

BRASKEM SA
Form 6-K
February 17, 2006

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

FORM 6-K

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

For the month of February, 2006

(Commission File No. 1-14862)

BRASKEM S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of registrant's name into English)

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

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- _____.

**Braskem S.A.
and Subsidiaries
Financial Statements
at December 31, 2005 and 2004
and Report of Independent Auditors**

Report of Independent Auditors

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

- 1 We have audited the accompanying balance sheets of Braskem S.A. and the consolidated balance sheets of Braskem S.A. and its subsidiaries as of December 31, 2005 and 2004, 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 at and for the years ended December 31, 2005 and 2004 of the jointly-controlled entities Politeno Indústria e Comércio S.A. and Petroflex Indústria e Comércio S.A., 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, of R\$ 223,783 thousand and R\$ 45,560 thousand, respectively, in 2005 and R\$ 203,465 thousand and R\$ 61,451 thousand, respectively, in 2004, is based solely on the opinions of the other independent 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 principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

- 3 In our opinion, based on our audit and on the reports issued by other independent auditors, the financial statements audited by us present fairly, in all material respects, the financial position of Braskem S.A. and of Braskem S.A. and its subsidiaries at December 31, 2005 and 2004, 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 20 to the financial statements, Braskem S.A. and certain subsidiaries are parties to significant lawsuits which seek exemption from payment of social contribution on net income and a lawsuit regarding the validity of Clause 4 of the Collective Labor Agreement of the Union of the Employees of Petrochemical, Plastic Chemicals and Related Companies of the state of Bahia (SINDIQUÍMICA). Based on the opinion of its outside legal advisors and Company management, no material losses are expected from these disputes. Accordingly, these financial statements do not include any provisions to cover the possible effects of these lawsuits.
- 5 Based on the decision of the Federal Supreme Court (STF), the management of the former indirect subsidiary OPP Química S.A., merged into Braskem S.A. in March 2003, recorded an Excise Tax (IPI) credit in the amount of R\$ 1,030,125 thousand in the results for the year ended December 31, 2002. Although the National Treasury has filed an appeal of certain aspects of this decision, as described in Note 9(i), management has concluded, based on the opinion of its legal advisors that this appeal cannot significantly alter the receivable recorded by the subsidiary.
- 6 The Company belongs to a group of companies comprising the Braskem Group and carries out financial and commercial transactions, in significant amounts, with its subsidiaries and other Group companies, under the conditions described in Note 8 to the financial statements.

- 7 As described in Note 1(b) to the financial statements, the Company and some of its subsidiaries are involved in a broad business and corporate restructuring process, intended to give the industry a more adequate capital structure, greater profitability, competitiveness and economies of scale. The Company and some of its subsidiaries are being, and will continue to be, affected by economic and/or corporate changes resulting from this process, the outcome of which will determine how the operations of the Company and its subsidiaries will develop. Additionally, this process and the matters described in Note 2 have affected the comparability between the financial statements as of December 31, 2005 and the financial statements of the prior year.
- 8 As described in Notes 11, 12, and 13 to the financial statements, the Company and some of its subsidiaries recognized in their financial statements goodwill on the acquisition of investments based on the fair values of fixed assets and the expected future profitability of the investees. These goodwill balances are being amortized in accordance with the period of return defined in the independent valuation reports and the financial projections prepared by management. The maintenance of the goodwill balances, and the current amortization criteria in the financial statements of future years will depend upon the realization of the projected cash flows and income and expenses used by the valuers in determining the fair values, as well as the future profitability of the investees.
- 9 Our audits were conducted for the purpose of forming an opinion on the basic financial statements, referred to in the first paragraph, taken as a whole. The statements of cash flows and added value, presented in Attachments I and II to provide supplementary information about the Company and its subsidiaries, are not a required part of the basic financial statements, in accordance with accounting practices adopted in Brazil. This information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Salvador, February 6, 2006

