

Q3 2004 Earnings Call

Company Participants

- Jose Carlos Grubisich, CEO
- Jose Marcos Treiger, IR
- Paul Altit, CFO
- Thomas Carston, IR

Other Participants

- Denis Parisien, Analyst
- Emerson Leite, Analyst
- Eric Ollom, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Thomas Carston from Thomson Financial. Please go ahead, sir.

Thomas Carston

Good morning, ladies and gentlemen. and welcome to Braskem's conference call to discuss the Third Quarter 2004 earnings. My name is Thomas Carston with Thomson Financial Investor Relations Brazil. I would like to mention that a slide presentation has also been made available on the company's website, at www.braskem.com.br, during this call. This conference call is also being transmitted over the Internet on Braskem's website.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Private Securities Litigation Reform Act of 1995. Actual performance could therefore differ materially from that anticipated in any forward-looking comments as the result of macroeconomic conditions, market risks and other factors.

With us today in Sao Paulo is Mr. Jose Carlos Grubisich, Braskem's Chief Executive Officer. And Mr. Paul Altit, the Chief Financial Officer, as well as Mr. Jose Marcos Treiger, the Investor Relations Officer. First, Mr. Treiger will comment on the Third Quarter 2004 results. And then afterwards the management will be available for a question and answer session. It is now my pleasure to turn the call over to management. Mr. Treiger, you may now begin.

Jose Marcos Treiger

Well, thank you very much and good morning ladies and gentlemen. On behalf of Braskem, I would like to welcome you for one more quarterly conference call posted by our company, thanking you all for attending it.

For Braskem, this Third Quarter of 2004 was clearly a historical milestone, especially for the extraordinarily successful global offering of our shares, which was made in Brazil, Europe and in the USA. But also for the positive and outstanding operational results reported by the Company.

We believe that the positive results of Braskem have been accumulated, which presents, since the beginning of our company just two years ago, a very consistent growth. Primarily reflects the combination of our innovative business model with Braskem's own strategy of value creation, which has been implemented with discipline and determination by all our teams. And this, we believe, is being demonstrated by the clear and positive evolution of all our operating, financial and commercial indicators.

The current scenario is also very positive. It shows the coincidence of an increasing demand for thermoplastic resins in Brazil with high elasticity in relation to our GDP growth. And the evidence of a cycle of high profitability currently experienced by the international petrochemical industry.

In light of such a promising scenario, Braskem has been taking actions to expand its production capacity by means of responsible and competitive investments to depopulate its plants whilst accelerating the timetable of projects of new, strategic industrial facilities.

In the business competitiveness area, the Company has launched a new Operation of Excellence program named 'Braskem Plus,' an additional platform for value creation. 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 Vice President of Finance and Investor Relations, Paul Altit, both by my side, will answer your questions.

Let us go forward then. We think it is important to start our quarterly presentation sharing with you our satisfaction with the well planned and also well-conducted Equity Global Offering made by Braskem. Last September, Braskem successfully completed its Equity Global Offering with the issue of new shares and ADRs, both on BOVESPA, the Sao Paolo Stock Exchange and in the New York Stock Exchange.

The offering roadshow is a very intensive one, covering dozens of cities in Brazil, Europe and in the United States. During the roadshow itself, we hosted over 100 meetings and presentations to a large number of very qualified equity institutional investors.

Due to this strong demand coming from contacted investors, the banks exercised a Green Shoe option, increasing the total amount of shares offered and sold to approximately 3.5 million ADR equivalent ones. Also during the roadshow as a whole, the price of our shares reported a continuous appreciation. Therefore, the selling price was

fixed at the exact market price prevailing on September 22, the pricing day. And equal to BRL90 per lot of 1,000 shares and as said, with no discount.

This important financial operation allowed Braskem raising the equivalent of approximately \$422 million and the proceeds recently received are already being used to reduce the Company's short-term debt and to amortize the most expensive portions of our indebtedness.

As we will further see, the completion of this important capitalization, combined with Braskem's strong operational cash generation, has already resulted in the reduction of its gross debt as well as an increase of its cash level. From July 2004 to the first days of November, Braskem amortized several financial obligations, amounting to approximately \$700m.

Let us move now to the slide number 3. Here. And still analyzing our global offering, there are 2 important points we would like to highlight to you. The international and (inaudible) accounted for two-thirds and one-third of the total offering respectively, as planned.

Our current shareholders base became even more broadly diversified and additionally, this substantial and additional volume of pre-float shares has already tightened Braskem's liquidity, both in BOVESPA as well as in the New York Stock Exchange.

