

CUMULUS MEDIA INC
Form SC 13D/A
September 29, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13D/A

Under the Securities Exchange Act of 1934

(Amendment No. 12)*

CUMULUS MEDIA, INC.

(Name of Issuer)

Common A Common Stock, par value \$.01 per share

(Title of Class of Securities)

231082108

(CUSIP Number)

J. Travis Hain

Ridgemont Partners Management LLC

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

150 North College Street, Suite 2500

Charlotte, North Carolina 28202

(704) 944-0914

(Name, Address and Telephone Number of Person Authorized to Receive Notices and Communications)

September 16, 2011

(Date of Event Which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of §§ 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. "

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See § 240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page. The information required on the remainder of this cover page shall not be deemed to be filed for the purpose of Section 18 of the Securities Exchange Act of 1934 (Act) or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 231082108

Page 2 of 10 Pages

1 NAME OF REPORTING PERSONS:

BA Capital Company, L.P.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 WC
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:

SHARES

BENEFICIALLY 1,750,848
8 SHARED VOTING POWER:

OWNED BY

EACH

REPORTING 0
9 SOLE DISPOSITIVE POWER:

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PERSON

WITH: 1,750,848
10 SHARED DISPOSITIVE POWER:

0
11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

1,750,848
12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

..
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

1.5%
14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

PN

13D/A

CUSIP No. 231082108

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1 NAME OF REPORTING PERSONS:

RE SBIC Management, LLC

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:

SHARES

BENEFICIALLY 0
8 OWNED BY SHARED VOTING POWER:

EACH

REPORTING 9 1,750,848
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

11 1,750,848
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

12 1,750,848
CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

13 ..
PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

14 1.5%
TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

OO

13D/A

CUSIP No. 231082108

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1 NAME OF REPORTING PERSONS:

RE Equity Management, L.P.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:

SHARES

BENEFICIALLY 0
8 OWNED BY SHARED VOTING POWER:

EACH

REPORTING 9 1,750,848
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

11 1,750,848
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

12 1,750,848
CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

13 ..
PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

14 1.5%
TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

PN

13D/A

CUSIP No. 231082108

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1 NAME OF REPORTING PERSONS:

RE Equity Management GP, LLC

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:
SHARES
BENEFICIALLY 0
OWNED BY 8 SHARED VOTING POWER:
EACH
REPORTING 9 1,750,848
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

11 1,750,848
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

12 1,750,848
CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

13 ..
PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

14 1.5%
TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

OO

13D/A

CUSIP No. 231082108

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1 NAME OF REPORTING PERSONS:

Banc of America Capital Investors SBIC, L.P.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:
SHARES
BENEFICIALLY 5,781,484
OWNED BY 8 SHARED VOTING POWER:
EACH
REPORTING 9 0
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 5,781,484
10 SHARED DISPOSITIVE POWER:

11 0
AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

12 5,781,484
CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

13 ..
PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

14 4.7%
TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

PN

13D/A

CUSIP No. 231082108

Page 7 of 10 Pages

1 NAME OF REPORTING PERSONS:

Ridgemont Capital Management SBIC, LLC

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:
SHARES
BENEFICIALLY 0
OWNED BY 8 SHARED VOTING POWER:
EACH
REPORTING 9 5,781,484
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

5,781,484
11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

5,781,484
12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

..
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

4.7%
14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

OO

13D/A

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1 NAME OF REPORTING PERSONS:

Ridgmont Capital Management, L.P.

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:
SHARES
BENEFICIALLY 0
OWNED BY 8 SHARED VOTING POWER:
EACH
REPORTING 9 5,781,484
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

5,781,484
11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

5,781,484
12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

..
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

4.7%
14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

PN

13D/A

CUSIP No. 231082108

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1 NAME OF REPORTING PERSONS:

REP I GP, LLC

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

Delaware
NUMBER OF 7 SOLE VOTING POWER:

SHARES

BENEFICIALLY 0
8 OWNED BY SHARED VOTING POWER:

EACH

REPORTING 5,781,484
9 SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

5,781,484
11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

5,781,484
12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

..
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

4.7%
14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

OO

13D/A

CUSIP No. 231082108

Page 10 of 10 Pages

1 NAME OF REPORTING PERSONS:

J. Travis Hain

I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY):

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):

3 (a) (b)
SEC USE ONLY:

4 SOURCE OF FUNDS (SEE INSTRUCTIONS):

5 AF
CHECK IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT TO ITEMS 2(d) OR 2(e):

6 ..
CITIZENSHIP OR PLACE OF ORGANIZATION:

United States
NUMBER OF 7 SOLE VOTING POWER:

SHARES

BENEFICIALLY 0
8 OWNED BY SHARED VOTING POWER:

EACH

REPORTING 9 7,532,332
SOLE DISPOSITIVE POWER:

Edgar Filing: CUMULUS MEDIA INC - Form SC 13D/A

PERSON

WITH: 0
10 SHARED DISPOSITIVE POWER:

7,532,332
11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON:

7,532,332
12 CHECK IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS):

..
13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11):

6.0%
14 TYPE OF REPORTING PERSON (SEE INSTRUCTIONS):

IN

EXPLANATORY NOTE: This Amendment No. 12 (Amendment No. 12) amends the statement on Schedule 13D (the Schedule 13D) originally filed with the Securities and Exchange Commission on July 7, 1998, as amended by Amendment No. 1 filed on December 3, 1999, Amendment No. 2 filed on February 4, 2002, Amendment No. 3 filed on April 3, 2002, Amendment No. 4 filed on March 27, 2003, Amendment No. 5 filed on February 8, 2006, Amendment No. 6 filed on May 18, 2006, Amendment No. 7 filed on June 29, 2006, Amendment No. 8 filed on December 27, 2006, Amendment No. 9 filed on June 15, 2007, Amendment No. 10 filed on July 27, 2007 and Amendment No. 11 filed on February 2, 2011.

This Amendment No. 12 is being filed to report the execution of a stockholders agreement (the Stockholders Agreement) by each of BA Capital Company, L.P., a Delaware limited partnership (BA Capital) and Banc of America Capital Investors SBIC, L.P., a Delaware limited partnership (BACI), with Cumulus Media Inc. (the Company), Blackstone FC Communications Partners L.P. (Blackstone), Lewis W. Dickey Jr., John W. Dickey, David W. Dickey, Michel W. Dickey, Lewis W. Dickey, Sr. and DBBC, L.L.C. (collectively, the Dickeys), Crestview Radio Investors, LLC (Crestview), MIHI LLC (Macquarie), UBS Securities LLC (UBS), and certain other future parties thereto, as further described in Item 6 herein. The Stockholders Agreement was entered into in connection with the completion of the Company s acquisition of Citadel Broadcasting Corporation (Citadel) and the related sale of \$475.0 million in shares of the Company s common stock, preferred stock and warrants to purchase common stock to certain investors (the Equity Investment) in a private placement exempt from the registration requirements under the Securities Act of 1933, and the termination of certain existing voting and shareholder agreements in connection therewith. Except as provided herein, this Amendment No. 12 does not modify any of the information previously reported on either such Schedule 13D or any amendment thereto.

Item 1. Security and Issuer.

Item 1 of the Schedule 13D is hereby amended and restated in its entirety as follows:

This Amendment No. 12 relates to the Class A Common Stock of the Company, 3280 Peachtree Road, N.W., Suite 2300, Atlanta, Georgia 30305.

Item 3. Source and Amount of Funds or Other Consideration.

Item 3 of this Schedule 13D is hereby amended and supplemented by replacing the last paragraph with the following:

As a result of the December 2008 exchange offer, BA Capital received options to purchase 11,782 shares of Class A Common Stock, 5,891 of which are currently exercisable, and 3,334 restricted shares of Class A Common Stock. In addition, Robert H. Sheridan, III, who serves as a member of the Company s board of directors and is a partner in RE Equity Management GP, received options to purchase 40,493 shares of Class A Common Stock, 20,247 of which are currently exercisable, and 10,258 restricted shares of Class A Common Stock. No additional consideration was paid by BA Capital or Mr. Sheridan to the Company for the securities issued in the exchange offer.

In addition, on each of May 23, 2008, May 14, 2009, May 5, 2010, May 14, 2011, Mr. Sheridan was awarded 6,000 restricted shares of Class A Common Stock. These restricted shares were received in consideration of Mr. Sheridan s service on the Company s board of directors. Mr. Sheridan serves on the board of directors of the Company as a designee of BA Capital. Pursuant to the policies of BA Capital and its affiliates, Mr. Sheridan is deemed to hold the options and restricted shares described above for the benefit of BA Capital. BA Capital may be deemed the indirect beneficial owner of such shares, and they are included in the shares reported as beneficially owned by BA Capital.

Item 5. Interest in Securities of the Issuer.

Item 5 of the Schedule 13D is hereby amended and restated in its entirety as follows:

(a)(i) This Amendment No. 12 relates to 7,532,332 shares of the Company's Class A Common Stock, representing approximately 6.0% of the Company's outstanding shares of Class A Common Stock and 5.4% of the voting power (which percentages are calculated in accordance with Rule 13d-3(d)(1)). BA Capital currently holds 843,584 shares of Class A Common Stock, 849,275 shares of Class B Common Stock and options to purchase 11,782 shares of Class A Common Stock, 5,891 of which are currently exercisable or exercisable within 60 days. In addition, Mr. Sheridan holds, for the benefit of BA Capital, 31,851 restricted shares of Class A Common Stock and options to purchase 40,493 shares of Class A Common Stock, 20,247 of which are currently exercisable within 60 days. BA Capital beneficially owns 1,750,848 shares, or 1.5%, of the Class A Common Stock (determined in accordance with Rule 13d-3(d)(1)). BACI currently holds 821,568 shares of Class A Common Stock and 4,959,916 shares of Class B Common Stock. BACI beneficially owns 5,781,484 shares, or 4.7%, of the Class A Common Stock (determined in accordance with Rule 13d-3(d)(1)). No other Reporting Person directly holds any Common Stock of the Company or any rights to acquire any such common stock.

Except as may otherwise be required by Delaware corporate law, shares of Class A Common Stock, Class B Common Stock and Class C Common Stock vote together as a single class when such shares are entitled to vote. Shares of Class B Common Stock and Class C Common Stock are convertible into shares of Class A Common Stock on a one-for-one basis. Shares of Class A Common Stock are entitled to one vote per share, shares of Class C Common Stock are entitled to ten votes per share and shares of Class B Common Stock have no voting rights, except in specified instances required by Delaware corporate law or by the Company's third amended and restated certificate of incorporation.

The 843,584 shares of Class A Common Stock currently held by BA Capital and the 821,568 shares of Class A Common Stock currently held by BACI represent .71% and .69%, respectively, of the Company's outstanding shares of Class A Common Stock. If (1) BA Capital were to (A) convert its 849,275 shares of Class B Common Stock into an equivalent number of shares of Class A Common Stock and (B) exercise its options to purchase 5,891 shares, which are currently exercisable or exercisable within 60 days, of Class A Common Stock, (2) the options to purchase 20,247 shares, which are currently exercisable or exercisable with 60 days, issued to Mr. Sheridan were exercised, and (3) BACI were to convert its 4,959,916 shares of Class B Common Stock into an equivalent number of shares of Class A Common Stock, then BA Capital and BACI would together beneficially own 7,532,332 shares of Class A Common Stock, representing 6.0% of the Company's then outstanding shares of Class A Common Stock and 5.4% of the voting power.

The 7,532,332 shares of Class A Common Stock beneficially owned by BA Capital and BACI represent 5.7% of the Company's outstanding shares of Class A Common Stock, Class B Common Stock and Class C Common Stock considered in the aggregate and 5.4% of the voting power (or, if the Class C Common Stock is entitled to one vote per share, 5.7% of the voting power).

As a result of the Stockholders Agreement described in Item 6 herein, the Reporting Persons may be deemed to constitute a group, within the meaning of Section 13(d)(3) of the Act, with other persons who own shares of the Company's Class A Common Stock, or securities exercisable for or convertible into shares of Class A Common Stock, and are parties to the Stockholders Agreement. The aggregate number of shares of the Company's Class A Common Stock that are held by the Reporting Persons and the other parties to the Stockholders Agreement, based on publicly available information, is 105,972,515, which would represent approximately 72.3% of the Company Class A Common Stock, on an as-exercised and as-converted basis. The share ownership reported for the Reporting Persons does not include any shares of the Company's Class A Common Stock owned by the other parties to the Stockholders Agreement. All parties to the Stockholders Agreement have expressly stated therein that they do not intend for the Stockholders Agreement to be deemed to constitute the formation of a group, and the Reporting Persons expressly disclaim beneficial ownership of any shares owned by any other parties to the Stockholders Agreement.

Other than as set forth above with respect to the Reporting Persons, none of the shares of the Company's Class A Common Stock or Class B Common Stock reported in this Item 5 are shares as to which any Reporting Person has a right to acquire that is exercisable within 60 days. None of the Reporting Persons beneficially owns any shares of Class A Common Stock or Class B Common Stock other than as set forth herein.

(ii) All information herein relating to the currently outstanding number of shares of the Company's Class A Common Stock, Class B Common Stock and Class C Common Stock is derived from the Company's Current Report on Form 8-K, filed with the Securities and Exchange Commission on September 22, 2011. Accordingly, the Reporting Persons have assumed for purposes of this Amendment No. 12 that there are 119,433,260 shares of Class A Common Stock outstanding, 12,439,667 shares of Class B Common Stock outstanding and 644,871 shares of Class C Common Stock outstanding, or a total of 132,517,798 shares of all classes of Common Stock outstanding.

(b) BA Capital has sole voting and dispositive power with respect to 1,750,848 shares of Class A Common Stock, which consists of 875,435 shares of Class A Common Stock, including the 31,851 shares of restricted Class A Common Stock held by Mr. Sheridan for the benefit of BA Capital, 849,275 shares of Class B Common Stock and options to purchase 26,138 shares of Class A Common Stock, which are currently exercisable or exercisable within 60 days, including 20,247 options to purchase shares of Class A Common Stock, which are held by Mr. Sheridan for the benefit of BA Capital. BACI has sole voting and dispositive power with respect to 5,781,484 shares of Class A Common Stock, which consists of 821,568 shares of Class A Common Stock and 4,959,916 shares of Class B Common Stock.

RE SBIC Management is the general partner of BA Capital. As a result of the limited partnership agreement of BA Capital, RE SBIC Management is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BA Capital.

RE Equity Management is the sole member of RE SBIC Management. As a result of the operating agreement for RE SBIC Management, RE Equity Management is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BA Capital.

RE Equity Management GP is the general partner of RE Equity Management. As a result of the limited partnership agreement for RE Equity Management, RE Equity Management GP is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BA Capital.

Capital Management SBIC is the general partner of BACI. As a result of the limited partnership agreement of BACI, Capital Management SBIC is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BACI.

Ridgemont Capital Management is the sole member of Capital Management SBIC. As a result of the operating agreement for Capital Management SBIC, Ridgemont Capital Management is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BACI.

REP GP is the general partner of Ridgemont Capital Management. As a result of the limited partnership agreement for Ridgemont Capital Management, REP GP is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BACI.

Mr. Hain is the managing member of both RE Equity Management GP and REP GP and as a result is deemed to have shared voting and dispositive power with respect to the securities of the Company owned by BA Capital and BACI. Mr. Hain disclaims such beneficial ownership. If Mr. Hain's employment with Ridgemont Partners Management LLC or any of its affiliates ceases, Mr. Hain will cease to be the managing member of RE Equity Management GP and REP GP.

(c) None of the Reporting Persons and, to the knowledge of the Reporting Persons, no executive officer or director of any Reporting Person has had any transactions in the Class A Common Stock during the past 60 days.

(d) Except as set forth herein, no person has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, any shares of the Company's Class A Common Stock.

(e) Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships with Respect to Securities of the Issuer.

Item 6 of the Schedule 13D is hereby amended and supplemented by adding the following prior to the last paragraph:

On September 16, 2011, the Company completed its previously announced acquisition of Citadel, resulting in Citadel becoming an indirect wholly-owned subsidiary of the Company. In connection with the Citadel acquisition and in order to pay a portion of the purchase price payable in the Citadel acquisition, the Company, among other things, completed the Equity Investment pursuant to an Amended and Restated Investment Agreement, dated as of April 22, 2011 (the "Investment Agreement").

Pursuant to the terms and conditions of Investment Agreement and in connection with the closing of the Citadel acquisition and the Equity Investment, on September 16, 2011, BA Capital and BACI (together, the "BofA Stockholders") entered into the Stockholders Agreement and the BofA Stockholders' outstanding Voting Agreement with Blackstone, dated January 28, 2011, was terminated.

The Stockholders Agreement terminates on the first to occur of (i) the fifteenth anniversary of the date of the agreement, (ii) a Sale of the Company (as defined in the Stockholders Agreement), and (iii) the date on which both (a) the rights of the stockholders under the Stockholders Agreement to nominate individuals for election to the Company's board of directors (the "Board") or of Macquaire to designate a non-voting Board observer have terminated and (b) no stockholder that is a party to the Stockholders Agreement continues to be a Significant Stockholder (as defined below). In addition, the rights of each stockholder party to the Stockholder Agreement will terminate on the date on which such stockholder no longer beneficially owns any equity securities of the Company.

The Stockholders Agreement provides, among other things, for an increase in the size of the Company's Board to seven members, and that the two vacancies on the Board created thereby would be filled by individuals designated by Crestview. In accordance with the Investment Agreement, Crestview has the right to designate two individuals for nomination to the Board, and each of the Dickey's, the BofA Stockholders and Blackstone has the right to designate one individual for nomination to the Board. Currently, Mr. Lewis W. Dickey, Jr. is the designee of the Dickey's, Mr. Robert H. Sheridan III is the designee of the BofA Stockholders and Mr. David M. Tolley is the designee of Blackstone. The Stockholders Agreement provides that the other two positions on the Board will be filled by the Company's remaining two directors, both of whom are independent, or their successors, who shall meet applicable independence criteria. The Stockholders Agreement also provides that, for so long as Crestview is the Company's largest stockholder, it will have the right to have one of its designees, who shall meet the definition of an independent director and who is elected to the Board, and is selected by it, appointed as the lead director of the Board. Further, the parties to the Stockholders Agreement (other than the Company) have agreed to support such directors (or others as may be designated by the relevant stockholders) as nominees to be presented to the Company's stockholders for approval at subsequent stockholder meetings for the term set out in the Stockholders Agreement. Each stockholder party's respective director nomination rights will generally survive for so long as it continues to own a specified percentage of the Company's stock, subject to certain exceptions.

Subject to certain exceptions, the Stockholders Agreement provides that, until the seventh anniversary of the closing of the Equity Investment, any Company stockholder party to such agreement who, together with its controlled affiliates, beneficially owns 15% or more of the Company's outstanding common stock (a "Significant Stockholder"), may not, directly or indirectly, acquire, agree to acquire or make a proposal to acquire beneficial ownership of any additional equity securities of the Company not owned by them immediately following the closing of the Equity Investment. The Stockholders Agreement also generally provides that, until the seventh anniversary of the closing of the Equity Investment, no Significant Stockholder will, or will permit any of its affiliates to, engage in any transaction or series of transactions that would constitute a going-private transaction of the Company, subject to certain exceptions. The Stockholders Agreement also provides that, subject to certain exceptions, no Significant Stockholder will transfer its Company common stock or warrants to acquire such stock to a person or group that is, to the Significant Stockholder's knowledge, a specified competitor of the Company or that, following such transfer, would beneficially own greater than 10% of the Company's common stock. The Stockholders Agreement contains significant restrictions on the transferability of Company securities held by Crestview for a period of eighteen months following the closing of the Equity Investment, subject to certain exceptions. In addition, pursuant to and during the term of the Stockholders Agreement, Crestview is restricted from exercising the warrants issued to it in

connection with the Equity Investment or buying shares of the Company's common stock if such exercise or purchase would cause Crestview to beneficially own more than 64,804,148 shares of the Company's common stock.

In connection with entering into the Stockholders Agreement, all of the pre-existing stockholders agreements among the parties to the Stockholders Agreement or to which the Company was a party, including the Voting Agreement, dated as of June 30, 1998, the Shareholder Agreement, dated as of March 28, 2002, and the Voting Agreement and Consent, dated as of January 31, 2011, as to each of which certain of the Reporting Persons were parties, were terminated.

The foregoing summary of the Stockholders Agreement contained in this Item 6 is qualified in its entirety by reference to the Stockholders Agreement, filed herewith as Exhibit 99.2.

Item 7. Material to be Filed as Exhibits.

- Exhibit 99.1 Joint Filing Agreement, dated September 29, 2011, by and among BA Capital, RE SBIC Management, RE Equity Management, RE Equity Management GP, Mr. Hain, BACI, Capital Management SBIC, Ridgmont Capital Management and REP GP (filed herewith).
- Exhibit 99.2 Stockholders Agreement, dated as of September 16, 2011, among Cumulus Media Inc., BA Capital Company L.P., Banc of America Capital Investors SBIC, L.P., Blackstone FC Communications Partners L.P., Lewis W. Dickey, Jr., John W. Dickey, David W. Dickey, Michael W. Dickey, Lewis W. Dickey, Sr. and DBBC, L.L.C., Crestview Radio Investors, LLC, MIHI LLC, UBS Securities LLC, and any other person who becomes a party thereto pursuant to section 3.1 thereof (incorporated herein by reference to Exhibit 10.6 to the current report on Form 8-K filed by Cumulus Media Inc. with the Securities and Exchange Commission on September 22, 2011).

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this Schedule 13D is true, complete and correct.

Date: September 29, 2011

BA CAPITAL COMPANY, L.P.

By: RE SBIC Management, LLC, its general partner

By: RE Equity Management, L.P., its sole member

By: RE Equity Management GP, LLC, its general partner

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

RE SBIC MANAGEMENT, LLC

By: RE Equity Management, L.P., its sole member

By: RE Equity Management GP, LLC, its general partner

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

RE EQUITY MANAGEMENT, L.P.

By: RE Equity Management GP, LLC, its general partner

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

RE EQUITY MANAGEMENT GP, LLC

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

J. TRAVIS HAIN

By: /s/ J. Travis Hain
Name: J. Travis Hain

BANC OF AMERICA CAPITAL INVESTORS SBIC, L.P.

By: Ridgemont Capital Management SBIC, LLC, its general partner

By:

Ridgemont Capital Management, L.P., its
sole member

By: REP I GP, LLC, its general partner

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

RIDGEMONT CAPITAL MANAGEMENT SBIC, LLC

By: Ridgemont Capital Management L.P., its sole
member

By: REP I GP, LLC, its general partner

By: /s/ J. Travis Hain
Name: J. Travis Hain

Title: Managing Member

RIDGEMONT CAPITAL MANAGEMENT, L.P.

By: REP I GP, LLC, its general partner

By: /s/ J. Travis Hain

Name: J. Travis Hain

Title: Managing Member

REP I GP, LLC

By: /s/ J. Travis Hain

Name: J. Travis Hain

Title: Managing Member

ner of Performance Auditoria e Consultoria from 1992 to 1995. He was a member of the fiscal council of Petroflex until the sale of our interest in Petroflex in April 2008 and was a member of the fiscal council of Polialden until our merger with Polialden. Mr. Abreu holds a bachelor's degree in accounting from Fundação Visconde de Cairú, and a post-graduate degree in economic engineering from Centro Interamericano de Desenvolvimento.

Manoel Mota Fonseca. Mr. Fonseca was elected as a member of our fiscal council as a nominee of Norquisa and Odebrecht. He served as president of our fiscal council in 2003 and 2004. Mr. Fonseca has been a

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partner of the law firm Mota Fonseca e Advogados since 1990 and previously served as legal and tax counsel of Coopers & Lybrand, KPMG and PricewaterhouseCoopers Auditores Independentes. Mr. Fonseca holds a law degree from the Universidade de São Paulo, and a post-graduate degree in tax law from Fundação Getúlio Vargas.

Antônio Luiz Vianna de Souza. Mr. Vianna de Souza was elected as a member of our fiscal council as a nominee of Petroquisa. He has served as manager of Financial Planning of Petrobras S.A. since 2004, and held various other positions at Petrobras since 1980. Mr. Vianna holds a bachelor's degree in Engineering from the Universidade Federal do Rio de Janeiro, a law degree from the Universidade Federal Fluminense, and a degree in economics from the EPGE Fundação Getúlio Vargas.

Jayme Gomes da Fonseca Junior. Mr. Fonseca was elected as a member of our fiscal council as a nominee of Norquisa and Odebrecht. He served as an alternate member of our fiscal council in 2007. Currently, he serves as the controller of CNO. He was our controller from 2004 to 2007 and previously served as a financial officer of Odebrecht Empreendimentos Imobiliários S.A. from January 2008 to April 2009, an executive officer of Ipiranga Química from 2007 to 2008, an executive officer of Ipiranga Petroquímica, prior to its merger into Braskem, fiscal manager of OPP Química from 1999 to 2004, fiscal manager of Odebrecht from 1996 to 1999, fiscal manager of CNO from 1993 to 1996, supervisor of Performance Auditoria e Consultoria S.C. from 1991 to 1993 and an assistant of Arthur Andersen S.C. from 1989 to 1991. Mr. Fonseca holds a bachelor's degree in business administration from UNIFACS Universidade de Salvador, an IAG Master in finances from PUC Pontifícia Universidade Católica do Rio de Janeiro, and a MSc in Accounting and Finance from UMIST University of Manchester Institute of Science.

Marcos Antonio Silva Menezes. Mr. Menezes was elected as a member of our fiscal council as a nominee of Petroquisa. Mr. Menezes has been the director of PIFCo since 2003 and chief accountant officer of Petrobras since 1998. He joined Petrobras in 1976 and served as Deputy Superintendent of the former Financial Services SEFIN from 1995 through 1998. He served as a member of the fiscal council of Companhia de Gás de Minas Gerais GASMIG, of Companhia de Gás da Bahia BAHAGAS and as chairman of the fiscal council of the pension fund of Petrobras (*Fundação Petrobras de Seguridade Social Petros*), or PETROS. Mr. Menezes has been chairman of the fiscal council of Instituto Brasileiro de Petróleo e Gás since 1998, and a member of the fiscal council of Organização Nacional das Indústrias de Petróleo ONIP since 1999. He is also a member of the Associação Nacional dos Executivos de Finanças, Administração e Contabilidade ANEFAC and the Auditing and Accounting Rules Commission CANC of Associação Brasileira das Companhias Abertas ABRASCA and its Auditing and Accounting Rules Commission CANC. Mr. Menezes holds bachelor's degrees in accounting and in business management from Faculdade Moraes Júnior in Rio de Janeiro, a post-graduate degree in financial management from Fundação Getúlio Vargas, and completed an advanced management program PGA at Fundação Dom Cabral/INSEAD França.

Alternate Members of Fiscal Council

José Renato Andrade Mendonça. Mr. Mendonça was elected as an alternate member of our fiscal council as a nominee of Odebrecht. Mr. Mendonça has been the managing partner of Performance Auditoria e Consultoria Empresarial S/S since 1992, and worked for 17 years at Arthur Andersen S.C. Mr. Mendonça is the Director of the American Chamber of Commerce Brazil and Director of the Bahia Section of IBRACON. Mr. Mendonça holds a bachelor's degree in business management from Universidade Federal da Bahia, in accounting sciences from Fundação Visconde de Cairú and has a specialization degree in Controllership from UNIFACS Salvador.

Maria Cláudia Freitas Sampaio. Mrs. Sampaio was elected as an alternate member of our fiscal council as a nominee of Norquisa. Mrs. Sampaio has been a lawyer at the law firm Mota Fonseca e Advogados since 2001. Mrs. Sampaio served as a member of the fiscal council of Norquisa from 2003 to 2005. Previously, she served as an auditor of PricewaterhouseCoopers Auditores Independentes from 1990 to 1993 and she served as fiscal manager in Performance Consultoria Tributária e Empresarial Ltda. from 1994 to 1998. Mrs. Sampaio holds a law degree and a bachelor's degree in business administration from the Universidade Católica de Salvador.

Marcílio José Ribeiro Júnior. Mr. Júnior was elected as an alternate member of our fiscal council as a nominee of Petroquisa. He joined Petrobras in 2006 as an accountant in the financial governance area. Previously, he served as an accountant at Terminal Garagem Menezes Côrtes S.A. from 1998 through 2001, as accounting manager

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at ALTM S.A. Tecnologia e Serviços de Manutenção from 2001 to 2002, as accountant at Gás e Participações Ltda. (GASPART) from 2002 to 2004, as accounting manager at Starfish Oil and Gas S.A. from 2004 to 2005 and as controller at Queiroz, Galvão, Óleo e Gás S.A. from 2005 to 2006. Mr. Júnior holds a bachelor's degree in accounting from the Universidade Federal do Rio de Janeiro and has a post-graduate degree in economics and financial engineering from the Universidade Federal Fluminense.

Sergio Garrido de Barros. Mr. Barros was elected an alternate member of our fiscal council as a nominee of Norquisa and Odebrecht. Mr. Barros has been an accounting and fiscal manager of CNO since 2005. Previously, he served as a senior auditor manager of PricewaterhouseCoopers Auditores Independentes from 1993 to 2004. Mr. Barros holds a bachelor's degree in accounting from Universidade Católica de Salvador.

Sergio José de Barros. Mr. Barros was elected as a member of our fiscal council as a nominee of Petroquisa. Mr. Barros has been the accounting manager of international businesses of Petrobras since 2005, and served as the financial businesses manager of Petrobras from 2002 through 2005. Prior to 2002, he served in various capacities in the finance and accounting areas of Petrobras since 1993. He has been a member of the fiscal council of Petrobras Gás S.A. GASPETRO. He also served as member of the Fiscal Council of Companhia de Gás do Ceará CEGÁS in 2003 and 2004, Gás de Alagoas ALGÁS in 2005, and Sergipe Gás SERGÁS in 2005. He also served as a supervisor at KPMG Peat Marwick Auditores Independentes and at Boucinhas, Campos e Claro Auditores Independentes. Mr. Barros holds bachelor's degrees in accounting and law, a post-graduate degree in business management from the Universidade Federal do Rio de Janeiro UFRJ, and an MBA from IBMEC.

Compensation

According to our by-laws, our shareholders are responsible for establishing the aggregate compensation we pay to the members of our board of directors, our board of executive officers and our fiscal council. Our shareholders determine this aggregate compensation at the general shareholders meeting each year. Once aggregate compensation is established, the members of the board of directors are responsible for distributing such aggregate compensation individually to the members of our board of directors, our board of executive officers and our fiscal council in compliance with our bylaws.

Compensation and Benefits

The aggregate compensation paid by us to all members of our board of directors, board of executive officers and our fiscal council for services in all capacities was approximately R\$26.5 million in 2008. On April 15, 2009, our shareholders (acting in the annual general meeting) established the following compensation for the year 2009:

- board of executive officers: an aggregate limit of R\$25.5 million; and
- fiscal council: an aggregate limit of R\$476,640.

We compensate our alternate directors for each meeting of our board of directors that they attend. We compensate alternate members of our fiscal council for each meeting of our fiscal council that they attend.

Our executive officers receive the same benefits generally provided to our employees, such as medical (including dental) assistance, private pension plan and meal vouchers. Like our employees, our executive officers also receive a yearly bonus equal to one-month's salary (known as the thirteenth (monthly) salary in Brazil), an additional one-third of one-month's salary for vacation, and contributions of 8.0% of their salary into a defined contribution pension fund known as the Guarantee Fund for Time of Service (*Fundo de Garantia por Tempo de Serviço*). Members of our board of directors and fiscal council are not entitled to these benefits. We made contributions into the Guarantee Fund for Time of Service for our executive officers in an aggregate amount of R\$0.8 million during the year ended December 31, 2008.

Members of our board of directors, board of executive officers and fiscal council are not parties to contracts providing for benefits upon the termination of employment other than, in the case of executive officers, the benefits described above.

Long-Term Incentive Plan

On September 26, 2005, we adopted a long-term incentive plan. Under the terms of this plan, we may issue investment units, each of which has an economic value equivalent to the economic value of one class A preferred share of our company, to our executive officers, senior management and other employees involved in our strategic programs, which the plan refers to as our business partners. These investment units do not carry any voting rights and may not be transferred. Each year, our Chief Executive Officer will submit an annual program to our board of directors stating:

- the maximum number of investment units to be issued in that year;
- the business partners that will be offered investment units in that year;
- the purchase price of the investment units to be paid by the participating business partners;
- the projected allocation of the investment units among the business partners; and
- as an incentive to purchase investment units, the number of additional investment units that each business partner will receive in connection with the purchase of an investment unit.

Upon the purchase by a business partner of his allocation of investment units, the business partner will receive additional investment units as an incentive for the purchase of the purchased investment units. We refer to the purchased investment units as alpha units and the additional investment units as beta units. Each beta unit will automatically convert into an alpha unit 10 years after the date of issue of the beta unit. Upon the payment by our company of dividends or interest attributable to shareholders' equity to holders of our class A preferred shares, we will issue additional units, which we refer to as gamma units, with an aggregate value equivalent to the value of the dividends or interest attributable to shareholders' equity attributed and paid to the holders of a class A preferred share.

Each year we will determine the unit value of the investment units applicable from April 1 of that year until March 31 of the following year calculated as the average closing price in *reals* of our class A preferred shares on the BM&FBOVESPA from October 1 of the preceding year through March 31 of the year in which the unit price is established. Following the fifth anniversary of the date on which any business partner first acquires investment units, we will redeem up to 20% of the investment units held by that business partner at the then-established unit price upon the request of that business partner made within 120 days following the delivery of an annual statement from us with respect to the investment units held by that business partner. After the first redemption, we will redeem up to 10% per year of the investment units held by that business partner at the then-established unit price upon the request of that business partner made in subsequent years. We will redeem any gamma unit at the then-established unit price upon the request of the holder made within 60 days following the issuance of that gamma unit. Any gamma unit not so redeemed will automatically convert into an alpha unit.

In the event that a business partner is dismissed without just cause or retires, we will redeem all of the investment units held by that business partner at the then-established unit price upon the request of that business partner. In the event that a business partner is dismissed for just cause or resigns, all of the beta units held by that business partner will be immediately extinguished, and we will redeem all of the alpha units held by that business partner at the then-established unit price upon the request of that business partner. Upon the death of a business partner, we will automatically redeem all of the investment units held by that business partner (for the benefit of the business partner's estate) at the then-established unit price.

Our board of directors adopted an annual program for the 2007 fiscal year. Under this annual plan, certain executive officers were entitled to purchase up to an aggregate of 430,180 investment units and to receive up to an additional 430,180 investment units. Our board of directors also adopted an annual program for the 2008 fiscal year. Under this annual plan, certain executive officers were entitled to purchase up to an aggregate of 360,384 investment units and to receive up to an additional 360,384 investment units. The annual program for the 2009 fiscal year has not been determined by our board of directors.

Corporate Governance Practices

The significant differences between our corporate governance practices and the standards of the NYSE are described in Item 16G. Corporate Governance.

Employees

The following table sets forth the number of our employees by main category of activity and location.

<u>Main Category of Activity</u>	At December 31,		
	2008(1)	2007(2)	2006(3)
Coordinators and operators	1,954	1,970	1,653
Engineers and other professionals	1,002	947	768
Administrative and support	458	488	281
Technicians	626	610	289
Maintenance	549	556	284
Managers and directors	213	212	219
Total	4,802	4,783	3,494

- (1) At December 31, 2008, 1,926 employees worked in the State of Bahia, 1,761 employees worked in the State of Rio Grande do Sul, 596 employees worked in the State of São Paulo, 462 employees worked in the State of Alagoas and 57 employees worked in other states in Brazil or abroad.
- (2) At December 31, 2007, 2,007 employees worked in the State of Bahia, 1,803 employees worked in the State of Rio Grande do Sul, 484 employees worked in the State of São Paulo, 472 employees worked in the State of Alagoas and 17 employees worked in other states in Brazil or abroad.
- (3) At December 31, 2006, 2,171 employees worked in the State of Bahia, 430 employees worked in the State of Rio Grande do Sul, 455 employees worked in the State of São Paulo, 423 employees worked in the State of Alagoas and 15 employees worked in other states in Brazil or abroad.

We do not employ a material number of temporary employees.

In Brazil, both employees and employers have the right to organize unions. Employees belonging to a specific professional category and employers constituting a specific economic category may each be represented by a single union in a particular geographic area. Individual unions generally belong to state-wide union federations, which in turn belong to nationwide union confederations. We are a member of the Petrochemicals and Synthetic Resins Industries Union of the States of Bahia, Alagoas and Rio Grande do Sul, and our employees belong to the Petrochemicals Industries Workers Unions in each of these states. Approximately 1,600 of our non-management employees were union members at December 31, 2008. We believe that we have good ongoing relations with our employees and their unions. We have not experienced a strike since OPP Química was privatized in 1992 and Trikem was privatized in 1995. The current collective bargaining agreements with our unions have one-year to two year terms and are subject to annual renegotiation. We have traditionally applied the terms of bargaining agreements entered into with the unions equally to unionized and non-unionized employees.

We have adopted and applied a personnel management philosophy which emphasizes a performance related pay structure and a decentralized management structure. Employees in each of our business units participate in setting and achieving their business unit's annual objectives. As a result, employees in those business units that meet or exceed their goals share in our financial performance through performance-based employee compensation plans. During 2008, we recorded an expense of R\$100.6 million related to this program with respect to approximately 5,000 employees, including our executive officers. The members of our board of directors do not participate in this program.

We seek to recruit top graduates from Brazilian technical schools and universities to work at each of our plants and offer career development training to employees to develop skills necessary to operate an internationally competitive, vertically integrated petrochemical company. We have invested in a series of training courses for our

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operating, laboratory and maintenance personnel through agreements with technical training organizations. During 2008, our total investment in education and training amounted to R\$9.0 million for approximately 322,500 hours of training, representing an average of 67.2 hours per employee.

We tailor career development programs to each employee's individual needs and abilities. We established this program with our own resources and technology, and it has become a Brazilian benchmark in human resources practices. In 2008, 37.1% of our employees received salary increases as a result of their participation in our career development programs.

Our employees and their dependents receive medical and dental assistance through a network of accredited doctors. We pay most of the costs for these services, with a small portion being paid by our employees. A small monthly fee is also charged to our employees to pay for more costly medical services. In 2008, we spent R\$24.5 million on this assistance.

The majority of our employees participate in the Odebrecht Pension Plan (*ODEPREV Odebrecht Previdência*). We pay part of the monthly payments made by our employees to the Odebrecht Pension Plan. This pension fund is a defined contribution plan that pays supplementary pension and retirement amounts in amount to those paid by the Brazilian government's pension system and is intended to provide its members with income on retirement. In 2008, we paid R\$9.8 million into this fund.

We also make contributions to PETROS under retirement and defined benefit pension plans that we assumed as a result of the acquisition of control of Copesul. Copesul closed these plans to new participants on January 1, 1995. In 2008, the rate of the contribution of employees participating in this plan was 12.93% of their total pay. In 2008, we made contributions of R\$6.2 million to these plans.

On May 2003, Copesul approved and implemented a supplementary private pension plan named COPESULPREV. COPESULPREV is a closed defined-contribution plan intended to cover those employees not included in the PETROS plan. The obligations of Copesul under the COPESULPREV plan were assumed by Braskem as a result of the merger of Copesul into Ipiranga Petroquímica and the subsequent merger of Ipiranga Petroquímica into Braskem. COPESULPREV is independently managed by PETROS, with no links to any other pension plan managed by PETROS, pursuant to the provisions of Complementary Law 109/2001. In 2008, we made contributions of R\$1.6 million to COPESULPREV.

Ipiranga Petroquímica and Ipiranga Química sponsor Fundação Francisco Martins Bastos Pension Plan, or FMBB, a defined benefit closed supplementary private pension entity, designed to manage and execute pension benefit plans for the benefit of the employees of Ipiranga Petroquímica and Ipiranga Química. The obligations of Ipiranga Petroquímica under the FMBB plan were assumed by Braskem as a result of the merger of Ipiranga Petroquímica into Braskem. In 2008, Ipiranga Petroquímica and Ipiranga Química made contributions of R\$1.6 million to this fund.

Prior to July 2005, we paid part of the monthly payments made by our employees to two additional private pension funds: PETROS and PREVINOR (*PREVINOR Associação de Previdência Privada*) or PREVINOR. The PETROS plan was a defined benefit plan and the PREVINOR pension plan was a defined contribution plan. In June 2005, we announced that we intended to withdraw as a sponsor of the PREVINOR pension plan and the PETROS plan effective June 30, 2005. The calculation of mathematical reserves of participants in the PETROS plan was completed in November 2006 and submitted in that month to the Secretariat for Complementary Pensions, a Social Security Ministry department in charge of regulating and inspecting private pension plans. Our withdrawal was approved by the Secretariat for Complementary Pension on April 29, 2009 as a sponsor of this plan without any additional payment by our company. The reserve computations with respect to the PREVINOR pension plan have been completed and the entity has a surplus; as a result, no contributions by our company are required. The sponsorship withdrawal was approved by the Secretariat for Complementary Pensions and the commitments to the plan participants were settled in 2007. See note 29(a) to our consolidated financial statements.

Prior to January 2007, Politeno was the sponsor of a defined contribution plan managed by PREVINOR. In December 2006, Politeno advised PREVINOR of its intention to withdraw from the plan effective at the end of December 2006. The calculation of mathematical reserves of participants to be refunded to plan was completed and

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submitted to the Secretariat for Complementary Pensions for approval in February 2008. This plan is fully funded and no additional disbursements by Braskem will be required.

Share Ownership of Directors and Officers

The total number of shares owned by members of Braskem's board of directors and executive officers as of July 7, 2009 represents less than 0.1% of Braskem's share capital. Under our by-laws, each of our directors must also be a shareholder of our company. Accordingly, if a person is appointed to our board of directors and is not one of our shareholders at the time, the shareholder that designated such person to be one of our directors (in accordance with the terms of the relevant shareholders agreement) generally transfers one share to the newly appointed director at no cost. All other shares owned by our directors were purchased at market prices through the BM&FBOVESPA. As of the date hereof, none of our executive officers owns any of our shares.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

At July 7, 2009, our issued and outstanding capital consisted of 190,462,446 common shares, 329,871,890 class A preferred shares and 593,818 class B preferred shares.

At July 7, 2009, we had approximately 20,100 shareholders, including one U.S. resident holder of our common shares, approximately 152 U.S. resident holders of our class A preferred shares (including The Bank of New York Mellon, as depository) and no U.S. resident holders of our class B preferred shares. At July 7, 2009, there were 478,100 common shares, 21,897,554 class A preferred shares (including class A preferred shares represented by ADSs), and no class B preferred shares held by U.S. resident holders.

The following table sets forth information concerning the ownership of our common shares and class A preferred shares at July 7, 2009, by each person whom we know to be the owner of more than 5.0% of our common shares and our class A preferred shares, and by all of our directors and executive officers as a group. Our principal shareholders have the same voting rights with respect to each class of our shares that they own as other holders of shares of that class.

	Common Shares		Class A Preferred Shares		Total	
	Number of Shares	%	Number of shares	%	Number of shares	%
Odebrecht (1)	118,691,670	62.3	80,697,920	24.5	199,389,590	38.3
Petroquisa	59,014,254	31.0	72,966,174	22.1	131,980,428	25.3
BNDESPAR			26,495,825	8.0	26,495,825	5.1
All directors, fiscal council members, their alternates and executive officers as a group (38 persons)	9	*	89,257	*	89,266	*

* less than 1%

- (1) Represents ownership of 89,052,471 common shares owned by Odebrecht, 29,639,199 common shares owned by Norquisa (a wholly-owned subsidiary of Odebrecht), one class A preferred share owned by Odebrecht, 78,512,673 class A preferred shares owned by Odebrecht's indirect subsidiary Belgravia Empreendimentos Imobiliarios S.A., or Belgravia, and 2,185,246 class A preferred shares owned by Norquisa.

We currently have no management or employee option plans or management or employee options outstanding. See Item 6. Directors, Senior Management, and Employees' Compensation Long-Term Incentive Plan.

Changes in Ownership

On May 30, 2008, we issued an aggregate of 46,903,320 common shares and 43,144,662 class A preferred shares to Petroquisa in the first phase of the Petrobras Transaction. As a result, the direct and indirect ownership of Odebrecht in our company was reduced to 60.3% of our common shares, 24.7% of our class A preferred shares and 38.1% of our total share capital, and the ownership of Petroquisa in our company increased to 30.0% of our common shares, 18.9% of our class A preferred shares and 23.1% of our total share capital.

On May 30, 2008, our subsidiary Braskem Participações S.A. transferred the shares of Braskem's share capital that it owned to Braskem.

On January 3, 2009, Odebrecht's subsidiary, Odebrecht Investimentos em Infra-Estrutura Ltda., transferred 20,685,872 class A preferred shares to Odebrecht's indirect subsidiary Belgravia.

On May 5, 2009, we issued an aggregate of 13,387,157 class A preferred shares in connection with the merger of Triunfo with and into our company, including 11,299,254 class A preferred shares that were issued to Petroquisa. As a result, the direct and indirect ownership of Odebrecht in our company was reduced to 24.5% of our class A preferred shares and 38.3% of our total share capital, and the ownership of Petroquisa in our company increased to 22.1% of our class A preferred shares and 25.3% of our total share capital.

Shareholders Agreements

Petrobras Shareholders Agreement

On May 30, 2008, Petrobras, Petroquisa, Odebrecht and Norquisa, with Braskem as intervening party, entered into the Petrobras Shareholders Agreement, which has a term of 25 years. The Petrobras Shareholders Agreement superseded the Ipiranga Memorandum of Understanding and the Memorandum of Understanding regarding Shareholders Agreement that formerly governed the relationship between Odebrecht and Petroquisa regarding our shares,

Under the Petrobras Shareholders Agreement, Petrobras and Petroquisa:

- together have the right to designate members of our board of directors and their alternates as described below;
- for so long as they own an aggregate of more than 18% of our voting share capital, together have veto rights over certain actions by Braskem's shareholders and board of directors, and, in some cases, by Braskem's subsidiaries such as (1) actions affecting our share capitalization or the rights of holders of our shares, (2) mergers, acquisitions or dispositions that result in specified consequences or exceed specified thresholds, (3) certain corporate governance matters, and (4) actions that would result in our violating certain financial ratios;
- for so long as they own an aggregate of more than 5% of our voting share capital, together have veto rights over related party transactions exceeding specified thresholds;
- for so long as they own an aggregate of 5% or more of our voting share capital, together have the right to designate one member of our fiscal council and his or her alternate; and
- have tag-along rights, preemptive rights, and other rights designed to prevent dilution of their equity interests.

Under the Petrobras Shareholders Agreement, Petrobras and Petroquisa together have the right to designate:

- three members of our board of directors and their alternates for so long as they own an aggregate of 18% or more of our voting share capital;

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- two members of our board of directors and their alternates for so long as they own an aggregate of 12% or more of our voting share capital; and
- one member of our board of directors and his or her alternate for so long as they own an aggregate of 5% or more of our voting share capital.

For so long as Petrobras and Petroquisa together have the right to designate two or three members of our board of directors, one of these designees will serve as vice president of our board of directors.

Under the Petrobras Shareholders Agreement, Petrobras has the right to sell:

- a *pro rata* portion of its common shares of our company in connection with any direct or indirect sale of our common shares by the Odebrecht Group to a third party; and
- all of its common shares in case such sale involves a change of our control.

Pension Funds Memorandum of Understanding

On July 20, 2001, Odebrecht Química, Petroquímica da Bahia S.A., PETROS and *Caixa de Previdência dos Funcionários do Banco do Brasil* PREVI, or PREVI, entered into a Memorandum of Understanding Regarding Shareholders Agreement, which we refer to as the Pension Funds Memorandum of Understanding. The Pension Funds Memorandum of Understanding grants certain preemptive and share transfer rights to PETROS and PREVI. The Pension Funds Memorandum of Understanding has a term of 20 years, unless a shareholders agreement containing the terms set out below is entered into prior to that date. Under the Pension Funds Memorandum of understanding, the parties agreed to adopt the following basic principles for our management:

- our board of executive officers will be composed of competent professionals;
- our dividend policy will have as its objective the distribution of at least 50.0% of net income available during the relevant period, provided that all necessary reserves for the efficient operation and development of our business are established and maintained; and
- we will adopt a commercial policy that assures the regular and continuous supply of raw materials and utilities on a competitive basis and consistent with the domestic and international markets.

Under the Pension Funds Memorandum of Understanding, PETROS and PREVI have the right to sell our shares owned by each of them in connection with any sale of our shares by our controlling shareholders to a third party that involves a change of our control.

BNDESPAR Shareholders Agreement

We, Odebrecht and BNDESPAR have entered into a shareholders agreement. This shareholders agreement provides that BNDESPAR has the right to appoint one member of our board of directors. This shareholders agreement will expire on the earlier of the first date on which BNDESPAR ceases to own more than 5.0% of our total share capital and August 24, 2011. This shareholders agreement also provides that BNDESPAR has the right to (1) require our company and Odebrecht to purchase the shares that it owns in our company if we do not comply with the terms of this shareholders agreement and do not cure any such non-compliance within a specified period, and (2) sell its shares in the event that Odebrecht sells its voting control of our company to a third party.

Related Party Transactions

The following summarizes the material transactions that we have engaged in with our principal shareholders and their affiliates since January 1, 2008.

We have engaged in extensive transactions with our principal shareholders and their affiliates and expect to do so in the future. We also have commercial relationships with some of our affiliates and, as a result, record trade accounts receivable and current and long-term liabilities mainly from purchases and sales of goods and services at prices and on terms equivalent to the average terms and prices of transactions that we enter into with third parties. In addition, we have entered into financial and other transactions with our principal shareholders and their affiliates, including, among others, as a party to three shareholders' agreements or memoranda of understandings with shareholders of our company. See Major Shareholders' Shareholders Agreements.

In connection with the Ipiranga Transaction, we entered into the Purchase Agreement, the Ipiranga Investment Agreement, the Interim Shareholders Agreement and the Ipiranga Memorandum of Understanding with Petrobras and the other parties thereto, and a shareholders agreement with Ultrapar and Petrobras, which we refer to as the RPI shareholders agreement, which gives each of Ultrapar, Petrobras and our company the right to nominate one-third of the directors of RPI. The Ipiranga Memorandum of Understanding has been superseded by the Petrobras Shareholders' Agreement. See Item 4. Information on the Company History and Development of Our Company Petrobras Transaction.

In connection with the Petrobras Transaction, we entered into the Petrobras Investment Agreement and the Petrobras Shareholders Agreement with Odebrecht, Petroquisa and the other parties thereto. See Item 4. Information on the Company History and Development of Our Company Petrobras Transaction.

Under the Brazilian Corporation Law, each of our directors, their alternates and our executive officers cannot vote on any matter in which they have a conflict of interest and such transactions can only be approved on reasonable and fair terms and conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties. However, if one of our directors is absent from a meeting of our board of directors, that director's alternate may vote even if that director has a conflict of interest, unless the alternate director shares that conflict of interest or has another conflict of interest.

The Odebrecht Group

In December 2004, we entered into an Alliance Agreement with CNO, the 2004 Alliance Agreement, under which we have appointed CNO as a non-exclusive preferred provider with respect to maintenance services and efficiency enhancement projects at each of our plants. This agreement was unanimously approved by our board of directors. Under this agreement, we are required to request bids from CNO for these services and projects. If CNO is retained for any specific service or project, we will pay CNO its costs related to the service or project plus 15%. We are also required to pay any applicable taxes with respect to such fees. This agreement was formally terminated in December 2008. In December 2008, we entered into a new Alliance Agreement with CNO on substantially similar terms as the 2004 Alliance Agreement. The new Alliance Agreement expires in February 2011. The aggregate amount of services we purchased from CNO under these Alliance Agreements in 2008 was R\$205.2 million. We had accounts payable to CNO of R\$0.1 million at December 31, 2008.

On December 2008, we entered into another Alliance Agreement with CNO and Gemprow Engenharia S.A. for the construction of a new ethylene plant in the Southern Complex that will produce ethylene using sugar cane ethanol for our use in the production of polyethylene. For more information regarding this project, see Item 4. Information on the Company Capital Expenditures Green Polyethylene Project.

Petrobras

Merger and Acquisition Transactions with Petrobras

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

- Petroquisa contributed the following assets to its wholly-owned subsidiary Grust:
 - Ø 36.4% of the voting and outstanding share capital of Copesul;

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Ø 40.0% of the voting and outstanding share capital of Ipiranga Química; and

Ø 40.0% of the voting and outstanding share capital of Paulínia; and

Braskem, Petroquisa and Grust engaged in an exchange of shares transaction 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.

For more information about the first phase of the Petrobras Transaction, see Item 4. Information on the Company History and Development of Our Company Petrobras Transaction.

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, including 11,299,254 class A preferred shares that were issued to Petroquisa. For more information about the second phase of the Petrobras Transaction, see Item 4. Information on the Company History and Development of Our Company Other Developments since January 1, 2008 Acquisition of Triunfo.

Financial Transactions with Petrobras

In September 2007, EDSP58 entered into an export prepayment credit facility with PIFCo, a wholly-owned subsidiary of Petrobras, under which EDSP58 is permitted to borrow an aggregate principal amount of up to US\$323.0 million. In October 2007, EDSP58 borrowed an aggregate of US\$312.5 million under this facility to fund a portion of the purchase price of the shares tendered in the Copesul Tender Offer. These loans bear interest at the rate of LIBOR plus 0.35% per annum until the first anniversary of their disbursement and thereafter at the rate of LIBOR plus 0.55% per annum. The principal amount of these loans is payable on or prior to the second anniversary of each disbursement. At December 31, 2008, the outstanding principal amount under this export prepayment credit facility was R\$730.4 million.

Commercial Transactions with Petrobras

In June 1978, we entered into a 10-year renewable contract with Petrobras under which the prices paid by us to Petrobras for naphtha are established based on the Amsterdam-Rotterdam-Antwerp market price and are linked to fluctuations in the *real*/U.S. dollar exchange rate. This contract was amended and renewed in February 1993 and in February 2003, and 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 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. These pricing terms have applied to naphtha delivered to our basic petrochemicals plants located in both the Northeastern Complex and the Southern Complex.

In February 1996, Copesul and Petrobras entered into a 16-year renewable contract with Petrobras under which the prices paid by Copesul to Petrobras for petroleum condensate are established based on the Amsterdam-Rotterdam-Antwerp market price and are linked to fluctuations in the *real*/U.S. dollar exchange rate. We expect this contract to be superseded by the new naphtha contract that we are negotiating with Petrobras as described above.

In March 2007, we entered into two five-year propylene supply contract with REFAP, a subsidiary of Petrobras, for the supply of propylene to our plants in the Southern Complex. In addition, we sell condensate and purchase naphtha from REFAP.

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In April 2007, we entered into a three-year caustic soda supply contract with Petrobras under which we will supply approximately 61,300 tons of caustic soda annually for use by Petrobras Brazilian refineries. Petrobras uses caustic soda for the treatment of effluents in its refineries.

We sell automotive gasoline and LPG to Petrobras Distribuidora S.A., a wholly-owned subsidiary of Petrobras.

We purchased raw materials from Petrobras and its subsidiaries of R\$6,350.3 million in 2008 and sold products to Petrobras and its subsidiaries of R\$505.1 million during this period. At December 31, 2008, we had accounts payable to Petrobras and its subsidiaries in an aggregate amount of R\$1,046.2 million and accounts receivable from Petrobras and its subsidiaries in an aggregate amount of R\$84.7 million.

Our Jointly Controlled Companies and Associated Companies

Cetrel

We own directly 54.2% of the voting and total share capital of Cetrel. We purchase treatment services on market terms from Cetrel for the wastewater and organic residues generated by us in the Northeastern Complex. We recorded purchases from Cetrel of R\$22.9 million in 2008. We had accounts payable to Cetrel of R\$2.1 million at December 31, 2008.

Borealis Brasil S.A.

We sell polypropylene and polyethylene to Borealis in which we have a 20.0% interest. We recorded net sales to Borealis of R\$157.2 million in 2008. We had accounts receivable from Borealis of R\$0.2 million at December 31, 2008.

Other

Engepack

We sell PET from time to time to Engepack Embalagens S.A., or Engepack, a packaging manufacturer. Francisco Teixeira de Sá, the chairman of the board of directors of Engepack, is an alternate member of our board of directors. We recorded net sales to Engepack of R\$43.3 million in 2008. Engepack purchases PET from a variety of second generation producers, including our company.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

Reference is made to Item 19 for a list of all financial statements filed as part of this annual report.

Legal Proceedings

Tax Proceedings

We are engaged in several legal proceedings with Brazilian tax authorities for which we have established provisions in an aggregate amount of R\$1,202.5 million at December 31, 2008. In addition, there are currently certain legal proceedings pending in which we are involved for which we have not established provisions. If any of these legal proceedings is decided adversely to us, our results of operations or financial condition could be materially and adversely affected.

IPI

IPI Credits on Raw Materials Purchases. We pay IPI tax on industrial products that we manufacture. The regulations governing the IPI tax assess this tax on a non-cumulative basis, meaning that companies may offset their

IPI tax obligations with the amount of IPI taxes paid by suppliers earlier in the production chain. The Brazilian federal tax authorities have asserted that the purchase of raw materials that are tax-exempt, non-taxable or taxed at a zero percent rate does not generate IPI tax credits, on the basis that there is no law or regulation that expressly authorizes these credits. We believe that this interpretation is contrary to Article 153, paragraph 3 of the Brazilian Constitution, which sets forth the principle of non-cumulative taxation and does not exclude purchases of raw materials that are tax-exempt, non-taxable or taxed at a zero percent rate.

In July 2000, OPP Química (which has merged into our company) filed suit in the State of Rio Grande do Sul requesting the acknowledgement of IPI tax credits for its purchases of raw materials from our company and Copesul. The amount of credits claimed by OPP Química comprised the book value of those raw materials plus monetary adjustments. In December 2002, the Brazilian Federal Supreme Court held that OPP Química was entitled to IPI tax credits in an aggregate amount of R\$1,030.1 million, including R\$367.9 million attributable to monetary adjustments, for the 10-year period preceding the filing of the suit, calculated based on the price of the raw materials purchased during this period, plus monetary adjustments based on official indices.

The Brazilian government appealed the decision of the Brazilian Federal Supreme Court. In this special appeal, the Brazilian federal tax authorities are no longer challenging the validity of IPI tax credits, but are alleging some inaccuracies in the method of calculating monetary adjustments on those credits. These issues have already been resolved by decisions of the Brazilian Federal Supreme Court and the Regional Federal Court favorable to OPP Química.

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 in the special appeal, as described in the preceding paragraph, and that the court will not revisit the validity of IPI tax credits.

In April 2009, we filed a motion for clarification regarding the subject matter to be reviewed in the special appeal. We believe that the First Panel will grant this motion and clarify that a judgment on the special appeal will only address the matters raised by the Brazilian government in the special appeal. 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.

However, there may be a risk of changes in the previous decision of the Brazilian Federal Supreme Court as a result of the special appeal, because, among other factors, the Brazilian Federal Supreme Court has revisited this matter on the merits in a similar lawsuit lodged by another taxpayer. We recognized IPI tax credits in an aggregate amount of R\$1,030.1 million in December 2002. At December 31, 2008, we have used the full amount of the R\$1,030.1 million IPI tax credit to offset IPI and other federal tax obligations.

In September 2006, the Brazilian federal tax authorities issued four tax deficiency notices to us, claiming that we owe approximately R\$1,100.0 million representing IPI taxes that we offset with OPP Química's IPI tax credits, including penalties and interest. The Brazilian government issued two of the deficiency notices, in an aggregate amount of R\$308.6 million solely to avoid forfeiting their claims due to the expiration of the statute of limitations; as a result, no penalties may be claimed on these amounts. The other two tax deficiency notices, in an aggregate amount of R\$791.4 million, allege that we are not allowed to recognize these IPI tax credits. In addition, during 2007 the Federal Revenue Office rejected approximately 200 applications made by our company to offset the IPI tax credits that we did not offset against IPI taxes against other federal taxes payable by our company.

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, and as adjusted by applying the SELIC rate through December 31, 2008) amount to R\$2,682.2 million at December 31, 2008. The various collection proceedings referred to above 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 are contesting the tax deficiency notices and the rejection of these applications in administrative tax proceedings. In October 2008, the administrative appellate tribunal, or the Taxpayers Council, ruled against our

company in our disputes of some of these tax deficiency notices and rejections. Many of these decisions have not yet been published, and we do not believe that the few decisions that have been published clearly state the basis for the rejection of our challenges. Consequently, we have filed motions for clarification with respect to the published decisions. Upon publication of the remaining decisions of the Taxpayers Council, we intend to appeal these decisions. If we fail to prevail in our administrative appeal, we intend to challenge the decisions in these administrative proceedings at the judicial level.

The outcome of these disputes as they relate to the validity of IPI tax credits depends on the final decision of the Brazilian Federal Supreme Court in the special appeal described above. The remainder of these disputes relate to the validity of fines imposed on our company for using the IPI credits. We believe that such fines are not payable because we relied upon a judicial decision in the recognition of the tax credits. We believe that it is probable that we will prevail in our disputes regarding the imposition of fines by the Brazilian federal tax authorities, as our decision to offset IPI tax credits against our IPI and other federal tax obligations was supported by a final decision of the Brazilian Federal Supreme Court.

We have a similar suit pending on behalf of OPP Química (which has merged into our company) in federal court in the State of São Paulo, and two similar suits on behalf of Trikem (which has merged into our company) in federal courts in the States of São Paulo and Alagoas. In these cases, we obtained preliminary injunctions that allowed these companies to use these credits to offset other IPI tax obligations. These suits remain pending. We have used R\$120.5 million through December 31, 2008 of Trikem's and OPP Químicas' IPI tax credits to offset our IPI and other federal tax obligations and have recorded a provision in the amount of R\$245.8 million at December 31, 2008. We have not recognized any assets or gains in relation to these claims.

We note that the Brazilian Federal Supreme Court issued an unfavorable ruling in another case in February 2007 involving a taxpayer unrelated to our company, holding by a six-to-five vote that IPI tax credits arising from the purchase of raw materials that are taxed at a zero percent rate may not be used to offset IPI and other federal taxes. In June 2007, the full bench of the Brazilian Federal Supreme Court contemplated whether this decision would have retroactive or prospective effect and, by majority opinion, ruled that a decision of the Brazilian Federal Supreme Court that reversed an earlier determination made by the full bench of the Brazilian Federal Supreme Court in favor of a taxpayer would apply retroactively.

For further information on our accounting treatment of these IPI credits, see notes 9 and 17(ii) to our consolidated financial statements.

IPI Export Credits. Brazilian Decree Law No. 491/69 provides a tax credit to exporters of manufactured products to compensate them for taxes paid in Brazil prior to exporting their products. The regulations governing the IPI tax permit exporters to offset IPI taxes with IPI export credits and/or to transfer their IPI export credits to third parties. However, the Brazilian tax authorities issued a series of administrative rules that reduced, restricted and ultimately suspended the use of these credits based on Decree Law No. 1,724/79, which expressly delegated these powers to the Brazilian Ministry of Finance. We believe that this delegation of powers to the Ministry of Finance violated the distribution of functions among the executive branch, and that secondary administrative rules may not restrict or suspend a benefit created by a constitutionally superior norm. Accordingly, we believe that the administrative rules promulgated under the authority of Decree Law No. 1,724/79 have no legal effect. On these grounds, we filed suits against the Brazilian government challenging Decree Law No. 1,742/79 and these administrative rules and seeking to offset and transfer IPI export credits as provided under Decree Law No. 491/96.

In one of these suits, the Regional Federal Court ruled against OPP Química (which has merged into our company), holding that it does not have the right to IPI export credits. OPP Química's appeals before the Superior Court of Justice and the Brazilian Federal Supreme Court remain pending. Although our other suits also are pending, the Brazilian tax authorities have issued deficiency notices against us (1) attempting to collect amounts offset using these IPI export credits and (2) asserting their right to do so before the expiration of the applicable statute of limitations. We filed administrative appeals in respect of these deficiency notices, but we received unfavorable decisions in each of these appeals. We have appealed each of these unfavorable decisions to the taxpayers' council (an administrative appeal board). However, based on recent Brazilian Federal Supreme Court and other jurisprudence holding that the sub-delegation by the Ministry of Finance of the authority to regulate IPI export credits under Decree Law No. 1,742/79 was unconstitutional and that recognized the right to offset IPI export credits

as provided under Decree Law No. 491/96, we believe that it is reasonably possible that we will prevail in all of these judicial and administrative proceedings. Despite the issuance of Resolution No. 71 by the Federal Senate on December 27, 2005, which confirmed the unconstitutionality of this sub-delegation and ratified the validity of IPI export credits, the Superior Court of Justice, in an appeal made by another taxpayer seeking recognition of that taxpayers' entitlement to use such tax benefit, upheld its rejection to such prospective use and affirmed that the tax benefit expired in 1990. When the Superior Court of Justice completes its judgment, the Brazilian Federal Supreme Court will revisit the right to use those tax credits after 1990, based on application of Temporary Constitutional Provisions Act (ADCT) 41. We have used a portion of these credits to offset IPI and other federal taxes in the amount of R\$381.8 million through December 31, 2008 and recorded a provision in the amount of R\$731.1 million at December 31, 2008 because these suits remain pending. For further information on our accounting treatment of these IPI credits, see note 17(i) to our consolidated financial statements.

IPI Credits Arising from the Acquisition of Fixed Assets and Materials Not Used in Production. We are involved in four suits against the Brazilian government seeking the acknowledgment of IPI credits arising from the acquisition of fixed assets and materials not used by us in the production of our products. The regulations governing the IPI tax permit companies to offset against their IPI tax liability IPI credits arising from the acquisition of raw materials and other unfinished products only to the extent that they are used in production. We believe that this limitation imposed by the IPI regulations is unconstitutional. Article 153, paragraph 3 of the Brazilian Constitution sets forth a broad principle of non-cumulative taxation and does not limit the grant or use of IPI credits arising from the acquisition of fixed assets or in respect of materials not used in production.

We lost one of these suits in federal trial court and appealed this decision, which appeal remains pending. Although our three other suits also remain pending in federal court, the Brazilian tax authorities have issued deficiency notices against us attempting to collect amounts offset using these credits, asserting their right to do so before the expiration of the applicable statute of limitations. We appealed the issuance of these deficiency notices to the taxpayers' council. We believe that it is reasonably possible for us to prevail in all of these judicial and administrative proceedings. We have used R\$31.9 million through December 31, 2008 of these credits to offset IPI taxes and recorded a provision in the amount of R\$44.9 million at December 31, 2008 because these suits remain pending.

Social Contribution on Net Income

Law No. 7,689/88 created the CSLL, a tax similar to the corporate income tax. Under Article 146, item III of the Brazilian Constitution, the CSLL should have been enacted as a supplementary law and not as an ordinary law. Under Brazilian law, supplementary laws must be approved by at least a majority of the members of each house of the Brazilian Congress, while an ordinary law may be approved by a simple majority of the members of Congress present at the relevant voting session. In addition, we believe that CSLL violates Article 154, item II of the Brazilian Constitution, which provides that new taxes may not be assessed and calculated on the same basis as existing taxes. We believe the CSLL is assessed and calculated on the same basis as the corporate income tax.

On these grounds, we filed suit challenging the constitutionality of the CSLL. We received a final decision in our favor in 1992. However, in 1993, Brazilian tax authorities filed a rescission action (*ação rescisória*) against us in relation to all but one of these cases seeking to overrule this decision on the basis of a ruling by the Brazilian Federal Supreme Court in an unrelated case that recognized the constitutionality of the CSLL. The Brazilian tax authorities prevailed in their rescission action both in the first instance and on appeal. We filed further appeals in respect of this decision with the Superior Court of Justice and the Brazilian Federal Supreme Court, which appeals remain pending. The Brazilian Superior Court of Justice (*Superior Tribunal de Justiça*) issued a ruling in a case of another unrelated taxpayer dismissing one of the arguments that has been used by the Brazilian tax authorities in the rescission action. This decision should strengthen the arguments that we have used in our cases. In the remaining case, we believe that it is reasonably possible that the final decision in our favor will remain in effect.

Brazilian tax authorities issued several deficiency notices against us attempting to collect CSLL. We obtained suspensions of all deficiency notices that we have received to date based on a Brazilian civil procedure provision that states that a rescission action may take effect only after the court publishes a final decision.

We believe it is reasonably possible that we will lose our appeals. However, if we lose these suits, we believe that we would be required to pay CSLL only from the date that a final decision is published. We note, however, that Brazilian law allows rescission actions to relate back to, and to take effect from, the date of the initial decision. Although this legislation does not involve tax proceedings and the Brazilian Federal Supreme Court has not ruled on this issue, the same line of reasoning has been adopted by the Brazilian tax authorities and may be adopted by the courts in our suit. Accordingly, we believe that it is reasonably possible that we will be required to pay these taxes retroactively.

If CSLL is charged retroactively, then our total estimated exposure at December 31, 2008 would be R\$835.4 million, including interest. This amount does not include approximately R\$242.0 million in penalties at December 31, 2008, which we believe are not payable because we relied upon a judicial decision in not paying 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.

As we believe that CSLL may not be payable for periods before the date the final decision is published in the rescission action, we have not made any provision in our consolidated financial statements for these contingencies. For further information on our accounting treatment of CSLL, see note 18(c) to our consolidated financial statements.

Offset of Tax Credits

From May through October 2000, OPP Química and Trikem offset their own federal tax obligations with IPI tax credits assigned by a third-party export trading company. In June 1999, the export trading company filed a motion for a writ of mandamus requiring the federal tax authority of the State of São Paulo to recognize these offsets, and in October 1999, the federal tax authority of the State of São Paulo issued offset support certificates in response to an injunction obtained by the export trading company. In September 1999, the export trading company filed a motion for a writ of mandamus requiring the federal tax authority of the State of Rio de Janeiro to recognize the recovery of IPI tax credits by the export trading company and the validity of their use in offsetting third-party tax obligations. In March 2001, the motion for a writ of mandamus filed by the export trading company in the State of São Paulo was dismissed without prejudice, confirming the administrative and jurisdictional authority of the State of Rio de Janeiro to rule on the export trading company's tax credits.

In June 2005, the federal tax authority of the State of São Paulo issued regulations canceling the offset support certificates. Based on these regulations, the Federal Revenue Office unit in Camaçari, Bahia sent collection letters to our company in June 2005. We presented notices of dispute against these collection letters, but the administrative authorities declined to process these notices.

On October 3, 2005, the Federal Supreme Court granted a non-appealable writ of mandamus to the export trading company, confirming the export trading company's right to use its IPI tax credits from all its exports and the availability of these IPI tax credits for offsetting third-party obligations. As a result, we believe that our use of the export trading company's IPI credits to offset our federal taxes has been confirmed and that the assessment made by the Federal Revenue Office unit in Camaçari, Bahia is not due. In addition and notwithstanding the writ of mandamus granted to the export trading company, we believe that the statute of limitations has expired with respect to the federal taxes offset against the IPI tax credits of the export trading company and can no longer be claimed by the tax authorities.

In December 2005, the Federal Revenue Office unit in Camaçari, Bahia assessed past-due federal tax liabilities of R\$276.6 million against our company related to our alleged undue offset of federal taxes. In January 2006, we were ordered to post bond in aid of execution of the tax claim made by the Federal Revenue Office unit in Camaçari, Bahia, and we posted this bond in the form of an insurance policy.

We and the export trading company subsequently commenced judicial and administrative proceedings to defend the lawfulness and validity of those offsetting procedures. We believe that it is probable that we will prevail in these judicial and administrative proceedings in light of our view of the validity and liquidity of those credits as confirmed in a special audit conducted by the federal tax authority of the State of Rio de Janeiro. In the event that we are unsuccessful in all of these judicial and administrative proceedings, pursuant to the agreement under which the

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export trading company assigned the IPI tax credits to OPP Química and Trikem, we will be entitled to full recourse against the export trading company concerning all amounts we are required to pay to the National Treasury.

Other Tax Proceedings

We and our affiliates are involved in several other judicial and administrative proceedings regarding withholding taxes, corporate income taxes (*Imposto de Renda da Pessoa Jurídica*), the ICMS, the tax on financial transactions (*Imposto Sobre Operações Financeiras*), monetary adjustments, the PIS, compulsory loans to Eletrobrás and other issues related to tax matters. Some of these disputes involve substantial amounts.

Labor Proceedings

Clause Four Cláusula Quarta

Our company and other companies in the Northeastern Complex enter into annual collective bargaining agreements with the petrochemical workers' union. The collective bargaining agreement that was valid between September 1989 and August 1990 required employers to pay workers monthly cost of living adjustments equal to 84.3% of the consumer price index (*Índice de Preços ao Consumidor*), or IPC, and prohibited the substitution of the IPC by another index with lower values.

In March 1990, the Brazilian government introduced an economic plan known as the Collor Plan, named after the then-President of Brazil. The Collor Plan provided that cost of living adjustments in wages could be based on other indices but not on the IPC. Based on judicial precedent, we interpreted the Collor Plan as prohibiting wage increases based on the IPC, which interpretation was contrary to the terms of the collective bargaining agreements in effect at the time. The petrochemical employers' union filed a lawsuit against the petrochemical workers' union, seeking to confirm that the cost of living adjustment indices provided in the Collor Plan preempted the conflicting provisions in the collective bargaining agreements. The Regional Labor Court ruled in favor of the workers' union, and the decision was later modified in part on appeal to the Superior Labor Court. In 1998, the employers' union filed an extraordinary appeal to the Brazilian Federal Supreme Court.

