

## Q4 2003 Earnings Call

### Company Participants

- Jose Carlos Grubisich, CEO
- Paul Altit, CFO

### Other Participants

- Elk Olive, Analyst
- Emerson Leite, Analyst
- Idwar Duhieda, Analyst
- Kansi Duodoalis, Analyst
- Matsu Breetu, Analyst
- Sabuli Danda, Analyst
- Shilliana Bragger, Analyst

### Presentation

#### Operator

Good Morning ladies and gentlemen and welcome to Braskem's conference call to discuss 2003 results. Thank you for standing by. At this time, all lines are in a listen-only mode. Later there will be a question and answer session, instructions will be given at that time. If you should require assistance during the call, please press star zero. As a reminder this conference call organized by Thompson Financial Investor Relations is being recorded and a slide presentation has also been made available on the company's web site 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 web site as well. Before proceeding let me mention that forward-looking statements are being made under the Safe Harbor of the Security Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macro economic conditions, market risks, and other factors. With us today here in Sao Paul are Mr. Jose Carlos Grubisich, CEO and Mr. Paul Altit, CFO. We will start with a brief presentation after which management will be available to take your questions. It's now my pleasure to turn the call over to Mr. Jose Carlos Grubisich. Please go ahead sir.

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

Thank you, very much. Good morning, ladies and gentlemen. I would like to welcome you to our conference call to discuss the full year and 2003 results, and I would like to move to the slide number three where we present to you the main highlights for our 2003 results. As you can see we had ten consecutive quarters of improvement in terms of our operational, economic, and financial indicators despite the slow economic exhibit in Brazil

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during (inaudible) analysis. Our net revenue increased by 31% from almost R\$7 billion in 2002 to R\$9.2 billion during 2003. Revenues from exports amounted to US\$617 million during last year, which is 49% higher than what we did in 2002, which was US\$416m. Our EBITDA in 2003 amounted to R\$1.8b, which is a 33% increase over 2002, and of course we do not take into consideration in 2002 results the extraordinary accounting of non-recurring tax credit, which was accounted for in the Fourth Quarter of 2002. Our EBITDA margin was 19% in 2003, which is the same margin observed during 2002 despite the slow down in the Brazilian economy and the high pressure stemming from the higher price of raw materials.

Our net profit for the period was R\$215m, which represents a significant improvement when we compare to the minus R\$800 million we accounted for in 2002 and again as a result of the commitment, we have to carry out the cash generation to amortize the company's investments. Braskem has to reduce its net debt to EBITDA ratio from 5.1 in December 2002 to 3.5 at the end of 2003. Let me remind you that this ratio was in the range of 7 by the end of 2001. So this is a very nice improvement, and we have committed to improve even further our net debt to EBITDA. Those ratios were calculated on the recurring basis either [ph]such excluding (inaudible) extraordinary items registered in the Fourth Quarter of 2002, the same nonrecurring tax credit we accomplished for in the end of 2002. On December 31st, 2003, our net debt was R\$6.3 billion compared to R\$6.8 billion at the end of 2002. I would also like to highlight the significant debt profile adjustment undergone by Braskem during last year. The main priorities of Braskem financial management in this area was to reduce the company's level of indebtedness and to extend the average maturity of this debt as well as to increase its cash and cash equivalent availability. The company's transaction in the domestic and international capital market as well as order source of funding during the fiscal year ended December 21, 2003, and the operations we completed in January 2004 totaled more than US\$1.2b, resulting in (inaudible) of our consolidated debt obligation and an increase in our liquidity. Mr. Paul Altit will be telling you of this transaction later in his presentation.

Let us move to slide number four, which is on the screen right now. Here we share with you the operating performance of our plant. So as you can see, the average capacity utilization rate was quite high when we compare to 2002, and you can see that we reached 95% capacity utilization for polypropylene, 83% for polyethylene, and 85% for our PVC plant. This reduction of (inaudible) which comprises polyethylene and polypropylene was almost 5% when compared to 2002, mainly due to an increase in the level of exports in 2003. Since the (inaudible) of the domestic market continued for most of the year. It is also important to mention that we decided to initiate our polypropylene plant located in the (inaudible) petrochemical complex, (inaudible) which will prevent another capacity increase of a 100,000 metric tons a year. With the completion of the project for the first half of 2004, the company will have the capacity for the annual production of 650,000 tons of polypropylene, and the total investment amounts to only US\$7m. In the final units, major highlights in 2003 was a 5% reduction in electricity consumption, one of the main key forces in the PVC and caustic soda production focuses, and the drilling of three new salt extraction wells ensuring continuity and full supply of this raw material to our company. Furthermore, one of our plant facility, which is located in Alagoas obtained it's best of operating performance (inaudible). In lack of the potential economic growth of the Brazilian GDP, and the need to address the housing and sanitation deficits in the country, Braskem has speeded up the program to increase PVC

production and should obtain the first 50,000 additional tons as of second half of 2005. Furthermore, and in order to comply with the better growth in demand the PVS units present in addition of opportunities that could allow them to reach (inaudible) a 100,000 additional tons of production though the bottlenecking problems divided in two packages of 50,000 tons each. As a result of it's installed capacity for raw material for PVC production, Braskem is in a competitive position to respond quickly to sustained growth in our domestic market.

