

BRASKEM SA  
Form 6-K/A  
March 30, 2007

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**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**FORM 6-K/A**

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13A-16  
OR 15D-16 OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the month of March, 2007**  
**(Commission File No. 1-14862)**

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**BRASKEM S.A.**

*(Exact Name as Specified in its Charter)*

**N/A**

*(Translation of registrant's name into English)*

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**Rua Eteno, 1561, Polo Petroquimico de Camacari**  
**Camacari, Bahia - CEP 42810-000 Brazil**  
*(Address of principal executive offices)*

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(1).

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(7).

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to  
the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- \_\_\_\_\_.

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**MANAGEMENT REPORT 2006**

The management of Braskem S.A. ( Braskem ) submits for your consideration the Management Report and related financial statements for the year ended December 31, 2006, as well as the opinions of Braskem's independent auditors and fiscal council. The comments presented herein relate to the consolidated results and reflect the corporate structure of Braskem at December 31, 2006.

The results of operations discussed herein have been adjusted to eliminate the effects of proportional consolidation under the Brazilian Securities Commission (CVM) Instruction 247, whereby only those investments directly managed by Braskem were consolidated, while the Company's interests in Companhia Petroquímica do Sul (Copesul), Petroflex Indústria e Comércio S.A. (Petroflex), and Politeno for the period comprising the full year of 2005 and 1Q06 were recognized on the equity method of accounting. As from April 2006, the results of Politeno, whose control was then fully acquired by Braskem, are consolidated into the financial statements of Braskem since then.

**1. Message from management**

2006 was a very difficult year for the Brazilian petrochemical industry. The high level of oil and naphtha prices associated to the strong volatility of these two commodities in the international market, in addition to the momentary excess polyethylene capacity in the Brazilian market, have impacted the business and Braskem's profitability during 2006.

In this context, the Company was able to implement its main projects and consistently evolved in its corporate fundamentals during 2006, where the strengthening of its growth platform focused on value creation stood out.

The Company maintained its leadership position in the Latin American market for the thermoplastic resins it produces polyethylene (PE), polypropylene (PP) and PVC, by making significant investments in capacity expansions and strategic acquisitions. At the same time, Braskem accelerated the implementation of programs aimed at improving its efficiency, operating reliability and competitiveness. Such moves are in line with Braskem's vision of becoming one of the 10 largest petrochemical companies in the world in terms of market capitalization, following its strategy that combines organic growth in the regional market, new alternatives in order to ensure access to raw materials under competitive conditions, as well as the search for opportunities related to the internationalization of the Company.

In 2006, the Brazilian thermoplastic resin market grew by 9%, confirming its historic elasticity to the GDP of around 3 times, on average, over the past ten years. The striking difference in performance during the year, where the second half was better than the first one, in particular when profitability is concerned, suggests that the effects of the entry of a new domestic player in the polyethylene market has already been absorbed by the market.

Braskem believes that the continuance of the consolidation process in the Brazilian petrochemical industry is key to improve the competitiveness of the sector. Accordingly, in 2006 the Company acquired the control of Politeno, a transaction already approved by the Brazilian antitrust authority (*Conselho Administrativo de Defesa Econômica* CADE) by unanimous vote and with no restrictions, once more recognizing that the international market is the relevant one for the Brazilian petrochemical industry. The acquisition of Politeno improved the Company's portfolio of products and customers, in addition to reinforcing its leadership in the polyethylene segment, by adding 360 thousand tons to the annual production capacity of this resin at a plant

located at Camaçari, State of Bahia. Braskem confirms the volume of synergies announced at the time of the acquisition, with net present value of US\$ 110 million to be realized as of 2007, and informs that the integration of operations has been completed, while further synergy opportunities are being identified.

The construction of Petroquímica Paulínia, which plays an important part in the Company growth strategy, started in 2006. This joint venture with Petroquisa, where Braskem holds a 60% interest, will operate a new polypropylene plant with an annual capacity of up to 350 thousand tons in Paulínia, State of São Paulo. In addition to world scale, access to competitive raw materials and cutting-edge technology supplied by Braskem, the unit will benefit from its location in the heart of the main Brazilian consumer market. The installation license has already been granted by the environmental authorities and the project is within schedule. Production start-up is scheduled for the first quarter of 2008.

On the international front, access to raw materials in competitive conditions is the distinctive feature of two Braskem projects under consideration in Venezuela, both with global scale and updated technology: a polypropylene unit with annual capacity of 400 thousand tons, scheduled to start operations by the end of 2009; and an integrated petrochemical complex on natural gas in the Jose region, comprising a basic petrochemical center, with capacity of 1.2 million tons of ethylene, and units producing polyethylene and other products. The new units, in addition to supplying the Venezuelan and Andean Pact countries, will also serve as an export platform to Northern hemisphere markets.

Preliminary technical and economic feasibility studies point to attractive perspectives for both projects, which are now in the detailing and corporate modeling stage. The projects anticipate equal percentage holdings in these ventures for Braskem and Pequiven. Aiming at expediting the progress of these projects, an experienced Braskem team is based in Venezuela.

To support its growth, the Company has invested in a new integrated management system - Fórmula Braskem - since 2006, in accordance with the guidelines set forth in the program. This program encompassed a review of all business processes, leading to streamlined processes, reduced costs and improved competitiveness. Total estimated investments in the project, the second part of which will be implemented in 2007, amount to R\$ 130 million, and the net present value of productivity gains adds up to R\$ 260 million.

