

BRASKEM SA
Form 6-K
February 17, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

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

For the month of February, 2006

(Commission File No. 1-14862)

BRASKEM S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of registrant's name into English)

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

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

Form 20-F Form 40-F

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

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

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

Yes No

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

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

Report of Independent Auditors

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

- 1 We have audited the accompanying balance sheets of Braskem S.A. and the consolidated balance sheets of Braskem S.A. and its subsidiaries as of December 31, 2005 and 2004, and the related statements of income, of changes in shareholders' equity and of changes in financial position of Braskem S.A., as well as the related consolidated statements of income and of changes in financial position, for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The audits of the financial statements at and for the years ended December 31, 2005 and 2004 of the jointly-controlled entities Politeno Indústria e Comércio S.A. and Petroflex Indústria e Comércio S.A., which are recorded under the equity method, were conducted by other independent auditors. Our opinion, insofar as it relates to the amounts of these investments and the profits generated by them, of R\$ 223,783 thousand and R\$ 45,560 thousand, respectively, in 2005 and R\$ 203,465 thousand and R\$ 61,451 thousand, respectively, in 2004, is based solely on the opinions of the other independent auditors.
- 2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

- 3 In our opinion, based on our audit and on the reports issued by other independent auditors, the financial statements audited by us present fairly, in all material respects, the financial position of Braskem S.A. and of Braskem S.A. and its subsidiaries at December 31, 2005 and 2004, and the results of operations, the changes in shareholders equity and the changes in financial position of Braskem S.A., as well as the consolidated results of operations and of changes in financial position, for the years then ended, in accordance with accounting practices adopted in Brazil.
- 4 As described in Notes 17(c) and 20 to the financial statements, Braskem S.A. and certain subsidiaries are parties to significant lawsuits which seek exemption from payment of social contribution on net income and a lawsuit regarding the validity of Clause 4 of the Collective Labor Agreement of the Union of the Employees of Petrochemical, Plastic Chemicals and Related Companies of the state of Bahia (SINDIQUÍMICA). Based on the opinion of its outside legal advisors and Company management, no material losses are expected from these disputes. Accordingly, these financial statements do not include any provisions to cover the possible effects of these lawsuits.
- 5 Based on the decision of the Federal Supreme Court (STF), the management of the former indirect subsidiary OPP Química S.A., merged into Braskem S.A. in March 2003, recorded an Excise Tax (IPI) credit in the amount of R\$ 1,030,125 thousand in the results for the year ended December 31, 2002. Although the National Treasury has filed an appeal of certain aspects of this decision, as described in Note 9(i), management has concluded, based on the opinion of its legal advisors that this appeal cannot significantly alter the receivable recorded by the subsidiary.
- 6 The Company belongs to a group of companies comprising the Braskem Group and carries out financial and commercial transactions, in significant amounts, with its subsidiaries and other Group companies, under the conditions described in Note 8 to the financial statements.

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

Salvador, February 6, 2006

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

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

Braskem S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

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

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

Braskem S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

(continued)

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

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

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

Braskem S.A. and Subsidiaries**Statements of Operations**

In thousands of reais

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

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

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

Braskem S.A. and subsidiaries

Statements of Changes in Stockholders Equity
In thousands of reais

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

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

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

Braskem S.A. and Subsidiaries

Statements of Changes in Financial Position

In thousands of reais

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

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

Braskem S.A. and Subsidiaries

Statements of Changes in Financial Position

In thousands of reais

(continued)

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

Current liabilities

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

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

Braskem S.A. and Subsidiaries

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

1 Operations

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

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

(b) Formation of Braskem

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

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

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

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

Braskem S.A. and Subsidiaries

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

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

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

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

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

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

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

Braskem S.A. and Subsidiaries

Notes to the Financial Statements

at December 31, 2005 and 2004

In thousands of reais

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(e) Corporate governance

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

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

(f) Administrative Council for Economic Defense - CADE

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

2 Presentation of the Financial Statements

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

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

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

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

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

Assets	Dec/04	Liabilities	Dec/04
Current assets		Current assets	
Cash and cash equivalents	2	Financing	196,992
Interest on capital receivable	7,911	Taxes payable	4,731
Taxes recoverable	13,274	Interest on capital payable	219
Related companies	1,095,808		
			201,942
	1,116,995	Long-term liabilities	
Long-term asset		Related companies	12
Related companies	342,289	Taxes payable	17,502
	342,289		
			17,514
Permanent		Stockholders' equity	

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Investments - Copesul	95,420	Capital	1,276,547
Deferred charges	5,501	Legal reserve	5,554
		Revenue reserves	58,648
	100,921		1,340,749
Total assets	1,560,205	Total liabilities and stockholders' equity	1,560,205

Braskem S.A. and Subsidiaries

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3 Significant Accounting Practices

(a) Use of estimates

In the preparation of the financial statements, it is necessary to use estimates to record certain assets, liabilities and transactions. The financial statements of the Company and its subsidiaries include, therefore, various estimates regarding the selection of the useful lives of property, plant and equipment, deferred charges amortization periods, as well as provisions for contingencies, income tax and other similar amounts.

(b) Determination of net income

Net income is determined on the accrual basis of accounting.

Sales revenues are recognized when the risk and product title are transferred to customers. This transfer occurs when the product is delivered to customers or carriers, depending on the type of sales.

The provisions for income tax and Value-Added Tax on Sales and Services (ICMS) are recorded gross of the tax incentive portions, with the amounts related to tax exemption and reduction recorded in a capital reserve.

In accordance with the requirements of CVM Deliberation 273 and Instruction 371, the deferred income tax is stated at probable realizable value, expected to occur as described in Note 17 (b).

Monetary and foreign exchange variations on assets and liabilities are classified in Financial income and Financial expenses, respectively.

