

Q4 2005 Earnings Call

Company Participants

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

Other Participants

- Eric Ollom, Analyst
- Lucrecia Tam, Analyst
- Mauricio Paredes, Analyst
- Unidentified Corporate Representative

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to the Braskem 4Q 2005 and 2005 earnings conference call. Today with us we have Jose Carlos Grubisich, CEO, Paul Altit, CFO. And Jose Marcos Treiger, IRO, for Braskem. (Operator Instructions) We have simultaneous webcasts that may be accessed through Braskem's website, 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 will be answered during the Q&A session, may be posted in advance on the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of Securities Litigation Reform Act of 1996. Forward-looking statements are based on beliefs and assumptions of Braskem's 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 the 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 will 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. good morning and thank you all for attending Braskem's Fourth Quarter 2005 and full year end 2005 conference call. Just like in previous quarters, we'll make a brief slide presentation commenting on our Company's performance in the Fourth Quarter. And in 2005. After that, we'll begin the second part of our conference call, when we will open a Q&A session during which our CEO, Jose Carlos Grubisich. And our CFO, Paul Altit, Paul's here by my side, will be available to answer all of your questions.

Let us move now please to the slide number three, where we shall begin our remarks. So here, on slide number three, we are showing the Fourth Quarter and the full year end 2005 highlights. In 2005, Braskem's production of thermoplastic resins, polyethylene, polypropylene and PVC, increased by 8% compared to 2004. The Company maintained high production capacity utilization rates. This performance confirms once more the operational excellence achieved by the Company.

Total thermoplastic resin sales volume increased by 8% in 2005, driven by exports, as volumes sold by the Company in the domestic market remained flat due to the slow rate of growth in the Brazilian economy. Braskem achieved record results in the export market in 2005, reaching \$959m, almost \$1b, up by 35% over the \$710 million recorded in 2004. This is evidence of Braskem's strategic flexibility between the domestic and export markets.

When expressed in U.S. dollars, Braskem's net revenue in 2005 increased by 26%, reaching \$4.8b. Braskem's net revenue increased by 5% when expressed in Brazilian reais, reaching BRL11.6b.

Braskem's EBITDA in 2005 totaled \$851m, a 2% decrease compared to 2004, due to a scenario in which naphtha was 30% more expensive in U.S. dollars.

Braskem's net income reached BRL677 million in 2005. The proposed profit distribution, in the form of both interest on own capital and dividends, totaled BRL325.7m.

When expressed in U.S. dollars, Braskem's net debt decreased by 17%, from \$1.5 billion on December 31, 2004 to \$1.2 billion on December 31, 2005. Braskem's level of financial leverage, measured by the net debt to EBITDA ratio, decreased by 11%, from 1.52 times on December 31, 2004 to 1.36 times on December 31, 2005.

Braskem has been accelerating the capture of productivity gains obtained through its operational excellence and competitiveness program, Braskem Plus. This will enable the conclusion of the program by the end of 2006, or one year ahead of schedule from the beginning of this program until the end -- I mean one year ahead of schedule. And the Company has captured, from the beginning of this program until now, BRL256 million in productivity gains on an annual and recurring basis, which exceeds by BRL86 million the target originally estimated for this period.

In the Fourth Quarter of 2005, Braskem contributed its polypropylene production process technology to the capital of Petroquimica Paulinia, with an aggregate value of BRL58m.

In December 2005, Braskem was one of the 28 companies qualified to participate in the BOVESPA Corporate Sustainability Index, the ISE, Índice de Sustentabilidade Empresarial. This index is designed to provide investors with a portfolio composed of shares of companies that really have made a recognized commitment to social responsibility and to corporate sustainability.

2005 was also a year of increasing liquidity for Braskem shares. In only three years of trading, our shares became the ninth most liquid ones on the IBOVESPA index, with a percentage participation of 2.91% within this index.

Let us move ahead now to slide number four. We present here the financial effects observed in the Fourth Quarter of 2005, which resulted from the performance just mentioned.