From the Braskem + program, focused on operating excellence and productivity improvement, the Company was able to capture in annualized and recurring gains a total of R\$ 437 million as of December 2006, which represents the early accomplishment of the target for the end of 2007, also surpassed by 4%. The quality of the management allowed for speeding up the project and identifying additional gain opportunities which should enable the Company to further improve its performance.

In line with its commitment to create more value to all its shareholders, Braskem has strengthened its focus on technology and innovation by opening in Camaçari, State of Bahia, a new development center dedicated to ultra high molecular weight polyethylene UTEC®, a high value-added resin of which the Company is one of the largest world producers. The unit works in coordination with the Technology and Innovation Center at Triunfo, State of Rio Grande do Sul, the most modern and best equipped petrochemical center in Latin America, focused on supporting customers in the development of products, processes and applications. In addition to helping enhance the competitiveness of the petrochemical and plastic industries supply chains, the priority given to innovation and technology supports one of the Company

strategic pillars, namely its technological autonomy. As a result, Braskem pioneered the launch in the Brazilian market of a polypropylene with nanoparticles, the first resin produced in the country based on nanotechnology, viewed as the most promising frontier of the materials science in general and polymers in particular. The Company was also one of the first regarding research of the so-called green polymers, made out of renewable raw materials, the manufacturing process of which is already protected by patents filed by Braskem. The Company has a set of 151 patents in Brazil and abroad, 14 of which were obtained in 2006.

Braskem was considered an emerging power in the international scenario by the U.S. Boston Consulting Group, which prepared a ranking of 100 companies in developing countries the global challengers in a position to compete with the large transnational corporations. According to the study which also mentioned 11 other Brazilian companies, a major competitive edge of Braskem is the Company's competence in innovation and technology.

Such outstanding position is grounded on Braskem's history track of growth in the recent past. In 2006, the Company gross sales in U.S. dollars, the reference currency of the petrochemical industry, grew by 10% compared to the prior year, from US\$ 6.3 billion to US\$ 6.9 billion. Gross sales expressed in Brazilian reais amounted to R\$ 15 billion, in line with 2005, reflecting the adverse impact of foreign exchange. Net revenues increased by 13% in U.S. dollars, totaling US\$ 5.4 billion, or R\$ 11.7 billion, up R\$ 100 million from the prior year.

Braskem exports grew by 44% in 2006 and reached record revenue of US\$ 1.4 billion, as a result of important initiatives undertaken by the Company starting 2005 to increase its presence in the global market, in accordance with its internationalization strategy. These efforts led to the establishment of branches in Argentina and Europe, as well as the strengthening of *Braskem América*, enabling the Company to provide its international customers with better services through its own staff and local distribution centers with expected profitability increase and opening of new markets.

The Company's EBITDA totaled US\$ 758 million in 2006, compared to US\$ 851 million in the previous year, chiefly as a result of increased oil prices, which significantly impacted the Companies' naphtha costs besides a stronger competition in the polyethylene domestic market. EBITDA in *reais* amounted to R\$ 1.6 billion, down 21% from 2005, additionally impacted by the exchange rate appreciation. Net income for the year added up to R\$ 82 million against R\$ 680 million in the prior year.

Investments in operations in 2006 totaled R\$ 719 million, in line with the prior year. These resources were appropriated to programs focused on corporate competitiveness, industrial automation, capacity increase, such as the isoprene plant, technology, as well as health, safety and environment.

Capital discipline, reduction in financial costs, and lengthening of the debt profile are ongoing commitments of Braskem's finance management. In line with these goals, the Company successfully launched in 2006 a series of issues in the capital markets, noteworthy among which are perpetual bonds at 9% per annum, in the amount of US\$ 200 million.

At year end, the Company's net debt totaled R\$ 4.5 billion, with average terms over 16 years and maturity profile consistent with the forecast cash generation for each year. The net debt/EBITDA ratio stood at 2.7 times, compared with 1.7 in December 2005, as a result of investments made by the Company, payment of dividends and interest on equity in the amount of R\$ 326 million, the share buyback program of R\$ 182 million, and the acquisition of Politeno's control for the initial amount of R\$ 238 million.

For the second consecutive year, Braskem was selected to make part of the São Paulo Stock Exchange (Bovespa) Corporate Sustainability Index (ISE), a differentiated portfolio of shares in corporations which stand out in the promotion of sustainable development, social responsibility and corporate governance all principles and values endorsed by the Company since it was founded in 2002, under a Public Commitment.

With respect to corporate governance, it should be pointed out that Braskem was certified under the Sarbanes-Oxley Act one year before it went into effect. In addition 2 new independent members were elected in the Board of Directors.

### Acknowledgements

Braskem's management would like to once more thank its shareholders, customers and suppliers for the trust bestowed in the Company in 2006, which encourages it to move forward in the search of excellence.

In addition, the accomplishments reached in the period would not have been possible without the dedication and competence demonstrated by Braskem's staff, who has laid the path for the Company's growth plan for the next few years. For the second consecutive year, reflecting the Company efforts to provide a stimulating, high-performance work environment, our employees considered Braskem as one of the best Brazilian companies to work for.

