BRASKEM SA
Form 20-F/A
September 30, 2009

As filed with the Securities and Exchange Commission on September 30 , 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A

(Amendment No. 1)

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

OR

x**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 OR**

o **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 001-14862

BRASKEM S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A	**The Federative Republic of Brazil**
(Translation of Registrant s Name into English)	**(Jurisdiction of Incorporation or Organization)**

Av. das Nações Unidas, 8,501
São Paulo, SP CEP 05425-070 Brazil
(Address of Principal Executive Offices)

Carlos Fadigas
Braskem S.A.
Av. das Nações Unidas, 8,501
São Paulo, SP CEP 05425-070 Brazil
Telephone: + (55 11) 3576-9000
Fax: + (55 11) 3576-9532
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of Each Class	**Name of Each Exchange on which Registered**
Preferred Shares, Class A, without par value per share, each represented by American Depositary Receipts	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act: None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None
The total number of issued shares of each class of stock of Braskem S.A. as of December 31, 2008 was:

190,462,446 Common Shares, without par value
316,484,733 Preferred Shares, Class A, without par value
593,818 Preferred Shares, Class B, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ¨ No x

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and(2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

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

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

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP o	International Financial Reporting Standards as issued by the International Accounting Standards Board o	Other x

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yeso No x

EXPLANATORY NOTE

This Amendment No. 1 on Form 20-F/A, or Amendment No. 1, is being filed solely to amend the Annual Report on Form 20-F for the year ended December 31, 2008, as filed by Braskem S.A. with the U.S. Securities and Exchange Commission on July 14, 2009, or the Original Form 20-F, to provide the electronic signature that was inadvertently omitted from page 178 of the Original Form 20-F.

No other changes are being made to the Original Form 20-F, although Exhibits 12.01, 12.02 and 13.01 have been re-filed in their current form. The Annual Report on Form 20-F, as amended by this Amendment No. 1, continues to speak as of the date of its original filing, and Braskem S.A. has not updated the disclosure as of a later date.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

On July 7, 2009, the exchange rate for *reais* into U.S. dollars was R$1.964 to US$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R$2.337 to US$1.00 at December 31, 2008, R$1.771 to US$1.00 at December 31, 2007 and the commercial selling rate was R$2.138 to US$1.00 at December 31, 2006, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at July 7, 2009 may not be indicative of future exchange rates. See Item 3. Key Information Exchange Rates for information regarding exchange rates for the Brazilian currency since January 1, 2004.

Solely for the convenience of the reader, we have translated some amounts included in Item 3. Key Information Selected Financial Information and elsewhere in this annual report from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at December 31, 2008 of R$2.337 to US$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate. Such translations should not be construed as representations that the *real* amounts represent or have been or could be converted into U.S. dollars as of that or any other date.

Financial Statements

Braskem Financial Statements

We maintain our books and records in *reais.*

Our consolidated financial statements at December 31, 2008 and 2007 and for the three years ended December 31, 2008 have been audited, as stated in the report appearing herein, and are included in this annual report.

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

- Brazilian Law No. 6,404/76, as amended, which we refer to as the Brazilian Corporation Law;
- the rules and regulations of the Brazilian Securities Commission (*Comissão de Valores Mobiliários*), or CVM; and
- the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil IBRACON*), or IBRACON.

Brazilian GAAP differs in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of certain differences relating to these financial statements, see note 32 to our consolidated financial statements included elsewhere in this annual report.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed certain accounting policies under Brazilian GAAP. In December 2008, the CVM issued *Deliberação* No. 565/08, or Deliberation No. 565, implementing these changes in accounting policies. For a discussion of the principal changes introduced by Law No. 11,638/07 and Deliberation 565 as they relate to our financial statements, see Item 5. Operating and Financial Review and Prospects Financial Presentation and Accounting Policies Presentation of Financial Statements and notes 2 and 3 to our audited consolidated financial statements included elsewhere in this annual report.

In order to make our financial statements at December 31, 2007 and for each of the two years ended December 31, 2007 comparable to our financial statements at December 31, 2008 and for the year ended December 31, 2008, we have retrospectively revised our previously issued financial statements at December 31, 2007 and for each of the two years ended December 31, 2007 to conform to the changes in accounting policy introduced by Law No. 11,638/07 and Deliberation No. 565.

Consistent with Brazilian GAAP, our audited consolidated financial statements at December 31, 2008 and 2007 and for the three years ended December 31, 2008 have been prepared in accordance with CVM Instruction No. 247/96, as amended, or Instruction 247. Instruction 247 requires our company to proportionally consolidate jointly controlled companies that are not our subsidiaries but which we jointly control with one or more other shareholders.

Prior to April 1, 2006, we proportionally consolidated the results of Politeno Indústria e Comércio S.A., or Politeno, in our consolidated financial statements. As a result of the Politeno Acquisition described under Item 4. Information on the Company History and Development of Our Company Consolidation of Minority Interests, we have fully consolidated Politeno s results in our consolidated financial statements and included Politeno s results in our Polyolefins segment as from April 1, 2006. Politeno merged with and into Braskem on April 2, 2007.

Prior to April 1, 2007, we proportionally consolidated the results of Copesul Companhia Petroquímica do Sul, or Copesul, in our consolidated financial statements. As a result of the Ipiranga Transaction described under Item 4. Information on the Company History and Development of Our Company Ipiranga Transaction, we have fully consolidated Copesul s results in our consolidated financial statements as from April 1, 2007. Copesul merged with and into Ipiranga Petroquímica S.A., or Ipiranga Petroquímica, on September 11, 2008 and Ipiranga Petroquímica merged with and into Braskem on September 30, 2008.

Prior to December 1, 2007, we proportionally consolidated the results of Petroflex Indústria e Comércio S.A., or Petroflex, in our consolidated financial statements. As a result of our entering into an agreement in December 2007 to sell our interests in Petroflex, we accounted for our interest in Petroflex in our Brazilian GAAP financial statements using the equity method as from December 1, 2007. In April 2008, we sold all of our share capital in Petroflex.

Prior to April 1, 2008, we proportionally consolidated the results of Petroquímica Paulínia S.A., or Paulínia, in our consolidated financial statements. As a result of the completion of the first phase of the Petrobras Transaction described under Item 4. Information on the Company History and Development of Our Company Petrobras Transaction, we have fully consolidated the results of Paulínia and its subsidiaries in our consolidated financial statements as from April 1, 2008. On September 30, 2008, Ipiranga Petroquímica and Paulínia merged with and into Braskem.

Copesul Financial Statements

Prior to April 1, 2007, Copesul s consolidated financial statements were proportionally consolidated into the Braskem s consolidated financial statements under Brazilian GAAP, as described above under Braskem Financial Statements. As a result of the Ipiranga Transaction and our obtaining effective management control over Copesul, we have fully consolidated the results of Copesul and its subsidiaries into our financial statements as from April 1, 2007.

We have included separate consolidated financial statements of Copesul in this annual report because Copesul constituted a significant jointly controlled company, accounting for 85.0% of our income from continuing operations before income taxes in the three months ended March 31, 2007 and 96.6% in 2006. Copesul maintained its books and records in *reais* and prepared its financial statements in accordance with Brazilian GAAP.

Copesul s consolidated financial statements at December 31, 2007 and 2006 and for each of the years ended December 31, 2007 and 2006 included in this annual report have been audited, as stated in the report appearing herein. Copesul s consolidated financial statements at March 31, 2008 and for each of the three month periods ended March 31, 2008 and 2007 included in this annual report have not been audited.

Copesul s consolidated financial statements at December 31, 2007 and 2006 and for each of the years ended December 31, 2007 and 2006 were prepared in accordance with Brazilian GAAP in force at the time these financial statements were issued and do not reflect the changes in accounting policy introduced by Law No. 11,638/07 and Deliberation No. 565. As a result, the information in these financial statements may not be comparable to the information with respect to our company at the dates and for the periods presented in these financial statements.

Share Split

On March 31, 2005, we authorized the reverse split of all of our issued common shares, class A preferred shares and class B preferred shares into one share for each 250 issued shares. This reverse share split became effective on May 16, 2005. In connection with this reverse share split, we authorized a change in the ratio of our American Depositary Shares, or ADSs. Upon the effectiveness of our reverse share split and the ratio change, the ratio of our class A preferred shares to ADSs changed from 1,000 class A preferred shares per ADS to two class A preferred shares per ADS. All references to numbers of shares and dividend amounts in this annual report have been adjusted to give effect to the 20-for-one share split and the one-for-250 reverse share split.

Market Share and Other Information

We make statements in this annual report about our market share in the petrochemical industry in Brazil and our production capacity relative to that of other petrochemical producers in Brazil and Latin America. We have made these statements on the basis of information obtained from third-party sources that we believe are reliable. We have calculated our Brazilian market shares with respect to specific products by dividing our domestic net sales volumes of these products by the total Brazilian domestic consumption of these products estimated by the Brazilian Chemical Industry Association (*Associação Brasileira da Indústria Química),* or ABIQUIM. We derive information regarding the production capacity of other companies in the Brazilian petrochemical industry and the estimated total Brazilian domestic consumption of petrochemical products principally from reports published by ABIQUIM. Although we have no reason to believe that any of this information is inaccurate in any material respect, we have not independently verified the production capacity, market share, market size or similar data provided by third parties or derived from industry or general publications. We derive information regarding the size of the chemical distribution industry and our market share in this industry principally from reports published by the Brazilian Chemical and Petrochemical Distributors Association (*Associação Brasileira dos Distribuidores de Produtos Químicos e Petroquímicos*).

Production Capacity and Sales Volume

As used in this annual report:

- production capacity means the annual projected capacity for a particular facility, calculated based upon operations for 24 hours each day of a year and deducting scheduled downtime for regular maintenance; and
- ton means a metric ton, which is equal to 1,000 kilograms or 2,204.62 pounds.

Rounding

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

CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. Some of the matters discussed concerning our business operations and financial performance include forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, which we refer to as the Secuities Act, or the U.S. Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act.

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

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

- general economic, political and business conditions in our company s markets, both in Brazil and abroad, including demand and prices for petrochemical products;
- interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar;
- the cyclical nature of the Brazilian and global petrochemical industries;
- competition;
- prices of naphtha and other raw materials;
- actions taken by our major shareholders;
- our ability to obtain financing on satisfactory terms;
- our progress in integrating Copesul, Ipiranga Química S.A., or Ipiranga Química, and Ipiranga Petroquímica as well as other companies or assets acquired in the future, so as to achieve the anticipated benefits of these acquisitions;
- changes in laws and regulations, including, among others, those affecting tax and environmental matters;
- a continuation of the current worldwide economic downturn or further deterioration in the Brazilian and world economies;
- decisions rendered in pending major tax, labor and other legal proceedings; and
- other factors identified or discussed under Item 3. Key Information Risk Factors.

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

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

Selected Financial Information

The following selected financial data have been derived from our consolidated financial statements. The selected financial data at December 31, 2008 and 2007 and for the three years ended December 31, 2008 have been derived from our consolidated financial statements included in this annual report. The selected financial data at December 31, 2006, 2005 and 2004 and for the years ended December 31, 2005 and 2004 have been derived from our audited consolidated financial statements that are not included in this annual report.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed certain accounting policies under Brazilian GAAP. In December 2008, the CVM issued Deliberation No. 565 implementing these changes in accounting policies. For additional information with respect to these changes and their effects on our financial statements, see Presentation of Financial and Other Information and notes 2 and 3 to our audited consolidated financial statements included elsewhere in this annual report.

In order to make our financial statements at December 31, 2007 and for the two years ended December 31, 2007 comparable to our financial statements at December 31, 2008 and for the year ended December 31, 2008, we have retrospectively revised our previously issued financial statements at December 31, 2007 and for the two years ended December 31, 2007 to conform to the changes in accounting policy introduced by Law No. 11,638/07 and Deliberation No. 565. We have not retrospectively revised our financial statements at December 31, 2005 or 2004 and for the two years ended December 31, 2005 to conform these changes in accounting policy because we cannot provide this information without unreasonable effort and expense and, therefore, the selected financial data at and for these periods may not be comparable.

We have included information with respect to the dividends and/or interest attributable to shareholders equity paid to holders of our common shares and preferred shares since January 1, 2004 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption Item 8. Financial Information Dividends and Dividend Policy Payment of Dividends.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. For a discussion of certain differences relating to these financial statements, see note 32 to our audited consolidated financial statements included in this annual report.

		At and for the Year Ended December 31,				
	2008(1)	**2008**	**2007**	**2006**	**2005**	**2004**
			Retrospect-ively Revised	**Retrospect-ively Revised**		
	(in millions of US$, except per share amounts)	**(in millions of *reais*, except per share amounts and as otherwise indicated)**				
Statement of Operations Data						
***Brazilian GAAP*:**						
Net sales revenue	US$7,684.9	R$17,959.5	R$17,642.5	R$12,992.7	R$13,075.1	R$12,389.5
Cost of sales and services rendered	(6,478.7)	(15,140.8)	(14,331.4)	(10,759.2)	(10,361.7)	(9,223.0)
Gross profit	1,206.2	2,818.7	3,311.1	2,233.5	2,713.4	3,166.5
Selling, general and administrative	(499.4)	(1,167.1)	(1,238.7)	(951.4)	(787.1)	(677.0)

		At and for the Year Ended December 31,					
	2008(1)	2008	2007 Retrospect-ively Revised	2006 Retrospect-ively Revised	2005	2004
	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
expenses						
Depreciation and amortization	(232.6)	(543.6)	(486.6)	(363.3)	(355.6)	(359.7)
Other operating income, net	36.8	86.0	131.5	186.1	22.8	43.0
Operating income before equity accounting and financial income (expense)	511.0	1,194.0	1,717.3	1,104.9	1,593.5	2,172.8
Results from equity accounting(2)	(27.3)	(63.7)	(64.6)	3.4	(109.8)	(107.6)
Financial expenses	(1,884.1)	(4,403.1)	212.1	(1,097.9)	(675.8)	(1,307.2)
Financial income	307.5	718.6	(588.8)	159.5	(33.6)	68.6
Operating income (loss)	(1,092.9)	(2,554.2)	1,276.0	169.9	774.3	826.6
Non-operating expenses, net	(67.9)	(158.7)	(67.2)	7.1	(25.2)	(29.8)
Income (loss) before income tax and social contribution (current and deferred) and minority interest	(1,160.8)	(2,712.9)	1,208.8	177.0	749.1	796.8
Income tax and social contribution (current and deferred)	119.0	278.2	(327.4)	47.5	(177.3)	(85.1)
Income (loss) before profit sharing and minority interest	(1,041.8)	(2,434.7)	881.4	224.5	571.8	711.7
Profit sharing	(8.1)	(18.9)	(18.7)			
Income (loss) before minority interest	(1,049.9)	(2,453.6)	862.7	224.5	571.8	711.7
Minority interest	(16.5)	(38.5)	(240.9)	(1.6)	54.0	(24.6)
Net income (loss) US$	(1,066.4)	R$ (2,492.1)	R$621.8	R$222.8	R$625.8	R$687.1
Number of shares outstanding at year end, excluding treasury shares (in thousands):						
Common shares		190,462	149,810	123,492	120,860	120,860
Class A preferred shares		316,485	282,223	231,744	240,393	240,373
Class B preferred shares		594	803	803	803	842
Net income (loss) per share at year end	(2.10)	(4.91)	1.44	0.63	1.73	1.90
Net income (loss) per ADS at year end	(4.20)	(9.82)	2.87	1.25	3.46	3.80
Dividends declared per share:						
Common shares			0.64		0.90	0.56
Class A preferred shares			0.64	0.16	0.90	0.56
Class B preferred shares			0.64	0.16	0.56	0.56
Dividends declared per ADS			1.28	0.32	1.80	1.12

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2008 for reais into U.S. dollars of R$2.337=US$1.00.

(2) Results from equity accounting comprises equity in the results of associated companies (which, in the case of the year ended December 31, 2008, consisted of Borealis Brasil S.A., or Borealis and Sansuy Administração, Participação, Representação e Serviços Ltda.), amortization of goodwill, net, foreign exchange variation and tax incentives and other.

	At and for the Year Ended December 31,					
	2008(1)	2008	2007	2006	2005	2004

	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
Statement of Operations Data						
U.S. GAAP:						
Net income (loss) for the year	US$(781.6)	R$(1,826.7)	R$1,089.1	R$161.6	R$741.2	R$843.1
Basic earnings (loss) per share (weighted average):						
Common shares	(4.41)	(10.31)	2.77	0.13	2.05	2.63
Class A preferred shares			2.78	0.59	2.05	2.69
Class B preferred shares			2.75	0.63	0.63	0.56
Basic earnings (loss) per ADS (weighted average)			5.56	1.18	4.10	5.38
Diluted earnings (loss) per share (weighted average):						

		At and for the Year Ended December 31,				
	2008 (1)	2008	2007	2006	2005	2004
	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
Common shares	(4.48)	(10.48)	2.56	0.13	1.95	2.40
Class A preferred shares			2.54	0.59	1.95	2.40
Class B preferred shares			2.75	0.63	0.63	0.56
Diluted earnings (loss) per ADS (weighted average)			5.08	1.18	3.90	4.80

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2008 for reais into U.S. dollars of R$2.337=US$1.00.

		At and for the Year Ended December 31,				
	2008(1)	2008	2007	2006	2005	2004
			Retrospect-ively Revised	Retrospect-ively Revised		
	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
Balance Sheet Data						
Brazilian GAAP:						
Cash, cash equivalents and other investments	US$1,261.7	R$2,948.6	R$2,138.9	R$1,961.0	R$2,281.5	R$1,815.6
Short-term trade accounts receivable	426.3	996.2	1,497.0	1,594.9	1,493.3	1,630.6
Short-term inventories	1,261.5	2,948.1	2,264.3	1,767.3	1,567.4	1,562.4
Property, plant and equipment, net	4,398.1	10,278.4	8,404.1	6,688.7	6,364.4	5,830.4
Total assets	9,714.1	22,701.9	20,780.7	16,168.3	15,590.8	15,050.4
Short-term loans and financing (including current portion of long-term debt)(3)	907.1	2,120.0	1,068.4	653.9	1,120.4	1,808.3
Short-term debentures	11.3	26.3	111.6	1,157.7	9.3	5.0
Short-term related party debt					3.1	
Long-term loans and financing(2)	3,868.1	9,039.8	6,401.9	3,935.8	3,261.6	3,261.4
Long-term debentures	342.3	800.0	800.0	982.2	1,599.3	1,167.9
Long-term related party debt				4.8	3.0	115.8
Minority interest			598.0	21.8	121.2	203.1
Share capital	2,300.3	5,375.8	4,641.0	3,508.3	3,403.0	3,403.0
Shareholders equity	1,574.6	3,679.8	5,678.5	4,208.7	4,535.8	4,183.7
Other Financial Information						
***Brazilian GAAP*:**						
Cash Flow Data:						
Net cash provided by (used in):						
Operating activities	US$1,232.0	R$2,879.3	R$2,474.5	R$(317.6)	R$1,719.4	R$1,916.0
Investing activities	(922.0)	(2,154.7)	(3,649.5)	(1,206.3)	(1,048.0)	(1,014.4)
Financing activities	(1.3)	(3.1)	1,518.0	935.3	(329.7)	166.0
Other Information:						
Capital expenditures:						
Property, plant and equipment	US$600.9	R$1,404.2	R$1,277.2	R$889.7	R$930.2	R$704.4
Investments in other companies	279.8	653.8	1,345.5	222.7	34.0	23.6

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2008 for reais into U.S. dollars of R$2.337=US$1.00.

(2) Includes quotas (i.e., shares) subject to mandatory redemption at and prior to December 31, 2006. Prior to January 1, 2006, we recorded quotas subject to mandatory redemption as a separate line item of our balance sheet and not as part of loans and financing. Accordingly, short-term loans and financing (including current portion of long-term debt) at December 31, 2005 and 2004 reflect the reclassification of quotas subject to mandatory redemption in the amount of R$225.4 million and R$22.4 million, respectively, and long-term loans and financing at December 31, 2005 and 2004 reflect the reclassification of quotas subject to mandatory redemption in the amount of R$404.1 million and R$201.8 million, respectively.

	At and for the Year Ended December 31,					
	2008(1)	2008	2007	2006	2005	2004
	(in millions of US$, except per share amounts)	(in millions of *reais*, except per share amounts and as otherwise indicated)				
Balance Sheet Data						
U.S. GAAP						
Total assets	US$10,741.2	R$25,102.3	R$23,373.1	R$14,890.7	R$13,634.0	R$12,671.7
Shareholders equity	1,722.6	4,025.7	5,031.9	2,966.8	2,918.4	2,439.6

(1) Translated for convenience only using the selling rate as reported by the Central Bank at December 31, 2008 for reais into U.S. dollars of R$2.337=US$1.00.

	At and for the Year Ended December 31,				
	2008	2007	2006	2005	2004
Operating Data(1):					
Ethylene:					
Domestic sales volume (in thousands of tons)	2,095.1	2,068.4	1,108.5	1,169.8	1,098.9
Average domestic price per ton (in R$)	2,692	2,333	2,282	2,204	2,095
Propylene:					
Domestic sales volume (in thousands of tons)	994.5	945.1	413.0	497.5	446.8
Average domestic price per ton (in R$)	2,316	2,164	2,110	2,132	1,833
Polyethylene:					
Domestic sales volume (in thousands of tons)	977.3	943.9	604.7	502.3	498.7
Average domestic price per ton (in R$)	3,871	3,572	3,253	3,072	2,987
Polypropylene:					
Domestic sales volume (in thousands of tons)	606.2	573.1	453.2	419.9	418.5
Average domestic price per ton (in R$)	3,569	3,458	3,344	3,344	3,155
PVC:					
Domestic sales volume (in thousands of tons)	496.3	464.9	400.4	378.9	394.4
Average domestic price per ton (in R$)	2,678	2,616	2,511	2,747	3,042
Number of employees (at period end)	4,802	4,783	3,494	3,262	2,996

(1) Including intra-company sales within our company. Intra-company sales of ethylene totaled approximately 1,708,300 tons in 2008, 1,644,000 tons in 2007, 882,500 tons in 2006, 588,700 tons in 2005 and 537,100 tons in 2004. Intra-company sales of propylene totaled approximately 634,400 tons in 2008, 567,800 tons in 2007, 86,500 tons in 2006, 89,300 tons in 2005 and 31,300 tons in 2004.

Exchange Rates

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

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

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

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

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual depreciation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 2000 through December 31, 2002, the *real* depreciated by

80.6% against the U.S. dollar. From December 31, 2002 through December 31, 2007, the *real* appreciated by 49.9% against the U.S. dollar, and in 2008, the *real* depreciated by 31.9% against the U.S. dollar. At July 7, 2009, the selling rate for U.S. dollars was R$1.964 per US$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. We also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future.

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

	***Reais* per U.S. Dollar**			
Year	**High**	**Low**	**Average**	**Period End**
2004	R$3.205	R$2.654	R$2.917	R$2.654
2005	2.762	2.163	2.413	2.341
2006	2.371	2.059	2.168	2.138
2007	2.156	1.733	1.930	1.771
2008	2.500	1.559	1.834	2.337

	***Reais* per U.S. Dollar**	
Month	**High**	**Low**
December 2008	R$2.500	R$2.337
January 2009	2.380	2.189
February 2009	2.392	2.245
March 2009	2.422	2.238
April 2009	2.290	2.170
May 2009	2.148	1.973
June 2009	2.007	1.930
July 2009 (through July 7)	1.971	1.934

Source: Central Bank

Risk Factors

Risks Relating to Our Company and the Petrochemical Industry

The global financial and credit crisis has adversely affected economic growth in Brazil and elsewhere, and may limit our access to the financial markets.

The global financial and credit crisis and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil and in the countries to which we export our products. The ongoing crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with recent substantial losses in worldwide equity markets, including in Brazil, could lead to an extended worldwide economic recession or depression. A prolonged slowdown in economic activity in Brazil and elsewhere has and could continue to reduce demand for some of our products, which would adversely affect our results of operations.

We may also face significant liquidity challenges if conditions in the financial markets do not improve. Our ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The financial and credit crisis could have an impact on the lenders under our existing credit facilities, on our customers, or on the ability of our suppliers to meet scheduled deliveries,

causing them to fail to meet their obligations to us. If the global financial and credit crisis deepens further, it could have an adverse affect the demand for our products and our ability to fund our planned growth.

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

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

- downturns in general business and economic activity may cause demand for our products to decline;
- when demand falls, we may face competitive pressures to lower our prices; and
- if we decide to expand our plants or construct new plants, we may do so based on an estimate of future demand that never materializes or materializes at levels lower than we predicted.

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

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

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

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

Naphtha, a crude oil derivative, is the principal raw material of our Basic Petrochemicals Unit and, indirectly, of our other business units. Naphtha accounted, directly and indirectly, for approximately 80.2% of our consolidated cost of sales and services rendered in 2008. The price of naphtha supplied by Petróleo Brasileiro S.A. Petrobras, or Petrobras, has historically been linked to the Amsterdam-Rotterdam-Antwerp market price of naphtha and to the *real*/U.S. dollar exchange rate. The price of naphtha that we purchase from other international suppliers is also linked to the Amsterdam-Rotterdam-Antwerp market price. The Amsterdam-Rotterdam-Antwerp market price of naphtha fluctuates primarily based on changes in the U.S. dollar-based price of crude oil in the international markets.

Since March 2009, the price that we have paid for naphtha that we purchase from Petrobras has been based on a variety of factors, including the market prices of a naphtha and a variety of other petroleum derivatives, the volatility of the prices of these products in the international markets, the *real*/U.S. dollar exchange rate, and the level of paraffinicity of the naphtha that is delivered. We expect these pricing terms to be reflected in the new naphtha supply contract between our company and Petrobras that will replace (1) the existing naphtha supply contract between our company and Petrobras for the supply of naphtha to our basic petrochemicals plants located in the petrochemical complex located in Triunfo in the State of Rio Grande do Sul, which we refer to as the Southern Complex, and (2) the naphtha supply contract between our company and Petrobras for the supply naphtha of

naphtha to our basic petrochemicals plants located in the petrochemical complex located in Camaçari in the State of Bahia, which we refer to as the Northeastern Complex, which was terminated in June 2008. The negotiations of the new naphtha supply contract have been substantially completed and we expect that the new naphtha supply contract will be executed during the third quarter of 2009.

During 2008, the average Amsterdam-Rotterdam-Antwerp market price of naphtha in U.S. dollars increased by 17.2% to US$791.34 per ton in 2008 from US$675.48 per ton in 2007. The U.S. dollar price of naphtha was volatile during 2008, increasing from an average of US$834.14 per ton in December 2007 to an average of US$1,091.85 per ton in June 2008 followed by a dramatic decline to US$258.16 per ton in December 2008. Since December 31, 2008, the price of naphtha in U.S. dollars has increased to US$567.50 per ton at July 7, 2009. The price of naphtha in U.S. dollars may continue to be volatile. In addition, the *real* may depreciate against the U.S. dollar in the future, effectively increasing our naphtha costs in *reais*. Any increase in naphtha costs would reduce our gross margin and negatively affect our overall financial performance to the extent that we are unable to pass on these increased costs to our customers and could result in reduced sales volumes of our products.

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

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

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

Petrobras currently is the only Brazilian supplier of naphtha and supplied 63.6% of the naphtha consumed by our company in 2008. Petrobras produces most of the naphtha it sells to us and imports the balance. Our production volume and net sales revenue would likely decrease and our overall financial performance would likely be negatively affected in the event of:

- significant damage to Petrobras refineries or to the port facilities through which Petrobras imports naphtha, or to any of the pipelines connecting our plants to Petrobras facilities, whether as a consequence of an accident, natural disaster, fire or otherwise;
- our failure to enter into a new naphtha supply contract with Petrobras on satisfactory terms to replace the existing supply contract under which Petrobras supplies naphtha to our basic petrochemicals plants located in the Southern Complex and the agreement that terminated in June 2008 under which Petrobras supplied naphtha to our basic petrochemicals plants located in the Northeastern Complex; or
- any termination by Petrobras of the naphtha supply contract with our company under which Petrobras supplies naphtha to our basic petrochemicals plants located in the Southern Complex, which provides that Petrobras may terminate the contract for a number of reasons, including as a result of a national emergency affecting the supply of petroleum derivatives in Brazil.

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

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

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

- significant damage to our Basic Petrochemicals Unit s facilities through which ethylene or propylene is produced, or to the pipeline or other facilities that connect our Vinyls and Polyolefins Units to our Basic Petrochemicals Unit, whether as a consequence of an accident, natural disaster, fire or otherwise; or
- any significant reduction in the supply of naphtha to our Basic Petrochemicals Unit, as naphtha is the principal raw material used in the production of ethylene and propylene.

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

Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc., or Standard & Poor s, Moody s Investors Service, or Moody s, and Fitch, Inc., or Fitch, maintain ratings of our company and our debt securities. Currently, Standard & Poor s, Moody s and Fitch maintain ratings of our company on a local and a global basis. Standard & Poor s maintains a rating of our company on a local basis of br AA+/Stable Outlook, Moody s maintains a rating of our company on a local basis of Aa2.br/Stable Outlook and Fitch maintains a local rating for our company of AA (bra)/Stable Outlook. On a global basis, Standard & Poor s maintains a local currency rating for our company of BB+ (stable) and a foreign currency rating for our company of BB+ (stable), Moody s maintains a local currency rating for our company of Ba1 and a foreign currency rating for our company of Ba1 and Fitch maintains a local currency rating for our company of BB+/Stable Outlook and a foreign currency rating for our company of BB+/Stable Outlook. Any decision by these or other rating agencies to downgrade the ratings of our company or of our debt securities in the future would likely result in increased interest and other financial expenses relating to our borrowings and debt securities and could significantly reduce our ability to obtain such financing on satisfactory terms or in amounts required by us and our liquidity.

