

## Q1 2005 Earnings Call

### Company Participants

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

### Other Participants

- Daniela Guanabara, Analyst
- Dennis Parisien, Analyst
- Eric Ollom, Analyst
- Rusty Johnson, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Braskem's First Quarter 2005 earnings conference call. Today with us, we have Jose Carlos Grubisich, CEO, Paul Altit, CFO and Jose Marcos Treiger, IRO of Braskem. We would like to inform you that this event is being recorded. And all participants will be in listen only mode during the Company's presentation. After Braskem's remarks are completed, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions)

We have a simultaneous webcast that may be accessed through Braskem's website, [www.braskem.com.br](http://www.braskem.com.br). The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call on the website. We remind you that questions will be answered during the Q&A session may be posted in advance in the website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Braskem management about 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.

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

## Jose Marcos Treiger

Thank you. Good morning, ladies and gentlemen. On behalf of Braskem, I would like to welcome you to Braskem's quarterly conference call and I would like to thank you for attending it. We appreciate the opportunity to present you evidences that Braskem, once again, was very successful in this First Quarter of 2005. We do believe that the positive results accumulated by Braskem, which have been continuously growing, primarily reflect the combination of an innovative business model and its strategy to focus on value creation, fully implemented by all its team. Besides, this is also evidenced by the clear and consistent evolution of operating, economic, financial indicators as we will go through during the presentation.

In the international front. And mostly due to the lack of significant additions of new production capacities, the scenario that has been benefiting Braskem remains, with a reduced supply of thermoplastic resins throughout the world, while at the same time demand continues to increase. As a result, petrochemical margins all around the world have been increasing significantly.

Also, in the First Quarter 2005, Braskem was successful in applying the sales policy and strategy of aligning its prices in the domestic market with international prices. In this manner, the Company achieved substantial increases in prices and margins for its main products. We also achieved record results in the export market, registering important growth in margin. Additionally, Braskem made significant progress in its operational excellence program, the Braskem Plus program, capturing, in the First Quarter 2005, nearly BRL120 million in productivity gains out of the BRL170 million estimated for all of 2005.

Having said that, we will start a brief slide presentation, followed by a Q&A session, during which our CEO, Jose Carlos Grubisich. And our CFO, Paul Altit both by my side, will answer your questions. Let us move forward, then.

On slide number 5, we can see capacity increases. We can see that capacity increases incrementally since 2004, together with higher capacity utilization rates as well as higher levels of operating efficiency and reliability in the First Quarter of 2005, with the principle factors explaining the substantial increases in production volumes.

Ethylene production increased by 32% and the resins production by 16% when compared to the First Quarter of 2004. Polyethylene production has shown a considerable growth of 19% in the first three months of 2005, compared to the same period 2004, reflecting an outstanding operational continuity.

The industrial units located in Triunfo, here in the state of Rio Grande do Sul that produce polypropylene, already operate with their increased and new capacity. And in March 2005,

a new record for polypropylene production was achieved, with 25,300 tons produced during that month.

At the PVC unit in the State of Bahia, the highlight was the monthly production of 19,600 tons, a record for the past 28 months.

When comparing the First Quarter of 2005 and the First Quarter of 2004, ethylene sales increased by 37% and total resin sales grew 13%. Total sales volumes of polyethylene and polypropylene, in turn, grew by 23% in the First Quarter of the current year. Additionally. And as a result of the strategic flexibility between the domestic and export markets, high capacity utilization rates during the First Quarter of 2005 and higher profitability from exports, Braskem achieved record results in the export market. Net export revenues reached \$261 million in the first three months of 2005, a 96% increase when compared to the \$133 million reported during the same period in 2004, corresponding to 23% of the Company's total revenue in the quarter.

Let us move ahead. On this slide, now, number 6, we present the main economic and financial indicators of our operating as follows. Braskem reported net revenues of more than BRL3 billion in the First Quarter of 2005, 44% higher than the BRL2.1 billion reported in the First Quarter of 2004. This significant increase in net revenue is primarily due to the pricing strategy implemented by the Company in the domestic market for thermoplastic revenues; polyethylene, polypropylene and PVC and basic petrochemicals like ethylene and propylene, in addition to the important contribution made by Braskem's line of aromatic products.