The Company has recognized in financial results for the year the market value of derivative contracts relating to liabilities indexed to foreign currency or international interest rates. At December 31, 2005, the Company had outstanding derivative contracts, all of them indexed to foreign currency financing, these contracts had a negative market value of R\$ 24,966 (consolidated negative value of R\$ 15,790). At December 31, 2004, the Company had no outstanding contracts.

Earnings per share are calculated based on the number of outstanding shares on the balance sheet date.

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(c) Current assets and long-term receivables

Cash and cash equivalents comprise primarily cash deposits and marketable securities or investments maturing within 90 days (Note (4)).

Marketable securities are valued at the lower of cost or market, including accrued income earned to the balance sheet date. Derivative instruments are valued at their adjusted fair values, based on market quotations for similar instruments against future exchange and interest rates.

The allowance for doubtful accounts is set up at an amount considered sufficient to cover estimated losses on the realization of the receivables, taking into account the Company's loss experience, and includes amounts in litigation. For a better calculation of the doubtful accounts the Company analyzes, on a quarterly basis, the amounts and characteristics of trade accounts receivable.

Inventories are stated at average purchase or production cost, which is lower than replacement cost or realization value. Imports in transit are stated at the accumulated cost of each import. Inventories of consumable materials (Warehouse) are classified in current assets or long-term receivables, considering their history of consumption.

Deferred income tax is recognized upon favorable scenarios for its realization. Periodically, the amounts recorded are revalued in accordance with CVM Deliberation 273/98 and CVM Instruction 371/02.

Other assets are shown at realizable values, including, where applicable, accrued income and monetary variations, or at cost in the case of prepaid expenses.

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(d) Permanent assets

These assets are stated at cost plus restatements for inflation through December 31, 1995 considering the following:

.. investments in subsidiaries, jointly-controlled entities and associated companies are accounted for on the equity method, plus unamortized goodwill/negative goodwill. Goodwill is calculated as the difference between the amount paid and the book value of net assets acquired. Goodwill is based on the expected future profitability of the investees and appreciation of the assets, and is amortized over a period of up to 10 years. Goodwill in merged companies is transferred to property, plant and equipment and deferred charges, when based on asset appreciation and future profitability of the investees, respectively. Other investments are carried at the cost of acquisition;

.. interests in foreign subsidiaries are accounted for by the equity method and foreign exchange variances on assets is recorded in a separate account under operating profits. Balance sheet and income statement accounts are converted into Brazilian currency at the exchange rates ruling as of the financial statement date, according to CVM Deliberation 28 of February 5, 1986;

.. property, plant and equipment is shown at acquisition or construction cost and, as from 1997, includes capitalized interest incurred during the construction or expansion of production capacity of the plants;

.. depreciation of property, plant and equipment is recorded on the straight-line basis at the rates mentioned in Note 12;

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

.. programmed maintenance shutdowns are carried out at intervals from one to six years. Expenses that increase the useful lives of assets or result in higher production efficiency are recorded in deferred charges and amortized in production cost until the beginning of the next maintenance shutdown.

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(e) Current and long-term liabilities

These are stated at known or estimated amounts, including accrued charges and monetary and exchange adjustments, as applicable.

The provision for loss in subsidiaries is recorded based on the net unsecured liabilities (excess of liabilities over assets) of these companies, and is recorded as a long-term liability against the equity results.

Defined benefit pension plans are accounted for based on the calculations made by independent actuaries, which in turn are based on assumptions provided by the Company.

The provisions are recorded based on (i) current legislation (even when management believes that this legislation may be considered unconstitutional); (ii) the need to eliminate contingent gains arising from the offset of credits resulting from litigation; and (iii) estimated payments of indemnities considered probable.

(f) Deferred income

Deferred income includes negative goodwill of merged companies, supported by the expected future profitability.

Braskem S.A. and Subsidiaries**Notes to the Financial Statements
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The consolidated financial statements include the financial statements of the Company and its subsidiaries and jointly-controlled entities, joint ventures and Special-purpose Companies (EPEs) in which the Company has direct or indirect share control, as shown below:

			Direct interest in total capital - %	
		Head office (country)	2005	2004
Subsidiaries				
Cayman	(i) (xvi)	Cayman Isl.		100.00
Braskem Importação	(ii)	Brazil		100.00
Braskem Inc.	(iii)	Cayman Isl.	100.00	100.00
Braskem International Ltd. ("Braskem International")	(iv)	Bahamas	100.00	100.00
Braskem Participações		Brazil	100.00	100.00
CINAL	(v)	Brazil	86.82	63.03
Braskem Distribuidora	(vi)	Brazil	100.00	100.00
CPP - Companhia Petroquímica Paulista ("CPP")	(vii)	Brazil	79.70	90.71
Investimentos Petroquímicos Ltda. ("IPL")	(viii)	Brazil		100.00
Lantana	(xvii)	Bahamas		100.00
Odequi	(ix)	Brazil		100.00
Overseas	(xvii)	Cayman Isl.		100.00
Polialden		Brazil	63.68	63.68
Tegal Terminal de Gases Ltda. ("Tegal")		Brazil	90.79	90.79
Jointly-controlled entities				
CETREL S.A. - Empresa de Proteção Ambiental ("CETREL")	(xi)			
	(xii)	Brazil	48.02	40.56
COPEL	(xiii)	Brazil	29.46	23.67
Politeno Indústria e Comércio S.A. ("Politeno")	(xiv)	Brazil	33.96	33.88
Petroflex	(x)	Brazil	20.12	20.12
Petroquímica Paulínia	(xviii)	Brazil	93.75	