## 2. Outlook

Braskem expects that the sound global economic performance seen lately will continue over the next few years, with high growth rates among the main economies in the world. Such scenario favors the petrochemical industry on account of the elasticity between the demand for petrochemical products and the economic growth rates. The prospects are that the capacity utilization rates remain at high levels over the next years, as a result of the projected equilibrium between the demand for thermoplastic resins in the international market and the forecast delay of new production capacity additions.

The prices of naphtha, Braskem's main raw material, are highly correlated to oil quotations in the world market. It is expected that the tight ratio of global supply to demand will keep oil and thus naphtha prices at high levels, although at amounts on average below those seen in 2006. The combination of sustained resin prices and naphtha costs below 2006 levels points to potentially increased business profitability in 2007.

On the domestic front, Braskem works with a scenario of sustained economic growth, curbed inflation and potential for additional interest rate cuts, all stimulating the growth in both the economy and consumption. The anticipated improvement in disposable income, credit expansion and increased level of activity in the civil construction industry, among other factors, point to a 8 to 10% per annum increase in the Brazilian market for thermoplastic resins. The inventory reduction observed in the production chain at the end of 2006, driven by higher prices, establishes improved conditions to further enhance the demand in 2007.

Braskem should benefit from this scenario as all its plants will be in a position to operate at high capacity utilization rates in 2007, considering that shutdowns at the ethylene and some PE units previously scheduled for 2007 were performed during 2006.

The scenario described above, combined with the implementation of competitiveness programs completed in 2006, such as *Fórmula Braskem* and *Braskem +*, will allow Braskem to fully capture the gains anticipated from these programs as from 2007, with operating costs reduction and potential positive impacts on the Company results.

Braskem steadily pursues its strategy of growth coupled with value creation for all its shareholders. The Company will be diligent regarding opportunities of consolidation in the Brazilian petrochemical industry, as it believes that the outcome of this process will provide increased competitiveness to the sector, which is increasingly required in a global environment. Furthermore, Braskem is expected to increase its production capacity by implementing new projects, while preserving its capital discipline, in new ventures capable of generating returns above its cost of capital.

In this context, Braskem is developing a series of growth projects, with potential to double its resins annual production capacity to almost 5 million tons. These projects, if implemented, will provide a better balance between the main sources of raw materials (naphtha and gas), with reduced production costs for the Company and, accordingly, will leverage the company to a new level of scale and competitiveness. The projects are as follows:

- Petroquímica Paulínia, a joint venture with Petroquisa, for the production of up to 350 thousand tons of PP as from the first quarter of 2008;
- a 400-thousand ton unit of PP in Venezuela, in partnership with Pequiven, scheduled to start up operations in late 2009;
- Capacity increases in existing units (debottleneckings), in the Basic Petrochemicals Unit, scheduled for 2010, as well as in PE and PVC;
- a new PP plant to be built in the Camaçari Petrochemical Complex, with start-up scheduled for 2011;
- The Jose Olefins Complex in Venezuela, entailing the construction of an ethylene plant from natural gas, with a 1.2 million ton capacity, integrated with polyethylene plants and other second generation plants. These plants are scheduled to become operational in late 2011.

### 3. Operational Performance

#### 3.1 Industrial Performance

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

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

Production Volume (tons)	2006 (D)	2005 (E)	Chg.% (D)/(E)
<b>Polyolefins Unit</b>			
. PE's - Polyethylene*	971.484 *	772.166	26
. PP - Polypropylene	542.781	528.980	3
. <b>Total (PE's + PP)</b>	<b>1.514.265</b>	<b>1.301.146</b>	<b>16</b>
<b>Vinyls Unit</b>			
. PVC - Polyvinyl Chloride	444.056	447.376	(1)
. Caustic Soda	449.847	459.676	(2)
<b>Basic Petrochemical Unit</b>			
. Ethylene	1.103.969	1.165.319	(5)
. Propylene	520.413	562.048	(7)
. BTX**	639.898	673.854	(5)

\*Includes 236 thousand tons of Politeño's production

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

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

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

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

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

On the grounds of potential improved profitability on a short-term basis, the maintenance stoppage at the Olefinas I unit, previously scheduled for early 2007, was divided into two. A

mini-stoppage was performed in December 2006, for priority services, and another stoppage will be carried out in 2008.

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

### 3.2 Commercial Performance

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

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

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

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

Sales Volume (tons)	2006 (D)	2005 (E)	Chg.% (D)/(E)
<b>Polyolefins Unit</b>			
. PE's - Polyethylene	995.178	768.167	30
. PP - Polypropylene	529.944	517.502	2
. <b>Total (PE's + PP)</b>	<b>1.525.122</b>	<b>1.285.669</b>	<b>19</b>
<b>Vinyls Unit</b>			
. PVC - Polyvinyl Chloride	432.754	441.940	(2)
. Caustic Soda	430.074	464.620	(7)
<b>Basic Petrochemical Unit</b>			
. Ethylene *	307.862	581.070	(47)
. Propylene	435.961	479.430	(9)
. BTX**	529.544	594.442	(11)

\* Reduced by 232,186 tons due to the transfer to Politeo from April to December 2006.