Gross revenue in the Fourth Quarter of 2005 was BRL3.7b, in line with both gross revenue recorded in the last quarter of 2004 and in the Third Quarter of 2005. When comparing to the Third Quarter of 2005, such performance derives from the higher prices now obtained, although partially offset by the lower sales volume achieved due to the seasonality of the last quarter of the year.

Braskem's EBITDA reached BRL480 million in this last -- Fourth Quarter of 2005, 27% below the BRL661 million EBITDA recorded in the Fourth Quarter of 2004. In U.S. dollars, the Fourth Quarter 2005 EBITDA reached \$213m, or a 10% decrease when compared to \$237 million a year ago; a clear sign of the impact of the appreciation of the Brazilian real between periods. Higher naphtha prices. And the impact of a stronger real on revenues and costs, are accountable for such results. Compared to the Third Quarter of 2005, EBITDA in U.S. dollars was 42% higher, reflecting better resin prices in the last quarter of the year.

Net debt to EBITDA ratio remains stable compared to the one recorded in September 2005, reaching 1.36 times. Despite a significant improvement in its operational results in the Fourth Quarter of 2005, Braskem recorded in this period a net loss of BRL5m, compared to net income of BRL48 million registered in the Third Quarter of 2005. This result reflects the 5% depreciation of the Brazilian real against the U.S. dollar in the Fourth Quarter of the year.

Let us move now to slide number five, please, where we present the financial effect of the -- in the full year end 2005. Gross revenue in 2005 was BRL15.2 billion or a 6% increase when compared to the BRL14.3 billion gross revenue recorded in 2004. Such performance derives from higher sales volumes, mainly the export market. And higher resin prices when expressed in dollars.

Exports were key to that performance, having increased by 35%, reaching almost \$1 billion since then. This performance positions Braskem effectively as one of the leading industrial exporting Brazilian companies.

While Braskem's 2005 EBITDA, when expressed in reais, decreased by 18%, in dollars the decrease amounted to just 2%. Such results is a clear portrait of the Company's performance, since most of its (inaudible) and all of its revenue are linked to the U.S. dollar.

The net debt to EBITDA ratio decreased by 11%, from 1.52 times in December 2004 to 1.36 times now in December 2005. Braskem's 2005 net income was BRL677m, in line with the 2004 net income.

Let us now go, please, to the slide number six. On slide number six we see that Braskem presented a higher level of industrial activity in 2005, recording capacity utilization rates of 91% for ethylene, 94% for PP and polyethylene production. And 95% for PVC.

These high utilization rates reconfirm Braskem's operational excellence, which arises from higher operational reliability of its plants. And from an efficient utilization of the new capacity added along 2004 and 2005. Braskem thus recorded a significant production volume increase of thermoplastic resins in 2005, equivalent to additional 7.5% in comparison with the previous year.

Sales volume in turn increased by 8.4% when comparing the Fourth Quarter of 2005 -- I mean when compared to the previous year. When comparing the Fourth Quarter of 2005 with the Fourth Quarter of 2004, sales volume increased by 9%.

Let us go now, please, to slide number seven. Here we present Braskem's main results in the areas of health, safety and environmental protection in 2005. We experienced significant improvements in performance. And we have in fact reached our best ever results. The impact from the obtained improvements represents overall cost reductions for the Company in the amount of BRL55m.

Accidents rate at Braskem continued its declining trend, as a 50% reduction was registered in 2005.

Effluents volumes were significantly reduced. They went down by 11% in 2005. The volumes reduced, to give an idea, is equivalent to yearly waste of a population of about 33,000 people. The decrease in waste emission reached 13%, equivalent to that of 21,000 people in one year. Water consumption fell by 2% in 2005, equivalent to the consumption by 12,000 people in the same period.

Let us go now, please, to our slide number eight, where we identify in greater detail the factors which reduced the Fourth Quarter of 2005 EBITDA, when compared to the EBITDA registered in the Fourth Quarter of 2004.

