2007
ANNUAL REPORT

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Working to make life better

Braskem

Contents

A Brazilian company with global talent

Braskem's teams are committed to ensuring the sustainable growth of their businesses and creating value for all shareholders and stakeholders

Braskem is the number-one petrochemical company in Brazil and Latin America. In 2007, the Company became the third-largest producer of thermoplastic resins in the Americas by combining solid operational performance with highly important strategic moves for the consolidation of the industry in Brazil. The result has been the successful consolidation of nine companies over the course of the past five years. Since its inception the Company has reported average annual growth of 33% in net revenue and 29% in EBITDA.

With annual revenues of BRL 24 billion on pro forma consolidated basis, Braskem is present in over 40 countries through its exports, having set up its own distribution and technical assistance services in the Company's main strategic markets. Its 19 industrial units in Brazil, located in the states of Alagoas, Bahia, Rio Grande do Sul and São Paulo, produce over 10 million tons of petrochemicals and intermediate chemical products annually. There are nearly 5,000 members on Braskem's team.

Innovation and technology are major boosts for growth and value creation for the Company, which has the largest and most advanced R&D center in Latin America, a USD 150-million facility that has filed 180 patents in Brazil and other countries, including several in highly promising fields. One example is using nanotechnology to produce plastic resins, which improve the performance of existing products and introduce new applications, thereby enabling plastics to replace conventional materials. Another innovation is the development of green polymers made from renewable raw materials.

A publicly traded company, Braskem's shares are listed on the stock exchanges of São Paulo, New York and Madrid. It is controlled by the Odebrecht Group, one of Brazil's largest private-sector conglomerates, and has Petrobras, Latin America's leading energy company, as one of its major shareholders. Approximately 20,000 investors are part of Braskem's shareholder base.

A Brazilian company with global talent

Braskem S.A.

BRASKEM SHAREHOLDERS	PERCENTAGE OF COMMON SHARES	PERCENTAGE OF PREFERRED SHARES	TOTAL
Odebrecht Group	60.3	24.8	38.1
Petrobras Química S.A. – Petroquisa	30	19	23.1
BNDES	0	8.7	5.4
Other	8.3	46.9	32.4

Percentages at 06/ 30/2008, excluding shares in treasury

Industrial Units

Business Units

Braskem is organized as 4 business units:

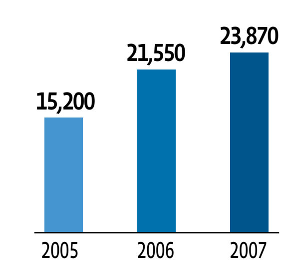
- Polyolefins
- Vinyls
- Basic Petrochemical Feedstocks
- International Business Development

Financial Indicators 2003-2007 (in millions of BRL)

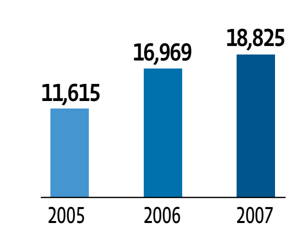
	2003	2004	2005	2006	2007	Change 2006/2007 (in %)
Gross Revenue	11,284	14,342	15,200	21,550	23,870	10.8
Net Revenue	9,191	11,044	11,615	16,969	18,825	10.9
EBITDA*	1,777	2,549	2,088	3,023	3,177	5.1
Net Financial Result	(656)	(1,181)	(652)	(1,013)	(284)	(72.0)
Net Income	215	691	680	117	568	385.5
Investments	176	374	717	1,056	1,344	27.3
Net Debt	6,258	3,868	3,404	7,278	6,123	(15.9)
Net Debt (millions of USD)	2,166	1,457	1,454	3,404	3,457	1.6
Net Debt/EBITDA	3.5	1.5	1.6	2.41	1.93	(19.9)

** Earnings Before Interest, Taxes, Depreciation and Amortization*

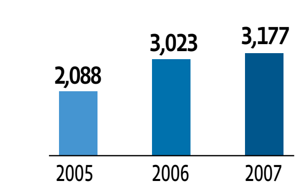
Gross Revenue (in millions of BRL)



Net Revenue (in millions of BRL)



EBITDA (in millions of BRL)



Production in 2007 (in thousands of tons)

	2006	2007	2007*
Polyethylene	971	1,167	1,650
Polypropylene	543	562	709
PVC	444	465	465
Liquid Caustic Soda	450	459	459
Ethylene	1,104	1,170	2,366
Propylene	520	562	1,184
BTX**	640	659	971

** including Copesul and Ipiranga*

*** BTX = Benzene, Toluene, Ortho-xylene and Para-xylene*

People (at Dec 21, 2007)

4,932 members

14,960 third parties

Message from the Management

In 2007, the petrochemical industry completed a key stage in its consolidation process in Brazil

Pedro Novis José Carlos Grubisich

The year 2007 represented an important benchmark for Braskem, and Brazilian petrochemicals in general. The Company made major advances in achieving its growth strategy, which is based on opportunities for consolidating the industry's supply chain and adding more production capacity to the domestic market, combined with the first steps taken in the process of international expansion by obtaining access to competitive sources of raw materials. As a result, Braskem has made consistent progress in the implementation of its strategic vision of becoming one of the world's top 10 petrochemical companies in terms of corporate value.

The industry in 2007 carried out a key stage in the process of consolidating petrochemicals in Brazil. Braskem teamed up with the Ultra Group and Petrobras to acquire the Ipiranga Group's petrochemical assets in the biggest operation ever carried out in the Brazilian capital market. One of the outcomes was that Braskem also assumed controlling interest in Copesul. By harmonizing the interests involved, capturing synergies and consolidating assets and talents, Braskem gained more scale and cash flow generation capacity, broadened its client base and established a better position in the market, while boosting competitiveness. The acquisition of Ipiranga also maintained the Company's financial solidity, which is reflected in the reduction of its net debt/EBITDA ratio.

The Brazilian Administrative Council for Economic Defense (CADE) is currently analyzing this acquisition, which has already received favorable reports from other antimonopoly watchdogs. This preliminary approval is consistent with statements and decisions issued previously in similar cases, which view the consolidation of the petrochemicals sector as a positive step in the effort to make the industry more competitive, since the most important market for petrochemicals is the global marketplace. Therefore, Braskem is all the more confident that the CADE will approve the merger. The process of consolidating corporate cultures, sharing best practices, and identifying complementary strengths, synergies and growth opportunities is already underway, and going as planned.

Taking another step in this direction, in late 2007 Braskem negotiated and agreed an increase in Petrobras's stake in the Company, cementing their strategic alliance. According to the terms of this investment agreement, Braskem will take over Petrobras's minority shares in Copesul, Ipiranga Petroquímica, Ipiranga Química and Petroquímica Paulínia, including an option to acquire assets in Petroquímica Triunfo. As a result, the Company has built up a corporate base that will leverage investments and enable Braskem to keep pace with the Brazilian market's growth while accelerating plans for global expansion.
Another important step in the Company's international growth involved laying the strategic, economic and financial foundations for two joint ventures with Petroquímica de Venezuela (Pequiven). Braskem and Venezuela's state petrochemical company are teaming up to build two major integrated industrial units in that country. They will offer unrivalled competitiveness in the Americas, comparable to the best petrochemical plants in the Middle East. This partnership guarantees that Braskem will have competitive access to raw materials, while establishing another springboard for entering the international marketplace.

Commitment to sustainable development

Braskem has established a business model with a strategic focus on thermoplastic resins – polyethylene, polypropylene and PVC – that is strongly integrated with the feedstock supply chain and committed to sustainable development. Innovation and technological autonomy are two important strategic directives for creating value and boosting profitability. All of the Company's work is done in partnership with clients and concentrates on meeting their needs and making them more competitive.

An important part of the activities of the Braskem teams dedicated to innovation and partners' research centers is focused on technological breakthrough projects, particularly the development of polymers made from renewable resources. This program includes a number of projects and has already yielded promising results with the green polyethylene. The first product of its kind to be made from 100% renewable materials, it has received an enthusiastic reception worldwide. Leading companies in the Brazilian and international markets active in key segments for this project are testing the new plastic resin's performance in a wide range of applications, using samples produced by the Braskem Technology and Innovation Center pilot plant, which produces up to 12 tons annually. The Company plans to build a full-fledged industrial unit with a 200,000-ton annual production capacity for green polyethylene that is expected to be operating by 2010.

Message from the Management

Braskem has transformed its talent for service and growth into results, while giving a practical demonstration of its commitment to the environment and the social responsibility inherent to its entrepreneurial activities

Green polyethylene has opened up fresh path to growth for Braskem. More than that, it has bolstered the Company's intangible assets in terms of credibility and an unwavering commitment to sustainability. Over the course of its first five years, Braskem has consistently improved its performance in the spheres of workplace safety, occupational hygiene, solid and liquid waste management, and efficient water and power consumption, in keeping with the finest standards on the international market.

Leadership and growth

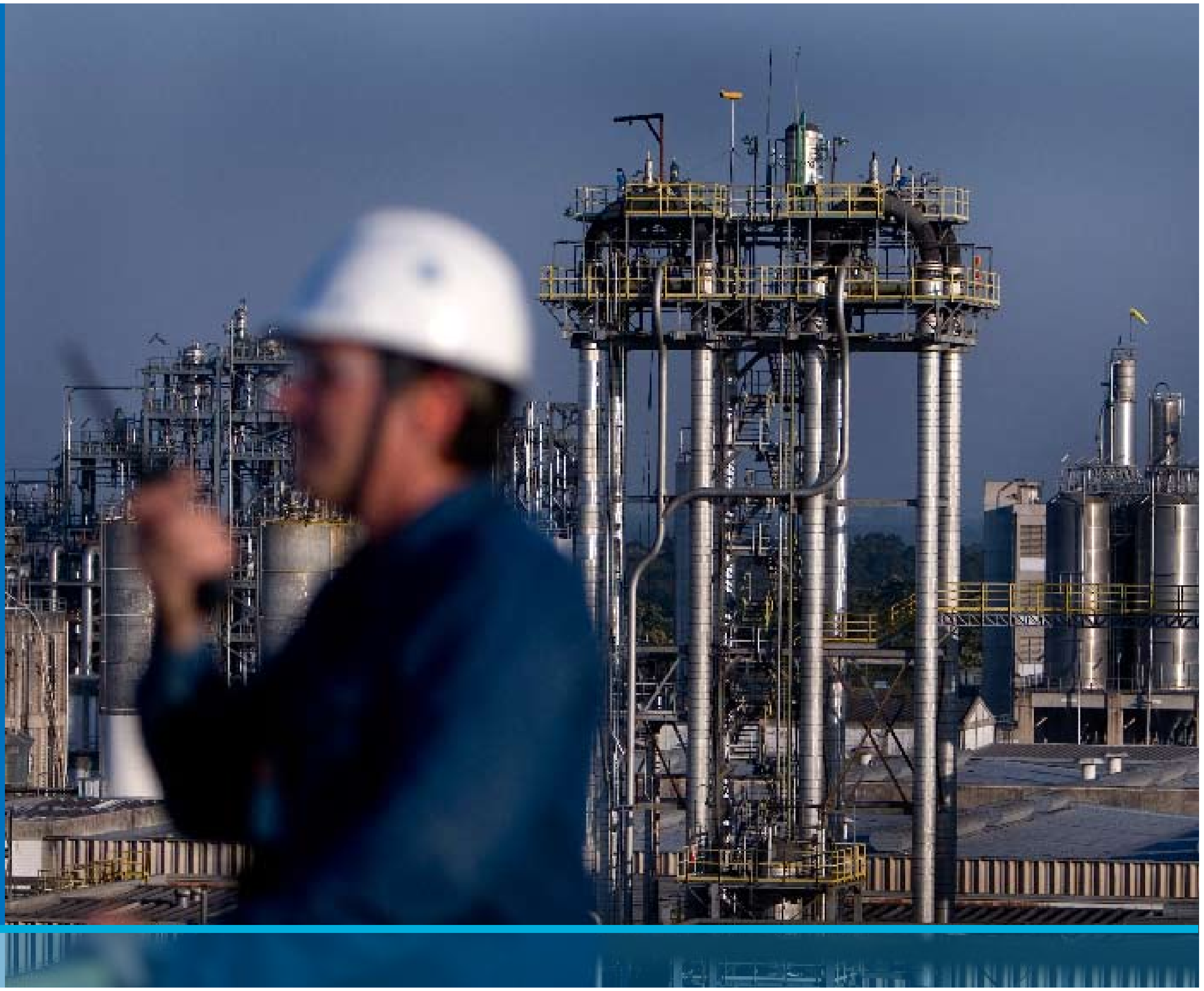
Despite the unfavorable situation in 2007, with crude oil breaking through the USD 100/barrel barrier, Braskem reported a pro forma consolidated profit (before minority shareholder interests) of roughly BRL 1 billion. Its industrial units broke production records, and the Company consolidated its leading position in virtually all markets, winning global recognition in the process. The conversion of debentures owned by the Odebrecht Group, its parent company, into Braskem shares confirmed market confidence in the Company's strategy and in the industry's growth. Braskem has transformed its talent for service and growth into solid results, while fulfilling its commitment to the environment and the social responsibilities inherent to business activities. The Company's stock prices still do not reflect all the strategic advances Braskem has made, which represents another opportunity for value creation that remains to be captured.

Shareholders, clients, suppliers, financial institutions and local communities have played a decisive role in the results achieved in 2007. Our dynamic team, which is highly qualified for achievement and disciplined in the execution of our projects, has made the difference and is proud of all it has accomplished. With a vision of the future, that team is aware of the responsibilities and challenges that lie ahead. Investments must be made to increase production capacity by expanding existing units and building new plants. Research and development of further innovations will intensify. We have reaffirmed our confidence in the continued, consistent and sustainable growth of the Brazilian economy and the international petrochemical industry. Braskem will carry on with its expansion process, putting its trust in people and in their capacity for growth, while maintaining its commitment to financial discipline, transparent management, and value creation.

Pedro Novis, Chairman of the Board of Directors of Braskem
José Carlos Grubisich, CEO of Braskem

High-quality results

Record production and sales in a busy year of acquisitions align positive figures with a growth strategy for the domestic and international markets



Highlights in 2007

After five years of hard work, Braskem has what it takes to fulfill its aspiration to become a global player in the petrochemical industry. Technology, productivity and innovation capacity have made its products highly competitive in Brazil and worldwide. The Company manages its assets and financial resources in accordance with best corporate governance practices, with a constant focus on creating value responsibly and with full transparency.

From the operations standpoint, in 2007 Braskem experienced excellent industrial and commercial performance, an improved mix of products and better sales volume. Some of the pro forma consolidated results, including data from Copesul and Ipiranga, are worthy of note:

• **Consolidated EBITDA totaled BRL 3.2 billion –** this represents 5% growth in comparison with 2006, which is incontestable proof of the success of programs aimed at improving operational performance in a highly challenging setting, with naphtha prices up 20% and the steady strengthening of the Brazilian real against the US dollar. The Company's profitability remained steady at around 17%. This percentage puts Braskem in second place among the best EBITDA margins in the global petrochemical industry.

• **Net profit, after minority shareholder interests, totaled BRL 577 million**, roughly four times more than the previous year, which led Braskem's Board of Directors to approve a dividend payment of BRL 278.5 million to shareholders. These results reflect the performance of the operational and financial areas.

• **Consistent improvement in Health, Safety and Environment (HSE) indicators.** To give just one example, because this subject is detailed in the Corporate Sustainability Report, the personal accident frequency rate with and without lost time at the industrial units fell by 41% against 2006.

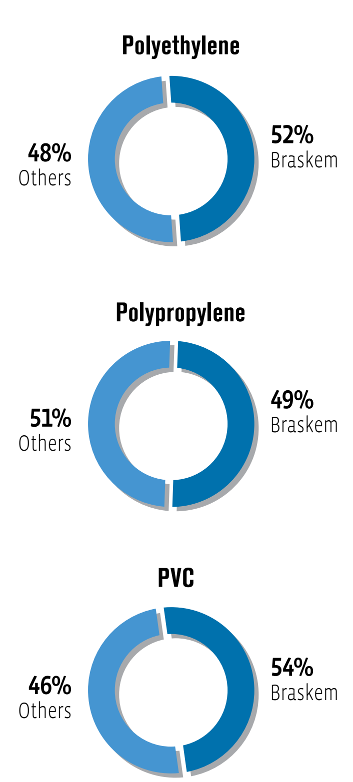
The implementation of phase two of the Formula Braskem program played a major role in achieving this performance and successfully consolidating new assets. This program is an integrated corporate management system that streamlines processes and provides a broad overview of the Company, making decisionmaking more efficient and Braskem more competitive. The Company invested BRL 39 million in the full implementation of stage two of Formula Braskem in 2007.

BRL 278.5 million

in dividends paid to shareholders in 2007

High-quality results

Braskem's market share in Brazil



Production and sales

In 2007, Braskem's total sales volume for thermoplastic resins grew by 6%, on average, compared with 2006, the highlight being a 16% increase in PVC sales. Braskem's average market share in Brazil for its portfolio of thermoplastic resins was approximately 52% (52% for polyethylene, 49% for polypropylene and 54% for PVC).

Gross revenue was BRL 23.9 billion, which represents an 11% growth against 2006. In US dollars, gross revenue reached USD 12.3 billion, up 24% compared with the USD 9.9 billion reported the previous year. Net revenue was BRL 18.8 billion, equivalent to USD 9.7 billion, up 24% in US dollars and 11% in Brazilian reais in comparison with 2006. The main reason for this improved performance was the 8% increase in plastic resin sales volume on the domestic market and the 10% rise in the price of thermoplastics on the world market, which had an impact on local prices. The Company reported EBITDA of BRL 3.2 billion or USD 1.6 billion – up 17% in US dollars and 5% in reais, compared with 2006.

Braskem is structured as a network of Business Units to streamline the decision-making process. Delegation of responsibility, in-depth knowledge of markets and closer proximity to clients make it easier for these Units to perceive clients' needs, seize opportunities and ensure efficient service. As a result, they are an efficient means of achieving operational excellence and creating value for shareholders, partners, clients and Brazilian society as a whole. Here are some of the most significant milestones in the operations of Braskem's Business Units in 2007:

Polyolefins Unit

The Business Unit responsible for Braskem's polyethylene and polypropylene businesses, the Polyolefins Unit has plants in Camaçari, Bahia, in northeastern Brazil, and Triunfo, in the southern state of Rio Grande do Sul. It broke its own production record by manufacturing 1,729,000 tons in 2007 – a 4% increase compared with the previous year. The market grew on the domestic and global fronts – particularly in terms of exports to Argentina, where Braskem has consolidated its presence through roughly 25% growth. The Unit launched 13 new products on the market and obtained approval of financing for R&D in the fields of nanocomposites and smart packaging from FINEP, the Brazilian federal agency that finances studies and research projects. The Unit is also getting ready to manufacture green polyethylene on a commercial scale. Produced in a pilot plant since the middle of 2007, this pioneering initiative put Braskem firmly in the spotlight at the K Fair, the world's largest international trade fair for plastics. As a result, the Company's name is now associated with the cutting edge in polymers based on renewable resources.

Basic Feedstocks Unit

Also based in Camaçari and Triunfo, the Basic Feedstock Unit's plants produce ethylene and propylene, the raw materials used to make plastic resins. They also make other basic petrochemical products. Their output meets all of Braskem's industrial needs, and the surplus is sold to clients in Brazil and exported to other countries. In 2007, this Unit's net revenue grew by 5%, reaching BRL 7,220 million. It also invested in increased productivity and operational reliability improvement, which cushioned the impact of higher oil prices. Exports totaled USD 611 million, up 20% against the previous year. Export volume grew by 17%.

68%

That is how much thermoplastic resin sales have grown in the Brazilian market, compared with 2006

High-quality results

Consumption of plastics has grown in all sectors of the Brazilian economy. Farmer Sergio Ronchi (shown in this photo with his son Marcos) uses plastics on his strawberry farm in Domingos Martins, in the state of Espírito Santo

Vinyls Unit

The Business Unit responsible for the Company's PVC, chlorine and soda businesses in Maceió and Marechal Deodoro, in the northeastern state of Alagoas, as well as Camaçari and São Paulo, the Vinyls Unit invested in retrofitting its plants to make them more productive and eco-friendly. At the same time, it cut back on energy consumption and the emission of gases into the atmosphere – results that reflect Braskem's strong commitment to sustainable development. The Unit's three PVC plants and two Chlor-Alkali plants reported record production levels in 2007. That same year, PVC production volume grew by 7% as a result of improved productivity at the industrial units.

Copesul, Ipiranga Química and Ipiranga Petroquímica

Copesul, Ipiranga Química and Ipiranga Petroquímica are listed separately from the Company's Business Units in this annual report. The maximized results of their industrial plants clearly attest to the success of this merger, which has made optimum use of the best practices, talents, R&D and portfolios of all the companies involved. Safety and environment indicators improved in 2007, and these companies all set records in production and sales on the domestic and international markets. Ipiranga's ten-year track record in Mercosur countries and Chile has further bolstered Braskem's qualifications in that region. To meet the international market's demand for biofuel additives, Copesul has converted its MTBE units, which now make ETBE from sugar ethanol – a process that is also being carried out at Camaçari. Copesul reached the benchmark of 98.6% use of its total industrial capacity in the course of 2007.

According to Abiquim data, thermoplastic resin consumption increased by 10% in 2007, and the Brazilian economy's growth outlook promises an even bigger demand

Outlook

Braskem's goal is to become one of the world's top ten petrochemical companies. To that end, it plans to maintain its current pace of growth while speeding up its international expansion and seeking access to competitive feedstocks and new markets. Brazilians currently use just 25 kg of plastics per person annually, while average per-capita annual consumption of plastics in developed countries is 100 kg. In the past ten years, domestic consumption of plastic resins grew nearly three times as much as Brazil's GDP. According to data from the Brazilian Association for the Chemicals Industry (Abiquim), consumption of thermoplastic resins in this country increased by 10% in 2007, and economic growth prospects indicate that this demand will strengthen even further. These projections are justified by the excellent performance of the civil construction, automotive and agribusiness sectors, as well as an increase in available income, which is fuelling consumption among lower-income groups in Brazil. Based on these figures, it can be estimated that 2008 will see a roughly two-digit increase in demand for thermoplastic resins. The Company will make capital investments of BRL 1.3 billion to keep pace with this projected growth.

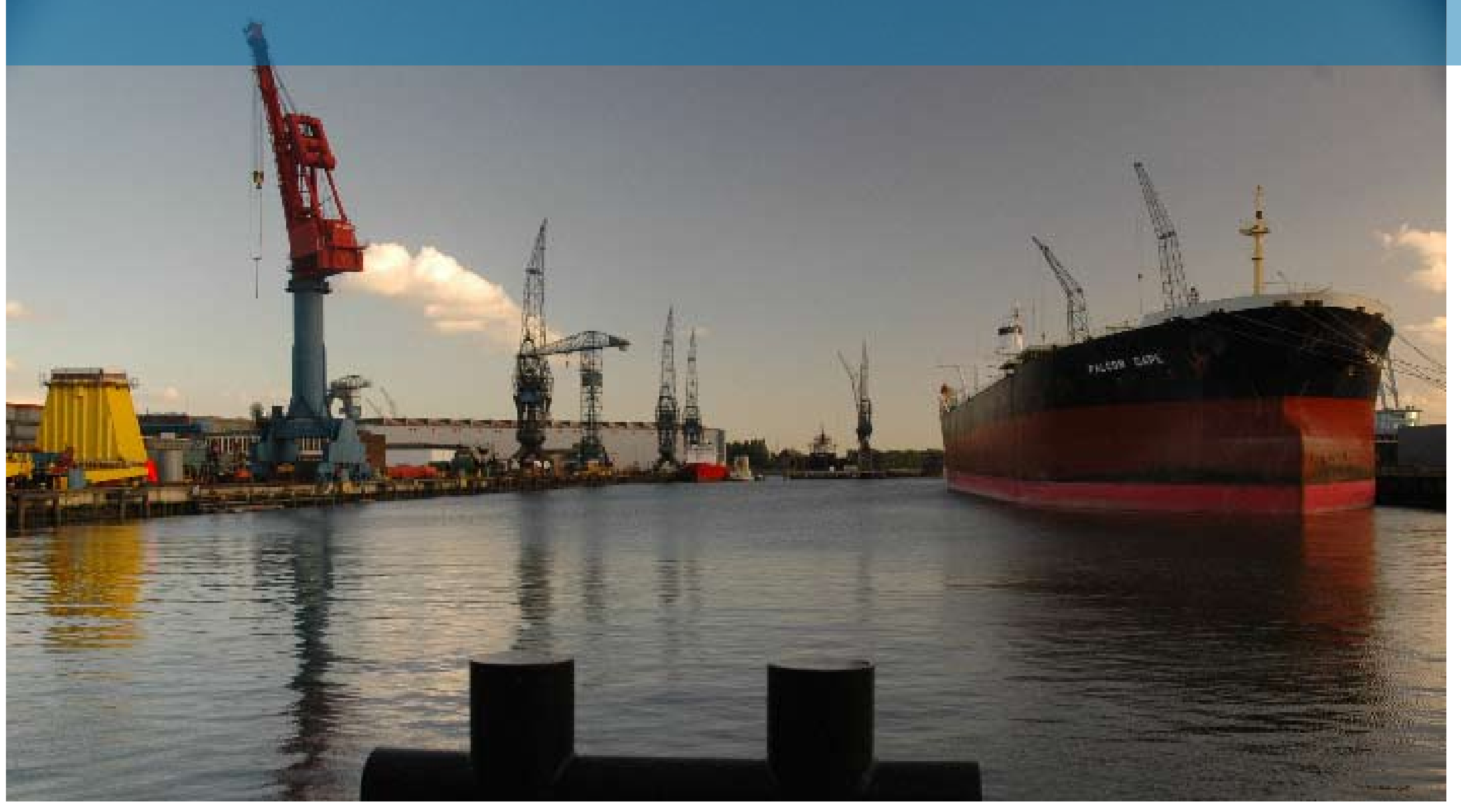
Braskem plans to double its thermoplastic resin production capacity in the next five years by implementing a number of capacity expansion projects that are either underway or on the drawing board. They include expanding the Company's polyethylene (PE) polypropylene (PP) units at the Triunfo Complex and the PVC unit in Alagoas, as well as two greenfield projects: construction of a sugar ethanol plant to produce the feedstock for green polyethylene, and a new polypropylene plant, which is expected to be operating by 2012.

In addition to meeting the needs of the Brazilian market, the Company is carrying on with its international expansion process, pursuing opportunities to continue growing and getting ever-better results. In 2008, Braskem will begin investing in the completion of feasibility studies as part of the agreements reached with Pequiven in Venezuela, which is not only the largest oil-producing nation in South America but the owner of major natural gas reserves and a springboard for exports to the Northern Hemisphere.

BRL1.3 billion

That is the amount Braskem plans to invest to keep pace with the growing demand for thermoplastics

Competitiveness in Brazil and worldwide



Growing and consolidating assets, R&D investments, productivity programs and international projects are making Braskem more competitive in the domestic and global markets

Streamlining efficiency, optimizing processes and identifying ways and means of reducing costs and increasing quality at all stages of operations are some of the consistent aims that have been part of Braskem's agenda since its inception in 2002. To achieve them, the Company requires production scale and operational reliability, which are essential requirements in a capital-intensive industry that is exposed to international competition. Braskem's constant goal is to achieve the competitiveness required to maintain an excellent position in the global marketplace. The initiatives designed to achieve this goal were particularly successful in 2007.