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

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



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

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

### **3.3 Competitiveness Management**

#### **3.3.1 Early Completion by 1 Year of Braskem + Program**

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

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

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



### **3.3.2 Implementation of the F3rmula Braskem Project**

From October 2005 to September 2006, Braskem worked in the implementation of a new integrated management system, named *F3rmula Braskem*, using a software which is a benchmark in the petrochemical industry globally. The system was implemented on October 1, 2006, after one year of dedicated efforts of a team comprising some 120 members, who reviewed all business processes. Key to the success of the project success was the management of change which led to a high synergy level among all areas of the Company. Investments in the project, the second phase of which will be implemented in August 2007, amount to R\$ 130 million, of which R\$ 91 million were disbursed in 2006. With the implementation of the system, the Company has already started to earn benefits, concentrated in the commercial, logistic and supply areas.

## **4. Economic and Financial Performance**

### **4.1 Net Revenue**

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

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

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

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



#### **4.1.1 Export Sales**

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

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

#### **4.2 Cost of Goods Sold (COGS)**

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

The Company COGS in 2006 was impacted by R\$ 756 million relating to raw material and energy cost rises. Of this amount, R\$ 720 million refer to increased costs of naphtha, given the 19% growth in the international benchmark price naphtha ARA (Antwerp, Rotterdam and Amsterdam) in the period, as a result of the substantial increase in oil prices. The remaining R\$ 36 million relate to higher



costs of electricity, natural gas, fuel oil and other utilities, due to both higher prices of electricity and stronger utilization of fuel oil given lower availability of natural gas to the Basic Petrochemicals Unit. The average *real* appreciation of 10.6% in the year, however, partially offset this impact by R\$ 630 million.

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

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

#### **4.3 Selling, General and Administrative Expenses**

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

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

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

#### **4.4 Other Operating Income (Expenses)**

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

#### **4.5 EBITDA**

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

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

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

#### **4.6 Investments in Subsidiary and Associated Companies**

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

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



**(R\$ thousand)**

<b>Investments in Subsidiaries and Associated Companies</b>	<b>2006</b>	<b>2005</b>
<b>Associated Companies - Equity Method</b>	<b>195.911</b>	<b>212.377</b>
.. Copesul	181.467	161.963
.. Others	14.444	50.414
<b>Exchange Variation</b>	<b>(1.382)</b>	<b>3.629</b>
<b>Others</b>	<b>3.383</b>	<b>(582)</b>
<b>Subtotal (before amortization)</b>	<b>197.912</b>	<b>215.424</b>
<b>Amortization of goodwill/negative goodwill</b>	<b>(57.757)*</b>	<b>(152.539)</b>
<b>TOTAL</b>	<b>140.155</b>	<b>62.885</b>

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

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

#### 4.7 Financial Results, Net

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

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

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

**(R\$ million)**

	<b>2006</b>	<b>2005</b>
<b>Net Financial Result</b>	<b>(902)</b>	<b>(652)</b>
<b>Foreign Exchange Variation (FXV)</b>	<b>101</b>	<b>240</b>
<b>Monetary Variation (MV)</b>	<b>(222)</b>	<b>(229)</b>
<b>Financial Result less F/X and MR</b>	<b>(781)</b>	<b>(663)</b>



#### **4.8 Net Income**

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

#### **4.9 Capital Structure, Liquidity and Rating**

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

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

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

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

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

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

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

## 5. Capital Expenditures

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

The major investments in production capacity increases during 2006 were:

- R\$ 80 million in the Basic Petrochemicals Unit expansion of the production capacity of isoprene, with start-up in November 2006 and addition of 8 thousand tons, or 48% of the existing production capacity;

- R\$ 10 million in the debottlenecking of a PE plant, with capacity addition of 30 thousand tons of higher value-added PE, in particular in the production line of Braskem Flexus<sup>®</sup>, with start-up in September 2006.

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

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

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

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

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

## 6. Innovation and Technology

With the launch of the first Brazilian resin based on nanotechnology, in 2006 Braskem made a technological breakthrough in terms of application of polypropylene and potentially other thermoplastics in the country, consolidating its position as one of the major sources of development of innovative solutions for the regional petrochemical market. Such outstanding position stems from the priority given by Braskem to research and development activities. Technological autonomy is one of the strategic drivers of the Company, in addition to reflecting its commitment to creating value to all its shareholders and making its contribution to improve the competitiveness of its customers and the entire petrochemical and plastic production chain.

In line with these objectives, Braskem has conducted research to manufacture resins from renewable raw material sources – the so-called green polymers. These projects involve partnerships with strategic customers and are carried out on the hopes of enhancing the value and competitiveness of the entire production chain.

These accomplishments illustrate Braskem's efforts to foster the sustainability of its activities while simultaneously reinforcing its leadership in the segments of higher value-added resins, in order to increase the profitability of its operations. During 2006, the Company launched 10 new resins which, when added to those developed in 2005 and 2004, represent 20% of the net revenue from thermoplastic resins sold over the past three years.

To support this significant market share, Braskem adopts a consistent investment policy in the area of research and development. Last year, these expenditures totaled R\$ 45 million, in line with the historic average of the past few years. Part of these funds was appropriated to the creation of a development center in Camaçari focused on ultra high molecular weight

polyethylene, **UTECC**. Similarly, Braskem enhances the activities of its Technology and Innovation Center. As a result of this work, the Company filed 14 new patents in 2006 and now holds a total of 151 patents registered.

Noteworthy among the 2006 developments is the launch of the **Idealis** resin, a high molecular weight polyethylene used in equipment for the food and automotive industries, targeted mostly to the European market. It should also be pointed out the importance of a polypropylene resin to be launched soon, for application in high performance raffia for agribusiness and civil construction. A significant development in connection with PVC is a compound used by the automotive industry in carpets.

