

## Q4 2004 Earnings Call

### Company Participants

- Jose Carlos Grubisich, CEO
- Jose Marcos Treiger, IRO
- Paul Altit, CFO

### Other Participants

- Daniella Guanabara, Analyst
- Denis Parisien, Analyst
- Emerson Leite, Analyst
- Eric Ollom, Analyst
- Rusty Johnson, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's 2004 and Fourth Quarter 2004 earnings conference call. Today with us, we have Jose Carlos Grubisich, CEO, Paul Altit, CFO and Jose Marcos Treiger, IRO Braskem.

We would like to inform you that this event is being recorded and all participants will be in a listen only mode during the Company's presentation. After Braskem's remarks are completed, there will be a question and answer section. At that time further instructions will be given. (Operator Instructions) We have simultaneous webcast that may be accessed through Braskem's website, [www.braskem.com.br](http://www.braskem.com.br). The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call.

There will be a replay facility for this call on the website.

We remind you that questions which will be answered during the Q&A session may be posted in advance in the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward looking statements are based on the beliefs and assumptions of Braskem's management and on information currently available to the Company. May involve risks, uncertainties and assumption because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that

general economic conditions, industry conditions and other operating factors could also affect the future results of Braskem and could cause result to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Jose Marcos Treiger, the IRO at Braskem. Mr. Treiger, you may begin your conference.

## Jose Marcos Treiger

Ladies and gentlemen. on behalf of Braskem I would like to welcome you to our quarterly conference call and I would like to thank you all for attending it.

As I notice some interference when our website was mentioned in the introduction, I would like to repeat it for the benefit of everybody. It's [www.braskem.com.br](http://www.braskem.com.br).

For Braskem, 2004 was clearly a historical milestone. Not only for the very successful equity global offering implemented last September, which was conducted in Brazil, Europe and in the United States. But even more so for the excellent outstanding operational results recorded by the Company.

We believe that the very positive results presented by Braskem gives a very shifts the very foundations of our Company just over two years ago with a very consistent growth primarily reflect the combination of our innovative business model and Braskem's own strategy of value creation.

2004 results also reconfirm the competitive advantage of Braskem's business model, which is based upon the integration of source and second generation petrochemical companies, with competitive access to raw materials, ethylene, propylene and chloride.

The model adopted by Braskem is supported by leadership in the relevant markets, cost competitiveness and autonomy in the areas of innovation and technology. This model is complemented by a financial discipline in the allocation of resources, which includes the evaluation of each investment based upon its own return and cash generation performance.

Braskem's strategy has been implemented with discipline and determination by all our teams and this, we believe, is being again demonstrated by the clear and positive evolution of all of our operating, financial and commercial indicators.

The current scenario is also very positive. It shows a powerful combination of an increase in demand for thermoplastic resins in Brazil, a very dynamic market and with high elasticity in relation to our GDP growth and the evidence of a high profitability cycle currently experienced by the international petrochemical industry as a whole.

In light of such a promising scenario, Braskem has been taking actions to extend its production -- I mean its production capacity by means of responsible and competitive

investments to develop several of its plans.

Having said that, we will start a brief slide presentation followed by a Q&A section, during which our CEO, Jose Carlos Grubisich and our CFO, Paul Altit, both by my side, who will answer your questions.

Let's us go forward then.

Here, in slide number 3 we verify that each and all of Braskem's performance indicators experienced an important, consistent and positive evolution during 2004. Last year, Braskem also consolidated its regional leadership in the thermoplastic resin market, its core business, substantially in polyethylene, polypropylene and PVC.

In operational terms, the Company's performance presents a significant improvement in production and sales volume, export, gross and net revenues, operating cashflow, profitability and net income.

Additionally, Braskem's financial performance in 2004 exceeded expectations.

The accumulated EBITDA during the year totaled more than R\$2.5b, representing an increase of 42% when compared to the amount recorded in 2003. The rise in the Company's EBITDA level again confirms its ability to generate operating cashflow, even under challenging conditions such as in 2004, in light of the (inaudible) cost created by higher naphtha prices, which is Braskem's principal raw material.

This performance was encountered by a series of financial and corporate initiatives including the largest equity operation made in Brazil in 2004, which led to a substantial reduction in the Company's cost of capital and debt in the lengthening of its debt maturity profile adding on the improvement of its capital structure to a more balanced debt over equity ratio.

Finally, the increase in the Company's net income was very significant, reaching R\$681m. Increasing by more than threefold the net income of R\$215 million recorded in 2003.

Going forward. And on slide number 4, we have a glimpse on the performance of the very dynamic and growing Brazilian thermoplastic resins market in the last 12 years including 2004 and specifically for polyethylene, polypropylene and PVC. As mentioned our core business.

Here, we observe a 12% increase in the domestic demand for these resins, reconfirming the high elasticity of the demand for these products in relation to the Brazilian GDP growth.

Braskem believes that the good economy will continue its sustained growth process going forward and, therefore, the Company continues its strategy of debottlenecking its

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industrial units with the intention of increasing its production capacity at very competitive prices.

On the next slide, number 5, we see the impressive individual growth in demand in Brazil for polypropylene, polyethylene and PVC respectively.

Braskem's capital expenditures totaled R\$374 million last year benefiting all of its businesses. In line with leading position in the South American thermoplastic resins market, Braskem implemented a series of products during 2004 advancing in the expansion of its plant production capacity as well as improvements to increase operational reliability of each industrial unit. Taking maximum advantage of the current stable environment for both the local and global product (input) sectors.

Capacity increases at plants located in Triunfo and Camacari were concluded, increasing potential sales of polypropylene and paraxylene respectively and the Company commenced investments to increase its PVC capacity in the state of Alagoas and in the polyethylene plant in Camacari state of Bahia.