Special-purpose entities	(xv)			
Chemical Fundo de Investimento em Direitos Creditórios				
(Fundo Chemical)	(xix)	Brazil	11.58	10.65
Chemical Fundo de Investimento em Direitos Creditórios				
(Fundo Chemical II)	(xix)	Brazil	9.09	
CSAM Orion Fund Limited (Orion)	(xx)	Cayman Isl.		100.00
Fundo Parin		Guernsey	100.00	
Guardian-Protected Cell Company (Guardian)		Guernsey	100.00	100.00
Sol-Fundo de Aplicação em Cotas de Fundos de Investimento				
(FIQ Sol)		Brazil	100.00	100.00

Braskem S.A. and Subsidiaries
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		Interest in total capital - %	
		2005	2004
		Head office (country)	
Direct subsidiary of Poliaden			
Poliaden America Inc. ("Poliaden America")		USA	100.00
Direct subsidiary of Braskem Participações			
IPL	(viii)	Brazil	100.00
Direct subsidiary of Copesul			
COPEL International Trading Inc.		Bahamas	100.00
Direct subsidiary of IPL			
Braskem Importação	(ii)	Brazil	100.00
Direct subsidiary of Braskem Distribuidora			
Cayman	(xvi)	Cayman Islands	100.00
Direct subsidiaries of Cayman			
Overseas	(xvii)	Cayman Islands	100.00
Lantana	(xvii)	Bahamas	100.00

- (i) Braskem Cayman Ltd (Cayman) is the new corporate name of CPC Cayman Ltd.
- (ii) In May 2005, 100% of this investment was contributed as capital increase to Braskem Participações and, in July 2005, 100% of this investment was contributed to IPL .
- (iii) Braskem Incorporated Ltd (Braskem Inc) is the new corporate name of CPN Incorporated Ltd.
- (iv) Braskem International Ltd is the new corporate name of Odequi Investments Ltd. This subsidiary is being wound up.
- (v) In February 2005, the Company shares of CINAL held by Petroquisa and, in June 2005, the Company increased its holding as a result of the redemption of Class B shares by this subsidiary.
- (vi) Braskem Distribuidora Ltda. (Braskem Distribuidora) is the new corporate name of CPN Distribuidora de Combustíveis Ltda.
- (vii)

Change in participation in September 2005, as a result of the disproportionate capitalization of advances for future capital increases.

- (viii) In July 2005, 100% of this investment was contributed to Braskem Participações.
- (ix) Company merged on March 31, 2005.
- (x) Investment consolidated on a pro rata basis, as a result of the new position in the investee management.
- (xi) Investments consolidated on a pro rata basis, pursuant to CVM Instruction 247/96.
- (xii) Change in interest in September 2005, as a result of the disproportionate capitalization of advances for future capital increases and cancellation of preference shares. On a consolidated basis, the interest in Cetrel, including the shares held by Polialden and CINAL, is 52.95%. In spite of this interest, the Company maintains the joint control as a result of by-laws provisions.
- (xiii) Following the merger of Odequi, direct interest in the capital of Copesul is equal to 29.46%.
- (xiv) The jointly-controlled subsidiary Politeno issued new shares through the capitalization of the tax incentive reserve, increasing Braskem's interest.
- (xv) In August 2004, CVM issued Instruction 408/04 providing for the inclusion of EPEs in the consolidated financial statements of publicly-held companies. Subsequently, on February 25, CVM Circular Letter 01/2005 provided additional information to support the concept of activities subject to consolidation.
- (xvi) Investment sold to Braskem Distribuidora on October 18, 2005.
- (xvii) Investment sold to Cayman on October 31, 2005.
- (xviii) Subsidiary under joint control with Petroquisa, according to by-laws provisions. Upon completion of the transaction, Braskem interest in this joint venture will amount to 60% (Notes 1(b) and 11(b)).
- (xix) Interest corresponding to subordinated quotas held by Braskem.
- (xx) Fund wound up in the 4th quarter of 2005.

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In the consolidated financial statements, the intercompany investments and the equity adjustment, as well as the intercompany assets, liabilities, income, expenses and unrealized gains arising from transactions between consolidated companies, were eliminated.

Minority interest in the equity and in the results of subsidiaries has been segregated in the consolidated balance sheets and statements of operations, respectively. Minority interests correspond to the respective participations in the capital of CINAL, CPP, Polialden and Tegal.

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

For a better presentation of the consolidated financial statements, the cross-holding between the subsidiary Braskem Participações and the Company, which arose from the corporate restructuring, was reclassified to treasury shares. Considering the reverse split of shares (Note 1(d)), the subsidiary Braskem Participações now holds 580,331 common and 290,165 Class A preferred shares, representing 0.24% of the Company's total capital.

Pursuant to paragraph 1, Article 23 of CVM Normative Instruction 247/96 and authorization by CVM Letter SNC 003/2006, the Company has not consolidated on a pro rata basis, in its financial statements for the year ended 2005 compared to 2004, the financial statements of jointly-controlled subsidiary CODEVERDE. This subsidiary is in a pre-operating stage. Its information does not show significant changes and does not lead to distortions in the Company's consolidated financial statements.