Bearing in mind its dedication and performance in research and development, in 2006 Braskem was granted the Finep Technology and Innovation South Region award, for the innovation management system developed by the Company. Of equal importance was the Anísio Teixeira Award, granted to Braskem by the Foundation for the Support of Research of the State of Bahia in the Innovative Company category.

## 7. Capital Markets and Investor Relations

The number of Braskem's outstanding shares (free float) went from 47% in 2005 to 49% of the total capital in 2006, due to the incorporation of Polialden with the issue of 7.9 million shares, partially offset by the buy-back of shares to be kept in treasury. This increase significantly helped maintaining a good level of liquidity of Braskem's shares at Bovespa in 2006.

The average volume of preferred class A Braskem shares traded on Bovespa (BRKM5) increased by 38% during the year, from 1.2 million securities traded per day in 2005 to 1.6 million in 2006. The financial volume, however, went from R\$ 27.7 million per day in 2005 to R\$ 24.0 million per day in 2006, as Braskem's shares prices went down last year.

In the same period, the Brazilian equity market experienced its best period in terms of companies that went public as a result of 25 new companies that listed on Bovespa, leading to an increase of 50% in the trading and financial volumes on the Exchange. This move, in conjunction with the maintenance of the number of trades and lower prices on average of Braskem's PNA share in 2006 compared to the prior year, resulted in the reduced weight of Braskem's PNA shares in the São Paulo Stock Exchange Index Ibovespa, which declined from 2.91% in the first four months of 2006 to 1.84% of the portfolio valid for the first four months of 2007. Notwithstanding this fact, Braskem holds the 16<sup>th</sup> position in terms of participation in the index.

On the New York Stock Exchange NYSE, the average volume of Braskem's ADR (BAK) traded decreased by 4%, from 228 thousand ADRs per day in 2005 to 219 thousand in 2006. This is attributable to the increased trading of securities on Bovespa. The average financial volume of ADRs declined by 32% for the same reason mentioned above. ADR quotes were lower in 2006.

Braskem class A preferred shares traded on BOVESPA ( BRKM5 ) closed the year quoted at R\$ 15.00 per share. Braskem ADRs (BAK) closed the year trading at US\$ 14.59 per ADR. On Latibex, the Madri Exchange section dedicated to trading of Latin American company shares, Braskem shares closed 2006 quoted at 5,33.

During 2006, Braskem presented its quarterly results to several regional Associations of Financial Analysts (Apimec), and participated in a number of national and international events

aimed at strengthening the Company's relationship with its investors and allowing a better understanding of its corporate fundamentals by the capital markets.

In 2006, Braskem disclosed two important corporate moves which ratified the Company's interest in the consolidation of the regional petrochemical sector. As from April 4, 2006, Braskem holds 100% of the voting capital of Politeno and, on May 31, 2006, Polialden was merged into the Company. The cycle of corporate restructuring that commenced when the Company was formed is thus completed.

Between May and October 2006, in order to capture an important value creation potential to its shareholders, Braskem carried out a share buyback program and repurchased 13.1 million class A preferred shares (PNA). Upon completion of the program, the Company had 14.4 million PNA shares in treasury.

<b>Stock Performance - BRKM5</b>	<b>12/30/05</b>	<b>3/31/06</b>	<b>6/30/06</b>	<b>9/30/06</b>	<b>12/31/06</b>
Closing Price (R\$ per share)	18,07	15,96	13,29	13,53	15,00
Return in the Quarter (%)	(17)	(12)	(17)	2	11
Accumulated Return (%)*	603	521	417	426	483
Bovespa Index Accumulated Return (%)*	197	237	225	223	295
Average Daily Trading Volume (R\$ thousand)	25.489	26.921	24.256	21.513	23.306
Market Capitalization (R\$ million)	6.694	5.912	4.923	5.012	5.556
Market Capitalization (US\$ million)	2.860	2.721	2.274	2.305	2.599
<b>ADR Performance - BAK</b>	<b>12/30/05</b>	<b>3/31/06</b>	<b>6/30/06</b>	<b>9/30/06</b>	<b>12/31/06</b>
Closing Price (R\$ per ADR)	16,21	14,91	12,19	12,59	14,59
Return in the Quarter (%)	(22)	(8)	(18)	3	16
Accumulated Return (%)*	882	804	639	663	784
Average Daily Trading Volume (US\$ thousand)	3.927	4.881	3.032	2.212	2.165
<b>Other Information</b>	<b>12/30/05</b>	<b>3/31/06</b>	<b>6/30/06</b>	<b>9/30/06</b>	<b>12/31/06</b>
Total Number of Shares (million)	<b>362.524</b>	<b>362.524</b>	<b>370.402</b>	<b>370.402</b>	<b>370.402</b>
. Common Shares (ON) - BRKM3	120.860	120.860	123.492	123.492	123.492
. Preferred Shares Class "A" (PNA) - BRKM5	240.860	240.860	246.107	246.107	246.107
. Preferred Shares Class "B" (PNB)	803	803	803	803	803
(-) Shares in Treasury (PNA) - BRKM5	(467)	(467)	(4.471)	(11.163)	(14.363)
= Total Number of Shares (ex Treasury)	<b>362.056</b>	<b>362.056</b>	<b>365.931</b>	<b>359.239</b>	<b>356.039</b>

ADR (American Depositary Receipt) 1 ADR = 2 BRKM5 shares

\* Accumulated return since the market closing on December 30, 2002.

