in the market at the indicated amounts. The use of different market information and/or valuation methodologies could have a significant effect on the estimated market value.

All outstanding derivative contracts are intended only to offset financial losses and gains (hedge) on other Company assets or liabilities. Accordingly, they are linked to purchases, sales, financial investments or debt agreements.

23 Financial Income (Expenses)

	Parent company		Consolidated	
	2006	2005	2006	2005
Financial income:				
Interest income	108,368	128,260	140,051	140,131
Monetary variation of financial investments, related parties and accounts receivable	52,993	14,768	48,149	17,705
Monetary variation of taxes recoverable	43,706	4,984	48,575	7,616
Gains on derivative transactions	1,830	11,454	114,112	45,695
Exchange variation on foreign currency assets	(185,898)	(281,349)	(204,225)	(288,846)
Other	33,949	59,774	12,857	44,080
	54,948	**(62,109)**	**159,519**	**(33,619)**
Financial expenses:				
Interest on financing and related parties	(314,181)	(355,568)	(287,776)	(346,999)
Monetary variation on financing and related parties	(254,861)	(236,088)	(255,515)	(203,080)
Monetary variation and interest on taxes and suppliers	(161,007)	(140,728)	(178,508)	(169,669)
Losses on derivative transactions	(16,952)	(36,420)	(161,958)	(61,485)
Expenses with vendor transactions	(119,662)	(108,144)	(119,662)	(108,242)
Discounts granted	(47,948)	(35,631)	(137,996)	(88,375)
Exchange variation on foreign currency liabilities	343,641	560,705	333,368	556,884
Taxes and charges on financial transactions	(219,328)	(101,731)	(228,437)	(110,621)
Interest on capital	-	(270,000)	-	(270,000)
Reversal of interest on capital	-	270,000	-	270,000
Other	(45,957)	(99,199)	(61,443)	(144,170)
	(836,255)	**(552,804)**	**(1,097,927)**	**(675,757)**
Financial results, net	(781,307)	(614,913)	(938,408)	(709,376)

24 Other Operating Income (Expenses)

	Parent company		Consolidated	
	2006	2005	2006	2005
Income (expenses)				
Rental of facilities and assignment of right of use	25,767	58,458	45,423	3,914
Recovery of taxes (Nota 16 (iii))	125,753	655	125,890	3,364
Recovery of costs and expenses/Inventory adjustments	(9,734)	11,084	(9,275)	10,463
Other operating income/(expenses), net	(9,901)	(306)	24,104	5,012
	131,885	**69,891**	**186,142**	**22,753**

25 Non-Operating Income (Expenses)

	Parent company		Consolidated	
	2006	2005	2006	2005
Income (expenses)				
Gains on interest in investments	2,377	5,172	2,377	5,443
Sale of permanent assets	(837)	720	(496)	753
Reversal of (provision for) loss on investments	(21)	(4,203)	(21)	(4,265)
Provision for loss/retirement of assets	-	(22,449)	-	(22,449)
Other non-operating income (expenses), net	6,229	(4,105)	5,260	(4,638)
	7,748	**(24,865)**	**7,120**	**(25,156)**

26 Insurance Coverage

The Company has a broadly-based risk management program designed to provide cover and protection for all assets, as well as possible losses caused by production stoppages, through an "all risks" insurance policy. This policy establishes the amount for maximum probable damage, considered sufficient to cover possible losses, taking into account the nature of the Company's activities and the advice of insurance consultants. At December 31, 2006, insurance coverage for inventories, property, plant and equipment, and loss of profits of the Company is R$ 12,109,589 per claim, while the total of all insured assets is R$ 17,250,314.

27 Shares Traded Abroad – NYSE and LATIBEX

(a) American Depositary Receipts ("ADRs") program

The Company's ADS's are traded on NYSE with the following characteristics:

- Type of shares: Class A preferred.
- Each ADS represents 2 shares, traded under the symbol "BAK".
- Foreign Depositary Bank: The Bank of New York ("BONY") – New York branch.
- Brazilian Custodian Bank: Banco Itaú S.A.

(b) LATIBEX

The Company's Class A preferred shares are traded on LATIBEX, the market for Latin American Companies quoted in Euros at the Madrid Stock Exchange. The shares are traded under the symbol "XBRK" and the Brazilian Custodian Bank is Banco Itaú S.A. LATIBEX has adjusted and altered the process for quotation and trading to comply with the new standards adopted by Bovespa. Accordingly, as from May 16, 2005, the shares are traded in units.