In the period, Braskem's EBITDA reached BRL688 million in the First Quarter of 2005, 30% higher than the BRL529 million in EBITDA reported in the First Quarter of 2004. When expressed in U.S. dollars, Braskem's EBITDA reached \$258m, the highest EBITDA level reported in a single quarter ever achieved by the Company since its creation in August 2002. We also maintained a reported EBITDA margin of 22.4%. Further on, we will analyze in more detail both our financial results and our equity line results.

I just wanted to mention, though, that on March 31, 2005, Braskem's net income reached BRL206m, significantly surpassing the BRL10 million in net profits recorded in the same period of 2004. This result reflects the upward trend of the Company's operating performance, confirmed by EBITDA of BRL688m, combined with an improvement in its net financial result, caused by the reduction in its net debt and a decrease in the Company's cost of capital and also increased equity income.

Moving ahead, let us go now to slide 7, where we present our main financial indicators and some relevant additional ratios. As we can see, Braskem's free cash flow reached BRL650 million in the First Quarter of 2005, which is substantially higher than the BRL63 million in cash generating -- generated, I mean, during the same period last year.

It is also important to mention that Braskem has been prioritizing the utilization of its strong free operational cash generation to reduce its indebtedness. The net amortization; amortized debt minus new or tracked debt; reached in the First Quarter of 2005 a total

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of BRL0.5b. Braskem's net debt, at the end of the First Quarter of 2005, was BRL3.4b. This represented an 11% decrease when compared to the end of 2004, BRL3.9b. And a 46% decrease when compared to the First Quarter of 2004, when it was BRL6.4b. When expressed in U.S. dollars, Braskem's net debt also decreased by 11% from \$1.5 billion to \$1.3b.

Braskem's level of financial leverage, measured by the net debt over EBITDA ratio, decreased by 16% during the First Quarter of 2005, from 1.52 on December 31 to 1.27 on March 31, 2005. In the First Quarter of 2005, Braskem pre paid import and export finance transactions, which also contributed to reducing the Company's leverage ratio. At the same time, we had a substantial improvement in the Company's business coverage, of approximately one-fifth of the last 12 months' EBITDA, as well as in the short term debt percentage, when compared to Braskem's total debt; down from 36% last year to just 17% in 2005.

Finally, on April 12, 2005, the Company paid BRL204 million to its shareholders as follows. BRL170 million in the form of interest attributable to shareholders' equity, as authorized by the Company's Board of Directors and recommended by the Company's Board of Executive Officers, plus BRL34 million in dividends, as approved by the Annual Shareholders' Meeting.

Continuing. And now on slide number 8, we can see the evolution of our Company's gross revenue and EBITDA during the previous 12 months, before each and every quarter. The graph shows the consistency and sustainability of the results of operations obtained by Braskem, confirmed by the solid growth of its revenue and cash generation, even in challenging scenarios, marked by very significant exchange rate swings in direction.

In respect to EBITDA, consistent and important growth was also registered. An increase of nearly 10% every quarter, both in Brazilian Reais and in U.S. dollars as well. While the Company's gross revenues accumulated, in the last 12 months, nearly BRL15.6b, its EBITDA level in this year amounted to approximately \$1b.

As previously mentioned, we believe that this result reflects the excellence of Braskem's business model, as well as the Company's management strategy to create value through returns that are consistently higher than its cost of capital and the maximization of the utilization of its operating assets.

This said I will now pass the presentation to our CFO, Paul Altit, by my side, who will comment on the next slides. Thank you, very much.

## **Paul Altit**

Thanks, Jose. Good morning, everyone.

On slide number 6, we can enjoy the fact that, excluding the effect of monetary and exchange rate variations, Braskem's net result -- net financial result for the First Quarter of '05 was an expense of BRL178m, as compared to an expense of BRL233 million recorded

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in the same period of '04, representing an improvement of 24% year over year. When comparing the First Quarter of '05 with the results of last quarter of '04, when Braskem reported expense of BRL187m, there was a 5% decrease, or BRL9m.

This good financial result is mainly (a result) of the provision for interest expenses, reflecting an effective reduction in the amount of consolidated debt, particularly with respect to more costly debt agreements and the reduction of the Company's cost of capital. Financial expenses related to interest obligations to vendors decreased significantly, from BRL186 million in the First Quarter of '04 to BRL136 million in December '04, reaching BRL123 million by the end of the First Quarter of 2005.