In October 2004, following the conclusion of the Global Offering, Braskem's liquidity, measured by the daily trading volume, reached BRL23.8 million in Sao Paulo's Stock Exchange. And BRL3.8 million in New York.

Finally, it is important to mention that Braskem's preferred Class A shares in 2004 have been praised throughout all sessions of BOVESPA here in Sao Paulo with no exception.

In the next slide, slide number 4, we will see the new ownership structure of Braskem after this recent global offering. In the new ownership structure. And as already observed, we see an important increase in the number of our selling shares.

Braskem's free float now represents approximately 45% of the Company's total capital. It is also important to mention that Braskem maintains relevant investments in the Brazilian petrochemical industry, among which we may highlight the following ones.

In Polialden, a company that produces high-density polyethylene, which is located in the Camacari Petrochemical Complex in the state of Bahia.

In Copesul, the second largest tracker in Brazil, all is prepared slowly by Braskem itself in terms of ethylene annual production capacity. And in Politeno, which produces low-density polyethylene and also located in the Camacari Petrochemical Complex.

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We move now to slide number 5, where we analyze the present behavior of the Brazilian market for thermoplastic resins. In the Third Quarter of the current year, the thermoplastic resins total consumption has grown in Brazil by an impressive 15.3% when compared to the same period of last year.

This important and almost aggressive growth confirms the business of the Brazilian market. And its strong elasticity in relation to the Brazilian GDP growth.

Braskem, on its part, continues to report significant increases in its production and maintains its leadership position in the domestic market with a combined average market share of approximately 40% for polyethylene, polypropylene and PVC resins, according to sales data provided by our company. And also by preliminary market data provided by the Brazilian Association of Chemical Industries and Derivative Products, ABIQUIM, for the first nine months of 2004.

In the next slide, slide number 6, we will take a look on Braskem's industrial performance on the Third Quarter of 2004. And also in the first nine months of the current year. In order to meet the consistently growing demand in the domestic market of petrochemicals and thermoplastic resins, all of Braskem's business units operated at capacity utilization rates higher than 95%. We reached, therefore, the production level of 450,000 tons of thermoplastic resins in the Third Quarter of 2004, or a 6% growth over the Third Quarter of 2003.

Following the same positive trend, the production of ethylene was increased by 5% from July to September of this year, reaching 304,000 tons. The production of the polyolefins unit, polyethylene and polypropylene, in the Third Quarter of 2004 increased by 5% over the same period of 2003.

In July 2004, Braskem implemented a de-bottlenecking of one of its polypropylene plants, at the Triunfo Petrochemical Complex in the state of Rio Grande do Sol, increasing its total annual production capacity from 550,000 tons to 650,000 tons.

We are also investing approximately \$4 million in the de-bottlenecking of one of our polyethylene plants at the Camacari Petrochemical Complex in Bahia, adding a further 30,000 tons a day of production capacity, which will increase the unit's annual production capacity to 230,000 tons.

This additional capacity is provided by high technology. And the (Talosin) catalyst of higher value added is expected to be available in the second half of 2005.

During the Third Quarter of the current year, Braskem continued with the implementation of its disposable packaging project, focusing on the substitution of polystyrene for polypropylene. In addition, in September 2004 Braskem launched a new line of special polypropylene products designed for our third generation clients and aiming at the new market need for them, which is the production of packaging for non-carbonated beverages in Brazil.

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The capacity utilization in our vinyls unit in our PVC plants reached 96%. Braskem continued with its program to further expand PVC production capacity by 50,000 tons in order to meet future demand needs. This initial increase of 50,000 tons is expected to be available by the second half of 2005. Here, a further increment of additional 100,000 tons in 2 blocks of 50,000 each could be made possible in the future, depending upon market behavior.

Continuing now on slide number 7, we can see that Braskem met market demand and, as we can see in this chart, the capacity utilization rates for its main products were strongly increased. The capacity utilization rate for ethylene reached 95%, for polyethylene and polypropylene, 95% and for PVC, 96%.

This has also been the trend internationally. Since demand globally and on average continues to grow by approximately 5% per year, while capacity has been growing by an average of 2% or less globally. That's the main reason why petrochemical consultants of international standing remain bullish and confident on the positive cycle for the petrochemical business for quite some time ahead.