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

Odebrecht S.A., or Odebrecht, a member of a group of companies controlled by the Odebrecht family, which we refer to as the Odebrecht Group, holds, directly and indirectly, 62.3% of our voting share capital and Petrobras holds, directly and indirectly, 31.0% of our voting share capital. Designees of Odebrecht constitute a majority of the members of our board of directors, and Petrobras and Petrobras Química S.A., or Petroquisa, a subsidiary of Petrobras, have veto and other rights under the Petrobras Shareholders Agreement as described under Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements. As a result, Odebrecht, Petrobras and Petroquisa will have the ability to determine the outcome of major corporate actions or decisions requiring the approval of our shareholders or our board of directors, which could affect the holders of our class A preferred shares and the ADS.

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

We maintain trade accounts receivable and current and long-term payables with some of our affiliates and other related parties, including Petrobras (which is our sole domestic supplier of naphtha). Currently, Petrobras, through Petroquisa, is the indirect holder of 31.0% of our voting share capital and 25.3% of our total share capital. These accounts receivable and accounts payable balances result mainly from purchases and sales of goods, which are at prices and on terms equivalent to the average terms and prices of transactions that we enter into with third parties, other than the prices that we have paid for naphtha purchased from Petrobras since March 2009 for our basic petrochemical plant in the Northeastern Complex, which we believe are more suitable to the products that we

receive from Petrobras compared to products and prices available in transactions that we enter into with other third parties. We also engage in financial and other transactions with some of our shareholders. These and other commercial and financial transactions between us and our affiliates could result in conflicting interests.

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

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

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

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

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

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

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

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

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

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

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

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

The principal lawsuits for which we have not established provisions include the following:

- *IPI Credits on Raw Materials Purchases.* We have challenged the constitutionality of the Brazilian federal tax authorities interpretation of the regulations governing the assessment of the *Imposto sobre Produtos Industrializados*, or IPI, tax (a federal value-added tax on industrial products). In December 2002, the Brazilian Federal Supreme Court (*Supremo Tribunal Federal*) held that OPP Química S.A., or OPP Química, was entitled to IPI tax credits in an aggregate amount of R$1,030.1 million. We have recognized these tax credits and have used the full amount of these tax credits to offset IPI and other federal tax obligations. In a procedural decision on December 11, 2007, the Brazilian Federal Supreme Court held that a new judgment should be rendered and, in view of the importance of the matters raised by our lawsuit, the parties were granted an opportunity to make new oral arguments concerning the matter. In December 2007, the First Panel of the Brazilian Federal Supreme Court agreed to hear the special appeal. This decision was published in March 2009 and does not clearly identify the subject matter to be reviewed in the special appeal. Based on the opinions rendered by a majority of the justices sitting on the First Panel, we believe that the only matters to be heard in the special appeal will be those raised by the Brazilian government inthe special appeal, and that the court will not revisit the validity of IPI tax credits. Despite the possibility of the Brazilian Federal Supreme Court s review of the merits of its former decision and its ruling against us, we believe that the December 2002 decision should nonetheless be given *res judicata* (*i.e.*, final and binding) effect. The tax credits used by us relating to both the 10-year period preceding the filing of our suit and the subsequent period during which we have relied on the favorable ruling of the Brazilian Federal Supreme Court in December 2002, as adjusted by applying the *Sistema Especial de Liquidação e de Custódia*, or SELIC, interest rate through December 31, 2008, amount to R$2,682.2 million at December 31, 2008. The various collection proceedings instituted by the Brazilian federal tax authorities based on their interpretation of the regulations that is in dispute have claimed R$2,423.2 million (which includes interest) as of December 31, 2008, plus fines in the aggregate amount of R$783.4 million. We have not established a provision for these tax claims against us.
- *Social Contribution on Net Income*. We have challenged the constitutionality of the Brazilian federal Social Contribution on Net Income (*Contribuição Social Sobre o Lucro Líquido*), or CSLL. A Brazilian Federal Supreme Court decision in our favor was overruled in a subsequent rescission action filed by the Brazilian tax authorities, and our appeal of that suit is pending. We believe that it is reasonably possible that we will lose our appeal. If we lose our appeal, we believe that we would be required to pay CSLL only from the date that a final decision is published. However, as Brazilian law allows rescission actions to relate back to, and to take effect from, the date of the initial decision, we believe that it is reasonably possible that we will be required to pay this tax from the date of the original decision, in which case our total estimated exposure at December 31, 2008, including interest, would be R$835.4 million. This amount does not include approximately R$242.0 million in penalties at December 31, 2008 that we believe we would not be required to pay because we relied upon a judicial decision in not paying the CSLL. We believe that there is a possibility that we will be required to pay related interest and a remote possibility that we will be required to pay fines as a result of this tax litigation. We have not established a provision for these lawsuits.
- *Cost of Living Adjustments on Workers Wages*. The unions that represent employers and workers at the facilities located in the Northeastern Complex, are involved in a lawsuit over the indices we and other companies have used for cost of living adjustments on workers wages since early 1990. As we believe thatit is not probable that the employers union will lose this lawsuit, we have not recorded a provision in respect of this suit. If the employers union loses this lawsuit and we are required to pay damages from

April 1990 to September 1990, we estimate that we could be subject to liability of up to R$35.0 million, although additional claims would have to be brought by the workers union or individual employees to quantify the amount of damages that we would be required to pay.

In addition, we believe that our chances of success are remote in a series of lawsuits in which we challenged the constitutionality of an increase in the federal Contribution for Social Security Financing (*Contribuição para Financiamento da Seguridade Social COFINS*), or COFINS, tax rate. We had established total provisions of R$60.8 million at December 31, 2008 for all of our lawsuits relating to the Social Integration Program (*Programa de Integração Social*), or PIS, and COFINS, including separate lawsuits challenging the basis of calculation of PIS and COFINS. Because we have deposited only R$28.9 million of this amount with the courts, we would be required, in the event we receive final, unfavorable decisions, to pay the remaining amounts for which we have not made deposits.

We are also parties to a number of lawsuits seeking tax credits that we believe the Brazilian tax authorities have disallowed or limited in violation of the Brazilian Constitution or applicable law. In some cases in which we have received favorable lower court decisions, we have used these credits to offset other tax obligations and have established provisions in an equivalent amount until a final decision is rendered. These provisions totaled R$1,231.2 million at December 31, 2008, as adjusted based on the SELIC interest rate. If we ultimately lose any of these lawsuits, we would be required to pay the tax obligations we had previously offset with those credits, which could materially reduce our liquidity. We believe that losses related to some of these lawsuits are reasonably possible.

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

Risks Relating to Brazil

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

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

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

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

Uncertainty over whether possible changes in policies or rules affecting these or other factors may contribute to economic uncertainties in Brazil and to heightened volatility in the Brazilian securities markets and securities issued

abroad by Brazilian issuers. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. The term of Brazil s current President, Luiz Inácio Lula da Silva, expires in January 2011, and under Brazilian law he is not permitted to run for another four-year term in the October 2010 elections. Uncertainty regarding the election of President Lula s successor and speculation about the policies that may be implemented by the Brazilian federal or state governments could adversely affect our business, results of operations and financial condition.

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

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

The Brazilian currency has been devalued often during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* appreciated in value against the U.S. dollar by 8.1% in 2004, 11.8% in 2005, 8.7% in 2006 and 17.2% in 2007. In 2008, primarily as a result of the international financial crisis, the *real* depreciated by 31.9% against the U.S. dollar and prompted foreign investors to remove billions of *reais* from the *BM&FBOVESPA S.A. - Bolsa de Valores Mercadorias e Futuros* (Securities, Commodities and Futures Exchange), which we refer to as the BM&FBOVESPA.

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

We had total foreign currency-denominated debt obligations in an aggregate principal amount of R$9,104.9 million (US$3,896.0 million) at December 31, 2008, representing 76.0% of our consolidated indebtedness, excluding related party debt. Our indebtedness denominated in dollars represented 74.3% of our consolidated indebtedness and our indebtedness denominated in Japenese Yen represented 1.6% of our consolidated indebtedness. At December 31, 2008, we had US$453.2 million in U.S. dollar-denominated cash equivalents and other investments. The 31.9% depreciation of the *real* against the U.S. dollar in 2008 was the primary factor in the 878% increase in our net financial expenses in 2008 which, in turn, was a significant factor in our net loss for 2008. A significant depreciation of the *real* in relation to the U.S. dollar or other currencies could increase our financial expenses as a result of foreign exchange losses that we must record and could reduce our ability to meet debt service requirements of our foreign currency-denominated obligations, particularly as our net sales revenue is primarily denominated in *reais*.

The prices of naphtha, our most important raw material, and of some of our other raw materials are denominated in or linked to the U.S. dollar. In 2008, naphtha and condensate accounted for 64.8% of our direct and indirect consolidated cost of sales and services rendered. When the *real* depreciates against the U.S. dollar, the cost in *reais* of our U.S. dollar-linked raw materials increases, and our operating income in *reais* decreases to the extent that we are unable to pass on these cost increases to our customers.

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

Historically, Brazil has experienced high rates of inflation. Inflation, as well as government efforts to combat inflation, had significant negative effects on the Brazilian economy, particularly prior to 1995. The inflation rate, as measured by the General Price Index Internal Availability (*Índice Geral de Preços Disponibilidade Interna*),

reached 2,708% in 1993. Although inflation rates have been substantially lower since 1994 than in previous periods, inflationary pressures persist. Inflation rates were 12.1% in 2004, 1.2% in 2005, 3.8% in 2006, 7.9% in 2007 and 9.1% in 2008, as measured by the General Price Index Internal Availability. The Brazilian government s measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Increasing prices for petroleum, the depreciation of the *real* and future governmental measures seeking to maintain the value of the *real* in relation to the U.S. dollar may trigger increases in inflation in Brazil. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which would lead to reduced demand for our products in Brazil and decreased net sales revenue. Inflation is also likely to increase some of our costs and expenses, which we may not be able to pass on to our customers and, as a result, may reduce our profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing our *real* denominated debt may increase, causing our net income to be reduced. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could adversely affect our ability to refinance our indebtedness in those markets. Any decline in our net sales revenue or net income and any deterioration in our financial condition would also likely lead to a decline in the market price of our class A preferred shares and the ADS.

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

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. At December 31, 2008, we had, among other debt obligations, R$1,435.9 million of loans and financing and debentures that were subject to the TJLP (*Taxa de Juros de Longo Prazo*), or TJLP, a long-term interest rate, R$1,189.9 million of loans and financing and debentures that were subject to the *Certificado Depositário Interbancário*, or CDI, rate, an interbank rate, and R$3,965.8 million of loans and financing that were subject to the London Interbank Offered Rate, or LIBOR. The TJLP includes an inflation factor and is determined quarterly by the Central Bank. In particular, the TJLP and the CDI rate have fluctuated significantly in the past in response to the expansion or contraction of the Brazilian economy, inflation, Brazilian government policies and other factors. For example, in 2008 the CDI rate declined from 11.1% per annum at December 31, 2007 to 13.6% per annum at December 31, 2008. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. A significant increase in any of these interest rates could adversely affect our financial expenses and negatively affect our overall financial performance.

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

The purchase and sale of foreign currency in Brazil is subject to governmental control. In 1990, the Central Bank centralized certain payments of principal on external obligations. Many factors could cause the Brazilian government to institute more restrictive exchange control policies, including the extent of Brazil s foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil s debt service burden relative to the economy as a whole, Brazil s policy towards the International Monetary Fund and political constraints to which Brazil may be subject. A more restrictive policy could increase the cost of servicing, and thereby reduce our ability to pay, our foreign currency-denominated debt obligations and other liabilities. Our foreign-currency debt denominated In dollars and Japanese Yen represented an aggregate of 76.0% of our indebtedness on a consolidated basis at December 31, 2008. If we fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our class A preferred shares and the ADSs.

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

The Brazilian government implements from time to time changes to tax regimes that may increase our and our customers tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. We cannot predict the changes to Brazilian tax law that may be proposed and enacted in the future. However, future changes in Brazilian tax law may result in increases in our overall tax burden, which could reduce our gross margin and negatively affect our overall financial performance.

Risks Relating to Our Class A Preferred Shares and the ADSs

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

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

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

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

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

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

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

These restrictions could hinder or prevent the Brazilian custodian of the class A preferred shares underlying the ADSs or holders who have exchanged the ADSs for the underlying class A preferred shares from converting dividends, distributions or the proceeds from any sale of such shares into U.S. dollars and remitting such U.S. dollars abroad. In such an event, the Brazilian custodian for our class A preferred shares will hold the *reais* that it cannot convert for the account of holders of the ADSs who have not been paid. Neither the custodian nor the depositary will be required to invest the *reais* or be liable for any interest.

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

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

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

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

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

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

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

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

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

Holders of the ADSs will be unable to exercise the preemptive rights relating to the class A preferred shares underlying the ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement with respect to the shares relating to these preemptive rights or to take any other action to

make preemptive rights available to holders of the ADSs, and we may not file any such registration statement. If we do not file a registration statement or if we and the depositary decide not to make preemptive rights available to holders of the ADSs, those holders may receive only the net proceeds from the sale of their preemptive rights by the depositary, or if they are not sold, their preemptive rights will be allowed to lapse.

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

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

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

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&FBOVESPA, which is the principal Brazilian stock exchange, had a market capitalization of R$1,375.3 billion (US$588.5 billion) at December 31, 2008 and an average daily trading volume of US$3.1 billion for 2008. In comparison, The New York Stock Exchange, or the NYSE, had a market capitalization of US$14.3 trillion at December 31, 2008 and an average daily trading volume of US$152.6 billion for 2008. There is also significantly greater concentration in the Brazilian securities markets. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the BM&FBOVESPA at December 31, 2008. The ten most widely traded stocks in terms of trading volume accounted for approximately 53% of all shares traded on the BM&FBOVESPA in 2008. These market characteristics may substantially limit the ability of holders of the ADSs to sell class A preferred shares underlying ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of the ADSs themselves.

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

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

ITEM 4. INFORMATION ON THE COMPANY

We are the leading petrochemical company in Latin America, based on average annual production capacity in 2008. We are also the third largest Brazilian-owned private sector industrial company, based on net sales revenue in 2008. We recorded net sales revenue of R$17,959.5 million and a net loss of R$2,492.1 million in 2008, in each case under Brazilian GAAP. We produce a diversified portfolio of petrochemical products and have a strategic focus on polyethylene, polypropylene and polyvinyl chloride, or PVC. We have integrated first and second generation petrochemical production facilities, with 18 plants in Brazil.

Our registered office is at Rua Eteno, 1561, CEP 42810-000, Camaçari, Bahia, Brazil, and our telephone number at this address is 55-71-3413-2102. Our principal executive office is at Avenida das Nações Unidas, 8,501, São Paulo, SP, CEP 05425-070, Brazil, and our telephone number at this address is 55-11-3576-9000.

History and Development of Our Company

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

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

Privatization of Our Company

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

Consolidation of Petrochemical Assets

In 2001, the Odebrecht Group and a group of companies controlled by the Mariani family, or the Mariani Group, acquired control of Norquisa through purchases of shares of Norquisa and the contribution to our company of:

- 66.7% of the voting share capital of Polialden Petroquímica S.A., or Polialden;
- 35.0% of the voting share capital of Politeno; and
- Proppet S.A., or Proppet, which was merged into our company in 2001.

In 2002, we acquired from the Odebrecht Group and the Mariani Group in exchange for shares representing 47.3% of our voting and total share capital:

- OPP Química, which in turn owned 41.6% of the total share capital of Trikem S.A., or Trikem, representing 64.4% of its voting share capital;
- 29.5% of the total share capital and voting share capital of Copesul; and

- 92.3% of the total share capital of Nitrocarbono S.A., or Nitrocarbono, representing 95.5% of its voting share capital.

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

Consolidation of Minority Interests

Between 2003 and 2007, we have purchased the minority interests of Nitrocarbano, OPP Química, Polialden, Trikem and Politeno, and merged these companies into Braskem through the following transactions:

- In 2003, (1) we conducted a public exchange offer for the remaining voting share capital of Nitrocarbono not owned by our company and, following the completion of this exchange offer, we merged with Nitrocarbono, (2) we merged with OPP Química, (3) we acquired the remaining outstanding common shares of Polialden, and (4) we acquired substantially all of the remaining outstanding common shares of Trikem and conducted a public exchange offer for the remaining voting share capital of Trikem not owned by our company.
- In 2004, (1) we merged with Trikem, and (2) we acquired additional shares of Polialden, increasing our interest in the total share capital of Polialden from 56.3% to 63.7%.
- In April 2006, we purchased all of the common and preferred shares of Politeno that were owned by SPQ Investimentos e Participações Ltda., or SPQ, a subsidiary of Suzano Petroquímica S.A., or Suzano, Sumitomo Chemical Company Limited, or Sumitomo, and Itochu Corporation, or Itochu. We refer to this transaction as the Politeno Acquisition. Following the Politeno Acquisition, we owned 100% of the voting share capital and 96.2% of the total share capital of Politeno.
- In May 2006, Polialden merged with and into Braskem. In connection with this merger, (1) we converted 2,632,043 of our class A preferred shares into 2,632,043 common shares in order to maintain the required minimum ratio of our common shares to preferred shares in accordance with the Brazilian Corporation Law after the completion of our merger with Polialden, and (2) we issued 7,878,825 of our class A preferred shares in exchange for 264,886,083 of Polialden s preferred shares.
- In April 2007, Politeno merged with and into Braskem. In connection with this merger, (1) we converted 486,530 of our class A preferred shares into 486,530 common shares in order to maintain the required minimum ratio of our common shares to preferred shares in accordance with the Brazilian Corporation Law after the completion of our merger with Politeno, and (2) we issued 1,533,670 of our class A preferred shares in exchange for 412,901,157 of Politeno s class A preferred shares and 2,126,856,433 of Politeno s class B preferred shares.

Ipiranga Transaction

In March 2007, we entered into an investment agreement with Ultrapar Participações S.A., or Ultrapar, and Petrobras, which we refer to as the Ipiranga Investment Agreement. On the same date, Ultrapar and the controlling shareholders of Refinaria de Petróleo Ipiranga S.A., or RPI, Companhia Brasileira de Petróleo Ipiranga, or CBPI, and Distribuidora de Produtos de Petróleo Ipiranga S.A., or DPPI, entered into a share purchase and sale agreement, which refer to as the Purchase Agreement, with our company and Petrobras as intervening parties. We refer to the Ipiranga Investment Agreement and the Purchase Agreement together as the Ipiranga Transaction Agreement, and we refer to the transactions contemplated by the Ipiranga Transaction Agreement and the related transactions described below as, collectively, the Ipiranga Transaction.

Under the Ipiranga Investment Agreement, Ultrapar, as a commission agent acting on behalf of Braskem and Petrobras, acquired 100% of the share capital of Ipiranga Química. As of March 18, 2007, Ipiranga Química owned 86.9% of the voting share capital and 92.4% of the total share capital of Ipiranga Petroquímica. Ipiranga Petroquímica, in turn, owned 29.5% of the share capital of Copesul. In February 2008, Ultrapar transferred 60.0% of the share capital of Ipiranga Química to our company and 40.0% of the share capital of Ipiranga Química to

Petrobras, as required by the Ipiranga Investment Agreement. In addition, under the Ipiranga Investment Agreement, Ultrapar was obligated to transfer 33.3% of the share capital of RPI to our company and 33.3% of the share capital of RPI to Petrobras. As a result of this transfer, which occurred on March 18, 2009, we jointly and equally control RPI with Petrobras and Ultrapar. Under the Ipiranga Investment Agreement, we paid Ultrapar R$651.9 million in April 2007, R$156.7 million in October 2007, R$47.0 million in November 2007 and R$633.5 million in February 2008 for the shares of Ipiranga Química and RPI that we have acquired from Ultrapar in the Ipiranga Transaction.

Our company, together with Ultrapar and Petrobras, submitted the terms and conditions of the Ipiranga Transaction for review by the Brazilian antitrust authorities in April 2007. On July 9, 2008, the Administrative Council for Economic Defense *(Conselho Administrativo de Defesa Econômica)* or CADE, approved the Ipiranga Transaction.

At the time that we entered into the Ipiranga Transaction Agreement, we entered into a memorandum of understanding with Petrobras regarding the interests of Ipiranga Petroquímica in Copesul and the control of Ipiranga Química and Ipiranga Petroquímica, which we refer to as the Ipiranga Memorandum of Understanding. The Ipiranga Memorandum of Understanding granted Petrobras veto rights with respect to certain matters that are subject to the approval of the shareholders and boards of directors of Ipiranga Química, Ipiranga Petroquímica and Copesul.

As of the date of the Ipiranga Transaction Agreement, RPI owned:

- 7.7% of the total capital of DPPI, including 15.3% of its voting share capital;
- 11.4% of the total share capital of CBPI, including 24.8% of its voting share capital; and
- 58.5% of the total share capital and voting share capital of Ipiranga Química.

In addition, as of the date of the Ipiranga Transaction Agreement, DPPI owned 21.0% of the total share capital of CBPI, including 62.9% of its voting share capital, and CBPI owned 41.5% of the total share capital and voting share capital of Ipiranga Química. Under the Ipiranga Transaction Agreement and applicable law, Ultrapar was obligated to acquire the share capital of RPI, DPPI and CBPI that it did not own as of the date of the Ipiranga Transaction Agreement through a series of transactions as detailed below.

First Phase of the Ipiranga Transaction

In April 2007, Ultrapar acquired from the controlling shareholders of RPI, DPPI and CBPI for a purchase price of R$2,113.1 million:

- 30.0% of the total share capital of RPI, including 66.2% of its voting share capital;
- 30.2% of the total capital of DPPI, including 69.2% of its voting share capital; and
- 1.3% of the total share capital of CBPI, including 3.8% of its voting share capital.

At the time of this acquisition, we entered into a shareholders agreement with Ultrapar and Petrobras, which we refer to as the Interim Shareholders Agreement, under which we obtained effective management control over Ipiranga Química and, consequently, Ipiranga Petroquímica and the interest of Ipiranga Petroquímica in Copesul. Under the Interim Shareholders Agreement, we were granted the right to nominate a majority of the board of directors of Ipiranga Química and Ipiranga Petroquímica, and the right to nominate a majority of the nominees of Ipiranga Petroquímica to the board of directors of Copesul. As a result of our acquiring effective management control of Copesul, Ipiranga Química and Ipiranga Petroquímica at that time, we have fully consolidated the results of Copesul and its subsidiaries and consolidated the results of Ipiranga Química and its subsidiaries, including Ipiranga Petroquímica, into our financial statements as from April 1, 2007. The Interim Shareholders Agreement terminated in February 2008 upon the transfer of the shares of Ipiranga Química to our company and Petrobras.

Purchases of Minority Interests in Ipiranga Petroquímica and Copesul

As part of the Ipiranga Transaction:

- in June 2007, EDSP67 Participações S.A., or EDSP67, acquired the 7.6% of the total share capital of Ipiranga Petroquímica not owned by Ipiranga Química for a purchase price of R$117.9 million. In July 2007, Ipiranga Petroquímica was delisted from the São Paulo Stock Exchange, and in August 2007, EDSP67 merged with and into Ipiranga Petroquímica. As a result of these transactions, Ipiranga Petroquímica became a wholly-owned subsidiary of Ipiranga Química; and
- in October 2007, our subsidiary EDSP58 Participações S.A., or EDSP58, acquired 22.7% of the total and voting share capital of Copesul through a public tender offer, or the Copesul Tender Offer, for the Copesul shares not then owned by our company, Ipiranga Petroquímica, Petroquisa or its affiliate, Petroquímica Triunfo S.A., or Triunfo. The purchase price for these shares was R$1,294.2 million. At the time of the Copesul Tender Offer, we owned 60% of the total and voting share capital of EDSP58, and Petrobras owned the remaining share capital of EDSP58. As a result of the Copesul Tender Offer, Copesul was delisted from the São Paulo Stock Exchange in October 2007. In October 2007 and November 2007, EDSP58 purchased additional shares of Copesul at the price per share paid in the Copesul Tender Offer. In November 2007, Copesul redeemed all of its outstanding shares, other than shares held by our company, EDSP58, Ipiranga Petroquímica, Petroquisa and Triunfo at the price per share paid in the Copesul Tender Offer. The aggregate purchase price for the shares purchased and redeemed after the completion of the Copesul Tender Offer was R$124.3 million. In December 2007, EDSP58 merged with and into Copesul. Following this merger, Braskem owned 39.2% of the total and voting share capital of Copesul, Ipiranga Petroquímica owned 39.2% of the total and voting share capital of Copesul and Petroquisa and Triunfo owned 21.6% of the total and voting share capital of Copesul.

Second Phase of Ipiranga Transaction

In the second phase of the Ipiranga Transaction:

- in October and November 2007, Ultrapar acquired 88.4% of the voting share capital of RPI not then owned by Ultrapar through a public tender offer for the RPI voting shares and additional purchases of RPI voting shares. As a result, Ultrapar owned 96.0% of the voting share capital, including 32.4% of the total share capital, of RPI;
- in October and November 2007, Ultrapar acquired 82.1% of the voting share capital of DPPI not then owned by Ultrapar through a public tender offer for the DPPI voting shares and additional purchases of DPPI voting shares. As a result, Ultrapar owned 81.9% of the voting share capital, including 27.4% of the total share capital, of DPPI; and
- in November 2007, Ultrapar acquired 53.9% of the voting share capital of CBPI not then owned by Ultrapar through a public tender offer for the CBPI voting shares. As a result of this tender offer, Ultrapar owned 8.3% of the voting share capital, including 2.8% of the total share capital, of CBPI.

Third Phase of Ipiranga Transaction

In the third phase of the Ipiranga Transaction, in December 2007 the shareholders of Ultrapar, RPI, DPPI and CBPI approved the issuance of preferred shares of Ultrapar in exchange for the outstanding shares of RPI, DPPI and CBPI that Ultrapar did not own through an exchange of shares (*incorporação de ações*). This exchange was completed in January 2008 and, as a result of the completion of this exchange, Ultrapar became the sole owner of the share capital of RPI, DPPI and CBPI.

Fourth Phase of Ipiranga Transaction

In the fourth phase of the Ipiranga Transaction, in February 2008 Ultrapar delivered:

- shares representing 60% of the total share capital and voting share capital of Ipiranga Química to our company; and
- shares representing 40% of the total share capital and voting share capital of Ipiranga Química to Petrobras.

The fourth phase of the Ipiranga Transaction was completed on March 18, 2009 when Ultrapar delivered 33.2% of the total share capital and voting share capital of RPI to our company and 33.2% of the total share capital and voting share capital of RPI to Petrobras.

Acquisition of Additional Interest in Petroflex

In October 2007, we acquired shares of Petroflex representing 13.4% of its total and voting share capital from Suzano for an aggregate purchase price of R$61.0 million as a result of our exercise of our preemptive rights in August 2007 following the announcement of the acquisition of control of Suzano by Petrobras. As a result of this acquisition, we owned 33.5% of the total share capital of Petroflex including 33.6% of its voting share capital.

Petrobras Transaction

On November 30, 2007, Braskem entered into an investment agreement with Odebrecht, Petrobras, Petroquisa and Norquisa. On May 14, 2008, Braskem, Odebrecht, Norquisa, Petrobras and Petroquisa entered into an amendment to this agreement. We refer to this agreement, as amended, as the Petrobras Investment Agreement. We refer to the transactions under the Petrobras Investment Agreement as the Petrobras Transaction. Under the Petrobras Investment Agreement, the Petrobras Transaction was completed in two phases.

In the first phase of the Petrobras Transaction, on May 30, 2008:

- Petroquisa contributed the following assets to its wholly-owned subsidiary Grust Holdings S.A., or Grust:
  - 36.4% of the voting and outstanding share capital of Copesul;
  - 40.0% of the voting and outstanding share capital of Ipiranga Química; and
  - 40.0% of the voting and outstanding share capital of Paulínia; and
- Braskem, Petroquisa and Grust engaged in an exchange of shares transaction *(incorporação de ações)* in which an aggregate of 46,903,320 of our common shares and 43,144,662 of our class A preferred shares were issued to Petroquisa in exchange for all of the outstanding share capital of Grust.

As a result of the completion of the first phase of the Petrobras Transaction, Petrobras owns, directly and indirectly, 23.1% of our total share capital, including 30.0% of our voting share capital, and Braskem owned, directly and indirectly:

- 99.2% of the outstanding share capital of Copesul;
- all of the outstanding share capital of Ipiranga Química, which in turn owns all of the outstanding share capital of Ipiranga Petroquímica; and
- all of the outstanding share capital of Paulínia.

Paulínia was incorporated on September 16, 2005 to construct and operate a polypropylene plant that has been constructed in Paulínia, in the State of São Paulo. On that date, we acquired 60.0% of the total and voting share capital of Paulínia. Prior to the completion of the first phase of the Petrobras Transaction, Paulínia was a joint venture between our company and Petroquisa and its results were proportionally consolidated in our financial statements. As a result of the completion of the first phase of the Petrobras Transaction, we have fully consolidated the results of Paulínia into our financial statements as from April 1, 2008.