The Brazilian Federal Supreme Court initially held in favor of the workers' union, but reversed its decision in December 2002 and held that a private collective bargaining agreement cannot preempt federal law, particularly a law that related to Brazilian public policy. In 2003, the workers' union requested reconsideration of this decision. The Brazilian Federal Supreme Court accepted the workers' union's request for reconsideration, but on May 31, 2005, the Brazilian Federal Supreme Court unanimously reaffirmed its December 2002 decision and dismissed the workers' union's appeal.

On October 24, 2005, the workers' union filed a divergence appeal to the Brazilian Federal Supreme Court, requesting the resolution of conflict between the decisions given by the Brazilian Federal Supreme Court under this proceeding and prior decisions given by the another panel of the Brazilian Federal Supreme Court. The Brazilian Federal Supreme Court has agreed to consider this appeal, but has not yet issued a decision. However, the Brazilian attorney general has filed a brief in this matter in November 2006 supporting the position of the employers' union.

Employment and Occupational Health and Safety Proceedings

At December 31, 2008, we were involved in approximately 1,300 employment and occupational health and safety proceedings as to which the total amount claimed was approximately R\$223.3 million. We have deposited R\$6.2 million of this amount in court and have established a provision for these claims in an aggregate amount of R\$17.5 million at December 31, 2008. We do not believe that these proceedings will have a material adverse effect on our business, financial condition or operations.

Other Proceedings

At December 31, 2008, we were a defendant in two civil suits filed by a former caustic soda distributor, its controlling shareholder and a former transporter for breach of a caustic soda distribution agreement. The damages

claimed in these suits totaled R\$28.6 million at December 31, 2008 (monetarily adjusted). These suits are pending. We believe that we will possibly prevail in these suits.

We are parties to certain proceedings brought by some preferred shareholders of Braskem, Polialden and Politeno which we do not believe will have a material adverse effect on our business, financial condition or results of operations.

Dividends and Dividend Policy

Payment of Dividends

Our dividend distribution policy has historically included the distribution of periodic dividends, based on annual balance sheets approved by our board of directors. When we pay dividends on an annual basis, they are declared at our annual shareholders' meeting, which we are required by the Brazilian Corporation Law and our by-laws to hold by April 30 of each year. When we declare dividends, we are generally required to pay them within 60 days of declaring them unless the shareholders' resolution establishes another payment date. In any event, if we declare dividends, we must pay them by the end of the fiscal year for which they are declared. Under Article 9 of Law 9,249/95 and our by-laws, we also may pay interest attributable to shareholders' equity as an alternative form of dividends upon approval of our board of directors. For a more detailed description of interest attributable to shareholders' equity, see *Payment of Dividends and Interest Attributable to Shareholders' Equity*.

The following table sets forth the dividends and/or interest attributable to shareholders' equity paid to holders of our common shares, class A preferred shares and class B 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.

Year	Payment Date	Nominal Brazilian Currency per			US\$ equivalent per		
		Common shares	Class A Preferred Shares	Class B Preferred Shares	Common shares	Class A Preferred Shares	Class B Preferred Shares
2005	April 12, 2005(1)	R\$0.56	R\$0.56	R\$0.56	US\$0.22	US\$0.22	US\$0.22
2006	April 18, 2006(2)	0.90	0.90	0.56	0.42	0.42	0.26
2007	April 9, 2007(3)		0.16	0.16		0.07	0.07
2008	April 7, 2008(4)	0.64	0.64	0.64	0.38	0.38	0.38

- (1) Represents interest attributable to shareholders' equity of R\$0.28 (US\$0.11) per common share, R\$0.56 (US\$0.22) per class A preferred share and R\$0.56 (US\$0.22) per class B preferred share, plus dividends of R\$0.28 (US\$0.11) per common share.
- (2) Represents interest attributable to shareholders' equity of R\$0.75 (US\$0.35) per common share, R\$0.75 (US\$0.35) per class A preferred share and R\$0.56 (US\$0.26) per class B preferred share, plus dividends of R\$0.15 (US\$0.07) per common share and R\$0.15 (US\$0.07) per class A preferred share.
- (3) Represents dividends of R\$0.16 (US\$0.07) per class A preferred share and R\$0.16 (US\$0.07) per class B preferred share.
- (4) Represents dividends of R\$0.64 (US\$0.38) per common share, R\$0.64 (US\$0.38) per class A preferred share and R\$0.64 (US\$0.38) per class B preferred share.

The following discussion summarizes the principal provisions of the Brazilian Corporation Law and our by-laws relating to the distribution of dividends, including interest attributable to shareholders' equity.

Calculation of Adjusted Net Profits

At each annual shareholders' meeting, our board of directors is required to recommend how to allocate our net profits for the preceding fiscal year, which recommendation our board of executive officers initially submits to our board of directors for approval. This allocation is subject to approval by our common shareholders. The Brazilian

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Corporation Law defines net profits for any fiscal year as our net income after income taxes for that fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to employees' participation in our net profits in that fiscal year. Under the Brazilian Corporation Law, our adjusted net profits available for distribution are equal to our net profits in any fiscal year, reduced by amounts allocated to our legal reserve and other applicable reserves, and increased by any reversals of reserves that we constituted in prior years.

Our calculation of net profits and allocations to reserves for any fiscal year are determined on the basis of financial statements prepared in accordance with Brazilian GAAP.

Reserve Accounts

Under the Brazilian Corporation Law and our by-laws, we are required to maintain a legal reserve. In addition, we are permitted by the Brazilian Corporation Law to establish the following discretionary reserves:

- a contingency reserve for an anticipated loss that is deemed probable in future years. Any amount so allocated in a previous year must be reversed in the fiscal year in which the loss had been anticipated if the loss does not occur as projected or charged off in the event that the anticipated loss occurs;
- a reserve for investment projects, in an amount based on a capital expenditure budget approved by our shareholders;
- an unrealized income reserve described under Mandatory Distributions below; and
- a tax incentive investment reserve, included in our capital reserve accounts, in the amount of the reduction in our income tax obligations due to government tax incentive programs. See note 21(c) to our audited consolidated financial statements.

Allocations to each of these reserves (other than the legal reserve) are subject to approval by our common shareholders voting at our annual shareholders' meeting.

The Brazilian Corporation Law provides that the legal reserve and the tax incentive investment reserve may be credited to shareholders' equity or used to absorb losses, but these reserves are unavailable for the payment of distributions in subsequent years. The amounts allocated to the other reserves may be credited to shareholders' equity and used for the payment of distributions in subsequent years.

Legal Reserve Account

Under the Brazilian Corporation Law and our by-laws, we must allocate 5% of our net profits for each fiscal year to our legal reserve until the aggregate amount of our legal reserve equals 20% of our paid-in capital. However, we are not required to make any allocations to our legal reserve in a fiscal year in which our legal reserve, when added to our other reserves, exceeds 30% of our shareholders' equity. At December 31, 2008, we had a balance of zero in our legal reserve account.

Capital Reserve Accounts

Under the Brazilian Corporation Law, we are also permitted to record a capital reserve that may be used only (1) to absorb losses which exceed retained earnings and profit reserves as defined in the Brazilian Corporation Law, and (2) to redeem or repurchase share capital and/or participation certificates, (3) to increase our capital, or (4) if specified in our by-laws (which currently do not so specify), to pay preferred share dividends. Amounts allocated to our capital reserves are unavailable for the payment of distributions and are not taken into consideration for purposes of determining the mandatory distributable amount. At December 31, 2008, we had a balance of R\$396.1 million in our capital reserve accounts.

Dividend Preference of Preferred Shares

Under our by-laws, our preferred shareholders are entitled to a minimum annual non-cumulative preferential dividend, or the Minimum Preferred Dividend, equal to 6% of their *pro rata* share of our capital before dividends may be paid to our common shareholders. Distributions of dividends in any year are made:

- first, to the holders of preferred shares, up to the amount of the Minimum Preferred Dividend for such year;
- then, to the holders of common shares, until the amount distributed in respect of each common share is equal to the amount distributed in respect of each preferred share; and
- thereafter, to the holders of our common shares and our class A preferred shares on a *pro rata* basis.

Our class B preferred shareholders are not entitled to receive any additional dividend amounts after they have received the preferential dividend. If the Minimum Preferred Dividend is not paid for a period of three years, holders of preferred shares will be entitled to full voting rights.

Mandatory Distributions

As permitted by the Brazilian Corporation Law, our by-laws specify that 25% of our adjusted net profits for each fiscal year must be distributed to shareholders as dividends or interest attributable to shareholders' equity. We refer to this amount as the mandatory distributable amount.

Under the Brazilian Corporation Law, the amount by which the mandatory distributable amount exceeds the realized portion of net income for any particular year may be allocated to the unrealized income reserve, and the mandatory distribution may be limited to the realized portion of net income. The realized portion of net income is the amount by which our net income exceeds the sum of (1) our net positive results, if any, from the equity method of accounting for earnings and losses of our subsidiaries and certain associated companies, and (2) the profits, gains or income obtained on transactions maturing after the end of the following fiscal year. As amounts allocated to the unrealized income reserve are realized in subsequent years, such amounts must be added to the dividend payment relating to the year of realization.

In addition to the mandatory distributable amount, our board of directors may recommend that holders of our common shares approve the payment of additional distributions. Distributions made to holders of our class A preferred shares and our class B preferred shares are computed in determining whether we have paid the required mandatory distribution. We net any payment of interim distributions against the required mandatory distribution for that fiscal year.

As described under Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements, we have entered into an agreement with two of our shareholders that establishes as our dividend policy the distribution of at least 50% of our adjusted net profits during any relevant period, provided that we have established and maintained all necessary reserves for the efficient operation and development of our business.

Under our 11.75% Notes due 2014, we may not pay dividends in excess of two times the minimum dividends or interest attributable to shareholders' equity payable under our by-laws or under applicable Brazilian law.

The Brazilian Corporation Law permits us to suspend the mandatory distribution if our board of directors reports to our annual shareholders meeting that the distribution would be incompatible with our financial condition at that time. Our fiscal council must approve any suspension of the mandatory distribution. In addition, our management must report the reasons of any suspension of the mandatory distribution to the CVM. We must allocate net profits not distributed by our company as a result of a suspension to a special reserve and, if not absorbed by subsequent losses, we must distribute these amounts as soon as our financial condition permits. In case our profits reserves, as defined in the Brazilian Corporation Law, exceed our share capital, the excess must be credited to shareholders' equity or used for the payment of distributions.

Payment of Dividends and Interest Attributable to Shareholders' Equity

We may pay the mandatory distributable amount as dividends or as interest attributable to shareholders' equity, which is similar to a dividend but is deductible in calculating our income tax obligations.

Because our shares are issued in book-entry form, dividends with respect to any share are automatically credited to the account holding such share. Shareholders who are not residents of Brazil must register with the Brazilian Central Bank in order for dividends, sales proceeds or other amounts with respect to their shares to be eligible to be remitted outside of Brazil.

The preferred shares underlying the ADSs are held in Brazil by Banco Itaú S.A., as agent for the depositary, which has registered with the Brazilian Central Bank as the registered owner of our shares. Payments of cash dividends and distributions, if any, will be made in Brazilian currency to Banco Itaú S.A., or the Custodian, as custodian for our preferred shares represented by the ADSs, on behalf of the depositary. The Custodian will then convert such proceeds into dollars and will cause such dollars to be delivered to the depositary for distribution to holders of ADSs. As with other types of remittances from Brazil, the Brazilian government may impose temporary restrictions on remittances to foreign investors of the proceeds of their investments in Brazil, as it did for approximately six months in 1989 and early 1999, and on the conversion of Brazilian currency into foreign currencies, which could hinder or prevent the depositary from converting dividends into U.S. dollars and remitting these U.S. dollars abroad. See Item 3. Key Information Risk Factors Risks Relating to Our Class A Preferred Shares and the ADSs.

Dividends

We are required by the Brazilian Corporation Law and by our by-laws to hold an annual shareholders' meeting by April 30 of each year. At our annual shareholders' meeting, our common shareholders may vote to declare an annual dividend. Our payment of annual dividends is based on our audited financial statements prepared for our preceding fiscal year.

Any holder of record of shares at the time that a dividend is declared is entitled to receive dividends. Under the Brazilian Corporation Law, we are generally required to pay dividends within 60 days after declaring them, unless the shareholders' resolution establishes another payment date, which, in any case, must occur prior to the end of the fiscal year in which the dividend is declared.

Our board of directors may declare interim dividends based on the accrued profits recorded or the realized profits in our annual or semi-annual financial statements approved by our common shareholders. In addition, we may pay dividends from net income based on our unaudited quarterly financial statements. These quarterly interim dividends may not exceed the amounts included in our capital reserve accounts. We may set off any payment of interim dividends against the amount of the mandatory distributable amount for the year in which the interim dividends were paid.

Interest Attributable to Shareholders' Equity

Brazilian companies, including our company, are permitted to pay interest attributable to shareholders' equity as an alternative form of payment of dividends to our shareholders. These payments may be deducted when calculating Brazilian income tax and social contribution tax. The interest rate applied to these distributions generally cannot exceed the TJLP for the applicable period. The amount of interest paid that we can deduct for tax purposes cannot exceed the greater of:

- 50% of our net income (after the deduction of the provision for social contribution tax and before the deduction of the provision for corporate income tax) before taking into account any such distribution for the period for which the payment is made; and
- 50% of the sum of our retained earnings and profit reserves.

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Any payment of interest attributable to shareholders' equity to holders of common shares, preferred shares or ADSs, whether or not they are Brazilian residents, is subject to Brazilian withholding tax at the rate of 15%, except that a 25% withholding tax rate applies if the recipient is a resident of a tax haven jurisdiction. A tax haven jurisdiction is a country (1) that does not impose income tax or whose income tax rate is lower than 20% or (2) which does not permit disclosure of the identity of shareholders of entities organized under its jurisdiction. See Item 10. Additional Information Taxation Brazilian Tax Considerations. Under our by-laws, we may include the amount distributed as interest attributable to shareholders' equity, net of any withholding tax, as part of the mandatory distributable amount.

Prescription of Payments

Our shareholders have three years to claim dividend distributions made with respect to their shares, as from the date that we distribute the dividends to our shareholders, after which any unclaimed dividend distributions legally revert to us. We are not required to adjust the amount of any distributions for inflation that occurs during the period from the date of declaration to the payment date.

Significant Changes

Other than as disclosed in this annual report, no significant change has occurred since the date of the audited consolidated financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING

Markets for Our Equity Securities

The principal trading market for our common shares, class A preferred shares and class B preferred shares is the BM&FBOVESPA, where they are traded under the symbols BRKM3, BRKM5, and BRKM6, respectively. Our common shares and class A preferred shares began trading on the BM&FBOVESPA on November 11, 1980, and our class B preferred shares began trading on the BM&FBOVESPA on August 19, 1983.

On December 21, 1998, ADSs representing our class A preferred shares began trading on the NYSE under the symbol BAK. On December 31, 2008, there were 8,888,727 ADSs outstanding, representing 17,777,454 class A preferred shares, or 5.6% of our outstanding class A preferred shares. Each ADS represents two class A preferred shares.

On October 8, 2003, we listed our class A preferred shares on the LATIBEX, a stock market for Latin American issuers that is quoted in euros on the Madrid Stock Exchange, under the symbol XBRK. Our class A preferred shares are traded on the LATIBEX in lots of one share.

Price History of Our Class A Preferred Shares and the ADSs

The tables below set forth the high and low closing sales prices and the approximate average daily trading volume for our class A preferred shares on the BM&FBOVESPA and the high and low closing sales prices and the approximate average daily trading volume for the ADSs on the NYSE for the periods indicated.

	BM&FBOVESPA		New York Stock Exchange	
	Closing Price per		Closing Price per ADS	
	Class A Preferred Share		Closing Price per ADS	
	High	Low	High	Low
	(in reais)		(in U.S. dollars)	
2004	31.68	9.36	25.48	6.18
2005	31.84	16.16	25.82	14.57
2006	18.95	9.97	18.24	9.15
2007	18.19	12.34	19.27	11.56
2008	15.19	5.41	18.5	4.60

	BM&FBOVESPA		New York Stock Exchange	
	Closing Price per		Closing Price per ADS	
	Class A Preferred Share			
	High	Low	High	Low
	(in reais)		(in U.S. dollars)	
2007				
First Quarter	15.55	12.34	15.04	11.56
Second Quarter	17.22	14.44	17.59	14.14
Third Quarter	18.19	15.15	19.27	15.10
Fourth Quarter	17.24	13.42	19.11	14.55
2008				
First Quarter	15.19	11.76	18.05	13.76
Second Quarter	15.14	12.71	18.03	15.49
Third Quarter	13.92	9.21	17.76	9.69
Fourth Quarter	10.21	5.41	10.59	4.60
2009				
First Quarter	6.30	4.41	5.70	3.74
Second Quarter	8.30	4.93	8.11	4.35
Most Recent Six Months				
January 2009	6.30	5.62	5.70	4.87
February 2009	6.10	5.38	5.46	4.30
March 2009	5.17	4.41	4.60	3.74
April 2009	6.17	4.93	5.67	4.35
May 2009	8.30	6.66	8.11	5.83
June 2009	7.51	6.72	7.75	6.67
July 2009 (1)	7.18	7.07	7.44	7.18

(1) Through July 7, 2009.

Source: Economática Ltda./ Bloomberg

On July 7, 2009, the closing sales price of:

- our class A preferred shares on the BM&FBOVESPA was R\$7.12 per share;
- our class A preferred shares on the LATIBEX was 2.61 per share; and
- the ADSs on the NYSE was US\$7.18 per ADS.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and the securities markets generally, the National Monetary Council and the Central Bank, which has, among other powers, licensing authority over brokerage firms and which regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by (1) Law No. 6,385, as amended and supplemented, which is the principal law governing the Brazilian securities markets and which we refer to as the Brazilian Securities Law; (2) the Brazilian Corporation Law; and (3) the regulations issued by the CVM, the National Monetary Council and the Central Bank.

These laws and regulations provide for, among other things, disclosure requirements applicable to issuers of publicly traded securities, restrictions on insider trading and price manipulation (violations of which could lead to criminal sanctions under the Brazilian Penal Code), protection of minority shareholders and disclosure of transactions in a company's securities by its insiders, including directors, officers and major shareholders. They also provide for the licensing and oversight of brokerage firms and the governance of Brazilian stock exchanges.

However, the Brazilian securities markets are not as highly regulated or supervised as U.S. securities markets or securities 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, which may put holders of our class A preferred shares and the ADSs at a disadvantage. Finally, corporate disclosures also may be less complete than for public companies in the United States and certain other jurisdictions.

Under the Brazilian Corporation Law, a company is either publicly held (*companhia aberta*), as we are, or privately held (*companhia fechada*). All publicly held companies are registered with the CVM and are subject to reporting and regulatory requirements. A company registered with CVM may have its securities traded either on the BM&FBOVESPA or in the Brazilian over-the-counter market. Shares of companies, such as our company, that are listed on the BM&FBOVESPA may not simultaneously trade on the Brazilian over-the-counter market. The shares of a publicly held company may also be traded privately, subject to certain limitations.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a public company to be traded in this market. The CVM requires that it be given notice of all trades carried out in the Brazilian over-the-counter market by the respective intermediaries.

Disclosure Requirements

Law No. 6,385 and CVM Instruction No. 202 require that a publicly traded company, such as our company, submit to the CVM and the BOVESPA certain periodic information, including annual and quarterly reports prepared by management and independent auditors. Law No. 6,385 and CVM Instruction No. 202 also require us to file with the CVM our shareholders' agreements, notices of shareholders' meetings and copies of the minutes of these meetings.

CVM Instruction No. 358, which became effective in April 2002, revised and consolidated the requirements regarding the disclosure and use of information related to material facts and acts of publicly traded companies, including the disclosure of information in the trading and acquisition of securities issued by publicly traded companies.

CVM Instruction No. 358 includes provisions that:

- establish the concept of a material fact that gives rise to reporting requirements. Material facts include decisions made by the controlling shareholders, resolutions of the general meeting of shareholders and of management of the company, or any other facts related to the company's business (whether occurring within the company or otherwise related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade such securities or to exercise any of such securities underlying rights;
- specify examples of facts that are considered to be material, which include, among others, the execution of agreements providing for the transfer of control, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;
- require the investor relations officer, controlling shareholders, other officers or directors, members of the fiscal council and other advisory boards to disclose material facts;

- require simultaneous disclosure of material facts to all markets in which the company's securities are admitted for trading;
- require the acquirer of a controlling stake in a company to publish material facts, including its intentions as to whether or not to de-list the company's shares, within one year;
- establish rules regarding disclosure requirements in the acquisition and disposal of a material shareholding stake; and
- prohibit trading on the basis of material non-public information.

Brazilian regulations also require that any person or group of persons representing the same interest that has directly or indirectly acquired an interest corresponding to 5% of a type or class of shares of a publicly traded company must provide such publicly traded company with information on such acquisition and its purpose, and such company must transmit this information to the CVM. If this acquisition causes a change in the control of the company or in the administrative structure of the company, or if this acquisition triggers the obligation to make a public offering in accordance with CVM Instruction No. 361, as amended, then the acquirer must disclose this information to the applicable stock exchanges and the appropriate Brazilian newspapers.

Recent Regulatory Developments

On July 13, 2007, the CVM issued CVM Rule No. 457 to require listed companies to publish consolidated financial statements prepared in accordance with IFRS beginning with the fiscal year ending December 31, 2010.

On December 28, 2007, Law No. 11,638 was enacted and amended numerous provisions of the Brazilian Securities Law and the Brazilian Corporation Law relating to accounting principles and authority to issue accounting standards. Law No. 11,638 sought to enable greater convergence between Brazilian GAAP and IFRS. To promote convergence, Law No. 11,638 modified certain accounting principles of the Brazilian Corporation Law and mandated the CVM to issue accounting rules conforming to the accounting standards adopted in international markets. In December 2008, the CVM issued Deliberation No. 565 implementing these changes in accounting policies. Additionally, Law No. 11,638 acknowledged a role in the setting of accounting standards for the Committee for Accounting Pronouncements (*Comitê de Pronunciamentos Contábeis*), or CPC, which is a committee of officials from the BM&FBOVESPA, industry representatives and academic bodies that has issued accounting guidance and pursued the improvement of accounting standards in Brazil. Law No. 11,638 permits the CVM and the Brazilian Central Bank to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

On December 11, 2008, the CVM issued CVM Resolution No. 560 which requires a company listed on the BM&FBOVESPA to disclose all the benefits granted to its employees and managers, including any benefits paid to such employees and managers due to their ownership of shares or other securities of the listed company.

Trading on the BM&FBOVESPA

Overview of the BM&FBOVESPA

In 2000, the *Bolsa de Valores de São Paulo S.A.* (BVSP (the São Paulo Stock Exchange)), or the BOVESPA, was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Following this reorganization, the BOVESPA was a non-profit entity owned by its member brokerage firms and trading on the BOVESPA was limited to these member brokerage firms and a limited number of authorized nonmembers. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

In August 2007, BOVESPA underwent a corporate restructuring that resulted in the creation of BOVESPA Holding S.A., a public corporation, whose wholly-owned subsidiaries were (1) the BOVESPA, which was responsible for the operations by the stock exchange and the organized over-the-counter markets, and (2) the

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Companhia Brasileira de Liquidação e Custódia (the Brazilian Settlement and Custodial Company, or CBLC), which was responsible for settlement, clearing and depositary services. In the corporate restructuring, all holders of membership certificates of the BOVESPA and of shares of CBLC became shareholders of BOVESPA Holding S.A. As a result of the corporate restructuring, access to the trading and other services rendered by the BOVESPA is not conditioned on stock ownership in BOVESPA Holding S.A.

In May 2008, the BOVESPA merged with the *Bolsa de Mercadorias & Futuros* (Commodities and Futures Exchange) to form the BM&FBOVESPA. In November 2008, the CBLC merged with the BM&FBOVESPA. As a result, the BOVESPA now performs its own settlement, clearing and depositary services.

Trading and Settlement

Trading of equity securities on the BM&FBOVESPA is conducted through an electronic trading system called Megabolsa every business day from 10:00 a.m. to 5:00 p.m., São Paulo time (or during daylight savings time in the U.S. from 11:00 a.m. to 6:00 p.m., São Paulo time). Trading of equity securities on the BM&FBOVESPA is also conducted between 5:45 p.m. and 7:00 p.m., São Paulo time (or during daylight savings time in the U.S. from 6:45 p.m. to 8:00 p.m., São Paulo time), in an after-market system connected to both traditional brokerage firms and brokerage firms operating on the internet. This after-market trading is subject to regulatory limits on price volatility of securities and on the volume of shares traded by investors operating on the internet.

Since March 2003, market making activities have been allowed on the BM&FBOVESPA, although there are no specialists or market makers for our shares on the BM&FBOVESPA. Trading in securities listed on the BM&FBOVESPA may be effected off the exchange in the unorganized over-the-counter market under certain circumstances, although such trading is very limited.

The trading of securities of a company on the BM&FBOVESPA may be suspended at the request of a company in anticipation of the announcement of a material event. A requesting company must also suspend trading of its securities on international stock exchanges on which its securities are traded. The CVM and the BM&FBOVESPA have discretionary authority to suspend trading in shares of a particular issuer, based on or due to a belief that, among other reasons, a company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the BM&FBOVESPA.

In order to reduce volatility, the BM&FBOVESPA has adopted a circuit breaker mechanism under which trading sessions may be suspended for a period of 30 minutes or one hour whenever the Ibovespa index falls 10% or 15%, respectively, compared to the closing of the previous trading session.

Settlement of transactions on the BM&FBOVESPA is effected three business days after the trade date, without adjustment of the purchase price for inflation. Delivery of and payment for shares is made through the facilities of the clearing and settlement chamber of the BM&FBOVESPA. The seller is ordinarily required to deliver shares to the clearing and settlement chamber of the BM&FBOVESPA on the second business day following the trade date.

Market Size

Although the Brazilian equity market is Latin America's largest in terms of market capitalization, it is smaller, more volatile and less liquid than the major U.S. and European securities markets. Moreover, the BM&FBOVESPA is significantly less liquid than the NYSE or other major exchanges in the world.

As of December 31, 2008, the aggregate market capitalization of all companies listed on the BM&FBOVESPA was equivalent to approximately R\$1,375.3 billion (US\$588.5 billion), the 10 largest companies listed on the BM&FBOVESPA represented approximately 52% of the total market capitalization of all listed companies and we accounted for approximately 0.2% of the market capitalization of all listed companies on the BM&FBOVESPA. By comparison, as of December 31, 2008, the aggregate market capitalization of the companies (including U.S. and non-U.S. companies) listed on the NYSE was approximately US\$14.3 trillion and the 10 largest companies listed on the NYSE represented approximately 14.6% of the total market capitalization of all listed companies. The average

daily trading volume of the BM&FBOVESPA and NYSE for 2008 was approximately R\$7.1 billion (US\$3.1 billion) and US\$152.6 billion, respectively.

Although any of the outstanding shares of a listed company may trade on the BM&FBOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, governmental entities or one principal shareholder that rarely trade their shares. For this reason, data showing the total market capitalization of the BM&FBOVESPA tends to overstate the liquidity of the Brazilian equity market. The relative volatility and illiquidity of the Brazilian equity markets may substantially limit your ability to sell our class A preferred shares at the time and price you desire and, as a result, could negatively impact the market price of these securities.

Regulation of Foreign Investments

Trading on the BM&FBOVESPA by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, or a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment regulations. With limited exceptions, non-Brazilian holders may trade on the BM&FBOVESPA only in accordance with the requirements of Resolution No. 2,689 of the National Monetary Council. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions that are authorized by the Central Bank and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on the BM&FBOVESPA or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through private transactions. See Item 10. Additional Information Exchange Controls Resolution 2,689 for further information about Resolution 2,689, and Item 10. Additional Information Taxation Brazilian Tax Considerations Taxation of Gains in Brazil for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

BM&FBOVESPA Corporate Governance Standards

In December 2000, the BM&FBOVESPA introduced three special listing segments:

- Level 1 of Differentiated Corporate Governance Practices;
- Level 2 of Differentiated Corporate Governance Practices; and
- The *Novo Mercado* (New Market).

These special listing segments were designed for the trading of shares issued by companies that voluntarily undertake to abide by corporate governance practices and disclosure requirements in addition to those already required by Brazilian law. The inclusion of a company in any of the special listing segments requires adherence to a series of corporate governance rules. These rules were designed to increase shareholders rights and enhance the quality of information provided to shareholders.

The entry of a company into any one of the special listing segments of the BM&FBOVESPA occurs through the signing of an agreement that obliges the company to abide by the rules of corporate governance established in the regulations for the relevant level.

Our shares joined Level 1 of Differentiated Corporate Governance Practices on February 13, 2003. As a Level 1 company, we must, among other things:

- ensure that shares representing 25% of our total share capital are effectively available for trading;
- adopt offering procedures that favor widespread ownership of shares whenever we make a public offering;
- comply with minimum quarterly disclosure standards, including issuing consolidated financial information, a cash flow statement, and special audit revisions on a quarterly basis;

- follow stricter disclosure policies with respect to contracts with related parties, material contracts and transactions involving our securities made by our controlling shareholders, directors or executive officers;
- make a schedule of corporate events available to our shareholders; and
- hold public meetings with analysts and investors at least annually.

ITEM 10. ADDITIONAL INFORMATION

Description of Our Company's By-laws

The following is a summary of the material provisions of our by-laws and of the Brazilian Corporation Law. In Brazil, a company's by-laws (*estatuto social*) is the principal governing document of a corporation (*sociedade anônima*).

General

Our registered name is Braskem S.A., and our registered office is located in the Municipality of Camaçari, State of Bahia, Brazil. Our registration number with the Brazilian Commercial Registry is No. 29300006939. We have been duly registered with the CVM under No. 4820 since December 18, 1978. Our principal place of business is in the Municipality of Camaçari, State of Bahia, Brazil. Our company has a perpetual existence.

At July 7, 2009, we had outstanding share capital of R\$5,473,180,912.45, equal to 520,928,154 total shares consisting of 190,462,446 common shares, 329,871,890 class A preferred shares and 593,818 class B preferred shares, including 1,506,060 class A preferred shares held in treasury. All of our share capital is fully paid. All of our shares are without par value. Under the Brazilian Corporation Law, the aggregate number of our non-voting and limited voting class A and class B preferred shares may not exceed two-thirds of our total outstanding share capital.

Corporate Purposes

Article 2 of our by-laws establishes our corporate purposes to include:

- the manufacture, trading, import and export of chemical and petrochemical products;
- the production of utilities for use by component companies of the Northeastern Complex, including the supply of steam, water, compressed air, industrial gases, electric power, as well as the provision of various services to these companies;
- the holdings of equity stakes (quotas or shares) in other companies; and
- the manufacture, distribution, sale, import and export of gasoline, diesel oil, LPG and other oil derivatives.

Board of Directors

Under the Brazilian Corporation Law, any matters subject to the approval of our board of directors can be approved by a simple majority of votes of the members present at a duly convened meeting, unless our by-laws otherwise specify. Under our by-laws, our board of directors may only deliberate if a majority of its members are present at a duly convened meeting. Any resolutions of our board of directors may be approved by the affirmative vote of a majority of the members present at the meeting, subject to veto rights of Petrobras and Petroquisa, over resolutions of our board of directors relating to certain matters under the Petrobras Shareholders' Agreement. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders' Shareholders' Agreements Petrobras Shareholders' Agreement.

Election of Directors

The majority of the members of our board of directors are elected by the Odebrecht Group. In addition, any director appointed by a shareholder pursuant to a shareholders agreement is bound by the terms of such agreement. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders Shareholders Agreements.

The members of our board of directors are elected at general meetings of shareholders for concurrent two-year terms.

Qualification of Directors

The Brazilian Corporation Law requires members of our board of directors to own shares of our company. However, there is no minimum share ownership or residency requirement to qualify for membership on our board of directors. Our by-laws do not require the members of our board of directors to be resident in Brazil. The Brazilian Corporation Law requires each of our executive officers to be residents of Brazil.

Fiduciary Duties and Conflicts of Interest

All members of our board of directors and their alternates owe fiduciary duties towards us and all of our shareholders.

Under the Brazilian Corporation Law, if one of our directors, their alternates or our executive officers has a conflict of interest with our company in connection with any proposed transaction, such director, alternate director or executive officer may not vote in any decision of our board of directors or of our board of executive officers, as the case may be, regarding such transaction and must disclose the nature and extent of his conflicting interest for inclusion in the minutes of the applicable meeting. However, if one of our directors is absent from a meeting of our board of directors, that director's alternate may vote even if that director has a conflict of interest, unless the alternate director shares that conflict of interest or has another conflict of interest.

Any transaction in which one of our directors (including the alternate members) or executive officers may have an interest, including any financings, can only be approved on reasonable and fair terms and conditions that are no more favorable than the terms and conditions prevailing in the market or offered by third parties. If any such transaction does not meet this requirement, then the Brazilian Corporation Law provides that the transaction may be nullified and the interested director or executive officer must return to us any benefits or other advantages that he obtained from, or as result of, such transaction. Under the Brazilian Corporation Law and upon the request of a shareholder who owns at least 5.0% of our total share capital, our directors and executive officers must reveal to our shareholders at an ordinary meeting of our shareholders certain transactions and circumstances that may give rise to a conflict of interest. In addition, our company or shareholders who own 5.0% or more of our share capital may bring an action for civil liability against directors and executive officers for any losses caused to us as a result of a conflict of interest.

Compensation

Under our by-laws, our common shareholders approve the aggregate compensation payable to our directors, executive officers and members of our fiscal council. Subject to this approval, our board of directors establishes the compensation of its members and of our executive officers. See Item 6. Directors, Senior Management and Employees Compensation.

Mandatory Retirement

Neither the Brazilian Corporation Law nor our by-laws establish any mandatory retirement age for our directors or executive officers.

Share Capital

Under the Brazilian Corporation Law, the number of our issued and outstanding non-voting shares or shares with limited voting rights, such as our class A preferred shares and class B preferred shares, may not exceed two-thirds of our total outstanding share capital.

Each of our common shares entitles its holder to one vote at our annual and extraordinary shareholders meetings. Holders of our common shares are not entitled to any preference in respect of our dividends or other distributions or otherwise in case of our liquidation.

Our class A preferred shares and class B preferred shares are non-voting, except in limited circumstances, and have priority over our common shares in the case of our liquidation. See [Voting Rights](#) for information regarding the voting rights of our preferred shares, [Liquidation](#) for information regarding the liquidation preferences of our preferred shares, and [Item 8. Financial Information Dividends and Dividend Policy Calculation of Adjusted Net Profits and Dividend Preference of Preferred Shares](#) for information regarding the distribution preferences of our preferred shares.

Shareholders Meetings

Under the Brazilian Corporation Law, we must hold an annual shareholders meeting by April 30 of each year in order to:

- approve or reject the financial statements approved by our board of directors and board of executive officers, including any recommendation by our board of directors for the allocation of net profits and distribution of dividends;
- elect members of our board of directors (upon expiration of their two-year term) and members of our fiscal council, subject to the right of minority shareholders to elect members of our board of directors and our fiscal council; and
- approve any monetary adjustment to our share capital.

In addition to the annual shareholders meetings, holders of our common shares have the power to determine any matters related to changes in our corporate purposes and to pass any resolutions they deem necessary to protect and enhance our development whenever our interests so require, by means of extraordinary shareholders meetings.

Under the Brazilian Corporation Law, the holders of our common shares have the power, among other powers, to vote at shareholders meetings to:

- amend our by-laws;
- approve any capital increase in excess of the amount of our authorized capital;
- approve any capital reduction;
- accept or reject the valuation of assets contributed by any of our shareholders in exchange for the issuance of our share capital;
- suspend the rights of any of our shareholders in default of their obligations established by law or by our by-laws;
- authorize the issuance of convertible debentures;
- approve any reorganization of our legal form or any merger, consolidation or spin-off involving us;

- authorize our dissolution and liquidation, the election and dismissal of liquidators appointed in connection with any dissolution or liquidation of our company, and the examination of the liquidators' accounts;
- participate in a centralized group of companies (as defined under the Brazilian Corporation Law);
- approve the aggregate compensation payable to our directors and executive officers; and
- authorize management to declare us insolvent or bankrupt and to request a *concordata* (a procedure involving our protection from our creditors similar in many respects to a reorganization under the U.S. Bankruptcy Code).

We convene our shareholders' meetings, including our annual shareholders' meeting, by publishing a notice in *Diário Oficial do Estado da Bahia*, in at least one additional newspaper designated by our shareholders with general circulation in Bahia, where we maintain our registered office, and in at least one newspaper with general circulation in the City of São Paulo, where the BM&FBOVESPA, the principal securities market for our shares, is located. On the first call of any meeting, the notice must be published no fewer than three times, beginning at least 15 calendar days prior to the scheduled meeting date. The notice must contain the meeting's place, date, time, agenda and, in the case of a proposed amendment to our by-laws, a description of the subject matter of the proposed amendment.

Our board of directors may convene a shareholders' meeting. Under the Brazilian Corporation Law, shareholders' meetings also may be convened by our shareholders as follows:

- by any of our shareholders if, under certain circumstances set forth in the Brazilian Corporation Law, our directors do not convene a shareholders' meeting within 60 days;
- by shareholders holding at least 5.0% of our total share capital if, after a period of eight days, our directors fail to call a shareholders' meeting that has been requested by such shareholders; and
- by shareholders holding at least 5.0% of either our total voting share capital or our total non-voting share capital, if after a period of eight days, our directors fail to call a shareholders' meeting for the purpose of appointing a fiscal council that has been requested by such shareholders.

In addition, our fiscal council may convene a shareholders' meeting if our board of directors does not convene an annual shareholders' meeting within 30 days or at any other time to consider any urgent and serious matters.

Each shareholders' meeting is presided over by a president and secretary elected by the shareholders present at the meeting. A shareholder may be represented at a shareholders' meeting by an attorney-in-fact appointed by the shareholder not more than one year before the meeting. The attorney-in-fact must be a shareholder, a member of our board of directors, a lawyer or a financial institution, and the power of attorney appointing the attorney-in-fact must comply with certain formalities set forth under Brazilian law. To be admitted to a shareholders' meeting, a person must produce proof of his or her shareholder status or a valid power of attorney.

In order for a valid action to be taken at a shareholders' meeting, shareholders representing at least 25% of our issued and outstanding voting share capital must be present on first call. However, shareholders representing at least two-thirds of our issued and outstanding voting share capital must be present at a shareholders' meeting called to amend our by-laws. If a quorum is not present, our board of directors may issue a second call by publishing a notice as described above at least eight calendar days prior to the scheduled meeting. The quorum requirements do not apply to a meeting held on the second call, and the shareholders' meetings may be convened with the presence of shareholders representing any number of shares (subject to the voting requirements for certain matters described below). A shareholder without a right to vote may attend a shareholders' meeting and take part in the discussion of matters submitted for consideration.

Voting Rights

Under the Brazilian Corporation Law and our by-laws, each of our common shares entitles its holder to one vote at our shareholders meetings. Our preferred shares generally do not confer voting rights, except in the limited circumstances described below. We may not restrain or deny any voting rights without the consent of the majority of the shares affected. Whenever the shares of any class of share capital are entitled to vote, each share is entitled to one vote.

Voting Rights of Common Shares

Except as otherwise provided by law, resolutions of a shareholders meeting are passed by a simple majority vote of the holders of our common shares present or represented at the meeting, without taking abstentions into account. Under the Brazilian Corporation Law, the approval of shareholders representing at least a majority of our voting shares is required for the types of action described below, as well as, in the case of the first and second bullet points below, ratification by the majority of issued and outstanding shares of the affected class within one year from the shareholders meeting:

- creating preferred shares or disproportionately increasing an existing class of our preferred shares relative to the other classes of our preferred shares, other than to the extent permitted by our by-laws;
- changing a priority, preference, right, privilege or condition of redemption or amortization of any class of our preferred shares or creating a new class of preferred shares that has a priority, preference, right, condition or redemption or amortization superior to an existing class of our preferred shares;
- reducing the mandatory dividend set forth in our bylaws;
- changing our corporate purpose;
- merging our company with another company, or consolidating our company, subject to the conditions set forth in the Brazilian Corporation Law;
- transferring all of our shares to another company, known as an *incorporação de ações* under the Brazilian Corporation Law;
- participating in a centralized group of companies as defined under the Brazilian Corporation Law and subject to the conditions set forth in the Brazilian Corporation Law;
- dissolving or liquidating our company or canceling any ongoing liquidation of our company;
- creating any participation certificates entitling the holders thereof to participate in the profits of our company; and
- spinning-off of all or any part of our company.

Decisions on the transformation of our company into another form of company require the unanimous approval of our shareholders, including the holders of our class A and class B preferred shares.

Our company is required to give effect to shareholders agreements that contain provisions regarding the purchase or sale of our shares, preemptive rights to acquire our shares, the exercise of the right to vote our shares or the power to control our company, if these agreements are filed with our headquarters in Camaçari. Brazilian Corporation Law obligates the president of any shareholder or board of directors meeting to disregard any vote taken by any of the parties to any shareholders agreement that has been duly filed with our company that violates the provisions of any such agreement. In the event that a shareholder that is party to a shareholders agreement (or a director appointed by such shareholder) is absent from any shareholders or board of directors meeting or abstains

from voting, the other party or parties to that shareholders agreement have the right to vote the shares of the absent or abstaining shareholder (or on behalf of the absent director) in compliance with that shareholders agreement.

Under the Brazilian Corporation Law, neither our by-laws nor actions taken at a shareholders meeting may deprive any of our shareholders of certain specific rights, including:

- the right to participate in the distribution of our profits;
- the right to participate in any remaining residual assets in the event of our liquidation;
- the right to supervise the management of our corporate business as specified in the Brazilian Corporation Law;
- the right to preemptive rights in the event of an issuance of our shares, debentures convertible into our shares or subscription bonuses, other than with respect to a public offering of our securities; and
- the right to withdraw from our company under the circumstances specified in the Brazilian Corporation Law.

Voting Rights of Minority Shareholders

Shareholders holding shares representing not less than 10% of our shares entitled to vote at our shareholders meeting have the right to request that we adopt a cumulative voting procedure. If the cumulative voting procedure is adopted, our controlling shareholders always retain the right to elect at least one member more than the number of members elected by the other shareholders, regardless of the total number of members of our board of directors. This procedure must be requested by the required number of shareholders at least 48 hours prior to a shareholders meeting.

Under the Brazilian Corporation Law, shareholders that are not controlling shareholders, but that together hold either:

- non-voting preferred shares representing at least 10% of our total share capital; or
- common shares representing at least 15% of our voting capital,

have the right to appoint one member and an alternate to our board of directors at our annual shareholders meeting. If no group of our common or preferred shareholders meets the thresholds described above, shareholders holding preferred shares or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. In the event that minority holders of common shares and/or holders of non-voting preferred shares elect a director and the cumulative voting procedures described above are also used, our controlling shareholders always retain the right to elect at least one member more than the number of members elected by the other shareholders, regardless of the total number of members of our board of directors. The shareholders seeking to exercise these minority rights must prove that they have held their shares for not less than three months preceding the shareholders meeting at which the director will be appointed. Any directors appointed by the non-controlling shareholders have the right to veto for cause the selection of our independent registered public accounting firm.

In accordance with the Brazilian Corporation Law, the holders of preferred shares without voting rights or with restricted voting rights are entitled to elect one member and an alternate to our fiscal council in a separate election. Minority shareholders have the same right as long as they jointly represent 10% or more of the voting shares. The other shareholders with the right to vote may elect the remaining members and alternates, who, in any event, must number more than the directors and alternates elected by the holders of the non-voting preferred shares and the minority shareholders.

Voting Rights of Preferred Shares

Holders of our preferred shares are not entitled to vote on any matter, except with respect to the election of a member of our board of directors by preferred shareholders holding at least 10% of our total share capital, the election of a member of the fiscal council and in the limited circumstances described above and as provided below.

The Brazilian Corporation Law and our by-laws provide that our preferred shares will acquire unrestricted voting rights after the third consecutive fiscal year that we fail to pay the minimum dividends to which our preferred shares are entitled. This voting right will continue until the past due minimum dividend for any year in that three consecutive-year period is paid in full. Our preferred shareholders will also obtain unrestricted voting rights if we enter into a liquidation process.

Liquidation

We may be liquidated in accordance with the provisions of Brazilian law. In the event of our extrajudicial liquidation, a shareholders meeting will determine the manner of our liquidation, appoint our liquidator and our fiscal council that will function during the liquidation period.

Upon our liquidation, our preferred shares have a liquidation preference over our common shares in respect of the distribution of our net assets. In the event of our liquidation, the assets available for distribution to our shareholders would be distributed first to our preferred shareholders in an amount equal to their pro rata share of our legal capital, prior to making any distributions to our common shareholders. If the assets to be so distributed are insufficient to fully compensate our preferred shareholders for their legal capital, each of our preferred shareholders would receive a *pro rata* amount (based on their *pro rata* share of our legal capital, excluding our common shares in such calculation) of any assets available for distribution.

Conversion Rights

Under our by-laws, the general shareholders meeting may authorize the conversion of our preferred class A shares into common shares by means of the affirmative vote of shareholders representing the majority of our common shares, which will establish:

- the number of shares to be converted;
- the ratio of any such conversion; and
- the term during which any conversion must be performed.

Holders of our class B preferred shares are not permitted to convert their shares into common shares, but any such holder is permitted by our by-laws to convert its shares into our class A preferred shares. The ratio for any such conversion is two class B preferred shares for each class A preferred share.

Preemptive Rights

Under the Brazilian Corporation Law, each of our shareholders has a general preemptive right to subscribe for our shares or securities convertible into our shares in any capital increase, in proportion to the number of our shares held by such shareholder. However, under our by-laws, the holders of our class B preferred shares do not have preemptive rights. In the event of a capital increase that would maintain or increase the proportion of our capital represented by our class A preferred shares, holders of our class A preferred shares would have preemptive rights to subscribe to newly issued class A preferred shares only. In the event of a capital increase that would reduce the proportion of our capital represented by our class A preferred shares, holders of our preferred shares would have preemptive rights to subscribe to any new class A preferred shares in proportion to the number of our shares that they hold, and to our common shares only to the extent necessary to prevent dilution of their interests in our total capital.

Under our by-laws, except when issuing voting shares or securities convertible into voting shares, our board of directors or our shareholders, as the case may be, may decide to reduce the term of preemptive rights or not to extend preemptive rights to our shareholders with respect to any issuance of our non-voting shares, debentures convertible into our shares or warrants made in connection with a public exchange made to acquire control of another company or in connection with a public offering or through a stock exchange. The preemptive rights are transferable and must be exercised within a period of at least 30 days following the publication of notice of the issuance of shares or securities convertible into our shares. Holders of the ADSs may not be able to exercise the preemptive rights relating to our class A preferred shares underlying their 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.

Redemption, Amortization, Tender Offers and Rights of Withdrawal

Our by-laws or our shareholders at a shareholders meeting may authorize us to use our profits or reserves to redeem or amortize our shares in accordance with conditions and procedures established for such redemption or amortization. The Brazilian Corporation Law defines redemption (*resgate de ações*) as the payment of the value of the shares in order to permanently remove such shares from circulation, with or without a corresponding reduction of our share capital. The Brazilian Corporation Law defines amortization (*amortização*) as the distribution to the shareholders, without a corresponding capital reduction, of amounts that they would otherwise receive if we were liquidated. If an amortization distribution has been paid prior to our liquidation, then upon our liquidation, the shareholders who did not receive an amortization distribution will have a preference equal to the amount of the amortization distribution in the distribution of our capital.

The Brazilian Corporation Law authorizes us to redeem shares not held by our controlling shareholders, if, after a tender offer effected as a consequence of delisting or a substantial reduction in the liquidity of our shares, our controlling shareholders increase their participation in our total share capital to more than 95%. The redemption price in such case would be the same price paid for our shares in any such tender offer.

The Brazilian Corporation Law and our by-laws also require the acquiror of control (in case of a change of control) or the controller (in case of delisting or a substantial reduction in liquidity of our shares) to make a tender offer for the acquisition of the shares held by minority shareholders under certain circumstances described below under Mandatory Tender Offers. The shareholder can also withdraw its capital from our company under certain circumstances described below under Rights of Withdrawal.

Mandatory Tender Offers

The Brazilian Corporation Law requires as a condition for the cancelation of our registration as a publicly-held company that we or our controlling shareholders effect a tender offer for the acquisition of all our outstanding shares at a purchase price equal to the fair value of our shares. The Brazilian Corporation Law also requires that, if there is a substantial reduction in liquidity of a determined type or class of our shares, as defined by the CVM, as a result of purchases by our controlling shareholders, our controlling shareholders effect a tender offer for the acquisition of our remaining outstanding shares of that determined type or class at a purchase price equal to the fair value of our shares.

Our by-laws provide that all of our shares, including our class A preferred shares, would be entitled to such tag-along rights in the event that the control of our company is transferred, with all shares receiving the same price per share paid to the controlling shareholders. If our controlling shareholders enter into a transaction which results in a change of control of our company, the controlling shareholders must include in the documentation of the transaction an obligation to effect a public offer for the purchase of all our common shares and preferred shares for the same price per share paid to the controlling shareholders. The tender offer must be submitted to the CVM within 30 days from the date of execution of the documents that provide for the change of control.

Our by-laws provide that no change of control will be deemed to occur if the party acquiring control is an existing member of the block of controlling shareholders and/or a signatory to an agreement among our shareholders

governing the exercise of rights over the shares held by the controlling shareholders. Our by-laws also provide that the tag-along right will not apply in the event that the change of control occurs as a result of:

- a court ruling or act, such as a judicial seizure or execution; or
- a final decision by regulatory authorities, including CADE, that obliges our controlling shareholders to divest all or part of their shares in our company.

Rights of Withdrawal

The Brazilian Corporation Law provides that, in certain limited circumstances, a dissenting shareholder may withdraw its equity interest from our company and be reimbursed by us for the value of our common or preferred shares that it then holds.

This right of withdrawal may be exercised by the holders of the adversely affected common or preferred shares if we decide:

- to create a new class of our preferred shares with greater privileges than the existing classes of our preferred shares;
- to increase an existing class of our preferred shares relative to the other classes of our preferred shares (unless such actions are provided for or authorized by our by-laws); or
- to modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of our preferred shares.

In addition, holders of our common and preferred shares may exercise their right of withdrawal if we decide to undertake any of the following actions:

- to merge with another company or to consolidate with another company in a transaction in which our company is not the surviving entity;
- to transfer all of our shares to another company or to acquire all of the shares of another company (*incorporação de ações*);
- to participate in a centralized group of companies as defined under the Brazilian Corporation Law;
- to reduce the mandatory distribution of dividends;
- to change our corporate purposes; or
- to spin-off a portion of our company.

Only shareholders who own shares on the date of publication of the first notice convening the relevant shareholders' meeting or the press release concerning the relevant shareholders' meeting is published, whichever is earlier, will be entitled to withdrawal rights.

Shareholders will not be entitled to this right of withdrawal if the shares of the entity resulting from a merger, incorporation, consolidation of our company or participation of our company in a group of companies have minimal market liquidity and are dispersed among a sufficient number of shareholders. For this purpose, shares that are part of general indices representative of portfolios of securities traded in Brazil or abroad are considered liquid, and sufficient dispersion will exist if the controlling shareholder holds less than half of the class and type of the outstanding shares. In case of a spin-off, the right of withdrawal will only exist if there is a significant change in the corporate purpose or a reduction in the mandatory dividend.

The redemption of shares arising out of the exercise of any withdrawal rights would be made at book value per share, determined on the basis of their most recent audited balance sheet approved by our dissenting shareholders. However, if the shareholders' meeting approving the action that gave rise to withdrawal rights occurred more than 60 days after the date of the most recent approved audited balance sheet, a shareholder may demand that its shares be valued on the basis of a balance sheet prepared specifically for this purpose. The right of withdrawal lapses 30 days after the date of publication of the minutes of the shareholders' meeting that approved one of the matters described above. Our shareholders may reconsider any resolution giving rise to withdrawal rights within 10 days following the expiration date for such rights if we believe that the withdrawal of shares of dissenting shareholders would jeopardize our financial stability.

Liability of Our Shareholders for Further Capital Calls

Neither Brazilian law nor our by-laws require any capital calls. Our shareholders' liability for capital calls is limited to the payment of the issue price of any shares subscribed or acquired.

Inspection of Corporate Records

Shareholders that own 5.0% or more of our outstanding share capital have the right to inspect our corporate records, including shareholders lists, corporate minutes, financial records and other documents of our company, if (1) we or any of our officers or directors have committed any act contrary to Brazilian law or our by-laws or (2) there are grounds to suspect that there are material irregularities in our company. However, in either case, the shareholder that desires to inspect our corporate records must obtain a court order authorizing the inspection.

Disclosures of Share Ownership

Brazilian regulations require that (1) each of our controlling shareholders, directly or indirectly, (2) shareholders who have elected members of our board of directors, and (3) any person or group of persons representing a person that has directly or indirectly acquired or sold an interest corresponding to at least 5% of the total number of our shares of any type or class to disclose its or their share ownership or divestment to the CVM and to the BM&FBOVESPA. In addition, a statement (*fato relevante*) containing certain required information must be published in the *Diário Oficial do Estado da Bahia*, at least one additional newspaper designated by our shareholders with wide circulation in Bahia, and in at least one newspaper with general circulation in the City of São Paulo, where the BM&FBOVESPA, the principal securities market for our shares, is located.

Our controlling shareholders, shareholders that appoint members of our board of directors or fiscal council and members of our board of directors, board of executive officers or fiscal council must file a statement of any change in their holdings of our shares with the CVM and the Brazilian stock exchanges on which our securities are traded.

Form and Transfer

Our preferred shares and common shares are in book-entry form, registered in the name of each shareholder or its nominee. The transfer of our shares is governed by Article 35 of the Brazilian Corporation Law, which provides that a transfer of shares is effected by our transfer agent, Banco Itaú S.A., by an entry made by the transfer agent in its books, upon presentation of valid written share transfer instructions to us by a transferor or its representative. When preferred shares or common shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on the records of our transfer agent by a representative of a brokerage firm or the stock exchange's clearing system. The transfer agent also performs all the services of safe-keeping of our shares. Transfers of our shares by a non-Brazilian investor are made in the same manner and are executed on the investor's behalf by the investor's local agent. If the original investment was registered with the Central Bank pursuant to foreign investment regulations, the non-Brazilian investor is also required to amend, if necessary, through its local agent, the electronic certificate of registration to reflect the new ownership.

The BM&FBOVESPA operates a central clearing system. A holder of our shares may choose, at its discretion, to participate in this system, and all shares that such shareholder elects to be put into the clearing system are deposited in custody with the clearing and settlement chamber of the BM&FBOVESPA (through a Brazilian

institution that is duly authorized to operate by the Central Bank and maintains a clearing account with the clearing and settlement chamber of the BM&FBOVESPA). Shares subject to the custody of the clearing and settlement chamber of the BM&FBOVESPA are noted as such in our registry of shareholders. Each participating shareholder will, in turn, be registered in the register of the clearing and settlement chamber of the BM&FBOVESPA and will be treated in the same manner as shareholders registered in our books.

Material Contracts

We have not entered into any material contracts, other than those described elsewhere in this annual report or entered into in the ordinary course of business.

Exchange Controls

There are no restrictions on ownership or voting of our capital stock by individuals or legal entities domiciled outside Brazil. However, the right to convert dividend payments, interest on shareholders' equity payments and proceeds from the sale of our share capital into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation and foreign exchange regulations, which generally require, among other things, the registration of the relevant investment with the Central Bank and the CVM.

Investments in our class A preferred shares by (1) a holder not deemed to be domiciled in Brazil for Brazilian tax purposes, (2) a non-Brazilian holder who is registered with the CVM under Resolution No. 2,689, or (3) the depositary, are eligible for registration with the Central Bank. This registration (the amount so registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our class A preferred shares. The registered capital per class A preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per class A preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (1) the average price of a class A preferred share on the BM&FBOVESPA on the day of withdrawal, or (2) if no class A preferred shares were traded on that day, the average price on the BM&FBOVESPA in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average commercial market rates quoted by the Central Bank on these dates.

Annex V Regulations

Resolution No. 1,927 of the National Monetary Council, as amended, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADS holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs who are not resident in a tax haven jurisdiction are entitled to favorable tax treatment. See Taxation Brazilian Tax Considerations.

We pay dividends and other cash distributions with respect to our class A preferred shares in *reais*. We have obtained an electronic certificate of foreign capital registration from the Central Bank in the name of the depositary with respect to our ADSs to be maintained by the custodian on behalf of the depositary. Pursuant to this registration, the custodian is able to convert dividends and other distributions with respect to our class A preferred shares represented by ADSs into foreign currency and remit the proceeds outside Brazil to the depositary so that the depositary may distribute these proceeds to the holders of record of the ADSs.

Investors residing outside Brazil may register their investments in our shares as foreign portfolio investments under Resolution No. 2,689 (described below) or as foreign direct investments under Law No. 4,131 (described below). Registration under Resolution No. 2,689 or Law No. 4,131 generally enables non-Brazilian investors to convert dividends, other distributions and sales proceeds received in connection with registered investments into foreign currency and to remit such amounts outside Brazil. Registration under Resolution No. 2,689 affords favorable tax treatment to non-Brazilian portfolio investors who are not resident in a tax haven jurisdiction, which is

defined under Brazilian tax laws as a country that does not impose taxes or where the maximum income tax rate is lower than 20% or that restricts the disclosure of shareholder composition or ownership of investments. See [Taxation Brazilian Tax Considerations](#).

In the event that a holder of ADSs exchanges those ADSs for the underlying class A preferred shares, the holder must:

- sell the class A preferred shares on the BM&FBOVESPA and rely on the depository's electronic registration for five business days from the date of exchange to obtain and remit U.S. dollars outside Brazil upon the holder's sale of our class A preferred shares;
- convert its investment in class A preferred shares into a foreign portfolio investment under Resolution No. 2,689; or
- convert its investment in class A preferred shares into a direct foreign investment under Law No. 4,131 and obtain a certificate of foreign capital registration from the Central Bank.

The custodian is authorized to update the depository's electronic registration to reflect conversions of ADSs into foreign portfolio investments under Resolution No. 2,689.

If a holder of ADSs elects to convert its ADSs into a foreign direct investment under Law 4,131, the conversion will be effected by the Central Bank after receipt of an electronic request from the custodian with details of the transaction. If a foreign direct investor under Law No. 4,131 elects to deposit its class A preferred shares into the ADR program in exchange for ADSs, such holder will be required to present to the custodian evidence of payment of capital gains taxes. The conversion will be effected by the Central Bank after receipt of an electronic request from the custodian with details of the transaction. See [Taxation Brazilian Tax Considerations](#) for details of the tax consequences to an investor residing outside Brazil of investing in our class A preferred shares in Brazil.

If a holder of ADSs wishes to convert its investment in class A preferred shares into either a foreign portfolio investment under Resolution No. 2,689 or a foreign direct investment under Law No. 4,131, it should begin the process of obtaining its own foreign investor registration with the Central Bank or with the CVM, as the case may be, in advance of exchanging the ADSs for class A preferred shares. A non-Brazilian holder of class A preferred shares may experience delays in obtaining a foreign investor registration, which may delay remittances outside Brazil, which may in turn adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

Unless the holder has registered its investment with the Central Bank, the holder may not be able to convert the proceeds from the disposition of, or distributions with respect to, such class A preferred shares into foreign currency or remit those proceeds outside Brazil. In addition, if the non-Brazilian investor resides in a tax haven jurisdiction or is not an investor registered under Resolution No. 2,689, the investor will be subject to less favorable tax treatment than a holder of ADSs. See [Taxation Brazilian Tax Considerations](#).

Resolution 2,689

All investments made by a non-Brazilian investor under Resolution No. 2,689 are subject to an electronic registration with the Central Bank. This registration permits non-Brazilian investors to convert dividend payments, interest on shareholders' equity payments and proceeds from the sale of our share capital into foreign currency and to remit such amounts outside Brazil.

Under Resolution No. 2,689, non-Brazilian investors registered with the CVM may invest in almost all financial assets and engage in almost all transactions available to Brazilian investors in the Brazilian financial and capital markets without obtaining a separate Central Bank registration for each transaction, provided that certain requirements are fulfilled. Under Resolution No. 2,689, the definition of a non-Brazilian investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered outside Brazil.

Pursuant to Resolution No. 2,689, non-Brazilian investors must:

- appoint at least one representative in Brazil with powers to take action relating to its investments;
- appoint an authorized custodian in Brazil for its investments, which must be a financial institution duly authorized by the Central Bank and CVM;
- complete the appropriate foreign investor registration forms;
- register as a non-Brazilian investor with the CVM;
- register its investments with the Central Bank; and
- obtain a taxpayer identification number from the Brazilian federal tax authorities.

The securities and other financial assets held by a non-Brazilian investor pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM or be registered in registration, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities held under Resolution No. 2,689 is restricted to transactions carried out on stock exchanges or through organized over-the-counter markets licensed by the CVM.

The offshore transfer or assignment of the securities or other financial assets held by non-Brazilian investors pursuant to Resolution No. 2,689 are prohibited, except for transfers resulting from a corporate reorganization effected abroad by a non-Brazilian investor, or occurring upon the death of an investor by operation of law or will.

Law 4,131

To obtain a certificate of foreign capital registration from the Central Bank under Law No. 4,131, a foreign direct investor must:

- register as a foreign direct investor with the Central Bank;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint a tax representative in Brazil; and
- appoint a representative in Brazil for service of process in respect of suits based on the Brazilian Corporation Law.

Foreign direct investors under Law No. 4,131 may sell their shares in both private or open market transactions, but these investors will generally be subject to less favorable tax treatment on gains with respect to our class A preferred shares. See [Taxation](#) [Brazilian Tax Considerations](#).

Taxation

The following summary contains a description of the material Brazilian and U.S. federal income tax consequences of the purchase, ownership and disposition of class A preferred shares and ADSs, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase any such securities.

There is at present no income tax treaty between Brazil and the United States.

The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of class A preferred shares or ADSs. Prospective purchasers of our

class A preferred shares or ADSs are advised to consult their own tax advisors in respect of the consequences that the purchase, ownership or disposition of our class A preferred shares or ADS might trigger under the laws of Brazil, the United States or any other jurisdiction in light of their particular investment circumstances.

Brazilian Tax Considerations

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of class A preferred shares or ADSs by a holder that is not domiciled or resident in Brazil for purposes of Brazilian taxation and, in the case of a holder of class A preferred shares, which has registered its investment with the Central Bank, or in each case a non-Brazilian holder. The following discussion does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in any of such securities.

Acquisition of ADSs or Class A Preferred Shares

The acquisition of ADSs or class A preferred shares by non-Brazilian holders is not a taxable event in Brazil. See *Taxation of Gains Outside Brazil* for further information on the tax implications arising from the exchange of existing class A preferred shares for ADSs, as well as those arising from the exchange of ADSs for class A preferred shares.

Taxation of Dividends

Dividends paid with respect to income earned since January 1, 1996, including dividends paid in kind to the depositary in respect of our class A preferred shares underlying the ADSs or to a non-Brazilian holder in respect of class A preferred shares, are not subject to any withholding tax in Brazil.

Dividends paid from profits generated before January 1, 1996 may be subject to Brazilian withholding income tax at variable rates, according to the tax legislation applicable to each corresponding year.

Interest Attributable to Shareholders Equity

Distributions of interest attributable to our shareholders' equity in respect of our class A preferred shares or the ADSs as an alternative form of dividends are subject to Brazilian withholding tax at the rate of 15% (or 25% in the case of a non-Brazilian holder located in a tax haven jurisdiction (as defined below)). Since 1997 and in accordance with Laws Nos. 9,249/95 and 9,430/96, we may deduct these distributions in calculating the amount of the Social Contribution on Net Income and the income taxes that we owe, provided that each such distribution is approved by our shareholders in a general meeting and complies with the limits established by Brazilian tax legislation.

Taxation of Gains Outside Brazil

Until December 31, 2003, the sale or other disposition of ADSs or class A preferred shares entered into by and between non-Brazilian holders outside Brazil was not subject to Brazilian income tax, as such a transaction did not involve payments by a person located in Brazil. Brazilian Law No. 10,833/03 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 acquiror is resident or domiciled abroad, shall be responsible for the retention and payment of the income tax applicable to capital gains under Article 18 of Law 9,249 of December 26, 1995 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, pursuant to Law No. 10,833/03, these tax authorities intend to assess income tax on capital gains earned by non-Brazilian residents whose assets are located in Brazil. Holders of the ADSs outside of Brazil may have grounds to assert that Brazilian Law No. 10,833/03 does not apply to sales or other dispositions of ADSs as ADSs are not assets located in Brazil. However, the sale or other disposition of class A preferred shares abroad may be subject to the provisions of

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Brazilian Law No. 10,833/03. Any capital gains arising from sales or other dispositions outside Brazil would be subject to Brazilian income tax at the rate of 15% or 25% if the investor is located in a tax haven jurisdiction. Brazilian Law No. 10,833/03 requires the purchaser of our class A preferred shares outside Brazil or its attorney-in-fact in Brazil to withhold the tax. A disposition of class A preferred shares can only occur abroad if any investor decides to cancel its investment in ADSs and register the underlying class A preferred shares as a direct foreign investment under Law No. 4,131/62.

Taxation of Gains in Brazil

The exchange of ADSs for class A preferred shares is not subject to Brazilian tax. A holder of the ADSs may exchange its ADSs for the underlying class A preferred shares, sell the class A preferred shares on a Brazilian stock exchange and remit abroad the proceeds of the sale within five business days from the date of exchange (in reliance on the depositary's electronic registration), with no tax consequences.

Upon receipt of the underlying class A preferred shares in exchange of ADSs, a non-Brazilian investor will be entitled to register with the Central Bank the U.S. dollar value of such shares as a foreign portfolio investment under Resolution No. 2,689/00. See *Exchange Controls* and *Registered Capital*. The sale or disposition of class A preferred shares on a Brazilian stock exchange is exempt from capital gains tax, provided that such shares are held by a non-Brazilian holder as a foreign portfolio investment under Resolution No. 2,689/00. The preferential treatment afforded under Resolution 2,689 is not available to investors resident or domiciled in tax haven jurisdictions.

Upon receipt of the underlying class A preferred shares, a non-Brazilian holder is also entitled to register with the Central Bank the U.S. dollar value of such shares as a foreign direct investment under Law 4,131/62. See *Exchange Controls* and *Registered Capital*. A 15% capital gains tax is applicable to the sale or other disposition of preferred class A shares in Brazil where such shares are held by a non-Brazilian holder as a foreign direct investment and the transaction is performed outside a Brazilian stock exchange. If the non-Brazilian holder is domiciled in a tax haven jurisdiction, the income tax rate will be 25%.

If the sale or other disposition of such shares is carried out on a Brazilian stock exchange, the capital gains on the sale or disposition will be taxed at a rate of 15%. This rate applies to all transactions carried out on a Brazilian stock exchange by non-Brazilian holders regardless of whether or not they are domiciled in tax haven jurisdictions. In these transactions, the gain realized is calculated based on the amount registered with the Central Bank. As from January 1, 2005, a withholding tax of 0.005% will also be assessed on the sales price or other disposition value of shares sold or disposed of in transactions carried out on a Brazilian stock exchange. The withholding tax, to be offset against tax due on eventual capital gain, must be withheld by one of the following entities: (1) the agent receiving the sale or disposition order from the client; (2) the stock exchange responsible for registering the transactions; or (3) the entity responsible for the settlement and payment of the transactions.

The deposit of class A preferred shares in exchange for ADSs is not subject to Brazilian tax, provided that these shares are held by the non-Brazilian holder as a foreign portfolio investment under Resolution No. 2,689/00. In the event our class A preferred shares are held by the non-Brazilian holder as a foreign direct investment under Law No. 4,131/62, the deposit of these shares in exchange for ADSs is subject to payment of Brazilian capital gains tax at the rate of 15% (25% in the case of a non-Brazilian holder located in a tax haven jurisdiction).

The current preferential treatment for non-Brazilian holders of ADSs and non-Brazilian holders of class A preferred shares under Resolution No. 2,689/00 may not continue in the future.

Any exercise of preemptive rights relating to our class A preferred shares will not be subject to Brazilian taxation. Gains on the sale or assignment of preemptive rights relating to our class A preferred shares by the depositary may be subject to Brazilian taxation. Tax authorities may attempt to tax such gains even when the sale or assignment of such rights takes place outside Brazil, based on the provisions of Law No. 10,833/03. These authorities may allege that the preemptive rights relate to assets located in Brazil (the class A preferred shares) and demand payment of capital gains tax at the rate of 15% or 25% (if the beneficiary of the payments is resident of a tax haven jurisdiction). If the preemptive rights are assigned or sold in Brazil, capital gains tax will apply at a rate of 15% (25% in the case of a non-Brazilian holder located in a tax haven jurisdiction). Sales or assignments of

preemptive rights effected on Brazilian stock exchanges are exempt from income tax, provided that such preemptive rights relate to shares registered as a foreign portfolio investment under Resolution No. 2,689/00.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of class A preferred shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of class A preferred shares or ADSs.

Under Decree 6,306 of December 14, 2007, the amount in *reais* resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with the investment in our class A preferred shares or ADSs and those made under the provisions of Resolution No. 2,689/00 of the National Monetary Council) is subject to the IOF transaction tax. The IOF tax rate for most of these transactions is currently 0.38%. Foreign exchange transactions in connection with the investment in our class A preferred shares made under the provisions of Resolution No. 2,689/00 of the National Monetary Council, within a stock, securities or futures exchange environment are currently not subject to the IOF tax. Transactions of same nature performed outside stock, securities or futures exchange environment may be subject to the IOF tax at a 1.5% rate. Remittances of dividends and interest on net equity made by companies whose shares are traded on the BM&FBOVESPA to non-Brazilian holders are not subject to the IOF tax. The Minister of Finance has the legal power to increase the rate to a maximum of 25%. Any such increase will be applicable only prospectively.

IOF is also assessed on transactions executed on a stock exchange. As of the date hereof, Article 32, Paragraph 2, of Decree No. 6,306 imposes an IOF tax on such transactions at a 0% rate. The Minister of Finance is empowered to establish the applicable IOF tax rate. Under Law 8,894 of June 21, 1994, such IOF tax rate may be increased at any time to a maximum of 1.5% per day, but any such increase will only be applicable to transactions occurring after such increase becomes effective.

Until December 31, 2007, CPMF tax was levied at a rate of 0.38% on all fund transfers in connection with financial transactions in Brazil. Payments of dividends on our class A preferred shares and the ADSs were subject to the CPMF tax. However, at the end of 2007, the Brazilian Congress rejected the extension of the CPMF tax, and, as of January 1, 2008, the CPMF was extinguished. The Federal Government is considering establishing a tax with the same characteristics of CPMF, but no bill has yet been presented to Congress.

Residents of Tax Haven Jurisdictions

The general rules establish that any income, capital gains or earnings received by a beneficiary resident in a tax haven jurisdiction is subject to income tax at the rate of 25%. A tax haven is a location where no income tax is imposed or where its maximum applicable rate is lower than 20%. A country will also be deemed a tax haven if its internal laws require that the identity of shareholders or members of corporate entities organized and existing under the jurisdiction of such country be kept secret or otherwise not be disclosed. Tax benefits granted through the provisions of Resolution No. 2,689/00 and Annex V to Resolution No. 1,289/87 are not applicable to residents in a so-called tax haven jurisdiction. In this case, such investors shall be taxed according to the same rules that are applicable to Brazilian residents. Dividends are not affected by tax haven jurisdiction rules.

Registered Capital

The amount of an investment in class A preferred shares held by a non-Brazilian holder as a foreign direct investment under Law No. 4,131/02 or a foreign portfolio investment under Resolution No. 2,689/00 or in ADSs held by the depositary representing such holder, as the case may be, is eligible for registration with the Central Bank; such registration (the amount so registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on,

and amounts realized with respect to disposition of, such class A preferred shares. The registered capital for class A preferred shares purchased in the form of ADSs, or purchased in Brazil and deposited with the depository in exchange for an ADS, is equal to their purchase price in U.S. dollars paid by the purchaser. The registered capital for class A preferred shares that are withdrawn upon surrender of ADSs is the U.S. dollar equivalent of (1) the average price of our class A preferred shares on the Brazilian stock exchange on which the greatest number of such class A preferred shares was sold on the day of withdrawal, or (2) if no class A preferred shares were sold on such day, the average price of class A preferred shares that were sold in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar value of our class A preferred shares is determined on the basis of the average commercial market rates quoted by the Central Bank on such date (or, if the average price of class A preferred shares is determined under clause (2) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of our class A preferred shares).

A non-Brazilian holder of class A preferred shares may experience delays in effecting the registration of registered capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder. See Exchange Controls and Item 3. Key Information Risk Factors Risks Relating to Our Class A Preferred Shares and the ADSs.

U.S. Federal Income Tax Considerations

The following is a discussion of the material U.S. federal income tax consequences that may be relevant with respect to the acquisition, ownership and disposition of our class A preferred shares or ADSs, which are evidenced by ADRs. This description addresses only the U.S. federal income tax considerations of U.S. holders (as defined below) that will hold class A preferred shares or ADSs as capital assets. This description does not address tax considerations applicable to holders that may be subject to special tax rules, such as banks, financial institutions, insurance companies, real estate investment trusts, grantor trusts, regulated investment companies, dealers or traders in securities or currencies, tax-exempt entities, pension funds, persons that received our class A preferred shares or ADSs pursuant to an exercise of employee stock options or rights or otherwise as compensation for the performance of services, persons that will hold our class A preferred shares or ADSs as a position in a straddle or as a part of a hedging, conversion or other risk reduction transaction for U.S. federal income tax purposes, persons that have a functional currency other than the U.S. dollar, persons that will own our class A preferred shares or ADSs through partnerships or other pass through entities, holders subject to the alternative minimum tax, certain former citizens or long-term residents of the United States or holders that own (or are deemed to own) 10% or more (by voting power) of our shares.