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CODEVERDE adjusted balance sheet (unaudited) is summarized as follows:

	2005	2004
Assets		
Current assets	405	182
Long-term receivables	88	74
Permanent assets	43,480	42,606
Total assets	43,973	42,862
Liabilities and stockholders equity		
Current liabilities	100	61
Long-term liabilities	1,059	991
Stockholders equity	42,814	41,810
Total liabilities and stockholders equity	43,973	42,862

The reconciliation between the parent company and consolidated shareholders equity and the net income for the year is as follows:

	Stockholders equity		Net income for the year	
	2005	2004	2005	2004
Parent company	4,647,101	4,235,030	685,775	692,679
Cross holding classified as treasury shares	(13,110)	(13,110)		
Effects of EPEs consolidation		(3,830)	3,830	(3,830)
Exclusion of profits in subsidiaries inventories	(5,188)	(5,946)	758	(5,946)
Exclusion of the gain on the sale of investment between related parties	(38,476)	(38,476)		

Exclusion of the gain on financial transactions between related parties	(14,044)		(14,044)	
Reversal of amortization of goodwill on the sale of investments between related parties	14,085	9,965	4,120	4,124
Exclusion of the gain on the assignment of right of use between related parties	(54,602)		(54,602)	
Consolidated	4,535,766	4,183,633	625,837	687,027

The balance sheets and statements of income of jointly-controlled subsidiaries and EPEs can be summarized as follows:

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	Copesul		CETREL (i)		Petroflex (i)	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	907,875	753,989	24,337	27,760	499,468	591,246
Long-term receivables	154,906	294,830	15,007	12,937	29,121	35,719
Permanent assets	1,125,823	1,158,752	111,503	108,287	384,339	330,415
Total assets	2,188,604	2,207,571	150,847	148,984	912,928	957,380
Liabilities and stockholders equity						
Current liabilities	701,645	745,668	20,911	26,402	474,929	363,671
Long-term liabilities	246,450	307,102	31,945	65,982	159,108	337,963
Stockholders equity	1,240,509	1,154,801	97,991	56,600	278,891	255,746
Total liabilities and stockholders equity	2,188,604	2,207,571	150,847	148,984	912,928	957,380
Statement of income						
Net sales	5,552,571	5,374,145	98,218	81,769	1,373,204	1,305,961
Cost of goods sold and services rendered	(4,610,378)	(4,417,605)	(79,561)	(64,099)	(1,088,881)	(1,043,316)
Gross profit	942,193	956,540	18,657	17,670	284,323	262,645
Operating income (expenses), net	(151,133)	(155,349)	(11,129)	(25,279)	(160,756)	(134,042)
Non operating income (expenses), net	5,406	(805)	270	(1,054)	(1,503)	471

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Net income (loss) before income tax						
and						
social contribution	796,466	800,386	7,798	(8,663)	122,064	129,074
Income tax and social contribution	(230,503)	(241,969)	(725)		(33,742)	(30,475)
Net income (loss) for the year	565,963	558,417	7,073	(8,663)	88,322	98,599

(i) Financial statements excluding the revaluation reserve.

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		Politeno	Petroquímica Paulínia
	2005	2004	2005
Assets			
Current assets	294,271	303,379	7,500
Long-term receivables	164,016	144,394	
Permanent assets	191,251	191,303	58,240
Total assets	649,538	639,076	65,740
Liabilities and stockholders equity			
Current liabilities	148,935	155,886	
Long-term liabilities	11,000	32,695	17,740
Stockholders equity	489,603	450,495	48,000
Total liabilities and stockholders equity	649,538	639,076	65,740
Statement of income			
Net sales	1,169,853	1,119,386	
Cost of goods sold and services rendered	(950,170)	(865,385)	
Gross profit	219,683	254,001	
Operating income (expenses), net	(116,885)	(112,891)	
Non operating income (expenses), net	(5,640)	(11)	
Net income (loss) before income tax and social contribution	97,158	141,099	
Income tax and social contribution	(33,787)	(44,606)	

Net income for the year	63,371	96,493
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	Fundo Parin		Guardian		FIQ Sol Fundo Chemical		Fundo Chemical II Orion		
	2005	2005	2004	2005	2004	2005	2004	2005	2004
Assets	560,575	1,002,769	994,348	545,649	402,081	228,373	226,151	444,550	553,721
Liabilities	187	469		7	19	339		33	
Stockholders equity	560,388	1,002,300	934,348	545,642	402,062	228,034	226,151	444,517	553,721
Total liabilities and stockholders equity	560,575	1,002,769	934,348	545,649	402,081	228,373	226,151	444,550	553,721
Net income for the year	9,300	48,497	19,325	70,580	92,391	39,024	3,830	4,518	31,429

Braskem S.A. and subsidiaries**Notes to the Financial Statements
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In order to improve information provided to the market, the Company presents its Statements of Cash Flow and Added Value as supplementary information (Attachments I and II).

4 Cash and Cash Equivalents

	Parent company		Consolidated	
	2005	2004	2005	2004
Cash and banks	110,759	137,431	141,953	151,915
Financial investments				
Domestic	641,285	387,613	740,552	525,063
Abroad	709,046	1,031,825	1,253,235	1,116,977
	1,461,090	1,556,869	2,135,740	1,793,955

The domestic investments are mainly represented by quotas of a Braskem exclusive fund, which, in turn, holds quotas of domestic investment funds, such as fixed income investment funds, multiportfolio funds, investment fund quotas in credit rights, and other fixed-income securities. Foreign investments mainly comprise an investment fund portfolio, regularly reassessed for risk by the Company. The fund amounts are highly liquid and are recorded at realizable values.

The Company maintains cash and cash equivalents sufficient to cover: (i) its working capital needs; (ii) investments anticipated in the business plan; and (iii) adverse conditions that may reduce the available funds.

Such funds are allocated in order to: (i) have a return compatible with the maximum volatility determined by the investment and risk policy; (ii) obtain a high spread of the consolidated portfolio; (iii) avoid the credit risk arising from the concentration in a few securities; and (iv) follow the market interest rate changes both in Brazil and abroad.