Upon the completion of the first phase of the Petrobras Transaction, Petrobras, Petroquisa, Odebrecht and Norquisa, with Braskem as intervening party, entered into a shareholders agreement with a term of 25 years, which we refer to as the Petrobras Shareholders Agreement. The Petrobras Shareholders Agreement superseded the Ipiranga Memorandum of Understanding.

We and Petrobras submitted the terms and conditions of the Petrobras Transaction to the Brazilian antitrust authorities in December 2007. On July 9, 2008, CADE approved the Ipiranga Transaction.

Under the Petrobras Investment Agreement, Petrobras had the option in the second phase of the Petrobras Transaction to contribute up to 100% of the share capital of Triunfo to Braskem in exchange for approximately 13.4 million of our class A preferred shares. We refer to this option as the Triunfo Option. The Triunfo Option was exercised on May 5, 2009. See Other Developments Since January 1, 2008 Acquisition of Triunfo.

Other Developments Since January 1, 2008

Sale of Interest in Petroflex

In April 2008, we sold all of our share capital in Petroflex to Lanxess Participações Ltda., or Lanxess, for an aggregate price of R$252.1 million. As a result of this transaction, Petroflex registered a non-operational gain of R$115.6 million.

Mergers of Copesul, Ipiranga Petroquímica and Paulínia into Braskem

On July 16, 2008, Grust contributed all of the share capital of Copesul that it owned to Ipiranga Petroquímica in exchange for common shares of Ipiranga Petroquímica. On July 28, 2008, Grust distributed these shares of Ipiranga Petroquímica, together with all of the share capital that it owned in Ipiranga Química and Paulínia, to Braskem. On September 11, 2008, Copesul merged with and into Ipiranga Petroquímica. In connection with this merger, Ipiranga Petroquímica issued 494,052,653 of its preferred shares, representing 0.71% of its total share capital, to Triunfo as consideration for the share capital of Copesul that Triunfo owned.

On September 30, 2008, (1) the share capital of Ipiranga Petroquímica owned by Ipiranga Química was transferred to Braskem, and (2) Ipiranga Petroquímica merged with and into Braskem. In connection with this merger, we issued 1,506,060 of our preferred shares, representing 0.5% of our total share capital, to Triunfo as consideration for the share capital of Ipiranga Petroquímica that it acquired in the merger of Copesul into Ipiranga Petroquímica.

On September 30, 2009, Paulínia merged with and into Braskem.

Change of Corporate Name of Ipiranga Química

On October 2, 2008, Ipiranga Química changed its corporate name to IQ Soluções & Química.

Acquisition of Minority Interest in RPI

On March 18, 2009, the fourth phase of the Ipiranga Transaction was completed when Ultrapar delivered 33.2% of the total share capital and voting share capital of RPI to our company; and 33.2% of the total share capital and voting share capital of RPI to Petrobras. In October 2008, RPI changed its corporate name to Refinaria de Petroleo Riograndense S.A.

Acquisition of Triunfo

On May 5, 2009, the second phase of the Petrobras Transaction was completed with the merger of Triunfo with and into Braskem. Braskem issued an aggregate of 13,387,157 of our class A preferred shares to the shareholders of Triunfo as consideration for their equity interests in Triunfo. Prior to this merger, Triunfo owned and operated a

polyethylene plant located in the Southern Complex with an annual production capacity of 160,000 tons. As a result of the merger, we will consolidate the results of Triunfo into our financial statements as from May 1, 2009.

The following chart presents the corporate structure of our principal subsidiary and equity investment as of July 7, 2009. The percentages in bold italics represent the percentage of the voting share capital owned directly and indirectly by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned directly and indirectly by the parent company of each entity. All of these companies are organized under Brazilian law.

Petrochemical Industry Overview

Structure

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

First Generation Producers

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

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

We and Quattor Participações S.A., or Quattor, operate Brazil s four crackers and sell basic petrochemicals to second generation producers, including second generation producers that are part of our respective companies. The basic petrochemicals, which are in gaseous or liquid form, are transported primarily through pipelines to the second generation producers plants, generally located near the crackers, for further processing.

Second Generation Producers

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

- polyethylene, polystyrene and PVC (each produced from ethylene);

- polypropylene and acrylonitrile (each produced from propylene);
- caprolactam (produced from benzene); and
- polybutadiene (produced from butadiene).

There are 11 second generation producers operating in Brazil. Intermediate petrochemicals are produced in solid form as plastic pellets or powders and are transported primarily by truck to third generation producers, which generally are located far from the second generation producers.

Third Generation Producers

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

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

Third generation producers manufacture a variety of consumer and industrial goods, including containers and packaging materials, such as bags, film and bottles, textiles, detergents, paints, automobile parts, toys and consumer electronic goods. There are more than 11,200 third generation producers operating in Brazil.

Petrochemical Complexes

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

- the Northeastern Complex located in Camaçari in the State of Bahia, where we operate the cracker;
- the Southern Complex located in Triunfo in the State of Rio Grande do Sul, where we operate the cracker;
- the São Paulo Complex located in Capuava in the State of São Paulo, or the São Paulo Complex, where Petroquímica União, or PQU, a subsidiary of Quattor, operates the cracker; and
- the Rio de Janeiro Complex located in Duque de Caxias in the State of Rio de Janeiro, or the Rio de Janeiro Complex, where Rio Polímeros, a subsidiary of Quattor, operates the cracker.

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

The Northeastern Complex commenced operations in 1978. We operate the raw materials center at the Northeastern Complex and it supplies first generation petrochemicals to eight second generation producers located at the Northeastern Complex and elsewhere, including our Polyolefins Unit. At December 31, 2008, our raw materials center in the Northeastern Complex had an annual ethylene production capacity of 1,280,000 tons, which accounted for 36.3% of Brazil s ethylene production capacity, according to data published by ABIQUIM.

The Southern Complex commenced operations in 1982. We operate the raw materials center at the Southern Complex and it supplies first generation petrochemicals to seven second generation producers located at the Southern Complex, including our Polyolefins Unit. At December 31, 2008, our raw materials center in the Southern Complex had an annual ethylene production capacity of 1,252,000 tons, which accounted for 35.5% of Brazil s ethylene production capacity, according to data published by ABIQUIM.

The São Paulo Complex, which is the oldest petrochemical complex in Brazil, commenced operations in 1972. PQU operates the raw materials center and integrated first and second generation facilities located at the São Paulo Complex. At December 31, 2008, PQU had an annual ethylene production capacity of 700,000 tons, according to our internal estimates.

The Rio de Janeiro Complex commenced operations in 2005. Rio Polímeros operates the raw materials center at the Rio de Janeiro Complex and supplies first generation petrochemicals to one second generation producer located at the Rio de Janeiro Complex. At December 31, 2008, Rio Polímeros had a maximum annual ethylene production capacity of 520,000 tons, according to our internal estimates.

Role of the Brazilian Government

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

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

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

Beginning in 2001, our company began the process of consolidating first and second generation petrochemical assets as described in History and Development of Our Company. Between 2001 and 2006, we acquired control over OPP Química, Polialden, Politeno, Trikem, Proppet and Nitrocarbono, each of which produced second generation petrochemicals, as well as a minority interest in Copesul.

In 2007, the consolidation of the Brazilian petrochemical industry continued. In March 2007, we entered into agreements under which we acquired control of the petrochemical assets of the Ipiranga Group, including a controlling interest in Ipiranga Petroquímica and a minority interest in Copesul, which resulted in our achieving control over Copesul, as described in History and Development of Our Company Ipiranga Transaction. In November 2007, Petrobras entered into the agreements with us described in History and Development of Our Company Petrobras Transaction, and entered into agreements with Unipar União de Indústrias Petroquímicas S.A., or Unipar, under which Quattor was formed.

Quattor was formed by Petrobras and Unipar in June 2008 with Unipar owning 60% of its share capital and Petrobras owning, directly and indirectly, 40% of its share capital. As a result of contributions made to Quattor by

Unipar and Petrobras, Quattor controls Rio Polímeros, PQU, Suzano (which Petrobras acquired in November 2008), Polietilenos União S.A. and Unipar s chemical division.

As a result of these transactions, all of the ethylene production capacity in Brazil is owned by our company and Quattor and substantially all of the polyethylene and polypropylene production capacity in Brazil is owned by our company and Quattor.

Role of Petrobras

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

In 1997, Law No. 9,478/97 implemented the 1995 constitutional amendment by creating the Brazilian Energy Policy Council (*Conselho Nacional de Política Energética*) and the National Petroleum Agency (*Agência Nacional de Petróleo*), which were charged with regulating and monitoring the oil industry and the Brazilian energy sector. Following the creation of the National Petroleum Agency, new rules and regulations have been implemented, aimed at gradually ending Petrobras monopoly. Our company has imported naphtha from trading companies and oil and gas producers located abroad since 1997 and Copesul began doing so in 2000. During 2008, Petrobras produced and sold 60.3% of the naphtha consumed by our company, and the remaining naphtha consumed by our company was imported.

As a result of the Petrobras Transaction and the formation of Quattor, Petrobras owns substantial minority interests in both our company and Quattor.

Tariffs

We set prices for ethylene, the principal first generation petrochemical product that we sell to third-party second generation producers, by reference to international market prices. See Item 4. Information on the Company Basic Petrochemicals Unit Sales and Marketing of our Basic Petrochemicals Unit. Prices paid by second generation producers for imported first generation petrochemical products partly reflect transportation and tariff costs. We establish the prices of ethylene by-products, such as butadiene, by reference to several market factors, including the prices paid by second generation producers for imported products. Prices paid for such imports also reflect transportation and tariff costs.

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

The Brazilian government has frequently used import tariffs to implement economic policies. As a result, import tariffs generally vary significantly, especially those imposed on petrochemical products. Imports and exports within the free trade area composed of Argentina, Brazil, Paraguay and Uruguay in South America (*Mercado Comum do Sul*), or Mercosul, have not been subject to tariffs since December 2001. The following table shows the fluctuation of the tariffs on certain basic petrochemicals and second generation petrochemicals from 1999 through 2008. The tariff rates shown are those applicable at the end of the respective years, except where indicated.

	2008	2007	2006	2005	2004	2003	2002 (1)	2001 (2)	2000	1999
						(%)				
First generation										
Petrochemicals:										
Ethylene	2.0	2.0	2.0	2.0	2.0	3.5	3.5	4.5	5.0	5.0
Propylene	2.0	2.0	2.0	2.0	2.0	3.5	3.5	4.5	5.0	5.0
Caustic soda	8.0	8.0	8.0	8.0	8.0	9.5	9.5	10.5	11.0	11.0
Second generation										
Petrochemicals:										
Polyethylene	14.0	14.0	14.0	14.0	14.0	15.5	15.5	16.5	17.0	17.0
Polypropylene	14.0	14.0	14.0	14.0	14.0	15.5	15.5	16.5	17.0	17.0
PVC (3)	14.0	14.0	14.0	14.0	14.0	15.5	15.5	16.5	17.0	17.0
Caprolactam	12.0	12.0	12.0	12.0	12.0	13.5	13.5	14.5	15.0	15.0

(1) In 2002, the official tariff was 1.5% less than the rate shown. An additional surcharge of 1.5% assessed on imported products is included in the rate shown.

(2) In 2001, the official tariff was 2.5% less than the rate shown. An additional surcharge of 2.5% assessed on imported products is included in the rate shown.

(3) Imports of suspension PVC from the U.S. and Mexico have been subject to tariffs of 16.0% and 18.0%, respectively, since 1992 as a result of the imposition of anti-dumping duties by the Brazilian Foreign Trade Chamber (*CAMEX Câmara de Comércio Exterior*) of the Ministry of Development, Industry and Trade.
These duties will expire on December 14, 2009, unless extended.

Source: Brazilian Association of Chemical Industry and Derivative Products.

Operating Environment

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

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

Brazilian GDP increased by an estimated 5.1% in 2008, but declined by an estimated 3.6% in the fourth quarter of 2008. The moderate growth of Brazilian GDP during the first three quarters of 2008 contributed to a 27.0% annual increase in domestic PVC consumption and a 4.9% increase in annual domestic polyolefins consumption (excluding consumption of ethyl vinyl acetate copolymer, or EVA). The strong growth in civil construction sector positively affected domestic PVC consumption and the significant growth in other industrial sectors, such as non-durable goods, automotive and food, positively affected domestic consumption of thermoplastic resins generally. However, in the fourth quarter of 2008, as a result of the steep decline in naphtha prices domestic consumers of PVC and polyolefins resins reduced their purchases of thermoplastic resins, utilizing inventories for their own production, in anticipation of reductions in the prices of thermoplastic resins. In addition, the depreciation of the *real* against the U.S. dollar and the reduced availability of liquidity and credit as a result of the global financial and credit crisis contributed to a decline in Brazilian GDP in the fourth quarter of 2008. Although we believe that domestic demand for thermoplastic resins from the consumer goods sector may offset the decline in demand for thermoplastic resins from economic sectors that are dependent on exports and credit (such as the agribusiness, automotive and home appliance sectors), we can offer no assurances that domestic demand for thermoplastic will not continue to be affected by global macroeconomic factors.

Price competition in the international markets in 2008 as a result of reduced global demand for polyolefins resulted in a 24.2% increase in Brazilian polyolefins imports, which represented 18.3% of Brazilian consumption in 2008, and a 33.4% decline in Brazilian polyolefins exports. This increased competition, together with the shutdown of Solvay s Brazilian PVC production for almost three months in the third quarter of 2008, resulted in a 106.9% increase in Brazilian PVC imports, which represented 35.1% of Brazilian consumption in 2008, and a 49.8% decline in Brazilian PVC exports.

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

	Total Brazilian Production	Our Total Production (1)	Total Production of Other Brazilian Companies	Total Imports	Total Exports	Estimated Total Brazilian Domestic Consumption
			(thousands of tons)			
Olefins(2)						
2008(3)	4,882.1	3,380.1	1,501.9	36.9	58.1	4,860.9
2007	5,414.4	3,321.2	2,093.2	9.2	163.8	5,259.8
2006	5,288.1	1,778.6	3,509.5	3.2	166.1	5,125.2
Aromatics(4)						
2008(3)	1,340.9	1,006.2	334.7	8.9	543.8	806.0
2007	1,564.8	1,059.6	502.2	55.3	558.4	1,061.7
2006	1,433.3	704.9	728.4	87.5	388.1	1,132.8
Polyolefins(5)						
2008(3)	3,451.0	2,234.1	1,273.7	619.4	690.6	3,379.8
2007	3,760.3	2,257.1	1,402.0	498.8	1,036.9	3,222.2
2006	3,669.9	1,709.5	1,960.4	415.2	1,031.3	3,053.8
PVC						
2008(3)	698.7	508.5	190.2	365.6	21.7	1,042.6
2007	686.5	465.4	221.0	176.7	43.2	820.0
2006	676.3	447.4	228.9	126.6	35.6	767.3

(1) Includes Paulínia as from April 1, 2008, Copesul and Ipiranga Petroquímica as from April 1, 2007, and Politeno as from April 1, 2006.

(2) Includes ethylene, propylene and butadiene.

(3) Preliminary data.

(4) Includes benzene, toluene and xylenes.

(5) Includes polyethylene, ethyl vinyl acetate copolymer and polypropylene.

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

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

Overview of Our Company s Operations

We are the leading petrochemical company in Latin America, based on average annual production capacity in 2008. We are also the third largest Brazilian-owned private sector industrial company, based on net sales revenue in 2008. We recorded net sales revenue of R$17,959.5 million and a net loss of R$2,492.1 million in 2008. We produce a diversified portfolio of petrochemical products in our 18 plants in Brazil and have a strategic focus on polyethylene, polypropylene and PVC. We were the first Brazilian company with integrated first and second generation petrochemical production facilities.

We have grown over the past five years primarily as the result of the integration of the operations of nine Brazilian petrochemical companies: our company, which was formerly named Copene Petroquímica do Nordeste

S.A.; OPP Química; Polialden; Politeno; Trikem; Proppet; Nitrocarbono; Copesul and Ipiranga Petroquímica. All of these companies have been merged with and into Braskem.

Our business operations are organized into four business units, which correspond to our principal production processes and products. Our business units are as follows:

- Basic Petrochemicals, which accounted for R$14,257.5 million, or 58.3%, of the net sales revenue of all segments, including net sales to our other business units, and had an operating margin of 6.1% in 2008;
- Polyolefins, which accounted for R$7,534.0 million, or 30.8%, of the net sales revenue of all segments and had an operating margin of 10.1% in 2008;
- Vinyls, which accounted for R$2,052.8 million, or 8.4%, of the net sales revenue of all segments and had an operating margin of 15.1% in 2008; and
- IQ Soluções & Química, which accounted for R$601.8 million, or 2.5%, of the net sales revenue of all segments and had an operating margin of 5.9% in 2008.

Our IQ Soluções & Química business unit was created in April 2007 following our acquisition of control of Ipiranga Química. The operations of Copesul that we acquired in the Ipiranga Transaction are now part of our Basic Petrochemicals business unit and the operations of Ipiranga Petroquímica that we acquired in the Ipiranga Transaction are now part of our Polyolefins business unit. In 2008, we implemented an organizational structure under which the operations of our former Business Development business unit were split; our caprolactam production operations are now included in our Basic Petrochemicals business unit and the remaining operations of our former Business Development unit are now included in our Polyolefins business unit.

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

Basic Petrochemicals Unit

At December 31, 2008, our Basic Petrochemicals facilities had one of the largest average annual production capacities of all first generation producers in Latin America. Our Basic Petrochemicals Unit accounted for R$14,257.5 million, or 58.3%, of the net sales revenue of all segments in 2008, including net sales to our other business units. Net sales to our other business units were R$6,552.7 million in 2008, representing 46.0% of the net sales revenue of our Basic Petrochemicals Unit.

Prior to April 2007, our Basic Petrochemicals Unit was comprised of the operations conducted by our company in the Northeastern Complex. As a result of our obtaining effective management control over Copesul in April 2007, we have fully consolidated Copesul s results in our consolidated financial statements and included Copesul s results in our Basic Petrochemicals segment as from as from April 1, 2007. On September 11, 2008, Copesul merged with and into Ipiranga Petroquímica, and on September 30, 2008, Ipiranga Petroquímica merged with and into Braskem.

Our Basic Petrochemicals Unit produces:

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

The products of our Basic Petrochemicals Unit are used primarily in the manufacture of intermediate second generation petrochemical products, including those manufactured by our other business units. Our Basic Petrochemicals Unit also supply utilities to other plants located in the Northeastern Complex and the Southern Complex and render services to the operators of those plants.

In 2008, 83.1% of our Basic Petrochemicals Unit s sales (including intra-company sales) were derived from the sale of basic petrochemicals, 6.1% from the sale of condensate, 4.9% from the sale of fuels, 4.2% from the sale of utilities and services and 1.7% from the sale of caprolactam and related products. In 2008, 46.0% of our Basic Petrochemicals Unit s net sales revenue from sales of basic petrochemicals was derived from sales made to our other business units.

Although we anticipate that long-term growth for thermoplastic products in Brazil will continue due to increasing demand for consumer products, domestic demand for thermoplastic products and, consequently, many of the products of our Basic Petrochemicals Unit, was adversely effected in the second half of 2008, particularly in the fourth quarter, reflecting a general decline in economic growth in Brazil related to the global financial and credit crisis. We believe that our Basic Petrochemicals Unit is well positioned to take advantage of increased demand for basic petrochemicals products in Brazil, both by our other business units and by third parties, as domestic demand recovers. As a result of the weakness in domestic demand for thermoplastics, as well as price instability as domestic prices of our products were realigned following the decline in global petroleum prices and the significant depreciation of the *real* against the U.S. dollar in the second half of 2008, we temporarily shut down one of our ethylene crackers in the Northeastern Complex and one of our ethylene crackers in the Southern Complex in December 2008. We resumed production at these facilities in February 2009 and beginning in March 2009 production reached historical capacity utilization rates. Also in reaction to the weakness in demand for our basic petrochemical products from second-generation producers in Brazil, we diverted sales of these products to the export market in the second half of 2008 and continue to export a greater percentage of these products than we have historically exported. As the margins that we are able to generate on our exported basic petrochemical products are similar to those we have historically generated, we do not believe that the temporary diversion of our basic petrochemical products to the export markets will have a material adverse effect on our operations or operating income. However, a prolonged slowdown in economic activity in Brazil and elsewhere could continue to reduce demand for some of our basic petrochemical products, which would adversely affect our results of operations.

Products of Our Basic Petrochemicals Unit

Our other business units and third-party petrochemical producers use ethylene and propylene produced by our Basic Petrochemicals Unit to produce second generation products such as polyethylene, polypropylene and PVC. We also sell butadiene and a variety of aromatics, such as benzene, para-xylene, ortho-xylene and mixed xylenes, to third-party petrochemical producers for use as raw materials in the production of a variety of second generation products, including synthetic rubber, elastomers, resins, ethyl benzene (which is used to make styrene monomer/polystyrene), cumene, linear alkyl benzene, purified terephthalic acid, dimethyl terephthalate, or DMT, phthalic anhydride, plasticizers and paint.

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

	Years Ended December 31,								
	2008			2007 (1)			2006		
	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)
Domestic net sales:									
Ethylene	2,095.1	R$5,639.2	39.6%	2,068.4	R$4,826.4	37.0%	1,108.5	R$2,529.4	35.3%
Propylene	994.5	2,303.3	16.2	945.1	2,045.3	15.7	413.0	871.6	12.2
Butadiene	212.2	655.4	4.6	195.6	447.9	3.4	140.9	341.9	4.8
Benzene	295.2	590.0	4.1	341.3	722.8	5.5	203.0	398.0	5.6
Others	478.1	956.9	6.7	497.6	892.2	6.8	377.0	837.8	11.7
Total domestic net sales of basic petrochemicals	4,075.0	10,144.7	71.2	4,047.9	8,934.7	68.2	2,242.4	4,978.6	69.9

	Years Ended December 31,								
	2008			2007 (1)			2006		
	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (2) (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)
Total export net sales of basic petrochemicals	946.2	1,708.2	12.0	956.7	2,186.6	16.7	541.6	953.4	13.3
Total net sales of basic petrochemicals	5,021.2	11,852.9	83.1	5,004.6	11,121.3	84.9	2,784.1	5,932.0	82.9
Condensate		863.6	6.1		375.9	2.8			
Caprolactam and related products(3)	111.1	241.9	1.7	142.9	299.3	2.3	134.8	273.5	3.8
Fuels		701.9	4.9		627.9	4.8		417.3	5.8
Utilities (4)		597.2	4.2		611.7	4.8		534.7	7.5
Total Basic Petrochemicals Unit net sales revenue (5)		R$14,257.5	100%		R$13,036.1	100%		R$7,157.6	100%

(1) Includes Copesul as from April 1, 2007.

(2) Includes the following intra-company sales:

- approximately 1,708,300 tons of ethylene in 2008, 1,644,000 tons in 2007 and 800,600 tons in 2006;
- approximately 634,400 tons of propylene in 2008, 567,800 tons in 2007 and 86,500 tons in 2006;
- approximately 18,400 tons of para-xylene in 2007 and 42,300 tons in 2006; and
- approximately 55,800 tons of benzene in 2008, 62,800 tons in 2007 and 53,400 tons in 2006.

(3) In May 2009, we temporarily closed our caprolactam plant.

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

(5) Includes basic petrochemicals, condensate, caprolactam and related products, fuels and utilities.

Olefins

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

Aromatics

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

Condensate

Condensate is a low-density mixture of hydrocarbon liquids that are present in gaseous from in the raw natural gas produced from many natural fields and recovered through a condensation process. We resell condensate that we purchase from our raw material suppliers to RPI for further refining into naphtha which we then purchase from RPI.

Caprolactam and Related Products

Caprolactam is a raw material that forms the basis for the production of Nylon-6 textile thread, engineering resins and film, and is a structural material in the motor and electronics industries. We also produce ammonium sulfate for use as a fertilizer, and cyclohexane and cyclohexanone, both for use in paint solvents, pesticides, natural resins, oils and rubber.

In May 2009, we temporarily closed our caprolactam plant. We are continuing to analyze our options regarding the resumption of caprolactam production based on our estimate of Brazilian demand for this product and our cost of

production. Pending completion of this review, we are continuing to serve our caprolactam customers with our inventory of caprolactam and related products.

Fuels

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

Utilities

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

We self-generate approximately 45% of the Northeastern Complex s energy consumption requirements, and the remainder is furnished by Companhia Hidro Elétrica do São Francisco CHESF, or CHESF, a Brazilian government-owned electric power generation company located in the State of Bahia, and by Companhia de Eletricidade do Estado da Bahia COELBA.

We self-generate approximately 35% of the Southern Complex s energy consumption requirements, and the remainder is acquired primarily under auction contracts in the free market for energy (*Mercado Livre de Energia*) from several companies.

Production Facilities of Our Basic Petrochemicals Unit

We believe that the technological processes we use at our basic petrochemicals plants are among the most advanced in the world. We currently own and operate five major basic petrochemicals units (Olefins 1, Olefins 2, Aromatics 1, Aromatics 2 and Energy and Services) in the Northeastern Complex and four major basic petrochemicals units (two olefins units, one aromatics units and a utilities unit) located in the Southern Complex. We define the term unit to mean several plants that are linked together to produce olefins, aromatics or utilities. As a result, the production capacity of Aromatics units 1 and 2 is the sum of the production capacities of the various plants that form these units. During 2008, we expanded the annual production capacity of our Olefins 1 Unit in the Southern Complex by 52,000 tons of ethylene and 30,000 tons of propylene. At December 31, 2008, our basic petrochemicals plants had total annual production capacity of 2,532,000 tons of ethylene and 1,210,000 tons of propylene.

The table below sets forth the name, primary products, annual production capacity at December 31, 2008 and annual production for the years presented for each of our principal Basic Petrochemicals units and plants.

Name	Primary Products	Annual Production Capacity	Production For the Year Ended December 31,		
			2008	2007	2006
			(in tons, except automotive gasoline)		
Northeastern Complex:					
Olefins units 1 and 2	Ethylene	1,280,000	1,047,349	1,170,000	1,103,969
	Propylene	550,000	472,285	561,648	520,413
Plants of aromatics units 1 and 2:					
Butadiene plants 1 and 2	Butadiene	175,000	144,917	145,616	154,227
MTBE plants 1 and 2	MTBE	140,000	112,807	114,979	118,691
Butene-1 plant	Butene-1	35,000	25,515	27,750	24,701
Isoprene plant	Isoprene	26,800	18,904	13,024	12,500

Name	Primary Products	Annual Production Capacity	Production For the Year Ended December 31, 2008	2007	2006
			(in tons, except automotive gasoline)		
	Dicyclopentadiene	24,000	22,388	25,011	16,517
Sulfolane plants 1, 2 and 3	Coperaf 1 (1)	120,000	26,813	49,933	86,773
BTX fractionation plants 1 and 2	Benzene	427,000	360,127	409,733	400,793
	Toluene (2)	42,000	40,876	47,954	44,778
C8+ fractionation plant	Mixed xylenes (2)	40,000	30,773	56,197	55,853
	Ortho-xylene	62,000	57,407	70,207	76,450
	Solvent C9 (1)	30,000	21,661	36,565	23,426
Parex plant	Para-xylene	203,000	129,231	141,664	128,672
Blending plant	Automotive gasoline (3)	600,000	410,308	322,266	374,504
	LPG	25,000	5,154	8,135	15,476
Caprolactam plant(4)	Caprolactam	56,000	37,095	46,087	41,615
	Cyclohexane	78,000	16,641	66,793	57,764
	Cyclohexanone	49,000	2,580	44,574	40,964
	Ammonium sulfate	103,000	63,311	89,740	78,296
Southern Complex(5):					
Olefins units 1 and 2	Ethylene	1,252,000	1,069,576	899,753	
	Propylene	660,000	560,093	466,106	
	Propane	16,000	1,946	2,797	
	Low Sulphur Fuel Oil	169,000	57,722	135,910	
Aromatics unit:					
Butadiene plant	Butadiene	105,000	85,883	77,302	
MTBE plant	MTBE	132,000		43,628	
	ETBE	155,000	145,619	47,358	
Butene-1 plant	Butene-1	60,000	54,299	30,052	
	Heavy C4 (6)	52,000	53,728	27,948	
BTX fractionation plant	Benzene	275,000	268,543	228,184	
	Toluene (2)	91,000	69,942	64,405	
	Mixed xylenes (2)	77,000	49,273	41,217	
	Aromatic C7C8	95,000	43,729	19,394	
	Aromatic C9	12,000	4,910	3,369	
	C6C8 Rafinate	87,000	10,642	5,714	
PGH plant	Pyrolysis C9	76,000	39,217	11,168	
Solvent plant	C6 Solvent	27,000	3,521	4,338	
Blending plant	Automotive gasoline (3)	500,000	282,213	247,626	
	LPG	45,000	1,331	2,704	

(1) Solvents.

(2) Actual production may exceed production capacity based on the quantity of toluene and mixed xylenes consumed in the production of para-xylene.

(3) Automotive gasoline in cubic meters per year.

(4) In May 2009, we temporarily closed our caprolactam plant.

(5) Represents Copesul as from April 1, 2007.

(6)

Actual production may exceed production capacity based on the quantity of heavy C4 consumed in the production of butadiene and butane-1.