Source: Economática/Braskem

## 7.1 Dividends

Braskem's Board of Directors, in line with the Company's dividend distribution policy, has proposed the payment of R\$ 36.9 million, or R\$ 0.159 per share as dividends only to class A and B shareholders and American Depositary Receipts (ADRs) holders. The unitary amount that will be paid to ADRs holders is R\$ 0.318 per ADR. These amounts will be submitted to the approval of the Annual Shareholders Meeting.



## 8. Sustainability

The welfare and health of its members, partners and neighboring communities are fundamental values for Braskem. Aligning projects and strategies with the Company major goals is a challenge that was emphasized during the frequent training programs offered by Braskem to its members and partners focusing on these areas, enhancing the consistency of procedures across the units.

During 2006, Braskem consolidated its Healthy, Safety and Environment (HSE) related actions, practices and strategies, now combined in an ambitious program, Always Excellence in HSE ,

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comprising 165 Strategic Elements (SE s) that will guide the Company efforts towards becoming a world benchmark in this field and accomplishing its strategic vision.

The Company invested significantly in this area, which in 2006 added up to R\$ 152 million and helped maintain Braskem s HSE indicators at levels similar to the best international standards and above the average for the Brazilian chemical and petrochemical industries.

Braskem carried on its previous actions to remain as part of Bovespa Corporate Sustainability Index ISE. This recognition, received for the second consecutive year, testifies to the alignment of the Company practices and its Public Commitment of 2002, at the time of its organization. More important than placing Braskem among the distinguished group of Brazilian public companies that stand out in their efforts to foster sustainable development, social responsibility and corporate governance, this recognition means that the Company is on its way to corporate excellence.

During 2006, the frequency rate of accidents with and without leave was 1.7 million hours worked/man, including employees and third parties.

Under its continuous improvement program, Braskem took significant steps to value and reuse its effluents. As a result, the Company received the important *Ecoimagination* international award for 2006, granted by General Electric to those companies coming up with the most creative environmental protection solutions. The award relates to a water reutilization program implemented at Braskem units in the State of Alagoas.

In order to create value and promote the sustainability of its business, Braskem has focused on the identification of opportunities for Clean Development Device projects. Accordingly, during 2006 the Company quantified potential gas emissions at its 14 plants with potential greenhouse effect, and selected approximately 25 projects designed to significantly reduce such impact, aiming at further improving the Company environmental performance.

With respect to eco-efficiency, the consumption of energy and water decreased by 3% and 2%, respectively, compared to the prior year.

Making a contribution to the development of the neighboring communities is also an important commitment of the Company. In this connection, Braskem promotes a consistent set of programs driven by its Social Responsibility Policy, focusing on environmental education, social inclusion and cultural incentive. Approximately R\$ 10 million was invested in these programs in 2006. The existing corporate volunteer work program was greatly enhanced during this period, when over 160 employees from several states joined the initiative.

In the State of Rio Grande do Sul, the Company introduced in 2006 the *Braskem on Stage* award, along the lines of the successful experience of *Braskem Theater Award* which has for some years now stimulated arts in Bahia. The initiative also provides for interchange of prizewinning plays between the two States. Additionally, the new program gave non-educated people an opportunity to go to the theater, with the staging of plays for low income communities, such as Vila Pinto, on the outskirts of Porto Alegre. In this city, Braskem also supports a plastic screening and recycling project.

Under this strategy, the first Braskem Rotation Marathon, part of the traditional Porto Alegre International Marathon, was held in Porto Alegre in 2006. The event was as successful as the Braskem Salvador Rotation Half Marathon, which in its third year brought together around 3 thousand athletes, including important foreign participants.

In the State of Alagoas, the scope of *Ecovela*, a fishermen boat race to foster environmental awareness among inhabitants of the area covered by the Lagoa Viva project, was expanded to include virtually all communities located around lakes Mundaú and Manguaba.

These actions illustrate Braskem's commitment to making its contribution to economic growth in line with the social-environmental development, so as to enhance the sustainability of its businesses. The commitment is set out in detail in the Corporate Sustainability Report prepared by the Company, following the guidelines and indicators of the Global Reporting Initiative (GRI).

### 8.1. Corporate Governance

As stated in its Public Commitment disclosed at the time of its formation on August 16, 2002, Braskem reaffirms its commitment to seek the alignment of the interests of all its shareholders, to ethics, competitiveness and excellence in all its actions, to ensure the best return to its shareholders, adding value to their equity investment and providing adequate returns on their invested capital.

In this sense, Braskem developed a model to ensure good Corporate Governance practices. In addition to the Board of Directors and Fiscal Council (Audit Committee), whose powers have been expanded to comply with the requirements of the Sarbanes-Oxley Act, other committees were set up to support the Board of Directors, essentially in charge of analyzing matters of interest to the Board, in order to improve the quality and speed of the decision making process.

The following actions and/or recognitions during 2006 reflect the evolution of Corporate Governance at Braskem:

The compliance with the Sarbanes-Oxley Act was obtained one year ahead of schedule, confirming the Company's commitment to high standards of Corporate Governance.