Braskem believes that initiatives such as these will allow the Company to continue to meet increasing demand in the domestic market and to maintain, at the same time, a structural presence in the international market.

On slide 6, let us briefly analyze Braskem's industrial performance in 2004. Braskem has deemed its policy of operating its industrial units at high capacity utilization rates. And confirms its strategy of maximizing its profitability to the optimization of the production mix and the sale of its products in more profitable markets and segment.

The production of the polyolefin's business unit improved by 8% compared to 2003. During 2004, Braskem completed the expansion of its polypropylene capacity by 100,000 tonnes per year in the industrial units located in Triunfo, state of Rio Grande do Sul, which allowed it to increase production of this resin by 20% based on a highly competitive investment of only R\$21m.

In 2004, Braskem also commenced the debottlenecking of 1 of its polyethylene plants located in Camacari that produces Braskem Flexus due to the demand for this type of polyethylene. The expansion is expected to be completed by mid-2005 and will increase the Company's polyethylene capacity by 30,000 tonnes per annum.

Individual business unit, PCV production increased by 6% compared to 2003 mainly due to higher domestic demand. To keep pace with this growth in local demand, Braskem initiated the expansion of its PVC plant located in the state of Alagoas by 50,000 tonnes per year, which will be available by the second half of this current year 2005. This debottlenecking corresponds to an investment of only R\$19m.

Two additional 50,000 tonnes per year expansions are also planned. 1 in Camacari and the other in the state of Alagoas depending on market conditions.

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In 2004, the basic petrochemicals unit reported an 8% increase in the production of its principal products ethylene and propylene compared to the previous year.

In January and February of last year, the Company carried out a scheduled expansion and maintenance stoppage of its raw material unit number 2. This programmed stoppage ensures its improved operational reliability.

The next scheduled maintenance stoppages are expected to occur only in 2005 for the olefins units 1. And 2010 for the olefins unit 2 respectively. These are very well timed programmed stoppages. Braskem will count on its full production capacity during the petrochemical chemistry industry (fixed) fixed cycle, thus maximizing the positive impact on the Company's profitability and operating cash generation.

Braskem maintained its strategy of increasing the flexibility of its raw material mix, (naptha quality) and progressively reducing the average cost of raw materials consumed.

The Company maintained a long term strategic relationship with Petrobras; its main raw material supplier.

In 2004, the volume of raw materials (inaudible) by the petrochemical naptha and condensate -- the raw materials (inaudible) totaled 4.4 billion tonnes of which Petrobras supplied 62%. Relieving the main (endless) supplied by imports largely by means of a long term contract with an international supplier.

Operationally, it is also worth highlighting the conclusion of the ISO 14001 certification process for all of the Company's industrial units, thus rewarding Braskem's efforts related to Health, Safety and Environmental issues. Towards this end, Braskem became the first Brazilian company to sign the United Nations Declaration of Cleaner Production in 2004. Important improvements related to the reduction of effluents and water and energy consumption were also obtained during the year.

Additionally, in going forward, to slide number 7, we can see that all of Braskem's business units operated at high levels of capacity utilization rates, about 90%, which is in line with the objective of maximizing the operational efficiency of the Company's industrial assets. Such good performance was important to meet the increasing consumption of thermal plastic resins as a result of growth in the national economy as well as some strategic clients which are positioned in attractive international markets. In 2005, Braskem plans to operate at even higher capacity utilization rates.

Moving now to the Company's commercial performance on slide 8, we can see that Braskem maintained its strategy of giving priority with the sale of its products in more profitable markets and segments. In this context, the Company's priority in 2004 was the domestic market where sales of thermoplastic resins increased by 13% when compared to 2003 and mainly due to Brazil's economic growth.

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Total volumes sold by Braskem in 2004 of polyethylene, polypropylene and PVC in the domestic and international markets reached 1,600,000 tonnes approximately, representing a 6% increase when compared to the 1.5% approximately 1 million tonnes sold during the previous year.

In the polypropylene business unit, total sales volume of polyethylene and polypropylene increased by 5% primarily due to increased sales in the domestic market, which grew by 12% compared to 2003.

Among others, the success achieved by Braskem Flexus, a high performance polyethylene launched in 2004, made the Company accelerate its decision to double the production capacity of its resin in 60,000 tonnes per year, which will be available by mid-2005.

Polypropylene sales volumes increased by 12% in the domestic market, due to the performance of the automotive and the electrical/electronic industries in Latin countries.

Here, in 2004, a major highlight was the launch of Braskem Symbios, a high performance flexible packaging sealant.

In the (inaudible) unit, total PVC sales increased by 80% compared to the previous year, due to the domestic growth which was in excess of 15%. The recovery in PVC domestic demand was driven by increased sales by the footwear, laminate and wire and cable industries, as well as by the beginning of the recovery of the construction segment.

It is important to highlight that in 2004, Braskem maintained its leadership of the PVC market industry.

In the base petrochemicals unit, the ethylene sales volume increased by 5%. Improvement of the production process together with the increase in client demand for ethylene due to the significant growth of the general plastic resin market related to new monthly and quarterly basis production records in July and July/September respectively, which was combined with a successful focus on increased profitability.

This unit also played an active role in Braskem's exports during 2004, which was highly attributable to the aromatics market, especially for benzene, the price of which hit record levels.

In the Business Development Unit, the positive highlights were the recovering in PET revenue sales volumes in the domestic market, as well as (prices).

The drop in sales observed in the Fourth Quarter of 2004 compared to the Fourth Quarter of 2003 was mainly due to the exceptional recovery in the local market observed in the last three months of 2003, which again even some normal seasonal effects.