28 Private Pension Plans

The actuarial obligations relating to the pension and retirement plans are accrued in conformity with the procedures established by CVM Deliberation 371/2000.

The formation of Braskem (Note 1 (c)) involved the integration of six sponsoring companies and three different pension plans managed by Fundação PETROBRAS de Seguridade Social - PETROS ("PETROS"), PREVINOR - Associação de Previdência Privada ("PREVINOR") and ODEPREV - Odebrecht Previdência ("ODEPREV"). In addition to sponsoring different private pension plans, the Company has approximately 800 employees who do not participate in company-sponsored pension plans, as no new benefits were granted to employees since the inception of the Company. Management ceased to provide benefits to new employees in order to devise a single, legitimate solution for all participants, with a view to protecting the plan participants' financial assets.

Experts engaged by the Company recommended that ODEPREV be the only supplementary pension plan entity sponsored by the Company. Furthermore, employees who do not participate in the PETROS and PREVINOR plans were offered the opportunity of joining the ODEPREV plan, retroactively to August 16, 2002.

In June 2005, the Company communicated to PETROS and PREVINOR its intended withdrawal as a sponsor effective June 30, 2005. With regard to PETROS, the calculation of mathematical reserves of participants was completed in November 2006 and submitted in that month to the Supplementary Pension Plan Secretary, a Social Security Ministry department in charge of regulating and inspecting private pension plans. The Company has a provision of R$ 58,554, which is considered sufficient to cover any disbursements at the time the commitments of this plan are settled. During 2005, the Company's and employees' contributions to PETROS totaled R$ 2,841 and R$ 1,791, respectively.

As to PREVINOR, the reserve computations have been completed and the entity has a surplus, so that no contributions by the Company are required. The sponsorship withdrawal was approved by the Supplementary Pension Plan Secretary and the commitments to the plan participants will be settled in the first half of 2007. During 2005, the Company's and employees' contributions were R$ 628 and R$ 354, respectively.

Benefits to retired employees and pensioners will continue to be paid on a regular basis up to completion of the process.

The subsidiary Politeno was the sponsor of a defined-contribution plan managed by PREVINOR. In December 2006, Politeno advised PREVINOR of its intention to withdraw from the plan effective the end of that month. The calculations of reserves to be refunded to plan participants are being prepared by independent experts, for subsequent analysis and approval by the Supplementary Pension Plan Secretary. Benefits to plan retired employees and participants and pensioners will continue to be paid up to completion of the process.

In December 2006, PREVINOR had 221 active participants. In 2006, Politeno's and its employees' contributions totaled R$ 1,489 (2005 - R$ 1,604) and R$ 905 (2005 – R$ 1,035), respectively.

(a) ODEPREV

The Company has a defined-contribution plan for its employees. The plan is managed by ODEPREV – Odebrecht Previdência which was set up by Odebrecht S.A. as a closed private pension entity. ODEPREV offers its participants, employees of the sponsoring companies, the Optional Plan, a defined-contribution plan, under which monthly and sporadic participant contributions and annual and monthly sponsor contributions are accumulated and managed in individual retirement savings accounts.

The Board of Trustees of ODEPREV defines each year, in advance, in the funding plan, the parameters for contributions to be made by the participants and the sponsoring companies. With regard to the payment of benefits under the Optional Plan, the obligation of ODEPREV is limited to the total value of the quotas held by its participants and, to comply with the regulations for a defined-contribution plan, it will not be able to require any obligation or responsibility on the part of the sponsoring company to assure minimum levels of benefits to the participants who retire.

At December 31, 2006, the active participants in ODEPREV totaled 2,354 (2005 – 2,131), and the Company's and employees' contributions amounted to R$ 7,888 (2005 – R$ 4,631) and R$ 13,189 (2005 – R$ 9,348), respectively.

(b) COPESUL

The jointly-controlled company Copesul takes part in the defined-benefit plan managed by PETROS. As required in PETROS regulation and relevant law, in the event of a significant gap in technical reserves, both the sponsors and participants must make an additional financial contribution, otherwise the plan benefits will be adjusted to the available resources. Up to December 31, 2006, no supplementation was required.