This description does not address any state, local or non-U.S. tax consequences of the acquisition, ownership and disposition of our class A preferred shares or ADSs. Moreover, this description does not address the consequences of any U.S. federal tax other than income tax, including but not limited to the U.S. federal estate and gift taxes. This description is based on (i) the Internal Revenue Code of 1986, as amended (the Code), existing, proposed and temporary U.S. Treasury Regulations and judicial and administrative interpretations thereof, in each case as in effect and available on the date of this annual report and (ii), in part, on the representations of the depository and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms. All of the foregoing are subject to change, which change could apply retroactively and could affect the tax consequences described below.

As used below, a U.S. holder is a beneficial owner of a class A preferred share or ADS that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation organized under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if (a) a court within the United States is able to exercise primary supervision over its administration and (b) one or more U.S. persons have the authority to control all of the substantial decisions of such trust. As used below, a Non-U.S. holder is a beneficial owner of a class A preferred share or ADS that is neither a U.S. holder nor a partnership (or other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds class A preferred shares or ADSs, the tax treatment of a partner in such partnership will generally depend on the status of the

partner and the activities of the partnership. A partnership or its partners should consult their tax advisor as to its tax consequences.

The class A preferred shares will be treated as equity for U.S. federal income tax purposes. In general, for U.S. federal income tax purposes, a holder of an ADR evidencing an ADS will be treated as the beneficial owner of our class A preferred shares represented by the applicable ADS. The U.S. Treasury Department has expressed concern that depositaries for ADSs, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of U.S. foreign tax credits by U.S. holders of such receipts or shares. Accordingly, the analysis regarding the availability of a U.S. foreign tax credit for Brazilian taxes and sourcing rules described below could be affected by future actions that may be taken by the U.S. Treasury Department.

Taxation of Dividends

Subject to the discussion under *Passive Foreign Investment Company Rules*, in general, the gross amount of a distribution made with respect to a class A preferred share or ADS (which for this purpose shall include distributions of interest attributable to shareholders' equity before any reduction for any Brazilian taxes withheld therefrom) will, to the extent made from the current or accumulated earnings and profits of our company, as determined under U.S. federal income tax principles, constitute a dividend to a U.S. holder for U.S. federal income tax purposes. For taxable years beginning on or before December 31, 2010, non-corporate U.S. holders may be taxed on dividends from a qualified foreign corporation at the lower rates applicable to long-term capital gains (*i.e.*, gains with respect to capital assets held for more than one year). A foreign corporation is treated as a qualified foreign corporation with respect to dividends received from that corporation on shares or ADSs that are readily tradable on an established securities market in the United States. U.S. Treasury Department guidance indicates that the ADSs (which are listed on the NYSE), but not our class A preferred shares, are readily tradable on an established securities market in the United States. Thus, subject to the discussion below under *Passive Foreign Investment Company Rules*, dividends that we pay on the ADS, but not on our class A preferred shares, currently meet the conditions required for these reduced tax rates. There, however, can be no assurance that the ADSs will be considered readily tradable on an established securities market in later years. Furthermore, a U.S. holder's eligibility for such preferential rate is subject to certain holding period requirements and the non-existence of certain risk reduction transactions with respect to the ADSs. Such dividends will not be eligible for the dividends received deduction generally allowed to corporate U.S. holders. Subject to the discussion below under *Passive Foreign Investment Company Rules*, if a distribution exceeds the amount of our company's current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's tax basis in our class A preferred share or ADS on which it is paid and thereafter as capital gain. Our company does not maintain calculations of our earnings and profits under U.S. federal income tax principles. Therefore, U.S. holders should expect that distributions by our Company generally will be treated as dividends for U.S. federal income tax purposes.

A dividend paid in *reais* will be includible in the income of a U.S. holder at its value in U.S. dollars calculated by reference to the prevailing spot market exchange rate in effect on the day it is received by the U.S. holder in the case of our class A preferred shares or, in the case of a dividend received in respect of ADSs, on the date the dividend is received by the depositary, whether or not the dividend is converted into U.S. dollars. Assuming the payment is not converted at that time, the U.S. holder will have a tax basis in *reais* equal to that U.S. dollar amount, which will be used to measure gain or loss from subsequent changes in exchange rates. Any gain or loss realized by a U.S. holder that subsequently sells or otherwise disposes of *reais*, which gain or loss is attributable to currency fluctuations after the date of receipt of the dividend, will be ordinary gain or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

The gross amount of any dividend paid (which will include any amounts withheld in respect of Brazilian taxes) with respect to a class A preferred share or ADS will be subject to U.S. federal income taxation as foreign source dividend income, which may be relevant in calculating a U.S. holder's foreign tax credit limitation. Subject to limitations under U.S. federal income tax law concerning credits or deductions for foreign taxes and certain exceptions for short-term and hedged positions, any Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability (or at a U.S. holder's election, may be deducted in computing taxable income if the U.S. holder has elected to deduct all foreign income taxes for the

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taxable year). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific baskets of income. For this purpose, the dividends should generally constitute passive category income, or in the case of certain U.S. holders, general category income. The rules with respect to foreign tax credits are complex, and U.S. holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Subject to the discussion under Information Reporting and Backup Withholding, a Non-U.S. holder of class A preferred shares or ADSs generally will not be subject to U.S. federal income or withholding tax on dividends received on such shares or ADSs, unless such income is effectively connected with the conduct by such Non-U.S. holder of a trade or business in the United States.

Sale, Exchange or Other Disposition of Class A Preferred Shares or ADSs

A deposit or withdrawal of class A preferred shares by a holder in exchange for an ADS that represent such shares will not result in the realization of gain or loss for U.S. federal income tax purposes. A U.S. holder generally will recognize capital gain or loss upon a sale, exchange or other disposition of a class A preferred share or ADS held by the U.S. holder or the depository, as the case may be, in an amount equal to the difference between the U.S. holder's adjusted basis in our class A preferred share or ADS (determined in U.S. dollars) and the U.S. dollar amount realized on the sale, exchange or other disposition. If a Brazilian tax is withheld on the sale, exchange or other disposition of a share, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale, exchange or other disposition before deduction of the Brazilian tax. In the case of a non-corporate U.S. holder, the maximum marginal U.S. federal income tax rate applicable to capital gain will generally be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than, as discussed above, certain dividends) if such holder's holding period for such class A preferred share or ADS exceeds one year (i.e., such gain is a long-term capital gain). Capital gain, if any, realized by a U.S. holder on the sale or exchange of a class A preferred share or ADS generally will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, in the case of a disposition or deposit of a class A preferred share or ADS that is subject to Brazilian tax, the U.S. holder may not be able to use the foreign tax credit for that Brazilian tax unless it can apply the credit against U.S. tax payable on other income from foreign sources in the appropriate income category, or, alternatively, it may take a deduction for the Brazilian tax if it elects to deduct all of its foreign income taxes. The deductibility of capital losses is subject to limitations under the Code.

The initial tax basis of class A preferred shares or ADSs to a U.S. holder is the U.S. dollar value of the *reais*-denominated purchase price determined on the date of purchase. If our class A preferred shares or ADSs are treated as traded on an established securities market, a cash basis U.S. holder, or, if it elects, an accrual basis U.S. holder, will determine the dollar value of the cost of such class A preferred shares or ADSs by translating the amount paid at the spot rate of exchange on the settlement date of the purchase. The conversion of U.S. dollars to *reais* and the immediate use of that currency to purchase class A preferred shares or ADSs generally will not result in taxable gain or loss for a U.S. holder.

With respect to the sale or exchange of class A preferred shares or ADSs, the amount realized generally will be the U.S. dollar value of the payment received determined on (i) the date of receipt of payment in the case of a cash basis U.S. holder and (ii) the date of disposition in the case of an accrual basis U.S. holder. If our class A preferred shares or ADSs are treated as traded on an established securities market, a cash basis taxpayer, or, if it elects, an accrual basis taxpayer, will determine the U.S. dollar value of the amount realized by translating the amount received at the spot rate of exchange on the settlement date of the sale.

Subject to the discussion below under Information Reporting and Backup Withholding, a Non-U.S. holder of class A preferred shares or ADSs generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale or exchange of such shares or ADSs unless (i) such gain is effectively connected with the conduct by such Non-U.S. holder of a trade or business in the United States or (ii) in the case of any gain realized by an individual Non-U.S. holder, such holder is present in the United States for 183 days or more in the taxable year of such sale or exchange and certain other conditions are met.

Passive Foreign Investment Company Rules

A Non-U.S. corporation will be classified as a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes in any taxable year in which, after applying certain look-through rules, either (1) at least 75 percent of its gross income is passive income or (2) at least 50 percent of the average value of its gross assets is attributable to assets that produce passive income or is held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions.

Based on certain estimates of its gross income and gross assets and the nature of its business, our company believes that it will not be classified as a PFIC for its taxable year ended December 31, 2008. The company's status in future years will depend on its assets and activities in those years. The company has no reason to believe that its assets or activities will change in a manner that would cause it to be classified as a PFIC for the taxable year ended December 31, 2009 or any future year, but there can be no assurance that the company will not be considered a PFIC for any taxable year. If we were a PFIC, a U.S. holder of class A preferred shares or ADSs generally would be subject to imputed interest charges and other disadvantageous tax treatment with respect to any gain from the sale or exchange of, and certain distributions with respect to, the shares or ADSs (including the loss of the potential reduced tax rate on certain dividends described above).

If we were a PFIC, a U.S. holder of class A preferred shares or ADSs could make a variety of elections that may alleviate certain of the tax consequences referred to above, and one of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of the class A preferred shares or ADSs. U.S. holders should consult their own tax advisers regarding the tax consequences that would arise if the company were treated as a PFIC.

Information Reporting and Backup Withholding

U.S. backup withholding tax and information reporting requirements generally apply to certain payments to certain non-corporate holders of shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, our class A preferred shares or the ADSs made within the United States or by a U.S. payor or U.S. middleman to a holder of our class A preferred shares or the ADSs, other than an exempt recipient, including a corporation, a payee that is not a U.S. person that provides an appropriate certification and certain other persons. Backup withholding tax will apply to any payments of dividends on, or the proceeds from the sale or redemption of, class A preferred shares or the ADSs within the United States or by a U.S. payor or U.S. middleman to a holder, other than an exempt recipient, if such holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding tax rate is 28% for taxable years through 2010.

Backup withholding is not an additional tax. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability or a refund of the amounts withheld provided the required information is furnished to the Internal Revenue Service in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to ownership and disposition of class A preferred shares or ADSs. Prospective purchasers should consult their own tax advisors concerning the tax consequences of their particular situations.

Documents on Display

Statements contained in this annual report regarding the contents of any contract or other document filed as an exhibit to this annual report summarize their material terms, but are not necessarily complete, and each of these statements is qualified in all respects by reference to the full text of such contract or other document.

We are subject to the periodic reporting and other informational requirements of the Exchange Act applicable to a foreign private issuer. Accordingly, we are required to file with or furnish to the U.S. Securities and

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Exchange Commission, or the SEC, reports and other information, including annual reports on Form 20-F and reports on Form 6-K.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and members of our board of directors and board of executive officers and our principal shareholders are exempt from reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, as a foreign private issuer, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

You may inspect and copy reports and other information that we file with or furnish to the SEC at the SEC's Public Reference Room located at 100 F Street, N.E., Washington D.C. 20549. Copies of these materials may be obtained by mail from the SEC's Public Reference Room at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an internet website at www.sec.gov from which you can electronically access these materials.

We also file financial statements and other periodic reports with the CVM, which are available for investor inspection at the CVM's offices located at Rua Sete de Setembro, 111, 2nd floor, Rio de Janeiro, RJ, and Rua Formosa, 367, 20th floor, São Paulo, SP. The telephone numbers of the CVM in Rio de Janeiro and São Paulo are +55-21-3233-8390 and +55-11-2146-2000, respectively.

Copies of our annual report on Form 20-F and documents referred to in this annual report and our bylaws are available for inspection upon request at our headquarters at Av. das Nações Unidas, 8,501, São Paulo, SP CEP 05425-070 Brazil. Our filings are also available to the public through the internet at our website at www.braskem.com.br. The information included on our website or that might be accessed through our website is not included in this annual report and is not incorporated into this annual report by reference.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks arising from our normal business activities. These market risks, which are beyond our control, principally involve the possibility that changes in interest rates, exchange rates or commodity prices will adversely affect the value of our financial assets and liabilities or future cash flows and earnings. Market risk is the potential loss arising from adverse changes in market rates and prices.

In order to mitigate the market risks to which we are exposed, we used and we may use foreign currency, interest rate, commodity derivative instruments, cash and receivables. At December 31, 2008, we had cross-currency and interest rate swaps with an aggregate notional amount of R\$1,974.0 million maturing between March 2009 and October 2013. These cross-currency and interest rate swaps match certain of our foreign currency-denominated debt obligations.

It is our policy to assess the potential and consolidated impact of market risks and to mitigate assessed risks in accordance with our risk management policy. Our risk management policy, in effect since April 28, 2004, seeks to mitigate our exposure to exchange rate risks with the objective of maintaining coverage of principal and interest settlements maturing within the following 12 months for, at a minimum:

- 60% of our total U.S. dollar-denominated indebtedness that is related to exports, or trade finance, excluding advances on currency contracts with a remaining maturity of up to six months and advances on export contracts; and
- 75% of our total in U.S. dollar-denominated indebtedness unrelated to exports, or non-trade finance.

Compliance with this policy varies based upon applicable market conditions, credit availability and our cash balances.

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At December 31, 2008, we had US\$453.2 million in U.S. dollar-denominated cash equivalents and other investments, which may partially offset the effects of any depreciation of the *real* against the U.S. dollar on our ability to service our U.S. dollar-denominated debt to the extent of these U.S. dollar-denominated cash equivalents and other investments.

Interest Rate Risk

Our variable interest rate exposure is primarily subject to the variations of the TJLP rate and the CDI rate for *real*-denominated borrowings and short-term cash investments.

With respect to Brazilian interest rates:

- the short-term domestic CDI rate increased from 11.25% per annum at December 31, 2007 to 13.75% per annum at December 31, 2008;
- the TJLP remained at 6.25% per annum from December 31, 2007 to December 31, 2008; and
- the IGP-M was 9.81% in 2008 compared to 7.75% in 2007.

The table below provides information about our significant interest-rate sensitive instruments:

	Payment Schedule Breakdown by Type of Interest Rate						Total	V
	At December 31, 2008							
	Expected Maturity Date							
	2009	2010	2011	2012	2013	Thereafter	Total	
(in millions of reais, unless otherwise indicated)								
LIABILITIES:								
Loans and financings (excluding debentures):								
Fixed rate, denominated in U.S. dollars	305.5					4,447.3	4,752.8	
Average interest rate	8.8%	8.8%	8.8%	8.8%	8.8%	8.9%	9.1%	
Variable rate, denominated in U.S. dollars	1,184.3	170.1	497.7	985.3	1,181.4	183.3	4,202.1	
Average interest rate (over LIBOR)	1.4%	1.6%	1.6%	1.6%	1.6%	1.5%	1.6%	
Fixed rate, denominated in								
Japanese yen	56.3	55.8	55.8	27.8			195.7	
Average interest rate	1.0%	1.0%	1.0%	1.0%			1.0%	
Fixed rate, denominated in <i>reais</i>	33.4	33.2	33.2	33.2	33.2	82.2	248.4	
Average interest rate	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	12.2%	
Variable rate, denominated in <i>reais</i> (excluding debentures)	258.1	312.4	286.5	219.3	191.2	161.0	1,428.5	
Average interest rate (over TJLP)	2.6%	2.5%	2.5%	2.5%	2.5%	4.6%	2.5%	
Variable rate, denominated in <i>reais</i> (excluding debentures)	286.9	76.7					363.6	
Average interest rate (% of CDI)	110.4%	92.0%					104.8%	
Loans and financings (excluding debentures) before proportional consolidation	2,124.5	648.2	873.2	1,265.6	1,405.8	4,873.8	11,191.1	
Loans and financings, of proportionally consolidated companies	4.6	3.3	3.3			3.3	14.5	
Total loans and financings (excluding debentures)	2,129.1	651.5	876.5	1,265.6	1,405.8	4,877.1	11,205.6	
Debentures:								
Variable rate, denominated in <i>reais</i>	26.3	300.0	500.0				826.3	
Average interest rate (% of CDI)	103.8%	103.6%	103.5%				103.6%	

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	Payment Schedule Breakdown by Type of Interest Rate						Total	Fair Value (1)
	At December 31, 2008							
	Expected Maturity Date							
	2009	2010	2011	2012	2013	Thereafter		
Debtures before proportional								
consolidation	26.3	300.0	500.0				826.3	838.9
Debtures of proportionally								
consolidated companies								
Total debtures	26.3	300.0	500.0				826.3	838.9
ASSETS:								
Cash and cash equivalents and other								
instruments:								
Variable rate, denominated in								
U.S. dollars	629.5						629.5	629.5
Variable rate, denominated in								
<i>reais</i>	1,832.6						1,832.6	1,832.6
Cash and cash equivalents and other								
investments, before proportional								
consolidation	2,940.6						2,940.6	2,940.6
Cash and cash equivalents and other								
investments of proportionally								
consolidated companies	19.6						19.6	19.6
Total cash and cash equivalents and								
other investments	2,960.2						2,960.2	2,960.2

(1) Represents the net present value of the future cash flows from the obligations converted into *reais* at fair market value at December 31, 2008.

In the event that the average interest rate applicable to our financial assets and debt in 2009 were 1% higher than the average interest rate in 2008, our financial income would increase by approximately R\$29.5 million and our financial expenses would increase by approximately R\$11.5 million.

Foreign Currency Exchange Rate Risk

Our liabilities that are exposed to foreign currency exchange rate risk are primarily denominated in U.S. dollars. To partially offset our risk of any devaluation of the *real* against the U.S. dollar, we currently maintain available liquid resources denominated in U.S. dollars and may enter into derivative contracts. Because we borrow in the international markets to support our operations and investments, we are exposed to market risks from changes in foreign exchange rates and interest rates.

The table below provides information about our significant foreign currency exposure:

	Payment Schedule Breakdown by Currency						Total	Value Fair (1)
	As of December 31, 2008							
	Expected Maturity Date							
	2009	2010	2011	2012	2013	Thereafter		
(in millions of <i>reais</i>)								
LIABILITIES:								
Loans and financings:								
Loans and financings (excluding debentures):								
Denominated in U.S. dollars	1,489.8	170.1	497.7	985.3	1,181.4	4,630.6	8,954.9	13,443.8
Denominated in Japanese Yen	56.3	55.8	55.8	27.8			195.7	932.9
Denominated in <i>reais</i>	578.4	422.3	319.7	252.5	224.4	243.2	2,040.5	977.2

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Loans and financings (excluding								
debentures) before proportional consolidation	2,124.5	648.2	873.2	1,265.6	1,405.8	4,873.8	11,191.1	15,353.9
Loans and financings, of								
proportionally consolidated companies	4.6	3.3	3.3			3.3	14.5	14.5

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Total loans and financings (excluding debentures)	2,129.1	651.5	876.5	1,265.6	1,405.8	4,877.1	11,205.6	15,368.4
Debentures:								
Denominated in <i>reais</i>	26.3	300.0	500.0				826.3	838.9
Total debentures, including current portion	26.3	300.0	500.0				826.3	838.9
ASSETS:								
Cash and cash equivalents and other investments:								
Denominated in U.S. dollars	1,059.2						1,059.2	1,059.2
Denominated in <i>reais</i>	1,881.4						1,881.4	1,881.4
Cash and cash equivalents and other investments, before proportional consolidation								
	2,940.6						2,940.6	2,940.6
Cash and cash equivalents and other investments of proportionally consolidated companies								
	19.6						19.6	19.6
Total cash and cash equivalents and other investments	2,960.2						2,960.2	2,960.2

- (1) Represents the net present value of the future cash flows from the obligations converted into *reais* at fair market value at December 31, 2008.

Our foreign currency exposure gives rise to market risks associated with exchange rate movements of the *real* against the U.S. dollar. Foreign currency-denominated liabilities at December 31, 2008 consisted primarily of U.S. dollar-denominated debt. Our U.S. dollar-denominated debt, including short-term debt and current portion of long-term debt, was R\$ 8,954.9 million (US\$ 3,831.8 million) at December 31, 2008 and R\$ 5,878.4 million (US\$ 3,318.7 million) at December 31, 2007. This foreign currency exposure is represented by debt in the form of notes, bonds, pre-export finance facilities and working capital loans. Our cash and funds available in U.S. dollars partially protect us against exposure arising from the U.S. dollar-denominated debt.

In the event that the *real* were to devalue by 10% against the U.S. dollar during 2009 as compared to the *real*/U.S. dollar exchange rate at December 31, 2008, our financial expenses indexed to the dollar in 2009 would increase by approximately R\$1,292.8 million, and our financial income would increase by approximately R\$105.6 million.

Commodity Prices

Although the majority of our revenues are in *reais*, we do not currently hedge our exposure to changes in prices of naphtha, our principal raw material, which are linked to international market prices denominated in U.S. dollars of naphtha and other petroleum derivatives. We do not hedge this exposure in part because a portion of our sales in 2008 were exports payable in foreign currencies and linked to the international market prices of these commodities, and in part because the prices of our polyethylene, polypropylene and PVC products sold in domestic markets generally reflect changes in the international market prices of these products. In periods of high volatility in the U.S. dollar price of naphtha or the *real*/U.S. dollar exchange rate, there is usually a lag between the time that the U.S. dollar price of naphtha increases or the U.S. dollar appreciates and the time that we can effectively pass on the resulting increased cost in *reais* to our customers in Brazil. Accordingly, if the U.S. dollar price of naphtha increases precipitously or the *real* devalues 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 could materially adversely affect our results of operations and financial condition. See Item 3. Key Information Risks Relating to Our Company and the Petrochemical Industry.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our chief executive officer and our chief financial officer are responsible for establishing and maintaining our disclosure controls and procedures. These controls and procedures were designed to ensure that information that we are required to disclose in the reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms of the SEC, and that it is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2008 under the supervision of our chief executive officer and our chief financial officer. Based on our evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2008.

Management's Annual Report on Internal Control over Financial Reporting and Report of Independent Registered Public Accounting Firm

We are filing herewith our management's report on internal control over financial reporting and the opinion thereon issued by our independent registered public accounting firm. Our management's report on internal control over financial reporting is included in this annual report on page F-2 and the opinion issued by our independent registered public accounting firm is included in the report of PricewaterhouseCoopers Auditores Independentes that is included in this annual report on page F-4.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the year ended December 31, 2008 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our fiscal council currently includes an audit committee financial expert within the meaning of this Item 16A. Our fiscal council has determined that Ismael Campos de Abreu is our fiscal council financial expert. Mr. Abreu's biographical information is included in Item 6. Directors, Senior Management and Employees Directors and Senior Management Fiscal Council. Mr. Abreu is independent, as that term is defined in Rule 303A.02 of the New York Stock Exchange's Listed Company Manual.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to members of our board of directors, fiscal council and board of executive officers, as well as to our other employees. A copy of our code of ethics may be found on our website at www.braskem.com.br. The information included on our website or that might be accessed through our website is not included in this annual report and is not incorporated into this annual report by reference.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Audit and Non-Audit Fees**

The following table sets forth the fees billed to us by our independent registered public accounting firm, PricewaterhouseCoopers Auditores Independentes, during the fiscal years ended December 31, 2008 and 2007.

	2008	Year ended December 31,
	2007	
	(in millions of reais)	
Audit fees(1)	R\$ 11.9	R\$ 7.0
Audit-related fees(2)	1.6	0.1
Tax fees(3)	1.0	0.5
All other fees		
Total fees	R\$ 14.5	R\$ 7.6

- (1) Audit fees consist of the aggregate fees billed by PricewaterhouseCoopers Auditores Independentes in connection with the audit of our annual financial statements, interim audits, interim reviews of our quarterly financial information, issuance of comfort letters, procedures as related to audit of income tax provisions and related reserves in connection with the audit and review of financial statements and review of documents filed with the CVM and the SEC.
- (2) Audit-related fees consist of the aggregate fees billed by PricewaterhouseCoopers Auditores Independentes for internal control reviews.
- (3) Tax fees consist of the aggregate fees billed by PricewaterhouseCoopers Auditores Independentes for tax compliance reviews.

Pre-Approval Policies And Procedures

Our fiscal council and board of directors have approved an Audit and Non-Audit Services Pre-Approval Policy that sets forth the procedures and the conditions pursuant to which services proposed to be performed by our independent auditors may be pre-approved. This policy is designed to (1) provide both general pre-approval of certain types of services through the use of an annually established schedule setting forth the types of services that have already been pre-approved for a certain year and, with respect to services not included in an annual schedule, special pre-approval of services on a case by case basis by our fiscal council and our independent auditors, and (2) assess compliance with the pre-approval policies and procedures. Our management periodically reports to our fiscal council the nature and scope of audit and non-audit services rendered by our independent auditors and is also required to report to our fiscal council any breach of this policy of which our management is aware.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

We are relying on the general exemption from the listing standards relating to audit committees contained in Rule 10A-3(c)(3) under the Exchange Act for the following reasons:

- we are a foreign private issuer that has a fiscal council, which is a board of auditors (or similar body) established and selected pursuant to and as expressly permitted under Brazilian law;
- Brazilian law requires our fiscal council to be separate from our board of directors;
- members of our fiscal council are not elected by our management, and none of our executive officers is a member of our fiscal council;
- Brazilian law provides standards for the independence of our fiscal council from our management;

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- our fiscal council, in accordance with its charter, makes recommendations to our board of directors regarding the appointment, retention and oversight of the work of any registered public accounting firm engaged (including, the intermediation of disagreements between our management and our independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for our company, as Brazilian law requires that our board of directors appoint, retain and oversee the work of our independent public accountants;
- our fiscal council (1) has implemented procedures for receiving, retaining and addressing complaints regarding accounting, internal control and auditing matters, including the submission of confidential, anonymous complaints from employees regarding questionable accounting or auditing, and (2) has authority to engage independent counsel and other advisors as it determines necessary to carry out its duties; and
- our company compensates our independent auditors and any outside advisors hired by our fiscal council and provides funding for ordinary administrative expenses incurred by the fiscal council in the course of its duties.

We do not believe that our reliance on this general exemption will materially adversely affect the ability of our fiscal council to act independently and to satisfy the other requirements of the listing standards relating to audit committees contained in Rule 10A-3 under the Exchange Act.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Share Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs (1)
January 1 through January 31, 2008				
February 1 through February 28, 2008				
March 1 through March 31, 2008				19,862,411
April 1 through April 30, 2008				19,862,411
May 1 through May 31, 2008 (2)	3,624,411	R\$ 13.39	1,306,500	18,555,911
June 1 through June 30, 2008	362,500	R\$ 13.09	1,669,000	18,193,411
July 1 through July 31, 2008 (3)	4,029,090	R\$ 13.32	2,135,300	17,727,111
August 1 through August 31, 2008	2,944,500	R\$ 12.37	5,079,800	14,782,611
September 1 through September 30, 2008	2,191,200	R\$ 10.06	7,271,000	12,591,411
October 1 through October 31, 2008	1,343,500	R\$ 8.67	8,614,500	11,247,911
November 1 through November 30, 2008	1,072,100	R\$ 6.72	9,686,600	10,175,811
December 1 through December 31, 2008	412,900	R\$ 6.16	10,099,500	9,762,911
Total	15,980,201	R\$ 11.69	10,099,500	9,762,911

- (1) On February 19, 2008, we announced that our board of directors had authorized a share repurchase program under which we were authorized to repurchase up to 19,862,411 class A preferred shares at market prices over the BM&FBOVESPA at any time and from time to time following the commencement of this share repurchase program and prior to the first anniversary of the commencement of this share repurchase program. The commencement of this share repurchase program was made contingent on the approval of the cancellation of 16,595,000 class A preferred shares held in the company's at an extraordinary shareholders' meeting held on March 6, 2008. Shares that were repurchased are being held in treasury and may be resold or cancelled.
- (2) Includes (1) 1,306,500 class A preferred shares purchased under our share repurchase program at an average price per share of R\$13.19, and (2) 2,108,823 common shares and 209,088 class B preferred shares acquired from shareholders dissenting from the shareholders vote on March 26, 2008 ratifying the Ipiranga Transaction at an average price per share of R\$13.50
- (3) Includes (1) 466,300 class A preferred shares purchased under our share repurchase program at an average price per share of R\$11.92, and (2) 3,562,590 common shares and 200 class B preferred shares acquired from shareholders dissenting from the shareholders vote on May 30, 2008 approving the exchange of shares transaction among Braskem, Petroquisa and Grust at an average price per share of R\$13.50.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

On November 4, 2003, the SEC approved the final corporate governance rules established by the NYSE. According to these rules, foreign private issuers that are listed on the NYSE, such as Braskem, are subject to a more limited set of corporate governance requirements than those imposed on U.S. domestic issuers. As a foreign private issuer, Braskem must comply with the following four requirements imposed by the NYSE:

- Braskem must satisfy the audit committee requirements of Rule 10A-3 under the Exchange Act;
- Braskem's Chief Executive Officer must promptly notify the NYSE in writing if any executive officer of Braskem becomes aware of any material non-compliance with any of the applicable NYSE corporate governance rules;
- Braskem must provide a brief description of any significant ways in which Braskem's corporate governance practices differ from those required to be followed by U.S. domestic issuers under the NYSE corporate governance rules; and
- Braskem must submit an executed written affirmation annually to the NYSE and an interim written affirmation to the NYSE each time a change occurs to Braskem's board of directors or any committees of Braskem's board of directors that are subject to Section 303A, in each case in the form specified by the NYSE.

Significant Differences

The significant differences between Braskem's corporate governance practices and the NYSE's corporate governance standards are mainly due to the differences between the U.S. and Brazilian legal systems. Braskem must comply with the corporate governance standards set forth under the Brazilian Corporation Law, the rules of the CVM and the applicable rules of the BM&FBOVESPA, as well as those set forth in Braskem's bylaws.

The significant differences between Braskem's corporate governance practices and the NYSE's corporate governance standards are set forth below.

Independence of Directors and Independence Tests

In general, the NYSE corporate governance standards require listed companies to have a majority of independent directors and set forth the principles by which a listed company can determine whether a director is independent. However, under the NYSE corporate governance standards, a listed company (whether U.S. or foreign) of which more than 50% of the voting power is held by another company (a controlled company), need not comply with the following NYSE corporate governance standards:

- A controlled company need not have a majority of independent directors;
- A controlled company need not have a nominating/corporate governance committee composed of independent directors with a charter that complies with the NYSE corporate governance rules; and

- A controlled company need not have a compensation committee composed of independent directors with a charter that complies with the NYSE corporate governance rules.

Because a majority of the voting power of Braskem's capital stock is directly controlled by Odebrecht, Braskem is a controlled company, and would therefore not be required to have a majority of independent directors if it were a U.S. domestic issuer.

Although Brazilian Corporation Law and Braskem's by-laws establish rules in relation to certain qualification requirements of its directors, neither Brazilian Corporation Law nor Braskem's by-laws require that Braskem have a majority of independent directors nor require Braskem's board of directors or management to test the independence of Braskem's directors before such directors are appointed.

Executive Sessions

The NYSE corporate governance standards require non-management directors of a listed company to meet at regularly scheduled executive sessions without management.

According to the Brazilian Corporation Law, up to 1/3 of the members of Braskem's board of directors can be elected to management positions. The remaining non-management directors are not expressly empowered to serve as a check on Braskem's management, and there is no requirement that those directors meet regularly without management. Notwithstanding the foregoing, Braskem's board of directors consists entirely of non-management directors, and therefore Braskem believes it would be in compliance with this NYSE corporate governance standard.

Nominating/Corporate Governance and Compensation Committees

The NYSE corporate governance standards require that a listed company have a nomination/corporate governance committee and a compensation committee, each composed entirely of independent directors and each with a written charter that addresses certain duties. However, as a controlled company, Braskem would not be required to comply with these requirements if it were a U.S. domestic company.

Braskem is not required under Brazilian law to have, and accordingly does not have, a nominating/corporate governance committee. Currently, all of Braskem's directors are nominated by certain of its shareholders, including Odebrecht, pursuant to shareholders agreements and Braskem's Bylaws.

Braskem is not required under Brazilian law to have a compensation committee. However, Braskem has a personnel and organization committee, which is a subcommittee of its board of directors which is responsible for, among other things, analyzing proposals and making recommendations to Braskem's board of directors with respect to the total compensation paid to Braskem's management, including Braskem's chief executive officer. This committee, however, does not evaluate the performance of the chief executive officer in light of corporate goals and objectives. Under Brazilian Corporation Law, Braskem's shareholders establish the aggregate compensation of its directors and executive officers, including benefits and allowances, at a general shareholder's meeting based on the recommendation of Braskem's board of directors.

Audit Committee and Audit Committee Additional Requirements

The NYSE corporate governance standards require that a listed company have an audit committee with a written charter that addresses certain specified duties and that is composed of at least three members, all of whom satisfy the independence requirements of Rule 10A-3 under the Exchange Act and Section 303A.02 of the NYSE's Listed Company Manual.

As a foreign private issuer that qualifies for the general exemption from the listing standards relating to audit committees set forth in Section 10A-3(c)(3) under the Exchange Act, Braskem is not subject to the independence requirements of the NYSE corporate governance standards. See Item 16D. Exemptions From The Listing Standards For Audit Committees.

Shareholder Approval of Equity Compensation Plans

The NYSE corporate governance standards require that shareholders of a listed company must be given the opportunity to vote on all equity compensation plans and material revisions thereto, subject to certain exceptions.

Under Brazilian Corporation Law, shareholder pre-approval is required for the adoption and revision of any equity compensation plans. Braskem does not currently have and does not currently expect to implement any equity compensation plans.

Corporate Governance Guidelines

The NYSE corporate governance standards require that a listed company must adopt and disclose corporate governance guidelines that address certain minimum specified standards which include: (1) director qualification standards; (2) director responsibilities; (3) director access to management and independent advisors; (4) director compensation; (5) director orientation and continuing education; (6) management succession; and (7) annual performance evaluation of the board of directors.

Braskem has adopted the BM&FBOVESPA's corporate governance rules for Level 1 companies and must also comply with certain corporate governance standards set forth under Brazilian Corporation Law. See Item 9. The Offer and the Listing Regulation of Brazilian Securities Markets BM&FBOVESPA Corporate Governance Standards. The Level 1 rules do not require Braskem to adopt and disclose corporate governance guidelines covering the matters set forth in the NYSE's corporate governance standards. However, certain provisions of Brazilian Corporation Law that are applicable to Braskem address certain aspects of director qualifications standards and director responsibilities.

Code of Business Conduct and Ethics

The NYSE corporate governance standards require that a listed company must adopt and disclose a code of business conduct and ethics for directors, officers and employees and promptly disclose any waivers of the code for directors or officers. Each code of business conduct and ethics should address the following matters: (1) conflicts of interest; (2) corporate opportunities; (3) confidentiality; (4) fair dealing; (5) protection and proper use of company assets; (6) compliance with laws, rules and regulations (including insider trading laws); and (7) encouraging the reporting of any illegal or unethical behavior.

Although the adoption of a code of ethics is not required by Brazilian law, Braskem has adopted a code of ethics applicable to its directors, officers and employees, which addresses each of the items listed above. Braskem's code of ethics is available on Braskem's website at www.braskem.com.br. The information included on our website or that might be accessed through our website is not included in this annual report and is not incorporated into this annual report by reference. No waivers of the provisions of the code of ethics are permitted, except that the restrictions on outside activities do not apply to Braskem's directors and members of its fiscal council.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to Item 19 for a list of all financial statements filed as part of this annual report.

ITEM 19. EXHIBITS

(a) Financial Statements

Braskem Financial Statements

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(b) List of Exhibits

Exhibit Number	Exhibit
1.01	By-laws, as amended through May 30, 2008 (English translation) (incorporated by reference to Exhibit 1.01 to Form 20-F of Braskem S.A. filed on July 14, 2009) .
2.01	Amended and Restated Deposit Agreement, dated as of March 3, 2008, among Braskem S.A., The Bank of New York and all and all Owners and holders from time to time of American Depositary Shares issued thereunder (incorporated by reference to Exhibit 1 to Form F-6 of Braskem S.A. filed on February 22, 2008).
2.02	The total amount of long-term debt securities of our company and its subsidiaries under any one instrument does not exceed 10% of the total assets of our company and its subsidiaries on a consolidated basis. We agree to furnish copies of any or all such instruments to the SEC upon request.
3.01	Shareholders Agreement of Braskem S.A., dated as of May 30, 2008, among Odebrecht S.A., Nordeste Química S.A. Norquisa, Petrobras Química S.A. Petroquisa and Petróleo Brasileiro S.A. Petrobras, and, as an intervening party, Braskem S.A. (English translation)(incorporated by reference to Form 6-K of Braskem S.A. filed on June 3, 2008).
3.02	Memorandum of Understanding Regarding Shareholders Agreement, dated July 20, 2001, among Odebrecht Química S.A., Petroquímica da Bahia S.A., PETROS Fundação Petrobras de Seguridade Social and PREVI Caixa de Previdência dos Funcionários do Banco do Brasil (English translation) (incorporated by reference to Exhibit 3.05 to Form 20-F of Braskem S.A. filed on June 30, 2003).
3.03	Shareholders Agreement Entered into between the Controlling Shareholders of Trikem S.A. and BNDES Participações S.A. BNDESPAR, with Trikem S.A acting as Intervening Party (English translation) (incorporated by reference to Exhibit 3.3 to Form 20-F of Braskem S.A. filed on June 30, 2008).
3.04	Fourth Addendum to the Shareholders Agreement Entered into between the Controlling Shareholders of Trikem S.A. and BNDES Participações S.A. BNDESPAR (English translation)(incorporated by reference to Exhibit 3.4 to Form 20-F of Braskem S.A. filed on June 30, 2008).
4.01	Investment Agreement by and among Braskem S.A., Odebrecht S.A., Nordeste Química S.A. Norquisa, Petróleo Brasileiro S.A. Petrobras and Petrobras Petroquímica S.A. Petroquisa, dated November 30, 2007 (English summary)(incorporated by reference to Exhibit 4.09 to Form 20-F of Braskem S.A. filed on June 30, 2008).
4.02	First Amendment dated May 14, 2008 to the Investment Agreement by and among Braskem S.A., Odebrecht S.A., Nordeste Química S.A. Norquisa, Petróleo Brasileiro S.A. Petrobras and Petrobras Petroquímica S.A. Petroquisa (English summary)(incorporated by reference to Exhibit 4.10 to Form 20-F of Braskem S.A. filed on June 30, 2008).
4.03	Protocol and Justification of Merger of Shares issued by Grust Holdings S.A. into Braskem S.A. dated May 14, 2008 (English translation)(incorporated by reference to Exhibit 4.11 to Form 20-F of Braskem S.A. filed on June 30, 2008).
4.04	Protocol and Justification of Merger of Petroquímica Triunfo S.A. into Braskem S.A. dated April 7, 2009 (English translation)(incorporated by reference to Form 6-K of Braskem S.A. filed on April 15, 2009).
4.05	Braskem S.A. Long-Term Incentive Plan (English translation)(incorporated by reference to Exhibit 4.23 to Form 20-F of Braskem S.A. filed on June 23, 2006).
4.06	Amendment and Restatement of Section 7 of Braskem s Long-Term Incentive Plan, adopted at Extraordinary Shareholder s Meeting on April 7, 2006 (English translation)(incorporated by reference to Exhibit 4.24 to Form 20-F of Braskem S.A. filed on June 23, 2006).
8.01	List of subsidiaries (incorporated by reference to note 4 to our audited consolidated financial statements included elsewhere in this annual report).
12.01	<u>Certification of the Chief Executive Officer of Braskem S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>

- 12.02 Certification of the Chief Financial Officer of Braskem S.A. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 13.01 Certifications of the Chief Executive Officer and the Chief Financial Officer of Braskem S.A. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F/A and that it has duly caused and authorized the undersigned to sign this Amendment No. 1 on its behalf.

September 30 , 2009

BRASKEM S.A.

By: /s/ Bernardo Gradin

Name: Bernardo Gradin

Title: Chief Executive Officer

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MANAGEMENT S REPORT ON INTERNAL CONTROLS OVER FINANCIAL REPORTING

The management of Braskem S.A. ("Braskem" or the "Company"), including the CEO and CFO, is responsible for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Braskem's management has assessed the effectiveness of the Company's internal controls over financial reporting as of December 31, 2008 based on the criteria established in Internal Control - "Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, Braskem's management has concluded that, as of December 31, 2008, the Company's internal control over financial reporting is effective.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report which appears herein.

By: Bernardo Afonso de Almeida Gradin
Carlos José Fadigas de Souza Filho

Chief Executive Officer
Chief Financial Officer

Report of Independent Registered

Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in shareholders' equity, of cash flows and of value added present fairly, in all material respects, the financial position of Braskem S.A. and its subsidiaries at December 31, 2008 and 2007, and the results of their operations, their cash flows and their value added for each of the three years in the period ended December 31, 2008, 2007 and 2006, in conformity with accounting practices adopted in Brazil. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audits of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences is presented in Note 32 to the consolidated financial statements.

A Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in Note 3.1, due to modifications in accounting practices adopted in Brazil during 2008, the financial information relating to the previous years, presented for comparison purposes, was retrospectively revised in accordance with NPC 12 Accounting Practices, Changes in the Accounting Estimates and Error Correction.

Salvador, Brazil, July 14, 2009.

PricewaterhouseCoopers Auditores Independentes
CRC 2SP000160/O-5

Braskem S.A. and Its Subsidiaries**Consolidated Balance Sheets at December 31**

In millions of reais

Assets	2008	2007 Retrospectively revised
Current assets		
Cash and cash equivalents (Note 4)	2,611.6	1,890.1
Other investments (Note 5)	337.0	248.7
Trade accounts receivable (Note 6)	996.2	1,497.0
Inventories (Note 7)	2,948.1	2,264.3
Investment held for sale (Note 1(c)(ix))		136.7
Taxes recoverable (Note 9)	610.7	310.3
Deferred income tax and social contribution (Note 18(b))	59.6	85.8
Prepaid expenses	65.8	72.5
Other receivables	123.1	113.7
	7,752.1	6,619.1
Non-current assets		
Long-term receivables		
Other investments (Note 5)	11.6	119.8
Trade accounts receivable (Note 6)	47.1	41.9
Inventories (Note 7)	20.6	22.8
Taxes recoverable (Note 9)	1,201.8	1,175.0
Deferred income tax and social contribution (Note 18(b))	654.5	395.5
Judicial deposits and compulsory loan (Note 10)	120.1	107.7
Related parties (Note 8)	45.9	48.5
Other assets	46.1	47.9
	2,147.7	1,959.1
Permanent assets		
Investments		
Jointly-controlled companies		6.9
Advances for acquisition of investments (Note 11(c))		1,028.0
Associated companies (Note 11)	23.0	24.5
Other investments	13.8	13.8
Property, plant and equipment (Note 12)	10,278.4	8,404.1
Intangible assets, including goodwill (Note 13)	2,378.7	2,614.6
Deferred charges (Note 14)	108.2	110.6
	12,802.1	12,202.5
Total assets	22,701.9	20,780.7

The accompanying notes are an integral part of these financial statements

Braskem S.A. and Its Subsidiaries**Consolidated Balance Sheets at December 31**

In millions of reais

Liabilities and shareholders' equity	2008	2007 Retrospectively revised
Current liabilities		
Suppliers	4,906.7	2,935.1
Loans and financing (Note 15)	2,120.0	1,068.4
Debentures (Note 16)	26.3	111.6
Salaries and payroll charges	218.1	260.8
Taxes, charges and contributions	105.6	161.8
Hedge operations (Note 23)	31.5	
Income tax and social contribution	0.3	15.4
Interest on own capital and dividends payable (Note 21(f))	6.6	307.9
Advances from customers	49.0	23.5
Creditors for investment acquisition (Notes 1(c)(vi) and 11(c))		881.0
Other liabilities	141.1	124.6
	7,605.2	5,890.1
Non-current liabilities		
Suppliers	18.7	29.7
Loans and financing (Note 15)	9,039.8	6,401.9
Debentures (Note 16)	800.0	800.0
Hedge operations (Note 23)	77.9	
Taxes and contributions (Note 17)	1,231.2	1,145.8
Long-term incentives (Note 20)	10.4	4.9
Deferred income tax and social contribution (Note 18 (b))	23.3	64.4
Private pension plans (Note 29)	20.0	35.7
Other liabilities	195.6	131.7
	11,416.9	8,614.1
Minority interests		
		598.0
Shareholders' equity (Note 21)		
Capital	5,375.8	4,641.0
Capital reserves	396.1	396.8
Fair-value adjustments	(102.1)	
Treasury shares		(257.6)
Revenue reserves		1,075.2
Accumulated deficit	(1,990.0)	(176.9)
	3,679.8	5,678.5
Total liabilities and shareholders' equity	22,701.9	20,780.7

The accompanying notes are an integral part of these financial statements

Braskem S.A. and Its Subsidiaries**Consolidated Statements of Operations at December 31**

In millions of reais

	2008	2007	2006
		Retrospectively revised	Retrospectively revised
Gross sales			
Domestic market	18,736.3	17,912.6	13,028.4
Foreign market	4,284.1	4,524.8	3,516.9
Taxes, freight and returns on sales	(5,060.9)	(4,794.9)	(3,552.6)
Net sales revenue	17,959.5	17,642.5	12,992.7
Cost of sales and services rendered	(15,140.8)	(14,331.4)	(10,759.2)
Gross profit	2,818.7	3,311.1	2,233.5
Operating expenses (income)			
Selling	492.7	554.2	399.0
General and administrative	674.4	684.5	552.4
Depreciation and amortization	543.6	486.6	363.3
Other operating income, net (Note 25)	(86.0)	(131.5)	(186.1)
	1,624.7	1,593.8	1,128.6
Operating profit before equity accounting and financial income	1,194.0	1,717.3	1,104.9
Equity accounting			
Equity in the results of investees	(10.9)	(0.1)	0.8
Amortization of (goodwill)/negative goodwill, net	(40.4)	(74.0)	(25.5)
Reversal of (provision) for loss	(9.7)	(0.9)	20.5
Other	(2.7)	10.4	7.5
	(63.7)	(64.6)	3.3
Financial income (expenses) (Note 24)			
Financial expenses	(4,403.1)	212.1	(1,097.9)
Financial income	718.6	(588.8)	159.5
	(3,684.5)	(376.7)	(938.4)
Operating profit (loss)	(2,554.2)	1,276.0	169.8
Other income and expenses, net (Note 26)	(158.7)	(67.2)	7.1

Braskem S.A. and Its Subsidiaries**Consolidated Statements of Operations at December 31**

In millions of reais

	2008	2007	2006
Profit before income tax and social contribution	(2,712.9)	1,208.8	176.9
Income tax and social contribution			
Current	(23.6)	(224.1)	(76.2)
Deferred	301.8	(103.3)	123.7
Income (loss) before minority interests	(2,434.7)	881.4	224.4
Statutory employees' profit sharing	(18.9)	(18.7)	-
Minority interests	(38.5)	(240.9)	(1.6)
Net income (loss) for the year	(2,492.1)	621.8	222.8
Shares outstanding at the end of the year (thousands)	507,541	432,838	356,039
Net income (loss) per share at year end - R\$	(4.9101)	1.4366	0.6260

Braskem S.A. and Its Subsidiaries
Statements of Changes in Shareholders' Equity
In millions of reais

	Capital	Capital reserves Tax incentives	Other	Legal reserve	Revenue reserves Tax incentives	Profit retention	Fair value adjustments	Treasury shares	(Accu
At December 31, 2005 as originally presented	3,403.0	396.2	0.6	68.9	-	780.4	-	(15.0)	
Adjustments in opening balances as result of application of changes in accounting practices introduced by Law 11,638 (Note 3.1)	-	-	-	-	-	-	-	-	
Adjusted balances at January 1, 2006	3,403.0	396.2	0.6	68.9	-	780.4	-	(15.0)	
Capital increase (Note 21 (a))	105.3	-	-	-	-	-	-	-	
Repurchase of shares (Note 21 (d))	-	-	-	-	-	-	-	(240.6)	
Effect of change in accounting practice	-	-	-	-	-	-	-	-	
Transfer from reserve to offset prior year adjustments	-	-	-	-	-	(164.9)	-	-	
Net income for the year	-	-	-	-	-	-	-	-	
Appropriations									
Legal reserve	-	-	-	3.9	-	-	-	-	
Tax incentives reserve (Note 21 (c))	-	-	-	-	11.9	-	-	-	
Proposed dividends (Note 21 (f))	-	-	-	-	-	-	-	-	
Transfer to profit retention reserve	-	-	-	-	-	60.5	-	-	
Adjusted balances at January 1, 2007	3,508.3	396.2	0.6	72.8	11.9	676.0	-	(255.6)	
Capital increase (Note 21 (a) (d))	1,132.7	-	-	-	-	-	-	(2.0)	
Dividends not redeemed and expired	-	-	-	-	-	-	-	-	
Transfer to reserve	-	-	-	-	-	0.2	-	-	
Fair value adjustments (Note 21 (g))	-	-	-	-	-	-	-	-	
Net income for the year	-	-	-	-	-	-	-	-	
Appropriations									
Legal reserve	-	-	-	27.2	-	-	-	-	
Tax incentives reserve (Note 21 (c))	-	-	-	-	49.5	-	-	-	
Proposed dividends (Note 21 (f))	-	-	-	-	-	-	-	-	
Transfer to profit retention reserve (Note 21 (f))	-	-	-	-	-	237.6	-	-	
At December 31, 2007	4,641.0	396.2	0.6	100.0	61.4	913.8	-	(257.6)	
Capital increase (Note 21 (a))	734.8	-	-	-	-	-	-	-	
Dividends not redeemed and expired	-	-	-	-	-	-	-	-	
Repurchase of shares (Note 21 (d))	-	-	-	-	-	-	-	(186.8)	
Cancellation of shares (Note 21 (d))	-	-	-	-	-	(444.4)	-	444.4	
Reversal of tax incentives (Note 21 (c))	-	(0.7)	-	-	-	-	-	-	
Fair value adjustments (Note 21 (g))	-	-	-	-	-	-	(102.1)	-	
Loss for the year	-	-	-	-	-	-	-	-	
Appropriations									
Profit retention reserve (Note 21 (e))	-	-	-	-	-	(469.4)	-	-	
Tax incentive reserve (Note 21 (c))	-	-	-	-	(61.4)	-	-	-	
Legal reserve (Note 21 (f))	-	-	-	(100.0)	-	-	-	-	
Others	-	-	-	-	-	-	-	-	
At December 31, 2008	5,375.8	395.5	0.6	-	-	-	(102.1)	-	

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

Braskem S.A. and Its Subsidiaries**Consolidated Statements of Cash Flow**

Years Ended December 31

In millions of reais

	2008	2007	2006
Net income (loss) for the year	(2,492.1)	621.8	222.9
Adjustment to reconcile net income to cash provided			
Depreciation, amortization and depletion	1,224.3	1,178.9	908.3
Amortization of goodwill, net	40.4	74.0	25.5
Equity in results of associated companies	10.9	0.1	(0.8)
Adjustments to realization value of investments	2.7	(11.6)	(11.7)
Loss on disposal and impairment of permanent assets	48.0	30.0	1.4
Exclusion of the gain on assignment of right of use among associated companies	35.8	-	-
Interest and monetary and exchange variations, net	3,275.1	(78.2)	(1.3)
Minority interest	38.5	240.9	1.6
Tax recovery		(110.1)	(94.5)
Deferred tax expense (benefit)	(301.8)	103.3	(123.7)
Other	1.8	1.5	7.0
	1,883.6	2,050.6	934.7
Cash generation before changes in operating working capital	1,883.6	2,050.6	934.7
Decrease (increase) in assets			
Other investments	79.3	253.9	(347.1)
Trade accounts receivable	492.8	220.3	53.9
Inventories	(681.7)	28.3	(148.2)
Taxes recoverable	(205.3)	313.5	(151.6)
Prepaid expenses	7.3	48.4	(56.7)
Dividends received	8.8	2.0	2.0
Judicial deposits	(12.5)	(17.1)	(54.0)
Other receivables	(7.0)	58.0	19.4
Increase (decrease) in liabilities			
Suppliers	1,962.4	286.2	382.2
Taxes and contributions payable	40.8	45.1	(66.5)
Tax incentives	5.6	53.1	32.4
Advances from customers	25.6	(12.2)	(24.4)
Other liabilities	(27.3)	(7.6)	133.3
Cash arising from transactions	3,572.4	3,322.5	709.4
Interest paid	(572.1)	(470.6)	(716.0)
Income taxes and contributions payable	(121.0)	(377.4)	(311.0)
Net cash provided by operating activities	2,879.3	2,474.5	(317.6)
Proceeds from sale of permanent assets	250.2	28.8	0.9
Acquisitions of subsidiaries	(594.9)	(1,151.7)	(213.9)
Acquisitions of property, plant and equipment	(1,404.2)	(1,277.2)	(889.7)
Acquisitions of intangible asset	(278.1)	(1,155.4)	
Deferred charges	(56.6)	(23.6)	(40.3)
Capitalized interest	(71.1)	(70.4)	(63.3)
Net cash used in investing activities	(2,154.7)	(3,649.5)	(1,206.3)
Short-term debt			
Issuances	2,659.3	4,339.5	2,793.5
Repayment	(5,164.7)	(5,895.8)	(2,897.8)
Long-term debt			
Issuances	4,330.4	3,579.8	2,235.8
Repayment	(1,353.0)	(399.6)	(659.1)

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Related parties			
Issuances		2.0	0.2
Repayment		(5.9)	(4.1)
Dividends paid to shareholders and minorities	(301.0)	(43.8)	(343.4)
Share issuance	1.7	1.5	5.4
Repurchase of shares	(186.8)	(60.2)	(192.7)
Other	11.0	0.5	(2.5)
Net cash provided by (used in) financing activities	(3.1)	1,518.0	935.3
Increase (decrease) in cash and cash equivalents	721.5	343.0	(588.6)
Represented by			
Cash and cash equivalents, at the beginning of the year	1,890.1	1,547.1	2,135.7
Cash and cash equivalents, at the end of the year	2,611.6	1,890.1	1,547.1
Increase (decrease) in cash and cash equivalents	721.5	343.0	(588.6)
Supplemental information			
Cash and cash equivalents (according to IAS 7)			
Cash and cash equivalents, at the beginning of the period	1,024.6	667.2	531.8
Cash and cash equivalents, at the end of the period	751.9	1,024.6	667.2

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Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

Major non-cash transactions

2008, 2007 and 2006

(i) Issue of Company shares and use of treasury shares to acquire minority interests in its subsidiaries made in three separate steps (See Notes 1(c) (ii) and (v) for the dates of the acquisitions) affecting minority interests and share capital in the amount of R\$ 19.2 and R\$ 105.3 for Politeno and Polialden respectively.

2007

(ii) Conversion of debentures into shares in the amount of R\$ 1,113.6 under Brazilian GAAP (Note 21 (a)).

(iii) Advance to Ultrapar as a result of the acquisition of preferred shares held by minority shareholders of companies acquired in the amount of R\$ 633.5 under Brazilian GAAP. (Note 11(c)).

2007 and 2006

(iv) Acquisition of Politeno shares settled in November 2007 in the amount of R\$ 247.5.

Braskem S.A. and Its Subsidiaries**Consolidated Statements of Value Added**

Years Ended December 31

In millions of reais

	2008	2007	Retrospectively revised	Retrospectively revised
1. Revenues	22,685.6	22,203.0		
Sales of goods, products and services	22,730.9	22,151.6		
Other revenues (expenses) net	(33.1)	64.2		
Allowance for doubtful accounts expense	(12.2)	(12.9)		
2. Inputs acquired from third parties (including ICMS, IPI, PIS and COFINS)	(20,474.6)	(18,098.1)		
Costs of goods, products and services sold	(18,998.5)	(16,598.5)		
Materials, electric power, services from third parties and others	(1,411.8)	(1,499.7)		
Loss on assets	(64.3)			
3. Gross value added (1-2)	2,211.0	4,104.9		
4. Depreciation, amortization and depletion	(1,224.3)	(1,178.9)		
5. Net value added produced by the Company (3-4)	986.7	2,926.0		
6. Value added received in transfer	654.9	(653.4)		
Equity in results of investees	(10.9)	(0.1)		
Financial income	718.6	(588.8)		
Others	(52.8)	(64.4)		
7. Total value added to be distributed (5+6)	1,641.6	2,272.6		
8. Distribution of value added	1,641.6	2,272.6		
Personnel	561.8	588.8		
Direct remuneration	439.2	491.7		
Benefits	84.5	67.7		
Employment Compensation Guarantee Fund (F.G.T.S)	38.1	29.5		
Taxes and contributions	(911.8)	1,040.8		
- Federal	94.7	1,478.5		
- State	(1,017.5)	(444.0)		
- Municipal	10.9	6.2		
Remuneration of third parties capital	4,445.2	(219.6)		
Interest	4,351.0	(336.5)		
Rental	94.2	116.8		
Remuneration of Shareholders Equity	(2,453.6)	862.7		
- Interest on Shareholders Equity /Dividends		278.5		
- Loss for the year and accumulated balances	(2,492.1)	(78.5)		
Minority interest in retained profits	38.5	240.9		
Legal reserve		27.3		
Profit retention		241.8		
Tax incentives		49.5		
Adjustments from Law 11.638		103.2		

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

1 Operations

(a) Braskem S.A. ("Braskem") and its subsidiaries, including its jointly-controlled companies (together, "we", "us", "our" or "the Company"), is the largest integrated petrochemical cracker and thermoplastics producer in Brazil, and produces a diversified portfolio of petrochemical products. Braskem's principal corporate objective is manufacturing, selling, importing and exporting chemical and petrochemical products and fuels, as well as producing and supplying utilities to companies in the Camaçari Petrochemical Complex, in Bahia, and the Triunfo Petrochemical Complex, in Rio Grande do Sul, Brazil and rendering of services to those companies.

The companies acquired (Note 1(c)(vi)) are considered separate segments, resulting in a total of four business units: Basic Petrochemicals; Polyolefins; Vinyls; and IQ Soluções & Química S.A..

(b) In May 2007, Braskem announced the deactivation of the DMT production unit and the temporary suspension of production of PET, both established at the Petrochemical Complex of Camaçari. On the occasion, a study was initiated for the possible retaking of production of PET from a new technological route that would guarantee competitive costs for the polyester chain in Brazil. Part of the equipment of the DMT unit has been used by other plants of the Company and part of it has been intended for disposal as scrap. The net book value of the goods for disposal has decreased against the result of the year ended 2007 (Note 12).

In December 2008, the Company announced the business withdrawal of PET in view of the fact that the studies initiated in 2007 indicated the unfeasibility of retaking the production of that resin on competitive bases. Part of the equipment of the PET unit has guaranteed use in other ventures of the Company. The net book value of the remaining assets has been taken to the result of the year ended 2008 (Note 12)

(c) 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 major developments during 2006, 2007 and 2008 can be summarized as follows:

(i) Acquisition of Politeno Indústria e Comércio S.A. ("Politeno") shares

On April 4, 2006, Braskem acquired from Suzano Petroquímica, Sumitomo Chemical and Itochu Corporation 100% of the common and preferred shares of Politeno held by those companies, which comprised 62.2% of Politeno's total share capital.

Following such acquisition, Braskem held 100% of the voting share capital and 96.16% of the total share capital of Politeno, a company located in the Northeast Petrochemical Complex, with an annual production capacity of 360 thousand metric tons of polyethylene. The initial consideration paid by Braskem was R\$ 237.5 (equivalent to US\$ 111.3 million), which was subject to adjustment based on the performance of the entity acquired.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

The final amount paid for the shares was computed in November 2007, based on Politeno's average performance over the 18 months subsequent to the execution of the purchase and sale agreement, in accordance with the difference between the prices of polyethylene and those of ethylene in the Brazilian market, audited by an independent appraisal firm appointed by Braskem and the former shareholders of Politeno. The balance due by Braskem, amounting to R\$ 247.5, was paid in January 2008 and as of December 31, 2007, was recorded in current liabilities, under "Creditors for investments acquisition". This provision gave rise to goodwill of R\$ 174.1.

(ii)

Merger of Polialden Petroquímica S.A. ("Polialden")

The Extraordinary General Meeting held on May 31, 2006 approved the merger of Polialden into the Company, through an exchange of shares and based on the book value of Polialden's shareholders' equity as of March 31, 2006, in the amount of R\$ 289.9. The exchange ratio of Polialden shares for Braskem shares was determined based on the market value of shareholders' equity as of March 31, 2006, based on appraisal reports issued by an independent appraisal firm. This merger, resulted in the issuance of new shares by Braskem for the minority interests which exchanged their shares (Note 21(a)), and in a cash payment by Braskem to minority interests that did not accept the share exchange.

Preferred shares of Polialden held by third parties were exchanged for Braskem Class A preferred shares at the ratio of 33.62 Class A preferred shares of Braskem for each 1,000 preferred shares of Polialden, which corresponded to an increase of 6.76% if compared to the ratio derived from the appraisal reports of the market value of shareholders' equity.

The equity variations determined during the period from the merger base date to the completion of the merger were recorded in the statement of operations of Braskem as equity in earnings.

The balance of goodwill as of the merger date amounted to R\$ 337.3 and was based on expectations of future profitability. Such amount was reclassified to intangible assets (Note 3.1 (a)(i)) after the merger. Negative goodwill after the merger was no longer related to any investment and, therefore, the amount of R\$ 53.0 was written off in the statement of operations under amortization of goodwill (negative goodwill), net in 2006.

Upon the merger of Polialden, the Company's share capital was increased by R\$ 105.3, through the issuance of 7,878,725 Class A preferred shares. The Company's share capital after the merger totaled R\$ 3,508.3.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

(iii) Cinal spin-off

From May 19, 2006 through June 9, 2006 the Company acquired 13.18% of the minority interests in Cinal. The purchase price was R\$ 10.9, and the goodwill recorded was R\$ 0.1. Following the acquisition, the Extraordinary General meeting held on July 20, 2006 approved the partial spin-off of Cinal and the related merger of Cinal's industrial assets into the Company. The spin-off did not have any impact in the consolidated financial statements of the Company, because Cinal was under common control.

(iv) Formation of Braskem Europe B.V.

At a meeting held on September 29, 2006 the board of directors of the Company approved the formation of an entity in The Netherlands, named Braskem Europe B.V. ("Braskem Europa"), as a limited liability partnership, with the Company as partner holding 100% of the capital.

(v) Merger of Politeno

At the Extraordinary General Meeting held on April 2, 2007 shareholders approved the merger of Politeno, based on its shareholders' equity as of December 31, 2006, amounting to R\$ 499.0. The exchange ratio of Politeno shares for Braskem shares was determined based on the companies' shareholders' equity at book value, based on appraisal reports issued by an independent appraisal firm.

The Company's share capital was increased by R\$ 19.2 to R\$ 3,527.4 through the issuance of 1,533,670 Class A preferred shares and now comprises 123,978,672 common, 247,154,278 Class A preferred and 803,066 Class B preferred shares.

In order to maintain the current capital structure of Braskem, comprising 1/3 common shares and 2/3 preferred shares, the conversion of 486,530 Class A preferred shares into common shares was approved.

Braskem S. A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

(vi) Acquisition of Ipiranga Group

On April 18, 2007 Ultrapar Participações S. A. ("Ultrapar") for itself and acting as agent for the Company and Petróleo Brasileiro - S. A. - Petrobras ("Petrobras"), acquired for R\$ 2,113.1 the equivalent to 66.2% of common shares and 13.9% of preferred shares issued by Refinaria de Petróleo Rio-Grandense S. A. ("RPR"), 69.2% of common shares and 13.5% of preferred shares issued by Distribuidora de Produtos de Petróleo Ipiranga S. A. ("DPPI"), and 3.8% of common shares and 0.4% of preferred shares issued by Companhia Brasileira de Petróleo Ipiranga ("CBPI"), held by the controlling shareholders of the Ipiranga Group. The Company and Petrobras paid part of the purchase price (R\$ 651.9) pursuant to an agency agreement among the parties.

Pursuant to the agreement among Ultrapar, Braskem and Petrobras, the Company now controls certain petrochemical assets, represented by IQ Soluções & Química S. A. ("IQ"), Ipiranga Petroquímica S. A. ("IPQ") and IPQ's interest in Companhia Petroquímica do Sul ("Copesul"). Assets associated with oil refining operations held by RPR are shared equally by Petrobras, Ultrapar and Braskem.

Under the agency agreement, Ultrapar was responsible for carrying out a corporate reorganization of the acquired companies, with the purpose of segregating the assets assigned to each acquiring company. The stages of this process included the following:

- (a) Tag-along public tender offer for the acquisition of the common shares of RPR, DPPI and CBPI.
- (b) Merger of outstanding shares of RPR, DPPI and CBPI into Ultrapar.

Braskem S.A. and Its Subsidiaries

**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

- (c) Segregation of assets, as follows: (i) transfer of the petrochemical assets then held by Ultrapar, to be subsequently delivered to Braskem and Petrobras, in accordance with the agency agreement; and (ii) spin-off of CBPI in order to transfer the northern distribution assets to a subsidiary of Petrobras.

As referred to in item (a) above, on October 22, 2007 a public tender offer auction was carried out for the acquisition of outstanding common shares of DPPI and RPR, at a price per share of R\$ 112.88 and R\$ 107.05, respectively. The acquisition included: (i) 82% of outstanding common shares of RPR, thus increasing Ultrapar's interest in voting share capital from 61.6% to 93.1%, and (ii) 77% of outstanding common shares of DPPI, thus increasing Ultrapar's interest in voting share capital from 84.2% to 96.1%. The total amount disbursed was R\$ 473.0, of which Braskem paid R\$ 203.7.

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Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

The CBPI auction was conducted on November 8, 2007. The offer price was R\$ 64.91 per share. Through a public tender offer on October 5, 2007 the Company's subsidiary EDSP58 Participações Ltda. ("EDSP58") acquired 34,040,927 common shares of Copesul for R\$ 38.02 per share, representing 98.63% of the total shares eligible to participate in the offer. The financial settlement occurred on October 10, 2007 and the amount paid was approximately R\$ 1,294.2, of which Braskem paid R\$ 776.5. On October 18, 2007 the Brazilian Securities Commission (Comissão de Valores Mobiliários - "CVM") approved the delisting of Copesul's common shares from the São Paulo Stock Exchange - BOVESPA.

As less than 5% of Copesul's share capital remained outstanding, Copesul's board of directors negotiated directly with these shareholders and purchased their common shares, offering the same price per share that was offered in the public tender offer.

On December 6, 2007 the merger of EDSP58 into Copesul was approved. As a consequence, 35,710,357 common shares in Copesul held by EDSP58 were cancelled and Copesul's share capital was decreased by R\$ 378.4, resulting in share capital at December 31, 2007 of R\$ 531.6.

On June 28, 2007 Braskem's indirect subsidiary EDSP67 Participações S.A. acquired 100% of the outstanding shares of IPQ, representing 7.61% of its total share capital. Braskem paid R\$ 117.9 for this acquisition. As a result of this acquisition, the CVM approved the delisting request of IPQ on July 18, 2007.

(vii) Acquisition of shares and merger of Tegal

On April 30, 2007 Braskem acquired 3.11% and 1.06% of quotas in TEGAL - Terminal de Gases Ltda. ("Tegal"), owned by Oxiteno Nordeste S.A. Indústria e Comércio ("Oxiteno") and Dow Brasil Nordeste Industrial Ltda., respectively. Following the acquisition, Braskem held 100% of the capital of Tegal, a company located in the Aratu Port, at Camaçari, Bahia, that provides services for the storage and movement of liquefied gases. The amount paid by Braskem was R\$ 1.1, giving rise to goodwill of R\$ 0.5, fully amortized to the statement of operations, in accordance with CVM Instruction 247/96.

At the Extraordinary General Meeting held on July 31, 2007 shareholders approved the merger of Tegal, based on its shareholders' equity as of May 31, 2007, amounting to R\$ 12.9. Changes in shareholders' equity between May 31, 2007 and the date of merger were recognized in the statement of operations of Braskem.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

(viii) Conversion of ODBPAR INV S.A. Debentures

On June 18, 2007 Odebrecht S.A. ("Odebrecht"), through ODBPAR INV S.A. ("ODBPAR INV"), exercised its right to convert into shares of Braskem 100% of its 59,185 convertible subordinated debentures, in accordance with the indenture, upon maturity of the debentures. The debentures were converted into shares of Braskem on July 31, 2007 (Note 21(a)).

(ix) Acquisition and sale of Petroflex shares

On August 15, 2007 the Company exercised its right of first refusal to acquire shares issued by Petroflex Indústria e Comércio S.A. ("Petroflex") owned by SPQ Investimentos e Participações Ltda., a subsidiary of Suzano, due to the sale of control of such subsidiary to Petrobras.

Upon transfer of the shares, on October 31, 2007, Braskem's interest in the total share capital of Petroflex increased from 20.12% to 33.53%, and its interest in the voting share capital increased from 20.14% to 33.57%. The right of first refusal was exercised at the book value of Petroflex, and in September 2007, the Company paid R\$ 61.0 for this acquisition.

In December 2007, Braskem, in conjunction with UNIPAR União de Indústrias Petroquímicas S.A. (UNIPAR) and other minority shareholders in Petroflex, entered into a Share Purchase Agreement under which the Company agreed to sell all its shares in Petroflex which had been classified as an Investment held for sale at the book value of the net investment of R\$136.7, to Lanxess Deutschland GmbH for an aggregate price of R\$ 252.1. On April 1, 2008, this transaction was completed.

– **Braskem S.A. and Its Subsidiaries**

– **Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

– All amounts in millions of reais, unless otherwise indicated

(x) Petrobras transaction

On November 30, 2007 Braskem entered into an investment agreement with our controlling shareholder Odebrecht, Petrobras, Petroquisa and Odebrecht's subsidiary Nordeste Química S.A.- Norquisa, or "Norquisa", which we refer to as the "Petrobras Investment Agreement". We refer to the transactions under the Petrobras Investment Agreement collectively as the "Petrobras Transaction". Under the Petrobras Investment Agreement, the Petrobras Transaction will be completed in two phases. In the first phase Petroquisa will contribute the following assets to Braskem:

. 36.4% of the voting and total share capital of Copesul;

. 40.0% of the voting and total share capital of IQ, which in turns owns all of the outstanding share capital of IPQ;

. 40.0% of the voting and total share capital of Paulínia.

In the second phase Petroquisa will contribute the following assets to Braskem:

. up to 100% of the total and voting share capital of Triunfo, at the option of Petrobras and Petroquisa.

In exchange for these assets, Braskem has issued an aggregate of 13,387,157 shares Class A Petroquisa.

As a result of the completion of the Petrobras Transaction, Petrobras and Petroquisa owned, directly and indirectly, 25.3% of our total share capital, including 31.0% of our voting share capital, and Braskem owned, directly and indirectly:

. all of the outstanding share capital of Copesul;

. all of the outstanding share capital of IQ, which, in turn, owns all of the outstanding share capital of IPQ

. all of the outstanding share capital of Paulínia;

. all of the outstanding share capital of Triunfo.

The Petrobras Transaction has been implemented through an exchange of shares (*substituição de ações*) approved in the Extraordinary General Meeting held on April 30, 2009, by the shareholders of Braskem, Copesul, IQ, IPQ, Paulínia and Triunfo (Note 31).

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

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- (xi) Capital increase of Petroquímica Paulínia S.A. ("Petroquímica Paulínia")

On November 16, 2007, the Company and Petrobras paid up Petroquímica Paulínia shares with shares of CPP - Companhia Petroquímica Paulista ("CPP") at market value. On November 20, 2007 the merger of CPP into Petroquímica Paulínia was approved.

- (xii) On May 30, 2008, the acquisition by Braskem at book value of Grust Holdings S.A. (Grust), then a wholly-owned subsidiary of Petroquisa, was approved. At that date, Grust directly or indirectly held the following petrochemical assets: (i) 36.4% of the voting capital of Copesul, (ii) 40.0% of the voting capital of IPQ, (iii) 40.0% of the voting capital of IQ, and (iv) 40.0% of the voting capital of Petroquímica Paulínia. After the merger, Braskem holds 99.1% of the voting capital of Copesul and 100% of the voting capital of IPQ, IQ and Petroquímica Paulínia. The latter was a jointly-controlled entity with Petroquisa.

Under the acquisition, Petroquisa received 46,903,320 new common and 43,144,662 new Class A preferred shares issued by Braskem, in accordance with the following exchange ratio determined based on the economic values of Grust and Braskem, as stated in reports of specialized firms: 0.067419126039 common and 0.062016407480 Class A preferred shares issued by Braskem for each one (1) common share issued by Grust. Braskem, in turn, received 695,697,538 common shares in Grust held by Petroquisa. As a result of the merger of shares Braskem's capital was increased by R\$ 720.7, equal to the book value of Grust's shareholders' equity as of March 31, 2008.

The Extraordinary Shareholders' Meeting of subsidiary Grust held on July 10, 2008 approved a capital increase from R\$ 695.7 to R\$ 797.8, without the issue of new shares, through the capitalization of current earnings determined as of June 30, 2008, in the amount of R\$ 102.1.