Raw Materials of Our Basic Petrochemicals Unit

Naphtha

Naphtha, a petroleum derivative, is the principal raw material that we use to produce our basic petrochemical products and represents the principal production and operating cost of our Basic Petrochemicals Unit. We also use

condensate as a raw material in our basic petrochemical units in the Southern Complex. The price of naphtha and condensate that we purchase varies primarily based on changes in the U.S. dollar-based international price of crude oil. In 2008, naphtha and condensate accounted for 80.4% of the total cost of sales of our Basic Petrochemicals Unit and 64.8% of our direct and indirect consolidated cost of sales and services rendered.

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

	Amsterdam-Rotterdam-Antwerp Market Price of Naphtha			
	2009	**2008**	**2007**	**2006**
		(in U.S. dollars per ton)		
Average(1)	US$455.34	US$791.34	US$675.48	US$564.74
Month ended:				
January	352.37	827.43	509.23	561.81
February	397.74	832.87	550.85	529.67
March	398.36	864.49	603.95	528.65
April	425.55	909.74	655.37	588.84
May	477.22	986.96	685.22	601.91
June	568.67	1,091.85	663.05	613.14
July	567.50(2)	1,082.31	683.82	644.24
August		955.41	645.09	620.04
September		846.83	692.60	524.71
October		528.75	745.87	509.91
November		306.27	828.41	514.96
December		258.16	834.14	545.11

(1) The information in the Average row represents (i) during 2008, 2007 and 2006, the mean average of average monthly naphtha prices during the year, and (ii) during 2009, the mean average of average monthly naphtha prices from January through June.

(2) Through July 7, 2009.

Source: Platts.

The Northeastern Complex is located:

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

We use the Madre de Deus Port Terminal to unload naphtha that is imported or that is shipped from Petrobras refineries located outside the State of Bahia. At the port terminal of Aratú, we use (1) the Raw Materials Terminal (which we own) to import naphtha and condensate, (2) the Terminal Químico de Aratú (which is owned by Terminal Químico de Aratú S.A. TEQUIMAR, a Brazilian fuel distribution company which is a subsidiary of Ultrapar) to distribute our liquid products, and (3) the Terminal de Gases (which we own) to distribute our gas products.

A pipeline that is owned and operated by Petrobras transports naphtha from the Madre de Deus Terminal to Refinaria Landulfo Alves where it interconnects with the refinery s naphtha pipeline system. Refinaria Landulfo

Alves naphtha pipeline system interconnects with the pipeline system of the port terminal of Aratú, through which naphtha is transported to our basic petrochemicals plants in the Northeastern Complex.

The Southern Complex is located:

- 24 kilometers from Refinaria Alberto Pasqualini Refap, or REFAP (located in Canoas in the State of Rio Grande do Sul), a refinery that is owned and operated by Petrobras; and
- 122 kilometers from the Almirante Soares Dutra Terminal (located in Osório in the State of Rio Grande do Sul), a port terminal owned and operated by Petrobras Transporte S.A. Transpetro, or Transpetro, a subsidiary of Petrobras.

We use the Almirante Soares Dutra Terminal to unload naphtha and condensate that is imported or that is shipped from Petrobras refineries located outside the State of Rio Grande do Sul. We own a pipeline that is operated by Transpetro which transports naphtha from the Almirante Soares Dutra Terminal to REFAP. This pipeline interconnects with REFAP s naphtha pipeline system. Naphtha and condensate are transported to the Southern Complex s basic petrochemicals plants through REFAP s naphtha pipeline system.

Supply Contracts and Pricing of the Basic Petrochemicals Unit

The following table shows the distribution of the naphtha purchases by our Basic Petrochemicals Unit for the periods indicated.

	Years Ended December 31,					
	2008		**2007 (1)**		**2006**	
	(thousands of tons)	**(%)**	**(thousands of tons)**	**(%)**	**(thousands of tons)**	**(%)**
Petrobras	4,726	61.8 %	5,012	56.6 %	3,123	74.9 %
SONATRACH	1,196	15.6	2,195	24.8	1,045	25.1
Ryttsa	861	11.2	951	10.7		
Others	870	11.4	701	7.9		
Total	7,654	100 %	8,859	100 %	4,168	100 %

(1) Includes Copesul as from April 1, 2007.

Supply Contracts with Petrobras

On June 22, 1978, we and Petrobras entered into a Naphtha and Gas Oil Purchase and Sale Contract (which was amended in February 1993, February 2003 and May 2005). This contract was terminated in June 2008. We have substantially completed the negotiation of a new naphtha supply contract with Petrobras that will replace the contract that was terminated in June 2008 as well as the existing naphtha supply contract between our company and Petrobras for the supply of naphtha to our basic petrochemicals plants located in the Southern Complex. We have received, and expect to continue to receive, naphtha from Petrobras under substantially the same terms as the contract that terminated in June 2008, other than terms relating to pricing and volume commitments which will be revised in the new naphtha supply contract. Since March 2009, the price that we have paid for naphtha that we purchase from Petrobras has been based on a variety of factors, including the market prices of naphtha and a variety of other petroleum derivatives, the volatility of the prices of these products in the international markets, the *real*/U.S. dollar exchange rate, and the level of paraffinicity of the naphtha that is delivered. These pricing terms have applied to naphtha delivered to our basic petrochemicals plants located in both the Northeastern Complex and the Southern Complex.

On February 23, 1996, Copesul and Petrobras entered into a Naphtha, LPG and Condensate Purchase and Sale Contract. As a result of the merger of Copesul with and into Ipiranga Petroquímica on September 11, 2008 and the merger of Ipiranga Petroquímica with and into Braskem on September 30, 2008, we have succeeded to Copesul s

rights and obligations under this contract. This contract has a term of 16 years, expiring in 2012 and is automatically renewable for further five-year periods, unless either party notifies the other party in writing at least one year prior to the expiration of the contract that it does not intend to renew the contract. We expect this contract to be superseded by the new naphtha contract that we are negotiating with Petrobras as described above.

Under the current contract for the supply of naphtha to the Southern Complex:

- Petrobras has agreed to sell and deliver naphtha and condensate to our basic petrochemicals plants in the Southern Complex exclusively for our use as a raw material;
- we provide Petrobras with a firm commitment order for naphtha each month, together with an estimate of the volume of naphtha that we will purchase for the Southern Complex over the following six months;
- if we request to purchase volumes of naphtha that exceed the minimum volumes we establish, Petrobras must use its best efforts to attempt to meet our higher demand;
- if we fail to purchase the minimum volumes that we establish for a given year, we are required to pay damages to Petrobras, and if Petrobras fails to deliver the minimum volumes, Petrobras is required to pay damages to us;
- Petrobras may suspend deliveries, in whole or in part, or may terminate this contract without penalties if required by the National Petroleum Agency as a result of a national contingency plan that adversely affects the supply of petroleum derivatives in Brazil; and
- Petrobras may rescind the contract, without prior notice, if: (1) we violate any provision of the contract; (2) we declare bankruptcy, or are declared bankrupt or are liquidated; (3) we transfer all or part of our rights and obligations under the contract to a third party without Petrobras consent; or (4) we are involved in a reorganization or merger.

Supply Arrangements with SONATRACH

La Société Nationale pour la Recherche, la Production, le Transport, la Transformation et la Commercialisation des Hydrocarbures SONATRACH (the Algerian national petroleum company), or SONATRACH, is our most important supplier of imported naphtha and condensate. We have imported naphtha supplied by SONATRACH since 2002. On an annual basis, we negotiate the minimum and maximum volumes of naphtha and condensate that we will purchase from SONATRACH and the pricing formula for the naphtha and condensate supplied by SONATRACH. In the event that we were unable to renew our supply arrangements with SONATRACH, we believe that we could purchase sufficient quantities of naphtha from other suppliers, including Petrobras, to meet the supply needs of our basic petrochemicals plants.

Supply Contract with Ryttsa

Copesul began importing naphtha from Repsol YPF Trading y Transporte S.A., or Ryttsa, in 2002. On an annual basis, we negotiate the minimum and maximum volumes of naphtha that we will purchase from Ryttsa and the pricing formula for the naphtha and condensate supplied by Ryttsa. In the event that we were unable to renew our supply arrangements with Ryttsa, we believe that we could purchase sufficient quantities of naphtha from other suppliers, including Petrobras, to meet the supply needs of our basic petrochemicals plants.

Spot Market Purchases of Naphtha

In addition to our supplies of naphtha under the agreements described above, we purchase naphtha on the spot market from time to time from foreign suppliers located in North Africa and South America.

Financing of Naphtha Purchases

On December 15, 2005, our company entered into a revolving import note program with certain financial institutions. Under this program, our company was permitted for three years to issue short-term non-interest bearing notes, or import notes, in an aggregate principal amount of up to US$400 million outstanding at any time to designated trading companies outside Brazil to evidence our obligation to pay for purchases of naphtha and condensate from these trading companies. This program was extended until March 2009 and has expired in accordance with its terms. These designated trading companies had the right to assign these import notes to the specified financial institutions during the term of the program. These assignments were made at a discount based on a rate of LIBOR plus 0.75% per annum during the first year of this program, and LIBOR plus 0.85% per annum to 1.25% per annum, based on fluctuations in the Emerging Markets Bond Index Brazil, during the second and third years of the program, and LIBOR plus 5.00% thereafter. These companies were permitted to use the proceeds of these assignments to purchase imported naphtha or condensate.

Technology of Our Basic Petrochemicals Unit

We use engineering process technology under non-exclusive arrangements from a variety of sources for specific production processes. We do not pay any continuing royalties under any of these arrangements. If any of these arrangements were terminated or no longer available to us, we believe that we would be able to replace this technology with comparable or better technology from other sources. Our Basic Petrochemicals Unit also uses technology developed by our company.

Sales and Marketing of Our Basic Petrochemicals Unit

We sell our basic petrochemical products principally in Brazil, mainly to second generation petrochemical producers located in the Northeastern Complex and the Southern Complex, including our other business units, as well as to customers in the United States, Europe, South America and Asia. We sell caprolactam and related products in northeastern Brazil, primarily to third generation petrochemical producers located in the Northeastern Complex, as well as to customers in South America and Asia. Our Basic Petrochemicals Unit also produces utilities for its own use and for sale to 46 companies, including companies located outside of the Northeastern Complex and the Southern Complex.

As is common with other first generation petrochemical producers, our Basic Petrochemicals Unit has a high concentration of sales to a limited number of customers. Net sales to our Basic Petrochemicals Unit s 10 largest customers (excluding intra-company sales) accounted for 28.6% of our Basic Petrochemicals Unit s total net sales revenue (excluding intra-company sales) during the year ended December 31, 2008.

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

We determine the prices that we charge for ethylene by reference to international market prices. We calculate the monthly price of propylene by multiplying our monthly ethylene price by the ratio of the European contract price for propylene to the European contract price for ethylene. We determine the prices for our other olefins and aromatics products with reference to several market indicators. We determine the price of butadiene and para-xylene by reference to the U.S. contract price for these products, and our prices for butadiene and para-xylene, unlike our prices for our other basic petrochemical products, include freight costs. We set the prices of benzene and ortho-xylene monthly by determining the mean average of European contract prices and U.S. contract prices for those products as set forth in specialized trade publications. We set the prices of solvents by reference to international market prices and the prices for fuels by reference to Brazilian market prices. We set the prices of utilities based on our production costs.

We are focused on maintaining our leading position in the Brazilian market, while continuing to use our exports to hedge our operations and adjust the imbalances between demand and production. In 2008, export net sales of basic petrochemicals (which exclude caprolactam and related products, utilities and automotive gasoline) represented 12.4% of our Basic Petrochemicals Unit s net sales revenue. We exported basic petrochemicals mainly to customers in the United States and in Europe.

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

	For the Year Ended December 31,		
	2008	**2007 (1)**	**2006**
Export sales (in millions of *reais*)	R$1,708.2	R$2,186.6	R$953.4
As % of total net sales revenue of Basic Petrochemicals Unit	12.4%	16.7%	13.3%
Export volumes (thousands of tons)	946.2	956.7	541.6
As % of total basic petrochemical sales volume of Basic Petrochemicals Unit	18.8%	19.1%	19.5%

(1) Includes Copesul as from April 1, 2007.

Our Basic Petrochemicals Unit has been authorized by the National Petroleum Agency to produce and sell automotive gasoline since August 15, 2000. We sold approximately 610,700 cubic meters of type A automotive gasoline in 2008. Net domestic sales revenue of our Basic Petrochemicals Unit from automotive gasoline was R$571.4 million in 2008, and net export sales revenue of our Basic Petrochemicals Unit from automotive gasoline was R$130.5 million in 2008.

We set export prices for:

- benzene, toluene, para-xylene, dicyclopentadiene and automotive gasoline with reference to market prices prevailing in the U.S. Gulf market; and
- propylene, MTBE, ethyl tertiary butyl ether, or ETBE, ortho-xylene, butene-l and isoprene with reference to market prices prevailing in the European market.

In addition to basic petrochemicals and fuels, we produce electric power, steam, treated water and compressed air for our own use and for sale to other second generation producers in the Northeastern Complex and the Southern Complex. In 2008, our net sales revenue from sales of utilities (including sales to our other business units) was R$597.2 million.

Competition

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

As a result of the weakness in demand for our basic petrochemical products from second-generation producers in Brazil in the second half of 2008, we diverted sales of these products to the export market and continue to export a greater percentage of these products than we have historically exported. Competition in the international markets for these products is primarily based on the price of delivered products and competition has increased since mid-2008 as the balance between supply and demand has been disrupted due to the impact of the global financial and credit crisis on consumers of these products. In the international markets for our basic petrochemical products, we

compete with a large number of producers, some of which are substantially larger and have substantially greater financial, manufacturing, technological and marketing resources than our company.

Polyolefins Unit

At December 31, 2008, our polyolefins production facilities had the largest average annual production capacity of all second generation producers of polyolefins products in Brazil and elsewhere in Latin America. Our Polyolefins Unit accounted for R$7,534.0 million, or 30.8%, of the net sales revenue of all segments in 2008.

Prior to April 2006, our Polyolefins Unit was comprised of the operations conducted by our company and Polialden. On May 31, 2006, Polialden merged with and into Braskem.

Prior to the Politeno Acquisition in April 2006, we owned 35.0% of Politeno s voting share capital and 34.0% of its total share capital. As a result, at dates and for periods prior to March 31, 2006, we proportionally consolidated Politeno s results in our consolidated financial statements and did not include Politeno s results in our Polyolefins segment. Following the Politeno Acquisition in April 2006, we owned 100% of the voting share capital and 96.2% of the total share capital of Politeno, and have fully consolidated Politeno s results in our consolidated financial statements and included Politeno s results in our Polyolefins segment as from April 1, 2006. In April 2007, Politeno merged with and into Braskem.

As a result of our obtaining effective management control over Ipiranga Petroquímica in April 2007, we have fully consolidated Ipiranga Petroquímica s results in our consolidated financial statements and included Ipiranga Petroquímica s results in our Polyolefins segment as from April 1, 2007. On September 30, 2008, Ipiranga Petroquímica merged with and into Braskem.

Prior to the completion of the first phase of the Petrobras Transaction on May 30, 2008, we owned 60.0% of the total and voting share capital of Paulínia. As a result, at dates and for periods prior to April 1, 2008, we proportionally consolidated Paulínia s results in our consolidated financial statements and did not include Paulínia s results in our Polyolefins segment. Following the completion of the first phase of the Petrobras Transaction on May 30, 2008, we owned 100% of the total and voting share capital of Paulínia, and have fully consolidated Paulínia s results in our consolidated financial statements and included Paulínia s results in our Polyolefins segment as from April 1, 2008. The Paulínia plant commenced operations in April 2008 with an initial annual production capacity of 300,000 tons of polypropylene. On September 30, 2008, Paulínia merged with and into Braskem.

On May 5, 2009, the second phase of the Petrobras Transaction was completed with the merger of Triunfo with and into Braskem. Prior to this merger, Triunfo owned and operated a polyethylene plant located in the Southern Complex with an annual production capacity of 160,000 tons. As a result of the merger, we will consolidate the results of Triunfo into our financial statements as from May 1, 2009.

Our Polyolefins Unit produces:

- polyethylene, including low density polyethylene, or LDPE, linear low density polyethylene, or LLDPE, high density polyethylene, or HDPE, ultra high molecular weight polyethylene, or UHMWP, and EVA;
- polypropylene; and
- medium density polyethylene, or MDPE.

Approximately two-thirds of the sales volume of our Polyolefins Unit in 2008 was derived from the sale of polyethylene products, and most of the remainder was derived from the sale of polypropylene products.

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

- plastic films for food and industrial packaging;

- bottles, shopping bags and other consumer goods containers;
- automotive parts; and
- household appliances.

In 2008, we had an approximate 50% share of the Brazilian polyethylene market and an approximate 53% share of the Brazilian polypropylene market, based on sales volumes of our Polyolefins Unit. We anticipate that long-term growth in domestic demand for these products will continue to increase due to:

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

Prior to May 2007, our Polyolefins Unit also produced polyethylene terephthalate, or PET, resin and DMT. In May 2007, we permanently closed the DMT unit in our PET plant as a result of this plant s high maintenance and operational costs due to its aging technology. DMT is the primary raw material used by our PET plant. As a result, our PET plant was also temporarily closed in May 2007 in order for us to review the technology used to produce PET. Pending completion of a review of our options to resume PET production, we continued to serve our PET customers with PET purchased from M&G Polimeros Brasil S.A., which we refer to as M&G, the largest PET producer in Brazil and a subsidiary of M&G Finanziaria Industriale S.p.A. In December 2008, we permanently closed our PET plant. We continued to purchase PET from M&G until the expiration of our purchase agreement with M&G in April 2009 and we continued to serve our PET customers with PET purchased under this agreement until June 2009.

Products of Our Polyolefins Unit

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

	For the Year Ended December 31,								
	2008(1)			**2007(2)**			**2006(3)**		
	Quantities Sold (thousands of tons)	**Net Sales Revenue (millions of *reais*)**	**(%)**	**Quantities sold (thousands of tons)**	**Net Sales Revenue (millions of *reais*)**	**(%)**	**Quantities sold (thousands of tons)**	**Net Sales Revenue (millions of *reais*)**	**(%)**
Domestic net sales:									
Polypropylene	606.2	R$2,163.6	28.7%	573.1	R$1,982.1	26.7%	453.2	R$1,515.5	30.4%
LDPE	228.6	875.2	11.6	240.7	849.1	11.5	194.0	623.2	12.5
LLDPE	286.5	1,094.6	14.5	272.3	976.5	13.2	186.3	607.3	12.2
HDPE	447.1	1,732.0	23.0	413.6	1,478.0	19.9	186.6	600.4	12.0
PET(4)	42.9	134.6	1.8	60.3	175.9	2.4	50.6	152.7	3.1
Other	23.1	81.2	1.1	17.2	93.1	1.3	37.8	182.2	3.7
Total domestic net sales	1,634.5	6,081.1	80.7	1,577.3	5,554.7	75.0	1,108.5	3,681.3	73.8
Total export net sales	538.9	1,452.8	19.3	662.3	1,856.3	25.0	480.6	1,303.6	26.2
Total polyolefins net sales	2,173.3	R$7,534.0	100%	2,239.6	R$7,411.0	100%	1,589.1	R$4,984.9	100%

(1) Includes Paulínia as from April 1, 2008.

(2) Includes Ipiranga Petroquímica as from April 1, 2007.

(3) Includes Politeno as from April 1, 2006.

(4) In May 2007, we temporarily closed our PET plant. In December 2008, we permanently closed our PET plant.

We provide technical assistance to our customers to meet their specific needs by adapting and modifying our polyethylene and polypropylene products. In particular, we develop customized value-added polypropylene

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compounds for use by our customers in their specialized applications. We believe that the variety of technological processes at our polyolefins plants provides us with a competitive advantage in meeting our customers needs.

Polyethylene Products

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

Our customers purchase different polyethylene resins depending on the manufacturing process that they employ and the desired physical characteristics of the end products that they manufacture. LDPE is the most flexible of polyethylene products and is used in a variety of plastic or film applications and in food packaging and extrusion coating. LLDPE is used in applications that require greater sealing capacity and better mechanical resistance, including plastic films and flexible food packaging. MDPE is used in applications that require impact resistance and stiffness, such as diapers and hygienic articles, water storage tanks, technical parts and industrial containers. HDPE is used for applications that require higher mechanical resistance, such as high strength films, food packaging, merchandise bags, telecommunications and sewage pipes, pails, lids, trash containers, bottles, flasks, safety helmets, sporting goods, pallets and toys.

While each form of polyethylene is used for different applications, there is some overlap in the uses of these resins, and with certain modifications, polyethylene resins may be substituted for each other in certain end product manufacturing processes. For example, demand for LLDPE has grown since it was first introduced in 1989 and has resulted in reduced demand for LDPE, as manufacturers of certain containers and plastic film applications have switched their production processes and technology to use LLDPE in a blend with LDPE.

Polypropylene Products

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

PET

PET is one of the most widely used polymers in industry today and is used in manufacturing packaging for soft drinks, medications, cleaning products, mineral water and food products.

Production Facilities of Our Polyolefins Unit

At December 31, 2008, our Polyolefins Unit owned 17 polyolefins production facilities. Our Polyolefins Unit operates five plants located in the Southern Complex and three plants located in the Northeastern Complex. During 2006, we expanded the annual production capacity of our polyethylene plants in the Northeastern Complex by 30,000 tons. During 2008, we expanded the annual production capacity of our polyethylene plants in the Northeastern Complex by 20,000 tons and expanded the annual production capacity of our polypropylene plant in the Southern Complex by 30,000 tons.

The table below sets forth the location, the primary products, annual production capacity at December 31, 2008, and annual production for the years presented of each of the plants of our Polyolefins Unit.

Location (Complex)	Primary Products	Annual Production Capacity (in tons)	Production For the Year Ended December 31, 2008(1)	2007(2) (in tons)	2006(3)
Triunfo (Southern)	LDPE	215,000	197,310	207,286	209,209
	Polypropylene	740,000	692,920	671,350	542,781
	HDPE/LLDPE(4)	450,000	298,691	354,730	268,762
	HDPE	400,000	357,257	278,480	
Camaçari (Northeastern)	HDPE/LLDPE(4)	230,000	204,078	218,671	216,822
	HDPE/LLDPE(4)	220,000	181,526	218,622	133,088
	LDPE	160,000	121,902	140,971	102,684
	HDPE/UHMWP(4)	160,000	87,322	106,741	103,034
	PET (5)			25,569	57,155
	DMT (6)			34,653	76,070
Paulínia	Polypropylene	300,000	93,096		

(1) Includes Paulínia as from April 1, 2008.

(2) Includes Ipiranga Petroquímica as from April 1, 2007.

(3) Includes Politeno as from April 1, 2006.

(4) Plant with swing line capable of producing three types of resins. Capacity varies depending on actual production.

(5) In May 2007, we temporarily closed our PET plant. In December 2008, we permanently closed our PET plant.

(6) In May 2007, we permanently closed the DMT unit in our PET plant.

Raw Materials of Our Polyolefins Unit

Ethylene and Propylene

The most significant direct costs associated with our production of polyethylene and polypropylene are the costs of purchasing ethylene and propylene, which together accounted for 89.3% of our Polyolefins Unit s total variable cost of production in 2008. In 2008, raw materials representing 85.7% of this cost were supplied by our Basic Petrochemicals Unit. Our Polyolefins Unit purchases ethylene and propylene from our Basic Petrochemicals Unit at prices determined by reference to international market prices for ethylene. Our Polyolefins Unit is highly dependent on ethylene and propylene supplied by our Basic Petrochemicals Unit because the costs of storing and transporting ethylene and propylene are substantial and there is inadequate infrastructure in Brazil to import large quantities of ethylene and propylene.

The following table sets forth the average prices per ton in *reais* paid by our Polyolefins Unit to our Basic Petrochemicals Unit for ethylene and propylene for the years indicated:

	For the Year Ended December 31, 2008	2007 (R$ per ton)	2006
Ethylene	R$2,750	R$4,933	R$5,000
Propylene	2,400	2,480	2,570

In March 2007, we entered into two five-year propylene supply contracts with REFAP. Under these contracts, we will purchase an initial annual supply of between 92,500 and 100,000 tons of propylene, representing between 92.5% to 100% of REFAP s current annual propylene

production capacity of 100,000 tons. As REFAP expands its propylene production capacity, we will be obligated to purchase at least 70% of REFAP s propylene production until REFAP s annual production capacity reaches 162,000 tons. We will have the right to purchase 100% of

REFAP s production in excess of 162,000 tons. If we exercise this right, our minimum purchase obligation under these contracts will be increased correspondingly. Under these contracts:

- REFAP has agreed to sell and deliver propylene to us exclusively for our use as a raw material; and
- we agreed to purchase, and REFAP agreed to sell, at prices determined by reference to U.S. Gulf Coast prices for propylene.

This volume will be used to supply the existing plants of our Polyolefins Unit in the Southern Complex and will be available to meet additional demand that arises through the expansion of these plants and the acquisition of additional plants. Propylene will be delivered to our plants through a pipeline.

In May 2008, Paulínia entered into a 20-year propylene supply contract with Petrobras. This contract is automatically renewable for consecutive two-year terms following the initial term, unless terminated by one of the parties. Under this contract, Paulínia will purchase an initial monthly supply of 25,000 tons of propylene per month beginning in the second quarter of 2009 and 300,000 tons of propylene per year beginning in 2010. Under this contract:

- Petrobras has agreed to sell and deliver propylene to us exclusively for our use as a raw material; and
- we agreed to purchase, and Petrobras agreed to sell, at prices determined by reference to U.S. Gulf Coast prices for propylene.

Prior to the second quarter of 2009, Paulínia operated using propylene that it purchased from Refinaria do Planalto REPLAN, or REPLAN, a refinery that is owned and operated by Petrobras, and our company.

Other Materials

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

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

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

We purchase the catalysts that our Polyolefins Unit uses in its swing line LLDPE/HDPE plant from Basell. We produce our own catalysts for our HDPE plants in the Southern Complex using Hoechst technology, and we purchase the inputs that we need to produce these catalysts from various suppliers at market prices.

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

Technology of Our Polyolefins Unit

Rights to Use Technology

We have entered into several non-exclusive agreements with a number of leading petrochemical companies to use certain technology and catalysts for our Polyolefins Unit. We have fully paid all royalties due under the terms of most of these license agreements. Under some of our license agreements, we pay royalties on a quarterly basis based on the volume of the products produced using the licensed technology. Some of our license agreements allow us to use the licensed technology in existing and future plants. If any of these licenses were terminated, we believe that we would be able to replace the relevant technology with comparable technology from other sources.

Research and Development

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

The Braskem Center for Technology and Innovation includes a staff of approximately 200 employees, which seek to:

- develop new products and applications in response to our customers requirements;
- upgrade or improve the properties and processability of our products;
- identify new product market opportunities;
- implement improvements in our production processes and reduce our operating costs; and
- expand and optimize the capacity and the flexibility of production at our plants.

In 2006, we opened a new development center dedicated to UHMWP, a high value-added resin of which we are one of the largest producers in the world. This center works in coordination with the Braskem Center for Technology and Innovation.

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

We also operate a smaller Technology and Innovation Center located in the Southern Complex which is similar to the Braskem Center for Technology and Innovation. This center includes laboratories and a slurry Hostalen® pilot plant used to develop new high density polyethylene grades, as well as to evaluate and develop catalysts and to test new raw materials. This pilot plant operates at approximately 1/200 of the scale of the industrial plants and complements the pilot plants of our Polyolefins Unit. We also operate a process development department and a product development department with a combined staff of approximately 35 employees to coordinate our research and development activities at the smaller center.

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

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

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

Sales and Marketing of Our Polyolefins Unit

Our Polyolefins Unit sells polyethylene and polypropylene products to approximately 1,400 customers. We have a diversified product mix that allows us to serve a broad range of end users in several industries. The customers of our Polyolefins Unit generally are third generation petrochemical producers that manufacture a wide variety of plastic-based consumer and industrial goods.

Net sales revenue to the 10 largest customers of our Polyolefins Unit accounted for 24.0% of our Polyolefins Unit s total net sales revenue during the year ended December 31, 2008. No customer of our Polyolefins Unit accounted for more than 4.5% of our total net sales revenue in 2008, 2007 or 2006.

Domestic Sales

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

In addition to direct sales to our customers, our Polyolefins Unit sells products in Brazil through exclusive independent distributors. Our Polyolefins Unit has seven distributors and has entered into agreements with five of these distributors. Three of these agreements have terms expiring in 2010, one expires in 2009, and is automatically renewable for 18-month periods, and one has an indefinite term, subject to termination on one year s notice by either party.

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

Export Sales

Our volume of export sales has generally varied based upon the level of domestic demand for our products. Export sales represented 19.3% of our Polyolefins Unit s net sales revenue in 2008. In 2006, our Polyolefins Unit opened sales offices in Argentina and The Netherlands. We use our Argentine office to consolidate our marketing efforts in Argentina. We use our office in The Netherlands to support our European customers, improve our knowledge of the European market, optimize our logistics process in this market and develop regional partners. In addition to our offices in Argentina and The Netherlands, our Polyolefins Unit maintains an office in the United States that is focused on further developing the market for engineering plastics under the UTEC brand. We also maintain a sales offices in Chile.

We have established a strategic position in the polyolefins business in South America and Europe through regular direct sales, local distributors and agents who understand their respective markets. Our strategy to increase our presence in these foreign markets is intended, among other things, to reduce our exposure to the cyclicality of the international spot market for polyolefins through the development of long-term relationships with customers in neighboring countries.

