# Q2 2006 Earnings Call

## Company Participants

- Jose Carlos Grubisich, CEO
- Luiz Henrique Valverde, IR Manager
- Paul Altit, CFO

## Other Participants

- Eric Ulm, Analyst
- Frank Mcgann, Analyst
- Liliana Yang, Analyst
- Ricardo Cavanagh, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the Braskem Second Quarter 2006 earnings conference call. Today with us we have Jose Carlos Grubisich, CEO, Paul Altit, CFO. And Luiz Henrique Valverde, IRO for 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 session. At that time, further instructions will be given. (Operator Instructions) We have a simultaneous Webcast that may be accessed through Braskem's Website, www.braskem.com.br/ir. 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-and-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 management and on information currently available to the company. They involve risks, uncertainties. And assumptions 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 results to differ materially from those expressed in such forward-looking statements. Now, I'll turn the conference over to Mr. Valverde, IR Manager of Braskem. Mr. Valverde, you may begin your conference.

### Luiz Henrique Valverde

Good morning, ladies and gentlemen. I'd like to thank you all for attending Braskem's conference call, this time to discuss our Second Quarter 2006 results. To begin with, I'd like to remind you that the information presented here has already consolidated 100% of Politano for the Second Quarter '06 and that the one half '06, 2Q '05, one half '05 and 1Q '06 years are performers. That is, they have also fully consolidated Politano's results in all and permits our analysis on a perfectly comparable basis.

So let's move on to Slide three and begin our presentation. Slide three shows the increase of the Brazilian real market. It is a problem, as you know, that in the First Quarter of '06, Brazilian (inaudible) grew by 3.4% compared to the corresponding period in 2005. And Brazil's industrial factor grew by 5% during this period. This growth has been reflected in the Brazilian thermoplastic resins market, which grew by 40% in the First Quarter '06, notwithstanding the significant increase in oil prices which confirmed the competitiveness in the plastics industry in Brazil. Braskem's domestic polypropylene and PVC sales increased 11% in the first half of 2006, compared to the first half of 2005, while those of PE, or polyethylene, declined by 5%, ensuring that the company maintained its market through the (inaudible). The decline in polyethylene sales was essentially due the market restructuring after the startup of a new competitor. First, we are emphasizing that domestic polypropylene sales volume in the Second Quarter '06 was the highest since January 2005.

Now let's move on to Slide Number 4. This is a simplified chart of our current ownership structure. In the Second Quarter of 2006, Braskem implemented several important corporate actions, including the merger of Polialden. And the acquisition of Polialden's control. With the merger of Polialden into Braskem, all assets which constitute the part of the integration process of all the information of Braskem now integrates a sole corporate instrument. All corporate acts have been implemented, observing principles of transparency. And following the highest standards of corporate governance. Also this quarter, as widely announced to the market, Braskem acquired control of Politeno, an important polyethylene plant located in the CamaÃ§ari Petrochemical Complex , increasing its market leadership in Latin America for this resin. As a result of the acquisition, approximately 80% of the ethylene produced by Braskem's basic petrochemicals business unit are integrated with its downstream facilities. It is Braskem's intention to proceed with integration of Politeno as of the Second Quarter of 2007. Currently, there is only 4% of Politeno's total capital as free flows in the market. Braskem's total holdings (inaudible) Petroflex were not altered during this quarter. It is also important to highlight that free flows of Braskem's Class A preferred shares reached a significant 70%.

Now let's move to Slide Number 5. In Slide Number 5, we show some of the highlights of this period. On May 4, '06, Braskem implemented a share buyback program with a duration of 180 days, under which Braskem has agreed to repurchase up to 13.9 million Class A preferred shares. And 1.4 million common shares. Through June 30, '06, Braskem held 4.5 million Class A preferred shares in treasury, approximately 4 million of which were acquired under the share buyback program, representing 29% of the Class A preferred shares authorized to be reported under this program. On June 26, '06, Braskem concluded the audit of its internal controls, one year ahead of schedule. And has achieved full compliance with the requirements of Section 404 of the Sarbanes-Oxley Act regarding internal controls applicable of companies listed on the New York Stock Exchange. Braskem (inaudible) reconciliation of its consolidated financial statements, tied together with its Form 20S on the same day, already in full compliance with the new law. On July 25, Braskem announced the report of its second patent in nanotechnology, which is considered one of the most promising frontiers in polymer science and the general materials sector. Fitch ratings of foreign currency rating from BB with a positive outlook to BB+ with a stable outlook. Braskem's national scale risk rating was separated from AA; national scale with a stable outlook to AA with a stable outlook.