The First Quarter 2005 net financial result, excluding the effect of monetary and exchange rate variations presented a substantial improvement of BRL55m, as compared to First Quarter of '04. This positive performance is evidence of an ongoing process at Braskem, which aims at reducing the Company's cost of capital. The combination of this process to -- throughout the next quarter will -- to make -- will make feasible the (periods) of new financial transactions already under the plan.

So with this stated, I would like to address our main focus, which is basically to prioritize our cash flow generation to reduce short term debt and also the most expensive part of our debt. So we are looking forward to end 2005 with a peak maturity debt, with a much lower cost of capital and also with the same level -- or more or less the same level of liquidity. This is important to give us strategic, financial and operation effectiveness.

Please moving to slide number 10. This slide shows us the equity result. So all the subsidiaries had an outstanding performance. Copesul, Politenio and Petroflex also registered a very important performance in the First Quarter of '05. So this line gives 71% improvement. Copesul gave us 65%, remembering that we own 29.5% of Copesul's shares. Politenio, we own 34% of these shares. So this gave us 58% of improvement. Petroflex, we own 20% of these shares. This gives 157% of improvement. Others, it's minor investments (inaudible) we also had an improvement of 37%. So this is very important, the fact that (inaudible) evolution of results in the First Quarter. But also our subsidiaries also did very well (inaudible).

Moving, please, to slide number 11. During the First Quarter of '05, Braskem really continued to reduce its debt and principally decrease its cost of financial obligations. In addition, over the same period, the Company sought to maintain high levels of cash and cash equivalents, which is totally consistent with our financial policy which is available on our website, in order to provide greater operational, financial and, very important for us, strategic flexibility.

Braskem's net debt, at the end of the First Quarter of '05, was around BRL3.4b, which represented an 11% decrease when compared to the end of '04, which was BRL3.8b. And even 40% -- 46% decrease when compared to the First Quarter of 2004, which was BRL6.3b. When expressed in U.S. dollars, Braskem's net debt decreased by 11%, from \$1.5 billion to \$1.3b.

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Braskem's level of financial leverage, measured by the net debt to EBITDA ratio, decreased by 16% during the First Quarter of '05, from 1.5 in December to 1.2 on March 31. For the First Quarter, Braskem pre paid -- we also pre paid important -- sorry for import and export finance transactions which also gives the chance of reducing (inaudible) the Company's leverage ratio.

On March 31, Braskem our cash and equivalents balance achieved 1.8b. I would like to address that properly. The current, it's the same level as it is now. Braskem will continue reducing even more its present level of net debt to EBITDA. And our cash balance evolution, at the end of March, presented \$1 billion and BRL785m. The main reasons why we had such a lot of cash invested in dollars is presented by slide number 12.

In this slide, we present the most recent debt profile of the Company. So cash generation and cash balance, the total comparable with our debt amortization. As we have been (inaudible) into the market, Braskem has been prioritizing the utilization of its strong free operational cash generation to reduce its indebtedness. In 2005, Braskem will remain focusing on lessening the debt profile by increasing the average tenure of its debt. In addition, also reducing its cost of capital and the foreign exchange ratios.

It is important to remind that Braskem has the right to call and to repay Trikem which was the company merged into Braskem in January '04 bonds in July '05 of a total amount of \$250m. And, depending on market conditions now in May and June, we will evaluate whether we will exercise or not this call option and (repaying this part in full).

At this point in time, I would like to thank you for your attention and pass the floor to our CEO, Jose Carlos Grubisich, who will comment on the current scenario in petrochemical market and also Braskem's value creation agenda. Jose Carlos, please.

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

Thank you, Paul. So let's move into the slide number 14, please, where we show you the evolution of our turnover, in the domestic market, for the First Quarter of 2005. And we are comparing our turnover here in relation to the same quarter of last year and the last quarter of 2004.

So what you can see, here in this slide, is that our prices in the domestic market are fully aligned with international prices. Taking into consideration that we can't charge the premium price in our own domestic market, because we can deliver a lot of services to our customers; new product development, application development, supply chain optimization; which enable our customers to reduce their own inventories and optimize their working capital.

And what you can see here, also, is that prices have been the most important component of our profitability improvement. If we take, in the First Quarter of 2005, in relation to the same quarter of last year, we have got a positive evolution of our prices. Plus 38% in relation to last year. Plus BRL670 million in terms of net turnover, came from price

evolution. Plus 5% in terms of volumes, which means that we have been able to increase our market share even in a market which is so down overall.