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

	For the Year Ended December 31,		
	2008 (1)	**2007 (2)**	**2006 (3)**
Net export sales revenue (in millions of *reais*)	R$1,452.8	R$1,856.3	R$1,303.6
As % of total net sales revenue of Polyolefins Unit	19.3%	25.0%	26.2 %
Export volumes (thousands of tons)	538.9	662.3	480.6
As % of total production of Polyolefins Unit	24.1%	27.4%	28.1%

(1) Includes Paulínia as from April 1, 2008.

(2) Includes Ipiranga Petroquímica as from April 1, 2007.

(3) Includes Politeno as from April 1, 2006.

The main focus of our Polyolefins Unit is to maintain our leading position in the Brazilian market while continuing to export in order to manage the relationship between our production capacity and domestic demand for our products. Generally, we target an annual average production that is approximately 20% in excess of anticipated Brazilian market demand in order to meet variations in local demand and to respond to production fluctuations, seasonality and export product sales. However, in 2008 our export volumes declined significantly in the first half of the year as domestic supplies contracted due to the planned maintenance shutdowns of two of our basic petrochemicals units and the basic petrochemicals unit of PQU during a period in which domestic demand for polyolefins resins was strong. During the second half of 2008, Chinese demand for polyolefins products declined following the conclusion of the Olympic Games and demand for polyolefins products in the United States declined as the effects of the global financial and credit crisis became more pronounced. As a result of this contraction of demand, polyolefins producers in the United States increased the volume of exports of their polyolefins products, leading to greater price competition in the export markets that we serve. Demand for polyolefins products did not fall as severely in Latin America as in other regions in the second half of 2008 and, despite strong competition from polyolefins producers in the United States, our sales volumes in this region increased by 24.0% in the second half of 2008 compared to the corresponding period in 2007. We believe that our continued presence in export markets is essential to help manage any overcapacity in the Brazilian market and to maintain our position as leader in the supply of polyolefins in South America.

Prices and Sales Terms

We determine the domestic prices for the polyethylene and polypropylene products of our Polyolefins Unit with reference to international market prices and the prevailing balance of supply and demand for these products in Brazil. Our customers in Brazil may pay in full on delivery or elect credit terms that require payment in full within seven to 56 days following delivery. We charge interest based on prevailing market rates to our Brazilian customers that elect to pay on credit.

Our Polyolefins Unit generally conducts export sales to buyers in countries outside the Southern Cone through the international spot market. Our customer base in these markets consists primarily of trading houses and distributors, most of which have operations in Europe, the United States or in Asia, principally Hong Kong. Pricing is based on international spot market prices. We make all sales in these markets with letters of credit. Export prices for polyolefins sales in the Southern Cone countries by our Polyolefins Unit are primarily based on regional prices and sales are generally made either with letters of credit or through direct bank collections.

Competition

We compete with regional polyolefins producers located in Brazil and Argentina and, to a lesser extent, with other importers of these products. In the Brazilian polyethylene market, we compete with a number of companies that produce one or two of the products in our product line. LDPE is produced in Brazil by Quattor with an annual production capacity of 270,000 tons compared to our annual production capacity of 525,000 tons, which includes the annual production capacity of Triunfo.

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

- Quattor, with a maximum annual production capacity of 750,000 tons of LLDPE and HDPE at swing-line plants capable of producing LLDPE and HDPE; and
- Solvay, with an annual capacity of 82,000 tons of HDPE.

We have (1) a combined annual production capacity of 900,000 tons at swing-line plants capable of producing LLDPE and HDPE, and (2) combined annual HDPE and UHMWP production capacity of 560,000 tons.

In the Brazilian polypropylene market, we compete with Quattor. Quattor has annual production capacity of 875,000 tons, compared to our annual production capacity of 1,040,000 tons.

We do not have any domestic competitors in the Brazilian UHMWP market. Internationally, our primary competitor in this market is Ticona, which is a member of the Celanese Group, a German chemical company that has approximately 33.0% of the worldwide production capacity of UHMWP.

Price competition in the international markets in 2008 as a result of reduced global demand for polyolefins resulted in a 37.4% increase in Brazilian polyethylene imports, which represented 22.7% of Brazilian polyethylene consumption in 2008, and a 12.0% increase in Brazilian polypropylene imports, which represented 15.3% of Brazilian polypropylene consumption in 2008.

Vinyls Unit

We are the leading producer of PVC in Brazil, based on sales volumes in 2008. At December 31, 2008, our PVC production facilities had the largest average annual production capacity in Latin America. Our Vinyls Unit accounted for R$2,052.8 million, or 8.4%, of our net sales revenue of all segments in 2008.

Our Vinyls Unit is the only vertically integrated producer of PVC in Brazil. Our PVC production is integrated through our production of chlorine and other raw materials. Our Vinyls Unit also manufactures caustic soda, which is used by producers of aluminum and paper; ethylene dichloride, or EDC; and chlorine, which we use to manufacture EDC. In 2008, 66.6% of our Vinyls Unit s net sales revenue was derived from the sale of PVC products, 28.4% was derived from the sale of caustic soda and 2.5% from the sale of EDC and the remainder from the sale of other products.

In 2008, we had an approximate 53.2% share of the Brazilian PVC market, based on sales volumes.

Products of Our Vinyls Unit

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

	For the Year Ended December 31,								
	2008			2007			2006		
	Quantities Sold (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)	Quantities Sold (thousands of tons)	Net Sales Revenue (millions of *reais*)	(%)
Domestic sales:									
PVC suspension	477.0	R$1,253.2	61.0%	445.5	R$1,139.0	63.7%	380.6	R$924.2	59.9%
PVC emulsion	19.2	75.7	3.7	19.4	77.4	4.3	19.7	81.1	5.3
Caustic soda	463.3	559.5	27.3	450.5	373.8	20.9	423.9	357.8	23.2
Others (1)	142.6	73.3	3.6	105.2	47.9	2.7	110.2	58.5	3.8
Total domestic sales	1,102.2	1,961.7	95.6	1,020.6	1,638.1	91.5	934.4	1,421.5	92.2
Total exports	98.2	91.2	4.4	148.0	151.3	8.5	142.7	120.2	7.8
Total vinyl net sales	1,200.4	R$2,052.8	100%	1,168.7	R$1,789.4	100%	1,077.1	R$1,541.7	100%

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

PVC and EDC

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

Suspension PVC represented 98.5% of our PVC production in 2008. The grades of PVC produced by the suspension production process are the most widely used, including for use in the manufacture of pipes and fittings, laminated products, shoes, sheeting, flooring, cable insulation, electrical conduit, packaging and medical applications. The grades of paste PVC are more specialized products and are used in the manufacture of toys, synthetic leather, flooring materials, bottle caps and seals, automobile corrosion prevention treatments and wallpaper coatings.

Our Vinyls Unit also produces EDC, the principal feedstock used in the production of PVC. We used 78.2% of our EDC production in 2008 for further processing into PVC and sold the remainder in the Brazilian and Asian markets.

Caustic Soda

Our Vinyls Unit also produces caustic soda. Caustic soda is a basic commodity chemical that is sold to producers of aluminum, pulp and paper, petrochemicals and other chemicals, soaps and detergents and to waste treatment plants. Caustic soda is also used in the textile industry to make fabrics more absorbent and to improve the strength of dyes, as well as in food processing and electroplating. We used 2.2% of our caustic soda production in 2008 and sold the remainder to third parties.

Production Facilities of Our Vinyls Unit

We own five vinyls production facilities. Two of our facilities are located in the Northeastern Complex, and two others are located in the State of Alagoas. Our fifth facility is located in the City of São Paulo.

The following table sets forth the name and location, primary products, annual production capacity at December 31, 2008, and annual production for the years presented for each of our vinyls plants.

Location (Complex)	Primary Products	Annual Production Capacity (in tons)	Production For the Year Ended December 31, 2008	2007 (in tons)	2006
Camaçari (Northeastern)	PVC	250,000	229,710	209,312	193,089
Camaçari (Northeastern)	Caustic Soda	79,000	72,074	67,393	73,316
	Chlorine	64,000	64,211	65,505	59,820
Maceió (Alagoas)	Caustic Soda	460,000	424,833	391,164	395,572
	Chlorine	400,000	395,413	381,133	370,588
	EDC	520,000	521,677	478,941	477,472
Marechal Deodoro (Alagoas)	PVC	240,000	262,636	235,154	229,079
Vila Prudente (São Paulo)	PVC	26,000	21,451	20,955	21,888

Raw Materials of Our Vinyls Unit

Ethylene

The most significant direct cost associated with the production of PVC and EDC is the cost of ethylene, which accounted for 48.0% of our variable cost of PVC sales in 2008 and 27.0% of our EDC sales in 2008. Our Basic Petrochemical Unit supplies all of the ethylene required by our Vinyls Unit. Ethylene is delivered to our Alagoas plant via a 477-kilometer pipeline that we own, and to our PVC plant in the Northeastern Complex via a separate pipeline. Because the cost of storing and transporting ethylene is substantial and there is inadequate infrastructure in Brazil to permit the importation of large quantities of ethylene, our Vinyls Unit is highly dependent on ethylene that is supplied by our Basic Petrochemicals Unit. Our São Paulo plant receives vinylchloride monomer (a raw material used in manufacturing PVC) by ship from our plant in the Northeastern Complex.

Electric Power

Electric power is a significant cost component in our production of chlorine and caustic soda. Electric power accounted for 63.2% of our Vinyls Unit s cost of caustic soda sales in 2008 and 14.8% of our Vinyls Unit s total cost of sales in 2008. Our Vinyls Unit obtains its electric power requirements from various generators under long-term power purchase agreements. Our caustic soda plants at Camaçari and Alagoas and our PVC plant at Camaçari purchase their electric power requirements from CHESF under a long-term contract that expires in 2010. Companhia Energética de Alagoas S.A., or CEAL, distributes electric power to our PVC plant in Alagoas. Our São Paulo plant obtains its electric power from Eletropaulo Metropolitana-Eletricidade de São Paulo S.A., or Eletropaulo. The power purchase agreements with CEAL and Eletropaulo are renewable contracts with automatic rolling three-year extensions. These agreements provide us with the option to purchase our total electric power requirements based on an annual estimate. The price terms of these contracts are based upon tariffs regulated by the Brazilian National Electrical Energy Agency (*Agência Nacional de Energia Elétrica*).

Salt

We used approximately 827,000 tons of salt during 2008 in our production of chlorine and caustic soda. Salt accounted for 1.3% of our variable costs of caustic soda sales in 2008 and 0.9% of our Vinyls Unit s total cost of sales in 2008. We have exclusive salt exploration rights at a salt mine located near our Alagoas plant. We estimate that the salt reserves of this mine are sufficient to allow us to produce chlorine at expected rates of production for approximately 35 to 45 years. We enjoy significant cost advantages when compared to certain of our competitors due to the low extraction costs of rock salt (particularly compared to sea salt), and low transportation costs due to the proximity of the salt mine to our production facility.

Other Utilities

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

Technology of Our Vinyls Unit

We have entered into several non-exclusive agreements with a number of leading petrochemical companies to use technology for our Vinyls Unit. In addition, we own 44 patents and six trademarks in Brazil related to our PVC business. We do not pay any continuing royalties under any of these license agreements. If any of these arrangements were terminated or no longer available to us, we believe that we would be able to replace the relevant technology with comparable or better technology from other sources.

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

Pilot Plant and Research Center

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

In 2008, we launched Norvic S80SA, a suspension PVC resin used in the production of footwear which is a more cost-effective, wear-resistant alternative to rubber. We have developed new PVC applications for construction systems for houses and industrial facilities that are based on PVC panels, as well as for highway structures. We launched new resins in 2006, 2007 and 2008, and sales of these resins represented 27.0% of the net sales revenue of our Vinyls Unit in 2008.

Sales and Marketing of Our Vinyls Unit

Net sales to our 10 largest Vinyls Unit customers accounted for 44.8% of our Vinyls Unit s total net sales revenue during 2008. One customer accounted for 15.0% of our Vinyls Unit s total sales revenue in 2008, 11.6% in 2007 and 11.3% in 2006. One customer accounted for 40.5% of our total external EDC sales in 2008, 22.8% in 2007 and 58.1% in 2006, and our largest caustic soda customer accounted for 7.0% of total caustic soda sales in 2008, 7.7% in 2007 and 8.6% in 2006.

There is a structural link between the PVC and caustic soda markets that exists because caustic soda is a byproduct of the production of chlorine required to produce PVC. When demand for PVC is high, then greater amounts of caustic soda are produced, leading to an increase in supply and generally lower prices for caustic soda. Conversely, when demand for PVC is low, prices for caustic soda tend to rise.

Domestic Sales

In 2008, our Vinyls Unit had domestic net sales revenue of R$1,961.7 million, which accounted for 95.6% of our Vinyls Unit net sales revenue. In 2008, 67.8% of the Vinyls Unit s domestic net sales revenue was attributable to sales of PVC, 28.6% was attributable to sales of caustic soda and 3.6% was attributable to sales of other products.

We make most of our domestic sales of PVC and caustic soda directly to customers without the use of third party distributors. However, our Vinyls Unit maintains contractual relationships with three distribution centers located in Paulínia and Barueri, both in the State of São Paulo, and Joinville in the State of Santa Catarina that provide logistical support. In addition, we operate three warehouse facilities for PVC and six terminal tank facilities for caustic soda strategically located along the Brazilian coast to enable us to deliver our products to our customers on a just-in-time basis. Our Vinyls Unit develops its business through close collaboration with its customers, working together to improve existing products as well as to develop new applications for PVC. Our marketing and technical assistance groups also advise customers and potential customers that are considering the installation of manufacturing equipment for PVC end products.

Export Sales

In 2008, our Vinyls Unit had export net sales revenue of R$91.2 million, which accounted for 4.4% of our Vinyls Unit s total net sales revenue. Our export sales of PVC and EDC vary from year to year, influenced principally by domestic market demand and product availability.

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

	For the Year Ended December 31,		
	2008	**2007**	**2006**
Net export sales revenue (in millions of *reais*)	R$91.2	R$151.3	R$120.2
As % of total net sales revenue of Vinyls Unit	4.4%	8.5%	7.8%
Export volumes (thousands of tons)	97.7	148.0	142.7
As % of total production of Vinyls Unit	4.9%	8.0%	7.8%

We use a variety of methods to distribute our exports, depending generally on the total size of the export market, including direct sales, independent distributors, negotiations conducted through trading companies and sales on the spot market. Our export sales of PVC are focused primarily on the South American, Southeast Asian and United States markets and to a lesser extent on Europe. During the second half of 2008, Chinese demand for PVC declined following the conclusion of the Olympic Games and demand for PVC in the United States declined as the effects of the global financial and credit crisis became more pronounced. As a result of this contraction of demand, PVC in the United States increased the volume of exports of their PVC products, leading to greater price competition in the export markets that we serve.

Prices and Sales Terms

We determine the domestic prices for our PVC resins with reference principally to the prices paid by third generation producers in Brazil for imports of PVC plus additional service charges. Our export price for PVC is generally equal to the international market price but also takes transportation costs into account. Delivery time, quality and technical service also affect the levels of sales of PVC resins. We establish our domestic price for caustic soda based on international market prices and prices charged by our three domestic competitors, taking into account any import duties and freight costs. Approximately 54.1% of our caustic soda sales in 2008 were effected pursuant to agreements that are generally for one- to three-year terms and may include minimum and maximum prices. As with PVC, our export prices for EDC are generally determined according to international market prices but also take import duties and freight costs into account.

Prices that we charge for our vinyls products in the Brazilian market are traditionally higher than the prices that we obtain for our exports of these products. The difference in prices between the Brazilian and export markets results generally from:

- transportation costs;
- tariffs, duties and other trade barriers;
- a pricing premium reflecting the tighter demand/supply relationship in Brazil; and
- our reliability of supply, coupled with the technical support that we provide.

Our customers in Brazil may pay in full on delivery or elect credit terms that require payment in full within seven to 90 days following delivery. We charge interest based on prevailing market rates to our customers in Brazil that elect longer payment options. Sales terms for exports generally require payment between 90 and 120 days following delivery. We usually require irrevocable letters of credit for export sales made on the spot market.

Competition

PVC

We and Solvay are the only two producers of PVC in Brazil. Solvay s total Brazilian installed annual production capacity is 295,000 tons, compared to our annual production capacity of 516,000 tons. Solvay s production facilities are located in São Paulo and, therefore, are closer than our facilities to the primary PVC market in Brazil. However, we believe that our vertically integrated production capabilities, our modern PVC suspension plants, our strong relationship with our customers and our technical assistance programs enable us to compete effectively with Solvay.

We also compete with importers of PVC. Solvay, which has a plant in Argentina in addition to its plants in Brazil, is also our principal competitor in the PVC market both in Brazil and elsewhere in South America. Brazilian consumption of PVC, which increased by 27.1% in 2008, together with the shutdown of Solvay s Brazilian PVC production for almost three months in the third quarter of 2008 and price competition in the international markets in 2008 as a result of reduced global demand for PVC, resulted in a 106.9% increase in Brazilian PVC imports, which represented 35.1% of Brazilian PVC consumption in 2008. Domestically produced PVC is generally competitively priced with imported PVC after taking into account transportation costs and import duties.

In addition, we compete with other producers of thermoplastics that manufacture the same vinyls products or substitutes for products in our vinyls product line. Thermoplastics principally consist of polyethylene and polypropylene and are used in certain applications as substitutes for PVC. Wood, glass and metals also are used in some cases as substitutes for PVC.

Other Products

The four largest Brazilian producers of caustic soda accounted for 91.2% of Brazilian production in 2008. Our company and Dow Chemical operate in this market throughout Brazil, while the other domestic producers of caustic soda generally operate on a local or regional basis. Imports accounted for 41.6% of Brazil s total caustic soda consumption in 2008. We do not believe that imports of caustic soda will increase substantially because of the high cost of transporting caustic soda, which is usually sold in suspension form. In the caustic soda market, we compete mainly on the basis of price and timeliness of delivery.

Our principal competitors in the caustic soda market elsewhere in South America are Dow Chemical, Solvay and producers located on the U.S. Gulf Coast.

IQ Soluções & Química

IQ Soluções & Química accounted for R$601.8 million, or 2.5% of the net sales revenue of all segments in 2008. IQ Soluções & Química is the largest Brazilian distributor of chemical and petrochemical products with a market share of approximately 10%. As a result of our obtaining effective management control over IQ Soluções &

Química in April 2007, we have fully consolidated IQ Soluções & Química s results in our consolidated financial statements and reported the results of IQ Soluções & Química s as a separate segment as from April 1, 2007.

IQ Soluções & Química distributes products manufactured by our Polyolefins Unit, as well as products from more than 70 domestic and international companies. IQ Soluções & Química distributes products in a broad range of market segments, including agrochemicals, rubber and general purpose chemicals; cosmetics and pharmaceuticals; household and other industrial segments; plastic transformation; and paints, resins, adhesives and civil construction.

Products Distributed by IQ Soluções & Química

IQ Soluções & Química distributes a large and diverse portfolio of products consisting of more than 1,000 products. We classify the products distributed by IQ Soluções & Química as:

- solvents, including aliphatic solvents, aromatic solvents, synthetic solvents and ecological solvents;
- polymers; and
- general purpose chemicals, including process oils, chemical intermediates, blends, specialty chemicals, pharmaceuticals and santoprene.

The following table sets forth a breakdown of the sales volume and net sales revenue of IQ Soluções & Química by product for the year ended December 31, 2008 and for the nine months ended December 31, 2007.

	Year Ended December 31, 2008			**Nine Months Ended December 31, 2007(1)**		
	Quantities Sold (thousands of tons)	**Net Sales Revenue (millions of *reais*)**	**(%)**	**Quantities Sold (thousands of tons)**	**Net Sales Revenue (millions of *reais*)**	**(%)**
Solvents:						
Aliphatic solvents	28.5	R$63.2	10.5%	28.9	R$57.5	14.6%
Aromatic solvents	27.0	64.7	10.7	20.2	42.6	10.8
Synthetic solvents	19.6	52.6	8.7	12.9	36.4	9.3
Ecological solvents	0.3	1.1	0.2	0.2	0.6	0.2
Polymers	38.4	156.5	26.0	25.7	96.6	24.6
General purpose chemicals:						
Process oils	30.6	54.3	9.0	27.3	40.9	10.4
Chemical intermediates	11.2	43.1	7.2	10.1	32.4	8.3
Blends	30.2	79.9	13.3	15.5	30.9	7.9
Specialty chemicals	4.4	51.2	8.5	2.7	26.5	6.8
Santoprene	1.7	12.9	2.1	1.2	9.6	2.4
Pharmaceuticals	1.2	20.0	3.3	0.9	13.4	3.4
Services	0.1	2.4	0.4	0.1	5.2	1.3
Total net sales	193.1	R$601.8	100%	145.6	R$392.6	100%

Distribution Agreements

IQ Soluções & Química has commercial relationships with more than 50 domestic and international companies, under which IQ Soluções & Química distributes specified products, including:

- Conoco-Phillips for the distribution of hydrocarbon solvents;
- Sasol Solvents for the distribution of synthetic Solvents;

- Lubrizol for the distribution of additives for lubricants.
- Wacker Chemie GmbH for the distribution of silicone-derived products;
- RT Vanderbilt for the distribution of specialty chemicals for the rubber, cosmetics and lubricants industries;
- Sasol Wax for the distribution of waxes;
- DCC for the distribution of pigments;
- Emerald Kalama for the distribution of chemical intermediates and specialty chemicals;
- Sandoz for the distribution of active pharmaceutical ingredients;
- JRS Pharma for the distribution of pharmaceutical excipients; and
- Meggle for the distribution of pharmaceutical excipients.

IQ Soluções & Química also has entered into distribution agreements that provide it with exclusive rights to distribute specified products in Brazil, including distribution agreements with:

- Petrobras for the distribution of hydrocarbon solvents;
- Eastman Chemical for the distribution of solvents and chemical intermediates; and
- RT Vanderbilt for the distribution of specialty chemicals for the rubber, cosmetics and lubricants industries, under which IQ Soluções & Química may not distribute products for Vanderbilt s competitors.

Generally, IQ Soluções & Química initiates distribution activities for a producer with a letter of intent with a term of one-year and, following this period, extends these commercial relationships or distribution agreements for an indefinite period. Generally, IQ Soluções & Química s distribution agreements may be terminated by either party on 30 to 180 days notice.

IQ Soluções & Química s distribution agreements are generally local stock agreements, indent sales agreements or agreements that combine the features of both. Under IQ Soluções & Química s local stock agreements, IQ Soluções & Química purchases chemicals for resale to its customers. These agreements do not contain minimum volume or maximum margin requirements. Sales to IQ Soluções & Química under these agreements are at prices negotiated between IQ Soluções & Química and the producer. IQ Soluções & Química s distribution agreement with Petrobras provides that IQ Soluções & Química is eligible to receive a discount on purchases based on the volume of products purchased. Under IQ Soluções & Química s indent sales agreements, IQ Soluções & Química acts as a sales agent and receives a commission on the total sales revenue (FOB price) generated for the producer by these sales.

Sales and Marketing by IQ Soluções & Química

IQ Soluções & Química distributes products to chemical retailers, third generation petrochemical producers and other manufacturers. We determine the prices for the products distributed by IQ Soluções & Química by reference to several market factors, including the prices paid by third generation producers for imports of these products and prevailing market prices in Brazil. IQ Soluções & Química serves approximately 5,000 active clients in more than 50 market segments, through 11 business units supported by seven sales offices throughout Brazil. IQ Soluções & Química operates four distribution centers that include warehouses and tank farms. IQ Soluções & Química owns its distribution centers in Guarulhos in the State of São Paulo, Canoas in the State of Rio Grande do Sul and Duque de Caxias in the State of Rio de Janeiro, and leases a distribution facility in Simões Filho in the State of Bahia.

IQ Soluções & Química distributes products in a broad range of market segments. No customer represented more than 10% of the net sales revenue of IQ Soluções & Química during 2006, 2007 or 2008. The following table sets forth a breakdown of the net sales revenue of IQ Soluções & Química by market segment served by its customer for the year ended December 31, 2008 and for the nine months ended December 31, 2007.

	Year Ended December 31, 2008 (millions of *reais*)	(%)	Nine Months Ended December 31, 2007 (millions of *reais*)	(%)
Plastics	R$141.3	23.5%	R$81.3	20.7%
Paints and Coats	89.7	14.9	61.6	15.7
Rubber	86.8	14.4	47.5	12.1
Pharmaceutical	40.0	6.7	34.2	8.7
Agribusiness	52.5	8.7	24.3	6.2
Adhesives	25.7	4.3	18.1	4.6
Chemicals	29.0	4.8	17.7	4.5
Household products	11.2	1.9	14.1	3.6
Lubricants	18.4	3.0	13.0	3.3
Automobile	15.3	2.6	12.2	3.1
Petrochemical	11.9	2.0	10.2	2.6
Cosmetics/ Personal Care	17.5	2.9	9.4	2.4
Chemical and petrochemical resale	12.6	2.0	8.6	2.2
Other	49.9	8.2	40.4	10.3
Total net sales	R$601.8	100%	R$392.6	100%

Competition

The chemical distribution industry in Brazil had revenues of US$5.2 billion in 2008, according to preliminary data published by the Brazilian Chemical and Petrochemical Distributors Association. The chemical distribution industry in Brazil is highly fragmented, with a small number of large distributors, such as Bandeirantes Brazmo, M Cassab, Quattor, Coremal, Arinos, Makeni Química and Brenntag, and a large number of small distributors. The Brazilian Chemical and Petrochemical Distributors Association estimates that 6% of the companies in this industry have annual sales of more than US$150 million while 72% have annual sales of less than US$50 million. The customer base for chemical distributors is primarily composed of customers that consume small volumes of any distributed product.

Capital Expenditures

Our capital expenditures on property, plant and equipment and intangible assets were R$1,682.3 million in 2008, R$2,432.6 million in 2007 and R$889.7 million in 2006. Additionally, our investments in interests in other companies were R$653.8 million in 2008, R$1,345.5 million in 2007 and R$222.7 million in 2006. Our capital expenditures projects from 2006 through 2008 included the following:

- an automation project in our PVC plants in Alagoas and in the Northeastern Complex that modernized and improved the operational performance of this plant, and increased the safety of our production processes at this plant. We completed this project in the second half of 2006 at a total cost of R$31.1 million.
- an efficiency enhancement project at one of our polyethylene plants in the Northeastern Complex that increased its annual production capacity by 30,000 tons. We completed this project in 2006 at a total cost of R$9.9 million.

- an efficiency enhancement project at our Aromatics 2 unit in the Northeastern Complex that increased its annual isoprene production capacity by 8,800 to 26,800 tons. We completed this project in 2006 at a total cost of R$81.9 million.
- the conversion of our MTBE plant in the Southern Complex to an ETBE plant. This project was completed in September 2007 at a total cost of R$23.4 million.
- the conversion of our MTBE plant in the Northeastern Complex to an ETBE plant. This project commenced in 2007 and is expected to be completed in July 2009 at an estimated total cost of R$95.5 million.
- an efficiency enhancement project at one of our polypropylene plants in the Southern Complex that increased its annual production capacity by 30,000 tons. We completed this project in April 2008 at a total cost of R$8.3 million.
- an efficiency enhancement project at the Southern Complex s Olefins 1 unit that increased its annual ethylene production capacity by 52,000 tons and its annual propylene production capacity by 30,000 tons.
  This project was undertaken during the general maintenance shutdown of this unit in April 2008 at a totalcost of R$158.0 million.
- efficiency enhancement projects at two of our polyethylene plants in the Northeastern Complex that increased our annual polyethylene production capacity by 20,000 tons. We completed these projects in June 2008 at a total cost of R$13.2 million.

Formula Braskem

In 2005, we commenced our Formula Braskem program to implement a new integrated management system intended to incorporate the best practices in the international petrochemical industry in our management systems and the most recent technological developments available in the marketplace. We made capital expenditures of R$130.0 million between 2005 and 2007 related to the implementation of the first phase of Formula Braskem. We made capital expenditures of R$39.9 million in 2007 related to the implementation of the second phase of Formula Braskem.

Formula Sul

In 2008, we implemented our Formula Sul project to integrate the management systems of Copesul, Ipiranga Petroquímica and Ipiranga Química into our management system. The total cost of this project was R$29.6 million.

Petroquímica Paulínia

In September 2005, we and Petroquisa incorporated Paulínia as a joint venture company for the construction and operation of a polypropylene plant to be located in Paulínia, in the State of São Paulo, with an initial annual production capacity of 350,000 tons. We initially owned 60% of the total and voting share capital of Paulínia, and Petroquisa owned the remaining total and voting share capital. In December 2006, Paulínia entered into a credit agreement with Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES, in the aggregate amount of R$566.2 million to finance the construction of this plant. The remaining cost of this plant was financed through equity contributions by the shareholders of Paulínia. During the course of the construction of Paulínia s polypropylene plant, we invested R$145.1 million in Paulínia. The total cost of Paulínia s polypropylene plant was R$742.3 million. This plant commenced operations in April 2008. As a result of the completion of the first phase of the Petrobras Transaction in May 2008, we owned all of the share capital of Paulínia. On September 30, 2008, Paulínia merged with and into Braskem.