In 2003, the Basic Petrochemicals Unit increased its production of ethylene by 5% when compared to 2002. Furthermore, the important advances were recorded in the company's (inaudible) products with an increase in the processing of condensate, a by-product of natural gas. This was made it possible to partially substitute petrochemical naphtha as a raw material, taking advantage of market opportunities. As a part of this business unit's modernization program, Braskem has inaugurated two new turbines with a total installed capacity of 90 megawatts. This investment provided the opportunity to reduce our production costs. It's also important to mention that during 2003, we concluded that bottlenecking of our ethylene production lowered from 1.2 million [ph]tons of ethylene to 1.3 million tons of ethylene stocking right now in January 2004.

If we move over to the slide number 5, which is shown to you right now, we can see our sales performance. Our sales volume of thermoplastic resin during 2003 amounted to 1.6 million tons, which represented an increase of 2% when compared to previous year. It is important to emphasize that this performance also began in a period that reduced economic activity in the Brazilian market, partially and strategically offset by a more active export market policy. The increase in the company's export volumes demonstrated Braskem's flexibility in terms of operations and in terms of the strategy, which enabled the company to quickly re-direct a lot of volume of its sales to the overseas market during 2003.

The Polyolefin Units recorded a 7% increase in the sales of polypropylene when compared to 2002, driven mainly by the higher exports registered in the period. The domestic market remained stable in the year-over-year comparison and the highlight was the growth of the Rafia market, particularly the technical fabrics used for manufacturing big bags, which are used in the export business. This segment displayed important growth following the sound performance of the Brazilian exports. Braskem has implemented important technological advantage to substitute conventional materials, such as the introduction of polypropylene (inaudible) substituted to (inaudible) made out of glass very common in Brazil and the use of polypropylene in containers should be treated as basis for ratification. Within our portfolio of products in the polyolefin's units, we will have items. There was a 4% growth in sales of Linear Low Density polyethylene. This (inaudible) was essentially propelled by the industrial bag packaging industry shrinking in the stretch. Braskem continues to lead the domestic market for polyethylene and polypropylene, with 29% market share for polyethylene and a 41% market share for polypropylene respectively. Total PVC sales remained in line with 2002 results, despite again the low (inaudible) of the domestic market. Over the course of 2003, a sector, that long density uses these products such as infrastructure, sanitation, and construction. This performance was obtained by focusing on more attractive segments presenting high growth potential such as manufacturers of footwear, (inaudible) fuels, and laminates, (inaudible) as well as

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by this persistent growth of the export volumes. As a result of these initiatives, Braskem has consolidated its market leadership for Vinyl and Polyolefin during 2003 and established the basis for improving the competitiveness of the overall PVC check for the future. Last year, our waste petrochemical business units increased in sales by 5% over 2003. This increase was brought out by consistent demand for base petrochemical products observed at the Camacari Petrochemical Complex. During this period, a year with no programmed maintenance shutdowns, also, (inaudible) was the sign in of the coproduct of the product sign in (inaudible) to a major customer and such products being used as raw material for the polyethylene production, making it possible to increase production, capacity utilization ratio.

Next slide you can see our net export revenues for last year, which amounted to US\$617m, 49% higher than US\$415 million obtained in 2003. This compared the government provision as gone up the largest exporters in the country. (inaudible) can provide the technological support to each customer in the joint development of new manufacturing project at the export market. The companies thus contributed to the declaration of new opportunities for commercial niches for Brazilian plastic based products on the international market and also for the growth of the indirect exports of our resins. The polyethylene unit, is polypropylene export sales volumes have set up a historical record of 282,000 tones in 2003. The company sold its resin in 53 countries with Argentina, Belgium, and China as the main destinations. In the second half reacting to the resumption of previous levels of economic activity in the main world market, we gradually increased the Polyolefin's prices over in turns, mainly in the latter two months of the period. The Vinyl unit posted a strong increase in the volume of its exports consolidating a greater presence in the South American market; we sell to all (inaudible) countries as well as Chile, Bolivia, Ecuador, and Columbia. EDC export sales grew 34% year-over-year, etc 160,000 in 2003. The base petrochemical unit achieved historical leverage in the export volume during the last year of 557,000 tones, 16 higher than the volumes we registered in 2002. This business unit exported six different products, including its export portfolio. The major (inaudible) is the United States, followed by Europe and Asia. The increase in gasoline export to North American markets for a second consecutive year was the highlight. This result was due mainly to the high quality of Braskem's low-sulfur content gasoline and also due to the yield that we are most able to consolidate international partnership for the sale of isoprene, (inaudible) for the high performance additives, so compact sign was important to all consumer product sales.