As you may know, we had a slight decrease in volumes in the First Quarter here in Brazil, because our customers decided to reduce their own inventories as a means to optimize their financial position. And also, they were expecting that prices for resins should go in the wrong direction, because oil price was supposed to come down. And we had also a change in the policy of the exchange rate in Brazil. So everybody was expecting the price to come down.

I would like to highlight and to stress that we have been very much correlated to the dollar in our selling prices. And, as you can see, both in the comparison with First Quarter of last year and Fourth Quarter of '04, the exchange rate has impacted negatively our turnover.

We are, of course, very confident that Braskem will be able to capture value in the coming quarters because we are expecting volumes to increase and prices to keep going up. And we are also expecting that our raw material cost may decrease starting in Second Quarter, because oil price is coming down and naphtha price is going down and coming down very fast and we are going to have a positive benefit from the exchange rates.

So when -- let's move now to the slide 15, where you see the same comparison now focused on the export market. You can see that we have been very consistent in increasing volumes and prices in our export business. Margins in Argentina are moving up and they are now at the same level of the Brazilian margins. And Braskem has been very successful in increasing its position in the overseas market, mainly in Europe, with the export of polyethylene and polypropylene. So prices have moved up in relation to last year plus 50% in relation to the First Quarter. Volumes went up by 40%. And here again we had a negative impact of the exchange rate because we had an over valuation of the local currency.

So in total, Braskem again -- and you can see this in the slide 16 -- we have shown a strong flexibility in our commercial position, because we have been able to increase our market shares in all our products in the Brazilian market. We have been able to keep our profitability up in the market and we have also been able to increase our position in the export market, increasing our turnover. And we also succeeded to increase our EBITDA in value terms.

So, moving to the slide 17, you can see that we are accelerating the capture of the gains related to our Braskem Plus program, which is the new platform of competitiveness for the Company. So, more productivity and more reliability of our industrial operations. In the First Quarter of 2005, we delivered more than BRL120 million a year of the gains related to Braskem Plus, always on an annual and recurring basis, compared to BRL64 million we had planned for the period. So plus 90% in relation to what was planned. And we are expecting to deliver more than the BRL170 million we planned for the whole year of 2005. And I would like to remind you that we have planned to achieve and deliver more than BRL400 million in gains for Braskem Plus for the full year of 2007.

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So what in fact is that to? We are really leveraging this program on the management systems we put in place for the synergies coming from the integration of Braskem. And we think that we may advance and deliver of the synergies and the gains by one year and by 2007. So this is going to be a very important source of competitiveness improvement for the Company.

And we are now almost ready to decide a new program which is going to be related to the review of all our business processes. And we are almost decided to implement a new information system within Braskem, which will increase our efficiency, in general, in the production processes and also in the administrative processes. So this is going to be decided by the end of the Third Quarter. And as soon as we have the decision, we are going to disclose to the market all the gains and what's planned for competitiveness improvement in relation to this new investment.

And, before moving into the question and answer section of this conference call, I would like to conclude my presentation by showing the slide number 18. So if you could move to the slide number 18. We are very much committed to value creation. Since the Company was created, our management system was developed to focus on the creation of value. So return on capital employed and (evolution) of economic value added.

We have been increasing the EBITDA of the Company quarter after quarter on a very consistent basis and we are now in the rate of \$1 billion EBITDA level for Braskem. And, as we move in the next quarters, we think that we are in a position to keep increasing our EBITDA level, through CapEx increases (inaudible) and also new greenfield projects like the project to produce polypropylene in Paulinia.

We are going to accelerate the gains related to Braskem Plus. But also with our innovation and technology programs. As you may know, we have a very consistent pipeline related to innovation, around \$250 million in terms of net present value, related to new products, new applications and cost savings. And we also expected to get more synergies and more gains related to the perpetual and eventual consolidation of the petrochemical sector in Brazil, because the new option we negotiated with Petrobras recreates conditions for further restructuring and consolidation of the petrochemical sector in the country.

And on top of the EBITDA improvement, we have also outlined a new action plan in order to improve the multiples Braskem enjoys right now in the market in relation to its own market gain. We think that we are heavily discounted. More than any other equivalent Brazilian company. And of course, as you can see in this chart, that we are very much discounted in relation to companies like Lyondell or Dow Chemical and we think that we can improve our position in the future.