Braskem S.A. and subsidiaries
**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

5 Marketable Securities

	Parent company		Consolidated	
	2005	2004	2005	2004
Current assets				
Subordinated quotas of investment fund credit rights			3,913	4,664
Derivative transactions	3,466		19,792	
Investment and other funds	37		122,089	16,935
	3,503		145,794	21,599
Long-term receivables				
Investment funds	551,235			
Associated company shares held for sale		22,138		22,138
Debentures with share in profit	7,305	7,201		7,201
Subordinated quotas of investment fund - credit rights	66,791	27,867		3,109
Securitization reserve				24,955
FINOR and other securities	10,972	4,216	325	4,558
	636,303	61,422	325	61,961
Total	639,806	61,422	146,119	83,560

Associated company shares held for sale correspond to the book value of shares in Borealis Brasil S.A. ("Borealis"), representing 20% of its total capital. In June 2005, the balance of such investment was transferred to permanent assets, in the line Interests in associated companies line, as the decision to sell the shares was reversed.

Investment funds comprise a portfolio of foreign investment funds, the risk of which is regularly reassessed by the Company. These funds are recorded at realizable value.

Investment fund resources under long-term receivables refers to transactions to finance subsidiaries included in the consolidated financial statements.

Braskem S.A. and subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****6 Trade Accounts Receivable**

	Parent company		Consolidated	
	2005	2004	2005	2004
Customers				
Domestic market	602,783	890,711	1,300,926	1,254,153
Foreign market	480,974	439,722	360,564	537,560
Advances on bills of exchange delivered		(64)	(31,243)	(82,941)
Allowance for doubtful accounts	(72,945)	(46,201)	(87,259)	(54,997)
	1,010,812	1,284,168	1,542,988	1,653,775
Long-term receivables	(47,479)	(18,247)	(49,676)	(23,146)
	963,333	1,265,921	1,493,312	1,630,629
Current assets				

The Company has introduced an additional policy for realizing domestic trade accounts, by selling its receivables to investment funds with credit rights, which pay the Company earlier than the normal maturity of these customer receivables. On December 12, 2005, the Company completed the issue of a new Receivables Fund (Fundo Chemical II), in the amount of R\$ 400,000, maturing within 36 months and to be amortized as from the 31st month, managed by Banco Bradesco, at the contractual rate of 103.75% of CDI.

The subordinated quotas held by Braskem were eliminated upon consolidation, while senior quotas held by investors are stated in current and long-term liabilities, as Investment fund in credit rights, in the amounts of R\$ 225,387 and R\$ 404,122, respectively (2004 R\$ 22,431 and R\$ 201,766).

During 2004, unrecoverable receivables reflected in the provisions in the amount of R\$ 95,358 (consolidated R\$ 102,383) were written off.

Changes in the allowance for doubtful accounts are as follows:

	Parent company	Consolidated
--	----------------	--------------

	2005	2004	2005	2004
At the beginning of the year	46,201	54,666	54,997	105,705
Additions classified as selling expenses	33,322	47,393	38,878	52,719
Addition by merger of subsidiaries		39,896		
Reversal of allowance/recovery	(6,663)		(6,730)	(387)
Write-off of unrecoverable accounts		(95,358)	(14)	(102,383)
Exchange variation	85	(396)	128	(657)
At the end of the year	72,945	46,201	87,259	54,997

Braskem S.A. and subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****7 Inventories**

	Parent company		Consolidated	
	2005	2004	2005	2004
Finished products	673,609	653,684	798,984	780,913
Work-in-process	43,704	43,788	49,519	47,883
Raw materials, production inputs and packaging	265,614	310,264	407,946	428,717
Warehouse (*)	303,749	255,943	347,233	291,396
Advances to suppliers	43,715	51,799	47,333	70,961
Imports in transit and others	8,430	4,595	10,166	5,762
Provision for adjustment to realization value	(16,932)	(12,847)	(17,945)	(12,849)
Total	1,321,889	1,307,226	1,643,236	1,612,783
Long-term receivables (*)	(71,817)	(47,669)	(75,783)	(50,369)
Current assets	1,250,072	1,259,557	1,567,453	1,562,414

(*) Based on its turnover, part of the maintenance materials inventory was reclassified to long-term.

Advances to suppliers and expenditures for imports in transit mainly relate to the acquisition of petrochemical naphtha, which is the main raw material of the Company.

Braskem S.A. and Subsidiaries
**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

8 Related Parties**(a) Parent company**

	Balances						
	Current assets	Long-term receivables		Current liabilities		Long-term liabilities	
	Trade accounts receivable	Related parties	Suppliers	Related parties	Suppliers	Debentures	Related parties
Subsidiaries							
Braskem Importação							1,207
Braskem Inc.	14,513						
Braskem Participações							1,137
Cayman	9,421	53					
CINAL			5,384				
CPP (i)		8					
IPL							12
Lantana	29,359						
Poliaden America	9						
Polialden	14,490		3,594				
Tegal (i)		2,420	401				1,016
Jointly-controlled entities							
CETREL (i)	138	39	1,820				
Copesul	549		500,697				
Petroflex	51,843						
Petroquímica Paulínia							
(i)		17,740					
Politeno	27,987						
Associated company							
Borealis	8,678						

Related parties

ODBP							
Investimentos S.A. ("ODBP") (ii)						999,347	
Construtora Norberto Odebrecht ("CNO")			12,307				
Petróleo Brasileiro S.A. ("Petrobras")	35,279		59,046		21,521		
Petrobras Distribuidora S.A.			20,927		1,589		
Other		1,642					
At December 31, 2005	156,987	57,181	604,176		23,110	999,347	3,372
At December 31, 2004	246,950	745,765	1,171,094	1,147,804	65,727	867,870	671,381

(i) Amounts stated under Related parties, in long-term receivables, refer to advances for future capital increase.

