BRASKEM SA
Form 20-F
June 23, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-14862

BRASKEM S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of Registrant s name into English)

Federative Republic of Brazil

(Jurisdiction of Incorporation or Organization)

Av. das Nações Unidas, 4777

São Paulo, SP CEP 05477-000 Brazil

(Address of principal executive offices) (Zip code)

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

Title of Each Class	Name of Each Exchange on which Registered
Preferred Shares, Class A, no par value per share, each represented by American Depositary Receipts	New York Stock Exchange

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

None

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

None

The total number of issued shares of each class of stock of BRASKEM S.A. as of December 31, 2005 was: 120,860,099 Common Shares, no par value per share, 240,855,683 Preferred Shares, Class A, no par value per share, and 803,066 Preferred Shares, Class B, no par value per share.

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

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

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INTRODUCTION

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

All references herein (1) to we, us or our company are references to Braskem S.A. and its consolidated subsidiaries and (2) to Braskem are references solely to Braskem S.A.

On June 22, 2006, the exchange rate for *reais* into U.S. dollars was R$2.239 to US$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R$2.341 to US$1.00 at December 31, 2005 and the commercial selling rate was R$2.654 to US$1.00 at December 31, 2004 and R$2.889 to US$1.00 at December 31, 2003, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at June 22, 2006 may not be indicative of future exchange rates. See Item 3. Key Information Exchange Rates for information regarding exchange rates for the Brazilian currency since January 1, 2001.

Solely for the convenience of the reader, we have translated some amounts included in Summary Summary financial and other information, Capitalization, Selected financial and other information and elsewhere in this annual report from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at December 31, 2005 of R$2.341 to US$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

Braskem Financial Statements

We maintain our books and records in *reais.*

Our consolidated financial statements at December 31, 2005 and 2004 and for each of the years ended December 31, 2005, 2004 and 2003 have been audited, as stated in the report appearing herein, and are included in this annual report.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which are based on:

Brazilian Law No. 6,404/76, as amended by Brazilian Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as the Brazilian Corporation Law;

the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*); and

the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil*).

Brazilian GAAP differs in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of certain differences relating to these financial statements, see note 31 to our audited consolidated financial statements included elsewhere in this annual report.

Consistent with Brazilian GAAP, our consolidated financial statements at December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 have been prepared in accordance with Brazilian Securities Commission Instruction No. 247/96, as amended by Brazilian Securities Commission Instruction Nos.

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269/97, 285/98 and 319/99, which we refer to collectively as Instruction 247. Instruction 247 requires our company to proportionally consolidate jointly controlled companies that are not our subsidiaries, but which we jointly control with one or more other shareholders.

Our consolidated financial statements reflect reclassifications in 2004 and 2003 of the following items to provide a better comparison among 2005, 2004 and 2003:

Prior to 2005, our management was considering strategic alternatives with respect to the capital stock that we own in Petroflex Indústria e Comércio S.A., or Petroflex, including the possible sale of this capital stock. In 2005, our management decided to maintain its investment in Petroflex. At December 31, 2005, we owned 20.1% of the total and voting share capital of Petroflex. As a result, we have proportionally consolidated Petroflex in our consolidated financial statements at and for the year ended December 31, 2005. In previous years, we recorded our investment in Petroflex as an investment in an associated company. In order to provide a better comparison among 2005, 2004 and 2003, we have proportionally consolidated Petroflex in our consolidated financial statements at December 31, 2004 and for the years ended December 31, 2004 and 2003.

Beginning on January 1, 2005, pursuant to Brazilian Securities Commission (*Comissão de Valores Mobiliários*, or CVM) Instruction 408, we are required to fully consolidate special purpose entities in our consolidated financial statements if specific criteria are met. These special purpose entities include, among others, Chemical Credit Rights Investment Fund (*Chemical Fundo de Investimento em Direitos Creditórios*) and Chemical Credit Rights Investment Fund II (*Chemical II Fundo de Investimento em Direitos Creditórios*). In order to provide a better comparison between 2005 and 2004, we have fully consolidated our special purpose entities in our consolidated financial statements at and for the year ended December 31, 2004. We have not made a similar reclassification for the year ended December 31, 2003 because our only transaction with a special purpose entity during 2003 was reflected in our consolidated balance sheet at December 31, 2003. See notes 2 and 4 to our consolidated financial statements.

Prior to 2005, we proportionally consolidated Companhia de Desenvolvimento Rio Verde, or Codeverde, in our consolidated financial statements. At December 31, 2005, we owned 35.5% of the total share capital and voting share capital of Codeverde. In 2005, the CVM granted our request for authorization to record our investment in Codeverde as an investment in an associated company pursuant to Instruction 247. In order to provide a better comparison between 2005 and 2004, we have recorded our investment in Codeverde as an investment in an associated company in our consolidated financial statements at and for the year ended December 31, 2004. We have not made a similar reclassification at and for the year ended December 31, 2003 because such a reclassification would not be material. See notes 2 and 4 to our consolidated financial statements.

Prior to December 31, 2004, judicial deposits were recorded as long-term receivables. Pursuant to CVM Deliberation No. 489, we now state contingent liabilities net of the corresponding judicial deposits. In our 2004 consolidated balance sheet, we have reclassified R$170.3 million as long-term taxes and contributions. See notes 2 and 17 to our consolidated financial statements.

For U.S. GAAP purposes the effects of proportional consolidation for those companies that are not jointly controlled by all voting shareholders were eliminated.

Copesul Financial Statements

We have included separate consolidated financial statements of Copesul Companhia Petroquímica do Sul, or Copesul, in this annual report because Copesul constitutes a significant jointly controlled company, accounting for 49.5% of our income from continuing operations before income taxes in 2005. Copesul maintains its books and records in *reais* and prepares its financial statements in accordance with Brazilian GAAP. Copesul s consolidated financial statements at December 31, 2005 and 2004 and for each of the years ended

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December 31, 2005, 2004 and 2003 included in this annual report have been audited, as stated in the report appearing herein. Copesul s consolidated financial statements are proportionally consolidated into the Braskem s consolidated financial statements under Brazilian GAAP, as described above under Braskem Financial Statements.

Share Splits

On October 20, 2003, we authorized the split of all of our issued common shares, class A preferred shares and class B preferred shares into 20 shares for each issued share. This 20-for-one share split was effective on October 21, 2003. As a result of this share split, the ratio of our class A preferred shares to American Depository Shares, or ADSs, changed from 50 class A preferred shares per ADS to 1,000 class A preferred shares per ADS.

On March 31, 2005, we authorized the reverse split of all of our issued common shares, class A preferred shares and class B preferred shares into one share for each 250 issued shares. This reverse share split became effective on May 16, 2005. In connection with this reverse share split, we authorized a change in the ratio of our ADSs. Upon the effectiveness of our reverse share split and the ratio change, the ratio of our class A preferred shares to ADSs changed from 1,000 class A preferred shares per ADS to two class A preferred shares per ADS.

All references to numbers of shares and dividend amounts in this annual report have been adjusted to give effect to the 20-for-one share split and the one-for-250 reverse share split.

Market Share and Other Information

We make statements in this annual report about our market share in the petrochemical industry in Brazil and our production capacity relative to that of other petrochemical producers in Brazil and Latin America. We have made these statements on the basis of information obtained from third-party sources that we believe are reliable. We have calculated our Brazilian market shares with respect to specific products by dividing our domestic net sales volumes of these products by the total Brazilian domestic consumption of these products estimated by the Brazilian Association of Chemical Industry and Derivative Products (*Associação Brasileira de Indústrias Químicas e de Produtos Derivados*). We derive information regarding the production capacity of other companies in the Brazilian petrochemical industry and the estimated total Brazilian domestic consumption of petrochemical products principally from reports published by the Brazilian Association of Chemical Industry and Derivative Products. Although we have no reason to believe that any of this information is inaccurate in any material respect, neither we nor the initial purchasers have independently verified the production capacity, market share, market size or similar data provided by third parties or derived from industry or general publications.

Production Capacity and Sales Volume

As used in this annual report:

production capacity means the annual projected capacity for a particular facility, calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance; and

ton means a metric ton, which is equal to 1,000 kilograms or 2,204.62 pounds.

Rounding

We have made rounding adjustments to reach some of the figures included in this annual report. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

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CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the Securities Act or the U.S. Securities Exchange Act of 1934, or the Exchange Act.

Statements that are predictive in nature, that depend upon or refer to future events or conditions or that include words such as expects, anticipates, intends, plans, believes, estimates and similar expressions are forward-looking statements. Although we believe that these forward-looking statements are based upon reasonable assumptions, these statements are subject to several risks and uncertainties and are made in light of information currently available to us.

Our forward-looking statements may be influenced by factors, including the following:

- general economic, political and business conditions in our company s markets, both in Brazil and abroad, including demand and prices for petrochemical products;
- interest rate, commodity price, inflation and exchange rate volatility;
- the cyclical nature of the Brazilian and global petrochemical industries;
- our ability to obtain financing on satisfactory terms;
- competition;
- actions taken by our major shareholders and other shareholders with convertible securities entitling them to acquire significant numbers of our shares;
- prices of naphtha and other raw materials;
- decisions rendered in pending major tax, labor and other legal proceedings; and
- other factors identified or discussed under Item 3. Key Information Risk Factors.

Our forward-looking statements are not guarantees of future performance, and our actual results or other developments may differ materially from the expectations expressed in the forward-looking statements. As for forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainty of estimates, forecasts and projections. Because of these uncertainties, potential investors should not rely on these forward-looking statements.

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

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PART I

ITEM 1. IDENTITY OF DIRECTOR, SENIOR MANAGEMENT AND ADVISER

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Information

The following selected financial data has been derived from our consolidated and combined financial statements.

The selected financial data at December 31, 2005 and 2004 and for the three years ended December 31, 2005 have been derived from our consolidated financial statements included in this annual report. The selected financial data at December 31, 2003, 2002 and 2001 and for the years ended December 31, 2002 and 2001 has been derived from our audited consolidated and combined financial statements that are not included in this annual report.

Our consolidated and combined financial statements are prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of certain differences relating to these financial statements, see note 31 to our audited consolidated financial statements included in this annual report.

This financial information should be read in conjunction with Item 5. Operating and Financial Review and Prospects and our consolidated financial statements in this annual report.

	At and for the year ended December 31,				
2005(1)	2005	2004	2003(2)	2002(2)(3)	2001(2)(3)

	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)				
Statement of Operations Data						
Brazilian GAAP:						
Net sales revenue	US$ 5,585.3	R$ 13,075.1	R$ 12,389.5	R$ 10,300.2	R$ 7,576.6	R$ 4,459.5
Cost of sales and services rendered	(4,426.2)	(10,361.7)	(9,223.0)	(8,224.6)	(6,175.5)	(3,637.6)
Gross profit	1,159.1	2,713.4	3,166.5	2,075.6	1,401.1	821.9
Selling, general and administrative expenses	(336.2)	(787.1)	(677.0)	(488.4)	(577.7)	(210.3)
Investment in associated companies, net(4)	(46.9)	(109.8)	(107.6)	(170.5)	(251.7)	(214.3)
Depreciation and amortization	(151.9)	(355.6)	(359.7)	(193.5)	(222.4)	(111.3)
Financial expenses	(288.7)	(675.8)	(1,307.2)	(720.8)	(3,481.5)	(801.2)
Financial income	(14.4)	(33.6)	68.6	9.2	619.6	294.7
Zero-rated IPI credit					1,030.1	
Other operating income, net	9.7	22.8	43.0	55.5	102.6	103.3
Operating income (loss)	330.7	774.3	826.6	567.1	(1,379.9)	(117.2)
Non-operating expenses, net	(10.8)	(25.2)	(29.8)	(4.5)	(98.0)	(120.8)
Income (loss) before income tax and social contribution (current and deferred) and minority interest	319.9	749.1	796.8	562.6	(1,477.9)	(238.0)
Income tax and social contribution (current and deferred)	(75.8)	(177.4)	(85.1)	(121.3)	(89.8)	(77.6)
Income (loss) before minority interest	244.1	571.7	711.7	441.3	(1,567.7)	(315.6)
Minority interest	23.1	54.1	(24.6)	(226.2)	189.0	(108.9)
Net income (loss)	US$ 267.2	R$ 625.8	R$ 687.1	R$ 215.1	R$ (1,378.7)	R$ (424.5)

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	At and for the year ended December 31,					
	2005(1)	2005	2004	2003(2)	2002(2)(3)	2001(2)(3)
	(in millions of US$, except financial ratios)	(in millions of *reais*, except financial ratios)				
Number of shares outstanding at year end, excluding treasury shares (in thousands):						
Common shares		120,860	120,860	102,432	98,087	51,735
Class A preferred shares		240,860	240,373	170,379	168,491	86,371
Class B preferred shares		803	842	916	916	916
Net income (loss) per share at year end	0.74	1.73	1.90	0.79	(5.15)	(3.05)
Net income (loss) per ADS at year end	1.48	3.46	3.80	1.57	(10.31)	(6.11)
Dividends declared per share:						
Common shares	0.38	0.90	0.56			0.43
Class A preferred shares	0.38	0.90	0.56		0.13	0.52
Class B preferred shares	0.24	0.56	0.56		0.13	0.52
Dividends declared per ADS	0.77	1.80	1.12			1.04
U.S. GAAP:						
Net sales	US$ 5,129.3	R$ 12,007.8	R$ 11,644.1	R$ 9,454.8	R$ 7,071.8	R$ 4,236.0
Gross profit	1,003.4	2,349.0	2,704.1	1,792.3	1,151.0	717.6
Operating Income	483.2	1,131.2	1,816.9	1,316.9	1,573.3	527.7
Net income (loss) for the year	314.9	737.1	887.8	378.1	(1,144.0)	(471.0)
Basic earnings (loss) per share (weighted average):						
Common shares	0.87	2.04	2.77	1.41	(11.93)	(6.68)
Class A preferred shares	0.87	2.04	2.83	1.37		
Class B preferred shares	0.27	0.63	0.56	0.44		
Basic earnings (loss) per ADS (weighted average)	1.74	4.08	5.66	2.74		
Diluted earnings (loss) per share (weighted average):						
Common shares	0.83	1.94	2.54	1.41	(11.93)	(6.68)
Class A preferred shares	0.83	1.94	2.54	1.37		
Class B preferred shares	0.27	0.63	0.56	0.44		
Diluted earnings (loss) per ADS (weighted average)	1.66	3.88	5.08	2.40		
Balance Sheet Data						
Brazilian GAAP:						
Cash, cash equivalents and other investments	US$ 974.6	R$ 2,281.5	R$ 1,815.6	R$ 1,221.2	R$ 821.0	R$ 513.2
Short-term trade accounts receivable	637.9	1,493.3	1,630.6	1,241.0	959.0	484.1
Short-term inventories	669.6	1,567.5	1,562.4	1,092.3	889.1	667.8
Property, plant and equipment, net	2,547.7	5,964.2	5,457.6	5,090.9	5,296.7	4,429.7
Total assets	6,659.9	15,590.8	15,050.4	14,005.6	13,898.2	9,555.3
Short-term loans and financing (including current portion of long-term debt)	382.3	895.0	1,785.9	2,764.1	2,746.1	1,966.4
Short-term debentures	4.0	9.3	5.0	353.4	32.1	26.2
Short-term related party debt	1.3	3.1		5.5	8.2	88.7
Long-term loans and financing	1,220.6	2,857.5	3,059.6	3,628.0	3,891.6	3,101.7
Long-term debentures	683.2	1,599.3	1,167.9	1,143.0	1,190.2	473.6
Long-term related party debt	1.3	3.0	115.8	177.6	189.3	626.7
Minority interest	51.8	121.2	203.1	554.4	433.1	738.0
Share capital	1,453.7	3,403.0	3,403.0	1,887.4	1,845.4	1,201.6
Shareholders equity	1,937.5	4,535.8	4,183.7	2,112.6	1,821.8	1,729.0
U.S. GAAP						
Total assets	US$ 5,886.0	R$ 13,779.2	R$ 12,821.0	R$ 11,058.2	R$ 10,531.7	R$ 7,803.0
Shareholders equity	1,308.7	3,063.6	2,588.9	7.8	(415.2)	291.4
Other Financial Information						

***Brazilian GAAP*:**						
Cash Flow Data:						
Net cash provided by (used in):						
Operating activities	US$ 734.5	R$ 1,719.4	R$ 1,916.0	R$ 596.9	R$ 790.0	R$ 1,453.9
Investing activities	(447.7)	(1,048.0)	(1,014.4)	(469.4)	(646.7)	(862.2)
Financing activities	(140.8)	(329.7)	166.0	379.1	(237.2)	(404.9)
Other Information:						
Capital expenditures:						
Property, plant and equipment	US$ 333.5	R$ 780.7	R$ 442.2	R$ 223.7	R$ 419.9	R$ 318.0
Investments in other companies	14.5	34.0	23.6	71.7	13.1	1,172.3

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	At and for the Year Ended December 31,				
	2005	2004	2003	2002	2001
Operating Data(5):					
Ethylene:					
Domestic sales volume (in thousands of tons)	1,169.8	1,098.9	1,047.3	994.8	1,064.8
Average domestic price per ton (in R$)	2,204	2,095	1,655	1,292	1,135
Propylene:					
Domestic sales volume (in thousands of tons)	497.5	446.8	403.4	415.2	421.1
Average domestic price per ton (in R$)	2,132	1,833	1,477	1,106	829
Polyethylene(6):					
Domestic sales volume (in thousands of tons)	502.3	498.7	446.1	491.7	199.3
Average domestic price per ton (in R$)	3,072	2,987	2,567	2,007	2,114
Polypropylene(6):					
Domestic sales volume (in thousands of tons)	419.9	418.5	374.9	395.1	140.4
Average domestic price per ton (in R$)	3,344	3,155	2,689	1,931	1,969
PolyvinylchlorideC(7):					
Domestic sales volume (in thousands of tons)	378.9	394.4	342.4	350.1	125.9
Average domestic price per ton (in R$)	2,747	3,042	2,390	2,034	1,612
Number of employees (at period end)	3,262	2,996	2,868	2,817	1,424

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2005 for *reais* into U.S. dollars of R$2.341=US$1.00.
(2) Does not give effect to reclassification of Codeverde. See Introduction Financial Statements.
(3) Does not give effect to reclassification of Petroflex. See Introduction Financial Statements.
(4) Investment in associated companies, net comprises equity in the results, amortization of goodwill, net, foreign exchange variation and tax incentives and other.
(5) Including intra-company sales within Braskem. Intra-company sales of ethylene totaled approximately 588,700 tons in 2005, 537,100 tons in 2004 and 488,300 tons in 2003. Intra-company sales of propylene totaled approximately 89,300 tons in 2005, 31,300 tons in 2004 and 4,300 tons in 2003.
(6) Represents the sum of the sales volumes of Polialden Petroquímica S.A. and OPP Química S.A. for 2001.
(7) Represents the sales volume of Trikem S.A. for 2001.