Politeno Acquisition

In April 2006, we purchased all of the common and preferred shares of Politeno that were owned by SPQ, Sumitomo and Itochu. We paid a portion of the purchase price for these shares in an aggregate amount of the *real*-equivalent of US$111.3 million in April 2006. The remainder of the purchase price for these shares was calculated based on an earn-out formula taking into account Politeno s operating performance, measured by fluctuations in polyethylene and ethylene margins in the Brazilian petrochemical market during the 18 months following the execution date of the agreement under which we acquired these shares. Following the Politeno Acquisition, we owned 100% of the voting share capital and 96.2% of the total share capital of Politeno. Politeno merged with and into Braskem on April 2, 2007. In January 2008, we paid the remaining portion of the purchase price of R$247.5 million.

Ipiranga Transaction

Under the Ipiranga Investment Agreement, we acquired 60% of the share capital of Ipiranga Química. In addition, under the Ipiranga Investment Agreement, Ultrapar was obligated to transfer 33.3% of the share capital of RPI to our company and 33.3% of the share capital of RPI to Petrobras. As a result of this transfer, which occurred on March 18, 2009, we jointly and equally control RPI with Petrobras and Ultrapar. The total purchase price to our company of the shares of Ipiranga Química and RPI that we have acquired was R$1,489.1 million, which we paid in installments of R$651.9 million in April 2007, R$156.7 million in October 2007, R$47.0 million in November 2007 and R$633.5 million in February 2008. For additional information regarding the Ipiranga Transaction, see Item 4. Information on the Company History and Development of Our Company Ipiranga Transaction.

As part of the Ipiranga Transaction:

- in June 2007, a subsidiary of Ipiranga Química, acquired the 7.6% of the total share capital of Ipiranga Petroquímica not owned by Ipiranga Química for a purchase price of R$117.9 million. In August 2007, EDSP67 merged with and into Ipiranga Petroquímica. As a result of these transactions, Ipiranga Petroquímica is now a wholly-owned subsidiary of Ipiranga Química; and
- in October 2007, our subsidiary EDSP58 acquired 22.7% of the total and voting share capital of Copesul through a public tender offer for the Copesul shares not then owned by our company, Ipiranga Petroquímica, Petroquisa or Triunfo. The purchase price for these shares was R$1,294.2 million. We owned 60% of the total and voting share capital of EDSP58, and Petrobras owned the remaining share capital of EDSP58. In October 2007 and November 2007, EDSP58 purchased additional shares of Copesul at the price per share paid in the Copesul Tender Offer. In November 2007, Copesul redeemed all of its outstanding shares, other than shares held by our company, EDSP58, Ipiranga Petroquímica, Petroquisa and Triunfo at the price per share paid in the Copesul Tender Offer. The aggregate purchase price for the shares purchased and redeemed after the completion of the Copesul Tender Offer was R$124.3 million. In December 2007, EDSP58 merged with and into Copesul.

Venezuelan Initiatives

Polypropylene Project

In December 2007, we, through our wholly owned Netherlands subsidiary, Braskem Europe B.V., entered into a shareholders agreement, which we refer to as the Propilsur Shareholders Agreement, with Petroquímica de Venezuela, S.A., or Pequiven, the government-owned petrochemical company of the Bolivarian Republic of Venezuela.

In November 2008, we formed Polipropileno del Sur, S.A., or Propilsur, a joint venture with Pequiven in which we and Pequiven each own 49% of the share capital, which will develop, construct and operate of a polypropylene plant with an integrated propane dehydrogenation unit to be located in the Jose Petrochemical Complex in the State of Anzoategui, Venezuela. This plant is expected to have an annual production capacity of approximately 450,000 tons.

The Propilsur Shareholders Agreement sets forth the understanding of the parties regarding the implementation of this project and the relationship of Braskem and Pequiven as shareholders of Propilsur. Under the Propilsur Shareholders Agreement:

- Pequiven will be responsible for obtaining a supply of propane, the primary feed stock of the integrated propane dehydrogenation unit of this plant;
- a significant portion of the cost of the project will be borrowed by Propilsur under project finance arrangements, collateralized by the assets of this project, with multilateral credit agencies, export credit agencies, development banks and private banks and through securities issuances in the Venezuelan and international capital markets; and
- we and Pequiven each appointed two members to Propilsur s four-member board of directors; decisions by Propilsur s general shareholders meetings and board of directors require unanimous approval; Propilsur s general and financial managers were nominated by Pequiven, subject to board approval; and Propilsur s operations and commercial managers were nominated by our company, subject to board approval.

The Propilsur Shareholders Agreement includes provisions for mediation and arbitration in the event of disputes and a deadlock between our company and Pequiven in matters to be determined by Propilsur s board of directors and grants rights of first offer and first refusal to our company and Pequiven in the event that we or Pequiven determine to sell our equity interests in Propilsur.

The estimated total cost of this project to Propilsur (excluding financing costs) is approximately US$880 million of which we anticipate that we and Pequiven will each contribute approximately 15% as equity. We expect that if the implementation of this project is approved, construction of this project will commence in the beginning of 2010 and that this project will begin production in 2012.

The Propilsur Shareholders Agreement provides that implementation of this project is contingent upon a final investment decision of each of the parties by January 2010. We are continuing to negotiate with Pequiven regarding details of the implementation of this project. We can provide no assurances that these negotiations will be successful or that if we reach a final agreement with respect to the implementation of this project, such agreement will be upon the terms currently anticipated by our management.

Jose Olefins Project

In December 2007, we, through our wholly owned Netherland subsidiary, Braskem Europe B.V., entered into a shareholders agreement with Pequiven, which we refer to as the Polimerica Shareholders Agreement.

In November 2008, we formed Polietilenos de America, S.A., or Polimerica, a joint venture with Pequiven in which we and Pequiven each own 49% of the share capital, which will develop, construct and operate the Jose Olefins Project, an olefins complex to be located in the Jose Petrochemical Complex. The proposed complex would include an ethylene cracker that would use ethane extracted from natural gas as its raw material, with an annual production capacity of 1.3 million tons, and three polyethylene plants with a combined annual production capacity of 1.1 million tons of HDPE, LDPE and LLDPE.

The Polimerica Shareholders Agreement sets forth the understanding of the parties regarding the implementation of this project and the relationship of Braskem and Pequiven as shareholders of Polimerica. Under the Polimerica Shareholders Agreement:

- a significant portion of the cost of the project will be borrowed by Polimerica under project finance arrangements, collateralized by the assets of this project, with multilateral credit agencies, export credit agencies, development banks and private banks and through securities issuances in the Venezuelan and international capital markets; and

- we and Pequiven each appointed two members to Polimerica s four-member board of directors; decisions by Polimerica s general shareholders meetings and board of directors require unanimous approval; Polimerica s general and financial managers were nominated by Pequiven, subject to board approval; and Polimerica s operations and commercial managers were nominated by our company, subject to board approval.

The Polimerica Shareholders Agreement includes provisions for mediation and arbitration in the event of disputes and a deadlock between our company and Pequiven in matters to be determined by Polimerica s board of directors and grants rights of first offer and first refusal to our company and Pequiven in the event that we or Pequiven determine to sell our equity interests in Polimerica.

The estimated total cost of this project to Polimerica (excluding financing costs) is approximately US$3.3 billion of which we anticipate that we and Pequiven will each contribute approximately 15% as equity. We expect that if the implementation of this project is approved, construction of this project will commence in 2011 and this project will begin production in 2014.

The Polimerica Shareholders Agreement provides that implementation of this project is contingent upon a final investment decision of each of the parties by April 2011. We are continuing to negotiate with Pequiven regarding details of the implementation of this project. We can provide no assurances that these negotiations will be successful or that if we reach a final agreement with respect to the implementation of this project, such agreement will be upon the terms currently anticipated by our management.

Peru Initiative

In May 2008, Braskem, Petrobras and Petróleos Del Perú Petroperú S.A. entered into an agreement to study the technical and economic feasibility of developing, constructing and operating a polyethylene plant with annual production capacity of 700,000 to 1,200,000 tons using natural gas from Peru as its raw material. This project would be located a new integrated petrochemical complex on the Pacific coast of Perú. The initial technical and economic feasibility studies are expected to be concluded in 2009.

Green Polyethylene Project

In December 2008, we commenced construction of a new ethylene plant in the Southern Complex that will produce ethylene using sugar cane ethanol received through the Santa Clara Terminal as its primary raw material for our use in the production of polyethylene. We believe that when this plant is completed we will be the world s first producer of polyethylene manufactured completely from renewable resources. We expect that this plant will have an annual production capacity of 200,000 tons of ethylene and will commence operations in 2011. We anticipate that the total cost of this project will be approximately R$500 million.

Research and Development

Our ability to compete in the Brazilian and foreign markets that we serve depends on our ability to integrate new production processes developed by our company and third parties in order to lower our costs and offer new thermoplastic products. In addition, our relationships with our customers are enhanced by our ability to develop new products and customize existing products to meet their needs. To meet these challenges, we maintain a research and development program that is primarily implemented at the Braskem Center for Innovation and Technology in the Southern Complex. We invested R$69.8 million, R$76.5 million and R$44.3 million in research and development in 2008, 2007 and 2006, respectively.

2009 Capital Expenditure Budget

We currently are budgeting total capital expenditures of approximately R$1.1 billion for 2009. Our principal capital expenditures for 2009 consist of, in addition to the projects referred to in the preceding paragraphs, approximately R$118 million for productivity improvements, approximately R$182 million for maintenance stoppages and other maintenance of our plants, approximately R$124 million for the replacement of depreciated

equipment, approximately R$34 million for plant modernization and information systems and approximately R$88 million for health, environmental and quality improvement projects.

Other Projects

We are currently evaluating projects that could entail significant capital expenditures in the future, including:

- an efficiency enhancement project at our PVC plant in the Northeastern Complex that we expect will increase our annual PVC production capacity by 200,000 tons. This project is subject to approval by our board of directors. If approved, we expect to complete this project during 2011. The total cost of this project is under evaluation.
- construction of a new polypropylene plant in the Northeastern Complex. This project is subject to approval by our board of directors. If approved, we expect that this plant will have an annual production capacity of 300,000 tons and will commence operations in 2012. The total cost of this project is under evaluation.

Maintenance

Most of our maintenance is performed by third-party service providers. For example, we have contracts with Construtora Norberto Odebrecht S.A., or CNO, a company in the Odebrecht Group, Asea Brown Boveri Ltd., Cegelec Ltda., Rip Serviços Industriais S.A., Cl Engenharia Ltda. and other service providers to perform maintenance for our Basic Petrochemicals Unit. We also perform some of our ordinary course maintenance with our small team of maintenance technicians, which also coordinate the planning and execution of maintenance services performed by third parties.

Basic Petrochemicals Unit

Northeastern Complex

Because we have two independent Olefins units and two independent Aromatics units at the Northeastern Comples, we may continue production of basic petrochemicals without interruption, even while we perform certain maintenance services. We occasionally undertake other brief shutdowns of the basic petrochemical operations at the Northeastern Complex that do not materially affect our production output, primarily for maintenance purposes, catalyst regeneration and equipment cleaning. Regular basic petrochemicals plant maintenance requires complete plant shutdowns from time to time, and these shutdowns usually take approximately 30 days to complete.

The last general maintenance shutdown of the Northeastern Complex s Olefins 1 unit was carried out in May and June 2008 and lasted for 37 days. The cost of servicing the unit was approximately R$144 million (not including the value of lost production during this shutdown). In addition, we implemented various improvements to ensure the reliability, competitiveness and safety of this unit at a cost of approximately R$155 million. The next general maintenance shutdown of the Northeastern Complex s Olefins 1 is scheduled to occur in 2014 or 2015.

The last general maintenance shutdown of the Northeastern Complex s Aromatics 1 unit was carried out in 2005 and lasted 30 days. The cost of servicing this unit was approximately R$21 million (not including the value of lost production during this shutdown or investments in productivity enhancements). We no longer perform general maintenance shutdowns of the Northeastern Complex s Aromatics 1 unit and instead perform general maintenance shutdowns of specific plants or groups of plants in this unit. We performed maintenance of the parex plant of the Northeastern Complex s Aromatics 1 unit that lasted 52 days during a shutdown of this plant during 2007. The cost of servicing this plant was approximately R$19 million (not including the value of lost production during this shutdown or investments in productivity enhancements). We performed maintenance of the butadiene plant that lasted 30 days during the shutdown of the Northeastern Complex s Olefins 1 unit in May and June of 2008. The cost of servicing this plant was approximately R$7.6 million (not including the value of lost production during this shutdown). The next general maintenance shutdown of the Catalyst Reform plant and the plants comprising the C8 loop at the Northeastern Complex has been scheduled for September 2009 with an estimated duration of

approximately 30 days at an expected cost of R$35 million (not including the value of lost production during this shutdown or investments in productivity enhancements).

The last general maintenance shutdown of the Northeastern Complex s Aromatics 2 and Olefins 2 units (which form part of the same basic petrochemicals facility) was carried out in 2004 and lasted 36 days. The cost of servicing these units was approximately R$89 million (not including the value of lost production during this shutdown). The next general shutdown of the Northeastern Complex s Aromatics 2 and Olefins 2 units has been scheduled for 2010 with an estimated duration of approximately 25 days.

Southern Complex

Because we have two independent Olefins units at the Southern Complex, we may continue production of basic petrochemicals without interruption, even while we perform certain maintenance services. We occasionally undertake other brief shutdowns of the Southern Complex s basic petrochemical operations that do not materially affect our production output, primarily for maintenance purposes, catalyst regeneration and equipment cleaning. Regular maintenance of Southern Complex s basic petrochemical plants requires complete plant shutdowns from time to time, and these shutdowns usually take approximately 30 days to complete.

The last general maintenance shutdown of the Southern Complex s Olefins 1 unit and Aromatics unit was carried out beginning in April 2008 and lasted for 38 days. The cost of servicing the unit was approximately R$94.0 million (not including the value of lost production during this shutdown). In addition, during this shutdown, we implemented an efficiency enhancement project that increased the annual ethylene production capacity of this unit by 52,000 tons and the annual propylene production capacity of this unit by 30,000 tons at a cost of approximately R$158.0 million, and various improvements to ensure the reliability, competitiveness and safety of this unit at a cost of approximately R$252.0 million. The next general shutdown of the Southern Complex s Olefins 1 unit and Aromatics unit has been scheduled for 2014 or 2015.

The last general maintenance shutdown of the Southern Complex s Olefins 2 unit was carried out in 2005 and lasted for 32 days. The cost of servicing the unit was approximately R$44.1 million (not including the value of lost production during this shutdown). The next general shutdown of this unit has been scheduled for April 2011 with an estimated duration of approximately 30 days.

Polyolefins

We have a regular maintenance program for each of our polyolefins plants. Production at each of our Polyolefins Unit s polyolefins plants generally is shut down for seven to 20 days every two to three years to allow for regular inspection and maintenance. In addition, we undertake other brief shutdowns for maintenance purposes that do not materially affect our production of polyolefins. We coordinate the maintenance cycles of our polyolefins plants with those of our basic petrochemicals plants. While our basic petrochemicals facilities must be shut down for up to 30 days for maintenance, our polyolefins facilities may be shut down for shorter periods because these facilities are less complex to operate and maintain than our basic petrochemicals facilities.

Vinyls Unit

We have a regular maintenance program for each of our vinyls plants. Our Camaçari and Alagoas PVC plants are generally shut down for 15 to 20 days every two years to allow for regular inspection and maintenance. The last general maintenance shutdown of our PVC plant in Camaçari was carried out in October 2008 and lasted for 12 days. The next general maintenance shutdown of this plant is scheduled for May 2010. The last general maintenance shutdown of our PVC plant in Alagoas was carried out in April 2009 and lasted for 21 days. The next general maintenance shutdown of this plant is scheduled for April 2010. Our São Paulo PVC plant does not require prolonged maintenance shutdowns, resulting in shutdowns of two or three days each year for regular maintenance. Prior to 2007, our caustic soda and chlorine plant in Alagoas was generally shut down for 15 days of maintenance every two years. Beginning in 2007, our maintenance schedule at this plant has been altered so that we will now shut down this plant once a year for three days of maintenance in different parts of the plant. The last general maintenance shutdown of this plant was carried out in October 2006 and lasted for five days. Our caustic soda and

chlorine plant in Camaçari does not require prolonged maintenance shutdowns and is shut down for two or three days each year.

Environmental Regulation

We are subject to Brazilian federal, state and local laws and regulations governing the discharge of effluents and emissions into the environment and the handling and disposal of industrial waste and otherwise relating to the protection of the environment.

Under federal and state environmental laws and regulations, we are required to obtain operating permits for our manufacturing facilities. State authorities in the State of Bahia issued operating permits for our plants in the Northeastern Complex in 2000, which were renewed in 2005 for a six-year term. Our environmental operating permit obligates us to engage in systematic measures for the treatment of wastewater and hazardous solid waste. State authorities in the State of Rio Grande do Sul, where our Southern Complex plants are located regulate our operations by prescribing specific environmental standards in our operating permits, which must be renewed every four years. Our operating permit for the basic petrochemical plants in the Southern Complex was renewed in 2008 and the operating permits for our polyethelene and polypropylene plants were renewed on various dates in 2006 and 2007. State authorities in the States of Alagoas and São Paulo have issued permits for our plants in those respective complexes, which also must be renewed every four years. If any of our environmental licenses and permits lapse or are not renewed or if we fail to obtain any required environmental licenses and permits, we may be subject to fines ranging from R$500 to R$50.0 million, and the Brazilian government may partially or totally suspend our activities and impose civil and criminal sanctions on our company or both. All our environmental licenses and permits are in full force and effect.

All projects for the installation and operation of industrial facilities in the Northeastern Complex are subject to approval by the Council for Environmental Protection of the State of Bahia or by the Environmental Resources Center, the State s Environmental Protection Council s technical office, depending on the complexity of the facility. The State s Research and Development Center and other outside consultants act as technical advisors to the Environmental Resources Center. The State s Environmental Protection Council must approve installed projects prior to their commencement of operations and must renew such approval every five years thereafter.

All projects for the installation, modification and operation of industrial facilities in the Southern Complex are subject to approval by the Rio Grande do Sul State Environmental Protection Foundation. The Rio Grande do Sul State Environmental Protection Foundation must approve installed projects prior to their commencement of operations and must renew such approval every four years thereafter.

CETREL S.A. Empresa de Proteção Ambiental, or Cetrel, treats wastewater generated by our company and the other petrochemical producers at the Northeastern Complex at a liquid effluents treatment station located in the Northeastern Complex. This treatment station also includes a system for the collection and disposal of contaminated wastewater. Cetrel also stores and incinerates, treats and disposes of hazardous solid waste. For other kinds of solid waste, Cetrel maintains a landfill. Cetrel has installed two hazardous solid waste incinerators with a total annual incineration capacity of 16,600 tons. One of these incinerators has an annual incineration capacity of 4,400 tons and is used to dispose of chlorinated residue, and the other incinerator has an annual incineration capacity of 12,000 tons and is used to dispose of non-chlorinated residue. Another Brazilian company co-processes hazardous solid waste in a cement kiln located in the city of Pedro Leopoldo, State of Minas Gerais.

In January 1996, Cetrel obtained its BS 7750 environmental certification (British Standard) and in September 1996 became one of the first companies in the world to receive the ISO 14001 certification, an international standard for environmental control. In 1998, Cetrel obtained certification of its laboratory by the ISO Guide 25 standards system from the Brazilian Institute of Metrology and Industrial Quality.

Companhia Riograndense de Saneamento, or Corsan, a state-owned sanitation company, operates an integrated system for liquid effluents treatment, or Sitel, in the Southern Complex. Sitel treats wastewater generated by our company and the other petrochemical producers at the Southern Complex at a liquid effluents treatment station located in the Southern Complex. This treatment station also includes a system for the collection of contaminated wastewater and disposal after treatment. Corsan also operates a centralized system for solid waste control, or

Sicecors, in the Souther Complex. Sicecors centralizes the collection, treatment and final disposal of solid waste that is generated in the Southern Compex. Sicecors stores, treats and disposes of all solid waste generated at the Southern Complex that is not reused or recycled. Sitel and Sicecors received ISO 14001 certifications in 2001.

The Brazilian government enacted an Environmental Crimes Law in 1998 that imposes criminal penalties on corporations and individuals causing environmental damage. Corporations found to be polluting can be fined up to R$50.0 million, have their operations suspended, be prohibited from government contracting, be required to repair damage that they cause and lose certain tax benefits and incentives. Executive officers, directors and other individuals may be imprisoned for up to five years for environmental violations.

Our operations are in compliance in all material respects with applicable environmental laws and regulations currently in effect. Some environmental studies that we have commissioned have indicated instances of environmental contamination at certain of our plants. In addition, we and certain executive officers of our company and of our subsidiaries have received notices from time to time of minor environmental violations and are or have been subject to investigations or legal proceedings with respect to certain alleged environmental violations. These environmental issues, and any future environmental issues that may arise, could subject us to fines or other civil or criminal penalties imposed by Brazilian authorities. We are addressing all environmental issues of which we are aware, and we believe that none of these issues will have a material adverse effect on our business, financial condition or operations.

Our consolidated annual expenditures on environmental control were R$98.9 million in 2008, R$92.7 million in 2007 and R$73.8 million in 2006. To dispose of our industrial wastewater and solid hazardous waste, we contract our jointly controlled company Cetrel at the Northeastern Complex, Corsan at the Southern Complex, our subsidiary Companhia Alagoas Industrial Cinal at Alagoas, and other third parties. These companies treat our industrial waste immediately after this waste is generated and dispose of our solid waste. Our consolidated environmental expenses relate to our continuous control and monitoring policies, and we do not have any material future environmental liabilities related to our ongoing operations.

We have established a provision for environmental contingencies in the amount of R$51.2 million at December 31, 2008. However, our environmental compliance costs are likely to increase as a result of the projected increase in our production capacity and projected increases in unit costs for treatment and disposal of industrial waste, as well as the cost of compliance with future environmental regulations.

Our environmental compliance in 2008 included the following results:

- no significant environmental accidents in 2008; and
- no fines were levied on any of our plants by state environmental authorities during 2008.

In September 2002, we created a Health, Safety and Environment Committee, composed of leaders of each of our business units and other members of our management. This committee supports and monitors our environmental, health and safety efforts. In February 2003, our board of directors approved a comprehensive health, safety and environment policy, as we recognize that sustainable development and ethical practices are essential to our continued growth and performance. As part of this policy, we are committed to:

- expanding our relationship with the communities in which we operate;
- continually improving the health, safety and environmental aspects of our processes, products and services by promoting innovation and complying with evolving health, safety and environmental standards;
- implementing preventive measures to promote (1) the health and quality of life of people in the communities in which we operate, and (2) the safety of our workers, third parties and others involved or affected by our processes; and
- the efficient use of natural resources.

Safety and Quality Control

Safety

We have adopted a policy that makes all of our officers, directors and employees responsible for the safety and health of our workers and for preserving the environment.

We participate in the Responsible Care program, a global chemical industry initiative, which establishes international standards for environmental, occupational health and safety practices for chemical manufacturers. Through our participation in this program, we adopted policies and procedures that require us to follow detailed instructions in matters of health, safety and the environment. We seek to maintain these environmental standards and have qualified each of our plants for NBR-ISO 9001 and 14001 certification, which includes internationally prescribed environmental management practices. We are currently implementing health, safety and environmental standards based on OSHAS 18001 and standards issued by the U.S. Occupational Safety and Health Administration. Our basic petrochemicals units in the Northeastern Complex and the Southern Complex and one of our polyethylene plants in the Northeastern Complex have received OSHAS 18000 certifications related to our health and safety management system. In 2008, we commenced process safety management audits at 10 of our plants under OSHA standards and we intend to conduct process safety management audits of all of out plants by the end of 2010.

Our safety record ranks above the average of companies in the Brazilian chemical industry. The following table illustrates our progress in terms of our safety record and compares our safety record to the average for the Brazilian chemical industry:

	Year Ended December 31,			
	2008(1)	**2007**	**2006**	**2007(2)**
				Brazilian Chemical Industry Average
Safety Indicator				
Braskem:				
Index of Accident Frequency (accidents/200,000 man-hours)	0.29	0.2	0.3	2.49
Index of Severity (lost and deducted days/200,000 man-hours)	4.56	5	3	26.19
Copesul:				
Index of Accident Frequency (accidents/200,000 man-hours)		2.0	2.46	2.49
Index of Severity (lost and deducted days/200,000 man-hours)		23	41	26.19
Ipiranga Petroquímica:				
Index of Accident Frequency (accidents/200,000 man-hours)		0.6	1.4	2.49
Index of Severity (lost and deducted days/200,000 man-hours)		36	67	26.19

(1) Includes Copesul and Ipiranga Petroquímica. In September 2008, Copesul merged with and into Ipiranga Petroquímica and Ipiranga Petroquímica merged with and into Braskem.

(2) Brazilian petrochemical industry average of the members of Brazilian Association of Chemical Industry and Derivative Products for 2007, as reported by the Brazilian Association of Chemical Industry and Derivative Products.

Our safety record in 2008 included the following results:

- a 50% reduction in our rate of personal accidents of all types, compared to 2007;

- seven of our 18 plants had no accidents causing injuries requiring a worker to be absent from work during 2008; and
- a 12% increase in our expenditures on our safety programs, including costs related to accidents.

Each of our industrial plants is equipped with a comprehensive firefighting safety system. At the Northeastern Complex, water is available from a 200,000 cubic meter artificial lake, connected to the industrial plants by a pumping station and a distribution network and built according to international safety standards. We and the other companies in the Northeastern Complex maintain emergency equipment and trained safety crews. The safety plan for the Northeastern Complex provides for firefighting brigades of all companies in the complex to jointly assist in the event of any major accidents. The Northeastern Complex has safety standards for construction density and the design of pipelines and highways.

Similar systems are employed at our plant in the State of Alagoas and our plant in the State of São Paulo (except with respect to safety standards for construction density and design of pipelines and highways, as we do not have such facilities in São Paulo).

Each of our plants that operate in the Southern Complex relies on its own supply of water from nearby lakes and water tanks for firefighting capabilities. Our basic petrochemical facilities at the Southern Complex rely on a 7,400 cubic meter artificial pond, with an additional 12,600 cubic meter pond available in case of emergencies. Both water sources are connected to our basic petrochemical facilities by a pumping station and a distribution network, which currently employs seven water pumps, built according to international safety standards. We also maintains emergency equipment and trained safety crews. In addition, our safety plan provides for firefighting brigades consisting of six technicians and 14 operational and maintenance technicians per shift. We and the other companies located in the Southern Complex are supported by the Southern Complex s Mutual Plan of Emergency (*Plano de Auxílio Mútuo do Pólo*). Our commitment to safety includes the operation of a training center for our safety crews that simulates emergencies typical to the petrochemical industry. Similar systems are employed at the facilities of our Polyolefins Unit in the Southern Complex.

Quality Control

Our quality control management uses ISO 9001:2008, an internationally recognized quality control standard, and ISO 14001:2004, an internationally recognized environmental control standard, as its base. We have instituted systematic improvement processes in our operational areas, focusing on integrating production, maintenance, inventory management, customer satisfaction and profitability.

We have obtained ISO 9001 certifications for all of our products. We have also obtained ISO 14001 certifications for all of our industrial plants. These certifications take into account both the quality of our products and the quality of our operating procedures.

Property, Plant and Equipment

Our properties consist primarily of petrochemical production facilities in Camaçari in the State of Bahia, in Triunfo in the State of Rio Grande do Sul, in Maceió in the State of Alagoas and in São Paulo in the State of São Paulo. Our principal executive offices are located in São Paulo in the State of São Paulo, and we have an administrative support office in the City of Rio de Janeiro. We also have equity interests in investments located in other parts of the country. We own all our production facilities, but we generally rent our administrative offices.

The following table sets forth our properties at December 31, 2008 by location of facilities, products produced and size of plant.

Type of Product or Service	Location of Facilities	Size of Plant (in hectares (1))
Basic petrochemicals	Camaçari	65.5
Basic petrochemicals	Triunfo	152.8
Waste disposal	Marechal Deodoro	34.3
Polyethylene	Camaçari	24.5
Caustic soda/EDC/chlorine	Maceió	15.0
PVC/caustic soda/chlorine	Camaçari	12.6
Polyethylene	Triunfo	30.5
Polypropylene	Triunfo	10.0
Caprolactam(2)	Camaçari	8.1
PVC	Marechal Deodoro	7.0
PVC	Vila Prudente/Capuava	3.2

(1) One hectare equals 10,000 square meters.

(2) In May 2009, we temporarily closed our caprolactam plant.

The descriptions of each of our business units above contain detailed charts showing the location, primary products, annual production capacity and historical annual production for each of our company s production facilities.

We believe that all of our production facilities are in good operating condition. At December 31, 2008, the consolidated net book value of our property, plant and equipment was R$10,278.4 million.

Certain of our properties located in the Northeastern Complex (including our DMT plant and all of the equipment located in this plant) and two of our polyolefins plants in the Southern Complex are mortgaged or pledged to secure certain of our financial transactions.

Insurance

Braskem carries insurance for its plants against material damage and consequent business interruption through all risks policies with a total replacement value of US$16.7 billion. Our insurance coverage is underwritten in the Brazilian insurance market by large Brazilian insurance companies. Approximately 90% of our insurance coverage is reinsured in the international insurance market. Our existing all risks policies are in force until April 8, 2010.

