

PRUDENTIAL PLC  
Form 6-K  
March 09, 2011

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of  
the Securities Exchange Act of 1934

For the month of March, 2011

PRUDENTIAL PUBLIC LIMITED COMPANY

(Translation of registrant's name into English)

LAURENCE POUNTNEY HILL,  
LONDON, EC4R 0HH, ENGLAND  
(Address of principal executive offices)

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

Form 20-F  Form 40-F

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

Yes  No

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

Enclosures: Final Results part 4

---

## European Embedded Value (EEV) basis results

Operating profit based on longer-term investment returns<sup>i</sup>

## Results analysis by business area

	Note	2010 £m	2009 £mv
Asian operations			
New business:			
Excluding Japan	2	902	725
Japan <sup>iv</sup>		(1)	(12)
Total		901	713
Business in force	3	549	392
Long-term business		1,450	1,105
Asset management		72	55
Development expenses		(4)	(6)
Total		1,518	1,154
US operations			
New business	2	761	664
Business in force	3	697	569
Long-term business		1,458	1,233
Broker-dealer and asset management		22	4
Total		1,480	1,237
UK operations			
New business	2	365	230
Business in force	3	571	640
Long-term business		936	870
General insurance commission		46	51
Total UK insurance operations		982	921
M&G		284	238
Total		1,266	1,159
Other income and expenditure			
Investment return and other income		30	22
Interest payable on core structural borrowings		(257)	(209)
Corporate expenditure		(220)	(203)
Charge for share-based payments for Prudential schemes		(3)	(5)
Charge for expected asset management margin <sup>ii</sup>		(44)	(38)
Total		(494)	(433)
Solvency II implementation costs <sup>iii</sup>		(46)	-
Restructuring costs <sup>iii</sup>		(28)	(27)
Operating profit based on longer-term investment returns <sup>i</sup>		3,696	3,090
Analysed as profits (losses) from:			
New business:			
Excluding Japan	2	2,028	1,619
Japan <sup>iv</sup>		(1)	(12)
Total		2,027	1,607
Business in force	3	1,817	1,601
Long-term business		3,844	3,208

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Asset management	378	297
Other results	(526)	(415)
Total	3,696	3,090

Notes

i EEV basis operating profit based on longer-term investment returns excludes the recurrent items of short-term fluctuations in investment returns, the mark to market value movements on core borrowings, the shareholders' share of actuarial and other gains and losses on defined benefit pension schemes, and the effect of changes in economic assumptions. In addition, for 2010, operating profit excludes costs associated with the terminated AIA transaction and the gain arising upon the dilution of the Group's holding in PruHealth. For 2009, operating profit excluded the non-recurrent cost of hedging the Group IGD capital surplus included within short-term fluctuations in investment returns and the profit on sale and results of the sold Taiwan agency business.

The amounts for these items are included in total EEV profit attributable to shareholders. The Company believes that operating profit, as adjusted for these items, better reflects underlying performance. Profit before tax and basic earnings per share include these items together with actual investment returns. This basis of presentation has been adopted consistently throughout these results.

ii The value of future profits or losses from asset management and service companies that support the Group's covered businesses are included in the profits for new business and the in-force value of the Group's long-term business. The results of the Group's asset management operations include the profits from management of internal and external funds. For EEV basis reporting, Group shareholders' other income is adjusted to deduct the expected margins for the period on management of covered business. The deduction is on a basis consistent with that used for projecting the results for covered business. Group operating profit accordingly includes the variance between actual and expected profit in respect of covered business.

iii Restructuring costs comprise the charge of £(26) million recognised on an IFRS basis and an additional £(2) million recognised on the EEV basis for the shareholders' share of restructuring costs incurred by the PAC with-profits fund (2009: £(23) million on an IFRS basis and an additional £(4) million on the EEV basis). For 2010, Solvency II implementation costs comprise the charge of £(45) million recognised on an IFRS basis and an additional £(1) million recognised on the EEV basis.

iv New business profits for the Group's Japanese insurance subsidiary, which ceased selling new business with effect from 15 February 2010, have been presented separately from those of the remainder of the Group.

v Exchange translation

The comparative results have been prepared using previously reported average exchange rates for the year.

Summarised consolidated income statement

	Note	2010 £m	2009 £m
Operating profit based on longer-term investment returns			
Asian operations		1,518	1,154
US operations		1,480	1,237
UK operations:			
UK insurance operations		982	921
M&G		284	238
		1,266	1,159
Other income and expenditure		(494)	(433)
Solvency II implementation costs		(46)	-
Restructuring costs		(28)	(27)
Operating profit based on longer-term investment returns		3,696	3,090

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Short-term fluctuations in investment returns	4	(30)	351
Mark to market value movements on core borrowings	9	(164)	(795)
Shareholders' share of actuarial and other gains and losses on defined benefit pension schemes		(11)	(84)
Effect of changes in economic assumptions	5	(10)	(910)
Costs of terminated AIA transaction	6	(377)	-
Gain on dilution of holding in PruHealth	18	3	-
Profit on sale and results for Taiwan agency business	19	-	91
Profit from continuing operations before tax (including actual investment returns)		3,107	1,743
Tax attributable to shareholders' profit	11	(530)	(481)
Profit from continuing operations after tax before non-controlling interests		2,577	1,262
Discontinued operations (net of tax)		-	(14)
Profit for the year		2,577	1,248
Attributable to:			
Equity holders of the Company		2,573	1,245
Non-controlling interests		4	3
Profit for the year		2,577	1,248
Earnings per share (in pence)			
	Note	2010	2009
From operating profit based on longer-term investment returns, after related tax and non-controlling interests of £2,700m* (2009: £2,221m)	12	106.9p	88.8p
Based on profit after tax and non-controlling interests of £2,573m (2009: £1,245m)	12	101.9p	49.8p
* excluding an exceptional tax credit of £158 million which primarily relates to the impact of a settlement agreed with the UK tax authorities - see note 11.			
Dividends per share (in pence)			
		2010	2009
Dividends relating to reporting year:			
Interim dividend (2010 and 2009)		6.61p	6.29p
Final/second interim dividend (2010 and 2009)		17.24p	13.56p
Total		23.85p	19.85p
Dividends declared and paid in reporting year:			
Current year interim dividend		6.61p	6.29p
Second interim/final dividend for prior year		13.56p	12.91p
Total		20.17p	19.20p
Movement in shareholders' equity (excluding non-controlling interests)			
		2010	2009
	Note		

Edgar Filing: PRUDENTIAL PLC - Form 6-K

		£m	£m
Profit for the year attributable to equity shareholders		2,573	1,245
Items taken directly to equity:			
Exchange movements on foreign operations and net investment hedges:			
Exchange movements arising during the year		659	(761)
Related tax		34	11
Dividends		(511)	(481)
New share capital subscribed (including shares issued in lieu of cash dividends)		75	141
Reserve movements in respect of share-based payments		37	29
Treasury shares:			
Movement in own shares held in respect of share-based payment plans		(4)	3
Movement in Prudential plc shares purchased by unit trusts consolidated under IFRS		3	(3)
Mark to market value movements on Jackson assets backing surplus and required capital (gross movement)		105	205
Related tax		(37)	(72)
Net increase in shareholders' equity	10	2,934	317
Shareholders' equity at beginning of year (excluding non-controlling interests)	7,10	15,273	14,956
Shareholders' equity at end of year (excluding non-controlling interests)	7,10	18,207	15,273