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" BA

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

Braskem S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

Assets	2005	Parent company	2005	Consolidated
		(Reclassified) 2004		(Reclassified) 2004
Current assets				
Cash and cash equivalents	1,461,090	1,556,869	2,135,740	1,793,955
Marketable securities	3,503		145,794	21,599
Trade accounts receivable	963,333	1,265,921	1,493,312	1,630,629
Inventories	1,250,072	1,259,557	1,567,453	1,562,414
Taxes recoverable	263,677	381,774	324,868	476,011
Deferred income tax and social contribution			2,406	10,651
Dividends and interest on capital receivable	43,979	93,279		
Insurance indemnifications	15,141	20,230	15,141	20,230
Advances to suppliers	37,255	26,460	40,038	31,636
Prepaid expenses	41,622	50,609	48,800	57,752
Other accounts receivable	35,863	35,596	44,333	63,372
	4,115,535	4,690,295	5,817,885	5,668,249
Long-term receivables				
Marketable securities	636,303	61,422	325	61,961
Trade accounts receivable	47,479	18,247	49,676	23,146
Inventories	71,817	47,669	75,783	50,369
Taxes recoverable	395,975	175,894	559,423	251,260
Deferred income tax	277,250	301,527	292,600	315,302
Judicial deposits and compulsory loan	34,899	29,173	36,522	28,934
Related parties	57,181	745,765	40,560	35,181
Other accounts receivable	22,328	1,108	27,257	9,111
	1,543,232	1,380,805	1,082,146	775,264
Permanent assets				
Investments				
Subsidiaries	2,024,713	3,474,144	6,206	5,838
Associated companies	25,761	4,851	25,761	4,851
Other investments	8,364	8,364	34,212	35,820
Property, plant and equipment	5,279,334	4,823,535	5,964,156	5,457,558

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Deferred charges	1,911,002	2,209,529	2,660,385	3,102,687
	9,249,174	10,520,423	8,690,720	8,606,754
Total assets	14,907,941	16,591,523	15,590,751	15,050,267

Braskem S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

(continued)

Liabilities and stockholders equity	2005	Parent company	2005	Consolidated
		(Reclassified) 2004		(Reclassified) 2004
Current liabilities				
Suppliers	2,529,824	2,282,592	2,580,173	2,059,977
Loans and financing	612,227	1,435,094	895,004	1,785,945
Debentures	9,295	4,969	9,295	4,969
Investment fund in credit rights			225,387	22,431
Salaries and social charges	100,603	72,243	135,961	98,526
Taxes and contributions	167,131	158,546	192,169	179,656
Income tax and social contribution	10,810	23,581	19,002	51,468
Dividends and interest on capital payable	290,953	183,873	299,175	191,648
Advances from customers	34,784	24,844	42,027	47,944
Related parties		1,147,804	3,081	8
Insurance premiums payable	2,638	52,657	3,203	53,205
Other accounts payable	27,820	55,111	39,620	99,523
	3,786,085	5,441,314	4,444,097	4,595,300
Long-term liabilities				
Suppliers	29,746	74,107	29,746	74,107
Loans and financing	3,331,415	3,315,086	2,857,472	3,059,571
Debentures	1,599,347	1,167,870	1,599,347	1,167,870
Investment fund in credit rights			404,122	201,766
Taxes and contributions	1,158,471	1,011,831	1,324,358	1,216,148
Deferred income tax	8,525	9,115	10,445	11,656
Related parties	3,372	671,381	3,044	115,764
Provision for loss on investments	199,797	535,604	9,280	
Private pension plans	58,554	58,606	65,116	64,779
Other accounts payable	59,873	41,329	98,785	63,350
	6,449,100	6,884,929	6,401,715	5,975,011
Deferred income				

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Negative goodwill on the purchase of investments	25,655	30,250	87,941	93,230
Minority interests			121,232	203,093
Stockholders equity				
Capital	3,402,968	3,402,968	3,402,968	3,402,968
Capital reserves	396,821	344,782	396,821	344,782
Treasury stock	(1,905)	(1,905)	(15,015)	(15,015)
Revenue reserves	849,217	489,185	750,992	450,898
	4,647,101	4,235,030	4,535,766	4,183,633
Total liabilities and stockholders equity	14,907,941	16,591,523	15,590,751	15,050,267

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

Braskem S.A. and Subsidiaries**Statements of Operations****In thousands of reais**