In accordance with CVM Deliberation 371/2000, which approved NPC 26 of IBRACON – "Accounting for Employee Benefits", Copesul carried out the actuarial valuation of the plan, with the following results:

	2006	2005
Fair value of plan assets	388,007	337,726
Present value of actuarial obligations	405,849	357,317
Actuarial liabilities	**(17,842)**	**(19,591)**
Net actuarial liabilities to be provided for	(17,842)	(19,591)
Actuarial liabilities provided for	8,850	7,080
Net actuarial liabilities	**(8,992)**	**(12,511)**

Actuarial assumptions at the balance sheet date are:

	2005 and 2006
Actual discount rate	6% p.a.
Expected return rate on plan assets	6% p.a.
Actual salary raises	2% p.a. up to 47 years and nil after 48 years of age

In 2006, Copesul contributions were R$ 5,573 (2005 – R$ 5,906).

Copesul also sponsors a defined-benefit plan, Plano Copesul de Previdência Complementar – COPESULPREV, for employees who do not participate in PETROS. Copesul's contributions in 2006 totaled R$ 1,129 (2005 – R$ 1,089).

(c) PETROFLEX

The jointly-controlled company Petroflex sponsors PETROS and PREVINOR. PETROS is a defined-benefit plan, while PREVINOR is a defined-contribution and defined-benefit plan, the latter offered to three employees. Up to December 31, 2006, Petroflex has not been required to supplement the technical reserves to eliminate any plan gap.

In accordance with CVM Deliberation 371/2000, which approved NPC 26 of IBRACON - "Accounting for Employee Benefits", Petroflex carried out the actuarial valuation of the plan, with the following results:

	2006	2005
Fair value of plan assets	579,546	489,717
Present value of actuarial obligations	512,479	458,028
Fair value of assets in excess of the present value of actuarial obligations	**67,067**	**31,689**
Unrecognized actuarial gains	82,195	53,936
Net actuarial liabilities	**(15,128)**	**(22,247)**

29 Raw Material Purchase Commitments

The Company has contracts for consumption of electric energy for its industrial plants located in the States of Alagoas, Bahia and Rio Grande do Sul. The minimum annual commitment for consumption under these four-year contracts amounts to R$ 102,340.

The Company acquires from Copesul ethylene and propylene for its units at the Southern Petrochemical Complex, under a contract that expires in 2014. The minimum annual purchase commitment corresponds to 268,200 metric tons of ethylene and 262,200 metric tons of propylene. Based upon the market prices at December 31, 2006, this commitment corresponds to R$ 1,262,401 (unaudited). If the Company does not acquire the minimum volume, it must pay 40% of the current price of the amount not purchased. Based on 40% of prices charged as of December 31, 2006, the amount would be equal to R$ 504,960 (unaudited).

Braskem purchases naphtha under contracts establishing a minimum annual purchase volume equal to R$ 5,752,598 (unaudited), based on market prices as of December 31, 2006.

Attachment I

Supplementary Information – Statement of Cash Flows

Years Ended December 31

In thousands of reais

	Parent company		Consolidated	
	2006	**2005**	**2006**	**2005**
Net income for the year	77,753	685,775	101,349	625,837
Adjustment to reconcile net income:				
Depreciation, amortization and depletion	865,255	766,340	962,399	841,493
Amortization of goodwill (negative goodwill), net	61,648	385,717	57,758	152,539
Equity in the results of investees	(172,783)	(222,129)	(801)	(1,287)
Reversal of provision for losses on investments	(6,469)	(280,702)	-	-
Tax incentives	-	-	(20,504)	(39,225)
Exchange variation on investments	(2,709)	(21,341)	1,423	(3,629)
Gains (losses) on interest in investments and other	(1,092)	2,293	(11,721)	2,188
Gains (losses) on permanent assets disposal	86	(720)	1,420	2,224
Interest and monetary and exchange variations, net	485,328	374,670	311,557	411,678
Minority interests	-	-	1,593	(54,068)
Recognition of tax credits, net	(94,352)	-	(94,491)	-
Deferred income tax and social contribution	(99,520)	23,687	(100,906)	29,641
Assignment of right to use	-	(58,240)	-	(3,640)
Other	2,778	(31,828)	5,603	(27,136)
	1,115,923	**1,623,522**	**1,214,679**	**1,936,615**
Efffect of merger on cash of subsidiaries	147,698	2	8,751	4
Financial effects on cash	290,536	198,867	203,453	156,199
Cash generation before changes in operating working capital	**1,554,157**	**1,822,391**	**1,426,883**	**2,092,818**
Changes in operating working capital				
Marketable securities	(348,913)	(611,203)	(347,091)	(82,127)
Trade accounts receivable	125,468	273,356	53,858	161,709
Inventories	(122,607)	(28,980)	(148,185)	(51,533)
Taxes recoverable	(386,594)	(88,431)	(462,545)	(130,282)
Prepaid expenses	(56,992)	15,857	(56,683)	15,998
Dividends received	175,970	385,984	2,000	2,000
Other accounts receivable	(13,968)	(23,957)	(34,625)	(30,113)
Suppliers	355,115	248,711	415,044	485,080
Taxes and contributions	(58,283)	(22,071)	(66,463)	(79,328)
Tax incentives	11,829	52,039	32,430	91,178
Advances from customers	(23,301)	18,343	(24,420)	(559)
Other accounts payable	127,558	(32,130)	133,347	(52,482)
Generation of cash from operations before financial effects	1,339,439	2,009,909	923,550	2,422,359
Exclusion of financial effects on cash	(290,536)	(198,867)	(203,453)	(156,199)
Generation of accounting cash from operations	1,048,903	1,811,042	720,097	2,266,160