	Note	2010 £m			2009 £m		
		Long-term operations	Asset management business and other operations	Total	Long-term operations	Asset management business and other operations	Total
Comprising:							
Asian operations:							
Net assets of operations		7,445	197	7,642	5,781	161	5,942
Acquired goodwill		236	61	297	80	61	141
	7	7,681	258	7,939	5,861	222	6,083
US operations:							
Net assets of operations		4,799	106	4,905	4,122	95	4,217
Acquired goodwill		-	16	16	-	16	16
	7	4,799	122	4,921	4,122	111	4,233
UK insurance operations:							
Net assets of operations		5,970	33	6,003	5,439	37	5,476
M&G:							
Net assets of operations		-	254	254	-	173	173
Acquired goodwill		-	1,153	1,153	-	1,153	1,153
		-	1,407	1,407	-	1,326	1,326
	7	5,970	1,440	7,410	5,439	1,363	6,802
Other operations:							

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Holding company net borrowings at							
market value	9	-	(2,212)	(2,212)	-	(1,780)	(1,780)
Other net assets (liabilities)		-	149	149	-	(65)	(65)
	7	-	(2,063)	(2,063)	-	(1,845)	(1,845)
Shareholders' equity at end of year (excluding non-controlling interests)	7	18,450	(243)	18,207	15,422	(149)	15,273
Representing:							
Net assets		18,214	(1,473)	16,741	15,342	(1,379)	13,963
Acquired goodwill		236	1,230	1,466	80	1,230	1,310
		18,450	(243)	18,207	15,422	(149)	15,273
Net asset value per share (in pence)						2010	2009
Based on EEV basis shareholders' equity of £18,207 million (2009: £15,273 million)						715p	603p
Number of issued shares at year end (millions)						2,546	2,532
Return on embedded value*						18%	15%

\* Return on embedded value is based on EEV operating profit after tax and non-controlling interests (adjusted to exclude an exceptional tax credit of £158 million (as shown in note 11) as a percentage of opening EEV basis shareholders' equity.

Summary statement of financial position

	Note	2010 £m	2009 £m
Total assets less liabilities, before deduction for insurance funds		231,667	201,501
Less insurance funds:*			
Policyholder liabilities (net of reinsurers' share) and unallocated surplus of			
with-profits funds		(223,636)	(195,230)
Less shareholders' accrued interest in the long-term business		10,176	9,002
		(213,460)	(186,228)
Total net assets	7,10	18,207	15,273
Share capital		127	127
Share premium		1,856	1,843
IFRS basis shareholders' reserves		6,048	4,301
Total IFRS basis shareholders' equity	7	8,031	6,271
Additional EEV basis retained profit	7	10,176	9,002
Shareholders' equity (excluding non-controlling interests)	7,10	18,207	15,273

\*Including liabilities in respect of insurance products classified as investment contracts under IFRS 4.

Notes on the EEV basis result

1 Basis of preparation, methodology and accounting presentation

The EEV basis results have been prepared in accordance with the EEV Principles issued by the CFO Forum of European Insurance Companies in May 2004 and expanded by the Additional Guidance on EEV Disclosures published in October 2005. Where appropriate, the EEV basis results include the effects of adoption of International Financial Reporting Standards (IFRS).

The directors are responsible for the preparation of the supplementary information in accordance with the EEV Principles.

The EEV basis results for 2010 and 2009 have been derived from the EEV basis results supplement to the Company's statutory accounts for 2010. The supplement included an unqualified audit report from the auditors.

a Covered business

The EEV results for the Group are prepared for 'covered business', as defined by the EEV Principles. Covered business represents the Group's long-term insurance business for which the value of new and in-force contracts is attributable to shareholders. The EEV basis results for the Group's covered business are then combined with the IFRS basis results of the Group's other operations.

The definition of long-term business operations is consistent with previous practice and comprises those contracts falling under the definition of long-term insurance business for regulatory purposes together with, for US operations, contracts that are in substance the same as guaranteed investment contracts (GICs) but do not fall within the technical definition. Under the EEV Principles, the results for covered business incorporate the projected margins of attaching internal asset management.

With two principal exceptions, covered business comprises the Group's long-term business operations. The principal exceptions are for the closed Scottish Amicable Insurance Fund (SAIF) and for the presentational treatment of the financial position of the Group's principal defined benefit pension scheme, the Prudential Staff Pension Scheme (PSPS). A small amount of UK group pensions business is also not modelled for EEV reporting purposes.

SAIF is a ring-fenced sub-fund of the Prudential Assurance Company (PAC) long-term fund, established by a Court approved Scheme of Arrangement in October 1997. SAIF is closed to new business and the assets and liabilities of the fund are wholly attributable to the policyholders of the fund.

As regards PSPS, the deficit funding liability attaching to the shareholder-backed business is included in the total for Other operations, reflecting the fact that the deficit funding is being paid for by the parent company, Prudential plc.

b Methodology

i Embedded value

Overview

The embedded value is the present value of the shareholders' interest in the earnings distributable from assets allocated to covered business after sufficient allowance has been made for the aggregate risks in that business. The shareholders' interest in the Group's long-term business comprises:

present value of future shareholder cash flows from in-force covered business (value of in-force business), less deductions for:

- the cost of locked-in required capital;
- the time value of cost of options and guarantees

locked-in required capital; and

shareholders' net worth in excess of required capital (free surplus).

The value of future new business is excluded from the embedded value.

Notwithstanding the basis of presentation of results (as explained in note 1c(iv)) no smoothing of market or account balance values, unrealised gains or investment return is applied in determining the embedded value or profit before tax. Separately, the analysis of profit is delineated between operating profit based on longer-term investment returns and other constituent items, as explained in note 1c(i).

Valuation of in-force and new business

The embedded value results are prepared incorporating best estimate assumptions about all relevant factors including levels of future investment returns, expenses, persistency and mortality. These assumptions are used to project future cash flows. The present value of the future cash flows is then calculated using a discount rate which reflects both the



time value of money and the non-diversifiable risks associated with the cash flows that are not otherwise allowed for.

#### Best estimate assumptions

Best estimate assumptions are used for the cash flow projections, where best estimate is defined as the mean of the distribution of future possible outcomes. The assumptions are reviewed actively and changes are made when evidence exists that material changes in future experience are reasonably certain.

Assumptions required in the calculation of the value of options and guarantees, for example relating to volatilities and correlations, or dynamic algorithms linking liabilities to assets, have been set equal to the best estimates and, wherever material and practical, reflect any dynamic relationships between the assumptions and the stochastic variables.

#### Principal economic assumptions

For the Group's UK and US operations, the 2010 and 2009 EEV basis results have been determined using economic assumptions where the long-term expected rates of return on investments and risk discount rates are set by reference to period end rates of return on cash or fixed income securities (the 'active' basis).

For Asian operations, the 2009 EEV basis results for Japan, Korea and US dollar denominated business written in Hong Kong were determined on the 'active' basis. For other Asian countries the investment return assumptions and risk discount rates for 2009 were based on an assessment of longer-term economic conditions (the 'passive' basis). In 2010, the approach has been altered to determine the EEV basis results for all Asian territories on an active basis of economic assumption setting, in line with the Group's other operations, and reflecting the fact that markets in a number of Asian countries are becoming increasingly developed.