Moving ahead to Slide Number 6, we present some of the main economic effects in the Second Quarter. Braskem's Second Quarter '06 net revenue decreased by 5% in Brazilian reais, when compared to the Second Quarter of '05, mainly due to the 13% entering average appreciation of the exchange rate, given the fact that our revenue is linked to the dollar. When expressed in U.S. dollars, Braskem's net revenue increased 7% in the Second Quarter 2006 compared to its net revenue in the Second Quarter of 2005. The main factors which constitute this new increase were the increasing total sales volume. And the 30% increase of export revenue.

Braskem's net export revenue reached $348 million in the Second Quarter of 2006, 32% higher than the $267 million recorded in the Second Quarter of 2005. This increase was due to the increased sales volume and international market price of aromatics, as well as increased exports of polyethylene and polypropylene. The percentage of exports revenue divided by total net revenue increased from 22% in the Second Quarter '05 to 23% in the Second Quarter of '06.

EBIDTA totaled BRL263 million in the Second Quarter '06, compared to BRL595 million in the Second Quarter '05. The main factors influencing this performance were number one, the appreciation of the real during this period, which affected 100% of Braskem's revenue and only 80% of its costs. Number two, the C&E increasing naphtha supply, the company's main raw material as well as the cost of ethylene and propylene acquired from (Cocasu) in line with increase in international oil price and energy costs. And three, the increase in the supply of polyethylene domestically, partially offset by a 14% increase in the domestic thermoplastic resins market.

Braskem's EBIDTA, when expressed in U.S. dollars, decreased by 51%, from $239 million to $160 million. Braskem's financial leverage, measured by the NASDAQ's EBIDTA ratio, increased from 2.03 times on March 31, '06, to 2.97 times on June 30, 2006, reflecting the following factors. Number one, investment in the acquisition of Politeno, number two, business payments, number three, the share buyback program, number four, the increasing working capital needs. And finally, number five, the reduction in operating cash flow. Despite such increase, these figures, within in this country are superior to the average debt maturity of 16 years.



Braskem's net debt increases from $1.6 billion in March '06 to $2.1 billion on June '06. Braskem's cash and cash equivalent amounted to BRL1.3 billion on June 2006. As a result of all the factors discussed previously, Braskem reported a net loss of BRL54 million in the Second Quarter of 2006, compared to a net income of BRL437 million in the Second Quarter of 2005.

Moving to the next slide, number seven, we present the factors influencing the year-on-year EBIDTA variation in greater detail. Braskem's efforts to keep its price in line with international levels led to a positive impact of BRL46 million on the Second Quarter '06 EBIDTA. The increase in raw material prices, particularly naphtha, whose average price increased 35% in dollars had a negative impact of BRL231 million. The 13% appreciation of the real pushed revenue down by BRL375 million. But also reduced costs by BRL273 million, leading to a negative net impact of BRL102 million. Total sales volume remains relatively flat, with a negative impact of BRL26 million on EBIDTA. As a result, Braskem reported EBIDTA of BRL263 million in Second Quarter '06, equivalent to $160 million.