Boosting efficiency, optimizing processes and identifying ways of reducing costs and increasing quality at all stages of its operations have been an integral part of Braskem's agenda since its inception in 2002

Cementing a partnership

Braskem-Petrobras investment agreement transfers Petrobras's stakes in these petrochemical companies to Braskem

- **37.3% of the total equity of Companhia Petroquímica do Sul – Copesul (responsible for producing 34% of all ethylene consumed in Brazil);**
- **40% of the total equity of Ipiranga Química (a chemical products distributor) and Ipiranga Petroquímica (responsible for producing 16% of all plastic resins made in Brazil);**
- **40% of the total equity of Petroquímica Paulínia (the polypropylene plant that is Braskem's first greenfield project, due to go online in 2008);**
- **Furthermore, this agreement includes the option of acquiring 100% of the total equity of Petroquímica Triunfo.**

Consolidating assets

The dynamics of the global international petrochemical market require companies to have the capacity to make strong investments in growth, innovation and technological autonomy. Braskem has consolidated its assets with a view to improving business management and making the Company more competitive. The acquisition of assets and the resulting synergies, complementary technologies and Braskem's ensuing growth have energized R&D investments to develop products with more value added, while boosting competitiveness. In 2007, Braskem gained in scale, streamlined production and synergies, and added fresh talent to its teams.

Two watershed events were key to the process of consolidating the Brazilian petrochemical industry and Braskem's position as a company with the necessary cash-flow generating capacity to accelerate its plans for domestic growth and international expansion. Furthermore, they served to strengthen the Company's financial structure and market position in the Brazilian petrochemical sector. The first event was the acquisition of the Ipiranga Group's petrochemical assets, in partnership with the Ultra Group and Petrobras, announced in March 2007. Braskem took over the management of these assets on April 18, 2007. The second event was the celebration in November of an investment agreement with Petrobras and Petroquisa to increase their joint stake in Braskem and transfer considerable assets to the Company (see sidebar, left).

The acquisition of these petrochemical assets was made possible by financing obtained from three international banks on the most competitive terms for a bridge loan ever obtained by a Brazilian company: USD 1.2 billion have been placed at Braskem's disposal for a two-year period at a reduced cost. A refinancing schedule is included in the initial loan agreement, which will adapt the profile of annual due dates and ensure greater efficiency in the allocation of resources to operational working capital. As a result, three international credit rating agencies, Fitch, S&P and Moody's, have increased Braskem's rating to just one level below investment grade.

In another sign of the market's warm reception of the changes Braskem has spearheaded was the fact that 98.6% of minority shareholders participated in the public offering of shares in Copesul, which was more than the two-thirds needed to delist the company's capital and fully consolidate it under Braskem.

When charting the synergies and best practices of the merged assets, opportunities were identified to add value to the company with potential gains of approximately USD 1.1 billion in net present value. In regard to the Company's equity structure and degree of financial leveraging, the decision reached by Odebrecht, its parent company, to convert debentures into Braskem shares was particularly noteworthy. Carried out in late July 2007, this operation helped improve Braskem's equity structure, lower financial costs and reduce its net debt/EBITDA ratio.

The Petroquímica Paulínia plant was built in record time and within budget, which is another demonstration of the Braskem teams' fiscal discipline when carrying out their projects. By late 2007, the unit located in the interior of São Paulo State was already undergoing equipment testing. The prospects for the consumer market in southeastern Brazil were so positive that, before the unit went online, plans were already being made to increase its production capacity from 300,000 to 350,000 by 2010. As a result, Braskem has strengthened its position as Latin America's leading polypropylene producer and the number-two producer of that plastic resin in the Americas.

Consistent with the process that has been underway since its inception, in 2007 Braskem gained more muscle to compete in the international market. It created opportunities for economy of scale and cost reduction, while expanding its investments and results in the field of innovation.

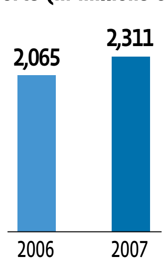
Research & Development

One of the positive – and immediate – outcomes of Braskem's acquisitions in 2007 was a 36% increase in the Company's overall R&D projects. It filed 21 new patents for products and processes during that period, and 18% of revenue obtained from plastic resin sales came from innovations that reached the market in the last three years.

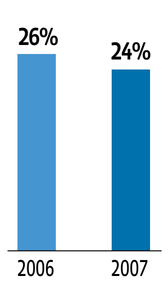
Over the course of 2007, the Company produced high-density green polyethylene at its pilot plant at the Technology and Innovation Center in Triunfo, Rio Grande do Sul, to produce samples and enable strategic clients to test this new product. The strong demand for plastics made from sugar ethanol shows that green polyethylene is giving the Company a competitive edge. One reason for the positive reception for this plastic resin is that the polymer does not require the conversion industry to invest in new equipment, because its physical properties are similar to those of conventional polyethylene. Another reason is that it offers significant environmental advantages, such as a 70% reduction in CO_2 emissions throughout the supply chain. The Company has become a benchmark for excellence in R&D for polymers made from renewable resources.

Accolades garnered through Braskem's pioneering development of polyethylene from a 100% internationally certified renewable source include Best Innovation in Bioplastics, a category of the Global Bioplastics Award bestowed by *European*

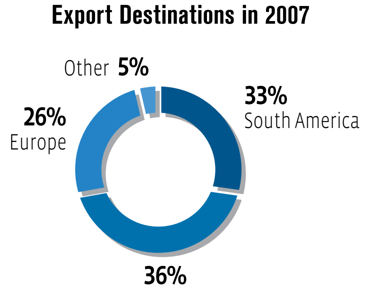
Exports (in millions of USD)



Breakdown of Exports (% of Net Revenue)



Export Destinations in 2007



Bioplastics News magazine. This is one of the most important international awards for petrochemicals technologies. Braskem was also hailed by *Exame* magazine, one of Brazil's most prestigious business publications, as a Model Company for Sustainability in that country.

Extended innovation is the guiding principle for the Company's R&D efforts, and Braskem looks for talent and expertise outside its own teams to get faster results and broaden the intake of new ideas, as well as reducing costs. Researchers do their work at the Braskem Technology and Innovation Centers, as well as working in partnership with universities and other institutions in Brazil and abroad. In 2007, the Company's labs conducted 51,000 tests for their clients – 13% more than in 2006. Debates held at 20 universities to explore the frontiers of the future have resulted in 50 innovative ideas that could be implemented by 2010.

R&D for products made from renewable raw materials is one of the main targets of Braskem's investments in innovation. Another, which also adds value to the Company's products, is nanotechnology. The Vinyls Unit alone, whose core business and focus is PVC, has filed three new patents involving nanocomposites with development prospects that have resulted in commercial products that will be launched on the market in 2008.

A new application that Braskem's teams have developed for UTEC® fiber will also be on the market in 2008. Textiles made from this ultra-high molecular weight polyethylene or UHMWPE fiber offer high abrasion resistance and can be used as liners for truck beds, industrial automation equipment and sea defenses. They are also useful for armoring vehicles and individual protection equipment. A high-value-added product, UTEC® is the only one of its kind in the Brazilian market.

Bound for global expansion

When it comes to internationalization, Braskem is working on two fronts at once. One is the export market, and the other is seeking access to competitive sources of raw materials.

Braskem exports its products to over 40 countries. In 2007, exports grew by 12%, totaling USD 2.3 billion. That amount corresponds to 24% of the Company's Net Revenue for the year, including results obtained through Copesul and Ipiranga Petroquímica. There are several reasons for this excellent performance. Prices rose on the world market, and the Company is reaping the fruits of recent investments in in-house distribution strategies and business offices to gain a better understanding of local markets, such as Europe and Argentina. The share of value-added products in the Company's exports has also grown. One example is ETBE, a biofuel additive made from sugar ethanol – a renewable feedstock. Because this eco-friendly product helps reduce the greenhouse gases that cause global warming, it is well received by the international market. The first shipment of 11,000 tons of ETBE set sail for Europe in October.

Competitiveness in Brazil and worldwide

Braskem's standards of competitiveness include global scale, cutting-edge technology, access to raw materials on highly competitive conditions, and corporate sustainability. In this context, one of the most promising fronts is international expansion. To achieve this aim, the Company has formed joint ventures with Pequiven to carry out two integrated projects that will make polypropylene and polyethylene at the Jose Olefins Complex in Anzoátegui, Venezuela. Once these plans come to fruition, they will involve the biggest investment in petrochemical units in South America, as well as the biggest ever made by a Brazilian company to build factories outside its home country. Braskem maintains a project development base in Venezuela, staffed by a team of experts.

The joint venture responsible for the polypropylene unit is Polipropileno del Sur – Propilsur. Its projected annual capacity of 450,000 tons represents a 40% increase in Braskem's current polypropylene production. The other joint venture, Polietilenos de America – Polimerica, will boost the Company's polyethylene production by 50%. In 2008, Braskem and Pequiven will work on the detailed engineering and project financing for the plants, with the help of multilateral loan agencies, export credit agencies, and private-sector and development banks.

Braskem also made other moves outside Brazil in 2007. The Company began talks to reach an understanding aimed at developing an integrated polyethylene project in Peru, a country that owns major natural gas reserves. This project, which will have an annual production capacity of over 700,000 tons, is being developed through an alliance with Petrobras and PetroPerú.

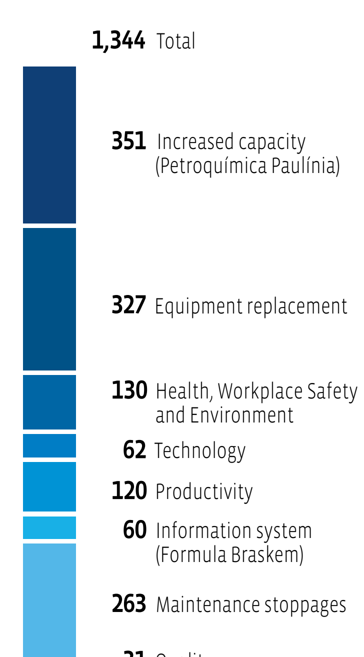
Top photo, the Port of Rotterdam, in the Netherlands, the site of Braskem's European HQ; above, Braskem members in Argentina

Corporate Responsibility

Corporate governance, valuing talent, pursuing excellence in the workplace and respecting its target audiences are qualities that set Braskem apart and have a positive impact on its results

Corporate Responsibility

Investments in 2007 (in millions of BRL)



Corporate governance

Ethics, full disclosure and transparency are values that permeate the Company's culture and ensure the creation of value and the sustainability of the business for its shareholders, client and suppliers. The Board of Directors and Fiscal Council have broad powers. in accordance with the terms of the Sarbanes-Oxley Act. Support committees gather information and produce analytical reports on finances and investments, strategies and communications, culture and people to enable the Board of Directors to make well-grounded decisions in good time.

In addition to its annual financial statements, Braskem also publishes quarterly reports on results, including a situational analysis, and each report involves meetings with market analysts and investors. This way, the Company keeps its channels of communication open to ensure that all its stakeholders are up to speed and well informed about its operations, as well as demonstrating consistency between the strategy announced and the steps taken to implement that strategy.

Braskem's relationship with the market has received positive recognition.

Valuing People

People and sustainability are the heart and soul of Braskem's strategy, which means that we will continue emphasizing our leaders' responsibility for identifying, including and grooming fresh talent, thereby bringing in the expertise that is essential to the Company's future growth.

Spearheading the consolidation of the petrochemical industry has led Braskem to grow quickly, both in terms of installed capacity and the size of its teams. As a result of the acquisition of Copesul and Ipiranga's petrochemical assets, joint teams from these companies and Braskem began identifying and sharing their best practices in early 2007.

The behavior of Braskem's members is guided by the principles and concepts of the Odebrecht Entrepreneurial Technology, whose daily application results in unity, consistency and cooperation among people. These principles and concepts include confidence in people, planned delegation, decentralized operations and results sharing. This is how the Company ensures that it can always count on having highly qualified teams that get the best results, while consistently grooming future leaders to ensure the sustainability of its businesses.

Valuing ongoing on-the-job learning – education through work – is another central pillar of Braskem's corporate culture. As a result, all Company members have access to a range of initiatives and programs focused on their professional and personal development. In this regard, the highlights include the Program for Developing Expertise, which covers specific subjects and areas (Sales, Supply and Logistics, Processes, etc.), the Program for Developing Leaders (PDL) and the Braskem MBA, which have been developed in partnership with universities that are benchmarks for quality education, and are designed in the context of the petrochemical industry's business environment. Another important initiative is the Program for Developing Entrepreneurs (PDE), which has a strong cultural and practical foundation, in addition to providing participants an opportunity to hone their business skills by coming into contact with several generations of Odebrecht entrepreneurs.

1,500

candidates per vacancy

for trainee positions offered by Braskem in 2007

Attracting and grooming young talent is another priority for the Company, which maintains Trainee and Internship programs for that purpose. Focused on college students and recent graduates, they are among the most sought-after programs of their kind in the Brazilian market. In 2007, the strong interest in the trainee program was reflected by the ratio of candidates to vacancies: 1,500 to 1. While these programs are carried out, the young participants are mentored by leaders and receive guidance when researching course completion projects on subjects of interest to the company.

Another educational program for new members is the Introduction to the Odebrecht Culture, which is essential to laying solid foundations for implementing the Company's plans for growth and international expansion.

The Braskem Highlight Awards were held for the first time in 2007 with a view to encouraging members to share their best practices with the other Units as a means of achieving business excellence. The aim of this initiative is to reward members by valuing their knowledge and ensuring that this intangible asset is preserved and disseminated throughout the Odebrecht Group. During its first edition, the award received 162 entries.

One measure of the satisfaction of Braskem's teams is the fact that the Company has ranked among the best Brazilian companies to work for and the best companies for executives for three consecutive years. Developed and published by *Exame* and *Você S.A.* magazines, these rankings take into consideration the assessments of members of the companies surveyed.

Social responsibility

Braskem's social and cultural actions will be discussed in greater depth in our 2007 Corporate Sustainability Report. Suffice it to say that Braskem supports and carries out initiatives focused primarily on environmental education, social inclusion and cultural incentives – fields of action listed as priorities in the Company's Social Responsibility Policy.

Market Relations - Awards received by Braskem in 2007:

- **First Prize in *Buen Gobierno Corporativo*** (Good Corporate Governance), bestowed at the 9th Latibex Forum, for transparency in market operations and accuracy of published information.
- **The Transparency Trophy**, awarded by the National Association of Finance, Administration and Accounting Executives (ANEFAC) to the publicly traded and private companies with the best financial statements in Brazil.
- ***The Most Shareholder-Friendly Company*** in the Latin American Chemicals and Oil & Gas industry, according to a world-wide survey of investors and sell-side analysts conducted by ***Institutional Investor Magazine***.
- Qualifying to be listed on the Corporate Sustainability Index (ISE) by Bovespa, São Paulo's stock exchange. The ISE is a portfolio of shares in companies with outstanding practices in social and environmental responsibility and corporate governance. In 2007, 32 companies qualified to join that index. This is the third consecutive year that Braskem has belonged to that select group.

Sustainability-oriented management

Braskem's core values include health, safety and environmental protection

Health, Safety and Environment

Valuing and caring for people goes beyond ensuring their education on the job during a specific job or task, to include educating them "for" work, which means developed their expertise through training and access to fresh knowledge. Education for work programs include measures aimed at improving working conditions for members and contractors. Health, safety and environmental protection are core values for Braskem. Along these lines, the Company has developed the Excellence in HSE – Health, Safety and Environment Program, or SEMPRE (the acronym means "always" in Portuguese), which aims to use the best management practices and strategies to ensure excellent performance and prevent any kind of harm or damage to people, assets or the environment. These initiatives include preventive practices, risk minimization, investments in technology and technical training for people, as well as the adoption of international norms and standards for performance. Engaging in behavioral dialogue on HSE and valuing members who stand out for exemplary behavior are some of the means used to achieve this end. The Company invested BRL 130 million in these areas in 2007.

Another initiative, the Quality of Life in the Workplace Process (PQVT), aims to ensure people's quality of life on the job by taking preventive action to protect their health and individual and collective well-being. This program is based on four pillars: biological (physical health), behavioral (mental health), social (relationships) and organizational (teamwork on the job). To assess the effectiveness of this process, the Company has developed indicators and programs to monitor and improve on each of these four pillars. The highlights of the excellent results reported in 2007 included zero occupational illness cases.

Focus on industrial units' ecoefficiency

Braskem acts responsibly with regard to the environment. It invests in retrofitting and upgrading plants and introducing new technologies to ensure that its plants consume fewer natural resources (such as water and power) and produce less waste. As a result of this strategy, all Braskem industrial units' performance in 2007 confirmed the steady improvements made since 2002. Across the board, their ecoefficiency indicators showed results equal to or better than those achieved in 2006. On another front, the Company is also committed to environmental education and awareness-raising initiatives in its local communities.

The Company's initiatives in the realm of sustainable development are discussed in more detail in Braskem's 2007 Corporate Sustainability Report.

The results can be gauged by the following safety and environmental performance indicators:

- **a 41% reduction in lost-time and non-lost-time workplace accidents in 2007;**
- **minimum wastewater production, which was reduced by 7.2% compared with 2006;**
- **reduction in solid waste production, showing a 9% improvement in 2007, against 2006;**
- **stable water and power consumption indices.**

Executive Committee

1- José Carlos Grubisich Filho
President and CEO of Braskem since its inception in 2002, he is also Chairman of the Board of Copesul. Former President of Rhodia in Brazil and Latin America and Vice President of Rhodia Worldwide, as well as a member of its Executive Committee. He has a degree in Chemical Engineering from the Oswaldo Cruz School of Chemistry and is a graduate of the INSEAD Advanced Management Program in France.

2- Carlos José Fadigas de Souza Filho
Vice President for Finance and Investor Relations, and a Board Member of Copesul, Ipiranga Petroquímica and Ipiranga Química. Has held several posts at OPP and Trikem, two of the companies consolidated under Braskem. From 2002 to 2006, was Finance Director at Construtora Norberto Odebrecht S.A. He has a Business degree from Unifacs, and an MBA from the Institute for Management Development – IMD, Switzerland.

3- José Augusto Cardoso Mendes
The Braskem officer Responsible for the Planning, Organization and People Area. Previously held the same position at Odebrecht. Has also worked at McKinsey & Company and Diamond Cluster International Inc. He has a BSc and MSc in Metallurgical Engineering from the São Paulo Polytechnic.

4- Luis Fernando Sartini Felli
Vice President of the Vinyls Unit and Member of the Board of Cetrel. Joined Braskem in 2002 and was the Polyolefins Unit's Commercial Director until 2006. Previously worked as Marketing and Sales Director at FMC of Brazil and was the international business manager at the FMC Corporation in the United States. He has a degree in Agronomical Engineering from the University of São Paulo – ESALQ and an MBA from Columbia University, NY.

5- Luiz de Mendonça
Vice President of the Polyolefins Unit, Chairman of the Board of Ipiranga Química and a Board Member of Copesul and Petroquímica Paulínia SA. Worked for 15 years at Rhodia SA, where he was a director of the Latin American chemicals division and a vice president of the company in the United States. He has a degree in Production Engineering from the São Paulo University Polytechnic and an MBA from INSEAD, France.

6- Manoel Carnaúba Cortez
Vice President and CEO of the Basic Feedstocks Unit and President of the Association of Chemical and Petrochemical Products Manufacturers (SINPEQ) and Vice Chairman of the Camaçari Complex Industrial Development Committee (COFIC). Has held several posts at Braskem, including industrial director at the Vinyls Unit from 2003 to 2004, and industrial director of the Basic Feedstocks Unit from 2004 to 2007. He has a degree in Chemical Engineering from the Federal University at Bahia (UFBA) and an MBA from Getúlio Vargas University (FGV).

7- Mauricio Roberto de Carvalho Ferro
Vice President for Legal Affairs at Braskem, Vice Chairman of Ipiranga and a Member of the Board of Copesul. Previously worked as an attorney at a law firm, Carlos Eduardo Paladini Cardoso de Bulhões Pedreira, Bulhões Carvalho e Advogados Associados. He has a Law degree from the Pontifical Catholic University of Rio de Janeiro, and a Master's from the University of London and the London School of Economics.

8- Marcelo Lyra do Amaral
Responsible for Institutional Relations. Previously worked as Media director at the Bahia Communications Network in Bahia and as the Director for Affiliate Relations at the Globo TV network in São Paulo. He has a degree in Electrical/Electronic Engineering from the Federal University at Bahia (UFBA) and a graduate degree in Marketing from Unifacs.

9- Roberto Lopes Pontes Simões
Vice President for Corporate Competitiveness, Chairman of Ipiranga Petroquímica and Board Member of Copesul and Ipiranga Química. Responsible for Braskem's Vinyls Unit from 2004 to 2006. Previously President of the Internet Group and Opoortrans Concessão Metroviária. He has degrees in Mechanical Engineering from the Federal University at Bahia (UFBA) and Maintenance Engineering from CEMANT (a program offered by the Federal University at Bahia and Petrobras/Petroquisa).

10- Roberto Prisco Paraíso Ramos
Vice President for the International Business Development Unit, and a Board Member at Cetrel and Cinal. He has a degree in Mechanical Engineering from the Federal University at Rio de Janeiro, a graduate degree from the Harvard Business School's Management Development Program, and a Master's in Finance from the University of Leicester in the UK.

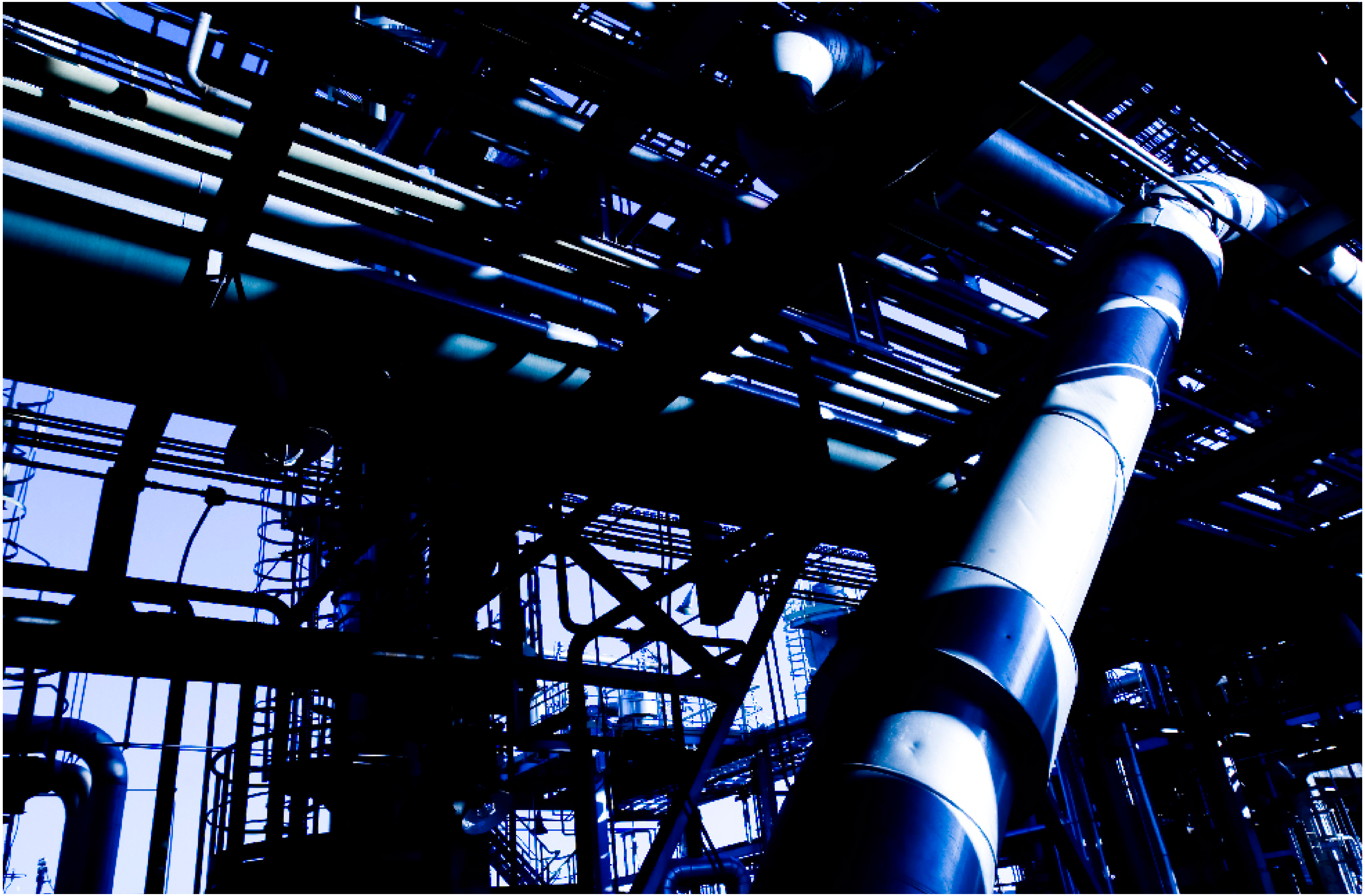
Board of Directors

Pedro Augusto R. Novis – Chairman
Álvaro Fernandes da Cunha – Vice Chairman

Alvaro Pereira Novis
Antonio Britto Filho
Francisco Teixeira de Sá
José de Freitas Mascarenhas
José Lima de Andrade Neto
José Mauro Mettrau Carneiro da Cunha
Luiz Fernando Cirne Lima
Newton Sergio de Souza

Fiscal Council

Ismael Campos de Abreu - Chairman
Janildo Dantas de Souza
Manoel Mota Fonseca
Marcos Antonio Silva Meneses
Walter Murilo Melo de Andrade



Financial Statements

1 – Operational Performance

1.1 – Industrial Performance

Braskem's operating strategy is based on optimal use of its assets, which is achieved by maintaining high capacity utilization rates at all of its industrial facilities, while prioritizing the sale of higher value-added products in more profitable markets and segments. This effort has enabled the Company to register high levels of operating reliability, as well as reduce volatility in the capacity utilization rates of its plants.

In 2007, this strategy, together with the higher operating efficiency at facilities that have completed the Braskem+ program, enabled the company to set new production volume records for all of its main products and to grow all of its principal product lines.

The table below shows the production increases in the Company's principal products:

PRODUCTION VOLUME

TOTAL (tons)	2007	2006	CHANGE%
Polyolefins			
PE's	1,649,546	1,606,403	3
PP	708,687	689,091	3
Total (PE's + PP)	**2,358,233**	**2,295,494**	**3**
Vynils			
PVC	465,422	444,056	5
Soda	458.557	449,847	2
Basic Petrochemicals			
Ethylene	2,366,149	2,303,984	3
Propylene	1,184,042	1,154,078	3
BTX*	970,529	943,763	3

**BTX - Benzene, Toluene, Orthoxylene and Paraxylene*

1.2 - Commercial Performance

In 2007, Braskem reaffirmed its focus on developing higher value-added products and solutions, differentiated from competing products and solutions by the Company's technology and innovation infrastructure.

In line with its historical tendency to track GDP growth, the Brazilian market for thermoplastic resins grew 10% in 2007, with 9% growth in PE, 10% in PP and 15% in PVC, driven by demand from the construction, automotive, packaging, consumer electronics, and agribusiness sectors, among others. The appreciation of the Real has been benefiting resins and manufactured products imports, which grew by 20% in 2007.