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The Extraordinary Shareholders Meeting of subsidiary IPQ held on July 16, 2008 approved a capital increase through the contribution by Grust of its interest in Copesul, in the amount of R\$ 302.6. Accordingly, IPQ's capital increased from R\$ 349.5 to R\$ 652.1, through the issue of 11,938,022,669 common shares.

The Extraordinary Shareholders Meeting of subsidiary Grust, held on July 28 2008, approved a capital reduction by R\$797.8, to ten Reais (R\$ 10,00), with the ensuing cancellation of 695,697,528 common shares. As a result, the following assets, at book value as of June 30, 2008, were returned to Braskem:

- (i) 174,429,784,996 common shares in IQ, in the amount of R\$ 398.5;
- (ii) 11,938,022,669 common shares in IPQ, in the amount of R\$ 302.6, and
- (iii) 112,000 common shares in Petroquímica Paulínia, in the amount of R\$ 96.7.

Following the transfer, Braskem directly held 100.0% of the voting capital of IQ and Petroquímica Paulínia, 26.0% of the voting capital of IPQ, and 59.9% of the voting capital of Copesul.

(xiii) Merger of Copesul and IQ

The Extraordinary Shareholders Meetings held on September 11, 2008 approved the merger of Copesul into IPQ. As a result of such merger, the capital of IPQ increased by R\$ 585.3, from R\$ 652.1 to R\$ 1,237.4, through the issue of 23,695,195,295 preferred shares. The increase was based on Copesul's shareholder's equity at net book value as of July 31, 2008 (the transaction base date), under the terms and conditions set out in the Protocol and Justification dated August 22, 2008, which established the exchange ratio in accordance with the economic values of IPQ and Copesul, whereby each one (1) Copesul share was exchanged for 524 IPQ preferred shares. Equity variations in Copesul between the base date and the merger date were fully reflected in IPQ, under the equity in the results of subsidiary and associated companies line.

The Extraordinary Shareholders Meetings of Braskem and IQ held on September 30, 2008 approved the partial spin-off of IQ, where the spun-off assets, relating to interests in IPQ and ISATEC - Pesquisa, Desenvolvimento e Análises Químicas Ltda. (ISATEC) were transferred to the Company.

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On the same date, Extraordinary Shareholders Meetings approved the mergers, into Braskem, of IPQ and Petroquímica Paulínia were approved, under the terms and conditions set out in the merger protocol and justification, dated September 12, 2008. Additionally, the Company capital was increased by R\$ 14.1, from R\$ 5,361.7 to R\$ 5,375.8, through the issue of 1,506,061 Class A preferred shares, which were appropriated to remaining shareholders of IPQ, who are now Braskem shareholders.

(d) Administrative Council for Economic Defense - CADE

In July, 2008, the CADE approved the acquisition of the petrochemical assets of the Ipiranga Group by Braskem and Petrobras. The only one recommendation done by CADE was to adjust the clause related non competition between the sellers, which it is limited for the active market where they operated.

At the same decision, the CADE also approved the investment agreement in which Petrobras incorporated shares in Braskem through its minority participation in Copesul, IPQ, IQ and Petroquímica Paulínia.

With this decision from CADE, there are no more restrictions to manage and incorporation of the assets involved on this acquisition.

(e) Corporate governance

Braskem agreed to comply with Level 1 of the Corporate Governance Standards of the Bovespa, which mainly commits the Company to (i) provide additional information to the market; and (ii) increase the percentage of capital available for trading in the market.

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2 Presentation of the Financial Statements

In compliance with CVM Deliberation 505/06, the authorization to issue these financial statements was granted at the Executive Board Meeting held on February 19, 2009.

The consolidated financial statements of the Company for 2008, 2007 and 2006 have been prepared in accordance with the accounting practices adopted in Brazil ("Brazilian GAAP"), which are based on:

- . Brazilian Law no. 6404/76, as amended by Brazilian Law no. 9457/97 and Brazilian Law no. 10303/01 ("Brazilian Corporate Law");
- . the rules and regulations of the Brazilian Securities Commission (the "CVM"); and
- . the accounting standards issued by the Brazilian Institute of Independent Accountants (Instituto dos Auditores Independentes do Brasil - or "IBRACON").

Changes in Brazilian Corporate Law

On December 28, 2007 and December 4, 2008, respectively, Law nº. 11,638/07 and Provisional Measure (MP) nº. 449 were enacted amending and introducing new provisions to Law nº. 6,404 (Brazilian Corporate Law). The main objective of the Law and MP was to update Brazilian corporate legislation to allow for the accounting practices adopted in Brazil to converge with those of the International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB). The application of the Law and MP is mandatory for annual financial statements for years beginning on or after January 1, 2008.

According to the Law, the Accounting Pronouncement Committee (Comitê de Pronunciamentos Contábeis (CPC), an independent, not for profit organization represented by listed companies, investors, analysts, the accounting profession, auditors and the academy, and observed by the financial markets regulators (CVM, Brazilian Central Bank, etc) will be responsible to develop the Accounting Pronouncements (CPCs) that would in the future bring convergence with IFRS.

Braskem S. A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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The purpose of the Accounting Pronouncements Committee CPC is the study and issuance of accounting and audit principles, rules and standards. The adoption of the pronouncements and technical guidelines issued by the CPC depends upon approval by the CVM, the Brazilian Central Bank or other regulatory agencies. For the Company, the pronouncements and guidelines of the CPC that have been approved by the CVM are valid for the 2008 financial statements.

CPC Pronouncement	Subject
CPC 01	Impairment of assets
CPC 02	Effects of exchange rate changes and conversion of financial statements
CPC 03	Statements of cash flows DFC
CPC 04	Intangible assets
CPC 05	Disclosures about related parties
CPC 07	Government grants and subsidies
CPC 08	Transaction costs and premiums at the issue of marketable securities
CPC 09	Statement of value added DVA
CPC 12	Adjustment to present value
CPC 13	First - time adoption of Law 11638/07 and of Provisional Measure 449/08
CPC 14	Financial instruments: recognition, measurement and evidence

According to item 51 of CPC 13, the Company is no longer required to present the Statement of Changes in Financial Position.

Adjustments related to the first-time adoption of Law 11638/07 and MP 449/08 are described in Note 3, and have been applied retroactively for all periods presented.

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Transition Tax Regime (RTT)

The amounts presented in the financial statements as of December 31, 2008 considered the adoption of the Transition Tax Regime (RTT), by the Company and its subsidiaries with head offices in Brazil, as established by Provisional Measure 449/08, the purpose of which is to maintain the tax neutrality of the amendments to the Brazilian corporate legislation, introduced by Law 11638/07 and MP 449/08. The permanent option for the RTT will be stated only on the occasion of the delivery of the Statement of Corporate Economical and Tax Information - DIPJ. The transition tax effects, whenever applicable, generated as a result of the adoption of the RTT, are described in the note on deferred income tax and social contribution.

The consolidated financial statements prepared by the Company for statutory purposes, which include the stand-alone financial statements of Braskem S. A. (parent company), were filed with the CVM on March 5, 2009. The financial statements presented herein do not include the parent company's stand-alone financial statements and are not intended to be used for statutory purposes.

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3 Significant Accounting Practices

3.1 Adoption of Law 11638/07 in 2008

A number of changes were made to accounting practices adopted in Brazil in 2008 as a result of adoption of Law 11.638/07. The Company opted to retroactively apply the new accounting practices using an opening balance sheet of January 1, 2006, as the starting point according to the corporate legislation amended by Law 11638/07 and MP 449/08. The changes in accounting practices impacted the results, balance sheet and cash flow statements and the financial information of the years ended on December 31, 2007 and 2006 has therefore been retrospectively revised.

The following notes detail the equity and income statement adjustments resulting from the first-time adoption of Law 11638/07 and MP 449/08 to include; (a) a summary of the changes in accounting practices that affected the opening balances on January 1, 2006, and; (b) a summary of the effects on the statement of operations and shareholders' equity for the years ended December 31, 2007 and 2006 resulting from the adoption of the said legislation.

(a) Summary of the changes in accounting practices which affected the opening balances at January 1, 2006.

(i) Deferred charges

Balances of the deferred charges existing on December 31, 2006, mainly related to goodwill based on the expectation of future profitability in the amount of R\$ 1,531.0 (January 1, 2006 R\$ 1,689.4) were reclassified to intangible assets. Other balances in the amount of R\$ 212.9 were written-off against the accumulated deficit on January 1, 2006, and only the pre-operating expenses that will be maintained up to their total realization by means of amortization or write-off will remain in deferred charges.

(ii) Adjustments to present value

Certain short-term accounts payable have been adjusted to present value based on specific interest rates that reflect cash settlement of these liabilities as regards term, risk, currency, pre-established or post-established payment condition, based on the opening balance of the date of transition as provided by CPC 13.

The effect of the adjustment to present value resulting from the first-time adoption of Law 11638/07 and MP 449/08 has been recorded in accumulated deficit.

(iii) Tax incentive

The portions of tax incentives received for investments are now recorded in the account "Income tax and social contribution - current" in the statement of operation. Upon the appropriation of net income, these incentives were transferred to the account "Tax incentives reserve", in stockholders' equity.

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(b) Summary of the effects of adoption of Law 11638/07 and MP 449/08

The reconciliations of net income and shareholders' equity as at December 31, 2007 and 2006 with and without considering the effect of adopting Law 11638/07 and MP 449/08, are described below and referenced to the item descriptions above.

	2007	2006
Net income without the effects of Law 11638/07 and MP 449/08 (as previously reported)	547.6	101.3
i) Reversal of amortization deferred charges	59.5	54.0
ii) Adjustments to present value	-	32.8
iii) Write-off of deferred charges	(34.8)	-
iv) Tax incentives	49.5	11.8
Deferred tax	-	22.9
Total Net adjustments arising from adoption of the Law and MP	74.2	121.5
Net income for the year ended on December 31	621.8	222.8

	December 31 2007	December 31 2006	January 1, 2006
Shareholders' equity at December 31, without the effects of Law 11638/07 and MP 449/08 (as previously reported)	5,757.0	4,311.8	4,535.8
Adjustments on the date of transition :			
Accumulated effects from prior years	(103.2)	(212.9)	-
Impacts on both results and shareholders' equity :			
i) Reversal of deferred charges	59.5	54.0	-
ii) Adjustments to present value	-	32.8	-
iii) Write-off of deferred charges	(34.8)	-	(212.9)
Deferred tax	-	22.9	
Shareholders' equity at December 31	5,678.5	4,208.6	4,322.9

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3.2 Summary of significant accounting practices

(a) Use of estimates

In the preparation of the consolidated financial statements, it is necessary to utilize estimates to record certain assets, liabilities and other transactions. Therefore, these financial statements include various estimates relating to the selection of the useful lives of property and equipment, measurement of services earned under long-term contracts, provisions for contingent liabilities, determination of provisions for income tax and other matters. Although these estimates have been made with the highest accuracy possible, they may not materialize.

(b) Foreign currency and functional currency

The Company's management has established that its functional currency is the Real according to the rules described in CPC 02.

Transactions in foreign currency, i.e., all those transactions that are not carried out in functional currency, are converted at the exchange rate of the date of each transaction. Monetary assets and liabilities in foreign currency are converted into functional currency at the exchange rate of the date of the financial statements. Gains and losses due to exchange rate movements on monetary assets and liabilities are recognized in the statement of operations. Non-monetary assets and liabilities in foreign currency are converted based on the exchange rates of the transaction dates or on the date of the fair value evaluation whenever fair value is used.

(c) Revenue recognition and other operational items

Income and expenses are recognized on the accruals basis.

Revenue from the sale of goods is recognized in the statement of operations when the significant risks and rewards of ownership have been transferred to the buyer. Transfer of ownership occurs when the goods are delivered to the client or to their freight carriers, depending upon the sales terms. Freight expenses are reported within net sales and amounted to R\$ 612.0, R\$ 579.5 and R\$ 352.8 in 2008, 2007 and 2006, respectively.

The provision for income tax and value-added tax on sales and services ("ICMS") are recorded gross of the tax incentive portions, and the amounts related to tax exemptions and tax reductions are recorded in the statement of operations for the year.

Considering the provisions of CVM Deliberation 273/98, of August 20, 1998, and CVM Instruction 371/02, of June 27, 2002, the deferred income tax is stated at its probable realizable value, expected to occur as described in Note 18(b).

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Monetary and exchange variations of foreign currency assets and liabilities are classified as financial income and financial expenses, re

The Company has recognized in the results of each year the change in market value of derivative instruments related to liabilities index currency or international interest rates, except for those accounted for as hedging instruments.

The net profit per share is calculated based upon the number of shares existing on the year-closing date. Earnings per share are calculated the number of outstanding shares on the balance sheet date.

d) Current and noncurrent assets

(d.1) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand account balances with banks and similar institutions and highly liquid investments are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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- (d. 2) Financial instruments
- Classification and measurement
- The Company classifies its financial instruments in the following categories: (i) for trading (ii) loans and receivables, (iii) held to maturity and (iv) available-for-sale. The classification depends upon the purpose for which the financial instruments have been acquired. Management determines the classification of its financial instruments upon initial recognition.
- (i) Financial assets held for trading
- Financial assets held for trading with the intention of being traded actively and frequently, including derivatives, are measured at fair value unless they have been designated as hedges. Financial assets held for trading are classified as current assets. Gains or losses resulting from changes in the fair value of financial assets held for trading are recognized in the income statement of operations for the year.
- (ii) Loans and receivables
- Loans and receivables that are non-derivative financial assets with fixed or determinable payments, not quoted in an active market, are included in this category as current assets, except those with a maturity date that exceeds 12 months subsequent to the balance sheet date (these are classified as noncurrent assets). The Company's loans and receivables consist of loan agreement balances, current accounts with related companies, accounts receivables from clients, other accounts receivables, and cash and cash equivalents, except short-term investments. Loans and receivables are accounted for at amortized cost, using the effective interest rate method.
- (iii) Financial assets held to maturity
- Assets held to maturity are those financial assets that are not classified as loans and receivables due to being quoted in an active market. These financial assets are acquired with the intention and ability to hold the portfolio of assets to maturity. Assets held to maturity are recorded at historic cost plus earnings, recognized in the statement of operations for the year.
- (iv) Financial assets available for sale
- Financial assets available for sale are non-derivatives that are designated in that category or that have not been classified in any other category. They are included in noncurrent assets, unless management intends to dispose of the investment before 12 months subsequent to the balance sheet date. Financial assets available for sale are accounted for at fair value. Interest earned on assets available for sale, calculated using the effective interest rate method, is recognized in the statement of operations. The change in fair value is recorded in equity, net of taxes, in the Fair value adjustments account, and is taken to the statement of operations in the event of the asset's derecognition or when there is objective evidence of a decline in fair value of the asset (impairment).

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Fair value

The fair values of publicly-quoted investments are based on the current share purchase price. For those financial assets with no active market or public quotation, the Company establishes the fair value by means of valuation techniques. These techniques include the use of recent transactions carried out with third parties, reference to other instruments that are substantially similar, the analysis of discounted cash flows and the standard models of option pricing that use information generated by the market, rather than by the Company's management, to the extent possible.

The Company evaluates, on the date of the balance sheet, whether there is objective evidence that a financial asset or a group of financial assets is recorded at a value that exceeds its recoverable value (impairment). In the event of such evidence for the financial assets available for sale, the cumulative loss—measured as the difference between the cost of acquisition and the current fair value, minus any loss by impairment of this financial asset previously recognized in the results—is removed from equity and recognized in the statement of operations.

Derivative financial instruments and hedge activities

The Company uses derivative financial instruments to protect itself from foreign exchange and interest rate risk.

Derivatives are initially recognized at their fair value and the attributable transaction costs are recognized in the statement of operations as incurred. Subsequent to initial recognition, the derivatives are measured at fair value and changes are accounted for in the statement of operations, except as described below for the hedge accounting :

Cash flow hedges

Changes in the fair value of derivative instruments that are designated for the purposes of cash flow hedging are recognized directly in equity, for the portion of the gain or loss that is determined to be an effective hedge. Any remaining gain or loss (that is not related to an effective hedge) is recognized in the statement of operations.

In the event that the hedge instrument does not comply with the criteria for hedge accounting, expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively. Accrued gains or losses previously recognized in equity are immediately transferred to the statement of operations for the year.

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The Company recognized liabilities related to hedge accounting, the characteristics of which satisfy the requirements of CPC 14. The document required in order to apply hedge accounting, as provided in CPC 13, was complete as of December 31, 2008.

(d.3) Trade accounts receivable

Accounts receivables from clients are recorded at invoiced value, adjusted to present value, and where applicable are shown net of any allowance for doubtful accounts. The allowance for doubtful accounts consists of amounts considered sufficient to cover probable losses on realization, taking into account the Company's loss history.

(d.4) Inventories

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

(d.5) Deferred taxes

Deferred tax assets are calculated on tax losses and expenses temporarily non-deductible for the calculation of current income tax. Recognition of deferred tax assets to the extent it is probable that future taxable profit will be available to offset the temporary differences, based upon internal income projection scenarios that may be subject to change. Periodically, the deferred tax amounts recognized are reassessed in accordance with CVM Directive August 20, 1998, and CVM Instruction 371/02, of June 27, 2002.

(d.6) Other assets

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

(e) Non-current assets

(e.1) Shareholdings in subsidiaries, jointly-controlled entities and associated companies:

Investments in jointly-controlled entities and associated companies are recorded on the equity method, including goodwill (negative goodwill) and amortization. Goodwill is calculated as the difference between the amount paid and the book value of net assets acquired. Total goodwill is based on the fair values of assets and expected future profitability of the investees and is amortized over the useful life of the related assets or up to ten years, depending on the nature of profitability. Goodwill in merged companies is transferred to property, plant and equipment and intangible assets, when based on asset values and expected future profitability of the investees, respectively.

Other investments are recognized at acquisition cost, less any provision for loss in value where applicable.

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(e.2) Property, plant and equipment

Property, plant and equipment are shown at acquisition or construction cost and include capitalized financing charges incurred during the construction period. Capitalized financing charges are added to assets and depreciated as from the date they become operational.

As from January 2006, in accordance with IBRACON Technical Interpretation 01/2006, the Company records all programmed maintenance shutdown expenses in property, plant and equipment, under Machinery, equipment and facilities. Such stoppages occur at scheduled intervals from two to six years and the related expenses are amortized through the beginning of the next maintenance shutdown.

Depreciation of property, plant and equipment is recorded on a straight-line basis at the rates stated in Note 12, which consider the estimated useful lives of the assets.

(e.3) Intangible assets

Intangible assets comprise assets acquired from third parties (including those acquired through a business combination) and those internally generated by the Company. The following criteria are applied:

- Acquired from third parties through a business combination - Goodwill based on the expectation of future profitability, arising from acquisitions involving business combinations, have been amortized through December 31, 2008, with a useful life of 10 years. Goodwill will not be amortized as from January 1, 2009 but instead will have its recoverable value periodically tested for any indication of loss in value.
- Intangible assets acquired from third parties - Intangible assets with defined useful lives are measured at acquisition cost less amortization. Amortization is calculated on a straight-line basis, at the rates stated in Note 14, which considers the estimated useful lives of the assets. Intangible assets with indefinite lives will not be amortized as from January 1, 2009 but instead will have their recoverable values periodically tested for any indication of loss in value.

The Company records research expenses in the statement of operations.

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(e.4) Deferred Charges

At December 31, 2008 the Company opted to maintain in deferred charges, only the expenses incurred during the period of construction of industrial plants (pre-operating expenses). These expenses are amortized over 10 years from the beginning of operations of the respective industrial plant.

(e.5) Judicial deposits

Judicial deposits are deducted from the related contingent liabilities or classified as assets if there is no corresponding contingency, pursuant to CVM Deliberation 489/05.

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The recoverable value of property 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.

(f) Current and non-current liabilities

Current and non-current liabilities are stated at known or estimated amounts, including accrued charges and monetary and exchange adjustments. Where applicable, current and non-current liabilities are recognized at present value, on a transaction by transaction basis, based upon interest rates that reflect the term, currency and risk of each transaction. The change in present value is reflected in the statement of operations over the term of effectiveness of the agreement based on the amortized cost and the effective interest rate method.

(f.1) Adjustment to present value

In accordance with CPC 12, the Company discounts purchases with credit terms in up to one year, such as naphtha, to present value, based on the estimated spot price for the related products and services.

During 2008, 2007 and 2006, the Company discounted to estimated spot price purchase transactions amounting to R\$ 2,750.6, R\$ 1,553.2 and R\$ 1,397.9.

Although all purchases are under normal industry conditions within one year, under CPC 12 Adjustment to Present Value these purchases are initially recorded based on an estimated cash payment basis, discounting the invoice amount payable to the date of the purchase agreement base. Present value discounts related to these purchases are recorded at the time the purchase contract are signed and are reversed through the income statement over the duration of the credit term.

The present value discounts charged in the years ended December 31, 2008, 2007 and 2006 and their impacts on the financial statements are demonstrated below:

	2008	2007	2006
Financial charges relating to discounts in the year	126.7	81.5	32.8

The balance of the financial charges to be appropriated is classified as a reduction of the suppliers' account.

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(f.2) Loans

Loans are recognized, initially, at fair value, net of expenses incurred in the transaction structuring (transaction costs). Subsequently, the loans are recognized at amortized cost, including charges and interest incurred during the period.

Non-convertible debentures are recognized using the same method as for loans.

(f.3) Contingencies

Contingencies are presented net of the associated judicial deposits, in accordance with CVM Deliberation 489/05.

(f.4) Pension plan

Liabilities related to defined benefit pension plans are measured at the present value of the benefit obligation on the balance sheet date less the market value of the pension plan assets, adjusted by actuarial gains or losses and costs of past services. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by an estimate of future cash outflows, using the public securities interest rates, the maturity dates of which are close to the maturity dates of the related liabilities.

Actuarial gains and losses arising from changes in actuarial assumptions and amendments to pension plans are charged or credited to the statement of operations over the average time of remaining service of the related employees.

For defined contribution plans the Company pays contributions to privately-administered pension plans on compulsory, contractual or voluntary bases. As soon as contributions have been made, the Company has no further obligations in relation to additional payments. Periodic contributions are included in the personnel costs.

(f.5) Other provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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The consolidated financial statements were prepared in accordance with the consolidation principles set forth in the Brazilian Corporate Law and rules of the CVM and include the financial statements of Braskem, its subsidiaries, jointly-controlled companies, and Special Purpose Entities ("SPEs") in which the Company has direct or indirect share control, as shown below:

	Head office (Country)	Direct and indirect interest in total capital - %	
		2008	2007
Foreign subsidiaries			
Braskem America Inc. (Braskem America)	USA	100.00	100.00
Braskem Argentina S.R.L (Braskem Argentina)	Argentina	100.00	100.00
Braskem Europe B.V. (Braskem Europa)	Holland	100.00	100.00
Braskem Finance Limited (Braskem Finance)	(i) Cayman Islands	100.00	
Braskem Incorporated (Braskem Inc)	Cayman Islands	100.00	100.00
Braskem Petroquímica S.A. (IPQ Argentina)	(ii) Argentina	100.00	
Braskem Petroquímica Chile Limitada (Braskem Chile)	(ii) Chile	100.00	
IPQ Petroquímica Chile Limitada (IPQ Chile)	(ii) Chile	100.00	
Natal Trading	(ii) British Virgin Islands	100.00	
Copesul International Trading INC. (CITI)	(ii) British Virgin Islands	100.00	
Local subsidiaries			
Braskem Distribuidora Ltda. and subsidiaries	Brazil	100.00	100.00
Braskem Participações S.A. (Braskem Participações)	Brazil	100.00	100.00
Companhia Alagoas Industrial CINAL (CINAL)	Brazil	100.00	100.00
Copesul and subsidiaries	(iii) Brazil		62.70
Grust Holdings S.A. (Grust)	(iv) Brazil	100.00	
IQ and its subsidiaries	Brazil	100.00	60.00
ISATEC Pesquisa, Desenv. e Análises Quím.Ltda. (ISATEC)	(ii) Brazil	100.00	
CCI- Comercial Importadora S.A (CCI)	(ii) Brazil	100.00	
Petroquímica Paulínia S.A. (PPSA)	(v) Brazil		60.00
Politeno Empreendimentos Ltda. (Politeno Empreendimentos)	Brazil	100.00	100.00
Jointly-controlled entity			
CETREL S.A. - Empresa de Proteção Ambiental ("CETREL")	(vii) Brazil	54.24	49.89
Special Purpose Entities (SPEs)			
Sol-Fundo de Aplicação em Cotas de Fundos de Investimento			
(FIQ Sol)	Brazil	100.00	100.00
Fundo Parin	Guernsey		100.00

(i) Entity incorporated in April 2008.

(ii) Subsidiaries directly controlled by Braskem as from the merger of IPQ and spin-off of IQ (Note 1 (c.vi)).

(iii) Entity merged by IPQ in September 2008 (Note 1(c.vi)).

(iv) Investment acquired in May 2008 (Note 1(c.xii)).

(v) Entity merged by the Company in September 2008. (Note 1 (c.xi))

(vi) Investment proportionately consolidated, as per CVM Instruction 247/96.

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- (vii) Jointly-controlled entity as a result of shareholders' agreement.
- (viii) Funds consolidated in compliance with CVM Instruction 408/04.

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

Minority equity and in the income of the subsidiaries have been presented separately in the balance sheets and in the results of the consolidated years, respectively. At December 31, 2008, Braskem had no more minority interest.

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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Goodwill is classified in a specific account in permanent assets in accordance with CVM Instruction 247/96. Negative goodwill is presented under "Deferred income".

Pursuant to paragraph 1, article 23 of CVM Instruction 247/96 and authorization by CVM Letter SNC 004/2008 and 005/2008, the Company has not proportionally consolidated the financial statements of the companies Companhia de Desenvolvimento Rio Verde - CODEVERDE and RPR. These subsidiaries' financial statements are not significant and do not affect, in any material aspect, the Company's consolidated financial statements.

These subsidiaries' summary balance sheets and statements of operations, adjusted to the Company's accounting practices, are as follows:

Balance Sheet

	Codeverde (*)			RPR
	2008	2007	2008	2007
Assets				
Current assets	0.4	0.4	42.5	85.3
Non-current assets	0.1	0.1	0.1	3.4
Permanent assets	101.4	46.6	35.3	34.8
Total assets	101.9	47.1	77.9	123.5
Liabilities and shareholders' equity				
Current liabilities	0.1	0.1	94.5	93.2
Non-current liabilities	1.7	1.7	36.0	61.5
Shareholders' equity	100.1	45.3	(52.6)	(31.2)
Total liabilities and shareholders' equity	101.9	47.1	77.9	123.5

(*) In the pre-operating stage, with no income or expenses.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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	2008	RPR 2007
Net sales	512.8	621.0
Cost of sales	(528.2)	(596.2)
Gross profit (loss)	(15.4)	24.8
Operating expenses, net	(44.7)	(23.2)
Operating profit (loss) before financial results	(60.2)	1.6
Financial results	(3.0)	(5.0)
Non-operating results	25.3	0.4
Loss before taxes	(37.8)	(3.0)
Deferred income tax and social contribution, net		(1.9)
Loss for the year	(37.8)	(1.1)

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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The balance sheets and statements of operations of jointly-controlled companies and SPEs can be summarized as follows:

	Three-month period ended March 31, 2007	Copesul (i)		Cetrel (ii)		Petroflex (iii)	
		2006	2008	2007	2006	Eleven-month period ended November 30, 2007	2006
Assets							
Current assets	-	1,261.8	61.9	31.8			
Long-term receivables	-	154.6	30.6	11.9			
Permanent assets	-	1,050.2	179.1	179.0			
Total assets	-	2,466.6	271.6	222.7			
Liabilities and shareholders' equity							
Current liabilities	-	840.7	27.4	24.2			
Long-term liabilities	-	325.7	29.4	25.6			
Shareholders' equity	-	1,300.2	214.8	172.9			
Total liabilities and shareholders' equity	-	2,466.6	271.6	222.7			
Statement of operations							
Net sales	1,727.3	6,299.2	98.8	106.2	106.2	1,300.7	1,361.5
Cost of goods sold and services rendered	(1,397.2)	(5,292.3)	(63.7)	(70.4)	(74.0)	(1,105.3)	(1,197.0)
Gross profit	330.1	1,006.9	35.1	35.8	32.2	195.4	164.5
Operating expenses, net	(37.2)	(117.5)	(15.0)	(16.4)	(19.7)	(93.1)	(131.3)
Non operating income (expenses), net	(2.8)	(4.3)	(1.3)	(1.9)	0.2	(0.2)	0.9
Income before income tax and social contribution	290.1	885.1	18.8	17.5	12.7	102.1	34.1
Income tax and social contribution	(97.1)	(269.9)	14.7	(4.7)	(2.5)	(33.2)	(8.1)
Net income for the year	193.0	615.2	33.5	12.8	10.2	68.9	26.0

(i) Investment consolidated as from April 1, 2007.

(ii) Financial statements excluding non-mandatory asset revaluation effects to conform to the Company's accounting policies.

(iii) Investment consolidated through November 2007 when the investment was classified as "held for sale".

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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	Petroquímica Paulínia (*) 2007
Assets	
Current assets	155.8
Long-term receivables	-
Permanent assets	647.6
Total assets	803.4
Liabilities and shareholders' equity	
Current liabilities	101.3
Long-term liabilities	460.3
Shareholders' equity	241.8
Total liabilities and shareholders' equity	803.4

(*) A development stage company.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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	Fundo Parin			FIQ Sol	
	2007	2006	2008	2007	2006
Assets	458.4	538.0	1,714.4	258.8	395.2
Liabilities	-	-	-	-	-
Shareholders' equity	458.4	538.0	1,714.4	258.8	395.2
Total liabilities and shareholders' equity	458.4	538.0	1,714.4	258.8	395.2
Net income (loss) for					
the year	(94.4)	(14.8)	63.1	30.3	37.0

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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4 Cash and Cash Equivalents

	2008	2007 Retrospectively revised
Cash and banks	145.9	578.8
Financial investments		
Domestic	1,836.0	612.9
Foreign	629.7	698.4
	2,611.6	1,890.1

Domestic financial investments in Brazil are mainly represented by quotas in Braskem exclusive funds (FIQ Sol) which, in turn, hold quotas in local investment funds, such as fixed-income, multimarket, credit rights funds, as well as other fixed-income instruments and time deposits. The financial investments abroad mainly consist of sovereign fixed income instruments or instruments issued by first-tier financial institutions with high marketability. The financial investments have been classified as maintained for negotiation and are measured at fair value by the income.

Such resources are allocated so as to : (i) seek a return that is compatible with the maximum volatility determined by the investment and risk policy; (ii) obtain a reasonable spread on the consolidated portfolio; (iii) reduce credit risk arising from a concentration in a small number of investments; and (iv) follow market interest rate variations both in Brazil and abroad.

5 Other Investments

	2008	2007 Retrospectively revised
Current assets		
Government securities issued abroad	331.4	-
Investment funds	-	248.7
Subordinated quotas of credit rights investment fund and others	5.6	-
	337.0	248.7
Long-term receivables		
Investment funds	11.6	118.1
Other	-	1.7
	11.6	119.8
Total	348.6	368.5

Public securities issued abroad are represented by treasuries bonds issued by the U.S.

Federal Government and were classified by the Company as available for sale . The part corresponding to the variation of the fair value was recorded in the Adjustments of equity valuation account in the shareholders equity, in the amount of R\$ 8.0 (Note 21(g)), net from taxes.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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On December 31, 2007, the investment funds included investment fund where Braskem is the exclusive quotaholder of the investment fund. The portfolio comprises time deposits at Credit Suisse First Boston Bank (CSFB). In February 2008, the deposits certificates were redeemed by the Company.

6 Trade Accounts Receivable

	2008	2007 Retrospectively revised
Customers		
Domestic market	1,484.5	1,697.2
Foreign market	897.2	725.2
Discounted trade receivables	(551.3)	(311.8)
Advances on export prepayment bills	(588.4)	(385.2)
Allowance for doubtful accounts	(198.7)	(186.5)
	1,043.3	1,538.9
Non-current assets	(47.1)	(41.9)
Current assets	996.2	1,497.0

The Company adopts an additional policy for realizing domestic trade accounts, by selling its receivables to investment funds with credit rights.

The Company carried out a trade bill discount transaction with a financial institution, undertaking to reimburse it in the event of default of the customers.

Changes in the allowance for doubtful accounts are as follows:

	2008	2007 Retrospectively revised	2006 Retrospectively revised
At the beginning of the year	186.5	153.3	87.3
Addition for the full consolidation of merged companies		45.3	15.5
Additions classified as selling expenses	20.6	44.1	99.3
Recovery of credits from bad debt	(8.4)	(31.3)	(48.6)
Write-off of bad debts		(24.9)	(0.2)
At the end of the year	198.7	186.5	153.3

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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All amounts in millions of reais, unless otherwise indicated

7 Inventories

	2008	2007 Retrospectively revised
Finished products and work-in-process	1,655.2	1,152.2
Raw materials, production inputs and packaging	631.1	651.4
Maintenance materials (*)	374.4	382.4
Advances to suppliers	167.9	53.2
Imports in transit and others	140.1	47.9
Total	2,968.7	2,287.1
Non-current maintenance materials (*)	(20.6)	(22.8)
Current assets	2,948.1	2,264.3

(*) Based on management's expectation of utilization, part of the maintenance materials inventory was reclassified to non-current maintenance materials.

Advances to suppliers and expenditures for imports in transit mainly relate to the acquisition of petrochemical naphtha, which is the main raw material used by the Company. Changes in the provision due to adjustments made to the realizable values of the inventories can be summarized as follows:

	2008	2007 Retrospectively revised
At the beginning of the year	19.3	16.3
Additions and (reductions) taken to the statement of operations	(5.2)	3.0
At the end of the year	14.1	19.3

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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All amounts in millions of reais, unless otherwise indicated

8 Related Parties

	Balances at December 31, 2008				
	Current assets	Long-term receivables	Current liabilities	Long-term liabilities	
	Trade accounts receivable	Related parties	Suppliers	Suppliers	Related parties
Jointly-controlled company					
CETREL	-	-	0.1	-	2.0
Associated company					
Borealis	0.2	-	-	-	-
Related parties					
Refinaria Alberto Pasqualini - REFAP S.A.	10.4	-	53.5	-	-
Construtora Norberto Odebrecht S.A. (CNO)	8.7	-	0.1	-	-
Petrobras	28.4	45.9	238.8	15.9	-
Petrobras International Finance Company (PIFCo)			738.0		
At December 31, 2008	47.7	45.9	1,030.5	15.9	2.0

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

Related parties (continued)

	Balances at December 31, 2007			
	Trade accounts receivable	Current assets Other accounts receivable	Long-term receivables Related parties	Current liabilities Suppliers
Jointly-controlled companies				
CETREL	-	1.4	-	0.1
Petroflex	457.1	-	-	-
Petroquímica Paulina	-	-	4.1	-
Associated company				
Borealis	10.7	-	-	-
Related parties				
Refinaria Alberto Pasqualini - REFAP S.A. (related party of Copesul)	26.2	-	-	-
Construtora Norberto Odebrecht S.A. (CNO)	6.3	-	-	17.5
Petrobras	54.9	-	41.9	579.2
Other	0.8	-	2.5	2.7
At December 31, 2007	556.0	1.4	48.5	599.5

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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Related parties (continued)

	2008			2007			2006		
	Products sales/revenues	Utilities, services and raw material purchases	Interest income (expenses)	Products sales/revenues	Utilities, services and raw material purchases	Interest income (expenses)	Products sales/revenues	Utilities, services and raw material purchases	Interest income (expenses)
Subsidiary									
Copesul	-	-	-	-	472.9	-	-	-	-
Jointly - controlled companies									
Copesul	-	-	-	-	-	-	12.2	1,941.9	(0.8)
Cetrel	0.1	22.9	-	0.1	10.0	-	0.6	11.2	-
Petroflex	-	-	-	336.3	-	-	365.5	-	1.6
Politeno	-	-	-	-	-	-	166.7	-	-
Associated companies									
Borealis	157.2	-	-	143.0	-	-	122.1	-	-
Related parties									
Refinaria Alberto Pasqualini									
- REFAP S.A. (related party of Copesul)	12.6	377.7	-	543.2	1,654.2	-	22.8	264.9	-
Ipiranga Petroquímica S.A. (related party of Copesul)	-	-	-	-	-	-	555.5	5.7	0.1
CNO	-	205.2	-	-	120.3	-	-	136.2	-
Monsanto Nordeste S.A. (related party of Cetrel)	-	-	-	13.7	-	-	3.7	-	-
Petrobras (*)	492.5	5,972.6	(45.6)	286.1	5,713.1	(46.6)	78.9	5,390.5	(2.8)
Petrobras Distribuidora S.A.	-	-	-	-	-	-	-	298.1	-
Petroquímica União (related party of Petroflex)	-	-	-	-	-	-	-	22.9	-
Odebrecht	-	-	-	-	-	(74.8)	-	-	(131.4)
Other	-	-	-	1.7	-	-	2.4	-	-
	662.4	6,578.4	(45.6)	1,324.1	7,970.5	(121.4)	1,330.4	8,071.4	(133.3)

(*) The Company is dependent on Petrobras for supply of raw materials.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

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Relationship with related parties

Main activity and relationship with Company

Jointly-controlled entities

CETREL Services of treatment of residual waters and organic waste for the Company and other companies of the Petrochemical Complex of Camaçari.

RPR

Naphtha supply to the Company

Associated company

Borealis Sale of plastic raw-material to the advanced packaging market, infrastructure and automotive and production of agricultural fertilizers, melamine, phenol, acetone and olefins. It acquires from the Company its main raw-material.

Post-employment benefit plans

CopesulPrev Private defined contribution plan for the employees of the merged company Copesul not included in the Petros plan.

Fundação Francisco Martins Bastos (FFMB) Private supplementary pension entity with defined benefits, with the purpose of managing and executing pension benefit plans of the employees of the Ipiranga group.

Odeprev - Odebrecht Previdência Defined contribution pension plan.

Petros Refined benefit plan for part of the employees of the merged company Copesul.

Related companies

CNO Provides services of maintenance and projects to improve plant efficiency.

Petrobras Naphtha supply.

REFAP S.A. Naphtha and propene supply.

Transactions between the Company and its related companies are carried out at prices and terms and conditions equivalent to those with third parties, using; (i) for the purchase of propene, the price available in the international market; and (ii) for the purchase of naphtha from Petrobras and REFAP, the price available in the European market.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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Key management personnel			
Expenses for the year	December 31, 2008	December 31, 2007	December 31, 2006
Remuneration			
Short-term benefits to employees and managers	47.1	45.5	41.0
Post-employment benefits	0.3	0.4	0.3
Other long-term benefits	3.6	2.2	2.0
Employment contract termination benefits	0.3	0.4	0.3
Total	51.3	48.5	43.6
Long-term incentives			
Investment units	0.7	0.1	0.1
Total	0.7	0.1	0.1

Balances	December 31, 2008	December 31, 2007
Long-term incentives	10.5	4.9
Total	10.5	4.9

9 Taxes Recoverable

	2008	2007
Excise tax (IPI) (standard operations)	28.3	23.7
Value-added Tax on Sales and Services (ICMS)	1,201.0	1,106.5
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	164.2	93.5
PIS - Decrees-Law 2445 and 2449/88	55.2	55.2
Income tax and social contribution	217.6	66.7
Tax on Net Income - ILL	57.3	55.8
Other	88.9	83.9
Total	1,812.5	1,485.3
Current assets	(610.7)	(310.3)
Non-current assets	1,201.8	1,175.0

Braskem S.A. and Its Subsidiaries

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IPI tax credits

Zero rate IPI

On December 19, 2002 the Federal Supreme Court (STF) - based on other precedents - judged an extraordinary appeal lodged by the National Treasury and affirmed an earlier decision by the Regional Federal Court (TRF), 4th Circuit, recognizing entitlement to IPI tax credits relating to acquisition of raw materials taxed at a zero rate, when related to transactions involving the facilities of OPP Química S.A. ("OPP Química", which has merged into the Company) located in the State of Rio Grande do Sul. This STF determination confirmed the entitlement to IPI credits on these acquisitions of raw materials, covering the ten-year period prior to the filing date and accruing interest at the SELIC benchmark rate to the date of actual use of the credits. This lawsuit was filed by OPP Química in July 2000 seeking for the adoption of the non-cumulative tax principle to said facilities.

The STF decision was challenged by the National Treasury via a special appeal known as agravo regimental. In this special appeal, the National Treasury is no longer challenging the company's entitlement to the IPI tax credit from acquisition of raw materials taxed at a zero rate, but rather alleging inaccuracies in the court's determination as to non-taxed inputs and raw materials, the restatement of tax credits, and the calculation rate. According to the opinion of the legal advisors, all these aspects have already been settled in the STF and TRF court decisions favorable to OPP Química, or, in some cases, in STF full-bench precedents. For this reason, the Company's view is that the special appeal referred to above poses only a remote risk of changes in the OPP Química decision, although the STF itself has revisited this matter on the merits in a similar lawsuit by another taxpayer.

In light of the above aspects referring to the extent of the agravo regimental, OPP Química recorded tax credits of R\$ 1,030.1 in December 2002, and the Company used those credits to offset IPI itself and other federal tax debts. Such credits were used up in the first quarter of 2005.

The tax credits used up by the Company (updated at the SELIC benchmark rate until December 2008) come to R\$ 2,682.2. Out of these credits, the sundry collection proceedings referred to have reached R\$ 2,423.2 to date, plus fines in the overall amount of R\$ 783.4. The Company's outside legal advisors believe that such fines are undue by any means.

In a judgment session held on December 11, 2007, the STF First Panel granted the agravo regimental on the argument that the extraordinary appeal should be entertained by said Panel again, thus voiding the erstwhile STF ruling. Such STF determination, containing the opinions and arguments of STF justices who took part in the judgment, has not been published to date. Braskem is poised to appeal after such publication occurs.

All things considered, and in view of its belief that the new STF determination should be limited to procedural aspects only, Braskem (in reliance on the opinion of its legal advisors) still

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

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defends the final and conclusive nature of said decision allowing it to use IPI tax credits deriving from acquisition of raw materials that are either tax-exempt or else taxed at a zero rate. In addition, Braskem believes that the new STF judgment on the extraordinary appeal should focus only on the subject matter of the agravo regimental (which means that the STF should not longer deliberate on entitlement to IPI tax credits themselves, as discussions over such specific matter are precluded in this case).

During 2006 and 2007, the Federal Revenue Office issued several tax assessment notices (autos de infração) against the Company solely to avoid forfeiture of the tax authorities' right to dispute the use of tax credits until ten years before the filing of a lawsuit by the Company, also demanding the payment of taxes offset against the tax credits posted as from July 2000. Further, the Federal Revenue Office rejected approximately 200 applications for offsetting of these credits with federal taxes payable by the Company.

In October 2008, the administrative appellate tribunal (Taxpayers Council) rejected the appeals lodged by the Company with regard to some of the aforementioned administrative proceedings. The outcome of such dispute revolving around these credits used up by the Company is essentially conditioned to the STF finding on the court litigation described abroad, and the matter under discussion at administrative level refers to validity of the fines imposed on the Company for having used up IPI credits ascertained after July 2000.

Filing of administrative appeals by the Company is pending publication of the respective decisions rendered by the Taxpayers Council. If the administrative fines are upheld, Braskem will take this issue to court, and the likelihood of a favorable outcome for these disputes over the imposition of fines by the tax authorities is viewed as probable by the Company's outside legal advisors.

Similar lawsuits have also been filed by the Company's branches located in the States of São Paulo, Bahia and Alagoas (Note 17(ii)).

ICMS

The Company has accrued ICMS tax credits during the latest fiscal years on account of taxation rate differences between incoming and outgoing inputs and products; domestic outgoing products under incentive (subject to deferred taxation); and export sales.

The Management of the Company has given priority to a number of actions aimed at optimal use of such credits and, currently, no losses are expected from realization of those credits. These actions taken by the Management comprise, among others:

- Executing a settlement agreement with the Rio Grande do Sul state authorities, capping the use of ICMS tax credits at R\$ 8.3 monthly to offset with monthly ICMS tax debts owed by units located in said state, and upholding full deferral of ICMS tax on naphtha imports. Additional negotiations with the Rio Grande do Sul state are underway for further use of ICMS tax credits at circa R\$ 40.0 in future investments.

Braskem S.A. and Its Subsidiaries

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- Obtaining from the Bahia state authorities a greater reduction (from 40.0% to 65.9%) in the tax base of ICMS on imported petrochemical naphtha, as per article 347, paragraphs 9 and 10 of the Bahia State ICMS Regulations (Decree 11059 of May 19, 2008), and a reduction in the rate of ICMS tax on domestic naphtha (from 17.0% to 11.8%).
- Starting feedstock imports under specific customs prerogatives, thus ensuring a lower generation of ICMS credits.
- Expanding the ICMS tax base on fuel sales to industrial refiner (from 40.0% to 100%), as provided for in article 347 of the Bahia State ICMS Regulations.
- Replacing co-product exports with domestic transactions.
- Using the privileges set out in customs laws when importing feedstock, thus generating less ICMS tax credits.

The Company's ICMS credit balance as of December 31, 2008 comprises R\$ 135.1, originating from merged company Ipiranga Petroquímica.

Considering the Company's Management projections over the term for realization of those credits, at December 31, 2008, the amount of R\$ 904.3, was recorded as noncurrent assets (2007 R\$ 865.1).

ILL

This refers to a credit for Tax on Net Income (ILL) paid by subsidiary Copesul between 1989 and 1991, as this tax was considered unconstitutional by Federal Senate Resolution 82 of November 18, 1996. Copesul has taken measures at the administrative level to offset this credit against other taxes.

In December 2002, the subsidiary Copesul recorded this credit once the likelihood of a favorable outcome for this dispute is viewed as probable by the Company's outside legal advisors, in face to the resolution mentioned above. The right of restitution from ILL was already admitted by Camara Superior de Recursos Fiscais. This decision is pending to be published.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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All amounts in millions of reais, unless otherwise indicated

**10 Judicial Deposits and Compulsory Loan -
Long-term Receivables**

	2008	2007
Judicial deposits		
Tax contingencies	68.4	63.6
Labor and other claims	31.6	23.6
Compulsory loan		
Eletrobrás	20.2	20.5
	120.2	107.7

11 Investments**(a) Information on investments**

	Number of shares or quotas held (thousands)					Interest in total		Interest in	
	Common shares	Pref. shares	Quotas	2008	2007	share capital - %		voting share capital - %	
				Total	Total	2008	2007	2008	2007
Jointly-controlled companies									
Cetrel	820	-	-	820	745	54.24	49.89	54.24	49.89
CODEVERDE	10,099	-	-	10,099	9,894	35.65	35.53	35.65	35.53
Petroflex	-	-	-	-	11,800	-	33.53	-	33.57
Petroquímica									
Paulínia	-	-	-	-	105,000	-	60.00	-	60.00
Associated companies									
Borealis	18,949	-	-	18,949	18,949	20.00	20.00	20.00	20.00
Sansuy			271	271	271	20.00	20.00	20.00	20.00

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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Financial information about associated companies, excluding non-mandatory asset revaluation effects, on a basis consistent with the Company's accounting policies is presented below:

	2008	Adjusted net income (loss) for the year		Adjusted shareholders' equity (unsecured liabilities)		
		2007	2006	2008	2007	2006
Associated companies						
Borealis	12.7	11.4	13.7	115.2	119.3	117.9
Rionil	-	-	0.2	-	-	6.1
Sansuy	-	(5.5)	(10.2)	2.0	(30.9)	(25.4)

	Borealis	2008	2007
		Total	Total
At January 1	23.8	23.8	26.2
Equity in the results	2.2	2.2	2.2
Sale of investment			(1.9)
Dividends	(3.0)	(3.0)	(2.0)
Other			-
At December 31	23.0	23.0	24.5

Share prices of related parties' shares listed on the São Paulo Stock Exchange are presented below:

	Type	Code	Share Price - R\$		Trading unit
			2007	2006	
Copesul(*)	ON	CPSL3	-	38.10	1 share
Petroflex (**)	ON	PEFX3	17.10	14.40	1 share
	PNA	PEFX5	16.50	14.85	1 share

(*) Delisted as from October 2007.

(**) Sold in 2008

Braskem S.A. and Its Subsidiaries

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(b) **Information on investments in the main jointly- controlled companies proportionally consolidated under CVM Instruction 247**

Cetrel

The principal activity of Cetrel is to provide services of environmental protection and controls to petrochemical companies. Goodwill on this investment is based on the fair value of assets and will be amortized through July 2015.

Petroquímica Paulínia

On September 16, 2005 Braskem and Petroquisa formed Petroquímica Paulínia, which will be responsible for the development and operation of a new polypropylene plant to be built in Paulínia - São Paulo. This plant will use polymer-grade propylene supplied by Petrobrás as its main raw material. Operations started in September, 2008, using advanced Braskem technology.

Until March of 2008, this company was jointly controlled with Petroquisa. With the merger of the shares issued by Grust in July of 2008 (Note 1(c)(xii)), Braskem became holder of 100% of the voting capital of that subsidiary. On September 30, 2008 Petroquímica Paulínia was taken over by Braskem (Note 1(c)(xiii)).

Petroflex

Petroflex is a leading producer of synthetic rubber in Latin America and produces styrene-butadiene, polybutadiene, liquid hydroxylated polybutadiene and other elastomers. The main raw material for all of its products is butadiene, which is supplied by Braskem. Petroflex operates three plants in Brazil located in Rio de Janeiro, Pernambuco and Rio Grande do Sul.

(c) **Advance for the acquisition of investments**

This balance comprises expenditures for the acquisition of the Ipiranga Group petrochemical assets, as mentioned in Note 1(c). The acquisition of RPR, DPPI and CBPI shares was carried out in three steps, as follows:

- In April 2007, the Company purchased common and preferred shares held by the controlling shareholders of the Ipiranga Group. In this connection, Braskem made an advance of R\$ 651.9 to Ultrapar. In accordance with the shareholders' agreement entered into with Ultrapar and Petrobras, as from the date of this purchase, Braskem took over management of the Ipiranga Group petrochemical assets. As the new controller of these assets in April 2007 the Company began to fully consolidate IQ, IPQ and Copesul. The Company holds a 13.40% interest in the total share capital of IQ.

Braskem S.A. and Its Subsidiaries

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- In October and November 2007 the Company purchased common and preferred shares held by minority shareholders of RPR, DPPI and CBPI, as provided for in the Brazilian Corporate Law. For this acquisition, Braskem made an advance of R\$ 203.7, Ultrapar and recorded a 17.87% interest in the total share capital of Ipiranga Química for purposes of consolidating these assets.
- In December 2007 Ultrapar merged the preferred shares owned by minority shareholders in the acquired companies, and afterwards held 100% of the shares in RPR, DPPI and CBPI. Upon completion of this stage, the Company recorded the last purchase price installment to be assigned to Ultrapar in the amount of R\$ 633.5 to be disbursed when the Company receives the IQ shares from Ultrapar, which occurred in February 2008. This installment has been recorded in "Advance for acquisition of investment" against "Creditors on acquisition of investments". Following the accounting recognition of this stage of the acquisition process, the Company began to record a 60% interest in the total share capital of IQ for purposes of consolidation of these assets.

In addition to the amounts allocated to the purchase of shares, the Company considered as part of the investment cost those expenses directly associated with the process, which amounted to R\$ 41.5 up to December 31, 2008 (December 31, 2007 - R\$ 22.0). Taking into consideration all disbursements already made, in June 2008 the Company recorded goodwill of R\$ 73.6 attributed to future profitability, and of R\$ 996.8 (December 31, 2007 - R\$ 1,050.9), attributed to appreciation of property, plant and equipment.

Between April and December 2007 the Company recorded R\$ 30.7 as equity in the earnings of IQ. During the same period, the amount of R\$ 22.9 was charged to results as realization of goodwill underlying this acquisition.

(d)

Petroquímica Paulínia

On April 25, 2008, the industrial plant of Petroquímica Paulínia was inaugurated. The unit has a production capacity of 350,000 tons a year of polypropylene, and is located in the municipality of Paulínia, in the State of São Paulo.

Until March of 2008, this company was jointly controlled with Petroquisa. With the merger of the shares issued by Grust in July of 2008 (Note 1(c)(xii)), Braskem became holder of 100% of the voting capital of that subsidiary. On September 30, 2008, Petroquímica Paulínia was taken over by Braskem (Note 1(c)(xii)).

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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12 Property, Plant and Equipment, and Intangible Assets

			2008	2007	Average annual depreciation rates - %
	Cost	Accumulated depreciation	Net	Net	
Land	83.1		83.1	75.0	-
Buildings and improvements	1,415.8	(520.5)	895.3	730.7	2.7
Machinery, equipment and facilities	11,551.6	(4,405.5)	7,146.1	5,614.2	5.9
Mines and wells	23.3	(6.8)	16.5	4.2	10.6
Furniture and fixtures	90.5	(48.9)	41.6	29.0	10.0
Information technology equipment	108.8	(79.0)	29.8	39.3	20.0
Maintenance stoppages in progress	239.5		239.5	95.5	-
Construction in progress	1,609.7		1,609.7	1,657.3	-
Other	316.5	(98.7)	217.8	158.9	16.0
	15,437.9	(5,159.5)	10,278.4	8,404.1	-

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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At December 31, 2008 property, plant and equipment included goodwill arising from merged companies for the net amount of R\$ 1,626.4 (2007 - R\$ 765.7), transferred in accordance with CVM Instruction no. 319/99.

Braskem recorded reductions in the recoverable amount of its DMT plant when production was stopped in 2007 amounting to R\$ 13.8 based on its estimated sales value. In 2008 further reductions in the recoverable amounts were recorded, totaling R\$144.1, relating to the DMT, PET and Caprolactam plants amounts amounting to R\$ 11.7, R\$102.8 and R\$ 29.6, respectively. The additional provision for DMT related to an adjustment on the expected sales price of the plant due to worsening market conditions in 2008. In December 2008, Braskem advised the market about the definitive stoppage of the PET transferring to other plants equipment that could be still used while the remaining machines, equipment and installations were expected to be disassembled and sold for an insignificant amount. Due to market conditions during 2008 in relation to Caprolactam, that plant was no longer considered to be able to recover its net book value based on expected future cash flows from operations and a reduction in the recoverable amount of the Caprolactam plant was recorded. This expense, of R\$ 29.6, represented the difference between the present value of the cash flow obtained from producing and selling that product and the net book value of the respective industrial unit. Principal assumptions for preparing the cash flow included using (i) the discount rate for similar business, and (ii) sales prices based on observable industry cycles.

Changes to property, plant and equipment

	2008	2007
Balance at beginning of the year	8,404.1	6,689.0
(+) Acquisitions	1,712.2	1,396.0
(-) Write-offs	(22.0)	(2.7)
(-) Transfers	(163.7)	(87.7)
(+) Corporate activities (i)	1,228.1	1,171.8
(-) Depreciation / amortization	(736.1)	(748.5)
(-) Reduction to the recoverable amount	(144.1)	(13.8)
Balance at the end of the year	10,278.4	8,404.1

(i) Includes mergers of companies, opening balances of consolidated companies beginning from the acquisition and write-off from deconsolidation of companies in the process of disposal (Note 1 (c)).

Braskem S.A. and Its Subsidiaries

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The corporate changes shown in the box above that occurred during the 2008 financial year are shown as follows:

	2008
Goodwill based on the appreciation of property, plant and equipment for Copesul	937.7
Addition through merger of Petroquímica Paulínia	290.4
Total corporate changes	1,228.1

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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13 Intangible assets

			2008	2007	Average annual depreciation rates - %
	Cost	Accumulated depreciation	Net	Net	
Goodwill	3,188.8	(1,175.5)	2,013.3	2,442.2	(i)
Brands and patents	199.8	(50.3)	149.5	36.9	10,0
Licensing rights for internal use of operating systems	309.3	(93.4)	215.9	135.5	13,7
	3,697.9	(1,319.2)	2,378.7	2,614.6	-

(i) The goodwill founded on future profitability was amortized up to December 31, 2008, taking into account the maximum period of 10 years. As from 2009, this type of goodwill will no longer be systematically amortized, being subject to the annual impairment test, pursuant to the provisions of CPC 13.

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Changes in intangible assets

	2008	2007
Balance at beginning of the year	2,614.6	129.1
Reclassification to comply with Law 11638/07 and MP 449/08 (i)		1,588.5
(-) Write-offs	(35.7)	(4.3)
(+) Transfers	207.0	59.0
(+) Acquisitions/merger (ii)	31.0	1,373.6
(-) Amortization	(438.2)	(531.3)
Balance at the end of the year	2,378.7	2,614.6

(i) Basically represents the goodwill from the expectation of future profitability transferred from deferred assets R\$ R\$ 1,531.0.

(ii) Comprises goodwill merged from Copesul and IPQ amounting R\$ 1,060.1.

14 Deferred Charges

	Cost	Accumulated amortization	2008 Net	2007 Net	Annual amortization rate - %
Pre-operating expenses	337.2	(228.9)	108.2	110.6	10
	337.2	(228.9)	108.2	110.6	

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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15 Loans and Financing

		Annual financial charges	2008	Consolidated 2007
Foreign currency				
Eurobonds	Note 15(a)		3,023.1	1,401.2
Advances on exchange contracts	2008 US\$ exchange variation + average interest of 6.61%		149.9	
	2007 US\$ exchange variation + average interest of 5.65%			28.3
Export prepayment	Note 15(b)		4,000.3	1,623.3
Medium - Term Notes	US\$ exchange variation + interest of 11.75%		618.7	632.6
Raw material financing	2008 US\$ exchange variation + interest of 4.08%		21.5	
	2007/2006 YEN exchange variation + fixed interest of 6.70%			0.4
	2007 US\$ exchange variation + average interest of 6.76%			18.3
	2007 EUR exchange var. + average interest of 4.68%			1.7
Fixed assets financing	2007 US\$ exchange var. + annual 1.60% annual LIBOR			37.9
	2007 US\$ exchange var. + annual 0.35% 4-month LIBOR			1,701.8
BNDES	2008 Average interest of 7.90% + Floating rate(UMBNEDES)		33.6	
	2007 Average interest of 9.70% Floating rate (UMBNEDES)			44.8
	2008 US\$ exchange variation + average interest of 6.55%		202.7	
Working capital	2008 US\$ exchange variation + average interest of 7.66%		905.2	
	2007 US\$ exchange variation + average interest of 7.83%			388.2
Project financing (NEXI)	YEN exchange variation + interest of 0.95% above TIBOR		195.7	231.2
Financial funding costs			(47.9)	
Amortization of financial funding costs			2.1	
Local currency				
Working capital	2008 Floating rate (92 to 119.09% of CDI)		363.6	
	2007 102 % of CDI			128.9
FINAME	2008 Average interest of 4.57% + TJLP		2.0	
	2007 Average interest of 4.44% + TJLP			7.0
BNDES	2008 Average fixed interest of 2.90% +TJLP		1,376.7	
	2007 Average fixed interest of 3.45% +TJLP			667.5
BNB	2008 Fixed interest of 8.54%		255.4	
	2007 Fixed interest of 9.88%			165.9
FINEP	2008/2007 TJLP		57.2	64.3
Vendor	2007 Average interest of 11.55%			327.2
Total			11,159.8	7,470.3
Current liabilities			(2,120.0)	(1,068.4)
Noncurrent liabilities			9,039.8	6,401.9

(i) UMBNEDES = BNDES monetary unit.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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In April 2006 the Company issued perpetual bonds in an aggregate principal amount of US\$ 200 million. These bonds bear annual interest of 9.00%, payable on a quarterly basis in arrears on January 28, April 28, July 28 and October 28 of each year, commencing on July 28, 2006. The proceeds were used for working capital purposes and the acquisition of Politeno shares.

In September 2006 the Company issued bonds in an aggregate principal amount of US\$ 275 million, with an 8% coupon and maturity in ten years. Funds raised were used mainly to repurchase the third tranche of the medium-term notes ("MTNs") (Note 15(d)).

In June 2008 subsidiary Braskem Finance obtained borrowings of US\$ 500 million in Eurobonds, with a 7.25% p.a. coupon, maturing in 2018, priced at 99.127% of face value, with a return to the investor of 7.375% p.a. This amount was used to amortize part of the bridge loan taken out for the acquisition of the petrochemical assets of the Ipiranga Group (Note 15(d)).

The Company's U.S. dollar-denominated notes and bond positions are summarized as follows:

Date	Amounts in US\$ million	Maturity	Percentage interest p.a.	2008	2007
July 1997	150	June 2015	9.38	353.2	267.7
June 2005	150	None	9.75	352.0	266.8
April 2006	200	None	9.00	475.7	360.5
September 2006	275	January 2017	8.00	667.8	506.2
June 2008	500	June 2018	7.25	1,174.4	
				3,023.1	1,401.2

(b) Export prepayments

On October 9, 2008 the subsidiary Braskem Inc. concluded a 5-year export pre-payment transaction, in the amount of US\$ 725 million, with interest of Libor + 1.75% p.a., and a 3 year grace period. This transaction was an extension of the bridge-loan taken out for the acquisition of the petrochemical assets of the Ipiranga Group and delisting the merged company Copesul (Note 15(d)). Subsequently, a swap transaction was carried out that locked the Libor quotation for the period of the transaction at 3.85% p.a. Consequently, the cost of the export pre-payment transaction will change from Libor + 1.75% p.a. to 5.6% p.a.

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Date	Amounts in US\$ million	Maturity	Interest (% p.a.)	2008	2007
January 2004	6,3	June 2008	US\$ exchange variation + interest 4.25		11.2
January 2005	0.5	January 2008	US\$ exchange variation + Libor + 1.55		7.3
June 2005	0.1	May 2008	US\$ exchange variation + interest 1.75		17.8
June 2005	0.1	June 2009	US\$ exchange variation + 3-month Libor + 1.88	11.7	17.8
July 2005	0.1	June 2010	US\$ exchange variation + 6-month Libor + 2.05	14.0	18.4
May 2006	0.4	June 2008	US\$ exchange variation + average interest 5.41		1.0
May 2006	0.1	May 2009	US\$ exchange variation + 6-month Libor + 0.70	23.5	17.8
May 2006	0.2	Jan 2010	US\$ exchange variation + 12-month Libor + 0.30	48.9	37.5
July 2006	1.0	July 2013	US\$ exchange variation + 6-month Libor + 1.00	114.2	173.1
July 2006	0.8	July 2014	US\$ exchange variation + 6-month Libor + 0.78	178.3	136.4
March 2007	0.4	March 2014	US\$ exchange variation + 6-month Libor + 1.60	82.7	
April 2007	0.2	April 2014	US\$ exchange variation + 6-month Libor + 0.77	354.6	269.6
October 2007	315.5	Oct 2009	US\$ exchange variation + 3-month Libor + 0.35	738.0	562.3
November 2007	0.2	Nov 2011	US\$ exchange variation + 6-month Libor + 1.40	351.8	353.1
February 2008	0.2	Feb 2009	US\$ exchange variation + average interest 3.94	362.4	
October 2008	0.7	Oct 2013	US\$ exchange variation + 6-month Libor + 1.75	1,720.1	
				4,000.3	1,623.3

(c) Project financing (NEXI)

In March and September 2005 the Company obtained Japanese yen-denominated loans from Nippon Export and Investment Insurance, in the amount of ¥ 5,256.5 million (R\$ 136.5) and ¥ 6,628.2 million (R\$ 141.5), respectively, to finance several investment projects, including "Braskem +" program. These loans bear annual interest of 0.95% above the Tokyo Interbank Rate (TIBOR) plus exchange variation, payable semi-annually.

The principal is payable in 11 installments, commencing in March 2007, with final maturity in March 2012. The financing contracts include insurance that guarantees 95% of commercial risk amounts and 97.5% of political risk amounts.

As part of its risk management policy (Note 23 (a)), the Company entered into a swap contract for the total amount of these loans which, in effect, changes the annual interest rate and exchange variation to 101.59% of CDI for the tranche drawn down in March 2005, and 103.98% of CDI and 104.29% of CDI for two tranches drawn down in September 2005. The swap contract was entered into with a leading foreign bank and its maturity, currencies, rates and amounts are matched to the financing contracts. The effect of this swap contract is recorded in financial results under monetary variation of financing (Note 23).

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements****at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated****(d) Investment financing**

In April 2007 the Company completed negotiations to obtain a bridge loan of up to US\$ 1.2 billion to finance the acquisition of the Ipiranga Group petrochemical assets and delist Copesul. Amounts drawn down by the Company until December 31, 2007, plus charges and the portion released to subsidiary EDSP58, totaled R\$ 1,701.8, and are described as "Fixed assets financing".

In 2008, this bridge loan was liquidated using funds raised from the issuance of Eurobonds and the export prepayment transaction.

(e) Repayment schedule

Long-term loans will mature as follows:

	2008	2007
2009		2,593.7
2010	639.2	378.7
2011	868.2	304.6
2012	1,258.6	329.1
2013 and thereafter	6,273.8	2,795.9
	9,039.8	6,401.9

The Company believes that it will meet its debt obligations in 2010 with its cash generated from operations, its existing cash and other liquid investments and the use of existing credit facilities and receivables transactions, if needed.

(f) Guarantees

The Company and its subsidiaries have provided securities for short- and long-term financing, as stated below:

	Maturity	Total guaranteed	Loan amount	Guarantees
BNB	June 2016	248.3	248.3	Mortgage, machinery & equipment
BNDES	April 2015	1,602.7	1,602.7	Mortgage, machinery & equipment
NEXI	June 2012	195.7	195.7	Insurance premium
Working Capital	February 2010	1,268.8	1,268.8	Exporting Credit Note
FINEP	March 2012	57.2	57.2	Mortgage and surety bond
Prepayments	October 2014	1,361.2	4,516.7	Mortgage and surety bond
Other institutions	February 2020	23.3	173.1	Surety/endorsement and promissory notes
Total		4,757.2	8,062.5	

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(g) Capitalized interest

As described in Note 3(d), the Company adopts the accounting practice of capitalizing interest on financing during the period of asset construction. The Company's policy is to apply the weighted average financial charge rate on the debt to the balance of projects in progress. This amount is limited to the amount of charges incurred in the period.

The average rate used during the period was 35.7% per annum, and the amounts capitalized are follows:

	2008	2007
Gross financial charges	3,013.0	669.3
Less: capitalized interest	(308.0)	(35.2)
Net financial charges	2,705.0	634.1

(h) Loan covenants

Certain loan agreements entered into by the Company establish limits for certain ratios involving the ability to incur debts and pay interest.

The first ratio imposes limits on the Company's indebtedness on account of our ability to generate EBITDA. This is calculated by dividing the Company's net debt by its EBITDA for the last twelve months. This ratio is calculated in Reais or dollars, depending on contract terms. If calculated in dollars, the closing PTAX is used for assessing the net debt and the average dollar for the last four quarters for calculating the EBITDA.

The second ratio to be found in the Company's contracts is the division of the EBITDA by net interest, which represents the difference between interest paid and received. This ratio is verified on a quarterly basis and is only calculated in dollars.

Below is a summary of the outstanding transactions and their limiting factors:

Transaction	Indicator	Currency
Debentures 13th and 14th	Net Debt / EBITDA(*) < 4.5	<u>R\$</u>
Nexi financing	Net Debt / EBITDA(**) < 4.5 EBITDA(**) / net interest > 1.5	US\$
Medium-Term Notes	Net Debt / EBITDA (*) < 4.5	R\$
Export prepayments	Net Debt / EBITDA (**) < 4.5 EBITDA(**) / net interest > 2.0	US\$

(*) EBITDA -operating result before financial results and equity interests, plus depreciation and amortization.

(**) EBITDA -operating result before financial results and equity interests, plus depreciation and amortization, dividends and equity interest received from non-consolidated companies.

The penalty for non-compliance with these is the possibility of accelerated debt maturity, except for the Debenture and Medium-term Notes transactions.

The Company is in compliance with its covenants.

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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In 2008, the Company incurred costs in structuring Eurobond transactions (Note 15(a)) and export prepayment transactions (Note 15(b)). The amounts, classified as a reduction of the debt, and the respective changes in 2008 are as follows:

	Export prepayments	Eurobonds	Total
Cost incurred costs	31.3	16.6	47.9
(-) Amortization in 2008	(1.3)	(0.8)	(2.1)
Balance	30.0	15.8	45.8

The amounts to be recognized in the statement of operations are as follows:

	Export prepayments	Eurobonds	Total
2009	7.5	1.7	9.2
2010	7.4	1.7	9.1
2011	7.2	1.7	8.9
2012	5.5	1.7	7.2
2013	2.4	1.7	4.1
2014 and thereafter		7.3	7.3
	30.0	15.8	45.8

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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At a meeting held on August 2, 2006 the board of directors approved the 14th issue of 50,000 simple, unsecured debentures, not convertible into shares, in a single series, for a total of R\$ 500.0. The debentures were subscribed and paid up on September 1, 2006.

On June 4, 2007, the Company redeemed early all the outstanding debentures of its 12th public issue, for the par value of the debentures, plus remuneration pursuant to clause 5.19 of the indenture, in the total amount of R\$ 1,113.5.

Details on the Company's debenture transactions:

Issue	Unit value - R\$	Maturity	Remuneration	Remuneration payment	2008	2007
13th (i)	10	Jun/2010	104.1% of CDI	Biannually as from Dec/2005	303.5	302.6
14th (i)	10	Sep/2011	103.5% of CDI	Biannually as from Mar/2007	522.8	517.8
(ii)	1	Jun/2008	100.0% of CDI	Upon maturity		91.2
					826.3	911.6

Public issue of non-convertible

- (i) debentures.
- (ii) Issued by subsidiary IQ.

The changes in debentures during 2008 and 2007 were as follows:

	2008	2007
Balance at the beginning of the year	911.6	2,139.9
Accrued interest and financial charges	99.5	192.3
Addition through acquisition of subsidiary		83.3
Reduction through deconsolidation of subsidiary	(91.2)	(32.5)
Repayments and conversions	(93.6)	(1,471.4)
Balance at the end of the year	826.3	911.6
Less: Current liabilities	(26.3)	(111.6)
Non-current liabilities	800.0	800.0

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated****17 Taxes and Contributions Payable - Long-term Liabilities**

	2008	2007
IPI credits offset		
IPI - export credit (i)	731.1	687.8
IPI - zero-percent rate (ii)	330.3	309.3
IPI - consumption materials and property, plant and equipment	44.9	42.5
Other taxes and contributions payable		
PIS/COFINS - Law 9,718/98 (iii)	60.8	50.6
Education contribution, SAT and INSS	41.2	38.6
PAES - Law 10684 (iv)	28.7	36.4
Other	58.3	59.2
Less: Judicial deposits	(64.1)	(78.6)
	1,231.2	1,145.8

The Company is disputing in court some changes in tax laws, and the updated sums have been provisioned for. No contingent assets are posted in this regard.

(i) IPI Tax Credit on Exports (*Crédito-prêmio*)

The Company by itself and through absorbed companies challenges the term of effectiveness of the IPI tax credit (*crédito-prêmio*) introduced by Decree-law 491 of 1969 as an incentive to exports of manufactured product. Lower courts have granted most lawsuits to that end, but such favorable decisions may still be appealed.

In hearing the appeal lodged by another taxpayer seeking court recognition of its entitlement to use such tax benefit until present, the Superior Court of Justice (STJ) upheld its rejection to such prospective use and affirmed that the aforementioned tax benefit expired in 1990. As constitutional issues are at dispute, the STJ is to make a final determination over this matter and its general implications. Also, the STJ will eventually revisit the right to use those tax credits after 1990, based on application of the Temporary Constitutional Provisions Act (ADCT) 41.

According to its legal advisors, the Company stands reasonably possible chances of loss in these suits.

Braskem S.A. and Its Subsidiaries

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(ii) IPI Zero rate

Merged companies OPP Química, Trikem and Polialden have filed lawsuits claiming IPI tax credits from the acquisition of raw materials and inputs that are exempt, non-taxed or taxed at a zero rate most. Lower courts have rules in favor of the tax payer in the lawsuits.

In February 2007 on a case unrelated to the Company, the STJ found against the right to offset zero-rate IPI credits by a tight majority (6 to 5). In June 2007 the STJ Full Bench ruled, by majority opinion, that prospective-only effects could not be given to an STJ decision that later reversed an erstwhile determination in favor of the taxpayer made by the STJ Full Bench itself. This ruling had a negative bearing on judgment of the cases involving merged companies OPP Química and Trikem in Bahia, leading to payments in the amount of R\$ 127.3 (August 2007). By the same token, a portion of the amount underlying the lawsuit involving merged company Polialden (R\$ 99.6) was settled in October 2007. The remaining value relating to Polialden will be challenged in court.

The Company still enjoys a favorable court decision on the lawsuit lodged by its merged company Trikem in Alagoas, allowing the Company to use these tax credits. The Company will have to pay out the offset sums when the court decision on this case is reversed. It should be stressed that all of these amounts have been provisioned for, which will avoid an adverse impact on the Company's results.

(iii) PIS/COFINS - Law 9718 of 1998

The sums posted by the Company as long-term liabilities primarily refer to the lawsuits filed by the Company and by the absorbed companies to challenge the constitutionality of the changes in the PIS and COFINS tax bases introduced by Law 9718 of 1998.

Despite the STJ Full Bench finding in November 2005 about the lawfulness of the resulting increase in those tax bases, the Company is still challenging the COFINS rate escalation from 2% to 3%, in a small number of cases. As for expansion of the tax base, the STF held on that same date that 9718 of 1998 was unconstitutional.