Higher prices practiced by Braskem, in line with the upturn in the international prices, accounted for a positive -- BRL148 million increase in the Fourth Quarter of 2005 EBITDA. In addition, higher demand led to an increase in sales volume from the Fourth Quarter of

2004 to the Fourth Quarter of last year, accounting for a BRL58 million increase in EBITDA again.

The transfer of technology to Petroquímica Paulinia also contributed with BRL58m. Other factors, such as selling and administrative expenses and other fixed costs, accounted for a BRL25 million improvement in EBITDA. However, higher raw material costs, particularly related to naphtha, as well as the appreciation of the local currency, negatively impacted the Fourth Quarter 2005 EBITDA by BRL378 million and by BRL92 million respectively.

The next slide now, number nine. This is where we identify, also in greater detail, the factors which reduced 2005 full year EBITDA, which decreased by 18% when compared to the EBITDA registered in 2004. Higher prices practiced by Braskem, in line with the international upturn in price, accounted for a positive impact of BRL2b. And in addition, higher than (inaudible) increase in sales volume from 2004 to 2005 accounted for a BRL129 million increase in EBITDA. The transfer of technology, again to Petroquímica Paulinia, contributed with BRL58m.

On the other hand, higher raw material costs, particularly related to naphtha, as well as the appreciation of the local currency, negatively impacted the 2005 EBITDA by BRL1.8 billion and by BRL652 million respectively. Other factors, such as selling and administrative expenses and other fixed costs, accounted for a BRL145 million decrease in our EBITDA.

The next slide, number 10. This is where we present Braskem's 2005 EBITDA evolution when expressed now in U.S. dollars. Higher prices obtained by Braskem, following the recovery in international prices, contributed the year with \$662 million to the full year EBITDA of the Company. Once again, the outstanding export performance led to an increase of \$149m. The transfer of technology to Petroquímica Paulinia contributed with \$26m.

However, as already explained, higher raw material costs mainly related to naphtha negatively impacted in 2005 EBITDA by \$720m. Finally, other factors such as selling and administrative expenses and other fixed costs accounted for a \$136 million decrease in EBITDA. But, in 2005, Braskem recorded a \$851 million EBITDA, just 2% below the \$870 million recorded in 2004.

On the next slide, number 11, we present the main lines of our profit and losses. Braskem's Fourth Quarter 2005 net revenue reached BRL2.8b; a 2% increase when compared to the BRL2.8 billion net revenues posted in the same period of 2004. The Fourth Quarter 2005 EBITDA margin decreased by 6.7percentage points when compared to the same period in 2004, due to higher naphtha prices and the stronger position of the Brazilian real in the period. In 2005 the EBITDA margin fell by 5.1percentage points, from 23.1% in 2004 to 18% now.

Braskem's net financial result was a negative BRL440 million in the Fourth Quarter of 2005. Excluding monetary and exchange rate variation losses, Braskem's net financial expenses for the Fourth Quarter of 2005 was BRL177m, representing a 5% improvement over the BRL187 million net financial expenses recorded in the same period of 2004. In

2005 the net financial result was a negative BRL662m, approximately BRL519 million lower than net financial expenses posted one year before in 2004.

Equity income was BRL25 million negative, a BRL40 million increase over the Fourth Quarter of 2004 figure, mainly due to the programmed maintenance stoppage which took place at Copesul in the State of Rio Grande do Sul. On the other hand, in 2005 equity income reached BRL60m, 22% lower when compared to the equity income registered in 2004.

Let us go now, please, to slide number 12. Here we present Braskem's debt profile as of December 31, 2005. Braskem has continued to focus on reducing its cost of capital, on reducing its foreign exchange exposure. And on extending the average maturity of its financial liabilities. Braskem's net debt at the end of 2005 was BRL2.8b, which represented a 27% decrease compared to BRL3.9 billion in December 2004. When expressed in U.S. dollars, Braskem's net debt decreased by 17%, from \$1.5 billion to \$1.2b.

Braskem's financial leverage, measured by its net debt to EBITDA ratio, continued its downward trend, decreasing from 1.52 times on December 31, 2004 to 1.36 times on December 31, 2005. Currently, Braskem's dollar indebtedness represents 55% of its total debt while, in 2004, it was 71%. In parallel, the Company managed to increase its average debt tenor from three years in 2004 to 11 years at the end of 2005.