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Exchange Rates

Prior to March 14, 2005, there were two principal foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating rate exchange market generally applied to transactions to which the commercial market rate did not apply.

On March 4, 2005, the National Monetary Council (Conselho Monetário Nacional) enacted Resolution No. 3,265, as well as additional regulations, that consolidated the two foreign exchange markets into a single foreign exchange market, effective as of March 14, 2005, in order to make foreign exchange transactions more straight-forward and efficient. Consequently, all foreign exchange transactions in Brazil are now carried out in this single foreign exchange market through authorized financial institutions. We cannot predict the impact of the enactment of any new regulations on the foreign exchange market.

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual devaluation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 2000 through December 31, 2002, the *real* depreciated by 44.6% against the U.S. dollar. From December 31, 2002 through December 31, 2005, the *real* appreciated by 50.1% against the U.S. dollar. At June 22, 2006, the selling rate for U.S. dollars was R$2.239 per US$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. We also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future.

The following table shows the commercial selling rate or selling rate, as applicable, for U.S. dollars for the periods and dates indicated. The information in the Average column represents the average of the exchange rates on the last day of each month during the periods presented.

	***Reais* per U.S. dollar**			
Year	**High**	**Low**	**Average**	**Period end**
2001	R$ 2.801	R$ 1.936	R$ 2.353	R$ 2.320
2002	3.995	2.271	2.998	3.533
2003	3.662	2.822	3.071	2.889
2004	3.205	2.654	2.909	2.654
2005	2.762	2.163	2.413	2.341

	Reais per U.S. Dollar	
Month	**High**	**Low**
December 2005	R$ 2.374	R$ 2.180
January 2006	2.346	2.211
February 2006	2.222	2.118
March 2006	2.224	2.107
April 2006	2.154	2.089
May 2006	2.371	2.059

Source: Central Bank

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Risk Factors

Risks Relating to Brazil

Brazilian political and economic conditions, and the Brazilian government s economic and other policies, may negatively affect demand for our products as well as our net sales revenue and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil s economy. The Brazilian government s actions to control inflation and implement other policies have at times involved wage and price controls, blocking access to bank accounts, imposing capital controls and limiting imports into Brazil.

Our results of operations and financial condition may be adversely affected by factors such as:

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;
- inflation;
- tax policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product, or GDP;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

A presidential election will be held in Brazil in October 2006. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. The run-up to the presidential election may result in changes in existing governmental policies, and the post-election administration even if President Luiz Inácio Lula da Silva is reelected may seek to implement new policies. We cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance.

The Brazilian government s actions to combat inflation may contribute significantly to economic uncertainty in Brazil and reduce demand for our products.

Historically, Brazil has experienced high rates of inflation. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy, particularly prior to 1995. The inflation rate, as measured by the General Price Index Internal Availability (*Índice Geral de Preços Disponibilidade Interna*), reached 2,708% in 1993. Although inflation rates have been substantially lower since 1994 than in previous periods, inflationary pressures persist. Inflation rates were 10.4% in 2001, 26.4% in 2002, 7.7% in 2003, 12.1% in 2004 and 1.2% in 2005, as measured by the General Price Index Internal Availability. The Brazilian government s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Increasing prices for petroleum, the depreciation of the *real* and future governmental measures seeking to maintain the value of the *real* in relation to the U.S. dollar may trigger increases in inflation in Brazil. Periods of higher inflation may slow the rate of

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growth of the Brazilian economy, which would lead to reduced demand for our products in Brazil and decreased net sales revenue. Inflation also is likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our *real*-denominated debt may increase, causing our net income to be reduced. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets. Any decline in our net sales revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our class A preferred shares and the ADSs.

Fluctuations in interest rates could raise the cost of servicing our debt and negatively affect our overall financial performance.

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. At December 31, 2005, we had, among other debt obligations, R$1,320.9 million of loans and financing and debentures that were subject to the TJLP (*Taxa de Juros de Longo Prazo*), a long-term interest rate, R$893.1 million of loans and financing and debentures that were subject to the CDI (*Certificado Depositário Interbancário*), an interbank rate, and R$638.4 million of loans and financing that were subject to LIBOR. The TJLP includes an inflation factor and is determined quarterly by the Central Bank. In particular, the TJLP and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, in 2005 the CDI rate increased from 17.75% per annum at December 31, 2004 to 19.75% per annum at its peak in July 2005, followed by a decline to 18.00% at December 31, 2005. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. A significant increase in any of these interest rates could adversely affect our financial expenses and negatively affect our overall financial performance.

Fluctuations in the real/U.S. dollar exchange rate could increase inflation in Brazil, raise the cost of servicing our foreign currency-denominated debt and negatively affect our overall financial performance.

The exchange rate between the *real* and the U.S. dollar and the relative rates of depreciation and appreciation of the *real* have affected our results of operations and may continue to do so.

The Brazilian currency has devalued often during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* appreciated in value against the U.S. dollar by 22.3% in 2003, 8.9% in 2004 and 13.4% in 2005.

Devaluation of the *real* relative to the U.S. dollar also could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, a devaluation of the *real* could weaken investor confidence in Brazil and reduce the market price of our class A preferred shares and the ADSs. On the other hand, further appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country s current account and the balance of payments and may dampen export-driven growth.

We had total foreign currency-denominated debt obligations in an aggregate principal amount of R$2,746.6 million (US$1,173.3 million) at December 31, 2005, representing 51.2% of our indebtedness, excluding related party debt, on a consolidated basis. At December 31, 2005, we had US$548.5 million in U.S. dollar-denominated cash equivalents and other investments. At December 31, 2005, we did not have any foreign currency derivative instruments. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies could reduce our ability to

meet debt service requirements of our foreign currency-denominated obligations, particularly as our net sales revenue is primarily denominated in *reais*.

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In addition, any significant devaluation of the *real* will increase our financial expenses as a result of foreign exchange losses that we must record. For example, the 34.3% devaluation of the *real* in 2002 substantially increased our financial expenses and was a significant factor in our net loss for that year.

The prices of naphtha, our most important raw material, and of some of our other raw materials are denominated in or linked to the U.S. dollar. In 2005, 71.7% of our direct and indirect consolidated cost of sales and services rendered represented the cost of naphtha. When the *real* depreciates against the U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials increases, and our operating income in *reais* decreases to the extent that we are unable to pass on these cost increases to our customers.

Brazilian government exchange control policies could increase the cost of servicing our foreign currency-denominated debt and impair our liquidity.

The purchase and sale of foreign currency in Brazil is subject to governmental control. In 1990, the Central Bank centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute more restrictive exchange control policies, including the extent of Brazil s foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the International Monetary Fund and political constraints to which Brazil may be subject. A more restrictive policy could increase the cost of servicing (and thereby reduce our ability to pay) our foreign currency-denominated debt obligations and other liabilities. Our foreign-currency denominated debt represented 51.2% of our indebtedness on a consolidated basis at December 31, 2005. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our class A preferred shares and the ADSs.

Changes in tax laws may result in increases in certain direct and indirect taxes, which could reduce our gross margin and negatively affect our overall financial performance.

The Brazilian government implements from time to time changes to tax regimes that may increase our and our customers tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. In April 2003, the Brazilian government presented a tax reform proposal, which was mainly designed to simplify tax assessments, to avoid internal disputes within and between the Brazilian states, and to redistribute tax revenues. Certain elements of this proposal were adopted, while other elements have been stalled and are unlikely to be enacted. We cannot predict the changes to Brazilian tax law that may be proposed and enacted in the future. However, future changes in Brazilian tax law may result in increases in our overall tax burden, which could reduce our gross margin and negatively affect our overall financial performance.

Risks Relating to Our Company and the Petrochemical Industry

The cyclical nature of the petrochemical industry may reduce our net sales revenue and gross margin.

The Brazilian petrochemical industry, including the markets in which we compete, is cyclical and sensitive to changes in supply and demand that are, in turn, affected by political and economic conditions in Brazil and elsewhere. This cyclicality may reduce our net sales revenue and gross margin. In particular:

downturns in general business and economic activity may cause demand for our products to decline;

when demand falls, we may face competitive pressures to lower our prices; and

if we decide to expand our plants or construct new plants, we may do so based on an estimate of future demand that never materializes or materializes at levels lower than we predicted.

The global petrochemical industry is also cyclical. Historically, the international petrochemical markets have experienced alternating periods of limited supply, which have caused prices and profit margins to increase,

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followed by expansion of production capacity, which has resulted in oversupply and reduced prices and profit margins. The Brazilian petrochemical industry has become increasingly integrated with the global petrochemical industry for a number of reasons, including increased demand for, and consumption of, petrochemical products in Brazil and the ongoing integration of regional and world markets for commodities. We establish the prices for the products we sell in Brazil with reference to international market prices. Our net sales revenue and gross margin are increasingly linked to global industry conditions that we cannot control.

We face competition from producers of polyolefins, vinyls and other petrochemical products.

We face competition in Brazil from Brazilian and international producers of polyethylene, polypropylene, vinyls and other petrochemical products. In addition, we generally set the prices for our second generation products with reference to the prices charged for these products by foreign producers in international markets. We anticipate that we may experience increasingly intense competition from other producers of polyolefins and vinyls products, both in Brazil and in selected foreign markets in which we sell these products. Many of our foreign competitors are substantially larger and have substantially greater financial, manufacturing, technological and marketing resources than our company.

We face significant competition in the polyethylene market. Rio Polímeros S.A., or Rio Polímeros, a Brazilian petrochemical company, commenced operations of a major petrochemical plant in Brazil in 2005. The maximum annual capacity of this plant is 520,000 tons of ethylene, 75,000 tons of propylene and 540,000 tons of polyethylene. This plant is in the process of ramping up its production towards its annual capacity. In addition, Solvay Indupa do Brasil S.A., or Solvay, expanded its annual polyvinylchloride, or PVC, production capacity in Brazil by 35,000 tons in December 2005. Actions by our competitors, including any future increases in their capacity, may make it increasingly difficult for us to maintain our domestic market share in our thermoplastic products (i.e., polyethylene, polypropylene and PVC).

Higher naphtha costs would increase our cost of sales and services rendered and may reduce our gross margin and negatively affect our overall financial performance.

Naphtha, a crude oil derivative, is the principal raw material of our Basic Petrochemicals Unit and, indirectly, of our other business units. In 2005, naphtha accounted, directly and indirectly, for approximately 70% of our consolidated cost of sales and services rendered. The price of naphtha supplied by Petróleo Brasileiro S.A. Petrobras, or Petrobras, is linked to the Amsterdam-Rotterdam-Antwerp market price of naphtha and to the *real*/U.S. dollar exchange rate. The price of naphtha that we purchase from other international suppliers is also linked to the Amsterdam-Rotterdam-Antwerp market price. The Amsterdam-Rotterdam-Antwerp market price of naphtha fluctuates primarily based on changes in the U.S. dollar-based price of crude oil in the international markets.

During 2005, the price of naphtha in U.S. dollars increased by 28.8%, from US$387.05 per ton in December 2004 to US$498.35 per ton in December 2005. The U.S. dollar price of naphtha was volatile during 2005, increasing substantially through March, declining in April and May, increasing through September, declining through November and increasing again in December. The U.S. dollar price of naphtha remained volatile in the first five months of 2006, increasing sharply in January and April 2006, increasing moderately in May 2006 and decreasing moderately in February 2006. The price of naphtha may continue its upward trend or the *real* may devalue significantly in the future. Any increase in naphtha costs would reduce our gross margin and negatively affect our overall financial performance to the extent that we are unable to pass on these increased costs to our customers and could result in reduced sales volumes of our products.

We do not hedge against changes in naphtha prices, so that we are exposed to fluctuations in the price of our primary raw material.

We currently do not hedge our exposure to fluctuations in naphtha prices, which are linked to the *real*/U.S. dollar exchange rate. Although we attempt to pass on increases in naphtha prices through higher prices for our

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products, in periods of high volatility in the U.S. dollar price of naphtha or the *real*/U.S. dollar exchange rate, there is usually a lag between the time that the U.S. dollar price of naphtha increases or the U.S. dollar appreciates and the time that we may effectively pass on those increased costs in *reais* to our customers in Brazil. As a result, if the U.S. dollar price of naphtha increases precipitously or the *real* depreciates precipitously against the U.S. dollar in the future, we may not immediately be able to pass on all of the corresponding increases in our naphtha costs to our customers in Brazil, which would likely reduce our gross margin and net income.

We depend on Petrobras to supply us with the substantial portion of our naphtha requirements.

Petrobras currently is the only Brazilian supplier of naphtha and supplied 69.2% of the naphtha consumed by our company in 2005. Petrobras produces most of the naphtha it sells to us and imports the balance. Our production volume and net sales revenue would likely decrease and our overall financial performance would likely be negatively affected in the event of:

- significant damage to Petrobras refineries or to the port facilities through which Petrobras imports naphtha, or to any of the pipelines connecting our plants to Petrobras facilities, whether as a consequence of an accident, natural disaster, fire or otherwise; or

- any termination by Petrobras of the naphtha supply contract with our company, which provides that Petrobras may terminate the contract for a number of reasons, including as a result of a national emergency affecting the supply of petroleum derivatives in Brazil.

In addition, although regulatory changes have ended Petrobras monopoly in the Brazilian naphtha market and have allowed us to import naphtha, any reversal in the continuing deregulation of the oil and gas industry in Brazil could increase our production costs.

Our Polyolefins and Vinyls Units depend on our Basic Petrochemicals Unit and Copesul to supply them with their ethylene and propylene requirements.

Our Basic Petrochemicals Unit is the only supplier of ethylene to our Vinyls Unit, and our Basic Petrochemicals Unit and Copesul are the only suppliers of ethylene and propylene to our Polyolefins Unit. Because the cost of storing ethylene and propylene is substantial and there is inadequate infrastructure in Brazil to permit the importation of large quantities of these products, our production volumes of, and net sales revenue from, vinyls and polyolefins products would decrease, and our overall financial performance would be negatively affected, in the event of:

- significant damage to our Basic Petrochemicals Unit s or to Copesul s facilities through which ethylene or propylene is produced, or to the pipeline or other facilities that connect these units to our Basic Petrochemicals Unit or Copesul, whether as a consequence of an accident, natural disaster, fire or otherwise;

- any termination by Copesul of the ethylene and propylene supply contracts with our company; or

- any significant reduction in the supply of naphtha to our Basic Petrochemicals Unit or to Copesul, as naphtha is the principal raw material used in the production of ethylene and propylene.

In addition, any significant expansion of the production capacity of our Polyolefins Unit in the petrochemical complex located in Triunfo in the State of Rio Grande do sul, which we refer to as the Southern Complex, will depend on our ability to obtain additional ethylene and propylene from Copesul.

Any downgrade in the ratings of our company or our debt securities would likely result in increased interest and other financial expenses related to our borrowings and debt securities and could reduce our liquidity.

Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., or Standard and Poor s, and Fitch, Inc., or Fitch, maintain ratings of our company and our debt securities. Currently, Standard and

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Poor s and Fitch maintain ratings of our company on a local and a global basis. Standard and Poor s maintains a rating of our company on a local basis of br AA/Stable Outlook and Fitch maintains a national rating for our company of AA- (bra)/Stable Outlook. On a global basis, Standard and Poor s maintains a local currency rating for our company of BB and a foreign currency rating for our company of BB, while Fitch maintains a local currency rating for our company of BB+/Stable Outlook and a foreign currency rating for our company of BB/Positive Outlook. Any decision by these or other rating agencies to downgrade the ratings of our company or of our debt securities in the future would likely result in increased interest and other financial expenses relating to our borrowings and debt securities and could significantly reduce our ability to obtain such financing on satisfactory terms or in amounts required by us and our liquidity.

Some of our shareholders may have the ability to determine the outcome of corporate actions or decisions, which could affect the holders of our class A preferred shares and the ADSs.

As of June 22, 2006, a group of companies controlled by the Odebrecht family, or the Odebrecht Group, through Odebrecht S.A., or Odebrecht, its wholly-owned subsidiary, ODBPAR Investimentos S.A., or ODBPAR Investments, their subsidiary, Nordeste Química S.A. Norquisa, or Norquisa, and our subsidiary, Braskem Participações S.A., own 74.6% of our voting share capital. The Odebrecht Group s designees currently constitute a majority of the members of our board of directors. Petrobras Química S.A., or Petroquisa, a subsidiary of Petrobras, has veto and other rights under a shareholders agreement as described under Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements. As a result, the Odebrecht Group and Petroquisa may have the ability to determine the outcome of major corporate actions or decisions requiring the approval of our shareholders or our board of directors, which could affect the holders of our class A preferred shares and the ADSs.

We may face conflicts of interest in transactions with related parties.

We maintain trade accounts receivable and current and long-term payables with some of our affiliates and other related parties, including Petrobras (which is our sole domestic supplier of naphtha), and Copesul in the Southern Complex (which supplies us with ethylene and propylene). As of June 22, 2006, Petrobras, through Petroquisa, is the indirect holder of 9.8% of our voting share capital and 8.3% of our total share capital. These accounts receivable and accounts payable balances result mainly from purchases and sales of goods, which are at prices and on terms equivalent to the average terms and prices of transactions that we enter into with third parties. We also engage in financial and other transactions with some of our shareholders. These and other commercial and financial transactions between us and our affiliates could result in conflicting interests.

We may make significant acquisitions which, if not successfully integrated with our company, may adversely affect our operating results.

We may make significant acquisitions in the future to continue our growth. Acquisitions involve risks, including the following:

- failure of acquired businesses to achieve expected results;
- possible inability to retain or hire key personnel of acquired businesses;
- possible inability to achieve expected synergies and/or economies of scale;

unanticipated liabilities; and

antitrust considerations.

If we are unable to integrate or manage acquired businesses successfully, we may not realize anticipated cost savings, revenue growth and levels of integration, which may result in reduced profitability or operating losses.

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Future adjustments in tariffs on imports that compete with our products could cause us to lower our prices.