The material damage insurance provides insurance coverage for losses due to accidents resulting from fire, explosion and machinery breakdown, among others. This coverage has a maximum indemnification limit of US$2 billion per event (combined material damage and business interruption coverage) and has deductibles of up to US$10 million depending on the plant. The business interruption coverage provides insurance for losses resulting from interruptions due to any material damage covered by the policy. This coverage is calculated to insure against losses up to US$1.24 billion due to shutdowns extending beyond 60 days. The losses are covered until the plant and production are fully re-established, with maximum indemnity periods ranging from 12 to 24 months.

We also have a third-party liability policy, which covers losses for damages caused to third parties from our operations, including sudden environmental pollution, up to a limit of US$60 million per loss or occurrence in the case of Braskem.

In addition to these policies, we maintain other insurance policies for specific risks, including directors and officers liability coverage, marine and transportation insurance, automotive insurance and other kinds of coverages that are not covered by our all risks policies.

We do not anticipate having any difficulties in renewing any of our insurance policies and believe that our insurance coverage is reasonable in amount and consistent with industry standards applicable to chemical companies operating in Brazil.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements at December 31, 2008 and 2007 and for the three years ended December 31, 2008 included in this annual report, as well as with the information presented under Presentation of Financial and Other Information and Item 3. Key Information Selected Financial Information.

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in Cautionary Statement with Respect to Forward-Looking Statements and Item 3. Key Information Risk Factors.

The discussion and analysis of our financial condition and results of operations has been organized to present the following:

- a brief overview of our company and the principal factors that influence our results of operations, financial condition and liquidity;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our financial condition and results of operations;
- a discussion of developments since the end of 2008 that may materially affect our financial condition and results of operations;
- a discussion of our results of operations for the years ended December 31, 2008, 2007 and 2006;
- a discussion of our liquidity and capital resources, including our working capital at December 31, 2008, our cash flows for the years ended December 31, 2008, 2007 and 2006, and our material short-term and long- term indebtedness at December 31, 2008;
- a discussion of our contractual commitments; and
- a brief overview of the differences between Brazilian GAAP and U.S. GAAP as they relate to our financial statements.

Overview

We are the leading petrochemical company in Latin America, based on average annual production capacity in 2008. We are also the third largest Brazilian-owned private sector industrial company, based on net sales revenue in 2008. We recorded net sales revenue of R$17,959.5 million and net loss of R$2,492.1 million in 2008. We produce a diversified portfolio of petrochemical products in our 18 plants in Brazil and have a strategic focus on polyethylene, polypropylene and PVC. We were the first Brazilian company with integrated first and second generation petrochemical production facilities.

Our results of operations have been significantly influenced by (1) beginning in the second quarter of 2007, the effects of the Ipiranga Transaction and our consolidation of the assets, liabilities and results of operations of Ipiranga Química, Ipiranga Petroquímica and Copesul as from April 1, 2007, and (2) to a lesser extent, beginning in the second quarter of 2006, the effect of the Politeno Acquisition on April 6, 2006 and our full consolidation of the assets, liabilities and results of operations of Politeno and the inclusion of Politeno s results in our Polyolefins segment as from April 1, 2006. In addition, our results of operations for the years ended December 31, 2008, 2007

and 2006 have been influenced, and our results of operations will continue to be influenced, by a variety of factors, including:

- the growth of Brazilian GDP, which grew by an estimated 5.1% in 2008, and by 5.4% in 2007 and 3.8% in 2006, which affects the demand for our products and, consequently, our domestic sales volume;
- the rate of expansion of global production capacity for the products that we sell and the growth rate of the global economy;
- the international market price of naphtha, our principal raw material, expressed in dollars, which has been volatile during the last three years, increasing from US$545.11 per ton in December 2006 to a peak of US$1,091.85 per ton in June 2008 before declining to US$258.16 in December 2008, and which has a significant effect on the cost of producing our products;
- the average domestic prices of our principal thermoplastic products expressed in dollars, which fluctuates to a significant extent based on fluctuations of international prices for these products which, in turn, have a high correlation to our raw material costs;
- our capacity utilization rates, which declined for many of our products during 2008 as a result of planned maintenance stoppages of ethylene and propylene units of our Basic Petrochemicals segment during the second quarter of 2008 and lower demand for our thermoplastic products during the second half of 2008, particularly during the fourth quarter of 2008;
- the depreciation of the Brazilian *real* against the U.S. dollar by 31.9% in 2008 and the appreciation of the Brazilian *real* against the U.S. dollar by 17.2% in 2007 and 8.7% in 2006, which has affected the amounts as expressed in *reais* of our net sales revenues, our cost of sales and services rendered and some of our operating and other expenses that are denominated in or linked to U.S. dollars, and has affected our financial expenses as a result of our significant U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars;
- the level of our outstanding indebtedness, fluctuations in benchmark interest rates in Brazil, which affect our interest expenses on our *real*-denominated floating rate debt, and fluctuations in the LIBOR rate, which affects our interest expenses on our dollar-denominated floating rate debt;
- inflation rates in Brazil, which were 2.1% in 2008, 7.9% in 2007 and 3.8% in 2006 as measured by the General Price Index Internal Availability, and the effects of inflation on our operating expenses denominated in *reais* and our *real*-denominated debt that is indexed to take into account the effects of inflation or bears interest at rates that are partially adjusted for inflation;
- the results of operations of those companies in which we had minority equity interests, such as Copesul, Politeno and Petroflex, a portion of which were consolidated into our results of operations as required by Brazilian GAAP; and
- the tax policies adopted by, and resulting tax obligations to, the Brazilian government and the governments of the Brazilian states in which we operate.

Our financial condition and liquidity is influenced by a variety of factors, including:

- our ability to generate cash flows from our operations and our liquidity;
- prevailing Brazilian and international interest rates and movements in exchange rates, which affect our debt service requirements;

- our ability to continue to be able to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian and international securities markets, which is influenced by a number of factors discussed below;
- our capital expenditure requirements, which consist primarily of maintenance of our operating facilities, expansion of our production capacity and research and development activities; and
- the requirement under Brazilian law and our bylaws that we pay dividends on an annual basis in an amount equal to at least 25% of our adjusted net income, unless our board of directors deems it inconsistent with our financial position.

Financial Presentation and Accounting Policies

Presentation of Financial Statements

We have prepared our consolidated financial statements at December 31, 2008 and 2007 and for the three years ended December 31, 2008 in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended the Brazilian Corporation Law and changed certain accounting policies under Brazilian GAAP. In December 2008, the CVM issued Deliberation 565/08, implementing these changes in accounting policies. In December 2008, the Brazilian government issued Provisional Measure No. 449, which instituted the transitory tax-payer regime (*Regime Tributário de Transição RTT*) for the determination of taxable net income of companies subject to the real profit tax regime as a result of the implementation of these changes in accounting policies and the Brazilian Corporation Law. In May 2009, Provisional Measure No. 449 was codified in Law No. 11,941/09.

The principal changes introduced by Law No. 11,638/07, Deliberation 565/08, Provisional Measure No. 449 and Law No. 11,941/09 as they relate to our financial statements are, among others:

- We are no longer required to include a statement of changes in financial position in our financial statements, but are instead required to include a statement of cash flows in our financial statements.
- We are required to record investments in financial instruments, including derivatives, at (1) fair value or the equivalent value for securities held for trading or securities available-for-sale, or (2) the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments.
- We are no longer permitted to record tax incentives directly as capital reserves in shareholders equitySuch items are now required to be recorded as part of earnings in our statement of operations. Tax incentives are required to be allocated, after being recorded in earnings, to the tax incentive reserve in equity.
- We are not permitted to record under the caption deferred charges in our balance sheet pre-operational expenses and certain restructuring costs that represent future cost reductions or increases in future operational efficiencies.
- We are required to record certain long-term assets and liabilities at present value and certain short-term assets and liabilities.

In order to make our financial statements as of December 31, 2007 and for the two years ended December 31, 2007 comparable to our financial statements as of December 31, 2008 and for the year ended December 31, 2008, we have retrospectively revised our previously issued financial statements as of December 31, 2007 and for the two years ended December 31, 2007 to conform to the changes in accounting policy introduced by Law No. 11,638/07, Deliberation 565/08, Provisional Measure No. 449 and Law No. 11,941/09. For additional information with respect

to these changes and their effects on our financial statements, see notes 2 and 3 to our audited consolidated financial statements included elsewhere in this annual report.

Our consolidated financial statements have been prepared in accordance with Instruction 247. Instruction 247 requires our company to proportionally consolidate jointly controlled companies that are not our subsidiaries but which we jointly control with one or more other shareholders.

Prior to April 1, 2006, we proportionally consolidated the results of Politeno in our consolidated financial statements. As a result of the Politeno Acquisition described under Item 4. Information on the Company History and Development of Our Company Consolidation of Minority Interests, we have fully consolidated Politeno s results in our consolidated financial statements and included Politeno s results in our Polyolefins segment as from April 1, 2006.

Prior to April 1, 2007, we proportionally consolidated the results of Copesul in our consolidated financial statements. As a result of the Ipiranga Transaction described under Item 4. Information on the Company History and Development of Our Company Ipiranga Transaction, we have fully consolidated Copesul s results in our consolidated financial statements as from April 1, 2007.

Prior to December 1, 2007, we proportionally consolidated the results of Petroflex in our consolidated financial statements. As a result of our entering into an agreement in December 2007 to sell our interest in Petroflex, we accounted for our interest in Petroflex in our Brazilian GAAP financial statements using the equity method as from December 1, 2007. In April 2008, we sold all of our share capital in Petroflex.

Prior to April 1, 2008, we proportionally consolidated the results of Paulínia in our consolidated financial statements. As a result of the completion of the first phase of the Petrobras Transaction described under Item 4. Information on the Company History and Development of Our Company Petrobras Transaction, we have fully consolidated the results of Paulínia and its subsidiaries in our consolidated financial statements as from April 1, 2008. On September 30, 2008, Ipiranga Petroquímica and Paulínia merged with and into Braskem.

Business Segments and Presentation of Segment Financial Data

We have implemented an organizational structure that we believe reflects our business activities and corresponds to our principal products and production processes. We now have four business units and report our results by four corresponding segments to reflect this organizational structure:

- *Basic Petrochemicals* This segment includes our production and sale of basic petrochemicals at the Northeastern Complex and the Southern Complex, our supply of utilities to second generation producers, including some producers owned or controlled by our company, and our production and sale of certain second generation petrochemical products, such as caprolactam.
- *Polyolefins* This segment includes the production and sale of polyethylene and polypropylene by our company and our PET operations which were permanently closed in 2008.
- *Vinyls* This segment includes our production and sale of PVC, caustic soda and EDC.
- *IQ Soluções & Química* This segment includes the operations of Ipiranga Química, which consist of the distribution of petrochemical products manufactured by our company and other domestic and international companies. This segment began reporting as from April 1, 2007 as a result of the Ipiranga Transaction.

Our IQ Soluções & Química business unit was created in April 2007 following our acquisition of control of Ipiranga Química. The operations of Copesul that we acquired in the Ipiranga Transaction and were reported as a separate segment in prior periods are now part of our Basic Petrochemicals business unit, and the operations of Ipiranga Petroquímica that we acquired in the Ipiranga Transaction were reported as a separate segment in prior periods are now part of our Polyolefins business unit. In addition, the operations of our former Business Development business unit were split; our caprolactam production operations are now included in our Basic

Petrochemicals business unit and the remaining operations of our former Business Development unit are now included in our Polyolefins business unit. We have represented our segment data in this annual report and in our consolidated financial statements included elsewhere in this annual report for the years ended December 31, 2007 and 2006 to reflect our current segments.

We evaluate and manage business segment performance based on information generated from our statutory accounting records, which are maintained in accordance with Brazilian GAAP, and, accordingly, the segment data included in this annual report is presented under Brazilian GAAP. We have included a reconciliation of the operating results of our segments to our consolidated results under Results of Operations below.

In March 2009, we began the implementation of a new organizational structure under which we will have two business units and report our results by two corresponding segments to reflect this organizational structure:

- *Basic petrochemicals* This segment will include our production and sale of basic petrochemicals at the Northeastern Complex and the Southern Complex, and our supply of utilities to second generation producers, including some producers owned or controlled by our company.
- *Polymers* This segment includes the production and sale of second generation products, including polyethylene, polypropylene and PVC, by our company. This segment will include the operations of our former polyolefins segment, our former vinyls segment, our former vinyls segment and our former IQ Soluções & Química segment.

Critical Accounting Policies

The presentation of our financial condition and results of operations in conformity with Brazilian GAAP requires us to make certain judgments and estimates regarding the effects of matters that are inherently uncertain and that impact the carrying value of our assets and liabilities. Actual results could differ from these estimates. In order to provide an understanding about how we form our judgments and estimates about certain future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different variables and conditions, we have included comments related to the following critical accounting policies under Brazilian GAAP:

- *Provision for doubtful accounts.* We record a provision for doubtful accounts in an amount considered sufficient to cover estimated losses on the realization of our receivables, taking into account our loss experience and the aging of our accounts receivable. Additionally, we analyze, on a monthly basis, the amounts and characteristics of trade accounts receivable compared to our pre-defined credit limits for our customers in order to determine if additional provisions are required. At December 31, 2008 our total trade accounts receivable was R$2,381.7 million and the provision for doubtful account was R$198.7. At June 30, 2009 the past due receivables which remained outstanding relating to December 31, 2008 amounted to R$190.3 million. The outstanding amount excludes renegotiated loans during the six-month period ended June 30, 2009. Significant changes in our historical loss experience on accounts receivable which are not apparent through our aging analysis could require significant changes to our provisions for doubtful accounts.

- *Impairment and depreciation and amortization of permanent assets.* Our goodwill and property, plant and equipment at December 31, 2008 was R$2,013.3 million and R$10,278.4 million, respectively. The recoverable value of property, plant and equipment and other noncurrent assets including goodwill and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Our impairment tests consider the lowest level of cash generating units based on our operating and segment structure at year end. We generate cash flow projections for each cash generating unit over the useful life of the related assets. Definition of different segments or changes in our operations could impact the definition of our cash generating units.

The discount rate applied is based on the weighted average cost of capital for the respective operations at the relevant dates. Our projections include assumptions regarding volumes that consider actual production, and assumptions regarding prices based on a sales prices cycle of approximately six years for our products. The current sales price cycle reached its low point in 2008. Market indicators for sales prices in 2009 are more optimistic that those used in our projections. Our projections assume that costs will remain relatively stable based on volume, and that exchange rates will remain stable. Our experience with costs in 2009 have been generally consistent with our projections but variations in the exchange rate for *reais* into U.S. dollars during 2009 have generated a much more optimistic scenario than was considered at December 31, 2008. Changes to our projected prices resulting from changes in the petrochemical cycle or strategic decisions to suspend or terminate production of certain plants could significantly impact our impairment charges. The impairment test performed in December 31, 2008 support a 10% negative fluctuation in contribution margin without changing the impairment result. During the year ended December 31, 2008 we recorded impairment charges of R$102.8 million and R$29.6 million related to our PET plant and our caprolactam plant; no impairment had been recorded in the prior year.

Valuation of investments. We record long-term investments at cost or under the equity accounting method, depending on our participation in voting capital and the degree of influence that we exercise over the operations of the companies involved. We evaluate the fair value of investments for impairment whenever the performance of the underlying entity indicates that impairment may exist. In such cases, the fair value of the investments is estimated principally based on discounted estimated cash flows using assumptions. Arriving at assumptions and estimates concerning these cash flows is a complex and often subjective process involving estimation of future revenues, costs and taxes.

Valuation of derivative instruments. We use swaps, non-deliverable forwards, non-deliverable options and other derivative instruments to manage risks from changes in foreign exchange and interest rates. We record these instruments at their estimated fair market value based on market quotations for similar instruments, and based on standard mark-to-market practices, which take into account reliable market curves for interest rates, foreign exchange rates and volatility.

At December 31, 2008, we had entered into derivative transactions to mitigate our exposure to exchange rate fluctuations related to a long-term loan denominated in Japanese Yen and fluctuations in LIBOR related to an export pre-payment facility that bears interest at a rate based on LIBOR. Both types of derivative transactions matched with the contractual cash-flows of the hedged indebtedness. Assuming a 50% variance in the exchange rate for *reais* into Japanese Yen and in the LIBOR rate at December 31, 2008, the present value of the currency derivative would be R$94 million and of the LIBOR swap would be R$36 million.

Pension plans. For defined benefit plans that we sponsor, we calculate our funding obligations based on calculations performed by independent actuaries using assumptions that we provide about interest rates, investment returns, levels of inflation, mortality rates and future employment levels. Collectively, these assumptions directly impact our liability for accrued pension costs and the amounts we record as pension costs, although individual assumptions are not expected to be material. In June 2005, Braskem announced that it intends to withdraw as a sponsor of one of its defined benefit plans. Unrecognized actuarial gains and losses are amortized either over the estimated future service period of employees or over the estimated period of the plan final settlement, whichever is less.

Current taxes. We do not record CSLL taxes, nor any related deferred taxes, based on a favorable decision issued by the Brazilian Federal Supreme Court exempting our company from paying CSLL taxes in a lawsuit that we brought challenging the constitutionality of the CSLL. This decision was overruled in a subsequent rescission action filed by the Brazilian tax authorities, and our appeal of that decision is pending. We believe that it is reasonably possible that we will lose our appeal. If we lose our appeal, we may be required to pay the amount of R$835.4 million plus penalties of approximately R$242.0 million. We believe we would be required to pay CSLL only from the date that a final decision is published, and would not be required to pay these taxes retroactively because we relied upon a judicial decision in not paying the CSLL. For more information regarding this litigation, see Item 8. Financial Information Legal Proceedings Tax Proceedings.

- *Contingencies.* We are currently involved in numerous judicial and administrative proceedings, as described under Item 8. Financial Information Legal Proceedings and in notes 9, 16, 17 and 22 to our consolidated financial statements. We record accrued liabilities for contingencies that we deem probable of creating an adverse effect on our results of operations or financial condition. We believe that these contingencies are properly recognized in our financial statements. We are also involved in judicial and administrative proceedings that are aimed at obtaining or defending our legal rights with respect to taxes that we believe to be unconstitutional or otherwise not required to be paid by our company. We believe that these proceedings will ultimately result in tax credits or benefits, which we do not recognize in our financial statements until the contingency has been resolved. When, based on favorable but appealable court decisions, we use tax credits or benefits in dispute to offset current tax obligations, we establish a provision equal to the amount used and maintain the provision until a final decision on those credits or benefits is rendered. Our provisions include interest on the tax obligations we have offset with disputed credits or benefits at the interest rate defined in the relevant tax law.

- *Deferred Tax.* Deferred tax assets in the amounts of R$714.1 million (net of valuation allowances of R$502.0 million) and R$1,205.8 million were recorded at December 31, 2008 under Brazilian GAAP and U.S. GAAP, respectively. Under U.S. GAAP, a number of factors entering into the assessment of the valuation allowance required by Statement of Financial Account Standards Board No. 109, Accounting for Income Taxes, or FAS 109, are highly subjective: for example, assessing whether the weight of available evidence supports the recognition of some or all of an enterprise s deferred tax assets, or DTAs; determining how objectively verifiable an individual piece of evidence is, and thus how much weight should be given to the evidence; and establishing the reversal patterns for existing temporary differences. The valuation allowance recorded is based on management s judgment of what is more likely than not considering all available information, both quantitative and qualitative.

The estimates used in the FAS 109 valuation allowance assessment are based on management s best estimates of future results, which are similarly based on the weight of objective evidence and are consistent with other estimates involving assumptions about the future used in the preparation of the financial statements. FAS 109, paragraph 20, states that all available evidence should be considered in determining whether a valuation allowance is needed. This includes historical information through the date of issuance of the financial statements supplemented by all currently available information about future years. Events occurring subsequent to a company s year-end but before the financial statements are released that provide additional evidence (negative or positive) regarding the likelihood of realization of existing DTAs should be considered when determining whether a valuation allowance is needed.

We reduce deferred tax assets by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized. The valuation allowance is considered sufficient to reduce the deferred tax asset to the amount that is more likely than not to be realized. Based on historical financial information through the date of release of these financial statements, it was considered that the sufficient positive evidence existed to consider that the Braskem s deferred tax assets at December 31, 2008 were more likely than not to be realized. Such positive evidence included i) cumulative historical profits in the three year period through to the issuance of the financial statements, ii) no time prescription limit to the use of income tax losses under the related legislation, iii) the income tax losses at December 31, 2008 relate principally to an exchange loss on the company s net exposure to foreign currency liabilities during 2008, which is considered a nonrecurring item, iv) the scheduling of future taxable income at December 31, 2008 and v) subsequent realization operating and other taxable profits through the date of issuance of the financial statements. Similar estimates are made under Brazilian GAAP, where the recognition of deferred tax assets requires historical evidence of taxable profit, limits recognition of DTAs to future projections of taxable profits over a 10 year period and future limits recognition of DTAs based on a calculation of discounted future profits. Within these limitations, Braskem, based on its profitability study, recognized the maximum potential DTA under Brazilian GAAP.

Based on historical financial information through the date of release of our consolidated financial statements included elsewhere in this annual report we considered that sufficient positive evidence existed to determine that our deferred tax assets at December 31, 2008 were more likely than not to be realized. Such positive evidence included (1) cumulative historical profits in the three year period ended December 31, 2008 through the date of issuance of the financial statements; (2) the absence of a time prescription limit on the use of income tax losses under the related legislation; (3) the income tax losses at December 31, 2008 relate principally to an exchange loss on our net exposure to foreign currency liabilities during 2008, which we consider a nonrecurring item; (4) the scheduling of future taxable income at December 31, 2008; and (5) subsequent realization of operating and other taxable profits through the date of issuance of these financial statements.

Similar estimates are made under Brazilian GAAP, under which the recognition of DTAs requires historical evidence of taxable profit, recognition of DTAs is limited to future projections of taxable profits over a 10 year period, and recognition of DTAs is further limited based on a calculation of discounted future profits. Within these limitations, we, based on our profitability study, recognized the maximum potential DTA under Brazilian GAAP.

Principal Factors Affecting Our Financial Condition and Results of Operations

Effects of the Ipiranga Transaction and the Petrobras Transaction

On March 18, 2007, we entered into the Ipiranga Investment Agreement with Ultrapar and Petrobras. On the same date, Ultrapar and the controlling shareholders of RPI, CBPI and DPPI entered into the Purchase Agreement, with our company and Petrobras as intervening parties. As a result of the Ipiranga Transaction:

- we acquired, directly and indirectly, shares of Copesul representing 62.7% of the total and voting share capital of Copesul;
- we acquired shares of Ipiranga Química representing 60% of its total share capital and voting share capital, which in turn owns all of the total share capital and voting share capital of Ipiranga Petroquímica; and
- we acquired shares of RPI representing 33.3% of total share capital and voting share capital of RPI.

As a result of the Ipiranga Transaction, we fully consolidated the results of Copesul and its subsidiaries and consolidated the results of Ipiranga Química and its subsidiaries, including Ipiranga Petroquímica, into our financial statements as from April 1, 2007. In addition, we have accounted for our interest in the results of RPI under the equity method in our financial statements as from April 1, 2007.

The total purchase price to our company of the shares of Ipiranga Química and RPI that we acquired from Ultrapar in the Ipiranga Transaction was R$1,489.1 million. In addition, we paid R$1,418.5 million for the Copesul shares not owned by our company, Ipiranga Petroquímica, Petroquisa or Triunfo and R$117.9 million for the shares of Ipiranga Petroquímica not owned by Ipiranga Química.

In May 2008, we completed the first phase of the Petrobras Transaction. As a result, we acquired, directly and indirectly:

- 36.4% of the voting and outstanding share capital of Copesul;
- 40.0% of the voting and outstanding share capital of Ipiranga Química; and
- 40.0% of the voting and outstanding share capital of Paulínia.

As consideration for these assets, we issued 46,903,320 of our common shares and 43,144,662 of our class A preferred shares to Petroquisa, as a result of which Petroquisa owned 23.1% of our total share capital, including 30.0% of our voting share capital.

In September 2008, Copesul merged with and into Ipiranga Petroquímica, and Ipiranga Petroquímica and Paulínia merged with and into Braskem.

On May 5, 2009, the second phase of the Petrobras Transaction was completed with the merger of Triunfo with and into Braskem. We issued an aggregate of 13,387,157 of our class A preferred shares to the shareholders of Triunfo as consideration for their equity interests in Triunfo. Prior to this merger, Triunfo owned and operated a polyethylene plant located in the Southern Complex with an annual production capacity of 160,000 tons. As a result of the merger, we will consolidate the results of Triunfo into our financial statements as from May 1, 2009.

As a result of these transactions, the production capacity of our Basic Petrochemicals Unit, which includes the facilities formerly owned by Copesul, and the production capacity of our Polyolefins Unit, which includes the facilities formerly owned by Ipiranga Petroquímica and Paulínia, have significantly increased. In addition, we acquired a new operating Unit, IQ Soluções & Química (formerly known as Ipiranga Química).

The acquisition of these operating facilities has substantially increased our net sales volumes, net sales revenues, gross profit and operating income. Debt service requirements relating to the indebtedness that we incurred to finance the purchase price of the assets acquired in the Ipiranga Transaction have also increased our net financial expenses and our total indebtedness.

Growth of Brazil s Gross Domestic Product and Domestic Demand for Our Products

Our sales in Brazil represented 77.8% of our net sales revenue in 2008. As a Brazilian company with substantially all of our operations in Brazil, we are significantly affected by economic conditions in Brazil. Our results of operations and financial condition have been, and will continue to be, affected by the growth rate of GDP in Brazil because our products are used in the manufacture of a wide range of consumer and industrial products.

Because of our significant market share in many of the Brazilian markets in which our petrochemical products are sold, fluctuations in Brazilian demand for polyethylene, polypropylene and PVC affect our production levels and net sales revenue. GDP in Brazil grew at an estimated compound average annual rate of 3.7% from 1999 through 2008. From 1999 through 2008, the consumption volumes in Brazil of polyethylene (including EVA), polypropylene and PVC increased at compound average annual rates of 3.2%, 6.9% and 4.2%, respectively.

The following table sets forth the growth rates of Brazilian GDP and domestic demand for polyethylene, polypropylene and PVC for the years ended December 31, 2008, 2007 and 2006.

	Year Ended December 31,		
	2008	**2007**	**2006**
Brazilian GDP	5.1(1)%	5.4%	3.7%
Brazilian consumption of Polyethylene	0.4	7.1	11.4
Brazilian consumption of Polypropylene	0.2	10.3	4.6
Brazilian consumption of PVC	14.4	14.5	10.5

(1) Estimated.

Brazilian GDP growth has fluctuated significantly, and we anticipate that it will likely continue to do so. Our management believes that economic growth in Brazil should positively affect our future net sales revenue and results of operations. However, continued low growth or a recession in Brazil would likely reduce our future net sales revenue and have a negative effect on our results of operations.

Effects of the Global Economic Downturn

The acceleration of the global financial and credit crisis since September 2008 precipitated a dramatic change in the pace of economic activity around the world and has had, and may continue to have, a negative effect on economic growth in Brazil and in the countries to which we export our products. Domestic demand for our

thermoplastic resins was adversely effected in the second half of 2008, particularly in the fourth quarter, reflecting a general decline in economic growth in Brazil related to the global financial and credit crisis, which led to the depreciation of the *real* against the U.S. dollar and the reduced availability of liquidity and credit. In addition, Chinese demand for thermoplastic resins declined following the conclusion of the Olympic Games, and demand for thermoplastic resins in the United States and Europe declined as the effects of the global financial and credit crisis became more pronounced during the second half of 2008.

In addition to these factors which led to a contraction in global and domestic demand for our thermoplastic products, the decline in global petroleum prices and the significant depreciation of the *real* against the U.S. dollar in the second half of 2008 resulted in price instability and a significant reduction in purchases of our products as our customers delayed purchases and consumed their inventories in anticipation of reductions in the prices of thermoplastic resins.

The contraction of demand in the United States led thermoplastic resin producers in the United States to increase the volume of exports of their thermoplastic products, leading to greater price competition in the export markets that we serve. Because this increased supply of thermoplastic resins in the global market has coincided with a contraction of global demand for these resins, there has been a decline in margins available to us in our export sales of these resins.

As a result of the weakness in domestic demand for thermoplastic resins and the reduced demand for and margins on our exports of these products, we reduced the capacity utilization rates of our polyolefins plants in the fourth quarter of 2008 and temporarily shut down one of our ethylene crackers in the Northeastern Complex and one of our ethylene crackers in the Southern Complex in December 2008. We resumed production at these crackers in February 2009 and beginning in March 2009 our capacity utilization rates reached historical levels. Purchases by our domestic customers have recovered significantly from the depressed levels of the fourth quarter of 2008, although our domestic sales volumes have not returned to the levels of the first half of 2008. Despite the recent weakness of domestic demand for our products, we have been able to return to historical sales volume levels through an increase in export sales of our products, principally to commodity traders operating in the global markets for petrochemicals.

Although we believe that in the short-term domestic demand for thermoplastic resins from the consumer goods sector may offset the decline in demand for thermoplastic resins from economic sectors that are dependent on exports and credit (such as the agribusiness, automotive and home appliance sectors), we can offer no assurances that domestic demand for thermoplastic will not continue to be affected by global macroeconomic factors. In addition, although the volume of our basic petrochemical and thermoplastic resin sales has recovered significantly from the levels experienced in the fourth quarter of 2008, exports, with respect to which we generate lower margins than on our domestic sales, have constituted a larger percentage of our sales than has historically been the case. In addition, our margins on domestic sales have been under pressure as the global imbalance of supply and demand has led to increased levels of imports into the Brazilian market.