Let us now take a look at our slide number 8, please. In light of the current positive scenario, which combines an increasing demand for thermoplastic resin in the domestic market and the evidence of a positive cycle of high profitability currently experienced by the international petrochemical industry, Braskem has been taking all actions to aggressively expand its production capacity by means of competitive investments to de-bottleneck its plants. And to accelerate its timetable for strategic projects to assemble new industrial facilities.

The new projects that have already been completed include additional 140,000 tons of ethylene in our basic petrochemical unit in Camacari, Bahia, which almost automatically has brought us an increase of approximately 300,000 tons in aromatics and other important byproducts. And an additional 100,000 tons of polypropylene Triunfo, state of Rio Grande do Sol, with investments of just \$7m, plus 50,000 tons of para-xylene, also in Bahia.

Ongoing products include additional 50,000 tons of PVC in Alagoas (plant there), which will be made available in July 2000 -- I mean 2005. And depending on market conditions, 2 expansions, providing additional 50,000 tons each in the same plant may be implemented in the future.

An additional 30,000 tons of polyethylene in Camacari should be available in August 2005, having additional potential capacity of 100,000 tons in the future. In 2007, an additional 300,000 tons of polyethylene, which will be provided by the new plant in Paulinia in the state of Sao Paolo, whose studies have been advancing in an accelerated pace. And in the longer term. And probably by the end of the current decade, approximately additional 600,000 tons of polyethylene to be produced by the new Brazil/Bolivia Petrochemical Complex whose feasibility studies are now under development.

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In the business competitiveness area, the Company has launched a new Operational Excellence program named Braskem Plus. This program was designed to build upon the experience that Braskem has accumulated to the process of capturing operational synergies during its integration process. The Braskem Plus program seeks to position our operating performance and industrial productivity as a benchmark in the petrochemical industry, reduce our operating and business costs and position Braskem among the most competitive petrochemical companies in the world.

In connection with the development of the Braskem Plus program, we engaged a business consulting firm to analyze our industrial practices and to compare them to benchmarking practices in the global petrochemical sector. Through this analysis, we have identified already 200 initiatives approximately, designed to further improve, among other things, our capacity utilization, maintenance scheduling and completion. And (fix our) procurement and usage.

Braskem already started the implementation of the aforementioned program, which represents an additional value creation potential for the Company; methodologies, work in teams, responsibilities, times -- I mean time schedules. And the qualification of economic and financial effects were already defined and will be presented at the upcoming meetings with analysts and investors to discuss Braskem's Third Quarter 2004 results.

Let us now take a look on our slide number 9, please. The first nine months of 2004 combined a strong business of Braskem's technology business model. And a search for new market niches through the technological development of new products and new applications, as well as for the use of plastics. Especially in the plastic, economical, light and transparent replacement of traditional raw materials like glass, metals, asbestos and others, for plastic products jointly developed with Braskem's clients and obviously using our thermoplastic resins.

In this slide, number 9, we highlight a list of some important and recent examples, the launch of another polypropylene resin for very traditional cream cheese bowls in Brazil, to replace the glass cups sold by the million in Brazil.

The new polypropylene resin for roof tiles and water reservoirs to replace tiles and reservoirs originally built of asbestos cement. The new PVC resins for window panes, used in construction projects. The launching of the new metallocene base polyethylene Braskem Flexus. The launching of the polypropylene sealing films, Braskem Symbios. And the launching of the polypropylene resin for bottles for non-carbonated beverages like fruit juices, (whole teas) and others, also sold by the millions, especially in the summer time.

Moving ahead now please to our slide number 10, let us analyze our commercial performance in the last nine months and in the Third Quarter of the current year. In the Third Quarter of 2004, Braskem continued to report a significant increase in production and maintained its position within the domestic market with a market share of approximately 40% for polyethylene, polypropylene and PVC resins.

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The most significant growth here was felt in those segments of the Brazil economy highly exposed to improvements in the purchasing power of the Brazilian population. And which was positively reflected on Braskem's sales. In the first nine months of 2004, total sales of all Braskem's thermoplastic resins markets amounted to 1.281 million tons, representing a 10% increase over the same period of last year.

In the Third Quarter of 2004, Braskem's total volumes in thermoplastic resin sales reached 458,000 tons, 6% above the 433,000 tons sold in the same period of 2003. As for the polyolefins unit, both polyethylene and polypropylene sectors reported an outstanding commercial performance. In the case of polypropylene, the demand from the home appliances, domestic utilities and automotive sectors have increased significantly, as well as the demand from the (inaudible) segment, which was similarly affected by Brazil's strong export performance.