On the next slide, number eight, we present a review of Braskem's investments for 2006. Braskem's main investment guideline is to maintain capital discipline under which we prioritize investment opportunities rated on expected possibility and compliance with health, safety and environmental requirements, as well as Braskem's generation of cash flow during the period. Given that Braskem cash flow in 2006 has been adversely affected by the factors already mentioned in this presentation, Braskem decided to review its investment program for 2006. Of the BRL900 million that Braskem initially expected to invest in 2006, Braskem now expects to invest approximately BRL750 million based on its investment guidelines. However, Braskem expects to make investments in 2006 to increase its annual polyethylene production capacity by 30,000 tons, to increase its annual isotherm production capacity by 8,500 tons, to increase its (inaudible) by year, (inaudible) Braskem among all the projects. In addition, Braskem expects to spend appreciate BRL140 million in its scheduled maintenance throughout during 2006, out of which BRL71 million were already disbursed during the first half of 2006.

Moving to the next slide, number nine, which is our final one, we present our outlook for the second half of 2006. Regarding domestic demand, with respect to the economics scenario in the first half of 2006 to prepare you for the second half of 2006, which would positively affect the sales performance of Braskem. (inaudible) the thermoplastic business during the second half of this year. Regarding price, we expect the prices for our thermoplastic resins, Braskem will maintain its policy of privileging profitability in the sales we started, providing high value added service to its customers. They are supported by differentiated structures of innovation and technology. This strategy has allowed Braskem to maintain over time domestic prices higher than international market prices considering the parity prices. In the Second Quarter 2006, these (inaudible) were affected by the additional supply of polyethylene in the domestic market and the increased imports of thermoplastic resins and of third-generation products manufactured with polypropylene. For the second half of 2006, Braskem's priority, consistent with its policy of maximizing the profitability of its operation, is to increase its domestic thermoplastic resin and its prices for all the petrochemical products in an effort to recover its historical price spread. Regarding our course, Braskem's main materials are naphtha, fueled by its basic petrochemicals business unit. And ethylene and propylene, both of which are acquired from Potosi and used in the company's second-generation plant in the Triunfo pampas. These raw materials represented 75% of Braskem's (inaudible) in the Second Quarter of 2006. And therefore is highly correlated with oil price. We expect global oil supply and demand to remain very tight, keeping oil prices at historically high levels throughout the rest of the year. Our investment in Paulinia, consistent with our strategy to maintain the leadership in the regional thermoplastics resins market, which is expected to grow over the next few years, Braskem is investing together with Petrobras in the construction of a new polypropylene plant in Paulinia in the state of Sao Paulo, with an annual production capacity of 300,000 tons. The important project received a renewed provisional environmental construction license. And the plant is expected to commence operation in the First Quarter of 2008.

Regarding Braskem's laws and formal Braskem. Braskem foresees to obtain until the end of 2006 productivity gains that (inaudible) BRL420 million on an annual and recurring basis under the Braskem Plus program. These gains are the result of an increasing productivity and operational efficiency. Its full impact will be recognized beginning in the year 2007. Additionally, the Braskem formal program shall begin operations in the Fourth Quarter of 2006, with expected efficiency and production gains as already disclosed to the market. Our project season as well, Braskem is developing two important (inaudible) in Venezuela, with a basic premise of building manufacturing plants that will be competitive, even with low-cost producers located in the Middle East. Both projects are joint ventures between Braskem and Pequiven. (inaudible) an alliance in construction of a polypropylene plant, with an annual production of about 400,000 tons. We expect the investments in this plant to total $370 million. And this plant is expected to commence operations by the end of 2009. Also in Venezuela, in the Jose Olefins complex, Braskem has been aligning the construction of a new project to produce ethylene with natural gas integrated with the production of polyethylene and other second-generation products. Currently, these projects are in a technical economic and visibility study stage. And the timetable for this project contemplates the commencement of operations by end of 2011. To meet the world demands of this project, Braskem has begun to mobilize working groups for each project and has opened a branch office in Venezuela to oversee these investments and move them forward.

This concludes our prepared remarks. And we may open the session for questions and answers.

# Questions And Answers

## Operator

Thank you. (Operator Instructions) Our first question is coming from Frank McGann of Merrill Lynch.