The amounts posted as long-term liabilities primarily refer to the lawsuits filed by the Company and by the absorbed companies to challenge the constitutionality of the COFINS tax rate escalation from 2% to 3% as per Law 9718 of 1998. Despite the STF Full Bench finding in November 2005 favorably to the lawfulness of said escalation, the STF itself is revisiting this matter in terms of the general implications from such unconstitutionality. The Company filed another lawsuit in late 2008, with a new approach in light of new arguments deriving from the current state of affairs.

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(iv) Special Installment Program - PAES - Law 10684 of 2003

In July and August 2003 absorbed companies IPQ and Trikem qualified for more favorable payment conditions by adhering to the PAES program instituted by Federal Law 10684 of 2003.

IPQ adhered to this installment payment scheme, after cancellation of supporting certificates (DCC s) originated from acquisition and offsetting of third-party credits. For its part, Trikem opted for such scheme after filing for voluntary termination of the lawsuit challenging the COFINS tax rate escalation from 2% to 3% (instituted by Law 9718 of 1998).

Even though the Company had met all legal requirements and payments were being made as and when due, the National Treasury Attorney s Office (PFN) disqualified Trikem for PAES on two different occasions, and the Company obtained a court relief reinstating it to PAES in these two events. In reliance on the opinion of its legal advisors, Management believes that the Company s eligibility for these installment payments will be upheld as originally requested.

The outstanding debt is R\$ 36.7 as of December 31, 2008, of which R\$ 8.0 is classified in current liabilities and R\$ 28.7 in noncurrent liabilities (2007 R\$ 36.6, being R\$ 6.7 in current liabilities and R\$ 30.0 in non-current liabilities).

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
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18 Income Tax and Social Contribution on Net Income**(a) Income tax reconciliation**

	2008	2007 Retrospectively revised	2006 Retrospectively revised
Income (loss) before income tax and minority interest	(2.712.9)	1,208.7	177.0
Income tax and social contribution benefit (expense) at statutory rate of 34%	922.4	(411.0)	(60.2)
Income tax on equity in results of associated companies	0.1	(3.9)	9.8
Non-deductible amortization of goodwill	24.9	(29.8)	(30.3)
Effects of Law 11638/07 Transition Tax Regime RTT	14.1	55.6	34.7
Other permanent differences	10.0	(88.6)	(1.0)
Tax effect of social contribution tax exemption (c) below	(246.4)	52.3	13.5
Net change in valuation allowance	(502.0)	11.9	6.2
Tax on goodwill of merged subsidiary Polialden (Note 1(c)(ii))	54.8	85.8	75.9
Other	0.3	0.3	(1.1)
Income tax benefit (expense), per consolidated statement of operations	278.2	(327.4)	47.5
Current	(23.6)	(224.1)	(76.2)
Deferred	301.8	(103.3)	123.7

As tax losses were incurred in 2008, the Company is entitled to no tax exemption/abatement benefits. In 2007, this benefit was R\$ 49.5.

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In accordance with a pronouncement issued by IBRACON on the accounting for income tax and social contribution, supplemented by CVM Instruction no. 371, the Company has recognized deferred tax assets as follows:

	2008	2007	2006
Deferred tax assets			
Net operating loss carryforwards	911.2	146.4	162.2
Goodwill and deferred charges	167.2	150.9	100.4
Non-deductible accrued expenses and other temporary differences	114.9	161.2	146.9
Effects of Law 11638/07	22.8	22.8	22.8
Gross deferred tax assets	1,206.1	481.3	432.3
Valuation allowance	(502.0)	-	(11.9)
Total deferred income tax	714.1	481.3	420.4
Less: current deferred tax assets	(59.6)	(85.8)	(20.6)
Non-Current deferred tax assets	654.5	395.5	399.8
Deferred tax liabilities			
Accelerated depreciation and other	(23.3)	(64.4)	(17.3)
Non-Current deferred tax liabilities	(23.3)	(64.4)	(17.3)

The Company believes that it is probable that the deferred tax asset, net of the valuation allowance, will be recovered within ten years. Deferred tax assets have not been constituted on temporary differences and loss carryforwards whose realization is not considered probable.

As required by CVM, the Company provided a valuation allowance for the amounts to be recovered after 10 years, in the amount of R\$ 502.0, at December 31, 2008.

In addition to the positive results arising from the corporate restructuring process described in Note 1(c), expected future taxable income is based on projections and feasibility studies using price, exchange rate, interest rate, market growth assumptions and other variables relevant to the Company.

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(c) Social Contribution on Net Income ("CSL")

In view of the discussions over the constitutionality of Law 7689 of 1988, the Company and its merged companies OPP Química, Trikem and Polialden filed civil lawsuits against payment of CSL. The resulting court decision favorable to these companies became final and conclusive. However, the Federal Government filed an appeal on the judgment (ação rescisória) challenging the decisions on the lawsuits filed by the Company, Trikem and Polialden, on the argument that after the final decision favorable to those companies the Full Bench of STJ declared the constitutionality of this tax except for 1988. As the Federal Government did not file an appeal on the judgment in the case of OPP Química, the first final and conclusive decision remained in force.

The suit on the judgment is pending the STJ and STF review of a number of appeals concerning this specific matter. Even though the suit on the judgment and tax payments are still on hold, the Federal Revenue Office has issued tax assessment notices against the Company and its merged companies, and administrative defenses have been filed against such notices.

Based on the opinion of its legal advisors (which stated the likelihood of a favorable outcome as reasonably possible), Management believes that the following is likely to occur: (i) the courts will eventually release the Company from paying this tax; and (ii) even if the appeal on the judgment is held invalid, the effects of said judgment cannot retroact to the year of enactment of the law, the reason why the Company has made no provisions for this tax. If retrospective payment is required by court order (contrary to the opinion of its legal advisors), the Company believes that the possibility of a fine being imposed is remote. Accordingly, the amount payable, retrospectively revised for inflation and accruing Brazil's SELIC benchmark rate, would be approximately R\$ 835.4, net of fine.

19 Tax Incentives

(a) Corporate income tax

Until calendar year 2011 the Company has the right to reduce by 75% the income tax on the profit arising from the sale of basic petrochemical products and utilities., and the three polyethylene plants at Camaçari have the same right until base years 2011, 2012 and 2016, and PVC plant at Camaçari also has until 2013. The PVC plants in Alagoas and the PET plant at Camaçari are exempt from corporate income tax on the results of their industrial operations until 2008.

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Production of caustic soda, chloride, ethylene dichloride and caprolactam has the benefit of the 75% decrease in the income tax rate up to 2012.

(b) Value-added tax - ICMS

The Company has ICMS tax incentives granted by the State of Alagoas through State of Alagoas Integrated Development Program - PRODESIN. This incentive is designed to foster the installation and expansion of industrial facilities in the State, and was credited to Other operating income .

20 Long-term Incentive Plan

In September 2005 the Shareholders Meeting approved a benefits plan called Long-term Incentives , not based on Company s shares, by means of which employees designated annually by Management may acquire securities issued by the Company and entitled Investment unit , Alpha unit. The purpose among others is to strengthen the convergence of interests in creating long-term value among Braskem s employees and shareholders, foster the sense of ownership and encourage view and the commitment of the employees to long-term results.

The investment unit does not confer on the holder the condition of shareholder of Braskem, or any right or privilege inherent to that condition, especially the right to vote and other political rights.

Each year the board of directors approves eligible participants, the number of investment units to be issued, the percentage of the Company's contribution in the case of acquisition by employees, as well as the number of units offered per participant. A participant's acceptance implies payment in cash of the amount assigned to him or her and the execution of a unit purchase agreement. Braskem then issues the related investment unit certificate.

The investment unit is issued in the 1st semester of each year, at its value is updated annually according to the average quotation of the Company s Class A preferred shares at the end of the dealing period on the BOVESPA in the months of October and March. In addition to the variation in its nominal value, the Investment unit earns the equivalent of the dividend and/or equity interest distributed by Braskem.

There are three types of Investment units:

- the unit acquired by the participant, known as Alpha ;
- the unit received by the participant by way of the Braskem counterparty, known as Beta ; and
- the unit received by the participant by way of income, known as Gama .

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The Investment unit (and its corresponding certificate) are issued on a very personal basis and may only be sold to Braskem by means of redemption on the following conditions:

from year 5 following the 1st acquisition, the acquiring party may redeem up to 20% of the accrued balance of their investment units; and

from year 6, redemption is limited to 10 % of the accrued balance.

The composition and fair value of units on December 31, 2008 and 2007 are as follows:

	Number	2008 Value
Investment Units		
Issued (Alfa Units)	707.661	9.5
Granted as incentive (Beta Units)	705.361	0.9
Total	1.413.022	10.4

	Number	2007 Value
Investment Units		
Issued (Alfa Units)	285.180	4.3
Granted as incentive (Beta Units)	285.180	0.6
Total	570.360	4.9

21 Shareholders' Equity**(a) Capital**

At the Extraordinary General Meeting held on May 31, 2006, shareholders approved a capital increase of the Company by R\$ 105.3 as a result of the merger of subsidiary Polialden (Note 1(c)(ii)), through the issuance of 7,878,725 Class A preferred shares. On the same date, a conversion of 2,632,043 Class A preferred shares into common shares at the ratio of 1:1 was also approved.

At December 31, 2007 the Company's subscribed and paid-up capital was R\$ 4,641.0, divided into 449,432,611 shares, comprising 149,810,870 common shares, 298,818,675 Class A preferred shares, and 803,066 Class B preferred shares, with no par value. At the same date, the Company's authorized capital comprised 488,000,000 shares, of which 175,680,000 were common shares, 307,440,000 were Class A preferred shares, and 4,880,000 were Class B preferred shares.

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At the Extraordinary General Meeting held on April 2, 2007, shareholders approved the merger of Politeno into the Company (Note 1(c)(v)). As a result, the Company's capital was increased by R\$ 19.1 to R\$ 3,527.4 through the issue of 1,533,670 Class A preferred shares. The conversion of 486,530 Class A preferred shares into common shares was also approved.

As a result of the exercise of the right to convert the 1st Issue debentures (Note 1(c)(viii)), the Company's capital was increased by R\$ 1,113.6 on July 31, 2007 to total capital of R\$4,641.0, through the issuance of 77,496,595 shares, comprising 25,832,198 common shares and 51,664,397 Class A preferred shares.

At December 31, 2008 the Company's subscribed and paid-up capital was R\$ 5,375.8, divided into 507,540,997 shares, comprising 190,462,446 common shares, 316,484,733 Class A preferred shares, and 593,818 Class B preferred shares, with no par value. At the same date, the Company's authorized capital comprised 488,000,000 shares, of which 175,680,000 were common shares, 307,440,000 were Class A preferred shares, and 4,880,000 were Class B preferred shares.

At the Extraordinary General Meeting held on May 30, 2008 shareholders approved a capital increase of the Company from R\$ 4,641.0 to R\$ 5,361.7 as a result of the merger of subsidiary Grust, through the issuance of 46,903,320 common shares and 43,144,662 Class A preferred shares.

At September 30, 2008, as a result of merger of the subsidiary IPQ the Company's capital was increased by R\$ 14.1, to R\$ 5,375.8, through the issuance of 1,506,061 Class A preferred shares.

(b) Share rights

Preferred shares do not carry voting rights, but they have a priority right to a minimum non-cumulative annual dividend of 6% per annum of their nominal value, depending on the availability of net income for distribution. Only Class A preferred shareholders share the remaining net income equally with the common shares and common shares are entitled to dividends only after priority dividends have been paid to the holders of preferred shares. The Class A preferred shareholders also share equally with common shares in the distribution of shares resulting from the incorporation of other reserves to capital. Class B preferred shares are not convertible into common shares. However, at the end of the non-transfer period provided under applicable law, Class B preferred shares can be converted into Class A preferred shares at any time, at the ratio of two Class B preferred shares for each Class A preferred share.

Class A and Class B preferred shares have priority in the return of capital in the event of liquidation of Braskem. All shareholders are entitled to an annual mandatory dividend of 25% of adjusted net income for the year, in accordance with the Brazilian Corporate Law.

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As set forth in shareholders' agreement and memorandum of understanding, the Company has a target to distribute dividends corresponding to not less than 50% of the net income for the year, as long as the required reserve amounts are sufficient to allow for the efficient operation and development of the Company's businesses. However the legal obligation of the Company is the mandatory dividend of 25%.

Under the terms of U.S. dollar-denominated medium-term notes, the payment of dividends or interest on own capital is capped at two-times the minimum dividends accorded to preferred shares under the Company's bylaws.

(c) Tax incentives reserve

Prior to the adoption of Law 11638/07 and MP 449/08, income tax incentives (Note 19 (a)) were classified in a capital reserve account without transiting through the statement of operations. Beginning January 1, 2006, this tax incentives, are taken to the statement of operations and may be subsequently appropriated to a revenue reserve following a management proposal ratified by the shareholders meeting.

Regardless of the change determined by Law 11638/07 and MP 449/08, this incentive may only be used for increasing the capital or absorbing losses.

(d) Treasury shares

- On May 3, 2006, Braskem's board of directors approved a Share Buyback Program to acquire to the Company's common and Class A preferred shares to held in treasury and subsequently sold and/or cancelled, with no reduction in capital.
- Under the program, the Company acquired 13,131,054 Class A preferred shares at the average unit cost of R\$ 13.88. The low and high quotations during this period were R\$ 9.97 and R\$ 15.89 per share, respectively.
- Upon the merger of Politeno (Note 1(c)(v)), the cross shareholding between the companies was eliminated. The Company's Class A preferred shares held by Politeno, amounting to 2,186,133 shares, were added to treasury shares.
- At December 31, 2006, the Company held in treasury 14,363,480 Class A
- Preferred shares (2005 467,347 shares) for a total value of R\$ 255.6 (2005 R\$ 15.0).
- At December 31, 2007, the Company held in treasury 16,595,000 Class A preferred shares (2006 - 14,363,480 shares) for a total value of R\$ 257.6 (2006 - R\$ 255.6) .

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On March 6, 2008 the cancellation of 16,595,000 Class A preferred shares of the Company was approved. These shares were maintained in treasury, on December 31, 2007, for the amount of R\$ 244.5.

On February 19, 2008 a new share repurchase program was approved with a 12-month term and investment of approximately R\$ 252.0 for the repurchase of up to 19,862,411 Class A preferred shares. Under such program, up to December 22, 2008, 10,099,500 Class A preferred shares were acquired at an average cost of R\$ 10.63 per share, total cost of R\$ 107.4. The minimum and maximum amounts of these acquisitions were R\$ 6.03 and R\$ 13.85 per share.

On April 28, 2008 the dissent of shareholders owning 2,108,823 common and 209,048 Class B preferred shares to the Company was communicated to the market, concerning the ratification of the transaction to acquire the control of the petrochemical assets of the Ipiranga Group. These shares were redeemed on March 11, 2008, for their book value as of December 31, 2007, of R\$ 13.50 per share, for a total of R\$ 31.3.

On May 30, 2008, the shareholders of Braskem Participações approved a capital reduction and transfer to the Company of 580,331 common and 290,165 Class A preferred shares issued by the Company, in the amount of R\$ 13.1.

On July 2, 2008, the dissent of shareholders owning 3,562,590 common and 200 Class B preferred shares in the Company was communicated to the market, concerning the merger of the shares of Grust Holdings S/A. These shares were redeemed at their book value in to the balance sheet as of December 31, 2007, corresponding to R\$ 13.50 per share, for a total of R\$ 48.1.

On December 22, 2008 cancellation was approved of 16,850,657 shares, of which 6,251,744 were common shares, 10,389,665 Class A preferred shares and 209,248 Class B preferred shares of the Company, with a book value of R\$ 199.9. Such cancellation, in addition to the cancellation approved on March 6, totals R\$ 444.4, and was taken to the profit retention reserve.

(e) Revenue reserves

On March 28, 2006 Braskem's shareholders approved the transfer of R\$ 164.9 from revenue reserves to retained earnings (accumulated deficit) for absorption of prior year adjustments related to IBRACON Technical Interpretation 01/2006.

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The profit retention reserve is constituted by transfer of the balance of retained earnings, to fund expansion projects included in the business plan, as provided in the capital budget proposed by management and submitted to the approval of the shareholders, in accordance with Article 196 of the Brazilian Corporate Law. The balance of this reserve on December 31, 2007 was R\$ 913.8. In 2008, the Company used this balance to absorb the cancelation of the treasury shares and losses in the amount of R\$ 444.4 and R\$ 469.4, respectively.

(f) Appropriation of net income

In accordance with the Company's by-laws, net income for each year, adjusted in accordance with Brazilian Corporate Law, will be appropriated as follows: (i) 5% for constitution of the legal reserve, up to 20% of capital; and (ii) 25% for payment of non-cumulative mandatory dividends, observing the legal and statutory advantages of the preferred shares. In the case of loss the accumulated income reserve is appropriated to eliminate such losses. Additionally, if the loss is greater than accumulated income reserve the Company can reduce capital to eliminate such losses.

When the priority dividend amount paid to the preferred shares is equal to or higher than 25% of the adjusted net income for the year, calculated in accordance with Article 202 of the Brazilian Corporate Law, the full mandatory dividend is paid. If there is a remaining mandatory dividend after the payment of priority dividends, it will be used as follows: (i) for the payment to common shares of a dividend up to the limit of the priority dividend of preferred shares; and (ii) if there is a remaining balance, in the distribution of an additional dividend, to common shares and Class A preferred shares on the same basis, so that each common share and Class A preferred share receives the same dividend.

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The calculation of the dividends for 2007 is as follows:

	2007
	Retrospectively
	revised
Net income for the year	621.8
Exclusion of adjustments on first time adoption of Law 11638/07 and MP 449/08 (Note 3.1(b))	(74.2)
Net income for the year without the adjustments of Law 11638/07 and MP 449/08	547.6
Excludes effect of consolidation adjustments	(4.3)
Portion appropriated to legal reserve	(27.2)
Adjusted net income for the calculation of dividends	516.1
Distribution of profits	
Dividends proposed	
Common shares - (2007 - R\$ 0.644)	96.2
Class A preferred shares - R\$ 0.644 (2006 - R\$ 0.159)	181.8
Class B preferred shares - R\$ 0.644 (2006 - R\$ 0.159)	0.5
Total dividends proposed	278.5
Amount allocated to revenue reserve	237.6
Minimum mandatory dividends - 25%	129.0

The amount appropriated to the profit retention reserve in 2007 is justified by a capital budget included in the business plan and approved by the board of directors at a meeting held on December 19, 2007, and ratified by the Shareholders' Meeting held on March 26, 2008.

The book loss for 2008 was partially absorbed by making full use of the revenue reserves and no minimum mandatory dividends were calculated or distributed.

(g) Fair-value adjustments

This account comprises the fair-value adjustments which have impacted the shareholders' equity without affecting the Company's statement of operations for the current period, but will in the future.

At December 31, 2008 the Company had the following balances:

	2008
Financial instruments at fair-value, classified as available-for-sale, net of income tax (Note 5)	8.0
Parent Company's hedge operation (Note 23(f.3)(iv))	(110.1)
Total	(102.1)

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22 Contingencies

(a) Collective labor agreement

The Petrochemical, Plastics, Chemicals and Related Industry Workers Union in the State of Bahia (SINDIQUÍMICA) and the Employers Association of the Petrochemical and Synthetic Resins Industries in the State of Bahia (SINPEQ) are disputing in court the validity of a wage and salary indexation clause contained in the collective bargaining agreement (convenção coletiva de trabalho), given the matter of public policy involved, namely, the adoption of an economic stabilization plan in 1990 that put a limit on wage adjustments. The Company ran plants in the region in 1990, and is a member of SINPEQ.

The employees labor union seeks retrospective adjustment of wages and salaries. In December 2002, the STJ affirmed an erstwhile decision from the Superior Labor Court (TST), determining that economic policy legislation should prevail over collective bargaining agreements and, as such, no adjustment was due. In 2003, SINDIQUÍMICA appealed this decision by means of a motion for clarification, which was rejected by unanimous opinion on May 31, 2005.

On October 24, 2005, SINDIQUÍMICA filed a plea known as embargos de divergência, which was recognized by the higher courts. This plea was forwarded to the General Prosecutor Office of the Republic, which rendered an opinion fully favorable to SINPEQ in November 2006. Judgment on this appeal started on June 28, 2007, but was adjourned as one of the judges asked for further access to the case docket.

In reliance on the opinion of its legal advisors, Management believes that SINPEQ is likely to prevail in this suit and, as such, no amount was provisioned for.

(b) Offsetting of tax credits

From May through October 2000 merged companies OPP Química and Trikem offset their own federal tax debts with IPI tax credits (créditos-prêmio) assigned by an export trading company (Assignor). These offsetting procedures were recognized by the São Paulo tax officials (DERAT/SP) through offset supporting certificates (DCC s) issued in response to an injunctive relief entered in a motion for writ of mandamus (MS SP). Assignor also filed a motion for writ of mandamus against the Rio de Janeiro tax officials (DERAT/RJ) (MS RJ) for recovery of IPI tax credits and their use for offsetting with third-party tax debts, among others. The MS SP was dismissed without prejudice, confirming the Rio de Janeiro administrative and jurisdictional authority to rule on Assignor s tax credits.

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In June 2005 DERAT/SP issued ordinances (portarias) canceling the DCC s. Based on said ordinances, the Federal Revenue Office unit in Camaçari/BA sent collection letters to the Company. Notices of dispute were presented by the Company, but the administrative authorities declined to process them. As a result, past-due federal tax liabilities (dívida ativa) at R\$ 276.6 were posted in December 2005 concerning the Company s tax debts originating from purportedly undue offsetting procedures.

Both Assignor and the Company commenced a number of judicial and administrative proceedings to defend the lawfulness and validity of those offsetting procedures, and the legal counsels to both companies labeled the likelihood of success in those cases as probable, mostly in light of the indisputable certainty and validity of the credits as confirmed in a specific audit conducted by DERAT/RJ.

On October 3, 2005 the Federal Supreme Court (STF) held the MS RJ favorably to Assignor in a final and conclusive manner, confirming Assignor s definite right to use the IPI tax credits from all its exports and their availability for offsetting with third-party debts. As a result, the legal advisors to Assignor and to the Company believe that the offsetting procedures carried out by the merged companies and duly recognized by DERAT/SP are confirmed, and for this reason they also hold that the tax liabilities being imputed to the Company are not due. Despite the final and conclusive decision in MS RJ, the legal advisors to Assignor and to the Company, in addition to a jurist when inquired of his opinion on this specific issue, feel that the tax liabilities purportedly related to offsetting procedures carried out by the merged companies have become time-barred and, as such, can no longer be claimed by the tax authorities.

In January 2006 the Company was ordered to post bond in aid of execution of the tax claim referred to above; this bond was tendered in the form of an insurance policy.

The Company s legal advisors have labeled the likelihood of success in all claims listed above as probable; nevertheless, if the Company is eventually defeated in all those cases, it will be entitled to full recourse against Assignor concerning all amounts paid to the National Treasury, as per the assignment agreement executed in 2000.

(c) National Social Security Institute - INSS

The Company is party to several social security claims totaling R\$ 347.2 as of December 31, 2008 (2007 - R\$ 285.9). Out of these, R\$ 18.2 is secured by a portion of the Company's inventory. Based on the opinion of its outside legal counsel, the Company believes that the chances of loss for the remaining amounts are remote, and, therefore, no provision has been recorded.

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The Company figures as defendant in civil lawsuits filed by the controlling person of a former caustic soda distributor and by a carrier that rendered services to the latter, totaling R\$ 28.6 as of December 31, 2008 (2007 R\$ 27.5). Said plaintiffs seek redress of damages caused by the Company's alleged non-fulfillment of the distributor agreement. In reliance on the opinion of legal advisors sponsoring the Company in these lawsuits, Management believes that the cases are likely to be rejected, and for this reason the respective sums have not been provisioned for.

In the second quarter of 2005, the Chemical and Petrochemical Industry Workers Unions in Triunfo-RS and Camaçari-BA filed several lawsuits for recovery of unpaid overtime. The Company has presented its answers accordingly, and in reliance on the legal advisors' opinion the Company's Management does not expect to be defeated.

As of December 31, 2008 the Company figured as defendant in 1,282 suits for damages and labor claims (already including those mentioned above), totaling approximately R\$ 223.3. According to the opinion of legal advisors, most of these suits are likely to be found for the Company. For the cases entailing a probable defeat, the Company has provisioned for R\$ 17.5 (2007 R\$ 25.0).

Further, in 1999, the Federal Revenue Office (SRF) served notice on merged company Copesul charging a supposedly delinquent IRPJ and CSL tax for the 1994 base period, relating to monetary adjustment of balance sheet items and equity accounting results due to the accounting of dividends distributed by a controlled entity abroad. The updated dispute comes to R\$ 21.3. An appeal lodged by the National Treasury to Higher Tax Appeals Chamber (CSRF) is pending judgment. According to the legal advisors of Copesul, the likelihood of a favorable outcome for this case is reasonably possible.

23 Financial Instruments

The currencies shown in the derivatives section are designated by the codes according to the ISO 4217 standard and are shown below:

Code	Currency	Country
BRL	Real	Brazil
EUR	Euro	Euro zone
JPY	Yen	Japan
USD	U.S. dollar	United States of America

Non-derivative financial instruments

On December 31, 2008 and 2007, the Company held non-derivative financial instruments, according to the definition given by CPC 14. These financial instruments comprised part of the Company's short-term investments and certain items of its debt.

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Identification	Book Value (assets and (liabilities))		Fair value	
	2008	2007	2008	2007
1. Investment funds in foreign currency	107.3		107.3	
2. Time Deposits	522.2	191.0	522.2	191.0
3. Treasuries	331.5		331.5	
4. Exclusive investment fund	1,714.4	258.8	1,714.4	258.8
5. Fixed-Income investments	102.9	296.3	102.9	296.3
6. Advances on exchange contracts	(149.8)	(28.3)	(149.9)	(28.3)
7. Working capital\ Structured Transactions	(905.2)	(388.2)	(905.2)	(388.2)
8. BNDES	(236.3)	(44.8)	(236.3)	(44.8)
9. Eurobonds	(3,023.1)	(1,401.2)	(2,440.4)	(1,496.3)
10. Raw material financing	(21.5)	(20.3)	(21.5)	(20.3)
11. Medium-Term Notes	(618.7)	(632.6)	(643.0)	(745.1)
12. Export prepayments	(4,000.3)	(1,623.3)	(4,000.3)	(1,623.3)
13. Project financing (NEXI)	(195.7)	(231.2)	(195.7)	(231.2)
14. Debentures	(826.3)	(911.6)	(803.4)	(910.0)

Detailed information about these financial instruments can be found in the explanatory notes to Cash and Cash Equivalents (Note 4), Securities (Note 5), Financings (Note 15) and Debentures (Note 16).

(a) Risk management

The Company is exposed to market risk arising from variations in commodity prices, foreign exchange rates and interest rates, and to credit risk arising from the possibility of default by its counterparties in financial investments, accounts receivable and derivatives.

The Company adopts procedures for managing market and credit risks, in line with a Financial Management Policy and a Risk Management Policy. The aim of risk management is to protect the Company's cash flow and reduce the threats to financing its operating working capital and investment programs.

(b) Exposure to foreign exchange risks

The Company has commercial transactions denominated in or indexed to foreign currencies. The prices of the Company's inputs and products are denominated in or strongly influenced by international commodity quotations, which are usually denominated in U.S. dollars. Furthermore, the Company has used long-term financing in foreign currencies, which leads to exposure to changes in the foreign exchange rates between the Real and the foreign currencies. The Company manages its foreign currencies exposure using a combination of foreign currency debt, foreign currency investments and derivatives. The Company's foreign exchange risk management policy contemplates maximum and minimum cover limits which must be obeyed, and which are continually monitored.

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(c) Exposure to interest rate risks

The Company is exposed to the risk that variations in floating interest rates lead to an increase in financial expenses with future interest payments. The floating-rate foreign currency debt is subject mainly to fluctuations in LIBOR. Domestic currency debt is subject mainly to the variation of the Long-Term Interest Rate (TJLP), pre-fixed rates in Reais and daily variation of the CDI rate.

(d) Exposure to commodity risks

The Company is exposed to fluctuations in the price of several petrochemical commodities, especially its main raw material, naphtha. Because the Company seeks to transfer to its selling prices the effect of price changes in its raw materials, arising from changes in international quotations for naphtha, part of its sales may be carried out under fixed-price contracts or contracts stating maximum and/or minimum fluctuation ranges. Such contracts are commercial agreements or derivative contracts relating to future sales. On December 31, 2008, the Company had no outstanding contracts of this nature.

(e) Exposure to credit risk

The Company is subject to concentration of credit risk in connection with bank accounts, financial investments and other accounts receivable, which expose the Company to risks relating to the financial institutions involved. In order to manage the credit risk, the Company keeps its bank accounts and financial investments with large financial institutions, weighting the concentrations in line with the institutions' ratings and the prices observed in the Credit Default Swaps (CDS) market, as well as entering into netting agreements that minimize the overall credit risk arising from the various financial transactions carried out among the parties.

In regard to customer credit risk, the Company protects itself by making detailed analyses before granting credit and by obtaining real and pro forma guarantees, when deemed necessary. Counterparty limits and credit quality are reviewed on a daily basis, taking into account their ratings and the prices reigning on the Credit Default Swap (CDS) market.

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(f) Derivative instrument transactions

The Company uses derivative financial instruments for the following purposes:

(f.1) Hedging

Hedging activities are executed in line with the Company's policies. The financial management policy includes a continuous short-term hedge program for foreign exchange risk arising from its transactions and financial items. Other market risks are covered on a case-by-case basis. In general, the Company assesses the need for hedging when analyzing prospective transactions and seeks to undertake made-to-measure hedging for the transactions under consideration, in addition to preserving the hedge for the entire period of the transaction being covered.

The Company may elect to designate derivatives for hedging by applying Hedge Accounting pursuant to CPC 14. Designation of the hedge is not mandatory. The Company will usually elect to designate derivatives as a hedge when it is expected that the application of hedge accounting will afford a significant improvement in demonstrating the off-setting effect of the derivatives on the variations of the items being hedged. On December 31, 2008, the Company held financial derivatives contracts with a total nominal value of R\$ 1,974.0 (2007: R\$ 1,978.5), of which R\$ 1,694.3 related to designated hedge transactions and R\$ 279.7 to other hedge transactions (see (f).i.a and (f).i.b below). There were no derivatives used for other purposes.

(f.2) Modifying the return on other instruments

The Company may use and has used derivatives to modify the return on investments, the interest rate or the indexation of financial liabilities, based on judgements made regarding the most appropriate conditions for the Company. When the modified return risk is substantially lower for the Company by using derivatives, the transaction is considered hedged. When the Company uses derivatives to modify investment returns, it seeks to match the obligations it will have by virtue of the derivative with the rights represented by the investments. When it uses derivatives to modify the interest rate or indexation on liabilities, it seeks to match the rights it will have by virtue of the derivative with the obligations represented by the liabilities. These transactions involving modification of investment returns, interest rates or indexation on financial commitments are undertaken for an amount not exceeding that of the underlying investment or commitment. The Company does not leverage its positions using derivatives. As of December 31, 2008 the Company had no transactions with this purpose.

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(f.3) Monetization of certain risks

The Company may use derivatives to monetize certain risks it considers acceptable on account of its exporting profile. By monetizing a risk, Braskem receives financial income in exchange for compensating the counterparty should a specific event occur. As of December 31, 2008 the Company had no transactions with this purpose. All derivative financial instruments held on December 31, 2008 were entered into on the OTC market with large financial counterparties and supported by global derivatives agreements in Brazil or abroad.

The derivative financial instruments are shown on the balance sheet at their fair value, as assets or liabilities. The derivative financial instruments are classified as trading instruments, as is mandatory. The periodic variances in the fair value of the derivatives are recognized in the statement of operations as financial revenue or expense in the same period in which they occur, except when the derivative is designated and qualifies for cash flow hedge accounting for the period in question.

The fair values of the derivatives are obtained as follows:

- a) From public sources in the case of exchange-traded derivatives;
- b) Using discounted cash flow models when the derivative is a forward purchase or sale or a swap contract.
Using option contract evaluation models, such as the Black-Scholes model, when the derivative contains option
- c) features.

The valuation assumptions (model input) are obtained from sources that reflect current observable market prices, particularly interest rate curves and forward currency prices disclosed on the Commodities and Futures Exchange, spot foreign exchange rates disclosed by the Brazilian Central Bank, and international interest rate curves disclosed by recognized quotation services such as Bloomberg or Reuters.

As of December 31 of 2008, the Company had no derivatives that required non-observable assumptions for calculating their fair value.

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The table below shows all transactions using derivative financial instruments in existence on December 31, 2008, or those that produced financial results during the 2008 fiscal year. The receipts (payments) column shows the amounts received or paid for the settlements undertaken during 2008, while the income (expense) column shows the effect recognized as financial income or expense due to settlements and movements in the fair value of the derivatives during 2008:

Identification	Nominal value	Maturity	Purpose	Receipts (payments)	Income (expense)	Fair value	
						2008	2007
Yen-CDI swap (see i.a)	BRL 279.7	Jun/2012	Exchange hedge of NEXI financing	BRL (32.5)	BRL 49.7	BRL 5.6	BRL (76.7)
Interest rate swap (Libor-fixed) (see i.b)	USD 725.0	Oct/2013	Interest rate hedge (designated for hedge accounting)		BRL 0.7	BRL (109.4)	
USD-BRL exchange swap (see ii.a)	BRL 255.8	Nov/08	Exchange hedge	BRL 62.7	BRL 62.9		
EUR-USD currencies swap (see ii.b)	BRL 503.1	Nov/08	Exchange and interest rate hedge	BRL (21.3)	BRL 18.6		BRL (39.9)
Credit default swap (see ii.c)	USD 100.0	Dec/08	Change of return	USD 0.4	USD 0.3		USD 0.6
Total Return Swap (see ii.d)	USD 450.0	Aug/08	Change of return	USD 6.4	USD (13.2)		USD 19.6
Convertibility swap (see ii.e)	USD 150.0	Jul/08	Monetization	USD 0.5	USD 0.4		USD 0.1

(i) Transactions outstanding on December 31, 2008

As of December 31, 2008 the Company had the following derivative financial instruments:

(i. a) Project financing (NEXI) - linked swaps

On December 31, 2008 the Company had four currency swap contracts with a total nominal value of R\$ 279.7, contracted for hedging yen-denominated financings with floating interest rates, maturing in March and June 2012. The purpose of these swaps is to offset the risk of fluctuations in the Yen-Real foreign exchange rate arising from the financings, and to offset the risk of variation in future expenses with interest payments. The terms, amount, settlement dates and yen interest rates of the swaps are matched to the terms of the financing. The Company intends to hold these swaps until the financing is settled.

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The characteristics of each swap transaction are listed below:

Identification	Valor Notional (in million of R\$)	Interest rate	Maturity	Fair value	
				2008	2007
Swap NEXI I	29.0	104.29% of CDI	Jun-12	2.2	(6.6)
Swap NEXI II	136.5	101.85% of CDI	Mar-12	(6.6)	(45.5)
Swap NEXI III	91.9	103.98% of CDI	Jun-12	7.6	(20.1)
Swap NEXI IV	22.3	103.98% of CDI	Jun-12	2.3	(4.5)

These contracts may require Braskem to make guarantee deposits under certain conditions. On December 31, 2008, Braskem had no guarantee deposits outstanding in connection with these derivatives. The counterparties in the transactions are prime banks with A credit ratings or better from rating agencies Moody's, Standard & Poor's or Fitch, which in accordance with the discount rates used to reflect the counterparty credit risk.

The Company elected not to designate these swaps for hedge accounting, since the main risk protected, the risk of foreign exchange rate fluctuation, is represented by the simultaneous movements in foreign exchange rates for the financing. As a result, the resulting change in the fair value of the swaps is recorded as financial income or expense in the period in which they occur. In 2008, the Company recognized income of R\$ 49.7 for the changes in fair value of these swaps between December 31, 2007 and December 31, 2008.

(i.b) Export prepayment-linked interest rate swaps

The subsidiary Braskem Inc. had, on December 31, 2008 nine interest rate swap contracts with a total nominal value of USD 725.0, which it had entered into for export prepayment debt contracted in US dollars and at (Libor-based) floating interest rates in October 2008, maturing in October 2013. With these swaps, the subsidiary Braskem Inc. receives floating rates (Libor) and pays fixed rates in a manner that matches the prepayment debt cash flow. The objective of these swaps is to offset the variation in future financial debt expenses caused by Libor rate fluctuation. The terms, amount, settlement dates and floating interest rates match those of the debt. The Company intends to hold these swaps until the financing is settled.

These swaps were designated as cash flow hedges for the fluctuating Libor risk on specified debt, for the purposes of hedge accounting. The changes in the fair value of the derivatives designated as cash flow hedges that are highly effective in offsetting cash flow variations in the hedged item are recognized in the shareholders' equity under Fair-value adjustments up to the date on which the respective variation of the hedged item impacts the result. The impact of Libor on the hedged item is expected to impact the results in each debt interest period, beginning on the disbursement date and continuing to its maturity date.

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The Company tests the effectiveness of these hedges on the closing date of each reporting period using the accrued monetary offset method. Under this method, the hedge is considered effective if the cash flow variation of the derivatives is between 80% and 125% of the variation of the hedged item caused by the risk being covered. The effectiveness test on December 31, 2008 showed that the derivatives were highly effective in offsetting the variations in the hedged item caused by Libor fluctuations during the period from when the derivatives were contracted until the end of the reporting period, and that all other conditions that qualify these instruments for hedge accounting were met. As a result, the effective portion of the variation in the fair value of the derivatives, in the amount of (R\$ 109.4), was recorded as the Fair-value adjustments account. The subsidiary also reclassified from that account to financial income R\$ 0.7 referring to the portion of the offset effect of the derivatives on the hedged item, for in 2008.

The characteristics of the swap transactions are listed below:

Identification	Notional value (in million of USD)	Interest rate %	Maturity	Fair value 2008
Swap EPP I	100.0	3.9100	Oct/13	(15.7)
Swap EPP II	100.0	3.9100	Oct/13	(15.7)
Swap EPP III	100.0	3.9525	Oct/13	(16.0)
Swap EPP IV	25.0	3.8800	Oct/13	(3.8)
Swap EPP V	50.0	3.5675	Oct/13	(6.3)
Swap EPP VI	100.0	3.8800	Oct/13	(15.4)
Swap EPP VII	50.0	3.5800	Oct/13	(6.3)
Swap EPP VIII	100.0	3.8225	Oct/13	(14.9)
Swap EPP IX	100.0	3.8850	Oct/13	(15.4)
				109.4

The Interest Rate column includes the fixed contract fee which the Company pays in exchange for receiving Libor.

These contracts may require the subsidiary Braskem Inc. to make guarantee deposits under certain conditions. On December 31, 2008, Braskem Inc. had no guarantee deposits outstanding in connection with these derivatives. The counterparties in these transactions are prime banks with A credit ratings or better from rating agencies Moody's, Standard & Poor's or Fitch, which is in accordance with the discount rates used to reflect the counterparty credit risk.

The risk value of the derivatives held by the Company on December 31, 2008, defined as the greatest loss that may result in one month, in 95% of the cases, in normal market conditions, was estimated by the Company at R\$ 46.6 for the swaps EPP and R\$ 20.8 for the swaps NEXI.

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(ii) Transactions terminated in 2008

(ii. a) Export prepayment-linked exchange rate swaps

Up to November of 2008, the Company had currency swaps with a nominal total value of R\$ 255.8 for the purpose of offsetting the effects of foreign exchange variation on the export prepayment debt in the amount of USD 150.0. In these swaps the Company received exchange variation at US dollar plus 3.94% per annum and paid 98.29% of the CDI. The terms of the foreign exchange swaps matched those of the debt covered. These swaps were settled in November 2008 for an amount of R\$ 62.9 received by Braskem.

(ii. b) Austrian Republic Notes earnings swap

The Company had in 2008 currency swaps with a total nominal amount of R\$ 503.1, with the aim of modifying the indexer of the Austrian Republic Notes from fixed-rate Euros to floating rate US dollars (Libor plus spread).

The nominal value, rates and maturity dates of the swap obligations were identical to those of the Austrian Republic Notes in portfolio. The swaps were contracted on the over-the-counter market, with guarantees required by one of the counterparties in the event the fair amount exceeded USD 6.0 against Braskem on the verification date, by way of a Bank Certificate of Deposit (CDB) of the same counterparty. In April 2008, the Company settled part of the swap, paying R\$ 30.2, and in November 2008 liquidated the remainder, receiving R\$ 8.9.

(ii. c) Credit Default Swaps linked to Braskem s credit as part of the financial guarantees

The Company had Credit Default Swap transactions with ABN AMRO NV involving USD 100.0 and linked to the Braskem credit maturing in 2015, in which the subsidiary Braskem Inc. participated as seller of protection or guarantor of the Braskem credit by means of a deposit with NIB Capital Bank. This derivative was contracted as part of a transaction in which the subsidiary Braskem Inc. sold to ABN AMRO NV a corresponding amount of bonds issued by Braskem which it held in portfolio. These transactions were settled in December 2008 for an amount of USD 0.4 received by the subsidiary Braskem Inc.

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The subsidiary Braskem Inc. held Total Return Swaps linked to a funds portfolio, in the amount of USD 450.0, with the aim of modifying the return on its foreign currency investments while optimizing its financial income. In these contracts, Braskem Inc. paid a fixed interest rate and received the total return equal to the interest and dividend payments plus the variation in the value of the funds portfolio. The derivative enabled the subsidiary to select and change the composition of the funds, having as its advisor the Royal Bank of Canada AAM. This transaction was liquidated in August 2008 for an amount of USD 6.4 million corresponding to R\$ 12.8 received by the subsidiary Braskem Inc.

(ii. e) Currency convertibility swap

The subsidiary Braskem Inc. had swap transactions with a currency convertibility clause, with the nominal amount of USD 150.0 and a term of 1 year, with the aim of monetizing the interest rate differential between the Brazilian currency and Libor rates. In the case of a currency convertibility event, the swap would permit substituting settlement for the net amount, with gross settlement of both debit and credit balances, whereby the outstanding balance of Braskem Inc. is payable abroad and the creditor balance receivable in Brazil. This transaction was undertaken taking into account the exporting nature of the subsidiary Braskem Inc.

This transaction was liquidated in July 2008 for an amount of USD 0.5 corresponding to R\$ 0.8 received by the subsidiary Braskem Inc.

(iii) Exposure by counterparty

Outstanding exposure of the Company to the risk of counterparty default in derivative financial instruments is listed in the table below, taking into account the market values of the derivatives plus the guarantees:

Counterparty	Principal	Exposure 2008
Banco Real	18.4	2.2
Citibank	306.3	(5.4)
JPMorgan	86.9	(6.6)
Calyon	409.0	(26.2)
BBVA	467.4	(31.3)
Santander	584.3	(36.6)

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The components of the highly effective offset and the ineffective portion of the fair value variation of the derivatives, as well as the reclassification of the amounts referring to the effective hedges in the period were recognized as follows:

Item	AAP balance in Dec/07	Reclassifications to expense (revenues) in 2008 by achievement of competence	Activities of hedges actual installment	Activities arising from effectiveness recovery	AAP balance in Dec/08
Swaps EPP		(0.7)	(109.4)		(110.1)

(a) Sensitivity analysis

Financial instruments, including derivatives, are subject to variations in their fair value arising from fluctuations in commodity prices, foreign exchange rates, interest rates, shares and shares indices, price indices and other variables. The sensitivity analysis of derivative and non-derivative financial instruments to these variables is shown below.

i) Risk selection

The Company selected the three market risks that may most affect the value of the financial instruments it holds, being: a) the US dollar-Real foreign exchange rate; b) the Yen-Real foreign exchange rate; and c) the Libor floating interest rate.

For the purposes of the sensitivity analysis of risk, the Company shows currency exposures as if they were independent, that is, without reflecting the exposure to one foreign exchange rate to the risk of variation in other foreign exchange risks that might be indirectly influenced by it.

ii) Scenario selection

Pursuant to CVM instruction 475/08 the Company includes three scenarios in the sensitivity analysis, one of which is probable and with the other two representing scenarios with potential adverse effects for the Company. In preparing the adverse scenarios, the Company considered only the impact of the variables on the financial instruments, including derivatives, and on the items covered by hedge transactions. It did not take into account the global impact on the Company's operations, such as that involving a revaluation inventories and future income and expenses. Since the Company manages its exchange exposure on a net basis, adverse effects verified when the US dollar rises against the Real can be offset by the opposite effects on the operating results of the Company.

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The probable scenario considered was the one published by the FOCUS study disclosed by the Central Bank of Brazil on December 26, 2008. In the case of the interest rate variables not included in the FOCUS study, the probable scenario taken into account was the percentage variation of the CDI. In the case of the foreign exchange rate variables not included in the FOCUS study, the probable scenario taken into account was the percentage variation of the US dollar against the Brazilian Real.

The possible adverse and extreme scenarios for the US dollar-Real foreign exchange rate considered, respectively, a rise of 25% and 50% in the quotation of the Real in relation to the dollar at the close of 2008.

The possible adverse and extreme scenarios for the Yen-Real foreign exchange rate considered, respectively, a rise of 25% and 50% in the quotation of the yen in Reais in relation to the yen at the close of 2008.

The possible adverse and extreme scenarios for the Libor interest rate considered, respectively, a drop of 25% and 50% in the Libor quotation in relation to its at the end of level 2008.

The sensitivity results in the tables below show the variations in the value of the financial instruments in each scenario, with the exception of table (v), which shows the variations in future cash flows.

iii) Sensitivity to the US Dollar-Real foreign exchange rate

The sensitivity of each financial instrument, including derivatives and the items they cover, to variations in the US Dollar Real foreign exchange rate is shown in the table below.

Instrument	Probable	Possible adverse	Extreme adverse
		(25 %)	(50 %)
Advance of exchange contracts	5.3	(35.3)	(70.6)
Advances on bills of exchange delivered	0.3	(2.2)	(4.3)
BNDES	7.5	(50.7)	(101.3)
Eurobonds	30.8	(206.9)	(1,503.7)
Raw material financing	0.8	(5.4)	(10.8)
Investment Funds in foreign currency	(4.0)	26.8	53.6
Medium-Term Notes	23.0	(154.7)	(309.3)
Export prepayments	84.9	(570.0)	(1,140.1)
Time Deposits	(19.4)	130.6	261.1
Treasuries	(12.3)	82.7	165.7
Export pre-payment debt of exports, and hedge, as follows:	68.1	(457.4)	(914.8)
Pre-payment debt	64.0	(430.0)	(860.1)
Swap EPP (see (f3).i.b)	4.1	(27.4)	(54.7)
Total	253.1	(1,699.9)	(1,845.5)

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The sensitivity of each financial instrument, including derivatives and the items they cover, to variations in the Yen-Real foreign exchange rate is shown in the table below.

Instrument	Probable	Possible adverse (25%)	Extreme adverse (50%)
Financing for projects (NEXI), and hedge, as follows:	0.3	(2.0)	(4.0)
Debt (NEXI)	7.3	(48.9)	(97.9)
Swaps (NEXI) (see (f3).i.a)	(7.0)	46.9	93.9

v) Sensitivity of future cash flows to floating Libor interest rates

The sensitivity of future interest income and expenses of each financial instrument, including the effect of derivatives and the items they cover, is shown in the table below. The figures represent the impact on financial income (expense) taking into account the average term of the respective instrument.

Instrument	Probable	Possible adverse (25%)	Extreme adverse (50%)
Advance on exchange contracts	0.4	(1.9)	(3.7)
Working capital\ Structured Transactions	4.7	(23.4)	(45.6)
Raw material financing	0.1	(0.2)	(0.3)
Export prepayments	2.8	(14.2)	(28.2)
Export pre-payment debt of exports, and hedge, as follows:			
Pre-payment debt	3.6	(18.2)	(36.0)
Swap EPP (see (f3).i.b)	(3.6)	18.2	36.0

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24 Financial Income (Expenses)

	2008	2007	2006
Financial income			
Interest income	139.7	134.7	140.0
Monetary variation	30.8	36.9	96.7
Gains on derivative transactions	65.8	47.3	114.1
Exchange variation on foreign currency assets	466.3	(825.6)	(204.2)
Other	16.0	18.0	12.9
	718.6	(588.8)	159.5
Financial expenses			
Interest on financing and related parties	(560.1)	(470.3)	(287.8)
Monetary variation	(214.9)	(213.2)	(434.0)
Losses on derivative transactions	31.0	(44.8)	(161.9)
Discounts granted	(121.9)	(137.6)	(138.0)
Exchange variation on foreign currency liabilities	(3,212.6)	1,546.7	333.4
Taxes and charges on financial transactions	(65.3)	(274.7)	(228.4)
Other	(259.3)	(194.0)	(181.2)
	(4,403.1)	212.1	(1,097.9)
Financial income (expenses), net	(3,684.5)	(376.7)	(938.4)

25 Other Operating Income (Expenses)

	2008	2007	2006
Income (expenses)			
Rental of facilities and assignment of right of use	12.2	24.3	45.4
Recovery of taxes (Note 17(iii))	53.1	120.0	125.9
ICMS tax incentive - PRODESIN	24.5	15.9	13.1
Other operating income/(expenses), net	3.8	(28.7)	1.7
	86.0	131.5	186.1

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26 Other income and expenses, net

	2008	2007	2006
Income (expenses)			
Sale of interest in Petroflex	130.5		
Change of interest in investments		(35.5)	2.4
Sale of permanent assets		(2.0)	(0.5)
Provision for loss on investments	(10.2)	-	-
Provision for loss/retirement of assets	(170.9)	(13.8)	-
Reversal of gains from merger	(42.8)		
Write-down of discontinued projects	(10.8)		
Other non-operating income (expenses), net	(54.5)	(15.9)	5.2
	(158.7)	(67.2)	7.1

27 Insurance Coverage

The Company has a broadly based risk management program designed to provide cover and protection for all assets, as well as for possible losses caused by production stoppages, through an all risks insurance policy. This policy establishes the amount of maximum probable damage, considered sufficient to cover possible losses, taking into account the nature of the Company's activities and the advice of insurance consultants. At December 31, 2008, insurance coverage for inventories, property, plant and equipment, and loss of profits of the Company was US\$ 2 billion per claim, while the total of all insured assets was R\$ 16.7 billion.

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28 Shares Traded Abroad - NYSE and LATIBEX

(a) American Depositary Receipts ("ADRs") program

The Company's ADRs are traded on the NYSE with the following characteristics:

- Type of shares: Class A preferred shares.
- Each ADR represents two shares, traded under the symbol "BAK".
- Foreign Depositary Bank: The Bank of New York ("BONY") - New York branch.
- Brazilian Custodian Bank: Banco Itaú S.A.

(b) LATIBEX

The Company's Class A preferred shares are traded on LATIBEX, the Madrid Stock Exchange's market for Latin American companies quoted in euros. The shares are traded under the symbol "XBRK" and the Brazilian custodian bank is Banco Itaú S.A. LATIBEX has adjusted and altered the process for quotation and trading to comply with the new Corporate Governance Standards adopted by Bovespa. Accordingly, as from May 16, 2005, the shares have been traded in units.

29 Private Pension Plans

The actuarial obligations relating to the pension and retirement plans are accrued in conformity with the procedures established by CVM Deliberation 371/2000.

(a) PETROS/PREVINOR

In June 2005, the Company informed PETROS - Fundação Petrobras de Seguridade Social of its intention to withdraw sponsorship as from the 30th day of that month. The calculation of the mathematical reserves of the participants was concluded in November of 2006 and sent that same month for approval of the Supplementary Pensions Department (SPC), an entity of the Ministry of Social Security, whose role is to regulate and supervise private pension plans. On December 31, 2008, the plan's net assets are greater than the amount of the participants' mathematical reserves.

The benefits to those receiving assistance and PETROS retirees will continue to be paid on a regular basis until the conclusion of the process.

In January 2007, the merged company Politeno, sponsor of PREVINOR, notified its withdrawal of sponsorship as from that month. The plan maintained by Politeno is in surplus, and there is no need for disbursement by Braskem.

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(b) ODEPREV

The Company has a defined contribution plan for its employees. The plan is managed by ODEPREV - Odebrecht Previdência which was set up by Odebrecht S.A. as a private pension entity. ODEPREV offers its participants, employees of the sponsoring companies, the Optional Plan, a defined contribution plan, under which monthly and sporadic participant contributions and annual and monthly sponsor contributions are accumulated and managed in individual retirement savings accounts.

The Board of Trustees of ODEPREV defines each year in advance the parameters for contributions to be made by the participants and the sponsoring companies. With regard to the payment of benefits under the Optional Plan, the obligation of ODEPREV is limited to the total value of the quotas held by its participants and, to comply with the regulations for a defined-contribution plan, it will not be able to require any obligation or responsibility on the part of the sponsoring company to assure minimum levels of benefits to the participants who retire.

On December 31, 2008, the number of active participants in ODEPREV comprised 2,633 (2007 - 2,512) and the Company's and employees, contributions in 2008 amounted to R\$ 9,751 (2007 - R\$ 5,918) and R\$ 18,752 (2007 - R\$ 16,453), respectively.

(c) Copesul

Copesul and its employees contribute as maintainers of PETROS in defined benefit pension and retirement plans. In 2008, the rate on the contribution salary was 12.93% on all income of employees covered by the plan. The contributions made by Copesul during 2008 totaled R\$ 6.2 (2007 - R\$ 5.7).

As contemplated in the regulations of PETROS and applicable legislation, in the event the technical reserves are relatively insufficient, maintainers and participants will contribute additional financial funds, or benefits under the plan will be adapted to the resources available. Since the end of the fiscal year, there has been need for any supplementary contribution by Copesul.

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In compliance with CVM Deliberation 371, dated September 13, 2000, the Company undertook an assessment of the actuarial liabilities on December 31, 2008 of the post-employment benefits granted to its employees, using the projected credit unit evaluation method based on actual information incurred up until November 30 of each year, with the following result:

	2008	2007
Fair value of asset plans	459.2	437.4
Present value of actuarial liabilities	540.0	496.8
Actuarial liabilities	(80.8)	(59.4)
Net actuarial liabilities to be provided for	(80.8)	(59.4)
Actuarial liabilities provided for	6.4	1.6
Net actuarial liabilities - not provided for	(74.4)	(57.8)

Gains (losses) previously recorded are associated with the profitability of the plan assets - differences between the actuarial assumptions and the actual. Such differences are considered actuarial gains (losses). Copesul's policy is to recognize such gains (losses) as income (expenses) only when their accumulated amounts exceed, in each year, the higher of the following limits: (i) 10% of the present value of the total actuarial obligation defined benefit, and (ii) 10% of the fair value of plan assets. The portion to be recognized is amortized each year, with the amortization amount determined by dividing its amount by the average remaining service time estimated for the plan participants.

The main actuarial assumptions at the balance sheet date are shown as follows:

	2008	2007
Actual discount rate	6%	6%
Expected yield rate of plan assets	6%	6%
Salary real growth	1.7% until retirement	1.7% up to 48 years and zero after 49 years of age
Biometric bases		
Mortality for pension and savings (able individuals)	AT-2000	AT-2000
Mortality for pension and savings (disabled individuals)	C.A.P. experience (*)	C.A.P. experience (*)
Disability	Álvaro Vindas (**)	Álvaro Vindas (**)
Other charges	STE A experience (***)	STE A experience (***)

(*) C.A.P. - Caixa de Aposentados e Pensionistas used as a basis to develop the mortality table for actuarial computations.

(**) Álvaro Vindas - Disability Table used in actuarial computations.

(***) STEA - Serviços Técnicos de Estatística e Atuária Ltda.

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In May 2003 the board of directors of Copesul approved the implementation of the Copesul Supplementary Private Pension Plan, called COPELULPREV. This is a private, defined contribution plan for those employees not included in the former PETROS plan, which currently does not accept new participants. The plan is independently managed by PETROS - Fundação Petrobras de Seguridade Social, with no links to any other pension plan managed at present by that entity, pursuant to the provisions of Complementary Law 109/2001. In 2008, Copesul's contributions amounted to R\$ 1.6 (2007 - R\$ 1.4).

30 Raw Material Purchase Commitments

The Company has contracts for the purchase of electric energy by its industrial plants located in the States of Alagoas, Bahia and Rio Grande do Sul. The minimum annual commitment under these contracts amounts to R\$ 248.5.

Braskem purchases naphtha under contracts establishing a minimum annual purchase volume equivalent to R\$ 6,991.5 (unaudited) (2007 - R\$ 5,771.3 (unaudited)), based on market prices as of December 31, 2008.

31 Subsequent Events

On March 4, 2009 the board of directors of the Company approved the application for a loan in the amount of R\$ 600.0 from the Federal Savings and Loans Bank CEF.

On April 30, 2009 in an Extraordinary Stockholders' General Meeting approved the merger of Petroquímica Triunfo (Triunfo) into Braskem. This merger represents the last step of the in November 30, 2007 agreement, between Petrobras, Petroquisa, Odebrecht and Norquisa (Note 1 (c)(x)).

On April 30, 2009, the settlement of the Petros pension plan was approved by the Secretary of Complementary Pensions.

On May 13, 2009, Braskem announced to the market the suspension of production at its Camaçari plant, which produces caprolactama (raw material for nylon production). The book value of this plant at December 31, 2008 was R\$ 66.6.

In June 2009 it was disclosed to the market the coming distribution of R\$245 million in quotas of Chemical Credit Rights Investment Fund IV (Chemical IV - Fundo de Investimento em Direitos Creditórios). Such distribution comprised R\$227 million in Senior quotas and R\$18 million in Subordinated Mezzanine quotas, both fully sold in the Brazilian capital market. Distribution was announced, concluded and cash was settled in July, 2009. Proceeds were applied to the working capital needs of the Company.

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32 Summary of Main Differences Between Brazilian GAAP and U.S.GAAP

(a) Presentation of financial statements, consolidation basis and functional currency

As described in Note 2, the Company has elected to use the consolidated financial statements prepared in accordance with accounting practices adopted in Brazil (Brazilian GAAP) as its primary financial statements, for the purposes of filing with and listing at the Securities and Exchange Commission - SEC and New York Securities Exchange - NYSE, under the applicable rules to the U.S. Exchange Act of 1934.

A summary of the main differences between Brazilian GAAP and accountant principles generally accepted in the United States (U.S. GAAP), applicable to the Company, are disclosed in this Note.

(i) Financial statements under Brazilian GAAP

Pursuant to Law 11638/07 Brazilian GAAP were amended in order to converge to International Financial Reporting Standards - IFRS as described in Note 3.1, for which financial statements were retrospectively revised under Brazilian GAAP for the years ended December 31, 2007 and 2006.

Accordingly, the reconciliation to U.S. GAAP (Note 32 (y)) considers previously reported Brazilian GAAP balances and those adjustments made due to Law 11638/07, including those on retrospectively basis, as well as those that affected previously reported U.S. GAAP adjustments at reconciliation.

(ii) Consolidation basis

Consolidation basis vary from Brazilian GAAP to U.S. GAAP, following provisions set forth in SFAS 94, APB 18 and FIN 46(R). The consolidated condensed balance sheet and statement of operations comprise assets, liabilities, operations and subsidiaries of the following entities:

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	2008	2007	2006
		Controlling	interest - %
Operating and Trading Companies			
Braskem América	100.00	100.00	100.00
Braskem Argentina	100.00	100.00	100.00
Braskem Distribuidora Ltda.	100.00	100.00	100.00
Braskem Europa	100.00	100.00	100.00
Braskem Finance	100.00	-	-
Braskem Importação e Exportação	100.00	100.00	100.00
Braskem Inc.	100.00	100.00	100.00
Braskem International Ltd.	-	-	-
Braskem Overseas Inc.	-	-	100.00
Braskem Participações	100.00	100.00	100.00
IPQ Argentina	100.00	60.00	-
Braskem Petroquímica Chile	100.00	60.00	-
CCI	100.00	62.70	-
CINAL	100.00	100.00	100.00
Copesul	-	62.70	-
CITI	100.00	62.70	-
CPP	-	-	79.70
IQ	100.00	60.00	-
IQAG	100.00	60.00	-
IPQ	-	60.00	-
ISATEC	100.00	60.00	-
Lantana	100.00	100.00	100.00
Natal Trading	100.00	60.00	-
PPSA*	-	60.00	60.00
Polialden	-	-	-
Politeno	-	-	96.16
Politeno Empreendimentos	100.00	99.99	-
Tegal	-	-	95.83
Variable Interest Entities			
Fundo Parin	-	100.00	100.00
FIQ Sol	100.00	100.00	100.00
"Chemical I" Fund	-	-	100.00
"Chemical II" Fund	-	-	9.19

* Jointly-controlled entity in 2007 and 2006 as a result of shareholders' agreement provisions.

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The locations of our businesses are disclosed in Note 3.2(g). Assets, liabilities and operations of IPL and Polialden were merged into Braskem in 2006 and CPP, Politeno and Tegal during 2007, the of operations of Braskem International Ltd. ceased in 2006. Braskem Overseas Inc. was ceased in July 2007. Chemical I Fund was liquidated in January 2007 while Chemical II in March 2007. Parin Fund was liquidated in February 2008. Copesul and IPQ were merged into Braskem in September 2008. On May 30, Braskem acquired control over PPSA through the purchase of the remaining 40% interest in that entity from Petroquisa (Note 1(c)(xii)). In September 2008 PPSA was merged into Braskem.

(iii) Reporting and functional currency under U.S. GAAP

The Braskem Group management has concluded that the Brazilian Real is both its functional and reporting currencies for all companies presented herein.

(b) Supplementary inflation restatement in 1996 and 1997 for U.S. GAAP

Under Brazilian GAAP, inflation accounting was discontinued effective January 1, 1996. Prior to that date, Brazilian GAAP statements included indexation adjustments which partially accounted for the effect of inflation on property, plant and equipment, investments, deferred charges (together denominated "permanent assets") and shareholders' equity, and reported the net charge or credit in the statement of operations.

However, under U.S. GAAP, according to SFAS 52, Brazil ceased to be treated as a highly inflationary economy only as from January 1, 1998 requiring additional indexation to the Brazilian Reais. Accordingly, the financial information for purposes of U.S. GAAP should include additional inflation restatement adjustments for 1996 and 1997 made by applying the General Price Index increased by 9.3% and 7.5%, respectively, once Brazilian Reais was not considered to be functional currency at that time under SFAS 52.

For purposes of the U.S. GAAP reconciliation, shareholders' equity under U.S. GAAP was increased by R\$ 618.5 and R\$ 656.2, at December 31, 2008 and 2007, respectively, due to the additional inflation remeasurement accounting, net of depreciation. These amounts generated increases in depreciation charges of R\$ (37.2), R\$ (37.4) and R\$ (28.6) in 2008, 2007 and 2006 respectively.

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(c) Property, plant and equipment

(i) Capitalized interest

Under Brazilian GAAP, since January 2006, the Company adopted the same methodology to capitalize interest as those adopted under U.S. GAAP, except for positive exchange variations capitalized under Brazilian GAAP and taken to the income statement under U.S. GAAP. Therefore, as from January 2006, except for positive exchange variations, there are no more differences between Brazilian GAAP and U.S. GAAP in the reconciliation going forward, except for the amortization of the predecessor difference. The depreciation of interest capitalized under U.S. GAAP before 2006 continues to be depreciated based on the economic useful life of the underlying asset.

(ii) Impairment of Long-Lived Assets

Under Brazilian GAAP, companies are required to determine if operating income discounted cash flow is sufficient to absorb the depreciation or amortization of long-lived assets in order to assess potential asset impairment. In the event that such operating income discounted cash flow is insufficient to recover the depreciation, the assets, or groups of assets, are written down to recoverable values. In the event of a planned substitution of assets prior to the end of the original estimated useful life of the asset, depreciation of such an asset is accelerated to ensure that the asset is depreciated according to the estimated net realizable values at a future date of substitution.

U.S. GAAP, Statement of Financial Accounting Standard ("SFAS") No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", requires evaluation of the carrying value of long-lived assets to be held and used, and for long-lived assets to be disposed of, whenever the changes in circumstances stated in paragraph 8 of SFAS 144 occur.

The carrying value of long-lived assets is considered impaired if at the first step procedure the anticipated undiscounted cash flow from identified asset groups, representing the lowest level for which identifiable cash flow are largely independent of the cash flows of other groups of assets, is less than their carrying value. In that event, a loss is recognized at the second step procedure based on the amount by which the carrying value exceeds the fair value of the assets by using the discounted cash flows generated by these assets.

There had been no impairment recorded for U.S. GAAP purposes as of December 31, 2007.

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The Company has impaired assets related to the PET production plant under Brazilian GAAP since it had been discontinued during December 2008, for which the impairment charge amounted to R\$ 102.8.

In addition, the Company has impaired assets related to its Caprolactama production plant under Brazilian GAAP, for which the impairment charge amounted to R\$ 42.7 as of December 31, 2008.

Under U.S. GAAP as the carrying amount of the assets are different for purposes of reconciliation, a reversal of the impairment charge has been recorded, amounting to R\$ 31.7 as of December 31, 2008.

(d) Deferred charges

Brazilian GAAP maintain deferred expenses, as pre-operating costs incurred in the construction or expansion of a facility before it begins operations, which is subject to impairment test for recoverability as described in Note 14.

For purposes of the U.S. GAAP reconciliation, all Brazilian GAAP deferred costs, other than those reclassified to property, plant and equipment, and goodwill generated on common control transactions, which is eliminated, have been charged to the income statement, including related annual amortization charges that have been reverted under U.S. GAAP in the net amount of R\$ (136,7) , R\$ 42.2 and R\$ 34.5 in 2008, 2007 and 2006, respectively.

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The reconciliation of the net adjustments to net income for all three years presented is set forth in the following table:

	2008	2007	2006
Charges written-down for those expenses			
deferred under Brazilian GAAP consolidated			
Pre-operating expenses	(36.9)	-	-
Organizational expenses	(27.3)	(22.1)	(35.2)
Expenditures on restructuring	(92.5)	(1.7)	(6.7)
Research and development	-	(0.8)	-
Other	-	(5.4)	(25.5)
	(156.7)	(30.0)	(67.4)
Reversal of amortization of amounts assigned			
to deferred charges under Brazilian GAAP			
Pre-operating expenses	-	6.8	4.2
Organizational expenses	20.0	18.2	54.1
Expenditures on restructuring	-	27.4	35.7
Research and development	-	14.2	6.3
Other	-	5.6	1.6
	20.0	72.2	101.9
Total U.S. GAAP adjustment	(136.7)	42.2	34.5

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As a result of adjustments provided from Federal Law 11638/07 as disclosed in Note 3.1 and Note 32 (a)(i) deferred charges used to be capitalized under Brazilian GAAP have been written-off against income statement and shareholders' equity and respective amortization charges used to be allocated in income statement were reverted for U.S. GAAP purposes for which adjustments are described in the table below:

	2008	2007 Retrospectively revised	2006 Retrospectively revised
Capitalized charges previously written-down for U.S. GAAP purposes and reverted as a result of Federal Law 11638/07			
Pre-operating expenses	-	-	-
Organizational expenses	-	34.8	-
Expenditures on restructuring	-	-	-
Research and development	-	-	-
Other	-	-	-
Charges written-off effect	-	34.8	-
Amortization charges previously derecognized for U.S. GAAP purposes and reverted as a result of Federal Law 11638/07			
Pre-operating expenses	-	-	-
Organizational expenses	-	(11.2)	-
Expenditures on restructuring	-	(48.3)	(54.0)
Research and development	-	-	-
Other	-	-	-
Amortization charges reversal effect	-	(59.5)	(54.0)

Under U.S. GAAP all research and development costs are expensed as incurred and recorded in the statement of operations within general and administrative expense whereas certain of such costs before Law 11.638 were capitalized as deferred charges under Brazilian GAAP. Expenditure on research and development totaled R\$ 76.5 and R\$ 44.3 for the years ended December 31, 2007 and 2006, respectively.

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(e) Business combinations, purchase price allocation and goodwill

As mentioned in Note 1(c)(vi), on May 14, 2008, Braskem publicly announced an amendment made to the "Share Purchase Agreement" by assembling clauses increasing the participation of Braskem in net assets of IQ, IPQ, and Petroquímica Paulínia to 100% as well as Copesul to 99.17%.

As a consequence of the additional purchase held in May 2008 Braskem has issued an additional total amount of 90,047,982 shares represented by 46,903,320 common and 43,144,662 preferred shares to Petrobras, as a result of the incorporation of the remaining minorities interest held by Petrobras in such investees, known as "Petrobras Petrochemical Assets", within Brazilian Petrochemical industry restructuring.

The acquisition of such additional shares was concluded as of May 30, 2008 under which Copesul and IPQ were merged into Braskem during September, 2008.

(i) Purchase Price Allocation

Under Brazilian GAAP, business combination resulting in the acquisition of remaining interests held by Petrobras in IQ, IPQ, Copesul and Petroquímica Paulínia was accounted for under historical cost, where neither goodwill nor additional paid-in-capital had been computed. The Consolidation of IQ, IPQ, Copesul have been made since April 1, 2007. Petroquímica Paulínia has been fully consolidated as from April 2008.

Under USGAAP, acquisition of remaining interests held by Petrobras in Copesul, IQ, IPQ and Petroquímica Paulínia has been accounted for under the purchase accounting method. The fair value of the consideration given, in the form of shares issued by Braskem, to Petrobras was determined in accordance with EITF 99-12 Determination of the Measurement Date for Market Price of Acquirer Securities Issued in a Business Combination at the time the transaction was announced and term of exchange were defined, May 14, 2008.

Net assets acquired by Braskem in IQ, IPQ, Copesul and Petroquímica Paulínia have been fair valued as of the closing date of the transaction, May 30, 2008.

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The fair value of the shares issued by Braskem, was allocated as follows:

Company	% acquired	R\$ millions
Ipiranga Química S.A.	40.0	47.3
Ipiranga Petroquímica S.A.	40.0	227.5
Copesul Cia. Petroquímica do Sul	36.5	779.3
Petroquímica Paulínia S.A.	40.0	171.2
Total Purchase Price		1,225.3

Fair values of total assets less liabilities of these acquired companies, after the allocation of negative goodwill to reduce goodwill and property, plant and equipment at the consolidated level in the amount of R\$ 4.9 and R\$ 1,069.1 in the case of IPQ and Copesul, respectively, are as follows:

	Ipiranga Química	Petroquímica	Copesul	Petroquímica Paulínia
Cash and cash equivalents	16.9	29.8	1.4	0.3
Current assets	247.9	769.7	1,854.2	139.0
Non-current assets	21.2	111.6	377.9	22.8
Property, Plant & Equipment	61.6	568.6	1,803.7	751.4
Current liabilities	(219.3)	(408.5)	(1,094.7)	(107.3)
Non-current liabilities	(13.5)	(888.4)	(1,966.3)	(595.0)
Fair Value of Net Assets	114.8	182.8	976.2	211.2
Interest acquired - %	40.0	40.0	36.47	40.0
Fair Value of Assets Acquired	45.9	73.1	356.0	84.5
Fair value of consideration paid	(47.3)	(227.5)	(779.3)	(171.2)
Book value in May 30, 2008	(46.3)	(44.1)	(1,034.9)	-
Reversal of entries previously recorded under FIN 46				
Goodwill related to minority interest - FIN46(R) in 2007	(45.7)	(391.4)	-	-
Minority interest acquired	82.8	589.9	1,458.2	-
Goodwill	10.6	-	-	86.7

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On September 30, 2008 Braskem purchased 0.71% of interest in IPQ. With such purchase Braskem held 100.0% of total shares of IPQ. Braskem issued shares amounting to R\$ 14.1, under Brazilian GAAP. The fair value of the shares at September 30, 2008 was R\$ 16.1, which generated an additional paid in capital of R\$ 2.0 under US GAAP. The reversal of minority interest previously recorded under FIN 46(R) was R\$ 33.2, which generated a negative goodwill of R\$17.0 recorded against the goodwill previously recognized under FIN 46(R).

(ii) Goodwill

Differences in relation to Brazilian GAAP mainly arise from (i) non-recognition of goodwill arising from transactions between parties under common control under U.S. GAAP (Note 32 (g)); (ii) valuation of assets and liabilities acquired at their fair value at the date of acquisition, aforementioned, generating only a reduction in the statement of operations under U.S. GAAP by the amortization derived from the fair value accounting method; and (iii) reversal of Brazilian GAAP amortization expense related to the goodwill, for which under U.S. GAAP a impairment test is required annually instead of amortization.

Reconciliation from Brazilian GAAP to U.S. GAAP may be expressed by the following differences in accounting treatment for business combination as follows:

	2008	2007	2006
Depreciation of fair value assets under U.S. GAAP			
Inventories	(31.1)	(8.7)	-
Intangible assets	(18.9)	(14.5)	-
Property, Plant & Equipment	84.8	19.7	(29.5)
Subtotal	34.8	(3.5)	(29.5)
Goodwill impaired	(17.4)	-	-
Reversal of goodwill amortization expenses under Brazilian GAAP			
Note 13	433.3	409.7	360.1
Net adjustment to income statement	450.7	406.2	330.6

For Brazilian GAAP purposes, the balance of goodwill at December 31, 2008 amounts to R\$ 2,013.3 (2007 - R\$ 2,442.2), which is being amortized to income over a period of up to 10 years for items had been used to be classified to deferred charges until Federal Law 11638/07 as disclosed in Note 3.1 and Note 32 (a)(i).

Under Brazilian GAAP goodwill shall be allocated to property, plant and equipment by the fair market value of fixed assets and intangible productive assets. As a result of changes described above, goodwill based on profitability shall be allocated as intangible assets.