Given its business strategy and the economic scenario just described, the Company consolidated its leadership in the domestic market in 2007, achieving a 52% share of the resins market. Domestically, sales of thermoplastic resins (PE, PP and PVC) reached 2.1 million tons, an 8% increase over the 1.9 million tons sold in 2006. Most notable was the 16% growth in PVC sales. Braskem also exported 751,000 tons of resins, in line with the volume exported in 2006.

Since the acquisition of Politeno in April 2006 and more recently with the consolidation of the Copesul and Ipiranga Petroquímica assets, Braskem operations have fully integrated its second-generation (thermoplastic resins) and first-generation (basic petrochemicals) production. This level of integration has led to more reliable operations and consequently more profitable products.

PE and PVC production uses 100% of the ethylene produced internally. As of 2008, PP production will use as raw material propylene from refineries supplied by Petrobras, in addition to the propylene produced internally. Braskem, that sells in the domestic and export markets approximately 20% of its propylene production, has been decreasing its exports aiming at adding value to the propylene by expanding its PP production capacity.

The table below sets forth sales volume for both the domestic and foreign markets:

SALES VOLUME

TOTAL (tons)	2007	2006	CHANGE%
Polyolefins			
PE's	1,619,659	1,569,254	3
PP	715,945	679,332	5
Total (PE´s + PP)	**2,335,604**	**2,248,586**	**4**
Vynils			
PVC	503,952	432,754	16
Soda	452,752	427,942	6
Basic Petrochemicals			
Ethylene	501,728	461,549	9
Propylene	474,207	451,032	5
BTX*	910,349	827,471	10

**BTX - Benzene, Toluene, Orthoxylene and Paraxylene*

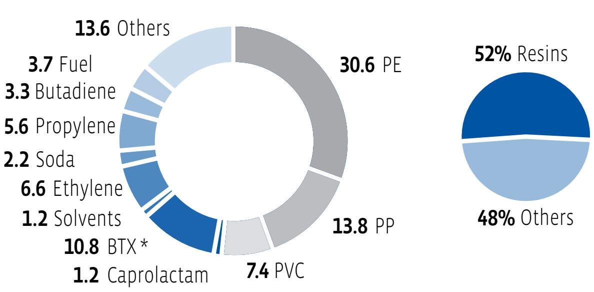
2. Financial Performance

2.1 - Revenue

Braskem's 2007 consolidated gross revenue for 2007 was R$ 23.9 billion, an 11% increase over net revenue of R$ 21.6 billion in 2006. In dollar terms, gross revenue was US$ 12.3 billion, an increase of 24% over dollar-denominated gross revenue of US$ 9.9 billion in 2006.

Similarly, Braskem's consolidated net revenue for 2007 was R$ 19 billion, an 11% increase from 2006 net revenue of R$ 17 billion. Dollar-denominated net revenue also increased 24% over the previous year. This result is explained by an 8% increase in domestic sales of resins, ethylene and propylene and a 10% improvement in the international price of resins, which was reflected in local prices as well. A 10% increase in sales of aromatics in the BTX (benzene, toluene and xylenes) category, along with more favorable international prices for those products, also contributed to revenue growth.

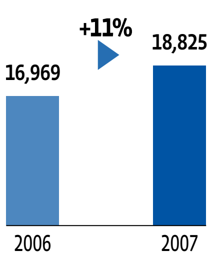
NET REVENUE BY PRODUCT[1]
2007 | %



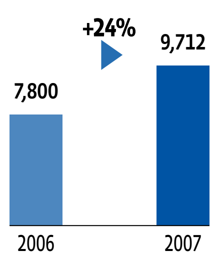
[1] *Not including condensate processing and sales by Ipiranga Química*
**BTX - Benzene, Toluene, Orthoxylene and Paraxylene*

Also in 2007, Copesul increased its condensate processing operations at the Ipiranga and Alberto Pasqualini (REFAP) refineries in order to improve its productivity and competitive position. These operations contributed R$ 932 million to net revenue during the year, up from R$ 165 million in 2006.

NET REVENUE
IN MILLIONS OF R$

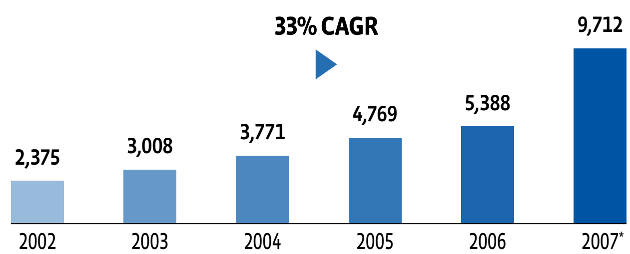


NET REVENUE
IN MILLIONS OF US$



Since its founding in 2002, Braskem's dollar-denominated net revenue has grown consistently at a compound annual growth rate (CAGR) of 33%. This steady growth stems from Braskem's active role in the consolidation of the Brazilian petrochemicals industry, as well as from improvements in prices, investments in increased productivity, and the Company's growing competitiveness and capacity, all of which have contributed to the scaling up of the Company and the value of its product portfolio.

NET REVENUE
IN MILLIONS OF US$



**Pro forma Braskem consolidated. Other periods with real data.*

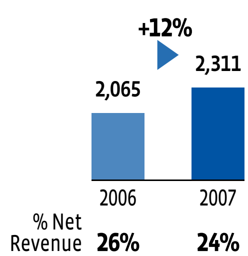
2.1.1 - Exports

Braskem regularly invests in initiatives to strengthen its presence in the international market. To this end, the Company has been building direct relationships with some of its customers since 2006 through proprietary distribution channels in Europe, the United States and Argentina – all markets the Company regards strategic. These investments have resulted in a better sales mix, with more high valued-added products sold at more favorable prices in these markets, especially PE and PP.

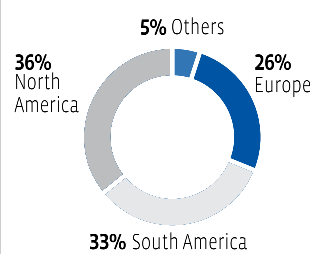
Exports reached 2.3 billion in 2007 (24% of total net revenue), compared with US$2.1 billion in 2006 (26% of total net revenue). Given that the volume of thermoplastic resins exported was essentially flat this year in comparison with 2006, this 12% growth in export revenue in dollar terms is principally attributable to favorable trends in the price of resins and to growth in the volume of BTX products exported, particularly benzene and paraxylenes.

As a direct result of the Company having established distribution operations outside of Brazil, Braskem has maintained

EXPORTS
IN MILLIONS OF US$



EXPORT DESTINATIONS
2007



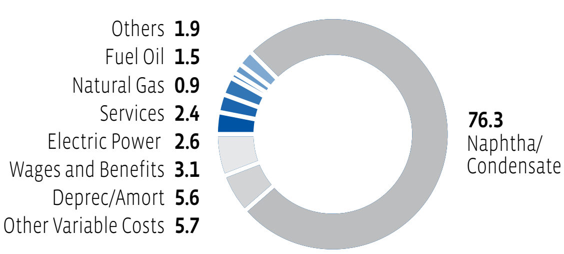
the high volume of its resin exports to South America while increasing its exports to Europe. In both these markets, the Company is selling more to end consumers at better prices. Resin exports to these two markets correspond to approximately 65% of Braskem's total exports. Exports to North America consist mainly of aromatics, especially benzene. .

2.2 – Costs of Goods Sold (COGS)

Braskem's cost of goods sold (COGS) for 2007 was R$ 15.2 billion, an 11% increase over COGS of R$ 13.7 billion recorded in 2006. Excluding costs related to Copesul condensate processing in the last two years, COGS increased 6%, mainly as result of sales growth and a 14% increase in the dollar cost of naphtha. The 10% appreciation of the Brazilian real in relation to the U.S. dollar during the year partially offset these increases.

The average Amsterdam-Rotterdam-Antwerp (ARA) price of naphtha in 2007 was US$ 676/ton, compared with US$ 565/ton in 2006, a year-on-year increase of 20%. Given that the Brazilian currency appreciated 10% in relation to the dollar during 2007, the ARA price increased 7% in Brazilian reais.

COGS 2007[1]
%



[1] *Not including condensate processing by Copesul and Ipiranga Química costs*

Braskem purchased 8,199 million tons of naphtha during 2007, of which 5,013 million (61%) were purchased from Petrobras, the Company's principal supplier of raw materials. The remaining 39% (3,186 million tons) the Company imported directly, mainly from North Africa and Argentina.

The Company's costs have been adversely impacted in the last two years by shortfalls and interruptions in the supply of natural gas to Camaçari. In 2007, higher energy costs driven by the use of fuel oil as a substitute for natural gas negatively impacted Braskem results by R$ 52 million.

Depreciation and amortization included in the calculation of COGS totaled R$ 785 million in 2007, in line with figures for 2006.

2.3 - Selling, General and Administrative Expenses (SG&A)

Braskem is highly focused on keeping its fixed costs and expenses within parameters that ensure its global competitiveness. To this end, the Company launched a program to reduce fixed costs and expenses at the start of 2Q07. Implementation of the program began in August and its results will be fully captured in 2008, along with the synergies expected to be captured from the consolidation of the Southern Petrochemical Complex.

General and administrative expenses totaled R$ 726 million in 2007, compared with R$ 692 million in 2006. This increase of nearly R$ 34 million was mainly due to expenditures related to the restructuring and consolidation transactions executed during the year.

Selling expenses for 2007 were R$ 585 million, an increase of $71 million over selling expenses in 2006. The increase was mainly due to an increase in total export volume, in particular basic petrochemicals during 2007.

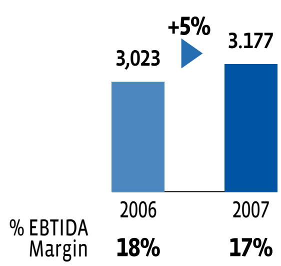
2.4 – EBITDA

Braskem recorded R$ 3.2 billion in consolidated EBITDA in 2007, an increase of 5% over 2006 EBITDA of R$3.0 billion. In dollar terms, 2007 EBITDA grew 17% over last year, reaching US$ 1.6 billion.

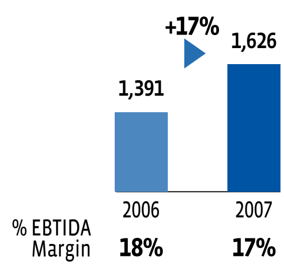
The principal factors contributing to this growth in EBITDA were (i) an increase in resin sales to the domestic market; (ii) an improvement in resin prices on the international market, reflected in domestic resin prices; and (iii) favorable prices and high export volumes for BTX aromatics. These factors were partially offset by naphtha prices that rose 14% in dollar terms, and by 10% average appreciation of the Brazilian real in relation to the U.S. dollar, given that 100% of revenues are linked to the U.S. dollar and nearly 80% of costs are accounted for in dollar terms.

EBITDA margin for 2007 was 16.8%, compared with an EBITDA margin of 17.8% in 2006. Excluding the effect of condensate processing, 2007 EBITDA margin was 17.7%, compared with 18% in 2006. This result illustrates the Company's discipline in managing its results despite considerable pressure on the cost of raw materials.

EBITDA
IN MILLIONS OF R$

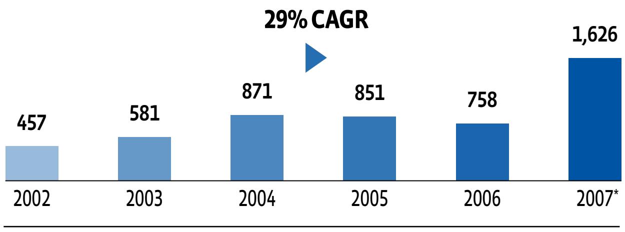


EBITDA
IN MILLIONS OF US$



Since the Company's creation in 2002, EBITDA has grown at a compound annual rate (CAGR) of 29%, comparable to the compound annual growth of its net revenue. This similarity between CAGR for net revenues and EBITDA reflects Braskem's ability to obtain results even under challenging conditions, such as unfavorable trends in the prices of raw materials (an increase of 200% since 2002) and a stronger Brazilian real (average appreciation against the dollar of 33% in the same period).

EBITDA
IN MILLIONS OF US$



Pro forma Braskem consolidated. Other periods with real data.

2.5 - Equity in Subsidiaries and Associated Companies

Results from investments calculated using the equity income method (BR GAAP) were negative in the amount of R$ 117 million in 2007, compared with a loss of R$ 39 million in 2006. This result essentially reflects the amortization of goodwill from investments in Ipiranga Química, Copesul and Petroflex. In 2006, adjustments to Copesul results, stemming from a reconciliation of accounting practices undertaken as part of the merger, had contributed positively to a reduction in the negative result.

During 2007, Braskem divested its equity positions in Petroflex, Rionil and Santeno Irrigações do Nordeste in order to concentrate on its core business. The Petroflex divestment is still underway.

2.6 - Net Financial Result

Braskem's net financial result for 2007 before the effects of exchange-rate and monetary fluctuations was a R$ 913 million loss. This result represents an improvement of 12% over the net financial result for 2006, which was a loss of R$ 1.034 billion.

This R$ 120 million reduction in the Company's financial loss is principally the result of a decline in interest and vendor expenses, deriving from (i) the capitalization of convertible debentures, (ii) a reduction in the cost of capital and (iii) early settlement of some of the more costly contracts. Braskem's indebtedness cost denominated in U.S. dollars decreased from 9.6% per year in December 2006 to 7.4% per year in December 2007.

Another positive development was the ongoing appreciation of the Brazilian real in relation to the U.S. dollar, which accelerated from 8.7% in 2006 to 17.1% in 2007. This exchange-rate variation, combined with increased exposure to debt denominated in foreign currencies, was mainly responsible for the increase of R$ 561 million in foreign-exchange gains this year as compared with last year.

Additional gains from monetary variations of R$ 47 million in 2007 were mainly attributable to the conversion into shares of a R$1.2 billion in debentures in July 2007 and a reduction in the SELIC rate from 2006 to 2007.

As a result of the effects discussed above, Braskem's consolidated net financial result for 2007 was a loss of R$ 284 million, a reduction of R$ 729 million in the R$ 1.013 billion loss recorded in 2006.

FINANCIAL RESULT SUMMARY
IN MILLIONS OF R$

	2007	2006
Financial Result excluding F/X and MV	(913)	(1,034)
Foreign Exchange and Monetary Variations:		
Foreign Exchange Variation (F/X)	800	239
Monetary Variation (MV)	(171)	(218)
Net Financial Result	**(284)**	**(1,013)**

2.7 – Net Income

Income before minority interests (which consist primarily of Petrobras' stake in the petrochemical assets of the Ipiranga Group) reached R$ 1 billion in 2007.

Braskem's net income after minority interests reached R$ 568 million in 2007, compared with net income of R$ 117 million in 2006. This result chiefly reflects improved operating and financial results in the period. Earnings per share grew dramatically year on year, from R$ 0.31 to R$ 1.26.

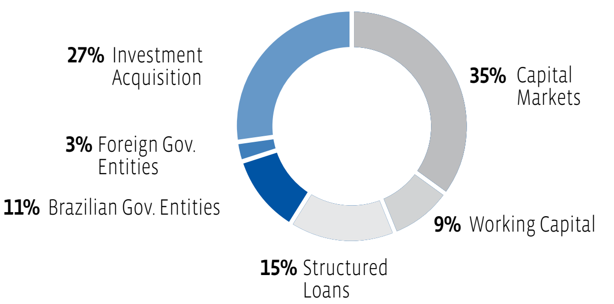
2.8 – Capital Structure, Liquidity and Credit Rating

In 2007, the Company guaranteed financing for the acquisition of the Ipiranga group's petrochemical assets and the delisting of Copesul by taking out a two-year bridge loan of US$ 1.2 billion at Libor + 35 basis points for the first year and Libor + 55 basis points for the second year. With this bridge loan, the Company's average loan period at year-end 2007 fell to 11 years, from 12 years as of year-end 2006.

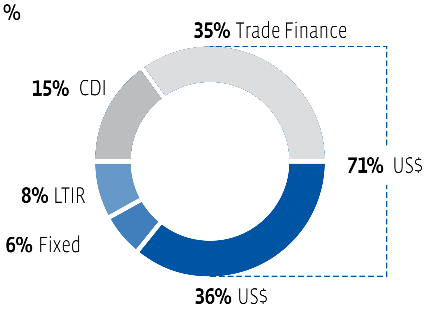
Braskem is now concentrating on refinancing this bridge-loan, which will reduce the amount of debt scheduled to mature in 2009 and increase the Company's average loan period. Refinancing this bridge loan should bring the Company's annual debt repayment profile back into line and guarantee a more efficient allocation of resources to working capital.

At year-end 2007, debt denominated in U.S. dollars corresponded to 71% of total debt, compared with 49% at year-end 2006. This change reflects a decrease in the Company's real-denominated debt through the conversion of debentures held by Odebrecht in July 2007, as well as an increase in U.S. dollar-denominated debt as a result of taking out the bridge loan.

GROSS DEBT BY CATEGORY
%

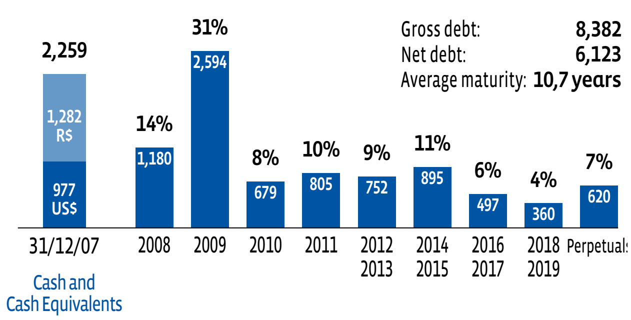


GROSS DEBT BY INDEX
%



The following chart shows the Company's amortization schedule as of December 31, 2007:

AMORTIZATION SCHEDULE
IN MILLIONS OF R$ | 12/31/2007

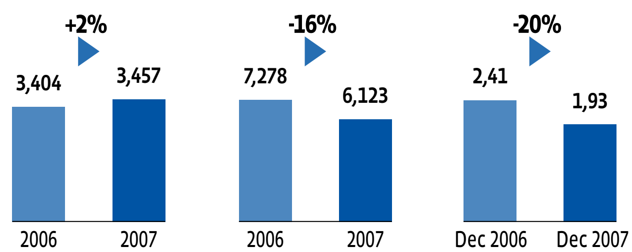


Net debt as of year-end 2007 was R$ 6.1 billion, compared with R$ 7.3 billion in net debt in December 2006, representing a 16% reduction in debt during the period. The conversion of R$ 1.2 billion in debentures was chiefly responsible for this deduction.

In U.S. dollar terms, Braskem's net debt grew from US$ 3.4 billion in 2006 to US$ 3.5 billion as of December 31, 2007. This increase, which contrasts with the decrease of net debt in Brazilian real terms, is explained by the 17% appreciation in the real versus the dollar in the period.

Braskem improved its financial leverage in 2007, as measured by the net debt/EBITDA ratio, which fell from 2.41 times in 2006 to 1.93 times as of December 2007. Once the acquisition of the Ipiranga group's petrochemical assets is concluded, with an estimated disbursement of R$ 633 million scheduled to happen in late February 2008, the Company's financial leverage, measured in terms of its net debt/EBITDA ratio, is expected to be approximately 2.2 times.

NET DEBT IN MILLIONS OF US$ | **NET DEBT** IN MILLIONS OF R$ | **NET DEBT/ EBITDA** X



Consolidation transactions completed during 2007 and related to the capitalization of the convertible debentures resulted in an improvement in the Company's capital structure and in financial indicators such as liquidity and indebtedness.

One visible effect of this improvement was a corresponding improvement in Braskem's credit rating, the upgrades in which during the year are shown below:

RATING - GLOBAL SCALE

	2007	2006
Fitch	BB+ Positive	BB+ Stable
S&P	BB+ Stable	BB Stable
Moody's	Ba1 Stable	–

For the first time ever, Moody's assigned a global risk rating of Ba1 to Braskem issues in both local and foreign currencies. Standard & Poor's upgraded the Company's global rating from BB with a stable outlook, to BB+ with a stable outlook for issues in both local and foreign currencies. Fitch Ratings also raised the Company's global risk rating from BB+ with a stable outlook to BB+ with a positive outlook for both local and foreign currencies.

With that, all three major ratings agencies now position Braskem just one notch below investment grade.

3. Effects of Acquisition of the Ipiranga Group's Petrochemical Assets

The progress Braskem made toward consolidating the Brazilian petrochemical industry in 2007 brought the Company significant benefits and strengthened its position as a global competitor capable of assuming new competitive challenges as it continues to globalize its business.

With respect to scale, the Company reached several important milestones this year, among them:

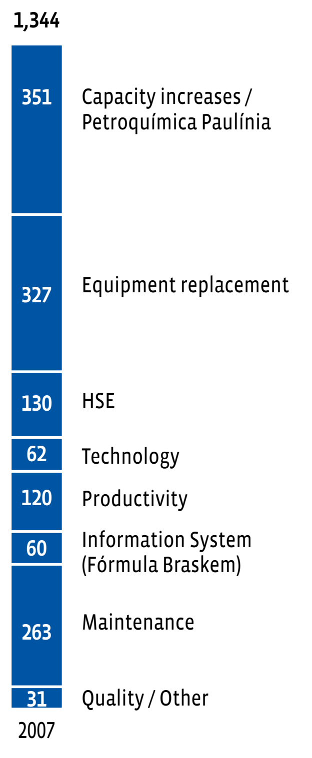
- Becoming the third-largest petrochemical company in the Americas by production capacity;
- Posting one of the best EBITDA margins in the world, second only to a competitor in the Middle East;
- Producing 100% of its thermoplastic resins from its own raw materials, increasing the integration and potential synergies of its assets;
- Growing gross revenue by R$ 8 billion and net revenue by R$ 6.6 billion;
- Increasing thermoplastic sales volume by 600,000 tons;
- Increasing EBITDA by R$ 1.4 billion;
- Improving profit margin on net revenue from 14% to 17%;
- Reducing its debt/EBITDA ratio from 2.4 times to less than 2 times.

Note that none of the progress measured so far reflects the effects of synergies worth US$ 1.1 billion in net present value that the Company will realize over the next two years, in areas ranging from operations to finance.

4. Capital Expenditure

Braskem's capital expenditures in 2007, not including capitalized interest, totaled R$ 1.3 billion compared to R$ 1 billion in 2006. These funds were invested in operations, the occupational health and safety and environmental area and information technology, and benefited all of the Company's business units. Braskem completed the 2nd stage of the integrated management system (Fórmula Braskem) in 2Q07, investing R$ 39 million in the project during the year.

INVESTMENTS
IN MILLIONS OF R$



The Company spent R$ 263 million on scheduled maintenance stoppages in 2007, in keeping with its goal of ensuring that all of its plants operate at high levels of reliability.

Of the R$ 351 million invested in increasing capacity during the year, R$ 302 million was invested in the construction of Petroquímica Paulínia (60% consolidation). Project costs are within the original budget and the plant is expected to start up on schedule in March 2008, demonstrating Braskem's efficiency in managing its expansion projects.

Besides these operational investments, Braskem also invested R$ 2.4 billion in the acquisition of the Ipiranga Group's petrochemical assets.

Independent Auditors' report

To
The Board of Director and Shareholders
Braskem S.A.
Camaçari - BA

1 We have examined the accompanying balance sheet of Braskem and the consolidated balance sheet of Braskem and its subsidiaries as of December 31, 2007, and the related statements of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of subsidiaries Copesul - Companhia Petroquímica do Sul and Ipiranga Química S.A. as of December 31, 2007 were examined by other independent auditors and our opinion with respect to the value of these investments and the results of these subsidiaries is based exclusively on the reports of these other auditors.

2 Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and that accounting systems and internal controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

3 In our opinion, and based on the reports of other independent auditors, the aforementioned financial statements present fairly, in all material respects, the financial position of Braskem S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2007, and the results of operations, the changes in shareholders' equity and the changes in financial position for the year then ended, in conformity with accounting practices adopted in Brazil.

4 As reported in Note 9 (b), the Company has accumulated ICMS credits from previous years, arising mainly from the differences between the tax rates applicable to purchases and products sold, domestic shipments that receive incentives with deferment of taxation, and exports. The realization of these tax credits depends on successfully implementing management's plans as described in this note to the accompanying financial statements. The financial statements as of December 31, 2007 do not include any adjustments related to the recovery of these tax credits, given the existing uncertainty.

5 As mentioned in Note 17 (c), in relation to the discussion with respect to the constitutionality of Law 7689/88, the Company and its merged companies OPP Química, Trikem and Polialden filed a civil action for the nonpayment of the Social Contribution on Net Income (CSL). Management, based on the opinion of its legal advisors, who assessed the chances of a successful outcome as possible, believe that it should be able to obtain success in its pleading for the maintenance of nonpayment and, in the event of loss of the rescissory action, the decision would not have a retroactive effect from the year the law came into effect. Accordingly, a provision for possible unfavorable outcomes of the notices of infraction, as well as for the years still not inspected by the Federal Revenue department, was not recorded for the purposes of preparing these financial statements.

6 As reported in Note 9 (a), OPP Química S.A., incorporated by the Company in 2003, based on a decision taken by the Federal Supreme Court, has recognized in its accounting records Excise Tax (IPI) credits of R$ 1,030,125 thousand (R$ 2,506,923 thousand restated up to December 31, 2007), which were offset against IPI due and other federal taxes. Although this decision was the object of an appeal by the National Treasury, pending judgment by the 2nd panel of judges of the Federal Supreme Court, and despite the assessments drafted against the Company, management, based on the opinion of its legal advisors, considers the chances of a successful outcome as probable and, consequently, no provision has been recorded in the financial statements for the year ended December 31, 2007.

7 As reported in Notes 11, 12 and 13, the Company and certain subsidiaries recorded goodwill on the acquisition of investments, based on the added value of the assets and future profitability of the companies invested in, and this goodwill is being amortized over the realization period stated in the appraisal reports. Maintaining this goodwill in the accounting records is dependent upon realizing the assumptions used for forecasting the cash flows, income and expenses.

8 The financial statements for the year ended December 31, 2006, presented for comparison purposes, were examined by other independent auditors, which issued an unqualified report dated February 7, 2007, which included paragraphs of emphasis on the issues reported in paragraphs 4 to 7 above and regarding the fact that the Company and its subsidiaries are involved in legal processes disputing the validity of Clause Four of the Collective Workers' Agreement of SINDIQUÍMICA. This matter was reassessed in 2007 and is further discussed in Note 21(a).

9 Our examination was performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of value added and of cash flows provide supplementary information to the financial statements, which is not required according to accounting practices adopted in Brazil and is presented to enable additional analyses. This additional information was submitted to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements for the year ended December 31, 2007, taken as a whole.