We take into account, when setting the domestic prices for our products, tariff rates imposed by the Brazilian government on imports of similar products and the products of our customers. We currently benefit from tariffs that allow us to charge domestic prices for our polyolefins and vinyls products that include a factor based on the tariffs levied on comparable imports of those products. However, the Brazilian government has in the past used import and export tariffs to effect economic policies, with the consequence that tariffs can vary considerably, especially tariffs on petrochemical products. For example, in 2004 the Brazilian government lowered the tariffs applicable to most of the thermoplastic products that we produce by 1.5%. Future adjustments of tariffs could cause us to lower our domestic prices, which would likely result in lower net sales revenue and could negatively affect our overall financial performance.

Our business is subject to stringent environmental regulations, and imposition of new regulations could require significant capital expenditures and increase our operating costs.

Our company, like other Brazilian petrochemical producers, is subject to stringent Brazilian federal, state and local environmental laws and regulations concerning human health, the handling and disposal of solid and hazardous wastes and discharges of pollutants into the air and water. Petrochemical producers are sometimes subject to unfavorable market perceptions as a result of the environmental impact of their business, which can have an adverse effect on their results of operations. As environmental laws become more stringent in Brazil and worldwide, the amount and timing of future expenditures required for us to remain compliant could increase substantially and could decrease the availability of funds for other capital expenditures and other purposes.

We manufacture products that are subject to the risk of fire, explosions and other hazards.

Our operations are subject to hazards, such as fires, explosions and other accidents, associated with the manufacture of petrochemicals and the storage and transportation of feedstocks and petrochemical products. These hazards can cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. A sufficiently large accident at one of our plants or storage facilities could force us to suspend our operations temporarily and result in significant remediation costs and lost net sales revenue. Although we maintain insurance coverage for losses due to fire damage and for losses of income resulting from shutdowns due to fire, explosion or electrical damage, those insurance proceeds may not be available on a timely basis and may be insufficient to cover all losses.

Unfavorable outcomes in pending litigation may reduce our liquidity and negatively affect our financial performance and financial condition.

We are involved in numerous tax, civil and labor disputes involving significant monetary claims. If unfavorable decisions are rendered in one or more of these lawsuits, we could be required to pay substantial amounts, which could materially adversely affect our financial condition and results of operations. For some of these lawsuits, we have not established any provision on our balance sheet or have established provisions only for part of the amounts in question, based on our judgments or opinions of our legal counsel as to the likelihood of winning these lawsuits.

The lawsuits for which we have not established provisions or have established only partial provisions include the following:

Social contribution on net income. We and some of our subsidiaries have challenged the constitutionality of the Brazilian federal Social Contribution on Net Income (*Contribuição Social Sobre o Lucro Líquido*). A Brazilian Federal Supreme Court (*Supremo Tribunal Federal*) decision in our favor was overruled in a subsequent rescission action filed by the Brazilian tax authorities, and our appeal of that suit is pending. We believe that it is reasonably possible that we will lose our appeal. If we lose our appeal, we believe that we would be required to pay Social Contribution on Net Income only from the

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date that a final decision is published. However, as Brazilian law allows rescission actions to relate back to, and to take effect from, the date of the initial decision, we believe that it is reasonably possible that we will be required to pay this tax from the date of the original decision, in which case our total estimated exposure at December 31, 2005, including interest, would be R$651.7 million. This amount does not include approximately R$175.0 million in penalties at December 31, 2005 that we believe we would not be required to pay because we relied upon a judicial decision in not paying the Social Contribution on Net Income. We believe that there is a possibility that we will be required to pay related interest and a remote possibility that we will be required to pay fines as a result of this tax litigation. We have not established a provision for these lawsuits.

Cost of living adjustments on workers wages. The unions that represent employers and workers at the facilities located in the petrochemical complex located in Camaçari in the State of Bahia, which we refer to as the Northeastern Complex, are involved in a lawsuit over the indices we and other companies have used for cost of living adjustments on workers wages since early 1990. For a description of the legal bases of this suit, see Item 8. Financial Information Legal Proceedings Labor Proceedings. The Brazilian Federal Supreme Court has held in favor of the employers union, but has accepted a divergence appeal requesting the resolution of conflict between the decisions given by the Brazilian Federal Supreme Court under this proceeding and prior decisions given by another panel of the Brazilian Federal Supreme Court. Accordingly, the decision of the Brazilian Federal Supreme Court in our favor is not yet final and does not address damages. We believe it is reasonably possible that the employers union will lose the divergence appeal, which could adversely affect us. While we believe that it is possible, although unlikely, that an adverse judgment against the employers union could impact wages that we paid from April 1990 to the present, we believe that any judgment would most likely impact wages that we paid from April 1990 to September 1990 (the effective date of the next collective bargaining agreement). As we believe that it is not probable that the employers union will lose this suit, we have not recorded a provision in respect of this suit. If the employers union loses this suit and we are required to pay damages from April 1990 to September 1990, we estimate that we could be subject to liability of up to R$35.0 million, although additional claims would have to be brought by the workers union or individual employees to quantify the amount of damages that we would be required to pay.

In addition, we and some of our subsidiaries believe that our chances of success are remote in a series of lawsuits in which we challenged the constitutionality of an increase in the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social COFINS*), or COFINS, tax rate. For a description of the legal bases of these suits, see Item 8. Financial Information Legal Proceedings Tax Proceedings. We had established total provisions of R$316.1 million at December 31, 2005 for all of our lawsuits relating to the Social Integration Program (*Programa de Integração Social*), or PIS, and COFINS, including separate lawsuits challenging the basis of calculation of PIS and COFINS. Because we have deposited only R$39.1 million of this amount with the courts, we would be required, in the event we and our subsidiaries receive final, unfavorable decisions, to pay the remaining amounts for which we have not made deposits.

We are also parties to a number of lawsuits seeking tax credits that we believe the Brazilian tax authorities have disallowed or limited in violation of the Brazilian Constitution and/or applicable law. In some cases in which we have received favorable lower court decisions, we have used these credits to offset other tax obligations and have established provisions in an equivalent amount until a final decision is rendered (adjusting these provisions based on the *Sistema Especial de Liquidação e de Custódia*, or SELIC, interest rate). These provisions totaled R$1,332.6 million at December 31, 2005. If we ultimately lose any of these lawsuits, we would be required to pay the tax obligations we had previously offset with those credits, which could materially reduce our liquidity. We believe that losses related to some of these lawsuits are reasonably possible.

For more information about our legal proceedings, see Item 8. Financial Information Legal Proceedings.

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Risks Relating to Our Class A Preferred Shares and the ADSs

Our class A preferred shares and the ADSs have limited voting rights.

Under the Brazilian Corporation Law and our by-laws, holders of our class A preferred shares and, consequently, the ADSs are not entitled to vote at meetings of our shareholders, except in very limited circumstances. These limited circumstances directly relate to key rights of the holders of class A preferred shares, such as modifying basic terms of our class A preferred shares or creating a new class of preferred shares with superior rights. Holders of preferred shares without voting rights are entitled to elect one member and his or her respective alternate to our board of directors and our fiscal council. Holders of our class A preferred shares and the ADSs are not entitled to vote to approve corporate transactions, including mergers or consolidations of our company with other companies.

Holders of the ADSs may find it difficult to exercise even their limited voting rights at our shareholders meetings.

Holders may exercise the limited voting rights with respect to our class A preferred shares represented by the ADSs only in accordance with the deposit agreement relating to the ADSs. There are practical limitations upon the ability of ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders meetings in certain newspapers in Brazil. To the extent that holders of our class A preferred shares are entitled to vote at a shareholders meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs will receive notice of a shareholders meeting by mail from the depositary following our notice to the ADR depository requesting the ADR depository to do so. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. This noticed voting process will take longer for ADS holders than for holders of class A preferred shares. If it fails to receive timely voting instructions for all or part of the ADSs, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

In the limited circumstances in which holders of the ADSs have voting rights, they may not receive the voting materials in time to instruct the depositary to vote our class A preferred shares underlying their ADSs. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions of the holders of the ADSs or for the manner of carrying out those voting instructions. Accordingly, holders of the ADSs may not be able to exercise voting rights, and they will have no recourse if the class A preferred shares underlying their ADSs are not voted as requested.

Exchange controls and restrictions on remittances abroad may adversely affect holders of the ADSs and the underlying class A preferred shares.

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds of their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil s balance of payments or there are reasons to foresee a serious imbalance. The Brazilian government imposed remittance restrictions for approximately six months in 1990.

These restrictions could hinder or prevent the Brazilian custodian of the class A preferred shares underlying the ADSs or holders who have exchanged the ADSs for the underlying class A preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our class A preferred shares will

hold the *reais* that it cannot convert for the account of holders of the ADSs who have not been paid. Neither the custodian nor the depositary will be required to invest the *reais* or be liable for any interest.

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Holders of the ADSs may face difficulties in protecting their interests because we are subject to different corporate rules and regulations as a Brazilian company and our shareholders may have fewer and less well-defined rights.

Holders of the ADSs are not direct shareholders of our company and are unable to enforce the rights of shareholders under our by-laws and the Brazilian Corporation Law.

Our corporate affairs are governed by our by-laws and the Brazilian Corporation Law, which differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of our class A preferred shares underlying the ADSs under the Brazilian Corporation Law to protect its interests relative to actions by our board of directors may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of our class A preferred shares and the ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Holders of the ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are a corporation (sociedade anônima) organized under the laws of Brazil, and all of our directors and executive officers and our independent public accountants reside or are based in Brazil. Most of our assets and those of these other persons are located in Brazil. As a result, it may not be possible for holders of the ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our directors or executive officers than would shareholders of a U.S. corporation.

Actual or anticipated sales of a substantial number of class A preferred shares could decrease the market prices of our class A preferred shares and the ADSs.

Sales of a substantial number of our class A preferred shares could negatively affect the market prices of our class A preferred shares and the ADSs. If, in the future, substantial sales of shares are made by the Odebrecht Group, Petroquisa or other existing or future holders of class A preferred shares, the market price of our class A preferred shares and, by extension, the ADSs may decrease significantly. As a result, holders of the ADSs may not be able to sell the ADSs at or above the price they paid for them.

Holders of the ADSs may be unable to exercise preemptive rights with respect to our class A preferred shares underlying the ADSs.

Holders of the ADSs will be unable to exercise the preemptive rights relating to our class A preferred shares underlying ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights or to take any other action to make preemptive rights available to holders of the ADSs, and we may not file any such registration statement. If we do not file a registration statement or if we and the depositary decide not to make preemptive rights available to holders of the ADSs, those holders may receive only the net proceeds from the sale of their preemptive rights by the depositary, or if they are not sold, their preemptive rights will be allowed to lapse.

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Holders of the ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

Historically, any capital gain realized on a sale or other disposition of ADSs between non-Brazilian holders outside Brazil was not subject to Brazilian income tax. However, Brazilian law provides that, commencing on February 1, 2004, the acquiror, individual or legal entity resident or domiciled in Brazil, or the acquiror s attorney-in-fact, when such acquirer is resident or domiciled abroad, shall be responsible for the retention and payment of the income tax applicable to capital gains earned by the individual or legal entity resident or domiciled abroad who disposes of property located in Brazil. The Brazilian tax authorities have recently issued a normative instruction confirming that they intend to assess income tax on capital gains earned by non-Brazilian residents whose assets are located in Brazil. In our view, ADSs representing class A preferred shares, which are issued by the depositary outside Brazil, will not be deemed to be property located in Brazil for purposes of this law. However, we cannot assure holders of our ADSs whether Brazilian tax authorities will attempt to tax any capital gains arising from the sale or other disposition of ADSs, even when the transaction is consummated outside Brazil between non-Brazilian residents.

The relative volatility and liquidity of the Brazilian securities markets may decrease the liquidity and market price of our class A preferred shares and the ADSs.

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The São Paulo Stock Exchange (*Bolsa de Valores de São Paulo*), which is the principal Brazilian stock exchange, had a market capitalization of US$482.1 billion (or R$1,128.5 billion) at December 31, 2005 and an average daily trading volume of US$666.6 million for 2005. In comparison, the New York Stock Exchange had a market capitalization of US$21.2 trillion at December 31, 2005 and an average daily trading volume of US$56.1 billion for 2005. There is also significantly greater concentration in the Brazilian securities markets. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the São Paulo Stock Exchange at December 31, 2005. The ten most widely traded stocks in terms of trading volume accounted for approximately 51% of all shares traded on The São Paulo Stock Exchange in 2005. These market characteristics may substantially limit the ability of holders of the ADSs to sell class A preferred shares underlying ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of the ADSs themselves.

Developments in other emerging markets may decrease the market price of our class A preferred shares and the ADSs.

The market price of the ADSs may decrease due to declines in the international financial markets and world economic conditions. Although economic conditions are different in each country, investors reaction to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Any return to economic turmoil in Argentina or adverse economic developments in other emerging markets may adversely affect investor confidence in securities issued by Brazilian companies, causing their market price and liquidity to suffer. Any such developments could immediately affect our ability to raise capital when needed and the market price of our class A preferred shares and the ADSs.

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ITEM 4. INFORMATION ON THE COMPANY

We are the leading petrochemical company in Latin America, based on average annual production capacity in 2005. We are also one of the three largest Brazilian-owned private sector industrial companies, based on net sales revenue. We recorded net income of R$625.8 million in 2005 on net sales revenue of R$13,075.1 million, in each case under Brazilian GAAP. We produce a diversified portfolio of petrochemical products and have a strategic focus on polyethylene, polypropylene and PVC. We have integrated first and second generation petrochemical production facilities, with 14 plants in Brazil following the Politeno acquisition described below.

Our registered office is at Rua Eteno, 1561, CEP 42810-000, Camaçari, Bahia, Brazil, and our telephone number at this address is 55-71-3632-5102. Our principal executive office is at Avenida das Nações Unidas, 4777, São Paulo, SP, CEP 05477-000, Brazil, and our telephone number at this address is 55-11-3443-9000.

History and Development of Our Company

We were founded in 1972 as Petroquímica do Nordeste Copene Ltda. to plan, execute and coordinate the activities of the Northeastern Complex. The construction of the Northeastern Complex formed part of a development policy of the Brazilian government implemented in the early 1970 s to diversify the geographical distribution of industrial assets and to promote economic growth across different regions of Brazil. On June 18, 1974, we were incorporated as a corporation *(sociedade anônima)* under the laws of Brazil (with Brazilian company registry No. 29300006939) and were renamed Copene Petroquímica do Nordeste S.A.

Prior to August 1995, Petroquisa, the petrochemical subsidiary of Petrobras, owned 36.2% of our total share capital, representing 48.2% of our voting share capital. At that time, Norquisa owned 17.3% of our total share capital, representing 47.6% of our voting share capital, and the remainder of our share capital was owned by various Brazilian private sector groups, pension funds, banks and our employees.

Privatization of Our Company

In August 1995, as part of the Brazilian government s privatization program, Petroquisa sold 14.8% of our total share capital, representing 32.8% of our voting share capital, through an auction. Norquisa acquired 5.5% of our total share capital, representing 10.8% of our voting share capital, in this auction, and the remaining shares were acquired by various Brazilian pension funds. At the time of this auction, Norquisa was controlled by several second generation producers in the Northeastern Complex. As a result of this auction, Norquisa became our controlling shareholder.

Auction of Banco Econômico s Petrochemical Assets

On July 25, 2001, the Central Bank, as liquidator of Banco Econômico S.A., a Brazilian financial institution that collapsed in 1995, or Banco Econômico, conducted an auction of the petrochemical assets that had been owned by Banco Econômico. This auction was part of a broader initiative of the Brazilian government to restructure the Brazilian petrochemical sector.

In order to increase its investment in the Brazilian petrochemical industry, the Odebrecht Group participated in this auction through Conepar Companhia Nordeste de Participações do Nova Camaçari Participações S.A., or Nova Camaçari, a holding company which acquired the petrochemical assets being auctioned. In addition, Nova Camaçari acquired additional petrochemical assets from the Odebrecht Group, a group of Companies controlled by the Mariani family, or the Mariani Group, and other entities which were entitled to sell assets to Nova Camaçari under the terms of various shareholder agreements.

Immediately following these transactions, we acquired Nova Camaçari from the Odebrecht Group in order to expand the scope of our operations and become a vertically integrated producer of petrochemical products. Following these transactions, we owned indirectly (1) Conepar Companhia Nordeste de Participações, which,

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in turn, held 66.7% of the voting share capital of Polialden Petroquímica S.A., or Polialden, and 35.0% of the voting share capital of Politeno Indústria e Comércio S.A., or Politeno, and (2) Proppet S.A., or Proppet. In connection with these transaction, the Odebrecht Group purchased shares of Norquisa from one of Norquisa s other shareholders in order to increase its percentage ownership of Norquisa. Following these transactions, the Odebrecht Group owned 39.7% of the voting share capital of Norquisa and, together with the Mariani Group, held a combined 55.8% of the voting share capital of Norquisa. In order to streamline our corporate structure, in September 2001, we merged Proppet into our company.

Acquisition of OPP Química, Nitrocarbono and Interest in Copesul

In order to continue to implement our strategy of vertically integrating our operations and to further expand the scope of our operations, on August 16, 2002, we acquired from the Odebrecht Group and Pronor Petroquímica S.A., or Pronor, a member of the Mariani Group:

- 81.3% of the total share capital of OPP Química S.A., or OPP Química, including 100% of its voting share capital. OPP Química, in turn, owned 41.6% of the total share capital of Trikem S.A., or Trikem, representing 64.4% of its voting share capital;
- 29.5% of the total share capital and voting share capital of Copesul; and
- 92.3% of the total share capital of Nitrocarbono S.A., or Nitrocarbono, representing 95.5% of its voting share capital.

Upon completing these transactions, we changed our corporate name to Braskem S.A.

In connection with these transactions, we issued shares representing 43.7% of our voting and total share capital to the Odebrecht Group and issued shares representing 3.6% of our voting and total share capital to Pronor. In October and December 2002, we acquired all of OPP Química s total share capital that we did not own.

In February 2003, we commenced a public exchange offer for the remaining voting share capital of Nitrocarbono not owned by our company. On February 13, 2003, immediately following our exchange of the shares tendered in this exchange offer for 128,973 of our class A preferred shares, we owned 93.8% of the total share capital of Nitrocarbono, including 99.99% of its voting share capital. On March 31, 2003, we merged with Nitrocarbono. In connection with this merger, we issued 5,415 of our class A preferred shares to the holders of shares of Nitrocarbono other than our company.

On March 31, 2003, we merged with OPP Química. As a consequence of our merger with OPP Química, we acquired ownership of the share capital of Trikem previously owned by OPP Química.