(ii) Debentures issued by Braskem (Note 15(b))

Braskem S.A. and Subsidiaries
**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

Parent company (continued)

			Transactions	
	Product sales	Raw materials, service & utilities purchases	Financial income(iii)	Financial expenses
Braskem Importação				193
Braskem Inc.	756,163	40,479	15,901	
Braskem Participações Cayman	95,277		2,393	202
CINAL		47,634		
CPN Distribuidora			5,548	
CPP				
IPL				
Lantana	53,294		1,957	
Poliaden America	13			
Polialden	422,907	31,597		38,118
Tegal		14,409	77	17
Jointly-controlled entities				
CETREL	1,446	28,891		
Copesul	6,377	2,572,031	29,224	2,396
Petroflex	442,151		4,022	
Politeno	1,053,935			
Associated company				
Borealis	128,476			
Related parties				
ODBP				131,478
CNO		109,469		
Petrobras		4,337,278	3,814	
Petrobras Distribuidora		189,545		
Other			220	

At December 31, 2005	2,960,039	7,371,333	63,156	172,404
At December 31, 2004	2,987,604	7,159,110	56,023	68,227

(iii) Includes interest on capital.

Braskem S.A. and Subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****(b) Consolidated**

	Balances							
	Current assets		Long-term receivables		Current liabilities		Long-term liabilities	
	Trade accounts receivable	Accounts receivable	Related parties	Suppliers	Debentures	Related parties	Suppliers	Related Parties
Jointly-controlled entities								
CETREL	65			856		3,072		
Copesul	387			353,188				
Petroflex	41,412							
Politeno	18,483							
Associated company								
Borealis	8,678							
Related parties								
Alberto Pasqualini - REFAP S.A (related party to Copesul)	7,920			300				
Ipiranga Petroquímica S.A. (related party to Copesul)	12,492			528				
CNO		620		12,307				
Monsanto Nordeste S.A. (related party to CETREL)								3,018

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ODBP Petrobras	98		35,279	59,053	999,347		21,521	
Petrobras Distribuidora S.A.	38			20,955			1,589	
Other			5,281			9		519
At December 31, 2005	89,573	620	40,560	447,187	999,347	3,081	23,110	3,444
At December 31, 2004	34,855	599	35,181	351,834	867,870	8	65,727	115,734

Braskem S.A. and Subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****Consolidated (continued)**

			Transactions	
	Product sales	Raw materials, services & utilities purchases	Financial income	Financial expenses
Jointly-controlled entities				
CETREL	680	13,593		
Copesul	4,498	1,814,293		1,690
Petroflex	353,190			
Politeno	696,019			
Associated company				
Borealis	128,476			
Related parties				
Alberto Pasqualini - REFAP S.A (related party to Copesul)	35,763	636,543		
Ipiranga Petroquímica S.A. (related party to Copesul)	1,207,188	25,564	1,198	17
CNO		109,469		
Monsanto Nordeste S.A. (related party to CETREL)				
ODBP				131,478
Petrobras		5,115,973	3,814	
Petrobras Distribuidora S.A.		195,415		
At December 31, 2005	2,425,814	7,910,850	5,012	133,185
At December 31, 2004	1,280,377	6,169,437	3,863	42,545

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

Trade accounts receivable and Suppliers include the balances resulting from transactions with related parties, arising mainly from the following sales and purchases of goods and services:

Sales of Braskem:

Company	Products/inputs
Borealis / Cayman / Lantana	Thermoplastic resins
Braskem Inc.	Basic petrochemicals and thermoplastic resins
Polialden / Politeno	Ethylene and utilities
Petroflex	Butadiene

Purchases of Braskem:

Company	Products/inputs/services
CINAL	Utilities, treatment and incineration of waste
Copesul	Ethylene, propane and utilities
Petrobras	Naphtha
Petrobras Distribuidora	Fuel
Polialden	Thermoplastic resins
CNO	Construction and maintenance services
Tegal	Gas storage services

Transactions with related parties are carried out at normal market prices and conditions, considering the following:

.. The price of ethylene results from a process that shares the margin with the second generation companies of the petrochemical sector. This process consists of allocating the gross margin in proportion to the return on investments. The prices charged for the other products are established based on several market factors, including international ones.

.. The price of naphtha supplied by Petrobras is negotiated with the Company and the petrochemical companies using as a benchmark the European market prices. During the twelve-month period ended December 31, 2005, the Company also imported naphtha at a volume equal to 31% of its consumption (twelve-month period ended December 31, 2004 - 38% - unaudited).

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais**

The related parties balance includes current account balances, as follows:

Participating companies	Annual financial charges	2005	2004
Subsidiaries			
Long-term receivables			
Braskem Inc.	US\$ exchange variation + 8.30%		556,386
Cayman	US\$ exchange variation + 10.05%	53	48,926
Lantana	US\$ exchange variation + 3.80%		97,150
Long-term liabilities			
Braskem Importação	100% of CDI	1,207	
Braskem Participações	100% of CDI	1,137	
Braskem Distribuidora	None		981
Odequi	None		342,289
Polialden	100% of CDI		327,131
Tegal	100% of CDI	1,017	980

The current accounts are used by the Company and its direct and indirect subsidiaries to centralize available cash in a central pool for settlement of their obligations. Financial charges on remittances and balances of the pool of funds are agreed upon by the account holders, considering the costs of funds charged to the individual participants by financial institutions, so that such charges are paid/transferred to the Company.