(continued)	Parent company		Consolidated	
	2006	**2005**	**2006**	**2005**
Proceeds from the sale of investments	877	1,787	877	1,787
Additions to investments	(262,859)	(155,577)	(222,745)	(33,981)
Additions to property, plant, equipment and intangible assets	(808,260)	(820,306)	(953,003)	(930,155)
Additions to deferred charges	(35,214)	(82,477)	(40,283)	(87,589)
Cash used for investments	(1,105,456)	(1,056,573)	(1,215,154)	(1,049,938)
Short-term debt				
Funds obtained	1,956,949	346,820	2,793,519	1,311,554
Repayment	(3,036,822)	(2,193,003)	(3,926,742)	(2,846,826)
Long-term debt				
Funds obtained	2,119,979	1,206,300	2,235,793	1,624,739
Repayment	(619,654)	-	(659,063)	(617,228)
Related parties				
Funds obtained	45,985	841,883	229	201
Repayment	(230,223)	(848,310)	(4,109)	(124,654)
Dividends paid to stockholders and minority interests	(322,176)	(203,938)	(343,398)	(208,742)
Capital payment	-	-	5,381	2,531
Treasury stock	(192,650)	-	(192,650)	-
Other	-	-	(2,582)	(16,012)
Use of cash in financing	(278,612)	(850,248)	(93,622)	(874,437)
Generation (use) of cash and cash equivalents	(335,165)	(95,779)	(588,679)	341,785
Represented by				
Cash and cash equivalents, beginning of year	1,461,090	1,556,869	2,135,740	1,793,955
Cash and cash equivalents, end of year	1,125,925	1,461,090	1,547,061	2,135,740
Generation (use) of cash and cash equivalents	(335,165)	(95,779)	(588,679)	341,785

This statement was prepared in accordance with the criteria described in Accounting Standards and Procedures – NPC 20 – Statement of Cash Flow, issued by IBRACON – Instituto dos Auditores Independentes do Brasil (Brazilian Institute of Independent Auditors).

Main transactions not impacting cash

The following transactions with no impact on cash were excluded from the Statements of cash flows:

- Issue of Company shares and use of treasury share to acquire minority interests in its subsidiaries (Note 1(c));
- Capitalization of investment with assignment of right to use (Note 1(c));
- Acquisition of Politeno shares to be settled in November 2007 (Note 1 (c)).