On June 30, 2003, we entered into an agreement under which we assumed debt of Copene Participações S.A. (formerly Conepar Companhia Nordeste de Participações) owed to Polialden in the amount of R$30.2 million as well as debt of Copene Participações S.A. owed to the Brazilian National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social, or BNDES) in the amount of R$38.9 million. In return, we received the shares of Polialden and Politeno owned by Copene Participações S.A. As a result, all of our

equity interests in Polialden and Politeno were, and continue to be, held directly by our company, and Copene Participações S.A. no longer owns material assets or conducts any material operations.

Acquisition of Common Shares of Trikem and Polialden Held by Mitsubishi and Sojitz

In order to acquire the remaining outstanding common shares of Polialden and substantially all of the remaining outstanding common shares of Trikem, on July 14, 2003, we entered into (1) a share purchase and sale agreement with Odebrecht and Mitsubishi Chemical Corporation, or Mitsubishi, and (2) a memorandum of understanding with Odebrecht and Sojitz Corporation (formerly known as Nissho Iwai Corporation), or Sojitz.

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Under the share purchase and sale agreement, Mitsubishi agreed to sell to us all of the share capital of Trikem and Polialden it owned, consisting of 16.7% of Polialden s voting share capital and 13.4% of Trikem s voting share capital for R$44.2 million. We paid a portion of the purchase price in cash, and we were obligated to pay the remaining US$13.5 million to Mitsubishi on July 31, 2007, or earlier if before that date we met certain financial tests. We prepaid the remainder of the purchase price on July 29, 2005. Under this agreement, we are required to make an additional payment to Mitsubishi in an amount that is contingent upon the outcome of pending litigation filed against Polialden by certain of its preferred shareholders. We assumed the defense of this litigation as a result of our merger with Polialden on May 31, 2006. The amount of the additional payment that we are obligated to pay to Mitsubishi is (1) R$21.6 million if we prevail in this litigation or if a definitive settlement is reached, or (2) R$5.4 million if we lose this litigation. In either event, we will convert the amount of this additional payment (as adjusted for inflation at the Indice Geral de Perços Mercado, or IGP-M, rate from July 31, 2003 until the date that this litigation is finally adjudicated or settled) into U.S. dollars on the final adjudication or settlement date. We are required to make this additional payment, plus interest from the date of this agreement at an annual rate of LIBOR plus 3.0%, within 60 days after the date on which this litigation is finally adjudicated or settled. Odebrecht has guaranteed our obligation to pay Mitsubishi the additional payment in connection with the Polialden shareholders rights litigation.

Under the memorandum of understanding with Odebrecht and Sojitz, we agreed to purchase all of the share capital of Trikem and Polialden that Sojitz owned, consisting of 16.7% of Polialden s voting share capital and 10.1% of Trikem s voting share capital, in exchange for 4,345,162 of our common shares. As a result of this transaction, which closed on July 31, 2003, and after giving effect to the purchase from Mitsubishi described above, we increased our direct and indirect ownership of Trikem s voting share capital to 87.9% and increased our ownership of Polialden s voting share capital to 100%.

Merger of Trikem into Braskem

On November 3, 2003, we commenced a public exchange offer for the remaining voting share capital of Trikem not owned by our company. On December 4, 2003, immediately following our exchange of the shares tendered in this exchange offer for 1,753,080 of our class A preferred shares, we owned, directly and indirectly, 53.8% of Trikem s total share capital, including 99.9% of its voting share capital.

At an extraordinary shareholders meeting on January 15, 2004, our shareholders approved our merger with Trikem, an amendment to our by-laws to permit the conversion of our class A preferred shares into common shares upon the approval of the majority of our voting share capital, and the conversion of 487,793 of our class A preferred shares into 487,793 of our common shares in order to maintain the required minimum ratio of our common shares to preferred shares in accordance with the Brazilian Corporation Law after completion of our merger with Trikem. In connection with this merger, we issued 592 of our class A preferred shares in exchange for 514,366 of Trikem s common shares and 32,544,069 of our class A preferred shares in exchange for 28,260,456,441 of Trikem s preferred shares.

Exchange of Polialden Shares for Our Class A Preferred Shares

On December 15, 2004, we exchanged 2,020,201 of our class A preferred shares which were held in our treasury for 47,846,610 preferred shares issued by Polialden held by certain of the shareholders of Polialden. The shareholders of Polialden participating in this exchange were parties to suits brought against Polialden claiming, among other things, that certain dividends were owed to these shareholders. In connection with the exchange of shares, these claims were relinquished by the Polialden shareholders participating in the exchange. As a result of this exchange, we increased our interest in the total share capital of Polialden from 56.3% to 63.7%.

Politeno Acquisition

On April 6, 2006, we purchased all of the common and preferred shares of Politeno that were owned by SPQ Investimentos e Participações Ltda., or SPQ, a subsidiary of Suzano Petroquímica S.A., or Suzano,

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Sumitomo Chemical Company Limited, or Sumitomo, and Itochu Corporation, or Itochu. We refer to this transaction as the Politeno acquisition. As a result of the Politeno acquisition, we now own 100% of the voting share capital and 96.2% of the total share capital of Politeno.

Merger of Polialden into Braskem

At an extraordinary shareholders meeting on May 31, 2006, our shareholders approved our merger with Polialden and the conversion of 2,632,043 of our class A preferred shares into 2,632,043 of our common shares in order to maintain the required minimum ratio of our common shares to preferred shares in accordance with the Brazilian Corporation Law after completion of our merger with Polialden. In connection with this merger, we issued 7,878,825 of our class A preferred shares in exchange for 264,886,083 of Polialden s preferred shares.

Current Corporate Structure

The following chart presents the corporate structure of our principal subsidiaries and equity investments following the transactions described above. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are organized under Brazilian law.

Our Principal Subsidiary and Jointly Controlled Companies

Our principal subsidiary is Politeno, which is a corporation (*sociedade anônima*) organized under the laws of Brazil. As a result of the Politeno acquisition on April 6, 2006, we now own 100% of the voting share capital and 96.2% of the total share capital of Politeno. Politeno is engaged in the manufacturing, processing, selling, importing and exporting of low density polyethylene, or LDPE, medium density polyethylene, high density polyethylene, or HDPE, linear low density polyethylene, or LLDPE, linear medium density polyethylene, ethyl vinyl acetate copolymer and other special resins. Politeno operates two industrial units in the Northeastern Complex. For information concerning these operations, see Jointly Controlled Companies and Joint Venture Politeno.

We hold equity investments in Copesul and Petroflex, which are jointly controlled with third parties. We proportionally consolidate the results of these jointly controlled companies in our consolidated financial statements, which has a significant impact on these financial statements. For a description of our jointly controlled companies, see Jointly Controlled Companies and Joint Venture.

Petrochemical Industry Overview

Structure

The petrochemical industry transforms crude oil by-products, principally naphtha, or natural gas into widely used industrial and consumer goods. The Brazilian petrochemical industry is generally organized into first, second and third generation producers based on the stage of transformation of various petrochemical raw materials, or feedstocks.

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First Generation Producers

Brazil s first generation producers, which are referred to as crackers, break down or crack naphtha or natural gas, their principal feedstock, into basic petrochemicals. Three of these crackers purchase naphtha, which is a by-product of the oil refining process, primarily from Petrobras, as well as from other suppliers located outside of Brazil. The fourth, Rio Polímeros, purchases natural gas from Petrobras. The basic petrochemicals produced by the crackers include:

- olefins, primarily ethylene, propylene and butadiene; and
- aromatics, such as benzene, toluene and xylenes.

We, Copesul, Petroquímica União and Rio Polímeros operate Brazil s four crackers and sell basic petrochemicals to second generation producers, including, in our case, second generation producers that are part of our company. The basic petrochemicals, which are in gaseous or liquid form, are transported primarily via pipelines to the second generation producers plants, generally located near the crackers, for further processing.

Second Generation Producers

Second generation producers process the basic petrochemicals obtained from the crackers to produce intermediate petrochemicals. These petrochemicals include:

- polyethylene, polystyrene and PVC (each produced from ethylene);
- polypropylene and acrylonitrile (each produced from propylene);
- caprolactam (produced from benzene); and
- polybutadiene (produced from butadiene).

There are 36 second generation producers operating in Brazil. Intermediate petrochemicals are produced in solid form as plastic pellets or powders and are transported primarily by truck to third generation producers, which generally are located far from the second generation producers. We and Rio Polímeros are the only integrated first and second generation petrochemical company in Brazil.

Third Generation Producers

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

- plastics (produced from polyethylene, polypropylene and PVC);
- acrylic fibers (produced from acrylonitrile);
- nylon (produced from caprolactam);
- elastomers (produced from butadiene); and
- disposable containers (produced from polystyrene).

Third generation producers manufacture a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents, paints, automobile parts, toys and consumer electronic goods. There are over 6,000 third generation producers operating in Brazil.

Petrochemical Complexes

The production of first and second generation petrochemicals in Brazil centers around four major complexes. These complexes include:

- the Northeastern Complex located in Camaçari in the State of Bahia, where we operate the cracker;

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the Southern Complex located in Triunfo in the State of Rio Grande do Sul, where Copesul operates the cracker;

the São Paulo Complex located in Capuava in the State of São Paulo, or the São Paulo Complex, where Petroquímica União operates the cracker; and

the Rio de Janeiro Complex located in Duque de Caxias in the State of Rio de Janeiro, or the Rio de Janeiro Complex, where Rio Polímeros operates the cracker.

Each complex has a single first generation producer, also known as the raw materials center, and several second generation producers that purchase feedstock from the raw materials center.

The Northeastern Complex began operations in 1978. The Northeastern Complex consists of 15 second generation producers situated around the raw materials center operated by our company. At December 31, 2005, our raw materials center had an annual ethylene production capacity of 1,280,000 tons, which we estimate accounted for approximately 37.3% of Brazil s ethylene production capacity.

The Southern Complex began operations in 1982. Copesul, in which we have a 29.5% equity interest, is the raw materials center at the Southern Complex and supplies first generation petrochemicals to seven second generation producers, including our Polyolefins Unit. At December 31, 2005, Copesul had an annual ethylene production capacity of 1,135,000 tons.

The São Paulo Complex, which is the oldest petrochemical complex in Brazil, began operations in 1972. Petroquímica União is the raw materials center at the São Paulo Complex and supplies first generation petrochemicals to 20 second generation producers, including our company. At December 31, 2005, Petroquímica União had an annual ethylene production capacity of 500,000 tons.

The Rio de Janeiro Complex commenced operations in 2005. Rio Polímeros, a Brazilian petrochemical company, is the raw materials center at the Rio de Janeiro Complex and supplies first generation petrochemicals to two second generation producers. At December 31, 2005, Rio Polímeros had a maximum annual ethylene production capacity of 520,000 tons. This plant is in the process of ramping up its production towards its annual capacity.

Role of the Brazilian Government

The current structure of the Brazilian petrochemical industry reflects the Brazilian government s plan, developed during the 1970 s, to establish a domestic petrochemical industry to serve Brazilian markets. First and second generation producers, including our company, are located within close proximity of each other to allow the common use of facilities, such as utilities, and to facilitate the delivery of feedstocks. Prior to their privatization by the Brazilian government, the expansion of production capacity at the crackers and the second generation producers was coordinated to ensure that the supply of petrochemicals met expected demand. The infrastructure developed around the complexes fostered the interdependence of first and second generation producers, as limited facilities were constructed for purposes of transportation and storage of feedstocks for import or export. Following their privatization, this interdependence has increased as second generation producers, which continue to rely upon the crackers for feedstocks and utilities, have increased their ownership of, and participation in the management of, the crackers.

The Brazilian government developed the Brazilian petrochemical industry generally by promoting the formation of three-way joint ventures among the Brazilian government, foreign petrochemical companies and private Brazilian investors. In these joint ventures, Petrobras subsidiary, Petroquisa, participated as the representative of the Brazilian government, with Petrobras as the supplier of naphtha; a foreign petrochemical company provided technology; and a Brazilian private sector company provided management.

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In 1992, the Brazilian government began a privatization program to reduce significantly its ownership of the petrochemical industry. This program was designed to increase private investment in the petrochemical industry and to improve its efficiency. As a result of the privatization program, the Brazilian government s ownership of our common shares, and of the common shares of Copesul and Petroquímica União, was significantly reduced, replaced by private sector entities. As a result of a similar privatization process, private ownership of the second generation producers increased.

The following table sets forth the percentage of the indirect ownership interests held in the crackers voting shares by Petroquisa, private sector entities and other investors before the privatization of the crackers and at December 31, 2005.

		Before privatization			At December 31, 2005		
	Date of privatization	Petroquisa	Private sector groups	Other investors(1)	Petroquisa	Private sector groups	Other investors(1)
Copesul	May 15, 1992	67.2%	2.1%	30.7%	15.6%	58.9%	25.4%
Petroquímica União	January 24, 1994	67.8	31.9	0.3	17.4	60.8	21.8
Braskem	August 15, 1995	48.2	50.4	1.4	10.0	74.1	15.9
Rio Polímeros					16.7	66.6	16.7

(1) Pension funds, banks and individual investors.

Role of Petrobras

Prior to 1995, Brazil s Constitution granted a monopoly to the Brazilian government, exercised through Petrobras, over the research, exploration, production, refining, importing and transporting of crude oil and refined petroleum products (excluding petrochemical products) in Brazil. The Brazilian Constitution also provided that by-products of the refining process, such as naphtha, could only be supplied in Brazil by or through Petrobras. Naphtha is the principal feedstock used in Brazil for the production of basic petrochemicals such as ethylene and propylene. In 1995, the Brazilian Constitution was amended to allow petroleum and petroleum related activities to be carried out by private companies, by concession or authorization from the Brazilian government. Since 1995, the Brazilian government has taken several measures to liberalize the petrochemical industry in Brazil.

In 1997, Law No. 9,478/97 implemented the 1995 constitutional amendment by creating the Brazilian Energy Policy Council (*Conselho Nacional de Política Energética*) and the National Petroleum Agency (*Agência Nacional de Petróleo*), which were charged with regulating and monitoring of the oil industry and the Brazilian energy sector. Following the creation of the National Petroleum Agency, new rules and regulations have been implemented, aimed at gradually ending Petrobras monopoly. Since 1997, our company and Copesul have imported naphtha from trading companies and oil and gas producers located abroad.

During 2005, Petrobras produced and sold approximately 72% of the naphtha consumed by our company and Copesul, and the remaining naphtha consumed by our company and Copesul was imported.

Tariffs

We set prices for a majority of the ethylene, the principal first generation petrochemical product, that we sell to third party second generation producers using a margin sharing system. See Basic Petrochemicals Unit Sales and Marketing of Our Basic Petrochemicals Unit. Prices paid by second generation producers for imported first generation petrochemical products partly reflect transportation and tariff costs. We establish the prices of ethylene by-products, such as butadiene, by reference to several market factors, including the prices paid by second generation producers for imported products, which also take into account transportation and tariff costs.

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Second generation producers, including our company, generally set prices for their petrochemical products by reference to several market factors, including the prices paid by third generation producers for imported products. Prices paid for such imports also reflect transportation and tariff costs.

The Brazilian government has frequently used import tariffs to implement economic policies. As a result, import tariffs generally vary significantly, especially those imposed on petrochemical products. Imports and exports within the free trade area composed of Argentina, Brazil, Paraguay and Uruguay in South America, or Mercosul (*Mercado Comum do Sul*), have not been subject to tariffs since December 2001. The following table shows the fluctuation of the tariffs on certain basic petrochemicals and second generation petrochemicals from 1996 through 2005. The tariff rates shown are those applicable at the end of the respective years, except where indicated.

(%)	2005	2004	2003	2002(1)	2001(2)	2000	1999	1998	1997(3)	1996
First generation petrochemicals:										
Ethylene	2.0	2.0	3.5	3.5	4.5	5.0	5.0	5.0	5.0	2.0
Propylene	2.0	2.0	3.5	3.5	4.5	5.0	5.0	5.0	5.0	2.0
Caustic soda	8.0	8.0	9.5	9.5	10.5	11.0	11.0	11.0	11.0	8.0
Second generation petrochemicals:										
Polyethylene	14.0	14.0	15.5	15.5	16.5	17.0	17.0	17.0	17.0	14.0
Polypropylene	14.0	14.0	15.5	15.5	16.5	17.0	17.0	17.0	17.0	14.0
PVC(4)	14.0	14.0	15.5	15.5	16.5	17.0	17.0	17.0	17.0	14.0
Caprolactam	12.0	12.0	13.5	13.5	14.5	15.0	15.0	15.0	15.0	12.0

(1) In 2002, the official tariff was 1.5% less than the rate shown. An additional surcharge of 1.5% assessed on imported products is included in the rate shown.
(2) In 2001, the official tariff was 2.5% less than the rate shown. An additional surcharge of 2.5% assessed on imported products is included in the rate shown.
(3) An additional tariff of 3% was assessed commencing on November 13, 1997, which is included in the rate shown.
(4) Imports of suspension PVC from the U.S and Mexico have been subject to tariffs of 16% and 18%, respectively, since 1992 as a result of the imposition of anti-dumping duties by the Brazilian Foreign Trade Chamber (*CAMEX-Câmara de Comércio Exterior*) of the Ministry of Development, Industry and Trade. These duties will expire on December 14, 2010, unless extended.

Source: Brazilian Association of Chemical Industry and Derivative Products.

Operating Environment

The Brazilian markets in which we compete are cyclical and are sensitive to relative changes in supply and demand. Demand for petrochemical products is significantly affected by general economic conditions in Brazil and other countries in Mercosul, particularly Argentina. The Brazilian markets are also impacted by the cyclical nature of international markets as prices for petrochemical products in Brazil are determined in part with reference to international market prices for these products and by the prices, including tariff and transportation costs, paid by importers of petrochemical products into Brazil. Reductions in tariffs and other trade barriers have increasingly exposed the Brazilian petrochemical industry to price competition in the international markets.

Traditionally, the second and third calendar quarters have been the periods of the year with the highest sales for the petrochemical industry in the Brazilian market. The increase during this six-month period is tied in part to the production of consumer goods for sale during the year-end holiday season.

Brazilian GDP increased by 2.3% in 2005. The moderate growth of Brazilian GDP in 2005 contributed to a 2.9% increase in domestic polypropylene consumption, slight growth in domestic consumption of PVC and a 4.9% decline in domestic consumption of polyethylene. Domestic consumption of thermoplastic resins increased

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for certain applications, such as automotive parts and durable goods, including cellular phones and home appliances. Although imports represent a small percentage of total Brazilian domestic consumption, in 2005, imports of polyolefins increased by 7.2% and imports of PVC increased by 26.5%. In 2005, Brazil s exports of PVC increased by 75.7% and its exports of polyolefins increased by 27.9%. As a result of increased production capacity of Brazilian producers, including our company, higher rates of capacity utilization, and the continuing appreciation of the *real* against the U.S. dollar in 2005, Brazilian petrochemical producers significantly improved their sales in 2005.