9 Taxes Recoverable

	Parent company		Consolidated	
	2005	2004	2005	2004
Excise tax (IPI) (standard operations)	65,102	45,742	69,221	47,836
Zero rate IPI (i)		39		39
Value-added Tax on Sales and Services (ICMS) (ii)	412,865	340,154	556,917	440,912
Social Integration Program (PIS) Decree Laws 2,445 and 2,449/88	52,215	51,673	60,186	53,740

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Income tax and social contribution	38,666	26,037	62,306	63,687
Income Tax on Net Income - ILL (iii)	12,675	53,725	27,814	67,971
PIS and Cofins (standard operations)	25,983	2,198	40,772	11,662
Import Duty	17,962	5,172	18,183	5,172
Finsocial	14,221	14,221	14,478	14,478
Other	19,963	18,707	34,414	21,774
	659,652	557,668	884,291	727,271
Current assets	(263,677)	(381,774)	(324,868)	(476,011)
Long-term receivables	395,975	175,894	559,423	251,260

Braskem S.A. and its subsidiaries

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

(i) Zero-rate IPI

In the 1st trimester of 2005, the Company concluded the offset operation of the amount of IPI tax credit from acquisition of raw materials and inputs that are exempt from IPI, not subject to IPI taxation or taxed at a zero rate, when related to transactions involving the establishments of absorbed company OPP Química S.A. (OPP Química), located in the State of Rio Grande do Sul. This credit was granted on a claim lodged in July 2000, when OPP Química filed a lawsuit for full applicability of the non-cumulative principle for this tax to the establishments mentioned.

On December 19, 2002, the Federal Supreme Court (STF), based on past determinations of its Full Bench, entertained an extraordinary appeal lodged by the National Treasury and affirmed the decision of the Regional Federal Court (TRF), 4th Circuit, recognizing the entitlement to an IPI tax credit from said acquisitions during a 10-year period prior to the filing date, plus monetary restatement and accrual of interest at the SELIC benchmark rate until actual use of these credits.

The STF determination was challenged by the National Treasury via special appeal known as agravo regimental, which is pending judgment by the Second Panel of the STF. In this special appeal, the National Treasury is no longer challenging the company's entitlement to the IPI tax credit itself, but rather alleging some inaccuracies in the court determination as to non-taxed inputs and raw materials, the restatement of tax credits, and the respective calculation rate.

According to the opinion of the Company's legal advisors, however, all these aspects have already been settled in the STF and TRF decisions favorably to OPP Química, or even in the STF full-bench precedents. For this reason, the special appeal referred to above poses no risk of changes in OPP Química's entitlement to the tax credit, even though the STF itself is revisiting this matter in a similar lawsuit involving another taxpayer (this judgment is currently on hold).

In December 2002, OPP Química posted this undue tax at R\$ 1,030,125, which was offset by the Company with IPI itself and other federal tax debts. Similar lawsuits have also been filed by the Company's branches located in the States of São Paulo, Bahia and Alagoas (Note 16(ii)).

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****(ii) Recoverable Taxes ICMS**

The Company has accrued ICMS tax credits, basically on account of its high level of exports and outgoing products subject to deferred taxation. The Company's Management is giving priority to a number of actions aimed at optimal use of such credits and, currently, no losses are expected from realization of those credits. Based on the Company's Management projection over the realization of those credits, the amount of R\$ 221,819 (consolidated R\$ 349,203) was posted as long-term assets.

(iii) Tax on Net Income (ILL)

The Company brought suit for recovery of unduly paid ILL tax in the 1989 and 1990 tax years. The courts eventually held this case valid in a final and conclusive manner, and the Company asked the Federal Revenue Office (SRF) to acknowledge the corresponding credit for further offsetting with other subsequent tax debts. Entitlement to a R\$ 45,395 credit was acknowledged in November 2005, which was fully offset with PIS and COFINS debts.

10 Judicial Deposits and Compulsory Loan Long-term Receivables

	Parent company		Consolidated	
	2005	2004	2005	2004
Judicial deposits				
Labor claims	13,325	2,405	12,697	1,678
Other	9,476	10,943	11,571	11,431
Compulsory loan				
Eletrobrás	12,098	15,825	12,254	15,825
	34,899	29,173	36,522	28,934

As required to CVM Deliberation 489/05, the Company presently states contingent liabilities net of the corresponding judicial deposits (Notes 2 and 16).

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****11 Investments****(a) Information on investments**

		Number of shares or quotas held (thousand)								
		2005			2004					
		Common shares	Preference Shares	Quotas	Total	Common shares	Preference shares	Quotas	Total	2004
Subsidiaries										
Braskem Inc.	(i)	40,095			40,095	95			95	100.0
Braskem International		5			5	5			5	100.0
Braskem Participações	(ii)	6,500,000			6,500,000	6,500,000	2,000,000		8,500,000	100.0
Braskem Distribuidora	(iii)			31,649	31,649			354	354	100.0
Braskem Importação	(iv)					153,602			153,602	
Cayman	(iv)					900			900	
CINAL	(iv)	77,589	52,857		130,446	62,199	45,440		107,639	86.0
CPP	(iv)	8,465			8,465	4,666			4,666	79.0
Overseas	(iv)					1			1	
IPL	(iv)							974	974	
Lantana	(iv)					5			5	
Odequi						12,528	514		13,042	
Polialden		263,690	147,214		410,904	263,690	147,214		410,904	63.0
Tegal				21,938	21,938			21,938	21,938	90.0
Jointly-controlled entities										
CETREL	(iv)	715			715	456			456	48.0
CODEVERDE	(v)	9,639			9,639	9,533			9,533	35.0

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Copesul	(iv)	44,255		44,255	3,555,182		3,555,182	29.
Politeno	(iv)	21,847,901	618,266	22,466,167	20,174,177	583,545	20,757,722	33.
Petroflex	(iv)	4,759	2,321	7,080	95,185	46,412	141,597	20.
Petroquímica Paulínia	(iv)	45,000		45,000				93.
Associated companies								
Borealis		18,949		18,949	18,949		18,949	20.
Rionil			3,061	3,061		3,061	3,061	33.
Sansuy			271	271		271	271	20.