Braskem implemented new processes in order to conform to the requirements of Section 404 of the Sarbanes-Oxley Act with respect to internal control over its consolidated financial statements;

Implementation of the long-term incentive plan which allows for the alignment of interests of the Company executives, while creating value for the shareholders. The plan was approved in September 2005 and became effective in that year, making it possible to tie executives' remuneration to the appreciation of shares in the long run;

Implementation of the Ethics Committee, to act in coordination with Internal Audit and Fiscal Council. Its role is to record, handle, recommend and enforce decisions to address notifications made through the ethics hotline – a communications channel for confidential, anonymous notifications of violations of the Code of Conduct;

Election of 2 new independent Board members, one additional important step to implement best practices of corporate governance, in accordance with the different governance levels set up by Bovespa, as well as the guidelines of the Sarbanes-Oxley Act;

Consolidation of the Board of Directors information system, accessed from Portal Braskem, which makes available all information required to carry out their roles and responsibilities with safety, transparency, fairness and speed.

Recognition as one of two companies with the higher corporate governance rating among Brazilian businesses by GMI (GovernanceMetrics International) agency. The average global rating for emerging markets was 4.3 in a scale of 1 to 10, while Braskem

had a global rating of 6.0%, 40% above the emerging markets average and 88% above the average (3.2) of Brazilian companies included in the review;

Recognition as one of the 200 most reputable companies in the world (ranking 4th in the universe of 8 Brazilian companies mentioned), according to an assessment made in 2006 by the international Reputation Institute;

The Company was once more selected to make part of Bovespa Corporate Sustainability Index, as disclosed by the Exchange in December 2006. The index was created by Bovespa together with capital market-related professional entities, Getúlio Vargas Foundation, Instituto Ethos and the Ministry of Environmental Matters, and is intended to provide investors with a suggested portfolio comprised of shares in companies which demonstrate clear commitment to social responsibility and corporate sustainability. In 2006, 34 companies were selected to make part of the index.

Also noteworthy are the following features that characterize or distinguish Braskem's Corporate Governance model:

Level 1 of Bovespa's Corporate Governance since February 13, 2003;

100% tag along rights for all Braskem shareholders in case of transfer of control;

Fiscal Council with expanded powers, in accordance with the Sarbanes-Oxley Act;

Code of Conduct setting out the values, principles and practices that guide the corporate behavior. The Code is regularly reviewed for compliance with legal requirements and best practices;

Corporate Event Schedule disclosed at the beginning of each year;

Corporate Policies, in particular Securities Trading, Financial Management, Social Responsibility, Insurance and Guarantees, and Health, Safety and Environment;

Release of the Corporate Sustainability Report - RSE based on the publication structure proposed by the Brazilian Business Council for Sustainable Development (CEBDS), in conformity with world initiatives disseminated by the World Business Council for Sustainable Development - WBCSD.

### **8.1.1 - External Audit**

The Company's policy when hiring services not related to external auditing from independent auditors is based on the principles that preserve the independence of such professionals. Such principles, in accordance with internationally accepted rules, consist of the following: (a) the auditor shall not audit his own work; (b) the auditor shall not hold management positions in the hiring company; and (c) the auditor shall not promote his clients' interests.

Pursuant to CVM Instruction 381/03, PricewaterhouseCoopers Auditores Independentes has not rendered to Braskem services not related to external auditing at levels higher than 5% of total services performed.

## **9. Personnel Development**

People who work at Braskem are at the heart of the Company's growth strategy, which is based on confidence in the self-development ability of its members and their true interest in serving

customers, two solid pillars of our corporate culture. The quality of our staff is a key driver to accomplish our vision to place Braskem among the 10 leading international petrochemical companies.

In accordance with the principles and guidelines of its corporate culture, emphasizing planned delegation and encouraging entrepreneurship, Braskem consistently seeks to provide its employees with a stimulating, high performance work environment, by offering growth, professional and personal enhancement opportunities throughout their careers. In this connection, an advanced competence development system is in place at Braskem, whereby all employees, with the support of their supervisor, are in a position to plan their career evolution. Employees are expected and encouraged to take part in the Company target and result planning process, that provides variable compensation in proportion to the contribution of each employee to the results achieved.

Braskem maintains a consistent set of programs designed to attract, retain and motivate talents. In 2006, the Company invested R\$ 13 million in these programs, developed with the support of renowned educational institutions, such as Dom Cabral Foundation and Getúlio Vargas Foundation (FGV), in São Paulo. Braskem's MBA program is worth mentioning. It was developed in partnership with FGV and the second class began their studies in 2006.

To support its growth strategy, in 2006 Braskem placed even more emphasis on building leaders, by launching the Entrepreneur Development Program - PDE, in addition to carrying on existing skill-building initiatives, such as Competence Development, Personal Development and New Operator Training programs. PDE stands apart in as much as the program includes sharing of experiences among the different generations of organization leaders, a deeper understanding of corporate culture, and exposure to customers and other players across the production chain.

Only four years after its formation, Braskem has become one of the most sought after companies by young graduates from the best Brazilian universities, as can be seen from the quality and number of applicants enrolled in Braskem's Trainee and Internship programs - approximately 32 thousand youngsters.

Both initiatives have just obtained a new public recognition for its high quality level. The Internship Program was selected as one of the best in the country by *Centro de Integração Empresa-Escola* (Business/School Integration Center)/Ibope Solutions, while the Trainee Program, under a partnership with the São Paulo Getúlio Vargas Foundation, was awarded with Bahia HR Top.