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On slide 9, let us now talk briefly about our 2004 exports. Braskem maintained last year its long term commitment to strategic clients in attractive markets. The Group's goal is linked to the Company's objective of strengthening its activities in international markets. Its net export revenue in 2004 amount to \$710m, about 15% higher than \$617 million obtained in 2003, thus confirming its position as 1 of Brazil's largest exporters.

It is also worth mentioning the important recovery of the Argentine market in which Braskem increased sales volumes of resins by 28% in 2004. In addition, it is important to clarify that in the Fourth Quarter of 2004, Braskem (inaudible) domestic market aiming at maximizing our returns in sales in a period which seasonally is weaker in terms of demand.

On slide 10, we present the highlights of Braskem's Income Statement. Braskem reported net revenue of R\$11 billion in 2004, 20% higher than the R\$9.2 billion registered in 2003. The key drivers for this excellent performance were the increase in the quarterly sales volume, especially in the domestic market. And the increased prices saw Braskem's principal products both in Brazil and abroad.

During 2004, Braskem's cost of goods sold totaled R\$8.3b, which represented and increase of 13% compared to the costs of goods sold of 2003 when it stood at R\$7.3b. Such variation was primarily a result of the price increase of petrochemical naptha registered during 2004. The average price of naptha in the ARA, Amsterdam, Rotterdam, Antwerp region, was \$372 per ton in 2004, what represented a 13% increase compared to \$274 per ton in 2003.

It is important to mention that in the Fourth Quarter of 2004, our acquisitions of naptha was strengthened by the 8% appreciation of the Brazilian real against the US dollar, besides our improved management of the mix between local naptha purchases and after imports.

Braskem maintained its strategy of increasing the profitability of its operating margins, maintaining its prices aligned with international prices and establishing a disciplined SG&A management program.

SG&A, after depreciation and amortization expenses, then expressed as a percentage of our gross income decreased from 22% in 2003 to 21% in 2004. When expressed as a percentage of net value, SG&A were 4.4% in 2003 compared to 5.3% in 2004. SG&A were R\$575 million in 2004 compared to R\$402 million in 2003.

This variation results for several reasons. First, higher variable expenses associated with the increase of sales volume reported in 2004, with an impact of approximately R\$30m.

Second, the constitution of a larger provision for doubtful accounts in 2004 due to the application of Braskem's credit policy in respect of the higher gross revenue.

Third, due to non-recurring gains of R\$400 million registered in 2003 due to the positive effect caused by the reversion of affiliates constituted in 2002 to reach potential with the

United Kingdom.

Four, non-recurring expenses related to the development of our new information and technology platform here at Braskem. And also the preparation for complying with the Sarbanes Oxley Act. And specific accounting services for the stocks offering raised in the capital markets, totaling R\$33m.

And 5, inflationary effects of 2003 recurring expenses and amounting to approximately R\$46m.

Specifically, in the Fourth Quarter of 2004, Some of these non-recurring effects also impacted our SG&A expenses. They were, again, associated with the increase in our provision for doubtful accounts, corresponding to circa R\$30 million with non-recurring expenses related to the development of the new IT platform, with the preparation for complying with the Sarbanes Oxley Act and the consultant services for the stock offering, plus impacts related to inflation corrections on re-issuance, on services, in the value of approximately R\$20m.

In 2004, Braskem recorded a net income of R\$691m. More than 3 times its 2003 net profit which was R\$215m.

On slide 11, we will concentrate specifically on Braskem's EBITDA in 2004, which was the highest ever obtained by the corporation since its start on August 16, 2002.

The 2004 EBITDA reached R\$2.5 billion in 2004, or a 42% increase when compared to the R\$1.8 billion EBITDA recorded in 2003. The key driver of this performance was the general synergies resulting from Braskem's integration process, the increase in the corporation's sales volume, especially in the domestic market, the improved prices for Braskem's main products, both in Brazil and abroad, the first productivity gains provided by the program, Braskem +, the strong performance reported by industrial units confirmed by the high capacity utilization rates and the improved quality of the mix of products sold through the development of new products and applications.

It is worth noting, that this record EBITDA was obtained in a scenario of a historically high naptha prices. And a flat -- any doom in Braskem's operating quality is confirmed by the increase of 4percentage points in our EBITDA margin from 19% in 2003 to 23% in 2004.

Let us move now to the next slide number 12 and focus on the positive net financial results.

During 2004, Braskem prioritized the allocation of its operating cashflow and of the proceeds from its global offering to pre-pay its most expensive debt facilities where possible. As a result, the Company's financial expenses, net of interest, decreased by 22%. This is calculated taking into consideration the business between interest and vendor financing expenses and revenues with both declined from R\$635 million in 2003 to R\$498 million in 2004.

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Excluding the effect of monetary and exchange rate variations, Braskem next financial result on December 31, 2004 was an expense for R\$854 million compared to an expense of R\$1,098 million recorded in 2003, which represents a substantial recovery of R\$244 million or 22 per share.

This improvement in 2004 also points to a new and lower level of profit (projected) for the Company, contributing to a higher level of competitiveness and as well as its strategic and operational flexibility.

Moving now forward, let us go to Braskem's debt management in 2004 and this is presented on our slide number 13. On December 31, 2004, Braskem's cash and cash equivalents amounted to R\$1.78b, or an increase of R\$697 million when compared to the R\$1.09 billion balance reported on December 31, 2003. December 31, 2004, 60% cash and cash equivalents were indexed to US dollars.

Braskem's net debt at the end of 2004 was R\$3.9b, which represents about a 38% decrease when compared to its net debt at the end of R\$2003. By then, R\$6.3b.

When expressed in US dollars, last year's net debt reported a 32% deduction, from \$2.2 billion to less than \$1.5b.

Braskem's financial leverage measured by the net debt over EBITDA ratio decreased significantly by 57% in 2004 from 3.52 on December 31, 2003 to just 1.52 on December 31, 2004.