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In addition, under Brazilian GAAP, for those companies previously acquired and already fully merged into Braskem the goodwill balance at the date of each legal merger have been reclassified to property, plant and equipment for which the balances amount to R\$ 937.7 as of September 30, 2008 (2007 - nihil), which is related to the acquisition of Copesul.

Under Brazilian GAAP negative goodwill is accounted for as deferred revenue within non-current liabilities and related income has been recognized under income statement according to the remaining useful life of economic benefit and as of December 31, 2008 the balance amounts to R\$ 22.1 (2007 - R\$ 25.2) .

Under U.S. GAAP, changes on goodwill balances totaling R\$ 1,156.9 as of December 31, 2008 (2007 - R\$ 1,688.6) may be demonstrated as follows:

	Basic	Vinyls	Petrochemicals Polyolefins	Ipiranga Química	Others	Total
December 31, 2006	3.1	3.0	431.2	-	13.2	450.5
Business combination	148.7	-	966.1	114.3	9.0	1,238.1
Impairment	-	-	-	-	-	-
December 31, 2007	151.8	3.0	1,397.3	114.3	22.2	1,688.6
Business combination	(148.7)	-	(321.5)	(35.1)	(9.0)	(514.3)
Impairment	(3.1)	-	(14.3)	-	-	(17.4)
December 31, 2008	-	3.0	1,061.5	79.2	13.2	1,156.9

For purposes of U.S. GAAP reconciliation, goodwill and negative goodwill amortization under Brazilian GAAP have been reversed and amounted to R\$ 433.3 in 2008, R\$ 409.7 in 2007 and R\$ 360.1 in 2006.

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(iii) Impairment of goodwill and intangibles for business combinations

For purposes of U.S. GAAP, goodwill impairment is determined using a two-step process. The first step of the goodwill impairment test is to identify a potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. The estimates of fair value of a reporting unit, are determined using a discounted cash flow analysis. A discounted cash flow analysis requires one to make various judgmental assumptions including assumptions about future cash flows, growth rates and discount rates. The assumptions about future cash flows and growth rates are based on the Company's budget and business plans. Discount rate assumptions are based on an assessment of the risk inherent in the respective reporting units. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any.

The second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

Under Brazilian GAAP, goodwill is analyzed in relation to its future recovery based on total estimated future profitability and discounted cash flows. No impairment has been recorded for Brazilian GAAP purposes.

The Company has been testing for impairment on goodwill balances for which R\$ 17.4 have been impaired for the year-ended as of December 31, 2008.

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(f) Equity earnings for interests in investees and respective U.S. GAAP adjustments

Under BR GAAP the equity investees Cetrel is proportionally consolidated according to Instruction CVM 247/96. Under U.S. GAAP such equity investee is accounted for under the equity method.

Prior to December 1, 2007, we proportionally consolidated the results of Petroflex Indústria e Comércio S.A. (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.

We have fully consolidated the results of Paulínia and its subsidiaries in our consolidated financial statements under USGAAP as from June, 2008. On September 30, 2008, IPQ and Paulínia merged with and into Braskem.

For purposes of the U.S. GAAP reconciliation, the effects in the statement of operations of U.S. GAAP adjustments on equity investees amounted to R\$ (9.2), related to Cetrel, Codeverde and Borealis in 2008, R\$ (5.8), and R\$ (56.8) in 2007, and 2006, respectively, considering Cetrel, Petroflex and Paulínia before the merger.

U.S. GAAP adjustments are primarily related to fixed assets indexation, deferred capitalized charges, capitalized interests and related deferred income tax.

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(g) Transactions giving rise to distributions to and contributions from shareholders according to U.S. GAAP

Transactions between parties under common control and transactions including exchange of shares with shareholders gave rise to goodwill under Brazilian GAAP which is treated as capital distributions and contributions under U.S. GAAP:

	2008	2007
Acquisition of ESAE and related transactions (i)	(363.2)	(363.2)
OPP PP transaction (ii)	(1,814.6)	(1,814.6)
Contributions from shareholders (iii)	406.5	406.5
Subtotal	(1,771.3)	(1,771.3)
Additional Paid-In-Capital APIC (iv)	506.6	-
Total	(1,264.7)	(1,771.3)

(i) Acquisition of ESAE and Related Transactions

Under Brazilian GAAP, the acquisition of ESAE was accounted for at book value. Under U.S. GAAP, the acquisition would be accounted for using the purchase method with the assets acquired and the liabilities assumed from third parties recorded at fair value. The portions of net assets that were already held by the Odebrecht Group would be maintained at their existing book values, and the excess of the proportional amount of the purchase price over these book values would be considered a distribution to the Odebrecht Group in the amount of R\$ 363.2.

Investment acquired	Purchase price	Value of investments	Goodwill	Capital distribution
30.99% of Politeno	739.4	141.9	373.8	223.7
42.64% of Polialden	658.4	157.3	387.8	113.3
Subtotal (100% - Braskem Participações)	1,397.8	299.2	761.6	337.0
100% of Proppet	51.1	10.6	14.3	26.2
	1,448.9	309.8	775.9	363.2

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Under U. S. GAAP, the total payment of R\$ 1,448.9 made in the acquisition of ESAE and related transactions is divided into payments made to third parties and payments made to companies under common control are as follows:

	Common control transactions			Third party transactions		
	Payment made	Book value	Capital distribution	Purchase price	Net assets at fair value	Goodwill
100% Braskem Part.	381.1	44.1	337.0	1,016.7	255.1	761.6
100% Proppet	39.1	12.8	26.2	12.0	(2.3)	14.3
Total	420.2	56.9	363.2	1,028.7	252.8	775.9

Nova Camaçari acquired Braskem Participações through the acquisition of the entire share capital of ESAE and Intercapital and the acquisition of an 11.76% direct interest in Conepar. Nova Camaçari acquired Intercapital for total consideration of R\$ 445.0, of which R\$ 381.0 was paid to members of the Odebrecht Group and the remaining R\$ 64.0 was paid to members of the Mariani Group (Pronor Petroquímica S.A. and Companhia Brasileira de Poliolefinas). The net assets acquired from the Odebrecht Group were valued at a carryover basis of R\$ 44.1, while the net assets acquired from the Mariani Group were valued at fair value of R\$ 16.1.

(ii) OPP Preferred Shares Transaction

Under Brazilian GAAP, since the terms of the exchange of Braskem and OPP preferred shares were based on the appraised economic value of each company, the transaction was accounted for on that basis.

Under U.S. GAAP, the common control transaction would be recorded at the book value of OPP PP's consolidated net assets as of July 25, 2001. On that date the difference between consideration paid and the net liabilities of OPP PP under U.S. GAAP was R\$ 1,814.6 and the issuance of Braskem shares to the Odebrecht Group would, therefore, be considered a distribution in that amount.

The fair value of the stock issued by the Company for the acquisition of OPP PP was R\$ 1,268.4 on August 16, 2002. At that time OPP PP had a negative carryover book basis of R\$ 546.2 under U.S. GAAP, resulting in a capital distribution of R\$ 1,814.6 under U.S. GAAP. The Company adjusted the Brazilian GAAP shareholders' equity to reflect the U.S. GAAP capital distribution of R\$ 1,814.6 and made corresponding adjustments to deferred charges, property, plant and equipment and goodwill recorded in investments.

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At December 31, 2008, the residual balances within intangible of R\$ 393.5 (2007 - R\$ 268.9) was represented by cost of R\$ 903.4 and accumulated amortization of R\$ 509.9.

(iii) Contributions from shareholders

Under Brazilian GAAP, the acquisition of 46.4% of minority interests of Trikem, was undertaken through exchange of shares, and accounted for on that basis. Under U.S. GAAP, the difference between the book and the fair value of the shares issued was recorded as additional paid in capital. Accordingly, during 2004, this transaction generated a contribution from shareholders amounting to R\$ 339.4.

Also, during 2004, the Company acquired minority interests of Polialden utilizing shares held in treasury. Under U.S. GAAP, the difference between the book value and the market value of the shares amounting to R\$ 46.5 was recorded as additional paid in capital.

As mentioned in Note 1 (ix), the Company acquired during May 2006 minority interests representing 32.6% of the total share capital of Polialden, by the issuance of 7,878,725 Class A preferred shares. Under Brazilian GAAP, the Class A preferred shares were issued based upon the book value. Under U.S. GAAP, the difference raised between the book and the fair-value of these shares issued was recorded as an additional paid in capital. This transaction generated a contribution to shareholders amounting to R\$ 5.9 at that time.

(iv) Additional Paid-In-Capital APIC Grust acquisition

Under Brazilian GAAP, the acquisition of remaining interests held by Petrobras in IQ, IPQ, Copesul and Petroquímica Paulínia, during 2008 was concluded based on the book value of assets exchanged between Braskem and Petrobras as described in Note 32 (e)(i).

Under U.S. GAAP, such acquisition was made considering fair market value of Braskem shares issued to Petrobras and the capital increase recorded for Brazilian GAAP purposes. As a result, the value of shares issued under U.S. GAAP was greater from that acquired under Brazilian GAAP for which an additional paid-in-capital APIC in the amount of R\$ 506.6 has been recorded based on this difference. The capital increase recorded under Brazilian GAAP as described in Note 21 (a), amounted to R\$ 734.8 (with no related APIC recorded).

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(h) Guarantees

The fair value of guarantees is initially determined by consideration of data in observable markets and comparable transactions by using probability-weighted discounted cash flow models.

At December 31, 2008, the Company has not directly endorsed guarantees on financing agreements of the affiliate entities, because of the sale of Petroflex and merger of Petroquímica Paulínia, according to Note 32 (f).

In 2007 the amounts guaranteed were R\$ 339.7. This represents the maximum potential amount of future (undiscounted) payments that the Company could be required to make under the guarantees. In addition, the Company has some commitments regarding purchase agreements as stated in the Note 30.

Either as of December 31, 2008 or 2007, recognition of liabilities for these obligations are neither required nor contingent.

(i) Pension plan

In determining the pension and other post-retirement benefit obligations for Brazilian GAAP purposes, Brazilian Accounting Standard NPC 26 is effective for financial statements beginning with the year ended December 31, 2001.

As permitted by NPC 26, the transitional obligation, which is the difference between a plan's net assets and the projected benefit obligation at that date, was fully recognized as a direct charge to retained earnings.

After January, 2002 under U.S. GAAP, SFAS No. 87, "Employer's Accounting for Pensions", is effective for fiscal years beginning after 1988. As from such date, when an initial transition obligation determined based on an actuarial valuation is recognized, actuarial gains and losses, as well as unexpected variations in plan assets and the projected benefit obligation and the effects of amendments, settlements and other events, would be recorded in accordance with these standards and therefore result in deferral differences. Through 1997, these amounts were treated as non-monetary and were indexed for inflation. U.S. GAAP also requires recognition of an additional minimum liability.

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Unrecognized actuarial gains and losses are amortized either over the estimated future service period of employees or over the estimated remaining period until the plan final settlement, whichever the less.

Although the calculation of the sufficiency funded status has been the same since December 31, 2001, differences arise on (i) actuarial gains and losses as there is initially no actuarial gain or loss as of December 31, 2001, (ii) recognition of initial transition obligation and (iii) the minimum liability under U.S. GAAP.

SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106, and 132(R)" requires an employer to recognize the overfunded or underfunded status of a defined benefit pension and post-retirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. SFAS 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions.

We are required to initially recognize the funded status of our defined benefit pension and post-retirement plans and to provide the required disclosures as of December 31, 2006. Reconciliation from Brazilian GAAP to U.S. GAAP may be expressed by the following items as follows:

	2008	2007	2006
Brazilian GAAP net periodic pension cost	(0.6)	(23.6)	-
Reconciling difference on recognition of unrealized actuarial gain (loss) to U.S. GAAP, including business combination	(12.1)	3.2	(58.4)
U.S. GAAP net periodic pension cost	(12.7)	(20.4)	(58.4)

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The summary of the sufficiency of funds and amounts recorded in the U.S. GAAP condensed balance sheet as at December 31, 2008 and 2007 as well as at the condensed statement of operations for 2008, 2007 and 2006 regarding pension liabilities in accordance with SFAS No. 132, "Employer's Disclosures About Pensions and Other Post-Retirement Benefits - revised", for Braskem, IQ, IPQ and Copesul are as follows:

Pension Accounting

	2008	2007	2006
(i) Change in Projected Benefit Obligations - PBO			
Benefit obligation at the beginning of year	(1,160.8)	(459.4)	(415.5)
Service Cost	(13.0)	(8.1)	
Interest Cost	(61.0)	(81.9)	(46.9)
Actuarial (gain) loss	82.0	(124.7)	
Effects from business combination relating to consolidation of IQ, IPQ and Copesul	-	(551.8)	-
Curtailment	(29.8)	-	
Benefits paid	27.5	65.1	3.0
Projected Benefit Obligation at the end of year	(1,155.1)	(1,160.8)	(459.4)
(ii) Change in plan assets			
Fair value of plan assets at the beginning of year	1,148.5	406.5	360.1
Gain (loss) on plan assets	(88.6)	241.4	46.4
Employer contribution	14.1	9.9	-
Employee contribution	-	-	-
Effects from business combination relating to consolidation of IQ, IPQ and Copesul	-	554.9	-
Benefits paid from plan assets	(27.5)	(64.2)	-
Fair value of plan assets at the end of year	1,046.5	1,148.5	406.5
(iii) Funded status = (ii) - (i)	(108.6)	(12.4)	(52.8)
Prior service cost	11.5	14.2	-
Unrecognized actuarial loss (gain)	72.3	(12.7)	4.3
Accrued pension cost	(24.8)	(10.9)	(48.5)
Accrued pension cost	(24.8)	(10.9)	(48.5)
Accumulated other comprehensive income (loss)	(83.8)	(1.5)	(4.3)
Minimum pension liability	(108.6)	(12.4)	(52.8)

Supplemental benefits are primarily related to medical care assistance, dental assistance, life insurance coverage and fringe benefits.

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As Braskem, as well as IQ, IPQ and Copesul, had already recognized the liability for the unfunded status, unrecognized loss has been accounted for as a debit to a separate account within shareholders' equity by the initial application of SFAS 158 which had neither impacted assets/liabilities nor shareholders' equity.

In addition, the pension plan for which each company are entitled to participate is not considered to be a multi-employer plan.

Pension charges to the income statement, known as net periodic pension cost, may be expressed as follows:

	2008	2007	2006
(iv) Pension costs (gain)			
Service cost	13.0	8.1	-
Interest cost	60.8	95.2	46.9
Expected return on plan assets	(57.5)	(80.3)	(40.7)
Amortization of prior service cost	2.8	2.0	52.2
Employee contributions	(6.4)	(4.6)	-
Net periodic pension cost	12.7	20.4	58.4
(v) Actuarial assumptions			
Discount rate for determining projected benefit obligations	10.5	11.3	11.3
Expected long-term rate of return on plan assets	10.5	11.3	11.3
Rate of compensation increase	6.1	0.0	0.0
Projected annual inflation rate (included in the above percentages)	4.2	5.0	5.0

In June 2005, the Company communicated to its employees the permanent suspension of the Braskem defined benefit plan effective on June 30, 2005. As a result, the Company recorded a curtailment gain of R\$ 11.5 which was recorded as a reduction of the unrecognized actuarial losses.

Settlement of Braskem plan at Petros has been finally properly approved by the Brazilian Secretariat for Complementary Pension during April 2009.

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The weighted-average assets, as percentages of total assets, for these plans as of December 31, 2008 are as follows:

	Range of allocation in - %	
	2008	2007
Fixed income securities	55.0 to 74.0	55.0 to 74.0
Equity securities	20.0 to 30.0	20.0 to 30.0
Loans	3.0 to 6.0	3.0 to 6.0
Real estate	2.5 to 4.5	2.5 to 4.5

Defined contribution plan

For the year-ended as of December 31, 2008 contributions by the Company to this defined contribution plan have amounted to R\$ 11.4 (2007 - R\$ 5.9; 2006 - R\$ 7.8) . The Company expects to contribute R\$12.3 for the year to be ended December 31, 2009.

	2008	2007	2006
Odeprev	9.8	5.9	7.8
CopesulPrev	1.6	-	-
Total	11.4	5.9	7.8

(j) Earnings per share

Under U.S. GAAP, because the preferred and common shares have different voting and liquidation rights, basic and diluted earnings per share have been calculated using the "two-Class" method, pursuant to SFAS No. 128 - Appendix C - paragraph 155, "Earnings per Share", which provides computation, presentation and disclosure requirements for earnings per share.

The two-class method is an earnings allocation formula that determines earnings per share for preferred and common shares according to the dividends to be paid as required by the Company's by-laws and participation rights in undistributed earnings.

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Basic earnings per common share are computed by dividing net income by all common shares outstanding during the year. In accordance with EITF 03-6 "Participating Securities and the Two - Class Method under FASB Statement No. 128" limits loss allocation only to participating securities which have (1) the right to profit sharing in the Company, and (2) an objective and determinable contractual obligation for participation in the Company's losses. As preferred shares do not have a determinable contractual obligation for participation in the Company's losses, no losses are allocated to them.

All type and classes of shares are equally entitled to receive a minimum dividend amount equal to 6% of its book value prevailing at the latest year-end financial statements.

On May 31, 2006 the shareholders of the Company approved the conversion of 2,632,043 Class A preferred shares into common shares and on April 2, 2007 the Company approved the conversion of 486,530 Class A preferred shares into common shares (Note 21(a)). In accordance with EITF Topic No. D-42 "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock" the amount of R\$ 3.3 and R\$ 8.6 was subtracted from net earnings available to common shareholders in the calculation of earnings per share for the year ended December 31, 2007 and 2006, respectively.

The table below presents the determination of U.S. GAAP net income available to common and preferred shareholders and weighted average common and preferred shares outstanding used to calculate basic and diluted earnings per share for each of the years presented under U.S. GAAP.

	December 31, 2008			
	Common Share	Class A Preferred Shares	Class B Preferred Shares	Total
Minimum 6% dividend				
Induced conversion of Class A preferred shares into Common shares (Note 20(a))				
Undistributed earnings allocation	(1,826.7)	-	-	(1,826.7)
Total undistributed earnings	(1,826.7)	-	-	(1,826.7)
Weighted average numbers of shares				
Basic	177.2	310.7	0.8	488.7
Diluted	174.4	302.8	0.7	477.9
Basic earnings per thousand outstanding shares - (whole reais) - R\$				
Basic	(10.31)			
Diluted	(10.48)			

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	December 31, 2007			
	Common Share	Class A Preferred Shares	Class B Preferred Shares	Total
Minimum 6% dividend	86.8	191.1	0.6	278.5
Induced conversion of Class A preferred shares into Common shares (Note 21(a))		3.3		3.3
Undistributed earnings allocation	251.8	553.9	1.6	807.3
Total undistributed earnings	338.6	748.3	2.2	1,089.1
Weighted average numbers of shares				
Basic	122.4	269.3	0.8	392.5
Diluted	132.3	294.5	0.8	427.6
Basic earnings per thousand outstanding shares - (whole reais) - R\$				
Basic	2.77	2.78	2.75	
Diluted	2.56	2.54	2.75	

	December 31, 2006			
	Common Share	Class A Preferred Shares	Class B Preferred Shares	Total
Minimum 6% dividend	15.5	137.0	0.5	153.0
Induced conversion of Class A preferred shares into Common shares (Note 21 (a))	-	8.6	-	8.6
Total undistributed earnings	15.5	145.6	0.5	161.6
Weighted average numbers of shares				
Basic and diluted	122.4	248.3	0.8	371.5
Basic and diluted earnings per thousand outstanding shares - (whole reais) - R\$	0.13	0.59	0.63	-

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(k) Comprehensive income

Under Brazilian GAAP, the concept of comprehensive income is not adopted.

Under U.S. GAAP, SFAS No. 130, "Reporting Comprehensive Income", requires disclosure of comprehensive income. Comprehensive income is comprised by net income and other comprehensive income that includes charges or credits directly to equity which are not the result of transactions with owners. For Braskem and its investees, the components of comprehensive income are related to the net income added/subtracted by changes in minimum pension liability (Note 32(y)(c)(iii)).

(l) Capital raising costs

Under BR GAAP, costs incurred on issuance of equity securities issued through December 31, 2005, were accounted as deferred charges in the balance sheet. As required by CVM "Oficio-Circular" 01/2006, the costs of issuance of equity securities issued as from 2006, will be accounted as non recurrent expenses in the operational results. No capital issuance costs were incurred in 2006, 2007 and 2008.

As a result of Federal Law 11638/07 disclosed in Note 3.1 and Note 3.2 (a)(i) costs incurred on issuance of equity securities previously capitalized under Brazilian GAAP have been written-off against income statement.

Under U.S. GAAP, specific incremental costs directly attributable to a public stock offering may be netted off against the gross capital issued. For the year ended December 31, 2004, the Company had incurred in R\$ 58.1 million of capital issuance costs, charged against the gross proceeds of the offering by decreasing shareholders' equity at that time in the same amount.

(m) Income taxes

Under Brazilian GAAP, according to CVM Deliberation 273/98 and CVM Instruction 371/02, the deferred income tax asset represents the estimated amount to be recovered.

Additionally, under Brazilian GAAP, recognition of deferred tax assets requires historical evidence of taxable profits, limits recognition of DTAs to future projections of taxable profits based on a study over a 10 year period and future limits recognition of DTAs based on a calculation of discounted future profits. Within these limitations, Braskem recognized the maximum potential DTA under Brazilian GAAP.

Under U.S. GAAP, deferred taxes are accrued on all temporary tax differences. Deferred tax assets and liabilities are classified as current or long-term based on the classification of the asset or liability underlying the temporary difference.

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According to SFAS 109, Brazilian nominal rate is applied for U.S. GAAP reporting purposes, however there is no limit to the period in which irrevocable tax credits may be realized and the valuation allowance recognition for Brazilian GAAP purposes at December 31, 2008 in the amount of R\$ 502.0 (2007 - R\$ 2.8) has been reversed for U.S. GAAP purposes. The adjustment for deferred taxes are disclosed in the U.S. GAAP reconciliation for the statement of operations under U.S. GAAP in the amount of R\$ 346.6, R\$ 94.6, and R\$ (123.2) in 2008, 2007 and 2006, respectively.

There are neither accrued interests nor penalties during 2008 and 2007 in the condensed statement of operations since it is more likely than not that Braskem and subsidiaries will not have any adjustment to its tax returns filed to various tax authorities.

Each year the company files income tax returns in the various national taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the company. With few exceptions, the Company and subsidiaries are no longer subject to Brazilian federal, state and local, nor non-Brazilian income tax examinations by various tax authorities for years before December 31, 2003.

Uncertainties in income taxes are recognized in the company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS 109). In 2006, the FASB issued FASB Interpretation No. 48 - FIN 48, which clarifies the application of SFAS 109 by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

In accordance with the transition provisions, the company adopted FIN 48 effective January 1, 2007, for which there are neither unrecognized tax benefits to be disclosed under this rule nor interests and penalties accounted for by the Company. Interest and penalties raised on tax uncertain position are recognized as interest expense within income statement until tax benefits are considered to be "more likely than not" realizable for settling/netting them under tax and accounting rules.

Under USGAAP a number of factors entering into the assessment of the FAS 109 valuation allowance assessment are highly subjective: assessing whether the weight of available evidence supports the recognition of some or all of an enterprise's deferred tax assets (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.

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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.

(n) Income tax incentives

Under Brazilian GAAP, the various tax incentives of the Company (in the form of tax reduction or exemption for defined periods) may be accounted for directly as capital reserve within shareholders' equity.

As a result of Federal Law 11638/07 disclosed in Note 3.1 and Note 3.2 (a) income tax incentive under Brazilian GAAP have been recorded directly as income within statement of operations.

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U.S. GAAP adjustment previously reported reflected by Federal Law 11638/07 has been properly reverted in the reconciliation table presented in Note 32 (y), in the amount of R\$ 49.5 as of December 31, 2007.

(o) Revenue recognition

The Company has been recognizing sales revenues whenever the product is delivered to and accepted by the customer, although the prevalent practice under Brazilian GAAP is to record sales at the date of shipment.

Under U.S. GAAP, and in accordance with SEC Staff Accounting Bulletin No. 101 and 104, sales are normally recorded when legal title passes to the buyer. In addition, multiple element service contracts are recognized only when certain conditions are met.

Accordingly, for U.S. GAAP reconciliation purposes, the Company has deferred the gain on multiple element contract with its investee Petroquímica Paulínia, amounting to R\$ (18.1) at December 31, 2006, with no effect in 2007 and 2008.

(p) Consolidation of variable interest entities

Under Brazilian GAAP, until the year ended 2003, in respect of the accounting treatment for the Braskem trade receivable securitization program, the transfer of receivables to the fund was treated as a sale of receivables and the discount on the sale was immediately recorded in the statement of operations. In August 2004, CVM issued CVM Instruction 408 providing for the inclusion of Special Purpose Entities in the consolidated financial statement of publicly - held companies and therefore those entities have been consolidated in 2004 and 2005.

Description	Parin Fund		SOL Fund		Consolidated	
	2008	2007	2008	2007	2008	2007
Net Assets	-	458.4	1,714.4	258.8	1,714.4	717.2
Net Income	(2.8)	(94.4)	60.3	30.4	63.1	(64.0)

In March 2006, the FASB issued SFAS 156, "Accounting for Servicing Financial Assets", which amends FASB Statements No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement resolves issues addressed in Statement 140 regarding recognition for all servicing financial asset or liability and its measurement methods. The Company did not have a significant impact on its financial position, results of operations or cash flows by the implementation of SFAS 156.

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(q) Dividends

Under Brazilian GAAP, the Company's executive officers proposed a dividend distribution from earnings, which has been recorded. Under U.S. GAAP, the amount of dividends exceeding the minimum mandatory dividend is not deemed declared before the distribution is approved by the shareholders. For purposes of reconciliation, for 2008 no minimum mandatory dividends were calculated or distributed and for 2007 the Company has excluded the amount which exceeded the minimum mandatory dividend amounting to R\$ 149.4.

Under Braskem's by laws, interest earned in own capital may be paid up upon authorization of the Board of Directors but is only considered declared when approved by the shareholders.

(r) Long-term share incentive plan

SFAS Statement 123 (R) "Share Based Payment", requires the measuring and recording of the cost of employee services in exchange for awards of equity instruments based on the fair value of those awards (with limited exceptions). Awards granted shall be classified as liability awards. That cost will be recognized over the period during which the employee is required to provide the service in exchange for the award. No compensation cost should be recognized for equity instruments for which employees do not render the requisite service. SFAS 123 (R) requires entities to initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value. Changes in fair value during the requisite service period will be recognized as compensation cost over that period. The grant date fair value and the fair value of each reporting period of employee share options are estimated using the Black-Scholes option-pricing model.

As described in further details below, the Company has granted a long-term share incentive plan (the "Plan") to certain employees, which have acquired investment certificates at prices below market at the time of the issuance. The market value of the options granted will be recognized for U.S. GAAP purposes as expense over the period in which the services are rendered. The fair value of the certificates classified as liability award will be reassessed each reporting date. The award is classified as liabilities because the employees have the right to receive cash. As a result there will be no issuance of additional shares by the Company despite investment certificates that were issued been valued in accordance with the Company stock prices traded in the Brazilian capital markets. Thus, also, there is no dilutive effect for earnings per share purposes.

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Braskem's Plan entitles officers and employees involved in strategic plans of the Company to buy investment certificates, up to pre-defined maximum quantities. The investment certificates bought by the participants are named alpha. The costs to employees of the certificates are equivalent to the average value of one Class A Preferred Share negotiated at Bovespa from the months of October through March of previous year to the purchase.

For each "alpha" acquired by participant, the Company may grant up to one "beta" certificate, which is legally equal to that "alpha" purchased. In addition, each beneficiary of the plan is entitled to receive "gama" certificates in each year, corresponding to the dividends and interest in own capital paid by the Company to preferred shares. "Gama" certificates which were not collected by participant during each year are transformed into "alpha" certificates at the following year. Alpha and gama certificates represent the right to receive the fair value of a Class A Preferred at vesting.

Braskem Board of Directors approved the maximum amount of 707,661 alpha certificates to be offered to participants. The certificates are generally offered to the participants in April of each year. Following the offer, the participants generally have 30 days to acquire by payment the certificates. Only certificates bought by the participants are considered granted once certificates offered and not paid do not generate any benefit to the participant. The amount deposited by the employees was initially recognized as a liability for both Brazilian and U.S. GAAP and totaled R\$ 10.5 as of December 31, 2008 (2007 - R\$ 4.6) .

Under Brazilian GAAP, liability is updated based on the average value of one Class A Preferred Share negotiated at Bovespa from the months of October through March, annually, and outstanding quantities of certificates.

According to the Plan, 20% of the balance of alpha and beta certificates vests after 5 years of continuous service and the remaining balance vests at the rate of 10% per year after the 6th year. After the 10th year, beta certificates not redeemed are transformed to alpha certificates and the employee has no further incentive for that grant. Gama certificates vests and are paid to the employees when dividends and interest on own capital is paid to the Company's shareholders. Gama certificate provide the employee with a cash flow similar to one preferred share and are valued as such for the purposes of the amounts initially deposited. The beta certificate is considered to generate an incentive similar to a share option scheme, employees may be awarded shares if they remain employees for a number of years.

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Under U.S. GAAP, the Company accounts for alpha and beta certificates in accordance with FASB 123 (R). The beta certificate is a considered a liability award, compensation cost has been recognized as the fair value of beta certificate at each reporting date. The fair value for these options was estimated at the date of grant using a Black-Scholes-Merton option pricing model with the following weighted-average assumptions:

Statistical and financial-economic variables	2008 3rd grant	2007 2nd grant	2006 1st grant
Risk-free interest rate, net of inflation effect - %	7.75	6.79	8.42
Dividend yield - %	6.00	6.00	6.00
Volatility at Brazilian capital markets - %	86.10	57.09	54.10
Exercise price - in R\$	14.21	15.03	18.14
Stock market price at year end - in R\$	5.55	13.80	14.85
Expected life of the option - in years	9.1	9.1	9.3

A summary of certificate (alpha plus beta) activity under the Plan as of December 31, and changes during the year then ended is presented below:

	Weighted average unit exercise price		Alpha and Beta certificates (units)	
	2008	2007	2008	2007
Outstanding as of January 1	16.22	18.14	285,180	95,719
Granted	14.21	15.03	422,481	189,461
Exercised	-	-	-	-
Expired/cancelled	-	-	-	-
Outstanding as of December 31	15.08	16.22	707,661	285,180
Redeemable as of December 31	-	-	-	-
Compensation cost - millions of R\$	-	-	-	0.6

The weighted average grant fair values of the beta certificates was R\$ 14.21 and R\$15.03 per beta certificate at the time of grant in 2008 and 2007, respectively. Beta certificates have an intrinsic value equal to the value of a preferred share which is approximately the exercise price disclosed above. Under U.S. GAAP, due to the application of Black-Scholes-Merton statistical model the total liability recorded under Brazilian GAAP in the statement of operations has been reverted by R\$ 0.6 as of December 31, 2007.

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Under U.S. GAAP, expenses related to beta certificates will be recorded based on the term that the participants are expected to provide services to the Company, limited to the contractual life of the Plan, considering computation by using Black-Scholes-Merton pricing model, as well.

(s) Proportional consolidation of jointly-controlled entities

Under Brazilian GAAP, jointly-controlled entities must be consolidated using the proportional consolidation method. Proportional consolidation requires that the share of the assets, liabilities, income and expenses be combined on a line-by-line basis with similar items in the Company's financial statements.

Under U.S. GAAP, jointly-controlled entities are recorded under the equity method, where investment of such holders are registered as equity investment and pro-rated net income are considered as equity earnings in affiliates, within statement of operations, all of them prepared in accordance with U.S. GAAP.

For purposes of presentation of condensed balance sheet and statement of operations, the Company has reversed total assets of jointly-controlled entities in the amount of R\$ 92.7 at December 31, 2008 (2007 - R\$ 1,252.8).

Earnings in equity affiliate under U.S. GAAP, recorded in the statement of operations, of such proportionally consolidated companies under Brazilian GAAP, amounts to R\$ 19.0, R\$ 12.1 and R\$ 12.9, in 2008, 2007 and 2006, respectively.

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The following table shows summarized income and expenses and cash flow of Petroquímica Paulínia that were proportionally consolidated in the statement of operations in accordance with U.S. GAAP:

	Petroquímica Paulínia 2006
Net sales	
Operating income (loss)	(2.0)
Net income	(2.0)
Net cash provided by operating activities	1.8
Net cash used in investing activities	(34.3)
Net cash used by financing activities	86.6

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(t) Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which formally defines fair value, creates a standardized framework for measuring fair value in generally accepted accounting principles ("GAAP"), and expands fair value measurement disclosures.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Company policy for fair valuing these financial instruments uses best and most relevant observable inputs.

SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard aforementioned describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities method;

Level 2 - Observable markets are fair valued by using either present value or expected present value methods - deterministic model;

Level 3 - Mostly known as hybrid methodology since applies both deterministic and probabilistic models. Observable and unobservable variables are determined and computed by using either estimated cash flow or expected cash flow methods.

Unobservable variables that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities are determined on probabilistically path basis.

In addition, in February 2008, the FASB issued the FASB staff position (FSP) 157-2, which defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis to fiscal years beginning after November 15, 2008.

In February, 2007, the FASB issued FAS 159 "The fair value option for financial assets and financial liabilities" including an amendment of FASB Statement 115 "Accounting for certain investments in debt and equity securities", which permits the company to choose to measure many financial instruments and certain other items at fair value.

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The Company did not adopt the application of SFAS 159 on its financial statements.

(i) Cash and cash equivalents

Cash and cash equivalents denominated in Brazilian Reais and US dollars were fair valued by using quoted market prices to determine its fair value, all them included in Level 1 hierarchy of SFAS 157.

(ii) Marketable securities

Marketable securities primarily include publicly-traded government bonds and securities, private banking securities and investments funds for which active quoted market prices are used to classify such securities under Level 1 hierarchy of SFAS 157.

When quoted market prices are neither relevant nor traded, the Company uses quotes from independent pricing service providers based on recent trading activity and other relevant information including market interest rate curves, all them classified as Level 2 under SFAS 157 hierarchy.

(iii) Loans (short and long-term debt)

The Company uses observable market inputs, including pricing on recent closed market transactions, to value loans which are included in Level 2, for which the Company used quotes from independent experts and other relevant information including market interest rate curves, all them classified as Level 2 under SFAS 157 hierarchy.

(iv) Loans (debentures, eurobonds and medium term notes)

Liquidity and trading deals for debentures, eurobonds and medium term notes for the Company principal market has just few transactions.

The Company uses quotes from observable market inputs provided by valuation experts based on recent trading activity and other relevant information including market interest rate curves, all them classified as Level 2 under SFAS 157 hierarchy.

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Fair value of assets and liabilities and related hierarchy level under SFAS 157 as of December 31, 2008 may be expressed as follows:

	Note	December 31, 2008	SFAS 157 hierarchy		
			Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	4	145.9	145.9	-	-
Marketable securities trading	6	2,142.1	632.4	1,509.7	-
Marketable securities available	7	624.0	-	624.0	-
Derivatives	23(f.3.)	5.6	-	5.6	-
Marketable securities Long term		11.5	-	11.5	-
Liabilities					
Derivatives	21(g)	110.1	-	110.1	-
Short term debt	16	2,146.3	-	2,146.3	-
Long-term debt	16	9,839.8	-	7,027.3	-

Unrealized gain on available for sale securities amounted to R\$ 8.0 as of December 2008, which was recognized directly in equity as other comprehensive income .

(vi) Derivatives

In December 2008 Brazilian accounting authorities has issued a mandatory standard relating to financial instruments and derivatives Comitê de Pronunciamentos Contábil nº 14 Instrumentos Financeiros: Reconhecimento, Mensuração e Evidenciação. Under Brazilian GAAP derivatives should be measured and recognized as disclosed in Note 22.

Under U.S. GAAP, SFAS nº 133, as amended and interpreted, "Accounting for Derivative Instruments and Hedging Activities", establishes accounting treatment for both derivatives and embedded derivative. Embedded derivative instruments shall be separated from the host contract and accounted for as a derivative instrument if and only if all of the following criteria are met: (a) The economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract; (b) the contract that embodies both the embedded derivative instrument and the host contract is not remeasured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur; and (c) a separate instrument with the same terms as the embedded derivative instrument would be a derivative instrument subject to the requirements of SFAS no. 133.

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For U.S.GAAP purposes the Company has bifurcated the embedded derivatives of sales contracts. For purposes of reconciliation, the fair value of embedded derivatives amounted to R\$3.5 in the year ended December 31, 2007. There has been no embedded derivative as of December 31, 2008.

In addition, under Brazilian GAAP the Company has accounted for some of its hedging activities as cash flow hedge accounting by debiting charges raised from transactions with derivatives directly within shareholders' equity, for which under U.S. GAAP it was not qualified as hedge accounting and a related reversal to income statement in the amount of R\$ 110.1 as of December 31, 2008 for U.S. GAAP reconciliation purposes.

Derivatives instruments which were outstanding as of December 31, 2008 and 2007 may be demonstrated as follows:

Derivative	Notional (in thousand)	Maturity	December 31, 2008
			Fair value
Assets (purchasing):			
i. Interest rate Swaps *	US\$ 725,000	October 2013	1,723.2
ii. Currency Swaps **	R\$ 279,657	June 2012	295.8
Total unrealized gain and total asset			2,019.0
Liabilities (selling):			
iii. Interest rate Swaps *	US\$ 725,000	October 2013	(1,832.6)
iv. Currency Swaps **	R\$ 279,657	June 2012	(290.2)
Total unrealized loss and total liability			(2,122.8)
Net unrealized result and financial position			(103.8)

* Interest rate swaps are related to purchasing agreements of LIBOR rate for six-months and selling agreements to Brazilian domestic variable interest rate (CDI plus average spreads of 3.9%) and vice-versa all them contracted with Bilbao Viscaya Bank, Calyon, Santander and Citibank.

** Currency swaps are related to purchase of yen contract currencies and sale of Brazilian domestic variable interest rate (CDI plus average spreads of 3.9%) and vice-versa all them contracted with JP Morgan, ABN Amro Bank and Citibank.

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Derivative	Notional (units)	December 31, 2007	
		Maturity	Fair value
Assets (purchasing):			
i. Interest rate Swaps *	450,000	August 2008	831.8
ii. Currency Swaps **	503,102	Nov 2008	503.1
iii. Currency Swaps	150,000	July 2008	265.8
iv. Currency Swaps ***	279,657	June 2012	280.7
v. Currency Swaps	100,000	June 2015	177.3
Total unrealized gain and total asset			2,058.7
Liabilities (selling):			
vi. Interest rate Swaps *	450,000	August 2008	797.1
vii. Currency Swaps **	503,102	Nov 2008	543.0
viii. Currency Swaps	150,000	July 2008	265.7
ix. Currency Swaps ***	279,657	June 2012	357.4
x. Currency Swaps	100,000	June 2015	177.2
Total unrealized loss and total liability			2,140.4
Net unrealized result and financial position			(81.7)

* Interest rate swaps are related to purchasing agreements of variable interest rate in USA and selling agreements to Brazilian domestic variable interest rate (CDI) and vice-versa all them contracted with Royal Bank of Canada.

** Currency swaps are related to purchasing agreements of Euros and selling agreements to US dollar and vice-versa, for which the settlement occurred in November 2008.

*** This currency swaps are related to purchase of yen contract currencies and sale of Brazilian domestic variable interest rate (CDI plus average spreads of 3.9%) and vice-versa all them contracted with JPMorgan, ABN Amro Bank and Citibank.

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(u) Classification of statement of operations line items

Under Brazilian GAAP, in addition to the issues noted above, the classifications of certain income and expense items are presented differently from U.S. GAAP. We have retrospectively revised our statement of operations under Brazilian GAAP to present a condensed statement of operations in accordance with U.S. GAAP (Note 32(y)(c)(ii)). The reclassifications are summarized as follows:

- (i) Under Brazilian GAAP discounts granted are classified as financial expenses. Under U.S. GAAP are classified as deductions of sales;
- (ii) Under Brazilian GAAP, gains and losses on the disposal or impairment of permanent assets are classified as other income and expenses, net . Under U.S. GAAP, gains and losses on the disposal or impairment of property, plant and equipment are classified as an adjustment to operating income;
- (iii) Under Brazilian GAAP, foreign exchange gains and losses arisen from assets and liabilities may be netted off within interest income or expense. Under U.S. GAAP such foreign exchange gains and losses are recorded as interest income and expense, separately;
- (iv) Under Brazilian GAAP, shipping costs are deducted from gross revenues and handling costs are recorded as selling expenses, whereas under U.S. GAAP such costs are included in cost of sales;
- (v) Under Brazilian GAAP recovery of indirect taxes on net interest income was recorded under other operating income, whereas under U.S. GAAP, such recoveries are recorded under the same line item as the taxes were initially recorded (interest income, net). As a result R\$ 3.3 and R\$ 110.7 have been reclassified from other operating income to interest expenses during 2008 and 2007, respectively;
- (vi) Under Brazilian GAAP DMT, PET and Caprolactam units has been discontinued as of 2007 and 2008, for which a valuation allowance was provisioned as other income and expenses, net based on the difference between the fair market value and respective book value of such assets, consistent with SFAS 144, for which under U.S. GAAP it was classified as an operating expense.

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(v) Classification of balance sheet line items

Under Brazilian GAAP, the classification of certain balance sheet items is presented differently from U.S. GAAP. We have retrospectively revised our consolidated balance sheet under Brazilian GAAP to present a condensed consolidated balance sheet in accordance with U.S. GAAP (Note 32(y)(c)(i)). The reclassifications are summarized as follows:

- (i) Under U.S. GAAP, certain deferred charges were reclassified to property, plant and equipment and other, directly to expense, and goodwill on legally merged companies within deferred charges are reclassified to goodwill accordingly to their nature;
- (ii) Under Brazilian GAAP advances to suppliers of raw materials and maintenance material are classified as inventories, such advances are classified as other receivables under U.S. GAAP;
- (iii) Under Brazilian GAAP, restricted cash equivalents are recorded based on the liquidity of the asset whereas under U.S. GAAP restricted assets are classified based on the classification of the related liability that has caused the restriction;
- (iv) Under Brazilian GAAP, the statement of cash flows is prepared in accordance with CPC 03 Statements of Cash Flows, which is similar to SFAS 95 Statement of Cash Flows, except for the definition of cash equivalents, whereas, under CPC 03, any highly liquid cash deposit and marketable securities are classified as cash and cash equivalents. At December 31, 2008, 2007 and 2006, taking into consideration the requirements of IAS 7, cash and cash equivalents would amount to R\$ 751.9, R\$ 1,024.6 and R\$ 667.2, respectively.
- (v) Under Brazilian GAAP discounted trade receivables are classified as trade accounts receivable, such items are classified as short-term debt under U.S. GAAP; and
- (vi) Under Brazilian GAAP, pursuant to CVM Deliberation 489/05, the Company states judicial deposits net of the corresponding contingent liabilities. According to U.S. GAAP, these deposits were fully stated as long-term receivables.

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- (viii) Braskem entered into a Share Purchase Agreement under which the Company has agreed to sell all its shares in Petroflex which has been classified as an Investment held for sale at the book value of the net investment of R\$136.7, to Lanxess Deutschland GmbH for an aggregate price of R\$ 252.1. On April 1, 2008, this transaction was completed, as described in Note 1 (c.ix). Under U.S. GAAP investment held at Petroflex as of December 31, 2007 was not classified as held for sale and the related balance has been demonstrated within "Equity investment in affiliates".

(w) Segment reporting

Under Brazilian GAAP, there is no obligation to present disaggregated information with respect to the business segments of an enterprise.

Under U.S. GAAP, SFAS 131, "Disclosures About Segments of an Enterprise and Related Information", requires that public enterprises disclose certain information about segments on the basis that top management uses to allocate resources among segments and evaluate their performance.

Braskem has the following business segments:

. Basic Petrochemicals-comprising basic petrochemical production activities and supply of electricity, steam and compressed air to second. This segment is dependent on Petrobras for supply of raw material.

. Polyolefins-comprising activities related to the production of polyethylene and polypropylene.

. Vinyls-comprising activities related to the production of PVC, caustic soda and chlorine. One client represents 15.0%, 11.8% and 11.1% of Vinyl's revenues for the years ended December 31, 2008, 2007 and 2006, respectively.

. Ipiranga- comprising activities related to the production of polyethylene and polypropylene of IQ and IPQ. Business acquired and consolidated only as from April 18, 2007.

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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. As required by SFAS 131 the Company retrospectively revised segment information for all periods presented.

The Company evaluates and manages segment performance based on information generated from its statutory accounting records maintained in accordance with accounting practices adopted in Brazil and reflected in its consolidated financial statements.

In addition, management evaluates jointly controlled companies under the equity method as the Company does not control these companies. Additionally, operating income figures presented in business segment information does not include financial expenses, financial income and investment in associated companies.

Information on total assets for each segment as at December 31, 2008 and 2007 under Brazilian GAAP, is as follows:

	2008	2007 Retrospectively revised
Polyolefins	7,432.6	6,534.4
Vinyls	2,811.8	2,602.1
Basic Petrochemicals	12,194.0	11,411.9
IQ	263.5	232.3
Total assets	22,701.9	20,780.7

Investments in affiliates in each business segment were immaterial in the periods presented herein.

Company's sales may be demonstrated as follows:

	2008	2007	2006
Domestic sales	13,973.8	13,435.1	9,671.7
Exports from Brazil	3,985.7	4,207.4	3,321.0
Total net sales	17,959.5	17,642.5	12,992.7

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Information on the geographical composition of the Company's sales, under Brazilian GAAP, is as follows:

	2008	2007	2006
Destination of exports from Brazil			
U.S.A	1,119.6	1,151.5	921.7
Argentina	891.3	916.7	623.5
Switzerland	321.1	353.9	258.4
Germany	228.2	251.6	243.9
Mexico	175.5	180.5	38.1
Netherlands	170.7	188.1	34.1
Chile	156.8	161.2	167.4
Uruguay	105.7	108.7	62.6
Italy	65.1	71.8	47.0
Spain	64.7	71.3	53.3
China	54.7	66.9	139.9
Belgium	51.6	56.9	59.6
Bolivia	50.1	51.5	45.7
Portugal	49.6	54.8	55.5
Paraguay	47.1	48.4	42.8
Barbados	42.0	43.3	-
Other	391.9	430.3	527.5
Total exports	3,985.7	4,207.4	3,321.0
Domestic sales	13,973.8	13,435.1	9,671.7
Total net sales	17,959.5	17,642.5	12,992.7

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated**

Information on segment results for 2008, 2007 and 2006 is as follows :

	Business segments					Eliminations and adjustments (*)	Braskem consolidated before CVM 247(*)	CVM 247
	Petrochemicals			Ipiranga				
	Vinyls	Polyolefins	Basic	Química	Total segments			
Net sales revenue	2,052.8	7,534.0	14,257.5	601.8	24,446.1	(6,532.9)	17,913.2	46,000.0
Cost of sales	(1,573.6)	(6,256.3)	(13,026.9)	(510.4)	(21,367.2)	6,252.5	(15,114.7)	(26,000.0)
Gross profit	479.2	1,277.7	1,230.6	91.4	3,078.9	(280.4)	2,798.5	20,000.0
Operating expenses (income)								
Selling, general and administrative	(174.1)	(525.8)	(415.0)	(52.7)	(1,167.6)	7.7	(1,159.9)	(7,000.0)
Depreciation and amortization	(3.2)	(27.5)	(16.2)	(5.8)	(52.7)	(490.3)	(543.0)	(0,000.0)
Other, net	8.5	38.5	63.7	2.5	113.2	(26.1)	87.1	(1,000.0)
	(168.8)	(514.8)	(367.5)	(56.0)	(1,107.1)	(508.7)	(1,615.8)	(8,000.0)
Operating income	310.4	762.9	863.1	35.4	1,971.8	(789.1)	1,182.7	11,000.0

(*) "CVM 247" refers to proportional consolidation under Brazilian GAAP (Note 4) and "Braskem consolidated before CVM 247" includes depreciation at R\$ 677.5 within this cost of sales.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

	Business segments					Total segments	Eliminations and adjustments (*)	Braskem		Braske consolidate	
	Petrochemicals		Ipiranga	Química	Basic			before CVM	CVM 247		247(*)
	Vinyls	Polyolefins									
Net sales revenue	1,789.4	7,411.0	13,036.1	392.6	22,629.1	(5,654.4)	16,974.7	667.8	17,642		
Cost of sales	(1,438.1)	(6,070.3)	(11,574.5)	(338.9)	(19,421.8)	5,598.0	(13,823.8)	(507.6)	(14,331)		
Gross profit	351.3	1,340.7	1,461.6	53.7	3,207.3	(56.4)	3,150.9	160.2	3,311		
Operating expenses	(income)										
Selling, general and administrative	(201.7)	(517.2)	(410.6)	(39.1)	(1,168.6)	(61.5)	(1,230.1)	(8.6)	(1,238)		
Depreciation and amortization	(2.1)	(19.6)	(19.0)	(4.3)	(45.0)	(439.5)	(484.5)	(2.1)	(486)		
Other, net	25.9	(59.5)	22.1	(0.7)	(12.2)	142.8	130.6	0.9	131		
	(177.9)	(596.3)	(407.5)	(44.1)	(1,225.8)	(358.2)	(1,584.0)	(9.8)	(1,593)		
Operating income	173.4	744.4	1,054.1	9.6	1,981.5	(414.6)	1,566.9	150.4	1,717		

(*) "CVM 247" refers to proportional consolidation under Brazilian GAAP (Note 4) and "Braskem consolidated before CVM 247" includes depreciation at R\$ 728.7 within this cost of sales.

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated**

	Business segments					Eliminations and adjustments (*)	Braskem consolidated before CVM 247(*)		Braskem consolidated
	Vinyls	Polyolefins	Petrochemicals	Basic Ipiranga Química	Total segments		CVM 247		
Net sales revenue	1,541.7	4,984.9	7,157.6	-	13,684.2	(1,965.2)	11,719.0	1,273.7	12,992.7
Cost of sales	(1,245.3)	(4,234.5)	(6,291.4)	-	(11,771.2)	1,922.5	(9,848.7)	(910.5)	(10,759.2)
Gross profit	296.4	750.4	866.2	-	1,913.0	(42.7)	1,870.3	363.2	2,233.5
Operating expenses (income)									
Selling, general and administrative	(123.0)	(360.9)	(348.6)	-	(832.5)	(41.8)	(874.3)	(77.1)	(951.4)
Depreciation and amortization	(0.4)	(10.4)	(0.5)		(11.3)	(346.6)	(357.9)	(5.4)	(363.3)
Other, net	35.1	18.3	(4.4)		49.0	107.9	156.9	29.2	186.1
	(88.3)	(353.0)	(353.5)		(794.8)	(280.5)	(1,075.3)	(53.3)	(1,128.6)
Operating income	208.1	397.4	512.7		1,118.2	(323.2)	795.0	309.9	1,104.9

(*) "CVM 247" refers to proportional consolidation under Brazilian GAAP (Note 4) and "Braskem consolidated before CVM 247" includes depreciation at R\$ 576.4 within this cost of sales.

Braskem S.A. and Its Subsidiaries

**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

(x) Present Value Adjustment

Under Brazilian GAAP, as required by CPC 13, certain short-term accounts payable have been adjusted to present value as described in Note 3.1 (a)(ii).

Under USGAAP, in accordance with the Accounting Principles Board Opinion no. 21 "Interest on Receivables and Payables" such payables shall not be discounted if the transactions are with suppliers in the normal course of business and due within one year or less. For purposes of reconciliation, the Company has reversed at December 31, 2008 the amounts of R\$ (76.0) in shareholders' equity and R\$ (43.2) within statement of operations.

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Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated****(y) Reconciliation from Brazilian GAAP to U.S. GAAP****(a) Statement of Operations - net income balances**

	Note 32	2008	2007	2006
Net (loss) income under Brazilian GAAP - as adjusted by				
Federal Law 11638/07		(2,492.1)	621.8	222.8
Adjustment of Federal Law 11638/07 (Notes 3.1 and 32(a))				
Reversal of amortization charges for previously				
capitalized expenses	(d)	-	(59.5)	(54.0)
Deferred capitalized charges written-off	(d)	-	34.8	-
Present value discount on accounts payable	Note 3.1 (b)	-	-	(32.8)
Tax incentive recorded as income	(n)	-	(49.5)	(11.8)
Deferred tax on above adjustments	-	-	-	(22.9)
Net income under Brazilian GAAP - as previously reported		(2,492.1)	547.6	101.3
Depreciation of additional indexation of				
permanent assets for 1996 and 1997	(b)	(37.2)	(37.4)	(28.6)
Capitalized interest	(c)	(217.5)	35.3	-
Amortization of capitalized interest	(c)	(31.7)	(34.8)	(38.7)
Impairment charges adjustment	(c)	31.7	-	-
Deferred charges, net	(d)	(136.7)	42.2	34.5
Business Combination adjustments / Effects of U.S.				
GAAP adjustments	(e)	450.7	406.2	330.6
Pension plan	(i)	(12.1)	3.2	(58.4)
Tax incentives	(n)	-	49.5	11.9
Revenue recognition	(o)	-	-	(18.1)
Amortization of capital raising costs	(l)	-	5.8	5.8
Effects of U.S. GAAP adjustments on				
Investees	(f)	(9.2)	(5.8)	(56.8)
Adjustment to present value (Law 11638)	(x)	(43.2)		
Long-term share incentive plan	(r)	-	0.6	0.5
Embedded Derivatives	(t)(vi)	3.5	(3.5)	-
Cash Flow Hedge reversal	(t)(vi)	(110.1)	-	-
Other	-	(8.6)	10.1	-
Valuation allowance reversal on deferred tax	(m)	502.0	2.8	-
Deferred income tax on adjustments above	(m)	346.6	94.6	(123.2)
Minorities interest on adjustments above	-	(62.8)	(27.3)	0.8
Net income under U.S. GAAP -	as			
computed		(1,826.7)	1,089.1	161.6

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

(b) Balance Sheet - shareholders' equity balances

	Note 32	2008	2007
Shareholders' equity under Brazilian GAAP as adjusted			
by Federal Law 11638/07		3,679.8	5,678.5
Adjustments to Federal Law 11638/07 (Notes 3.1 and 32)			
(a)			
Reversal of amortization charges for previously			
capitalized expenses	(d)	-	(59.5)
Deferred capitalized charges written-off	(d)	-	34.8
Deferred capitalized charges written-off against retained			
earnings before December 2007	Note 3.1 (b)	-	103.2
Deferred tax on above adjustment	-	-	-
Shareholders' equity under Brazilian GAAP as previously			
reported		3,679.8	5,757.0
Additional indexation of permanent assets for			
1996 and 1997	(b)	1,135.8	1,135.8
Depreciation of additional indexation of permanent			
assets for 1996 and 1997	(b)	(517.3)	(479.6)
Capitalized interest, net	(c)	354.1	571.6
Amortization of capitalized interest	(c)	(436.1)	(404.5)
Impairment charges adjustment	(c)	34.2	-
Deferred charges, net	(d)	(189.3)	(455.6)
Business Combination adjustments / Effects of U.S.			
GAAP adjustments	(e)	1,034.5	631.0
Distributions to shareholders	(g)	(1,771.3)	(1,771.3)
Capital raising costs	(l)	-	(40.7)
Pension plan	(i)	(57.6)	3.3
U.S. GAAP adjustments on investees	(f)	(6.0)	(11.0)
Adjustment to present value (Law 11638)	(x)	(76.0)	
Treasury Shares	-	-	12.4
Reversal of proposed dividend	(s)	-	149.4
Revenue recognition	(o)	-	-
Long-term share incentive plan	(r)	1.1	1.1
Embedded Derivatives	(t)(vii)	-	(3.5)
Additional Paid-In-Capital - APIC	(g)(iv)	506.6	-
Other	-	(5.4)	2.9
Valuation allowance reversal on deferred tax	(m)	502.0	-
Deferred income tax adjustments	(m)	(163.4)	(166.3)
Minorities interest on adjustments above	-	-	99.9
Shareholders' equity under U.S. GAAP - as computed		4,025.7	5,031.9

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated****(c) U.S. GAAP condensed financial information**

Based on the reconciling items and discussion above, the Company consolidated balance sheet, statement of operations and statement of changes in shareholders' equity under U.S. GAAP have been prepared as a condensed format as follows:

(i) Condensed balance sheet under U.S. GAAP

Assets	2008	2007
Current assets		
Cash and cash equivalents	751.9	1,024.6
Marketable securities	2,173.3	923.5
Trade accounts receivable, net	2,236.7	2,348.7
Taxes recoverable	609.0	619.0
Deferred income tax	59.3	
Inventories	2,923.9	2,220.4
Dividends receivable	-	12.6
Prepaid expenses	65.7	70.5
Advances to suppliers	-	83.0
Fair Market Value of derivatives investments	-	114.6
Other receivables	145.4	75.9
	8,965.2	7,492.8
Equity investment in affiliates	113.7	371.1
Goodwill	1,156.9	1,688.6
Property, plant and equipment	11,683.4	11,880.0
Non-current assets		
Trade accounts receivable	47.1	
Receivables from related parties	46.0	49.7
Prepaid expenses	65.6	61.3
Inventories, net	20.6	22.8
Intangible assets	404.3	171.7
Indirect taxes recoverable	1,201.8	1,175.0
Deferred income tax	1,146.5	161.0
Restricted deposits for legal proceedings	187.8	103.0
Other receivables	63.4	196.1
	3,183.1	1,940.6
Total assets	25,102.3	23,373.1

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006****All amounts in millions of reais, unless otherwise indicated**

Liabilities and shareholders' equity	2008	2007
Current liabilities		
Suppliers	4,512.9	2,589.2
Payroll and related charges	213.5	257.2
Taxes on income payable	3.5	274.1
Other taxes payable	102.1	121.2
Fair market value of derivatives payable	8.9	87.3
Short-term debt, including current portion of long-term debt	3,644.3	2,080.6
Interest payable	-	52.5
Debentures	24.2	111.6
Advances from customers	247.0	21.7
Dividends payable	0.3	49.4
Business combination to be settled off	-	881.0
Other	168.9	121.4
	8,925.6	6,647.2
Non-current liabilities		
Long-term debt	9,066.6	6,084.6
Debentures	800.0	800.0
Derivatives payable	-	43.7
Taxes and contributions payable	1,290.0	1,148.9
Deferred income tax	596.9	1,312.6
Other	397.5	243.9
	12,151.0	9,633.7
Minorities interest	-	2,060.3
Shareholders' equity	4,025.7	5,031.9
Total liabilities and shareholder's equity	25,102.3	23,373.1

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

(ii) Condensed statement of operations under U.S. GAAP

	2008	2007	2006
Gross sales	23,163.0	21,640.6	15,045.5
Value-added taxes, discounts and returns	(5,241.9)	(4,353.2)	(3,082.1)
Net sales	17,921.1	17,287.4	11,963.4
Cost of sales	(15,525.4)	(14,415.0)	(10,323.8)
Gross profit	2,395.7	2,872.4	1,639.6
Operating income (expenses)			
Selling, general and administrative	(1,231.6)	(1,315.0)	(962.2)
Depreciation and amortization	(342.3)	(57.4)	(18.3)
Impairment on assets	(118.4)	(1.5)	
Other, net	61.3	83.0	47.1
Operating income	764.7	1,581.5	706.2
Interest income/(expense)			
Interest income	2,162.1	652.3	232.6
Interest expenses	(5,739.5)	(788.8)	(916.0)
Other	-	-	17.3
Income before income tax, earnings in equity affiliates and minorities interest	(2,812.7)	1,445.0	40.1
Income tax benefit (expense)			
Current	(21.6)	(183.0)	(3.9)
Deferred	1,077.3	(19.4)	(21.9)
Income before earnings in equity affiliates and minority interest	(1,757.0)	1,242.6	14.3
Earnings in equity affiliates	31.6	81.4	147.3
Minorities interest	(101.3)	(234.9)	-
	(69.7)	(153.5)	147.3
Net income for the year	(1,826.7)	1,089.1	161.6

Braskem S.A. and Its Subsidiaries**Notes to the Consolidated Financial Statements
at December 31, 2008, 2007 and 2006**

All amounts in millions of reais, unless otherwise indicated

(iii) Condensed changes in shareholders' equity under U.S. GAAP

	2008			2007			2006		
	OCI	Other equity accounts	Total Equity	OCI	Other equity accounts	Total Equity	OCI	Other equity accounts	Total Equity
At beginning of the year - as original presented	2,837.2	2,194.7	5,031.9	1,748.1	1,218.7	2,966.8	1,512.6	1,405.8	2,918.4
Change in accounting principle - maintenance cost adoption	-	-	-	-	-	-	73.9	-	73.9
At beginning of the year - as adjusted	2,837.2	2,194.7	5,031.9	1,748.1	1,218.7	2,966.8	1,586.5	1,405.8	2,992.3
Comprehensive income of the year	(1,826.7)	-	(1,826.7)	1,089.1	-	1,089.1	161.6	-	161.6
Change in minimum pension liability	(55.3)	-	(55.3)	-	-	-	-	-	-
Total comprehensive income	955.2	2,194.7	3,149.9	2,837.2	1,218.7	4,055.9	1,748.1	1,405.8	3,153.9
Capital increase	-	734.8	734.8	-	1,130.7	1,130.7	-	105.3	105.3
Contribution from shareholders - APIC	-	506.6	506.6	-	-	-	-	5.9	5.9
Repurchase of treasury shares	-	(186.8)	(186.8)	-	-	-	-	(224.3)	(224.3)
Assets for sale	-	8.0	8.0	-	-	-	-	-	-
Adjustment to present value (Law 11638)	-	(32.8)	(32.8)	-	-	-	-	-	-
Dividends	-	(154.0)	(154.0)	-	(154.7)	(154.7)	-	(74.0)	(74.0)
At end of the year	955.2	3,070.5	4,025.7	2,837.2	2,194.7	5,031.9	1,748.1	1,218.7	2,966.8

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

(z) Recently issued accounting standards

Under Brazilian GAAP, carrying forward changes described in Note 2 and 3, Brazilian Securities Exchange Commission - CVM during June 2009 has issued Deliberation 575 approving CPC 16 Estoques accounting standard relating to inventories by means of which it should be measured and recognized within financial statements which is equivalent to International Accounting Standard 2 - IAS 2 Inventories. This Statement is effective as of the year-end that begins after December 31, 2010, for which earlier adoption is encouraged. The Company has been evaluating any impact such standard will have on its financial statements.

In June 2009 CVM has issued Deliberation 576 approving CPC 17 Contratos de Construção accounting standard relating to construction contracts by means of which it should be measured and recognized within financial statements mainly related to revenue recognition which is equivalent to International Accounting Standard 11 - IAS 11 Construction Contracts. This Statement is effective as of the year-end that begins after December 31, 2010, for which earlier adoption is encouraged. The Company does not expect any impact on its financial statements as per the adoption of such standard.

Under Brazilian GAAP, in June 2009 CVM has issued Deliberation 577 approving CPC 20 Custos de Empréstimos accounting standard relating to financial charges treatment, measurement and recognition on pre-operating phases which is equivalent to International Accounting Standard 23 - IAS 23 Borrowing Costs. This Statement is effective as of the year-end that begins after December 31, 2010, for which earlier adoption is encouraged. The Company has been evaluating any impact such standard will have on its financial statements.

Under US GAAP, in December 2007, the FASB issued SFAS No. 141R (revised 2007), "Business Combinations". The SFAS 141 - Revised 2007 to converge USGAAP to IFRS, therefore several changes were made regarding accounting treatment for business combinations. The major changes provided by this Statement are related to accounting for business combinations costs, which can no longer be considered as part of the total consideration paid; accounting for all assets acquired, liabilities assumed and non-controlling interests of the acquired entity at fair value, at full amounts of their fair values, and not on the percentage of the shares acquired; measurement and recognition of contractual contingencies as of the acquisition date, and provides also guidance on the subsequent accounting treatment for these situations; recognition of contingent consideration as part of the goodwill computation on the date of acquisition, and not after the contingent is resolved, and defines also the concept of bargain purchase, in which the fair value of the acquired assets, assumed liabilities and noncontrolling interest of the acquired company are higher than the total consideration paid, and defines this bargain purchases shall be recognized as a gain on income from operations when they arise, and not to be allocated to the eligible assets. This Statement is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, for which earlier adoption is forbidden. The Company has been evaluating future possible impact on eventual future business combination under SFAS 141 - Revised 2007.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling interests in Consolidated Financial Statements - an amendment of ARB No. 51", which was also issued to converge USGAAP to IFRS. The major changes provided by this Statement are related to the classification of noncontrolling interest as part of the equity, and not as a liability or a mezzanine section between liabilities and equity, as well as the classification of the noncontrolling interest on income of operations, which now should be shown as income attributable to noncontrolling interest, and should not anymore be recognized as an expense or gain to arrive at net income from operations; this Statement also provides guidance on the deconsolidation of subsidiary, in order to measure the gain or loss on this deconsolidation using the fair value of any noncontrolling equity investment rather than the carrying amount of the retained investment. This Statement is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, and the entity cannot apply it before that date. The Company has been evaluating future possible impact on eventual future business combination under SFAS 160.

In March 2008, the FASB issued SFAS No. 161, "Disclosure about Derivative Instruments and Hedging Activities - an amendment of SFAS 133". This Statement changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. This Statement is effective as of the beginning of an entity's fiscal year that begins after December 15, 2008, with early adoption encouraged. The Company has been evaluating future possible impact on reporting under SFAS 161.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". SFAS 162 provides entities to be responsible for selecting its accounting principles for the preparation of financial statements that are presented in conformity with GAAP. This Statement will be effective 60 days following the approval by the Public Company Accounting Oversight Board - PCAOB. The Company does not expect a significant impact from the application of this standard.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events ". SFAS 165 provides a comprehensive meaning of subsequent events by dividing into two types: (i) recognized and (ii) non-recognized. For the first type financial statements are assessed to include adjustments provided from any subsequent event that should have been reported at the year or period-end. The second type requires only disclosure of events that will impact financial statements on a prospectively basis. The Company does not expect a significant impact from the application of this standard.

In June 2009 the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets - an amendment of SFAS No. 140", which eliminates (1) the exceptions for qualifying special-purpose entities from the consolidation guidance and (2) the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets.

Braskem S.A. and Its Subsidiaries

Notes to the Consolidated Financial Statements at December 31, 2008, 2007 and 2006

All amounts in millions of reais, unless otherwise indicated

SFAS 166 enhances the information provided to financial statement users to provide greater transparency about transfers of financial assets and a transferor's continuing involvement, if any, with transferred financial assets. Under this Statement, many types of transferred financial assets that would have been derecognized previously are no longer eligible for derecognition.

SFAS 166 requires enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets.

The Company is currently evaluating any impact such standard will have in its financial statements for periods after December 31, 2008.

In June 2009 the FASB issued SFAS No. 167, "Consolidation of Variable Interest Entities - an amendment of FIN No. 46(R)", which replace the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity and/or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which enterprise has a controlling financial interest in a variable interest entity.

SFAS 167 requires an additional reconsideration event when determining whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity's economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity. These requirements will provide more relevant and timely information to users of financial statements.