The slide number 7 is very important to analyze pricing in core brands in order to understand some of the components of our possibility. We show in this slide index of prices for naphtha and low-density polyethylene, (inaudible) in terms of price that you see now for low-density polyethylene for all the order (inaudible) in our book volume, and I think this is a very good representation of the pricing trends for this sector. International prices for the low-density polyethylene are 25% higher as compared to the price in beginning of 2003, whereas, naphtha is only 5% higher when we compare to the same period of last year. Just to give you a note or a piece of information, our international sales price for the resins, during the period from October 2003 to mid of January went up by around 20% for all the resins. It is good time for the sustainable recovery in the international market.

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We will now go to slide number 8, you can see on the screen, you can see that we recorded advance in the capture of synergies derived from our integration process, you can see that at the end of 2003, the (inaudible) accumulated amount of synergies for annual and receiver basis reached R\$285 million compared to a perpetual, identified total of R\$330m. (inaudible) those synergies is a fruit of efficiency of our business model based upon the competitive relation of our operation into the Brazilian discipline to change and our (inaudible) for our shareholders. I would like to now to turn this call over to Mr. Paul Altit who will discuss our financial performance in more detail.

## Paul Altit

Well, thanks very much. I think we should move to slide Number 9, please. Well, looking at the income statement of the company, the master indicator of the (inaudible) income statement, (inaudible) really a supreme performance (inaudible) all items give coordinate results.

So if we look at the net revenues, it has increased by 31% in 2003 reaching R\$9.2b. Gross profit was 49% to R\$1.8 billion resulting in a gross margin of 20% in 2003, which compares to 40% in 2002. EBITDA amounted to R\$1.8b, which is 33% higher than the R\$1.3 billion booked in 2002 disregarding extraordinary tax credit effect (inaudible) included. The EBITDA margin also was 19% in 2003, in line with the previous year levels despite some positive effects arising from Braskem's (inaudible) profit booked in 2002, which added 1-1.5% more or less to the EBITDA margin in that same period. If you look at the operating profits, also have increased by 11% in 2003 when compared to 2002, whereas we do exclude extraordinary tax credit effect also booked in the Fourth Quarter of 2002. If you still analyze the net financial results, it has decreased by 77% due mainly to first, reduction in financial expenses, second, reduction in the level of investment and third, positive exchange variation effects. As a result of the effect prior to analyze, Braskem reported a net profit of R\$215 million in 2003, reversing the R\$794 million loss posted in 2002. We will cover some more details of income statement in the next two slides.

Turn into slide 10 please. In 2003, Braskem's cost of goods sold was R\$7.3b. This represented an increase of 28% compared to the COGS registered in 2002, which was around R\$5.7b. Now this represents around 55-56% of such cost. This variation was caused mainly by the rise in naphtha prices in 2003 following the recent international price trends. In 2003, the average price of naphtha in the ARA region (Amsterdam-Rotterdam-Antwerp) was around US\$274 per ton an increase of 23% over the average price in 2002, which was around US\$223 per ton. In 2003, Braskem acquired 3.9 million tones of petrochemical naphtha, out of which 2.7 million tones, 69% was purchased in the domestic market, with the remaining portion of 1.2 million tones around 31% was imported directly by the company mainly from sources in Africa and South America. Because of that depreciation and amortization reached R\$277 million in 2003 inline with the R\$276 million recorded in 2002.

Moving to the next chart, Braskem's selling, general and administrative expenses excluding depreciation and amortization expenses totaled around R\$402 million in 2003, which compares to R\$407 million in 2002. Excluding non-recurring expenses related to Braskem, integration process in year 2002 was totaled around R\$130m, representing a

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reduction of 1%. When expressed as a percentage of that revenue, the expenses were at 4.4% in 2003 compared to 5.8% in 2002 these results are associated with the cash flow synergies arising from integration of the companies that are part of Braskem structure, and the improvement in the company's productivity and competitiveness. Accordingly, fixed cash cost expressed as a percentage of net revenues reported in the quarter decreased from 8.4% for fiscal '03 from 9% in 2002. On the next chart, we can see that Braskem's EBITDA totaled \$1.8 billion in '03, 36% higher than EBITDA of \$1.3 billion posted in '02, excluding the same effect mentioned before. This increased (inaudible) was mainly caused by the realignment of the prices of thermoplastic resins on the domestic market to international prices, the reduction in SG&A expenses, as well as the capture of further synergies resulting from the integration process.

In slide number 13, we can see that the evolution of Braskem's EBITDA on a quarterly basis, expressed not only in dollars but also in Brazilian reais, confirm the consistency and the quality of the company's cash flow from its operation. It is important to mention that in a less volatile currency exchange environment, which was the reality in 2003, Braskem was able to keep its price totally aligned to the international one.

In slide number 14, we may observe Braskem's operational performance as compared to international inventory average. Braskem has constantly outperformed international peers. Once the company can benefit from its leadership in the regional market, its low production cost structure due to its competitive scale, and the technological autonomy, which allows us to charge a premium price in the domestic market. Besides that, I have mentioned before, Braskem also can benefit from its integration process and the cash flow synergies associated with it.