On slide 14. And going forward, let us now go to Braskem's debt maturity profile at the end of 2004. During last year, Braskem's priority was the reduction of its net debt as well as the cost of its financial obligations in order to achieve enhanced efficiency in the allocation of funds for its operating work capital

In addition, over this period, the Company started to maintain higher levels of cash and cash equivalents in order to provide greater financial and strategic flexibility. The Company continued to focus on extending its debt profile and primarily guiding the amortization of its most expensive debt aiming at reducing its cost of capital.

The graph on this slide shows Braskem's debt amortization schedule as of December 31, 2004.

Here, now, on slide number 15, we present the graphicals of Braskem's market capitalization since 2002, up to December 31 2004. Obviously, it is a reason for great satisfaction to all our (peers) to notice the recognition by the Brazilian and the international financial markets of our efforts consistent in growing improvements and positive results accumulated.

Braskem's Board of Directors has recently approved our first earnings distribution in the form of both dividends and interest on net worth investors, totaling R\$204m.

I would like now to hand over this presentation to our CEO by my side, Mr. Jose Carlos Grubisich. He will be finalizing the slide presentation with his views on the outlook for the petrochemical sector in 2005 and beyond. Thank you. Mr. Carlos. Please, do go ahead.

## **Jose Carlos Grubisich** {BIO 2072165 <GO>}

Thank Jose Marcos. Good morning to all of you. Thank you for your attention. I would like to share with you our outlook of the petrochemical sector, both globally and locally.

As you can see in this slide, we have the spread between the selling price of our portfolio, polyethylene, polypropylene and PVC. And the cost of naptha. So, that's a good vivid indicator for our profitability. And, as you can see, the cycle is in a net recovery. It started in 2002 and we think this will keep going until at least 2007, with a big position and profitability in 2006.

Here, we also show you the profitability of Braskem. We moved from 19% in 2002 to 23% last year. And we see that the combination of improvement in the prices in the local market with cost reduction for our raw materials and the increase in the sales prices will enable Braskem to increase EBITDA, the profitability.

I would like also to mention that the global petrochemical sector is in a tight supply and demand balance. Demand is growing at 5%, 6% every year and supply is growing only 1.5-2%. And we know that there will not be any major investment to come this way before 2007 and the new capacities will be (up sold) by the Chinese growth.

Looking at the short term perspective, I would like to share with you how we see 2005. We do believe the Brazilian economy will grow between 3.5 to 4% next year, 2005. And we think that we are going to see again a high elasticity in terms of volumes for our products; polyethylene, polypropylene and PVC, in relation to GDP. And we anticipate a volume growth of around 10+% in 2005. And we think that all our products will take full benefit of these segments.

As far as margins are concerned, we do anticipate oil price and naptha price to start a decline in the end of the Second Quarter of 2005 and this, of course, will lead Braskem to have an improved EBITDA margin.

We are also going to have a full benefit of all the (inaudible) we implemented in 2004. So, increase our capacity 1.3 almost, the (inaudible) of ethylene, which is going to be fully operational in 2005. We are not going to have any major shutdown before 2007. So, this year we are going to have more volume going out of the same quarter. And we are not going to spend what we did last year in terms of maintenance shutdown.

We are going to have a full capacity available of polypropylene, including the debottleneck of 100,000 tonnes. We started that in the Third Quarter of last year. The good news, let me introduce around 130,000 tonnes in 2005.

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We are going also to have the full impact of the aromatics production including the construction of (inaudible) which we will operate at full capacity in 2005 and in the second half of this year, we are going to have the start up of the expansion of 50,000 tonnes of PVC and also 30,000 tonnes of polyethylene with the advancing technology.

And going beyond, we have concluded the discussions with Petrobras to start the new investment to put in place a 200 to 350,000 tonnes of polypropylene capacity in Slovenia and this is going to be in operation from the beginning of 2007. And we are also trying to accelerate the discussions and the remunerations concerning the new integrated polyethylene production in the quarter of Brazil (inaudible).

On top of that, we have a very strong pipeline optimization. We have been working very close to our customers and many products we faced additional materials to get new market to sell to others thermoplas resins and our present pipeline has a value of around \$250m, which will be impacting our results in the coming years.

And the end, good news in relation to our competitiveness program, Braskem +, in 2004, we have a very successful start in this program. In terms of the result analyze on a recurring basis, we did achieve 50% more in results than we had expected initially. We delivered always analyzed on a recurring basis, R\$90 million in this program compared to R\$60 million we had included in our guidance. Everything that we are in a position to speed up the (sales) in 2005 and this has been a leverage of experience and business model we did develop the achievement of the synergy.

So, 2004, we have a very good improvement in our EBITDA margin, plus 4percentage points, moving from 19 to 23%. A good combination of market growth, raw material cost reduction and very good dynamics in the markets throughout 2005 and we do expect our margin to increase even further and we are taking all the necessary steps to prepare Braskem to be in a position of value creation in all the points, in all the times of the cycles.

We are implementing the schedules which are going to deliver more than R\$400 million annual on a recurrent basis by the end of 2007. We do want to implement all the actions related to our R&D programs, which are going to bring \$250 million in terms of value for Braskem going ahead. And we are going to have a good combination of the bottlenecks with very competitive investment costs, very high return on investments with 2 new capacities,; polypropylene in Bolivia, polyethylene in Bolivia, based on very competitive raw material, based on the state-of-the-art technology, more scale and everything combined will leave Braskem to be a kind of benchmark reference in terms of value creation in the petrochemical sector worldwide.

So, thank you again for your attention and we will now move into the question and answer section of this conference call. Thank you.