The decline in the margins that we realize on sales of our products has negatively impacted our generation of cash flows from operations. We have not experienced, and do not expect to experience, a material increase in delinquent accounts or issues with collections from our customers. We believe that our exposure to credit risks related to our customers is limited due to our credit policies, our diverse customer base and the lack of concentration of sales within our customer base.

We believe that our exposure to liquidity risks as a result of the global financial and credit crisis and the resulting impact on domestic and international demand for petrochemical products is limited in the short- and medium- term as a result of our cash position. As of December 31, 2008, we had consolidated cash and cash equivalents and other investments of R$2,960.2 million, which amount is sufficient to service our interest and principal payments on our outstanding debt through the third quarter of 2010.

However, we may face significant liquidity challenges if conditions in the financial markets do not improve in the medium- to long-term. Our ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The financial and credit crisis could have an impact on the lenders under our existing credit facilities, on our customers, or on the ability of our suppliers to meet

scheduled deliveries, causing them to fail to meet their obligations to us. If the global financial and credit crisis deepens further, it could have an adverse affect on the demand for our products and our ability to fund our planned growth.

Cyclicality Affecting the Petrochemical Industry

Global consumption of petrochemical products has increased significantly over the past 30 years. Due to this growth in consumption, producers have experienced periods of insufficient capacity for these products. Periods of insufficient capacity, including some due to raw material shortages, have usually resulted in increased capacity utilization rates and international market prices for our products, leading to increased domestic prices and operating margins. These periods have often been followed by periods of capacity additions, which have resulted in declining capacity utilization rates and international selling prices, leading to declining domestic prices and operating margins.

We expect that these cyclical trends in international selling prices and operating margins relating to global capacity shortfalls and additions will likely persist in the future, principally due to the continuing impact of four general factors:

- cyclical trends in general business and economic activity produce swings in demand for petrochemicals;
- during periods of reduced demand, the high fixed cost structure of the capital intensive petrochemicals industry generally leads producers to compete aggressively on price in order to maximize capacity utilization;
- significant capacity additions, whether through plant expansion or construction, can take two to three years to implement and are therefore necessarily based upon estimates of future demand; and
- as competition in petrochemical products is generally focused on price, being a low-cost producer is critical to improved profitability. This favors producers with larger plants that maximize economies of scale, but construction of plants with high capacity may result in significant increases in capacity that can outstrip demand growth.

Since January 1, 2006, the following petrochemical capacity has been added to the Brazilian market:

in 2009:

- Quattor expanded its annual polyethylene production capacity by 230,000 tons in March;
- Quattor expanded its annual polypropylene production capacity by 90,000 tons in March;

in 2008:

- Quattor expanded the annual ethylene production capacity of the São Paulo Complex by 200,000 tons;
- Quattor expanded its annual polypropylene production capacity by 100,000 tons in July;
- Solvay Indupa Brazil expanded its annual PVC production capacity in Brazil by 55,000 tons in October and its annual caustic soda production capacity by 50,000 tons;
- Paulínia commenced operations in April of a polypropylene plant that has an initial annual production capacity of 350,000 tons of polypropylene; and
- We (1) expanded the annual ethylene production capacity of our cracker in the Southern Complex by 52,000 tons and its annual propylene production capacity by 30,000 tons in April, (2) expanded the annual polypropylene production capacity of our plants in the Southern Complex by 30,000 tons in

April, and (3) expanded the annual polyethelene production capacity of our plants in the Northeastern Complex by 20,000 tons in June.

in 2006:

- Copesul expanded its annual ethylene production capacity by 65,000 tons and its annual propylene production capacity by 49,000 tons in January;
- Ipiranga Petroquímica expanded its annual polypropylene production capacity by 30,000 tons in January;
- Suzano expanded its polypropylene annual production capacity by 60,000 tons in July; and
- we increased our annual HDPE production capacity by 30,000 tons in September and our annual isoprene production capacity by 8,800 tons in November.

Based on historical growth of Brazilian domestic demand for polyethylene, polypropylene and PVC, we believe that the additional capacity introduced in the Brazilian market in 2008 will be absorbed by the domestic market over the next several years. We cannot assure you, however, that the additional capacity will be absorbed by the domestic market or that satisfactory export opportunities will be available for products not sold domestically. In the event that this additional production is not absorbed domestically or sold in export markets, there may be resulting pressure on prices for the affected products, which could adversely affect our net sales revenues, gross margins and overall results of operations.

Effects of Fluctuations in Naphtha Prices

Fluctuations in the international market price of naphtha have significant effects on our costs of goods sold and the prices that we are able to charge our customers for our first and second generation products.

Effects on Cost of Sales

Naphtha is the principal raw material used by our Basic Petrochemicals Unit and, indirectly, in our other business units. In 2008, naphtha and condensate accounted for 80.4% of the total cost of sales of our Basic Petrochemicals Unit and 64.8% of our direct and indirect consolidated cost of sales and services rendered.

The cost of naphtha varies in accordance with international market prices, which fluctuate depending upon the supply and demand for oil and other refined petroleum products. We purchase naphtha from Petrobras for our basic petrochemicals plants located in the Northeastern Complex under the terms that have been negotiated in a new naphtha supply contract with Petrobras to replace the naphtha supply contract that terminated in June 2008. We expect to execute this new naphtha supply agreement in the third quarter of 2009. We purchase naphtha from Petrobras for our basic petrochemicals plants located in the Southern Complex under a long-term supply contract with Petrobras, which we expect will be superseded by the new naphtha supply contract with Petrobras. We import naphtha from other suppliers through our terminal at Aratú in the State of Bahia and Petrobras terminal at Osório in the State of Rio Grande do Sul. The prices that we pay for naphtha under these arrangements, other than our supply arrangements with Petrobras, are based on the Amsterdam-Rotterdam-Antwerp market price for naphtha. As a result, fluctuations in the Amsterdam-Rotterdam-Antwerp market price for naphtha have had a direct impact on the cost of our first generation products.

Since March 2009, the price that we have paid for naphtha that we purchase from Petrobras has been based on a variety of factors, including the market prices of a naphtha and a variety of other petroleum derivatives, the volatility of the prices of these products in the international markets, the *real*/U.S. dollar exchange rate, and the level of paraffinicity of the naphtha that is delivered. As a result, we believe that the cost of our first generation products will be less exposed to fluctuations in the Amsterdam-Rotterdam-Antwerp market price for naphtha in the future.

Because the primary raw materials of our Polyolefins and Vinyls Units, principally ethylene and propylene, are first generation products produced by our Basic Petrochemicals Unit, fluctuations in the Amsterdam-Rotterdam-Antwerp market price for naphtha result in similar fluctuations in the cost of the primary raw materials of these units.

The international price of naphtha has fluctuated significantly in the past, and we expect that it will continue to do so in the future. Significant increases in the price of naphtha and, consequently, the cost of producing our products, would likely reduce our gross margins and our results of operations to the extent that we are unable to pass all of these increased costs on to our customers, and could result in reduced sales volumes of our products. Conversely, significant decreases in the price of naphtha and, consequently, the cost of producing our products, would likely increase our gross margins and our results of operations and could result in increased sales volumes if this lower cost leads us to lower our prices. In periods of high volatility in the U.S. dollar price of naphtha, there is usually a lag between the time that the U.S. dollar price increases or decreases and the time that we are able to pass on increased, or required to pass on reduced, costs to our customers in Brazil. These pricing discrepancies decrease when the U.S. dollar price of naphtha is less volatile.

We do not currently hedge our exposure to changes in the prices of naphtha because a portion of our sales are exports payable in foreign currencies and linked to the international market prices of naphtha and also because the prices of our polyethylene, polypropylene and PVC products sold in Brazil generally reflect changes in the international market prices of these products.

Effects on Prices of Our Products

The prices that we charge for ethylene and propylene are determined by reference to the European contract prices for ethylene and propylene. The prices that we charge for butadiene, benzene and para-xylene are based on the United States contract price for these products. The prices that we charge for ortho-xylene are based on the contract prices for these products in the United States and Europe.

Because European producers of basic petrochemical products primarily use naphtha as a raw material, changes in the European contract prices are strongly influenced by fluctuations in international market prices for naphtha. To the extent that our prices are based on the European contract prices for our products, the prices that we charge for these products are significantly influenced by international market prices for naphtha.

We negotiate the real prices for certain of our products, principally polyethylene, polypropylene and PVC, on a monthly basis with our domestic customers. We attempt to revise our prices to reflect changes in the international market prices of these products and the appreciation or depreciation of the real against the U.S. dollar. However, during periods of high volatility in international market prices or exchange rates, we are sometimes unable to fully reflect these changes in our prices quickly.

The international market prices of our petrochemical products have fluctuated significantly, and we believe that they will continue to do so. Significant increases in the international market prices of our petrochemical products and, consequently, the prices that we are able to charge, would likely increase our net sales revenue and our results of operations to the extent that we are able to maintain our operating margins and increased prices do not reduce sales volumes of our products. Conversely, significant decreases in the international prices of our petrochemical products, and, consequently, the prices that we charge, would likely reduce our net sales revenue and our results of operations if we are unable to increase our operating margins or these reduced prices do not result in increased sales volumes of our products.

Capacity Utilization

Our operations are capital intensive. Accordingly, to obtain lower unit production costs and maintain adequate operating margins, we seek to maintain a high capacity utilization rate at all of our production facilities.

The table below sets forth capacity utilization rates with respect to the production facilities for some of our principal products for the years ended December 31, 2008, 2007 and 2006.

	Year Ended December 31,		
	2008	**2007**	**2006**
Ethylene	84%	94%(1)	87%
Polyethylene	80	91(2)	89(3)
Polypropylene	87	97(2)	97
PVC	99	91	86

(1) Giving effect to our consolidation of the results of Copesul as from April 1, 2007.

(2) Giving effect to our consolidation of the results of Ipiranga Petroquímica as from April 1, 2007

(3) Without giving effect to a 30,000 ton increase of our annual production capacity in September 2006.

On December 10, 2008, we temporarily shut down one of our ethylene crackers in the Northeastern Complex and one of our ethylene crackers in the Southern Complex a result of the weakness in domestic demand for thermoplastic resins and the reduced demand for and margins on our exports of these products in the fourth quarter of 2008. In February 2009, we resumed production at these facilities. As a result, our effective annual ethylene production capacity was reduced to 2.3 million tons of ethylene during the period in which these crackers were shut down.

The utilization rate of our ethylene production capacity was also adversely affected during 2008 as a result of programmed maintenance shutdowns of the Northeastern Complex s Olefins 1 unit for 37 days in May and June 2008 and the Southern Complex s Olefins 1 unit and Aromatics unit for 38 days in April and May 2008.

The utilization rate of our ethylene production capacity was adversely affected during 2006 as a result of operating difficulties that led to a non-programmed maintenance shutdown of the Olefins 1 unit of our Basic Petrochemicals Unit for 13 days.

Effect of Export Levels on Our Financial Performance

We generally obtain higher prices in Brazil for our products than the prevailing international prices. The difference in prices between the Brazilian and export markets results from:

- high costs of transporting products to and within Brazil;
- warehousing, and other logistics costs; and
- tariffs and duties.

In addition, we are generally able to charge higher prices for our products than the *real* price of imports because we are able to provide better product customization services to our customers than sellers of imported products.

During periods of increased domestic demand for our products, our export sales volumes may decline as we increase domestic sales of our products. During periods in which the domestic demand for our products is reduced, we actively pursue export opportunities for our products in order to maintain capacity utilization rates.

In 2008, 22.2% of our net sales revenue was derived from export sales of our products as compared with 23.8% of our net sales revenue in 2007. Net sales revenues derived from export sales declined by 5.2% in 2008 as a result of the decline international demand and prices for our products.

In 2008, exports to other countries in the Americas accounted for 66.7% of our export sales, with the remainder of our exports sold in Europe, which accounted for 29.3% of our export sales, and the Far East, which accounted for 3.9% of our export sales.

Our ability to export to other South American countries is a function of the level of economic growth in these countries and other economic conditions, including prevailing inflation rates. We believe that continued slow or

negative growth in the global economy will likely lead to reduced global demand and international market prices for our products, and consequently reduced domestic prices for our products. In addition, reduced global demand for our products impairs our ability to export our products in response to a decline in domestic demand for these products.

Effects of Fluctuations in Exchange Rates between the Real and the U.S. Dollar

Our results of operations and financial condition have been, and will continue to be, affected by the rate of depreciation or appreciation of the *real* against the U.S. dollar because:

- a substantial portion of our net sales revenue is linked to U.S. dollars;
- our costs for some of our raw materials, principally naphtha and certain catalysts required in our production processes, are incurred in U.S. dollars or are U.S. dollar-linked;
- we have operating expenses, and make other expenditures, that are denominated in or linked to U.S. dollars; and
- we have significant amounts of U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars.

Virtually all of our sales are of petrochemical products for which there are international market prices expressed in U.S. dollars. We generally attempt to set prices that take into account the international market prices for our petrochemical products and variations in the *real*/U.S. dollar exchange rate. As a result, although a significant portion of our net sales revenue is denominated in *reais,* substantially all of our products are sold at prices that are based on international market prices that are quoted in U.S. dollars.

Fluctuations in the *real* affect the cost of naphtha and other U.S. dollar-linked or imported raw materials. The price of naphtha, our principal raw material, is linked to the U.S. dollar. The pricing formula under which we have purchased naphtha from Petrobras since March 2009 and which we expect to be included in our new naphtha supply contract with Petrobras includes a factor that adjusts the price to reflect the *real*/U.S. dollar exchange rate.

When the *real* depreciates against the U.S. dollar, assuming naphtha costs and international market prices of our products remain constant in U.S. dollars, the production cost for our products increases and we generally attempt to increase the prices for our products in *reais* (to the extent possible in light of then-prevailing market conditions in Brazil), which may result in reduced sales volumes of our products. To the extent that our price increases are not sufficient to cover the increased costs for raw materials, our operating margin decreases. Conversely, when the *real* appreciates against the U.S. dollar, assuming naphtha costs and international market prices of our products remain constant in U.S. dollars, the production cost for our products decreases and we generally decrease the prices for our products in *reais*, which may result in increased sales volumes of our products. In periods of high volatility in the *real*/U.S. dollar exchange rate, there is usually a lag between the time that the U.S. dollar appreciates or depreciates and the time that we are able to pass on increased, ore required to pass on reduced, costs in *reais* to our customers in Brazil. These pricing discrepancies decrease when the *real*/U.S. dollar exchange rate is less volatile.

Our consolidated U.S. dollar-denominated indebtedness represented 74.3% of our outstanding indebtedness at December 31, 2008, excluding related party debt. As a result, when the *real* depreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness increase in *reais*, which adversely affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness increases in *reais*, and our total liabilities and debt service obligations in *reais* increase; and
- our financial expenses tend to increase as a result of foreign exchange losses that we must record.

An appreciation of the *real* against the U.S. dollar has the converse effects.

Export sales, which enable us to generate receivables payable in foreign currencies, tend to provide a hedge against a portion of our U.S. dollar-denominated debt service obligations, but they do not fully match them. Accordingly, we often enter into hedges to mitigate exchange rate fluctuations in our U.S. dollar-denominated indebtedness. To further mitigate our exposure to exchange rate risk, we try, where possible, to enter into trade finance loans for our working capital needs, which funding is generally available at a lower cost because it is linked to U.S. dollar exports. However, future U.S. dollars that we generate from exports may not be in an amount sufficient to cover all of our U.S. dollar trade finance liabilities.

Effect of Level of Indebtedness and Interest Rates

At December 31, 2008, our total outstanding consolidated indebtedness on a consolidated basis was R$11,986.1 million. The level of our indebtedness results in significant financial expenses that are reflected in our statement of operations. Financial expenses consist of interest expense, exchange variations of U.S. dollar- and other foreign currency-denominated debt, foreign exchange losses or gains, and other items as set forth in note 24 to our consolidated financial statements. In 2008, we recorded total financial expenses of R$4,403.1 million, of which R$560.1 million consisted of interest expense, R$214.9 million consisted of monetary variation on financing and R$3,212.6 million consisted of foreign exchange losses. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor s, Moody s and Fitch maintain ratings of our company and our debt securities. Standard & Poor s maintains a rating of our company on a local basis of br AA+/Stable Outlook, Moody s maintains a rating of our company on a local basis of Aa2.br/Stable Outlook and Fitch maintains a local rating for our company of AA (bra)/Stable Outlook. On a global basis, Standard & Poor s maintains a local currency rating for our company of BB+ (stable) and a foreign currency rating for our company of BB+ (stable), Moody s maintains a local currency rating for our company of Ba1 and a foreign currency rating for our company of Ba1 and Fitch maintains a local currency rating for our company of BB+/Stable Outlook and a foreign currency rating for our company of BB+/Stable Outlook. Any ratings downgrades in the future would likely result in increased interest and other financial expenses relating to borrowings and debt securities and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

Effects of Brazilian Inflation

Inflation affects our financial performance by increasing some of our operating expenses denominated in *reais* (and not linked to the U.S. dollar). A significant portion of our costs of sales and services rendered, however, are linked to the U.S. dollar and are not substantially affected by the Brazilian inflation rate. Some of our *real*-denominated debt is indexed to take into account the effects of inflation. Under this debt, the principal amount generally is adjusted with reference to the General Price Index Market, or the IGP-M, an inflation index, so that inflation results in increases in our financial expenses and debt service obligations. In addition, a significant portion of our *real*-denominated debt bears interest at the TJLP or the CDI rate, which are partially adjusted for inflation.

Results of Operations of Jointly Controlled Companies

As a result of the application of Instruction 247 to our consolidated financial statements, we have been required to proportionally consolidate the results of jointly controlled companies that are not our subsidiaries. Consequently, our results of operations have been subject to fluctuations that depend on the results of these jointly controlled companies.

Prior to the Politeno Acquisition on April 6, 2006, we owned 35.0% of Politeno s voting share capital and 34.0% of its total share capital. As a result, at dates and for periods prior to April 1, 2006, we proportionally consolidated Politeno s results in our consolidated financial statements and did not include Politeno s results in our Polyolefins segment. Following the Politeno Acquisition on April 6, 2006, we owned 100% of the voting share capital and 96.2% of the total share capital of Politeno, and we have fully consolidated Politeno s results in our consolidated financial statements and included Politeno s results in our Polyolefins segment as from April 1, 2006. Politeno merged with and into Braskem on April 2, 2007.

Prior to April 1, 2007, we directly owned 29.5% of the voting share capital and total share capital of Copesul, and we proportionally consolidated the results of Copesul in our consolidated financial statements. As a result of the Ipiranga Transaction and our obtaining effective management control over Copesul, we have fully consolidated the results of Copesul and its subsidiaries in our consolidated financial statements as from April 1, 2007. In September 2008, Copesul merged with and into Ipiranga Petroquímica and Ipiranga Petroquímica merged with and into Braskem.

At December 31, 2007, we owned 33.5% of the total share capital of Petroflex, including 33.6% of its voting share capital. In April 2008, we sold all of our share capital in Petroflex to Lanxess Participações Ltda. for an aggregate price of R$252.1 million. See Item 4. Information on the Company History and Development of Our Company Other Developments Since January 1, 2008 Sale of Interest in Petroflex. Prior to December 1, 2007, we proportionally consolidated the results of Petroflex in our consolidated financial statements. As a result of our entering into an agreement in December 2007 to sell our interests in Petroflex, we accounted for our interest in Petroflex in our Brazilian GAAP financial statements using the equity method as from December 1, 2007.

Prior to April 1, 2008, we directly owned 60% of the voting share capital and total share capital of Paulínia, and we proportionally consolidated the results of Paulínia in our consolidated financial statements. As a result of the completion of the first phase of the Petrobras Transaction on May 30, 2008, 2008, we have fully consolidated the results of Paulínia and its subsidiaries in our consolidated financial statements as from April 1, 2008. In September 2008, Paulínia merged with and into Braskem.

Effect of Taxes on Our Income

We are subject to a variety of generally applicable Brazilian federal and state taxes on our operations and results.

Tax Exemptions

We are generally subject to Brazilian federal income tax at an effective rate of 25%, which is the standard corporate tax rate in Brazil. We have available certain federal tax exemptions based upon federal law that offers tax incentives to companies that locate their manufacturing operations in the Brazilian states of Bahia and Alagoas. These exemptions have been granted for varying lengths of time to each of our manufacturing plants located in these states.

We were exempt from corporate income tax on the profits arising from the sale of PVC manufactured at our Alagoas plant and PET manufactured at our plant in the Northeastern Complex until December 31, 2008. We expect that the exemption relating to PVC manufactured at our Alagoas plant will be renewed in 2009 for an additional 10-year period. In addition, we are entitled to pay only 25% of the statutory income tax rate on the profits arising from the sale of:

- polyethylene manufactured at one of our polyethylene plants in the Northeastern Complex and basic petrochemical products manufactured in the Northeastern Complex, until December 31, 2011;
- polyethylene manufactured at one of our polyethylene plants in the Northeastern Complex, caustic soda, chlorine and EDC produced at our plants in the Northeastern Complex and Alagoas, and caprolactam manufactured in the Northeastern Complex until December 31, 2012;
- PVC manufactured at our plant in the Northeastern Complex until December 31, 2013; and
- polyethylene manufactured at one of our polyethylene plants in the Northeastern Complex until December 31, 2016.

Each of our exemptions entitles us to pay only 87.5% of the statutory income tax rate on the profits arising from products manufactured at these plants for a period of one or more years after the dates set forth above.

Law No. 11,638/07 changed the accounting rules applicable to tax exemptions. As from January 1, 2008, if we or any of our affected subsidiaries has taxable profit resulting from the operations at our Alagoas plant or at our plants in the Northeastern Complex, income tax expense is calculated without giving effect to the tax exemption or reduction (*i.e.*, the income tax benefit of the exemption or reduction will be deducted from income tax expense). The net income arising from the recording of such tax credit will be allocated to a tax incentive reserve established under Brazilian law. This reserve may be used only to increase capital or absorb losses which exceed retained earnings and profits reserves as defined in the Brazilian law. As a result, the eventual expiration of the income tax exemptions will adversely affect our net income in periods after the expiration. Our results of operations for the years ended December 31, 2007 and 2006 have been retrospectively revised to the change in accounting rules applicable to tax exemptions adopted in Law No. 11,638/07.

Due to operating losses sustained by us in the past, we had R$404.9 million of deferred tax assets arising from R$1,619.6 million of tax loss carryforwards available at December 31, 2008. Income tax loss carryforwards available for offset in Brazil do not expire. However, the annual offset is limited to 30% of our adjusted net income. This limit also affects the CSLL.

Our export sales are currently exempt from PIS (a federal value-added tax), COFINS (a federal value-added tax), IPI (a federal value-added tax on industrial products) and the Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or ICMS (a state value-added tax on sales and services), under generally available exemptions.

Tax Disputes

We are currently involved in numerous tax proceedings. We have established provisions based on our obligations under current legislation, utilization of the contingent IPI tax credits, and our estimated costs of resolving other claims in which we believe we have a probable tax loss. The tax contingencies relate primarily to the CSLL, PIS, COFINS and IPI. If any of these legal proceedings is decided adversely to us, our results of operations or financial condition could be materially adversely affected. For more information on our tax proceedings, the amounts claimed by governmental authorities and the amounts we have reserved against some of these claims, see Item 8. Financial Information Legal Proceedings Tax Proceedings.

Recent Developments

On March 6, 2009, we entered into a working capital loan with Caixa Econômica Federal, under which we received a loan in the aggregate principal amount of R$600 million, the proceeds of which are to be used for working capital. This loan is secured by pledges of certain accounts receivable. This loan bears interest at 117.5% of the average daily CDI rate and matures in March 2013. Interest is payable quarterly in arrears from June 2009 through March 2010 and monthly in arrears thereafter through maturity. The outstanding principal amount is payable in 36 monthly installments commencing in April 2010.

On May 5, 2009, the second phase of the Petrobras Transaction was completed with the merger of Triunfo with and into Braskem. Braskem issued an aggregate of 13,387,157 of our class A preferred shares to the shareholders of Triunfo as consideration for their equity interests in Triunfo. Prior to this merger, Triunfo owned and operated a polyethylene plant located in the Southern Complex with an annual production capacity of 160,000 tons. As a result of the merger, we will consolidate the results of Triunfo into our financial statements as from May 1, 2009.

Results of Operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with Brazilian GAAP.

Our results of operations for the year ended December 31, 2007 are not comparable to our results of operations for the year ended December 31, 2006 as a result of the Ipiranga Transaction. As a result of the Ipiranga Transaction, we have fully consolidated the results of Ipiranga Química, Ipiranga Petroquímica and Copesul as from April 1, 2007 and included the results of Ipiranga Química in our IQ Soluções & Química segment, the results of

Ipiranga Petroquímica in our Polyolefins segment and the results of Copesul in our Basic Petrochemicals segment as from April 1, 2007. Prior to April 1, 2007, we did not include the results of our IQ Soluções & Química segment in our consolidated financial statements, we proportionally consolidated the results of Copesul in our consolidated financial statements to reflect our 29.5% interest in Copesul s voting and total share capital and we did not reflect any of the results of Copesul in any of our then-existing segments.

The discussion of the results of our business segments is based upon financial information reported for each of the segments of our business, as presented in the table below. There are certain differences between the concepts used by our company in preparing information about segments and the requirements of Brazilian GAAP as applied in the statutory financial statements. The principal differences are:

- investments in certain jointly controlled companies which are required to be proportionally consolidated under Brazilian GAAP are not considered as part of any segment for segment reporting purposes and are included under the columns titled CVM 247 in the tables below; and
- operating income for segment reporting purposes does not consider the results of investments in associated companies and financial income and expenses, whereas such results and income and expenses are classified as operating items for statutory reporting purposes.

The following tables set forth the operating results of each of our segments and the reconciliation of these results of our segments to our consolidated results of operations. This segment information was prepared on the same basis as the information that our senior management uses to allocate resources among segments and evaluate their performance. We evaluate and manage the performance of our segments based on information generated from our statutory accounting records maintained in accordance with Brazilian GAAP and reflected in our consolidated financial statements. However, the operating income presented in the following tables does not include financial expenses, financial income and results from equity accounting.

	Year Ended December 31, 2008						
	Net sales revenue	Cost of sales and services rendered	Gross profit	Selling, general and administrative expenses	Depreciation and amortization	Other income (expense), net	Operating income
	(in millions of *reais*)						
Basic Petrochemicals	R$14,257.5	R$13,026.9	R$1,230.6	R$415.0	R$16.2	R$63.7	R$863.1
Polyolefins	7,534.0	6,256.3	1,277.7	525.8	27.5	38.5	762.9
Vinyls	2,052.8	1,573.6	479.2	174.1	3.2	8.5	310.4
IQ Soluções & Química	601.8	510.4	91.4	52.7	5.8	2.5	35.4
Total segments	24,446.1	21,367.2	3,078.9	1,167.6	52.7	113.2	1,971.8
Eliminations	(6,532.9)	(6,252.5)	(280.4)	(7.7)	490.3	(26.1)	(789.1)
CVM 247	46.3	26.1	20.2	7.2	0.6	(1.1)	11.3
Consolidated	R$17,959.5	R$15,140.8	R$2,818.7	R$1,167.1	R$543.6	R$86.0	R$1,194.0

	Year Ended December 31, 2007						
	Net sales revenue	Cost of sales and services rendered	Gross profit	Selling, general and administrative expenses	Depreciation and amortization	Other income (expense), net	Operating income
	(in millions of *reais*)						
Basic Petrochemicals	R$13,036.1	R$11,574.5	R$1,461.6	R$410.6	R$19.0	R$22.1	R$1,054.1
Polyolefins	7,411.0	6,070.3	1,340.7	517.2	19.6	(59.5)	744.4
Vinyls	1,789.4	1,438.1	351.3	201.7	2.1	25.9	173.4
IQ Soluções & Química	392.6	338.9	53.7	39.1	4.3	(0.7)	9.6
Total segments	22,629.1	19,421.8	3,207.3	1,168.6	45.0	(12.2)	1,981.5

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	Year Ended December 31, 2007						
	Net sales revenue	Cost of sales and services rendered	Gross profit	Selling, general and administrative expenses	Depreciation and amortization	Other income (expense), net	Operating income
				(in millions of *reais*)			
Eliminations	(5,654.4)	(5,598.0)	(56.4)	61.5	439.5	142.8	(414.6)
CVM 247	667.8	507.6	160.2	8.6	2.1	0.9	150.4
Consolidated	R$17,642.5	R$14,331.4	R$3,311.1	R$1,238.7	R$486.6	R$131.5	R$1,717.3

	Year Ended December 31, 2006						
	Net sales revenue	Cost of sales and services rendered	Gross profit	Selling, general and administrative expenses	Depreciation and amortization	Other income (expense), net	Operating income
				(in millions of *reais*)			
Basic Petrochemicals	R$7,157.6	R$6,291.4	R$866.2	R$348.6	R$0.5	R$(4.4)	R$512.7
Polyolefins	4,984.9	4,234.5	750.4	360.9	10.4	18.3	397.4
Vinyls	1,541.7	1,245.3	296.4	123.0	0.4	35.1	208.1
Total segments	13,684.2	11,771.2	1,913.0	832.5	11.3	49.0	1,118.2
Eliminations	(1,965.2)	(1,922.5)	(42.7)	41.8	346.6	107.9	(323.2)
CVM 247	1,273.7	910.5					