Moving to slide 15, we may see that Braskem reported a negative financial result of \$656 million in '03 compared to a negative \$2.8 billion in 2002. Basically, the difference was due to 80% appreciation in the value of the Brazilian real against the US dollar during '03, when compared to 52% of devaluation observed in 2002. In this slide, the item, interest monetized the restatement and factored cash deposits and does not represent a significant valuation in the Fourth Quarter of '03.

On the next slide, the item ordered presented a significant one that will be discussed in a couple of few minutes. If you move then to slide number 16, in the third and Fourth Quarter of '03, and in January of 2004, Braskem implemented financial transactions in an amount higher than \$1.2b, targeting the expansion of its short-term maturities and also the reduction of its financial costs, as well as the maintenance of a higher liquidity level in order to provide greater flexibility for strategic, financial, and also operating progress. In this sense, additional non-recurring fees and expenses were registered in a total amount of \$27m, higher than the quarter average of \$8m. These fees related to banking fees and related expenses. Also, this (inaudible) additional non-recurring fees and expenses (inaudible) hedging policy. The continuing in the chart around R\$14b, but we booked mark-to-market adjustments of this same amount R\$40 million in view of the recent real depreciation. Finally, as falling off (inaudible) recommendation we reclassified R\$39 of SG&A, which was also acceptable under the Brazilian GAAP to financial expenses related to the (inaudible) charges which is more with federal taxes, charges on financial revenues and bucks of exchange rate results, which is important to provide a better understanding

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of its future behavior of this account in view of the fact that (inaudible) actually under a much higher liquidity level that we are keeping from now on. So the 2004 we are expecting to increase a (inaudible) on financial revenues because our higher levels of liquidity.

Moving to chart number 17. The consistent improvement of Braskem's results (inaudible) will also improved perception of the (inaudible) mainly, during the second half of 2003. This gave us a big opportunity of increasingly competitive funding opportunities making it possible to reduce the average financial cost of the company, as well as increasing the average maturity of Braskem's debt amortization schedule. A number of actions were implemented seeking the reduction (inaudible) supply short-term financial obligation. These actually included the use of (inaudible) for extending payments term while acquiring naphtha on international market as well as the development of structures such as (inaudible) for advance of transfer of customers and other operation related to export prepayment. Financial transaction of significant amounts designed to extend the (inaudible) computed. Among these we did several funding operations carried off through (inaudible) term notes for R\$160 million and R\$450 million in January 2004, with maturity ranging from one to ten years. Under the American market it is worth mentioning the (inaudible) and the success of placements of a R\$100 million around R\$4.2 billion of debentures, which matures in four year concluded in January 2004.

So this chart tries to present, first the short-term debt in '04 at the very end of the December was R\$2.5 billion as shown in chart. Cash, banks and marketable securities in very end of the December were around 1 billion and this shows adjusted short-term debt of 1,477 adjusted payments for the next 12 months. We should still mention that in general, Braskem completed R\$250 million of a 10 year bond and also competed the R\$1.2 billion which gave us net cash in January of R\$585m, the rest of the cash was in disbursed in December '03. This means that in January, Braskem's cash is R\$1.3b, the (inaudible) R\$1.4 on an adjusted short-term debt, we can conclude that, first the short-term as the total refinance and its total comparable to our present level of liquidity. Second, we still have in this year the capacity of monetizing around R\$450 billion of tax yield. The third (inaudible) I will like to share with you is that if you consider R\$1.8 billion of already (inaudible) and still we lie on the possibility of flying off [ph] on June 4, June 5, and June 6. We shall take it for a better margin and better EBITDA generation, and we look at the due payment of the '05, '06, '07, '08, and 2014, we can conclude that the due payments are totally comparable with the EBITDA generation and presently Braskem has a total comparable payment of debt to the EBITDA generation and also the Capex for the near future. This means that due payments are comparable to -- EBITDA generation are comparable to -- our most recent schedule or comparable to the Capex needed for the next couple of years even and a forecast for Brazilian GDP can be growing by 3.5 times the GP [ph] growth, which means that demographics for this company will eventually grow by more than 10% a year. So we are -- we have a balance sheet that can help us to a lucrative finding on top of that. If you move to chart number 18 please, in respect to the (inaudible) investments, in December we were 3.68% of our consolidated debt was alluded to dollars. 16% was meant to (inaudible) basically spent there to the markdown debt and 10% of which CDI, (inaudible), 5% of the IGP-M, within the consumer products and mix, and 1% was alluded to fixed rate concept. As to about scam hedging policy, which is reported on cash impact of the exchange rate policy financial position during the next 12 months other than balance sheet protection or always to protect dollars that will be handed as cash

obligation for the next coming 12 months. So 55% of the trade financing obligation and 75% of non-trade financial obligation. As shown, we're surely complying with our hedge policy for our short-term US dollar (inaudible) financial obligation. This concludes my comments, and I now would like to turn this call to (inaudible). Thank you, very much for your attention.