## Q - Frank Mcgann {BIO 1499014 <GO>}

Yes, good day, everyone. I was just wondering if maybe you could talk about your expectations for competition in the domestic market, how you see that developing over the next 12 months as the Rio Polimeros capacity gets more absorbed into the market. Two, just looking at the Capex changes that you've made, it looks as if most of this is related to reduction in the amount you're investing in new capacity. I was wondering where you were making changes and what the timing is of new capacity for different products over the next couple of years?

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

I'll be frank. Grubisich speaking. Good morning. As far as market is concerned, the first element of positive growth in the first half of the year. You may notice that the polyethylene market grew by 12%, which was over our expectations. Initially we had anticipated lower growth in our business plan. The market was very sustained and very good growth of polyethylene and polypropylene. And for PVC as well. As you may know Rio Polimeros still faces some production challenges. They are running at an 80% to 85% rate of capacity realization. And at 12% gross rate, we feel that the market should be growing between 200,000 to 240,000 tons a year. If you consider that Rio Polimeros is running at 80% of their capacity, that would be close to 400,000 metric tons a year. And we have a commitment to explore the 150,000 tons. So if that situation is sustainable, it will bear new capacity would be absorbed by the market between one year and one year and a half, which is less than what we first expected, because our assumption was that the market rules would absorb their production in approximately two years.

We had some out-of-spec products in the first semester, which of course put pressure on average selling price in the market because they have to reduce their selling prices to eliminate those off-spec material. And our expectation is that taking into consideration that the international market price for polyethylene and all the other resins, as well, is starting to recover in last May. And approximately a 10% price increase was recognized in the international market. Our expectation is that we will be able to realize our selling prices for all our resins, of course including polyethylene, in the Third Quarter of this year. In July we have already increased our selling prices in a range between 2% and 4% depending on the grade of resins, which means between 5% to 7% when we consider in U.S. dollar terms.

We have already announced a new price increase in the range of 10% to 12% in August, in reais. And we think that the combination of increasing the international market price and sustained demand in the Brazilian market and the local stability, all mechanical, all the thermoplastic resins produced reported in the Second Quarter. All the three elements together will crate good conditions for us and others to realign and increase selling prices starting from now. And this will of course impact our results.

As far as the Capex is concerned, we reviewed the record proposal for 2006. And we are starting our new planning process for 2007. And we are again reviewing our capital expenditure for next year. And basically, what we decided to do in 2006, was to postpone the investment in some new capacity expansion we had planned to our (inaudible), not for PVC in the end of the chain. But we had some products we've had in dichloroethylene and some chlorine additional capacity. And we decide to postpone to understand better what's going to happen with the new capacity in Asia, in China, particularly, with the outdated (inaudible) technology, which could impact our profitability for those (inaudible). That's why we decided to postpone until we have a very clear view of what's going to happen going forward.

## Q - Frank Mcgann {BIO 1499014 <GO>}

All right. Thank you, very much.

## Operator

Thank you. Our next question is coming from Eric Ulm of ING.

## Q - Eric Ulm

Good afternoon. Could you give us some guidance on the outlook for the rest of the year? Given that you're going to have these price increases, are you expecting something like a return of what the First Quarter showed? And then secondly, just on your debt policies, I mean, obviously, net leverage has increased since hitting a low about a year, year and a half ago. There is, in your press release that talked about buying back some of the 2008. Have you changed your long-term guidance on what you believe your net leverage should be. And how much of the 2008 do you believe that you would be trying to buy back?

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

Eric, good question, again. I'll try to address your question about the outlook for the second half of the year. And after, I will turn it over to Paul to discuss the effect to management and which are our policies for the future. As far as the outlook is concerned, let me start by saying that we do believe that oil price will remain at the high level. And we think that the naphtha price will also remain at the very high level if we compare to what happened in the First Quarter of 2006. And eventually will be leveled out with what happened in the Second Quarter. But oil price and naphtha cost remain the most volatile variable in our corporate structure. And of course, with very heavy impact in our bottom line. In terms of volume, we think that the market in Brazil will keep growing close to the speed it grew in the first half of the year. We see a very good business environment in Brazil right now in income, credit is more agreeable. And we see many market segments going in the positive direction in the second half of the year.