		Parent company		Consolidated
	2005	2004	2005	(Reclassified) 2004
Gross Sales				
Domestic market	12,736,053	12,136,932	14,099,136	13,579,361
Foreign market	2,395,862	1,957,624	2,944,199	2,620,838
Deductions				
Taxes, freights and returns	(3,639,630)	(3,312,950)	(3,968,255)	(3,810,710)
Net Sales	11,492,285	10,781,606	13,075,080	12,389,489
Cost of products sold and services rendered	(9,276,273)	(8,120,344)	(10,361,716)	(9,222,970)
Gross profit	2,216,012	2,661,262	2,713,364	3,166,519
Operating expenses (income)				
Selling	199,638	229,488	261,880	290,967
General and administrative	437,909	314,577	510,082	373,329
Directors fees	10,469	10,111	15,092	12,735
Equity in the earnings of subsidiaries and assoc.cos.				
Equity in the results	(222,129)	(169,952)	(1,287)	(663)
Amortization of goodwill (negative goodwill), net	385,717	283,988	152,539	152,729
Exchange variation	(21,341)	8,767	(3,629)	9,645
Tax incentives			(39,225)	(44,979)
Provision (reversal) for losses on subsidiaries	(280,702)	(124,434)		7,500
Other	1,844	(3,059)	1,423	(16,615)
Depreciation and amortization	370,389	370,124	355,563	359,741
Financial expenses	552,804	1,074,796	675,757	1,307,249
Interest on capital	270,000	170,000	270,000	170,000
Reversal of interest on capital	(270,000)	(170,000)	(270,000)	(170,000)
Financial income	62,109	26,072	33,619	(68,632)
Other operating income, net	(69,891)	(34,283)	(22,753)	(42,994)

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	1,426,816	1,986,195	1,939,061	2,340,012
Operating profit	789,196	675,067	774,303	826,507
Non-operating expenses, net	(24,865)	(26,544)	(25,156)	(29,820)
Income before income tax and social contribution	764,331	648,523	749,147	796,687
Provision for income tax and social contribution	(54,869)	(92,341)	(147,737)	(226,470)
Deferred income tax and social contribution	(23,687)	136,497	(29,641)	141,375
Income before minority interests	685,775	692,679	571,769	711,592
Minority interests			54,068	(24,565)
Net income for the year	685,775	692,679	625,837	687,027
Net income per thousand shares at year end - R\$	1.894	7.650		

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

Braskem S.A. and subsidiaries

Statements of Changes in Stockholders' Equity

In thousands of reais

	Capital reserves			Revenue reserves		Treasury stock	Retained earnings (accumulated deficit)	Total
	Capital	Tax incentives	Other	Legal reserve	Retention of profits			
At December 31, 2003	1,887,422	743,758	557			(10,137)	(463,281)	2,158,319
Capital increase (Notes 19 (a))	1,515,546							1,515,546
Exchange of shares (Note 1(g))						8,232		8,232
Absorption of accumulated deficit (Note 18(a))		(463,281)					463,281	
Tax incentives		63,748						63,748
Dividends prescribed							684	684
Net income for the year							692,679	692,679
Appropriation of net income:								
Legal reserve				34,634			(34,634)	
Dividends proposed							(34,178)	(34,178)
Retention of profits					454,551		(454,551)	
Interest on capital							(170,000)	(170,000)
At December 31, 2004	3,402,968	344,225	557	34,634	454,551	(1,905)		4,235,030
Tax incentives		52,039						52,039
Net income for the year							685,775	685,775
Appropriation of net income:								
Legal reserve				34,289			(34,289)	
Dividends proposed (Note 19(d))							(55,743)	(55,743)

Retention of profits					325,743		(325,743)
Interest on capital (Note 19(e))							(270,000) (270,000)
At December 31, 2005	3,402,968	396,264	557	68,923	780,294	(1,905)	4,647,101