In the case of polyethylene, the most significant growth resulted by low-density polyethylene and by linear low-density polyethylene, thanks to a higher demand for industrial packaging materials and for shrink and scratch (floats), also stimulated by the increased Brazilian industrial production, exports and (shift) consumption.

PVC, the (physical) product of the (inaudible) unit, had a very good performance, especially in the domestic market in which Braskem increased its market share by 2% in the first nine months of 2004. PVC accumulated sales in both the domestic and export markets and was 8% above the sales it was in the same period of 2003. Here, sales were fuelled by improved demand from manufacturers of wires and cables, structural profiles, laminated materials and footwear.

In the construction sector, a slight improvement in infrastructure services could be felt, mostly related to basic sanitary and urinary products, still with potential for future growth.

And now slide 11, net revenue by business unit. We can see that Braskem also reported a consistent growth in all of its business units. The Company is therefore well positioned in relation to all of its markets. In the first nine months of 2004, net revenue in the domestic market increased by a sound 25%, while net revenue arising from exports grew by a solid 19%. This growth confirmed that Braskem is ready to follow the internal market growth, as well as to maintain a structural and strategic position in exports as well.

For the 9-month period ended September 30, 2004, total net revenue increased by 24% when compared to the same period of 2003, growing from BRL6.6 billion to the important amount of BRL8.2b. In the Third Quarter of 2004, we registered a very impressive growth of 54% in domestic market revenue. Also, the increase reported by export was a remarkable one, reaching 48%, mostly provided by the continued and significant upturn in international market prices, evidence of the positive cycle in our business.

In the Third Quarter, we had a substantial growth in the domestic market. And all Braskem business units were benefiting from this situation. It is important to highlight the growth reported by the basic petrochemicals unit, of 53%, due to volume and price effects, the

expansion of approximately 60% of the polyolefins unit. And the increase of nearly 50% in the vinyls unit. All these results reported in the period were very significant and speak for themselves.

Let us move now to our slide number 12, please. Here on slide 12, we analyze Braskem's exports performance. Our exports revenue increased from \$495 million in the 9 first months of 2003 to \$612 million in 2004. In the Third Quarter of 2004, our net revenues from exports reached \$259m, which represented an impressive growth of 46% in comparison to the \$178 million registered in the Third Quarter of 2003.

The core products segment is also very (busy) and with very attractive prices. The exports over net revenue rate was maintained at the same level of 2003. Additionally, we maintained a strong and well-balanced revenue from all markets. And by region, export volumes were up 40% in North America, 23% Europe, 15% in South America and 22% in Asia.

Braskem is well positioned in all of these markets, providing us with a relevant operating and strategic flexibility. In other words, we ended this quarter with 76% of our sales going to the domestic market and 24% to international markets, in a balanced and well-distributed way.

On the income statement, our slide number 13, we see gross revenue growing by 61% in the Third Quarter 2004, when compared with the same period of last year. We also observed EBITDA increasing from BRL461 million in the Third Quarter 2003 to BRL744 million in the same period of 2004. Again, a significant growth of 61% from one year to the other. In other words, in spite of the high costs of naphtha, our main raw material, the Company's profitability level has been improved. This was reflected on our EBITDA over net revenue rate.

In the Third Quarter of last year, we reported EBITDA margin of 21%. And now this margin has increased to 22%. Braskem's net income in the Third Quarter of 2004 reached BRL496m, reversing the BRL58 million loss reported in the same period in 2003. This improvement was primarily due to the Company's strong operating performance, evidenced by our record EBITDA, with the reduction in interest and lower expenses related to vendor reductions.

The 8.7% appreciation of the Brazilian real against the US dollar, which positively affected Braskem's net financial results. And equity income from Copesul, Politenio and Petro plants. Consequently, net income during the 9-month period ended September 30, 2004 totaled BRL204m, reversing the BRL292 million loss reported during the 6-month period ended June 30, 2004.

Let us go now to our slide number 14, where we observed our EBITDA levels evolution since the beginning of last year to now. Here, on these 2 bar graphs, we may clearly confirm that Braskem has been presenting a consistent growth of this important indicator quarter-over-quarter, during the whole period included on the chart.

And what is also important, this consistency is being replicated both in Brazilian reais and in US dollars as well. What demonstrates once again the strong cash generation capacity of our Company on a quarterly basis, even during periods of challenging scenarios.