## Questions And Answers

### Operator

(Operator Instructions) Our first question is coming from Emerson Leite with CSFB.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Hi. Good morning. A question on the outlook for the continuation of the margin recovery or the margin improvements here First Quarter. Now, I heard your comments on the conference call in Portuguese where you had package allocation in terms of inventories expecting for a rebound in price in the First Quarter, which is actually happening in global markets. My question is could we expect a further improvement in gross margin in the First Quarter relative to the Fourth Quarter? In other words, can we see our gross margin equal or higher than 28%? That would be the first question.

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

Emerson, here's Paul now. Thank you for the question.

**A - Paul Altit**

In the First Quarter, we are expecting that we should have a good margin as compared to First Quarter last year. We are not expecting to see further increases on volume sold. We should have volume pretty much in line with what happened last year, maybe with a little increase and, therefore, we expect we have more or less the same level of EBITDA margin that we had for the 2004 year.

So, it's difficult to give you a guidance, specifically for the First Quarter. but I would feel it would be fair enough to say that we are expecting better drift through. We should in the First Quarter, as an average profitability, the same level of EBITDA margin that we had throughout the entire year of 2004.

As we're not expecting a huge amount of increase of volumes again. But I think it's hard to -- will sure help us to maintain clearly the cost benefit level of the margin and we believe that the international price has started to move up, specifically after, possibly, the new year's eve of China and, therefore, we believe we should have a pretty good margin. I wouldn't say necessarily higher than the average of 2004. But pretty much in line. Remember, Braskem should have, in principle, a group of the Brazilian petrochemical sector's higher margins and a higher level of cash regeneration than the second and the Third Quarter. And we are still expecting to have more or less 55% of 2005 to be that generating in the second half and 45% generated in the first half.

**Q - Emerson Leite** {BIO 4003528 <GO>}

Paul, why can we not expect the profitability to remain in -- I mean, the gross margin, in particular, to remain similar to the Fourth Quarter if the expectation for prices is to be either stable or on the rise? In other words, which element you had in the Fourth Quarter in terms of profitability will not be present in the First Quarter that could allow you to have the same level of gross margin?

**A - Paul Altit**

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Emerson, I didn't state that we shall not have the same level of margins. I'm saying that in principle we should move up to the level of last -- not for the First Quarter. I'm talking about 2005. The level of margin in 2005 should be slightly higher than we had in 2004, because we're moving up in the cycle and because we have in Braskem large and becoming more competitive in the sense that reducing overall cost as compared to mass revenues. And particularly in the First Quarter, it's too early to say.

So, the year is just starting, in the middle of February yet. International prices came down slightly from October to November and the prices started moving up from middle of January/February up. The market is becoming more active the second half of February. So, we're expecting to have a good margin.

We had in the Fourth Quarter of last year some positives in the fact that we purchased some naptha at very competitive price. We had the advantage of decrease of the valuation of the Real. As (inaudible) now 8%. So, all this helps us to increase margins.

So, we have to see what shall happen with the costs in Brazil, what shall happen with international prices and what shall happen with the local market. We're expecting that the economy will also be growing this year and the international price should be moving up in the correct direction. And, therefore, in 2005 we're expecting principally more profit than we were in 2004.

In the First Quarter, I think we still have to wait what will happen in the month of March.

#### **A - Jose Carlos Grubisich {BIO 2072165 <GO>}**

Emerson, Grubisich speaking, just a few comments. We made the same comments in the Portuguese conference call that during the same Fourth Quarter 2004. In November and December, we did notice a kind of slowdown in the international market in terms of price and we had, at the same time, a change in the Brazilian exchange rates. So, prices were moving down, oil price were up. It came down. So most of our customers in Brazil and I think that it happens the same globally, they decide to postpone new purchases. They did reduce inventory because we were expecting prices to go down even further.

So, that's why we decided to regain spot figures. You are going to see that in the last quarter of 2004, our inventories went up very much, around R\$200m, because our expectation is that prices, (some) prices, will move up. And it did. Prices are moving up in Asia. The best part is before the new year in Asia. And these prices are in an upward trend.

So, in January, our volumes in the Brazilian market are very much in line with what we had in the same period of last year and we do see very good dynamics in the Brazilian market, either in terms of volume going ahead in terms of internal prices. We are quite confident we can keep our prices alive through the international prices. And we are expecting raw material to go down.

In the first -- in January, we had very indication that margins are very good and we do expect our margins to, let's say, during the year 2005, to improve in relation to last year.

### **Q - Emerson Leite** {BIO 4003528 <GO>}

Okay, a second question and the final 1. A point of concern when looking through the Fourth Quarter numbers was related to your expenses, overhead expenses, SG&A expenses, which showed up a little bit higher than the average of the year. I just would like to get your views that this should not be on a recurring move for the next few quarters.

### **A - Paul Altit**

Emerson, as we discussed the speakers for this morning, the Portuguese conference call, we pretty much focused on being a competitive company in the sense that we have to have higher margins. The cost of capital in Brazil is too much higher than our competitors in actual markets.

That's true, we have to be -- we need contribution margins higher and we need lower costs, fixed costs.

Our fixed costs, our SG&A, was more or less around 5% of net revenue. I would say this is a fair guidance for the level of SG&A for 2005, would be to 5.2, or 4.8%. This will depend on inflation. It will depend on the currency.

What happened in the Fourth Quarter is that we did have some non-recurring expenses and we did some adjustments in provisions for doubtful accounts, which, in fact, should even be reversed in 2005 as it happened in 2003 when compared to 2002.

Remembering that in December of 2002, we did have provisions for Argentina credits. And 2003 we managed to receive the currencies, the account receivables and therefore we did the reversion.

So, this event could happen. This is just a way of maintaining our accounts pretty much conservative in this (tense).

We did have also, in the last quarter, readjustments after all petrochemical (inaudible) salaries. And this happened in the Fourth Quarter-over-quarter, which shall happen probably again in the Fourth Quarter of 2005.