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

Braskem S.A. and Subsidiaries

Statements of Changes in Financial Position

In thousands of reais

	Parent company		Consolidated	
	2005	2004	2005	2004
				(Reclassified)
Financial resources were provided by:				
Operations				
Net income for the year	685,775	692,679	625,837	687,027
Expenses (income) not affecting working capital:				
Depreciation, amortization and depletion	766,340	720,432	841,493	798,033
Equity in the earnings of subsidiaries and associated companies				
Equity in the results	(222,129)	(169,952)	(1,287)	(663)
Amortization of goodwill (negative goodwill), net	385,717	283,988	152,539	152,729
Provision (reversal) for losses on investments	(280,702)	(124,434)		7,500
Exchange variation on investments	(21,341)	8,767	(3,629)	9,645
Tax incentives			(39,225)	(44,979)
Increase (decrease) in interests in investments and other	2,293	(2,576)	2,188	(16,030)
Disposals of permanent assets	1,067	2,368	5,056	5,513
Provision for loss of permanent assets		18,199		18,199
Interest, long-term monetary and exchange variations, net	(42,513)	(63,646)	(54,369)	(99,465)
Deferred income tax	23,687	(136,497)	29,641	(141,375)
Minority interests			(54,068)	24,565
Assignment of right to use	(58,240)		(3,640)	
Other	(27,031)	22,171	(26,088)	39,015
Total funds provided	1.212.923	1.251.499	1.474.448	1,439.714
Stockholders				
Capital payment		1,210,950	2,531	1,210,950
Exchange of treasury stock		8,232		8,232
Advance for future capital increase			157	211

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		1,219,182	2,688	1,219,393
Third parties				
Loans and financing in long-term liabilities	1,206,300	2,763,808	1,606,197	2,843,926
Transfer from long-term receivables to current assets	10,520	505,337	46,850	509,993
Increase in long-term liabilities	12,697	103,526	429,911	351,878
Decrease in long-term receivables	59,618	35,322	123,347	44,601
Increase in current account liabilities, net	45,569	39,403		
Dividends receivable	336,684	192,295	2,000	
Tax incentives	52,039	63,748	91,422	112,562
Net working capital (CCL) of merged companies	1,010,274			
CCL of companies added to/excluded from consolidation				26,354
Other	2,286	685	5,821	684
	2,735,987	3,704,124	2,305,548	3,889,998
Total funds provided	3,948,910	6,174,805	3,782,684	6,549,105

Braskem S.A. and Subsidiaries

Statements of Changes in Financial Position

In thousands of reais

(continued)

	Parent company		Consolidated	
	2005	2004	2005	2004
Financial resources were used for:				
Dividends proposed and interest on capital payable	325,743	204,178	331,300	209,833
Transfer from long-term to current liabilities	21,915	434,318	316,070	48,388
Settlement of financing in long-term liabilities		900,000	617,228	1,347,059
Decrease in current account liabilities, net			117,823	55,531
Redemption of shares			9,068	
Transfer from long-term to current financing	481,145	2,072,035	504,231	2,168,329
Decrease in long-term liabilities	3,078	119,079	3,141	126,066
Increase in long-term receivables	976,908	67,070	507,647	123,629
Permanent assets				
Investments	121,739	75,015	22,463	23,648
Property, plant and equipment	706,814	368,349	815,803	442,286
Deferred charges	231,099	509,823	237,071	549,395
Net working capital of merged company		162,582		
Total funds used	2,868,441	4,912,449	3,481,845	5,094,164
Increase in working capital	1,080,469	1,262,356	300,839	1,454,941
Changes in working capital				
Current assets				
At the end of the year	4,115,535	4,690,295	5,817,885	5,668,249
At the beginning of the year	4,690,295	2,536,998	5,668,249	4,092,495
	(574,760)	2,153,297	149,636	1,575,754

Current liabilities

At the end of the year	3,786,085	5,441,314	4,444,097	4,595,300
At the beginning of the year	5,441,314	4,550,373	4,595,300	4,474,487
	(1,655,229)	890,941	(151,203)	120,813
Increase (decrease) in working capital	1,080,469	1,262,356	300,839	1,454,941

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

Braskem S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2005 and 2004 In thousands of reais

1 Operations

(a) Braskem S.A. ("Braskem" or the "Company"), with headquarters in Camaçari - BA, and 13 production units located in the States of Alagoas, Bahia, São Paulo and Rio Grande do Sul, engages in the production of basic petrochemicals such as ethene, propene, benzene, and caprolactama, in addition to gasoline and and LPG (cooking gas). The thermoplastic resin segment includes polyethine,e polypropilene, PVC and Polyethilene Teraftalato (PET). The Company also engages in the import and export of chemicals, petrochemicals, fuels, as well as the production and supply of utilities such as steam, water, compressed air and electric power to the companies in the Camaçari Petrochemical Complex in Bahia (Northeast Petrochemical Complex), and the rendering of services to those companies. The Company also invests in other companies, either as a partner or shareholder.