On the next slide, slide number 15, we are offering our results from investments in related companies. In the Third Quarter of 2004, excluding the effects of the amortization of goodwill primarily arising from investments made in Copesul, Politeno and Polialden, the Company reported net income of BRL87 million coming through investments of subsidiaries and associated companies.

In the 9-month period ended September 30, 2004, these investments provided an income of BRL176m. This consistent growth in the performance of Braskem's subsidiaries and associated companies reflects the positive results reported by Copesul, Politeno and Petroflex.

Let us move now to the next slide. Here on slide 16, we see that Braskem's net financial results for the 9-month period ended September 30, 2004, excluding the effects of monetary and exchange rate variations, quarterly expense of BRL667m, compared to an expense of BRL731 million reported during the same period in 2003, which reflects a BRL64 million decrease.

In the Third Quarter of 2004, the Company's net financial results, excluding the above-mentioned effects, was an expense of BRL207m, compared to an expense of BRL223 million during the same period in 2003. This improvement was primarily due to the implementation by Braskem in the Third Quarter of 2004 of cost reduction guidelines related to vendor and other financial transactions. And a reduction of Braskem's total indebtedness.

Let us move now, please, to slide 17, where we will be speaking about our debt management. In line with its financial strategy, Braskem continued to focus on reducing its net debt, expanding its amortization profile and prioritizing the amortization of its most expensive debts, aiming at the reduction of its cost of capital. Simultaneously, the Company privileged the maintenance of high quality levels in order to enjoy a higher degree of strategic financial and operating flexibility -- I mean, high liquidity base.

The disciplined implementation of this strategy has been amply supported by the Company's strong cash generation, the current high liquidity levels, as well as the global offering completed in September 2004. Braskem has already adopted a series of measures aimed at improving its future financial performance, by prepaying its most expensive financial obligations, which we believe should help to reduce its cost of capital.

For instance, in September 2004 the Company opted to prepay expense issued debentures in an aggregate amount of BRL407m. And in October 2004, it implemented similar prepayment of its 11th issue of debentures, in an aggregate amount of BRL1.2b.

Braskem also repaid the outstanding amount of \$100 million in bonds due in October 2004. Braskem plans to amortize a substantial portion of raw materials due by the end of

2005, using its free cash flow and the balance of its cash and cash equivalents.

Moving to the next slide please, you will see the main financial highlights that derive from the successfully implemented strategy. As you can see here in slide 18, also in the Third Quarter of 2004 Braskem's net debt expressed in US dollars decreased by 31%, thus confirming important achievements in the net debt management.

In the Third Quarter of 2004, the Company was successful in its efforts to reduce financial leverage, net debt divided by EBITDA, over the last 12 months, which was 2.03 times at September 30, 2004, 38% lower than at June 30, 2004. At September 30, 2004, Braskem's cash and cash equivalents exceeded BRL3b, 83% higher than at June 30, 2004, mainly due to better cash generation, strengthened by the successful Global Offering of BRL1.2b.

Moving ahead. And upon this slide, number 19, we are showing a short summary of Braskem's very sound results until September 30, 2004. Our gross revenue increased by 29%, reaching BRL10.6b. Braskem's exports grew by 24%. And our EBITDA consistent trajectory reported a 44% increase when we compare the first nine months of 2003 and 2004. And reaching almost BRL1.9 billion in the period, surpassing the EBITDA entire level of 2003.

We continue to be focused on reducing our financial leverage, as said. Braskem's strong cash generation combined with the resources arising from the Global Offering, provided a significant improvement in our net debt over EBITDA range, which declined from 3.28 times by the end of June to just 2 times by the end of last September. In fact, the Company's goal and commitment to the market, which was of being under 2.5 times rate by the end of 2004, has already been achieved.

We will continue to work to reduce Braskem's debt and also our cost of capital. We are also working on the reduction of dollar-denominated debt portion non-related to exports, aiming at reaching a 50% to 50% proportion. (This way the) debt portion denominated in Brazilian reais and in US dollars, in order to reduce the impact of probable or eventual exchange rate oscillation.

Net income during the 9-month period ended September 30, 2004 totaled BRL204m, reversing the BRL292 million in loss reported during the 6-month period ended June 30, 2004, or a positive swing of over BRL0.5b.

And to finalize this presentation, on slide 20 we tried to portray and summarize what have been the results of the dedicated efforts of all our teams during the last 12 months. From the very floors on thirteen industrial complexes which we run in Brazil, from our technology and innovation center in Triunfo, for our administrative offices in Sao Paolo. And what we believe has been. And will continue to be, a path of solid and responsible growth.