But, besides that, I believe, that the same should have around 5% of net revenues as fixed cost. We didn't much focus on that and this is very important for us. We discuss this at every executive committee meeting we have and you can be sure that this is something that we talking about for some time.

### **Q - Emerson Leite** {BIO 4003528 <GO>}

Hey Paul. Thank you, very much.

## A - Paul Altit

Thank you, Emerson.

## Operator

Thank you. Our next question is coming from Eric Ollom with ING.

## Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good afternoon, gentlemen. and congratulations on the excellent results for 2004. I have 2 questions. 1, on the capacity additions that will be put in place for 2005. I know some of the debottlenecking won't happen till the second half of the year, or mid-year. Could you give us, say, an average increase in your capacity for 2005 versus 2004?

Then, my second question has to do with debt policy. I know that it's been your plan. And you've executed it very well, to reduce the leverage of the Company. There is -- our expectation is that there are some bonds, perhaps, that may be called. Could you give us an estimate or a goal of what your net leverage is for 2005 in your plan? Thank you.

## A - Jose Carlos Grubisich {BIO 2072165 <GO>}

Okay, Eric, thank you for your comments. I will talk about capacity and I will ask Paul to speak to discuss the debt quality of the Company.

In terms of capacity, when we compare 2005 in relation to 2004, what are we going to have? We are going to have the ethylene production running close to capacity; 1,200,000 metric tonnes of ethylene. That's the new capacity we put in place. It became operational in the Second Quarter of 2004. So, we're going to have full benefit in 2005.

Last year, we had a maintenance shutdown for close to 35 days. 1 train of the raw materials, the base material production in Camacari. So, we're going to have a full year production. This was importantly impacted you can see in 2005.

We are going to have full production of our polypropylene capacity, including the expansion of 11,000 tonnes. We started in the Third Quarter of 2004 and what financial gain in the presentation we will be able produce beyond the total capacity because we think that we can be in a position to produce with the debottleneck additionally 120 to 150,000 tonnes. So, this is going to be a fully operational in 2005.

In terms of aromatics, (inaudible) about (inaudible). With the debottleneck, we had a capacity. We are going to have a full production of all the full products of the Camacari production site. And, as you may know, all the (impacts) are very possible right now. And we can sell easily in the domestic market or in the world market with very good margins.

We are going to have starting in the middle of 2005, the debottleneck of polyethylene with the dousing technology. So, around 30,000 tonnes with very high margin. And we

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are going to have in the Third Quarter of 2005 the start up of the production of 50,000 tonnes of PVC.

So, that all what we are going to have as a result of the bottleneck. And we are planning to run our plants with higher capacity utilization rates. We think that we will be in a position to run our plants between 95 to 97%. And polypropylene (inaudible) roughly 97 to 98% capacity utilization rates. Polyethylene is a rate of 95 to 96% and PVC very close to (95%).

So, with our plans in terms of production is to run close to capacity to make the domestic market our priority because that's where we have the best margins. The second priority is to supply the (inaudible) countries where we can enjoy a very good margin. And in the case of our (inaudible) market recovering very fast. And we can also supply overseas market with the remaining quantities available with very good performance per capacity tonne.

So, that's how we see our operations in 2005. So, I'm now going to ask Paul to discuss the debt position and the debt policy.

## A - Paul Altit

Hi, Eric. If you give us a chance to look at chart number 14, in chart number 14 we can draw the fact that Braskem has, as of December, average maturity of three years. We had in December, as a matter of fact, R\$1.7 billion in cash and cash equivalents. And we had R\$1.5 billion in due payment for 2005.

What are we doing exactly? I'm not so happy with the average maturity. I want to see this number higher than five years. And I'm not so happy with the cash balance, which is around 71%. Remember that this was 60% at the end of the Third Quarter and we are not too bothered if this level would move up a 71, 72%. But basically we anticipated timing costs -- timing across expansion in local currencies, therefore, the dollar denominated part of the debt went up 71%.

But, we have a big advantage here. We have a full hedge for 2005 payments, because most of the R\$1.7 billion is really invested in dollars and between 90% -- more or less, around 95% of the R\$1.5 billion in due payment of 2005 is really denominated in dollars. Therefore, we shall amortize entirely the R\$1.5 billion this year to bring it down entirely. And probably by December we should have a compatible debt out of which we could enjoy the fact that we should have 30% of the gross debt denominated in dollars. And around 50% denominated in Reals and achieve our objectives.

On the other hand, the opportunity which is the present evaluation, we could eventually call the (Tricam) bond, which is due in July of 2007. We do have a call right on July 2005. So, probably, what we would like to do this year, it all depends on the market for sure, is to pay down the R\$1.5 billion and probably refinance the (Tricam) bond to a further year. Therefore, the potential has net of more than R\$250 million to be paid in any specific year, which is extremely very good for us because the net cash and the lending situation -- the upside of (inaudible) and the downturn of the cycle shall always be a couple of times around the \$50m.



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Then, besides that, our financial policy, which you can read on the website, is that we should maintain in cash at least one month of payments and at never less than the next 12 months payments. Therefore, we could eventually reduce a little bit the cash and the cash equivalent and reduce the effect of the negative arbitrage, because from December on we shall never have more than R\$250 million in due payments. And we could increase the average maturity properly to around 5 or six years.

Regarding your question of leverage, our present level of leverage is 1.5 or 1.5 times and I believe that, by the end of the year, that cash shall be slightly under this number. Beside the fact that Braskem is investing around R\$600, 700 million in CapEx and probably the level of cash equivalent should be a couple of times -- a couple of hundred million Reais higher than the R\$565 million in due payment of 2006.

This should help us to increase the rating of the Company, to help us to decrease the overall cost of capital and therefore should decrease the return on equity which is our main objective.