The Company's operations are structured in four Business Units: Basic Petrochemicals, Polyolefins, Vinyls and Business Development. Each unit is responsible for its full business cycle.

(b) Formation of Braskem

Since its inception on August 16, 2002, the Company has undergone a major corporate restructuring process, disclosed to the market through material event notices. The main recent events during 2004 and 2005 can be summarized as follows:

.. The Extraordinary General Meeting held on January 12, 2004 approved the partial spinoff of Odebrecht Química S.A. ("Odequi") with the transfer and merger of the spun-off portion into Braskem. The spun-off assets corresponded to the entire interest of Odequi in Trikem S.A. ("Trikem"), corresponding to 64.43% and 41.02% of its voting and total capital, respectively. The amount of the spun-off portion of Odequi was R\$ 1,082,648, according to the appraisal report issued by independent experts based on the balance sheet of Odequi at October 31, 2003. Because of the mentioned partial spin-off, 11,066,514 common shares of Odequi held by the Company were canceled.

.. On January 15, 2004 the Shareholders approved the merger of Trikem into Braskem based on the book value of shareholders equity of the merged company at October 31, 2003, in the amount of R\$ 656,040. The exchange ratio of Trikem shares for Braskem shares was determined by independent experts based on the respective net equities at market values as of October 31, 2003.

After the merger of Trikem the Company's capital increased by R\$ 304,596 through the issue of 8,136,165,484 Class A preference shares, to R\$ 2,192,018, dividided into

Braskem S.A. and Subsidiaries

**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

25,730,061,841 common, 51,230,857,903 Class A preference, and 229,154,800 Class B preference shares (Note 19(a)).

.. Following the acquisition of 100% of the shares from minority shareholders, on March 31, 2004, the Extraordinary General Meeting approved the merger of the then subsidiary COPENE MONÔMEROS ESPECIAIS S.A. (Monômeros), based on the appraisal report of the value of shareholders' equity at December 31, 2003, in the amount of R\$ 115,832. The equity variances of Monômeros in the first quarter of 2004 were taken to the Company's income as an equity adjustment.

.. On December 14, 2004, the Board of Directors approved the use of 505,050,433 Class A preference shares of the Company, held in treasury, to be exchanged for 47,846,610 preferred shares issued by the subsidiary Polialden Petroquímica S.A. ("Polialden"). On this transaction, the Company recorded negative goodwill of R\$ 28,842. The Brazilian Securities Commission (CVM) approved the exchange of stock outside the stock market or over-the-counter market.

.. On December 15, 2004, the Company acquired from its subsidiary Braskem Overseas Inc. (Overseas), formerly Odequi Overseas Inc., 514,322 preference shares, representing 3.94% of the total capital of the subsidiary Odequi. Following the acquisition, the Company holds 100% of the capital of Odequi.

.. In order to obtain a capital structure more appropriate for the operations of the subsidiary Braskem Importação e Exportação Ltda. (Braskem Importação), formerly OQPA Importação e Exportação Ltda., at December 31, 2004, the Company increased the capital of this subsidiary by R\$ 99,215, with the issue of 99,215,010 quotas, by capitalizing the receivable held in current account in the amount of R\$ 98,215 and R\$ 1,000 from its own funds. This transaction generated: (i) goodwill of R\$ 98,999, fully amortized; (ii) reversal of the provision for loss in investee for the same amount.

.. In February 2005, under the Share Purchase and Sale Agreement entered into with Petrobras Química - Petroquisa S.A. (Petroquisa), the Company acquired 23,465,165 shares corresponding to 13.74% of the capital of CINAL, for R\$ 13,402. On this transaction, the Company recorded goodwill of R\$ 433, fully amortized due to lack of economic justification.

Braskem S.A. and Subsidiaries

Notes to the Financial Statements

at December 31, 2005 and 2004

In thousands of reais

.. The Extraordinary General Meeting, held on March 31, 2005, approved the merger of subsidiary Odequi, based on the appraisal report of the value of shareholders' equity, issued by independent appraisers, at December 31, 2004, in the amount of R\$ 1,340,749. The equity variations in the first quarter of 2005 were taken to Braskem's income as an equity adjustment.