SFAS 167 amends FASB Interpretation 46(R) to require additional disclosures about an enterprise's involvement in variable interest entities, which will enhance the information provided to users of financial statements. This accounting standard shall be effective for periods beginning after November 15, 2009. The Company is currently evaluating any impact such standard will have in its financial statements after December 31, 2008.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Copesul Companhia Petroquímica do Sul and Subsidiaries

- 1 We have audited the accompanying consolidated balance sheets of Copesul Companhia Petroquímica do Sul and subsidiaries (the Company) as of December 31, 2006 and 2005 and the related consolidated statements of income, of changes in shareholders equity, of changes in financial position and of cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.
- 2 We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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Copesul Companhia Petroquímica do Sul and Subsidiaries

- 3 In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Copesul Companhia Petroquímica do Sul and subsidiaries at December 31, 2006 and 2005 and the consolidated results of their operations, the changes in their financial position and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting practices adopted in Brazil.
- 4 Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 28 to the consolidated financial statements.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers
Auditores Independentes

Porto Alegre, Brazil.
April 30, 2007, except
for Note 29 Subsequent
Event, for which the date
is July 10, 2009

COPELUS Companhia Petroquímica do Sul**Consolidated Balance Sheets at December 31****All amounts in millions of reais**

	2006	2005		2006	2005
Assets			Liabilities and shareholders' equity		
Current assets			Current liabilities		
Cash and banks (Note 4)	201	113	Suppliers		
Trade accounts receivable			Third parties (Note 14)	290	154
Third parties (Note 5)	195	149	Related parties (Note 27)	63	2
Related parties (Note 27)	59	49	Loans and financing (Note 15)	50	288
Export drafts billed (Note 16)			Export drafts - to be invoiced (Note 16)	39	1
	(1)	(18)	Taxes and charges payable (Note 17)	45	42
Credits ceded to receivables securitization fund (FIDC) (Note 7)		(13)	Social and labor contributions and charges	45	49
Swap receivables (Note 6)	64	53	Proposed dividends (Note 19 (d) (iii))	185	68
Marketable securities (Note 7)	38	13	Interest on own capital (Note 19 (d) (iii))	17	21
Inventories (Note 8)	571	495	Income tax and social contribution (Note 18)	44	9
Taxes and charges recoverable (Note 9)	115	43	Provision for programmed maintenance (Note 19 (e) (i))		16
Prepaid expenses (Note 10)	14	14	Swap and options payable (Note 6)	23	5
Other accounts receivable	5	9	Advances from customers	5	13
	1,261	907	Profit sharing and other	35	27
Non-current assets				841	695
Long-term assets			Non-current liabilities		
Marketable securities (Note 7)	1	1	Long-term liabilities		
Taxes and charges recoverable (Note 9)	137	133	Loans and financing (Note 15)	107	84
Judicial deposits (Note 11)	9	8	Export drafts - to be invoiced (Note 16)	139	91
Prepaid expenses (Note 10)	4	6	Provision for programmed maintenance (Note 19 (e) (i))		52
Loans to third parties	3	6	Deferred contributions and taxes (Note 18)	37	1
Claims receivable and other	2	1	Provision for contingencies (Note 24)	34	11
				9	7
					259

Actuarial liability - PETROS (Note 25)

	156	155		326	246
Permanent assets			Shareholders equity (Note 19)		
Investments	10	9	Capital	850	750
Property, plant and equipment (Note 12)	1,030	1,106	Capital reserve	296	341
Deferred charges (Note 13)	10	11	Revaluation reserve	75	109
			Revenue reserve	79	47
	1,050	1,126		1,300	1,247
Total assets	2,467	2,188	Total liabilities and shareholders equity	2,467	2,188

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

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COPEsul Companhia Petroquímica do Sul**Consolidated Statements of Income****Years Ended December 31****In millions of reais, unless otherwise indicated**

	2006	2005	2004
Gross sales			
Sale of petrochemical products and utilities			
Local market	7,186	6,527	6,267
Foreign market	761	765	774
Sale of services and resale of goods	201	56	112
	8,148	7,348	7,153
Taxes and contributions on sales			
ICMS	(982)	(1,041)	(1,051)
PIS, COFINS, CIDE and other	(790)	(691)	(661)
	(1,772)	(1,732)	(1,712)
Net sales and services	6,376	5,616	5,441
Cost of products, utilities and services	(5,292)	(4,610)	(4,418)
Gross profit	1,084	1,006	1,023
Operating (expenses) income			
Selling	(133)	(125)	(136)
General and administrative	(51)	(43)	(41)
Management fees	(3)	(2)	(2)
Other operating income (expenses), net (Note 21)	20	22	42
	(167)	(148)	(137)
Operating profit before financial result	917	858	886
Financial result (Note 20)			
Financial expenses	(463)	(279)	(670)
Financial income	372	137	507

	(91)	(142)	(163)
Operating profit	826	716	723
Non-operating result, net			
Non-operating income	(6)	(4)	1
Non-operating expenses	2	10	(2)
	(4)	6	(1)
Income before income tax and social contribution	822	722	722
Income tax and social contribution (Note 18)	(270)	(231)	(242)
Income before profit sharing	552	491	480
Employees profit sharing	(24)	(22)	(20)
Management profit sharing	(3)	(1)	(1)
Income before reversal of interest on own capital	525	468	459
Reversal of interest on own capital (Note 19)	90	99	88
Net income for the year	615	567	547
Earnings per share (in Brazilian Reais) (Note 19)	4.10	3.77	3.64

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

COPELUS Companhia Petroquímica do Sul**Statement of Changes in Shareholders Equity**
In millions of reais

	Capital	Capital	Revaluation	Revenue	Retained	
	reserve	reserve	reserve	reserve	earnings	
		Fiscal		Legal	(Acumulated	Total
	Capital	incentives	reserve		losses)	
At December 31, 2003	610	247	179	42		1,078
Capitalization of capital reserve fiscal incentives FUNDOPEM	90	(90)				
Fiscal incentives FUNDOPEM Program for Technological and Industrial Development (PDTI)		89				89
Realization of revaluation reserve		2				2
Revaluation - 1983			(3)		3	
Revaluation - 1989			(32)		32	
Income tax and social contribution on realized revaluation reserve					(10)	(10)
Net income for the year					547	547
Appropriation of net income						
Legal reserve				27	(27)	
Proposed dividends R\$0.785 per share					(118)	(118)
Interim dividends R\$2.252 per share					(339)	(339)
Interest on own capital R\$0.587 per share					(88)	(88)
At December 31, 2004	700	248	144	69		1,161
Capitalization of revenue reserve						
Legal Reserve	50			(50)		
Fiscal incentives FUNDOPEM		89				89
						263

Program for Technological and Industrial Development (PDTI)		4				4
Realization of revaluation reserve						
Revaluation - 1983			(3)		3	
Revaluation - 1989			(32)		32	
Income tax and social contribution on realized revaluation reserve					(11)	(11)
Net income for the year					567	567
Appropriation of net income						
Legal reserve				28	(28)	
Proposed dividends						
R\$0.454 per share					(68)	(68)
Interim dividends						
R\$2.635 per share					(396)	(396)
Interest on own capital						
R\$0.660 per share					(99)	(99)
At December 31, 2005	750	341	109	47		1,247

COPELUS Companhia Petroquímica do Sul
Statement of Changes in Stockholders Equity
In millions of reais

	Capital reserve	Capital reserve	Revaluation reserve	Revenue reserve	Retained earnings	Total
	Capital	Fiscal incentives	reserve	Legal		
At December 31, 2005	750	341	109	47		1,247
Adjustment from previous years (Note 19 (e))					38	38
Capitalization of capital reserve FUNDOPEM	100	(100)				
Fiscal incentives FUNDOPEM Program for Technological and Industrial Development (PDTI)		50				50
Realization of revaluation reserve		5				5
Revaluation - 1983			(4)		4	
Revaluation - 1989			(30)		30	
Income tax and social contribution on realized revaluation reserve					(8)	(8)
Net income for the year					615	615
Appropriation of net income						
Legal reserve				32	(32)	
Proposed dividends R\$1,229 per share					(185)	(185)
Interim dividends R\$2.475 per share					(372)	(372)
Interest on own capital R\$0.597 per share					(90)	(90)
At December 31, 2006	850	296	75	79		1,300

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

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COPELUL Companhia Petroquímica do Sul**Consolidated Statements of Changes in Financial Position
In millions of reais**

	2006	2005	2004
Financial resources were provided by:			
Operations			
Net income for the year	615	567	547
Expenses (income) not affecting working capital			
Depreciation and amortization	234	202	206
Provision for realization of investments at market value	(1)		
Long-term taxes recoverable	(5)		
Write off of non current assets prepaid expenses		1	
Provision for long-term programmed maintenance		19	34
Provision for administrative, civil and labor contingencies	24	4	3
Provision for actuarial liability PETROS	2	2	2
Interest on long-term amounts receivable	(1)	(10)	(47)
Interest on long-term financing		6	3
Interest on income tax and social contribution on long-term liabilities	2		
Monetary and exchange variations on long-term items			
Long-term liabilities	(5)	(11)	(2)
Long-term receivables	(5)	(3)	(23)
Disposals of property, plant and equipment and investments	2	5	
Income tax and social contribution			
Long-term receivables	(25)		
Long-term liabilities	10	(2)	(1)
Retained earnings revaluation reserve	(10)	(11)	(10)
	837	769	712
Third parties			
Decrease in long-term assets			
Marketable securities	1	11	12
Related parties		154	572
Taxes and charges recoverable	50	6	3
Prepaid expenses	3	3	6
Loans to third parties and other	5	5	4
Increase in long-term liabilities			
Financial institutions	47	77	121
Export drafts to be invoiced	138		114
Fiscal incentives of FUNDOPEM and Program for Technological and Industrial Development	55	93	91
	299	349	923

Other

Effect on net working capital from the change in the accounting procedure and prior year adjustments

1

Total funds provided

1,137

1,118

1,635

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COPELUS Companhia Petroquímica do Sul**Consolidated Statements of Changes in Financial Position**
In millions of reais**(continued)**

	2006	2005	2004
Financial resources were used for:			
Long-term assets			
Marketable securities			23
Related parties			325
Taxes and charges recoverable	42	21	19
Prepaid expenses	1	5	4
Loans to third parties and other	2	1	6
Permanent assets			
Investments			2
Property, plant and equipment	126	171	131
Deferred charges	2	3	2
Transfer from long-term to current liabilities			
Financial institutions	24	64	195
Export drafts to be invoiced	35		371
Provision for programmed maintenance		11	43
Amortization of long-term liabilities			
Financial institutions		79	174
Export drafts to be invoiced	49		133
Administrative, civil and labor contingencies	1	2	1
Distribution of net income			
Proposed dividends	185	68	118
Prepaid dividends	372	396	339
Interest on own capital	90	99	88
Total funds used	929	920	1,974
Increase (decrease) in working capital	208	198	(339)
Current assets			
At the end of the year	1,261	907	754
At the beginning of the year	907	754	1,387
	354	153	(633)
Current liabilities			
At the end of the year	841	695	740
At the beginning of the year	695	740	1,034

	146	(45)	(294)
Increase (decrease) in working capital	208	198	(339)

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

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COPELUS Companhia Petroquímica do Sul**Consolidated Statements of Cash Flows**
In millions of reais

	2006	2005	2004
Cash provided by operating activities			
Net income for the year	615	567	547
Expenses (income) not affecting cash			
Depreciation and amortization	234	202	206
Provision for programmed maintenance		(31)	36
Provision for administrative, civil and labor contingencies	23	4	3
Provision for actuarial liabilities PETROS	2	2	2
Provision for realization of investments at market value	(1)		
Interest and monetary and exchange variations on assets			
Interest	5	15	5
Monetary and exchange variations	(4)	6	(18)
Disposals of property, plant and equipment and other investments	2	5	
Net changes in swap receivable	(11)	(52)	9
Net changes in swap and options payable	18	(3)	(32)
Loans, financing and export drafts			
Interest	(11)	(1)	(3)
Monetary and exchange variations	(7)	(36)	(21)
Deferred income tax and social contribution	4	10	(30)
Interest on provision for income tax and social contribution	2		
Decrease (increase) in assets			
Trade accounts receivable	(57)	21	277
Trade notes linked to the FIDC	(13)	(10)	23
Inventories	(76)	(68)	(144)
Other accounts receivable	(92)	(36)	102
Related parties	61		(25)
Increase (decrease) in liabilities			
Suppliers third parties	137	8	59
Other accounts payable	13	(28)	21
Fiscal incentives of FUNDOPEM, income tax and Program for Technological and Industrial Development	55	93	91
Net cash provided by operating activities	899	668	1,108

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

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COPELUS Companhia Petroquímica do Sul**Consolidated Statements of Cash Flows**
In millions of reais**(continued)**

	2006	2005	2004
Marketable securities			
Purchases	(210)	(145)	(997)
Redemptions	181	201	910
Loans to related parties			
Issuances	5		(325)
Repayments		130	522
Additions to investments			(2)
Additions to property, plant and equipment	(126)	(171)	(131)
Additions to deferred charges	(2)	(3)	(2)
 Net cash provided by (used in) investing activities	 (152)	 12	 (25)
 Loans, financing and export drafts			
Issuances	1,320	1,279	772
Repayments	(1,447)	(1,411)	(1,707)
Interest on own capital payable paid	(94)	(97)	(83)
Dividends paid	(438)	(513)	(346)
 Net cash used in financing activities	 (659)	 (742)	 (1,364)
 Net change in cash	 88	 (62)	 (281)
 Initial cash balance	 113	 175	 456
 Final cash balance	 201	 113	 175
 Net change in cash	 88	 (62)	 (281)

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

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COPELUS Companhia Petroquímica do Sul

**Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005**

All amounts in millions of reais, unless otherwise indicated

1 Operations

The Company, headquartered in Triunfo, Rio Grande do Sul, is a publicly held corporation and main objectives are: a) manufacture, sale, import and export of chemical and petrochemical products and fuel; b) production and distribution of goods, as well as rendering services to companies of the Southern Petrochemical Complex and management of the logistic services pertinent to its waterway and terrestrial terminals; c) participation in other companies as quotaholder or shareholder. Its main shareholders are Braskem S.A., Ipiranga Petroquímica S.A. and Petrobras Química S.A. - PETROQUISA.

The main suppliers of raw materials in the local market are PETROBRAS Petróleo Brasileiro S.A. and Refinaria Alberto Pasqualini REFAP S.A. and overseas, the companies Sonatrach SPA and Repsol YPF S.A.

The Company's main customers are located in the Petrochemical Complex in Triunfo, Rio Grande do Sul. Additionally, the Company's sales of hydrocarbon solvents and fuels are made to both national and international market, and the latter being mainly to Mercosur (Southern Common Market) and the United States.

2 Presentation of financial statements

The financial statements for statutory and regulatory purposes were approved by the Company's Board of Directors on January 30, 2007.

The consolidated financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, which are based on Brazilian corporate legislation and standards and procedures of the Brazilian Securities Commission (CVM). The financial statements presented herein do not include the holding company's stand-alone financial statements, are not intended for statutory purposes, and have been adjusted with respect to the financial statements for statutory purposes to include in Note 28 a reconciliation of net equity and net income between the amounts under accounting practices adopted in Brazil and generally accepted accounting principles in the United States of America as well as certain additional disclosure to facilitate its understanding by readers not familiar with accounting practices adopted in Brazil as described below.

Due to the change of accounting practice, the provision for programmed maintenance, beginning on January 1, 2006, was totally reversed against

retained earnings as required by Deliberation of the Brazilian Securities and Exchange Commission CVM no. 489 of October 3, 2005 and Technical Interpretation IT IBRACON no. 01/2006 and its effects are shown in Note 19 (e) (i).

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COPEsul Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

The preparation of financial statements in conformity with generally accepted accounting practices requires the use of estimates to account for certain assets and liabilities and other transactions. Therefore, the Company's financial statements include estimates referring to the selection of useful lives of fixed assets, provisions for contingent liabilities and determination of income tax liabilities. Actual results may differ from such estimates.

3

Significant accounting practices

(a)

Consolidated financial statements

These consolidated statements include the wholly-owned subsidiaries Copesul International Trading, Inc., CCI Comercial Importadora S.A. and the Fundo de Investimento Financeiro Multimercado Copesul, a mutual fund whose quotas are wholly-owned by the Company. In the consolidation process, intercompany balances, income, expenses and unrealized profits arising from intercompany transactions are eliminated, as well as the investment in the subsidiaries.

(b)

Marketable securities and swap receivables and payables

Marketable securities are recorded at cost plus accrued income up to the balance sheet date (accrual basis), adjusted to market value, when lower. Investment in quotas of mutual funds are valued at its market value at period-end with gain and losses recognized in the statement of income. As required by accounting standards specifically applicable to mutual funds, investments held by mutual funds, such as the Fundo de Investimento Financeiro Multimercado Copesul are valued at its market value at period-end with gain and losses recognized in the statement of income. Derivatives financial instruments, which include swaps and options (Note 6) are recorded at fair value with realized and unrealized gains and losses recognized in income.

(c)

Allowance for doubtful accounts

The Company has no allowance for doubtful accounts, since losses are not considered to be probable to occur in relation to accounts receivable.

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COPEL - Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

(d) Inventories

Inventories are stated at average cost of acquisition or production, adjusted to market value, when lower.

(e) Investments

Investments are recorded at acquisition cost and adjusted to market value, when applicable.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, plus revaluation, less accumulated depreciation. Depreciation is calculated on the straight-line method in accordance with the estimated useful lives of assets, supported by an independent appraisal report, as shown in Note 12.

(g) Deferred charges

Deferred charges include pre-operating expenses related to expansion, projects for new products and systems and organizational restructuring expenditures, amortized at the rate of 20% per year (p.a.), as shown in Note 13.

(h) Rights and obligations

Rights are stated at cost or realization value, including, when applicable, interest and monetary restatements and exchange rate variations. Liabilities are recognized at their known or calculable values, including corresponding charges, monetary restatements and exchange rate variations when applicable.

(i) Provision for programmed maintenance

Up to December 31, 2005, the Provision for Programmed maintenance was set up accruing in advance the estimated costs of scheduled maintenance stoppage, especially the general stoppage that occurs every six years. The most recent stoppage of Plant 1 occurred in the first half of 2001 and the next one should be in 2008. The most recent stoppage of Plant 2 took place in November 2005 and the next one is planned for November 2011. Due to the change of accounting practice, the provision for programmed maintenance, beginning on January 1, 2006, was totally reversed against retained earnings as established by Deliberation of the Brazilian Securities and Exchange Commission - CVM no. 489 of October 3, 2005 and Technical Interpretation - IT IBRACON no. 01/2006 and its effects are shown in Note 19 (e) (i).

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COPEL - Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

As from January 1, 2006 and in accordance with IT IBRACON 01/2006 no provision is recognized for programmed maintenance. IT IBRACON 01/2006 establishes that no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in the balance sheet of an entity are those that exist at the balance sheet date. As from January 1, 2006 amounts incurred in programmed maintenance are capitalized and amortized over the estimated period to the next programmed maintenance.

(j) Income tax and social contribution

Deferred income tax and social contribution on temporary differences were fully recognized at current rates, considering that its realization is probable.

Income tax and social contribution are provided based on taxable income determined in accordance with current tax legislation.

(k) Determination of results of operations

Income and expenses are determined on the accrual basis.

(l) Statement of cash flows

In accordance with IBRACON (Instituto dos Auditores Independentes do Brasil) Accounting Standards and Procedures (NPC) 20, the Company is presenting the consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004. For purposes of the statements of cash flows, cash and banks comprises all cash in hand, amounts deposited in banks and securities, quotas in mutual funds and amounts invested in other debt securities which might be sold by the Company at any moment in exchange for cash.

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COPELUS Companhia Petroquímica do Sul**Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005****All amounts in millions of reais, unless otherwise indicated****4 Cash and banks**

	2006	2005
Cash and banks checking account	7	6
Marketable securities		
Investments of Fundo de Investimento Financeiro Multimercado Copelus		
Bank Deposit Certificates	88	43
Financial Brazilian Government Treasury Bills	13	12
National Treasury Bills	1	1
Mutual Fund quotas	12	13
Receivables investment Fund FIDC		9
Debentures and other debt securities	43	15
Bank Deposit Certificates		13
Government securities		
Overnight and term deposits	37	1
	201	113

5 Trade accounts receivable Third parties

	2006	2005
Local customers	121	103
Foreign customers	74	46
	195	149

COPEsul Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

6 Swap and options receivables and payables

The Company entered into operations involving options with respect to US dollars called *Box Options* as commented below. Its purpose has been to invest cash resources at rates higher than other available investment options. The Company also entered into swap operations which were entered into by Fundo de Investimento Financeiro Multimercado Copesul, whose custodian and manager is Banco Santander Brasil S.A.

	Amounts receivable	
	2006	2005
Swap receivables	27	2
Swap with anticipatory breach clause		1
Options <i>Box operations</i>	37	50
Total <i>current assets</i>	64	53
	Amounts payable	
	2006	2005
Options payable		1
Options <i>Box operations</i>		2
Swap payable	23	2
Total <i>current liabilities</i>	23	5

Box options are combined operations that involve both the purchase and the sale of options in US dollars for the same maturity at a certain price, so that, regardless of the future US dollar rate, the Company knows in advance the net result of such operations providing what the Company views as a fixed return over its investment. The value paid for the options, called premium, correspond to the amount invested by the Company and the sum redeemed will be the premium plus a pre-fixed rate of return.

Swaps correspond to cross-currency interest rate swaps by which the Company pays a fixed interest rate and receives a variable rate based on the Interbank Deposit Certificates *CDI* rate.

COPEsul Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

7 Marketable securities

	2006	2005
Receivables Securitization Fund (FIDC) (*)		13
Term deposits	39	1
Total	39	14
Current	(38)	(13)
Long-term	1	1

(*) The Fundo Copesul de Investimentos em Direitos Creditórios FIDC (Copesul Receivables Securitization Fund) was closed with amortization of the last installment on August 21, 2006.

8 Inventories

Inventories are comprised as follows:

	2006	2005
Raw materials	234	267
Raw materials in transit	145	90
Finished products	99	46
Spare parts and other materials	73	75
Chemical products	7	8
Intermediary products	13	9
	571	495

COPELUL Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

9 Taxes and charges recoverable

	2006	Current 2005	2006	Long-term 2005
Deferred taxes				
Deferred income tax and social contribution on tax loss CITI (c)				1
Deferred income tax on temporary additions (c)	1	4	11	21
Deferred social contribution on temporary additions (c)	1	2	4	8
	2	6	15	30
Other taxes and charges recoverable				
Withholding income tax on financial investments		4		
IRPJ and CSLL recoverable	12	4		
Tax on Net Income (ILL) (a)			54	51
Additional State Income Tax (ADIR) (b)			28	32
ICMS on acquisition of property, plant and equipment (d)	8	7	9	15
PIS recoverable			1	
PASEP recoverable (h)	15		23	
PIS on acquisition of property, plant and equipment (e)	1			
COFINS recoverable	3			
COFINS on acquisition of property, plant and equipment (e)	2	1	2	1
Prepaid ICMS (f)	72	20		
CSLL withheld Law 10833		1		
IPI recoverable (g)			5	4
Other taxes and charges recoverable	113	37	122	103
	115	43	137	133

(a) This refers to the tax credit of Tax on Net Income ILL paid from 1989 to 1991 and recognized in December 2002 as this tax was considered unconstitutional according to Resolution of the Federal Senate no. 82 of November 18, 1996 and republished on November 22, 1996. The Company is seeking administratively the right of compensation of this credit with other taxes. Additionally, in the first quarter of 2006 as shown in Note 19 (e) (ii), the Company recorded a liability of R\$ 28, recorded against retained earnings, substantially referring to IRPJ and to CSLL levied on the monetary variations of this credit.

(b) As of December 31, 2006, the Company recorded a receivable of R\$ 28 (R\$ 32 in 2005) relating to Additional State Income Tax (ADIR), for which the Company was awarded a final favorable judgment, and a security to

cover court-ordered debts was issued. This security should be received at its original amount, in cash, plus legal interest, in successive and equal annual installments over a maximum ten-year period, from 2001. Up to December 31, 2006, no installment had been settled up within their time of maturity, but they may be offset in future years against State taxes, as determined by Article 2 of Constitutional Amendment 30 of September 13, 2000. As a means of precaution, the Company filed an appeal in order to avoid the first installment become past due and to use it to offset this credit with ICMS payable generated in its operations.

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COPELUS Companhia Petroquímica do Sul
Notes to the Consolidated Financial Statements
at December 31, 2006 and 2005

All amounts in millions of reais, unless otherwise indicated

- (c) The Company recorded deferred assets on the loss of its subsidiary Copesul International Trading, Inc. CITI in view of the loss assessed in December 2005. Those losses were offset with profits during 2006. The Company also recorded deferred tax assets on temporary differences in the amount of R\$ 17 in current assets and non-current assets in accordance with the expectation of realization of these credits. Deferred taxes are expected to be realized as follows:

	2006	2005
	%	%
2006		17
2007	13	80
2008		3
2009 and after	87	
	100.00	100.00

- (d) As from August 2000, the Company started recording the ICMS credits paid on acquisitions of property, plant and equipment, as determined by Complementary Law 102 dated July 11, 2000. The credits to be offset are as follows:

	2006	2005
2006		8
2007	8	7
2008	6	6
2009	2	2
2010	1	
	17	23
Current	(8)	(8)
Long-term	9	15

- (e) The Company recognizes PIS and COFINS recoverable credits on the acquisitions of property, plant and equipment, which will be realized in 24 and 48 months depending on the asset acquired as permitted by Law 10865/04 and Decree 5222/04.

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- (f) During 2006, the Company made an advance payment of amounts related to ICMS on future sales in the amount of 72 (2005 R\$ 20). The offset of the prepaid ICMS will be done in 6 equal payments, monthly and consecutives, adjusted by the Unidade Padrão Fiscal do RS - UPF (Standard Fiscal Unit of RS) of 2007, beginning in January 2007.
- (g) The Company recognizes an IPI credit in the acquisitions of raw materials used in the production process. In order to use these credits, every quarter they are offset with federal taxes in accordance with Decree 4544/2002 and paragraph 4, article 16 of the Regulatory Instruction nº 460/2004 of the Brazilian Revenue and Customs Secretariat. The long-term balance refers to the IPI Credit Bonus that was judicially gained and will be realized by the end of 2008.
- (h) During 2006 the Company recognized a PASEP judicial tax credit in the amount of R\$ 45, seeking the right to carry out the payments in accordance with Complementary Law 8/70, using as a calculation basis the revenue of the sixth month previous to the occurrence of the taxable event, in light of Resolution no. 49/95 of the Federal Senate in a final decision. This credit was recognized in the income statement for the year in Other net operating income in the amount of R\$ 14 and financial income of R\$ 30.

The Company expects to settle the remaining balance at December 31, 2006 as follows:

PASEP credit with final favorable judgment and recognized in 2006	45
Credit amount to be offset in 2006 with PIS	(8)
PASEP balance at December 31, 2006	37
2007	15
2008	14
2009	8
	37

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10 Prepaid expenses

Prepaid expenses comprise:

	Realization period	2006	2005
Insurance	Up to Nov/2007 (2005 - up to Nov/2006)	10	10
	Up to Nov/2018 (2005 - up to Nov/2011)	8	10
Chemical products (catalysts)			
Total, net		18	20
Current		(14)	(14)
Long-term		4	6

The long-term portion refers to chemical products (catalysts) which are used as agents that promote a chemical reaction in the production of basic petrochemicals. Their average useful life and amortization period is 6 years.

11 Judicial deposits

	2006	2005
Tax matters:		
Income tax	2	2
CIDE on technical assistance service	4	3
Income tax on technical assistance service	1	1
Labor, Civil and Administrative matters	7	6
	2	2
	9	8

The Company has judicial deposits and has recorded a provision for contingencies relating to income tax, in connection with lawsuits.

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12 Property, plant and equipment

				2006	2005
	Annual depreciation rates - % (*)	Revalued and restated cost (*)	Accumulated depreciation	Net	Net
Equipment and installations					
Operations	10	2,001	(1,466)	535	624
Utilities	10	910	(831)	79	116
Storage and transfers	10	434	(335)	99	119
Maintenance CVM Del. No. 489/05 (**)	21	92	(35)	57	
Other (***)	10 to 20	89	(69)	20	23
Buildings and construction	4	56	(23)	33	33
Improvements	4	22	(11)	11	11
Land		37		37	37
Construction in progress		141		141	143
Other		18		18	
		3,800	(2,770)	1,030	1,106

(*) weighted average rate that reflects the depreciation expense (Note 2 (f)).

(**) supported by appraisal reports issued by specialized companies.

(***) information technology equipment, furniture and fixtures, among others are included in this account.
 Certain items of fixed assets were given as guarantee for financing operations (Note 15 (d)).

(a) Revaluations

Revaluations of property, plant and equipment made in 1983 and 1989, based on appraisal reports issued by specialized companies, produced the following effects on the balance sheet:

			2006	2005
	Revaluation	Accumulated realization	Net	Net
Equipment and installations	1,338	(1,310)	28	62
Buildings and construction	17	(6)	11	11
Improvements	7	(2)	5	5
Land	32	(1)	31	31
Total	1,394	(1,319)	75	109

Revaluation reserve

75

109

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Realizations of the revaluation reserve occur through depreciation and disposals of the revalued assets each year. The amounts realized are transferred directly from revaluation reserve to retained earnings, considering the related effects of income tax and social contribution at the current rates.

The Company did not set up a provision for deferred income tax and deferred social Contribution on the balance of the revaluation reserve, since CVM Deliberation 183/95 determines that such provision is only required on revaluations made as from July 1, 1995. The revaluation reserve is taxable when realized through depreciation and disposals of items. Considering current tax legislation, the revaluation reserve is subject to future taxation estimated as follows:

	2006	2005
Income tax		
Balance of revaluation reserve	75	108
Revaluation reserve on land	(31)	(31)
Income tax calculation basis	44	77
Income tax (rate - 25%)	(11)	(19)
Social contribution		
Income tax calculation basis	44	77
Difference regarding IPC/BTNF on revaluation reserve balance	(22)	(40)
Social contribution calculation basis	22	37
Social contribution (rate - 9%)	(2)	(3)
Income tax and social contribution	(13)	(22)

During this year, the portion of R\$ 33 (2005 R\$ 35) was transferred to retained earnings as a result of realization of the revaluation reserve, as shown in the changes in stockholders' equity. The tax effect on the realization was R\$ 10 (2005 R\$ 10).

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(b) Acquisitions of property, plant and equipment

COPEsul invested in 2006 the amount of R\$ 126 (R\$ 171 in 2005). The main investments are R\$ 38 replacement equipment to be used during scheduled programmed maintenance; R\$ 19 - operational reliability, technological updating, and profitability increase projects to be implemented during the PGM that is forecasted to take place in 2008; R\$ 18 industrial automation programs; R\$ 10 replacement of coils and revamping (technological updating) the furnaces; R\$ 5 building of Butadiene Unit, and R\$ 7 conversion of the MTBE unit to ETBE. The remaining balance of R\$ 29 refers to various investment projects.

13 Deferred charges

Deferred charges comprises:

				2006	2005
	Annual amortization rates - %	Restated cost	Accumulated amortization	Net	Net
Development programs and other	20	18	(8)	10	11
		18	(8)	10	11

14 Suppliers Third parties

	2006	2005
Local	30	27
Foreign	260	127
	290	154

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15 Loans and financing

(a) Liabilities for loans and financing are as follows:

	Index	Annual charges (%)*	2006	2005
Foreign currency				
	Currency basket			
Financing (investments) (US\$2 million)	and US\$	8.70	5	
Financing and loans (US\$3 million; 2004-US\$18 million)	Currency Basket	9.76	6	44
			11	44
Local currency				
Loans and financing	TJLP	11.67	40	49
Hot money, Compror, NCE, and BACEN Resolution no. 2770	CDI	13.42	23	172
Financing (investments)	TJLP	10.00	83	50
Copesul Receivables Securitization Fund	CDI			57
			146	328
			157	372
Current liabilities			(50)	(288)
Long-term liabilities			107	84

* weighted average rate that reflects charges on loans.

NCE Export Credit Note

CDI Interbank Deposit Certificate

TJLP Long-Term Interest Rate

In April 2004, Copesul International Trading, Inc. (CITI) established the Euro Medium-term Note Program guaranteed by COPEsul Companhia Petroquímica do Sul for the issuance of US\$ 125 million Notes (Series I Notes) in the foreign market (United States of America and Canada). In the last quarter of 2004, the CITI issued 100 million Notes, corresponding to US\$ 100,000 thousand, which are held in treasury, without cost to the Company. In December 2006, all the contractual commitments were closed.

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(b) The changes in loans and financing were as follows:

	Current	Long-term	Total
At December 31, 2004	213	143	356
Additions	1,012	77	1,089
Interest	39	6	45
Transfer to short-term	64	(64)	
Amortization	(1,037)	(79)	(1,116)
Monetary and exchange variation	(3)	1	(2)
At December 31, 2005	288	84	372
Additions	604	47	651
Interest	28		28
Transfer to short-term	25	(25)	
Amortization	(893)		(893)
Monetary and exchange variation	(2)	1	(1)
At December 31, 2006	50	107	157

During 2006, the subsidiary CITI settled some loans for working capital and the additions and amortizations the Company made refer mostly to Export Credit Note operations.

During the third quarter of 2006, the Company entered into a credit line agreement with BNDES - Banco Nacional de Desenvolvimento Social in the amount of R\$ 338 for future investment in order to improve its manufacturing facilities. As of December 31, 2006 the Company had used R\$ 43 of this credit line.

(c) Long-term financing falls due as follows:

Year	2006	2005
2007		22
2008	33	23
2009	30	20
2010	22	13
2011	14	6
2012	8	
	107	84

(d) Guarantees

The foreign currency financing are guaranteed in part by the mortgage of plant 2 and by letter of guarantee.

Local currency financing via FINEM and FINAME programs is guaranteed by Plant 2 and by the financed machinery and equipment, respectively.

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The financing contracted with the Banco Nacional de Desenvolvimento Econômico e Social - BNDES, on September 9, 2005, amounting to R\$ 50 million, for the installation of a pyrolysis furnace, has as a guarantee a guarantee letter issued by the Banco Regional de Desenvolvimento do Extremo Sul - BRDE. For the rest of the investment financing, the Company placed plant 2 as guarantee.

The NCE operations in the amount of R\$ 23 (2005 - R\$ 123) are guaranteed by COPEsul itself in the same NCE contracted document.

16 Export drafts

The changes in advances contracted with financial institutions relating to exports to be invoiced are as follows:

	Asset Exports already invoiced and provided as source of repayment of export drafts	Liability		
		Short-term	Long-term	Total
At December 31, 2004	170	21	103	294
Additions		190		190
Interest		17		17
New export receivables	209	(209)		
Amortization	(339)	(19)		(358)
Monetary and exchange variation	(22)	1	(12)	(33)
At December 31, 2005	18	1	91	110
Additions		531	138	669
Interest		13		13
Transfer to short-term		35	(35)	
New export receivables	526	(526)		
Amortization	(545)	(12)	(49)	(606)
Monetary and exchange variation	2	(3)	(6)	(7)
At December 31, 2006	1	39	139	179

The amortization recorded in long-term liabilities in 2006 refers to the anticipated settlement of a prepayment to Santander Bank in the amount of US\$ 22 million.

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Export drafts to be invoiced bear exchange variation plus average interest of 7.11% p.a. (11.75% in 2005), which are recorded in the statement of income as financial expenses.

Long-term export drafts will fall due as shown below.

	2006	2005
2007		91
2009	75	
2010	64	
	139	91

17 Taxes and charges payable

	2006	2005
ICMS payable	22	26
ICMS tax replacement	3	5
CIDE on fuels payable	16	6
IRRF on interest on capital payable	3	3
Other retentions payable	1	2
	45	42

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18 Income tax and social contribution

Income tax and social contribution are calculated based on official rates. Their composition as of December 31, 2006 and 2005 is as follows:

(a) Composition of deferred income tax and social contribution

	2006		2005	
	Income	Social	Income	Social
Calculation basis for deferred income tax and social contribution	Tax	Contribution	Tax	Contribution
Provision for administrative, civil and labor contingencies	29	29	7	8
Provision for fiscal contingencies IR and CIDE on services abroad	5	5	4	4
Provision for contingencies pension plan	9	9	4	4
Exchange variation deferred	(26)	(26)		
Provision for programmed maintenance			68	68
Other provisions	8	8	19	19
Copesul International Trading tax loss			2	2
Accelerated depreciation Law 11051/05		(15)		
Accelerated depreciation incentive	(4)		(7)	
Deferred taxes calculation basis	21	10	97	105
Deferred income tax (25%)	5		24	
Deferred social contribution (9%)		1		9
Deferred total taxes	5	1	24	9
Assets				
Short-term	2	1	4	1
Long-term	11	4	22	8
	13	5	26	9
Liabilities				
Short-term			(1)	
Long-term	(8)	(4)	(1)	
	(8)	(4)	(2)	

	5	1	24	9
Changes in deferred taxes				
Recognized in income	(2)	(2)	(7)	(3)
Recognized in stockholders' equity	(17)	(6)		
	(19)	(8)	(7)	(3)

Deferred income tax and social contribution assets and liabilities arose from temporary differences and are recognized in accounting terms taking into consideration the probable realization of these taxes based on forecasts of future results prepared with basis on internal assumptions and on future economic scenarios that can, however, may change.

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(b) Estimated realization period

The values of the assets, net of the deferred tax liabilities, have the following expectations of realization:

	2006	Net credits 2005
2006		6
2007	1	23
2010	(1)	(1)
2011	(4)	
2015 and 2016	10	5
	6	33

Since the taxable basis of the income tax and social contribution on the net income arise from not only the profit that can be generated, but also the existence of non-taxable income, non-deductible expenses, fiscal incentives, and other variables, there is not an immediate correlation between the Company's net income and the result of income tax and social contribution. Therefore, the expectation of using the tax credits should not be taken as a single indicator of the Company's future results.

(c) Reconciliation of income tax and social contribution

	2006	2005	2004
Income before income tax and social contribution	822	722	722
Social contribution on net income (CSLL)			
Social contribution (9%)	(74)	(65)	(65)
Permanent additions			
Realization of revaluation reserve difference in IPC/BTNF	(1)	(2)	(2)
Foreign profits	(2)		(7)
Amortization and depreciation Law 8200/91	(1)	(1)	(1)
Other	(1)		1
Permanent exclusions			
Positive equity in results	2		7
PDI fiscal incentive	1		
Other	2	5	
Social contribution expense (carryforward)	(74)	(63)	(67)

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	2006	2005	2004
Social contribution expense (brought forward)	(74)	(63)	(67)
Income tax (IR)			
Income tax (25%)	(205)	(181)	(181)
Permanent additions			
Negative result of equity method		(1)	
Foreign profits	(4)		(20)
Other	(4)	(3)	
Permanent exclusions			
Equity in results	4		20
Fiscal Incentives	7		
Other	6	17	6
Income tax expense	(196)	(168)	(175)
Total income tax and social contribution in the income statement	(270)	(231)	(242)

The Company elected to pay income tax and social contribution based on annual taxable income, with advance payments made based on quarterly interim trial balances.

(d) Fiscal incentives

The Company exercised its rights to fiscal incentives of PDTI – Program for Technological and Industrial Development based on Law No. 9532/97 of Decree No. 949/93 and on Ordinance No. 130/02 of the Ministry of Science and Technology (MCT) up to the year 2005. Beginning in 2006, the Company migrated to the incentives of Law 11196/05 of Decree No. 5798/06 and of MCT Ordinance No. 782/06 with incentive of R\$ 3 in the present year. Fiscal incentives in audiovisual, child and adolescent fund, and operations of a cultural and artistic nature were also used during 2006 as well as the PAT – Program for the Worker’s Nutrition, reaching a total of R\$ 7. These incentives were recorded directly as reductions of the IRPJ and CSLL accounts in the statement of income.

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19 Stockholders equity

(a) Capital

The proposal of the Board of Directors for the 1-to-100 reverse split of the Company's shares was approved at the Extraordinary General Meeting of stockholders No. 107 held on January 20, 2005. This decreased the number of shares of the Company's capital from 15,021,716,784 to 150,217,167 common shares, with no par value.

The Company's stockholder composition at December 31, 2006 and 2005 is shown below.

Stockholders	Number of shares	(%)
Ipiranga Group	44,255,077	29.46
Braskem Group / Odebrecht	44,255,077	29.46
Petrobras Química S.A. PETROQUISA	23,482,008	15.63
Other	38,225,005	25.45
Total	150,217,167	100.00

On March 6, 2006, as approved at the Ordinary/Extraordinary General Meeting, the Company carried out a capital increase in the amount of R\$ 100 by the capitalization of fiscal incentive reserves of FUNDOPEM (2005 R\$ 50 from capitalization of legal reserve), without changing the number of original shares.

The Company is authorized to increase capital up to the limit of R\$ 1,100, without changing the by-laws, assuring preference to existing stockholders on subscription.

(b) Capital reserves

	2006	2005
FUNDOPEM	284	334
Fiscal incentives Program of Technological and Industrial Development PDTI	12	7
	296	341

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In September 1998, the Company started to set up a capital reserve based on the financial incentive of the Company Operation Fund (FUNDOPEM) - RS, according to Law No. 6427 of October 18, 1972 and amendments. The incentive was granted to the Company through Decree No. 38502, of May 11, 1998, and the benefit obtained is 50% of ICMS due for a maximum period of 8 years, as from September 1998 to August 2006. The amount accumulated since the beginning of the benefit, recorded as a capital reserve in stockholders' equity, is R\$ 610 (2005 - R\$ 561), of which R\$ 326 was used to increase capital, as approved at the General Meetings in 2006, 2004, 2003, 2001, and 2000.

Beginning in 2003, the Company obtained the benefit of fiscal incentives of PDTI - Program for Technological and Industrial Development based on Law No. 9532/97 of Decree No. 949/93 and on Ordinance No. 130/02 of the Ministry of Science and Technology. There is a 60-month period in which these benefits must be used, beginning from March 2002 and therefore terminating in February 2007. During 2006, the Company recorded the benefit of this fiscal incentive in the amount of R\$ 6 (2005 - R\$ 4) directly on the stockholders' equity, as mentioned in Note 18 (d).

(c) Revaluation reserve

The realization of the revaluation reserve, based on depreciation, write-offs or disposals of the corresponding revalued assets, is transferred to retained earnings, also considering the tax effects of the provisions constituted.

The tax charges levied on the revaluation reserve are recognized as this reserve is realized since they are previous to the publication of the CVM Deliberation No. 183/95. The tax charges levied on these reserves total R\$ 13 (2005 - R\$ 22), as shown in Note 12.

(d) Distribution of net income

According to the by-laws, net income for the year, adjusted under the terms of Law 6404/76, is to be appropriated as follows: (i) 5% to the legal reserve, not to exceed 20% of capital, and (ii) mandatory non-cumulative dividends, equivalent to 6% of capital, up to the limit of 25% of adjusted net income. Dividends will only be distributed when there is available income. The appropriation of the remaining net income will be determined by the General Meeting.

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(i) The mandatory dividend, calculated according to corporate legislation and the by-laws, is as follows:

	2006	2005
Capital at the end of the year	850	750
Dividend based on 6% of capital	51	45
Net income for the year	615	566
Transfer to legal reserve (5% of net income)	(31)	(28)
Net income basis for calculation of dividend	584	538
Mandatory dividends (25% of adjusted net income)	146	135

(ii) Dividends proposed by management, subject to approval by the General Meeting, are as follows:

	2006	2005
Retained earnings		
Prior year adjustment	38	
Realization of revaluation reserve	34	35
Income tax and social contribution on realized revaluation reserve	(8)	(11)
Net income for the year	615	567
Profit retained		
Legal reserve	(32)	(28)
Profit distribution		
Interest on capital paid and credited	(90)	(99)
Prepaid dividends	(372)	(396)
Proposed dividends	185	68

(iii) For the year ended December 31, 2006, the Company paid the amount of R\$ 90 (2005 R\$ 99) as interest on capital calculated based on the variation of the Long-Term Interest Rate - TJLP and recorded according to Law No. 9249/95, including the amount of the mandatory minimum dividend, of which R\$ 70 (2005 R\$ 78) had been paid by the closing of the year.

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The Extraordinary General Meeting No. 115 held on December 1, 2006 approved the complementary credit of interest on capital for those stockholders of record on December 21, 2006 in the amount of R\$ 19 at the ratio of R\$ 0.129826274 per share, with retention of 15% withholding income tax of R\$ 3. In 2005 these amounts were R\$ 25 at the ratio of R\$ 0.165087656 approved at the Extraordinary General Meeting No. 111 on November 28, 2005 and R\$ 3 of withholding income tax.

The income tax and social contribution benefit arising from the deductibility of this interest, recorded in the results for the year ended December 31, 2006, is R\$ 30 (2005 R\$ 34). In compliance with tax legislation, the amount of interest on capital was recorded as financial expense. However, for the purposes of these financial statements, the interest on capital is presented as a distribution of net income in the year as provided for in CVM Deliberation No. 207/96.

- (iv) In addition, during the year ended December 31, 2006, the Company prepaid dividends in the amount of R\$ 372 (2005 R\$ 396), approved by the Extraordinary General Meetings held on May 22, 2006, August 23, 2006, and December 1, 2006. Payments were made on June 9, September 15, and December 15, 2006, respectively.

(e) Prior year adjustments

The adjustment can be summarized as shown below.

	2006
Provision for programmed maintenance (i)	66
Taxes (ii)	(28)
Prior year adjustment Total	38

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(i) Up to December 31, 2005, the Provision for Programmed maintenance was set up considering the estimated costs of programmed maintenance, especially the general stoppage that occurs every six years. The stoppage of Plant 1 occurred in the first half of 2001 and the next one should be in 2008. The stoppage of Plant 2 took place in November 2005 and the next one is planned for November 2011. In accordance with the provisions contained in CVM Deliberation nº. 489, dated October 3, 2005, that approved and made mandatory for listed companies the Accounting Pronouncement and Standard NPC No. 22 (Provisions, Liabilities and Contingent Assets and Liabilities), issued by the Brazilian Institute of Independent Auditors IBRACON which establishes that ...no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in the balance sheet of an entity are those that exist at the balance sheet date. Thus, the effects of the adoption of the procedures described above were recognized as a prior year adjustment due to a change in accounting practice, on January 1, 2006, charged directly to retained earnings. The effects of adopting this new accounting practice, net of the tax effects, are as follows:

	2006
Reversal of the provision set up on December 31, 2005, net of the tax effects	45
Capitalization of the expenses incurred with previous stoppages in property, plant and equipment, net of the tax effects	41
Depreciation accumulated up to December 31, 2005 on the expenses incurred with previous stoppages in property, plant and equipment that were capitalized	(20)

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(ii) On November 2001, COPEsul filed a Restitution Request of the Tax on Net Income ILL with the Brazilian Revenue and Customs Secretariat seeking a compensation for the ILL paid from 1990 to 1992 as this tax has been considered unconstitutional according to the Federal Senate Resolution No. 82 of November 22, 1996. See Note 9.(a).

In December 2002, the Company recognized this credit because the legal advisors considered this a legal right. When originally recorded the credit the Company has not recognized the corresponding IRPJ and CSLL payable on the monetary correction of the credit. During 2006 the Company recognized the amount of R\$ 28 as a tax payable. The monetary variations recorded in 2002 represents taxable income and during 2006 the Company recorded the corresponding tax payable against retained earnings as a correction of an error..

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20 Financial result

The net financial result is as follows:

	2006	Consolidated 2005
Financial income		
Earnings on financial investments	23	16
Revenue with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	315	113
Monetary variations on assets	4	4
Exchange variations on assets	(11)	(22)
Interest on loans granted and other assets	10	25
PASEP adjustment	30	
Other financial income	1	1
	372	137
Financial expenses		
Interest and charges on loans and financing	(40)	(62)
Expense with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	(284)	(85)
Monetary variations on liabilities	(1)	(2)
Exchange variations on liabilities	9	33
Interest on capital	(90)	(99)
Other financial expenses	(57)	(64)
	(463)	(279)
Net financial result	(91)	(142)
21 Other operating income (expenses), net		
	2006	2005
Operating income		
Recovery of PIS, COFINS and ICMS	8	11
Recovery of PASEP (Note 8 (h))	14	
Recovery of IPI (a)	16	
Adjustment to the accrual for sale contract		16
Other	8	3
	46	30
		304

Operating expenses		
Taxes, charges and contributions	(2)	(1)
Provisions for administrative, civil and labor contingencies	(22)	(3)
Actuarial liability PETROS	(2)	(2)
	(26)	(6)
Other operating income, net	20	24

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- (a) During 2005 the Company recognized as operating income a credit in the amount of R\$ 16. The credit derives from the recalculation of presumed IPI credit on petrochemical naphtha acquisitions made from April 2002 to January 2004 according to provisions in Law No. 9.363/96. Such credit was used to offset federal taxes (IRPJ and CSLL) in that year. The corresponding taxes on the recognized credit were paid in order to avoid future challenges by the tax authorities.

22 Financial instruments

The Company evaluated its assets and liabilities in relation to market and/or realizable values through available information and valuation methodologies established by management. However, both the interpretation of market data and the selection of valuation methods require considerable judgment and reasonable estimates to produce the appropriate realizable value. Consequently, the estimates presented do not necessarily indicate the amounts that can be realized in the current market. The use of different market assumptions and/or methodologies for estimates can have a significant effect on estimated realizable values.

Valuation of the financial instruments

The Company's main asset and liability financial instruments at December 31, 2006, as well as the criteria for their valuation are described below.

(a) Cash and banks, financial investments, accounts receivable, other current assets and accounts payable

The amounts recorded are similar to their realizable values.

(b) Investments

The investments are mainly in a privately held subsidiary, recorded on the equity method of accounting, in which the Company has a strategic interest. Considerations of the market value of shares held are not applicable.

(c) Financing

These are subject to interest at normal market rates, as mentioned in Note 15 (a). The estimated market value was calculated based on the present value of the future disbursement of cash, using interest rates that are available to the Company for the issuance of debts with similar maturities and terms.

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(d) Interest rate risk

This risk derives from the possibility of the Company incurring losses due to fluctuations in the interest rates that would increase the financial expenses related to loans and financings from the market. The Company made contracts of derivatives to hedge against the risk in some operations and it is also continually monitoring the market interest rate with the objective of evaluating the need of contracting new operations in order to protect itself from the risk of the volatility of these rates.

(e) Exchange rate risk

This risk derives from the possibility of the Company incurring losses due to fluctuations in the exchange rates that would reduce the nominal values billed or increase the amounts owed to the market.

Since part of the Company's revenues (around 10% unaudited) is in US dollars, the main strategy is that this serves as a natural hedge for its liability operations recorded in foreign currency.

At December 31, 2006, the Company had assets and liabilities denominated in US dollars in the amount of US\$ 16 thousand and US\$ 88 thousand, respectively, and it had no instrument to protect this exposure on that date.

(f) Derivatives

The net foreign exchange exposure is as follows:

	2006	2005
Financing and export drafts contracted originally in US\$	(189)	(136)
Assets contracted originally in US\$	34	2
Derivative instruments contracted originally in US\$	11	
 Net exposure	 (144)	 (134)

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The book value and market value of the main financial instruments are as follows:

	Book	2006	Book	2005
	value	Market	value	Market
		value		value
Cash and banks	200	200	113	113
Swap receivables	64	64	53	53
Marketable securities	39	39	14	14
Locked exchange contract advance receivable	2	2		
Loans to third parties	2	2	6	6
Financial institutions	(156)	(156)	(372)	(366)
Export drafts billed and to be invoiced	(180)	(178)	(92)	(92)
Swaps and options payable	(23)	(23)	(5)	(5)
	(52)	(50)	(283)	(277)

Cross-currency swap operations receiving US dollars and paying a fixed rate in reais were entered into in order to minimize the effect of the variations of the exchange rates on liabilities. The Company also opted to use time deposits indexed to the US dollar.

At December 31, 2006, the Company had forward purchase of foreign exchange, not yet settled, related to operations for purchasing raw material in the amount of US\$ 109 thousand (2005 US\$ 41 thousand) equivalent to R\$ 232 thousand (2005 R\$ 95 thousand).

As shown above, the book values of the financial instruments are recorded at values that approximate its estimated market value.

23 Insurance

The Company's policy is to contract insurance at levels adequate for the risks involved with its operations. Considering the characteristics of its risks, management contracts insurance under the concept of maximum possible loss in a single event, and maintains coverage for operational risks, civil responsibilities and loss of profits. Also, the Company contracts transportation, group life, sundry risks and vehicle insurance.

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24 Provision for contingencies

On the dates of the financial statements, the Company presented the following liabilities and the corresponding judicial deposits related to the contingencies:

	Judicial deposits		Provisions for contingencies	
	2006	2005	2006	2005
Tax contingencies (a)	7	6	5	4
Labor and social security contingencies (b)	1	1	27	4
Civil complaints (c)			2	3
	8	7	34	11

The Company is a party to labor, civil, and tax claims as well as others in progress and is discussing these issues from both an administrative and judicial point of view and these are backed by judicial deposits when applicable. The provisions for the possible losses from these processes are estimated and updated by the administration based on the opinion of its legal external consultants.

(a) Tax contingencies

With respect to the Income Tax and Economic Domain Intervention Contribution (CIDE) on payment of technical assistance services, the Company has been judicially questioning the legality of charging these taxes since August 2002 and has made judicial deposits. The purpose of the process is to avoid double taxation with respect to the countries with which Brazil has tax treaties and provisions have been made in the same amounts as judicial deposits as shown in Note 10.

(b) Labor and social security contingencies

The Company has ongoing labor claims, mainly related to salary equivalence claims and overtime. A provision for these contingencies was recorded considering the estimates of the legal advisors for probable loss. Judicial deposits were made when required. The Company is a party to in labor, civil, and tax claims as well as others in progress and is discussing these issues from both an administrative and judicial point of view and these are backed by judicial deposits when applicable.

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Furthermore, the Company has made provision for labor losses related to suits filed by the Petrochemical Industry Labor Union of Triunfo concerning the rights claimed by the Company's shift workers to receive overtime, claiming delays during transfer and change of shifts. A partial grant was given in trial court in deference to the workers claims to overtime. However in appellate court on December 11, 2006 an ordinary appeal was filed by the Company and the expectation is the total or at least partial reversal of the unfavorable decision in the 4th Regional Labor Court of Appeals.

(c) Civil contingencies

The main lawsuits are related to complaints made by contracted workers related to losses that supposedly occurred as a result of various economic plans.

Possible losses

The Company has suits of both a tax and civil nature involving risks of loss classified by the management as possible based on the evaluation of its legal advisors and for which no provisions have been set up. They are listed below.

(a) Tax losses

The Brazilian Revenue and Customs Secretariat (SRF) penalized the Company in 1999, establishing a tax assessment referring to IRPJ and CSLL for 1994, related to the monetary restatement of the balance sheet and equity method adjustment, arising from accounting recognition of dividends distributed by its subsidiary overseas. The adjusted amount is R\$ 21. In 2002, the Company filed an Appeal with the Taxpayer Board, which was judged in 2005, with a result totally favorable to the Company. The court decision of the Taxpayers Council was published in the 4th quarter of 2006 and an appeal was made by the Attorney of the Internal Revenue Service to the High Court of Appeals for Fiscal Matters, to which the Company has already offered a brief of respondent. This lawsuit now awaits the decision of this Court.

(b) Civil losses

A civil lawsuit is still outstanding against the Company brought by the minority stockholder Petroquímica Triunfo S.A., questioning aspects involved in the privatization process related to the conversion of preferred shares into common shares before the privatization auction and the preference for subscription of Company shares in relation to the bidders in the auction. Management and the legal advisors do not expect losses to arise from this lawsuit.

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Remote losses

(a) Tax losses

- (i) Federal tax lawsuits related to the effects of Law No. 8200/91 on the social contribution on net income and on corporate income tax, for which provisions were not recorded, considering the opinion of management and the legal advisors that there are good chances of a favorable outcome.
- (ii) In September 2003, the Company was assessed by the Federal Tax Auditors for alleged failure to pay PIS and COFINS on certain transactions. The Company appealed the tax assessment because it understood that it arose from an incorrect interpretation of the applicable legal rules by the tax authorities. Based on the opinion of its legal advisors and external tax consultants, the Company decided not to record a provision for this tax assessment, considering the possibility of a favorable outcome to the appeal. In view of the contents of an infraction notice, in a recent decision the Brazilian Federal Supreme Court - STF denied the expansion of the calculation basis of PIS and COFINS, established by Law 9718/98, prevailing the revenue concept provided in Complementary Law No. 70/91. This fact is in agreement with the opinion of the Company and its legal counselors of not establishing an accrual. Considering the judgment of STF, the Company considers as remote the chances of an unfavorable result.

25 Actuarial liability - PETROS

- (a) The Company and its employees contribute to PETROS - Fundação PETROBRAS de Seguridade Social, in connection with retirement and defined benefit pension plans. In 2006, the rate of salary contribution was 12.93% on the total of income of employees linked to the plan. Company contributions during 2006 totaled R\$ 6 (2005 R\$ 6).

According to the PETROS by-laws and pertinent legislation, in case of a significant shortfall of technical reserves, the sponsors and participants will contribute additional financial resources, or there should be an adjustment of the benefits of the plan to the available funds. Up to the end of the year, no such contribution was needed.

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(b) In compliance with CVM Deliberation 371/2000, the Company calculated the actuarial liability at December 31 for post-employment benefits granted to employees, using the projected unit credit method based on the information as of November 30, presenting the following result:

	2006	2005
Fair value of plan assets	388	337
Present value of actuarial obligations	406	357
Actuarial liability	(18)	(20)
Total net actuarial liability to be provided	(18)	(20)
Actuarial liability already provided	9	7
Net actuarial liability unprovided	(9)	(13)

According to CVM Deliberation 371 of December 13, 2000, item 84, in the year 2002 the Company began to recognize monthly 1/60 of its actuarial liability, amounting to R\$ 9, based on the actuarial study prepared by an independent actuary at December 31, 2001. Accordingly, the amount of R\$ 2 was recorded in other operating expenses in 2006 (2005 R\$ 2).

The actuarial valuation at November 30, 2006 concluded that the Company needs to increase the future contributions in order to complement the benefits, but since it is within the limits defined by CVM Deliberation 371 and in accordance with accounting practices adopted in Brazil, the Company opted not to adjust the supplementary actuarial liability.

(c) The gains (losses) identified previously are related to the profitability of the plan assets differences between the actuarial assumptions and what actually happened, thus being considered actuarial gains (losses). The Company adopted the policy of recognizing these gains (losses) as revenue (expenses) only when their accumulated amounts were larger than the following limits in each year: (i) 10% of the present value of the total actuarial obligations of the benefit defined and (ii) 10% of the fair value of the plan assets. The portion to be recognized is amortized annually, dividing this amount by the average remaining time of estimated work for the employees participating in the plan.

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The main actuarial assumptions at the balance sheet date were as follows:

	2006	2005
Real discount rate	6%	6%
Expected return on the assets of the plan	6%	6%
Real salary growth	2% up to 47 years of age and none after 48 years old	2% up to 47 years of age and none after 48 years old

Biometrics bases

Mortality for pension and charges (not disabled)	AT-2000	AT-2000
	Experience of	Experience of
Mortality for pension and charges (disabled)	C.A.P. (*)	C.A.P. (*)
Disability	Álvaro Vindas (**)	Álvaro Vindas (**)
	Experience of	Experience of
Other charges	STEa (***)	STEa (***)

(*) C.A.P. Retiree and Pensioner Fund used as the basis to develop the mortality table in the actuarial calculations.

(**) Álvaro Vindas Disability Table used in the actuarial calculations

(***) STEa Serviços Técnicos de Estatística e Atuária Ltda.

(d) In May 2003, the Administrative Council approved the Complementary Pension Plan called COPEsulPREV, a closed defined contribution plan. This plan aims to provide benefits to employees not included in the old PETROS plan, which is now closed to new members. Plan management will be carried out through Fundação PETROBRAS de Seguridade Social PETROS, in an independent manner, not linked to any other pension plan managed by that entity, in compliance with Complementary Law 109/2001. The contributions the Company made during 2006 amounted to R\$ 1 (2005 R\$ 1).

26 Related parties

According to CVM Deliberation 26/86, related parties are defined as those entities, whether individuals or companies, with which the Company has the possibility of contracting, in the broad sense of this word, in conditions which might not be following terms of interchangeability and independence which are found in transactions with third parties not related to the Company, not subject to its managerial control or not subject to any other influence.

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	Assets		Liabilities		Financial expenses			Financial income			Sales		Purchases			
	2006	2005	2006	2005	2006	2005	2004	2006	2005	2004	2006	2005	2004			
Braskem S.A. Ipiranga Petroquímica S.A.	39	20	2	1				1	2	8	2,753	2,573	2,349	17	66	100
Refinaria Alberto Pasqualini									2	7	1,886	1,711	1,713	19	36	96
REFAP S.A.	4	11	20								77	51		900	902	388
Petróleo Brasileiro S.A. PETROBRAS					37									1,655	1,104	1,781
Petrobras Distribuidora S.A.				1							2	4	14	10	8	19
CPN Incorporated Limited.												33	36	42		
Natal Trading Ltd.										6						
Lantana Trading Co. Ltd.								8	52							
	58	49	63	2				1	12	73	4,718	4,372	4,112	2,643	2,116	2,384

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27 Commitments

Purchase commitments

The Company purchases naphtha from Petrobras and Repsol-YPF as well as condensate (a raw material) from Sonatrach, based under contracts with a total minimum annual purchase volume of metric tons equivalent to R\$ 4,062 (2005 R\$ 3,941) valued at the prices for purchase of such products ruling at the respective year end.

Copesul purchases coal for its utility unit based under a contract that expires in 2008. The minimum annual purchase commitment is 120,000 metric tons, which amounts to R\$ 12 (2005 R\$ 13) valued at the prices for purchase of such products ruling at the respective year end.

The Company purchases natural gas under two long-term contracts that expire in 2023. One contract is for consumption of natural gas by its cogeneration turbine. The minimum annual purchase commitment is 65,664 metric tons, which amounts to R\$ 25 (2005 R\$ 25) valued at the prices for purchase of such products ruling at the respective year end. The other contract is for consumption in its utility unit. The minimum annual purchase commitment is 5,472 metric tons (2005 7,600 metric tons), which amounts to R\$ 5 (2005 R\$ 6) valued at the prices for purchase of such products ruling at the respective year end.

All these contracts described above have take-or-pay clauses for its quantities.

28 Summary of principal differences between accounting practices adopted in Brazil (Brazilian GAAP) and US GAAP

28.1 Narrative description of differences between Brazilian GAAP and US GAAP

A summary of the Company's principal accounting policies that affect the determination of net income and shareholder's equity in Brazilian GAAP as compared to US GAAP is set forth in this section. Section 29.2 includes a quantitative reconciliation of net income and shareholders' equity between Brazilian GAAP and US GAAP.

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(a) Remeasurement of financial statements for the effects of inflation

Under Brazilian GAAP until 1995, the CVM required publicly traded companies subject to its reporting requirements to prepare and publish: (a) statutory financial information prepared according to the accounting principles prescribed by Brazilian Corporate Law and (b) as supplemental information, financial statements expressed in currency of constant purchasing power (the constant currency method). The requirement to present financial statements following the constant currency method was eliminated when indexation of financial statements for Brazilian statutory and tax purposes was discontinued on January 1, 1996. As such, these financial statements prepared following Brazilian GAAP have been remeasured to reflect the effect of inflation through December 31, 1995. The index selected for this remeasurement was the Fiscal Reference Unit (UFIR), the index established by the tax authorities for preparation of financial statements under Corporate Law as well as the index selected by the CVM.

Under US GAAP, Brazil was considered to be a hyperinflationary economy until June 30, 1997, and, accordingly, all balances and transactions prior to that date should be remeasured at June 30, 1997 price-levels. As from January 1, 1996, with the elimination of the requirement to present constant currency financial statements, no index has been established for this purpose under Brazilian GAAP. The index the Company selected for remeasurement as from January 1, 1996 to June 30, 1997, for purposes of the reconciliation to US GAAP, is the General Market Price Index - Internal Availability (IGP - DI).

This difference affects the carrying amount of property, plant and equipment and related depreciation as well as of inventories, exclusively due to the effect of depreciation of property, plant and equipment on the cost of inventories.

(b) Revaluation of property, plant and equipment

Under Brazilian GAAP, as explained in Note 12, the Company has recorded in prior years a revaluation of certain of its fixed assets.

Under US GAAP, property, plant and equipment is recorded at its historical cost and revaluations are not allowed.

As a result, the reconciliations presented in Note 29.2 include a reversal of such revaluation and related depreciation recognized under Brazilian GAAP.

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(c) Capitalization of interest on property, plant and equipment

Under Brazilian GAAP, only interest on loans and financing which have been obtained for the specific purpose of financing property, plant and equipment is capitalized.

For US GAAP purposes, interest is capitalized during the construction period of qualifying assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 34, Capitalization of interest cost , which requires capitalization of interest expense not only of loans and financing for the specific purpose of financing property, plant and equipment. Interest is capitalized based on the average borrowing rate of the company applied to qualifying assets under constructions.

(d) Pension benefits

Pension benefit obligations for Brazilian GAAP purposes should be accounted for following CVM Instruction 371/2000, which requires the mandatory application of Brazilian Accounting Standard IBRACON NPC 26. Under CVM Instruction 371/2000, disclosure of pension and other post-retirement obligations is required as from December 31, 2001 while recognition of the related obligations is required as from years ended December 31 2002. As permitted by NPC 26 the initial transitional obligation, which is the difference between plan assets and plan projected benefit obligation at the date of initial recognition, may be recognized by the Company over a 60 month period as from the year ended December 31, 2002. After initial application of the standard, actuarial gains and losses are deferred and recognized in income over the estimated remaining service period of the employees to the extent that those actuarial gains and losses exceed 10% of the higher of the plan assets and the projected benefit obligation.

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Under US GAAP, pension benefits should be recorded in accordance with SFAS No. 87, Employer's Accounting for Pensions. The Company is a sponsor of PETROS - Fundação Petrobras de Seguridade Social which administers a defined benefit plan for the employees of the Company. The defined benefit pension plan sponsored by the Company was considered a multi-employer plan prior to August 2002. Effective August 2002, the liabilities and assets of PETROS were legally disaggregated for each sponsor and the Company began to account for the plan under the accounting requirements for single-employer pension plans, based on actuarial assumptions. Actuarial gains and losses are deferred and recognized in income over the estimated remaining service period of the employees to the extent that those actuarial gains and losses exceed 10% of the higher of the plan assets and the projected benefit obligation. Under US GAAP up to December 31, 2006 if the accumulated benefit obligation exceeded the fair value of plan assets, a liability was required to be recorded for at least the difference between those amounts. If the liability already recorded in the balance sheet is less than such amount, an additional minimum liability was required to be recognized against an equal amount recognized as an intangible asset to the limit of the unrecognized prior service cost.

Effective December 31, 2006, the Company implemented SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R). Under SFAS 158 the Company recognized the funded status of the defined postretirement plans as a net asset with an offsetting amount in accumulated other comprehensive income. As required by SFAS 158, provisions of SFAS 158 were applied on a prospective basis as from December 31, 2006; therefore, the reconciliation presented for prior periods have not been restated. Upon implementation of SFAS 158, the concept of additional minimum liability was eliminated.

Although plan assets and projected benefit obligations are the same under Brazilian GAAP and US GAAP, differences arise in the amounts recorded in the financial statements as result of: (i) the fact that the initial transitional obligation was recognized under Brazilian GAAP over a 60 month period while the prior service cost is recognized for US GAAP over the estimated remaining service period of the employees, (ii) the recognition of a minimum liability under US GAAP before December 31, 2006, which is not required under Brazilian GAAP, and (iii) the recognition as from December 31, 2006 as asset or liability, as appropriate, of the funded status against accumulated other comprehensive income.

The measurement date used to determine pension benefits is December 31 for US GAAP both in 2006 and 2005, while for purposes of Brazilian GAAP the Company has used November 30 for 2006 and 2005.

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The funded status of the defined benefit pension plan as at December 31, 2006 and 2005 and the additional disclosures required by SFAS No. 132, "Employer's Disclosures About Pensions and Other Post-Retirement Benefits", as amended, are as follows:

Changes in plan assets, benefit obligation and funded status

Change in benefit obligation

	2006	Years ended December 31	
		2005	2004
Benefit obligation at beginning of year	359	305	256
Service cost	8	7	6
Interest cost	37	33	28
Benefit payments	(31)	(19)	(14)
Actuarial losses	36	33	29
Benefit obligation at end of year	409	359	305

Plan assets at fair value

	2006	Years ended December 31	
		2005	2004
Plan assets at fair value at beginning of year	347	282	230
Actual return on plan assets	86	74	57
Employer contributions (net of administrative fee)	5	6	5
Employee contributions (net of administrative fee)	4	4	4
Benefit payments	(31)	(19)	(14)
Plan assets at fair value at end of year	411	347	282

Funded status

	At December 31	
	2006	2005
Funded status at end of year	2	(12)
Unrecognized prior service cost		20
Unrecognized net actuarial gain		(15)
Accrued benefit cost (pre-paid plan)	2	(7)
Additional minimum liability		(1)

Total asset (liability) recorded in the balance sheet

2

(8)

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Under US GAAP, SFAS 158 (an amendment of FASB Statements 87,88, 106 and 132(R) requires effective December 31, 2006 to recognize the overfunded or underfunded status of a defined benefit posretirement plan as an asset or liability in the statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income.

Since the implementation of SFAS 158 , the concept of additional minimum liability, does no longer exist.

The amounts recognized in accumulated comprehensive income upon implementation of SFAS 158 are presented below:

	2006
Unrecognized prior service cost	(17)
Unrecognized net actuarial gain	28
	11

The accumulated benefit obligation for the referred defined benefit pension plan was R\$ 404 (2005 R\$ 355).

Components of net periodic benefit cost

	Years ended December 31		
	2006	2005	2004
Service cost	8	7	6
Interest cost	37	33	28
Expected return on plan assets	(36)	(31)	(26)
Amortization of unrecognized prior service cost	3	3	4
Employee contributions (net of administrative fee)	(4)	(4)	(4)
Net periodic benefit cost	8	8	8

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Actuarial assumptions

	2006	2005	2004
Assumed discount rate	Inflation + 6.0% p.a.	Inflation + 6.0% p.a.	Inflation + 6.0% p.a.
Expected rate of future salary increases	Inflation + 1.7% p.a. up to 47 years old and none after 48 years old	Inflation + 2% p.a. up to 47 years old and none after 48 years old	Inflation + 2% p.a. up to 47 years old and none after 48 years old
Expected rate of future pension increases	Inflation + 0.0% p.a.	Inflation + 0.0% p.a.	Inflation + 0.0% p.a.
Expected rate of return on plan assets	Inflation + 6.0% p.a.	Inflation + 6.0% p.a.	Inflation + 6.0% p.a.
Inflation	4.5% p.a.	5% p.a.	5% p.a.

Plan assets

The Company's weighted-average pension plan asset allocations by asset category at December 31, 2006 and 2005 are as follows:

Asset Category

	2006	2005
Equity securities	39.23%	33.42%
Debt securities	45.88%	50.51%
Real estate	6.38%	6.96%
Other (loans and financing)	8.51%	9.11%
	100.00%	100.00%

The objective of the investment policy is to achieve long-term equilibrium between the actuarial obligations and the available assets reaching or exceeding the profitability target. Asset allocations among the different categories (equity securities, debt securities, real estate and loans and financing) are made based on the expected return of each group of assets in the next 12 months, using alternative scenarios. Specific investments within each category are defined based on the related risk and returns considering the overall portfolio. Final allocation is defined in the investment policy, which is approved by the Board of Directors of PETROS.

Other disclosures

The Company expects to contribute R\$ 6 to the pension plan in 2007.

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The benefits expected to be paid in each of the next five fiscal years and in the aggregate for the five fiscal years thereafter are as follows:

Year	
2007	38
2008	38
2009	37
2010	37
2011	37
2012 to 2016	174
	361

(e) Deferred charges

Under Brazilian GAAP, pre-operating expenses incurred in the construction or expansion of a new facility may be deferred until the facility begins commercial operations. Additionally, all costs related to the organization and start-up of a new business may be capitalized to the extent that they are considered recoverable. Deferred charges are amortized over a period of five to ten years. As described in Note 13 the company deferred pre-operating expenses related to expansion, projects for new products, and to organizational restructurings, which are being amortized at the rate of 20% p.a.

Under US GAAP, the rules are restrictive as to the costs that can be capitalized and the amounts recorded as deferred charges under Brazilian GAAP do not meet the criteria for capitalization and should be expensed as incurred.

As a result, the reconciliations presented in Note 28.2 include a reversal of those charges which were deferred under Brazilian GAAP.

(f) Tax incentives

Under Brazilian GAAP, the various tax incentives of the Company (in the form of tax reduction or exemption for defined periods) are accounted for directly as an increase in a capital reserve account in shareholders' equity. The Company records the taxes as expense in the consolidated statement of income for the amounts that would be due absent the benefit, and recognizes a reduction in the tax payable against the capital reserve.

For US GAAP reconciliation purposes the amount of those incentives is recognized directly in the statement of income.

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(g) Income tax and social contribution on the revaluation of property, plant and equipment

Under Brazilian GAAP, and as explained in Note 12, no deferred tax liability was recognized for the difference between the tax value and the book value of property, plant and equipment that resulted from the revaluation of property, plant and equipment. Depreciation in the financial statements is recorded based on the revaluated amount. For income tax purposes, depreciation is deductible based on only the historical restated cost of property, plant and equipment acquired and the amortization of the revaluation is not deductible. The revaluation, when originally recorded, was recognized as an increase in property, plant and equipment against a capital reserve. The reserve is reduced against retained earnings as the revaluation is recognized as expense through depreciation or through the sale of the revalued assets. The increase in income tax payable resulting from the non-deductibility of the revaluation is recognized as a reduction in equity against retained earnings.

Under US GAAP, no deferred tax is required to be recorded on the revaluation because the revaluation is reverted. The increase in income tax payable resulting from non-deductibility of the revaluation is considered an expense for purposes of the reconciliation presented in Note 29.2.

(h) Derivative financial instruments

Under Brazilian GAAP, foreign currency derivatives are recorded by comparing contractual exchange rates to exchange rates ruling at month end. Under the swap agreements, the Company pays or receives at maturity the amounts of the difference between the variation corresponding to an interest rate based on the CDI rate and an amount based on the US Dollar exchange rate plus a fixed rate. Gains and losses on swap agreements are recorded based on the contractual rates and year-end exchange rates. Gains on options and forward contracts are recorded when the contracts expire, while losses are recorded based on the position of each individual instrument at year-end.

Under US GAAP, all derivatives are required to be recorded at fair value on the balance sheet and all variations in fair value are required to be recorded in the statement of income, unless they qualify as a hedge. None of the derivatives entered into by the Company qualified for hedge accounting during the periods presented.

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(i) Provision for dividends and interest on own capital

Under Brazilian GAAP, at each balance sheet date the directors are required to propose a dividend distribution from earnings and accrue for this in the financial statements. Under Brazilian GAAP, companies are permitted to distribute or capitalize an amount of interest on own capital, subject to certain limitations and calculated based on a government interest rate multiplied by shareholders' equity. Such interest is deductible for tax purposes and is recorded as a dividend. Although not affecting net income, except for the tax benefit, the Company includes this nominal charge in financial expenses and reverses out the same amount before net income.

Under US GAAP, since proposed dividends in excess of the mandatory minimum dividend required to be paid by its by-laws may be ratified or modified at the annual Shareholders' Meeting, such proposed dividends in excess of the mandatory minimum dividends are not considered declared at the balance sheet date and therefore are not accrued. However, interim dividends paid or interest on own capital already credited to the shareholders as capital remuneration under Brazilian legislation is considered declared for US GAAP purposes. Under US GAAP, interest on own capital are accounted for as tax-deductible dividends. Dividends paid during the years ended December 31, 2006 and 2005 as interim dividends exceeded mandatory minimum dividends and for that reason the provision for dividends and interest on own capital recorded under Brazilian GAAP is being reverted in the reconciliation to US GAAP.

(j) Provision for programmed maintenance

As indicated in Note 19 up to December 31, 2005 the Company recorded a provision accruing in advance for programmed maintenance on its financial statements in Brazilian GAAP. Effective January 1, 2006 the Company adopted the provisions of NPC No. 22 and modified its accounting policy to no longer provide in advance expected amounts to be incurred in the future during scheduled stoppages but rather to capitalize as part of property, plant and equipment the amounts incurred during each stoppage and amortize those amounts over the expected period until the next stoppage, a method known as built-in overhaul method. The effect of changing the accounting policy has been recorded as an adjustment to retained earnings as of January 1, 2006.

Under US GAAP, FASB Staff Position AUG AIR-1 Accounting for Planned Major Maintenance Activities was issued on September 2006. AUG AIR-1 prohibits the use of the accrue-in-advance method and allows to use either the built-in overhaul method, the direct expensing method or the deferral method. AUG AIR-1 is mandatory to the first fiscal year beginning after December 15, 2006. Earlier adoption is permitted. The guidance in AUG AIR-1 shall be applied retrospectively for all financial statements presented.

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For US GAAP purposes, the Company has early applied AUG AIR-1 and has also adopted the built-in overhaul method for US GAAP, and has restated the reconciliation for years ended December 31, 2005 and 2004 to adjust for the application of the new accounting policy. Upon application of AUG AIR-1 the Company presents:

- (i) in the reconciliation of shareholders equity the reversal of the accrue-in-advance provision for programmed maintenance which is recorded in Brazilian GAAP and to capitalize the costs incurred in prior stoppages net of the related depreciation; and
- (ii) in the reconciliation of net income the reversal of the amount charged to expense in Brazilian GAAP to create the provision for programmed maintenance and is recognizing depreciation for the year of the capitalized costs under the new policy.

This change in accounting policy had the following effects on net income and earnings per share under US GAAP for the years ended December 31, 2005 and 2004:

	Years ended December	
	2005	31,
		2004
Net income under US GAAP, as originally reported	623	611
Effect of change in accounting policy for programmed maintenance	(7)	21
Net income under US GAAP, retrospectively adjusted	616	632
Earnings per share (basic and diluted), as originally reported	4.15	4.06
Effect of change in accounting policy for programmed maintenance	(0.05)	0.15
Earnings per share (basic and diluted), retrospectively adjusted	4.10	4.21

(k) Income tax payable on monetary correction

As described in Note 19.(ii) the Company recorded as prior year adjustment in retained earnings the recognition of a tax payable amounting to R\$ 28 corresponding to income tax and social contribution on the monetary correction of certain tax credits that should have been recognized in prior years.

For US GAAP the Company has concluded that the effect of this prior year adjustment is not material to net income for the year ended December 31, 2006 and has therefore recorded the tax payable against the 2006 net income.

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(l) Earnings per share

Under Brazilian GAAP, disclosure of earnings per share is normally computed based on the number of shares outstanding at the end of the year, although a weighted-average basis is acceptable.

Under US GAAP, in accordance with SFAS 128, Earnings per Share, the presentation of earnings per share is required for public companies. A dual presentation is required: basic and diluted. Computations of basic and diluted earnings per share data should be based on the weighted average number of common shares outstanding during the period and all dilutive potential common shares outstanding during each period presented, respectively. If a share dividend, share split or reverse share split is approved earnings per share should be retroactively restated as if such change had been in effect as of the beginning of the earliest period presented.

No financial instruments have been issued by the Company which have a dilutive effect, and therefore basic and diluted earnings per share are the same.