In recognition of the Company's increasing efforts to implement the best practices in human resources management, Braskem was chosen for the second consecutive year by *Guia Exame/Você S.A.* 2006 magazines in 2006 as one of the best companies to work for in Brazil. This achievement reflects the evaluation of each company by its employees, with respect to work environment and opportunities of professional growth. The employees' evaluation is checked and reviewed by the magazines based on independent criteria.

**Attachments**

**Braskem (Consolidated) in R\$ MILLION.**

Excludes the effects of proportional consolidation (CVM 247)

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Income Statement	2006	2005	Chg. (%)
Gross revenue	14.991	15.200	(1)
Net revenue	11.719	11.615	1
Cost of goods sold	(9.882)	(9.319)	6
Gross profit	1.837	2.296	(20)
Selling expenses	(348)	(206)	69
General and Administrative expenses	(527)	(482)	9
Depreciation and amortization	(380)	(350)	8
Other operating income (expenses)	157	70	125
Investments in Associated Companies	140	63	123
.Equity Result	198	215	(8)
.Amortization of goodwill/negative goodwill	(58)	(153)	(62)
Operating profit before financial result	880	1.391	(37)
Net operating result	(902)	(652)	38
Operating profit (loss)	(22)	739	-
Other non-operating revenue (expenses)	8	(25)	-
Profit (loss) before income tax and social contribution	(14)	714	-
Income tax / social contribution	97	(88)	-
Profit (loss) before minority interest	83	626	(87)
Minority Interest	(2)	54	(103)
Net profit (loss)	82	680	(88)
EBITDA	1.645	2.088	(21)
EBITDA Margin	14,0%	18,0%	-4,0 p.p.
-Depreciacion and Amortization	904	760	19
. Cost	525	410	28
. Expense	380	350	8

ASSETS	12/31/2006	12/31/2005	Chg. (%)
<b>Current Assets</b>	<b>5.467</b>	<b>5.394</b>	<b>1</b>
. Cash and Cash Equivalents	1.780	2.205	(19)
. Account Receivable	1.491	1.359	10
. Inventories	1.565	1.358	15
. Recoverable Taxes	362	299	21
. Dividends/Interest attribut.to Shareholders' Equity	60	37	-
. Next Fiscal Year Expenses	79	43	83
. Others	129	93	39
<b>Long-Term Assets</b>	<b>1.534</b>	<b>1.123</b>	<b>37</b>
. Related Parties	39	55	(30)
. Compulsory Deposits	82	164	(50)
. Deferred income taxes and social contributions	369	277	33
. Recoverable Taxes	912	480	90
. Others	132	147	(10)
<b>Fixed Assets</b>	<b>8.849</b>	<b>8.842</b>	<b>0</b>
.Investments	792	1.252	(37)
.Plant, property and equipment	6.326	5.829	9
.Deferred	1.731	1.761	(2)
<b>Total Assets</b>	<b>15.850</b>	<b>15.359</b>	<b>3</b>

LIABILITIES AND SHAREHOLDERS' EQUITY	12/31/2006	12/31/2005	Chg. (%)
<b>Current</b>	<b>5.249</b>	<b>4.144</b>	<b>27</b>
. Suppliers	3.081	2.654	16
. Short-term financing *	1.564	822	90
. Salaries and social charges	128	106	21
. Proposed dividends/interest attributable to shareholders	41	298	(86)
. Income Tax Payable	1	0	-
. Receivable Taxes	100	191	(48)
. Advances from Clients	25	36	(30)
. Others	308	38	714
<b>Long-Term Liabilities</b>	<b>6.202</b>	<b>6.416</b>	<b>(3)</b>
. Long-term financing	4.730	4.788	(1)
. Taxes Payable	1.297	1.453	(11)
. Others	175	175	(0)
<b>Deferred Income</b>	<b>30</b>	<b>87</b>	<b>(66)</b>
<b>Minority Interest</b>	<b>22</b>	<b>121</b>	<b>(82)</b>
<b>Shareholders' Equity</b>	<b>4.347</b>	<b>4.590</b>	<b>(5)</b>
. Capital	3.508	3.403	3
. Capital Reserves	409	397	3
. Treasury Shares	(256)	(15)	1.602
. Profit reserve	685	806	(15)
. Retained Earnings (Losses)	0	0	-
<b>Total Liabilities and Shareholders' Equity</b>	<b>15.850</b>	<b>15.359</b>	<b>3</b>





**Reconciliation of Shareholders' Equity and Net Income - CVM 247 (R\$ million)**

	<b>Shareholders' Equity</b>	<b>Net Income</b>
	<b>Dec 31, 2006</b>	<b>2006</b>
<b>Consolidated Real - does not include CVM 247</b>	4.347	82
Gain on the assignment of right of use between related parties	(35)	20
<b>Consolidated including CVM 247</b>	4.312	101

**Braskem S.A.  
and Subsidiaries  
Financial Statements  
at December 31, 2006 and 2005  
and Report of Independent Auditors**

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## Report of Independent Auditors

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

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

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

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

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

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

6 As described in Notes 11, 12 and 13 to the financial statements, the Company and some of its subsidiaries recognized in their financial statements goodwill on the acquisition of investments based on the fair values of fixed assets and the expected future profitability of the investees. These goodwill balances are being amortized in accordance with the period of return defined in the independent valuation reports and the financial projections prepared by management. The maintenance of the goodwill balances, and the current amortization criteria in the f