For those Asian operations whose EEV basis results were previously determined on the 'passive' basis of economic assumption setting, the effect of the change in 2010 to move to an 'active' basis is as follows:

	£m
Pre-tax operating profits from:	
New business (note 2)	5
Business in-force (note 3)	(58)
Total	(53)
Effect on short-term fluctuations in investment returns and changes in economic assumptions	16
Total profit before tax	(37)
Shareholders' funds as at 31 December 2010	(39)

For 2010 and 2009, for all the Group's operations, expected returns on equity and property asset classes are derived by adding a risk premium, based on the long-term view of Prudential's economists to the risk free rate.

The total profit that emerges over the lifetime of an individual contract as calculated using the embedded value basis is the same as that calculated under the IFRS basis. Since the embedded value basis reflects discounted future cash flows, under this methodology the profit emergence is advanced thus more closely aligning the timing of the recognition of profits with the efforts and risks of current management actions, particularly with regard to business sold during the year.

#### New Business

The contribution from new business represents profits determined by applying operating assumptions as at the end of the year.

## Edgar Filing: PRUDENTIAL PLC - Form 6-K

In determining the new business contribution for UK immediate annuity and lifetime mortgage business, which is interest rate sensitive, it is appropriate to use assumptions reflecting point of sale market conditions, consistent with how the business is priced. For other business within the Group, end of period economic assumptions are used.

### Valuation movements on investments

With the exception of debt securities held by Jackson, investment gains and losses during the year (to the extent that changes in capital values do not directly match changes in liabilities) are included directly in the profit for the year and shareholders' equity as they arise.

The results for any covered business conceptually reflects the aggregate of the IFRS results and the movements on the additional shareholders' interest recognised on the EEV basis. Thus the start point for the calculation of the EEV results for Jackson, as for other businesses, reflects the market value movements recognised on the IFRS basis.

However, in determining the movements on the additional shareholders' interest, the basis for calculating the Jackson EEV result acknowledges that for debt securities backing liabilities the aggregate EEV results reflect the fact that the value of in-force business instead incorporates the discounted value of future spread earnings. This value is not affected generally by short-term market movements on securities that are broadly speaking held for the longer-term.

Fixed income securities backing the free surplus and required capital for Jackson are accounted for at fair value. However, consistent with the treatment applied under IFRS for Jackson securities classified as available-for-sale, movements in unrealised appreciation on these securities are accounted for in equity rather than in the income statement, as shown in the movement in shareholders' equity.

### Cost of capital

A charge is deducted from the embedded value for the cost of capital supporting the Group's long-term business. This capital is referred to as required capital. The cost is the difference between the nominal value of the capital and the discounted value of the projected releases of this capital allowing for investment earnings (net of tax) on the capital.

The annual result is affected by the movement in this cost from year-to-year which comprises a charge against new business profit and generally a release in respect of the reduction in capital requirements for business in force as this runs off.

Where required capital is held within a with-profits long-term fund, the value placed on surplus assets in the fund is already discounted to reflect its release over time and no further adjustment is necessary in respect of required capital.

### Financial options and guarantees

Nature of options and guarantees in Prudential's long-term business  
Asian operations

### Foreign currency

#### Working capital (pre-payment)

Dollar 7.11 910 726

#### Export drafts - restricted

(150) (136) 760 590

### Local currency

Edgar Filing: PRUDENTIAL PLC - Form 6-K

BNDES

TJLP 9.64 44 40

Financing of investment

IGPM 6.52 10 36

Working capital

CDI 12.95 8 69            62 145

Debentures

102 307

Current liabilities

226 332

Long-term liabilities

698 710

(\*) Weighted average rate that reflects the charges on loans.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

CDI - Interbank Deposit Certificate

TJLP - Long-Term Interest Rate

**Debentures**

On May 26, 2003 an Extraordinary General Meeting of Ipiranga Química was held that discussed and approved the issuance of two series of private convertible debentures: the A series with 11,000 (eleven thousand) debentures in the amount of R\$ 10 (ten thousand reais) each one resulting in a total amount of R\$ 110, and the B series with 80,000 (eighty thousand) debentures in the amount of R\$ 1 (one thousand reais) each one resulting in a total amount of R\$ 80, both with real property security rights and payment due in five years. The debentures were subscribed by Distribuidora de Produtos de Petróleo Ipiranga S.A. DPPI and by Companhia Brasileira de Petróleo Ipiranga - CBPI on June DPPI subscribed all the series A debentures and CBPI subscribed all the B series debentures.

The subscribed debentures have the right to a compensation that corresponds to the variation of the interbank deposits (DI rate) plus a spread of 1.1% to 2.8% p.a. The spread is subject to renegotiation: the Series A debentures every six months and the series B debentures every five months. In 2005 the spread was of 1% to 1.4% p.a. for CBPI and 1% to 1.5% p.a. for DPPI. In 2006 the spread was of 1% p.a. for CBPI and for DPPI. The DI rate was 15.1% p.a. in 2006 and 18% p.a. in 2005.

By means of a memorandum of understanding signed on October 3, 2005, the Company and its stockholders agreed to hold an Extraordinary General Meeting - AGE in order to discuss the changes in the type of debentures issued in June 2003 by the Company, from convertible into shares to non-convertible into shares and the issuance of a subscription bonus to be delivered to DPPI and to CBPI without any cost, in substitution of the right of conversion foreseen in the debentures held by both.

The AGE mentioned was held on October 6, 2005 and all the operations listed in the memorandum of understanding were carried out. A Purchase Agreement was signed on December 1, 2005 when DPPI sold the bonuses referred to for R\$ 29 to Refinaria de Petróleo Ipiranga S.A., which thus kept its interest in the Company intact.

The principal and interest is due on June 1, 2008; however, R\$ 241 of the initial balance of R\$ 307 in debentures was paid in advance during 2006. The balance at December 31, 2006 was R\$ 101, classified between short and long-term). The interest on capital to receive from Ipiranga Petroquímica S.A. - IPQ in the amount of R\$ 24 will be used in full for the early payment of the debentures in 2007.

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

**(b) Long-term financing falls due as follows**

Year	2006	2005 Unaudited
2007		143
2008	187	427
2009	141	86
2010	131	54
After 2010	239	
	698	710

**(c) Guarantees**

The financings in foreign currency are guaranteed by promissory notes, surety bonds from CBPI, RPI, and Refinaria de Petróleo Ipiranga S.A. - RPI, and exports. At Ipiranga Petroquímica S.A., the financings are guaranteed in part by the mortgage of plant 2 of COPESUL - Companhia Petroquímica do Sul and by letter of guarantee.

The financings contracted with Banco Nacional de Desenvolvimento Econômico e Social - BNDES have as a fiduciary guarantee the operational plant of COPESUL - Companhia Petroquímica do Sul and the purchase of investment is guaranteed by shares of COPESUL - Companhia Petroquímica do Sul. Loans for working capital are guaranteed by promissory notes, NCE s (Export Credit Notes), and sales.

**14 Taxes and Charges Payable**

	2006	2005 Unaudited
IPI payable	16	15
PIS and COFINS payable	12	3
CIDE on fuels payable	6	3
IRPJ (Corporate Income Tax) payable		8
ICMS payable	8	9
Other retentions payable	5	5
	47	43
Current liabilities	41	35
Long-term liabilities	6	8

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

**15 Income Tax and Social Contribution - Parent Company****(a) Composition of deferred taxes**

Deferred taxes are based on the profitability record of the Company supported by estimates that forecast future profits for the realization of these assets within less than 10 years. The taxes were computed as follows:

	2006	2005 Unaudited
Provisions for variable compensation	1	
Allowance for doubtful accounts	1	
Provision for contingencies	1	
Provision for post-employment benefits		2
Provision for loss on financial investment in Banco Santos	3	3
Calculation basis for temporary differences	6	5
Standard tax rate - %	34	34
	2	2
Income tax on tax loss - 25%	5	6
Social contribution on tax loss - 9%	7	6
	12	12
Total of deferred income tax and social contribution assets	14	14
Current assets	1	
Long-term receivables	13	14

In 2006, the Company had social contribution tax losses, thus constituting a deferred tax asset on these amounts, which do not expire and can be offset against future taxable profits. The utilization of tax losses is limited to 30% of the taxable profit, as determined by the Brazilian fiscal legislation.