I would like now to end this slide, the first part of our conference call, as we initiate the questions and answers session. Thank you, all.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Eric Ollom of ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Hi. Good morning, gentlemen. and congratulations on the very excellent results. I guess my two questions revolve around, well, the first one is CapEx. Could you just kind of update what you would expect for '04 and '05. And sort of related to that, on the sort of longer-term, the Paulinia as well as the Bolivian project, do you have any expectations on how much your investment would be on those?

And then my second question just has to do on the debt side. And that's regarding the (Trettem) bonds which are callable, which clearly are higher cost than were you to probably refinance them in the dollar market. Could you just perhaps tell us what your intention is with those?

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

Okay, Eric, this is Grubisich speaking. I'm going to answer the CapEx part of your question. And I'm going to ask Paul to discuss the debt position. And the debt strategy lately. So first, thank you very much for your comments. And as far as CapEx is concerned, we are planning to invest between BRL250 million to BRL300 million in 2004. So we are going to see a more intensive investment activity in the Fourth Quarter of this year.

And for 2005, we are still putting together our business plan for 2005 through to 2009. But I would say that we are going to invest in the range of BRL600m, which means that we are going to double the investment volumes next year and we have already included the investment in the Paulinia project, you know the 300,000 tons of polypropylene, which will be invested over 2005 and 2006.

In our assumption, we took a joint venture with Petrobras which is due to be defined on how it's going to be organized. But most likely, Braskem is going to have a 60% of this joint venture and Petrobras 40%. We have also the implementation of our PVC expansion to be implemented in 2005. And for 2005, we do not see any capital expenditure for the Bolivian project. We think that we may be in a position to decide the Bolivian project by the end of 2005. But we do not see any major investment related to that new capacity. Okay?

Q - Eric Ollom {BIO 4374335 <GO>}

Okay.

A - Paul Altit

Hello. Hi, Eric, it's Paul Altit. As you have a good question, we do have a bond, track-end bond is due in 2007. It's (7.5%) group bond. And we do have a call option, as of July of

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2005. So the question I understand is that we are going to call the bond on launch. And I think the answer is very simple. This is by May or June, we think we can eventually anticipate the bond (we shall use). If eventually we can refinance it for a lower cost, we shall do so.

What we plan to do is to provide Braskem with the flexibility of eventually anticipating the bond should that be positive, or refinance to another bond or doing some kind of a liability management system, or eventually (increase) financing it in reais (or we'd look) at debenture. So this will all depends what happens with our cash-flow throughout the first semester of 2005. So we haven't got a decision yet. But we do have an indication that doing a bond from 05 throughout 07, that is for two years, probably would cost us (very) under 10.5%, therefore, calling the bond should be considered a possibility.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, thank you very much.

A - Paul Altit

Thank you, very much.

Operator

Again, our next question comes from Mauricio Pers [ph] of Standard New York Securities. Please go ahead.

Q - Denis Parisien {BIO 20333702 <GO>}

Hi, guys. It's Denis Parisien at Standard. Congratulations also from us on a great quarter. I was just wondering if you could update us on the process of bringing domestic prices in line with international prices on your main products, please?

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

Okay. Mauricio, our commercial strategy is based on profitability. So when Braskem was created we moved from a more (inaudible) or market share. And we entered a strategy in a -- a commercial strategy really (inaudible) for profitability. So what we do every month is try to realign our local prices to the international prices, including all the logistic costs if you bring products to Brazil, (the duties).

And on top of that we can command a greater price, because we can provide different types of services to our local customers. Better supply chain so they can reduce their inventories; we can provide them a good product development, application development, technical assistance, when they buy local.

They do not have to be exposed to exchange rate volatility as our customer. They do prefer to stay this premium price instead of getting imports from outside, because you know in Brazil people do not like to import very much.

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We are still lagging behind being an important part of the benchmark, as I mentioned to you, because international prices went up very fast and more than we first expected. So we still have price increases to implement (inaudible; break in audio) -- for this important part of the benchmark for polypropylene. And we still have some price increases to implement for polyethylene, because that was a product with the highest delay in price repositioning.

So we are already increasing our (inaudible) prices in November. And we think that we might need to increase again (certain) prices in December in order to be in line with the international price level, which means that we do foresee a positive contribution of pricing in our results of the Fourth Quarter of the year.

Q - Denis Parisien {BIO 20333702 <GO>}

Can you give us a little bit of a flavor of how far behind you are? You said 1 or two months. But can you put some percentages roughly, some rough idea on percentages how far you need to go?