We are in a year of elections in Brazil. And any time we have elections, we have a kind of more monetary volatility. Interest rates have been reduced lately. It's in a very low level when we compare to last year and the year before. So we think that the market economic conditions are better. Microeconomic conditions are improving very fast. We think that the impact of new politics is already in the prices. And we do expect to increase our selling prices in the Third Quarter. And if the financial market prices keep increasing as they have been doing lately, almost every week we have price increases in the Asian market, which is a big plus for us, we feel a more positive basis environment for Braskem in the second part of the year. And this will enable us to recover our profitability level. So I'll turn now this debt management policy to Paul Altit.

## A - Paul Altit

Let me mention that we are expecting to have a better cash flow in the second half than we did have in the first half. I think it's easy to understand, because this year we had three impacts on the cash from the first half, which we believe should not occur in principle in the second half. First of all, we did have an increase in demand on working capital of BRL226 million. What happened is that in the first half, we basically imported less naphtha than we did previously. I think you remember in the other conference call, we shared with you that Braskem had an average of imports of something around 40% of its total demand. And 60% was acquired with Petrobras. And this half, we basically imported something around 25%. Because naphtha was increasing its prices. So it was better for us to acquire naphtha from Petrobras because we paid Petrobras 30 days prices behind us. Which gives us set to advantage when prices are really moving up very quickly, which is exactly what happened in the first half. So the second half should the naphtha maintain at least a stable level, we should come back to the same level of import which (inaudible) roughly around 35% or 40%. And therefore, we should not have the same demand of increasing working capital as we did have in the first half, which was BRL226 million, basically due of imports of naphtha and ultimately (inaudible) accounts receivable not regarding payments to accounts receivable basically because of the prices of the product.

The second main impact on the cash flow in the First Quarter--or the first half, sorry--was because of the position of the down payments of the acquisition of Politero, which demanded BRL240 million, which is roughly $110 million of cash. For certain, we shall not have the same kind of disbursement in the second half.

The third reason is that we did also pay dividends in the first half of BRL355 million. And we are not forecasting paying the same level of dividends, even though we're not changing our dividend policy. We should not pay the same level of dividends, if we shall pay any dividends whatever in the second half. (inaudible). Working capital, Politeno. And also, dividends, this takes us to BRL1 billion in demand of cash in the first half, which in principle should not happen, at least in the things I mentioned, in the second half. Therefore, we are forecasting that the net cash should be much better in the second half.

So, to start sharing with you the answer. Regarding the debt policy, we had an increase of the net debt in EBIDTA basically because of two reasons. First of all, EBIDTA really came down in reais because of the reasons pretty well known by everyone. We had a strong pressure in cost last time because of polypropylene and ethylene. So in principle we still believe in the second half and probably the first half of next year we will still have raw materials pretty high level. And therefore margins should still be quite pressured in this sense. But politics maintain price unchanged in the sense that we'll still maintain a high level of liquidity. We have not changed our policy which has been approved by the Board, as you know. So (inaudible) we'll still maintain a high level of liquidity, we are considering if (inaudible) of the market is there, eventually updoing a liability management on our bonds to follow our late bonds. But we cannot go ahead on that because of the time period and because also market position. The market is there. And something that eventually could consider. And if this could be possible, would put us in the condition that we will never have any strong payments of any single year, which could be considered higher than our amortization and depreciation.

With this said, our average amortization is something around BRL16 million. And (inaudible) Regarding that debt appreciation should be very straightforward on your question, answering your question. Probably our level should be slightly higher than the guidance we gave last year, because of a big (inaudible) came down in reais because of the high level of the last year. We were sharing with the market that we're expecting to see (inaudible) between something around 1.5 to 2.0 times. And probably I would push this up 0.5, instead of becoming our own (inaudible), probably that there will be slightly over two or two and a half, probably. And eventually it's not this soon, it's pretty high, this could be something around two and a half and three. But because of that what we'll try to do. And probably we are think. And strongly believe that we will be, we will be successful in this sense. It's really too hard, even more possible, that amortization schedule and to maintain a very high level of liquidity. So it's pretty much what we're trying to do.