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

**(b) Forecast of the realization of the deferred tax asset**

The Company's management, based on the approved budget and business plan, forecasts that the tax credit will be realized as shown below:

	2006	2005 Unaudited
2007	1	2
2008	4	2
2009	3	3
2010	1	2
2011 to 2014	5	5
	14	14

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.

**16 Stockholders' Equity****(a) Capital**

The capital comprises 436,074,462,490 common nominative shares, all without par value and belonging to stockholders resident in the country.

**(b) Special reserve**

The stockholders are assured each year of minimum compulsory dividends that correspond to 25% of the year's net income adjusted as provided by the law. Due to the complete utilization of the resources received and the forecast of using the monies to be received from the subsidiary Ipiranga Petroquímica S.A. for paying the debentures, the Company's Board of Directors proposed in the Annual General Meeting held on April 18, 2007 the retention of the profits for year 2006, which is an amount of R\$ 49 and corresponds to the compulsory dividends, transferring it to a Special Reserve.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

**(c) Statutory reserve**

This reserve refers to the retention of the remaining balance of the retained earnings in order to meet the project of growing the business established in the investment plan, which corresponds to 75% of the net income for the year after the deduction of the legal reserve and cannot surpass the amount of the capital. A retention of R\$ 149 was approved during the Annual General Meeting held on April 18, 2007, for the reserve for working capital and the maintenance and improvement of the facilities.

**(d) 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](http://www.braskem.com.br), [www.copesul.com.br](http://www.copesul.com.br), [www.bovespa.com.br](http://www.bovespa.com.br), and [www.cvm.gov.br](http://www.cvm.gov.br), as established by article 8, paragraph 5, of CVM Instruction no. 361/02.



**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

**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 itself and its controlled company EDSP58 Participações S.A. ( Offeror ) and Copesul - Companhia Petroquímica do Sul ( Copesul ), in compliance with 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 in circulation 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 Instruction 361/02, Bovespa has 4 business days to send to CVM the final reports regarding the auction.

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

**17 Financial Result**

The Company's financial result in the first quarter of 2007, compared with the 2006 year, is as follows:

	2006	2005 Unaudited
<b>Financial income</b>		
Interest	14	17
Revenue with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	93	33
Monetary variations on assets	13	3
Exchange variations on assets	(2)	79
PASEP adjustment	9	
Other financial income	22	12
	149	144
<b>Financial expenses</b>		
Interest and charges on loans and financing	(168)	(218)
Expense with derivatives of Fundo de Investimento Financeiro Multimercado Copesul	(84)	(25)
Exchange variations on liabilities	57	2
Monetary variations on liabilities	(1)	(2)
Other financial expenses	(36)	(35)
	(232)	(278)
<b>Net financial result</b>	(83)	(134)

**18 Financial Instruments**

Considering the terms of CVM Instruction no. 235/95, the Company and its subsidiaries made an assessment of their current assets and liabilities in relation to the market value through information available and appropriate assessment methodologies. However, both the interpretation of market data and the selection of assessment 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.

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

The Company and its subsidiaries participate in operations that involve financial instruments, all of which are registered in assets and liabilities, which have the purpose of meeting their needs as well as reducing the exposure to credit and currency risks. The management of these risks is done by defining strategies, establishing controls, and determining the limits of positions.

The main bases of financial instruments that affect the Company's business are listed below:

**(a) Currency risk**

This risk derives from the possibility of the Company incurring significant losses due to fluctuations in the exchange rates that would affect the balances of loans and financing in foreign currency. The exposure to the exchange rate fluctuations may be shown as follows:

	Millions of US\$	
	2006	2005
		Unaudited
Loans and financing	(356)	(252)
Swap operations	3	
Other liabilities	(11)	(9)
Assets	57	26
<b>Net exposure</b>	<b>(307)</b>	<b>(235)</b>
Exchange rate of the US\$ to Reais	2.1380	2.3407

**(b) Credit risk**

The Company's sales policy is intimately associated with the level of credit risk that it is willing to accept during its business dealings. The diversification of its portfolio of receivables, the selectivity of its customers, as well as the monitoring of the sales financing terms per business segment and individual limits of position are procedures adopted in order to minimize possible problems of default in its accounts receivable.

**Ipiranga Química S.A. and Subsidiaries****Notes to the Consolidated Financial Statements**

at December 31, 2006 and 2005

In millions of reais, except when otherwise indicated

**(c) Liquidity risk**

The Company manages the liquidity risk by placing its investments in top financial institutions and maintaining sufficient cash balances and financial investments for honoring its commitments. Considering the nature of the business, the Company maintains credit lines (vendedor) with financial institutions in order to bring flexibility to its receivable terms.

The book amounts of the Company's main financial instruments on December 31, 2006 recorded in the assets and liabilities approximate their market values.

**19 Insurance**

The Company and its subsidiaries have an insurance and risk management program that provides coverage and protection for all its insurable assets, including insurance coverage for the risks that could result from production interruption.

The coverage and limits insured in the policies contracted are considered by management as sufficient to cover the possible losses that could occur considering the nature of the activity of the Company and its subsidiaries.

**20 Contingencies****(a) Probable contingent liabilities**

Provisions were set up in order to cover the probable losses estimated by management, supported by the legal advisors, resulting from the following processes:

	Judicial deposits		Provisions for contingencies	
	2006	2005 Unaudited	2006	2005 Unaudited
Tax contingencies	2	7	8	1
Labor contingencies	1	1	10	3
Civil and other contingencies	6		2	1
	9	8	20	5
Current			9	2
Long-term	9	8	11	3
	9	8	20	5

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

Characteristics of the amounts:

**Tax contingencies**

Ipiranga Petroquímica S.A. - On December 31, 2006, the tax claims in this classification refer to the following items: (1) Withholding Tax (IRRF) on dividends received from subsidiary in 1994 and 1995 for which the Company made a request for reimbursement to the Brazilian Revenue Secretariat (SRF) since at the time there were no objective conditions for its offset because (i) the dividends ceased to be taxed beginning on January 1, 1996 and (ii) it was not possible to distribute profits until 2004 due to the existence of accumulated losses. The SRF, by means of Regulatory Instruction no. 12/99, decided on the issue and began to allow the compensation of the IRRF with the withholding tax payable at the time of the distribution of Interest on capital (JCP) attributed by the Company to its stockholders. Based on the results of years 2005 and 2006, the Company attributed JCP to its stockholders and made the compensation during 2006 of the prepaid tax asset of IRRF with the withholding tax levied on the JCP. Since the IRRF asset was considered contingent, the Company's management, in a conservative manner, constituted the provision for contingencies related to the amount of the withholding tax compensated and continues to discuss these issues in both the administrative and judicial levels. (2) Demand for reversal of the presumed IPI credits in relation to the recovery of PIS/COFINS of exported products. (3) Non-approval of the offset of other taxes made with PIS/COFINS credits from operations in the domestic market.