Excluding the convertible debentures due in 2007, average annual debt maturities represent approximately 50% of Braskem's annual depreciation and amortization costs and cost of expenses, which portrays our capacity of really maintaining our assets in the state that they are, while at the same time servicing our debt. In addition, Braskem was able to maintain an adequate level of cash and cash equivalents, in order to assure its own operational, financial and strategic flexibility.

Moving ahead to slide 13. Here we present some important data related to Braskem's 2005 free cash flow, as well as to the investments made by the Company throughout the year.

Braskem generated free cash flow after taxes and CapEx of BRL1.3 billion in 2005; a 7% increase when compared to the BRL1.2 billion generated in 2004.

Braskem's capital expenditures totaled BRL717 million in 2005, compared to BRL374 million in 2004. Such investments were allocated in the operating, technological, health, safety and environmental areas. And have benefited all of the Company's business units.

Investments carried out this year include the addition of 50,000 tons of annual PVC production capacity in the State of Alagoas and 30,000 tons in the annual polyethylene production capacity, with modern metallocene technology, in Camacari in the State of Bahia. In addition. And in line with the objective of keeping its plants operating with high levels of reliability, Braskem invested BRL150 million in scheduled maintenance stoppages. Such stoppages are accounted for as deferred expenses.

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Braskem will continue its important investment program in 2006. BRL900 million in investments are budgeted for the current year, a 26% increase compared to the BRL717 million invested in 2005. Among the most relevant investments earmarked for 2006. And aside from the Paulinia polypropylene project, a joint venture with Petroquisa, we also costed an additional 30,000 tons increase in annual polyethylene capacity, plus the 8,500 ton increase in the annual isoprene capacity, with the Aratu Terminal storage capacity expansion production as well as with the Formula Braskem project.

Let's move now to our last slide, slide number 14. Braskem's management, in line with its dividend distribution policy and taking into account the sound economic and financial performance of the Company in 2005, is proposing to pay BRL325.7 million to its shareholders in the form of interest on own capital and dividends. This amount is 60% higher than the one paid on the 2004 results.

Out of this total, BRL270 million in the form of interest on own capital has already been authorized by the Board of Directors and deliberated by the Board of Executive Officers. The remaining BRL55.7 million will be paid in the form of dividends.

Considering both interest on own capital and dividends, BRL216.9 million will be paid to class A and B preferred shareholders and holders of American Depositary Receipts (ADRs). And BRL108.8 million will be paid to common shareholders. These amounts remain subject to the approval of Braskem's shareholders in a General Shareholders' Meeting to be held on April 7, 2006.

Having said that, I would like to conclude this slide presentation and to invite you all to our questions and answers session. Thank you, all for your time.

Questions And Answers

Operator

Thank you, ladies and gentlemen. (Operator Instructions) Our first question is coming from Eric Ollom of ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning. Could you give us a bit of definition on your international plans that you've been talking about recently in Bolivia and Venezuela, as well as your expectations for prices globally for petrochemicals, say 2006/2007, in the face of what's expected to be an increased capacity in the Gulf region?

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

Eric. Good morning, Grubisich speaking. As far as our projects in the region, we have a working group focused on the Bolivian project, which is an integrated polyethylene production taking natural gas as the main feedstock. So I think that we can have a very good arrangement for the price war on natural gas in Bolivia. We are talking about \$1.4 to \$1.5 per million Btu.

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And this would be world scale with very good technology and we think this project could be a breakthrough in terms of cost competitiveness in the region, because in terms of delivered cost it would be at the same level of competitiveness of the projects in the Middle East.

We are presently discussing the total production expected for this project. This could be between 600,000 and 750,000 tons of polyethylene. We are also discussing the product mix, at least to decide between a low density -- a linear low density or high density polyethylene. And we are starting again the discussions with the Bolivian officials, the new government team there, in order to make sure that we can speed up all of the different discussions to be in a position to make a final decision by the end of 2006.

So I think (inaudible) has not yet recognized the project. We still have many technical points to be defined. And we think we are going to be really in a position to make a positive decision by the end of this year. So we are trying to create a positive business environment with the new Bolivian officials. We think that we can bring multi-lateral fund providers to the project. And that is to reduce the risks and instability. And we think that we will have conditions to go in that direction.

In Venezuela, the project is to build a partnership with Pequiven, a 400,000 tons of polypropylene. We have a very detailed (fact table) with Pequiven. And we think by the end of June we might be in a position to have all the information available to have a (golden rule) decision to implement the project. If the decision is positive, let's say creating the joint venture and put all the management in together in the second part of 2006, to start investment early in 2007. And our expectation today is to have this production facility onstream in the end of 2008, early 2009. So both projects are going as planned.

As far as prices are concerned, we think that the global economy is growing and will keep growing. China is growing very fast. India's growing. Japan is back into a positive growth rate of the GDP. Europe is not growing very much but, in any case, the forecast is that they will grow above the GDP growth rate of last year and the U.S. is doing more than okay. So global GDP growth.

The (inaudible) seems to be still in the construction of plastic products in relation to the GDP, which means that global demand is clearly outpacing this supply increase, even if we take into consideration the new projects and the Middle East.

We do not see any major impact coming from those new investments before 2008. There were some expectations that the new capacity (in Iran) would be starting in the second half of 2007. Due to the present geopolitical situation, it seems that most of the projects have been delayed. And if we think back to (inaudible) kind of economic environment, those volumes could be even delayed beyond the first half of 2008.

So, globally, the petrochemical industry will operate at high capacity utilization rates, well above 90%. And we think that prices will be sustained and profitability will remain very high in relation to the previous cycles.

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So far as the Brazilian market is concerned, we are very positive because the inventories in the production chain were much lower at the end of 2005 than they were at the end of 2004. That's very positive news in terms of building up of investors. We start '06 with a very good perspective.

You know that we are going to have a minimum wage increase starting in April. So that goes to 16%, a minimum wage increase which is huge for Brazil. And any time you have income increase for a low income people, that normally impacts very much the consumption of very basic materials like our polyethylene, polypropylene and PVC.

Interest rates are coming down (inaudible). There are new incentives for the civil construction here in Brazil. And starting March, we are going to have some benefits in terms of raw material cost reductions through a new legislation for a very specific tax that we have here in Brazil.

So, the global landscape is, let's say, stable for the petrochemical industry and here macroeconomics and very specific issues relating to our business should be very positive as well.

Q - Eric Ollom {BIO 4374335 <GO>}

Excellent. Could you just give us a current estimate of both the Bolivian and Venezuelan project, in terms of your share of the CapEx, maybe a range perhaps?

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

That is still being discussed. So we do not have the estimate, the final (structure), because we have been discussing the Bolivian project with some partners. It's not yet decided how the breakdown of the capital is going to be structured.

We might have two different projects. The first part to make the (fractioning) and the construction of the liquid part of the gas. And most likely do -- that part of the project could be with a greater presence from Petrobras (inaudible). And we could have a second part which would be the petrochemical project itself, where we do want to have a leading position. So we do not have the details finalized yet. We might have this during the Second Quarter of '06.

In Venezuela the project is much bigger and we are going to have a joint venture with Pequiven. And we are still discussing on how to put together the project. But the exact equity position of Braskem or Pequiven is not yet decided.

Q - Eric Ollom {BIO 4374335 <GO>}

On the Venezuelan project, would you anticipate multi-lateral financing being made available?

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

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(inaudible), yes, definitely. Probably most projects outside Brazil, in Latin America, they probably would be funded by multi-laterals such as the IDB and (Task) (inaudible). Imports usually should be funded by (BCA) and also the Brazilian export credit facility with long-term funding also should be a good alternative for us. So -- and most of this project probably will be funded under a project financing contract.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Great. Thanks a lot.

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

Thank you, very much.

Operator

Thank you. (Operator Instructions) We do have a follow-up question coming from Eric Ollom of ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi, guys. Just on the pricing environment for 2006 in Brazil, can you give us any guidance in terms of percentage changes, say versus the current level of prices? Do you expect stable? Do you expect 5%, 10% increase?

Q - Unidentified Corporate Representative

(Eric here). Our commercial policy is to align our domestic prices to the international prices, taking into consideration all the transaction costs to bring products into our markets. And, on top of what we call the (enforced party) price, we command a premium which can vary from product to product, depending on the size of the customers, the level of services we deliver to each and every customer.

And what happened in the last quarter of last year is that we were very successful in increasing our selling prices. That's why we did succeed to improve our EBITDA, even if the volumes were not as high as we first expected. What has happened in the First Quarter of 2006, in January, our volumes for the polyethylene, polypropylene and PVC grew double digits in relation to January '05. And we did not see any erosion in our selling prices.

We are not increasing our selling prices right now. We are in a more stable environment. We announced a 5% price increase for PVC for February and eventually March. But our policy is to review our price policy on an almost weekly basis to make sure that we are always in line with the international prices, plus transaction costs, through the service markets we command in our strategy.

Then, in terms of global strategy, we plan to run our production facilities close to capacity and present all the volumes first to the (inaudible) domestic market, second to the regional market, mainly Argentina. And only after we go to the overseas.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. Thank you.

Operator

Thank you. Our next question is coming from Mauricio Paredes of Standard New York Securities. Please go ahead.

Q - Mauricio Paredes {BIO 20419373 <GO>}

Yes. Good morning. Just very quickly, could you tell us what is your outlook on naphtha for 2006, please? Thanks.

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

Mauricio, you know that's a billion dollar question because --

Q - Mauricio Paredes {BIO 20419373 <GO>}

I know, that's why I'm asking.

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

You know, we have always been very optimistic about the naphtha price. But you know we have been always wrong. What I can share with you is what we have been reading and taking advice from experts in the oil market. And what's going on with the refineries.

What seems the most likely scenario is that the oil price will be between \$55 to \$60 in average for 2006 and that people are looking toward light crude oil to optimize the refinery capacities, which means that there will be more naphtha available in the international market. Producers of natural gas are increasing capacity, which means that there will be more condensate available, which is also a source of raw materials for petrochemicals. And we think that the historical correlation between naphtha or condensate and oil will be -- is likely favorable for the petrochemical industry.

We think that, going beyond 2006, we think that the oil price should go to the level of \$50 per barrel. That's the number, the magic number we have been listening from different experts in the international markets. And if you take this into consideration, the naphtha price could come to the level of \$400 to \$450 per ton.

In our 2006 business plan we took as an assumption the naphtha price at \$470 per metric ton. That's what we are basing our action plans. We thought this was a little bit conservative when we put our business plan together. Today, it seems to be a very fair estimate for the naphtha price. But, again, everything will depend on the oil price, (what jump will it take). And I have to admit that the market is much more volatile than we can eventually (cope) with.

Q - Mauricio Paredes {BIO 20419373 <GO>}

Thank you, very much.

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

Thank you.

Operator

Thank you. Our next question is coming from Lucrecia Tam of Deutsche Bank. Please go ahead.

Q - Lucrecia Tam {BIO 1495775 <GO>}

Yes. Good morning. I came in late. So I apologize if these questions have been asked. My first question refers to Rio Polimeros and if you have a scenario of what the worst outcome could be, with Rio Polimeros now announcing that it's going to be at 95% capacity at the end of February? That would be my first question.

The second question relates to the AR change. And if you -- I understand there was a securitization there. And if you could elaborate a little bit on your policy going forward regarding this, if we can expect this to happen again?

And my third question refers to Venezuela. If you could explain a little bit more what the agreements that make you competitive -- that you called competitive in your press release actually entail?

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

Okay. Well, first, Rio Polimeros, you know they are getting into production right now. They just announced that they are going to be 90% plus capacity utilization rates by the end of February. But what has happened, Lucrecia, is that since April last year they have been announcing that they are going to be in full production. And the impact, in fact, has already been done because all the expectations and, let's say, the negotiated power in the value chain has been in favor of the customer since last April.

And, in spite of all these pressures and instabilities, we have been able to keep our local prices aligned to the international prices. Last quarter we were really very successful in pushing our prices up. And right now volumes are up and our prices are very, very stable and really increased in dollar terms, because we have an additional valuation of the local currency.

So, we -- but looking more mid/long term, we think that Rio Polimeros will export 150,000 tons or plus, because they have this long-term commitment and that's part of their project finance. We think that the Brazilian market will grow between 8 to 12% on a very sustained basis for the coming years, which means that we could have (a positive) increase between 170,000 to 250,000 tons of polyethylene per year. So their volume could be accommodated with additional exports, not on our side but with the other

players in the market. And that's why we think Brazil will need additional capacity of polyethylene by the end of the decade.

But we need to pay close attention to what's going to happen and started in March, because up to now there has been this threat that they are going to come to the market which has not materialized yet.

In terms of Venezuela, the agreement is to provide our technology for polypropylene. We have a good knowledge on how to put investment together in polypropylene. We have a very good operations management for polypropylene. So we are going to bring technology, operations management expertise. We are going to bring all the commercial and marketing and product development skills we have right now within Braskem. And Pequiven will bring the competitive raw materials. So propylene, to put together 400,000 tons of our (poly products) in the region of Maracaibo in a complex called El Tablazo. And we are discussing the details of the project and we would like to be in a position to decide this by the end of June.

A - Paul Altit

Lucrecia, hi, here is Paul Altit. Regarding the (PGIT) which we did in December, we did this BRL370 million transaction in December -- 75, sorry, BRL375m. This had to do with the performance of trying to manage the financials of the Company, adding the smaller amount of working capital possible. We ended the year with minus 13 days in working capital. This means it was a negative working capital. But this is not totally usual. This is quite dynamic in the sense that the first, Second Quarter, we had between 8 and 12 days working capital. And our target is to maintain working capital as close -- as neutral as possible.

And this is easy to understand. You do this by funding imported naphtha in (365) days and we try to maintain accounts receivable as short as possible regarding number of days. Our raw materials are sold, basically, sometimes advance payments. And we fund our second generation plant -- third generation plant, sorry, in between 32 and 35 days. So we did a PGIT in December. We are not forecasting doing any other PGIT this year. We are forecasting at maintaining the average (burden) of payment of imported naphtha around (365) days. So to maintain quite stable our working capital.

Q - Lucrecia Tam {BIO 1495775 <GO>}

Okay. And I have one add-on question. The BRL58 million related to the technology sales to Paulinia, how does that fit into your consolidation process? I thought that you owned 60% of Paulinia. So if you could explain a little bit the accounting mechanics of that?

A - Paul Altit

Okay, Lucrecia. Basically, we have been asked by the market, since when Braskem was born in August 2002, to show -- to present the numbers consolidated without including the proportional shares we do have from Copesul, Petroflex and also Politeño, because this would make things more easier from the terms of (capital limited) companies. So we

bring these investments through the equity line. So we do the financial (inaudible). And we do all the (inaudible) in this kind of conference.

This year we started investing in Paulinia. Paulinia, we own 60% of it and, as you know, Petrobras owns 40% of it. So, for the consolidation, we also exclude Paulinia, Petroflex, Copesul and also Politenio from the consolidation.

When you look at the balance sheet numbers, the CVM/247, with the 247, where we are entitled to do such a consolidation, you will see that this BRL58 million vanishes, because you consolidate this number. Okay?

Q - Lucrecia Tam {BIO 1495775 <GO>}

Okay. All right. Thank you.

A - Paul Altit

Thank you, very much.

Operator

(Operator Instructions) There appear to be no further questions at this time. I would now like to turn the floor back over to Mr. Grubisich for final remarks. Please go ahead.

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

Okay. Just to conclude, thank you for your presence, thank you for the questions and we are, of course, at your disposal if you have any further questions later on. Thank you, very much and have a nice day.

Operator

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

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