February 19, 2008

KPMG Auditores Independentes
CRC 2SP014428/O-6-S-BA

Anselmo Neves Macedo
Accountant CRC 1SP160482/O-6-S-BA

Braskem S.A.and Subsidiaries
Balance Sheets at December 31
In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
ASSETS	2007	2006	2007	2006
Current assets				
Cash and cash equivalents (Note 4)	1,071,600	1,125,925	1,890,151	1,547,061
Marketable securities (Note 5)	192,673	849,006	248,699	413,891
Trade accounts receivable (Note 6)	1,059,661	891,794	1,496,976	1,594,858
Inventories (Note 7)	1,468,180	1,443,876	2,264,272	1,767,275
Disposal of investment (Note 1(c))	136,698		136,698	
Recoverable taxes (Note 9)	170,650	336,350	310,311	408,082
Deferred income and social contribution taxes (Note 17(b))	36,725	19,573	62,980	20,625
Payment of dividends and interest on own capital	45,135	71,908	3,936	
Prepaid expenses	57,249	76,049	72,502	84,586
Other accounts receivable	64,652	94,544	109,762	114,618
	4,303,223	**4,909,025**	**6,596,287**	**5,950,996**
Noncurrent assets				
Long-term receivables				
Marketable securities (Note 5)	273.998	63,460	119,789	1,628
Trade accounts receivable (Note 6)	41.464	51,766	41,927	52,542
Inventories (Note 7)	22.790	22,946	22,790	22,946
Recoverable taxes (Note 9)	932.652	698,497	1,175,008	953,102
Deferred income and social contribution taxes (Note 17 (b))	366.480	361,089	395,452	377,041
Deposits in court and compulsory loans (Note 10)	96.431	70,610	107,654	90,516
Related parties (Note 8)	64.604	229,308	48,531	40,733
Other	34.260	49,292	47,953	58,653
	1,832,679	**1,546,968**	**1,959,104**	**1,597,161**
Permanent assets				
Investments in subsidiaries (Note 11)	1,021,030	1,813,326	6,912	6,528
Advances for acquiisition of investments (Note 11)	1,518,944		1,027,986	
Investments in associated companies (Note 11)	23,853	25,604	24,445	26,187
Other investments	8,239	8,367	13,840	14,056
Property, plant and equipment (Note 12)	6,391,685	5,994,130	8,404,079	6,688,699
Intangible assets (Note 12)	159,222	129,126	172,418	129,450
Deferred charges (Note 13)	1,373,510	1,325,286	2,686,930	1,891,245
	10,496,483	**9,295,839**	**12,336,610**	**8,756,165**
Total assets	**16,632,385**	**15,751,832**	**20,892,001**	**16,304,322**

See the accompanying notes to the financial statements.

Braskem S.A.and Subsidiaries
Balance Sheets at December 31 - continued
In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
LIABILITIES AND SHAREHOLDERS' EQUITY	2007	2006	2007	2006
Current liabilities				
Accounts payable to suppliers	2,365,462	2,907,312	2,967,929	3,022,085
Loans and financing (Note 14)	416,577	675,674	1,068,351	653,898
Debentures (Note 15)	20,474	1,157,356	111,632	1,157,687
Salaries and social charges	183,164	122,115	260,807	148,935
Taxes and contributions payable	93,961	86,670	161,825	122,840
Current and deferred income and social contribution taxes (Note 17)			15,365	14,425
Dividends and interest on capital	281,241	40,221	307,945	41,425
Advances from customers	9,831	11,845	23,448	26,740
Creditors on acquisition of investments (Notes 1 and 11)	880,991	153,192	880,991	153,192
Insurance premiums payable	8,107	48,822	9,416	50,039
Other provisions and accounts payable	76,570	90,847	115,197	115,686
	4,336,378	**5,294,054**	**5,922,906**	**5,506,952**
Noncurrent liabilities				
Long-term liabilities				
Suppliers	26,338	21,426	29,654	21,426
Loans and financing (Note 14)	4,371,393	3,591,687	6,401,947	3,935,794
Debentures (Note 15)	800,000	950,000	800,000	982,190
Taxes and contributions payable (Note 16)	1,105,110	1,279,698	1,145,816	1,321,961
Related parties (Note 8)	16,789	7,050		4,791
Long-term incentives (Note 19)	4,879	2,272	4,879	2,272
Deferred income and social contribution taxes (Note 17)	7,346	7,935	64,451	17,274
Private pension plans (Note 28)	19,565	58,554	35,727	64,205
Other accounts payable	83,323	70,582	106,457	83,398
	6,434,743	**5,989,204**	**8,588,931**	**6,433,311**
Deferred income				
Negative goodwill on the acquisition of investments	16,465	21,060	25,196	30,405
Minority interest			**597,949**	**21,767**
Shareholders' equity (Note 20)				
Capital social	4,640,947	3,508,272	4,640,947	3,508,272
Capital reserves	458,144	408,650	458,144	408,650
Profit reserves	990,164	725,147	915,494	650,519
Treasury shares	(244,456)	(194,555)	(257,566)	(255,554)
	5,844,799	**4,447,514**	**5,757,019**	**4,311,887**
Total liabilities and shareholders' equity	**16,632,385**	**15,751,832**	**20,892,001**	**16,304,322**

See the accompanying notes to the financial statements.

Braskem S.A. and Subsidiaries
Statements of Income – Years Ended December 31
In thousands of reais, except for earnings per share

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Revenues				
Domestic market	12,891,884	11,831,709	17,939,011	13,028,432
Foreign market	2,908,359	2,424,362	4,524,769	3,516,846
Taxes, freights and returns	(3,665,767)	(3,324,628)	(4,784,396)	(3,552,582)
Net revenues	**12,134,476**	**10,931,443**	**17,679,384**	**12,992,696**
Cost of goods sold and services rendered	(10,148,506)	(9,303,288)	(14,440,942)	(10,792,056)
Gross profit	**1,985,970**	**1,628,155**	**3,238,442**	**2,200,640**
Operating income (expenses)				
Selling expenses	(398,032)	(283,847)	(554,243)	(398,953)
General and administrative expenses	(545,810)	(464,847)	(671,475)	(539,515)
Management remuneration	(9,189)	(9,186)	(12,849)	(12,946)
Depreciation and amortization	(434,637)	(371,329)	(479,046)	(385,093)
Other operating income, net (Note 24)	127,087	131,885	131,465	186,142
	(1,260,581)	**(997,324)**	**(1,586,148)**	**(1,150,365)**
Operating income before equity results and financial results	**725,389**	**630,831**	**1,652,294**	**1,050,275**
Equity results				
Equity in income of subsidiaries and associated companies	179,300	172,783	(147)	801
Amortization of goodwill, net	(72,928)	(61,648)	(106,238)	(57,758)
Exchange variation	(10,613)	2,709	(11,572)	(1,423)
Tax incentives			3,448	20,504
Reversal (provision) for loss	(2,659)	6,469	(903)	
Other	84	1,092	8,141	8,979
	93,184	**121,405**	**(107,271)**	**(28,897)**
Financial results (Note 23)				
Financial expenses	(58,657)	(836,255)	(180,098)	(1,097,927)
Financial income	(146,761)	54,948	(113,541)	159,519
	(205,418)	**(781,307)**	**(293,639)**	**(938,408)**
Operating income (loss)	**613,155**	**(29,071)**	**1,251,384**	**82,970**
Nonoperating income (expenses), net (Note 25)	(31,760)	7,748	(67,224)	7,120
Net income (loss) before income and social contribution taxes	**581,395**	**(21,323)**	**1,184,160**	**90,090**
Provision for income and social contribution taxes (Note 17)	(49,592)	(444)	(273,686)	(88,054)
Deferred income tax and social contribution (Note 17)	11,417	99,520	(103,289)	100,906
Net income before interests	**543,220**	**77,753**	**807,185**	**102,942**
Statutory employees' profit sharing			(18,709)	
Minority interests			(240,892)	(1,593)
Net income for the year	**543,220**	**77,753**	**547,584**	**101,349**
Number of shares at the end of the year (thousand)	432,838	356,039		
Net income per share at the end of the year - R$	**1,255**	**0,218**		

See the accompanying notes to the financial statements

Braskem S.A.
Statements of Changes in shareholder’s Equity
In thousands of reais

		CAPITAL RESERVES		REVENUE RESERVES				
	CAPITAL	TAX INCENTIVES	OTHER	LEGAL RESERVE	RETENTION OF PROFITS	TREASURY SHARES	RETAINED EARNINGS (ACCUMULATED LOSSES)	TOTAL
December 31, 2005	**3,402,968**	**396,264**	**557**	**68,923**	**780,294**	**(1,905)**		**4,647,101**
Capital increase (Note 20(a))	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 criterion (Note 12)							(164,890)	(164,890)
Transfer from reserve for absorption of prior year adjustments (Note 20(d))					(164,890)		164,890	
Net income for the year							77,753	77,753
Appropriation of net income:								
Legal reserve				3,888			(3,888)	
Dividends (Note 20(e))							(36,933)	(36,933)
Retained earnings reserve					36,932		(36,932)	
December 31, 2006	**3,508,272**	**408,093**	**557**	**72,811**	**652,336**	**(194,555)**		**4,447,514**
Capital increase (Note 20(a))	1,132,675							1,132,675
Repurchase of shares (Note 20(c))						(49,901)		(49,901)
Unclaimed dividends							254	254
Transfer to reserve					254			(254)
Tax incentives		49,494						49,494
Net income for the year							543,220	543,220
Appropriation of net income:								
Legal reserve				27,161			(27,161)	
Dividends (Note 20(e))							(278,457)	(278,457)
Retained earnings reserve (Note 20(e))					237,602		(237,602)	
December 31, 2007	**4,640,947**	**457,587**	**557**	**99,972**	**890,192**	**(244,456)**		**5,844,799**

See the accompanying notes to the financial statements.

Braskem S.A. and Subsidiaries
Statements of Changes in Financial Position
Year Ended December 31
In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Sources of funds				
Operations				
Net income for the year	543,220	77,753	547,584	101,349
Expenses (income) not affecting working capital:				
Depreciation, amortization and depletion	932,095	865,255	1,203,622	962,399
Equity in the earnings of subsidiary and associated companies				
Equity in the results	(179,300)	(172,783)	147	(801)
Amortization of goodwill (negative goodwill), net	72,928	61,648	106,238	57,758
Provision (reversal) for loss on investments	2,659	(6,469)	903	
Exchange variation on investments	10,613	(2,709)	11,572	1,423
Tax incentives			(3,448)	(20,504)
Other	(84)	(1,092)	(8,141)	(8,979)
Increase (decrease) in interests in investments			9,600	(2,458)
Residual cost on disposal of fixed assets	16,094	963	26,409	4,403
Long-term interest, monetary and exchange variations, net	(566,533)	64,137	(719,373)	90,393
Deferred income and social contribution taxes	(11,417)	(99,520)	103,737	(100,906)
Minority interests			240,892	1,593
Assignment of right to use				(19,657)
Recovery of tax credits, net	(110,704)	(94,352)	(110,111)	(94,491)
Other	(9,896)	(16,643)	(42,367)	(16,107)
Total resources from operations	**699,675**	**676,188**	**1,367,264**	**955,415**
From shareholders				
Capital payment	1,132,675	105,304	1,132,675	110,860
Effect of working capital on change in interests			33,928	
	1,132,675	**105,304**	**1,166,603**	**110,860**
From third parties				
Loans and financing in long-term liabilities	1,618,923	2,119,979	3,579,840	2,234,789
Transfer from long-term receivables to current assets	189,799	364,668	194,626	168,344
Decrease in long-term receivables	185,354	21,968	295,879	28,389
Increase in long-term liabilities	18,630	10,686	33,095	55,296
Dividends	22,845	175,970	2,000	2,000
Tax incentives	49,494	11,829	53,130	32,430
Net working capital of merged/acquired companies	272,494	300,529	285,762	84,043
Other	930		14,637	
	2,358,469	**3,005,629**	**4,458,969**	**2,605,291**
Total funds provided	**4,190,819**	**3,787,121**	**6,992,836**	**3,671,566**

Braskem S.A. and Subsidiaries
Statements of Changes in Financial Position
Years Ended December 31 - continued
In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Application of funds				
Dividends proposed and interest on capital payable	278,457	36,933	302,916	66,236
Transfer from long-term to current liabilities	233,646	3,227	330,150	24,869
Settlement of financing in long-term liabilities	315,817	619,652	399,557	634,000
Increase in current account – assets, net	64,096	182,315	3,887	4,295
Increase in current account – assets, net	49,901	192,650	110,150	192,650
Transfer from long-term to current financing	16,204	1,757,673	482,560	1,767,783
Decrease in long-term liabilities	5,074	138,283	423,111	148,741
Increase in long-term receivables	363,020	121,783	204,213	202,437
Permanent assets				
Investments	1,646,258	523,278	1,980,462	483,013
Property, plant and equipment, and intangible assets	793,610	910,166	1,377,263	1,056,547
Deferred charges	72,862	35,213	1,149,230	40,312
Total funds used	**3,838,945**	**4,521,173**	**6,763,499**	**4,620,883**
Increase (decrease) in working capital	**351,874**	**(734,052)**	**229,337**	**(949,317)**
Changes in working capital				
Current assets				
At the end of the year	4,303,223	4,909,025	6,596,287	5,950,996
At beginning of the year	4,909,025	4,135,108	5,950,996	5,837,458
	(605,802)	**773,917**	**645,291**	**113,538**
Current liabilities				
At the end of the year	4,336,378	5,294,054	5,922,906	5,506,952
At beginning of the year	5,294,054	3,786,085	5,506,952	4,444,097
	(957,676)	**1,507,969**	**415,954**	**1,062,855**
Increase (decrease) in working capital	**351,874**	**(734,052)**	**229,337**	**(949,317)**

See the accompanying notes to the financial statements.

1 – Operations

(a) Braskem S.A. ("Braskem" or the "Company"), with headquarters at 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 resin segment includes polyethylene, polypropylene, PVC and Polyethylene 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, and the rendering of services to those companies. The Company also invests in other companies, either as a partner or shareholder.

(b) On May 16, 2007, the Company announced the deactivation of its DMT production unit and the temporary discontinuance of the PET resin production unit, both located at Camaçari - BA. Braskem will carry on the supply of the PET resin to all its customers through purchase agreements entered into with M&G Polímeros Brasil S.A. The Company will consider the potential resumption of PET production on a new technological route that ensures competitive costs for the polyester chain in Brazil.

(c) **Corporate events**

Since its inception on August 16, 2002, the Company has undergone a major corporate restructuring process, disclosed to the market through material event notices. The main developments in 2006 and 2007 can be summarized as follows:

> On April 4, 2006, Braskem acquired 66.04% of the common shares and 15.33% of the preferred capital shares in 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 Petrochemical Complex of Camaçari, State of Bahia, with an annual production capacity of 360 thousand tons of polyethylene. The initial amount paid by Braskem was R$ 237,500.

The final amount paid by the shares was determined 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 polyethylene and ethylene in the Brazilian market, audited by an independent firm appointed by Braskem and the former shareholders. The balance due by Braskem, amounting to R$ 247,503, was settled in January 2008 and as of December 31, 2007 is stated in current liabilities, under “Creditors for acquisition of investments”.

> 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 independent experts.

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 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 preferred 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 to the actual merger date 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 assets.

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

- The extraordinary Shareholders' Meeting held on July 20, 2006, approved a proposal to merger the net assets spun off from Companhia Alagoas Industrial - CINAL, a wholly-owned subsidiary.

  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 the results. 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

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- At a meeting held on September 29, 2006, the Board of Directors of the Company approved the incorporation of a company in Holland, named Braskem Europe B.V. ("Braskem Europa") organized as a limited liability company.

- The Extraordinary General Meeting held on April 2, 2007 approved the merger of Politeno, based on its shareholders' equity as of December 31, 2006, amounting to R$ 498,983. The exchange ratio of Politeno shares for Braskem shares was determined based on the companies' shareholders' equity at book value, in accordance to appraisal reports issued by a specialized firm.

  The Company capital was increased by R$ 19,157 to R$ 3,527,429 through the issue of 1,533,670 Class A preferred capital shares, comprising 123,978,672 common, 247,154,278 Class A preferred, and 803,066 Class B preferred capital shares.

  In order to maintain the current capital structure at Braskem, comprising 1/3 common and 2/3 preferred capital shares, the conversion of 486,530, Class A preferred capital shares into common shares was approved.

- On April 18, 2007, Ultrapar Participações S.A. ("Ultrapar") for itself and acting as agent for Company and Petróleo Brasileiro – S.A. - Petrobras, acquired for R$ 2,113,107, the equivalent to 66.2% of common shares and 13.9% of preferred capital shares issued by Refinaria de Petróleo Ipiranga S.A. ("RPI"), 69.2% of common shares and 13.5% of preferred capital shares issued by Distribuidora de Produtos de Petróleo Ipiranga S.A. ("DPPI"), and 3.8% of common shares and 0.4% of preferred capital shares issued by Companhia Brasileira de Petróleo Ipiranga ("CBPI"), held by the controlling shareholders of the Ipiranga Group. Of this amount, the Company and Petrobras paid R$ 1,394,675 under the agency agreement among the parties.

  According to the agency agreement among Ultrapar, Braskem and Petrobras, the Company now holds the control of petrochemical assets, represented by Ipiranga Química S.A. ("Ipiranga Química"), Ipiranga Petroquímica S.A. ("IPQ") and the latter's interest in Companhia Petroquímica do Sul ("Copesul"). Assets associated with oil refining operations held by RPI are now shared on equal terms by Petrobras, Ultrapar and Braskem.

  Under this same agreement, Ultrapar is responsible for carrying out a corporate reorganization of the acquired companies, with a view to segregating the assets assigned to each acquiring company.

  In October and November 2007, under a Tag-along Public Tender Offer, the following quantities of common shares in RPI, DPPI and CBPI were acquired:

	COMMON SHARES			
ACQUISITION	RPI	DPPI	CBPI	TOTAL
Number of shares acquired	2,979,295	1,365,192	1,574,486	5,918,973
Hit %	88.29%	82.06%	52.24%	73.51%
Total acquisition value	**318,934**	**154,103**	**102,200**	**575,23**

  On December 18, 2007, Ultrapar merged outstanding shares in RPI, DPPI and CBPI. The time period given shareholders who dissented from the resolutions of the Extraordinary General Meetings where the mergers were approved to exercise the right of withdrawal ended on January 21, 2008. Accordingly, RPI, DPPI and CGPI shares are no longer traded on the São Paulo Stock Exchange ("BOVESPA") as from January 23, 2008, and their former holders now hold Ultrapar shares, traded on BOVESPA under the code UGPA4.

  The merger of shares represented the final state of the acquisition process of 100% shares in RPI, DPPI and CBPI by Ultrapar. As a result of the merger, Braskem recorded the final amount owed Ultrapar to be paid upon the receipt of 60.00% of Ipiranga Química and 33.33% RPI shares, which is scheduled to occur by the end of February 2008 (Note 11(c)).

  The Company now records RPI as a jointly-controlled entity, considering a 10.01% interest in its total capital between April and September 2007. In October and November 2007, this interest increased to 13.14% and 13.38%, respectively. The Company's shareholding in December 2007 was 33.33%.

- On April 30, 2007, Braskem acquired 3.11% and 1.06% of quotas in TEGAL – Terminal de Gases Ltda. ("Tegal"), owned by Oxiteno Nordeste S.A. Indústria e Comércio and Dow Brasil Nordeste Industrial Ltda., respectively. Following the acquisition, Braskem holds 100% of the capital of Tegal, a company located in the Aratu Port, at Camaçari – BA, that engages in the provision of its own or third-party services for the storage and movement of liquefied gases. The amount paid by Braskem was R$ 1,105, giving rise to goodwill justified by other economic reasons of R$ 498, fully taken to income, in accordance with CVM Instruction 247/96.

› On June 18, 2007, the Company was notified by Odebrecht S.A. ("Odebrecht"), current company name of ODBPAR INV S.A., of the exercise of the latter's right to convert into shares 100% of its 59,185 subordinate, convertible debentures, in accordance with the Private Deed for Private Issue of Convertible, Subordinate Debentures, upon maturity of the agreement. The debentures were converted on July 31, 2007 (Note 20(a)).

› The Extraordinary General Meeting held on July 31, 2007 approved the merger of TEGAL – Terminal de Gases Ltda. ("Tegal"), based on its shareholders' equity as of May 31, 2007, in the amount of R$ 12,926. The equity variations from May 31, 2007 and the merger date were recognized by Braskem as equity in income of subsidiaries and associated companies.

› On June 28, 2007, Braskem's indirect subsidiary EDSP67 Participações S.A. ("EDSP67") acquired 100% of the outstanding shares in IPQ, representing 7.61% of its total capital. As a result of this acquisition, CVM approved on July 18, 2007, the delisting request of IPQ.

In August 2007, the merger of EDSP67 into IPQ was approved. This transaction did not entail cancellation or issue of new IPQ shares, or any changes in the companys' capital.

› On August 15, 2007, the Company exercised its pre-emptive right to acquire shares issued by Petroflex Indústria e Comércio S.A. ("Petroflex") owned by SPQ Investimentos e Participações Ltda., a subsidiary of Suzano Petroquímica S.A. ("Suzano"), due to the sale of the latter's control to Petrobras

Upon transfer of the shares, Braskem's interest in the total capital of Petroflex went from 20.12% to 33.53%, and its interest in the voting capital went from 20.14% to 33.57%. The pre-emptive right was exercised at the equity value of Petroflex, in the amount of R$ 61,022.

› In the Public Tender Offer ("OPA") for the delisting of Copesul, carried out on October 5, 2007, EDSP58 Participações S.A. ("EDSP58") acquired 34,040,927 common shares in Copesul, representing 98.63% of the qualified shares, for a unit value of R$ 38.02. This amount was financially settled on October 10, 2007 and the disbursement amounted R$ 1,294,236.

After verifying the compliance with the rules applicable to OPA, on October 18, 2007, CVM delisted Copesul.

Considering that Copesul outstanding shares represented less than 5% of total shares, in December 2007, the Board of Directors of that subsidiaries called a general Shareholders' Meeting to pass a resolution on the redemption of such shares.

› On November 13, 2007, Braskem, in conjunction with UNIPAR – União de Indústrias Petroquímicas S.A. ("UNIPAR") and other minority shareholders in Petroflex entered into an agreement with Lanxess Deutschland GmbH ("Lanxess") for the sale of shares in that jointly-controlled entity. The sale comprises 17,102,002 common shares (72.38% of this Class) and 7,416,602 preferred shares (64.16% of this Class), corresponding to 69.68% of Petroflex capital. Braskem and UNIPAR, the controlling shareholders of Petroflex, will sell 100% of their shares in that jointly-controlled subsidiary.

Cap prices for each common and Class A preferred shares are R$ 22.86 and R$ 18.29, respectively. Such amounts are subject to adjustments typically seen in this type of transaction, to be verified by Lanxess using a contractually agreed-upon procedure. The sale is expected to be completed by May 2008, when precedent conditions under the agreement will also have been complied with. As a result of this disposal, the investment in Petroflex was transferred to current assets, under "Disposal of investment". Pursuant to CVM Instruction 247/96, the Company will record equity results in connection with this investment until such time as the related shares are actually transferred to the buyer.

› On November 30, 2007, Petrobras, Petrobras Química S.A. – Petroquisa ("Petroquisa") announcement the execution of an agreement intended to carry on the consolidation of the Brazilian petrochemical industry, by merging into Braskem the following petrochemical assets held by Petrobras and Petroquisa:

› 37.3% of the total capital of Copesul;
› 40%of the total capital of both Ipiranga Química and IPQ;
› 40% of the total capital of Petroquímica Paulínia; and
› 100% of the total capital of Petroquímica Triunfo ("Triunfo").

A Up to 100% of the total and voting capital of Triunfo may be merged into Braskem, at the option of Petrobras and Petroquisa. Alternatively, the merger may be replaced with cash provided by Petrobras and Petroquisa for an amount equal to the economic value of this asset.

> On December 6, 2007, the merger of EDSP58 into Copesul was approved. As a consequence, 35,710,357 common shares in Copesul held by EDSP58 were cancelled and Copesul's capital was decreased by R$ 378,360, to reach R$ 531,640.

> On November 16, 2007, the Company and Petrobras paid up for Petroquímica Paulínia shares using shares in CPP – Companhia Petroquímica Paulista ("CPP") at market value. On November 20, 1007, the merger of CPP into Petroquímica Paulínia was approved.

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 April 25, 2007, the Company and CADE entered into the Agreement to Preserve the Reversibility of Transaction – APRO, whereby Braskem undertakes to maintain the normal conditions of free competition in the polyethylene and polypropylene markets prevalent before April 18, 2007, refraining to take the following actions with respect to the petrochemical assets of the Ipiranga Group, until a final sentence on the transaction is issued:

> Any changes in the corporate nature that would imply a change in control;
> Substantial changes in its physical facilities, and assignment or waiver or rights and duties with respect to its assets, including trademarks, patents and the portfolio of customers and raw material suppliers;
> Discontinue the use of trademarks and products, except for the provisions of the Investment Agreement, thus maintaining the offer of Ipiranga product lines;
> Substantial changes in the distribution and marketing structures, logistics and practices;
> Substantial changes in the companies that would imply lay-offs and reassignment of personnel among the different production, distribution, marketing and research units, whenever that such actions could be characterized as a combination of the companies; and
> Interrupting, with cause and in the sole discretion of CADE, investment projects which have been previously approved by the Board of Directors, in all activity sectors of the acquired company, as well as the implementation of its sales plans and targets.

The agreement may be reviewed at any time, by CADE or at the request of the companies if, in the discretion of CADE's full board, they are able to proof that the reasons that gave rise to the agreement are no longer present.

With regard to Copesul, CADE expressed no objections to the transaction, considering that the Company and Petrobras will maintain the current conditions as controlling and minority shareholders, respectively, prevailing prior to April 18, 2007, under the Shareholders' Agreement in effect.

(e) Corporate governance

Braskem enrolled in Level 1 of the Differentiated Corporate Governance on the Bovespa, which mainly commits the Company to improvements in providing information to the market and in the dispersion of shareholdings. The Company intends to reach Level 2 of Bovespa's Corporate Governance in the near future.

2 – Presentation of the Financial Statements

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

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 (Exhibits I and II).

In current liabilities for the year ended December 31, 2006, the amount of the installment due under the acquisition of Politeno (Note 1(c)), previously stated under "Other provisions and accounts payable", was reclassified to "Creditors for acquisition of investments".

When comparing the parent company income statements for the years ended December 31, 2007 and 2006, the following corporate events should be taken into consideration:

- Merger of Polialden, carried out in May 2006 (Note 1(c)); and
- Merger of Politeno, carried out in April 2007 (Note 1(c)).

The summary income statements of the merged companies are presented below:

	POLIALDEN	POLITENO	
	JANUARY TO MAY 2006	JANUARY TO MARCH 2007	YEAR 2006
Net revenues	125,809	260,611	1,001,116
Cost of goods sold	(121,632)	(238,763)	(904,597)
Gross profit	**4,177**	**21,848**	**96,519**
Operating expenses, net	(6,476)	(11,112)	(51,642)
Operating income (loss) before interest and financial results	**(2,299)**	**10,736**	**44,877**
Interest	799	(35)	930
Financial results	388	(10,642)	(23,685)
Non-operating results		(25)	197
Income (loss) before income	**(1,112)**	**34**	**22,319**
Current and deferred income and social contribution taxes	4,585	(203)	(8,687)
Net income (loss) for the period / year	**3,473**	**(169)**	**13,632**

3 – Significant Accounting Practices

These financial statements were approved by the Board of Directors of the Company on February 19, 2008.

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 and the goodwill of investments, as well as provisions for contingencies, income tax and other similar amounts.

b - Determination of net income
Income and expenses are recognized on the accrual basis.

Revenue from sales of goods is 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) are recorded gross of the tax incentive portions, with the amounts related to tax exemption and reduction recorded in a capital reserve, while the ICMS amounts are taken to income.

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 financial 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 assets and long-term receivables
Cash and cash equivalents comprise primarily cash deposits and marketable securities or investments 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 against 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. Finished products include freight expenses to the sale place. Imports in transit are stated at the accumulated cost of each import. Inventories of consumable materials (“Warehouse”) are classified in current assets or long-term receivables, considering their history of consumption.