COPEsul - Companhia Petroquímica do Sul - With respect to the Income Tax and Economic Domain Intervention Contribution (CIDE) on payment of technical assistance services, the investee 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.

**Labor contingencies**

Ipiranga Petroquímica S.A. - On December 31, 2006, the labor claims referred mainly to claims made by former employees and outsourced personnel concerning salary equalization and overtime.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

COPEsul - Companhia Petroquímica do Sul - Copesul 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 investee is a party to labor, civil, and tax claims as well as others in progress and is discussing these issues in both the administrative and judicial levels, backed by judicial deposits when applicable.

Furthermore, the investee has made provision for labor losses related to suits filed by the Petrochemical Industry Labor Union of Triunfo concerning the rights claimed by the investee'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' rights 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.

**Civil contingencies**

COPEsul - Companhia Petroquímica do Sul - The main lawsuits are related to complaints made by contracted workers related to losses that supposedly occurred as a result of various economic plans.

**(b) Possible contingent liabilities**

The cases considered as possible, but not probable, loss by the Company's management based on legal opinions are not provided for in the financial statements and are as follows:

Characteristics of the amounts:

**Tax claims**

Ipiranga Petroquímica S.A. - On December 31, 2006, the tax claims in this classification refer mainly to the following items: (1) infraction notice due to adjustments in the amount stated when importing the petrochemical plants as related to the incidence of import tax and IPI on the license rights for the plants and transfer of know-how. (2) Non-approval of the offset of the PIS credit balance in the first and second quarters of 2003 for alleged prohibition of using accrued credits calculated in more than one quarter. (3) Tax assessment notice due to the tax reclassification of imported product, requirement of IPI and II, and which amount was partially reduced due to the favorable decision in the administrative appeal and this respective amount was transferred to the group of liability contingencies of remote loss.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

COPEL - Companhia Petroquímica do Sul - 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 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 Court's decision.

**Labor claims**

Ipiranga Petroquímica S.A. - On December 31, 2006, the claims referred mainly to claims made by former employees and outsourced personnel concerning salary equalization and overtime.

**Civil claims**

COPEL - Companhia Petroquímica do Sul - 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.

**(c) Contingent assets**

Ipiranga Petroquímica S.A. filed a federal lawsuit in order to recover the taxes and contributions paid in error or in excess and whose process may at the end represent gains that, due to their contingent nature, are not recorded in the financial statements as of December 31, 2006. Because of the progress of this case, the Company's management, based on the evaluation of legal advisors, classified the demands as possibly being successful. On December 31, 2006, these lawsuits are related to the Expansion of the Calculation Basis of PIS and COFINS, in the amount of R\$ 8.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

**21 Provision for Post-employment Benefits**

**(a) Ipiranga Química S.A.**

Ipiranga Química S.A., together with the other Petróleo Ipiranga Companies, sponsors the Fundação Francisco Martins Bastos - FFMB, which is a closed complementary pension plan that has the objective of managing and executing pension benefit plans for the employees in the Petróleo Ipiranga Companies.

The FFMB benefits plan was created in 1993. Initially it was constituted as a basic benefit (set up in the modality of defined benefit) and in July, 1998 the supplementary benefit was implemented (structured as a defined contribution in the capitalization phase of the programmable benefits), whose contribution percentage is applicable to eventual variable remunerations. The cost of the plan is apportioned among the sponsors and participants.

The Company, in addition to the retirement plan, recognizes provision for post-employment benefits related to a bonus for time of service, indemnity of the employment security fund - FGTS, and medical and life insurance for eligible retirees ( complementary benefits ).

On August 31, 2005, the Complementary Pension Secretariat - SPC, through an official letter no. 1003/SPC/DETEC/CGAT, approved FFMB's new Benefits Plan Regulation. New rules of portability were introduced, as well as those of the deferred proportional benefit, self-sponsorship, and the redemption foreseen in Resolution CGPC no. 6 of October 30, 2003, which put into effect the changes in the calculation of the benefits as well as the new life expectancy table GAM-83 and the change in the actuarial method from unit credit to projected unit credit, as actuarial adaptations.

The main changes in the calculations of the benefits, approved in the new regulation, have to do with the adjustment of the unit salary, the gradual elimination of the bonus in the counting of the service credited for benefit-calculation purposes, and the increase of the reducing percentage of the basic benefit of early retirement.

These changes in the FFMB plan produced in the Petróleo Ipiranga Companies (joint sponsors) a reduction in the total cost of the plan defined by the actuary for 2006, based on the applicable payroll, of around 36%.



**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

During 2006, SPC through Resolution CGPC no. 18 of March 28, 2006 established new technical-actuarial parameters for the closed private pension entities. Accordingly, the minimum life expectancy table to be adopted became the AT-1983, extending by approximately two years the life expectancy of the active participants.

The amounts related to the complementary benefits and the pension plan were calculated in an annual actuarial assessment conducted by independent actuaries as of December 31, 2006 and are recognized in the financial statements in accordance with NPC 26.

**(b) COPESUL - Companhia Petroquímica do Sul**

Copesul 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 participating in the plan.

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.

**22 Related Parties**

According to CVM Deliberation 26/86, the related parties are considered those entities, whether individuals or companies, with which the Company has the possibility of contracting, in the broad sense of this word, under conditions other than those that might be applicable to independent third parties, not subject to the Company's managerial control or any other influence.

**Ipiranga Química S.A. and Subsidiaries**

**Notes to the Consolidated Financial Statements**

**at December 31, 2006 and 2005**

**In millions of reais, except when otherwise indicated**

The related parties balance at December 31, 2006 are recorded as follows:

	2006	2005 Unaudited
<b>Assets</b>		
Companhia Brasileira de Petróleo Ipiranga S.A.		1
<b>Liabilities</b>		
Companhia Brasileira de Petróleo Ipiranga S.A.	1	
Refinaria de Petróleo Ipiranga S.A.	3	2
	* * *	

## Ipiranga Química S.A. and subsidiaries

## Consolidated Balance Sheets

In millions of reais - except when otherwise indicated

	3/31/2007 Unaudited	12/31/2006
<b>Assets</b>		
Current liabilities		
Cash and cash equivalents (Note 4)	112	84
Marketable securities (Note 5)	12	12
Customers		
Local customers	415	402
Foreign customers	208	212
Export drafts - billed	(172)	(150)
Swap receivables (Note 6)	26	19
Inventories (Note 7)	376	361
Taxes and charges recoverable (Note 8)	91	85
Prepaid expenses (Note 9)	8	11
Other accounts receivable	16	13
	1,092	1,049
Noncurrent assets		
Long-term receivables		
Customers	5	3
Taxes and charges recoverable (Note 8)	294	292
Judicial deposits (Note 20)	9	9
Prepaid expenses (Note 9)	1	1
Claims receivable and other	9	9
	318	314
Permanent assets		
Investments (Note 10)	59	66
Property, plant and equipment (Note 11)	950	962
Deferred charges (Note 12)	18	18
	1,027	1,046
	1,345	1,360
<b>Total assets</b>	<b>2,437</b>	<b>2,409</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities		
Suppliers	663	650
Loans, financing, and debentures (Note 13)	182	226
Taxes and charges payable (Note 14)	28	41
Social, labor, and other contributions and charges	38	64
Proposed dividends and interest on capital	5	7
Swap payables (Note 6)	13	7
Income tax and social contribution	44	15

Edgar Filing: PRUDENTIAL PLC - Form 6-K

Provision for contingencies (Note 20)	5	9
	978	1,019
<b>Noncurrent liabilities</b>		
<b>Long-term liabilities</b>		
Loans, financing, and debentures (Note 13)	666	698
Taxes and charges payable (Note 14)	7	6
Income tax and social contribution	41	39
Provision for contingencies (Note 20)	21	11
Provision for post-employment benefits (Note 21)	11	11
Other long-term liabilities	4	4
	750	769
Minority interest	44	37
<b>Stockholders' equity (Note 16)</b>		
Capital	295	295
Capital reserve	86	86
Revenue reserves	208	208
Retained earnings (deficit)	76	(5)
	665	584
<b>Total liabilities and stockholders' equity</b>	<b>2,437</b>	<b>2,409</b>

The accompanying notes are an integral part of this interim financial information.