We anticipate that demand for our products in Brazil may grow due to increasing consumption of plastic-based products, as well as population growth and expected general economic growth in Brazil. In addition, Brazilian per capita consumption of second generation petrochemicals has been modest compared to per capita consumption in many other more developed countries, which we believe suggests a potential for future growth in demand in Brazil. However, that growth could be hindered by the factors described in Item 3. Key Information Risk Factors Risks Relating to Brazil and Item 3. Key Information Risk Factors Risks Relating to Our Company and the Petrochemical Industry.

The following table sets forth information relating to our production, the estimated production of other Brazilian companies and exports and imports of the products included therein for the years indicated.

(thousands of tons)	Total Brazilian production	Our total production	Total production of other Brazilian companies	Total Imports	Total exports	Estimated total Brazilian domestic consumption
Olefins(1)						
2005	4,775.2	1,889.9	2,885.2	18.5	120,0	4,672.7
2004	4,779.0	1,809.6	2,969.4	19.9	121.5	4,677.3
2003	4,444.0	1,678.6	2,765.4	24.0	127.8	4,340.2
Aromatics(2)						
2005	1,518.0	733.7	784.3	47.6	453.8	1,111.8
2004	1,562.4	714.8	847.6	100.4	317.8	1,345.0
2003	1,475.4	638.3	837.1	105.2	345.5	1,235.1
Polyolefins(3)						
2005	3,148.3	1,289,2	1,859.1	379.9	782.8	2,745.4
2004	3,042.6	1,175.1	1,867.5	354.4	651.4	2,745.7
2003	2,854.4	1,101.7	1,752.7	324.4	717.6	2,461.1
PVC						
2005	640.3	449.3	191.0	119.5	65.6	694.2
2004	629.7	420.7	209.1	94.5	44.1	680.1
2003	604.1	392.1	212.0	86.4	75.7	614.8
PET						
2005	352.6	69.7	282.9	178.4	32.6	498.3
2004	357.6	72.6	285.0	137.1	62.0	432.7
2003	339.0	55.3	283.6	136.2	44.5	430.6
Caprolactam						
2005	49.7	49.7		4.1	16.2	37.5
2004	50.5	50.5		6.4	7.6	49.3
2003	48.8	37.6	11.3	4.9	8.1	45.6

(1) Includes ethylene, propylene and butadiene.
(2) Includes benzene, toluene, xylenes and, during 2002 only, solvent C9.
(3) Includes polyethylene, HDPE, low density polyethylene, linear low density polyethylene and polypropylene.

Sources: Brazilian Association of Chemical Industry and Derivative Products and Braskem.

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The above estimates of total domestic consumption assume that all domestic production is immediately sold in the market and that there has been no change in total domestic inventory.

Overview of Our Company s Operations

We are the leading petrochemical company in Latin America, based on average annual production capacity in 2005. We are also one of the three largest Brazilian-owned private sector industrial companies, based on net sales revenue in 2004 (the most recent year for which comparative information is currently available). We recorded net income of R$625.8 million in 2005 on net sales revenue of R$13,075.1 million. We produce a diversified portfolio of petrochemical products in our 14 plants in Brazil and have a strategic focus on polyethylene, polypropylene and PVC. We were the first Brazilian company with integrated first and second generation petrochemical production facilities.

We have grown over the past five years primarily as the result of the integration of the operations of six Brazilian petrochemical companies: our company; OPP Química; Polialden; Trikem; Proppet; and Nitrocarbono. Our business operations are organized into four business units, which correspond to our principal production processes and products:

- Basic Petrochemicals, which accounted for R$7,226.7 million, or 53.5%, of the net sales revenue of all segments, including net sales to our other business units, and had an operating margin of 12.4% in 2005;
- Polyolefins, which accounted for R$3,919.0 million, or 29.0%, of the net sales revenue of all segments and had an operating margin of 14.1% in 2005;
- Vinyls, which accounted for R$1,794.1 million, or 13.3%, of the net sales revenue of all segments and had an operating margin of 24.5% in 2005; and
- Business Development, which accounted for R$569.0 million, or 4.2%, of the net sales revenue of all segments and had an operating margin of 1.2% in 2005.

We believe the integration of the operations of the companies that formed our company has produced, and will continue to provide, significant synergies and cost savings from reductions in taxes, procurement and logistics expenses, general and administrative expenses and other operating expenses.

Strategy

Our vision is to strengthen our position as a world-class petrochemical company. We seek to reinforce our leading position in the Latin American petrochemical market, with a focus on polyethylene, polypropylene and PVC and integration with our production of ethylene and propylene. Our business model focuses on enhancing shareholder value, with strategic drivers consisting of market leadership, cost competitiveness and technological autonomy.

We are the first Brazilian company to integrate first and second generation petrochemical production facilities. Our competitive advantages are derived from our leadership position in the Latin American market and on our favorable cost structure, resulting from our production scale and synergies realized from integration of the companies that formed our company.

We are committed to providing technological support to our customers through the Braskem Technology and Innovation Center, which develops processes, products and applications for the sector.

The formation of our company marked a milestone in the restructuring of an industrial sector that is vital to Brazil s economic development. We supply petrochemical products with application in a wide variety of industries, such as food packaging, automotive parts, paints, construction, agriculture, fabrics and personal care products.

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The key elements of our strategy include:

Focus on customer relationships: We seek to establish close, long-term relationships with our customers. We serve as partners with our customers in developing new products and applications and, consequently, business opportunities for them. We recognize the cyclical nature of the markets for our petrochemical products and believe that, by focusing on relationships with our customers, we can foster customer loyalty even during periods of lower demand. Our growth strategy is centered on increasing customers consumption of our products, and enabling them to substitute non-plastic materials with thermoplastics.

Our Polyolefins Unit and our Vinyls Unit maintain technology and innovation centers that seek to:

optimize customers processing of our products;

identify new products and applications to meet our clients needs; and

increase customers productivity.

Pursuit of selected business opportunities: We are pursuing new business opportunities by, for example:

manufacturing new products such as: UTEC, our ultra high molecular weight polyethylene, or UHMWP, product that is used in technical applications; Braskem Flexus®, a high-performance polyethylene product used for specialized packaging; and Braskem Symbios®, a high-performance flexible packaging sealant. We are the world s second largest producer of UHMWP, which we sell mainly in the United States;

manufacturing LLDPE and LDPE using a specialized production process that permits us to produce thermoplastics with distinctive characteristics for the flexible packaging industry, including greater resistance to impact and punctures, improved polish and greater transparency; and

replacing traditional materials such as glass, wood, steel and paper, with our thermoplastics products.

Expansion of our production capacity: We plan to expand the production capacity of our business units during the next several years based on anticipated growth in demand for our products. We plan to expand our production capacity in the short-term principally through efficiency enhancements at our plants and by modernizing our production technology, although from time to time we may consider acquisitions of second generation producers that currently compete with us or produce products that are complementary to ours or enter into joint ventures with others to build new petrochemical plants.

On April 6, 2006, we purchased all of the common and preferred shares of Politeno that were owned by SPQ, a subsidiary of Suzano, Sumitomo and Itochu. As a result of the Politeno acquisition, we now own 100% of the voting share capital and 96.2% of the total share capital of Politeno.

We have entered into a joint venture with Petroquisa for the construction of a polypropylene plant in Paulínia, in the State of São Paulo, with an initial annual production capacity of 300,000 tons. In addition, we have entered into a memoranda of understanding with Petroquímica de Venezucla, S.A., or Pequiven, the petrochemical subsidiary of Petrobrás de Venezuela S.A., to evaluate (1) the

feasibility of entering into a joint venture for the construction of a polypropylene plant in the El Tablazo Petrochemical Complex in the State of Zulia, Venezuela, with an annual production capacity of approximately 400,000 tons and (2) the feasibility of entering into a joint venture for the construction of the Jose Project, a petrochemical complex including an ethylene cracker that will use natural gas as its primary raw material, with an annual production capacity in excess of 1.2 million tons, as well as integrated plants to produce polyethylene and other second-generation petrochemicals. We are also evaluating the feasibility of entering into a joint venture with other companies for the construction of a new integrated polyethylene production center in Brazil close to the Brazilian-Bolivian border that would use Bolivian natural gas as a feedstock and have an annual production capacity of approximately

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600,000 tons of polyethylene. We believe that additional capacity developed by our company, together with joint venture partners, will enable us to maintain and expand our leadership position in Latin America and support our expansion into strategic export markets.

Continued Reductions in Operating Costs and Increases in Operating Efficiencies: As a result of the integration of our facilities and large production scale, we believe that we are a low-cost producer of second generation petrochemicals. We have an ongoing program the Braskem+ program to increase operating efficiencies and to reduce operating costs. We also continue to realize synergies from our integration process.

Our cost reduction program is linked to initiatives to purchase feedstocks at competitive prices. We began to import lower-cost naphtha in 2002, and during 2005, we imported approximately 30% of our feedstock requirements, primarily from North Africa.

Commitment to Our Employees and Communities: We are focused on our human resources, which are vital to our competitiveness and growth. We continue to train our employees to develop skills necessary to operate an internationally competitive, vertically integrated petrochemical company. We have adopted a policy that makes all of our directors, officers, and employees responsible for worker safety and for preserving the environment. We are also committed to sustainable development and to improving the quality of life in the communities in which our facilities are located.

Braskem+ Program

We are in the process of implementing an operational excellence program named Braskem+ . This program is designed to build upon the experience that Braskem has accumulated through the process of capturing operational synergies during its integration process. The Braskem+ program seeks to:

improve our operating performance and productivity;

reduce our operating and maintenance costs; and

position Braskem among the most competitive petrochemical companies in the world.

In connection with the development of the Braskem+ program, we engaged a leading consulting firm to analyze our industrial practices and compare them to benchmarking practices in the global petrochemical sector. Through this analysis, we have identified 210 initiatives designed to further improve, among other things, our capacity utilization and variable and fixed costs.

The implementation of the Braskem+ program is being performed by several teams, including:

a team for each industrial plant that includes the vice president of the respective business unit and the industrial, plant and maintenance managers of that industrial plant, as well as liaisons to our management team; and

a corporate management team specifically dedicated to overseeing and coordinating the implementation of the overall program.

We monitor the ongoing results of our implementation of the Braskem+ program, to determine our success in meeting scheduled milestones, perform follow-up activities and determine our progress in meeting the objectives of this program.

Formula Braskem

In 2005, we commenced a new program named Formula Braskem to implement a comprehensive integrated management system. Formula Braskem is intended to incorporate the best practices in the international petrochemical industry in our management systems and the most recent technological developments available in the marketplace. This program, together with the Braskem+ program, is designed to support our expansion and

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future internationalization, and we expect to realize productivity and efficiency gains through their implementation. In addition, we believe that the implementation of Formula Braskem will assist us with our compliance with the requirements of the U.S. Sarbanes-Oxley Act of 2002 in a manner consistent with our commitment to transparency and corporate governance.

We anticipate that Formula Braskem will be operational by October 2006. We have engaged SAP Brasil Ltda., or SAP, and Accenture do Brasil Ltda., or Accenture, to assist us in implementing Formula Braskem under agreements that provide for (1) the payment of bonuses to SAP and Accenture in the event that we achieve identified annual cost savings as a result of the implementation of Formula Braskem in excess of those identified in our calculations of the projected net present value of this project, and (2) the payment of bonuses to SAP in the event that Formula Braskem is operational prior to its target date. Conversely, these agreements provide for the payment of penalties by Accenture and the forfeiture of any bonuses by SAP in the event that Formula Braskem does not become operational until after the target date. We have a dedicated team of approximately 110 employees working together with SAP and Accenture on the implementation of Formula Braskem which we expect to implement at a cost of approximately R$130 million. We cannot assure holders of our class A preferred shares and the ADSs that we will realize the full benefit of the identified annual cost savings in upcoming years. To the extent that we fail to do so in any year, our results of operations for that year may be adversely affected.

Basic Petrochemicals Unit

At December 31, 2005, our Basic Petrochemicals facilities had one of the largest average annual production capacities of all first generation producers in Latin America. Our Basic Petrochemicals Unit accounted for R$7,226.7 million, or 53.5%, of the net sales revenue of all segments in 2005, including net sales to our other business units. Our Basic Petrochemicals Unit produces:

- olefins, such as ethylene, polymer and chemical grade propylene, butadiene, isoprene and butene-1;
- aromatics, such as benzene, toluene, para-xylene and ortho-xylene;
- fuels, such as automotive gasoline and liquefied petroleum gas, or LPG; and
- methyl tertiary butyl ether, or MTBE, solvent C9 and pyrolysis C9.

The products of our Basic Petrochemicals Unit are used primarily in the manufacture of intermediate second generation petrochemical products, including those manufactured by our other business units. We also supply utilities to other plants located in the Northeastern Complex and render services to the operators of those plants. In 2005, 87.5% of our Basic Petrochemicals Unit s sales (including intra-company sales) were derived from the sale of basic petrochemicals, 6.8% from the sale of utilities and services, and 5.7% from the sale of fuels.

We believe that our Basic Petrochemicals Unit is well positioned to take advantage of increasing demand for basic petrochemicals products in Brazil, both by our other business units and by third parties. We anticipate that long-term growth for these products in Brazil will continue due to increasing demand for consumer products.

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Products of Our Basic Petrochemicals Unit

The following chart shows the major products produced by our Basic Petrochemicals Unit, their derivative intermediate products and their most common end uses.

Our basic petrochemical products	Intermediate products derived from our basic petrochemical products	Common end uses
Olefins		
Ethylene	LDPE /LLDPE(1)	Garbage bags, packaging film, toys, housewares, electrical insulation, paper coatings
	HDPE(1)	Blow-molded plastic bottles (such as milk bottles)
	UHMWP(1)	Technical parts, industrial applications, medical applications, parts for automotive industry products
	Ethyl vinyl acetate copolymer(1)	Shoe soles, hot melt, plastic film for special applications
	Ethylene oxide, used to produce ethylene glycol	Polyester fibers and PET resin
	Ethylene dichloride, used to produce PVC(2)	Pipes, home siding, upholstery, floor coverings
	Ethylbenzene, used to produce styrene monomer and then polystyrene	Disposable cups and containers, high-impact plastics
Propylene (polymer and chemical grade)	Polypropylene(1)	Carpet-backing, luggage, bottles, diapers, raffia bags
	Acrylonitrile	Clothing, plastics
	Propylene oxide	Polyurethane foams for furniture and insulation, cleaning compounds and coatings
Butadiene	Synthetic rubber, elastomers, resins	Tires, shoes, hoses, surgical gloves
Butene-1	LLDPE(1)	Garbage bags, packaging film, toys, housewares, electrical insulation, paper coatings
Aromatics		
Benzene	Ethylbenzene (used to make styrene monomer/polysterene)	Disposable cups, containers, high-impact plastics
	Cumene	Epoxies
	Cyclohexane and cyclohexanone(3)	Nylon
	Linear alkyle benzene	Detergents
	Caprolactam(3)	Nylon
	Ammonium sulfate(3)	Fertilizers
Isoprene	Styrene-isoprene-styrene (SIS)	Adhesive
Toluene	Toluenediisocianate	Urethane foams
		Solvents
Para-xylene	Purified terephthalic acid and DMT(3)	Polyester film and fibers, PET resin(3)
Ortho-xylene	Phthalic anhydride and plasticizers	Flexible products from PVC
Others		
MTBE		Octane booster for gasoline
Solvent C9		Solvents and thinners
Pyrolysis C9		Octane booster for gasoline
Fuels		
Automotive Gasoline		Fuel for internal combustion engines

LPG	Cooking gas

(1) Produced by our Polyolefins Unit.
(2) Produced by our Vinyls Unit.
(3) Produced by our Business Development Unit.

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The following table sets forth a breakdown of the sales volume and net sales revenue of our Basic Petrochemicals Unit (including our intra-company sales) by product line and by market for the years indicated.

	Years ended December 31,								
	2005			2004			2003		
	Quantities sold(1)	Net sales revenue		Quantities sold(1)	Net sales revenue		Quantities sold(1)	Net sales revenue	
	(thousands of *tons*)	(millions of *reais*)	(%)	(thousands of *tons*)	(millions of *reais*)	(%)	(thousands of *tons*)	(millions of *reais*)	(%)
Domestic net sales:									
Ethylene	1,169.8	R$ 2,578.2	40.8%	1,098.9	R$ 2,302.2	40.1%	1,047.3	R$ 1,733.1	41.9%
Propylene	497.5	1,060.9	16.8	446.8	819.1	14.3	403.4	595.9	14.4
Para-xylene	171.0	385.0	6.1	148.7	319.6	5.6	117.3	195.5	4.7
Benzene	199.9	439.8	7.0	216.7	522.6	9.1	217.9	298.3	7.2
Butadiene	150.2	331.3	5.2	160.0	296.0	5.2	150.3	278.7	6.7
Mixed xylenes	35.4	61.7	1.0	74.5	126.4	2.2	53.7	83.4	2.0
Ortho-xylene	41.3	87.0	1.4	52.7	109.9	1.9	49.9	80.0	1.9
Toluene	29.5	48.0	0.7	33.2	57.4	1.0	38.9	51.4	1.2
Others	203.8	380.1	6.0	255.3	405.0	7.1	195.8	324.6	7.9
Total domestic net sales of basic petrochemicals	2,498.4	5,372.0	85.0	2,486.8	4,958.2	86.4	2,274.5	3,640.9	87.9
Total export net sales of basic petrochemicals	535.0	950.0	15.0	436.6	778.9	13.6	405.9	490.7	11.9
Total net sales of basic petrochemicals	3,033.4	6,322.0	100%	2,923.4	5,737.1	100%	2,680.4	4,131.6	100%
Automotive gasoline and utilities(2)		904.7			742.9			633.7	
Total Basic Petrochemicals Unit net sales revenue(3)		R$ 7,226.7			R$ 6,480.0			R$ 4,765.3	
% of the total net sales revenue of all segments			53.5%			52.1%			47.8%

(1) Includes the following intra-company sales:

approximately 588,700 tons of ethylene in 2005, 537,100 tons in 2004 and 488,300 tons in 2003;

approximately 89,300 tons of propylene in 2005, 31,300 tons in 2004 and 4,300 tons in 2003;

approximately 45,6000 tons of para-xylene in 2005, 48,200 tons in 2004 and 39,700 tons in 2003; and

approximately 60,800 tons of benzene in 2005, 62,300 tons in 2004 and 60,000 tons in 2003.