Attachment II

Supplementary Information – Statement of Value Added

Years Ended December 31

In thousands of reais

	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
1 – Revenues	**14,321,757**	**15,051,272**	**16,653,876**	**16,936,958**
1.1 Sale of goods, products and services	14,212,653	14,994,236	16,510,672	16,922,683
1.2 Allowance for doubtful debts	(30,529)	(26,744)	(50,678)	(32,276)
1.3 Recovery of taxes	125,753	655	125,890	969
1.4 Other operating income, net	6,132	107,990	61,007	70,738
1.5 Other non-operating income (expenses), net	7,748	(24,865)	6,985	(25,156)
2 – Inputs acquired from third parties	**(11,859,201)**	**(11,128,811)**	**(13,908,845)**	**(12,099,568)**
2.1 Raw materials used	(10,833,867)	(10,028,518)	(12,628,277)	(10,779,920)
2.2 Cost of products resold	(22,633)	(69,808)	(17,270)	(21,075)
2.3 Materials, energy, third-party services and other	(1,002,701)	(1,030,485)	(1,263,298)	(1,298,573)
- Production	(327,061)	(396,755)	(442,603)	(533,238)
- Selling	(141,884)	(137,905)	(218,127)	(174,641)
- Administrative	(207,068)	(181,132)	(249,616)	(217,224)
- Freight expenses	(326,688)	(314,693)	(352,952)	(373,470)
3 – Gross value added	**2,462,556**	**3,922,461**	**2,745,031**	**4,837,390**
4 – Retentions	**(865,255)**	**(766,340)**	**(962,399)**	**(841,493)**
4.1 Depreciation, amortization and depletion	(865,255)	(766,340)	(962,399)	(841,493)
5 – Value added generated by the Company	**1,597,301**	**3,156,121**	**1,782,632**	**3,995,897**
6 – Value added received on transfer	**176,353**	**74,502**	**53,740**	**(139,575)**
6.1 Equity in the results	121,405	136,611	(28,897)	(109,821)
6.2 Financial income (expenses), net	54,948	(62,109)	82,637	(26,754)
7 – Total value added to be distributed	**1,773,654**	**3,230,623**	**1,836,372**	**3,856,322**

(continued)	Parent company		Consolidated	
	2006	(Reclassified) 2005	2006	(Reclassified) 2005
8 – Distribution of value added	**1,773,654**	**3,230,623**	**1,836,373**	**3,856,322**
8.1 Personnel and charges	413,882	442,096	517,885	544,541
Salaries and charges	318,497	335,122	406,933	419,469
Directors' fees	9,186	10,469	12,946	13,911
Other benefits	86,199	96,505	98,006	111,161
8.2 Taxes and contributions	432,878	1,521,669	176,377	2,006,106
Federal	475,488	1,260,685	535,988	1,612,866
State	(35,663)	305,611	(340,617)	472,200
Local	4,882	7,412	9,041	10,853
(-) Tax incentives	(11,829)	(52,039)	(28,035)	(89,813)
8.3 Interest and rental	837,312	529,044	1,011,135	646,208
Interest	725,175	465,945	897,228	581,165
Rental	112,137	63,099	113,907	65,043
8.4 Distributions to shareholders	36,933	325,743	36,933	325,743
Dividends proposed and interest on capital	36,933	325,743	36,933	325,743
8.5 Minority interests in retained earnings	-	-	1,593	(54,068)
8.6 Retained earnings for the year	52,649	412,071	92,450	387,792
Legal reserve	3,888	34,289	3,888	34,289
Retention of profits	36,932	325,743	60,527	265,805
Tax incentives	11,829	52,039	28,035	87,698

Corporate Information

Depository Banks

IN BRAZIL: **Banco Itaú**
707, Eng. Armando de Arruda Pereira Ave.
9th floor – Jabaquara – 04344-902
São Paulo, SP – Brazil
Phone: 55 11 5029 1518 – Fax: 55 11 5029 1260

ABROAD: **The Bank of New York**
P.O. Box 11258
Church Street Station
New York, NY 10286-1258
Phone: (toll free) 1-88-643-4269

NYSE Specialist

SIG Specialists, Inc.

Tickers (Stock Exchange Trade Codes)

IN BRAZIL: São Paulo Stock Exchange (Bovespa) and:
codes BRKM5, BRKM3, BRKM6

ABROAD: New York Stock Exchange (NYSE): BAK
Madrid Stock Exchange (Latibex): XBRK

Contacts

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Independent Auditors

PricewaterhouseCoopers

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Fax. (55 11) 3443-9017

Commercial Offices

Salvador - BA
3343, Tancredo Neves Ave., suite 301
Previnor Business Center, Tower A - Pituba
41820-021 - Salvador, BA - Brazil
PABX: (55 71) 3342-3088
Polyolefin Unit
Phone: (55 71) 3340-6522
Fax: (55 71) 3341-2860
Vynilic Unit
Phone: (55 71) 3340-6521
Fax: (55 71) 3341-2860

Rio de Janeiro
309, Presidente Vargas Ave. - 13th Floor
Downtown
20071-003 - Rio de Janeiro, RJ - Brazil
Phone: (55 21) 2216-1616
Fax: (55 21) 2216-1615

Florianópolis - SC
69, Luiz Sanches Bezerra da Trindade Street
- suites 101 and 102
Downtown
88015-160 – Florianópolis, SC - Brazil
Polyolefin Unit
Phone: (55 48) 3324 – 0900
Fax: (55 48) 3322-1169
Vynilic Unit
Phone: (55 48) 3225-6143
Fax: (55 48) 3322-1169