.. On April 25, 2005, the Company increased the capital of Braskem Incorporated Limited (Braskem Inc), current corporate name of CPN Incorporated Limited (CPN Inc) by US\$ 40.000 thousand (equal to R\$ 101,400), from US\$ 95 thousand to US\$ 40.095 thousand, with the issue of 40,000,000 quotas, by capital contribution in cash. This transaction generated: (i) goodwill of R\$ 6,579, fully amortized; and (ii) reversal of the provision for loss in the investee of the same amount.

.. The Extraordinary General Meeting held on May 30, 2005, approved a capital increase of Braskem Participações S.A. (Braskem Participações), current corporate name of Copene Participações S.A., by R\$ 266, with no issue of shares, by verifying the market value of Braskem Importação issued quotas.

.. At a meeting held on June 22, 2005, the Boards of Directors of the Company and Petroquisa approved capital expenditures of US\$ 240 million to build a plant for the production of polypropilene in Paulínia, São Paulo. The investment will be made by the joint venture formed at the time of the organization of Petroquímica Paulínia S.A. (Petroquímica Paulínia), on September 16, 2005.

.. On April 29, 2005, as disclosed in a Relevant Event notice, Odebrecht S.A. (Odebrecht), Nordeste Química S.A. - Norquisa, ODBPAR Investimentos S.A. and Petroquisa executed the Second Amendment to the Braskem Shareholders' Agreement, with the Company and Petróleo Brasileiro S.A. - Petrobras (Petrobras), as intervening parties. Under this amendment, Petroquisa was granted an option to increase its share in the voting capital of the Company by up to 30%, through the subscription of new shares.

Should the option be exercised, the new shares will be paid by Petroquisa through: (i) percentage holding in petrochemical companies located at the Triunfo Petrochemical Complex, in Rio Grande do Sul, and (ii) percentage holding in other petrochemical companies considered of a strategic nature by the Company ((i) and (ii) are collectively referred to as Assets).

Braskem S.A. and Subsidiaries

**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

If the value of the Assets is not sufficient for Petroquisa to attain the percentage defined for it in the voting capital of the Company, within the limit of 30%, Odebrecht, ODBPAR and Norquisa will be obliged to meet the shortfall by selling shares to Petroquisa, under the same Asset valuation terms provided for in the Amendment. If the value of the Assets gives rise to new common shares in excess of the limit of 30% interest of Petroquisa in the voting capital of the Company, then the difference will be paid up by Petroquisa through Class A preference shares.

The Option shares will be valued according to the economic value of the Company, determined based on the discounted cash flow methodology, with no control premium. Assets will also be valued in accordance with the economic value of the companies involved, determined based on the discounted cash flow for the same base date.

On September 29, 2005, in accordance with the timing set forth in the Second Amendment, Petroquisa identified the following assets to be assessed for payment of the Option Shares, should the Option be exercised:

- 15.63% of the total capital of Copesul Companhia Petroquímica do Sul (Copesul);
- 85.04% of the total capital of Petroquímica Triunfo S.A.; and
- 40.00% of the total capital of Petroquímica Paulínia.

Odebrecht accepted the assets identified by Petroquisa to be contributed to the Company, as provided for in the Second Amendment.

The parties also agreed that the time period for the exercise of the Option, originally December 31, 2005, be postponed to March 31, 2006, while all other Second Amendment provisions remained unaltered.

.. On October 18, 2005, the Company sold to Braskem Distribuidora Ltda. (Braskem Distribuidora) 900,000 shares in Braskem Cayman Limited (Cayman), representing 100% of its capital, for R\$ 174,696, with no goodwill.

.. On October 31, 2005, the Company sold to Cayman 100% of the shares in Lantana and Overseas for R\$ 50, in accordance with the valuation by experts. This transaction gave rise to a goodwill of R\$22, fully amortized.

.. On November 30, 2005, the Company increased the capital of Braskem Distribuidora from R\$ 3,542 to R\$ 316,490, by the realization of credits held by the Company with the subsidiary, in the amount of R\$ 312,948. This transaction gave rise to a goodwill of R\$ 223,647 thousand, fully amortized.

Braskem S.A. and Subsidiaries

**Notes to the Financial Statements
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The Company and its subsidiaries, as participants in the restructuring process of the Brazilian petrochemical industry, may be affected by economic and/or corporate aspects as a result of the outcome of this process.