(m) Consolidation of receivables securitization fund (FIDC)

On March 1, 2004 the Company obtained financing through the FIDC, a special purpose entity. The FIDC is managed by Votorantim Assets Management DTVM Ltda., an independent asset manager. The FIDC has two classes of quotas: senior quotas and subordinated quotas. The FIDC issued senior quotas in exchange of R\$ 125 contributed by third-parties and subordinated quotas in exchange of R\$ 25. All the subordinated quotas were issued to and are held by the Company. The senior quotas have the right to a fixed return of 106.5% of CDI. Subordinated quotas have right to any excess of net income of the fund over the return attributed to senior quotas. Senior quotas are mandatorily redeemable by the fund under an amortization schedule that begin on November 2004 and ended on August 2006 when the FIDC was liquidated. The subordinated quotas should represent at least 15% of total equity of the Fund. The FIDC is required to invest in receivables originated by the Company. As of December 31, 2005 and 2004 the Company received R\$ 125 from the FIDC as payment for the purchase of receivables, R\$ 25 of receivables were transferred to the FIDC in exchange for the subordinated quotas and R\$ 2 of receivables were transferred to the FIDC as repayment of the proceeds received (2005 R\$ 13).

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Under Brazilian GAAP, the Company accounts for the subordinated quotas received as marketable securities at the net asset value determined by the administrator of the FIDC and recognizes a debt under loan and financing for the proceeds received, carrying interest at 112% of CDI. When receivables are transferred to the FIDC, they are transferred at a discount to their face amount; at the transfer of the receivables they are derecognized for their carrying amount, a loss is recognized for the discount and the debt with the FIDC is reduced by the discounted amount.

Under US GAAP, in accordance with FASB Interpretation No. 46 Consolidation of Variable Interest Entities (revised December 2003) , the FIDC is considered a variable interest entity and is being consolidated by the Company since its inception.

(n) Classification of statement of income line items

Under Brazilian GAAP, in addition to the differences described in the items above, the classification of certain income and expense items is presented differently from US GAAP. We have recast our statement of income under Brazilian GAAP to present a condensed statement of income in accordance with US GAAP (Note 28.3). The reclassifications are summarized as follows:

- (i) Interest income and interest expense, together with other financial charges, are displayed within operating income in the statement of income presented in accordance with Brazilian GAAP. These amounts have been reclassified to non-operating income and expenses in the condensed statement of income in accordance with US GAAP;
- (ii) Under Brazilian GAAP, foreign exchange gains and losses are displayed as financial income or expenses. Under US GAAP foreign exchange gains and losses are recorded in a specific line as non-operating income (expenses);
- (iii) Under Brazilian GAAP, losses incurred in 2004 on the early payment of debt are recorded as financial expense. Under US GAAP such cost is recorded in a specific line as non-operating expense;
- (iv) Under Brazilian GAAP, management fees are recorded in a specific line as operating expenses. For US GAAP purposes such costs are included as operating expenses in selling, general and administrative expenses;
- (v) Under Brazilian GAAP, employees and management profit sharing are recorded after income tax and social contribution. Under US GAAP, these items are included as operating expenses.

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(o) Classification of balance sheet line items

Under Brazilian GAAP, the classification of certain balance sheet items is presented differently from US GAAP. We have recast our consolidated balance sheet under Brazilian GAAP to present a condensed consolidated balance sheet in accordance with US GAAP Note 28.3.

The reclassifications are summarized as follows:

- (i) Cash equivalents is not specifically defined under Brazilian GAAP. Cash and banks under Brazilian GAAP comprises cash in hand, placed in banks, investments in mutual funds and amounts invested in other debt securities which might be sold by the Company at any moment in exchange for cash. For US GAAP, SFAS 95, Statements of cash flows, defines cash equivalents as short-term, highly liquid investments (i) readily convertible to known amounts of cash and (ii) so near their maturity that they present insignificant risk of changes due to changes in interest rates. The Company has considered Cash and cash equivalents for US GAAP to include cash in hand, deposits and debt securities with original maturities of three months or less. Other financial instruments not meeting the definition of Cash and cash equivalents and recorded in Cash and banks under Brazilian GAAP are recorded as certificates of deposit or trading investments, as appropriate;
- (ii) Under Brazilian GAAP, in accordance with Law 6.404/76, loans receivable from related parties, resulting from non-operating transactions are classified as Long Term assets, regardless of their contractual maturity. Under US GAAP they are classified as current or non-current assets based on their contractual maturity;
- (iii) Under Brazilian GAAP, invoices for export sales for which the Company authorized a bank to use, upon their collection, the proceeds to repay export draft debt are recognized as a reduction of current assets, and debt is also reduced for the same amount. For US GAAP purposes, the invoices are presented as receivables and the debt is not reduced until collection of the proceeds and settlement of the debt have actually taken place;
- (iv) Under Brazilian GAAP, deferred income taxes are not netted and assets are shown separately from liabilities. For US GAAP purposes, deferred tax assets and liabilities are netted within the same taxpayer and same tax jurisdiction and are classified as current or non-current based on the classification of the underlying temporary difference.

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(p) Additional disclosures required by US GAAP

(i) Advertising costs

Advertising costs are expensed as incurred and are included in selling, general and administrative expense. Advertising costs amounted to R\$ 21, R\$ 14 and R\$ 9 for the years ended December 31, 2006, 2005 and 2004, respectively.

(ii) Freight expenses

Freight expenses are recorded in a specific line as selling expenses in the following amounts: R\$ 83, R\$ 70 and R\$ 69 at December 31, 2006, 2005 and 2004, respectively.

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(q) Recently issued accounting standards

In July 2006, the FASB released FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of income tax uncertainties with respect to positions taken or expected to be taken in income tax returns. Management is currently evaluating the effect of FIN 48 on the Company's financial condition and results of operations.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. SFAS 157 retains the exchange price notion and clarifies that the exchange price is the price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. SFAS 157 is effective for the Company's financial statements for the year beginning on January 1, 2008, with earlier adoption permitted. Management is currently evaluating the effect of SFAS 157 on the Company's financial condition and results of operations.

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28.2 Reconciliation of differences between Brazilian GAAP and US GAAP

28.2.1 Differences in net income

	Reference in 29.1	Years ended December 31		
		2006	2005	2004
Net income under Brazilian GAAP		615	567	547
1. Remeasurement of financial statements for the effect of inflation Depreciation on fixed assets for the year	(a)	(69)	(77)	(76)
2. Reversal of depreciation for the year on revaluation of property, plant and equipment	(b)	34	35	35
3. Depreciation of capitalized interest on construction of property, plant and equipment	(c)	(8)	(9)	(8)
4. Effect in net income of pension benefits	(d)			(1)
5. Reversal of amortization related to deferred charges	(e)	1	2	5
6. Recognition as expense of amounts recorded as deferred charges during the year	(e)	(1)	(3)	(1)
7. Tax incentives	(f)			
(i) Company Operation Fund FUNDOPEM		50	89	89
(ii) Program for Technological and Industrial Development PDTI		5	4	3
8. Income tax and social contribution on the revaluation of property, plant and equipment	(g)	(8)	(11)	(10)
9. Effects from change in accounting policy for programmed maintenance	(j)		(11)	32
10. Income tax payable on monetary correction	(k)	(28)		
11. Derivative financial instruments	(h)			(1)
12. Deferred income tax on all adjustments except for 2, 7, 8 and 10		28	36	16
13. Other adjustments		(4)	(6)	2
Net income under US GAAP		615	616	632

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	Reference in 28.1	Years ended December 31		
		2006	2005	2004
Weighted average number of shares issued and outstanding after giving retroactive effect at December 31, 2004 to the reverse share split approved on January 20, 2005 - Basic and diluted		150,217,167	150,217,167	150,217,167
Earnings per share (in Brazilian Reais)		4.09	4.10	4.21

28.2.2 Differences in Shareholders equity

	Reference	December 31 2006	December 31 2005
Shareholders equity under Brazilian GAAP		1,300	1,247
1. Remeasurement of financial statements for the effect of inflation:			
(i) Fixed assets net of accumulated depreciation	(a)	16	85
(ii) Inventories	(a)	1	1
2. Reversal of revaluation of property, plant and equipment	(b)	(75)	(109)
3. Capitalization of interest on construction of property, plant and equipment	(c)	186	186
4. Depreciation of capitalized interest on construction of property, plant and equipment	(c)	(148)	(140)
5. Reversal of amortization related to deferred charges	(e)	63	62
6. Recognition as expense of amounts recorded as deferred charged during the year	(e)	(73)	(73)
9. Effects from change in accounting policy for programmed maintenance:	(j)		
Reversal of provision recorded under Brazilian GAAP			68
Capitalization of cost in prior stoppage, net of depreciation			33
10. Difference between amount recognized of pension plan asset (liability)	(d)	11	(1)
8. Deferred income tax on all adjustments except for 2		(17)	(76)
9. Proposed dividends in excess of mandatory minimum dividend	(i)	185	68
10. Other adjustments		(3)	2
Shareholders equity under US GAAP		1,446	1,353

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28.3 US GAAP condensed financial information

Based on the reconciling items and discussion above, Copesul's condensed consolidated balance sheet, statement of income condensed consolidated and statement of changes in shareholders' equity under US GAAP are as follows:

(a) Condensed balance sheet under US GAAP

Assets	2006	2005
Current assets		
Cash and cash equivalents	169	64
Trading investments	70	41
Certificates of deposit		3
Loans to related parties		
Trade accounts receivable	254	198
Inventories, net	572	495
Taxes and charges recoverable	101	29
Deferred income taxes	2	
Swaps receivable	64	53
Prepaid expenses	13	14
Prepaid income taxes	227	230
Other accounts receivable	6	9
	1,478	1,136
Property, plant and equipment, net	1,010	1,162
Other noncurrent assets		
Held-to-maturity investments	1	1
Investments at cost, net	10	9
Judicial deposits	9	8
Taxes and charges recoverable	121	103
Prepaid expenses	4	6
Loans to third parties	2	6
Intangible asset - recognition of minimum pension obligation		1
Prepaid pension cost	2	
Other accounts receivable	1	1
	150	135
Total assets	2,638	2,433

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Liabilities and shareholders equity	2006	2005
Current liabilities		
Suppliers	354	156
Social and labor contributions and charges	45	49
Provision for income taxes	259	242
Taxes and charges payable	45	42
Short-term debt, including current portion of long-term debt	50	231
Short-term export drafts, including current portion of long-term export drafts	40	19
Quotas subject to mandatory redemption		51
Interest on own capital	17	21
Payables related to swaps, forwards and options	23	5
Advances from customers	4	13
Retirement benefit obligation		6
Profit sharing and other	35	27
	872	862
Long-term liabilities		
Long-term debt, net of current portion	107	84
Long-term export draft, net of current portion	139	91
Quotas subject to mandatory redemption		
Taxes and charges payable	26	
Deferred income taxes	14	30
Provision for tax, civil and labor proceedings	34	11
Retirement benefit obligation		2
	320	218
Commitments and contingencies		
Shareholders equity	1,446	1,353
Total liabilities and shareholders equity	2,638	2,433

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(b) Condensed statement of income under US GAAP

	2006	2005	2004
Gross sales	8,148	7,348	7,153
Taxes and contributions on sales	(1,722)	(1,642)	(1,623)
Net sales and services	6,426	5,706	5,530
Cost of products, utilities and services	(5,326)	(4,661)	(4,423)
Gross profit	1,100	1,045	1,107
Operating (expenses) income			
Selling, general and administrative	(190)	(184)	(189)
Employees profit sharing	(24)	(22)	(20)
Other operating income (expenses), net	18	28	44
Operating profit	904	867	942
Non-operating income (expenses)			
Financial income (expenses), net	1	(62)	(81)
Loss on anticipated payment of debt paid in advance settlement			(16)
Foreign exchange gains, net	(2)	12	22
Other	(12)	5	
Income before income taxes and social contribution	891	822	867
Income tax benefit (expense)			
Current	(297)	(238)	(271)
Deferred	21	32	35
Net income for the year	615	616	632

(c) Condensed statement of changes in shareholders' equity under US GAAP

	Years Ended December 31		
	2006	2005	2004
At beginning of the year	1,353	1,350	1,154
Net income	615	616	632
Transition effect of application of SFAS 158, net of taxes	8		

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Dividends	(440)	(514)	(348)
Interest on own capital	(90)	(99)	(88)
At end of the year	1,446	1,353	1,350

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28.4 Statements of cash flows

	2006	2005	2004
Cash provided by operating activities			
Net income for the year	615	616	632
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	288	250	248
Provision for administrative, civil and labor contingencies	24	4	3
Net effects on working capital related to Programmed maintenance	(1)	(21)	6
Provision for actuarial liabilities PETROS	2	2	2
Loss on disposals of assets	29	5	
Interest, foreign exchange and monetary variation on long-term Liabilities	(4)	(16)	(11)
Other assets	(6)	5	(7)
Loss (gain) on trading investments		10	14
Interest on investment in certificates of deposit	(1)	(1)	(2)
Interest on quotas subject to mandatory redemption	(44)	(10)	16
Unrealized gain related to forwards, swaps and options, net	17	(3)	(30)
Interest, foreign exchange and monetary variation on loans to related parties and other current liabilities		15	(12)
Interest and monetary variation on short-term debts	5	(22)	(33)
Deferred income tax	(21)	(32)	(35)
Decrease/increase in assets and liabilities			
Trade accounts receivable	(56)	21	277
Inventories	(76)	(68)	(144)
Purchases of trading investments	(195)	(186)	(928)
Sales and redemptions of trading investments	165	267	1,077
Other assets	(24)	155	(94)
Suppliers	198	8	34
Other liabilities	26	(203)	214
Net cash provided by operating activities	941	796	1,227

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28.4 Statements of cash flows

	2006	2005	2004
Cash flows from investing activities			
Held-to-maturity investments, net			(1)
Redemptions in certificates of deposit			24
Investment in certificates of deposit	4	(1)	
Receivables related to forwards, swaps and options, net	(11)	(52)	9
Loans to related parties			
Issuances			(325)
Repayments		130	522
Acquisitions of property, plant and equipment	(198)	(171)	(131)
Acquisitions of investments			(2)
Net cash provided by (used in) investing activities	(205)	(94)	96
Cash flows from financing activities			
Short-term debt			
Proceeds	1,660	1,198	514
Payments	(1,864)	(1,183)	(706)
Long-term debt			
Proceeds	185	81	133
Payments	(71)	(153)	(989)
Quotas subject to mandatory redemption			
Proceeds			125
Payments	(8)	(68)	(12)
Dividends paid	(439)	(513)	(346)
Interest on own capital paid	(94)	(97)	(83)
Net cash used in financing activities	(631)	(735)	(1,364)
Net decrease in cash and cash equivalents	105	(33)	(41)
Cash and cash equivalents at beginning of year	64	97	138
Cash and cash equivalents at end of the year	169	64	97
Cash paid during the period for			
Interest	33	63	106
Income taxes	240	238	244
			340

29 Subsequent events

(a) Law 11,638

Law 11,638, published in the Official Daily Government Newspaper (DOU) of December 28, 2007, modified several provisions of the Brazilian Corporate Law, effective January 1, 2008.

The major amendments include the following matters which, in the opinion of management, may change the presentation of the financial statements and the criteria for determining the financial position and the results of Copesul and its subsidiaries as from January 1, 2008:

- The Statement of Changes in Financial Position (DOAR) will be discontinued and replaced with the Statement of Cash Flows (DFC). For publicly-held companies, the Statement of Added Value (DVA) will be mandatory. Copesul already discloses DFC in its annual reports, as supplementary information.
- Property, plant and equipment will be segregated in intangible assets and tangible assets. The non current assets group will be composed of long-term assets, investments, tangible assets, intangible assets and deferred charges. Intangible assets will include acquired goodwill.
- A new line item has been created under shareholders' equity: 'market value adjustments'. Market value adjustments to shareholders' equity, although not included in net income for the year under the accrual basis of accounting, will comprise counter entries to increases or decreases in the value ascribed to assets and liabilities, as a result of their valuation at market levels and the exchange variation of corporate investments abroad.

Deferred charges will be comprised only the expenditures incurred through December 31, 2007. As from January 1, 2008, all expenses previously recorded under deferred charges will be recognized in the income statement.

- Tax incentives will no longer be classified as capital reserves, but as part of net income for the year. Based on a resolution of management, the Annual Shareholders' Meeting may appropriate a portion of profits corresponding to these incentives to a Tax Incentive Reserve, recorded as part of revenue reserves, and which may be excluded from the calculation basis of mandatory dividends.
- The law also changed the valuation criteria of assets and liabilities, in particular:
 - ◆ Assets and liabilities arising from long-term transactions, as well as from material short-term transactions, will be required to be adjusted to present value, in accordance with International Financial Reporting Standards.
 - ◆ "Available for sale" securities or "trading" securities will be required to be recorded at market value; and
 - ◆ All other financial instruments will be required to be recorded at restated or adjusted cost, in accordance with their likely realization value, if lower.
- In the event of a merger, amalgamation or demerger transaction between unrelated parties or involving an effective transfer of control, the assets and liabilities of the merged or split-off entity will be recorded at their market value.
- Interests of debentures and participations of employees and management, even in the form of financial instruments, and of assistance or pension plan institutions or funds for employees, which are not expenses, will be included in the statement of operations for the year.
- Corporations will not be allowed to record revaluation reserves. The new law allows corporations to either maintain existing balances and realize such balances in accordance with the current standards or reverse the balances until the end of 2008.

(b) Merger of the Company into Ipiranga Petroquímica

The Extraordinary Shareholders' Meeting held on September 11, 2008 approved the merger of the Company into Ipiranga Petroquímica, a subsidiary of Braskem S.A.

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Consolidated Balance Sheets

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	3/31/2007 Unaudited	12/31/2006
Assets		
Current assets		
Cash and cash equivalents (Note 4)	272	201
Marketable securities (Note 5)	41	38
Customers		
Local customers	129	180
Foreign customers	198	75
Export drafts - billed (Note 16)	(75)	(1)
Swap receivables (Note 6)	87	64
Inventories (Note 7)	541	571
Taxes and charges recoverable (Note 8)	113	115
Prepaid expenses (Note 9)	11	14
Other accounts receivable	9	5
	1,326	1,262
Noncurrent assets		
Long-term receivables		
Marketable securities (Note 5)	1	1
Taxes and charges recoverable (Note 8)	147	137
Judicial deposits (Note 10)	9	9
Prepaid expenses (Note 9)	4	4
Loans to third parties	1	2
Claims receivable and other	2	2
	164	155
Permanent assets		
Investments (Note 11)	7	10
Property, plant and equipment (Note 12)	994	1,030
Deferred charges (Note 13)	10	10
	1,011	1,050
	1,175	1,205
Total assets	2,501	2,467
Liabilities and stockholders equity		
Current liabilities		
Suppliers (Note 14)	275	354
Loans and financing (Note 15)	87	50
Export drafts - to be invoiced (Note 16)	85	39
Taxes and charges payable (Note 17)	33	45

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Social and labor contributions and charges	42	45
Proposed dividends		185
Interest on own capital	1	17
Income tax and social contribution (Note 18)	105	44
Swaps and options payable (Note 6)	43	23
Advances from customers	7	5
Profit sharing and other	17	34
	695	841
Noncurrent liabilities		
Long-term liabilities		
Loans and financing (Note 15)	99	107
Export drafts - to be invoiced (Note 16)	133	139
Income tax and social contribution (Note 18)	37	37
Provision for contingencies (Note 24)	36	34
Actuarial liability - PETROS (Note 25)	8	9
	313	326
Stockholders' equity (Note 19)		
Capital	910	850
Capital reserve	238	296
Revaluation reserve	68	75
Revenue reserve	79	79
Retained earnings	198	
	1,493	1,300
Total liabilities and stockholders' equity	2,501	2,467

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

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Unaudited Interim Consolidated Statements of Operations

In millions of reais, except when otherwise indicated

	Quarter ended 3/31/2007	Quarter ended 3/31/2006
Gross sales		
Sale of petrochemical products and utilities		
Local market	1,939	1,703
Foreign market	229	157
	2,168	1,860
Taxes, contributions and freight on sales		
ICMS	(228)	(233)
PIS, COFINS, CIDE and ISS	(194)	(186)
Freight	(19)	(14)
	(441)	(433)
Net sales and services	1,727	1,427
Cost of products, utilities and services	(1,397)	(1,176)
Gross profit	330	251
Operating (expenses) income		
Selling	(18)	(8)
General and administrative	(13)	(11)
Management fees	(1)	(1)
Depreciation and amortization	(3)	(3)
Other operating income (expenses), net (Note 21)	(1)	10
	(36)	(13)
Operating profit before financial result	294	238
Financial result (Note 20)		
Financial expenses	(154)	(51)
Financial income	159	49
	5	(2)
Operating profit	299	236
Non-operating result		
Non operating income		1
Non-operating expenses	(3)	(6)
	(3)	(5)
Income before income tax and social contribution	296	231

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Provision for income tax and social contribution (Note 18)	(102)	(78)
Deferred income tax and social contribution (Note 18)	5	1
Net income of the period before profit sharing	199	154
Profit sharing	(6)	(5)
Net income of the period	193	149
Outstanding shares at the end of the period (in thousands)	150,217	150,217
Net income per share (in R\$)	1.28	0.99

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

COPEL - Companhia Petroquímica do Sul and subsidiaries

Unaudited Interim Statement of Changes in Stockholders' Equity

In millions of reais, except per share amounts

	Capital	Capital reserve Fiscal incentives	Revaluation reserve	Revenue reserve Legal	Retained earnings	Total
At December 31, 2005	750	341	108	48		1,247
Prior year adjustment					38	38
Capitalization of capital reserve - FUNDOPEM	100	(100)				
Fiscal incentives						
FUNDOPEM		18				18
Program for Technological and Industrial Development - PDTI		8				8
Realization of revaluation reserve						
Revaluation - 1983			(1)		1	
Revaluation - 1989			(7)		7	
Income tax and social contribution on realized revaluation reserve					(2)	(2)
Net income for the period					149	149
At March 31, 2006	850	267	100	48	193	1,458
At December 31, 2006	850	296	75	79		1,300
Capitalization of capital reserve - FUNDOPEM	60	(60)				
Fiscal incentives - PDI - Technological Research and Industrial Development		2				2
Realization of revaluation reserve						
Revaluation - 1989			(7)		7	
Income tax and social contribution on realized revaluation reserve					(2)	(2)
Net income for the period					193	193
At March 31, 2007	910	238	68	79	198	1,493

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

COPEL - Companhia Petroquímica do Sul and subsidiaries

Consolidated Statements of Changes in Financial Position

In millions of reais

	Quarter ended 3/31/2007 Unaudited	Quarter ended 3/31/2006 Unaudited
Financial resources were provided by		
Operations		
Net income for the period	193	149
Expenses (income) not affecting working capital		
Depreciation	57	57
Amortization	1	
Provision for administrative, civil and labor contingencies	1	(1)
Monetary and exchange variations of long -term liabilities		
Long-term liabilities	(6)	(6)
Long-term receivables		(2)
Disposals of property, plant and equipment	3	2
Income tax and social contribution		
Long-term receivables	(2)	(18)
Realization of revaluation reserve	(2)	(2)
	245	179
Third parties		
Decrease in long-term receivables		
Marketable securities		18
Related parties	(6)	1
Prepaid expenses	1	2
Increase in long-term liabilities		
Financial institutions		2
Fiscal incentives of FUNDOPEM and Program for Technological and Industrial Development - PDTI	2	25
	(3)	48
Other		
Effect on working capital from the change in the accounting procedure adjustments		(22)
		(22)
Total funds provided	242	205
Financial resources were used for		
Long-term receivables		
Taxes and charges recoverable	2	3
Loans to third parties and other		1
Permanent assets		
Property, plant and equipment	22	15
Transfer from long-term to current liabilities		
Financial institutions	8	5

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Total funds used	32	24
Increase in working capital	210	181
Current assets		
At the end of the period	1,326	971
At the beginning of the period	1,262	908
	64	63
Current liabilities		
At the end of the period	695	577
At the beginning of the period	841	695
	(146)	(118)
Increase in working capital	210	181

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COPELUS - Companhia Petroquímica do Sul and subsidiaries

Unaudited Interim Consolidated Statements of Cash Flows

In millions of reais

	Quarter ended 3/31/2007	Quarter ended 3/31/2006
Net income of the period	193	149
Expenses (income) not affecting cash		
Depreciation	57	57
Amortization	1	
Provision for administrative, civil and labor contingencies	1	(1)
Monetary and exchange variations		(2)
Interest and monetary variations on current assets		
Interest	1	(6)
Monetary and exchange variations	(10)	(13)
Disposals of property, plant and equipment and other	3	
Swap difference receivable, net	(23)	(8)
Swap and options difference payable, net	21	(3)
Deferred income tax and social contribution	(5)	(1)
Trade accounts receivable	(72)	18
Trade notes linked to the FIDC		3
Inventories	29	38
Other accounts receivable - current and long-term	(3)	(86)
Suppliers	(79)	4
Other accounts payable - current and long-term	28	33
Fiscal incentives - FUNDOPEM and PDTI	2	25
Net cash provided by operating activities	144	207
Marketable securities in current and long-term investments		
Investments	(36)	(26)
Redemptions	32	8
Loans to third-parties -Receipts	1	2
Additions to property, plant and equipment	(21)	(15)
Net cash used in investing activities	(24)	(31)
Loans, financing and export drafts		
Issuances	321	241
Repayments	(169)	(278)
Interest on own capital	(17)	(21)
Dividends paid	(184)	(68)
Net cash used in financing activities	(49)	(126)
Net change in cash and cash equivalents	71	50
Initial cash and cash equivalents balance	201	113
Final cash and cash equivalents balance	272	163
Net change in cash and cash equivalents	71	50

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

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COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

1 Operations

The Company, headquartered in Triunfo, Rio Grande do Sul, is a closely-held corporation and its main objectives are (a) manufacture, sale, import and export of chemical and petrochemical products and fuel; b) production and distribution of goods, as well as rendering services to companies of the Southern Petrochemical Complex and management of the logistic services pertinent to its waterway and terrestrial terminals; c) participation in other companies as quotaholder or stockholder.

The main suppliers of raw materials in the local market are PETROBRAS - Petróleo Brasileiro S.A. and Refinaria Alberto Pasqualini - REFAP S.A. and overseas, the companies Sonatrach SPA and Repsol YPF S.A.

The Company's main customers are located in the Petrochemical Complex in Triunfo, Rio Grande do Sul. Additionally, the Company's sales of hydrocarbon solvents and fuels are made both in the domestic and international markets, and the latter being mainly to Mercosur (Southern Common Market) and the United States.

2 Presentation of the financial statements

The financial statements for the three-months ended March 31, 2007 for legal and regulatory purposes were approved by the Company's Board of Directors on April 24, 2007 (the financial statements for the year ended December 31, 2006 were approved on January 30, 2007).

The consolidated financial statements were prepared and are being presented in accordance with accounting practices adopted in Brazil, based on the provisions included in Brazilian Corporate Law as well as the Brazilian Securities Commission (CVM) standards and procedures. The financial statements presented here do not include the parent company's stand-alone financial statements and are not intended for statutory purposes.

The preparation of financial statements requires the use of estimates to account for certain assets and liabilities and other transactions. Therefore, the Company's financial statements include estimates referring to the selection of useful lives of fixed assets, provisions for contingent liabilities and determination of income tax liabilities. Actual results may differ from such estimates.

COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

3 Significant accounting practices

The accounting practices adopted in the presenting consolidated financial statements as of March 31, 2007 are consistent with those disclosed in the audited financial statements as of December 31, 2006.

(a) Consolidated financial statements

These consolidated financial statements include the wholly-owned subsidiaries Copesul International Trading, Inc., CCI - Comercial Importadora S.A., and Fundo de Investimento Financeiro Multimercado Copesul, a mutual fund whose quotas are wholly-owned by the Company. In the consolidation process, intercompany balances, income, expenses, and unrealized profits arising from intercompany transactions were eliminated, as well as investments in subsidiaries.

(b) Marketable securities and swap receivables and payables

These assets are recorded at cost plus accrued income up to the balance sheet date (accrual basis), adjusted to market value, when lower.

(c) Allowance for doubtful accounts

The Company has no allowance for doubtful accounts, since losses are not expected to occur in relation to accounts receivable.

(d) Inventories

Inventories are stated at average cost of acquisition or production, adjusted to market value, when lower.

(e) Investments

Investments are recorded at acquisition cost and adjusted to market value, when applicable.

COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

(f) Property, plant and equipment

Property, plant and equipment are stated at cost, plus revaluation, less accumulated depreciation combined with the following aspects:

Capitalization of the financial charges incurred during the construction period of property, plant, and equipment.

Depreciation of property, plant and equipment, calculated on the straight-line basis in accordance with the estimated useful lives of assets, supported by an independent appraisal report, using the rates mentioned in Note 12.

Revaluations of property, plant and equipment made in 1983 and 1989 based on appraisals carried out by independent appraisers.

(g) Deferred charges

Deferred charges include pre-operating expenses related to expansion, projects for new products, development of systems, and organizational restructuring expenditures, amortized at the rate of 20% per annum (p.a.), Note 13.

(h) Rights and obligations

Rights are stated at cost or realization value, including, when applicable, earnings and monetary restatements and exchange rate variations. Liabilities are recognized at their known or estimated values, including corresponding charges, monetary restatements and exchange rate variations when applicable.

(i) Income tax and social contribution

Provision for income tax is recorded with the inclusion of the portion of fiscal incentives. Deferred taxes were recognized considering current rates for income tax and social contribution on tax losses and temporary differences, to the extent that realization is considered probable, as shown in Note 18.

(j) Determination of results of operations

Income and expenses are determined on the accrual basis.

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

(k) Reclassifications in the statement of operations

In order to be consistent with the presentation criteria followed by the Braskem group, in the preparation of this financial statements, the Company made certain changes in the classification criteria used in prior periods, which for comparative purposes were also made to the financial information for the year ended December 31, 2006 and for the three-months ended March 31, 2006 presented herewith. The reclassifications were as follows:

- i. Sale of services and resale of goods were distributed between domestic and foreign market;
- ii. Freight expenses are currently presented as deductions from gross revenues while previously were considered selling expenses;
- iii. Depreciation and amortization are separately disclosed which before were included as selling expenses and general and administrative expenses, as appropriate; and
- iv. Deferred income tax and social contribution are separately presented. In prior periods were presented together with current income tax expense under provisions for income tax and social contribution.

Below is a summary of the effects:

	Previous criterion	3/31/2007 (Unaudited) Reclassifications	Current criterion
Domestic market	1,735	204	1,939
Sale of services and resale of goods	204	(204)	
	1,939		1,939
Taxes, contributions, and freight on sales	(421)	(19)	(440)
Selling	(40)	21	(19)
General and administrative	(14)	1	(13)
Depreciation and amortization		(3)	(3)
Management and employees profit sharing	(6)	6	
Provision for income tax and social contribution	(97)	(5)	(102)
Deferred income tax and social contribution		5	5
	(572)		(572)

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

	Previous criterion	3/31/2006 (Unaudited) Reclassifications	Current criterion
Domestic market	1,691	12	1,703
Sale of services and resale of goods	12	(12)	
	1,703		1,703
Taxes, contributions, and freight on sales	(419)	(14)	(433)
Selling	(25)	17	(8)
General and administrative	(12)	1	(11)
Depreciation and amortization		(3)	(3)
Management and employees profit sharing	(5)	5	
Provision for income tax and social contribution	(76)	(2)	(78)
Deferred income tax and social contribution		1	1
	(532)		(532)

(I) Statement of cash flows

The consolidated statement of cash flows is prepared in accordance with the Accounting Standards and Procedures - NPC no. 20 of IBRACON (Institute of Independent Auditors of Brazil).

4 Cash and cash equivalents

The investments included in this account have a term of no longer than 90 days.

	3/31/2007 Unaudited	12/31/2006
Cash and banks	1	7
Investments in Fundo Investimento Financeiro Multimercado Copelus:		
Bank Deposit Certificates - CDB	43	88
Financial Treasury Bills - LFT	14	13
National Treasury Bills	1	1
Investment Funds	13	12
Simple debentures and other	110	43
Interest bearing account	8	
Overnight and term deposits	82	37
	272	201

COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

5 Marketable Securities

	3/31/2007	12/31/2006
	Unaudited	
Term deposit	42	39
Total	42	39
Current assets	41	38
Long-term receivables	1	1

COPELUL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

6 Swap receivables and payables

The Company entered into transactions involving US dollar options, called Box Options as shown and commented below with the sole purpose of investing cash at a more attractive rate. Besides that, it also contracted Swap operations aiming to obtain maximization of the profitability earned by Fundo de Investimento Financeiro Multimercado Copesul, which is managed by COPELUL and whose custodian and manager is Banco Santander Brasil S.A.

On March 31, 2007 and December 31, 2006, the assets and liabilities of Fundo de Investimento Financeiro Multimercado Copesul were distributed among the various accounts of the balance sheet in accordance with the nature of the respective accounts in compliance with Instruction CVM 408/2004.

(a) Amounts receivable

	3/31/2007 Unaudited	12/31/2006
Swap receivables	7	27
Options - Fixed income Box Operations	80	37
	87	64

(b) Amounts payable

	3/31/2007 Unaudited	12/31/2006
Swap payable	4	23
Options payable	39	
	43	23

Box options are combined operations that involve purchase and sale of options in US dollars for the same maturity at a certain price, so that, regardless of the future US dollar rate, the Company previously knows the net result of those operations. It is similar, therefore, to fixed income operations. The value paid for the options, called a premium, refers to the amount invested by the Company and the sum redeemed will be the premium plus the earned pre-fixed return. In parallel to the contracting of purchase and sale operations of options, the Company uses Swaps with the purpose of exchanging the fixed income yield for the variance of Interbank Deposit Certificates - CDI.

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

7 Inventories

Inventories are represented as follows:

	3/31/2007 Unaudited	12/31/2006
Raw materials	367	379
Finished products	89	99
Resupply and other materials	73	73
Chemical and intermediate products	12	20
	541	571

8 Taxes and charges recoverable

This account is represented as follows:

	Current		Long-term	
	3/31/2007 Unaudited	12/31/2006	3/31/2007 Unaudited	12/31/2006
Deferred taxes				
Deferred income tax on temporary additions (a)	4	2	12	11
Deferred social contribution on temporary additions (a)	2		4	4
	6	2	16	15
Other taxes and charges recoverable				
Prepaid IRPJ	32			
Prepaid CSLL	17			
Withholding tax	1			
CSLL recoverable		12		
Tax on Net Income (ILL) (b)			54	54
ADIR - Additional State Income Tax (c)			27	28
ICMS on acquisition of property, plant and equipment (d)	9	8	10	10
PASEP recoverable (e)		15	33	23
COFINS recoverable		3		
COFINS on acquisition of property, plant and equipment (f)	2	2	2	2
Prepaid ICMS (g)	43	72		
ICMS recoverable	3	1		
IPI recoverable (h)			5	5
	107	113	131	122
	113	115	147	137

COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

- (a) The Company recorded deferred assets on the loss of its subsidiary Copesul International Trading, Inc. - CITI in view of the loss in March 2007, which were offset with profits during this year. The Company also recorded deferred tax assets on temporary differences in current assets and long-term receivables in accordance with the expectation of their realization. The credits totaled R\$22 (R\$17 on December 31, 2006) and are expected to be realized as follows:

Year	%	
	3/31/2007 Unaudited	12/31/2006
2007	27.76	12.90
2008	*	*
2009 and after	72.24	87.10
	100.00	100.00

- (b) This refers to the tax credit of Tax on Net Income - ILL paid from 1989 to 1991 and was recognized in accounting terms in the assets of December 2002 as this tax was considered unconstitutional according to Resolution of the Federal Senate No. 82 of November 18, 1996 and republished on November 22, 1996. The Company is seeking administratively the right of compensation of this credit with other taxes.
- (c) On March 31, 2007, the Company had recorded a receivable of R\$27 (R\$28 on December 31, 2006) relating to Additional State Income Tax (ADIR), for which the Company was awarded a final favorable judgment, and a security to cover court-ordered debts was issued. This security should be received at its original amount, in cash, plus legal interest, in successive and equal annual installments over a maximum ten-year period, from 2001. Up to March 31, 2007, no installment had been settled on its maturity, but they may be offset in future years against State taxes, as determined by Article 2 of Constitutional Amendment 30 of September 13, 2000. As a means of precaution, the Company filed an appeal in order to avoid the first installment becoming time-barred as well as to offset the ICMS tax credit with ICMS payable generated in its operations.

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

- (d) As from August 2000, the Company started recording the ICMS credits paid on acquisitions of property, plant and equipment, as determined by Complementary Law 102 dated July 11, 2000. The credits to be offset are as follows:

Year	3/31/2007 Unaudited	12/31/2006
2007	7	8
2008	7	7
2009	3	3
2010	2	*
	19	18
Current assets	9	8
Long-term receivables	10	10

- (e) During 2006 the Company recognized a PASEP judicial tax credit in the amount of R\$45, seeking the right to carry out the payments in accordance with Complementary Law 8/70, using as a calculation basis the revenue of the sixth month prior to the occurrence of the taxable event, in light of Resolution No. 49/95 of the Federal Senate in a final decision. This credit was recognized in the income statement for the year 2006 in the accounts of other net operating income in the amount of R\$14 and financial income of R\$30.

The changes in this credit are shown below:

	3/31/2007 Unaudited	12/31/2006
Beginning balance	38	
PASEP credit with final favorable judgment		45
Amount of credit compensated with PIS	(5)	(7)
PASEP balance	33	38

Currently the Company has the right to make the offset of the PASEP credit with PIS and under orientation of its legal advisors filed a judicial claim for the right to offset it with other federal taxes.

- (f) The Company recognizes PIS and COFINS recoverable credits on the acquisitions of property, plant and equipment, which will be realized in 24 and 48 months depending on the asset acquired as permitted by Law 10865/04 and Decree 5222/04.

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

- (g) During the year 2006, the Company advanced the amounts related to ICMS on future sales in the amount of R\$72. The offset of the prepaid ICMS is being done in 10 monthly and consecutive payments, with charges adjusted by the Unidade Padrão Fiscal do RS -UPF (Standard Fiscal Unit of RS), having begun in January 2007. The prepayment amount not yet offset on March 31, 2007 totals R\$43.
- (h) The Company recognizes an IPI credit on the acquisitions of raw materials used in the production process, despite these products being defined as zero rate. In order to use these credits, every quarter they are offset with federal taxes in accordance with Decree 4544/2002 and paragraph 4, article 16 of the Regulatory Instruction No. 460/2004 of the Brazilian Revenue Secretariat. The long-term balance refers to the IPI Credit Premium that was judicially recognized and will be realized by the end of 2008.

9 Prepaid Expenses

Prepaid expenses comprise payments made in advance, relating to benefits or services to be received by the Company in future years.

Realization will not be in cash, but by appropriation to the results of operations, as follows:

	Realization terms	3/31/2007 Unaudited	12/31/2006
Insurance	Up to Nov/2007		
	(Dec/06 to Nov/2007)	7	10
Chemical products (catalysts)	Up to Sep/2018		
	(Dec/06 to Sep/2018)	8	8
Total		15	18
Current assets		11	14
Long-term receivables		4	4

The long-term portion refers to chemical products (catalysts) which are used as agents that promote a chemical reaction in the production of basic petrochemicals. Their average useful life and amortization period is 6 years.

COPEL - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

10 Judicial deposits

	3/31/2007	12/31/2006
	Unaudited	
Tax claims:		
Income tax	2	2
CIDE on technical assistance services	4	4
IRRF on technical assistance services	1	1
	7	7
Labor claims	2	2
	9	9

The Company has made judicial deposits and has recorded a provision for contingencies relating to income taxes and CIDE in connection with lawsuits, as described in Note 24 (a).

11 Investments

(a) Information on investments:

	3/31/2007	12/31/2006
	Unaudited	
Other Investments	7	10
	7	10

COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

(b) Information on subsidiaries

Copesul International Trading, Inc. - CITI has the function of performing Trading Company operations and prepares its financial statements in Brazilian Real.

Copesul International Trading, Inc. - CITI	Parent company	
	3/31/2007 Unaudited	12/31/2006
Capital	99	99
Stockholders equity	97	116
Holding percentage - total and voting capital	100%	100%
Number of shares	98,529,157	98,529,157
	3/31/2007 Unaudited	3/31/2006 Unaudited
Income (loss) in the period/year	(5)	17

12 Property, plant and equipment

	Annual depreciation rates % (*)	Revalued and restated cost	3/31/2007	12/31/2006	
			Unaudited Accumulated depreciation	Net	Net
Equipment and installations					
Operations	10	2,010	(1,503)	507	535
Utilities	10	911	(840)	71	79
Storage and transfers	10	434	(341)	93	98
Maintenance Stoppage - CVM Del. No. 489/05 (**)	21	92	(39)	53	57
Other (***)	15	89	(70)	19	20
Buildings and construction	4	56	(23)	33	33
Improvements	4	22	(11)	11	10
Land		38		38	38
Construction in progress		150		150	141
Maintenance Stoppage in Progress - CVM Del. No. 489/05		19		19	19
		3,821	(2,827)	994	1,030

(*) weighted-average rate that reflects the depreciation expense (Note 3 (f)).

(**) supported by appraisal reports issued by specialized companies.

(***) information technology equipment, furniture and fixtures, among others are included in this account.

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COPELUS - Companhia Petroquímica do Sul and subsidiaries

Notes to the consolidated financial statements

at March 31, 2007 and 2006 (Unaudited) and December 31, 2006

In millions of reais, except when otherwise indicated

Certain items of fixed assets were given as guarantee for financing operations, as shown in Note 15 (d).

(a) Revaluations

Revaluations of property, plant and equipment made in 1983 and 1989, based on appraisal reports issued by specialized companies, produced the following effects on the balance sheet:

	3/31/2007 (Unaudited)		12/31/2006	
	Revaluation	Accumulated realization	Net	Net
Equipment and installations	1,339	(1,317)	22	28
Buildings and construction	17	(7)	10	11
Improvements	7	(3)	4	4
Land	32		32	32
Total	1,395	(1,327)	68	75
Revaluation reserve			68	75

Realizations of the revaluation reserve occur through depreciation and disposals of the revalued assets each year. The amounts realized are transferred directly to retained earnings, on which the effects of income tax and social contribution are also considered at the current rates.

The Company did not set up a provision for deferred income tax and deferred social contribution on the balance of the revaluation reserve, since CVM Deliberation 183/95 determines that such provision is only required on revaluations made as from July 1, 1995. The revaluation reserve is taxable when realized through depreciation and disposals of items. Considering current tax legislation, the revaluation reserve is subject to future taxation estimated as follows:

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Statement of the calculation used to estimate future income tax and social contribution on the revaluation reserve:

	3/31/2007 Unaudited	12/31/2006
Income tax:		
Balance of revaluation reserve	68	75
Revaluation reserve on land	(31)	(31)
Income tax calculation basis	37	44
Income tax (rate - 25%)	(9)	(11)
Social contribution:		
Income tax calculation basis	37	44
Difference regarding IPC/BTNF on revaluation reserve balance	(18)	(22)
Social contribution calculation basis	19	22
Social contribution (rate - 9%)	(2)	(2)
Income tax and social contribution	(11)	(13)

During this quarter, the portion of R\$7 (R\$33 during year 2006) was transferred to retained earnings upon realization of the revaluation reserve, as shown in the changes in shareholders' equity. The tax effect on the realization was R\$2 (R\$10 during year 2006).

(b) Acquisitions of property, plant and equipment

COPELUS invested the amount of R\$21 in the first quarter 2007. The main investments are R\$4 - operational reliability, technological updating, and profitability increase projects to be implemented during the PGM that is forecasted to take place in 2008; R\$5 - industrial automation programs; R\$6 - replacement of coils and technological updating of the furnaces and R\$4 - conversion of the MTBE unit to ETBE. The remaining balance of R\$2 refers to various investment projects. In the year 2006 COPELUS invested the amount of R\$126. The main investments are R\$38 - direct investments to make feasible the General Maintenance Stoppage (PGM); R\$19 - operational reliability, technological updating, and profitability increase projects to be implemented during the PGM that is forecasted to take place in 2008; R\$19 - industrial automation programs; R\$10 - replacement of coils and technological updating of the furnaces; R\$5 - building of Butadiene Unit, and R\$7 - conversion of the MTBE unit to ETBE. The remaining balance of R\$28 refers to various investment projects.

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13 Deferred charges

Deferred charges comprise:

	Annual amortization rates % (p.a.)	Restated cost	3/31/2007 Unaudited Accumulated amortization	Net	12/31/2006 Net
Development programs	20	63	(53)	10	10
		63	(53)	10	10

14 Suppliers

	3/31/2007 Unaudited	12/31/2006
Local	51	94
Foreign	224	260
	275	354

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15 Loans and financing

(a) Liabilities for loans and financing are as follows:

	Index	Annual charges (%)*	3/31/2007 Unaudited	12/31/2006
Foreign currency				
Financing (investments) - US\$2 million	Currency basket and US\$	9.04	4	4
Financing and loans (US\$25 million)	Currency Basket	10.11	51	7
			55	11
Local currency				
Loans and financing	TJLP	11.53	37	40
Hot money, NCE and BACEN Resolution 2770	CDI	12.95	13	23
Financing (Investments)	TJLP	9.64	81	83
			131	146
			186	157
Current liabilities			87	50
Long-term liabilities			99	107

* weighted-average rate that reflects the charges on loans.

NCE - Export Credit Note

CDI - Interbank Deposit Certificate

TJLP - Long-Term Interest Rate

BACEN - Brazilian Central Bank

(b) The changes in loans and financing were as follows:

	Short-term	Long-term	Total
At December 31, 2005	288	84	372
Additions	604	47	651
Interest	28		28

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Transfer to short-term	24	(24)	
Linked	(893)		(893)
Monetary and exchange variations	(1)		(1)
At December 31, 2006	50	107	157
Additions	116		116
Interest	4		4
Transfer to short-term	8	(8)	
Linked	(90)		(90)
Monetary and exchange variations	(1)		(1)
At March 31, 2007 (Unaudited)	87	99	186

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During the third quarter of 2006, the Company entered into a credit line agreement with BNDES - Banco Nacional de Desenvolvimento Econômico e Social in the amount of R\$338 for future investment in order to improve its manufacturing facilities. By March 31, 2007 the Company had used R\$43 of this credit line.

(c) Long-term financing falls due as follows:

Year	3/31/2007 Unaudited	12/31/2006
2008	25	33
2009	30	30
2010	23	22
2011	13	14
2012	8	8
	99	107

(d) Guarantees

The foreign currency financing are guaranteed in part by the mortgage of plant 2 and by letter of guarantee.

Local currency financing via FINEM and FINAME programs is guaranteed by Plant 2 and by the financed machinery and equipment, respectively.

The financing contracted with the Banco Nacional de Desenvolvimento Econômico e Social - BNDES, on September 9, 2005, amounting to R\$50, for the installation of a pyrolysis furnace, has as a fiduciary guarantee a letter of guarantee issued by the Banco Regional de Desenvolvimento do Extremo Sul - BRDE. For the rest of the investment financing, the Company placed plant 2 as guarantee.

The Company is the guarantor of working capital loans of its subsidiary amounting to R\$45 through the issuing of promissory notes.

The NCE operations in the amount of R\$3 (R\$23 at December 31, 2006) are guaranteed by COPEL itself in the same NCE contracted document.

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The Company has given secondary guarantees to financial institutions in relation to vendor transactions for Braskem S.A. and the amount of the principal is R\$585 (R\$613 at December 31, 2006). Losses are not expected for the Company as a result of these obligations.

Additionally, in March 2007, the Company placed R\$1 (R\$1 at December 31, 2006) as a guarantee of energy purchase operations (National Operator of the Electric System - ONS), recorded in long-term marketable securities.

16 Export drafts

The changes in advances contracted with financial institutions relating to exports to be invoiced are as follows:

	Billed Current assets	To be invoiced Current liabilities	Long-term liabilities	Total
At December 31, 2005	18	1	91	110
Additions		531	138	669
Interest		13		13
Transfer to short-term		35	(35)	
New export receivables	527	(527)		
Amortization	(545)	(12)	(49)	(606)
Monetary and exchange variations	1	(2)	(6)	(7)
At December 31, 2006	1	39	139	179
Additions		205		205
Interest		3		3
New export receivables	159	(159)		
Amortization	(84)	(2)		(86)
Monetary and exchange variations	(1)	(1)	(6)	(8)
At March 31, 2007 (Unaudited)	75	85	133	293

Export drafts to be invoiced bear exchange variation plus average interest of 7.55% p.a. (7.11% p.a. in 2006), which are recorded in the statement of income as financial expenses.

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Long-term export drafts falls due as follows:

Year	3/31/2007 Unaudited	12/31/2006
2009	72	75
2010	61	64
	133	139

17 Taxes and charges payable

	3/31/2007 Unaudited	12/31/2006
ICMS payable	18	22
ICMS - tax replacement	3	3
CIDE on fuels payable	11	16
IRRF on interest on own capital payable		3
Other retentions payable	1	1
	33	45

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The deferred income tax and social contribution assets and liabilities arose from temporary differences and are recognized in accounting terms taking into consideration the probable realization of these taxes based on forecasts of future results prepared and founded on internal assumptions and on future economic scenarios that can, however, undergo changes.

(b) Estimated realization period

The values of the assets, net of the deferred tax liabilities, have the following expectations of realization:

Year	3/31/2007 Unaudited	12/31/2006
2007	6	1
2010	(1)	(1)
2011	(4)	(4)
2015 and 2016	10	10
	11	6

Since the taxable basis of the income tax and social contribution arises from not only the profit that can be generated, but also the existence of non-taxable income, non-deductible expenses, fiscal incentives, and other variables, there is not an immediate correlation between the Company's net income and the result of income tax and social contribution. Therefore, the expectation of using the tax credits should not be taken as the only indicator of the Company's future results.

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(c) Reconciliation of income tax and social contribution

	3/31/2007 Unaudited	03/31/2006 Unaudited
Income before income tax and social contribution	296	231
Social contribution on net income (CSLL)		
Social contribution (9%)	(27)	(21)
Permanent additions		
Realization of revaluation reserve - difference in IPC/BTNF	(1)	
Equity in losses of subsidiaries		(1)
Other	(1)	(1)
Permanent exclusions		
Equity in earnings of subsidiaries		1
CITI tax credit/loss	1	
Other	1	
Social contribution expense	(27)	(22)
Income tax (IR)		
Income tax (25%)	(74)	(58)
Permanent additions		
Equity in losses of subsidiaries	(1)	(2)
Other	(2)	
Permanent exclusions		
Equity in earnings of subsidiaries		2
CITI tax credit/loss	1	
Fiscal incentives	1	1
Other		1
Income tax expense	(75)	(56)
Total income tax and social contribution in the income statement	(102)	(78)

During 2007 and 2006, the taxation basis was annual taxable income, with an election for payment by monthly estimate.

COPELUS - Companhia Petroquímica do Sul and subsidiaries**Notes to the consolidated financial statements**at **March 31, 2007 and 2006 (Unaudited) and December 31, 2006****In millions of reais, except when otherwise indicated****(d) Fiscal incentives**

The Company exercised its rights to fiscal incentives of PDTI - Program for Technological and Industrial Development based on Law No. 9532/97, Decree No. 949/93 and on Ordinance No. 130/02 of the Ministry of Science and Technology (MCT) up to the year 2005. Beginning in 2006, the Company migrated to the incentives of PDI - Technological Research and Technological Innovation Development resulting from Law 11,196/05, Decree No. 5.798/06 and of MCT Ordinance No. 782/06 with income tax and social contribution incentive of R\$1 in the present quarter. Fiscal incentives in child and adolescent fund, and operations of a cultural and artistic nature were also used during 2007 as well as the PAT - Program for the Worker's Nutrition, reaching a total of R\$2 (R\$1 in the same period of 2006). These incentives were recorded directly as reductions of the IRPJ accounts in the statement of income.

19 Stockholders equity**(a) Capital**

The Company's stockholder composition at March 31, 2007 and 2006 is shown below.

STOCKHOLDERS	Number of shares	(%)
Ipiranga Group (i)	44,255,077	29.46
Braskem Group / Odebrecht	44,255,077	29.46
Petrobras Química S.A. - PETROQUISA	23,482,008	15.63
Other	38,225,005	25.45
Total	150,217,167	100.00

On March 5, 2007, as approved at the Ordinary/Extraordinary General Meeting, the Company carried out a capital increase in the amount of R\$ 60 by the capitalization of fiscal incentive reserves of FUNDOPEM, without changing the number of original shares.

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(i) Relevant fact

Acquisition of the Ipiranga Group

A Relevant Fact was published in the press on March 19, 2007 that deals with the acquisition of the Ipiranga Group by Ultrapar Participações S.A. (Ultrapar) in the capacity of agent for the account and order of Braskem and Petrobras. Braskem and Petrobras will own the petrochemical assets represented by Ipiranga Química S.A., Ipiranga Petroquímica S.A. (IPQ) and by the latter's interest in Copesul, in the proportion of 60% for Braskem and 40% for Petrobras.

On April 18, 2007, Braskem and Copesul announced by a Relevant Fact that Braskem, through its subsidiary EDSP58 Participações S.A. (Offeror), together with Unibanco - União de Bancos Brasileiros S.A., as intermediary institution (Intermediary), submitted a request for registering a public tender offer for the acquisition of Copesul shares (Offer) to delist it from the São Paulo Stock Exchange - BOVESPA (BOVESPA) as provided for in article 4, paragraph 4 of Law no. 6,404/76 and the CVM Instruction no. 361/02 and in compliance with the information already disclosed by the Relevant Fact published on March 19, 2007. The Offeror is a corporation with capital held by Braskem and by Petróleo Brasileiro S.A. - Petrobras, in the proportion of 60% and 40%, respectively.

The appraisal report on the above-mentioned Offer, issued by Calyon Corporate Finance Brasil - Consultoria Financeira Ltda., dated April 16, 2007, was sent on April 18 to the Brazilian Securities Commission - CVM (CVM) and is available for anyone interested at the São Paulo Stock Exchange - Bovespa, at Braskem's headquarters, and at the Offeror, the Intermediary, at Copesul, as well as at CVM, and was also available beginning on that date, at the following electronic addresses: www.braskem.com.br, www.copesul.com.br, www.bovespa.com.br, and www.cvm.gov.br, as established by article 8, paragraph 5, of CVM Instruction no. 361/02.

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Tender Offer for shares of Copesul (Offer):

On October 5, 2007, Braskem and Copesul by means of a Relevant Fact, which has been copied below, informed the result of the Tender Offer for Copesul shares (Offer):

Braskem S.A. (Braskem), for the account and through its controlled company EDSP58 Participações S.A. (Offeror) and Copesul - Companhia Petroquímica do Sul (Copesul), in compliance to the terms of CVM Instruction no. 358/02, inform that in the Tender Offer for the Acquisition of Common Shares Issued by Copesul (Offer) held on this date in the electronic trading system of the São Paulo Stock Exchange - Bovespa, the Offeror purchased 34,040,927 (thirty-four million, forty thousand, nine hundred and twenty seven) common shares of Copesul, which represent more than 2/3 (two-thirds) of the outstanding shares.

Since more than 2/3 (two-thirds) of the shares in circulation were purchased, after verifying compliance with the norms that apply to the Offer, the Brazilian Securities Commission (CVM) delisted Copesul on October 17, 2007.

During 3 (three months) from the offer date, the holders of Copesul shares may sell their shares to the Offeror for the same price as during the Offer, updated through the date of the actual payment, according to the notification of the Offer published on August 14, 2007.

Furthermore, considering that the remaining shares in circulation are less than 5% (five percent) of the total shares, Copesul's Board of Directors will call a Stockholders' General Meeting to discuss the purchase of these shares for the price of the Offer, according to paragraph 5 of article 4 of Law no. 6,404/76.

According to the terms of Ruling 361/02, Bovespa has 4 business days to send to CVM the final reports regarding the auction.

(b) Capital reserves

Capital reserves are made up as follows:

	3/31/2007	12/31/2006
	Unaudited	
FUNDOPEM	223	284
Fiscal incentives - PDI - Technological Research and Technological Innovation Development	15	12
	238	296

COPEL - Companhia Petroquímica do Sul and subsidiaries**Notes to the consolidated financial statements**at **March 31, 2007 and 2006 (Unaudited) and December 31, 2006****In millions of reais, except when otherwise indicated**

In September 1998, the Company started to set up a capital reserve based on the financial incentive of the Company Operation Fund (FUNDOPEM) - RS, according to Law 6427 of October 18, 1972 and amendments. The incentive was granted to the Company through Decree 38502, of May 11, 1998, and the benefit obtained is 50% of ICMS due for a maximum period of 8 years, beginning in September 1998 until August 2006. The amount accumulated since the beginning of the benefit, recorded as a capital reserve in stockholders' equity was R\$610, of which R\$386 (R\$326 at December 31, 2006) was used to increase capital, as approved at the General Meetings in 2007, 2006, 2004, 2003, 2001, and 2000.

Beginning in 2003, the Company obtained the benefit of fiscal incentives of PDTI - Fiscal incentives - PDI - Technological Research and Technological Innovation Development based on Law No. 9532/97 and No. 11196/05, Decrees No. 949/93 and 5798/06 and on Ordinance No. 130/02 and No. 783/06 of the Ministry of Science and Technology. There is a 60-month period in which these benefits must be used, beginning from March 2002 and terminating in February 2007. During this quarter, the Company recorded the benefit of this fiscal incentive in the amount of R\$2 directly in the stockholders' equity.

(c) Revaluation reserve

The realization of the revaluation reserve, based on depreciation, write-offs or disposals of the corresponding revalued assets, is transferred to retained earnings, also considering the tax effects of the provisions constituted.

The tax charges levied on the revaluation reserve are recognized as this reserve is realized since they are previous to the publication of the CVM Deliberation No. 183/95. The tax charges levied on these reserves total R\$11 (R\$13 on December 31, 2006) as shown in Note 12(a).

(e) Prior year adjustments

The adjustment can be summarized as shown below.

	2006
Provision for programmed maintenance (i)	66
Taxes (ii)	(28)
Prior year adjustment - Total	38

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- (i) Up to December 31, 2005, the Provision for Programmed maintenance was set up considering the estimated costs of programmed maintenance, especially the general stoppage that occurs every six years. The stoppage of Plant 1 occurred in the first half of 2001 and the next one should be in 2008. The stoppage of Plant 2 took place in November 2005 and the next one is planned for November 2011. In accordance with the provisions contained in CVM Deliberation no. 489, dated October 3, 2005, that approved and made mandatory for listed companies the Accounting Pronouncement and Standard - NPC No. 22 (Provisions, Liabilities and Contingent Assets and Liabilities), issued by the Brazilian Institute of Independent Auditors - IBRACON which establishes that no provision is recognized for costs that need to be incurred to operate in the future. The only liabilities recognized in the balance sheet of an entity are those that exist at the balance sheet date. Thus, the effects of the adoption of the procedures described above were recognized as a prior year adjustment due to a change in accounting practice, on January 1, 2006, charged directly to retained earnings. The effects of adopting this new accounting practice, net of the tax effects, are as follows:

	2006
Reversal of the provision set up on December 31, 2005, net of the tax effects	45
Capitalization of the expenses incurred with previous stoppages in property, plant and equipment, net of the tax effects	41
Depreciation accumulated up to December 31, 2005 on the expenses incurred with previous stoppages in property, plant and equipment that were capitalized.	(20)
	66

- (ii) On November 2001, COPEL filed a Restitution Request of the Tax on Net Income - ILL with the Brazilian Revenue and Customs Secretariat seeking a compensation for the ILL paid from 1990 to 1992 as this tax has been considered unconstitutional according to the Federal Senate Resolution No. 82 of November 22, 1996. See Note 9.(a).
In December 2002, the Company recognized this credit because the legal advisors considered this a legal right. When originally recorded the credit the Company has not recognized the corresponding IRPJ and CSLL payable on the monetary correction of the credit. During 2006 the Company recognized the amount of R\$28 as a tax payable. The monetary variations recorded in 2002 represents taxable income and during 2006 the Company recorded the corresponding tax payable against retained earnings as a correction of an error.

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20 Financial result

The Company's financial result in the first quarter 2007, compared with 2006, is as follows:

	3/31/2007 Unaudited	3/31/2006 Unaudited
Financial income		
Earnings on financial investments	2	4
Revenue with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	158	42
Monetary variations on assets	3	4
Exchange variations on assets	(6)	(4)
Interest on loans receivable	1	3
Other financial income	1	
	159	49
Financial expenses		
Interest and charges on loans and financing	(7)	(11)
Expense with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	(151)	(34)
Monetary variations on liabilities		(1)
Exchange variations on liabilities	14	7
Other financial expenses	(10)	(12)
	(154)	(51)
Net financial result	5	(2)

21 Other operating income (expenses), net

	3/31/2007 Unaudited	03/31/2006 Unaudited
Operating income		
Recovery of PIS, COFINS and ICMS	1	2
Other		7
	1	9
Operating expenses		
Taxes, charges and contributions		
Provisions for administrative, civil, and labor contingencies	(1)	
Profit sharing	(1)	1
	(2)	1
Other operating income (expenses) - net	(1)	10

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- (i) In 2005, according to provisions in Law No. 9363/96, the Company recalculated the presumed IPI credit on petrochemical naphtha acquisitions made from April 2002 to January 2004, establishing an additional credit of R\$16, which was completely compensated with federal taxes that same year and the taxes levied on the recognized credit were paid in order to avoid future challenges by the tax authorities. This payment was recognized in accounting terms in the group of recoverable taxes.

22 Financial Instruments

The Company evaluated its assets and liabilities in relation to market and/or realizable values through available information and evaluation methodologies established by management. However, both the interpretation of market data and the selection of valuation methods require considerable judgment and reasonable estimates to produce the appropriate realizable value. Consequently, the estimates presented do not necessarily indicate the amounts that can be realized in the current market. The use of different market hypotheses and/or methodologies for estimates can have a significant effect on estimated realizable values.

Valuation of the financial instruments

The Company's main asset and liability financial instruments at March 31, 2007, as well as the criteria for their valuation/evaluation are described below.

(a) Cash and banks, financial investments, accounts receivable, other current assets and accounts payable

The amounts recorded are similar to their realizable values.

(b) Investments

The investments are mainly in a privately held subsidiary, recorded on the equity method of accounting, in which the Company has a strategic interest. Considerations of the market value of shares held are not applicable.

(c) Financing

These are subject to interest at normal market rates, as mentioned in Note 15 (a). The estimated market value was calculated based on the present value of the future disbursement of cash, using interest rates that are available to the Company for the issuance of debts with similar maturities and terms.

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(d) Interest rate risk

This risk derives from the possibility of the Company incurring losses due to fluctuations in the interest rates that would increase the financial expenses related to loans and financings from the market. The Company made contracts of derivatives to hedge against the risk in some operations and it is also continually monitoring the market interest rate with the objective of evaluating the need of contracting new operations in order to protect itself from the risk of the volatility of these rates.

(e) Exchange rate risk

This risk derives from the possibility of the Company incurring losses due to fluctuations in the exchange rates that would reduce the nominal values billed or increase the amounts owed to the market.

Since part of the Company's revenues (around 10%) is in US dollars, the main strategy is that this serves as a natural hedge for its liability operations recorded in foreign currency.

At March 31, 2007, the Company had assets and liabilities denominated in US dollars in the amount of US\$60 million and US\$133 million, respectively, and it had no instrument to protect this exposure on that date.

(f) Derivatives

The net exchange exposure is as follows:

	3/31/2007 Unaudited	12/31/2006
Financing and export drafts in US\$	(273)	(189)
Assets in US\$	124	34
Derivative instruments in US\$	45	11
Net exposure	(104)	(144)

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The book value and market value of the main financial instruments are as follows:

	3/31/2007		12/31/2006	
	Book value	Market value	Book value	Market value
Cash and banks	272	272	200	200
Swaps and options receivable	87	87	64	64
Marketable securities	42	42	39	39
Locked exchange contract advance receivable			2	2
Loans to third parties	1	1	2	2
Financial institutions	(185)	(185)	(156)	(156)
Export drafts billed and to be invoiced	(293)	(294)	(180)	(178)
Swaps and options payable	(44)	(44)	(23)	(23)
	(120)	(121)	(52)	(50)

Asset swap operations in US dollars and liability at a fixed rate were contracted in order to minimize the effect of the variations of the exchange rates on liabilities. As for the cash operations, the Company opted to use time deposits indexed to the US dollar.

At March 31, 2007, the Company had lock-in operations on exchange not yet settled on operations for purchasing raw material in the amount of US\$24 million (US\$109 million at December 31, 2006) equivalent to R\$48 (R\$232 at December 31, 2006).

As shown above, the accounting values of the financial instruments are recorded at levels that are close to the market.

23 Insurance

The Company's policy is to contract insurance at levels adequate for the risks involved with its operations. Considering the characteristics of its risks, management contracts insurance under the concept of maximum possible loss in a single event, and maintains coverage for operational risks, civil responsibilities and loss of profits. Also, the Company contracts transportation, group life, sundry risks and vehicle insurance.

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24 Contingencies

On the dates of the financial statements, the Company presented the following liabilities and the corresponding judicial deposits related to the contingencies, as determined by CVM Instruction no. 489 of October 3, 2005 that approved the IBRACON Pronouncement no. 22 as to forecasts, liabilities, liability contingencies, and asset contingencies:

	Judicial deposits		Provisions for contingencies	
	3/31/2007 Unaudited	12/31/2006	3/31/2007 Unaudited	12/31/2006
Tax contingencies (a)	7	7	5	5
Labor and social security contingencies (b)	2	2	28	27
Civil complaints (c)			3	2
	9	9	36	34

The Company is a party to labor, civil, and tax claims as well as others in progress and is discussing these issues at both the administrative and judicial levels and these are backed by judicial deposits when applicable. The provisions for the losses from these processes are estimated and updated by management based on the opinion of its external legal advisors.

(a) Tax contingencies

With respect to the Income Tax and Economic Domain Intervention Contribution (CIDE) on payment of technical assistance services, the Company has been judicially questioning the legality of charging these taxes since August 2002 and has made judicial deposits. The purpose of the process is to avoid double taxation with respect to the countries with which Brazil has tax treaties and provisions have been made in the same amounts as judicial deposits as shown in Note 10.

(b) Labor and social security contingencies

The Company has ongoing labor claims, mainly related to salary equalization and overtime. A provision for these contingencies was recorded considering the estimates of the legal advisors for probable loss. Judicial deposits were made when required. The Company is a party to labor, civil, and tax claims as well as others in progress and is discussing these at both the administrative and judicial levels, backed by judicial deposits when applicable.

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Furthermore, the Company has made provision for labor losses related to suits filed by the Petrochemical Industry Labor Union of Triunfo concerning the rights claimed by the Company's shift workers to receive overtime, due to alleged delays during transfer and change of shifts. A partial grant was given in trial court in favor of the workers' claims to overtime. However, in appellate court on December 11, 2006 an ordinary appeal was filed by Copesul and the expectation is the total or at least partial reversal of the unfavorable decision in the 4th Regional Labor Court of Appeals.

(c) Civil contingencies

The main lawsuits are related to complaints made by contracted workers related to losses that supposedly occurred as a result of various economic plans.

Possible losses

The Company has suits of both tax and civil nature involving risks of loss classified by the management as possible, but not probable, based on the evaluation of its legal advisors and for which no provisions have been set up.

(a) Tax claims

The Brazilian Revenue Secretariat (SRF) raised an assessment against Copesul in 1999, referring to IRPJ and CSLL for 1994, in connection with the monetary restatement of the balance sheet and equity method adjustment, arising from accounting recognition of dividends distributed by its subsidiary overseas. The adjusted amount on September 30, 2006 was R\$21. In 2002, the investee filed an appeal with the Taxpayer Board, which was judged in 2005 with a result totally favorable to Copesul. The court decision of the Taxpayer Board was published in the 4th quarter of 2006 and an appeal was made by the Attorney of the Internal Revenue Service to the High Court of Appeals for Fiscal Matters, to which the Company has already offered a brief of respondent. This lawsuit now awaits the decision of this Court.

(b) Civil claims

A civil lawsuit is still outstanding against Copesul brought by the minority stockholder Petroquímica Triunfo S.A., questioning aspects involved in the privatization process related to the conversion of preferred shares into common shares before the privatization auction and the preference for subscription of shares in relation to the bidders in the auction. Management and the legal advisors do not expect losses to arise from this lawsuit.

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25 Pension plan

The Company and its employees contribute to PETROS - Fundação Petrobras de Seguridade Social, in connection with retirement and defined benefit pension plans. In 2006, the global contribution rate was 12.93% on the total of income of employees linked to the plan. The Company contributed during the first quarter of 2007 with R\$1 (R\$6 in the year 2006).

According to the regulations of the PETROS - Fundação Petrobras de Seguridade Social Benefits Plan and pertinent legislation, in case of a significant shortfall of technical reserves, the sponsors and participants will contribute additional financial resources, or there should be an adjustment of the benefits of the plan to the available funds. Up to the present date no such contribution was needed.

In May 2003, the Board of Directors approved the Complementary Pension Plan called COPESULPREV, a closed defined contribution plan. This plan aims to provide benefits to employees not included in the old PETROS plan, which is now closed to new members. Plan management will be carried out through Fundação PETROBRAS de Seguridade Social - PETROS, in an independent manner, not linked to any other pension plan managed by that entity, in compliance with Complementary Law 109/2001.

26 Related parties

According to CVM Deliberation 26/86, related parties are defined as those entities, whether individuals or companies, with which the Company has the possibility of contracting, in the broad sense of this word, other than those which might apply to transactions with independent third parties, not subject the Company's managerial control or any other influence.

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(a) Assets and Liabilities

	3/31/2007 Unaudited	12/31/2006
Assets		
Current - Credits - Customers		
Local customers		
Braskem S.A.	29	39
Ipiranga Petroquímica S.A.	8	15
Refinaria Alberto Pasqualini - REFAP S.A.	5	5
Petróleo Brasileiro S.A. - PETROBRAS	4	*
	46	59
Foreign Customers		
Ipiranga Trading	121	*
	121	*
	167	59

	3/31/2007 Unaudited	12/31/2006
Liabilities		
Current liabilities		
Suppliers		
Braskem S.A.	3	3
Ipiranga Petroquímica S.A.	3	3
Refinaria Alberto Pasqualini - REFAP S.A.	16	20
Petróleo Brasileiro S.A. - PETROBRAS	4	37
	26	63

(b) Statement of Operations Accounts

	3/31/2007 Unaudited	3/31/2006 Unaudited
Operations		
Gross sales and/or Services		
Braskem S.A.	650	650
Ipiranga Petroquímica S.A.	476	461
Refinaria Alberto Pasqualini - REFAP S.A.	42	5
Ipiranga Trading	129	
	1,297	1,116

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Purchases		
Braskem S.A.	7	3
Ipiranga Petroquímica S.A.	7	3
Refinaria Alberto Pasqualini - REFAP S.A.	325	160
Petrobras Brasileiro S.A. - PETROBRAS	221	300
Braskem Incorporated Limited		42
	560	508

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27 Subsequent events

(a) Law 11,638

Law 11,638, published in the Official Daily Government Newspaper (DOU) of December 28, 2007, modified several provisions of the Brazilian Corporate Law, effective January 1, 2008.

The major amendments include the following matters which, in the opinion of management, may change the presentation of the financial statements and the criteria for determining the financial position and the results of Copesul and its subsidiaries as from January 1, 2008:

- The Statement of Changes in Financial Position (DOAR) will be discontinued and replaced with the Statement of Cash Flows (DFC). For publicly-held companies, the Statement of Added Value (DVA) will be mandatory. Copesul already discloses DFC in its annual reports, as supplementary information.
- Property, plant and equipment will be segregated in intangible assets and tangible assets. The non current assets group will be composed of long-term assets, investments, tangible assets, intangible assets and deferred charges. Intangible assets will include acquired goodwill.
- A new line item has been created under shareholders' equity: 'market value adjustments'. Market value adjustments to shareholders' equity, although not included in net income for the year under the accrual basis of accounting, will comprise counter entries to increases or decreases in the value ascribed to assets and liabilities, as a result of their valuation at market levels and the exchange variation of corporate investments abroad.

Deferred charges will be comprised only the expenditures incurred through December 31, 2007. As from January 1, 2008, all expenses previously recorded under deferred charges will be recognized in the income statement.

- Tax incentives will no longer be classified as capital reserves, but as part of net income for the year. Based on a resolution of management, the Annual Shareholders' Meeting may appropriate a portion of profits corresponding to these incentives to a Tax Incentive Reserve, recorded as part of revenue reserves, and which may be excluded from the calculation basis of mandatory dividends.
- The law also changed the valuation criteria of assets and liabilities, in particular:
 - ◆ Assets and liabilities arising from long-term transactions, as well as from material short-term transactions, will be required to be adjusted to present value, in accordance with International Financial Reporting Standards.
 - ◆ "Available for sale" securities or "trading" securities will be required to be recorded at market value; and
 - ◆ All other financial instruments will be required to be recorded at restated or adjusted cost, in accordance with their likely realization value, if lower.
- In the event of a merger, amalgamation or demerger transaction between unrelated parties or involving an effective transfer of control, the assets and liabilities of the merged or split-off entity will be recorded at their market value.
- Interests of debentures and participations of employees and management, even in the form of financial instruments, and of assistance or pension plan institutions or funds for employees, which are not expenses, will be included in the statement of operations for the year.
- Corporations will not be allowed to record revaluation reserves. The new law allows corporations to either maintain existing balances and realize such balances in accordance with the current standards or reverse the balances until the end of 2008.

(b) Merger of the Company into Ipiranga Petroquímica

The Extraordinary Shareholders' Meeting held on September 11, 2008 approved the merger of the Company into Ipiranga Petroquímica, a subsidiary of Braskem S.A.

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