Regarding Capex, we should be filing Capex at 70% in debt and 30% equity. And as Carl just mentioned, we have decreased the capital expenditure this year. This has to do pretty much with what Carl already has shared with you, has to do with capital risk. So if cash flow is not as good as we are forecasting, we shall be reducing capital expenditure and noticeably maintaining capital discipline. So I'm not sure if I answered your question, it's what I'd like to share with you in principle.

## Q - Eric Ulm

Oh, no, no, no, no, that was good. Thank you.

## A - Paul Altit

Thank you, very much.

## Operator

Thank you. (Operator Instructions) Our next question is coming from Ricardo Cavanagh of Raymond James.

## Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Well. Good morning. I have two questions. The first one is related to the spread between Brazilian earnings. The national prices, you mentioned that that spread has narrowed considerably. My question would be if it's possible to give a broad idea of how is this spread in terms of % for the main products in CPE and polypropylene? And then if you can give us a view of which are the capacity expansion projects for the industry, again if possible, that you are foreseeing what it is like next year?

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

Okay. Jose Carlos Grubisich speaking. As far as the spreads are concerned, our policy has been. And it's still what we are trying to put in place, is to align our prices to the international markets. Today, the benchmark for us is the Asian price, because that's where our product comes from whenever we have imports into the Brazilian market. We try to, what we do, we get the Asian benchmark prices, we add to that all the production costs to bring the products into Brazil, all the supply chain costs, all the administrative costs, to have a product in inland duty paid, which means that in average, that is 1.3 of the Asian benchmark price. And on top of that, it's what is the import tax price, we try to promote a premium, the same as on the resin, which is variable. Because if we sell to small and mid-sized customers, of course we can command a higher premium, because they ask more service from our side, in terms of technical assistance, better supply chain. And accelerate (inaudible) reduction. And we can deliver also innovation and technology support for those customers.

When we sell to large customers, of course, they are ready and prepared to take care of themselves. So we have a lower premium price. Over the Second Quarter, due to the arrival of (Upolinos) and due to the expectation of the exchange rate, we saw the higher pressure in the domestic market, which was a challenge for us in terms of in realigning our selling prices. And what happened is that in May is that international price recovered a lot. And we are making a huge effort to increase our selling prices, either in U.S. dollars and in reais. We feel a combination of sustained growth in the market, we see the impact of (Upolinos), our resin price in the market. And as I mentioned before, we were able already in July to increase our selling price in reais between 2% and 4%--in dollar terms, between 5% and 7%--and we are making price increase our top priority for the second half of the year. So our commercial people is very much focused on realign the prices and trying to take all the opportunities we may find in market segmentation, customer loyalty. And that's really where we are within our time right now.

I'd like also to highlight here that we have good expectations going forward in terms of cost reduction. As you may have noticed, we have a workshop in the Second Quarter related to the integration of Politano and cost reduction in our (Capolatan) production facility. We may also start cost reduction in our DT operation. And we are implementing in July, August also some staff reduction within (inaudible). And this is going to be very positive in terms of cost reduction. And it started Fourth Quarter our Braskem formal project will be operational, which means that we are going to start to harvest all the savings we had already anticipated for the market due to BRL150 million for ethanol on a recurring basis. And we will start allocating more cash for the project itself. We are also accelerating Braskem Plus. So by the end of this year we do anticipate to have the $420 million in savings already available for the Braskem (inaudible) on a recurring basis. And we are expecting this to be a positive tool to our 2007 results. So we are going add cash here. And we are no longer going to have cash out related to the project. So, more production available to our sales in the second half of the year. More selling price, which will compensate for the cost increase we had in the first half of the year. More cash coming from the new projects and less expenditure related to the implementation of the projects. All that together will have a positive impact in our second half results. And we have the full impact in our 2007 profitability.

## Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Thank you, very much for that. And then regarding capacity expansion project international, are you aware of any large capacity expansion project hitting the market next year?