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

Previously we are in line with our strategy for the company. And we may have 4% to 5% price increase. And for polyethylene we are in the rate of 10% to be implemented over November and December.

Q - Denis Parisien {BIO 20333702 <GO>}

Thank you. And in terms of debt amortizations in the Fourth Quarter, can you give us an idea of how much you intend to pay down or rollover and what currencies of denomination those are in?

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

Okay, Mauricio, first of all we anticipated a local (indenture), BRL1.2 billion (indenture). So we cashed this out on November 3 -- so just last week. We also paid out a OPT bond of \$100m. And we also paid down something like \$50 million of working capital. Then we're discussing the turnover. If we showed we anticipate -- anticipating a pre-payment for export facilities that was negotiated two years ago. And what is due -- which is due in 2007. Also in December a \$100 million to \$150 million (debt).

So altogether, that comes from, I would say, from over throughout November, we will have reduced gross debt by something around \$700m. And we are forecasting that Braskem should be amortizing basically everything that is due in front of us till the end of 2005. The only difficult part of this (inaudible) on top of this desire is this money position brings up some very competitive advantage in refinancing certain facilities. So we'll say that we're pretty much flat (inaudible).

Q - Denis Parisien {BIO 20333702 <GO>}

Thanks. Thanks for that. Last question is (inaudible). We noticed that you had very high cash flow generation in our cash flow model, partly from a pretty significant extension of

payables. And I'm just wondering if that might be reversed in the Fourth Quarter, we might expect higher working capital investment as opposed to the significant working capital savings that we saw in the Third Quarter? Thanks.

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

Mauricio, if I can (inaudible), Braskem is becoming more and more known internationally. And of course it's (inaudible) of the (trade finance) conveniences. So we've start doing some great facilities. In this sense, the atmospheres of (inaudible) are an important asset. We went up, as you can see on the balance sheet. So today we're importing (inaudible) from (inaudible) for 270 up to 350 days -- so 355 days as a matter of fact. So one year for imported (inaudible).

And this is the main effect we have on the Third Quarter. We are still negotiating some specific transactions with Petrobras and other suppliers in order to comply -- supply with accounts receivable. So this is 1 of our first priorities. You are right in your observation. And we are trying to increase even more deferred payment, in order to mitigate it. And then last working capital for our operations.

Q - Denis Parisien {BIO 20333702 <GO>}

So if --

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

Supplier was asking (inaudible) if everything was okay. The market hasn't changed. It's what we're negotiating with some banks are affected, we should increase and not decrease suppliers' financing.

Q - Denis Parisien {BIO 20333702 <GO>}

That's excellent. Thank you, very much. Congratulations again.

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

Thank you, very much.

Operator

Our next question comes from Mr. Emerson Leite with CSFB.

Q - Emerson Leite {BIO 4003528 <GO>}

Hi, hello. Good morning. Just 2 questions -- first, we simply had a wave of announcements of potential petrochemical projects in Brazil. We have the Braskem projects, the Bolivia and Brazil ethylene and polyethylene plants. We recently had the Ultrapar group proposing to Petrobras a new refining complex that could also have ethylene as an output. And we also had recently the PTU and the Unipar group proposing a potential expansion of the PTU plant that could also bring another 500 or more thousand tons of polyethylene into the market.

I was just wondering if you could give us your picture for the future demand for petrochemicals in Brazil and how all these projects fit together in this picture?

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

Okay. So -- I think that all those announcements are a demonstration that the market has huge potential. I think that we have a very good combination of growth in the GDP. And I think that we can foresee a set growth for the Brazilian GDP over the next two years.

As you may know, we have a very strong elasticity through our products to the GDP growth rates, which have been historically in the range of 3.5 to 4 times to the GDP growth rate, meaning that if we think that the Brazilian GDP must grow in the range of 4% over the next few years, our market would be growing potentially between 12% to 16%. So we do consider that Brazil will need and will require more capacity. And that's why Braskem has decided to (inaudible) most of its present capacity, which is a very significant (inaudible) of our ethylene capacity last year. It was 140,000 tons of ethylene coupled to 300,000 tons of (inaudible) products -- benzene, colene [ph], phylene.

We decided also that the (inaudible) our PET production capacity by 50,000 tons, to be in operation in July next year. We just brought more -- 100,000 tons of polypropylene into operation last August. And we are planning to increase our own capacity of polyethylene with the (inaudible) technology. (inaudible) is a high value-added polyethylene.