We are looking for new options and opportunities for the internationalization of the Company, not only in Latin America, not only through the export business. But we are always trying to assess opportunities to invest or acquire assets internationally. We are reinforcing our communication with international markets and we are planning different



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road shows in Europe, in the United States. And we may start in the second half of the year some road shows in the Asian market.

We are planning to go to level 2 of the corporate conference systems in the Brazilian Bovespa. We have plans also to increase liquidity, both in Brazil and in the United States. And we are working very much in increasing the operational excellence in our business. New methodologies, new process review. A very consistent and robust cash flow generation. All our businesses are now in a positive return on capital employed over the cost of capital. And we are expecting to move our ratings up in the Brazilian ranking. And we do expect to have our ratings in the same level of other, let's say, first quality Brazilian companies.

So we are very confident that Braskem will keep growing in terms of turnover and in terms of profitability. We are expecting our profitability to increase in the coming quarters, because we do plan to increase our selling prices in relation to the level of the First Quarter. We are expecting the raw material costs to decrease in the second and in the remaining quarters of 2005. And we are, of course, very confident that we may have a very sustained period of profitability from 2005 through to 2007.

So that's our presentation for today. Thank you, very much. And we are looking forward to answer your questions. Thank you, very much.

## Questions And Answers

### Operator

Thank you. The floor is now open for questions. (Operator Instructions) Our first question is coming from Eric Ollom of ING. Please go ahead.

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

Hi. Good afternoon, gentlemen. Congratulations on the very excellent results. And all the hard work seems to be paying off. My question just has to do a bit on CapEx for this year and the next couple years. And the sort of volume improvements or volume growth that you would expect to see from that CapEx.

#### A - Paul Altit

Eric. Good morning. This is Paul. Eric, we are forecasting this year around BRL600, BRL650 million of CapEx. And we haven't given the market a guidance for '06, '07 until now. As you know, we have the Petrobras option in the second half. So this could be a material change to us to the extent that eventually we could have other companies being part of Braskem for (oil). So we haven't given. So far, any kind of forecast or guidance. But, in terms of this year, we should have around BRL600, BRL650 million of CapEx.

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

Okay. And what about, say, the increase in capacity? Let's ignore, for the moment, the whole Petrobras option. How much would you get for this year?

### A - Paul Altit

Eric, if you just consider the possibilities of the option and just look at Braskem, we presented the market different opportunities that we were expecting to increase production by 1.2 million tons by the end of '07, out of which we had 1 greenfield project which is the 250,000 tons of polypropylene production here in Sao Paulo, together with Petrobras. So Braskem has 60% of this volumes and 40% belongs to Petrobras. And with this scenario, we would be investing, more or less, between BRL6 and BRL800 million from '05 until '07.

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

Okay.

### A - Paul Altit

This was more or less the CapEx from '05 up to '07, with this 1.2 -- from this 1.2. If you disregard the (100 to 250,000) tons on the polypropylene here in Sao Paulo, the remaining expansion will come out from debottlenecking. So this is 1 of the main reasons why we are, per capita, increasing productivity and increasing margins, because debottlenecking usually has a more important return on investment process. So in this sense, on 1.2, just that (150,000) tons being grabbed through the greenfield project. Then, by '07, we should be diluting more fixed costs and therefore we believe that it would be (profitability) prices as they are today as compared to the First Quarter of '05.

Now, we don't have any forecast and we're not giving yet any guidance to what could be happening with the option, because -- and probably you've had the chance to read the notes we have given the market. But you understood again that Braskem --- sorry, Petrobras should be presenting our shareholders, our Board and shareholders, the list of assets that should be considered (inaudible) to our other assets and therefore would be eligible to be brought into Braskem.

So before we see this list, it's very difficult to imagine CapEx and revenues and so forth. So I think we have to wait another two months or three months before we come out to market saying, okay, we have a new business plan, these are the assets, numbers should be on a different level and therefore we should be investing X amount of CapEx. You have to wait just another 60 days for that, or 90 days.

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

Okay, fair enough. Thank you.

### A - Paul Altit

Thank you, Eric.

## Operator

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

### Q - Dennis Parisien

Thank you. And congratulations also from my part. And also congratulations on the high level of disclosure in the press release. We like that a lot. My question is on volumes. I'm wondering are you seeing. So far in the Second Quarter, customers starting to rebuild inventories. I guess some -- just a little bit concerned, given the amount of economic data in Brazil that's pointing to a slowdown in domestic production and domestic absorption in general, maybe volumes just stay sort of flat and maybe we're seeing conditions ripen for a bit of price competition and maybe lower revenues per ton in the coming quarters. Could you possibly respond to that, please?