## Ipiranga Química S.A. 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
<b>Gross sales</b>		
Sale of chemical, petrochemical products and utilities		
Local market	1,039	951
Foreign market	238	207
	1,277	1,158
Taxes, contributions and freight on sales	(318)	(310)
<b>Net sales</b>	959	848
Cost of products, utilities and services	(753)	(699)
<b>Gross profit</b>	206	149
<b>Operating (expenses) income</b>		
Selling	(25)	(14)
General and administrative	(31)	(26)
Depreciation and amortization	(3)	(3)
Other operating income (expenses), net	(6)	9
	(65)	(34)
<b>Operating profit before financial result</b>	141	115
<b>Financial result (Note 17)</b>		
Financial expenses	(54)	(15)
Financial income	53	23
	(1)	8
<b>Amortization of goodwill</b>	(7)	(6)
<b>Operating profit</b>	133	117
<b>Non-operating result</b>		
Non-operating expenses	(1)	(2)
	(1)	(2)
<b>Income before income tax and social contribution</b>	132	115
Provision for income tax and social contribution (Note 15)	(40)	(27)
Deferred income tax and social contribution (Note 15)	(2)	(2)
<b>Net income of the period before profit sharing and minority interest</b>	90	86
Profit sharing	(2)	(1)
Minority interest	(7)	(13)

Edgar Filing: PRUDENTIAL PLC - Form 6-K

<b>Consolidated net income of the period</b>	81	72
<b>Shares at the end of the period (in thousands)</b>	436,074,462	436,074,462
<b>Net income per share (in R\$)</b>	0.0002	0.0002

The accompanying notes are an integral part of this interim financial information.

**Ipiranga Química S.A. and subsidiaries**

**Unaudited Interim Statement of Changes in Stockholders' Equity**

**In millions of reais - except when otherwise indicated**

	Capital	Capital reserve Fiscal incentives	Legal	Statutory	Special	Retained earnings (deficit)	Total
<b>At December 31, 2005</b>	295	86				(3)	378
Net income for the period						72	72
<b>At March 31, 2006</b>	295	86				69	450
<b>At December 31, 2006</b>	295	86	10	149	49	(5)	584
Net income for the period						81	81
<b>At March 31, 2007</b>	295	86	10	149	49	76	665

The accompanying notes are an integral part of this interim financial information.

## Ipiranga Química S.A. and subsidiaries

## Unaudited Interim Consolidated Statement of Changes in Financial Position

In millions of reais

	Quarter ended 3/31/2007	Quarter ended 3/31/2006
<b>Financial resources were provided by</b>		
<b>Operations</b>		
Net income of the period	81	72
Share of minority stockholders in net income	7	13
Expenses (income) not affecting working capital		
Depreciation and amortization	22	11
Amortization of goodwill	7	6
Disposals of property, plant and equipment and other	1	22
Provision for administrative, civil and labor contingencies	10	(2)
Monetary/exchange variations and interest on long-term assets	(4)	(1)
Monetary/exchange variations and interest on long-term liabilities	(20)	(13)
Allowance for doubtful accounts		(1)
Deferred long-term income tax and social contribution	2	13
	106	120
<b>Third parties</b>		
Decrease in long-term receivables	4	14
Increase in long-term liabilities	6	10
	10	24
<b>Total funds provided</b>	<b>116</b>	<b>144</b>
<b>Financial resources were used for</b>		
Increase in long-term receivables	3	1
Permanent assets:		
Property, plant and equipment	11	31
Transfer from loans and financing to current liabilities	3	12
Decrease in other long-term liabilities accounts	15	54
<b>Total funds used</b>	<b>32</b>	<b>98</b>
<b>Increase in working capital</b>	<b>84</b>	<b>46</b>
<b>Current assets</b>		
At the end of the period	1,092	878
At the beginning of the period	1,049	784
	43	94
<b>Current liabilities</b>		
At the end of the period	978	984
At the beginning of the period	1,019	936
	(41)	48



**Increase in working capital**

84

46

The accompanying notes are an integral part of this interim financial information.

## Ipiranga Química S.A. and subsidiaries

## Unaudited Interim Consolidated Statement of Cash Flows

In millions of reais

	Quarter ended 3/31/2007 Unaudited	Quarter ended 3/31/2006 Unaudited
Net income of the period	81	72
Share of minority stockholders in net income	7	13
Expenses (income) not affecting cash		
Depreciation and amortization	22	11
Provision for administrative, civil and labor contingencies	6	(1)
Allowance for doubtful accounts	2	4
Disposals of property, plant and equipment and other	1	22
Monetary/exchange variations and interest on liabilities	(13)	(15)
Deferred income tax and social contribution	2	2
Amortization of goodwill	7	6
Trade accounts receivable	9	(48)
Inventories	(15)	18
Other accounts receivable - current and long-term	(14)	(65)
Suppliers	13	72
Other accounts receivable - current and long-term	(33)	(26)
Net cash provided by operating activities	75	65
Additions to property, plant and equipment	(11)	(31)
Loans, financing and export drafts		
Issuances	232	151
Repayments	(266)	(180)
Interest on capital and dividends	(2)	(1)
Net cash used in financing activities	(36)	(30)
Net change in cash and cash equivalents	28	4
Initial cash and cash equivalents balance	84	108
Final cash and cash equivalents balance	112	112
Net change in cash and cash equivalents	28	4

The accompanying notes are an integral part of this interim financial information.

**Ipiranga Química S.A. 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**

Ipiranga Química S.A (referred to as the Company), headquartered in São Paulo, is a closely-held corporation and its main objectives are the distribution, sales and industrialization of solvents derived from petroleum and petrochemical industries, the distribution and sales of process oils, other petroleum by-products, chemical intermediate products, polymers, and chemical specialties.

The Company changed its name from Ipiranga Comercial Química S.A. to Ipiranga Química S.A in 2006. This change occurred because the Company was known in the market as Ipiranga Química.

The Company also has a percentage of ownership in Ipiranga Petroquímica S.A. - IPQ, which is engaged in the production and sales of high-density polyethylene. Furthermore, it also has an indirect stake in COPESUL - Companhia Petroquímica do Sul through IPQ, which provides it with the main inputs used in the production process.

**2 Presentation of the financial statements**

The consolidated financial statements were prepared and are 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 do not represent statutory accounts.

The preparation of financial statements requires the use of estimates to account for certain assets and liabilities and other transactions. Therefore, the Company's consolidated financial statements include estimates referring to the selection of useful lives of fixed assets, necessary accruals for contingent liabilities and determination of the accrual for income tax. Actual results may differ from such estimates.