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

Thank you, Paul. With that, let us move to the slide number 20. It is not the followed one, it is the other one, which shows the share performance in 2003. I think this a highlight of our performance throughout the year. As you can see in this chart, our Class A prepared shares clearly on the Ibovespa was up by 508% this year. Surpassing the performance of the Ibovespa shares, this grew to 97% over 2002. This valuation places our shares as a top performer in the Ibovespa next year. Similarly, our ADR has traded on the New York Stock Exchange, grew 609% last year, and we again were one of the top performers in the New York Stock Exchange. Basically, we have several of these commitments to the capital markets. As part of the objective of increasing our visibility on the capital markets, that our move to (inaudible) for the company, must stand plus 80% if the shares began (inaudible) on the (inaudible) as special section of the much (inaudible) change as of October 8, 2003. On October 21, 2003, Braskem successfully implemented a split of its shares in the proportion of 20 shares of each (inaudible) and grant for each existing share. The stock split permitted a reduction in the grant of (inaudible) for trade investment shares, which stimulated an increase in the number of individual investors present and divest in shareholder pools. As a result, the liquidity of the company shares include, a notable example of this was the increase in the shares of Braskem's preferred Class A shares in the composition of the (inaudible) going from 0.21% at the beginning of the year to 0.58% of the (inaudible) portfolio for the first 12 months of 2004. Braskem's preferred share is accredited at 100% of the BOVESPA (inaudible) in 2003, and demonstrates a growing financial turnover which represented an average daily financial volume of R\$2.6m. In the last quarter of 2003, the average daily financial volume of Braskem shares was R\$4 million around US\$1.5m. And at the end of 2003, Braskem's market value was R\$4.5b, which is in the range of US\$1.6b.

Let me ask you now to move back to the slide number 19, where we show the scenario for Braskem. As you are going to see, the scenario looks promising for our company. There is a positive outlook in the petrochemical industry worldwide with expected higher thermoplastic resin prices on the international front, and we are expecting improved margins for the coming years. All the analysts and experts in the petrochemical industry are forecasting a fly-up situation for 2005 and 2006, and we have taken all the necessary measures to have Braskem prepared to take all these opportunities of this upcycle in the coming years. We do expect a gradual reduction in oil and Naphtha prices in the next few years, and we do expect oil price to come back to the level of R\$24 and R\$25 per barrel with fuel in 2004, and of course, this is going to have a positive impact in oil raw material prices.

The Brazilian GDP is expected to grow in the range of 3.5% to 4% in 2004, and when we couple this growth with a high degree of elasticity for the demand of our products, this indicates improved sales volumes in the domestic market for Braskem with a better breakdown between domestic and international markets, which potentially represents



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more margin for our company. And should the above outlook become a reality, and we have a stronger belief that this is going to happen, Braskem could report improved sales, revenues, and returns starting in 2004, and we do expect this positive cycle to remain until 2007. So we have a major growth potential to increase volume, revenues and margins.

And if we move to our last slide, which is slide number 21, we strongly believe that Braskem offers an excellent investment opportunity today. Braskem is the leading thermoplastic producer in Latin America with integrated operation that allows synergies to be (inaudible). We have a consolidated business with superior market as Paul showed you earlier in the presentation. We just completed integration of Trikem and along side with integration of OPP and Nitrocarbon, this will help Braskem to further simplify the corporate structure and this is going to contribute to the full course of synergies. We are committed to become in the reference there of corporate governance and we are read as Ibovesva level one and adhesion [ph]and we are committed to move into the level two until the end of 2004. In addition, 100% take along rights for all shareholders, further confirms our commitment to the best corporate governance practices. Most importantly, as we have assured with our Board and attorneys and in this presentation, there is significant potential for further shareholder value creation. Above all, Braskem was formed as the world class Brazilian petrochemical company and we are going to implement all these the additional programs to further increase our productivity and our competitiveness in order to return a very profitable company and a company in condition to create the value for the shareholders all the time. I would like to thank you very much for your participation in this conference call and I would like to take this opportunity to say that I would like you visit our Web site at [www.braskem.com.br](http://www.braskem.com.br). Thank you, very much for your attention.

## Questions And Answers

### Operator

Ladies and gentlemen. we will now begin the question and answer session. If you would like to ask a question, please press the star key followed by the one key on your touchtone phone. To remove yourself from the questioning queue, press the pound key. Due to the number of participants on the call and in order to allow for all questions to be posed, we kindly ask you to limit your questions to two at a time. Should you have a follow-up question, you may prompt the operator to return to the questioning queue. Finally, I would like to mention that today's conference call is being held exclusively for financial analysts and investors. We kindly ask reporters who may be participating in this conference call to be please direct any and all questions to the company's press relation. Our first question comes from Mr. Emerson Leite with CSFB.

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

Hi. Good afternoon, to everyone. Two questions. First on the pricing environment. And I agree with this positive view for the long term, but I would like to have a reference from you on how is the pricing environment looking like in the First Quarter particularly given the fact that during the Fourth Quarter we didn't really see any margin improvement, EBITDA margin, so I would like to see if anything could be expected in terms of improvement for the First Quarter in terms of margins? And the second question, and I apologize, if I am

repeating anything already presented in the slide because I don't have the slides in hand, what should be the recurring level of cash financial expenses on a quarterly basis going forward?