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

Yes. Dennis, Grubisich speaking. What happened in the First Quarter was the reduction in volumes in the domestic market. And that was very much related, merely related, in our assessment, to inventory reduction. Because our customers were expecting prices to come down. So they decided to reduce their own inventories before going into repurchasing our products. Prices did not come down as they expected. But the good news is that the inventory level is very low in the production chain.

What we are expecting to have in the Second Quarter is that the volume will start growing again. So we have indication that volumes in the market are moving up. So our customers are increasing their own sales into the end market. But we are not expecting our customers to increase their own inventories, because, as you may know, there is some uncertainty in relation to the exchange rate level. So they are expecting the Reais to keep increasing its value. And the interest rates are very high.

So what we see is that products are moving down the value chain. But to supply the end market and not to increase inventories. But all our customers are giving us the sign that their volumes are moving up. So we are expecting to have a combination, positive combination, in the Second Quarter of recovery in volumes. Not a strong recovery in volumes. But a change in trend and a slightly increase in selling prices. We think that we may be able to increase our own selling prices between 3 to 5% for all our core products.

And on top of that, we are expecting that fixed costs to decrease in the second and Third Quarter through a combination of price reduction, or cost reduction for naphtha in the international price in markets, combined with a more competitive exchange rate in the country.

### Q - Dennis Parisien

Excellent. So you think 3 to 5% price increases, on average, across products in the domestic market, in the Second Quarter.

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

Yes, that's right.

**Q - Dennis Parisien**

What about in the international market? Are domestic prices now completely aligned with international prices across the product spectrum?

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

Yes. We have all our prices fully aligned with international prices. Taking into consideration, of course, the cost to bring products into Brazil. And on top of that, we can now increase in price because we deliver a lot of (alternatives) to our customers. And we do expect the international price to move up again, because the balance of supply demand is flat. We know that the utilization rates of capacity are increasing on a global basis and this should drive prices up in the coming quarters.

**Q - Dennis Parisien**

Great. Would then -- I mean, given that you extract a premium price in the domestic market, would -- the shift to a higher proportion of sales going to the exports in the First Quarter, would that be a partial explanation of the drop in the EBITDA margin?

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

Yes, that's part of the explanation, Dennis, because, of course, the highest margins that we get are in the domestic market. The second in line is in Mercosul, Argentina mainly. And of course, when we go into the international market, the transaction costs to deliver our products in Europe or in Asia are much higher. We have a lower unit profitability.

So what happened in the First Quarter that we increased very much our exports. In fact we doubled our export turnover, First Quarter '05 compared to the First Quarter of 2004. And we did substantially increase our EBITDA in absolute value. But in terms of percentage of EBITDA in relation to the sales, we had a slight decline. So this can be positive again in the second and Third Quarter, if this domestic market recovers.

**Q - Dennis Parisien**

Excellent. Thank you for the very detailed answer. I have another question. But I'll leave the floor open to other people and I'll come back. Thanks.

**Operator**

(Operator Instructions) Our next question is coming from Rusty Johnson of Harding Loevner. Please go ahead.

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

It may not be terribly important for your Group. But you did mention something in the aromatics chain and specifically butadiene. Is that part big enough to make an impact on

profitability going ahead? And is there a specific tightness in that line of plastics or resins?

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

Well, the aromatics was a very important part of our business. On top of the by-products we have from the quarter, we have 1 aromatics unit in our quarter income (period). Aromatics has been very positive in terms of profitability. We decided, last year, to (inaudible) our (inaudible) production capacity. So it was very positive in terms of profitability. And we see our market moving up for aromatics in the coming quarters.

We are also looking at options to debottleneck our capacity for the production of aromatics. We are looking for all the options and alternatives to increase this production for the -- of (inaudible), to increase our capacity for isoprene, which is a very profitable product in the market we would like to grow in. And of course we are looking for all means to increase the production of products like butadiene and benzene, toluene and other products.

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

Is that just because of demand pull in certain product lines in the downstream that keeps it so tight and why you're interested in expanding there as well?