**Q - Eric Ollom** {BIO 4374335 <GO>}

Okay. Well, thank you very much.

**A - Paul Altit**

Thank you, Eric.

**Operator**

Thank you. Your next question is coming from Denis Parisien with Standard New York Securities. Please go ahead clearly stating your company name.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Hi, gentlemen. I would like to congratulate you on the excellent performance, both operationally and financially. Could you mind, please, Paul, could you give us a little bit more detail on the plan to refinance the Tricam [ph] '07 you said that if the market gives you the conditions. If I'm not mistaken, I believe you have a potential tax liability if you do call the '07 because it was issued under the old tax laws. And under what kind of conditions, specifically, what kind of coupon or cost of funds, would be the pivot level where you would actually decide to pull the trigger and refinance the '07. And what area of the yield curve do you think you would target?

**A - Paul Altit**

Okay. Okay, maybe I cannot be so specific to your question. But let me try to answer your question as well as I can.

First of all, the components of the Tricam [ph] bond is 10.5% and this bond was lodged in 1997. A year where the Central Bank of Brazil gave a way for us to deal with holding tax. So

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any bond which had a maturity bigger than eight years. Therefore, this bond has no withholding tax related to it.

So, I think you addressed the main issue for us. First of all, a two years bond, which is not ideal, we would never pay 10.5%. Therefore, our cost of tax is much lower than 10.5%. So, we do have a firm CapEx of refinancing this bond for a much lower cost of CapEx. So, in principle, we should have an attempt of calling this bond.

The second issue, which is the revolving tax, we're trying to discuss some possibilities of eventually doing another bond, or refinancing this bond to give us the possibility of maintaining the advantage of not paying the withholding tax, to discuss with the lawyers. You have to discuss it also with the Central Bank. There are lots of possibilities. But we're not at the point of having a decision, yet, this can be done or not. But, we're discussing with different investment banks and I believe that, at some point in time in March, we should have a decision on that. But basically, in principle, we should be refinancing the Tricam bond or even amortizing a part of it.

#### **Q - Denis Parisien** {BIO 20333702 <GO>}

Thank you. If I might ask another question, in the Third Quarter conference call, I noted the significant savings in working capital that you guys had made and increased your cashflows with relative to the Second Quarter. And I'd asked if that was sustainable. And I recall that you told me that not only was this sustainable. But you thought you would be able to even improve your terms with suppliers even more and get more cashflow gains. And you certainly did that in spades. I counted about \$270 million worth of savings in working capital, much of which came from yet another extension of payables. In fact, your payables are almost double in the Fourth Quarter what they were in the Second Quarter. Is this now sustainable, or should we see a little bit of a give back in the coming quarters?

#### **A - Paul Altit**

Denis, it would be sustainable. Let me give you an idea. The accounts receivables had a 32 days average. It is fully competitive. You know that most of the other petrochemical companies here in Brazil, some of them have 60 days. We do have a competitor company that has even 75 days. So, I think between 30 and 35 days is a very good number for us.

We increased the inventories because of the reasons that Jose Carlos mentioned before. But we also plan to increase the average period of payment in both (classes). And what we're trying to do now is really to increase the average period of payment of the Brazilian naptha.

But, on the other hand, it all depends what happens with the cost of capital, with the international environment, because of financing working capital, particularly, naptha, sometimes it's pretty higher than issuing a payment for its support, for instance. Or, sometimes, even doing a bond.

So, it should become extremely liquid and start becoming extremely under leverage, which means that our ROC starts moving up. We could eventually even arbitrage and try

to pre-pay some of the financing of naptha. This decreases financial costs and increases the bottom line.

I'm not sure if I was -- this is very important for us. So, in principle, we're managing the working capital to reduce this as much as possible. We want to maintain that net debt EBITDA under 1.5%. But we want to decrease the overall effect of net financial and impact on the EBITDA.

So, eventually, the cash should be extremely strong this year, much stronger than we are forecasting because the Brazilian economy was extremely well, because the national price market extremely higher prices than we were forecasting initially. We could eventually try to decide to reduce a bit the working capital, reduce financial overall financial cost. It will all depend on several structures, cost of capital, cost of capital markets in Brazil, capital markets internationally for Brazilian companies and so forth. But there isn't any financial reason why we should forecast an increase in working capital otherwise the reason I've just mentioned with you.

#### **Q - Denis Parisien** {BIO 20333702 <GO>}

Thanks. But I guess you did mention, in response to Emerson's question, that you are increasing -- that you did increase inventories in the First Quarter because of the lower prices at the beginning of the year. Is that correct? So, we see a slight increase in your working capital investment on the inventory side in the First Quarter?

#### **A - Paul Altit**

It wasn't the First Quarter, the Fourth Quarter, the last quarter of 2004. We did increase -- sorry, the last quarter of 2004, we did increase inventories by something between \$70 and 80m. But why did we do that? We did this because we thought that it would be economically positive for us. So, as a matter of fact, we joined exactly now the First Quarter now of 2005.

International prices were coming down. Demand in Brazil, slight down as compared with the Third Quarter and so we want to run the industry facilities at a high level of capacity. Therefore, we decided to increase a little bit, which is small numbers for Braskem to be -- Braskem's working capital in this company, on \$70m. So, we believe that we couldn't (inaudible) the fact that the level of these inventories of the petrochemical chain was pretty lower than last quarter and is still pretty low in the First Quarter. Therefore, we would enjoy an impact, a positive impact, on our margin in the First Quarter because of higher level of investment that we build up in the last quarter.

So, it was a decision and we believe that it was a correct decision. So, we expect really to benefit of our decision in the First Quarter of 2005.