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

Okay. Emerson, thank you very much for your participation. I will answer the part of the Braskem and after that I will turn to Paul to answer your question about the financial recurring expenses. As far as pricing is concerned, as I mentioned during the presentation, during the last quarter of last year, we saw a very vast increase in pricing in the international market. (inaudible) as an example and in the rate of 20% between October 1st and mid of January. As you know our commercial policy is to align our all-domestic prices to the international prices as much as we can and we have been very successful in this policy. So we take the Asian prices, we include all the supply chain cost should be in the to Brazil, and in most of the case we can prevent a pre-described, in line with the quality of the service we supply to our customers. We supply them R&D expertise, we supply them technical expertise. We help them to address their equipment to improve their own quality, and we have a premium, which went from 5% to 20% for PVC to 18%, in some cases for gasoline. If you take the situation in general, and what we see now in February, we announced a price increase in the way of 10% in January, and we also announced a price increase in the range of 20% for the month of February. We were very successful in these price increases. In January, we just, in fact, much more, realigned them to the international products, and we think that all the provisions are increased, so as to succeed this realignment of 20% in February. So I think that this is going to be very positive for our results. But, on the opposite side (inaudible), as they remind that that's the price. It is in the range of \$300 per methstone, which is very high when we compare to what should be the effect price for (inaudible). And, we do expect our margins to improve in relation to the Fourth Quarter of 2002, but of course, we need to wait until the end of February to see what was the actual effect of the price reposition into the meth market. We've, of course, in the quarter, we did choose to pay attention to whatever happens to the price of Naphtha. As I mentioned, also during the presentation, we have taken all the measures to improve the flexibility we have in terms of raw material. So we are trying to use more and more condensate. We're trying to grow our supplier basis in order to bring a product (inaudible) or condensate with higher quality in more competitive cost position for Braskem. So let me now turn it to Paul to answer your question about the financial situation.

### **A - Paul Altit**

In terms of the (inaudible) and move back to chart 15. I don't know if you have a computer with you, but in chart 15, we have represented the financial results and FX impact. So if you look at these 2003 numbers, and you look at the net financial results, net financial result is really a consequence of financial expenses without FX effect. It has some kind of FX effect, because we're global. We've also FX effect on liability, I think, if you can look, it's very clear on this chart. So regarding the first-line that we can see here in this chart, interest in Fourth Quarter come under a higher level of (inaudible) in principal, more financial revenues, because only credit is higher and (inaudible) running it's balance sheet with a much higher level of liquidity throughout the next couple of months, and probably 2005 and 2006. So this should give a positive financial effect. Also, the cost of liability should be decreasing in principal because of several different reasons. First of all, we do

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have a more positioned schedule in front of us. So that is kind of the reducing debt. The second reason is that as we move to the international capital markets, the yield is becoming -- the spread on the yield over the (inaudible) risk is becoming shorter and shorter. We used this cash to pay our short-term debt, which here in Brazil is much more costly. People will feel this is costly, do understand that short-term debt has a higher cost than long-term debt. So we paid out most of our short-term debt. And in principal, short-term debt and in principal pensions have been moving to a smaller level of financial cost. Looking at the second line, which is monetarily stable, this will all depend on capital inflation. So we do believe that GDP in Brazil should be growing by 3.5%, and inflation also should be reduced. This means that Braskem also could enjoy a lower level of monetary risk taken, which is an indication of liabilities related to (inaudible) and other decisions here in Brazil. Today, we have some other factors. This should be pretty much in line, and what happens as Braskem does all the provisioning out of these taxes, and is not really cashing out more for these taxes because of the tax issue that we have on the balance sheet. But if you look at the line of August, it is \$545 million in 2003. More between \$150 million and \$170 million of our business are really nonrecurrent expenses that we really thought was best guess when I did my presentation. So it will all depend. So it is difficult to give those numbers that will be a quarter numbers from now on. With all of these happening with the Brazilian economy, with the Egyptian, the inflation with interest rates here in Brazil. But in principal, because debt is coming down, because cost of investment is coming down, because liquidity is higher, Braskem should have a higher level of financial result coming out of free cash without liquidity, and also decreasing. This is an ongoing process, but we cannot decrease it immediately, as you know. But Braskem should be decreasing slowly by deficiency debt cost.

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

Okay Paul, that was what I was looking for, I mean is (inaudible) for all the monetary, an FX impact, which on multi-noncash, I mean that was that was (inaudible) from you. Thank you, very much.

**A - Paul Altit**

Thank you, very much. Thanks.

**Operator**

The next question comes from Mr. Elk Olive [ph]with IMD [ph].

**Q - Elk Olive**

Yes, hi. Good afternoon, gentlemen and congratulations on the good result, as well as on the improved disclosure. I have two questions; one is just a follow-up to the prior question on the price premium to Asia. You said 5% to 20% on PVC and 15% to 18% on polyethylene. Is that before or after Taros in Brazil? Then my second question is, given the price and volume fly up for 2005 and 2006, and the increased cash flow generation, as well as your goals of reducing debt, could you put some numbers on what your leverage targets would be, if this fly up actually does happen, i.e., two times, one and a half times leverage, something like that? Thank you.