**3 Significant accounting practices**

The accounting practices adopted in presenting the consolidated financial statements as of March 31, 2007 and 2006 are consistent with those disclosed in the audited financial statements of the parent company as of December 31, 2006.

**Ipiranga Química S.A. 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) Consolidated financial statements**

These consolidated statements include the subsidiaries Ipiranga Petroquímica S.A., Ipiranga Química Armazéns Gerais Ltda., and Isatec Pesquisa Desenvolvimento e Análises Químicas Ltda. It is important to mention that Ipiranga Petroquímica S.A. holds a 29.46% investment in COPESUL - Companhia Petroquímica do Sul (herein called indirect subsidiary), which is proportionally consolidated in these consolidated statements. In the consolidation process, balances, income, expenses, and unrealized profits arising from operations among the group companies were eliminated, as well as investments in subsidiaries.

**(b) Marketable securities and swap and option receivables and payables**

These are stated at cost, plus accrued contractual financial income up to the date of the financial statements, which does not exceed the market value (Note 5).

The customers whose receivable balance is in negotiation with the Company's collection department, and have estimated payment terms greater than one year, are classified in long-term accounts receivable.

**(c) Allowance for doubtful accounts**

The Company has individual knowledge of the credit profile of its customers, which provides means of measuring their payment capacity. Therefore, the provision set up is an amount considered to be enough by management to cover the estimated losses on realization of the credits.

**(d) Inventories**

Inventories are stated at the lower of the average cost of acquisition and the market value or net realizable value. The imports in transit are recorded at the accumulated cost of each import (Note 7).

**(e) Deferred income tax and social contribution**

These are calculated on the temporary differences and on income tax and social contribution losses based on the income tax and social contribution rates applicable at the time the tax effects are expected to be realized or settled. The taxes deferred on income tax and social contribution losses are limited to ten years.

Deferred income tax and social contribution assets are only recognized up to the amount considered as probable to be realized (Note 8).

**Ipiranga Química S.A. 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) Investments in subsidiaries**

The goodwill on the acquisition of investments is amortized over the expected period of benefit, never longer than 10 years.

**(g) Property, plant and equipment**

Property, plant, and equipment are recorded at acquisition or construction cost and adjusted for price-level restatement up to December 31, 1995. Depreciation is calculated on the straight-line basis at the rates presented in Note 11.

The financial charges incurred during the construction period of property, plant, and equipment are capitalized.

Whenever there is evidence that an item of property, plant and equipment could have a recoverable value lower than its net book value, the recoverable value is calculated in order to determine the need to make provision. Recoverable value is the greater of the value in use and the net sale value.

**(h) Loans and financing**

The loans and financing are presented by the amount of the principal plus pro rated financial charges up to the date of the financial statements (Note 13).

**(i) Interest on capital**

The interest on capital received, paid or accrued is recorded as financial income and expense, respectively. For purposes of the financial statements, being in substance equivalent to dividends, they are reclassified to the investment and retained earnings accounts, respectively.

**(j) Actuarial liabilities with post-employment benefits**

The actuarial liabilities relating to the post-employment benefits granted or to grant to employees, retirees, and pensioners (net of the assets that guarantee the fund) are recorded based on an actuarial calculation made by an independent actuary according to the projected unit credit method (Note 21).

**Ipiranga Química S.A. 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) Other assets and liabilities**

The other assets and liabilities, classified as current and long-term, follow the realization or settlement terms. The other assets and liabilities are stated at cost or realization value and known or calculable values, respectively, including when applicable the earnings, charges, and monetary restatements and exchange rate variances.

The vendor operations made with financial institutions are classified as a reduction of the corresponding accounts receivable.

**(l) Determination of results of operations**

The revenue from sale of products is recognized when the significant risks and benefits related with the ownership of the asset are transferred to the buyer.

Earnings from the sale of services are recognized at the time the service is complete.

The result includes the earnings, charges, and monetary restatements and exchange rate variations at official indices and rates on the current and long-term assets and liabilities, and when applicable, the effects of adjusting assets to market or realizable value.

The tax charges are estimated based on the income tax rates of 15%, with an additional 10%, and social contribution of 9%.

**(m) 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).

**Ipiranga Química S.A. 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

**4 Cash and cash equivalents**

The investments included in this account have a term of no longer than 90 days.

	<b>3/31/2007</b>	<b>12/31/2006</b>
	<b>Unaudited</b>	
Cash and Banks	26	20
Investments in Fundo Investimento Financeiro Multimercado	53	46
Interest bearing account	6	6
Overnight and term deposits	27	12
	<b>112</b>	<b>84</b>

**5 Marketable Securities**

	<b>3/31/2007</b>	<b>12/31/2006</b>
	<b>Unaudited</b>	
Term deposit	12	12
	12	12

**6 Swap receivables and payables**

The indirect subsidiary COPEL - Companhia Petroquímica do Sul 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. In addition, it also contracted Swap transactions aiming to obtain maximization of the yield earned by Fundo de Investimento Financeiro Multimercado Copesul, which is managed by COPEL 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.

## Ipiranga Química S.A. 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) Amounts receivable

	3/31/2007 Unaudited	12/31/2006
Swap receivables	2	8
Options - Fixed income Box Operations	24	11
	26	19

## (b) Amounts payable

	3/31/2007 Unaudited	12/31/2006
Swap payables	1	7
Options payable	12	
	13	7

Box options are combined transactions 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 transactions. 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 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 variation of Interbank Deposit Certificates - CDI.

## 7 Inventories

Inventories are represented as follows:

	3/31/2007 Unaudited	12/31/2006
Raw materials	123	135
Finished products	163	143
Resupply and other materials	81	75
Chemical and intermediate products	9	8
	376	361





## Ipiranga Química S.A. 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

**8 Taxes and charges recoverable**

This account is represented as follows:

	3/31/2007 Unaudited	12/31/2006
<b>Deferred taxes</b>		
Deferred income tax and social contribution on temporary (a)	154	151
	154	151
<b>Other taxes and charges recoverable</b>		
Prepaid IRPJ and CSLL	15	5
Withholding tax	8	12
ICMS recoverable (b)	162	164
IPI recoverable (c)	2	2
ILL - tax on net income (d)	16	16
ADIR - Additional State Income Tax (e)	8	8
PIS and COFINS recoverable	7	7
PASEP recoverable (f)	10	11
Other taxes	3	1
	231	226
	385	377
Current assets	91	85
Long-term receivables	294	292

(a) The taxes deferred on March 31, 2007 total R\$ 154 (R\$ 151 on December 31, 2006) and are expected to be realized as follows:

Year	3/31/2007 Unaudited	12/31/2006
2007	6.72	6.96
2008	13.01	12.48
2009	3.74	3.71
2010 and after	76.53	76.85
	100.00	100.00

---

**Ipiranga Química S.A. 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) The direct subsidiary Ipiranga Petroquímica S.A. signed an agreement with the Government of the State of Rio Grande do Sul on December 26, 2006 for the realization of the ICMS credits accumulated until December 31, 2006. The agreement made will be in effect from January 2007 to December 2014. During this period the State will authorize monthly transfers of those credits accumulated based on the growth of taxes resulting from the substitution of purchasing naphtha from other Units in the Federation for naphtha produced in the State of Rio Grande do Sul and/or imported from abroad.

The indirect subsidiary COPESUL - Companhia Petroquímica do Sul, as of August 2000, 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 are expected to be compensated by 2010.