But, beside of that, we decrease as much as possible the collection of the accounts receivables. And we increase as much possible the financing of international naptha and condensate. And probably we have some opportunity of increasing even the local naptha average period of payment. And decrease even more the time of the working capital.

Just a matter of financial cost and deciding this is positive and this is a good or not to the Company. We have flexibility. This is very important for us.

**Q - Denis Parisien** {BIO 20333702 <GO>}

Thank you, very much for the very detailed answer. Appreciate it.

**A - Paul Altit**

Thank you, Denis.

**Operator**

Thank you. Your next question is coming from Rusty Johnson with Harding Lovemor[ph].

**Q - Rusty Johnson** {BIO 3426780 <GO>}

Hi. Good afternoon. One question first to cost and one, you seem to be pointing towards a reduction in raw materials, particularly on the naptha. Is this a forecast based on your view on oil, or have you engineered a way to actually get these costs down above and beyond global commodity prices? Can we talk about?

Second to that, could you remind us again how the pricing structure is engineered domestically from Petrobras? Or about two-thirds of it on the imports. Sort of the pricing cycle. And to what to degree foreign exchange has played particularly on the import side, please?

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

As far as the raw material is concerned, our strategy is to have Petrobras, our long-term partner in Brazil. And we buy from Petrobras around 60 to 40% of all our needs in raw material. And Petrobras supplies basically naptha to Braskem. And the Petrobras price is set in relation to the international price. So, we take the higher price of (the government).

The average exchange rate of the (inaudible), their selling price. So, we are very much aligned with the international price. And still a premium for Petrobras for the local supply. And we think that in 2005 we are going to be in a position to reduce the premium, the average premium, we have been paying to Petrobras. So, that's the first part of the answer.

The second, in relation to the imported raw material. We have the option to buy naptha or condensate and we try to choose the most competitive product at each point in time. We had a limitation on the total quantity we can in condensate. We are running close to 15,000 tonnes a month of condensate, which is more competitive. And we try to bring as much as we can in terms of imported material when the ask between imported and local is positive. So, we have a good flexibility in moving from Petrobras to the imported material and back to Petrobras, depending on the position of the type we are.

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So, we think that oil price, naptha price, in international will start to decline by the end of the Second Quarter of 2005. So that's the same for all petrochemical companies. While we think that we can have a more flexible positive strategy reducing the price we pay to Petrobras and bringing the more competitive costs in average for the mixed imported naptha and condensate.

So, on top of the reduction in international price for raw material, Braskem will enjoy an additional reduction because we think we have a better strategy for raw material starting 2005.

So, I think that's what we have to share with you in terms of raw material.

**Q - Rusty Johnson** {BIO 3426780 <GO>}

Okay, thanks. Ultimately, you're just using your size and scale to push Petrobras pricing down in terms of off-take of their key material? Ultimately, why now?

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

Yes, because we have discussed over time with Petrobras. We have always been negotiating with them in order to reduce the average cost of raw material. We have been trying to extend payment terms. And you know this is a kind of day-to-day discussion. And as for 2005 we think that we may enjoy a reduction in the premium we pay them.

Of course, we have the view to more flexibility. We think that we're going to have more condensate to be sold by the factory in the Petrobras refinery in order to reduce also the cost of raw materials. We're doing them to bring more condensates throughout the separation of naptha in the refineries of Petrobras. And I think that we're going to have a good combination of options and possibilities to have a better average cost of raw material in 2005.

**Q - Rusty Johnson** {BIO 3426780 <GO>}

Great, thank you.

**Operator**

Thank you. Your next question is coming from Daniella Guanabara with Banco Pactual.

**Q - Daniella Guanabara** {BIO 6588273 <GO>}

Hi. Good afternoon. Going back to the slide on page 16, you've showed your forecast for the spread between naphtha prices and polyethylene, polypropylene and PVC. I observed that, according to your forecast, PVC margins should drop at a faster pace than compared to polyethylene and polypropylene. Is there any specific reason for that? Is there any major increase in global capacity of PVC?

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

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Yes, Daniella, Jose Carlos speaking. You know, what we see is always PVC is the first product to pick up because when you look at the chart you see that PVC is starting to recover faster in international market. And there are indications that reports that PVC should or could have a kind of slow down before the other products, because (inaudible) decided to invest a new capacity in the U.S. All companies have announced the bottleneck in the global market. But, do you know, I think that we have to wait some time before the clear picture is to be taken for PVC. Because it's not going to be easy for companies to have new capacities of PVC on a global basis because PVC is very much dependent on electricity. Because of in the start cost of the production chain you have (inaudible). So, there are not many places in the world where you have a quality available of electricity at low cost.

Second, if you combine low cost of energy with (inaudible) available and if you produce PVC you need to have chlorine available. And, as you may know, there has been global descriptions for chlorine production, mainly a (inaudible). And that's why we think that we may see some shutdowns in the U.S. and Europe in the future. And you are going to see new capacities try to compensate for that in developing countries; Asia, Middle East.

But we think that overall we are more optimistic as far as Braskem is concerned in terms of PVC. There, the indications you have in this chart.

**Q - Daniella Guanabara** {BIO 6588273 <GO>}

Okay.

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

We think that the margins for PVC will resist longer than what we see in this (inaudible).

**Q - Daniella Guanabara** {BIO 6588273 <GO>}

Okay, thanks, great.

**Operator**

Okay, at this time, I would now like to turn the floor back to management for any closing comments.

**A - Jose Carlos Grubisich** {BIO 2072165 <GO>}

Just to conclude, thank you again for your attention. Myself, Paul and all the team here will be at your disposal if you have any further questions. We have all the declarations in more detail in our website and if you need any additional information, please get in touch with us and thank you again for your comments and for your attention. Bye, bye.

**Operator**

Thank you. This does conclude today's teleconference. You may now disconnect your lines at this time and have a wonderful day.

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