(2) Utilities include electric power, steam, treated water and compressed air.

(3) Includes basic petrochemicals, fuels and utilities.

Olefins

Olefins are relatively unstable hydrocarbons characterized by a structure that is chemically active and permits other chemically reactive elements, such as oxygen, to be added. Ethylene and propylene, which are types of olefins, are the chemical backbone for many plastic resins used to manufacture consumer products. Our primary olefins products include polymer grade ethylene and propylene, also known as monomers. Different combinations of monomers are polymerized, or linked together, to form polymers or plastic resins with different properties and characteristics.

Aromatics

Aromatics are hydrocarbons identified by one or more benzene rings or by chemical behavior similar to benzene. Aromatics readily react to add other active molecular groups, such as nitrates and sulfonates.

Fuels

Our company has been authorized by the National Petroleum Agency to produce and sell automotive gasoline since August 15, 2000 and LPG since October 2, 2001, both domestically and for export. We have been producing and selling both automotive gasoline and LPG since these dates.

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Utilities

We produce electric power, steam, compressed air and clarified drinking and demineralized water, some of which are by-products of our production of basic petrochemicals. We use these utilities in our own production processes, including those of our Polyolefins Unit and our Vinyls Unit, and sell these utilities to approximately 40 companies in the Northeastern Complex. Our utilities facilities include units for thermoelectric power generation, water treatment and the production of steam and compressed air.

We self-generate approximately 70% of the Northeastern Complex s energy consumption requirements, and the remainder is furnished by Companhia Hidro Elétrica do São Francisco CHESF, a Brazilian government-owned electric power generation company located in the State of Bahia, and by Companhia de Eletricidade do Estado da Bahia COELBA.

Production Facilities of Our Basic Petrochemicals Unit

We believe that the technological processes we use at our basic petrochemicals plants are among the most advanced in the world. We currently own and operate five major Basic Petrochemicals units (Olefins 1, Olefins 2, Aromatics 1, Aromatics 2 and Energy and Services), each of which is located at the Northeastern Complex. Our Basic Petrochemicals Unit defines the term unit to mean several plants that are linked together to produce olefins, aromatics or utilities. As a result, the production capacity of Aromatics units 1 and 2 is the sum of the production capacities of the various plants that form these units. At December 31, 2005, our basic petrochemicals plants had total annual production capacity of 1,280,000 tons of ethylene and 550,000 tons of propylene.

The table below sets forth the name, primary products, annual production capacity at December 31, 2005 and annual production for the years presented for each of our principal Basic Petrochemicals units and plants.

Name	Primary products	Annual production capacity	Production year ended December 31,		
			2005	2004	2003
		(in tons, except automotive gasoline)	(in tons, except automotive gasoline)		
Olefins units 1 and 2	Ethylene	1,280,000	1,165,319	1,105,610	1,040,858
	Propylene	550,000	562,048	542,359	486,959
Plants of aromatics units 1 and 2:					
Butadiene plants 1 and 2	Butadiene	175,000	162,586	161,616	150,719
MTBE plants 1 and 2	MTBE	140,000	129,345	130,079	113,996
Butene-1 plant	Butene 1	35,000	25,515	29,093	27,022
Isoprene plant	Isoprene	19,000	16,140	16,396	16,396
	Dicyclopentadiene	24,000	25,245	21,306	20,459
Sulfolane plants 1, 2 and 3	Coperaf 1(1)	120,000	86,066	112,249	110,769
BTX fractionation plants 1 and 2	Benzene	427,000	428,796	393,737	364,762
	Toluene(2)	42,000	38,505	58,502	41,757
C8+ fractionation plant	Mixed xylenes(2)	40,000	50,487	87,208	65,932

	Ortho-xylene	62,000	57,441	53,966	54,475
	Solvent C9(1)	30,000	20,011	20,405	25,650
Parex plant	Para-xylene	203,000	158,461	124,455	116,203
Blending plant	Automotive gasoline(3)	600,000	457,334	394,591	365,256
	LPG	25,000	15,822	18,767	17,403

(1) Solvents.
(2) Actual production may exceed production capacity of certain plants when excess capacity of other plants in the Aromatics units is utilized.
(3) Automotive gasoline in cubic meters per year.

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Raw Materials of Our Basic Petrochemicals Unit

Naphtha

Naphtha, a crude oil derivative, is the principal raw material that we use to produce our basic petrochemical products and represents the principal production and operating cost of our Basic Petrochemicals Unit. The price of naphtha that we purchase varies primarily based on changes in the U.S. dollar-based, international price of crude oil.

Both of our olefins plants are capable of using naphtha as a feedstock, and our Olefins 1 unit also uses petroleum condensate. Until the early 1980 s, gas oil represented approximately 60% of the feedstock used by first generation producers in Brazil and naphtha represented the remainder, but the increased use of diesel fuel by trucks and buses in Brazil in the 1980 s reduced the supply of gas oil available to petrochemical producers. Currently, we use naphtha as our primary feedstock, and in 2005, naphtha accounted for (1) 86.6% of the total cost of sales of our Basic Petrochemicals Unit and (2) 71.7% of our direct and indirect consolidated cost of sales and services rendered. However, due to the high price of naphtha, we have also used petroleum condensate as an alternative and more competitively priced feedstock. We have recently reduced our use of petroleum condensate while we evaluate the efficiency of the use of this feedstock in our plants.

The following table shows the average Amsterdam-Rotterdam-Antwerp market price of naphtha for the periods indicated.

	Amsterdam-Rotterdam-Antwerp market price of naphtha			
(in U.S. dollars per ton)	**2006**	**2005**	**2004**	**2003**
Average(1)	US$ 539.48	US$ 476.04	US$ 377.40	US$ 274.63
Month ended:				
January	561.81	394.86	329.74	319.00
February	529.67	416.23	309.52	359.00
March	528.65	477.43	327.26	267.00
April	588.84	471.62	333.31	203.00
May	601.91	421.26	373.71	231.00
June		439.32	350.16	254.00
July		468.43	373.95	253.50
August		528.00	420.40	269.00
September		572.77	421.39	258.00
October		545.43	469.14	275.00
November		478.82	433.16	294.00
December		498.35	387.05	313.00

(1) The information in the Average row represents the mean average of average monthly naphtha prices during the years presented.

Source: Bloomberg L.P.

Our Basic Petrochemicals Unit is located:

- 36 kilometers from the Madre de Deus Port Terminal (located in the City of Madre de Deus in the State of Bahia), a port terminal owned and operated by Petrobras;
- 27 kilometers from Refinaria Landulfo Alves (located in the State of Bahia), one of the largest refineries in Brazil, which is owned and operated by Petrobras; and
- 22 kilometers from the port terminal of Aratú (located in the State of Bahia).

We use the Madre de Deus Port Terminal to unload naphtha imported by Petrobras or that is shipped from other Petrobras refineries located outside the State of Bahia. A pipeline owned and operated by Petrobras transports naphtha from the Madre de Deus Terminal to Refinaria Landulfo Alves where it interconnects with the

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refinery s naphtha pipeline system. Refinaria Landulfo Alves naphtha pipeline system interconnects with the pipeline system of the port terminal of Aratú, through which naphtha and petroleum condensate are transported to our basic petrochemicals plants.

At the port terminal of Aratú, we use (1) the Terminal Químico de Aratú (which is owned by Terminal Químico de Aratú S.A. TEQUIMAR, a subsidiary of Ultrapar Participações S.A, a Brazilian LPG distribution company) to distribute our products in liquid form, (2) the Terminal de Gases (which is owned by Tegal Terminal de Gases Ltda., one of our subsidiaries) to distribute our products in gaseous form, and (3) the Raw Materials Terminal (which is owned by our company) to import naphtha and condensate.

Following the end of Petrobras monopoly over the supply of naphtha, we invested approximately US$39.2 million in our transportation infrastructure to enable our port facilities at Aratú to receive shipments of imported naphtha.

Supply Contracts and Pricing

Our Basic Petrochemicals Unit purchased:

- from Petrobras: approximately 3,084,000 tons of naphtha in 2005, representing 69.2% of our naphtha requirements; approximately 2,734,000 tons of naphtha in 2004, representing 62.3% of our naphtha requirements; and approximately 2,691,000 tons of naphtha in 2003, representing 68.8% of our naphtha requirements; and

- from suppliers located primarily in North Africa: approximately 1,372,500 tons of naphtha in 2005, representing 30.8% of our naphtha requirements; approximately 1,654,000 tons of naphtha in 2004, representing 37.7% of our naphtha requirements; and approximately 1,220,000 tons of naphtha in 2003, representing 31.2% of our naphtha requirements.

On June 22, 1978, we and Petrobras entered into a Naphtha and Gas Oil Purchase and Sale Contract (which was amended in February 1993, February 2003 and May 2005). This contract has a term of 10 years, expiring in 2008, and is automatically renewable for further 10-year periods, unless either party notifies the other party in writing at least one year prior to the expiration of the contract that it does not intend to renew the contract. Under this contract:

- Petrobras has agreed to sell and deliver naphtha and gas oil to our basic petrochemicals plants in the Northeastern Complex exclusively for our use as a raw material;

- we provide Petrobras with a firm commitment order for naphtha and fuel oil each month, together with an estimate of the volume of naphtha and fuel oil that we will purchase over the following six months;

- if we request to purchase volumes of naphtha and gas oil that exceed the minimum volumes we establish, Petrobras must use its best efforts to attempt to meet our higher demand;

- if we fail to purchase the minimum volumes that we establish for a given year, we are required to pay damages to Petrobras, and if Petrobras fails to deliver the minimum volumes, Petrobras is required to pay damages to us;

Petrobras may suspend deliveries, in whole or in part, or may terminate this contract without penalties if required by the National Petroleum Agency as a result of a national contingency plan that adversely affects the supply of petroleum derivatives in Brazil; and

Petrobras may rescind the contract, without prior notice, if: (1) we violate any provision of the contract; (2) we declare bankruptcy, or we are declared bankrupt or are liquidated; (3) we transfer all or part of our rights and obligations under the contract to a third party without Petrobras consent; or (4) we are involved in a reorganization or merger.

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Petrobras has provided us with a R$570.0 million credit line to purchase naphtha and gas oil that it produces.

On August 9, 2000, regulations issued by the National Petroleum Agency ended Petrobras monopoly over the supply of naphtha in Brazil. These regulations also established a policy of free negotiation of naphtha prices. After a series of negotiations, the Brazilian basic petrochemicals producers and Petrobras entered into a pricing agreement for naphtha sales. According to this agreement, the price of naphtha supplied by Petrobras is linked to the Amsterdam-Rotterdam-Antwerp market price for naphtha and to the *real*/U.S. dollar exchange rate.

La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SONATRACH (the Algerian national petroleum company), or SONATRACH, is our most important supplier of imported naphtha. We and SONATRACH entered into a Contract for the Sale and Purchase of Naphtha, which became effective on January 1, 2002. This contract has a one-year term and is renewable based on the mutual agreement of the parties for further one-year periods. We have renewed this contract three times, and are currently negotiating the fourth renewal of this contract for 2006. Under this contract:

- SONATRACH has agreed to sell and deliver naphtha to us exclusively for our use as a raw material; and
- we agreed to purchase, and SONATRACH agreed to sell, a minimum annual volume of naphtha up to a maximum annual volume.

On December 15, 2005, we entered into a purchase and sale agreement with Petróleos de Venezuela, S.A. (the Venezuelan national petroleum company), or PDVSA, which became effective on March 1, 2006. This contract has an initial six-month term and is renewable for one year, unless terminated by one of the parties. Under this agreement:

- PDVSA has agreed to sell naphtha to us for our use as a raw material; and
- we agreed to purchase, and PDVSA agreed to sell, a minimum monthly volume of naphtha with an option to purchase additional naphtha, subject to a monthly maximum volume.

If our contracts with SONATRACH or PDVSA are not renewed or are otherwise terminated, we believe that we could purchase sufficient quantities of naphtha from other suppliers, including Petrobras, to meet our supply needs.

On April 26, 2005, our company entered into an import note assignment agreement with certain financial institutions. Under this agreement, we issue short-term non-interest bearing promissory notes, or import notes, to designated trading companies outside Brazil (including our subsidiary Braskem Incorporated Limited) to evidence our obligation to pay for purchases of naphtha and petroleum condensate from these trading companies. These designated trading companies had the right through August 31, 2005 to assign up to an aggregate principal amount of US$150.0 million of these import notes to the financial institutions. These assignments were made at a discount based on a rate of LIBOR plus 1.00% per annum, and these companies could use the proceeds of these assignments to purchase imported naphtha or petroleum condensate or refinance existing obligations in respect of imported naphtha or petroleum condensate incurred within 90 days prior to the date of the assignment. The designated trading companies were required to pay participation and commitment fees to the financial institutions, which fees were deducted from the discounted purchase price of the import notes.

On December 15, 2005, our company entered into a revolving import note discount program with certain financial institutions. Under this program, our company and, subject to our guarantee of its obligations and certain other conditions, Copesul are permitted for three years to issue short-term non-interest bearing notes, or import notes, in an aggregate principal amount of up to US$400 million outstanding at any time prior to the expiration of this program to designated trading companies outside Brazil to evidence our and Copesul s respective obligation to pay for purchases of naphtha and petroleum condensate from these trading companies.

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These designated trading companies have the right to assign these import notes to the specified financial institutions during the term of the program. These assignments are made at a discount based on a rate of LIBOR plus 0.75% per annum during the first year of this program, and LIBOR plus 0.85% per annum to 1.25% per annum, based on fluctuations in the Emerging Markets Bond Index Brazil, therafter. These companies may use the proceeds of these assignments to purchase imported naphtha or petroleum condensate. In the event that the aggregate amount of import notes issued during the first year of the program is less than US$30 million multiplied by the number of months elapsed under the program, we are required to pay a commitment fee on the unused amount. In addition, we are required to pay a commitment fee upon the termination of this program in the event that the aggregate amount of import notes outstanding at any time following the first anniversary of the commencement of this program is less than US$350 million.

Technology of Our Basic Petrochemicals Unit

We use engineering process technology from a variety of sources that we implemented in constructing or upgrading the manufacturing facilities of our Basic Petrochemicals Unit, including the following technology:

ABB Lummus Global technology; technology developed jointly by CENPES (Petrobras) Research Center and TECHNIP; and technology developed by Linde AG, each of which we use in our olefins plants; and

technology developed by Nippon Zeon, a Japanese petrochemical company, which we use in our butadiene plants.

These non-exclusive contracts generally provided for payment to those companies at stages specified in the contracts, but we do not pay ongoing royalties under these contracts.

We also use technology under non-exclusive arrangements from a variety of sources for specific production processes, including the following:

Petroflex technology, which we use in our MTBE plants;

technology developed by Japan Synthetic Rubber Company, which we use in our isoprene plant;

technology developed by Universal Oil Products, or UOP, which we use in our sulfolane plants, our parex plant and our BTX fractionation plants; and

technology licensed from Mobil, which we use in the conversion of toluene to benzene and xylenes.

Our Basic Petrochemicals Unit also uses technology developed by our company. We do not pay any continuing royalties under any of these arrangements, except for the technology licensing agreement with Mobil. We paid an initial royalty under these arrangements (excluding our agreement with Mobil). If any of these arrangements were terminated or no longer available to us, we believe that we would be able to replace this technology with comparable or better technology from other sources.

Sales and Marketing of Our Basic Petrochemicals Unit

We sell our basic petrochemical products principally in Brazil, mainly to second generation petrochemical producers located in the Northeastern Complex, as well as to customers in the United States and Europe. Our Basic Petrochemicals Unit also produces utilities for its own use and for sale to approximately 40 companies, including companies located outside of the Northeastern Complex.

As is common with other first generation petrochemical producers, our Basic Petrochemicals Unit has a high concentration of sales to a limited number of customers. Net sales to our 10 largest customers (excluding intra-company sales) accounted for approximately 64.5% of our Basic Petrochemicals Unit s total net sales revenue (excluding intra-company sales) during the year ended December 31, 2005.

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As part of our commercial strategy, our Basic Petrochemicals Unit has focused on developing longer-term relationships with our customers. We have entered into long-term supply contracts with several second generation producers located in the Northeastern Complex, including Oxiteno, Polibrasil Resinas S.A., or Polibrasil, and Petroflex. These supply contracts generally have an initial 10-year term and are automatically renewable for five-year periods unless one party notifies the other of its intention not to renew. These contracts also provide for minimum and maximum quantities to be purchased and monthly deliveries. We also sell automotive gasoline and LPG to Petrobras and fuel distribution companies.

We determine the prices for our olefins and aromatics products with reference to several market indicators. The price of ethylene that we charged our two largest customers, which represented 90.4% of our ethylene sales to third parties in 2005, was based on a margin sharing system. Under this system, the benefit or burden of higher or lower international market prices for naphtha and for ethylene derivatives, such as polyethylene, is shared with our customers. The margin shared by first and second generation producers is calculated for second generation products based on the market price charged by the second generation producer for its products and its production costs. The market price for ethylene is based on benchmark costs imputed to, and actual costs incurred by, both first and second generation producers for the production of second generation products. The variable-cost portion of these production costs reflects costs effectively incurred, while the fixed-cost portion of these production costs and depreciation expenses is determined based on benchmark costs. The benchmark costs are determined based on costs incurred by leading first and second generation producers located in the United States. This margin is then divided between the relevant first and second generation producers pro rata based on a return on capital invested by each such producer. Accordingly, the price of ethylene for these customers is calculated based on the weighted average price for ethylene obtained in the process of dividing the margin of each of these customers, taking into consideration the amount of ethylene consumed by each customer. The actual margins received by the first and second generation producers vary depending on the degree to which their actual costs compare with the benchmark costs used in the pricing formula to calculate the margin.

Prior to 2005, we used a margin sharing system for all of our ethylene customers, including our other business units. In 2005, we determined the prices that we charged our ethylene customers, other than our two largest ethylene customers, by reference to international market prices. In addition, we are negotiating with those ethylene customers which still use the margin sharing system to terminate the margin sharing system of ethylene pricing and to institute a market pricing system.