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

No, its because of all the new investments which were made over the last two years were based on natural gas. And when you have natural gas (inaudible) you have only the production of ethylene and a small quantity of propylene. When you go for natural gas based petrochemicals, you do not have the production of aromatics. So all the supply increase lately has been based on natural gas, which means that the market, the supply market, for aromatics is very tight, because there's no new refineries that was built in the U.S. or in Europe with major volumes. And no major quota based on naphtha or (inaudible) was built on a global business, which means that the market for aromatics are very, very tight. That's why the benzene products went up so much last year and is still sustaining a very high level of price. That's the case for para-xylene, for butadiene and all other products, because nobody creating the (liters like naphtha in volume with new capacity, of course.

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

Right, okay. Thank you, very much.

**Operator**

Thank you. Our next question is a follow up question, coming from Dennis Parisien of Standard New York Securities. Please go ahead.

**Q - Dennis Parisien**

Hi, gentlemen. I'm wondering the fact that you mentioned that the -- you're looking only at market conditions to decide whether or not to go ahead and launch an international

bond in exchange for the Trikem '07 bond, does that mean -- can we take it for granted, then, that you have resolved the tax issues with respect to that bond?

### **A - Paul Altit**

Yes, Dennis. We have solved the tax reason, yes. We had some discussions with a couple of banks here and a couple of banks have been helping us, investment banks. And yes, we're trying to approach the market and see if there is -- the market is in good shape in order to give us a chance of eventually calling this bond during June, the month of June. So yes. The answer's yes. We have solved the tax discussions. And if everything is okay, we could be calling the bond by June. But we have to wait, because yesterday was a major and very important day on the market in the U.S. So we have to wait another maybe couple of days to see what will happen. But in principle, we believe that the market shall be there and that it should give us a condition of doing a good business by calling the bond.

### **Q - Dennis Parisien**

Excellent, thank you.

### **A - Paul Altit**

Thank you for your question.

### **Operator**

(Operator Instructions) Our next question is coming from Daniela Guanabara from Pactual. Please go ahead.

### **Q - Daniela Guanabara**

Hi. Good afternoon, to all. The question is regarding margins. Given that Petrobras naphtha prices already presented 18% increase in April and just a slight reduction from May and also that international naphtha prices remained quite stable for the first two months of the quarter, can we expect already some margin increase in the Second Quarter due to a better mix of sales, like shift in sales from export to the local market?

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

Daniela, as you say, we have got a good combination in the Second Quarter also. It's likely to decrease in naphtha price in the international market. So if you take the April through June period, we are expecting that the average price will be lower than the average price in the First Quarter. And on top of that, we are going to have the full benefit of the exchange rate in the Second Quarter, because this very strong, let's say, revaluation of Real will impact the naphtha price of June in our P&L.

So we are expecting, in U.S. dollars, naphtha price average, compared to average, should be lower. And, in Reais, it's going to be even much lower than that. And this is going to have a positive impact on our profitability. On top of that, if the Brazilian market recovers

as we expect it to do and we have more sales in the domestic market, this is going to be an additional positive impact in our profitability level.

### **Q - Daniela Guanabara**

And do you also expect Petrobras naphtha prices to come lower in the Second Quarter in Reais terms when compared to the First Quarter?

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

You know, you mean in terms of volumes?

### **Q - Daniela Guanabara**

No, prices. Prices, sorry.

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

But you know, Daniela, the price in products with Petrobras is almost mathematical because we take the average of the international price of the previous month. We take the average of the exchange rate of the previous month to build prices in the domestic market with Petrobras. So if you take for May, we are going to have the average (R) price of April through the average exchange rate of April to build up price for May. So this -- you can almost calculate what it's going to be for June. You get all the prices on a daily basis in May, through the daily exchange rate in May, to build up the price for June. It's very mechanical and it's very much aligned with international prices. And of course, we still have a premium on the international price and, starting in May, we are going to have a slight reduction in the premium we pay to Petrobras.

### **Q - Daniela Guanabara**

You're going to reduce the premium paid to Petrobras. Okay.

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

Yes, that's reduced.

### **Q - Daniela Guanabara**

Yes. That's what I was asking, thank you.

### **Operator**

There are no further questions. At this time, I would like to turn the floor back over to the CEO, Mr. Jose Carlos Grubisich, for any closing remarks. Please go ahead, sir.

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

Okay. Thank you, again for your attention and your presence in this conference call. And myself and all our team will be here at your disposal if you need any further information. So thank you very much and see you next time.

## 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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