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****Information on investments (continued)**

		Number of shares or quotas held (thousand)							Interest in total capital (%)		
		2005				2004			2005	2004	
		Common shares	Preference shares	Quotas	Total	Common shares	Preference shares	Quotas			Total
Information on investments of subsidiaries											
Braskem Distribuidora											
Cayman	(iv)	900			900					100.00	
Braskem Participações											
IPL	(iv)	295			295					100.00	
IPL											
Braskem Importação	(iv)			252,818	252,818					100.00	
Cayman											
Overseas	(iv)	1			1					100.00	
Lantana	(iv)	5			5					100.00	
Polialden											
Polialden America		40			40	40		40	100.00	100.00	

(i) Capital increase on April 25, through issue of quotas.

(ii) Cancellation of preference shares, pursuant to Extraordinary Shareholders Meeting of July 28, 2005.

(iii) On November 30, 2005, the Company increased the capital of Braskem Distribuidora through credits held by the Company.

(iv) Changes in the number of shares/quotas held and interest in total capital are detailed in Note 3 (g).

(v) Increase in interest as a result of the capitalization of AFAC.

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****Information on investments (continued)**

	Adjusted net income (loss) for theyear		Adjusted shareholders equity (unsecured liabilities)	
	2005	2004	2005	2004
Subsidiaries				
Braskem Inc.	23,951	(60,018)	122,509	5,591
Braskem International	84,419	27,915	(190,517)	(311,783)
Braskem Participações	(17)	(646)	20,560	22,312
Braskem Distribuidora	(239,102)		77,388	3,542
Braskem Importação		(46,169)		218
Cayman		1,460		208,548
CINAL	(3,697)	3,739	80,784	94,395
CPP			10,621	5,144
Overseas		(982)		(223,821)
IPL				12
Lantana		(139,070)		58,712
Odequi		63,090		1,340,750
Polialden	13,206	55,668	294,608	456,939
Tegal	(3,413)	(5,518)	15,705	19,118
Jointly-controlled entities				
CETREL	7,073	(8,663)	97,991	56,600
CODEVERDE			42,814	41,810
Copesul	565,963	558,417	1,240,509	1,154,801
Petroflex	88,322	98,599	278,891	255,746
Petroquímica Paulínia			48,000	
Politeno	63,371	96,493	489,603	450,495
Associated companies				
Borealis	13,423		114,115	
Rionil	72	1	5,838	5,882
Sansuy	(12,701)	1,696	4,962	14,453

Information on investments of subsidiaries

Braskem Distribuidora				
Cayman	(250,621)		(21,990)	
Braskem Participações				
IPL	85		391	
IPL				
Braskem Importação	161		379	
Cayman				
Lantana	(2,952)		(17,730)	
Overseas	(826)		(87,186)	
Polialden				
Polialden America	1,424	818	5,238	2,069

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****(b) Investment activity of subsidiaries, jointly-controlled entities and associated companies**

	Subsidiaries and jointly-controlled entities								
	2005								
	Braskem	Braskem	Braskem		Braskem				
	Distribuidora	Importação	Braskem	Braskem	Braskem	Braskem			
			Inc.	Participações	Cayman	CETREL	CINAL	COPEL	Lantana
At									
January									
1	3,542	218	5,591	22,312	208,548	29,639	50,781	468,119	58,712
Addition through exchange/purchase of shares/mergers									
(i)							15,841	103,065	
Addition through capital increase	312,948		101,400	277		23,501			
Write-off by transfer/disposal/merger		(266)			(174,696)				
Redemption of shares							(2,288)		
Dividends								(136,713)	
Equity in the results	(15,635)	48	30,530	(17)	104	3,506	(1,958)	153,285	(58,057)

Reversal of (provision) for loss on investments						
Increase (decrease) of interest in investments				4,695		
Amortization of (goodwill)/negative goodwill (223,467)	(6,579)			(865)	(433)	(31,244)
Exchange variation on foreign investment	(8,433)	(33,956)				(655)
Transfers of (goodwill)/negative goodwill on merger (ii)					(515)	
Other		(2,012)				
At December 31	77,388	122,509	20,560	60,476	61,428	556,512

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

(j) Goodwill and negative goodwill on the mergers of investments were transferred to Property, plant and equipment and Deferred charges, pursuant to CVM Instruction 319/99.

Braskem S.A. and its subsidiaries**Notes to the Financial Statements
at December 31, 2005 and 2004
In thousands of reais****Investment activity of investments of subsidiaries, jointly-controlled entities and associated companies
(continued)**

	Subsidiaries and jointly-controlled entities							Total	Total		
										2005	2004
	Petroquímica			Polialden Politeno		Outros	Total			Total	
Odequi	Paulínia	Petroflex	(iii)	(iii)							
At January 1	1,340,056		50,840	654,144	553,770	27,872	3,474,144	4,478,823			
Addition through share exchange/purchase / mergers (i)		45,000					163,906	556,074			
Addition through spun-off asset of subsidiary								269,074			
Addition through capital increase						4,181	442,307	119,387			
Recording of goodwill (negative goodwill)								784,038			
Write-off by transfer / disposal/ merger	(1,340,906)					(12)	(1,515,880)	(1,559,208)			
Redemption of shares							(2,288)				
Dividends			(11,603)	(170,297)	(16,068)		(334,681)	(192,295)			
Equity in the results	156		16,260	66,923	29,300	(3,088)	221,357	169,288			
Reversal of (provision) for loss on investments								(7,500)			
Increase (decrease) in interest in investments					416	13	5,124				

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Amortization of (goodwill)/negative goodwill	694	(63,035)	(60,751)	(37)	(385,717)	(283,988)
Exchange variation on foreign investment					(43,044)	(57,883)
Transfer of (goodwill)/negative goodwill on merger (ii)						(801,195)
Other						