Deferred income tax is calculated on temporarily non-deductible tax losses and accounting expenses for the computation of current income tax. It is recognized to the extent that future taxable income is likely to be available to be offset against timing differences, based on projections of future results prepared and supported by internal assumptions and future economic scenarios which may not materialize. Periodically, the amounts recorded are revalued in accordance with CVM Deliberation 273/98 and CVM Instruction 371/02.

Contingent liabilities are stated net of deposits in court, in accordance with CVM Deliberation 489/05.

Other assets are stated at net 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 restated cost, considering the following:

- Investments in subsidiaries, jointly-controlled entities and associated companies are valued using the equity method, plus 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 valued using the equity method and foreign exchange variance on assets is recorded in a separate account under operating profits. Balance sheet and statement of income accounts are converted into Brazilian currency at the exchange rates ruling as of the closing date of the financial statements, according to CVM Deliberation 28/86.

- Property, plant and equipment, as well as intangible assets, are stated at acquisition or construction cost. As from 1997, property, plant and equipment include capitalized interest incurred during the construction period, pursuant to CVM Deliberation 193/96. Capitalized interest is added to assets and depreciated / amortized as from the date that they become operational.

- 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).

- Depreciation of property, plant and equipment, and amortization of intangible assets are calculated on the straight-line basis at the rates mentioned in Note 12, which consider the estimated useful lives of the assets.

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

e -Current and long-term liabilities

These liabilities 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 negative shareholders’ equity (excess of liabilities over assets) of these companies, and is recorded as a long-term liability against the equity in net income of subsidiaries and jointly-controlled entities.

Defined benefit pension plans are recorded based on the calculations made by independent actuaries, which in turn are based on assumptions provided by the Company (Note 28).

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk specific to the liability.

f -Deferred income

Deferred income includes negative goodwill of merged or consolidated 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 provisions of CVM and include the financial statements of the Company and its subsidiaries and jointly-controlled entities, and special purpose entities in which the Company has direct or indirect share control, as shown below:

		HEAD OFFICE (COUNTRY)	INTEREST IN TOTAL CAPITAL - % 2007	2006
Subsidiaries				
Braskem Argentina	(i)	Argentina	98.00	98.00
Braskem America Inc. (“Braskem America”)		USA	100.00	100.00
Braskem Distribuidora and subsidiaries		Brazil	100.00	100.00
Braskem Europa		Holland	100.00	100.00
Braskem Inc and subsidiary		Cayman Islands	100.00	100.00
Braskem Participações		Brazil	100.00	100.00
CINAL		Brazil	100.00	100.00
Copesul and subsidiaries	(ii)	Brazil	39.19	
CPP	(iv)	Brazil		79.70
Ipiranga Química and subsidiaries	(v)	Brazil	60.00	
Politeno and subsidiaries	(vi)	Brazil		96.16
Politeno Empreendimentos Ltda. (“Politeno Empreendimentos”)		Brazil	100.00	
Tegal	(vii)	Brazil		95.83
Jointly-controlled entities	**(viii)**			
CETREL S.A. - Empresa de Proteção Ambiental (“CETREL”)	(ix)	Brazil	49.89	49.03
Copesul and subsidiaries	(iii)	Brazil		29.46
Petroflex	(x)	Brazil		20.12
Petroquímica Paulínia	(xi)	Brazil	60.00	60.00
Special Purpose Entities (“EPE’s”)	**(xii)**			
Chemical Fundo de Investimento em Direitos Creditórios (“FIDC I”)	(xiii)	Brazil		100.00
Chemical Fundo de Investimento em Direitos Creditórios (“FIDC II”)	(xiv)	Brazil		9.19
Fundo Parin		Guernsey	100.00	100.00
Sol-Fundo de Aplicação em Cotas de Fundos de Investimento (“FIQ Sol”)		Brazil	100.00	100.00

(i) Including the interest of the subsidiary Braskem Distribuidora, Braskem’s interest is equal to 100.00%.
(ii) Including the interest of indirect subsidiary IPQ, Braskem’s interest is equal to 62.70%.
(iii) Consolidated on a pro rata basis until March 2007, in accordance with CVM instruction 247/96.
(iv) Company merged into Petroquímica Paulínia in November 2007.
(v) Investment consolidated, as from April 2007, pursuant to the terms of the purchase agreement of the Ipiranga Group (Note 1(c)).
(vi) Company merged on April 2, 2007 (Note 1(c)). Until March 31, 2006, Politeno was consolidated on a pro rata basis.
(vii) Company merged on July 31, 2007.
(viii) Investments consolidated on a pro rata basis, according to CVM Instruction 247/96.
(ix) Including the interest of subsidiary CINAL, Braskem’s interest is equal to 54.55%. Jointly-controlled entity pursuant to the provisions of the by-laws.
(x) Investment consolidated until November 2007, due to the disposal process (Note 1(c)).
(xi) Jointly-controlled entity as provided in the shareholders’ agreement.
(xii) Investments consolidated in compliance with CVM Instruction 408/04.
(xiii) This fund was wound-up in January 2007.
(xiv) The subordinated quotas held by Braskem were sold in the quarter ended March 31, 2007.

In the consolidated financial statements, the intercompany investments and the equity pick-up, 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 operations for the consolidated years, respectively.

Minority interests in the consolidated net income for 2007 include interests in EDSP58, Politeno and Tegal calculated up to the respective merger dates.

Goodwill not eliminated on consolidation is reclassified to a specific account in permanent assets which gave rise to it, in accordance with CVM Instruction 247/96. Negative goodwill is reclassified to “Deferred income".

The comparative analysis of the consolidated statements of income includes the full consolidation of Ipiranga Química and Copesul as from April 2007. Up to the quarter ended March 31, 2007, Copesul was consolidated on a pro rata basis, pursuant to CVM Instruction 247/96.

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

	BRASKEM PARTICIPAÇÕES (i)	POLITENO (ii)
Common shares	580,331	
Class A preferred shares	290,165	2,186,133
Interest in total capital	0.24%	0.60%

(i) As of December 31, 2007 and 2006
(ii) As of December 31, 2006

Pursuant to paragraph 1, article 23 of CVM Instruction CVM 247/96 and authorization by CVM Letter SNC 004/2008 and 005/2008, the Company has not consolidated on a pro rata basis the financial statements of the jointly-controlled entity Companhia de Desenvolvimento Rio Verde – CODEVERDE and RPI. This information does not show significant changes and does not lead to distortions in the Company's consolidated financial statements.

These subsidiaries' summary balance sheets and statements of income, adjusted for compliance with the Company's accounting practices are as follows:

BALANCE SHEET	CODEVERDE (*)		RPI
	2007	2006	2007
Assets			
Current assets	404	304	85.289
Noncurrent assets			
Long-term receivables	122	102	3,446
Permanent assets	46,621	45,019	34,752
Total assets	**47,147**	**45,425**	**123,487**
Liabilities and shareholders' equity			
Current liabilities	102	100	93,229
Long-term liabilities	1,700	1,438	61,507
Shareholders' equity (negative equity)	45,345	43,887	(31,249)
Total liabilities and shareholders' equity (negative equity)	**47,147**	**45,425**	**123,487**

(*) in pre-operating stage

STATEMENT OF INCOME	RPI
	2007
Net revenues	620,958
Cost of goods sold	(596,153)
Gross profit	**24,805**
Operating expenses (net)	(23,207)
Earnings before interest	**1,598**
Financial results	(5,006)
Non-operating results	426
Loss before tax	**(2,982)**
Deferred income and social contribution taxes, net	1,848
Loss for the year	**(1,134)**

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	
	2007	2006	2007	2006
Parent company	**5,844,799**	**4,447,514**	**543,220**	**77,753**
Cross holding classified as treasury shares	(13,110)	(60,999)		
Exclusion of profits in inventories	(4,205)	(6,587)	6,789	(1,400)
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	(10,628)	(12,829)	2,200	1,215
Reversal of amortization of goodwill on the sale of investments between related parties	22,327	18,206	4,121	4,121
Exclusion of the gain on assignment of right of use to associated company	(34,942)	(34,942)		19,660
Exclusion of capital contribution to subsidiary	(8,746)		(8,746)	
Consolidated	**5,757,019**	**4,311,887**	**547,584**	**101,349**

The balance sheets and statements of income of jointly-controlled subsidiaries and EPE's, adjusted to the Company's accounting practices can be summarized as follows:

	COPESUL		CETREL (I)		PETROFLEX (II)	
	JANUARY TO MARCH 2007	2006	2007	2006	JANUARY TO NOV. 2007	2006
Assets						
Current assets		1,261,805	31,830	25,509		604,958
Long-term assets		154,618	11,928	12,298		31,373
Permanent assets		1,050,182	139,143	131,221		436,975
Total assets		**2,466,605**	**182,901**	**169,028**		**1,073,306**
Liabilities and shareholders' equity						
Current liabilities		840,694	24,207	20,309		390,661
Long-term liabilities		325,751	30,992	39,245		375,828
Shareholders' equity		1,300,160	127,702	109,474		306,817
Total liabilities and shareholders' equity		**2,466,605**	**182,901**	**169,028**		**1,073,306**
Statement of income						
Net revenues	1,727,324	6,299,224	106,218	106,191	1,300,735	1,361,549
Cost of products sold and services rendered	(1,397,210)	(5,292,355)	(70,383)	(73,970)	(1,105,341)	(1,197,017)
Gross profit	**330,114**	**1,006,869**	**35,835**	**32,221**	**195,394**	**164,532**
Operating expenses, net	(37,182)	(117,468)	(16,497)	(19,674)	(93,118)	(131,371)
Non-operating income (expenses), net	(2,784)	(4,295)	(1,863)	198	(225)	945
Income before income and social contribution taxes	**290,148**	**885,106**	**17,475**	**12,745**	**102,051**	**34,106**
Income and social contribution taxes	(97,150)	(269,921)	(4,723)	(2,557)	(33,213)	(8,061)
Net income for the period / year	**192,998**	**615,185**	**12,752**	**10,188**	**68,838**	**26,045**

(i) Revaluation reserve eliminated in balance sheet and statement of income.
(ii) Investment consolidated up to November 2007.

	PETROQUÍMICA PAULÍNIA(*)	
	2007	2006
Assets		
Current assets	155,785	102,474
Long-term assets	1	1
Permanent assets	647,589	115,461
Total assets	**803,375**	**217,936**
Liabilities and shareholders' equity		
Current liabilities	101,250	3,814
Long-term liabilities	460,302	83,984
Shareholders' equity	241,823	130,138
Total liabilities and shareholders' equity	**803,375**	**217,936**

(*) In pre-operating stage

	FUNDO PARIN		FIQ SOL		FUNDO CHEMICAL	FUNDO CHEMICAL II
	2007	2006	2007	2006	2006	2006
Assets	**458,368**	**537,965**	**258,768**	**395,242**	**6,133**	**442,557**
Liabilities				12	200	44
Shareholders equity	458,368	537,965	258,768	395,230	5,933	442,513
Total liabilities and net equity	**458,368**	**537,965**	**258,768**	**395,242**	**6,133**	**442,557**
Net income (loss) for the year	**(94,429)**	**(14,839)**	**30,270**	**37,026**	**(19,033)**	**68,555**

4 – Cash and Cash Equivalents

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Cash and banks	298,861	130,128	578,820	140,179
Financial investments				
Domestic	259,105	602,748	612,897	751,533
Abroad	513,634	393,049	698,434	655,349
	1,071,600	**1,125,925**	**1,890,151**	**1,547,061**

The domestic financial investments are mainly represented by quotas of a Braskem exclusive fund (FIQ Sol) which, in turn, 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. The financial investments abroad mainly consist of sovereign fixed income instruments or instruments issued by first-tier financial institutions with high marketability.

The financial investments of subsidiary Copesul in Brazil, which amount R$ 346,870 at December 31, 2007, comprise quotas in Fundo de Investimento Financeiro Multimercado Copesul (the company's multiportfolio financial investment fund) and time deposits.

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	
	2007	2006	2007	2006
Current assets				
Public securities issued abroad		311,080		311,080
Investment fund	192,673	537,926	248,699	63,960
Subordinated quotas in investment fund in credit rights and others				38,851
	192,673	**849,006**	**248,699**	**413,891**
Long-term receivables				
Investment fund	265,695			118,141
Subordinated quotas in investment fund in credit rights		46,612		
Other	8,303	16,848	1,648	1,628
	273,998	**63,460**	**119,789**	**1,628**
Total	**466,671**	**912,466**	**368,488**	**415,519**

Braskem is the exclusive quotaholder of the investment fund stated as "Parent company". The portfolio comprises time deposits at Banco Credit Suisse First Boston ("CSFB").

6 – Trade Accounts Receivable

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Customers				
Domestic market	1,218,089	833,045	1,697,187	1,514,346
Foreign market	429,364	324,864	725,233	421,880
Discounted trade bills	(197,753)	(110,873)	(311,844)	(119,652)
Advances on bills of exchange delivered	(188,358)	(2)	(385,155)	(15,824)
Allowance for doubtful accounts	(160,217)	(103,474)	(186,518)	(153,350)
	1,101,125	**943,560**	**1,538,903**	**1,647,400**
Long-term receivables	**(41,464)**	**(51,766)**	**(41,927)**	**(52,542)**
Current assets	**1,059,661**	**891,794**	**1,496,976**	**1,594,858**

The Company adopts an additional policy for realizing domestic trade accounts, by selling its receivables to investment funds with credit rights.

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	
	2007	2006	2007	2006
At beginning of the year	**103,474**	**72,945**	**153,350**	**87,259**
Addition through merger of investment			45,246	15,525
Additions classified as selling expenses	28,377	78,993	44,113	99,293
Addition through merger of subsidiaries	54,741			
Recovery of credits provided for	(26,375)	(48,464)	(31,255)	(48,615)
Write-off of bills considered non-collectable			(24,936)	(112)
At the end of the year	**160,217**	**103,474**	**186,518**	**153,350**

7 – Inventories

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Finished products and work in process	829,111	870,257	1,152,137	986,949
Raw materials, production inputs and packaging	317,687	249,083	651,373	393,437
Warehouse (*)	291,605	298,779	401,722	344,566
Advances to suppliers	52,614	48,034	53,239	64,009
Imports in transit and other	19,166	16,758	47,928	17,555
Provision for adjustment to realization value	(19,213)	(16,089)	(19,337)	(16,295)
Total	**1,490,970**	**1,466,822**	**2,287,062**	**1,790,221**
Noncurrent assets (*)	**(22,790)**	**(22,946)**	**(22,790)**	**(22,946)**
Current assets	**1,468,180**	**1,443,876**	**2,264,272**	**1,767,275**

(*) Based on its turnover, part of the maintenance materials inventory was reclassified to noncurrent assets.

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 2007	2006
Current assets		
Cash and cash equivalents		
Special Purpose Entity		
FIQ Sol	258,768	395,230
Marketable securities		
Special Purpose Entity		
Fundo Parin	192,673	537,926
Accounts receivable		
Subsidiaries and jointly-controlled entities		
Braskem America	18,010	27,838
Braskem Argentina	1,909	
Braskem Distribuidora	900	
Braskem Europa	43,627	
Braskem Inc,		10,054
Cayman		13
CINAL	1,533	1,916
Copesul	18,916	2,440
Lantana		13,301
Politeno		25,177
Ipiranga Química	3,984	
IPQ and subsidiaries	5,271	
CETREL	41	70
Petroquímica Paulínia	4,622	
Petroflex	24,280	21,426
Associated company		
Borealis	10,742	2,798
Related parties		
Construtora Norberto Odebrecht (“CNO”)	6,304	7,687
Petrobras	54,718	48,741
Other	528	
	195,385	**161,461**

	BALANCES 2007	2006
Long-term receivables		
Marketable securities		
Special Purpose Entity		
FIDC I		5,933
FIDC II		40,679
Fundo Parin	265,695	
	265,695	**46,612**
Related parties		
Subsidiaries and jointly-controlled entities		
Braskem Distribuidora (current account)		126
Cayman (current account)		53
CINAL (current account)	9,806	2,390
Politeno (current account)		180,974
Tegal (current account)		4,859
Lantana (loan)	48	
CETREL (Advance for future capital increase)		135
Petroquímica Paulínia (Advance for future capital increase)	10,365	
Related parties		
Petrobras (loan)	41,937	38,868
Other	2,448	1,903
	64,604	**229,308**
Current liabilities		
Suppliers		
Subsidiaries and jointly-controlled entities		
Braskem America		294
Braskem Argentina		2,101
Braskem Inc,	349	
CINAL	169	1,596
Tegal		5,913
Copesul	35,319	508,262
IPQ	434	
Politeno		1,996
CETREL	233	1,302
Related parties		
CNO	17,521	6,666
Petrobras	558,976	604,758
Other		6,317
	613,001	**1,139,205**
Debentures		
Related party		
ODBPAR INV		1,130,752
		1,130,752

a - Parent company - continued

	BALANCES	
	2007	2006
Long-term liabilities		
Suppliers		
Related party		
Other		17.644
		17.644
Related parties		
Subsidiaries		
Braskem Importação (current account)		1.361
Braskem Participações (current account)		5.689
CINAL (conta corrente)	1.680	
Politeno Empreendimentos (current account)	15.109	
	16.789	**7.050**

	TRANSACTIONS	
Sales of products and services		
Subsidiaries and jointly-controlled entities		
Braskem America	48,040	33,465
Braskem Argentina	7,464	
Braskem Distribuidora	56,851	
Braskem Europa	123,885	
Braskem Inc.	61,349	41,218
Cayman		9,308
CINAL	118	1,003
IPQ	13,492	
Ipiranga Química	19,354	
Lantana	106,485	228,112
Politeno	295,367	993,769
Polialden		136,983
CETREL	147	1,320
Copesul	6,340	17,227
Petroflex	456,822	457,541
Associated company		
Borealis	143,010	122,061
Related party		
Petrobras	285,758	71,422
	1,624,482	**2,113,429**

	TRANSACTIONS	
	2007	2006
Purchase of raw materials, services and utilities		
Subsidiaries and jointly-controlled entities		
Braskem Argentina		2,960
CINAL	10,495	29,505
Politeno	11,977	15,565
Tegal	13,208	20,005
Copesul	2,390,915	2,752,867
CETREL	22,001	24,256
Related parties		
CNO	120,285	136,218
Petrobras	4,564,943	4,902,758
Other		295,167
	7,133,824	**8,179,301**
Financial income (*)		
Subsidiaries		
Braskem America	(4,153)	
Braskem Argentina	(470)	
Braskem Distribuidora	249	10
Braskem Europa	(2,092)	
Braskem Inc.	(3,249)	
Cayman	(4)	
CINAL	180	4
Copesul	23,945	
Lantana	(3,237)	
Petroflex	4,631	2,011
Politeno	6,692	7,325
Tegal	105	114
Related parties		
Petrobras	3,352	3,371
Other	(369)	
EPE's		
Fundo Parin	(94,396)	25,544
FIQ Sol	30,431	37,027
FIDC I (wound-up in January 2007)		(2,441)
FIDC II	13,198	3,563
	(25,187)	**76,528**

Financial expenses		
Subsidiaries		
Braskem Argentina	(441)	
Braskem Importação		179
Braskem Inc.	(730)	
Braskem Participações		539
CINAL		89
Copesul	37,887	824
Politeno		143
Politeno Empreendimentos	1,104	65
Tegal	85	14
Related parties		
ODBPAR INV		131,405
Petrobras	49,942	
CNO		6,202
Other		9
EPE's		
FIQ Sol		22,993
FIDC I		51,761
	87,847	**214,223**

(*) Includes exchange variances on accounts receivables, financial investment and loan agreements.

b - Consolidated

	BALANCES 2007	BALANCES 2006
Current assets		
Accounts receivable		
Subsidiaries and jointly-controlled entities		
CETREL	19	32
Copesul		1,721
Petroflex	457,108	17,115
Associated company		
Borealis	10,742	2,798
Related parties		
CNO	6,304	7,687
IPQ (related party of Copesul in 2006)		4,564
Petrobras	54,909	49,657
Refinaria Alberto Pasqualini - REFAP S.A. (related party of Copesul)	26,184	1,161
Other	782	341
	556,048	**85,076**
Other accounts payable		
Jointly-controlled entity		
CETREL	1,420	
	1,420	
Long-term receivables		
Related parties		
Jointly-controlled entity		
Petroquímica Paulínia	4,146	
Related parties		
Petrobras	41,937	38,868
Other	2,448	1,865
	48,531	**40,733**
Current liabilities		
Suppliers		
Subsidiaries and jointly-controlled entities		
CETREL	106	604
Copesul		358,523
Related parties		
CNO	17,521	6,666
IPQ		986
Petrobras	579,242	615,759
REFAP S.A.		5,757
Other	2,601	9,589
	599,470	**997,884**
Debêntures		
Related party		
ODBPAR INV		1,130,752
		1,130,752
Long-term liabilities		
Suppliers		
Related party		
Other		17,644
		17,644
Related parties		
Jointly-controlled entity		
CETREL		1,983
Related party		
Monsanto Nordeste S.A.		2,808
		4,791

	TRANSACTIONS 2007	TRANSACTIONS 2006
Sales of goods sold and services rendered		
Subsidiaries and jointly-controlled entities		
Copesul		12,152
CETREL	67	612
Petroflex	336,277	365,488
Politeno		166,752
Associated company		
Borealis	143,010	122,061
Related parties		
Monsanto Nordeste S.A.	13,730	3,684
Petrobras	286,113	78,899
REFAP S.A.	543,163	22,767
IPQ		555,543
Other	1,708	2,474
	1,324,068	**1,330,432**
Purchases of raw materials, services and utilities		
Subsidiary company		
Copesul	472,902	1,941,845
Jointly-controlled entity		
CETREL	10,001	11,253
Related parties		
CNO	120,285	136,218
IPQ		5,735
Petrobras	5,713,067	5,390,504
Petroquímica União S.A.		22,881
REFAP S.A.	1,654,220	264,904
Other		298,095
	7,970,475	**8,071,435**
Financial income		
Related parties		
IPQ		175
Petrobras	3,352	3,371
Petroflex		1,606
	3,352	**5,152**
Financial expenses		
Related parties		
Copesul		824
IPQ		57
Petrobras	49,942	6,202
Odebrecht	74,825	131,405
Other		9
	124,767	**138,497**

"Trade accounts receivable" and "Accounts payable to 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/Braskem Europa/ Braskem Argentina / Braskem Distribuidora	Thermoplastic resins
Braskem Inc.	Basic petrochemicals
Politeno	Ethylene and utilities
Petroflex	Butadiene
Petrobras	Gasoline
Ipiranga Química / IPQ	Basic petrochemicals/Thermoplastic resins

PURCHASES OF BRASKEM

COMPANY	PRODUCTS/INPUTS/SERVICES
CINAL / CETREL	Utilities, treatment and incineration of waste
Copesul	Ethylene, propane and utilities
Petrobras	Naphtha
CNO	Construction and maintenance services

These transactions are carried out at normal market prices and conditions, considering (i) for purchase and sale of ethylene, international market prices, (ii) for purchases of naphtha from Petrobras, the European market prices, and (iii) for sales to foreign subsidiaries, above a 180 day term, longer than terms offered to other customers. During 2007, the Company also imported naphtha at a volume equal to 27 % of its consumption (2006 – 25%).

Related parties include intercompany current account balances, remunerated at 100% of CDI. The purpose of these current accounts is to apply daily financial funds available under a single pool to settle the account holders' obligations. Account holders include the Company and its direct and indirect subsidiaries in Brazil.

9 – Taxes Recoverable

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Excise tax (IPI) (regular transactions)	16,809	61,040	23,665	63,014
Value-added Tax on Sales and Services (ICMS)	897,375	675,428	1,106,541	936,333
Employees' profit participation program (PIS) and social contribution on billings (Cofins)	44,773	105,577	93,497	118,495
Social security fund (Finsocial)		11,813		12,070
PIS – Laws 2,445 and 2,449/88	55,194	55,194	55,194	61,971
Income and social contribution taxes	23,644	37,193	66,721	56,863
Tax on net income – ILL			55,834	17,411
Other	65,507	88,602	83,867	95,027
Total	**1,103,302**	**1,034,847**	**1,485,319**	**1,361,184**
Current assets	**(170,650)**	**(336,350)**	**(310,311)**	**(408,082)**
Noncurrent assets	**932,652**	**698,497**	**1,175,008**	**953,102**

a - IPI

On December 19, 2002, the Federal Supreme Court (STF) – based on its full-bench precedents on this matter – entertained an extraordinary appeal lodged by the National Treasury and affirmed the erstwhile decision rendered by the Regional Federal Court (TRF), 4th Circuit, thus recognizing entitlement to the IPI tax 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 STF determination confirmed such entitlement to IPI credits on said acquisitions, covering the ten-year period prior to the filing date and accruing the SELIC benchmark rate until the date of actual use of such credits. This lawsuit was filed by OPP Química in July 2000 for full adoption of the non-cumulative tax principle to said establishments.

The STF determination was challenged by the National Treasury via special appeal known as agravo regimental. 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 only a remote risk of changes in the OPP Química-friendly decision, although the STF itself has revisited this matter on the merits in a similar lawsuit lodged by another taxpayer.

In light of those aspects referring to the extent of the agravo regimental, OPP Química posted these tax credits at R$ 1,030,125 in December 2002, which was offset by the Company with IPI itself and other federal tax debts. Such credits were used up in 1Q05.

During 2006 and 2007, the Federal Revenue Office issued several infraction notices (autos de infração) against the Company solely to avoid forfeiture of the tax authorities' right to dispute the use of tax credits until ten years before the filing of a lawsuit by the Company, also demanding the tax payments offset by the Company with the tax credits posted as from December 2002. Further, the Federal Revenue Office rejected approximately 200 applications for offsetting of these credits with federal taxes payable by the Company. The Company disputed these rejections at administrative and judicial levels, and the likelihood of a favorable outcome for these disputes is viewed as probable by the Company's outside legal advisors.

The tax credits used up by the Company (updated at the SELIC benchmark rate until December 2007) come to R$ 2,506,923. Out of these credits, the sundry collection proceedings referred to above have reached R$ 2,263,519 to date, plus fines in the overall amount of R$ 731,042. The Company's outside legal advisors believe that such fines are undue by any means.

In a judgment session held on December 11, 2007, the STF First Panel granted the agravo regimental on the argument that the extraordinary appeal should be entertained by said Panel again, thus voiding the erstwhile STF ruling. Such STF determination, containing the opinions and arguments of STF justices who took part in the judgment, has not been published to date. Braskem is poised to appeal after such publication occurs.

All things considered, and in view of its belief that the new STF determination should be limited to procedural aspects only, Braskem (in reliance on the opinion of its legal advisors) still defends the final and conclusive nature of said decision allowing it to use IPI tax credits deriving from acquisition of raw materials that are either tax-exempt or else taxed at a zero rate. In addition, Braskem believes that the new STF judgment on the extraordinary appeal should focus only on the subject matter of the agravo regimental (which means that the STF should not longer deliberate on entitlement to IPI tax credits themselves, as discussions over such specific matter are precluded in this case).

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

The Company has accrued ICMS tax credits during the latest fiscal years, basically on account of taxation rate differences between incoming and outgoing inputs and products; domestic outgoing products under incentive (subject to deferred taxation); and export sales.

The Company's Management has given priority to a number of actions aimed at optimal use of such credits and, currently, no losses are expected from realization of those credits. Management's actions comprise, among others:

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

The Company ICMS credit balance at December 31, 2007 includes R$ 248,064, arising from merged companies Politeno and Tegal. On a consolidated basis, the increase in the credit balance is mainly attributable to the addition of Grupo Ipiranga assets, with credit balances of R$ 135,077.