We calculate the monthly price of propylene by multiplying our monthly ethylene price (including Brazilian taxes) by the ratio of the European contract price for propylene to the European contract price for ethylene. We determine the price of butadiene and para-xylene by using the contract price for these products in the United States, and our prices for butadiene and para-xylene, unlike our prices for our other basic petrochemical products, include freight costs. We set the prices of benzene and ortho-xylene monthly by determining the mean average of European contract prices and U.S. contract prices for those products as set forth in specialized trade publications. We set the prices of solvents and fuels with reference to Brazilian market prices for these products. We set the prices of utilities based on our production costs.

We are focused on maintaining our leading position in the Brazilian market, while continuing to use our exports to hedge our operations and adjust the imbalances between demand and production. In 2005, export net sales of basic petrochemicals (which exclude utilities and automotive gasoline) represented 15% of our Basic Petrochemicals Unit s net sales revenue. We exported basic petrochemicals mainly to customers in the United States and in Europe.

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The following table sets forth our export sales and export volumes of basic petrochemicals for the years indicated:

	Year ended December 31,		
	2005	2004	2003
Export sales (in millions of *reais*)	950.0	778.9	490.7
As % of total net sales revenue of Basic Petrochemicals Unit	15.0	13.6	11.9
Export volumes (thousands of tons)	535.2	436.6	405.9
As % of total sales volume of Basic Petrochemicals Unit (excluding automotive gasoline)	17.6	14.9	15.1

Since August 15, 2000, we have been authorized by the National Petroleum Agency to produce and sell automotive gasoline. Our net sales revenue from automotive gasoline was R$412.9 million in 2005, and our net export sales revenue from automotive gasoline was R$109.9 million in 2005. We sold approximately 443,900 cubic meters of type A automotive gasoline in 2005.

We set export prices for:

- benzene, toluene, MTBE, dicyclopentadiene and automotive gasoline with reference to market prices prevailing in the U.S. Gulf market; and

- propylene, para-xylene, ortho-xylene, butene-l and isoprene with reference to market prices prevailing in the European market.

In addition to basic petrochemicals and fuels, we produce electric power, steam, treated water and compressed air for our own use and for sale to other second generation producers in the Northeastern Complex. In 2005, our net sales revenue from sales of utilities (including sales to our other business units) was R$491.8 million. We also provide storage services to companies located in the Northeastern Complex through our subsidiary Tegal Terminal de Gases Ltda., providing storage for gaseous petrochemical products. Tegal Terminal de Gases Ltda. operates in the port terminal of Aratú in the State of Bahia.

Competition

Although there are currently four major petrochemical complexes in Brazil, our basic petrochemical customers, which are mostly second generation petrochemical producers with plants located in the Northeastern Complex, would have difficulty obtaining their feedstocks from other sources at lower prices due to the high cost of transportation of these products, as well as other logistical difficulties. In addition, because Brazil produces sufficient quantities of olefins to meet domestic demand, imports of these products are generally sporadic and usually related to scheduled plant maintenance shutdowns or to meet unsatisfied domestic demand, as is the case with imports of para-xylene.

Polyolefins Unit

At December 31, 2005, our polyolefins production facilities had the largest average annual production capacity of all second generation producers of polyolefins products in Brazil and elsewhere in Latin America. Our Polyolefins Unit accounted for R$3,919.0 million, or 29.0%, of the net sales revenue of all segments in 2005. Our Polyolefins Unit has historically been comprised of the operations conducted by our company and Polialden. On May 31, 2006, Polialden merged with and into our company.

Prior to the Politeno acquisition on April 6, 2006, we owned 35.0% of Politeno s voting share capital and 34.0% of its total share capital. As a result, at dates and for periods prior to April 6, 2006, we proportionally consolidated Politenos results in our consolidated financial statements and did not include Politeno s results in

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our Polyolefins segment. As a result of the Politeno acquisition on April 6, 2006, we now own 100% of the voting share capital and 96.2% of the total share capital of Politeno, and will fully consolidate Politeno s results in our consolidated financial statements and include Politeno s results in our Polyolefins segment at dates and for periods following this acquisition.

Our Polyolefins Unit produces:

- polyethylene, including LDPE, LLDPE, HDPE, UHMWP and, following the Politeno acquisition, ethyl vinyl acetate copolymer, or EVA; and
- polypropylene.

Approximately three-fifths of our Polyolefins Unit s sales volume in 2005 was derived from the sale of polyethylene products, and most of the remainder was derived from the sale of polypropylene products.

We manufacture a broad range of polyolefins products for use in consumer and industrial applications, including:

- plastic films for food and industrial packaging;
- bottles, shopping bags and other consumer goods containers;
- automotive parts; and
- household appliances.

In 2005, we had an approximate 30% share of the Brazilian polyethylene market and an approximate 42% share of the Brazilian polypropylene market, based on sales volumes. We anticipate that domestic growth in demand for these products will continue to increase due to:

- greater consumption of plastic-based consumer products, as Brazil s consumption of plastic-based products on a per-capita basis is low when compared to the United States and many European countries; and
- the trend towards substitution of plastics for more traditional packaging materials, such as glass and paper.

Products of Our Polyolefins Unit

The following table sets forth a breakdown of the sales volume and net sales revenue of our Polyolefins Unit by product line and by market for the years indicated.

	Year ended December 31,								
	2005			2004			2003		
	Quantities sold	Net sales revenue		Quantities sold	Net sales revenue		Quantities sold	Net sales revenue	
	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)
Domestic net sales:									
Polypropylene	419.9	R$ 1,404.2	35.8%	418.5	R$ 1,320.3	37.8%	374.9	R$ 1,008.0	29.8%
LDPE	143.1	443.7	11.3	134.7	404.2	11.6	120.4	314.9	9.3
LLDPE	156.2	476.4	12.2	148.6	444.4	12.7	119.8	311.0	9.2
HDPE	201.9	618.1	15.8	214.1	635.5	18.2	204.6	515.0	15.2
UHMWP	1.0	5.1	0.1	1.4	5.7	0.3	1.2	4.2	0.1
Total domestic net sales	922.1	2,947.5	75.2	917.3	2,810.1	80.6	820.9	2,153.1	63.6
Total export net sales	363.6	971.5	24.8	248.3	679.3	19.4	288.1	1,233.7	36.4
Total polyolefins net sales	1,285.7	R$ 3,919.0	100%	1,165.6	R$ 3,489.4	100%	1,109.0	R$ 3,386.8	100%
% of the total net sales revenue of all segments			29.0%			28.0%			33.9%

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We provide technical assistance to our customers to meet their specific needs by adapting and modifying our polyethylene and polypropylene products. In particular, we develop customized value-added polypropylene compounds for use by our customers in their specialized applications. We believe that the variety of technological processes at our polyolefins plants provides us with a competitive advantage in meeting our customers needs.

Polyethylene Products

Polyethylene has the simplest chemical structure of all commercial polymers and is a very versatile material. Global production volume of polyethylene is the highest among all commercial plastics. Polyethylene is used to manufacture a wide variety of products.

Our customers purchase different polyethylene resins depending on the manufacturing process that they employ and the desired physical characteristics of the end products that they manufacture. LDPE is the most flexible of polyethylene products and is used in a variety of plastic or film applications and in food packaging, trash bags and shopping bags. LLDPE is used in applications that require greater sealing capacity and better mechanical resistance, including plastic films and flexible food packaging. HDPE is used for applications that require higher mechanical resistance. UHMWP is used mainly for technical parts and other applications that require greater mechanical resistance. EVA is used in applications that require greater sealing capacity, flexibility, impact resistance and color adherence, including shoe soles, hot melt and film for special applications.

While each form of polyethylene is used for different applications, there is some overlap in the uses of these resins, and with certain modifications, polyethylene resins may be substituted for each other in certain end product manufacturing processes. For example, demand for LLDPE has grown since it was first introduced in 1989 and has resulted in reduced demand for LDPE, as manufacturers of certain containers and plastic film applications have switched their production processes and technology to use LLDPE in a blend with LDPE. We expect that part of the consumption of LDPE will be substituted in the packaging segment over the next few years by LLDPE. As a result, we believe that consumption growth of LLDPE will continue to be strong, while consumption growth of LDPE should be moderate.

Polypropylene Products

Polypropylene is a versatile polymer with a high strength-to-weight ratio. This thermoplastic resin may be manufactured with a variety of properties that permit its use in different processes, such as injection, extrusion, blow molding and thermoforming. Through these processes, polypropylene may be used as a primary raw material for many applications, including the manufacture of carpet fibers, non-woven fabrics for diapers, injection molded parts for durable packaging and automobiles, medical instruments, flexible packaging for candy, pasta and cookies, as well as bottles for beverages. The balance between the mechanical properties and the high thermal resistance of polypropylene is a primary reason why this thermoplastic resin has begun to replace engineering materials such as acrylonitrile-butadiene-styrene (known as ABS), polycarbonate and nylon in domestic appliances and machinery. The lack of toxicity and high chemical resistance of polypropylene permits it to be used in applications with strict sanitary specifications, including in the food and pharmaceutical industries.

In 2004, we launched Braskem Symbios®, a high-performance flexible packaging sealant. We introduced advances in the use of polypropylene containers as a substitute for glass containers for spreadable cream cheese and launched a polypropylene fiber used to manufacture tiles and fiber-cement water cisterns. We also developed a new resin and patent-protected equipment for the production of disposable polypropylene cups, which have a significant competitive advantage over the same product made from polystyrene. We have licensed this technology to one of our customers. Finally, we introduced a new polypropylene resin for use as a substitute for glass and paper in packaging non-carbonated beverages.

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Production Facilities of Our Polyolefins Unit

At December 31, 2005, we owned seven polyolefins production facilities. Five of these plants are located in the Southern Complex, and two of these plants are located in the Northeastern Complex. During 2004, we expanded the annual production capacity of our polypropylene plants in the Southern Complex by an aggregate of 100,000 tons. During 2005, we expanded the annual production capacity of one of our polyethylene plants in the Northeastern Complex by 30,000 tons.

The table below sets forth the location, the primary products, annual production capacity at December 31, 2005, and annual production for the years presented of each of our polyolefins plants.

			Production		
			year ended December 31,		
Location (Complex)	**Primary products**	**Annual production capacity**	**2005**	**2004**	**2003**
		(in tons)		(in tons)	
Triunfo (Southern)	LDPE	215,000	207,174	209,140	195,637
	Polypropylene(1)	100,000			
	Polypropylene(2)	560,000	528,980	463,077	438,746
	HDPE/LLDPE(3)	265,000	237,262	235,028	229,237
Camaçari (Northeastern)	HDPE/LLDPE(3)	210,000	211,625	175,436	152,087
	HDPE/UHMWP	144,000	124,382	128,312	99,720

(1) This plant is currently inactive.
(2) Reflects the combined production capacity and annual production of two polypropylene plants located in the Southern Complex.
(3) Plant with swing line capable of producing two types of resins. Capacity varies depending on actual production.

As a result of the Politeno acquisition, we now own 96.2% of the total share capital of Politeno, representing 100% of its voting share capital. Politeno owns an LPDE plant in the Northeastern Complex with an annual production capacity of 150,000 tons and a plant with a swing line with a combined annual production capacity of 210,000 tons of LLDPE and HDPE.

Raw Materials of Our Polyolefins Unit

Ethylene and Propylene

The most significant direct costs associated with our production of polyethylene and polypropylene are the costs of purchasing ethylene and propylene, which together accounted for approximately 90% of our Polyolefins Unit s total variable cost of sales in 2005. In 2005, approximately 35% of these raw materials were supplied by our Basic Petrochemicals Unit and approximately 65% were supplied by Copesul. Our Polyolefins Unit is highly dependent on ethylene and propylene supplied by our Basic Petrochemicals Unit and by Copesul because the costs of storing and transporting ethylene and propylene are substantial and there is inadequate infrastructure in Brazil to import large quantities of ethylene and propylene.

At December 31, 2005, Copesul had an annual ethylene production capacity of 1,135,000 tons and an annual propylene production capacity of 581,000 tons. Copesul is our main supplier of propylene.

Supply Contracts and Pricing

We have entered into a long-term ethylene and propylene supply contract with Copesul that extends through 2007 and is automatically renewable for additional five-year terms. We own 29.5% of the total share capital of Copesul. Under this contract, we are required to purchase an annual minimum of 268,200 tons of ethylene and an annual maximum of 451,000 tons, as well as an annual minimum of 262,200 tons of propylene and an annual maximum of 439,500 tons, in each case subject to daily and monthly limits. In 2005, we purchased 426,500 tons

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of ethylene and substantially all of our requirements of propylene (approximately 445,000 tons) from Copesul for our polyolefins operations in the Southern Complex. In 2005, we exceeded our annual maximum propylene purchases as a result of production efficiencies at Copesul.

We negotiate the prices for the feedstocks for our polyolefins products with Copesul, based upon a pricing formula developed by the Brazilian petrochemical industry. The pricing formula provides for full cost margin sharing between the first generation and second generation petrochemical producers located at the respective petrochemical complexes. The prices Copesul charges for ethylene that it supplies to our Polyolefins Unit are calculated based on a formula similar to the formula that our Basic Petrochemicals Unit uses to determine prices for its two largest ethylene customers. See Basic Petrochemicals Unit Sales and Marketing of Our Basic Petrochemicals Unit. Our Polyolefins Unit purchases ethylene from our Basic Petrochemicals Unit at prices determined by reference to international market prices for ethylene.

The following table sets forth the average prices per ton in reais paid by our company for ethylene and propylene for the years indicated:

	Year ended December 31,		
(R$ per ton)	**2005**	**2004**	**2003**
Ethylene supplied by our Basic Petrochemicals Unit	R$ 2,206	R$ 2,350	R$ 1,786
Ethylene supplied by Copesul	2,527	2,313	1,769
Propylene supplied by Copesul	2,405	2,017	1,608

We also use butene and hexene as raw materials in the production of LLDPE. Butene is supplied by Copesul and by our Basic Petrochemicals Unit, and we import hexene from suppliers located in South Africa.

Other Materials

In addition to overhead costs such as labor and maintenance, our other costs associated with the production of polyethylene and polypropylene include our purchase of chemical catalysts, solvents and utilities, such as electric power, water, steam and nitrogen.

Our Unipol® Plant in the Northeastern Complex uses catalysts supplied to us by Univation Technologies under a license that expires in 2007. Our HDPE slurry plant in the Northeastern Complex produces its own catalysts, and we purchase the inputs that we need to produce our own catalysts from various suppliers at market prices. We purchase most of the catalysts that we use in our polypropylene plants from Basell Polyolefins Company N.V, or Basell, and we also import some catalysts from suppliers in the United States and Europe.

Our Basic Petrochemicals Unit supplies our Polyolefins Unit s facilities in the Northeastern Complex with steam and water, and Copesul supplies these utilities to our Polyolefins Unit s facilities in the Southern Complex. In addition, we purchase electric power at both complexes from third parties pursuant to long-term power purchase agreements and, in the Northeastern Complex, from our Basic Petrochemicals Unit. Our polyolefins plants in the Northeastern Complex are able to purchase electric power from alternative sources if our Basic Petrochemicals Unit is unable to meet our total demand for electric power. In general, we believe that there are sufficient alternative sources available at reasonable prices for each of these other inputs used in our polyolefins production process such that the loss of any single supplier would not have a material adverse effect on our operations.

Technology of Our Polyolefins Unit

Rights to Use technology

We have entered into several non-exclusive agreements with a number of leading petrochemical companies to use certain technology and catalysts for our Polyolefins Unit.

We obtained technology from Mitsubishi in 1978, under a licensing agreement we continue to use in our HDPE slurry plant in the Northeastern Complex. Although this technology is our oldest, we have

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regularly upgraded and improved it, and we use this technology to produce UHMWP in this plant. We have fully paid all royalties due under the terms of our license agreement with Mitsubishi and are no longer subject to the confidentiality provisions of this agreement.

We entered into an agreement with a predecessor of Univation Technologies in 1988 (effective in 1992) to use Unipol® technology to produce polyethylene. We made a lump sum payment at the time of execution of this license agreement, in lieu of additional royalty payments. We use the Unipol® technology to produce low density polyethylene and high density polyethylene in the Northeastern Complex.

We entered into agreements with Basell Technology Company B.V., the largest polypropylene manufacturer in the world and a leader in polypropylene technology, in 1987 (effective in 1991) to use Spheripol® technology for the construction and operation of our first polypropylene plant in the Southern Complex. Under these agreements, we may use this technology for our current and future plants. We built a second plant based on this technology, which commenced operations in 1997. We have fully paid all royalties due under the terms of these license agreements.

We entered into agreements with Basell Polyolefine GmbH in 1995 (effective in 1999) to use Spherilene® technology. We pay royalties on a quarterly basis under these license agreements based on the amounts of polyethylene that we produce using this technology at our swing HDPE/ LLDPE plant located at the Southern Complex.

We entered into an agreement with Univation Technologies in 2003 to use metallocene process and product technology and related catalysts. We pay quarterly royalties based on amounts of LLDPE and very low density polyethylene that we produce using metallocene technology at our Unipol® polyethylene plant located at the Northeastern Complex.

We entered into an agreement with Basell Polyolefine Italia S.p.A. in 2004 to use an updated Spheripol® technology for the construction and operation of the Paulínia polypropylene plant. Under this agreement, we may use this technology for our existing and future plants.

Politeno entered into an agreement with Sumitomo in 1974 to use a high pressure autoclave process to produce LDPE and ethyl vinyl acetate copolymer at a plant in the Northeastern Complex. Politeno has fully paid all royalties due under the terms of this license agreement.

Politeno entered into an agreement with Du Pont Canada, now Nova Chemicals, in 1987 to use Sclairtech technology to produce LLDPE and HDPE at a plant in the Northeastern Complex. Politeno has fully paid all royalties due under the terms of this license agreement.

If any of these licenses were terminated, we believe that we would be able to replace the relevant technology with comparable technology from other sources.

Research and Development

Our Polyolefins Unit coordinates and maintains a research and development program, which includes (1) the Braskem Center for Technology and Innovation, (2) pilot plants, (3) catalysis, polymerization and polymer sciences laboratories, and (4) process engineering and automation centers.

The Braskem Center for Technology and Innovation at the Southern Complex includes a staff of approximately 160 employees, which seek to:

develop new products and applications in response to our customers requirements;

upgrade or improve the properties and processability of our products;

identify new product market opportunities;

implement improvements in our production processes and reduce our operating costs; and

expand and optimize the capacity and the flexibility of production at our plants.

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We have developed most of our new polyolefins products and applications at the Braskem Center for Technology and Innovation, including Braskem Flexus® and Braskem Symbios® in 2004. Prior to the development of these products at the Braskem Center for Technology and Innovation, these products were only available in Brazil through imports.