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

All right. Elk, thank you very much for your comments. It's very kind of you. As far as price is concerned begin, the premiums that we command over this international price is after import duties. Okay, so we take the international price, we take all the super chain. We include the duties. And over that, we can prevent (inaudible) price. It's, let's say, 5-7% for PVC. It's 15-18% for polyethylene, and for polypropylene at the same time. We know the polyolefins; we can't provide a better [ph]price, because the market is much more fragmented. So the level of service we've supplied to the customers is much higher. So PVC will have large customers. They do have themselves their own, (inaudible). So we believe with that a lower level of service. And in terms of our target for the ratio of net debt-to-EBITDA, we showed you during the presentation that we will become 7, end of 2001; a 5, end of 2002; 3.5, end of 2003. We do expect to be below 3 in the Fourth Quarter and our target is all the market positions are in line with our expectations, which should be in the range of 2.5 by the end of 2004. So we are strongly committed to improve our EBITDA value. We do want to use this EBITDA to finance an investment program. We are expecting to invest 400 million reais in 2004. And most of our cash flow and all the cash we are going to get from the tax credit that we accounted for at the end of 2002, this is going to be used to reduce our debt position. So 3 is possible in the first half of 2004 and our target is to be in the range of 2.5 in the end of this year, okay. And of course, with the (inaudible), we are going to improve our cash position, we may go below 2.5. But we need, after, to have a nice good balance between debt-reduction and a goal for the company, because we do believe that we have a very strong potential in our domestic markets in the years to come. The (inaudible) will also build a good (inaudible). So what we do want to compromise later and that's after we are below 2.5 is to combine debt reduction and grow at the same time. Okay?

**Q - Elk Olive**

Thank you.

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

Thank you.

**Operator**

Our next question comes from Mr. Matsu Breetu [ph]with UBS.

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

Yes?

**Q - Matsu Breetu**

Hi. My questions were already answered. So thank you very much.

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

Oh, thank you Matsu.

## Operator

Ladies and gentlemen. as a reminder, if you would like to ask a question, please press the star key followed by the one key on your touchtone phone. To remove yourself from the questioning queue, press the pound key. Our next question comes from Mr. Idwar Duhieda [ph]with CSFB.

### Q - Idwar Duhieda

Good afternoon, everyone and thanks for the call. Could you give us some guidance on how much of your suppliers' account is with Petrobras and if there is an agreed targets level for this account? And could you also give us guidance on the expected change in working capital in 2004? Thanks.

### A - Paul Altit

Okay, (inaudible). So thanks for your question. Braskem is sourcing around 70% of which naphtha turmoil [ph]are main supply in Brazil. And we do import around 30% of whole supply. And so this means that our (inaudible) has been talking around \$300 million more or less of naphtha every year. So 307 (inaudible) \$340 million around this area. Regarding your question on working capital, last year because of the reasons we have previously discussed, when we lost the Third Quarter results, we use our cash supply and that we had important working capital modification 2003 and that our working capital notified every time we have difference in prices. When customer prices go up, accounts receivables go up, inventories go up, and if naphtha goes up, and also our supplies goes up. So we have remained quite stable, and as a matter of fact even pushing down a little bit. The average period of payment of our accounts receivables, if you look at the third generation, we do have an average range of 15 to 17 days more or less. We (inaudible) and we look at the second generation, (inaudible) appliance are around 37 to 45 days as an average. So this pairs of collection for the account receivable has not changed, but, yes, we enjoyed a big change on the value of accounts receivable last year because of the notification and price. Regarding also inventories, every time we have modification in prices of less than or even on naphtha, our inventories will surely go up. So our opinion regarding 2004, we do have a main goal. Our main goal is really to be a little bit more active in trade funds in the sense that, to be more active in the export funds, also in the import funds. So we are looking forward to increase the average period of payments for naphtha imports throughout in year 2004. I should not give you guidance on numbers because numbers change every quarter because of the prices of the (inaudible) and also because of the prices of naphtha and also because of the consequence of accounts receivables and also in inventory, but I could tell you that our target is really to increase the average payments of Naphtha importation.

### Q - Idwar Duhieda

That's perfect. Thank you, very much.

### A - Paul Altit

Thank you, very much Idwar.

## Operator

Our next question comes from Mr. Sabuli Danda [ph]with Citigroup.

### Q - Sabuli Danda

Yes. Thank you. Just a follow-up in both comments on the cash position. What should we expect to be the -- let us say the normal amount of cash and marketable securities going forward?