Considering the Company's management projection over the term for realization of those credits, at December 31, 2007, the amounts of R$ 765,454 and R$ 865,086, for parent company and consolidated, respectively, were recorded as noncurrent assets (2006 - parent company - R$ 539,033 / consolidated - R$ 596,640).

c - ILL

This refers to a credit on Tax on Net Income (ILL) paid by subsidiary Copesul between 1989 and 1991, as this tax was considered unconstitutional under the Federal Senate Resolution 82 of November 18, 1996. Copesul has taken measures at the administrative level to offset this credit against other taxes.

10 – Deposits in Court and Compulsory Loan – Long-term Receivables

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Deposits in court				
Tax claims	54,862	16,268	63,626	29,713
Labor and other claims	22,589	35,362	23,597	41,254
Compulsory loan				
Eletrobrás	18,980	18,980	20,431	19,549
	96,431	**70,610**	**107,654**	**90,516**

11 – Investments

a - Information on investments

	NUMBER OF SHARES OR QUOTAS HELD (THOUSANDS)					INTEREST IN TOTAL CAPITAL (%)		INTEREST IN VOTING CAPITAL (%)	
				2007	2006				
	COMMON SHARES	PREF. SHARES	QUOTAS	TOTAL	TOTAL	2007	2006	2007	2006
Subsidiaries									
Braskem America (i)	40			40	40	100.00	100.00	100.00	100.00
Braskem Argentina (i)			19,600	19,600	19,600	98.00	98.00	98.00	98.00
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			32,332	32,332	31,649	100.00	100.00	100.00	100.00
Braskem Europa (i)			3,838	3,838	500	100.00	100.00	100.00	100.00
CINAL	92,587			92.587	92,587	100.00	100.00	100.00	100.00
CPP (vi)					8,465		79.70		79.70
Copesul (xi)	44,255			44.255		39.19		39.19	
Politeno (ii)					63,612,714		96.16		100.00
Politeno Empreendimentos (xii)			24	24		99.99		99.99	
Tegal (iii)					23,157		95.83		95.83
Jointly-controlled entities									
CETREL	745			745	730	49.89	49.03	49.89	49.03
CODEVERDE	9,894			9,894	9,755	35.53	35.55	35.53	35.55
Copesul (xi)					44,255		29.46		29.46
Petroflex (ix)	7,932	3,868		11,800	7,080	33.53	20.12	33.57	20.14
Petroquímica Paulínia	105,000			105,000	67,582	60.00	60.00	60.00	60.00
Associated companies									
Borealis	18,949			18,949	18,949	20.00	20.00	20.00	20.00
Rionil (iv)					3,061		33.33		33.33
Sansuy			271	271	271	20.00	20.00	20.00	20.00

Information on investments of subsidiaries	Number of shares or quotas held (thousands)					Interest in total capital (%)		Interest in voting capital (%)	
				2007	2006				
	Common shares	Pref. shares	Quotas	Total	Total	2007	2006	2007	2006
Braskem Distribuidora									
Braskem Argentina (i)			400	400	400	2.00	2.00	2.00	2.00
Braskem Importação			252,818	252,818	252,818	100.00	100.00	100.00	100.00
Cayman (viii)	900			900	900	100.00	100.00	100.00	100.00
Braskem Inc.									
Lantana (v)	5			5		100.00		100.00	
Cayman									
Overseas (i) / (x)					1		100.00		100.00
Lantana (v)					5		100.00		100.00
CINAL									
CETREL	70			70	68	4.66	4.58	4.66	4.58
Politeno									
Politeno Empreendimentos (xii)					24		99.99		99.99
Politeno Empreendimentos (xii)									
Santeno (vii)					2,966		99.99		99.99

(i) Number of shares or quotas expressed in units.
(ii) Investment merged in April 2007 (Note 1(c)).
(iii) Investment merged in July 2007 (Note 1(c)).
(iv) Investment sold in September 2007.
(v) Investment sold to Braskem Inc in August 2007.
(vi) Company merged into Petroquímica Paulínia in November 2007.
(vii) Investment sold in December 2007.
(viii) Company being wound-up.
(ix) Investment being sold (Note 1(c)).
(x) Company wound-up in January 2007.
(xi) Investment controlled by Braskem as from April 2007 (Note 1(c)).
(xii) Direct subsidiary of Braskem after the merger of Politeno in April 2007 (Note 1(c)).

	Adjusted net income (loss) for the year		Adjusted shareholders' equity (negative equity)	
	2007	2006	2007	2006
Subsidiaries				
Braskem America	509	879	4,829	5,668
Braskem Argentina	(1,424)	2,069	351	2,209
Braskem Europa	16	(139)	9,813	1,217
Braskem Inc.	(9,919)	(58,386)	34,414	53,512
Braskem Participações	(5,726)	1,189	16,023	21,749
Braskem Distribuidora	(17,741)	22,544	89,017	99,932
CINAL	1,146	2,209	25,928	24,782
Copesul	553,796		1,250,505	
CPP (iv)				10,621
Politeno (i)	(169)	13,678		495,447
Politeno Empreendimentos	1,256		15,441	
Tegal (i)	(118)	(1,562)		14,143
Jointly-controlled entities				
CETREL	12,751	10,188	127,702	109,474
CODEVERDE			45,345	43,887
Copesul		615,185		1,300,160
Petroflex	75,757	26,045	375,547	306,817
Petroquímica Paulínia			241,823	130,138

CONTINUED

Associated companies				
Borealis (iii)	11,372	13,725	119,267	117,906
Rionil (ii)	271	254		6,070
Sansuy (iii)	(5,504)	(10,214)	(30,866)	(25,359)
Information on investments of subsidiaries				
Braskem Distribuidora				
Braskem Argentina	(1,424)	2,069	351	2,209
Braskem Importação	(466)	147	60	526
Cayman	(4,589)	25,625		5,539
Cayman				
Lantana		(165,067)		(202,973)
Overseas		186,404		
Braskem Inc				
Lantana	183,704		15,544	
CINAL				
CETREL	15,238	10,188	127,702	109,474
Politeno				
Politeno Empreendimentos		930		14,185
Politeno Empreendimentos				
Santeno (ii)	108	287		1,693

(i) Results determined up to the merger date.
(ii) Results determined up to the disposal date.
(iii) Results and shareholders' equity determined up to November 2007.
(iv) This company was at a pre-operating stage and was merged into Petroquímica Paulínia in November 2007.

DIVIDENDS AND INTEREST ON CAPITAL PROPOSED

	2007	2006
Subsidiaries and jointly-controlled entities		
Copesul	131,527	556,311
Petroflex	4,631	2,362
Politeno		12,951
Associated companies		
Borealis		2,000

b - Investment changes in subsidiaries, jointly-controlled entities and associated companies

	SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES							
								2007
	BRASKEM DISTRI-BUIDORA	BRASKEM AMERICA	BRASKEM INC.	BRASKEM PARTICI-PAÇÕES	BRASKEM EUROPA	CETREL	CINAL	COPESUL (IV)
At January 1	**99,932**	**5,668**	**53,512**	**21,749**	**1,217**	**65,534**	**16,051**	**541,812**
Addition through purchase of shares/merger (i)						1,330		
Addition through capital increase	6,826				8,733			
Write-off through disposal/ merger								
Dividends/interest on own capital								(44,790)
Equity in income of subsidiaries and associated companies	(17,741)	55	(9,919)	(5,726)	(21)	7,561	1,146	156,466
Recording of goodwill (negative goodwill)						368		
Amortization of (goodwill) negative goodwill						(1,565)		(32,275)
Exchange variation on foreign investment		(894)	(9,179)		(116)			
Transfer of goodwill on merger (ii)								
Other						1,145		(13,621)
At December 31	**89,017**	**4,829**	**34,414**	**16,023**	**9,813**	**74,373**	**17,197**	**607,592**

	SUBSIDIARIES AND JOINTLY-CONTROLLED ENTITIES						
						2007	2006
	PETROQUÍMICA PAULÍNIA	PETROFLEX (iii)	POLITENO	TEGAL	OTHER	TOTAL	TOTAL
At January 1	**78,082**	**61,117**	**837,867**	**13,553**	**17,232**	**1,813,326**	**2,024,713**
Addition through purchase of shares/merger (i)		49,346		608	14,703	65,987	331,023
Addition through capital increase	67,012				(9,343)	73,228	74,958
Write-off through disposal/merger			(478,286)	(14,024)	(8,465)	(500,775)	(287,489)
Transfer to current assets		(139,221)				(139,221)	
Dividends/interest on capital						(44,790)	(173,970)
Equity in income of subsidiary and associated companies		17,277	(152)	(137)	(87)	148,722	170,940
Recording of goodwill (negative goodwill)		11,676	26,824	498	10,224	49,590	82,705
Amortization of (goodwill) negative goodwill		(293)	(15,187)	(498)	(191)	(50,009)	(61,648)
Exchange variation on foreign investment					(424)	(10,613)	(10,990)
Transfer of goodwill on merger (ii)			(371,066)			(371,066)	(337,328)
Other		98			(971)	(13,349)	412
At December 31	**145,094**				**22,678**	**1,021,030**	**1,813,326**

(i) Additions through merger mainly arise from the corporate restructuring described in Note 1(c).

(ii) Goodwill on the merger of Politeno transferred from investments to deferred charges pursuant to CVM Instruction 319/99.

(iii) In November 2007, with the execution of the sale agreement of Petroflex shares, the investment balance was transferred to "Disposal of investments" in Current assets, where any changes with respect to this investment will be recorded until the actual share transfer date. In December, equity in the earnings of this company amounted to R$ 2,320, while interest on capital totaled R$ 4,631.

(iv) Equity in the results of Copesul excludes income from the sale of products which are still in Braskem's inventories, in the amount of R$ 8,980.

	ASSOCIATED COMPANIES			
			2007	2006
	BOREALIS	RIONIL	TOTAL	TOTAL
At January 1	**23,581**	**2,023**	**25,604**	**25,761**
Equity in income	2,272	(106)	2,166	1,843
Write-off through sale		(1,917)	(1,917)	
Dividends	(2,000)		(2,000)	(2,000)
At December 31	**23,853**		**23,853**	**25,604**

GOODWILL (NEGATIVE GOODWILL) UNDERLYING THE INVESTMENTS

	PARENT COMPANY						
						2007	2006
	CETREL (I)	CINAL	COPESUL (II)	POLITENO	OTHER	TOTAL	TOTAL
Cost of goodwill	15,990		309,121	598,881	25,317	949,309	1,410,392
(-) Accumulated amortization	(5,328)		(182,622)	(227,815)	(3,899)	(419,664)	(543,001)
Transfer through merger				(371,066)		(371,066)	(337,328)
Negative goodwill value		(8,731)			(2,115)	(10,846)	(10,845)
Goodwill (negative goodwill), net	**10,662**	**(8,731)**	**126,499**		**19,303**	**147,733**	**519,218**

(i) Goodwill based on the appreciation of property, plant and equipment, and amortized up to 2015.
(ii) Goodwill based on future profitability, amortized up to 2011.

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.

c - Advance for acquisition of investments

This balance comprises expenses with the acquisition of the Ipiranga Group petrochemical assets, as mentioned in Note 1(c). The acquisition of RPI, DPPI and CBPI shares was carried out in three steps, as follows:

- In April 2007, common and preferred shares held by the controlling shareholders of the Ipiranga Group. In this connection, Braskem made a advance of R$ 651,928 to Ultrapar. In accordance with the shareholders' agreement entered into with Ultrapar and Petrobras, as from the date of this purchase, Braskem took over management of the Ipiranga Group petrochemical assets. In its quality of new controller of these assets, in April 2007 the Company started to fully consolidate Ipiranga Química, IPQ and Copesul, considering its 13.40% interest in the total capital of Ipiranga Química.
- In October and November 2007, common and preferred shares held by minority shareholders of RPI, DPPI and CBPI were purchased, as required by the Brazilian corporate law. For this acquisition, Braskem made to Ultrapar an advance of R$ 203,713, and recorded a 17.87% interest in the total capital of Ipiranga Química for purposes of consolidating these assets.
- In December 2007, Ultrapar merged the preferred shares owned by minority shareholders in the acquired companies, thus holding 100% of the shares in RPI, DPPI and CBPI. Upon completion of this stage, the Company recorded the last installment to be assigned to Ultrapar, in the amount of R$ 633,488, to be disbursed when the Company receives the Ipiranga Química shares from Ultrapar, which is scheduled to occur by the end of February 2008. This installment has been added to the advance for acquisition of investment line against to "Creditors on acquisition of investments". Following the accounting recognition of this stage of the acquisition process, the Company records a 60% interest in the total capital of Ipiranga Química for purposes of equity accounting and consolidation of these assets.

Further to the amounts allocated to the purchase of shares, the Company considered as part of the investment cost those expenses directly associated with the process and which amount to R$ 22,022 up to December 2007. Taking into consideration all disbursements already made, in December 2007 the Company recorded goodwill of R$ 1,050,905, based on the appreciation of property, plant and equipment.

Between April and December 2007, the Company recorded R$ 30,732 as equity in the earnings of Ipiranga Química. During the same period, the amount of R$ 22,919 was taken to income as realization of goodwill underlying this acquisition.

d - 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 the provision of various services to the Triunfo Petrochemical Complex companies in the State of Rio Grande do Sul, and management of logistic services related to its waterway and terrestrial terminals.

On December 6, 2007, Copesul decreased its capital by R$ 358,360, as a result of the merger of EDSP58 (Note 1(c)).

Ipiranga Química

This company engages in the distribution, sale and processing of solvents derived from oil and petrochemical industries, the distribution of sale of process oils, other inputs and oil derivatives, intermediary chemicals, polymers and special chemicals. Ipiranga Química holds 100% of IPQ capital, a company engaged in the production and sale of polyethylene and polypropylene.

Polialden

Polialden, merged on May 31, 2006 (Note 1(c)), was active in the manufacture, processing, marketing, import and export, as well as all other activities associated with the production or sale of high density polyethylene and other chemicals and petrochemicals. The main raw material of its products was ethylene supplied by Braskem. Polialden operated an industrial unit in Camaçari, State of Bahia.

Politeno

Politeno, merged on April 2, 2007 (Note 1(c)), was 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 was ethylene, which was supplied by Braskem. Politeno operated an industrial plant in Camaçari - Bahia.

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

To July 2006, CINAL was engaged in the implementation of the Basic Industrial Nucleus of the Alagoas Chlorine chemical Complex and the production and sale of goods and several services, such as steam, industrial water, industrial waste treatment and incineration of organ chlorine 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 is responsible for the implementation and operation of a new polypropylene unit under construction at Paulínia – São Paulo, using as raw material polymer-grade propylene supplied by Petrobras and last generation technology owned by Braskem. Start-up of this venture is scheduled for the first half of 2008.

12 – Property, Plant and Equipment and Intangible Assets

	Parent company				Consolidated				
			2007	2006			2007	2006	
	COST	ACCUMULATED DEPREC./ AMORTIZATION	NET	NET	COST	ACCUMULATED DEPREC./ AMORTIZATION	NET	NET	AVERAGE ANNUAL DEPREC./ AMORTIZATION RATES (%)
Land	26,221		26,221	21,267	74,977		74,977	61,341	
Buildings and improvements	1,010,643	(467,008)	543,635	507,467	1,317,497	(586,826)	730,671	592,103	2.7
Machinery, equipment and facilities	8,582,743	(4,015,653)	4,567,090	3,900,880	12,991,741	(7,377,554)	5,614,187	4,296,875	5.9
Mines and wells	8,536	(4,624)	3,912	4,626	9,609	(5,389)	4,220	4,815	10.6
Furniture and fixtures	64,875	(40,557)	24,318	9,628	79,650	(50,650)	29,000	16,441	10.0
IT equipment	85,202	(63,706)	21,496	13,404	142,640	(103,274)	39,366	21,846	20.0
Maintenance stoppages in progress	75,566		75,566	77,843	95,502		95,502	77,843	
Projects in progress	971,996		971,996	1,271,773	1,599,305		1,599,305	1,419,215	
Capitalized interest on projects in progress	47,231		47,231	104,566	57,952		57,952	104,566	
Other	173,373	(63,153)	110,22	82,676	250,032	(91,133)	158,899	93,654	16.0
	11,046,386	**(4,654,701)**	**6,391,685**	**5,994,130**	**16,618,905**	**(8,214,826)**	**8,404,079**	**6,688,699**	
Intangible assets									
Trademarks and patents	512	(506)	6	12	607	(573)	34	177	10.0
Technology	34,491	(25,638)	8,853	13,758	35,134	(25,638)	9,496	13,758	12.3
Rights of use	197,445	(47,082)	150,363	115,356	215,564	(52,676)	162,888	115,515	19.8
	232,448	**(73,226)**	**159,222**	**129,126**	**251,305**	**(78,887)**	**172,418**	**129,450**	

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.

At December 31, 2007, property, plant and equipment includes the appreciation, in the form of goodwill arising from the merger of subsidiaries, in conformity with CVM Instruction 247/99, in the net amount of R$ 765,747 (2006 - R$ 819,754)

As of January 2006, in accordance with CVM/SNC/SEP circular-Letter 1/2006, 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 periods at intervals from two to six years and are amortized in production cost until the beginning of the next maintenance shutdown.

Also because of the adoption of the above mentioned Circular-Letter, 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, in the retained earnings/accumulated losses, as required by the Circular-Letter and article 186 of the Brazilian corporate law.

CHANGES IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
At beginning of the year	**6,123,256**	**5,703,457**	**6,818,149**	**6,392,756**
(+) Additions	812,392	910,166	1,396,044	1,056,547
(-) Sales	(16,457)	(185,304)	(16,457)	(169,247)
(-) Transfers	(13,204)		(14,309)	
(+) Corporate changes*	176,934	133,154	1,173,044	89,140
(-) Depreciation / amortization	(532,014)	(438,217)	(779,859)	(551,047)
(+) Exchange variation			(115)	
Balance at the end of the year	**6,550,907**	**6,123,256**	**8,576,497**	**6,818,149**

** Includes mergers of companies, opening balances of merged companies as from the acquisition date, and write-off through deconsolidation of company being disposed of (Note 1(c)).*

13 – Deferred Charges

	PARENT COMPANY				CONSOLIDATED				
			2007	2006			2007	2006	
	COST	ACCUMULATED AMORTIZATION	NET	NET	COST	ACCUMULATED AMORTIZATION	NET	NET	AVERAGE ANNUAL AMORTIZATION RATES (%)
Organization and system implementation expenses	256,470	(171,24)	85,23	117,465	300,91	(192,181)	108,729	133,926	17.9
Expenditures for structured transactions	287,776	(191,535)	96,241	144,609	320,749	(219,566)	101,183	158,677	14.7
Goodwill on merged/ consolidated investments (i)	2,300,715	(1,146,424)	1,154,291	1,017,073	3,554,776	(1,150,022)	2,404,754	1,531,020	11.3
Pre-operating and other expenses	75,175	(37,427)	37,748	46,139	215,771	(143,507)	72,264	67,622	9.8
	2,920,136	**(1,546,626)**	**1,373,510**	**1,325,286**	**4,392,206**	**(1,705,276)**	**2,686,930**	**1,891,245**	

(i) Goodwill on merged or consolidated investments is based on future profitability and amortized in up to 10 years, according to appraisal reports issued by independent experts. The recording of this goodwill in deferred charges is in conformity with CVM Instruction 319/99.

CHANGES IN DEFERRED CHARGES

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
At beginning of the year	**1,325,286**	**1,486,879**	**1,891,245**	**2,231,785**
(+) Additions	72,862	35,213	1,149,230	40,312
(-) Sales	(4,328)		(4,328)	
(-) Transfers	13,204		14,309	
(+) Corporate changes	371,161	178,909	60,156	7,842
(-) Amortization	(404,675)	(375,715)	(419,169)	(388,694)
Exchange variation			(4,513)	
At the end of the year	**1,373,510**	**1,325,286**	**2,686,930**	**1,891,245**

14 – Loans and Financing

		ANNUAL FINANCIAL CHARGES	Parent Company 2007	Parent Company 2006
Foreign currency				
Advances on exchange contracts	2007	US$ exchange variation + average interest of 5.45%	1,293	
Eurobonds		Note 14(b)	1,845,627	2,218,789
Export prepayment		Note 14(c)	1,137,960	312,457
Medium - Term Notes		Note 14(d)	632,567	763,523
Raw material financing	2007/2006	YEN exchange variation + fixed interest of 6.70%	383	1,302
	2007	US$ exchange variation + average interest of 6.76%	18,293	
	2006	US$ exchange variation + average interest of 5.73%		3,397
	2007	EUR exchange variation + average interest of 4.68%	1,671	
Permanent asset financing	2006	US$ exchange variation + interest of 9.73%		8,022
	2006	US$ exchange variation + fixed interest of 7.14%		613
BNDES	2007	Average fixed interest of 9.97% + post-fixed restatement (UMBNDES) (i)	30,370	
	2006	Average fixed interest of 10.00% + post-fixed restatement (UMBNDES) (i)		39,558
Working capital	2007	US$ exchange variation + average interest of 7.94%	366,906	
	2006	US$ exchange variation + average interest of 8.10%		168,678
	2006	US$ exchange variation + interest of 6.91%		3,988
Local currency				
BNDES	2007	Average fixed interest of 3.78% +TJLP (LTIR)	301,057	
	2006	Average fixed interest of 4.00% +TJLP (LTIR)		263,248
BNB	2007	Fixed interest of 9.78%	156,351	
	2006	Fixed interest of 11.81%		125,273
FINEP	2007	TJLP	64,302	
	2006	US$ exchange variation + post-fixed restatement (TJLP)		76,630
Project financing (NEXI)	2007/2006	YEN exchange variation + interest of 0.95% above TIBOR	231,190	281,883
Total			**4,787,970**	**4,267,361**
Current liabilities			(416,577)	(675,674)
Long-term liabilities			**4,371,393**	**3,591,687**

		ANNUAL FINANCIAL CHARGES	Consolidated 2007	2006
Foreign currency				
Eurobonds		Note 14(b)	1,401,196	1,715,792
Advance on exchange contracts	2007	US$ exchange variation + average interest of 5.65%	28,251	
	2006	US$ exchange variation + interest of 5.60%aa or fixed interest of 7.11%		63,013
Export prepayments		Note 14(c)	1,623,294	324,899
Medium - Term Notes		Note 14(d)	632,567	763,523
Raw material financing	2007/2006	YEN exchange variation + fixed interest of 6.70%	383	1,302
	2007	US$ exchange variation + average interest of 6.76%	18,292	
	2006	US$ exchange variation + average interest of 5.73%		20,870
	2007	EUR exchange variation + average interest of 4.68%	1,671	
	2006	EUR exchange variation + average interest of 2.0% above 6-month LIBOR		1,799
Permanent assets financing	2007	US$ exchange variation + 1.60%aa annual LIBOR	37,874	
	2007	US$ exchange variation + 0.35%aa 4-month LIBOR	1,701,848	
	2006	US$ exchange variation + fixed interest of 7.14%		613
	2006	US$ exchange variation + interest of 9.73%		8,832
BNDES	2007	Average fixed interest of 9.70%aa + post-fixed restatement (UMBNDES)	44,831	
	2006	Fixed interest of 10.00%+ post-fixed restatement (UMBNDES)		40,934
	2006	US$ exchange variation + average interest of 8.70%		3,120
Working capital	2007	US$ exchange variation + average interest of 7.83%	388,197	
	2006	US$ exchange variation + interest of 8.10%		168,678
	2006	US$ exchange variation + average interest of 6.91%		3,988
Local currency				
Working capital	2007	102% of CDI	128,852	
	2006	Fixed interest of 13.42% + post-fixed restatement (CDI)		6,689
Investment funds in credit rights	2006	Note 14(f)		422,288
FINAME	2007	Average interest of 4.44% + TJLP (LTIR)	7,008	
	2006	Average interest of 7.50% + TJLP (LTIR)		12,955
BNDES	2007	Average fixed interest of 3.45% +TJLP (LTIR)	667,465	
	2006	Average fixed interest of 3.94% to 4.00% +TJLP (LTIR)		345,977
BNB	2007	Fixed interest of 9.88%	165,854	
	2006	Fixed interest of 11.81%		135,004
FINEP	2007	Post-fixed restatement (TJLP)	64,301	
	2006	US$ exchange variation + post-fixed restatement (TJLP)		83,648
Project financing (NEXI)	2007/2006	YEN exchange variation + interest of 0.95% above TIBOR	231,190	281,883
Vendor	2007/2006	Average interest of 11.55%	327,224	183,885
Total			**7,470,298**	**4,589,692**
Current liabilities			(1,068,351)	(653,898)
Long-term liabilities			**6,401,947**	**3,935,794**

(i) UMBNDES = BNDES monetary unit.

a - Investment financing

In April 2007, the Company completed negotiations to obtain a bridge loan of up to US$ 1.2 billion to finance the acquisition of the Ipiranga Group petrochemical assets and delist Copesul. Amounts draw down by the Company until December 31, 2007, plus charges, total R$ 861,022, and are stated as "Export prepayments" (Note 14 (c)). On a consolidated basis, this amount, plus the portion released to subsidiary EDSP58, is recorded in "Permanent assets financing" and amount to R$ 1,701,848.

b - Eurobonds

In April 2006, the Company completed the issue of US$ 200,000 thousand perpetual bonds, at annual interest of 9.00%. 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 Bonds, with 8% coupon and maturity in ten years. Funds raised were used mainly for the partial repurchase of Medium-Term Notes ("MTN") of the 3rd tranche (Note 14(d)).

In June 2007, the Company renegotiated the interest rate of bonds issued in June 1997, which went from 9.00% to 8.25% p.a., while maturity was postponed from 2007 to 2024.

Composition of transactions:

ISSUE DATE	ISSUE AMOUNT US$ THOUSAND	MATURITY	INTEREST (% P.A.)	PARENT COMPANY 2007	PARENT COMPANY 2006	CONSOLIDATED 2007	CONSOLIDATED 2006
Jun/1997	150,000	Jun/2024	8.25	265,999	321,101	321,101	
Jul/1997	250,000	Jun/2015	9.38	446,169	538,537	267,737	35,54
Jun/2005	150,000	---	9.75	266,764	321,99	266,764	321,990
Abr/2006	200,000	---	9.00	360,536	435,175	360,536	435,175
Set/2006	275,000	Jan/2017	8.00	506,159	601,986	506,159	601,986
				1,845,627	**2,218,789**	**1,401,196**	**1,715,792**

c - Export prepayment

In April 2007, aiming at restructuring its indebtedness, the Company settled in advance the prepayment agreement in the amount of US$ 200,000 thousand, with stated maturity in June 2009, by obtaining a new prepayment in the amount of US$ 150,000 thousand, maturing in April 2014.

In April and October 2007, the Company raised US$ 330,000 thousand and US$ 150,000 thousand, respectively, to finance the acquisition of the Ipiranga Group petrochemical assets (Note 14(a)).