Our Polyolefins Unit maintains seven pilot plants located in the Southern Complex and the Northeastern Complex that use Spheripol®, Spherilene® and Unipol® technology. Two of our Polyolefins Unit pilot plants operate at approximately 1/150 of the scale of our full-scale plants, and our other pilot plants operate at approximately 1/400 of the scale of our full-scale plants. Our Polyolefins Unit uses these pilot plants to (1) produce small quantities of new products to test them in our laboratories and with our customers, (2) develop new conditions and formulations for the creation of new products, and (3) increase the efficiency of our production processes. We believe that these pilot plants give us a competitive advantage over our competitors in Latin America, which do not have similar resources.

Our Polyolefins Unit maintains catalysis, polymerization and polymer sciences laboratories in the Southern Complex and the Northeastern Complex. These laboratories enable us to identify new and to improve existing licensed catalysts. We have developed or improved upon a majority of the polyethylene and polypropylene grades that we sell based on technology that we have created or improved.

Our Polyolefins Unit maintains process engineering and automation centers in the Southern Complex and the Northeastern Complex. These centers assist us in developing advanced process control technology, reducing our variable costs, achieving operational stability and increasing our production of polyolefins.

Our Polyolefins Unit is in regular contact with international process technology licensors to acquire new technologies and improvements. We test new processes on a regular basis, and we follow advances and trends in the petrochemical industry through our relationships with Brazilian and international research universities and consortia. In addition, we maintain ongoing contracts with licensors that permit us to upgrade our technology in order to receive and install improvements developed for our existing processes.

Sales and Marketing of Our Polyolefins Unit

We sell our polyethylene and polypropylene products to approximately 1,100 customers, and sales by our Polyolefins Unit accounted for 29.0% of our net sales revenue of all segments in 2005. We have a diversified product mix that allows us to serve a broad range of end users in several industries. Our customers generally are third generation petrochemical producers that manufacture a wide variety of plastic-based consumer and industrial goods.

Net sales revenue to our ten largest customers accounted for 31.0% of our Polyolefins Unit s total net sales revenue during the year ended December 31, 2005. No customer accounted for more than 6.0% of our total net sales revenue during 2005, 2004 or 2003.

Domestic Sales

We are focused on developing longer-term relationships with our customers. Given the cyclical nature of the markets for our petrochemical products, we believe that we can strengthen customer loyalty during periods of reduced demand for polyethylene or polypropylene by providing a reliable source of supply to these customers during periods of high demand. We work closely with our customers to determine their needs, to provide technical assistance and to coordinate the production and delivery of our products. Customers submit annual proposals giving their estimated monthly requirements for the upcoming year for each of our polyolefins products, including technical specifications, delivery terms and proposed payment conditions. We evaluate these proposals on a monthly basis to make any required adjustments and to monitor and attempt to ensure adequate supply for each customer.

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In addition to direct sales to our customers, our Polyolefins Unit sells our products in Brazil through exclusive independent distributors. These distributors sell our polyethylene and polypropylene products to manufacturers with lower production requirements and are able to aggregate multiple orders for production and delivery to customers that would otherwise be uneconomical for us to serve. Furthermore, by serving smaller customers through a network of distributors, account managers in our Polyolefins Unit focus their efforts on delivering high quality service to a smaller number of large, direct customers. We have selected our distributors based on their ability to provide full service to their customers, including the ability to prepare our products on a customized basis.

In 2005, our Polyolefins Unit concluded the implementation of its new policy concerning distributors, and our distribution network was reorganized. We now have eight distributors (three of which belong to a group of related companies), and have entered into agreements with terms of five years with five of these distributors.

Export Sales

Our volume of export sales has generally varied based upon the level of domestic demand for our products. Export sales represented 24.8% of our Polyolefins Unit s net sales revenue in 2005. Our primary export market for polyolefins is other countries in South America, particularly the Mercosul countries, and we intend to increase our export sales in the Mercosul countries as well as in Chile. We have established a strategic position in the Southern Cone countries through regular sales to local distributors and agents who understand their respective markets. Our strategy to increase our presence in the Southern Cone is intended, among other things, to reduce our exposure to the cyclicality of the international spot market for polyolefins through the development of long-term relationships with customers in neighboring countries.

The following table sets forth export sales and export volumes of our Polyolefins Unit for the years indicated.

	Year ended December 31,		
	2005	2004	2003
Net export sales revenue (in millions of *reais*)	971.5	678.6	1,233.7
As % of total net sales revenue of Polyolefins Unit	24.8	19.4	36.4
Export volumes (thousands of tons)	363.6	248.5	288.1
As % of total production of Polyolefins Unit	28.3	21.3	26.0

The main focus of our Polyolefins Unit is to maintain our leading position in the Brazilian market while continuing to export in order to manage the relationship between our production capacity and domestic demand for our products. Currently, we target an annual average production that is approximately 20% in excess of anticipated Brazilian market demand in order to meet variations in local demand and to respond to production fluctuations, seasonality and export product sales. As a result, we believe that our continued presence in export markets is essential to help manage any overcapacity in the Brazilian market and to maintain our position as leader in the supply of polyolefins in South America.

Prices and Sales Terms

We determine the prices for our polyethylene and polypropylene products with reference to international market prices. Our customers in Brazil may pay in full on delivery or elect credit terms that require payment in full within 14 to 63 days following delivery. We charge interest based on prevailing market rates to our Brazilian customers that elect to pay on credit.

We generally conduct our export sales to buyers in countries outside the Southern Cone through the international spot market. Our customer base in these markets consists primarily of trading houses and distributors, most of which have operations in Europe, the United States or in Asia, principally Hong Kong.

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Pricing is based on international spot market prices. We make all sales in these markets with letters of credit. Export prices for polyolefins sales in the Southern Cone countries are based on regional prices and sales are generally made either with letters of credit or through direct bank collections.

Competition

We compete with regional polyolefins producers located in Brazil and Argentina and, to a lesser extent, with other importers of these products. In the Brazilian polyethylene market, we compete with a number of companies that produce one or two of the products in our production line. LDPE is produced in Brazil by Polietilenos União with an annual production capacity of 130,000 tons, Dow Brasil S.A. with 144,000 tons and, Petroquímica Triunfo S.A. with 160,000 tons, compared to our annual production capacity of 365,000 tons.

In the HDPE and LLDPE markets, we compete with the following producers in Brazil:

Rio Polímeros, with a maximum annual production capacity of 540,000 tons of LLDPE and HDPE;

Ipiranga Petroquímica S.A., or Ipiranga, with a plant with a swing line with a combined annual production capacity of 150,000 tons of LLDPE and HDPE and another plant with an annual production capacity of 400,000 tons of HDPE; and

Solvay, with an annual capacity of 150,000 tons of HDPE.

We have (1) a combined annual production capacity of 695,000 tons at three swing line plants capable of producing LLDPE and HDPE, one of which is located in the Southern Complex and two of which are located in the Northeastern Complex and (2) an additional 144,000 tons of annual production capacity of HDPE and UHMWP at another plant in the Northeastern Complex. We are currently expanding the production capacity of one of our HDPE plants in the Northeastern Complex by an aggregate amount of 30,000 tons annually through efficiency enhancements. See Capital Expenditures.

In the Brazilian polypropylene market, we compete with Ipiranga and Suzano Petroquímica S.A., or Suzano. Ipiranga has annual production capacity of 150,000 tons and Suzano has annual production capacity of 625,000 tons, compared to our annual production capacity of 660,000 tons.

We do not have any domestic competitors in the Brazilian UHMWP market. Internationally, our primary competitor in this market is Ticona, which is a member of the Celanese Group, a German chemical company that has approximately 52% of the worldwide production capacity of UHMWP.

Traditionally, we have not faced substantial competition from imports of polyethylene and polypropylene due to tariff rates, transportation costs for imported products and other factors relating primarily to the logistics involved in importing these products. In 2005, imports of polyethylene into Brazil represented 17.8% of Brazil s total consumption of polyethylene, and imports of polypropylene into Brazil represented 8.6% of Brazil s total consumption of polypropylene. We expect competition from international producers to increase substantially in selected foreign

markets in which we intend to attempt to increase our sales of polyolefins products.

Vinyls Unit

We are the leading producer of PVC in Brazil, based on sales volumes in 2005. At December 31, 2005, our PVC production facilities had the largest average annual production capacity in Latin America. Our Vinyls Unit accounted for R$1,794.1 million, or 13.3%, of our net sales revenue of all segments in 2005.

Our Vinyls Unit is the only vertically integrated producer of PVC in Brazil. Our PVC production is integrated through our production of chlorine and other raw materials. Our Vinyls Unit also manufactures caustic soda, which is used by producers of aluminum and paper; ethylyne dichloride, or EDC; and chlorine, which we

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use to manufacture EDC. In 2005, 64.5% of our Vinyls Unit s net sales revenue was derived from the sale of PVC products, 25.5% was derived from the sale of caustic soda and 5.4% from the sale of EDC and the remainder from the sale of other products.

In 2005, we had an approximate 55% share of the Brazilian PVC market, based on sales volumes.

Products of Our Vinyls Unit

The following table sets forth a breakdown of the sales volume and net sales revenue of our Vinyls Unit by product line and by market for the years indicated.

	Years ended December 31,								
	2005			2004			2003		
	Quantities sold	Net sales revenue		Quantities sold	Net sales revenue		Quantities sold	Net sales revenue	
	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)	(thousands of tons)	(millions of *reais*)	(%)
Domestic sales:									
PVC suspension	360.4	R$ 959.9	53.5%	372.4	R$ 1,116.8	60.1%	323.6	R$ 756.5	55.1%
PVC emulsion	18.5	81.0	4.5	22.0	82.8	4.4	18.8	61.7	4.5
Caustic soda	455.6	449.4	25.1	444.0	342.1	18.4	426.6	290.4	21.2
Other(1)	125.3	82.9	4.6	134.0	60.9	3.3	126.0	59.5	4.3
Total domestic sales	959.8	1,573.2	87.7	972.4	1,602.6	86.2	895.0	1,168.1	85.2
Total exports	194.3	220.9	12.3	191.0	256.2	13.8	215.6	203.7	14.8
Total vinyl net sales	1,154.1	R$ 1,794.1	100%	1,163.3	R$ 1,858.8	100%	1,110.6	R$ 1,371.8	100%
% of the total net sales revenue of all segments			13.3%			14.9%			13.7%

(1) Includes chlorine, hydrogen, caustic soda flake and sodium hypochlorite.

PVC

PVC is a versatile polymer, and global production volume of PVC is the second highest among all commercial plastics. We produce suspension and paste PVC in various grades, which are sold in various sized bags or in bulk to third generation producers and transported by truck, rail or, in some cases, ship.

Approximately 95% of our PVC production is in the form of suspension PVC. The grades of PVC produced by the suspension production process are the most widely used, including for use in the manufacture of pipes and fittings, laminated products, shoes, sheeting, flooring, cable insulation, electrical conduit, packaging and medical applications. The grades of paste PVC are more specialized products and are used in the manufacture of toys, synthetic leather, flooring materials, bottle caps and seals, automobile corrosion prevention treatments and wallpaper coatings.

Our Vinyls Unit also produces EDC, the principal feedstock used in the production of PVC. We used approximately 72% of our EDC production in 2005 for further processing into PVC and exported the remainder to Asia.

In 2004, we launched Plastwood, a product made of PVC and wood for finishing ceilings and special patio decks, in partnership with one of our customers in Brazil. We also developed new PVC applications for the Brazilian construction sector, such as prefabricated house and window frame solutions. In 2005, we launched Vinisol, a paste PVC product for the export market with applications for special paints and varnishes.

Caustic Soda and Chlorine

Our Vinyls Unit also produces caustic soda and chlorine. Caustic soda is a basic commodity chemical that is sold to producers of aluminum, pulp and paper, petrochemicals and other chemicals, soaps and detergents and to

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waste treatment plants. Caustic soda is also used in the textile industry to make fabrics more absorbent and to improve the strength of dyes, as well as in food processing and electroplating. We sell to third parties almost all of the caustic soda that our Vinyls Unit produces and consume only approximately 6% of our caustic soda production.

Chlorine is a basic chemical commodity that is used in a large variety of industries, including applications in water treatment and chemical and pharmaceutical production. We consume approximately 80% of our chlorine production in our production of EDC and sell most of our remaining chlorine to a company located in the Northeastern Complex that is connected to one of our plants via a specialized pipeline.

Production Facilities of Our Vinyls Unit

We own five vinyls production facilities. Two of our facilities are located in the Northeastern Complex, and two others are located in the State of Alagoas. Our fifth facility is located in the City of São Paulo. In December 2005, we expanded the annual production capacity of our PVC plant in Alagoas by 50,000 tons. The following table sets forth the name and location, primary products, annual production capacity at December 31, 2005, and annual production for the years presented for each of our vinyls plants.

			Production year ended December 31,		
Location (Complex)	**Primary products**	**Annual production capacity**	**2005**	**2004**	**2003**
		(in tons)		**(in tons)**	
Camaçari (Northeastern)	PVC	250,000	225,563	206,978	181,780
Camaçari (Northeastern)	Caustic Soda	73,000	76,219	76,517	72,458
	Chlorine	64,000	66,587	66,644	63,857
Maceió (Alagoas)	Caustic Soda	460,000	419,673	416,100	386,967
	Chlorine	400,000	387,510	381,464	360,677
	EDC	520,000	499,256	495,827	475,024
Marechal Deodoro (Alagoas)	PVC	240,000	198,125	189,810	193,150
Vila Prudente (São Paulo)	PVC	26,000	23,689	24,830	21,897

Raw materials of Our Vinyls Unit

Ethylene

The most significant direct cost associated with the production of PVC and EDC is the cost of ethylene, which accounted for 68.1% of our variable cost of PVC sales in 2005 and 80.9% of our EDC sales in 2005. Our Basic Petrochemical Unit supplies all of the ethylene required by our Vinyls Unit. Ethylene is delivered to our Alagoas plant via a 477 kilometer pipeline that we own, and to our PVC plant in the Northeastern Complex via a separate pipeline. Because the cost of storing and transporting ethylene is substantial and there is inadequate infrastructure in Brazil to permit the importation of large quantities of ethylene, our Vinyls Unit is highly dependent on ethylene that is supplied by our Basic Petrochemicals Unit. For a description of the pricing of ethylene purchased by our Vinyls Unit from our Basic Petrochemicals Unit, see Basic Petrochemicals Unit Sales and Marketing of Our Basic Petrochemicals Unit. Our São Paulo plant receives vinylchloride monomer (a raw material used in manufacturing PVC) by ship from our plant in the Northeastern Complex.

Electric Power

Electric power is a significant cost component in our production of chlorine and caustic soda. Electric power accounted for 69.4% of our Vinyls Unit s cost of caustic soda sales in 2005 and 17.9% of our Vinyls Unit s total cost of sales in 2005. Our Vinyls Unit obtains its electric power requirements from various generators under long-term power purchase agreements. Our caustic soda plants at Camaçari and Alagoas and our PVC plant at Camaçari purchase their electric power requirements from CHESF under a long-term contract that expires in 2010. Companhia Energética de Alagoas S.A., or CEAL, distributes electric power to our PVC plant in Alagoas. Our São Paulo plant obtains its electric power from Eletropaulo Metropolitana-Eletricidade de São Paulo S.A., or

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Eletropaulo. The power purchase agreements with CEAL and Eletropaulo are renewable contracts with automatic rolling three-year extensions. These agreements provide us with the option to purchase our total electric power requirements based on an annual estimate. The price terms of these contracts are based upon tariffs regulated by the Brazilian National Electrical Energy Agency (Agência Nacional de Energia Elétrica).

Salt

We used approximately 853,000 tons of salt during 2005 in our production of chlorine and caustic soda. Salt accounted for 4.7% of our variable costs of caustic soda sales in 2005 and 1.0% of our Vinyls Unit s total cost of sales in 2005. We have exclusive salt exploration rights at a salt mine located near our Alagoas plant. We estimate that the salt reserves of this mine are sufficient to allow us to produce chlorine at expected rates of production for approximately 40 to 50 years. We enjoy significant cost advantages when compared to certain of our competitors due to low extraction costs of rock salt (particularly compared to sea salt), low transportation costs due to the proximity of the salt mine to our production facility and the higher purity of rock salt as compared to sea salt.

Other Utilities

All of our Vinyls Unit s facilities in the Northeastern Complex are supplied with other required basic utilities, including steam, purified and demineralized water, compressed air and nitrogen, by our Basic Petrochemicals Unit. Most basic utilities are supplied to our Alagoas PVC plant by our subsidiary, Companhia Alagoas Industrial. Our chlorine and caustic soda plants in Alagoas and our PVC plant in São Paulo supply their own utilities requirements.

Technology of Our Vinyls Unit

We have entered into several non-exclusive agreements with a number of leading petrochemical companies to use technology for our Vinyls Unit. We have been granted the right to use vinylchloride monomer manufacturing technology from Oxyvinyls Company and PVC technology from Mitsubishi. We also have chlorine manufacturing technology agreements with Denora (used in Bahia), Eltech (used in Alagoas) and EVC (used to produce ethylene dichloride in Alagoas). In addition, we own 25 patents and six trademarks in Brazil related to our PVC business.

We do not pay any continuing royalties under any of these license agreements, but we paid an initial fee under these agreements. If any of these arrangements were terminated or no longer available to us, we believe that we would be able to replace the relevant technology with comparable or better technology from other sources.

Our plant in the Northeastern Complex uses mercury cell technology to produce chlorine, which technology can no longer be used in new petrochemical production facilities under Brazilian legislation due in part to environmental concerns regarding mercury emissions resulting from this manufacturing process. The Brazilian government may require us to shift to newer diaphragm technology, which we use in our Alagoas plant, or membrane technology. We have not shifted to these newer technologies yet, in part because the return from the capital expenditures associated with this shift would not be as high as those from other potential investments that we may undertake.

Pilot Plant and Research Center

Our Vinyls Unit maintains a pilot plant for PVC research and development in the State of Bahia and a research center in the State of São Paulo. This center currently employs 11 engineers and nine technicians specialized in plastics. At this center and in our pilot plant, we produce new PVC resins, develop and improve PVC production technology, render support services to our customers, train our customers personnel and develop new applications for PVC in Brazil, including vertical blinds, coatings for industrial PVC pipes and

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resins used in automotive parts and in the manufacture of doors, windows and other building components. In 2004, our research and development center developed Plastwood and new PVC applications for the Brazilian construction sector.

Sales and Marketing of Our Vinyls Unit

Net