(c) Initial Public Offer of Shares ("Global Offer")

On April 1, 2004, the Board of Directors approved the initial public offer of Class A preference shares in Brazil and overseas, through the increase in capital within the authorized capital limit.

On September 22 and 27, 2004, the Board of Directors approved the issues of 12,285,000,000 and 1,170,000,000 shares, respectively, in the amount of R\$ 90.00 per thousand shares, to be subscribed in Brazil and US\$ 31.38 per thousand shares, to be subscribed overseas.

Financial settlement occurred on September 28, 2004, after the payment of capital in the amount of R\$ 1,210,950 (Note 19(a)).

(d) Reverse-split of shares and split of American Depositary Shares ("ADS")

In order to improve negotiations and increase the liquidity of the Company's shares, the Extraordinary General Meeting, held on March 31, 2005, approved the reverse split of shares, including all types and classes, in the proportion of 250 shares for each share. As a result, the split of the ADS of Porsken was also approved, in the proportion of 2 ADS for each existing ADS.

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

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

Braskem S.A. and Subsidiaries

**Notes to the Financial Statements
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(e) Corporate governance

In February 2003, Braskem enrolled in Level 1 of Differentiated Corporate Governance of the Bovespa, which mainly commits the Company to improvements in providing information to the market and in the dispersion of shareholdings, and attained with the Global Offer (Note 1(c)) approximately 47% of the free float. The Company intends to reach Level 2 of Bovespa's Governance in due time.

On December 2, 2005, the Company was one of 28 companies selected to comprise the first Corporate Sustainability Index (ISE) focused on the financial market. The index, designed by Bovespa, together with capital market professional entities, as well as Fundação Getúlio Vargas, Instituto Ethos and Ministry of Environment, is intended to provide investors with a portfolio option made up of shares in companies known for their social responsibility commitment and corporate sustainability. The index also aims at fostering and encouraging other businesses to engage in sound corporate practices.

(f) Administrative Council for Economic Defense - CADE

In accordance with Article 54, § 3 of Law 8,884/94, the concentration resulting from the change in control of Braskem was notified in a timely manner to the anti-trust authorities. In July 2002, the Secretariat for Economic Monitoring of the Finance Ministry (SEAE) issued a favorable opinion on the transaction. In May 2003, the favorable opinion of the Secretariat for Economic Rights (SDE) was published without any restrictions. The transaction was submitted for the review and analysis of the Administrative Council for Economic Defense (CADE), and in November 2003 CADE Prosecution Service also approved the transaction without any restrictions. In February 2004, the transaction was examined by the Federal Department of Public Prosecution, which also recommended the approval of the transaction. On September 14, 2005, CADE approved the transaction by unanimous vote, with no restrictions.

2 Presentation of the Financial Statements

The financial statements were prepared in accordance with the accounting practices adopted in Brazil and also in compliance with the standards and procedures determined by the Brazilian Securities Commission (CVM).

Braskem S.A. and Subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
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Pursuant to CVM Deliberation 489/05, the Company now states contingent liabilities net of the corresponding judicial deposits. Until December 31, 2004, judicial deposits were fully stated in long-term receivables. Accordingly, in the 2004 balance sheet, the amount of R\$ 131,416 (consolidated R\$ 170,263) has a contra entry in Taxes and contributions under long-term liabilities (Note 16).

To improve the presentation and comparison between the financial statements for years 2005 and 2004, the consolidated statements for 2004 were adjusted to reflect: (i) the merger of Special Purpose Entities (Entidades de Propósito Específico - EPE s); (ii) the partial merger of Petroflex Indústria e Comércio S.A. (Petroflex); and (iii) the elimination of the partial merger of Companhia de Desenvolvimento Rio Verde (CODEVERDE).

The comparison of the Company financial statements with the previous year must take into account the merger of Odequi (Note 1 (b)), carried out on March 31, 2005. The balance sheet of Odequi as of December 31, 2004, base date of the merger, is shown below:

**Odebrecht Química S.A.
Balance sheet**

Assets	Dec/04	Liabilities	Dec/04
Current assets		Current assets	
Cash and cash equivalents	2	Financing	196,992
Interest on capital receivable	7,911	Taxes payable	4,731
Taxes recoverable	13,274	Interest on capital payable	219
Related companies	1,095,808		
			201,942

&nbs