Composition of transactions:

DATE	INITIAL AMOUNT US$ THOUSANDS	SETTLEMENTDATE	CHARGES (% P.A.)	PARENT COMPANY 2007	PARENT COMPANY 2006	CONSOLIDATED 2007	CONSOLIDATED 2006
Jun/2004	200,000	Jun/2009	1.45 + 6-month LIBOR		268,160		268,160
Jan/2005	45,000	Jan/2008	1.55 + 3-month LIBOR	7,326	44,297	7,326	44,297
May/2006	392	Jun/2008	US$ exch. variation+ average interest of 5.41			962	
May/2006	10,000	May/2009	US$ exch. variation+ average interest of 5.33			17,848	
May/2006	20,000	Jan/2010	US$ exch. variation+ average interest of 5.19			37,524	
Apr/2007	150,000	Apr/2014	0.77 + 6-month LIBOR	269,612		269,612	
Apr/2007	330,000	Apr/2009	0,35 + 4-month LIBOR	591,946			
Oct/2007	150,000	Oct/2014	1.50 + 4-month LIBOR	269,076			12,442
Oct/2007	312,525	Oct/2014	1.50 + 4-month LIBOR			562,339	
Jul/2006	435,000	Aug/2011	US$ exch. variation+ average interest of 6.56			727,683	
				1,137,960	**312,457**	**1,623,294**	**324,899**

d – Medium-Term Note ("MTN") Program

To restructure its debt, in September 2006, the Company repurchased part of the notes of the 3rd tranche, in the amount of US$ 184,600 thousand, corresponding to 67% of the original issue. In addition to the principal, note holders were paid the amount relating to due and not yet due interest, brought to present value.

Composition of transactions:

					PARENT COMPANY AND CONSOLIDATED	
DATE	AMOUNT US$ THOUSAND	ISSUE DATE	MATURITY	INTEREST (% P.A.)	2007	2006
3rd tranche	270,000	Nov/2003	Nov/2008	12.50	163,644	197,522
4th tranche	250,000	Jan/2004	Jan/2014	11.75	468,923	566,001
					632,567	**763,523**

e – Project financing

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 contract 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, 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).

f – Investment fund in credit rights

This financing arises from the consolidation of investment funds in credit rights ("FIDC"), named Chemical and Chemical II. FIDC raise funds by selling senior quotas, the remuneration of which is linked to the variation of CDI. FIDC's 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 in these FIDCs were owned by the Company.

In December 2006, the Chemical fund redeemed its senior quotas 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. The subordinated quotas held by the Company were sold in the quarter ended March 2007. At December 31, 2006, the balance of these quotas amounted to R$ 401,834.

g – Repayment schedule

Long-term loans mature as follows:

	2007	
	PARENT COMPANY	CONSOLIDATED
2009	772,409	2,593,682
2010	181,674	378,680
2011	143,362	304,609
2012	57,698	329,059
2013 and thereafter	3,216,250	2,795,917
	4,371,393	**6,401,947**

h – Guarantees

The Company and its subsidiaries Copesul and IPQ have provided securities for short- and long-term financing, as stated below:

BRASKEM

	MATURITY	TOTAL GUARANTEED	LOAN AMOUNT	GUARANTEES
BNB	Jan/2016	156,351	156,351	Mortgage, machinery & equipment
BNDES	Nov/2012	331,427	331,427	Mortgage, machinery & equipment
NEXI	Mar/2012	154,477	231,190	Insurance premium
FINEP	Mar/2012	64,301	64,301	Mortgage and surety bond
Prepayments	Apr/2014	276,937	1,137,960	Mortgage and surety bond
Other institutions	Nov/2007 to Dec/2012	20,347	388,546	Surety/endorsement and promissory notes
Total		**1,003,840**	**2,309,775**	

At December 31, 2007, the Company is the direct financing guarantor of the jointly-controlled entity Petroflex for R$ 8,585 (2006 - R$ 6,406), corresponding to 40% of Petroflex' debt with BNDES.

In December 2006, the Company, together with Petrobras Química S.A. – Petroquisa, entered into a supporting agreement with BNDES, under which Braskem and Petroquisa undertake to provide, in proportion to their respective interests in the capital of Petroquímica Paulínia, the required funds to meet any insufficiencies arising from delinquency on the part of this company. Accordingly, the Company may be required to make disbursements to Petroquímica Paulinia of up to R$ 339,720, as capital contribution or loan.

These amounts correspond to the maximum amount of potential future repayments (not discounted) that the Company may be required to make.

COPESUL

	MATURITY	TOTAL GUARANTEED	LOAN AMOUNT	GUARANTEES
Prepayments	Jan/2010	56,335	56,335	Promissory note
BNDES	Jan/2014	407,926	144,731	Mortgage, machinery & equipment
BRDE	Jul/2009	5,939	5,939	Financed equipment
Working capital financing abroad		21,291	21,291	Promissory note
Working capital financing Brazil	Apr/2008	128,600	128,600	Export Credit Note
Total		**620,091**	**356,896**	

Copesul has secondary obligations with financial institutions, where it is guarantor of vendor transactions carried out by Petroflex, in the amount of R$ 18,435. No losses are anticipated from these obligations.

IPQ

	MATURITY	TOTAL GUARANTEED	LOAN AMOUNT	GUARANTEES
Banco Santander do Brasil S/A	Jun/2013	173,077	173,077	Copesul shares
Banco Bradesco S/A	Jul/2014	136,411	136,411	Copesul shares
Banco Bradesco S/A	Jun/2008	11,162	11,162	Shareholder endorsement
Total		**320,650**	**320,650**	

i – Capitalized interest

As described in Note 3(d), the Company adopts the accounting practice of capitalizing interest on financing during the period of asset construction. The Company policy is to apply the weighted average financial charge rate on the debt to the balance of projects in progress. This amount is limited to the amount of charges incurred in the period.

The average used during the period was 6.94% p.a. and the amounts capitalized are stated below:

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Gross financial charges	534,521	568,248	669,303	609,137
(-) Capitalized interest	(18,782)	(63,346)	(35,192)	(63,759)
Net financial charges	**515,739**	**504,902**	**634,111**	**545,378**

j – Loan covenants

Certain loan agreements entered into by the Company establish limits for a number or ratios relating to the ability to incur debts and pay interest. The ratios are as follows:

- Debentures of 13th and 14th Issues: Net Debt / EBITDA(*).
- NEXI financing: Net Debt / EBITDA(**) and EBITDA(**) / net interest on debt.
- MTN: Net Debt / EBITDA(**).

(*)EBITDA - Earnings before interest, tax, depreciation and amortization.
(**)EBITDA - Earnings before interest, tax, depreciation and amortization (excludes also dividends and interest on shareholders' equity received).

The above covenants are calculated on a consolidated basis for the past 12 months a quarterly basis. Penalty for noncompliance is the potential acceleration of the debt. All commitments have been accomplished by the Company.

15 – Debentures

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 1st, 2006.

On June 4, 2007, the Company carried out the early, total redemption of the outstanding debentures of its 12th public issue, for the par value of the debentures, plus remuneration pursuant to clause 5.19 of the issue deed.

Composition of transactions:

ISSUE	UNIT VALUE	MATURITY	REMUNERATION	REMUNERATION PAYMENT	PARENT COMPANY 2007	PARENT COMPANY 2006	CONSOLIDATED 2007	CONSOLIDATED 2006
1st (i)	R$ 10	Jul/2007	Long-term interes rate (TJLP) variation + interest of 5% p.a.	Upon maturity		1,130,752		1,130,752
12th(ii)	R$ 100	Jun/2009	117.0% of CDI	Biannually as from Dec/2004		151,729		151,729
13th(ii)	R$ 10	Jun/2010	104.1% of CDI	Biannually as from Dec/2005	302,622	303,074	302,622	303,074
14th(ii)	R$ 10	Sep/2011	103.5% of CDI	Biannually as from Mar/2007	517,852	521.801	517,852	521,801
(iii)	R$ 1	Jun/2008	100.0% of CDI	Upon maturity			91,158	
4th(iv)	R$ 10.000	Dec/2010	104.5% of accumulated average daily rates of DIs	Every 4 months starting the 3rd year as from the issue date				32,521
					820,474	**2,107,356**	**911,632**	**2,139,877**

(i) Private issue of convertible debentures which were converted into Class A preferred shares on July 31, 2007 (Note 20(a)).
(ii) Public issue of non-convertible debentures.
(iii) Issued by subsidiary Química.
(iv) Issued by jointly-controlled company Petroflex.

The debenture changes in 2007 and 2006 is as follows:

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
At January 1	**2,107,356**	**1,608,642**	**2,139,877**	**1,608,579**
Financial charges	184,512	248,622	192,303	248,600
Issue		500		532,500
Addition through acquisition of subsidiary			83,367	
Write-off through deconsolidation of subsidiary			(32,521)	
Amortization / cancellation	(1,471,394)	(249,908)	(1,471,394)	(249,802)
At the end of the year	**820,474**	**2,107,356**	**911,632**	**2,139,877**
Current liabilities	(20,474)	(1,157,356)	(111,632)	(1,157,687)
noncurrent liabilities	**800,000**	**950,000**	**800,000**	**982,190**

16 – Taxes and Contributions Payable – Noncurrent Liabilities

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
IPI credits offset				
IPI - export credit (i)	687,826	646,641	687,826	647,778
IPI - zero rate(ii)	309,358	505,852	309,358	505,852
IPI - consumption materials and property, plant and equipment	42,529	44,593	42,529	54,746
Other taxes and contributions payable				
PIS /COFINS - Law 9718/98	46,594	134,573	50,581	146,769
Education contribution, SAT and INSS	38,565	32,520	38,577	37,149
PAES-Law 10684 (iv)	30,042	36,596	36,412	36,596
Other	19,995	7,374	59,160	21,522
(-) Deposits in court	**(69,799)**	**(128,451)**	**(78,627)**	**(128,451)**
	1,105,110	**1,279,698**	**1,145,816**	**1,321,961**

The Company has brought suit against some recent changes in tax laws, and the updated disputed values are duly provisioned for. No contingent assets are posted by the Company in this regard.

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. Lower courts have granted most lawsuits to that end, but such favorable decisions may still be appealed.

In hearing the appeal lodged by another taxpayer seeking court recognition of its entitlement to use such tax benefit until present, the Superior Court of Justice (STJ) upheld its rejection to such prospective use and affirmed that the aforementioned tax benefit expired in 1990. When the STJ completes its judgment, the STF will revisit the right to use those tax credits after 1990, based on application of Temporary Constitutional Provisions Act (ADCT) 41.

According to its legal advisors, the Company stands reasonably possible chances of success in these suits.

ii – IPI - Zero rate

Merged companies OPP Química, Trikem and Polialden have filed lawsuits claiming IPI tax credits from the acquisition of raw materials and inputs that are exempt, non-taxed or taxed at a zero rate. Lower courts have granted most lawsuits to that end.

In a decision rendered in February 2007 on a case unrelated to the Company, the STF found against the right to offset zero-rate IPI credits by a tight majority (6 to 5). In June 2007, the STF Full Bench ruled, by majority opinion, that prospective-only effects could not be given to an STF decision that later reversed an erstwhile taxpayer-friendly determination made by the STF Full Bench itself. This ruling had a negative bearing on judgment of the cases involving merged companies OPP Química and Trikem in Bahia, leading to payments in the amount of R$ 127,317 (August 2007). By the same token, a portion of the amount underlying the lawsuit involving merged company Polialden (R$ 99,641) was settled in October 2007. The outstanding value relating to such case will be challenged in court.

The Company still enjoys a favorable court decision on the lawsuit lodged by its merged company Trikem in Alagoas, allowing the Company to use these tax credits. The Company will have to pay out the offset sums when the court decision on this case is reversed. It should be stressed that all of these amounts have been provisioned for, which will avoid an adverse impact on the Company's results.

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, the court decisions favorable to the Company's cases initiated in March 1999 became final and conclusive, giving rise to a positive impact of R$ 89,622 in income for the first quarter of that year.

As the STF Full Bench had definitively ruled, in November 2005, that the increase in PIS and COFINS tax basis under said law was unconstitutional, this matter became *res judicata* favorably to the Company in several lawsuits. The positive impact on the Company's results for 2007 came to R$110,704 (Note 24).

Some of these lawsuits also challenged the escalation 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 on December 15, 2006.

iv – Special Installment Program - PAES - Law 10684 of 2003

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 more 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$36,597 as of December 31, 2007, being R$6,555 in current liabilities and R$30,042 in noncurrent liabilities (2006 – R$ 43,151, being R$6,555 in current liabilities and R$36,596 in noncurrent 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 and Social Contribution Taxes

a – Income and Social Contribution Taxes

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Income (loss) before income taxes and minority shareholders	581,395	(21,323)	1,184,160	90,090
Income tax and social contribution credit (expense) at the rate of 34%	(197,674)	7,250	(402,615)	(30,630)
Income tax on equity method investments	36,186	43,873	(37)	4,209
Income tax on equity in income of subsidiaries on net income (CSL) (Note 17(c))	52,326	(1,919)	52,326	5,740
Other permanent differences	(6,152)	(796)	13,969	(18,486)
Amortization of goodwill	15,906	(17,476)	4,363	(16,524)
Taxes challenged in court	15,060	33,046	15,060	33,046
Tax losses	8,232	(51,107)	20,999	(51,107)
Provisions and other temporary differences	26,640	(12,871)	25,384	(19,195)
Other	(116)	(444)	(3,135)	4,893
Income tax expense	**(49,592)**	**(444)**	**(273,686)**	**(88,054)**

Out of the parent company income tax expense, R$ 49,494 is entitled to income tax exemption/abatement. In 2006, due to the determination of tax loss, there were no such benefits.

b – Deferred income tax

i –Composition of deferred income tax

In accordance with the provisions of CVM Deliberation 273/98, which approved the Institute of Independent Auditors of Brazil (IBRACON) standards on the accounting of 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:

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Tax loss carryforward	585,777	648,848	585,777	648,848
Amortized goodwill on investment in merged companies	614,939	401,659	614,939	401,659
Temporarily non-deductible expenses	423,624	485,743	625,988	535,756
Potential calculation basis of deferred income tax	**1,624,340**	**1,536,250**	**1,826,704**	**1,586,263**
Potential deferred income tax (25%)	406,085	384,062	456,676	396,565
Unrecorded portion of deferred income tax	(2,880)	(3,400)	(2,880)	(3,400)
Deferred income tax – assets	**403,205**	**380,662**	**453,796**	**393,165**
Current assets	(36,725)	(19,573)	(61,842)	(20,625)
Noncurrent assets	**366,480**	**361,089**	**391,954**	**372,540**
Changes:				
At beginning of the year	**380,662**	**277,250**	**393,165**	**281,500**
Subsidiary balances merged	8,612	4,482	8,612	4,482
Ipiranga consolidated balance			102,341	
Addition of deferred income tax on tax losses	(15,768)	51,945	(118,109)	51,945
Addition of income tax on amortized goodwill of merged companies	85,757	75,875	85,757	75,875
Deferred income tax on amortized goodwill of merged companies	(31,917)	(12,227)	(31,917)	(12,227)
Deferred income tax on temporary provisions	(24,141)	(16,663)	(13,947)	(8,410)
At the end of the year	**403,205**	**380,662**	**453,796**	**393,165**
Deferred income tax (liabilities) on accelerated depreciation:				
At beginning of the year	(7,935)	(8,525)	(14,802)	(8,525)
Realization (addition) of deferred income tax	589	590	(48,015)	(6,277)
At the end of the year	**(7,346)**	**(7,935)**	**(62,817)**	**(14,802)**
Deferred income tax in statements of income	**14,520**	**99,520**	**(98,337)**	**100,906**

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

ii – Estimated timing of the realization 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, 2007, anticipating the generation of future taxable income. The studies show that the income tax credit from tax losses, in the amount of R$ 146,445, will be fully utilized between 2008 and 2012, as follows:

	PARENT COMPANY AND CONSOLIDATED
2008	14,333
2009	2,359
2010	14,537
2011	24,043
2012	91,173
	146,445

Deferred income tax credits on temporary differences, mainly comprised of amortized goodwill in the amount of R$ 150,855 and provisions in the amount of R$ 105,905, are justified by their full utilization due to the accounting realization of goodwill and provisions.

The realization of deferred income tax on goodwill is anticipated as follows:

	PARENT COMPANY AND CONSOLIDATED
2008	36,725
2009	37,277
2010	37,277
2011	28,375
2012	6,582
2013 to 2015	3,074
2016 to 2017	1,545
	150,855

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$ 11,519).

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 taxable income 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 fiscal credits should not be considered as an indication of the Company's future results.

c – Social Contribution on 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 defences have been filed against such notices.

Based on the opinion of its legal advisors (which stated the likelihood of a favorable outcome as reasonably possible), Management 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 suit on the judgment is held invalid, the effects of said judgment cannot retroact to the year of enactment of the law, the reason why the Company has created no provisions for this tax.

If retrospective collection is required by court order (contrary to the opinion of its legal advisors), the Company believes that the possibility of being imposed a fine is remote. Accordingly, the amount payable, restated for inflation and accruing Brazil’s SELIC benchmark rate, would be approximately R$ 809,000 (2006 - R$ 743,000), net of fine.

d –Deferred Social Contribution on Income

At December 31, 2007, the consolidated balance of deferred income and social contribution taxes includes R$ 3,339 (2006 - R$ 1,306) relating to deferred CSL assets on non-deductible provisions recorded by the subsidiary Copesul. The deferred liabilities balance of these taxes includes R$ 8,505 (2006 - R$ 578) relating to deferred CSL record edon unsettled exchange variances and accelerated depreciation of Copesul. The consolidated balance of these taxes includes deferred CSL expense for Copesul in the amount of R$ 3,944.

At December 31, 2007, the consolidated balance of deferred income and social contribution assets includes R$ 1,297 relating do deferred CSL assets on goodwill on the acquisition of investments and non-deductible provisions of the subsidiary Ipiranga Petroquímica. The consolidated balance of deferred IRPJ and CSL liabilities includes

R$ 2,474 relating to the portion of deferred CSL liabilities recorded by IPQ on unrealized exchange variance. These taxes deferral expense on a consolidated basis includes amounts recorded by IPQ with respect to CSL revenues in the amount of R$ 2,095.

At December 31, 2006, the consolidated balance of deferred income and social contribution taxes assets includes CSL amounts recorded by subsidiary Petroflex and merged company Politeno in the amounts of R$ 972 and R$ 2,223, respectively. The consolidated balance of liabilities deferred IRPJ and CSL includes R$ 1,894 for CSL recorded by Petroflex.

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18 –Tax Incentives

a – Income tax

To 2011, the Company is entitled to reduce by 75% the income tax on the profit arising from the sale of basic petrochemical products and utilities. The three polyethylene plants at Camaçari have the same right up to base years 2011, 2012 and 2016. The PVC plant at Camaçari also has this right up to base year 2013. The PVC plants in Alagoas and the PET plant at Camaçari are exempt from corporate income tax 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 loss compensation.

Incentives determined for the year ended December 31, 2007 was R$ 49,494.

As from 2006, the subsidiary Copesul is entitled to the tax incentives provided for in Law 11196/05, Decree 5798/06 and MCT Ordinance 782/06.

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 is stated in income for the year, under “Other operating income”. The incentive determined for the year ended December 31, 2007 was R$ 15,855 (2006 – R$ 12,909, classified as capital reserve).

19 –Long-term Incentives

In September 2005, an incentive scheme called “Long-term Incentive” plan was approved by a Shareholders’ Meeting. Under the plan, which is not based on Company shares, certain employees nominated by management on an annual basis are entitled to purchase Company bonds called “Investment Units”. The plan goals include, among others, to foster the alignment of interests of Braskem employees and shareholders to create long-term value, promote the ownership sense, and drive the employees’ vision and commitment to long-term results.

Holders of Investment units do not have the status of Braskem shareholders nor any right or privilege attached to it, in particular the right to vote and other political rights.

Each year, the Board of Directors approves eligible participants, the number of investment units to be issued, the percentage of Company contribution in consideration of the acquisition by employees, as well the number of units offered per participant. A participant’s acceptance implies payment in cash of the amount assigned to him/her and the execution of a unit purchase agreement. Braskem then issues the related “Investment unit certificate”.

The investment units are issued in the first half of each year and restated on an annual basis in accordance with the average quotation of the Company Class A preferred shares at the closing of BOVESPA sessions in October and March. In addition to the variation in its face value, Investment units yields are equal to dividends and/on interest on capital distributed by Braskem.

There are 3 types of Investment units:

- units acquired by participants, called "Alfa";
- units received by participants as a bonus, called "Beta"; and
- units received by participants as yield, called "Gama".

Investment units (and related certificates) are issued on a strictly personal basis and can only be disposed of upon redemption by Braskem, under the following circumstances:

- as of the 5th year from the first acquisition date, participants may redeem at up 20% of their accumulated balance of Investment units;
- as of the 6th year, redemption is limited to 10% of the accumulated balance.

The composition and value of units at December 31, 2007 are as follows:

	NUMBER	VALUE
Investment Units		
Issued (Alfa units)	285,180	4,286
Granted as bonus (Beta units)	285,180	593
Total	**570,360**	**4,879**

20 –Shareholders' Equity

a – Capital

At December 31, 2007, the Company's subscribed and paid-in capital is R$ 4,640,947, represented by 449,432,611 shares, comprising 149,810,870 common, 298,818,675 Class A preferred, and 803,066 Class B preferred shares, 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 a capital increase by R$ 105,304, on account of the merger of subsidiary Polialden (Note 1(c)), with the issue of 7,878,725 Class A preferred shares. At that same date, the conversion of 2,632,043 Class A preferred shares into common shares was approved, at the ratio of one preferred for one common share.

The Extraordinary General Meeting held on April 2, 2007, approved the merger of Politeno (Note 1(c)). As a result, the Company's capital was increased by R$ 19,157, through the issue of 1,533,670 Class A preferred capital shares, to reach R$ 3,527,429. The conversion of 486,530 Class A preferred into common shares was also approved.

As a result of the exercise of the right to convert 1st Issue debentures (Note 1(c)), the Company's capital was increased by R$ 1,113,518 on July 31, 2007, through the issue of 77,496,595 shares, comprising 25,832,198 common and 51,664,397 Class A preferred shares, to reach R$ 4,640,947.

b – Rights attaching to shares

Preferred shares carry no voting rights, but qualify for a non-cumulative priority dividend at 6% per annum on their unit value, if profits are available for distribution. Only Class A preferred shares are on a par with common shares for entitlement to remaining profits; dividends are earmarked to common shares only after the priority dividend has been paid to preferred shares. Further, only Class A preferred shares rank equally with common shares in the distribution of shares resulting from capitalization of other reserves. Only Class A preferred shares are convertible into common shares, by resolution of the majority voting share at general meetings. Class B preferred shares may be converted into Class A preferred shares at a ratio of two Class B preferred shares to each Class A preferred share, upon written notice to the Company at any time (after expiration of the non-convertibility period prescribed in special legislation that authorized the issuance and payment of such shares by using tax incentive funds.

If the Company is wound up, Class A and B preferred shares are accorded priority treatment in repayment of capital.

The shareholders are entitled to a minimum compulsory dividend at 25% of the net profits at yearend, adjusted as per the Brazilian Corporation Law.

According to the Memorandums of Understanding for Execution of Shareholders Agreement, the Company is required to distribute dividends not lower than 50% of the yearend net profits, to the extent that the reserves necessary for its effective operation in the ordinary course of business are maintained at a sufficient level.

As agreed at the time of issuance of Medium-Term Notes (Note 14(c)), the payment of dividends or interest on equity is capped at twofold the minimum dividends accorded to preferred shares under the Company's bylaws.

c –Treasury shares

At December 31, 2007, shares held in treasury comprised 16,595,000 Class A preferred shares (2006 – 14,408,867 shares) for the total value of R$ 244,456. The total value of these shares, based on the average quotation of Bovespa's last session of 2007, is R$ 243,449.

The Board of Directors meeting held on May 3, 2006 approved a Share Buyback Program. This program was concluded on October 23, 2006 and was intended to acquire common and Class A preferred capital 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 capital 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 capital shares from dissenting Polialden shareholders.

Upon the merger of Politeno (Note 1(c)), the cross holding between the companies ceased to exist. The Company Class A shares held by Politeno, amounting to 2,186,133, were added to treasury shares.

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 (LSA). Retained earnings appropriated to this reserve in 2006 and 2007 are stated in Note 20 (e). Additionally, in 2006, the Company used R$ 164,890 from this reserve to absorb the effect to the adoption of IBRACON Technical Interpretation 01/2006 (Note 12).

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 full payment of the mandatory dividend is carried out. If there is a remaining mandatory dividend after the payment of the priority dividend, it will be used 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 the approval by the Shareholders' Meeting, are as follows:

	2007	2006
Net income for the year	543,220	77,753
Portion appropriated to legal reserve	(27,161)	(3,888)
Adjusted net income for the calculation of dividends	**516,059**	**73,865**
Distribution of profits		
Dividends proposed		
Common shares - R$ 0.644 per share	96,198	
Class A preferred shares – R$ 0.644 per share (2006 – R$ 0.159)	181,741	36,805
Class B preferred shares – R$ 0.644 per share (2006 – R$ 0.159)	518	128
Total dividends	**278,457**	**36,933**
Amount appropriated to retention of profits	237,602	36,932
Minimum mandatory dividends - 25%	129,015	18,466

The amount appropriated to the retention of profits reserve in 2007 is linked to a capital budget included in the Business Plan and approved by the Board of Directors at a meeting held on December 19, 2007, subject to the appreciation of the Annual Shareholders' Meeting to be held in 2008.

21 –Contingencies

a – Collective Bargaining Agreement – Section 4

The Petrochemical, Plastics, Chemicals and Related Industry Workers 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 stabilization 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 retrospective adjustment of wages and salaries. In December 2002, the STF affirmed an erstwhile decision from the Superior Labor Court (TST), determining that economic policy legislation should prevail over collective bargaining agreements and, as such, no adjustment was due. In 2003, SINDIQUÍMICA appealed this decision by means of a motion for clarification, which was rejected by unanimous opinion on May 31, 2005.

On October 24, 2005, SINDIQUÍMICA filed a plea known as embargos de divergência, which was cognized by the higher courts. This plea was forwarded to the General Prosecutor Office of the Republic, which rendered an opinion fully favorable to SINPEQ in November 2006. Judgment on this appeal started on June 28, 2007, but was adjourned as one of the judges asked for further access to the case docket.

In reliance on the opinion of its legal advisors, Management believes that SINPEQ is likely to prevail in this suit and, as such, no amount was provisioned for.

b – Preferred capital shares with incentives

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.

Polialden faced an identical issue before 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 par value of such shares, or the equivalent to 25% of net profits at yearend, whichever is higher, as the company has done over the last 10 years. Such shares are not entitled to remaining profits, as the bylaws 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 legal advisors believe that the chances of success in these cases are likely, 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 bylaws as to payment of dividends to preferred shares under incentive, limiting payments at 6% of their par value and capped at 25% of the compulsory dividends set forth in the Company's bylaws.

c – Offsetting of tax credits

From May through October 2000, 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 said 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 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 labelled the likelihood of success in those cases as probable, mostly in light of the indisputable certainty and validity of those credits as confirmed in a specific audit conducted by DERAT/RJ.

On October 3, 2005, the Federal Supreme Court (STF) 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 advisors 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. Despite the final and conclusive decision in MS RJ, the legal advisors to Assignor and to the Company, in addition to a jurist when inquired of his opinion on this specific issue, feel 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 tendered in the form of an insurance policy.

The Company's legal advisors have labelled the likelihood 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 party to several social security disputes in the administrative and judicial spheres, totalling approximately R$ 285,870 (updated by the SELIC rate) as of December 31, 2007.

In reliance on the legal advisors' opinion that the Company stands good chances of success in these cases, Management believes that no sum is payable in connection with these notices and, as such, no amount was provisioned for.

e – Other court disputes involving the Company and its subsidiaries

The Company figures as 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$27,507 as of December 31, 2007 (2006 – R$25,826). Said plaintiffs seek redress of damages caused by the Company's alleged non-fulfilment of the distributor agreement. In reliance on the opinion of legal advisors sponsoring the Company in these lawsuits, Management believes that the cases are likely to be rejected, and for this reason the respective sums have not been provisioned for.