And on top of that, we are also looking at additional expansion of capacity for PET, grows 100,000 tons. Additional capacity for polyethylene grows 100,000 tons. And as you know we are in the final steps in our negotiation with Petrobras to announce, I think, before the end of this year a (inaudible) to grow into this 300,000 tons of (inaudible) polypropylene. Of course, we use a propylene from the Petrobras refinery. And we think it's going to be a very competitive product.

We have also this 300 -- 600,000 tons of Ethylene coupled to a 600,000 tons of polyethylene in a very integrated production facility in the border of Brazil and Bolivia. And we think that the market is growing and the market will grow in the future. And we think that all the order investment you mentioned -- they are not in the same timetable as ours, because, as you mentioned, for (you) that have oil to make viable in new refineries in Rio, because it should be implemented by Petrobras in (inaudible) would be for 2015 and beyond, according to the estimations analysis which we have today.

You know, this ethylene production coming from the refineries from Petrobras, they are really marginal. And we are very good through one of those extensions, because we are (inaudible) to get part of their (inaudible) and (inaudible) to compliment the raw materials we can get from Copesul and the extension of 200,000 tons of ethylene from (inaudible).

But (inaudible), I think that this has been announced for some time. And I think that it's not going impact negatively the market, because if those investments are not implemented we might have a situation in the future where that you would move from a position of net exporter of the (inaudible) black resin into a position of net importer.

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So I don't see any pressure in terms of supply/demand. And going ahead I think that we have one very important point you didn't mention, which is (inaudible), which is going to be in operation in middle of 2005, around 550,000 tons of polyethylene. But we think that the growth of the market will more than compensate over the capacity of (inaudible).

Q - Emerson Leite {BIO 4003528 <GO>}

Okay, perfect. Thank you, very much.

Operator

(Operator Instructions) Our question comes from Eric Ollom of ING. Please go ahead.

Q - Eric Ollom {BIO 4374335 <GO>}

Yes, gentlemen. could you give us what your forecast is on oil prices in NAFTA for, say, '05, what you're using in your planning?

And also you're looking like you're going to be -- have an EBITDA above 800 million for '04. Could you comment on that as well? What sort of guidance can you give us for the Fourth Quarter? Thank you.

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

You know, Eric, I was afraid you would be asking us a question about oil price. As you know, we are taking for the Fourth Quarter of this year the same price revenue we have today, because we don't think that the winter season in the north and east here is going to relieve the pressure on oil price. So we think that for Fourth Quarter and Third Quarter of 2005 we may remain at the same price level for oil and (inaudible) as we are presently.

And starting, again, also the First Quarter next year, we think that oil price and (inaudible) price may be declining. And we have taken in our business plan for next year an average of \$48 to \$40 for the oil price. And with a corresponding price for (inaudible). We think that in that kind of consistency amongst all the key analysts in the oil and (inaudible) market is that there is no fundamental core oil price and raw material price for petrochemicals to remain in the level we have today.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay. And EBITDA for the Fourth Quarter -- should we expect to see an improvement on the Fourth Quarter of '03? Should we expect to see something similar to the quarter we just saw? Can you just comment on that?

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

You know, what we see today is stronger buoyancy in the domestic market. I think 1 or 2 aside -- (inaudible) I mentioned -- I don't see any major change. We have still some price alignment to be implemented. And I am quite sure of those going to be successful. So we are going to have a positive impact of pricing in our (inaudible). And even if we have (inaudible) in the (inaudible) in the domestic market, because Fourth Quarter normally is

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less active than the Third Quarter, this is going to be more than compensated by the exports, because market is very tight internationally. And profitability in the export market is quite high.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay.

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

So I would say we are going to be in line with what we delivered in the past 2 quarters. And we are very confident in our ability to keep improving our ability and bottom line.

Q - Eric Ollom {BIO 4374335 <GO>}

Okay, thank you very much.

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

Thank you.

Operator

(Operator Instructions) This concludes today's question and answer session. Mr. Grubisich, at this time you may proceed with your closing (indications).

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

Okay, let me just say thank you very much for your attention, for your questions and before I conclude this conference call I would like to remind that the Brazilian market is going in the right direction. I think that we have the right business model. And I think that over the last three years we have been able to put in place a very competitive strategy. And we are very confident that we can keep the same trends over the next quarters.

So thank you very much. And I hope to see you again over our next conference call to present the results of the Fourth Quarter and the results for the complete year of 2004. Thank you, very much. And have a nice day.

Operator

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

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