### A - Paul Altit

Okay. Sabuli. This is an important question. I wouldn't like to give the numbers for throughout the next couple of years, but financial disciplines of this company is something very important. This has very much to do with corporate governance. So it is the decision of shareholders throughout the company increasing all the balance sheet numbers and all balance sheet indicatives. And regarding cash and marketable securities, we do understand that this, whole of dealing with the financial market of this country and having experience throughout the 80s and throughout the 90s, we do understand that the market is very volatile regarding Brazilian capacity of launching malls and doing trade financials, so we do want to see Braskem with a higher level of cash and also marketable securities (inaudible) due in 2007. These bonds have been put going back in 2001. So we do have around \$140 million of these bonds and marketable security, we do have liquidity, we could sell them. But we are not doing that so far. So and we do want to see Braskem with a higher level of liquidity to be comparable with short-term due payments. So when you look at the schedule of 2005, we have a common R\$58 million of payments in '05, going back sharp in that 17. When you look at 1.4 billion and 1.2 billion in '06, we want to see the company with amount of cash which is comparable with the short term due payments. This was absolutely important. This will increase the, probably will increase the rating of the company and will give us much more strategical, financial, and also operational flexibility.

### Q - Sabuli Danda

Okay, good. Thank you, Paul.

### A - Paul Altit

Thank you, (inaudible).

## Operator

The next question comes from Mr. Kansi Duodoalis [ph]with Paulo [ph]Capital.

### Q - Kansi Duodoalis

Hello. Hi, everyone. I just wanted to find out what is the possible impact of the increase in the COFIN effects?

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

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Okay, Carlos, that's a good question. (inaudible) with the discussion here in Brazil and that this varies from sector to sector and from company to company. (inaudible) Braskem, I just mentioned that the (inaudible). Remember, we had a tax (inaudible). This (inaudible) can be used with any Federal tax (inaudible). So we still have around R\$450m. This means that we do all the provisioning, but we are not cashing out any one of the Federal -- contributonal Federal tax, you know that we have around six to seven different factors regarding this issue here. The second effect of the tax is that the COFINS have their increased share in Brazil and also pleased that increased (inaudible) of this country. In short, the effective, so if you look at the source of polyethylene and polypropylene and even DDT coming, mainly polyethylene, DDT coming from Argentina, they will be effective till we won't have the possibility of having the credits and therefore in principle, what should be cost should be redicussed with the client in order to maintain margin. So this (inaudible) and we've discussed this with the client, so in short, it is the discussion, but in principle, companies here are willing to discuss with the client to maintain -- try to maintain the average of our EBITDA. So we don't want to see our EBITDA margin coming down because of the increase of PIS or COFINS. So we should not think this as -- remember, we are talking about the credit possibility. So what happens that from (inaudible) they have the right of crediting, the difference of PIS and COFINS. So this means that, that the (inaudible) third generation, they use the new PIS or COFINS that they are paying Braskem as a credit. I'm not sure if this is clear to you, at least for those who are not living here in this country are not so clear, but what happens that the new (inaudible) impact of such PIS or COFINS. This means that when we work for clients and we charge them with PIS or COFIN, they can use this, but they are paying as a credit, and deduct this from the (inaudible) Throughout the end of the day, what they will require to do is, what we are trying to do, and all competitors are trying to do, is really to maintain the same level of margin because they're using the same level of fee to the credit, (inaudible) generation. So in principle, we are not projecting any decrease in our margin because of the increase of the (inaudible) because the new law did increase, but it seems on the other hand gave us the opportunity of using the credit and giving our time to possibly even the credit. Therefore, in principle, at least in principal, we are not having impact in the first generation with second generation and probably making the third generation (inaudible), but will affect the final line of prices of these products.

### **Q - Kansi Duodoalis**

Okay. Thank you.

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

Okay.

### **Operator**

Our next question comes from Ms. Shilliana Bragger [ph]with Weber.

### **Q - Shilliana Bragger**

Hi, Paul. Would you comment please and breakdown the effort result that was last year in our position to the policy result in 2002?

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## A - Paul Altit

Unfortunately, we should not leak this. I shall be able to give the number by the end of this week, because we have a Board meeting (inaudible) tomorrow. So the Board meeting of (inaudible), we had a Board meeting of all the panel last Friday. (inaudible) look at their Website and get their numbers. But Petroflex and (inaudible) balance sheet. So this does not give you the (inaudible) choice. If you look at the Website and add Petroflex and add Polialden and deduct from our equity line, you will see what happened to (inaudible) numbers. So I could not give you the numbers in (inaudible) even.

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

But you'll not object to give an additional piece of information. We have the Board meeting of (inaudible) tomorrow and our credit base. Braskem will be publishing its full obvious results in the newspapers and on the -- so that we can give the information, okay.

## Q - Shilliana Bragger

Thank you.

## Operator

Ladies and gentlemen. if you would like to ask a question, please press the star key followed by the one key on your touchtone phone. This concludes today's question and answer session. Mr. Grubisich, at this time you may proceed with your closing statement.

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

Thank you, again for your participation and thank you for the questions. I would like just to point out that we are very proud of the results we achieved in last year. That was a good achievement, which was possible -- was made possible by the efforts and the commitment of all our team and I would like really to thank all our people and to thank you also for your patience and for the time you gave us during last year. Well, thank you very much and hope to see you again during our next Braskem conference call. Thank you, bye.

## Operator

That does conclude our Braskem's conference for today. Thank you, very much for your participation. You may now disconnect.

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