Porto Alegre - RS
75, Carlos Gomes Ave. - suite 601
Auxiliadora District
90480-003 - Porto Alegre, RS - Brazil
Phone: (55 51) 3379-0270
Fax: (55 51) 3379-0272

Resins Distribution Terminals

Contagem - MG
515, Estrela Polar Avenue - Part A
Riacho das Pedras Industrial District
32242-190 - Contagem, MG - Brazil
Phone: (55 31) 3352-1616
Fax: (55 31) 3352-1616

Araucária - PR
PR 423 Highway, Km 25 – Estação District
83705-000 - Araucária, PR - Brazil
Phone: (55 41) 3643-1744
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Cabo de Santo Agostinho - PE
Matriz Street, W/o Number - Part 4 - Pontezinha
54890-000 - Cabo de Santo Agostinho, PE - Brazil
Phone: (55 81) 3479-7210/7212
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Itapevi - SP
377, Nova São Paulo Street,
Warehouse 05 - A - Itaqui
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Paulínia - SP
419, Viena Ave. - Industrial District
13140-000 - Paulínia, SP - Brazil
Phone: (55 19) 3844-1562
Fax: (55 19) 3844-1531

Joinville - SC
2940, Santos Dumont Ave.- Building 1
Bom Retiro
89223-001 - Joinville, SC - Brazil
Phone: (55 47) 3473-1862
Fax: (55 47) 3473-1861

Caustic Soda Distribution Terminals
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General Gurjão Street, w/o nº - Cajú
20931-040 - Rio de Janeiro, RJ - Brazil
Phone: (55 21) 2580-5679
Fax: (55 21) 2580-1481

Imbituba - SC
Pres. Getúlio Vargas Ave. w/o nº
Imbituba Harbor Area
88780-000 - Imbituba, SC - Brazil
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Fax: (55 48) 3255-0259

São Luis - MA
Itaqui Harbor, w/o nº - Itaqui
65085-370 - São Luis, MA - Brazil
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Santos - SP
1055, Vereador Alfredo Neves Ave.
Parte Alemoa - 11095-510
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Fax: (55 13) 3299-8574

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Phone: (55 82) 3218-2100
Fax: (55 82) 3218-2248

Marechal Deodoro PVC
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Alagoas Chlor Chemical Pool
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Maceió Mining
2889, Marechal Cícero de
Goes Monteiro Ave.
Mutange - 57017-320
Maceió, AL - Brazil
Phone: (55 82) 3241-1015
Fax: (55 82) 3338-1468

Camaçari Caprolactam
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Phone: (55 71) 3632-4008
Fax: (55 71) 3632-1054

Camaçari Chloride – Soda
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Camaçari Petrochemical Pool
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Camaçari PVC
3342, Hidrogênio Street
Camaçari Petrochemical Pool
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Fax: (55 71) 3632-1667

São Paulo PVC
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Basic supplies

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Camaçari Petrochemical Pool
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Polyolefin

Camaçari Polyethylene 1
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Camaçari Petrochemical Pool
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Fax: (55 71) 3269-3819

Camaçari Polyethylene 2
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Camaçari Petrochemical Pool
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Fax: (55 51) 3457-5454

Triunfo Polypropylene
III Petrochemical Pool
Lot 5 - Oeste Road- Passo Raso
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Fax: (55 51) 3457-5454

Camaçari Polyethylene 3
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Basic Complex
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Warnings about estimates contained in this report

This annual report contains declarations of a prospective nature. Some of the questions related to explanations of the commercial operations and financial performance of our company include declarations, forecasts and estimates.

The declarations herein contained are of a hypothetical major, depending on future events and conditions and those that include words such as "expect", "predict", "intent", "plan", "believe", "estimated" and similar expressions, are declarations of future prospects. While we believe that such declarations about future prospects are based on reasonable assumptions, these declarations are subject to various risks and uncertainties and are made on the basis of the information that we have currently available.

Our estimates do not represent a guarantee of future performance - the actual results or events may be differing significantly from the expectations expressed in our estimates. With regard to forecasts of future financial results and other estimates, the effective results may turn out to be different due to the inherent uncertainty attached to any estimates, predictions and forecasts of future performance.

We do not undertake to publicly update any forecasts made, either in light of new information, future events, or other motive.

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