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

No. There has been no change in the planning capacity of the market because, for instance, a chemical project, between you make the decision and the project is operational, it takes for the second-generation projects, it takes between two and a half to three years. And for any first-generation project, it takes roughly four to five years. So there is no new major announcement which we take as serious announcement. And we are going to see in 2007 and 2008 the arrival of the projects which had already been announced many years before, in the Middle East, maybe in Iran. But those projects have been delayed. And they will not impact the market before 2008.

As far as our Brazilian market is concerned, Sao Paulo is already in operation, 80% to 85% utilization rate of capacity. Our Paulinia property expansion will lead the market in 2008 on operational trends. And there is no new major investment under implementation in the Brazilian market. And there is no major, there is no capacity expansion in Argentina, either. So the market tends to be more positive in the second half of this year. And no doubt into 2007 as far as local pressure is concerned.

## Q - Ricardo Cavanagh {BIO 1702523 <GO>}

Okay, thank you very much.

## Operator

(Operator Instructions) Our next question is coming from Liliana Yang of JP Morgan.

## Q - Liliana Yang

Hi. Good morning. I wonder if you could expand a little bit on the rationale for the investment in Venezuela. And if you can give us details on the disbursement per year on the project and the target consumer market? Thank you.

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

The original is going to a country where raw material is available in quantity and quality. And price is very competitive. As you know, 100% of our prices are based on liquid fixed stock, naphtha (inaudible). So we see price for naphtha under pressure due to supply demand and also geopolitics worldwide. And think that our growth should be made based on natural gas under very competitive condition. So we are targeted to have in Venezuela a combination of projects with large scale, advanced technology. And very competitive fixed cost. So our target is one, to build one polypropylene project with 400,000 tons capacity using very competitive propylene, which is going to be supplied by Pequiven and PDVSA. And this is going to be a 400,000 tons. The investment cost is in the range of $350 million, roughly. Of course, we are still working with Pequiven on all the details, the supply agreements, the cost of propylene. And trying to detail the investment business case. And that polypropylene would be supplied to the local market to the countries in South America, where we cannot supply on a competitive basis from Brazil because the supply chain is very costly. And of course having polypropylene available in Venezuela, we will look to the Mexican market and the U.S. market, because we think that we're going to have a very competitive production basis there. Overall, the project is an integrated petrochemical complex through a cracking base on a frame coming from natural gas, which would be a $1.2 million to $1.5 million of ethylene. That project is being worked out by Exxon-Mobil in partnership with Pequeven and PDVSA. We are trying to use all the know-how we have and all the know-how Pequeven has in hands right now to put in place a very competitive project. And our target is to have in Venezuela a project as competitive as those projects early evaluation and presentation in the Middle East. Very low-cost natural gas, the same between $1.20 and $1.50 per million Btu, compared $7 to $12 in the U.S. market, depending on the season. And that's one-day supply chain from the U.S. market from the Mexican markets, which will be net importers in the future. So if we can put all those objectives together, we think that we are going to have very competitive assets in Venezuela. And of course we are very clear on the risks associated to those projects. And we are going to find ways and options to mitigate the risks. But we think that the rewards are more than enough to compensate the risks associated to those decisions. But of course we are not going to make any final decision if we do not meet the criteria already defined by our Board, by our Executive Team, before we go ahead in any of those investment proposals.



## Q - Liliana Yang

Okay, thank you.

## Operator

Thank you. I would now like to turn the floor back over to Mr. Grubisich for any closing remarks.

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

Okay, thank you all for your presence in our international conference call. Our team is at your disposal for any further discussions or any further questions you may have. And of course, our objective is to keep you updated on our performance, our strategy, in order to give you a better outlook of our business so that you can anticipate our performance and we can have you in line with our own expectations. So thank you, have a nice afternoon for you in the northern tier. And have a nice weekend. Thank you, very much.

## Operator

Thank you. This does conclude today's Braskem's 2Q 2006 earnings conference call. You may now disconnect your lines. And have a wonderful day.