In the second quarter of 2005, the Chemical and Petrochemical Industry Workers Unions in Triunfo (RS) and Camaçari (BA) filed several lawsuits for recovery of unpaid overtime. The Company has presented its answers accordingly, and – in reliance on the legal advisors' opinion – the Company's Management does not expect to be defeated.

The Company acts as respondent in arbitration commenced by a shipping company and underway in the City of Rio de Janeiro. Braskem was eventually sentenced to pay R$10,363 for breach of the original contractual conditions.

As of December 31, 2007, the Company figured as defendant in 1,218 suits for damages and labor claims (already including those mentioned above), totalling approximately R$292,261 (2006 – R$260,200). According to the opinion of legal advisors, most of these suits are likely to be found for the Company. For the cases entailing a probable defeat, the Company has provisioned for R$ 25,005 (2006 – R$13,328).

Further, in 1999, the Federal Revenue Office (SRF) served notice on controlled company Copesul charging a supposedly delinquent IRPJ and CSL tax for the 1994 base period, relating to monetary adjustment of balance sheet items and equity accounting results due to the accounting of dividends distributed by a controlled entity abroad. The updated dispute comes to R$ 21,308. An appeal lodged by the National Treasury at the Higher Tax Appeals Chamber (CSRF) is pending judgment. According to the legal advisors of Copesul, the likelihood of a favorable outcome for this case is reasonably possible.

22 –Financial Instruments

a – Risk management

Since the Company operates in the domestic and international 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, and commodities.

The Company's policy to manage risks has been approved and reviewed by management. These rules prohibit speculative trading and selling short, 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 monthly 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 investments abroad (certificates of deposit, securities in U.S. dollars, investment funds, among other instruments) in U.S. dollars. The forms of currency hedge which do not involve the use of cash are swaps, forwards and options.

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 foreign currencies (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 risks

The operations that subject the Company to concentration of credit risk are mainly bank accounts, financial investments and other accounts receivable, exposing Braskem 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

At December 31, 2007, the Company had the following derivative contracts:

			MARKET VALUE (i)			
			PARENT COMPANY		CONSOLIDATED	
DESCRIPTION	MATURITY	NOMINAL VALUE	2007	2006	2007	2006
Real / US$ - Option (Put US$)	Feb/2007	US$ 306,000 th.		(11,592)		(11,592)
Real / US$ - Option (Put US$)	Feb/2007	US$ 306,000 th.	(45,462)	(45,203)	(45,462)	(45,203)
Real + CDI / Yen + Tibor (swap)	Jun/2012	R$ 143,000	(31,251)	(22,790)	(31,251)	(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.			106	120
Total Return Swap	Jun/2008	US$ 410,000 th.			34,664	10,155
Benzene	Jan/2007	146,7 th. Tons				(6,921)
Swap Austrian Notes	Jan/2010	R$ 259,622	(19,201)		(19,201)	
Swap Austrian Notes	Jan/2011	R$ 243,480	(20,688)		(20,688)	
Swap Cupom vs Libor	Jul/2008	US$ 150,000 th.			216	

(i) The market value represents the amount receivable (payable) should the transactions be settled on December 31.

To determine the estimated market value of financial instruments, the Company uses transaction quotations 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.

23 –Financial Income (Expenses)

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Financial income				
Interest income	105,303	108,368	134,727	140,051
Monetary variation of financial investments, related parties, and accounts receivable	34,259	52,993	24,694	48,149
Monetary variation of taxes recoverable	7,404	43,706	12,212	48,575
Gains on derivative transactions	14,189	1,830	47,253	114,112
Exchange variation on foreign currency assets	(317,412)	(185,898)	(350,382)	(204,225)
Other	9,496	33,949	17,955	12,857
	(146,761)	**54,948**	**(113,541)**	**159,519**
Financial expenses				
Interest on financing and related parties	(336,784)	(314,181)	(341,936)	(287,776)
Monetary variation of financing and related parties	(215,119)	(254,861)	(203,780)	(255,515)
Monetary variation and interest on taxes and suppliers	(113,854)	(161,007)	(123,846)	(178,508)
Losses on derivative transactions	(26,621)	(16,952)	(44,843)	(161,958)
Expenses for vendor transactions	(65,247)	(119,662)	(128,330)	(119,662)
Discounts granted	(36,696)	(47,948)	(137,622)	(137,996)
Exchange variation on liabilities in foreign currency	955,190	343,641	1,073,111	333,368
Taxes and charges on financial transactions	(169,537)	(219,328)	(274,673)	(228,437)
Other	(49,989)	(45,957)	1,821	(61,443)
	(58,657)	**(836,255)**	**(180,098)**	**(1,097,927)**
Net financial result	**(205,418)**	**(781,307)**	**(293,639)**	**(938,408)**

24 –Other Operating Income and Expenses

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Income (expenses)				
Rental of facilities and assignment of right of use	24,318	25,767	24,318	45,423
Recovery of taxes (Note 16 (iii))	110,902	125,753	119,989	125,890
Inventory adjustments	(21,270)	(9,734)	(21,185)	(9,275)
Other operating income (expenses), net	13,137	(9,901)	8,343	24,104
	127,087	**131,885**	**131,465**	**186,142**

25 – Non-Operating Income (Expenses)

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Income (expenses)				
Increase (decrease) in interest in investments	(10,739)	2,356	(35,466)	2,356
Result on disposal of permanent assets	176	(837)	(1,999)	(496)
Provision for marking to market of discontinued plants	(13,807)		(13,807)	
Other non-operating (expenses) income, net	(7,390)	6,229	(15,952)	5,260
	(31,760)	**7,748**	**(67,224)**	**7,120**

26 – Insurance Coverage

a – Parent company

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, 2007, the indemnification cap of the insurance coverage of inventories, property, plant and equipment, and loss of profits of the Company is US$ 1.9 billion per claim, while the sum of all insured assets is R$ 13,851,190. As the risk assumptions adopted, given their nature, are not within the scope of an audit of financial statements, they have been not reviewed by the Company independent auditors.

b – Subsidiaries

Copesul

Copesul's policy is to insure all risks associated with its operations at adequate levels. Considering the characteristics of its risks, management contracts insurance under the concept of maximum potential loss in one single event, and maintains coverage for operational risks, civil liability and loss of profits. Copesul also hás insurance coverage for transportation, group life, sundry risks and vehicles.

Ipiranga Química and IPQ

The Ipiranga Group companies have in place an insurance and risk management program which provides coverage and protection for all its insurable assets, including risks arising from production disruptions, under an operational risk policy underwritten by Brazilian and international insurers, through the Brazilian Reinsurance Institute *(Instituto de Resseguros do Brasil)*.

Such coverage and limits are based on a through review of risks and losses performed by local insurance consultants. Management considers the insurance policies held adequate to cover any claims, given the nature of the companies' activities.

27 – Shares Traded Abroad - NYSE and LATIBEX

a – New York Stock Exchange ("NYSE")

The Company's American Depositary Shares ("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 preference 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. 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.

a – PETROS / PREVINOR

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$ 19,565 (2006 – R$ 58,554), which is considered sufficient to face any disbursements at the time the commitments of this plan are settled.

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

Merged company Politeno was a sponsor of PREVINOR until January 2007. The computation of the mathematical reserves was completed, as well as the Sponsorship Withdrawal Memorandum to be sent to SPC. Plans maintained by Politeno have a funded status and no disbursements by Braskem are required.

It is expected that the Sponsorship Withdrawal Memorandum will be lodged with the authorities in the first quarter of 2008.

Polialden's commitments to participants under the PRENINOR plan were settled in the first half of 2007, with no requirement of contributions by the Company.

b –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, 2007, the active participants in ODEPREV amounted to 2,512 (2006 – 2,354), and the Company's and employees' contributions in 2007 amounted to R$ 5,918 (2006 – R$ 7,888) and R$ 16,453 (2006 – R$ 13,189), respectively.

c – Copesul

Copesul and its employees make contributions to PETROS - Fundação Petrobras de Seguridade Social, under retirement and defined benefit pension plans. In 2006, the rate of the contribution salary was 12.93% over the total pay of employees who participate in the plan. In 2007, contributions made by Copesul added up to R$ 5,717 (2006 - R$ 5,573).

Pursuant to PETROS charter and applicable law, in the event of a material insufficiency of technical reserves, both the sponsors and participants will be required to make a financial contribution, otherwise the plan benefits will be downsized in accordance with the available funds. Until the balance sheet date, this subsidiary was not required to make any supplementary contribution.

In accordance with CVM Deliberation 371, of December 13, 2000, Copesul determined the actuarial liabilities as of December 2007 of post-retirement benefits granted to its employees, by using the valuation method – credit units projected based on actual information up to November 30 of each year. The valuation results are as follows:

	2007	2006
Fair value of asset plans	437,417	388,007
Present value of actuarial liabilities	496,774	405,849
Actuarial liabilities	**(59,357)**	**(17,842)**
Net actuarial liabilities to be provided for	(59,357)	(17,842)
Actuarial liabilities provided for	8,850	8,850
Net actuarial liabilities – not provided for	**(50,507)**	**(8,992)**

In conformity with CVM Deliberation 371, of December 31, 2000, as from year 2000, Copesul records R$ 8.850 on a monthly basis, relating to benefits which employees will be entitled to after the required service period, in accordance with actuarial study performed by an independent expert for the base date of December 31, 2001.

The actuarial assessment as of November 30, 2007 found out that the Company will be required to increase its future contributions to raise the benefits. However, as the Company is within the limits set forth in CVM Deliberation 371 and in compliance with accounting practices adopted in Brazil, it chose not to make the adjustment of the supplementary actuarial liability.

Gains (losses) previously recorded are associated with the profitability of the plan assets – differences between the actuarial assumptions and real facts. Accordingly, they are considered actuarial gains (losses). Copesul's policy is to recognize such gains (losses) as income (expenses) only at such time as their accumulated amounts exceed, in each year, the higher of the following limits: (i) 10% of the present value of the total actuarial obligation of the defined benefit, and (ii) 10% of the plan assets fair value. The portion to be recognized is amortized on a yearly basis, by dividing its amount by the average remaining service time estimated for the plan participants.

The main actuarial assumptions at the balance sheet date are shown as follows:

	2007	2006
Actual discount rate	6%	6%
Expected yield rate of plan assets	6%	6%
Salary real growth	2% up to 47 years and zero after 48 years of age	2% up to 47 years and zero after 48 years of age
Biometric bases		
Mortality for pension and savings (able individuals)	AT-2000	AT-2000
Mortality for pension and savings (disabled individuals)	C.A.P. experience (*)	C.A.P. experience (*)
Disability	Álvaro Vindas (**)	Álvaro Vindas (**)
Other charges	STEA experience (***)	STEA experience (***)

(*) C.A.P. - Caixa de Aposentados e Pensionistas used as a basis to develop the mortatily table for actuarial computations.
(**) Álvaro Vindas - Disability Table used in actuarial computations.
(***) STEA - Serviços Técnicos de Estatística e Atuária Ltda.

In May 2003, the Board of Directors of Copesul approved the implementation of the Copesul Supplementary Private Pension Plan, called COPESULPREV. This a closed, defined contribution plan intended to cover those employees not included in the former PETROS plan, which currently accepts no new participants. The plan is independently managed by PETROS - Fundação Petrobras de Seguridade Social, with no links to any other pension plan managed at present by that entity, pursuant to the provisions of Complementary Law 109/2001. In 2007, Copesul's contributions added up to R$ 1,350 (2006 - R$ 1,129).

d – Ipiranga Química and IPQ

Subsidiaries Ipiranga Química and IPQ sponsor Fundação Francisco Martins Bastos - FFMB, a closed supplementary private pension entity, designed to manage and execute pension benefit plans to the employees of Empresas Petróleo Ipiranga.

During the year ended December 31, 2007, the subsidiaries' contributions amounted to R$ 1,736 and R$ 516 relating to basic and supplementary benefits, respectively. The supplementary benefits and pension plan amounts were determined at the annual actuarial valuation carried out by independent actuaries, Towers Perrin Forster & Crosby Ltda. As of December 31, 2007, and are recorded in the financial statements in accordance with NPC 26.

The reconciliation of liabilities for post-retirement benefits at December 31 is as follows:

	2007
Present value of funded obligations	(136,471)
Present value of unfunded obligations	(11,017)
Fair value of assets	153,170
Unrecognized actuarial losses	(12,734)
Net liabilities for post-retirement benefits	**(7,052)**
Current liabilities	**(1,712)**
Noncurrent liabilities	**(5,340)**

The portion of actuarial gains or losses to be recorded as income or expenses corresponds to the amount of unrecognized gains and losses, in each year, in excess of the higher of the following limits:

(i) 10% of the present value of the total actuarial obligation of defined benefits; and
(ii) 10% of the fair value of the plan assets.

The portion in excess of the limits is amortized on an annual basis, by dividing its amount by the average remaining service time estimated for the plan participants.

Amounts recognized in the statements of income are as follows:

	2007
Cost of current service	3,103
Cost of interest	13,185
Expected asset yield	(15,453)
Amortization of actuarial losses	165
Employees' contributions	1,024
Total expenses (income) for the year	**(24)**

Changes in net liabilities for post-retirement benefits are as follows:

	2007
Net liabilities at beginning of the year	(6,819)
Expenses (income) for the year	70
Actual Company contributions during the year	1,641
Actual benefits paid during the year	776
Adjustment to present value of obligations and other adjustments	(2,720)
Net liabilities at the end of the year	**(7,052)**

The main actuarial assumptions used were (percentage per year):

	2007
Discount rate to present value of actuarial obligation	10.2
Expected long-term yield rate of assets	10.2
Projected average salary growth rate	6.1
Inflation rate (long term)	4.0
Medical service growth rate	7.1

Biometric assumptions used:

- Mortality table - AT 1983 Basic reduced by 10% (*)
- Turnover table - Towers Perrin, adjusted
- Disabled individuals mortality table - RRB 1983
- Inception of disability table - RRB 1944, modified

(*) For Life Insurance benefit, the mortality table used was CSO-80.

Studies performed by the actuarial consultants to FFMB, Towers Perrin, identified positive actuarial impacts on the Plan as from 2005, with tne ensuing reduction in post-retirement liabilities relating to retirement benefits. The negative impact in 2007, of R$ 233, was taken to income as "Other operating income".

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 commitment for consumption under these four-year contracts amounts to R$ 248,459.

The Company acquires from Copesul ethylene and propylene for its units at the Southern Petrochemical Complex, under a contract in force until 2014. The minimum annual purchase commitment corresponds to 275,400 metric tons of ethylene and 267,720 metric tons of propylene. Considering the prices ruling at December 31, 2007, this commitment corresponds to R$ 1,257,727 (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, 2007, the amount would be R$ 484,512 (unaudited).

Braskem purchases naphtha under contracts establishing a minimum annual purchase volume equal to R$ 5,771,260 (unaudited), based on market prices as of December 31, 2007.

30 – Subsequent Events

Law 11638, publicized in the Official Daily Government Newspaper (DOU) of December 28, 2007, modified several provisions of Law 6404 (Brazilian corporate law), effective January 1, 2008.

The major amendments include the following matters which, in the opinion of Management, may change the presentation of the financial statements and the criteria for determining the financial position and the results of Braskem and its subsidiaries as from the year ending in 2008:

- The Statement of Changes in Financial Position (DOAR) is discontinued and replaced with the Statement of Cash Flows (DFC). For publicly-held companies, the Statement of Added Value (DVA) will be mandatory. As supplementary information, Braskem already discloses DFC in its quarterly and annual reports, as well as DVA in its annual reports.
- Intangible assets and rights are segregated from tangible assets. Permanent assets will be composed of investments; plant, property and equipment; intangible assets, and deferred charges. Intangible assets include acquired goodwill.
- A new balance has been created under Shareholders' equity: "Market value adjustments". Adjustments to net equity, although not included in net income for the year under the accrual basis of accounting, comprise contra entries to increases or decreases in the value ascribed to assets and liabilities elements, as a resulto f their valuation at market levels and the exchange variation of corporate investments abroad (this item will be appreciated by CVM in 2008).
- Deferred charges will be comprised only by pre-operating expenses and restructuring expenditures which will effectively contribute to increasing the profitability of the corporation in more than one fiscal year and which are not merely reductions in costs of increases in operating efficiency.
- Tax incentives will no longer be classified as capital reserve, but as part of net income for the year. Based on a resolution of management, the Annual Shareholders' Meeting may appropriate a portion of profits corresponding to these incentives to a Tax Incentive Reserve, recorded as part of revenue reserves, and which may be excluded from the calculation basis of mandatory dividends. Since the end of 2006, Braskem has adopted this classification for those incentives not required to be accounted for in capital reserves.
- The law also changed the valuation criteria of assets and liabilities, in particular:

  - Assets and liabilities items arising from long-term transactions, as well as from material short-term transactions, are required to be adjusted to present value, in accordance with International Financial Reporting Standards. This provision will be enforced subject to a standard to be issued by CVM during 2008;

  - "Available for sale" securities or "trading" securities are required to be stated at market value; and

  - All other financial instruments are required to be valued at restated or adjusted cost, in accordance with their likely realization value, if lower.

- In the event of a merger, amalgamation or demerger transaction between unrelated parties or involving the effective transfer of control, the assets and liabilities of the merged or split-off entity will be recorded at their market value.
- Interests of debentures, employees and managers, even in the form of financial instruments, and of assistance or pension plan institutions or funds for employees, which are not expenses, will be included in the statement of income for the year.
- Corporations may not record revaluation reserves. The new Law allows corporations to either maintain existing balances and realize such balances in accordance with the current standards, or reverse the balances until the end of 2008.

Management is reviewing the effects of the above mentioned changes on its shareholders' equity and results for the year of 2008. It will also take into consideration the guidance and definitions to be issued by the regulators. At this time, Management understands that it is not possible to ascertain the effects of such amendments on the results and shareholders' equity for the year ended December 31, 2007.

Annex I - Supplementary information

Statement of cash flow

FISCAL YEARS ENDED AT 31 DECEMBER

In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Net income for the year	**543,220**	**77,753**	**547,584**	**101,349**
Adjustment to reconcile net income to net cash				
Depreciation, amortization and depletion	932,095	865,255	1,203,622	962,399
Amortization of goodwill (negative goodwill), net	72,928	61,648	106,238	57,758
Equity in net income of subsidiaries	(179,300)	(172,783)	147	(801)
Provision (reversal) for loss on investments	2,659	(6,469)	903	
Tax incentives			(3,448)	(20,504)
Exchange variation on investments	10,613	(2,709)	11,572	1,423
Increase (decrease) in interest in investments and other	(84)	(1,092)	(8,141)	(11,721)
Gains (losses) on sale of permanent assets	19,868	86	29,082	1,420
Interest and monetary and exchange variations, net	(22,287)	485,328	(148,62)	311,557
Minority interests			240,892	1,593
Recognition of tax credits, net	(110,704)	(94,352)	(110,111)	(94,491)
Deferred income tax	(11,417)	(99,520)	103,289	(100,906)
Other	(28,853)	2,778	(42,454)	5,603
	1,228,738	**1,115,923**	**1,930,555**	**1,214,679**
Effect of merger on cash of subsidiaries	5,796	147,698	193,831	8,751
Financial cash effects	394,336	290,536	503,807	203,453
Cash generation before changes in operating working capital	**1,628,870**	**1,554,157**	**2,628,193**	**1,426,883**
Changes in operating working capital				
Marketable securities	438,541	(348,913)	253,947	(347,091)
Trade accounts receivable	34,646	125,468	493,813	53,858
Inventories	68,428	(122,607)	28,301	(148,185)
Recoverable taxes	301,237	(386,594)	313,549	(462,545)
Prepaid expenses	47,782	(56,992)	48,368	(56,683)
Dividends received	49,618	175,970	2,000	2,000
Other accounts receivable	67,546	(13,968)	40,907	(34,625)
Accounts payable to suppliers	(554,028)	355,115	286,166	415,044
Taxes and contributions	(452,571)	(58,283)	(556,373)	(66,463)
Tax incentives	49,494	11,829	53,130	32,430
Advances from customers	(2,014)	(23,301)	(12,200)	(24,420)
Other accounts payable	14,894	127,558	(7,546)	133,347
Net cash provided by operating activities before financial effects	**1,692,443**	**1,339,439**	**3,572,255**	**923,550**
Exclusion of financial cash effects	(394,336)	(290,536)	(503,806)	(203,453)
Net cash provided by operating activities	**1,298,107**	**1,048,903**	**3,068,449**	**720,097**

Annex I - Supplementary information

Statement of cash flow

FISCAL YEARS ENDED AT 31 DECEMBER

In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Proceeds from the sale of investments	15,183	877	28,829	877
Additions to investments	(1,009,035)	(62,859)	(1,345,522)	(222,745)
Additions to property, plant and equipment	(793,610)	(808,260)	(1,374,372)	(953,003)
Additions to deferred charges	(5,375)	(35,214)	(1,081,802)	(40,283)
Net cash used in investment activities	**(1,792,837)**	**(1,105,456)**	**(3,772,867)**	**(1,215,154)**
Short-term debt				
Funds obtained	821,149	1,956,949	4,339,531	2,793,519
Repayment	(1,583,048)	(3,036,822)	(6,366,457)	(3,926,742)
Long-term debt				
Funds obtained	1,618,923	2,119,979	3,579,839	2,235,793
Repayment	(315,817)	(619,654)	(399,557)	(659,063)
Related parties				
Funds obtained	71,218	45,985	1,987	229
Repayment	(135,288)	(230,223)	(5,848)	(4,109)
Dividends paid to shareholders and minority interests	(37,410)	(322,176)	(43,837)	(343,398)
Capital payment			1,511	5,381
Treasury share		(192,650)		(192,650)
Repurchase of shares			(60,249)	
Other	678		590	(2,582)
Net cash provided by (used in) financing activitives	**440,405**	**(278,612)**	**1,047,510**	**(93,622)**
Increase (decrease) in cash and cash equivalents	**(54,325)**	**(335,165)**	**343,091**	**(588,679)**
Represented by				
Cash and cash equivalents, at beginning of the year	1,125,925	1,461,090	1,547,060	2,135,740
Cash and cash equivalents, at the end of the year	1,071,600	1,125,925	1,890,151	1,547,061
Increase (decrease) in cash and cash equivalents	**(54,325)**	**(335,165)**	**343,091**	**(588,679)**

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 Accountants.

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));
- Conversion of debentures into shares (Note 15); and
- Advance to Ultrapar on account of the absorption of preferred shares held by minority shareholders of companies acquired (Note 11(c)).

Annex II - Supplementary information

Statement of Value Added

FISCAL YEARS ENDED AT DECEMBER 31

In thousands of reais

	PARENT COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
1.Revenues	**15,800,191**	**14,321,757**	**22,229,385**	**16,653,876**
1.1 Sale of goods,products and services	15,722,721	14,212,653	22,178,003	16,510,672
1.2 Allowance for doubtful losses	(2,002)	(30,529)	(12,858)	(50,678)
1.3 Recovery of taxes	110,902	125,753	119,989	125,89
1.4 Other operating income, net	330	6,132	11,475	61,007
1.5 Other nonoperating income (expenses), net	(31,760)	7,748	(67,224)	6,985
2. Inputs acquired from third parties	**(13,761,341)**	**(11,859,201)**	**(18,207,581)**	**(13,908,845)**
2.1 Raw materials used	(12,596,019)	(10,833,867)	(16,174,067)	(12,628,277)
2.2 Cost of products resold	(65,037)	(22,633)	(534,008)	(17,270)
2.3 Materials, energy, third-party services and other	(1,100,285)	(1,002,701)	(1,499,506)	(1,263,298)
Production	(161,315)	(327,061)	(342,236)	(442,603)
Selling	(284,218)	(141,884)	(428,999)	(218,127)
Administrative	(237,457)	(207,068)	(287,839)	(249,616)
Freight expenses	(417,295)	(326,688)	(440,432)	(352,952)
3. Gross added value	**2,038,850**	**2,462,556**	**4,021,804**	**2,745,031**
4. Retentions	**(932,095)**	**(865,255)**	**(1,203,622)**	**(962,399)**
4.1 Depreciation, amortization and depletion	(932,095)	(865,255)	(1,203,622)	(962,399)
5. Added value produced by the Company	**1,106,755**	**1,597,301**	**2,818,182**	**1,782,632**
6. Transferred added value	**(53,577)**	**176,353**	**(220,812)**	**53,741**
6.1 Equity in net income of subsidiaries	93,184	121,405	(107,271)	(28,897)
6.2 Financial income	(146,761)	54,948	(113,541)	82,638
7. Added value to be distributed	**1,053,178**	**1,773,654**	**2,597,370**	**1,836,373**
8. Distribution of added value	**1,053,178**	**1,773,654**	**2,597,370**	**1,836,373**
8.1 Personnel and charges	358,131	413,882	588,794	517,885
Salaries and charges	189,940	319,352	377,188	407,788
Directors' fees	9,189	8,331	15,685	12,091
Other benefits	159,002	86,199	195,921	98,006
8.2 Taxes and contributions	21,996	432,878	998,397	176,377
Federal	662,470	475,488	1,436,182	535,988
State	(577,118)	(35,663)	(378,573)	(340,617)
Local	1,996	4,882	6,176	9,041
(-) Tax incentives	(65,352)	(11,829)	(65,388)	(28,035)
8.3 Interest and rental	80,338	837,312	172,523	1,011,135
Interest	(28,453)	725,175	55,688	897,228
Rental	108,791	112,137	116,835	113,907
8.4 Distributions to shareholders	278,457	36,933	278,457	36,933
Dividends proposed and interest on capital	278,457	36,933	278,457	36,933
8.5 Minority interests in retained earnings			240,850	1,593
8.6 Retained earnings for the year	314,257	52,649	318,349	92,450
Legal reserve	27,161	3,888	27,332	3,888
Retained earnings reserve	237,602	36,932	241,523	60,527
Tax incentives	49,494	11,829	49,494	28,035

Warning regarding forward-looking statements

This annual report contains forward-looking statements. Some of the Notes to the Financial Statements regarding our Company's commercial operations and financial performance include forward-looking statements.

Hypothetical projections depending on future events and conditions are signaled by wording such as "expected," "projected," "believe" and "estimated" and similar terms indicating forward-looking statements. Although we believe that these statements are based on reasonable assumptions, they are subject to a range of risks and unpredictable factors and are made on the basis of currently available information.

Our forward-looking statements do not guarantee future performance and may not materialize. The actual results or events may differ materially from the expectations presented in these statements. As for forward-looking statements on future financial results and other projected figures, the actual results may differ due to the unpredictable nature of estimates, forecasts and projections.

We are under no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Corporate Information

Depository Bank

In Brazil: Banco Itaú
Av. Eng. Armando de Arruda Perereira, 707
9º andar Jabaquara 04344-902
São Paulo SP Brasil
Tel. 55 11 5029 1518 Fax 55 11 5029 1260

Outside Brazil: 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

In Brazil: São Paulo Stock Exchange (Bovespa) and: codes BRKM5, BRKM3, BRKM6

In other countries: New York Stock Exchange (NYSE): BAK
Madrid Stock Exchange (Latibex): XBRK

Contacts

Luiz Henrique Valverde
Luciana Ferreira

Independent Auditors

KPMG

Braskem S.A.
Av. Nações Unidas 4.777
Edifício Villa-Lobos – Alto de Pinheiros
05477-000 – São Paulo – SP – Brazil
Tel. (55 11) 3576 9000
Fax (55 11) 3023 0415