- (c) The indirect subsidiary COPESUL - Companhia Petroquímica do Sul 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.
- (d) This refers to the tax credit of Tax on Net Income - ILL paid by the indirect subsidiary COPESUL - Companhia Petroquímica do Sul 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.
- (e) Refers to the Additional State Income Tax (ADIR), for which the indirect subsidiary COPESUL - Companhia Petroquímica do Sul 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 generated in its operations.

**Ipiranga Química S.A. 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) During 2006 the indirect subsidiary COPESUL - Companhia Petroquímica do Sul recognized a PASEP judicial tax credit, 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 other net operating income and financial income accounts.

**9 Prepaid Expenses**

Prepaid expenses comprise payments made in advance, relating to benefits or services to be received by the Company and its subsidiaries in future years.

Realization will not be in cash, but by appropriation to the results of operations, as follows:

	<b>3/31/2007</b>	<b>12/31/2006</b>
	<b>Unaudited</b>	
Commissions	2	2
Insurance	2	4
Catalysts (a)	2	3
Other prepaid expenses	3	3
	9	12
Current assets	8	11
Long-term receivables	1	1

- (a) Catalysts are chemical products used as agents that promote a chemical reaction in the production of basic petrochemicals. Their average useful life and amortization period is 6 years.

## Ipiranga Química S.A. 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 Investments**

Investments are represented as follows:

	03/31/2007 Unaudited	12/31/2006
Goodwill on the acquisition of investments	56	63
Other investments	3	3
	59	66

The goodwill with the acquisition of investments comes from the purchase of shares by Ipiranga Petroquímica S.A. - IPQ in 1998 and 2003 is amortized over the expected period of benefit, never longer than 10 years.

**11 Property, plant and equipment**

	Annual depreciation rates %	3/31/2007 (Unaudited)		12/31/2006	
		Restated and revalued cost	Accumulated depreciation	Net	Net
Land		16		16	16
Facilities and improvements	3	205	(72)	133	130
Equipment and operational installations	4	1,775	(1,051)	724	731
Computers and peripherals	20	27	(20)	7	7
Furniture and fixtures	10	8	(5)	3	3
Vehicles	20	4	(2)	2	2
Construction in progress		58		58	59
Other	10	22	(15)	7	14
		2,115	(1,165)	950	962

## Ipiranga Química S.A. 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

**12 Deferred charges**

Deferred charges comprise:

	Annual amortization rates %	3/31/2007 (Unaudited)		12/31/2006	
		Restated cost	Accumulated amortization	Net	Net
Pre-operating and industrial expansion expenses					
COPEL - Companhia Petroquímica do Sul	20	19	(16)	3	3
Ipiranga Petroquímica S.A.	10	30	(21)	9	9
Goodwill on the acquisition of investment (purchase of Forlab)	10	7	(1)	6	6
		56	(38)	18	18

**13 Loans, financing and debentures**

(a) Liabilities for loans and financing are as follows:

	Index	Annual charges (%)*	3/31/2007 Unaudited	12/31/2006
<b>Foreign currency</b>				
Working capital (pre-payment)	Dollar	7.11%	880	910
Export drafts - linked			(172)	(150)
			708	760
<b>Local currency</b>				
BNDES	TJLP	9.64%	42	44
Financing of investment	IGPM	6.52%	10	10
Working capital	CDI	12.95%	5	8
			57	62
<b>Debentures</b>			83	102
Current liabilities			182	226
Long-term liabilities			666	698

\* weighted average rate that reflects the charges on loans.  
CDI - Interbank Deposit Certificate

TJLP - Long-Term Interest Rate

**Ipiranga Química S.A. 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**

**Debentures**

On May 26, 2003 an Extraordinary General Meeting of Ipiranga Química was held that discussed and approved the issuance of two series of private convertible debentures: the A series with 11,000 (eleven thousand) debentures in the amount of R\$ 10 (ten thousand reais) each one resulting in a total amount of R\$ 110, and the B series with 80,000 (eighty thousand) debentures in the amount of R\$ 1 (one thousand reais) each one resulting in a total amount of R\$ 80, both with real property security rights and payment due in five years. The debentures were subscribed by Distribuidora de Produtos de Petróleo Ipiranga S.A. - DPPI and by Companhia Brasileira de Petróleo Ipiranga - CBPI on June 12, 2003. DPPI subscribed all the series A debentures and CBPI subscribed all the B series debentures.

The subscribed debentures have the right to a compensation that corresponds to the variation of the interbank deposits (DI rate) plus a spread of 1.1% to 2.8% p.a. The spread is subject to renegotiation: the Series A debentures every six months and the series B debentures every five months. In 2005 the spread was of 1% to 1.4% p.a. for CBPI and 1 to 1.5% p.a. for DPPI. In 2006 the spread was of 1% p.a. for CBPI and for DPPI. The DI rate was 15.1% p.a. in 2006 and 18% p.a. in 2005.

By means of a memorandum of understanding signed on October 3, 2005, the Company and its stockholders agreed to hold an Extraordinary General Meeting - AGE in order to discuss the changes in the type of debentures issued in June 2003 by the Company, from convertible into shares to non-convertible into shares and the issuance of a subscription bonus to be delivered to DPPI and to CBPI without any cost, in substitution of the right of conversion foreseen in the debentures held by both.

The AGE mentioned was held on October 6, 2005 and all the operations listed in the memorandum of understanding were carried out. A Purchase Agreement was signed on December 1, 2005 when DPPI sold the bonuses referred to for R\$ 29 to Refinaria de Petróleo Ipiranga S.A., which thus kept its interest in the Company intact.

The principal and interest is due on June 1, 2008; however, R\$ 241 of the initial balance of R\$ 307 in debentures was paid in advance during 2006. During this year there was the recognition of R\$ 35 of financial expenses with debentures, leaving a balance of R\$ 83 on March 31, 2007 - classified in long-term (R\$ 101 on December 31, 2006 - classified between short and long-term). The interest on capital to receive from Ipiranga Petroquímica S.A. - IPQ in the amount of R\$ 24 will be used in full for the early payment of the debentures in 2007.



**Ipiranga Química S.A. 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) Long-term financing falls due as follows:

Year	3/31/2007 Unaudited	12/31/2006
2008	175	187
2009	136	141
2010	126	131
After 2010	229	239
	666	698

(c) Guarantees

The financings in foreign currency are guaranteed by promissory notes, surety bonds from CBPI, RPI, and Refinaria de Petróleo Ipiranga S.A. - RPI, and exports. At Ipiranga Petroquímica S.A., the financings are guaranteed in part by the mortgage of plant 2 of COPESUL - Companhia Petroquímica do Sul and by letter of guarantee.

The financings contracted with Banco Nacional de Desenvolvimento Econômico e Social - BNDES have as a fiduciary guarantee the operational plant of COPESUL - Companhia Petroquímica do Sul and the purchase of investment is guaranteed by shares of COPESUL - Companhia Petroquímica do Sul. Loans for working capital are guaranteed by promissory notes, NCE s (Export Credit Notes), and sales.

**14 Taxes and charges payable**

	3/31/2007 Unaudited	12/31/2006
IPI payable	17	16
PIS and COFINS payable	8	12
CIDE on fuels payable	4	6
ICMS payable	6	8
Other retentions payable		5
	35	47
Current liabilities	28	41
Long-term liabilities	7	6

**Ipiranga Química S.A. 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**

**15 Income tax and social contribution - parent company**

**(a) Composition of deferred taxes**

Deferred taxes are based on the profitability record of the Company supported by estimates that forecast future profits for the realization of these assets within less than 10 years. The taxes were computed as follows: