

## Q2 2004 Earnings Call

### Company Participants

- Jose Carlos Grubisich, CEO
- Jose Marcos Treiger, Investors Relations Officer
- Paul Altit, CFO
- Thomas Parsons, Analyst

### Other Participants

- Alvaro Venezuelen, Analyst
- Daniella Guanabara, Analyst
- Denis Parisien, Analyst
- Eric Ollom, Analyst
- Jamie Nicholson, Analyst
- Juan Cruz, Analyst

### Presentation

#### Operator

Ladies and gentlemen. thank you for standing by. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Thomas Parsons from Thompson Financial. Sir, you may now begin.

#### Thomas Parsons {BIO 17689511 <GO>}

Good morning, ladies and gentlemen and welcome to Braskem's conference call to discuss the Second Quarter 2004 earnings. I would like to mention that a slide presentation has also been made available on the Company's website at [www.braskem.com.br](http://www.braskem.com.br) during this call. This conference call is being transmitted over the internet at Braskem's website as well.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities and Litigation Reform Act of 1996. Actual performance therefore could differ materially from that anticipated in any forward-looking comments as the result of macro economic conditions, market risks or other factors.

With us this morning in São Paulo are Mr. Jose Carlos Grubisich, Braskem's Chief Executive Officer, Mr. Paul Altit, the Chief Financial Officer and Mr. Jose Marcos Treiger, the Investor Relations Officer.

First, Mr. Treiger will comment on the Second Quarter results and afterwards, the management will be available for a question and answer session. It is now my pleasure to turn the call over to management. Mr. Treiger, you may now begin.

## Jose Marcos Treiger

Well ladies and gentlemen. in the name of Braskem I would like to begin by thanking you all for participating in this quarterly conference call.

We believe that there are 2 main points to underline related to Braskem's performance in the period. We registered again a very good operating performance in the Second Quarter of the current year, reporting simply that debt/EBITDA is the very creation of Braskem. In this quarter, the Company's EBITDA reached R\$615m, slightly above \$200m. It is important to mention that we have improved in almost all operating dimensions.

Volumes produced and utilization rates have significantly increased throughout the quarter. At the same time, our growth is from both the domestic and the international markets and therefore our expectations remain very positive.

It is important to notice also the growth in Braskem's EBITDA margins, reflecting a sound improvement in the quality of our business spanning from the very advantages of Braskem's business model such as its synergies from the integration of the first and second generations, its cost competitiveness and the associated productivity improvements as well.

Additionally, there is a structural factor within the petrochemical business internationally which we believe is important to mention. This is a present and significant scenario of recovery in margins considered at the beginning of an upwards cycle in the international petrochemical industry. We believe that this cycle could last until 2007, or even 2008.

In terms of financial management and since Braskem's creation, we have significantly reduced our indebtedness ever since we have been observing our net debt over EBITDA ratio presenting continuous reductions coming from 7 times EBITDA for 2002 to less than 3.3 times now in June 2004. However, an important portion, nearly 65% of our indebtedness is still denominated in US dollars. And now, in the Second Quarter of 2004, we see here in Brazil an exchange rate devaluation of approximately 7%. This devaluation causes very strong impact, higher than R\$420 million on our net results, utilizing at the bottom line of our P&L our excellent performance throughout all its operational life. As a result, Braskem reported a R\$200 million loss in the quarter and an accumulated loss of R\$290 million in the first half of 2004.

We will now give you some additional information on the company and as usual, our CEO Jose Carlos Grubisich and our CFO Paul Altit will be available to answer your questions during the Q&A session.

Let us proceed to our first slide. In this first slide we are showing some data for signs of behavior of the Brazilian petrochemical market in the first half of 2004. Here we can note

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there is a significant increase in sales volumes reported by the petrochemical industry in the first half of the current year when compared with the first half of 2003. This figure is about half of the general consolidated information provided by ABIQUIM, the Brazilian chemical industry's national association, which takes into consideration the performance of all companies belonging to the domestic petrochemical segment in Brazil.

As we can see, we notice important sales growth for all Braskem's products in the first semester of 2004. For example, a 10% growth in polypropylene sales semester-over-semester and a 13.4% growth of polyethylene.

We believe that a sales growth of polyethylene is a very important indicator also of the recovery of the Brazilian economy since this resin is presently practically all kinds of packaging for consumption products.

PVC in its turn reported a 3% growth. Last year, in the same period, it fell by 13% due to the slowdown of the construction industry and in infrastructure investment in sanitary engineering such as water treatment and sewerage treatment plants. In fact, PVC has registered a reduction in volume over the past 5-6 semesters.

The good news now is that PVC has resumed its growth phase. We see again some recovery in PVC sales volumes. The PVC market has been recovering together with the footwear and home building markets, which are doing well, and showing clear signs of recovery similarly to the domestic cement industry.

When considering these 3 of Braskem's core products, the growth achieved in the period reached 10.2%.

Let's move now ahead and take a look on slide number 2. Here we analyze sales volumes in the Second Quarter alone and again, in the Brazilian petrochemical market.

We would like to point out that the gross reported was here really very significant. We easily observed a very strong acceleration in sales volumes in the period. Comparing the Second Quarter of 2004 to the same quarter of last year, sales growth in the Brazilian market reached 16.5%. In other words, practically a 20% growth in polyethylene volumes, 15% in polypropylene volumes and approximately 13% in PVC volumes. We believe that this is a clear evidence that the Brazilian economy is strongly recovering.

Also at Braskem we have registered significant growth in sales volume for all of our products and we have reasons to believe that this upward trend will continue.

In the next slide we analyze Braskem's industrial performance. Braskem reported growth in the production of all its products both in the first as well as in the Second Quarter of 2004. Such performance resulted amongst other factors from the programs that we carried out in pursuing of operational excellence to prepare our plants to operate closely with the limits of their capacity, maintaining operational reliability and high productivity indices.

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In the first half of 2004, our thermoplastics production grew by 9%. More than 9% for polyethylene products, 7% for PVC products and 4% for polypropylene products. We also reported a 6% growth of ethylene, even considering the maintenance shutdown which occurred in the First Quarter of the current year.

However, what was registered in the Second Quarter was even more important. Our thermoplastics resin production grew then by 16%. The growth for PVC was 27%, a significant increase that shows our flexibility and the quality of our industrial efforts.

We also presented a 15% growth for polyethylene and a 3% growth for polypropylene. As far as polypropylene is concerned, it is a quite specific change. Just to have the change the production phase in our polypropylene plant from May to June slightly reducing the production level and in preparation for the (inaudible) process to extend capacity by 100,000 tons per year, which took place in July.

Such reduction caused an impact on their volumes produced in June. Despite this, we still had a 3% growth in the period.

In summary, our production is showing an upward trend in all units.

In the next slide you will see the growth registered in our industrial utilization rates. Here we also reported a significant growth. In the Second Quarter of 2004 we reached a utilization rate of 90% at the basic petrochemicals plant located in Camacari in the State of Bahia.

Polyethylene products recorded 82% in the First Quarter of last year and reached 91% in the Second Quarter of 2004.

We also now reached now 93% for PVC.

We registered a reduction in fact in the polypropylene utilization rate from 92% to 89% due to the preparation again for reducing bottlenecking processes as said, which took place now in July.

As of the Third Quarter, we expect to operate again at high utilization rates also for polypropylene. The increase of capacity utilization rates essentially depends on the recovery capacity of the Brazilian economy and the petrochemical cycle on a worldwide basis. We have been preparing ourselves for the Brazilian economic growth over the past 1.5 years and a number of investments were carried out which generated results since the beginning of 2004.

As of February of this year, we started operating a production capacity total in 140,000 tons per year at the Camacari petrochemicals plant and we now have available total capacity of more than 100,000 tons of polypropylene which is a product that has been showing a solid performance in the domestic market.

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We also increased our production capacity in 50,000 tons per year, partially in the (inaudible) products PP and polyester and this growth has already been followed by the formalization of new contracts which shall increase the volumes sold as well.

Additionally, we're investing in producing 30,000 tons per year our capacity of polyethylene, employing (inaudible) technology at the Camacari plant, which shall be operational in the second semester of next year.

Also, in the second half of 2005, the expansion of the PVC capacity in the State of Alagoas is expected to be concluded, providing us with an additional 50,000 tons of capacity per annum for this product.

Let us move now please to slide number 6. As mentioned, we have been preparing ourselves for the increase in the domestic market demand. We still have additional capacity to be used in 2005 and we are working on 2 projects being structural ones both for Brazil and for Braskem. The first project involves the production of polypropylene in Triunfos, here in the State of São Paulo, providing an additional production of 300,000 tons of this product and this is expected to be operational by the beginning of 2006/2007.

We have also concentrated efforts on the project for a new petrochemical complex on the border between Brazil and Bolivia. This huge project is planned to start operating in 2009 and will consist of a unit of natural gas capacity of 600,000 tons per annum of polyethylene.

Let us move ahead now and take a look on slide 7. Here we analyze Braskem's commercial performance in the Second Quarter and in the first half of 2004. As far as these volumes are concerned, they are also seeing a very strong acceleration. We saw sales growth in the first half of 2004 of 13% of the total thermoplastics products, 14% for PVC products, 12% for polyethylene and approximately 10% for polypropylene.

In a quarterly valuation, we had a 35% increase for PVC products, 26% for polyethylene, 23% for polypropylene, reaching a 30% growth in the quarter for all thermoplastic products taken together.

On slide eight we can see a solid growth in all Braskem's units which are very well positioned in relationship to their markets. We had an 11% growth in the domestic market and a 5% growth in international markets. Braskem is ready to follow the local market growth and also to maintain a strategic position for exports.

When we observe the quarter, there was a 28% growth in the local market and a 26% growth of net revenue in the international market, especially due to the price effect as international prices were declining in a very fast rate.

In the Second Quarter, we observed a very strong growth not only in the international market, but also in the local market and all Braskem's units took advantage of this

situation.

We would like to draw your attention to the growth in our basic petrochemicals units as well, up 25%, resulting from a volume effect and a price effect. A growth of more than 20% in the polyolefins line and then approximately 50% in our vinyls and development units.

On slide nine we analyze our exports. Our exports climbed from \$317 million in the first semester of 2003 to \$353 million in 2004, even if we take into account the shutdown in our aromatics plant in Camacari; a planned one.

The demand for by products is strong and prices are high. Practically the exports over net revenue rate ratio was maintained at the same level, going from 23% to 22% when comparing the first half of 2003 and 2004. Additionally, we continued having a strong presence in all markets. We reported a volume of 44% of the total export volumes exported to North America, 19% to Europe, 16% to South America, 15% to Asia and 6% to Africa.

This means that Braskem is well positioned in all its markets what provides us with operational and strategic flexibility.

Moving ahead, we can take a look in our P&L on slide 10. Our income statement and here you see our net revenue growth of 27% in the Second Quarter when compared to the same period of 2003. We also observed an EBITDA level going from R\$405 million in the Second Quarter of 2003 and reaching R\$615 million in the same period of 2004. What represents a 52% growth in Braskem's EBITDA levels. In other words, despite very high costs of raw materials, we had improvement in the corporate profitability as reflected by our EBITDA margin.

We reported in the Second Quarter of last year a margin of 18.8% and this year the same margin has increased to 22.4%. At the same time, we have absorbed a very strong exchange rate valuation impact, which has significantly affected our net financial result from a positive R\$258 million in 2003 to a negative R\$717 million in 2004, a difference of almost of R\$1m. That impact resulted in a R\$302 million loss in the Second Quarter of 2004.

If we compare the same halves of 2003 and 2004, the EBITDA margin improved by 4percentage points, revenues grew by 10% and EBITDA by 34%, which increased from R\$855 million to R\$1,144 million in 2004.

On the bottom line, as we have shown, we have presented a net loss of R\$290m, mainly due as said to the Brazilian Real devaluation registered so far in the current year and as previously explained.

On the next slide, number 11, we can look at Braskem's EBITDA move from its previous level of nearly R\$460 million in the First Quarter of 2003 to R\$650 million in the Second

Quarter of 2004. Here the increase in sales volumes contributed to an increase of R\$174 million and a price increase with another R\$195 million from one year to the other. This for us is a clear indication that our business is directly connected to the international market performance, confirming Braskem's capacity to realign its prices and margins in US dollars regardless of the high raw materials costs or exchange rate pressures.

On slide 12 we also notice that Braskem has been reporting a consistent growth in EBITDA quarter-over-quarter during the whole period inclusive in this chart. First (inaudible) maybe perceived both in Brazilian Reais as well as in US dollars confirming Braskem's strong cash generation capacity even in a challenging environment.

On slide number 13 we foresee in a summarized way our financial results and exchange rate valuation impact absorbed in 2004. In terms of financial management and as frequently explained to the market, our ongoing and main actions which are already under progress and focus on the management of our investments are use of our very strong operating cash generation capacity to amortize our short-term debt, this is a reflection of our reduction of our cost of capital and the expansion of our debt amortization profile. The reduction of our exposure to the exchange rate valuations for lines of our market associated trade finance and as previously announced, a capitalization through the issuance of new shares.

Let's move to the next to the last slide which shows a summary of our results. We had a 13% growth of gross revenue, reaching R\$6.2 million in 2004 and an 11% growth in Braskem's exports.

At the same time, it is important to highlight the consistent growth of EBITDA reaching a 34% increase when comparing the first six months of 2003 and 2004. As you will see, on course to de-leverage our debt. Despite the exchange impact we managed to enhance our net debt over EBITDA ratio by 4% from 3.42 times by the end of March 2004 to 3.3 times by the end of June 2004. Our goal is to be below 3.5 times by the end of this year.

We clearly continue working on the reduction of Braskem's debt and cost of debt. We are also concentrating efforts to reduce the amount of US denominated debt that was not associated with exports and reaching the balance between foreign investments and local investments, which will obviously reduce the impact of any exchange movement in the industry. And, as already mentioned, in the first half of 2004 we have seen changes in the exchange rate trend which was unfortunately a very strong impact of R\$1.2 billion on our bottom line and our net loss of R\$290 million in this period.

To finalize, we would like to stress that our gross revenue over the past 12 months climbed from R\$10.9 billion in the Second Quarter of 2003 to R\$12 billion in the Second Quarter of 2004. And in our EBITDA, over the same period of the last 12 months, increased from R\$1.6 billion to R\$2 billion now.

Concluding the slide presentation, we would like to share with you that we consider this first half of 2004 as having been a very rewarding semester for Braskem. All efforts we made brought notable results, showing that Braskem continues to grow and to improve.

We reported growth in production, utilization rates of our equipment, sales volumes, prices reflect this, export levels, the leveraging of the Company's liquidity levels, amongst others and we also reported the successful implementation of the bottlenecking processes and capacity expansion exactly as planned. The main thrust of the significant market share of approximately 40% throughout all of our quadrants. The launching of new and strategic projects in our markets and the reduction of our investment levels.

Braskem will continue investing and concentrating efforts on the identification of all investments, strategic opportunities we might have and a mix and (inaudible) scenario which indicates sound and profitable improvements in margins during the next 2-3 years.

Let us now start please our Q&A session. Thank you for hearing me.

## Questions And Answers

### Operator

Thank you, ladies and gentlemen. We will now begin the question and answer session. (Operator Instructions) Our first question comes from Jamie Nicholson from CSFB.

#### Q - Jamie Nicholson {BIO 1540918 <GO>}

I had a question regarding the petrochemical projects that you touched upon, the polypropylene plant and then the longer term gas cracker. Can you describe what state of -- I mean are these just proposed projects, or what's the timing and the process for committing your involvement and what do you think the level of your involvement in terms of percentage ownership is likely to be? Can you elaborate a little bit on that?

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

Thank you for the question. You know these projects which are (inaudible) in Paulinia goes through Petrobras refinery. This is going to be a 300,000 tons of polypropylene. So we estimating the total investment in the range of \$180m-\$200 million and this production facility should be in operation in the beginning of 2007. When we look at the market today, the growth rate we have had in the polypropylene, our information shows that Brazil will be the largest production facility by the end of 2006, beginning of 2007.

So the situation right now is that we have a joint venture with Petrobras, which is called CPP where we have 70% ownership of the company. Petrobras owns 30%. This company has a (inaudible) close to the refinery. We have licenses to implement the project and we are, at this point in time, discussing with Petrobras the modeling for this company and how we are going to share the percentage if we are going to stick to the 70%/30% we have today. If we need to have (assets) somehow to implement the project and on our side we would like to have a final decision by the end of this year to firm the presentation of the project physically at the beginning of 2005.

So as far as the cost of the project is concerned, and I talk about the project on the border of Brazil and Bolivia, this is going to be a project based on the Bolivian natural gas.



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So we are going to extract the ethane content in the gas and the project is to have a gas generation, a gas (production) to produce CNG that will be led by Petrobras Repsol and Braskem will be concentrating on the plastic and the (inaudible) part of the project which is going to produce 600,000 tons of polyethylene.

So all our assessments so that this plant should be in operation at the end of 2009, beginning of 2010. This is going to be an \$800 million to \$1 billion project and at this point in time, we do not have any (utilization) in terms of participation of Braskem, effectively Petrobras or any other company. But we think that is historically viable on the technical grounds and the (planning) grounds. Everything that is going to be a very competitive project and this is going to complement our position because today we are going to 2 quarters, both based on (inaudible). This new project is going to be very complementary for Braskem to be also positioned in the last quarter. So that's the situation of the 2 main projects we have looking ahead.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Thank you, that's great. Just on the cracker, when do you think, what's the timing for making a final decision and levels of participation? Is that kind of 2005 type decision making thing?

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

Yes.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Okay.

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

We are now starting let's say the more pragmatic and objective discussions around this project. Braskem has been looking at this project for many years. We have a kind of technical model for this project. We have already the financial assessment and we are now discussing with Petrobras why CFB, which is the petroleum oil company and we think that we should be in a position to take a final decision by the end of 2005. But I would not expect to have any clear and official decision before that time.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Okay, great and then just my second question. Can you tell us what your CapEx budget is for the second half of this year, hopefully broken out by quarters; Third Quarter and Fourth Quarter; if possible?

**A - Paul Altit**

It is still not the market. Last year that we had a CapEx program of something around R\$400 million this year and on top of that we had some payments to be done, such as (around) CapEx. So we have done so far the maintenance. We closed a major programmed shutdown of our cracker in the First Quarter this year. We invested in the

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deferred expenses something around R\$200 million and we have invested in CapEx around R\$85 to R\$90 million in the first semester. So we should have increase in the second semester a number in R\$200 million of CapEx plus interest.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Okay great. Thank you, very much.

**Operator**

Thank you, Miss Nicholson. The next question comes from Denis Parisien of Standard New York Securities. Please go ahead.

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

Hi gentlemen. Congratulations on a great quarter. I was wondering a couple of things. Could you possibly provide us -- the presentation has your capital capacity utilization rates for the current quarter and the same quarter the year before. I was wondering if it would be possible to have more historical data with capacity utilization by division so we could use it as an analytical tool to some degree and if you could provide any guidance on capacity utilization going forward for the rest of the year?

The other thing would be I'm wondering if you could give us a little bit of color on the gap between international and domestic prices and where you see domestic prices going for the rest of the year? Thanks.

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

For the first part of your question, we are going to make available all the information you require to give you the utilization rate of our assets by business unit quarter-after-quarter. I don't have the information available here right now, but we are going to put this in a very organized way in our website. We are going to let you know when this information will be made available.

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

That would be great.

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

Because I don't know if you have our financial release because every quarter we inform to the market the utilization rate of our assets. But we do not have it on a kind of accumulated basis for you to compare in different periods of time, but we are going to put this in our website as soon as possible and we will let you know.

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

Thank you.

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

As far as the utilization rate of our plants right now, we are running almost at full capacity and as we have a very strong recovery in the domestic market, and as we do want to keep our position in the spot market, we are running the plants at full capacity. I would like to point out that we have maintenance projects. We have shutdown for maintenance, in particular in the first part of the year. So that was a major shutdown for (inaudible) of our quarter. And we had in the Second Quarter, the separate shutdown for our aromatics plant in Camacari. So at least at Braskem is now prepared in all the industrial facilities to run the capacity at full speed.

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

There won't be any more significant maintenance shutdowns in the next 6-12 months?

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

No. There won't be any major maintenance shutdowns for the quarter and (inaudible) and for the contrary, you can't expect any maintenance shutdown this quarter of 2007 and 2008. So it is that we had a very good benefit of our assets in order to implement all the maintenance shutdown where the market was not so bullish. It was getting self-prepared to take full advantage of the assets we have in hand to maximize the revenues and maximize the profitability.

So looking ahead, our plan is to work as close to capacity to supervise priorities the (next mark) because we can enjoy better margins into the domestic market, but we do not want to reduce our participation in the spot markets. In the spot market we think that we may reduce the (rise) in volume, but this is going to be more than compensated by increase in prices. Okay.

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

Yes.

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

So the second part of your question Denis was prices. Overall in the global market there is also a very high utilization rate of the capacity. If you take the US market, the information we've got from (Dubai) and (Technol) and (inaudible) I'm sure that the US petrochemical industry is running above 90% and overall the global industry is almost at the same capacity utilization rate, which means that prices are moving up. You can also visit our website and you can see that prices are moving up over all of our products. It is clear that this price increase has been somehow compensated by an increase in (inaudible). So oil price is very high. The (last) prices are also very high. But the industry has been able to compensate this raw material increase by a more aggressive pricing policy.

As far as Braskem is concerned, we are also in the same kind of strategy. We are realigning our prices almost every month. We still have several to improve our selling price in Brazil mainly for polyethylene where we have some challenges to realign the price over

the last two months. So it means that we still have some residual price increase to be implemented for polyethylene in the Third Quarter of this year.

I will say that we have been very successful in keeping our margins at the very good levels. We are close to 23% EBITDA margin, which is much better than our peers have announced and disclosed to the market.

So I see price increase in the future and Braskem being able to realign the prices in the markets.

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

What approximately would be the average gap between international prices and Brazilian prices and how much do you think that price increase will be in the domestic polyethylene market at the Third Quarter?

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

Denis for PVC and polypropylene we are in line with international prices with a good level of service margin on top of the international market okay.

For polyethylene, as the market is more competitive, we still have between 10%-15% price increases due to be complemented in the Third Quarter of this year on top of any eventual price increase on the global market, or an event of impact coming from the exchange rate movement.

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

Thanks. That's very helpful.

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

Thank you.

**Operator**

Thank you, Mr. Parisien for your question. The next question comes from Eric Ollom from ING. You may now begin.

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

Yes hi. Good afternoon, gentlemen and congratulations on the good result. My questions regard your net debt goals. At a 2.5 leverage ratio by the end of the year, given your current stock of debt, that would imply an EBITDA of \$800 million or more. Conversely, I suppose you could reduce debt, although debt has actually gone up over the last year. I know at one point in time you had purchased some old Copene securities. I don't know if they have been retired yet, or if you still hold them. So what I want to know is how do you propose to achieve the 2.5? Is it going to be debt reduction? Is it earnings growth?

EBITDA growth continuing at this sort of level that we've seen in the Second Quarter? Is it some combination of the 2?

### A - Paul Altit

Thanks for the question. I would say (inaudible) decreasing of that level of EBITDA. If you analyze the Second Quarter numbers, you will see that Braskem is running at more less an \$800 million a year EBITDA level and we are generating cash I would say net cash generator of second semester should be much higher than the first semester because of the maintenance shutdown in the first semester which will not happen in the second semester. Those should not be happening within the next couple of semesters also. We have seen a dramatic cash generation second semester. That should fly up when compared to the first semester and our level of EBITDA is already around \$800 million a year.

On top of that, I would say we are pretty much focused to break down this 2.5 times because it is important to give a better level of rating for our balance sheet. What decreased our present level of single A on local scale (inaudible) this Company to AA or AA+ within the next couple of months. So the (inaudible) should help us a lot on top of that. The fly up of the EBITDA margin, the EBITDA (inaudible) on the cashflow generation should help us on top of that. And without mentioning the fact that we should not have huge demands on CapEx during this period of time.

So we have EBITDA will be up and the net cash is getting higher in the second semester because we are not investing in the shutdown and we also expect to (inaudible) on the capitalization of the Company.

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

Thanks. Then I guess my second question is given the several hundred million dollars of CapEx for these projects, which maybe you do with joint venture partners, is there a goal to maintain the 2.5 going forward? I mean in other words, the CapEx would involve a certain amount of investment that perhaps would be debt (cement). Just what sort of mix would you expect to see between debt and equity, or off balance sheet or something for these projects?

### A - Paul Altit

Well Eric first of all demand is not really \$7m. So we're talking about \$180 million to \$200 million for our polypropylene plant which (indisernible) decision very shortly. We're discussing with Petrobras the modeling, the financial modeling, I would say the business modeling for sure. We have committed ourselves to the market in the sense that this Company shall decrease definitely the part of its balance sheet. This means that we shall not jeopardize (ratings) because of investment. That is something that is under strict discipline of (cash tool). In this sense, we have to start investing within the next couple of years, but without damaging the decision of bringing down net debt over EBITDA between 2 and 2.5 and also EBITDA compared to interest at least 4 to 5 times.

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

Okay. Thank you.

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

Thank you, very much for your question.

**Operator**

Thank you for your question Mr. Ollom. The next question comes from Jamie Nicholson of CSFB.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

I just had a follow up question relating to the pricing question. I noticed your export revenues grew very, very strongly, particularly relative to the First Quarter. And I was wondering how much of that -- if you could elaborate a little bit on how much of that was volume increase versus pricing increase? I don't have the data to really understand the genesis of that increase.

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

We had a very positive impact related to pricing. The volume evolution was not the middle part of that 11% increase in (inaudible). There is also another piece of information that we had to shutdown in one part of the quarter in the First Quarter of the year. And in the Second Quarter, we increased our exports of clean petrochemicals to the US market and as you may know, the pricing for aromatics has been mix of (inaudible) gasoline has increased. That price increase impacted positively our export revenues.

I don't have here the correct number between volume and prices for this quarter. But you can take that it was much more related to price than to volume. But we can make this available for you in our website at the end of this week.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Okay, that's helpful. Then just to, given the strong price increase in NAFTA in July and August, are you still seeing the ability to pass on that price increase given the strong global capacity utilization rates and improving market in Brazil? Are you still able to pass on that raw material price increase currently?

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

Yes. We up to now have been very successful. We align our sales prices to the international market situation. We have been able to compensate the very high cost increases related to NAFTA. You have to pay attention also the fact that when we work our plants at higher utilization rates, we reduce relatively the cost of our products because for the same amount of energy and for the same amount of utilities, we can produce more. So the unit costs have a positive impact with regards our cost structure.

We have also put in place many improvements in our logistics for NAFTA and (compensating). So we are now in a position to bring larger vessel which can reduce the

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freight cost of our imported material and we are processing more and more compensate in our cracker unit. You know that whenever we can have process compensate, we can have a very significant cost reduction because we can buy compensate in the international market much cheaper than if we buy in NAFTA.

So we took many, many decisions in terms of a more flexible purchasing strategy for NAFTA or compensate. We are improving more and more the utilization of compensate directly in our (inaudible) and we are more flexible in terms of logistics right now. So we can reduce positively the average cost of our fixed costs.

So everything that we have are going to be able to keep this policy or realigning at any time our pricing in the Brazilian market in line with international prices.

**Q - Jamie Nicholson** {BIO 1540918 <GO>}

Great. Thank you, very much.

**Operator**

Thank you for your question Miss Nicholson. The next question comes from, I'm sorry if I mispronounce the name, Daniella Guanabara of Banco Pactual.

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

Hi, Good Afternoon. You mentioned that all major maintenance downtime were taken during the first half of the year. My first question is don't shutdowns include the preparation of your PVC plans for the expansion? And, if yes, if you expect to any impact on the sales of PVC in the Third Quarter?

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

We had a major shut down in one our (internet) plants, I think it must have been the First Quarter, it was 35 days shut down and you know that we shut down all of the plants every six years. So it appears that we are not going to shut down again for maintenance. At present maintenance before 2007/2008 we have also a planned maintenance shutdown for the (inaudible) unit in the Second Quarter and we do not plan any other significant checking out in 2004 and in first part of 2005.

As far as PVC is concerned we are starting to implement with the (inaudible) we discussed 50,000 tons of PVC in our (inaudible) plant in Alagoas. And we do not think we are going to have any negative impact in the PVC production in the remaining part of 2004 and in the first part of 2005.

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

Okay, thanks.

**Operator**

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Thank you, Mrs Guanabara, for your question. The next question comes from Juan Cruz of Miller Products.

**Q - Juan Cruz** {BIO 7421702 <GO>}

Yes, hi everybody. Good morning. My question is with regards to your debt amortization schedule, I see you have roughly \$570 million (R\$1.8b) to pay in the remainder of '04. How much of that are you going to pay versus re-finance and also I'd like to know how much of your cash position is in dollars and if it's deposited in the US.

**A - Paul Altit**

Okay Juan. First of all from our (cash) position I would say that 65% is in dollars.

**Q - Juan Cruz** {BIO 7421702 <GO>}

65?

**A - Paul Altit**

Yes, 65% dollars only. Okay 65%-70%. We took the amount of dollars standing within the next couple of months and we can make this prognosis. So we come to R\$1.7 billion in due favor to the motivation schedule from July up to December this year. We show amortized entirely, everything related to dollars, which means that; -

**Q - Juan Cruz** {BIO 7421702 <GO>}

Give us exact number please; -

**Operator**

Thank you, Mr Cruz.

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

Hold on a second, please.

**Operator**

Oh, I'm sorry.

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

So Juan

**Q - Juan Cruz** {BIO 7421702 <GO>}

Yes

**A - Paul Altit**



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We have amortized, altogether they are (inaudible). On the capital market, we have from July up to December something along the R\$100 million so this is divided by three so this will give; ; I have the numbers here in the reals. (inaudible) on that. Until I have repayment (inaudible) another R\$320 million up to the end of the year and paying the south also. Added together we are talking about R\$1.2b, then I still have to government agency which is (interesting) now there's no (basic link). And back on the (inaudible) long term funding for CAPEX around another R\$80 million due pay for the future has also to come off that. Which means a cash option of refinancing (inaudible) something around R\$600m, R\$620m.

**Q - Juan Cruz** {BIO 7421702 <GO>}

Great

**A - Paul Altit**

Okay. R\$600 million are (inaudible) re-denominated there. So probably what we shall be doing against this (damage) we will pay out 100% of (due) (payments) in debt and (inaudible) for it and which means the capital market earned prepayments are exported and we have much more than this in cash already, in dollars, building up a total (inaudible) there who can (nominate) financial cash on top of these (inaudible). And for the next year the strategy shows the December with the same level of cash that we shall be needing to pay out 2005 payments, which is a number around R\$2.1b. Then next year we shall be also amortizing and return our due payment in dollars. Which means that we turned out June with 64% total there related in dollars. And it is (inaudible) in the next couple of months to bring down the 64% to a number around 50%. This means that 50% shall be divided the following way. Between 15% and 20% prepayment for exports. We shall have the 15%; 20% of this remaining debt, with the total added cash, so we should have something around 15% to 20% in cash, in dollars and if we manage to keep 20% to add all these numbers that I am mentioning, it is 50% more or less, which will add (inaudible) for the next 12 to 24 months.

So it is our expectation that for the next couple of months we shall diffuse the impact of currency effect in the numbers of Braskem and also review the financial risk of the balance sheet in Braskam also by bringing down 64% total something around 50%. I Hope I answered your question.

**Q - Juan Cruz** {BIO 7421702 <GO>}

Yes, so I guess to summarize basically you will be paying down roughly R\$1.2b, in the rest of the year?

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

It will be in (inaudible) there until the next five to six months (inaudible).

**Q - Juan Cruz** {BIO 7421702 <GO>}

Okay, and in terms of going back to the EBITDA margin, I know you guys have worked very hard getting this margin up to the 20s. How sustainable is your EBITDA margin going

forward? You talk about your initiative costs etc, what is your EBITDA margin target for the long term?

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

While we couldn't give you our EBITDA margin target unfortunately, because of legalities but if you look at numbers (inaudible) you will see that our (inaudible) have been showing remarkable (inaudible) systems EBITDA margin and EBITDA. It is our expectation that (inaudible) of the (inaudible) which is expected to secure in 2005 and 2006 we should move up in EBITDA margin. So we believe that the first level of EBITDA is quite consistent and the (inaudible) on the direction but we do expect our EBITDA margin should eventually move up to a better level of margin.

**Q - Juan Cruz** {BIO 7421702 <GO>}

Okay.

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

Thank you.

**Q - Juan Cruz** {BIO 7421702 <GO>}

Thank you.

**Operator**

Thank you, Mr Cruz (Operator Instructions) Our next question comes from Mr. Denis Parisien of New York Standard Securities.

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

Hi, another follow up, if you don't mind. You mentioned the equi-offering, could you give us some kind of update in terms of how much you are looking to get and when that might happen? And what in terms of use of proceeds would all of that virtually go to, reduce debt and if so which debt and if not what would other uses be?

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

Let me, first of all, we would like to share this information with you, but unfortunately due to our lawyers here present this conference call will not allow us. Unfortunately we are under instruction to (inaudible) in the room and under the terms of SEC.

So as soon as we have the red herring I understand that we will be able to talk to the market our intentions and the strategy and what we shall be doing, but unfortunately we cannot discuss with you and give you more information but if you have a chance to look at the website we have a lot of information on the website regarding this transaction, but unfortunately we cannot discuss this part of TBS (red herring).

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

Okay, sorry about that, I didn't realize you had that on your website. Could you then instead give us any kind of color, if there is any to give, on what you think -- when we might hear about Petrobras' plans for their investments in the consolidation in the sector might be? I know everyone's been saying for many months that we're supposed to get more clarity on that, this year in 2004 and here we are already in August, I wonder if there's anything you can tell us about that.

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

Denis a good (inaudible) question. You know that Petrobras, announced their (inaudible) and if you go to the Petrobras website you are going to have a new official document in the (inaudible) market. I think that they went on a road show to the US and to Asia. They put the (inaudible) plan in general and they released a special (inaudible) for the industry. That's all the information we have available on their plans. I think that you can have all the information if your go to their website.

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

Okay. Thank you.

**Operator**

Thank you, Mr. Parisien. The next question comes from Alvaro Venezuelen , sorry if I mispronounced the name, from Ramirez.

**Q - Alvaro Venezuelen**

Good Morning, let me ask you a question about the -- you had mentioned that, I think, your EBITDA should be running around \$800 million on an annual basis. Given that there aren't going to be anymore major maintenance shutdowns and when you look at the previous quarter did you sell down any inventory or what do you think was the opportunity cost of the shut down?

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

Alvaro, we try to maintain a very strict management on top of the working capital, which means accounts receivable is naturally the income tax we did at the sale not the (inaudible). Just to give an idea we were actually refinanced for 150 days (inaudible) and we have an average (inaudible) payment on accounts receivable in around 40 days, 42 days so we try to maintain the investment very low and we don't believe this kind of demand of cash shall be (inaudible) if we move up in the size of the (inaudible). Number of days of inventory. So we try to (inaudible) those days on gratuities. Really very low, so we are talking about 8% days and actually not more than 15 really, 18 days in the second generation revenue.

Regarding the maintenance shutdowns it is a difficult number, we have the (inaudible) deferred revenue because when you have maintenance shutdown we start producing as soon as we come back. And bear in mind that (inaudible) mix in this sense it would be

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difficult to you a number, how much it is worth by shutting down of 35 days regarding margins. But regarding revenue, I think -- .

Alvaro, in second generation if you have a chance to read the financial news on the First Quarter we maintained volumes in the First Quarter; ; they are pretty much aligned. For this chance we lost a chunk of revenue on the (inaudible) and not on the second generation, so I would say that in the first generation we didn't (observe) more than R\$100 million probably of revenue.

Regarding revenue of the (inaudible) on the second generation we have not lost revenue because we increased inventories before we had a major shut down, so use this in these inventories on the second generation. And the first generation just had between 8 and 10 capacity factory. As a matter of fact we are increasing the capacity in what we call (inaudible) and in this case we lost some revenue in the (inaudible) because of the 35 (inaudible) but not in the second generation. So to correct me here, sorry, the right number next to the deferred revenues because of the shut down around (R\$220b). Okay.

### **Q - Alvaro Venezuelen**

Okay. Thank you.

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

And Braskem has around R\$1.2 billion revenue a month, so say that's a little bit over 10%, 15% of the revenue.

### **Operator**

Thank you, Mr. Venezuelen. (Operator Instructions) Well because there are a no other questions in the question queue this concludes today's question and answer session. Mr. Grubisich would you at this time proceed with your closing statement.

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

Well, to finalize I would like to thank you all for participating in this conference call and as usual if you have any further questions you can visit our website where you can find a complete presentation of our results and if you want to complete this debate about the (inaudible) the breakdown for our next quarter performance in term of (inaudible) and prices and we are going to have (inaudible) for your disposal. So thank you very much and we hope to see you again at the next conference call. Goodbye.

### **Operator**

And that concludes our Braskem conference for today. Thank you, very much for your participation and you may now disconnect your lines.

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